‘New RBI norms to spur surge in NPAs’

No pain, no gain:The latest norms will increase the short-term pain for borrowers as well lenders, says ICRA.Reuters

The Reserve Bank of India’s new norms directing banks to start insolvency proceedings on accounts, if stress is not resolved in 180 days, could result in an increase in bad loans, according to Moody’s unit ICRA.

“In our view, the revised framework on resolution of stressed assets issued by RBI is likely to increase the reported non-performing asset (NPA) levels of the banks in coming quarters,” ICRA said.

The RBI said that for accounts where a bank’s exposure exceeds Rs. 2,000 crore, a resolution plan must be implemented within 180 days from the date of first default, and in case a resolution is not implemented, lenders should file an insolvency petition within 15 days of the expiry of the 180 days.

“This has been the case with most of the NCLT 2 list of borrowers, whereby the resolution plans failed for most of the borrowers and were referred under IBC; this is expected to further spike up the credit provisioning requirements for banks during FY2019,” ICRA said.

The RBI had sent two lists of firms against which insolvency proceedings could be taken at the National Company Law Tribunal. Banks have to make a 50% provision in respect of accounts that are subject to insolvency proceedings. In comparison, the provisioning norm for sub-standard assets is 15-20%.

Proactive resolution

The RBI norms, announced on Monday, entail proactive resolution of stressed assets with lenders needing to finalise the resolution plan as an account slips into special mention account category. SMA category indicates the time period over which repayment on a loan has not been made. Banks’ gross NPAs and standard restructured advances were estimated at 12.6% as on September 30, 2017. The RBI had estimated SMA 2 advances (where repayment is not made for more than 60 days) to be 3.5% of gross advances.

ICRA said overall stress levels of banks including SMA0 (overdue between 1 and 30 days) and SMA1 (overdue between 31 and 60 days) borrowers was much higher than the reported GNPA level of 10.3% as on September 30.

“While in the short-term this will increase the pain for the borrowers as well the lenders... early identification of stress and resolution will prevent future evergreening of loans and ensure a good financial health for the banking system in the long-term,” said Karthik Srinivasan, Group Head, Financial Sector Ratings, ICRA.

KPMG said RBI should have been more accommodative on provisioning. Genuine business cycles and economic cycles that could lead to payment delays should have been factored in, observed Manish Aggarwal, Partner & head resolutions — special situations group, KPMG India.

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