

National Asset Reconstruction Company Limited (NARCL)

What is the National Asset Reconstruction Company Ltd?

The National Asset Reconstruction Company Ltd or NARCL is the name of the asset reconstruction company incorporated to take over and dispose of the stressed assets of commercial banks.

- Stressed assets of commercial banks worth Rs 2 lakh crore have been identified to be taken up in the first phase by the NARCL.
- NARCL will be starting with a total capital of Rs 6,000 crore.
- In October 2021, NARCL received the RBI's license to enable it to commence operations as a '[bad bank](#)'.
- Public Sector Banks (PSBs) have a 51% ownership of NARCL.
- Banks will aggregate and consolidate stressed assets with NARCL for resolution.
- NARCL's Managing Director is PM Nair, a stressed assets expert from the State Bank of India (SBI).

NARCL and IDRCL

NARCL will acquire fully provisioned stressed assets by making an offer to the lead bank in a consortium of lenders; once the offer is accepted, NARCL will engage with India Debt Resolution Company Ltd. (IDRCL) for management and resolution of the stressed assets.

- IDRCL is an operational entity/service company that would manage the assets and engage professionals and turnaround experts in the process.
 - PSBs and public FIs would hold a maximum of 49% stake in IDRCL while the remaining 51% will be vested with private lenders.
- Stressed assets acquired by NARCL will be managed by IDRCL for price discovery and value addition.

What is the need for NARCL?

Even though there exist other asset reconstruction companies (ARCs) for the resolution of stressed assets, NARCL is significant because the existing ARCs have been helpful only in the case of smaller value loans. Notwithstanding other asset resolution mechanisms including the [Insolvency and Bankruptcy Code \(IBC\)](#), the Union Budget 2020-21 announced the NARCL-IDRCL structure considering the large stock of legacy non-performing assets ([NPAs](#)).

How will NARCL acquire bad loans?

NARCL will take over identified bad loans of the lenders. In the first phase, NARCL will acquire stressed assets worth about Rs 2 lakh crore. The stressed assets will be acquired through a 15 percent upfront cash payment and 85 percent in the form of security receipts. In September 2016, the union cabinet cleared the proposal to provide a government guarantee worth Rs 30,600 crore to security receipts issued by NARCL.

The government guarantee represents the difference between the assets' face value and the value realised out of the sale or liquidation. The guarantee is for five years. The guarantee is needed as it imparts credibility and provides for contingency buffers.

Under the process, the lead bank will go for the Swiss Challenge form of public procurement in which other ARCs will be invited to make offers to find the higher valuation of the stressed assets on sale.

How are banks benefited from NARCL?

- Incentivize quicker action on resolving stressed assets
- Help in better value realization
- Helps in freeing up bank personnel to focus on increasing business and credit growth
- Improve banks' valuation
- Enhance banks' abilities to raise market capital

