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Market Watch

# Banks with exposure to poorly-run NBFCs will have to take larger haircuts, warns RBI governor

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MUMBAI: Banks will have to take more haircuts while resolving the stressed loans extended to non-banking lenders who are found wanting on the corporate governance front, Reserve Bank governor Shaktikanta Das warned Thursday.

On the government move to have merge 10 banks to four larger ones, Das said the amalgamations ought to be non-disruptive and affirmed the central bank's support to ensure the same is achieved.

Das' comment on non-banking finance companies (NBFCs) comes at a time when banks are grappling with the resolution of stressed cases like their over Rs 50,000 crore dues from mortgage financier DHFL. The Wadhawans-promoted stressed entity was accused of corporate governance lapses in the past.

"(In resolving the crisis at those) NBFCs which have major governance issues, they (banks) need to take a larger haircut. These are business failures but there is also an element of administrative or governance lapses in them," Das said while speaking at an event organized by Bloomberg News here this evening.

Das further said banks will have to take a "balanced call" while dealing with the issues of stressed loans. He, however, made it clear that RBI will not immediately resort to using recent amendments in the statutes which empower it to take control of an NBFC, as the first priority is to find "market based" solutions for the same.

The market-based solutions can involve promoters cutting stake, new promoters coming in or securitisation of the assets to raise resources to come out of liquidity issues.

He said RBI continues to monitor the 50 largest NBFCs on a continuing basis and it will be using the powers of the amended statutes only if any need arises.

It can be noted that the going has been tough for many an NBFC over the last one year, since infra-focused sectoral major IL&FS started defaulting on its loans, exposing the chinks in the sector that contributes a fifth of the total credit assets of the country beginning last September.

The IL&FS saga triggered a liquidity crisis among NBFCs immediately, but RBI refused to play its role as the lender of last resort, attributing the crisis to asset liability mismanagement.

NBFCs typically depend on short-term borrowing to finance long-term assets like home loans, which has led to the troubles in the sector, the RBI had said.

On the issue of bank mergers, Das said the move by the government will have to be non-disruptive and normal operations, including lending and recovery of dud assets should not be impacted because of the same.

Boards of most of these 10 banks are yet to take decisions on the mergers, and the RBI will fully help to make the mergers process as smooth as possible, Das said making it clear that the issue will reach RBI only when the boards decide formally.

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Das said these banks have formed internal working groups to make the merger process smoother.

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