Banks invite bids for Rs 42,800 crore NPAs ahead of tough norms

Banks, most of them government-owned, are biting the bullet and seeking to sell a record $7 billion of bad loans to asset reconstruction companies as they rush to clean up their books ahead of stringent norms kicking in next year. About 40 banks have invited bids for bad loans worth Rs 42,800 crore, said bankers who did not want to be named. This is almost four times the amount that were put up for auction in past quarters.

The sudden eagerness on the part of banks to get junk loans off their books has also led to the rejuvenation of asset reconstruction companies (ARCs), which have been dormant for nearly a decade.

State Bank of India, the country's biggest, heads the pack with loans of Rs 7,600 crore up for sale, followed by Bank of India at Rs 4,600 crore. United Bank of India, which ranks the worst in proportion of bad loans to advances, is putting up Rs 900 crore of bad assets for auction, while Central Bank of India is seeking to sell Rs 3,000 crore of them.

All these banks are state owned. " The confidence reposed in ARCs by the banks will have to be borne out or else they will not come back to sell stressed assets next year," said P Rudran, managing director and CEO of Asset Reconstruction Company of India Ltd or Arcil. Indian banks are facing their worst-ever bad loan crisis in more than a decade as a slowing economy and government indecision have led to companies defaulting. Gross bad loans rose to 4.1% of assets in the December quarter from 4% in the September quarter, said rating company ICRA.

Banks willing to accept haircuts

Furthermore, the central bank is encouraging banks to clean up their books and be active in both preventing good accounts turning bad and getting rid of NPAs so they can actively lend to companies when the economy recovers. The rush to dispose of stressed loans by banks is also to guard themselves against higher loan loss provisions that take effect in March 2015.

Unlike the current practice in which restructured loans are treated as standard assets even when they are under stress, RBI has mandated that all recast loans have to be classified as non-performing accounts attracting higher provisions from March 2015. The auction process has also gained momentum since banks, which have so far largely resisted the sale of loans on the grounds that they can do a better job of recovering the money, are willing to accept haircuts and security receipts in exchange for such debt.

"It's a good sign that banks are utilising ARCs to sell off bad loans and secondly banks are transferring stressed loans before the value of the loan is (a complete) loss, which is a sign of a maturing market," said Siby Antony, managing director and chief executive at Edelweiss ARC. However, loan recovery itself will take a different trajectory in the next decade as banks push managements harder to invest in equity and courts throw out frivolous litigation against recoveries. The Madras High Court recently rejected pleas against State Bank of India's recovery proceedings from companies such as Tamil Nadu Organic, Gangtori Textiles, Yoga Nectar Ayurceuticals and DR Logistics. They had challenged the electronic auction of property to recover dues.

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