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Market Watch

Resolutions via inter-creditor agreements off to a slow start

BY SHILPY SINHA, ET BUREAU | UPDATED: JAN 02, 2020, 09.45 AM IST

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MUMBAI: The resolution of bad loans has begun on a circumspect note after the central bank published new guidelines six months ago, amending the rules in the wake of a judicial order against an earlier set of norms.

A recent survey of 13 banks by the Reserve Bank of India (RBI) showed that on assets initially assigned to be resolved through the prudential framework, intercreditor agreements (ICA) are yet to be signed for exposures amounting to Rs 33,610 crore. ICAs have been signed for loans with exposures of Rs 96,075 crore.

Banks have appointed the resolution professional for one borrower with a reported exposure of Rs 1,617 crore. The last date of signing an ICA is January 7 for loans exceeding Rs 2,000 crore.

Resolution plans under the ICA framework have been taking longer than anticipated because banks and non-bank lenders, such as mutual funds and insurance companies, appear to have differences of opinion. There are 20-30 lenders in large corporates such as DHFL, and the lack of consensus among the various categories of lenders led to delays in stitching together ICAs.

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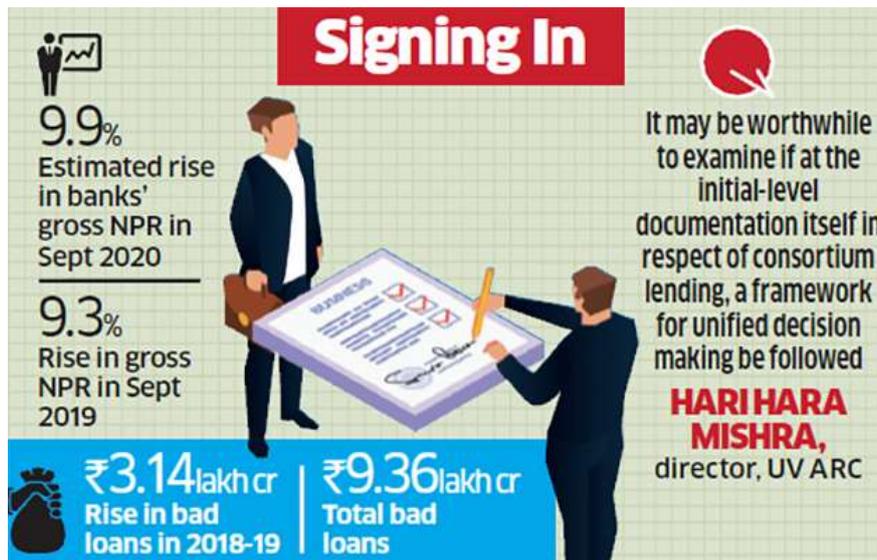
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"Now, when there is an exercise being contemplated for standardisation of loan documents in connection with the development of a secondary loan market as envisaged by RBI, it may be worthwhile to examine if at the initial-level documentation itself in respect of consortium lending, a framework for unified decision making be followed," said Hari Hara Mishra, Director, UV ARC.

In the next nine months, banks' gross non-performing ratio is likely to increase 60 basis points to 9.9% by September from a year ago, according to RBI. Stress in large accounts has been on the rise in the first half of FY20. Banks added Rs 3.14 lakh crore of bad loans in 2018-19, taking the overall tally to Rs 9.36 lakh crore.

With creditors unable to agree on buyers or the restructuring mechanism, it's taking several weeks to arrive at any consensus. Banks have asked the regulator to extend the deadline for signing ICAs by another three months so that cases close to resolution are not referred to NCLT, with the January 7 deadline approaching.

Banks are willing to make the additional 20% provision but have requested RBI to extend resolution deadlines to avoid value destruction by taking cases to NCLT.

Bankers are working on resolution plan for loans worth Rs 3 lakh crore by January 7.

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