

Inter Creditor Agreement—Impact On the Banking Sector**Thematic Note**

Due to the growing NPA menace, Bankers have finalized the Inter Creditor Agreement (ICA), which will enable effective communication among lenders. The ICA mechanism was expected to be enforced in the month of July itself.

The above decision has come after RBI's warning of further worsening of the NPA in the banking sector. The NPA figure crossed INR9 trillion as on December 2017. ICA is a framework under which consortium of lenders would take up the NPA cases.

The ICA is a participatory process, which enables the lenders to have smooth and effective communication amongst themselves so that any difference can be resolved effectively.

The construction of the ICA is such that, when 66% of the banks who have exposure collectively take a decision, they will be able to go ahead with it. Authority shall be given to the lead bank to implement a resolution plan in 180 days. The leader would be preparing a resolution plan which includes empanelling turnaround specialists and other Industry experts for the turnaround of the stressed assets within the RBI stipulated timeframe of 180 days.

On July 23rd, SBI signed the ICA which is definitely going to be a positive step in the resolution of stressed assets. As on date, 17 banks have signed the deal, but large private sector banks like HFDC, Kotak Mahindra, ICICI and Axis Bank have not yet signed the agreement.

In case a resolution plan is approved by 66% of the lenders, it shall be binding on all. A dissenting creditor has been given the option of either selling its loan at a discount of 15% of liquidation value to other lenders or buy the entire loan at 125% of the resolution plan agreed by all the lenders. The dissenting shareholder has the option of selling their loan to any person at a price mutually agreed between them but the dissenting shareholder cannot sell it to an asset reconstruction company.

ICA was formulated to prevent the minority shareholders from blocking a resolution plan of stressed assets and find a solution outside the Bankruptcy court.

There have been several issues which the ICA has failed to address, like grievances of dissenting creditors. A dissenting creditor still has the option of approaching a bankruptcy court because of a standstill clause which is part of the agreement and is valid for 180 days. Foreign banks have not been kept under the ICA which is a negative.

This seems to be positive for the banking sector as a whole, as it would ensure speedy resolution of stressed assets.

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating

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