

Govt backs NARCL with Rs 30,600-crore guarantee for five years



Union Finance Minister [Nirmala Sitharaman](#) on Thursday said the National Asset Reconstruction Company Ltd (NARCL) would be operational soon, and it had to ensure resolving bad loans within five years, beyond which the guarantee to be issued by the government would expire.

The Cabinet on Wednesday had approved a government guarantee of Rs 30,600 crore to be provided for the security receipts issued by the NARCL to buy bad loans of lenders.

“Within five years we expect to clear (resolve) it, and the sooner they (NARCL) do it, the better they are placed because of the charges which they otherwise will have to pay,” Sitharaman said.

The NARCL will acquire stressed assets of about Rs 2 trillion in phases, and these soured loans would be transferred by paying 15 per cent cash to lenders and the remaining 85 per cent would be paid through security receipts.

These security receipts issued by the NARCL would be backed by a government guarantee of up to Rs 30,600 crore. This guarantee will be valid for five years, and the condition for invoking the guarantee will be either resolution or liquidation. These security receipts will be tradeable.

A government guarantee can be invoked to cover the shortfall between the amount realised from the underlying assets and the face value of the security receipts issued for such assets, subject to an overall ceiling of Rs 30,600 crore.

As the guarantee provided by the Centre is a contingent liability for the government, immediately there won't be any fiscal outgo, Financial Services Secretary Debasish Panda said.

Sitharaman said: “The back-stop (guarantee) gives some credibility for these non-performing assets (NPAs) for which the banks have been repeatedly provisioning, whereas once you take them out, manage and reevaluate them ... they certainly have a better prospect of getting a higher value.”

Beyond the five years, if the NARCL delays the resolution process, the guarantee cannot be invoked, Panda said.

The fine print

NARCL to acquire assets by making an offer to the lead bank

Once the offer is accepted, India Debt Resolution Company, in which PSBs will hold up to 49% stake, will be engaged for management and value addition

NARCL to resolve stressed loans above Rs 500 crore each, amounting to about Rs 2 trillion

Fully provisioned assets of Rs 90,000 crore to be transferred to NARCL in first phase

The framework will facilitate freeing up of personnel in banks to focus on increasing business and credit growth

“The idea is to ensure that these assets, for which this set-up is being created, and the value locked in these assets are realised by banks and they use it for their growth capital,” Panda said.

To disincentivise delays in resolution, the NARCL has to pay a guarantee fee, which will increase with time. The fee has been proposed at 0.25 per cent of the outstanding guarantees from the second year of the NARCL's incorporation, and will increase to 0.5 per cent, 1 per cent, and 2 per cent in the third, fourth and fifth year, respectively.

The NARCL has been incorporated under the Companies Act and has applied to the Reserve Bank of India for an asset reconstruction company (ARC) licence. Public sector banks will hold 51 per cent in the NARCL.

About 16 public and private sector banks have put in Rs 5,000-6,000 crore in the bad bank. That will be utilised by it to pay 15 per cent cash to the lenders while purchasing their bad loans. The government guarantee on security receipts issued by the NARCL is a positive stepping stone towards value unlocking in stressed assets, said Anil Gupta, vice-president, ICRA Ltd.

The move will free capital locked in the form of bad assets, which can be leveraged for lending and spending on other priority areas, said Sanjay Aggarwal, president of the PHD Chamber of Commerce and Industry. "Since the guarantee is in the form of contingent liability, it will not lead to immediate cash outflows and therefore is unlikely to affect the fiscal position in the near future."

In the last six financial years, because of recognition, resolution, recapitalisation and reforms (4Rs), banks have recovered Rs 5.01 trillion, Sitharaman said.

[Nirmala Sitharaman](#)