Bad Debt Rears Its Ugly

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The government and the Reserve Bank of India (RBI) have taken multiple steps over the years to solve the bad loans problem of public sector banks. This has been without much success, with bad loans continuing to pile up.

One area that seems to have constantly been ignored is the recovery bad loans. Bad loans are essentially loans on which repayment the repayment from a borrower has been due for 90 days or more.

Banks give out most loans against a collateral. Hence, to that extent the loans are secured and in case of a default from a borrower, the collateral can be sold and the loan amount can be recovered. Now, only if it was as simple as that.

As the total amount of bad loans has burgeoned over the years, the rate of recovery of bad loans has gone down dramatically. In Table 1, let's first look at this parameter for the five biggest public sector banks in 2016-2017. As of March 31, 2016, these banks owned 52.5 per cent of the total assets owned by the public sector banks. Hence, they give a good indication of the overall scenario with public sector banks.

Table 1: Rate of recovery in 2016-2017

Name of the bank	**Bad loans at the beginning of the year**	**Bad loans recovered during the year**	**Rate of recovery**
State Bank of India	98,173	5,197	5.29%
Bank of Baroda	40,521	4,088	10.09%
Punjab National Bank	55,818	10,677	19.13%
Bank of India	49,879	4,598	9.22%
Canara Bank	31,638	4,162	13.16%
Total	276,029	28,722	10.41%

Source: websites of banks.

What does Table 1 tell us? It shows us that the rate of recovery of bad loans for the top five public sector banks in 2016-2017 had stood at 10.4 per cent. This basically means that for every Rs 100 of bad loans at the beginning of the year, these banks were able to recover a little over Rs 10. This is an abysmal rate of recovery.

In fact, let's take a look at Table 2, which shows us the rate of recovery for the top 5 public sector banks in 2015-2016.

Table 2: Rate of recovery in 2015-2016

Name of the bank	**Bad loans at the beginning of the year**	**Bad loans recovered during the year**	**Rate of recovery**
State Bank of India	56,725	4,389	7.74%
Bank of Baroda	16,261	1,481	9.11%
Punjab National Bank	25,695	4,262	16.59%
Bank of India	22,193	3,555	16.02%
Canara Bank	13,040	3,976	30.49%

Total	133,914	17,663	13.19%

Source: Websites of various banks.

What does Table 2 tell us? It tells us that in 2015-2016, the rate of recovery of the top 5 public sector banks had stood at around 13.2 per cent. This basically meant that for every Rs 100 of bad loans at the beginning of the year, these banks were able to recover a little over Rs 13.

A comparison of Table 2 and Table 1 tells us that the rate of recovery of bad loans for the top 5 public sector banks has fallen by around 280 basis points between the years. One basis point is one hundredth of a percentage. The situation has only gone from bad to worse.

Unless the government takes steps towards improving this rate of recovery of bad loans, no serious achievements can be made on this front. One particular point that the lawyers who deal with such things have been making is the lack of debt recovery tribunals and the fact that the ones that are there are not adequately staffed. This is something that can easily be set right.

Without addressing this point, any other moves to clean up the bad loans of public sector banks, will not achieve much. These other moves will basically end up postponing the resolution of the problem, which is pretty much what they have done up until now.

As the Economic Survey points out: *"The stressed debt is heavily concentrated in large companies... The stressed debt is heavily concentrated in large companies. Cash flows in the large stressed companies have been deteriorating over the past few years, to the point where debt reductions of more than 50 percent will often be needed to restore viability. The only alternative would be to convert debt to equity, take over the companies, and then sell them at a loss."*

This basically means that the government will have to bailout public sector banks big time (something that it has been doing quietly over the last eight years). Given that public sector banks are government owned, the government should work towards avoiding the situation envisioned by the Economic Survey as much as possible. Large corporates who have taken on the loans and defaulted on it, should not be allowed to get away scot free. Given this, it is very important that the institutional mechanisms required to improve the rate of recovery of bad loans are firmed up and banks are allowed to do whatever it takes to recover bad loans from large corporates in general and crony capitalists in particular.