

# Comments on CDR

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# Summary

- Fact:
  - Banks who participated in CDR were allowed regulatory forbearance as an incentive
- Finding:
  - Paper finds this increased their financial stability, compared to banks who didn't participate
  - CDR works!

# Assessment of paper

- Very important issue
- Explored through some nice, careful econometrics
- Conclusion clear, easy to summarise
- Well worth reading

# Two points

- Paper lacks standard data review
- Question: What has the paper actually shown?
  - Did CDR improve banks' actual financial stability or just their measured stability?

# Fundamental design problem

- Imagine two banks, B1 and B2, and one debtor, D
- D owes the same amount to each bank
- B1 reschedules the loan under CDR for 20 years
- B2 sells the loan at 20 paise on the rupee

# Assessing stability

- What would we measure?
- Standard measures will show B2's financial position is better
  - B1 will show the loan is still worth 100 paise
  - B2 will show a loss
- But who actually made the right decision?
- Might not know for 20 years

# Clue

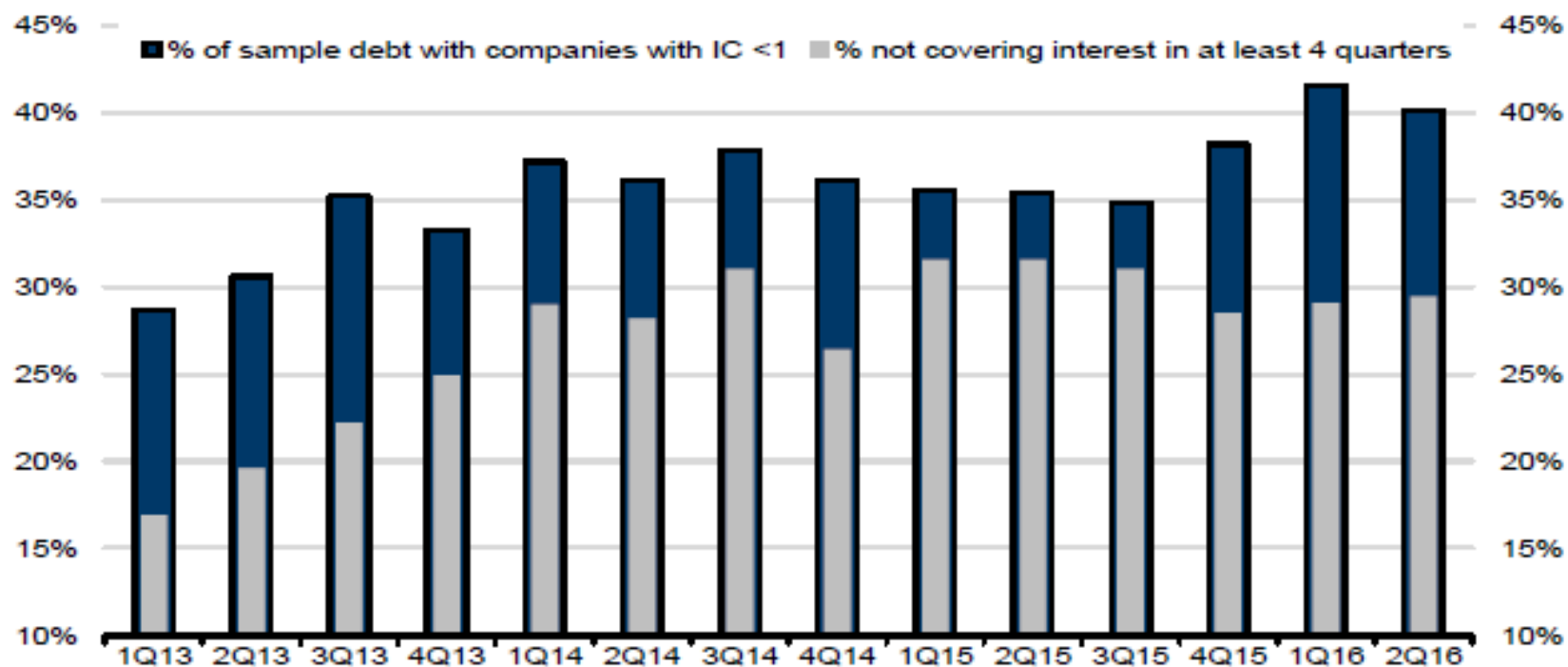
- Note paper's identification strategy: compared banks who participated in CDR with those who didn't
- Which banks didn't participate?
  - Kotak
  - HSBC
  - Barclays
  - Yes Bank and DCB opted out in 2012/13
- Some of the better banks!

# Core question

- Is CDR really working?
- Is it solving the financial problems of over-indebted corporates?
- Or is it a vehicle for banks to hide their bad loan problems?



# Debt overhang problem



Source: Prowess, Company data, Credit Suisse

# CDR: Small portion

CDR Cases				
	Number referred	Amount (Rs crore)	Number approved	Amount (Rs crore)
FY10	31	20,154	8	10,758
FY11	49	22,612	22	12,501
FY12	87	67,889	42	45,755
FY13	129	91,497	84	68,875
FY14	101	131,998	67	99,476
FY15	33	44,014	30	39,230
Sum	430	378,164	253	276,595
Total stressed				963,600

# Weak finances

	Financial Situation of CDR Firms				
	FY14	FY15	2Q15	1Q16	2Q16
EBIT	-10,322	-10,683	-3,284	2,659	-4,737
Interest	74,642	82,247	20,143	20,654	20,428
Net Profit	-73,506	-88,632	-24,154	-13,801	-21,803

# High failure

	CDR Cases			
	(in Rs crore)			
	Approved Amount	Success	Fail	Failure Rate
FY10	10,758	1,498	3,984	37
FY11	12,501	99	3,860	31
FY12	45,755	0	17,066	37
FY13	68,875	0	10,137	15
FY14	99,476	0	3,782	4
FY15	39,230	0	0	0
Sum	276,595	1,597	38,829	...

# Regulatory response

- RBI modified regulatory treatment from April 2015
- Instructed banks to classify restructured accounts as NPAs
- Since then, CDR cell has not received any recast requests

# Tentative conclusion

- CDR might actually have been a device for hiding NPAs
- Created illusion of stability, rather than actual stability

# Solution?

- Key problem sectors:
  - Infrastructure
  - Steel

# Power sector

- Not a clearance issue
- 46,000 mw built
- Crisil study found:
  - 26,000 mw face inadequate feedstock
  - 20,000 mw face tariff under-recoveries



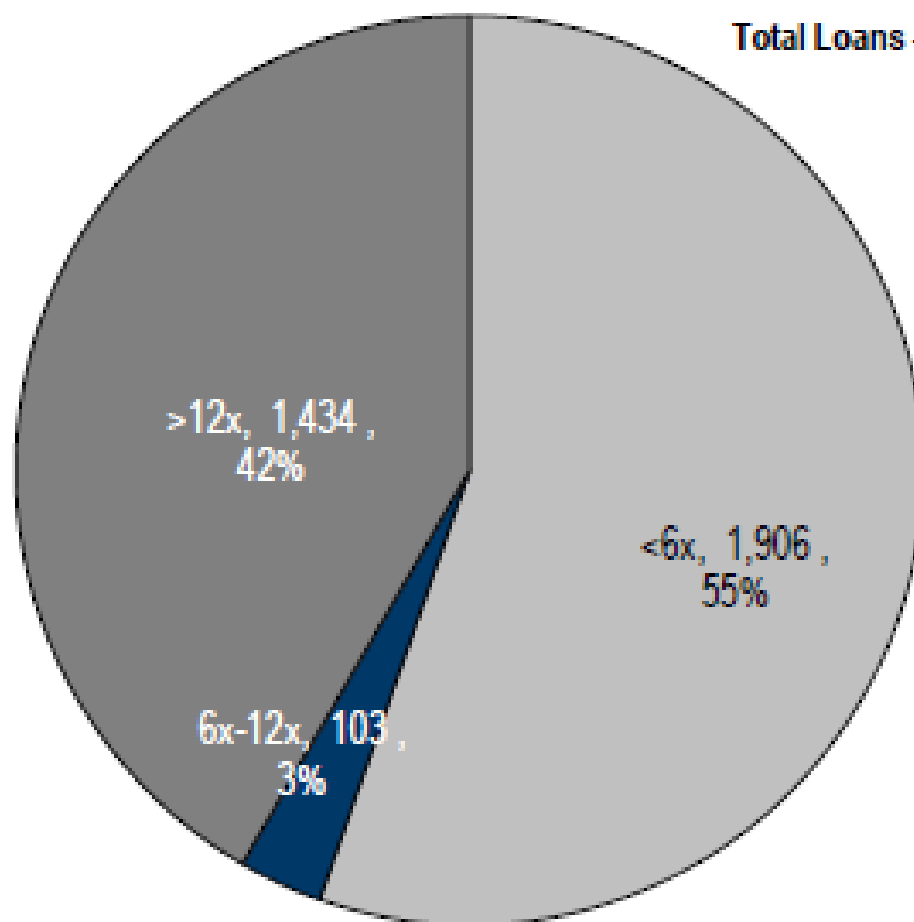
# Adani Power

- FY15 debt = Rs 45,000 crore
- Situation:
  - PLF = around 70 percent, compared to industry average of 50 percent
  - Booking compensatory tariffs
- Yet losses = Rs 815 crore

# Steel: deep distress

2Q15

Total Loans - Rs 3.4 tn

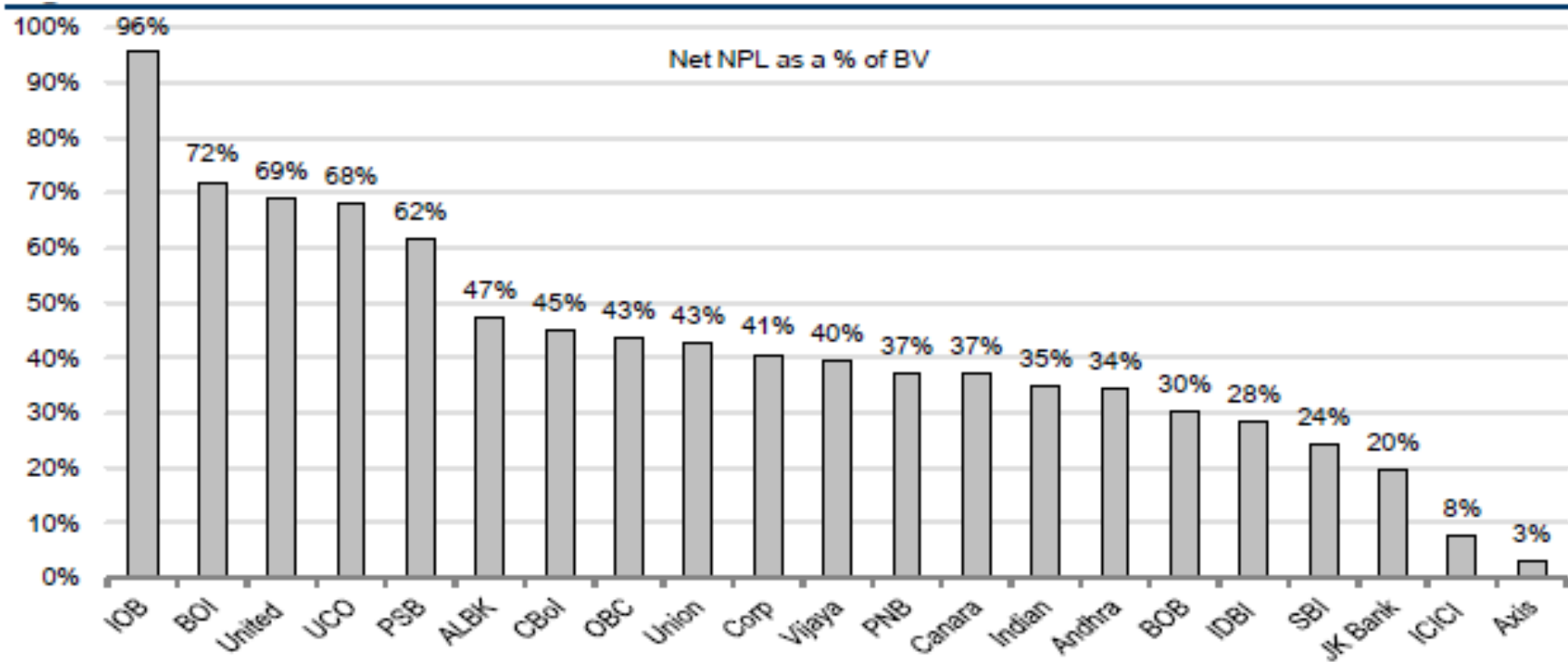


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Source: Capitaline, Company data, Credit Suisse estimates

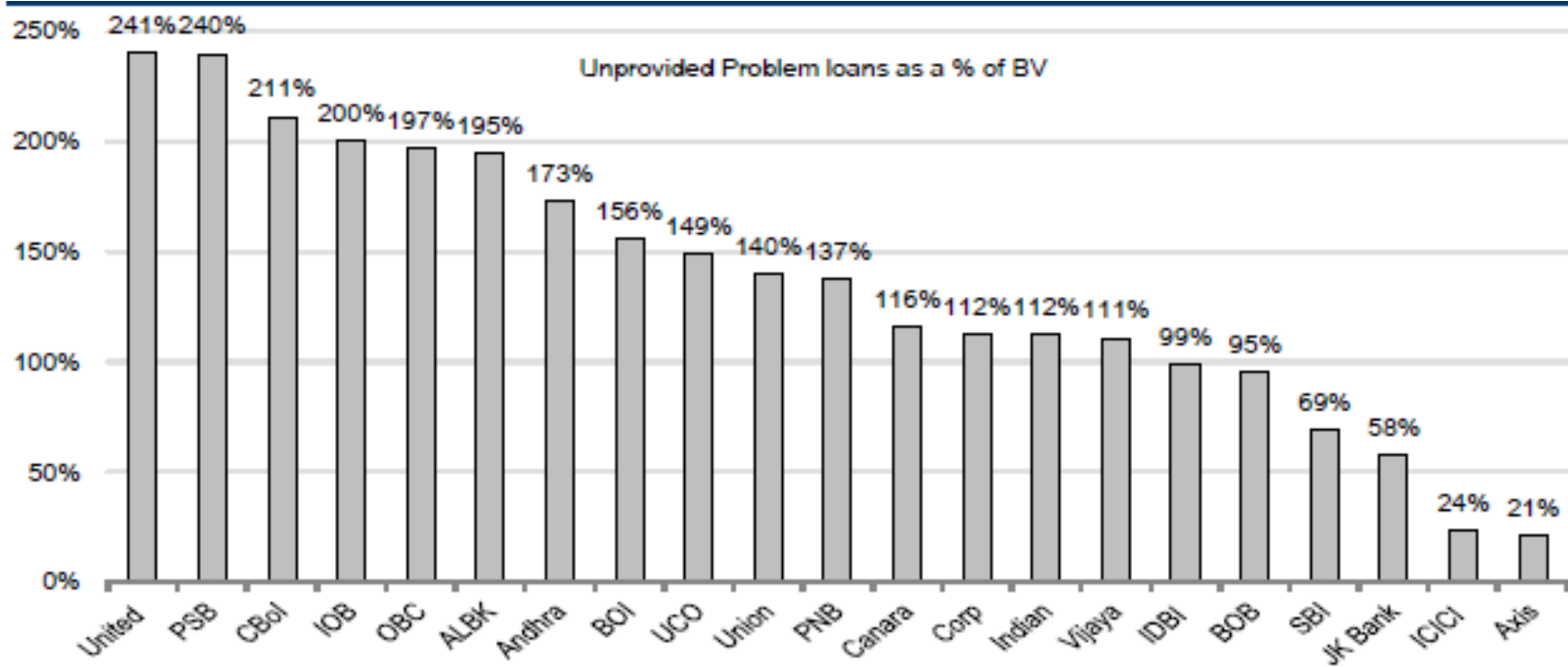
- Can the banks handle the pain?

# Net NPLs



Source: Company data, Credit Suisse

# Stressed loans



Source: Company data, Credit Suisse

# End game?

- 5:25?
- ARCs?
- Another growth miracle?
- Asset sales?
- SDR?
- Bankruptcy law?

# Fundamental question

- Who will bear the loss?

# Conclusion

- Truly....policymakers are facing a difficult world