

# GROSS BAD LOAN PILE ISN'T DIMINISHING ANY TIME SOON FOR INDIA'S TOP LENDERS

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Defaults are mainly expected from small biz loans because MSMEs have been hit hard by the covid pandemic

[India's banks](#) are on the mend from the pandemic's blow. After all, most lenders have reported that collection efficiencies are back to pre-pandemic levels.

Before investors begin the celebrations, they need to note that lenders have either increased provisions or maintained them in the September quarter. On an aggregate basis, provisions were down a modest 4.6% year-on-year for the 31 listed banks (excluding [small finance banks](#)). That is because a moratorium and a standstill from the Supreme Court helped them keep loans standard, which required no provisions. But when it comes to risks related to covid-19, banks have made some more provisions anticipating future risks.

Further, the gross [bad loan](#) pile of the September quarter is understated due to two forbearances. One is a straight standstill on declaring loans as bad by the SC in a petition involving compound interest. Until it gives a verdict, the standstill continues. A Mint story on 9 November says at least 26,000 crore worth of loans that could have turned bad benefited due to the court's standstill.

This forbearance follows that from the Reserve Bank of India (RBI) on loans under moratorium. Note that the moratorium ended on 30 August. Retail loan customers would have seen their skipped equated monthly instalments (EMI) get added to their total loan outstanding. These loans would have been normally termed as bad, but due to forbearance are still standard. Irrespective of whether they paid their EMIs in September or not, these loans would be standard due to the Supreme Court's standstill. To be sure, collection efficiencies of banks show there is no widespread stress in retail. But that cannot be said about loans to small businesses.

Defaults are mainly expected from small business loans because [micro, small and medium enterprises](#) (MSME) have been hit hard. Beyond the government's credit guarantee scheme, no lender wants to touch MSMEs with a wide pole. For the banking system as a whole, loans to MSMEs fell by 6,380 crore in the first six months of FY21. The largest lender, State Bank of India's SME portfolio has shrunk 4% during the same period.

A key comfort, though, is the expected restructuring book for banks. It was feared that a large swathe of loans would come up for restructuring once the moratorium ended in August. However, most banks have said that restructuring would be in low single digits as a percentage of their loan book.

"These appear quite encouraging and better than some regional markets. In fact, some lenders like Kotak Bank, ICICI Bank, AU SFB among others have stopped making incremental covid provisions and many others are likely to discontinue it from Q3FY21 onwards," analysts at Jefferies India Pvt. Ltd wrote in a note.

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