

Smaller banks' bad debt picture remains hazy

Disclosure of larger players show numbers mismatch in steel sector

Smaller banks, say bankers and analysts, using a loophole in how RBI communicated to banks to clean up their balance sheets

Smaller public sector banks might still have a good amount of bad debt under the carpet that would come out only over the next one year. Bigger banks have largely shown a fair picture of their bad debt situation in the previous two quarters. Smaller banks, said bankers and analysts, were using a loophole in how the Reserve Bank of India (RBI) communicated to the banks to clean up their balance sheets. The central bank handed out a bank-wise list outlining stress recognition for 10-20 companies for mid-sized banks and about 30 companies for large ones.

The list, according to the bankers, was given largely to the lead bank in the consortia concerned. “The idea probably was that when a lead in the consortium marks an account as stressed, others will follow suit. But smaller banks have so far dodged that,” said a senior banker with a large bank who did not wish to be named.

The disparity was most visible in case of loans given to the steel sector. Larger banks have marked the steel companies as stressed and some as outright non-performing assets, but smaller banks continue to show the account in their book as standard.

Banks do not publicly disclose or discuss individual accounts. But bankers of large banks say Essar Steel was one such case where smaller banks continued to treat the account as good even as large banks have marked it as non-performing as part of RBI’s Asset Quality Review (AQR) programme. This was the case with virtually all large steel accounts except those taken over by banks under strategic debt restructuring, bankers said.

Banks have to clean up their balance sheets by March 2017 and smaller banks would have to recognise the accounts in their stressed loan book, said analysts. “Smaller banks are in no position to absorb losses, but they will have to. The managements are just buying time,” said an analyst with a domestic brokerage who declined to be named.

Big banks have bled in the last two quarters due to RBI’s AQR programme. Punjab National Bank this week reported the biggest loss in Indian banking history – Rs 5,367 crore as its gross non-performing assets rose to 13 per cent of total loans to Rs 55,818 crore for the fourth quarter. In the year ago quarter Punjab National Bank’s gross NPA ratio was at 6.6 per cent.

But Punjab National Bank’s stock rose 4 per cent on the day the bank reported huge losses and made investors happy with the disclosure.

In the present quarter, Bank of Baroda’s gross NPA ratio was 10 per cent against 6.1 per cent in the year-ago quarter, Central Bank’s GNPA was 12 per cent compared with 6.1 per cent a year ago.

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