

The Evergreening Tryst between Bankers & their zombie-advancing exercises

The RBI has warned banks of engaging in practices for evergreening bad loans. The RBI Governor has indicated of receiving reports of bankers coercing various lenders and borrowers into finalizing deals with defaulting borrowers. They engage in internal mix-ups to cover up faulty auditing and manipulate loan books in order to give favorable concessions to the already defaulting borrower. Zombie loaning exercises were interim recourses that aimed on reducing NPAs (unpaid over 90 days) and increase the bank's profitability. Here, banks provide extra funds to the already stressed borrowers who wouldn't be able to repay back and then restructure their financial agreements in order to make them look like profitable companies.

The period between 2000-2014 is considered the strongest phase of debt restructuring for both corporates and banks as they enjoyed a free hand in adjusting the terms and conditions of their loans. With the introduction of IBC 2016, evergreening activities did reduce but recoveries stood very low too with the exception of the Covid-19 pandemic. The RBI was a little lenient and allowed for evergreening wherever necessary and PSBs accumulated for most of the NPA's. Substandard enterprises avail loans from debilitated banks to increase their market dominance while tangible investments will be diverted for other purposes. Such misallotment of money results in the propagation of bad loans while credible borrowers won't receive any loans. Defaulted loans were cut by Rs. 11 lakh crores and gross NPAs fell by Rs 7.3 lakh crores (in March 2022) to Rs 5.5 lakh crores (March 2023) as per RBI's latest report. The RBI has called for banks to take stringent action against officers from senior management positions when found in evergreening practices by removing them from office privileges to canceling all of their equity options in the company. They have also said that the CEO, audit committees, and the boards will all be held liable during the investigation of an evergreening activity.

GLOSSARY

RBI – Reserve Bank of India

NPA – Non-performing Assets

CEO – Chief Executive Officer

