Banks stare at ₹53k cr of SEB bad loans on July 1

Stressed advances rose in first 6 months, may dip by FY16-end: RBI report

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A whopping ₹53,000-crore exposure of Indian banks to seven state electricity boards (SEBs) has a "very high probability" of turning into non-performing assets (NPAs) in the quarter ending September, the Reserve Bank of India (RBI) said in its Financial Stability Report, released on Thursday.

These loans were restructured in 2012, with a three-year moratorium for the principal amount of ₹43,000 crore. If distribution companies fail to pay interest and/or the principal by June 30 (90 days from the date the moratorium ended), these will turn into NPAs.

"Considering the inadequate fiscal space, it is quite likely the government might not be in a position to repay the overdue principal/instalments in time," the report said.

That the SEBs are not in a position to repay is evident from the fact that some of them, such as the Rajasthan State Electricity Board (which posted a loss of about ₹10,000 crore in 2013-14), requested their debt be restructured again. RBI, however, had made it clear any loan restructured after April 1 this year would attract provisioning in line with NPAs, discouraging lenders from debt recast.

The report has some positives, too. It said some risk to the banking sector had "moderated marginally", as profits rebounded in an improving economy. The gross bad loan ratio for the banking system rose 0.5 percentage points to 4.6 per cent as of March 31, compared to a year earlier, the report showed. The ratio might increase to 4.8 per cent of total loans by September, before easing to 4.7 per cent by March 2016 in a "baseline scenario", according to the report.

The rest of the report, however, goes into details about the worsening ability of debt-burdened firms to repay loans, straining a banking sector already burdened by NPAs. The sector's gross NPAs, as percentage of gross advances, rose to 4.6 per cent at the end of March this year, compared with 4.5 per cent six months ago. Stressed advances, or gross NPAs and restructured advances, rose 40 basis points to 11.1 per cent during the six-month period. Industry continues to record the highest stressed advances ratio (17.9 per cent), followed by services (7.5 per cent).

"Five sub-sectors, namely mining, iron & steel, textiles, infrastructure, and aviation, which together contributed 24.8 per cent of the total advances of banks, had a much larger share of 51.1 per cent in the total stressed advances," the report said. Infrastructure and iron & steel contributed 40 per cent to the overall stressed advances.

According to RBI, currently, five of the top 10 private steel-producing companies are under severe stress due to delayed projects resulting from various factors, including land and environmental clearances.

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UNDER PRESSURE

Tracking the stressed areas in the economy

SECTORS AT RISK

Share in advances (%) / Share in stressed advances (%)

Sub-sector		Public sector banks	Private sector banks	All SCBs
Mining	Share in advances	1.7	0.4	1.3
	Share in stressed advances	1.4	1.1	1.4
Iron & steel	Share in advances	5.2	2.5	4.5
	Share in stressed advances	10.5	7.9	10.2
Textiles	Share in advances	3.9	2.4	3.4
	Share in stressed advances	7.5	6.4	7.3
Infrastructure	Share in advances	17.6	8.4	15.0
	Share in stressed advances	30.9	18.2	29.8
Power generation	Share in advances	10.1	3.8	8.3
	Share in stressed advances	17.3	7.3	16.1
Telecom	Share in advances	1.7	0.9	1.6
	Share in stressed advances	1.8	3.1	2.2
Aviation	Share in advances	0.6	0.1	0.5
	Share in stressed advances	2.7	0.4	2.4
Total of these five sub-sectors	Share in advances	29.0	13.9	24.8
	Share in stressed advances	53.1	34.1	51.1

SCBs: Scheduled commercial banks

VOLUME OF STRESSED ASSETS (% of advances)

	2013		2014		2015
	Mar	Sep	Mar	Sep	Mar
Gross NPAs	3.4	4.2	4.1	4.5	4.6
Net NPAs	-	2.3	2.2	2.5	2.5
Overall stressed advances	9.2	10.2	10	10.7	11.1

Source: FSR/RBI