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Market Watch

Huge provisioning at NBFCs likely for Jan-Feb bad loans

BY [SACHIN DAVE](#) & [SALONI SHUKLA](#), ET BUREAU | UPDATED: APR 27, 2020, 07.18 AM IST

MUMBAI: Non-bank lenders and housing finance corporations such as HDFC, Shriram Group, Bajaj Finance may have to provide more than what has been mandated by [Reserve Bank of India](#) (RBI) on loan accounts behind on payments in January and February.

[Auditors](#) and company executives told ET that higher provisioning may be necessary as the pandemic-induced sharp dip would have increased difficulties for these businesses already hit by the ongoing slowdown. In many cases, auditors have asked companies to provide up to 50%.

This will, however, apply only to loan accounts that had fallen behind on payments in January-February, and not to delayed or non-payment of [loans](#) in the moratorium period of March-May. RBI had asked lenders to provide up to 10% for bad loans in this period — 5% split up in January-March and April-June.

NBFCs follow [Indian Accounting Standards](#) (Ind-AS) and will have to provide for all potential bad loans even if the amount is above what is prescribed. Auditors are required to take a judgement call on each portfolio even if the borrower is not a defaulter, and decide how much has to be provisioned.

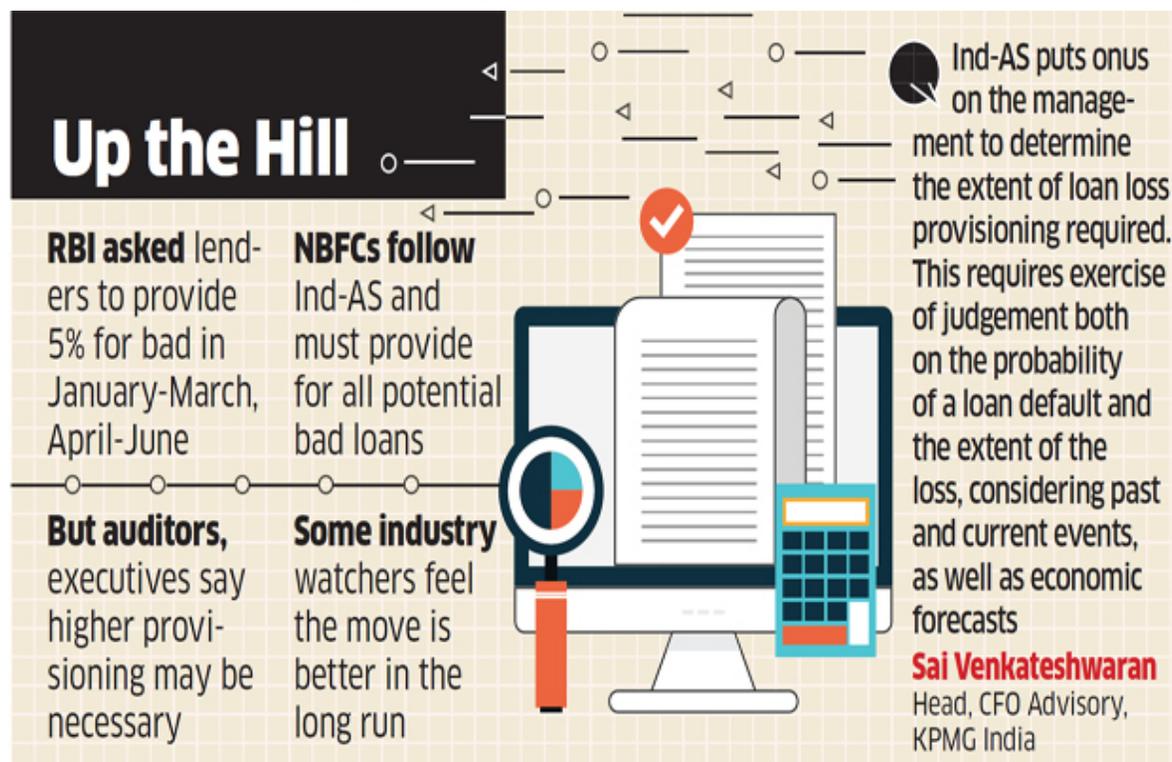
Some industry leaders welcomed the move as better in the long term. “While this will lead to additional provision impact, we believe this is a prudent move considering the overall economic scenario,” said Ravi Subramanian, managing director, [Shriram Housing Finance](#). “This move by the regulator is guiding NBFCs and HFCs to be more careful on accounts which were at verge of becoming substandard.”

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Auditors say the impact will be visible at end of FY20 as well as the June quarter. But Subramanian does not see a significant provisioning impact in March as very few cases were falling under RBI's classification at the time.

Bajaj Finance and HDFC declined to comment to ET's query as they were in a silent period. Tata Capital, Piramal Enterprises and [Indiabulls Housing Finance](#) did not respond to ET's query.

In many cases some loans given to travel companies, restaurants or multiplex companies will require provisioning levels as high as 50%. "Portfolios will need to be segmented and analysed considering the extent to which they are impacted," said Sai Venkateshwaran, head, CFO Advisory, [KPMG India](#).

"If your default probability is based on macros such as GDP growth, real interest and unemployment rates — which are expected to deteriorate — then provisioning will increase," said Kuntal Sur, partner, financial risk and regulation, [PwC](#).

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