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DEBT RECASTS UNDER RBI SCHEME AT 1 TRILLION

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Lower-than-expected amount signals improved repayment capability

Indian banks agreed to recast loans worth 1 trillion under a central bank scheme, significantly lower than what was originally anticipated, signalling an improvement in borrowers' repayment capability amid a rebound in economic activity.

Although many such loan accounts may turn sour, things are likely to be better than the last round of forbearance after the global financial crisis, given that only about 1% of banks' loan books are up for recast, a fraction of what was initially estimated by credit analysts.

The Reserve Bank of India's (RBI) one-time debt recast framework was aimed at helping stressed borrowers dodge pandemic-related defaults by allowing them to defer payments, among other steps. So far, 16 private and public sector banks have disclosed the quantum of loans they have approved under this programme.

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However, the majority of the 1 trillion worth of loans are to be restructured as banks have time till 31 March for retail and small business loans, and till 30 June to implement requests from the corporate sector.

Restructuring of loans may include extending the repayment period and lowering interest rates, coupled with a moratorium to help the struggling borrower manage cash flows better.

To be sure, this round of debt recast is marked by greater restraint than the last one when banks indiscriminately used the benefit to kick the can down the road. Analysts estimate that almost 70% of all loans restructured in the past cycle eventually slipped back into the non-performing category. Things are different now. In order to avoid a repeat of how its forbearances were misused in the past, RBI put stringent entry norms for asset recasts.

“We are taking a pragmatic approach when it comes to restructuring requests, and we are cognizant of the issues corporates have faced," State Bank of India (SBI) chairman Dinesh Khara said at a press conference on 4 February.

India's largest lender, SBI, has approved recast of 18,125 crore worth of loans, most of them from the corporate sector. While the bank has the largest share in debt recasts among its peers owing to the size of its loan book, they are only about 0.73% of its total loans. The primary benefit for banks under this programme is that it does not require them to set aside NPA-like provisions for such loans.

When RBI allowed banks to recast loans without classifying them as bad in August, experts estimated that 5-8% of all loans would be recast. Rating agency Icra Ltd in December slashed its estimates to 2.5-4.5%, which now seems to be higher than what banks are currently reporting. For instance, a large state-owned bank like Punjab National Bank (PNB) expected that it would receive restructuring requests of up to 40,000 crore, but the bank has agreed to recast loans of only 11,998 crore.

“Of this, 9,000 crore was for corporates, which we have already invoked before 31 December. Requests for restructuring have not been as (many as) we expected," S.S. Mallikarjuna Rao, chief executive of PNB, said on 6 February.

Although bankers are wary of retail delinquencies in the coming months, the situation seems to be better than what was anticipated. Analysts are also upbeat about how the easy money policy of the central bank has allowed many to stay afloat, while moratoriums have cushioned asset quality. As part of its accommodative stance, RBI has lowered its repo rate by 115 basis points (bps) since March 2020. While deciding to withdraw some of the measures announced during the pandemic, RBI assured the market of continued liquidity support last Friday.

“A recovery in India’s economy in 2021 will support borrowers’ debt-servicing capability after the support measures expire. As a result, a sharp deterioration in asset quality is now less likely than Moody’s previously anticipated," the rating agency said in a note on 5 February.

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