

# Don't jeopardise banks by relaxing default norms

By: The Financial Express

Published: February 22, 2020 5:00:33 AM

Parliamentary committee's reported recommendation to relax default criteria risks creating another round of NPAs.



Investors in banks have a right to know the true quality of the balance sheet and that is not possible if default criteria are watered down.

---

Given how some Rs 10-12 lakh crore of taxpayer money has been lost by banks in the past few years—a large part due to defaults by companies—it is very worrying lawmakers don't want the true state of a company's finances to be made public. The Parliamentary Committee on subordinate legislation is believed to be making a case for relaxing the criteria that determines how vulnerable a company is to defaulting. What it wants is that the definition of default be more lenient so that rating agencies have some leeway before they downgrade businesses. This would help these firms access loans more easily.

It is a fact that low-rated businesses find it harder to continue to borrow once their ratings have been lowered. But, concealing the true financial health to justify additional leverage would be misleading lenders and putting their business in jeopardy. Even otherwise, credit rating agencies haven't exactly covered themselves with glory; we have seen numerous instances of companies defaulting before the agencies alerted us. Either the agencies were ignorant, or they were conniving with the borrowers.

## RELATED NEWS

---

How to create an attractive EVP?

---

Profitability of medium-low tech industries into a tailspin

---

AI has just helped discover a new antibacterial compound

Media reports say Reserve Bank of India (RBI) has expressed its reservations about reviewing default criteria, and that is not surprising. It must be said that RBI's supervision of banks' accounts has left much to be desired; until the asset quality review (AQR) initiated by the central bank in Q4FY16, banks were merrily evergreening loans by extending additional credit lines so customers could service the interest. In the process of protecting themselves, and the borrowers, they hid the true state of the balance sheets. The central bank cannot allow a repeat of that situation.

Unfortunately, RBI's guidelines on dealing with stressed assets—contained in the February 12 circular—were watered down, and the one-day default rule was replaced with the 30-day rule in the June 7 circular. This already allows borrowers more time to square their accounts. Moreover, borrowers need not worry about banks referring their companies case to the NCLT for a corporate insolvency resolution process, if a resolution is not found within 210 days. Having got so much relief, companies cannot demand they not be downgraded if their cash flows turn weak, and the rating agencies believe there is a need to downgrade the rating. Diluting the criteria puts both existing and new lenders at risk; banks will tend to

make smaller provisions than they should be and that will hurt them later if the exposure goes bad. Investors in banks have a right to know the true quality of the balance sheet and that is not possible if default criteria are watered down.

The lending environment over the past couple of decades has been one in which borrowers have had the upper hand. That needs to change. In a frightening statistic, it appears that nearly 60% of all cases closed via the IBC were liquidations, which means banks have recovered a fraction of what they lend. Even for the cases resolved, the average haircut is a high 57%. So, banks simply cannot afford to be throwing good money after bad. It is possible that businesses are in trouble because the economy is in a downturn and not because promoters have turned wilful defaulters. Whatever the reason, loans must be re-paid on time, and unless the health of borrowers is assessed correctly, lenders will be at risk.

Get live [Stock Prices](#) from BSE and NSE and latest NAV, portfolio of [Mutual Funds](#), calculate your tax by [Income Tax Calculator](#), know market's [Top Gainers](#), [Top Losers](#) & [Best Equity Funds](#). Like us on [Facebook](#) and follow us on [Twitter](#).

HOMEOPINIONDon't Jeopardise Banks By Relaxing Default Norms

---

## Sobha Winchester Launches 1-4 BHK Apartments at Kovilambakkam, Chennai

Sobha Winchester |

Sponsored

---