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Banks Writing off Bad Loans

Indian banks wrote off a record ₹2.54 lakh crore of bad loans in FY19 to show cleaner books, a trend that continues in FY20 too, ETIG data shows. Bank of Baroda, Axis Bank, PNB, ICICI and Canara Bank together wrote off ₹15,000 crore of bad loans in Q1. ▸▸ 9

CLEAN-UP ACT

Record ₹2.54 L cr Bad Loan Write-off Gives a Facelift to Banks' NPA Profile

Bad loans reduced from a peak of 11.5% in March 2018 to 9.3% in March 2019

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Mumbai: Indian banks wrote off a record ₹2.54 lakh crore of bad loans in FY19 to show reduced NPAs on their books, a trend that continues into FY20 as well, data compiled by ETIG showed. State-owned banks alone wrote off ₹1.94 lakh crore of bad loans.

Bank of Baroda, Axis Bank, Punjab National Bank, ICICI Bank, and Canara Bank together wrote off about ₹15,000 crore worth of bad loans in the quarter ended June 30. While fresh slippages at banks tapered off, analysts largely attribute the decline in total gross NPAs to higher write-offs.

"Banks have made significant amount of ageing related provisions in the last one year, so there is scope to write-off and lower the gross non-performing assets on the balance sheet," said Mona Khetan, banking analyst, Reliance Securities. "A large part of the GNPA decline has come from higher write-offs rather than better recovery. Some of the large accounts from which banks were expecting recovery have been delayed."

Hobbled with legacy bad loans, Indian banks shed NPAs by ₹1.02 lakh crore to ₹9.34 lakh crore in FY19. Bad loans had peaked at ₹10,36,187 crore as on March 31, 2018. Gross NPAs of public sector banks also declined by ₹89,189 crore to more than ₹8.06 lakh crore in March this year, from a peak of more than ₹8.95 lakh crore in March 2018.

Bad loans at banks reduced from their peak of 11.5% in March 2018 to 9.3% in March 2019, with rate of accretion of fresh NPAs dropping to 3.7% in March 2019 compared with 7.4% the previous fiscal, CRISIL data showed. Asset quality ratios improved for both, although higher write-offs too were partially responsible for the same.

"Slippages have been on the wane since last fiscal, with the rate of accretion of fresh NPAs halving in fiscal 2019; this is expected to drop further to ~3.2% in fiscal 2020," CRISIL said in a report.

However, the worry for the banking system is a gradual fall in recovery from accounts stuck in the bankruptcy process. Banks have recognised nearly ₹17 lakh crore of stressed loans as NPAs since fiscal 2016, but recovery from these accounts have been very slow.

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₹2.54 L Cr NPA Write Off Gives Banks a Facelift

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It has been over two years since the Reserve Bank of India (RBI) ordered 12 loan accounts worth ₹3.5 lakh crore to be taken to the bankruptcy courts. Banks have recovered more than ₹40,000 crore from three of them.

Two have been sent into liquidation. The remaining seven are stuck at various stages of litigation, a few due to bidders backing out after submitting final proposals.

Former RBI Governor Urjit Patel in a recent lecture, his first after abruptly leaving the central bank in December last year, said that the dismal state of Indian banking was a failure on the part of banks, the government and the regulator until 2014 that got banks into the current bad-loan mess and the resultant low capital buffers.

"The supervisor had failed to acknowledge and rectify government banks' inability to identify poor performing assets; and restructure and react quickly to improve recovery and cut losses. The regulator failed in gauging when extant assumptions were getting stretched and needed revision," the former RBI boss said at the event on Indian Economic Policy in Stanford University on June 3.

The deterioration in asset quality can be traced to the credit boom of 2006-2011 when lending grew at an average rate of over 20%.