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'Banks staring at haircuts of 60% on stressed debt of ₹50,000 cr under ICE'

OUR BUREAU

Mumbai, September 12

With stressed debt of over ₹50,000 crore under the independent credit evaluation (ICE) framework, banks have to take a haircut in the range of 40-60 per cent to achieve a rating of RP4 (moderate degree of safety regarding timely servicing of financial obligations; such debt facilities/instruments carry moderate credit risk), according to an industry study.

"The average sustainable debt for these assets is around 50 per cent," said the study, Code of Hope, jointly conducted by the Associated Chambers of Commerce and Industry of India, and credit rating agency Crisil.

Resolution Plans

Under the Reserve Bank of India's revised framework for resolution of stressed assets, Resolution Plans (RPs) involving restructuring/change in ownership in respect of large accounts (that is, accounts where the aggregate exposure of lenders is ₹100 crore and above) require independent credit evaluation (ICE) of the residual debt by credit rating agencies (CRAs) specifically authorised by the central bank for this purpose.

While accounts with an aggregate exposure of ₹500 crore and above require two such ICEs, others will require one ICE. Only such RPs which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs, as the case may be, will be considered for implementation.

Terming the Insolvency and Bankruptcy Code 2016 (IBC) as a game-changing reform for India's economy, the study noted that effective implementation of IBC will help in both, preserving the value of assets, and faster resolution, which also means that asset reconstruction companies (ARCs) would be able to churn capital faster and enhance returns.

The National Company Law Tribunal (NCLT) had approved resolution plans for 32 stressed assets under the Corporate Insolvency Resolution Process (CIRP) as on June 30, 2018, with resolution to the tune of ₹50,000 crore against total claims of ₹89,400 crore admitted by financial and operational creditors.

Noting that the average resolution timeline for these 32 accounts were 260 days vis-à-vis the stipulated 270 days, the study said: "That's a huge improvement on the recovery time of 3.5-4 years taken by asset reconstruction companies and 4.3 years as per the World Bank's 'Doing Business 2018' report."

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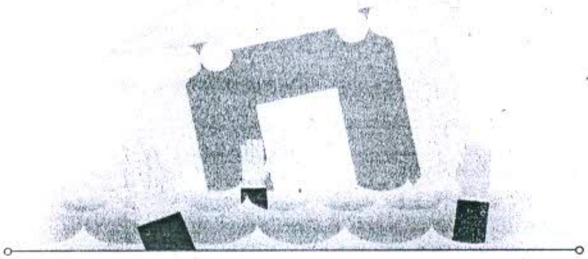
'BANKS NEED TO TAKE 40-60% HAIRCUT TO GET RP4 RATING'

With bad loans over Rs 50,000 crore under the RBI's ICE framework, banks need to take a haircut of 40-60% to have a rating of RP4 for implementation of any resolution plan, as per an Assocham-Crisil study

ACCORDING TO the Reserve Bank of India's February 12 circular, all resolution plans with an opinion or rating of RP4 are considered to have moderate degree of safety regarding timely servicing of financial obligations



INDEPENDENT CREDIT EVALUATION (ICE)

■ RBI in its revised framework had said all resolution plans involving restructuring or change in ownership for large accounts where the aggregate exposure of lenders is Rs 100 crore and above would require ICE of the residual debt by credit rating agencies (CRAs)

■ All stressed accounts with an exposure of Rs 500 crore and above will require two such ICEs, while others will need one ICE

■ Only such resolution plans which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs shall be considered for implementation, RBI had said

■ The average sustainable debt for these assets is around 50%

NCLT APPROVAL

■ The National Company Law Tribunal had approved resolution plan for 32 stressed assets under the corporate insolvency resolution process as on June 30, with resolution to the tune of Rs 50,000 crore against total claims of Rs 89,400 crore admitted by financial and operational creditors

■ The average resolution timeline for these 32 accounts were 260 days vis-a-vis the stipulated 270 days

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ASSOCHAM-CRISIL STUDY

'Banks may take 40-60% haircut on loan defaults'

ENS ECONOMIC BUREAU @ Mumbai

BANKS may need to take a haircut of 40-60 per cent on loan defaults to facilitate better rating to implement a resolution plan, reveals a joint study.

Loans worth over ₹50,000 crore are under the Reserve Bank of India's (RBI) independent credit evaluation (ICE) and as per the RBI's February 12 circular, all resolution plans with an opinion or rating of RP4 are considered to have moderate degree of safety regarding timely servicing of financial obligations.

"With stressed debts of over ₹50,000 crore under ICE framework, banks have to take a haircut in the range of 40-60 per cent to achieve a rating of RP4," revealed a joint report by trade body Assocham and rating agency CRISIL. Improved recovery rate and reduction in resolution timeline boosts investor confidence and restores credibility in the banking system.

It may be noted that the RBI's revised framework requires resolution plans involving restructuring or change in ownership for large accounts with an aggregate exposure of ₹100 crore and those above need ICE of the residual debt by credit rating agencies (CRAs). On the other hand, all stressed accounts with an exposure of ₹500 crore and above will require two such ICEs.

The RBI also insisted that only resolution plans that receive a credit opinion of RP4 or better for residual debt from one or two CRAs shall be considered for implementation. Average sustainable debt for these assets is about 50 per cent.

As on June 30, the NCLT had approved resolution of 32 stressed assets under the corporate insolvency resolution process, aggregating ₹50,000 crore against total claims of ₹89,400 crore admitted by financial and operational creditors. The average resolution timeline for these accounts was 260 days, as against the stipulated 270 days.

According to the report, IBC process will promote unsecured financing as the distribution waterfall of recoveries following liquidation gives unsecured financial creditors precedence over government dues.

Meanwhile, some of the challenges in effective implementation of IBC include infrastructure issues, adherence to resolution timelines, liquidation impact, criticality of creditors, and limited development of the secondary market.

"These would need to be addressed systematically and soon for successful implementation of the IBC over the medium term and achieve the intended outcomes," it added.

'Banks should take 40-60% haircut to get RP4 rating'

Mumbai: With bad loans worth over Rs 50,000 crore under RBI's independent credit evaluation (ICE) framework, a report said that banks need to take a haircut of 40-60% to have a rating of RP4 for implementation of any resolution plan.

According to the Reserve Bank of India's February 12 circular, all resolution plans with an opinion or rating of RP4 are considered to have moderate degree of safety regarding timely servicing of financial obligations.

RBI in its revised framework had said all resolution plans involving restructuring or change in ownership for large accounts where the aggregate exposure of lenders is Rs 100 crore and above would require ICE of the residual debt by credit rating agencies (CRAs).

All stressed accounts with an exposure of Rs 500 crore and above will require two such ICEs, while others will need one ICE.

Only such resolution plans which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs shall be considered for implementation, RBI had said.

"With stressed debt of over Rs 50,000 crore under ICE framework, banks have to take a haircut in the range of 40-60% to achieve a rating of RP4," according to a joint report by industry body Assocham and rating agency Crisil.

It said the average sustainable debt for these assets is around 50%.

The National Company Law Tribunal (NCLT) had approved resolution plan for 32 stressed assets under the corporate insolvency resolution process (CIRP) as on June 30, with resolution to the tune of Rs 50,000 crore against total claims of Rs 89,400 crore admitted by financial and operational creditors.

The average resolution timeline for these 32 accounts were 260 days vis-a--vis the stipulated 270 days, the report said.

It said an improvement in the recovery rate and reduction in timeline for resolution will increase investor confidence in the domestic corporate bond market.

The report further said that the IBC is expected to promote a market for unsecured financing. "That is because the distribution waterfall of recoveries following liquidation gives unsecured financial creditors precedence over government dues," it said. —PTI

GROWING STRESS

₹50K cr

Bad loans under RBI independent credit evaluation framework

₹500 cr

All stressed accounts with an exposure will require two ICEs

An improvement in the recovery rate and reduction in timeline for resolution will increase investor confidence in the domestic corporate bond market

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Banks need to take 40-60 per cent haircut to get RP4 rating: Report

MUMBAI, Sept 12 (PTI)

WITH bad loans worth over Rs 50,000 crore under RBI's independent credit evaluation (ICE) framework, a report said on Wednesday that banks need to take a haircut of 40-60 per cent to have a rating of RP4 for implementation of any resolution plan.

According to the Reserve Bank of India's February 12 circular, all resolution plans with an opinion or rating of RP4 are considered to have moderate degree of safety regarding timely servicing of financial obligations.

RBI in its revised framework had said all resolution plans involving restructuring or change in ownership for large accounts where the aggregate exposure of lenders is Rs 100 crore and above would require ICE of the residual debt by credit rating agencies (CRAs). All stressed accounts with an exposure of Rs 500 crore and above will require two such ICEs, while others will need one ICE.

Only such resolution plans which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs shall be considered for implementation, RBI had said.

"With stressed debt of over Rs 50,000 crore under ICE framework, banks have to take a haircut in the range of 40-60 per cent to achieve a rating of RP4," according to a joint report by industry body Assocham and rating agency Crisil. It said average sustainable debt for these assets is around 50 pc. The National Company Law Tribunal (NCLT) had approved resolution plan for 32 stressed assets under corporate insolvency resolution process (CIRP) as on June 30, with resolution to tune of Rs 50,000 crore against total claims of Rs 89,400 crore admitted by financial and operational creditors.