Banks set to add Rs. 1.2 to 1.3 lakh crore NPAs as SC lifts interim stay on asset classification

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Express News Service

NEW DELHI: Indian banks are all set to add bad loans worth Rs. 1.2-1.3 lakh crore to their official tallies --- loans that are still to be recognised as non-performing assets (NPAs) since the Supreme Court, had in September 2020, ordered all banks to not classify Covid-19-related defaults as NPAs --- unmasking the true extent of the stress in the system.

With the apex court lifting the asset standstill on loans on Tuesday, the moment of reckoning will arrive as early as the current quarter. Banks, which have been classifying such loans as proforma bad loans in notes to accounts following the order on standstill on asset classification, will now have to declare the actual NPA position under the gross NPA head in the March quarter balance sheet.

According to pro forma disclosures made so far, 22 banks have reported pro forma gross NPAs of about Rs 8 lakh crore. This indicates that around Rs.1.2 lakh crore (nearly 1.2 per cent of advances) of bad loans exist in the system which are yet to be recognised, according to brokerage firm Care Ratings.

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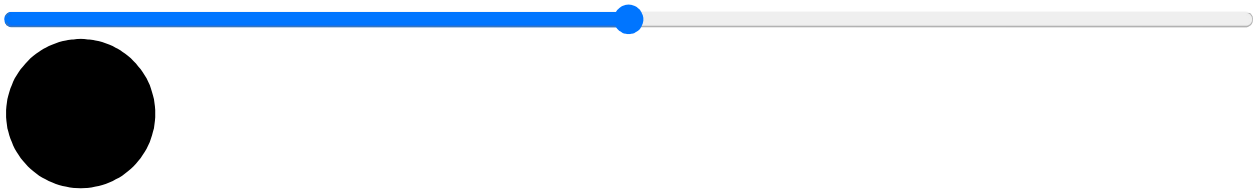

Other agencies also expect banks to see a significant surge, with ICRA Ratings pegging Gross NPAs to swell by Rs. 1.3 lakh crore to Rs. 8.7 lakh crore and S&P Global Ratings expecting stressed assets to shoot up to 11 per cent of gross loans in the next 12-18 month from 8 per cent on June 30, 2020.

Of the Rs 8 lakh crore, eight public banks alone have reported majority of the proforma NPAs at over Rs 6 lakh crore, while the remaining 14 private banks have reported pro forma GNPAs at over Rs 2 lakh crore. SBI reported the highest pro forma GNPA at over Rs16,000 crore, followed by Punjab National Bank, Union Bank of India and Canara Bank. Among private banks, Yes Bank reported the highest unclassified bad assets of over Rs 8,000 crore in the December quarter, followed by Axis Bank and HDFC Bank.

Meanwhile, the Reserve Bank of India (RBI) estimates bad loans to touch a near 22-year high under a baseline stress scenario with gross NPA ratio likely to double from 7.5 per cent last September to 13.5 per cent this September.

What has come as a relief, at least in part though, is that all banks have kept aside excess provisions for NPAs that may arise in future which may limit the immediate impact on profitability.

Banks were required to set aside 10 per cent additional provisioning beyond the central bank's mandate over a period of two quarters (5 per cent each in March and June 2020 quarters) on loan accounts where moratorium benefit had been extended.

Besides, lenders can now enforce legal steps for loan recovery that were hampered hitherto due to non-tagging.

"Standstill on NPA recognition had tied the hand of lenders and consequently impacted the credit discipline of borrowers. Withdrawal of the same will enable lenders to enforce various legal measures and support their recovery efforts," said Krishnan Sitaraman, Senior Director, CRISIL Ratings.

To be sure, banks are also recovering loans from this pool of bad assets, apart from giving them the benefit of debt recast under the one-time restructuring window. That said, it now remains to be seen if the actual build up is more or lesser than pro forma figures.

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