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# Net bad assets of govt banks a third of their net worth

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Reserve Bank of India

The net non-performing assets (NPAs) of state-owned banks — gross NPAs less provisions — at Rs 1.74 lakh crore at the end of September 2015 is equal to almost a third of their total net worth. In other words, if banks have to fully provide for all their bad debts, it would wipe out 33 per cent of their paid-up capital plus reserves and surplus.

In response to an RTI query by The Indian Express, the Reserve Bank of India disclosed that 29 public sector banks wrote off a combined Rs 1.14 lakh crore of bad debt between 2013 and 2015. This is more than one-third of the total gross non-performing assets of Rs 3.06 crore for public sector banks.

Looking at gross NPAs in isolation doesn't give the full picture. Banks set aside money in the event of default or non-payment — these are called provisions. The net NPA numbers hide some unpleasant details.

One, for some banks such as Indian Overseas Bank, they make up as much as 83.3 per cent at the end of the September quarter, according to Capitaline database. For 16 out of 25 public sector banks for whom data is available, this ratio is more than 33 per cent. The average for private sector banks is 4.9 per cent.

Under the fractional banking system, banks need a certain amount of capital to lend. If a large portion of its equity capital and reserves are wiped out, then a bank will not be able to lend freely, or it will have to wait for capital infusion from the government, which might not be forthcoming in times of a fiscal squeeze.

Two, banks have been able to reduce their NPA numbers by not only writing off assets, but also by restructuring or refinancing them. While this might save them temporarily from being classified as bad loans, they might turn irrecoverable if investment demand doesn't revive.

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"For banks, this is just the tip of the iceberg. It is going to get much worse. Especially when some of the big companies in the power and infrastructure sector face more problems," Hemindra Hazari, an independent analyst, said.

After an asset quality review undertaken by the RBI in December, bad debts of some private sector banks rose sharply. For instance, ICICI Bank's gross NPA jumped Rs 5,291 crore during the December quarter, the highest in nearly five years and that of Axis Bank increased by Rs 1,273 crore. Most large PSU banks are yet to report their December quarter numbers and it is only to be expected that their bad debt numbers will go up, experts said.

According to rating agencies, loan write-offs are likely to rise in the coming quarters. Rajat Bahl, Director, CRISIL Ratings, said, "Loan write-offs by banks in India have shown a rising trend in the last few years. They reached a level of Rs 50,000 crore for the public sector banks in 2014-15. Another Rs 25,000 crore were written off in the first half of the current financial year, 2015-16. While the pressure on banks to write-off will continue, the extent of write-offs is unlikely to rise significantly due to two reasons — first, PSBs usually write-off to the extent of cash recoveries that they have made during a year, and the recoveries are unlikely to be buoyant due to continued stress in the corporate sector. Second, their ability to take large write-offs will also be constrained by their weak profitability."

“The quantum of provisions for loans that banks need to make, however, will continue to be high, reflecting the ongoing asset quality challenges,” Bahl said.

Vibha Batra, Group Head – Financial Sector Ratings, ICRA, said, higher write-offs are on account of around 3.5 times increase in the pool of gross NPAs to over Rs 3 lakh crore, even though write-offs as per cent of opening gross NPAs have remained in the range of 20-23 per cent. Considering further likely increase in gross NPAs and large stressed accounts, write-offs in absolute amount may continue to increase over next 12-18 months.

“With bad loans increasing over time, banks have been working towards lowering the same. While better credit practices and economic stability helps in controlling incremental NPAs, banks have also been writing off bad assets to strengthen their books. This in turn puts pressure on the profit and loss account, but can be considered to be necessary as a prudent practice. This will, to my mind, continue to increase until books are put in order,” said D R Dogra, Managing Director & CEO of rating agency CARE.