

NPA policy: Stressed assets may be put on the block

New framework, awaiting Presidential assent, wants cash-rich PSUs as buyers

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The new framework for non-performing assets (NPAs) will allow state-owned banks to conduct open auctions of NPAs, wherein cash-rich public sector companies will be encouraged to buy such assets in their sector.

The new framework to deal with ₹6 lakh crore worth of toxic assets was approved by the Cabinet on Wednesday. It contains a set of fresh guidelines for public auction of assets by public sector banks (PSBs) for the steel and power sectors, which account for a majority of toxic assets.

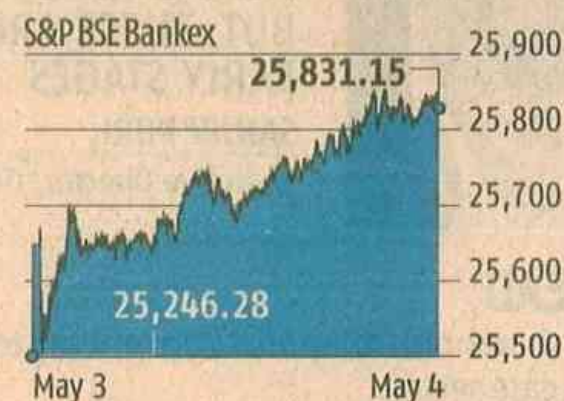
The NPA framework includes an Ordinance to amend the Banking Regulations Act to give more teeth to the Reserve Bank of India (RBI) and its oversight committees to act and intervene on behalf of banks while deciding on toxic assets. The amendment planned is to Section 35A of the Act and will give the RBI the right to issue a directive in the interests of banks.

Sources told *Business Standard* that when stressed assets were put on the block, banks would reach out to state-owned companies to buy those up. "Large cash-rich public sector companies will be encouraged to buy the assets being auctioned in their sector by the state-owned banks," an official said.

The Cabinet has sent the Ordinance to President Pranab Mukherjee, who is said to be seeking legal opinion on the matter.

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UPWARD TRAJECTORY



Source: BSE Compiled by BS Research Bureau

HOW THE NUMBERS STACK UP

(Figures in ₹ cr)	Gross NPA	Net NPA	Provisions & contingencies
Sep-15	3,39,767	1,87,746	25,517
Dec-15	4,37,171	2,50,511	48,718
Mar-16	5,78,054	3,38,000	76,948
Jun-16	6,29,299	3,69,548	42,594
Sep-16	6,70,533	3,87,422	46,785
Dec-16	6,96,905	3,96,667	44,860

RBI's asset quality review was carried out in December 2015 and March 2016; Common sample for 38 Listed Banks
Compiled by BS Research Bureau



"ECONOMIC INDICATORS POINT TO A REVIVAL IN DEMAND VERY SHORTLY. IF YOU CAN GET THESE ASSETS (NPAs) TO PARTICIPATE IN THAT CYCLE AGAIN, I THINK THIS IS AN ISSUE THAT CAN BE RESOLVED IN TWO TO THREE YEARS' TIME, MAXIMUM"

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Officials said this was a necessity with such ordinances, especially because this one will lead to amending of the Act in the monsoon session. The President is expected to sign the ordinance by Friday morning.

The framework also recommends setting up RBI oversight committees to monitor progress on the top 35-40 NPAs of all banks. These constitute 60 per cent of all NPAs by value. The committees may be allowed to oversee joint lenders' forums (JLFs) dealing with individual cases. They might decide how much of a haircut an individual bank must take and could intervene if a JLF reached a deadlock, said an official. Currently there is no enabling provision that allows RBI to act on behalf of PSBs on resolving bad loans. Besides, the board for financial regulation and supervision will be tightened further. "The Insolvency and Bankruptcy Board and the National Companies Law Tribunal will be involved in the process as well," said an official. "If bankers decide that a debt-laden entity needs to go under, that entity will undergo bankruptcy proceedings," the official added. "The NCLT will be strengthened with additional manpower now that we expect many companies whose balance sheets have turned toxic and are beyond revival to undergo proceedings," the official said.

Meanwhile, Finance Secretary Ashok Lavasa told reporters on Thursday that the NPA framework was drafted and approved by the Cabinet after discussions with all stakeholders, including RBI, banks and the companies affected.

"Certainly we feel that these changes will make the system more effective in handling the bad loans and gradually with the professionalism that exists in our banking system and with the participation of the promoters themselves and the companies, we should be able to reach resolution in many of the cases," Lavasa said.

The framework also envisages amendments to the Prevention of Corruption Act to exempt commercial decisions by PSBs from scrutiny by investigating agencies. Both the amendments are likely in the monsoon session of Parliament.

The government has asked banks to provide data on their top NPA accounts. It has also sought more information from consortium leaders.