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SC RULING SHROUDS 26K CR BAD LOANS

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The Supreme Court order that allowed banks to maintain certain loan accounts as standard despite defaults by borrowers has at least for now concealed soured loans worth nearly 26,000 crore, data compiled by Mint showed.

The number is likely to be much higher, given that only 10 of the 34 public and private banks have disclosed such bad loans, according to the data. The other banks have not quantified such non-performing assets (NPAs) in their regulatory disclosures.

The Supreme Court on 3 September ordered an interim stay on classifying bad loans if not declared so by 31 August and banks were expected to use this relaxation in the September quarter or till the final order was pronounced.

While private-sector lenders have reported their proforma numbers, state-owned banks, barring a few, have not done so.

Given its size, State Bank of India (SBI) has the highest amount of such bad loans at 14,388 crore. Had the Supreme Court not ordered a stay on asset classification, its bad loans as a percentage of total loans would have been 5.88%, instead of the reported 5.28%.

Chairman Dinesh Khara said the bank has already reduced the proforma bad loans by 6,000 crore in October. The bank expects 20,000 crore of slippages or additional bad loans in the six months to 31 March.

“The 20,000 crore slippage, which we have estimated for the second half of fiscal 2021, is based on our normal run rate of 10,000 crore per quarter," said Khara.

Meanwhile, Union Bank of India said in a regulatory filing that its bad loans would have been higher by 4,263 crore if it had followed regular asset classification norms set by the Reserve Bank of India. However, the bank’s management clarified it has set aside funds to cover loan losses and does not expect the loans to entirely turn bad.

Among private-sector lenders, HDFC Bank Ltd said its gross bad loan ratio would have been 1.37% but for the apex court order. For HDFC Bank, the court order masks bad loans worth 3,036 crore as of 30 September. Rival ICICI Bank also said its gross NPA ratio would have been 5.36%, instead of 5.17% reported in Q2. In absolute terms, it works out to 1,410 crore of proforma bad loans for ICICI Bank.

Although most lenders have reported a drop in toxic assets in the September quarter, this shows a truer extent of stress in banks’ books following six months of moratorium announced as a relief measure against covid. Lenders, though, have made provisions against these accounts and are hoping they will be resolved within the next quarter. However, given that few retail loans are expected to be recast, the stress in banks’ books may be here to stay.

“With the moratorium period having ended on 31 August, this quarter had only one month of payment, which was due during September. So, the December and March quarters will definitely have higher additions to NPAs," Rakesh Jha, chief financial officer, ICICI Bank, told analysts on 31 October.

Concerned about this situation, RBI appealed to the Supreme Court in October that its order will have huge implications for the banking system if it is not lifted immediately. It had added that the court's ruling undermines its regulatory mandate.

For banking sector, just emerging from the last bout of bad loans, the pandemic has presented a plethora of problems. Several borrowers who have been repaying regularly so far have faced job losses or salary cuts, crimping their ability to repay loans.

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