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Lenders keep their fingers crossed on NPAs Bill

Our Bureau

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LENDING institutions in the country are keeping their fingers crossed that the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Ordinance, 2002, will be re-promulgated by the Government.

Even though the Ordinance has dramatically empowered lending institutions in the country, recovering money locked in impaired assets may not be easy with several issues remaining unresolved, speakers at `Lending in India - Towards a new paradigm', a seminar organised by rating agency Crisil and consultant PricewaterhouseCoopers, said.

Two working groups of the Reserve Bank of India are working on putting in place a regulatory framework and operative guidelines. One working group is engaged in framing the rules and regulations and the other is looking at transfer valuation of assets and taxation issues.

According to Mr David Edmonds, Lead Partner, Financial Services, Asia-Pacific, PricewaterhouseCoopers, the success of the ARCs in India would depend upon the ability of the lenders to take losses. The success of these companies will also depend on the timing of the recovery or restructuring of the assets.

Transfer valuation is likely to hold the key to the success of ARCs. While bankers insist that they may not sell assets at steep discounts, investors insist that they will not put money where they do not get good returns, which in turn means the purchase price will have to be at a good discount.

Mr N. Vaghul, Chairman, ICICI Bank, said, bankers would not be willing to sell assets unless they realised at least 60 per cent of the value. "So, to start with, we will offer the low-hanging fruit,'' Mr Vaghul said. He said as per ICICI's estimates, about 50-60 per cent of NPAs give a positive contribution to EBITDA. "These assets will be sold easily,'' he said.

While foreign investors would have to play a vital role in creating a market for non-performing assets in India, they appeared to have been bypassed in the "securitisation debate'', according to Mr Jaideep Krishna, Managing Director, Cerberus Asia Ltd.

Mr Krishna said, "No investor view has been taken. Nobody asked us...who (investors) are going to put in the money, how it should be done." He said funds such as his would not step in if they did not get high returns. Typically such funds look at returns of 25-45 per cent on capital.

"Obviously, we will be looking at attractive valuations and tax incentives. The NPAs in India are much better in quality compared to those in some of the South-East Asian countries. So we are confident about business here," he said.

Cerberus has invested about $3 billion in impaired assets in Japan and another $10 billion is in the pipeline. It manages several ARCs in Asia. Mr Krishna estimated the Indian non-performing loans market between $20 billion and $40 billion. He described his current visit to India as a reconnaissance trip to ascertain investment opportunities in ARCs here.

"We are managing about $10 billion currently. We are in the process of raising $2 billion. A large part of it could come to India if the country moves quickly," Mr Krishna said. He estimates that India would need an immediate investment of about $8 billion.

Mr Ravi Mohan, Managing Director, Crisil, said it was still not clear whether the ARCs would act as trustees of the assets or advisors to the lenders, or be just managers.

"The problem with an AMC-like structure is that it entails fiduciary responsibilities. It would also throw up sponsorship issues," Mr Ravi Mohan said.