Govt moves to get global funds to invest in an ARC for banks:

MUMBAI, JUNE 15
The Centre may rope in multilateral financial institutions, global private equity firms, global pension funds and sovereign wealth funds to invest in the asset reconstruction company (ARC)/asset management company (AMC) that is being envisaged for faster resolution of public sector banks' (PSBs) stressed assets.

The move could take the burden of funding the ARC/AMC off the government, which has already budgeted a capital infusion of ₽65,000 crore in PSBs in FY19 (against about ₽9,000 crore infused in FY18) to ensure that they don't default in meeting capital adequacy norms and make adequate loan loss provisions, say top bankers.

Interim Finance Minister Piyush Goyal said last week that a committee had been formed under the chairmanship of Sunil Mehta, Non-Executive Chairman, Punjab National Bank, which, over the next few weeks, will come out with recommendations to float an ARC/AMC for faster resolution of stressed assets in which multiple banks have exposures.

Viable assets

An executive at a PSB emphasised that not all stressed assets will be transferred to the proposed ARC/AMC. Only potentially viable assets, which either enjoy poor demand among buyers, or which may not get right the pricing if sold today, will be transferred.

"We expect this to happen in the case of assets — especially in the power sector — where we feel that at this point of time the realisable value is not good."

Better value

"So, by parking these assets in an entity such as an ARC or an AMC, and with intervention from, say, a state-owned power company such as NTPC, which can (for a management fee) operate and manage them, they can be turned around in two-three years.

"Thereafter, lenders can realise better value from the sale of these assets," explained the banker.

While banks may take a haircut when they shift these stressed assets to the AMC/ARC, this is unlikely to further damage their balance-sheet because they would have already provisioned for them. According to credit rating agency ICRA, fresh slippages of the banking sector during January-March of FY18 were the highest ever for a quarter, at ₽2.28-lakh crore. PSBs accounted for 85 per cent of it.

With limited improvements in recoveries and upgrades, gross non-performing assets surged to ₽10.2-lakh crore (11.8 per cent of gross advances) as on March 31, 2018, against ₽7.65-lakh crore (9.5 per cent) as on March 31, 2017.

"Imagine 10-20 large stressed accounts are parked in one such AMC. Many global funds will be interested in taking a stake in the AMC. There are many players who are keen to invest in these kind of structures," said another senior PSB official.

"If each bank is able to shift assets aggregating ₽5,000-6,000 crore to an ARC/AMC, most of the banks will be out of the restrictive PCA (prompt corrective action) framework."

This way, stress on the PSBs' books will come down substantially and they can kick-start lending, he added.

Prompt corrective action

The RBI has put 11 of the 21 PSBs on PCA, given their high non-performing assets and negative return on assets.

Usually, under PCA, a bank's branch expansion is frozen and lending is narrowed to less risky segments.

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NPA write-offs by PSBs 140% more than their losses in FY18:

PRESS TRUST OF INDIA
New Delhi, June 15
Public sector banks have written off bad loans worth a whopping ₽1.20 lakh crore, an amount that is nearly one-and-a-half times more than their total losses posted in 2017-18, according to official data.

This is a double-whammy for the struggling PSBs, which had faced massive write-offs and huge losses in the last financial year.

This is for the first time in a decade that banks have made huge write-offs of bad loans along with booking of hefty losses.

Till 2016-17, 21 state-owned banks made a combined profit, while in 2017-18, they posted a staggering loss of ₽85,370 crore.

During 2016-17, PSU banks wrote off non-performing assets (NPAs) worth ₽81,683 crore against a combined net profit of ₽473.72 crore.

SBI alone has written off bad loans of ₽40,196 crore, nearly 25 per cent of the total write-offs during 2017-18. This was followed by Canara Bank (₽8,310 crore), Punjab National Bank (₽7,407 crore) and Bank of Baroda (₽4,948 crore).

As per the data provided by rating agency ICRA, Indian Overseas Bank has written off NPAs worth ₽10,307 crore, followed by Bank of India (₽9,093 crore), IDBI Bank (₽6,632 crore) and Allahabad Bank (₽3,648 crore). These banks, along with seven others, come under the Prompt Corrective Action framework of the RBI.

As per the government data, banks' write-offs stood at ₽34,409 crore in 2013-14. The figure has jumped nearly four-fold in five years. In 2014-15, banks wrote off ₽49,018 crore; ₽57,585 crore in 2015-16; ₽81,683 crore in 2016-17; and it hit a record high of ₽1.20 lakh crore (provisional) in 2017-18.

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