

Bad bank may start with Rs 60K-crore NPAs; govt may put in Rs 10K crore

Banking lobby group Indian Banks' Association (IBA) is expected to take the proposal, which is on the lines of the Sashakt panel recommendations, to the finance ministry this week.

Abhijit Lele | Mumbai May 12, 2020 Last Updated at 01:42 IST



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Banks are likely to move big-ticket bad loans amounting to over Rs 60,000 crore to an asset reconstruction company (ARC), which will focus on turning around non-performing assets (NPAs) and enhancing value. Banks are likely to transfer more stressed assets going forward.

The government could invest up to 50 per cent of the capital in the “bad bank” with a contribution of about Rs 9,000-10,000 crore, said sources.

The ARC is expected to take up both old and new cases, bankers said.

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The panel had recommended that large bad loans could be resolved under an ARC. The IBA plan envisages setting up of three entities — an ARC, an asset management company (AMC), and an alternative investment fund (AIF) to acquire bad loans from banks with an aim to turn around those assets.

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The proposed ARC will have to be backed by the government. A similar arrangement was done in the case of IDBI Bank where a stressed assets management fund was created, bankers added. The coronavirus pandemic is expected to result in a rise in NPAs of banks despite steps like allowing a 90-day moratorium on retail loans and relaxing working capital financing norms.

In July 2018 a committee headed by Sunil Mehta, now chairman of YES Bank, had come out with a report on resolution of stressed assets (dubbed as Sashakt panel).

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It recommended the formation of an independent ARC to acquire bad loans predominantly from public sector banks.

The large assets with exposure above Rs 500 crore with potential for turnaround were to be managed by an AMC, while the

AIF would raise funds and invest in the securities of the ARC.

The groundwork for forming such a vehicle has been done, keeping in mind the regulatory environment and conditions in financial sector. This would help to reduce response time.

According to a CARE Ratings analysis, gross non-performing assets of commercial banks declined to Rs 9 trillion in December 2019 from Rs 9.7 trillion in December 2018. Public sector banks continued to have the lion's share (Rs 7.2 trillion in December 2019) of the total NPA pool.

State Bank of India Chairman Rajnish Kumar had said last week this is the right time for a structure along the lines of a bad bank as most banks are holding very high levels of provisioning of NPAs.

Banks have been making hefty provisions for bad loans after asset quality review kicked in 2015-16. As a consequence, the provision coverage ratio of banks has also seen an improvement from 65 per cent in December 2018 to 71.6 per cent in December 2019, reflecting an improvement in the financial health of scheduled commercial banks.

WHAT'S THE PLAN

- Government may put in ₹10K crore
- Big-ticket NPAs with high provisions in focus
- Professional management for AMC
- Arrangement to heavily draw on Sashakt panel recommendations
- Aim to turnaround to get better value