

Business Standard

India's banks wrote off Rs 2 trillion worth of bad loans in 2018-19

Even as banks have written off more loans than before, recovery of bad loans has also improved substantially in the past couple of years

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India's 42 scheduled commercial banks (SCBs) collectively wrote off Rs 2.12 trillion worth of loans in 2018-19, according to figures given by the finance ministry in Parliament. Not only was this 42 per cent higher than the Rs 1.5 trillion written off the previous year, but also about 20 per cent of all their non-performing

assets (NPAs).

Banks generally take NPAs off their books to make their balance sheets look cleaner — with reduced liabilities and potential losses. According to Reserve Bank of India (RBI) guidelines, "non-performing loans, including, those in respect of which full provisioning has been made on completion of four years, are removed from the balance sheet of the bank concerned by way of write-off."

Since 2014-15, when the Narendra Modi-led government first came to power, India's banks have written off Rs 5.7 trillion worth of bad loans.

So far as the country's 21 public-sector banks (PSBs) are concerned, the amount of bad loans taken off their balance sheets has increased progressively over the years. In 2018-19, these banks wrote off Rs 1.9 trillion worth of bad loans — about 90 per cent of the total for all SCBs, and four times their own write-offs in 2014-15. Only a third of SCBs reported lower write-offs in 2018-19 than the previous year; and only three of those that did were PSBs, show government statistics.

State Bank of India (SBI) reported the biggest jump in write-offs, to Rs 56,500 crore. The significant increase in SBI's write-offs in the past couple of financial years has been on account of a merger of five other banks — State Bank of Bikaner and Jaipur, State Bank of Travancore, State Bank of Patiala, State Bank of Hyderabad and State Bank of Mysore — with it.

For India's SCBs, an increase in write-offs has occurred concurrently with a rise in NPAs. Bad loans on the books of all banks have tripled in four years — from Rs 3.2 trillion in 2014-15 to Rs 9.4 trillion in 2018-19.

The massive rise in write-offs by India's PSBs and some crisis-hit private lenders assumes more significance in view of a higher rate of bad-loan recoveries under the country's new insolvency resolution process, which came into force through a legislation in 2016. According to an RBI report, in 2018-19, banks were able to recover Rs 74,500 crore from companies under the resolution process — at a recovery rate of 43 per cent. This was significantly higher than recovery rates for other forums like Lok Adalats, debt resolution tribunals (DRTs) and procedures initiated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (Sarfaesi).

According to the new Insolvency and Bankruptcy Code (IBC), 2016, once proceedings have been initiated against a borrower under the IBC, the Sarfaesi Act cannot be invoked against them. Similarly, if an errant borrower was being pursued under the Sarfaesi Act before the IBC came into effect, and the lender now wants to initiate proceedings under the IBC, the Sarfaesi proceedings would cease to apply to the borrower.

While more banks are now using the corporate insolvency resolution route, the sheer scale of bad loans and write-offs suggests that banks would have to take a heavy haircut. Even if the loan recovery rate under insolvency resolution were to improve to 50 per cent in coming years, India's banks would still never be able to recover Rs 5 trillion from various errant corporate borrowers.