RBI’s early warning signal suggests Rs 66,000 cr NPAs

Bank loans that aren’t non-performing assets (NPAs) yet but could turn problematic at some point vary anywhere between 4% and 8% of total advances, a sample study of a few public sector banks shows. Following a fiat from the Reserve Bank of India (RBI), banks have put in place a mechanism to spot troubled loan accounts early in the day, classifying these potentially troublesome exposures as “Special Mention Accounts” (SMAs).

On a rough reckoning, loans that are not being serviced on time at four public sector banks are estimated at around Rs 66,000 crore. While Bank of Baroda’s (BoB) SMA-2 accounts are estimated at close to Rs 18,000 crore, or 4.53% of its total advances, at Bank of India (BoI), the exposure to SMA-2 accounts is approximately 5% of its total loan book or Rs 18,000 crore.

A loan is classified as an NPA if the interest or principal repayment is overdue for more than 90 days. According to guidelines issued by the RBI, banks have to strictly monitor loan accounts that run the risk of turning into NPAs. These guidelines also call for the early detection of stressed assets. This led to the creation of SMA (where repayment is overdue for up to 30 days), SMA-1 (where repayment is overdue between 31 and 60 days), and SMA-2 (where repayment is overdue between 61 and 90 days).

SK Jain, executive director, Union Bank, confirmed to FE that large companies, facing mismatches in their cash flows, were delaying payments. “However, we hope once the elections are over, they will receive their dues from government departments,” Jain said. At Union Bank, the quantum classified under SMA-2 accounts is around Rs 17,288.43 crore, or as much as 7.97% of the bank’s gross advances at the end of March 2014.

A senior executive at Dena Bank confirmed that companies start paying up only after 60 days. “We have estimated roughly Rs 12,000-13,000 crore in the SMA-2 bucket,” the executive said. M Narendra, chairman and managing director of Indian Overseas Bank, observed that by and large customers delayed interest payments by 61 to 90 days which put them into the SMA-2 category. “Many of these are from the small and medium enterprises (SME) sector” Narendra said.

Public sector banks have seen their NPAs rise sharply over the last couple of years as the economy slowed and companies’ cash flows became strained. Gross NPAS at Central Bank of India at the end of March 2014 were 6.27%, at Punjab National Bank 5.3% and at Union Bank 4.1%. At the end of March 2014, gross NPAs were Rs 11,869 crore or 3.15% of total advances. BoB’s NPAs last year stood at R11,876 crore or 2.94% of advances. In the January-March quarter, the bank saw fresh slippages worth Rs 1,295 crore.

Banks have also resorted to restructuring loans by easing the terms of repayment.

In FY14 alone, banks restructured loans worth R1 lakh crore through the corporate debt restructuring(CDR) cell, on the back of recasts to the tune of Rs 78,500 crore in FY13.

Ananda Bhowmick, senior director at credit rating agency India Ratings, says that though the NPA level in the system has increased, the rate of growth of incremental bad loans is declining and will see a further dip in the coming two quarters. The central bank has also directed banks to provide credit information regarding their exposures above Rs 5 crore to the Central Repository of Information on Large Credits. As soon as an account is classified under SMA-2, banks have to form a lenders' committee called Joint Lenders' Forum to evaluate the asset and work towards early resolution of stress in the account.

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