

COVID-19: Loan portfolio assessment considerations for banks and NBFCs

Banks and non-banking financial companies (NBFCs) have been grappling with issues related to non-performing assets (NPAs) for some time. These challenges are expected to increase manifold due to COVID-19 impact on sectors such as real estate, infrastructure and manufacturing, which are expected to see deterioration of cash flows of borrowers eventually leading to an increasingly distressed loan portfolio for banks and NBFCs.

Therefore, it is imperative to critically evaluate the quality of the loan portfolio to determine the estimated credit loss (ECL) and formulate an appropriate strategy to maximise loan recovery (including exploring sale of portfolio), both in terms of timeline and value. Internal matters such as strengthening the credit risk assessment process and enhancing liquidity also need to be evaluated.

Grant Thornton's integrated Financial Services Advisory team includes specialists from debt restructuring and recovery, transaction advisory and due diligence, business consulting, valuation, accounting advisory and forensics as well as sector experts and can help you in this endeavour.

Here's how we can help you PLAN how to assess your loan portfolio and formulate an appropriate strategy to maximise loan recovery



Loan portfolio categorisation

- Categorise the loan portfolio into red, amber and green, based on the likelihood of stress and an NPA situation developing, given the borrower's financial position and underlying sector exposure
- Formulate an approach specific to each category with an objective to estimate loss given default considering the sectoral impact, account status and recovery as well as exit plan put together



Loan portfolio status and recovery assessment

- Understand repayment history and latest financial position of the borrower, primarily through reading of internal credit appraisal documents as well as interactions with risk and business teams and management of borrowers, if required
- Analyse cash flow forecasts of borrower and build a scenario analysis to assess debt servicing ability and potential NPA exposure
- Analyse adequacy of security coverage
- Analyse the latest valuation of security and assess the likelihood of realisation through various checks, including market assessment



Loan recovery strategies

- Understand management's view on the estimated value of recovery and mode of payment, based on its assessment and interaction with borrowers
- Ascertain ECL based on scenario analysis and the estimated recovery value of the NPA or potential NPA cases, after critically evaluating the managements views and estimates
- Advise on potential restructuring options after evaluating options for recovery – through IBC, enforcement of security, trade sale of loan book, or other alternative routes



Post-assessment debt structuring and advisory

- Evaluate possible restructuring solutions emanating from the assessment - where our experienced Recovery & Reorganisation can advise and support you through the restructuring or recovery process:
 - Deep restructuring of debt facilities with support from existing stakeholders
 - Enforcement of security interests and collaterals keeping in view its realizability with regard to outstanding loan exposures
 - Mergers or demergers of business verticals based on viable business case projections

- Change in management or concessionaires outside the IBC for preserving value of assets or concession agreements
- IBC and related measures for value maximisation for all stakeholders
- Asset sale recovery cases for unviable accounts



Integrity and forensic analysis

- Specialist services customised for your requirement, such as:
 - Integrity due diligence on the borrowers to obtain intelligence from the public domain as well as on ground checks and insights from discussions with relevant stakeholders
 - Detailed forensic review – focusing on disbursements and utilisation of funds of the selected accounts, to identify potential fund diversions and/or corporate governance-related concerns



Case study: Analysis of stressed loan portfolio for a large private sector bank

- **Engagement:** We analysed the corporate loan book portfolio with focus on stressed loans. The objective was to determine the expected recovery value of the stressed loans after analysis of the borrower cash flow, sector impact, security coverage, IBC impact, and other areas.
- **Challenge:** To determine an estimate of the recovery value of the stressed loan book based on an analysis of the bank's internal credit risk assessment and outside-in analysis based on market trends, integrity checks using various scenarios, amongst others
- **Solution:** We performed extensive analysis on the portfolio and the expected recovery value to highlight key risks around recovery. Our work involved fact finding through diligence of the internal documents and information and assessment of security availability (with inputs from legal experts) and security value (with inputs from valuation experts). This was based on commercial and pragmatic analysis of recovery mode and value estimates, guided by the team's experience in the restructuring and recovery space.
- **Outcome:** Our integrated team comprised of multi-disciplinary specialists and cross-sector experts came together to successfully determine the estimated recovery value, which was used to re-value the stressed loan portfolio as well as for potential fund-raising efforts.



Case study: Compilation of select loan portfolio for a large NBFC

- **Engagement:** We did a compilation of select corporate loan book portfolio of NBFCs. The objective was to do an independent analysis of the select loan book and underlying borrower cash flow, progress of projects and financial position.
- **Challenge:** The portfolio was witnessing stress, despite not being an NPA. Therefore, we had to determine potential estimated credit loss of the select corporate loan book, based on an analysis of the bank's internal credit risk assessment and outside-in analysis based on project and financial reports furnished by the borrowers
- **Solution:** We performed extensive analysis on the portfolio and estimated credit loss and highlighted key risks around recovery. Our work involved fact finding and analysis conducted by our real estate, financial due diligence and restructuring specialists.
- **Outcome:** Our work was used to independently determine the ECL of the select corporate loan portfolio and compare it with the management's assessment. The analysis was presented to the board and appropriate action plans were implemented covering recovery procedures as well as potential sale of the portfolio to other institutions.

How Grant Thornton can help

Grant Thornton's integrated Financial Services Advisory practice can help banks and NBFCs prioritise necessary actions to mitigate the impact of COVID-19.

Our distinct approach ensures complete ownership from start to end, through close coordination with stakeholders to help create and unlock sustainable value.



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[Click here to download the recently released Grant Thornton Halt-Plan-Refresh Guide on revisiting business priorities and plans](#)



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