

Bad loans worth Rs 1 lakh crore may hit courts soon

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Reserve Bank of India (RBI) governor Shaktikanta Das told FE that while it made sense to give banks some time to sign the ICAs, action will be initiated against those not complying with the June 7 circular.



Based on a survey of 13 banks with regard to assets that were initially assigned to be resolved through the prudential framework as of June 30, 2019, an ICA is yet to be signed for exposures amounting to Rs 33,610 crore.

Bad assets worth Rs 1 lakh crore may hit the insolvency courts in a month as the January 7 deadline for finding out-of-court resolutions expires. Resolutions have been stalled because some banks have not yet signed the inter-creditor agreement (ICA) and disagreements on the terms between private and public-sector banks (PSBs). "Some banks are choosing to not sign the ICA though it is not clear if they are entitled to do that," a senior executive with a PSB said.

Based on a survey of 13 banks with regard to assets that were initially assigned to be resolved through the prudential framework as of June 30, 2019, an ICA is yet to be signed for exposures amounting to Rs 33,610 crore. Agreements have been signed with respect to aggregate exposures of Rs 96,075 crore. A resolution plan has been implemented only for one borrower which owes banks around Rs 1,617 crore.



Reserve Bank of India (RBI) governor Shaktikanta Das told FE that while it made sense to give banks some time to sign the ICAs, action will be initiated against those not complying with the June 7 circular. “By and large, except for some delay here and there, all of them are signing (ICAs),” Das told FE in a recent interview, adding, “We issued the guidelines in June, so it has been just about six months. In the initial period, we also have to allow time for banks to adapt and get around the initial constraints which they may have faced in implementing the guidelines. Obviously, going forward, if it (non-compliance) continues, then enforcement action will be examined.”

The June 7, 2019, circular of the RBI mandated banks to sign ICAs within 30 days from the first date of default by companies which owe banks more than Rs 2,000 crore. If a resolution is not arrived at within 210 days of the date of first default, banks will have to either make a 50% provision against their exposures to these accounts or refer them for resolution under the insolvency law.

In one instance, one private bank claims to have signed the deed with two conditions, the first one being that it will not lend any further and the second being certain charges that it has on the borrower’s assets. Another private bank has signed the same ICA in its capacity as a term-loan lender, but has chosen to sit out as a holder of non-convertible debentures (NCDs) issued by the borrower. PSBs believe they are being saddled with the responsibility of signing ICAs while their private peers refrain from doing so.

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