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Title

A study on NPA Management in Public and Private Sector Bank in India

Ref: **Life Membership Number: TN-149** **Dr. S. Manikandan**•

Date of Birth: 24.07.1980

INTRODUCTION

In any business an element of bad debt is inevitable. Banking is a business and therefore, NPAs are unavoidable. The question is how to minimize NPAs. All NPAs are not irrecoverable loans. The NPA position in Indian Banking is exaggerated. The ratio is related to credit and not to assets. The international norm is to relate the ratio to assets. In India, loans form barely 50 percent of total assets. The remaining assets are held in CRR (8 per cent) and actual SLR (38 per cent) and 'other assets'. 46 per cent of the assets (CRR + SLR) are risk free. If the ratio is related to total assets, the NPA ratio in Indian banking falls sharply from 7.5 percent to 2.9 percent.

It is necessary to take a policy decision to relate NPAs to total assets and not to credit as at present. It is also necessary for the banks to give disaggregated data of NPAs such as 'sub-standard', 'doubtful' and 'loss assets' which will throw more light on the quality of assets. For instance, two banks have the same NPA ratio of 10 percent. The disaggregated data of Bank 'A' shows that the 'sub-standard' accounts for 2 per cent, 'doubtful' for 1 percent and 'loss asset' for the remaining 7 percent. In Bank 'B', the figures are 8 percent, 1 percent and 1 percent respectively. Thus, though their NPA ratio is the same (10 percent), clearly Bank 'B' is considerably better off than Bank 'A' because of its low 'loss assets' figure.

An important reason for the bulging of NPAs was the 'euphoria' generated with liberalization; a dream of globalization led to huge investments which unfortunately could not be utilized due to hesitant liberalization policies. Large corporates delayed payments and contributed

• **Assistant Professor, The Institute of Company Secretaries of India, Mumbai.**

indirectly for the NPA of SSI units. IT is equally true that defective credit appraisals, absence of risk rating, deficiencies in post-credit supervision and follow-up contributed.

Most crucial reason for the increase in the NPAs is the dilapidated and defaulter-friendly legal system. Pannir Selvam Committee of IBA on NPAs clearly brought out that it takes decades for courts to decide cases and even after decrees are obtained execution of decrees is virtually an impossible task. Thousands of cases are languishing in courts for decades. Debt Recovery Tribunals (DRTs) which were conceived as a fast-track technique for recovery of bank dues have been virtually non-starters.

BIFR is another escape route easily available to the willful defaulter. Once the case is registered with the BIFR, bank's option to proceed legally is closed. For quite a few corporates reaching to BIFR has become the most convenient route to avoid bank litigation.

Effective remedies for NPAs fall into three categories: (a) administration, (b) legal reform and (c) bank efficiency. The most important remedy for tackling the NPA issue is to give 'autonomy' to the boards of banks. Neither the RBI nor the GOI should interfere in the settlement of problem loans. It is for the boards of banks to take decisions and be accountable for the decisions taken. 'Autonomy and accountability' are the core principles of liberalization process. The meddlesome nature of bureaucracy complicates the issue and NPAs linger on. Speedy privatization of public sector banks would facilitate autonomous status to bank boards. The much-talked about legal reforms need to be urgently effected and an awe-inspiring legal system to punish willful large defaulters should be in place. Revenue Recovery Acts in all the States should be made applicable to banks' dues also. Indian Banks' Association should immediately take steps to establish dependable 'Credit Information Bureau' which will provide the necessary information about every borrower to the banks. Follow-up of recovery has to be doggedly pursued. The creation of a climate of recovery and the necessary infrastructure are crucial for successfully tackling the NPA issue.

MEANING AND DEFINITIONS OF PA AND NPA

A Non-Performing Asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

❖ Definition

A Non-Performing Asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

❖ Description

Banks are required to classify NPAs further into Substandard, Doubtful and Loss Assets.

- ✓ **Substandard Assets**

Assets which has remained NPA for a period less than or equal to 12 months.

- ✓ **Doubtful Assets**

An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

- ✓ **Loss Assets**

As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

HISTORY OF NPA IN INDIAN BANKING INDUSTRY

Reserve Bank of India introduced a critical analysis for a comprehensive and uniform credit and monitoring by way of the Health Code System, in banks, which provided information regarding health of individual advances in 1985 – 86. It was considered that such information would be of immense use to banks management for control purpose. Reserve Bank of India advises all commercial banks on 7th November, 1987 to introduce the health classification indicating the quality of individual advances in the following eight categories with Health Code assigned to each borrower account.

- ✓ ***SATISFACTORY:*** The account in which all terms and conditions are complying with and safety of advances are not in doubt.
- ✓ ***IRREGULAR***: The account where safety of advances is not suspected, though there may be occasional irregularities.
- ✓ ***SICK – VIABLE***: Advances to units which are sick but viable under nursing or revival programs are under taken.
- ✓ ***SICK – NON – VIABLE / STICKY***: Advances where irregularities continue to persist and there are no immediate prospects of regularization.
- ✓ ***ADVANCES – RECALLED***: Advances where the recalled repayment is highly doubtful and nursing is not considered worthwhile, includes accounts where decision has been taken to recall the advances.

- ✓ ***SUIT – FILE – ACCOUNTS***: Accounts where legal action or recovery proceedings have been initiated.
- ✓ ***DECREED DEBTS***: Accounts for which decrees have been obtained.
- ✓ ***BAD AND DOUBTFUL ACCOUNTS***: The accounts in which the recoverability is in doubtful due to shortfall in the value of the securities and inability / unwillingness of the borrower to repay the banks dues partly or wholly.

IMPORTANCE OF NPA

Importance of Non-Performing Assets has become more and more since the formation of Shri M. Narshimham Committee on banking sector reform in 1991. We can say that it is a second landmark in banking sector in India after nationalization of banks. After nationalization of banks it has been given much attention on the lending policy of nationalized banks but not much attention has been given to the recovery of advances of nationalized banks by Reserve Bank of India (RBI). Recovery of Non-Performing Assets has become critical performance area for all banks in India.

There was a lack of specific and unanimous guidelines which resulted in mis-allocation of (banks) huge funds and ruin the sustained economic growth of nation. So, it was high time to form some specific guidelines on this. Reserve Bank of India (RBI) introduced a new set of prudential norms in April, 1992 for commercial banks and subsequently it has been extended, in stages to urban co-operative banks as well, as per the recommendations of high power committee on urban co-operative banks constituted in May 1999 under the chairmanship of K. Madharao as a need for strengthening the co-operative sector in order to enhance operational efficiency, productivity and profitability and with the objective of implementing international. Best practices in Indian banks, it is compulsory for all banking institutions to comply with prudential norms of RBI.

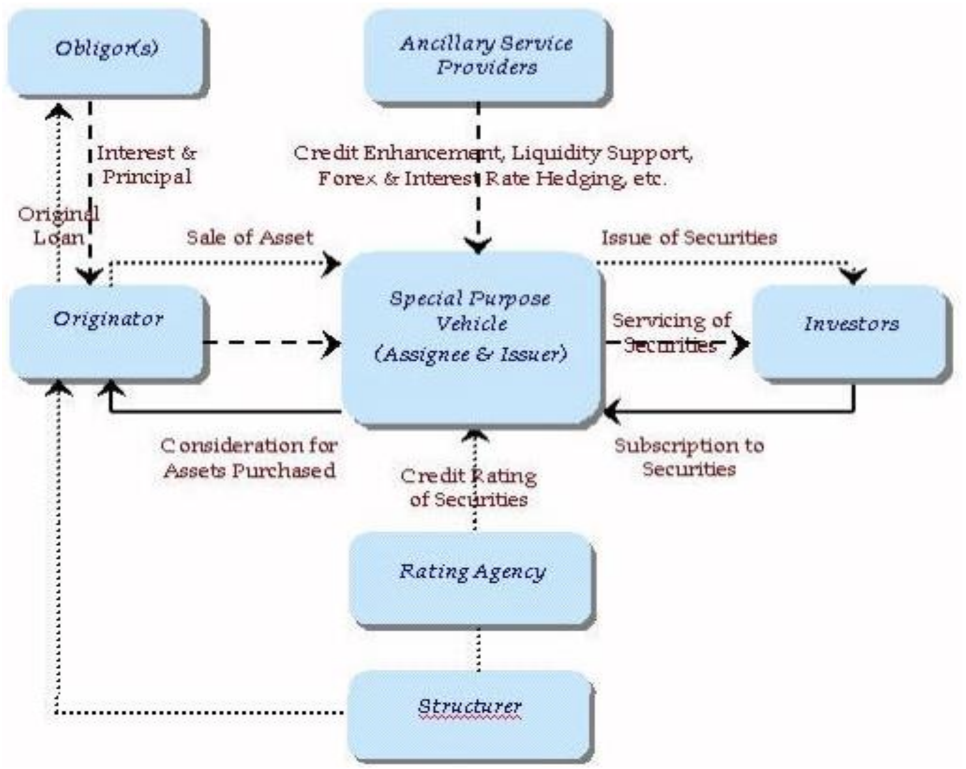
Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

The Debts Recovery Tribunal (DRT) enforces provisions of the Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act, 1993 and also Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002.

Securitization is a method of raising funds by way of selling receivables or money.

Chart: 1.1

The Securitization process



The major steps is Acquisition of Financial Assets by Securitisation Company or Reconstruction Company (i.e. SPVs) from the originator. Here financial assets are loans backed by properties. The originator is banks or FIs who has lent money to the original borrower.

The SPV, with the help of an investment banker, issues security receipts which are distributed to investors; and the SPV pays the originator for the financial assets purchased with the proceeds from the sale of securities.

NEED FOR THE STUDY

Non-performing assets indicate an advance for which interest or repayment of principal or both remains overdue for a period of 90 days or more. An advance/loan is treated as non-performing when it fails to satisfy its repayment obligations. Thus, non-performing assets are loans in jeopardy of default. The level of NPAs is an indicator of the efficiency of banker’s credit risk management and efficiency of resource allocation to productive sectors. The Basel Committee on Banking Supervision defines credit risk as “potential default of a borrower to meet the obligation in accordance with the agreed terms” (BIS, 2005). Higher non-performing assets resulted in many bank failures (Nayak et al, 2010). NPAs represent a real economic cost in modern days as they reflect the application of scarce capital and credit funds to unproductive use. It also affects the lending capacity since funds are blocked and repayment is disturbed and has also resulted in additional cost for intermediation and realizing the NPAs. The banking sector reforms in India during the post-liberalization period mostly focused on improving the efficiency of the banking sector by incorporating prudential norms for income recognition, asset classification and provisioning and through integrating international standards. The alarming level of NPAs is recognized as one of the major explanations for implementing structural changes and reform measures in the banking sector during this period.

Upon analyzing the banking sector in India, it is evident that the NPAs still pose a significant threat to the banking sector. This research is an attempt to examine the non-performing assets of public sector banks (PSBs) in India and to evaluate the various facets of NPA and its management in Indian banking sector.

The non-performing assets that are not able to generate income for the bank are the great threat for the banking institution. Rather than generating profit for the bank, NPA drains off the income earned by the other performing asset by the way of paying interest to the real owner of the resources. It affects the overall profitability of the bank adversely by affecting the return on equity and return on asset. There are certain ways through which it affects the financial institutions.

Thus, the need of the study of the NPA is must necessary due to these reasons. These reasons are the crucial for any bank at present. One has to realize these matters and has to take corrective action against NPA reasons, as for as possible one has to convert all the NPA accounts into PA accounts. As far as the importance of the study is concern, without the study, one can’t identify the whole gamut of the NPA. To know, how the account is becoming NPA is must necessary. After identifying the reason behind the particular NPA account, one can go for a step ahead. That means for the step of how to convert into PA and how to prevent other account from becoming, to know the variables available to control NPAs.

OBJECTIVE OF THE STUDY

The objective of the project was to find how this Non-Performing Assets (NPA) generate and what its impact on the profitability of the bank and how it can be reduced. The study is addressed to the following objectives

- To study the trend of NPAs during last five years.
- To understand what is NPAs and what are the underlying reasons for its emergence.
- To know what are the steps being taken by the Indian banking sector to reduce the NPAs
- To find out the effectiveness of recovery mechanism adopted by banks for NPA.

METHODOLOGY OF STUDY

In order to realize the stated objectives, we have utilized a combined approach that embraces features of both descriptive and analytical research designs. Though several research studies on NPA in Indian banking sector are available, the studies on a closer look validated NPA problem using secondary data and most often depended ratio analysis to identify whether NPA is managed efficiently. A closer look into the studies highlighted insufficient analytical studies on the interaction between different bank specific performance indicators and macroeconomic indicators on incidence of NPA of banks. The methodology for this research is designed considering the above aspects; to evaluate asset quality of public sector banks explained using the trend in movement Non-Performing Assets.

DATA COLLECTION

PRIMARY DATA

In order to explain the incidence of NPA and to substantiate the observations from secondary data analysis, the primary data are collected using a structured questionnaire from bankers working with Punjab National Bank & State Bank of India.

SECONDARY DATA

The primary emphasis of this research is focused on analyzing nonperforming assets of public sector banks in India during the period 2011-2015. In specific terms, it includes:

(a) Analyzing the trend in the movement of NPA variances during the study period,

(b) the moderating role of bank performance variables on the relationship between advances and NPA, (c) the moderating role of NPA on the relationship between income and profitability of banks, and (d) the mediating role of macroeconomic indicators on the relationship between advances and NPA of banks. To achieve the stated objectives, data are collected from various sources and include;

- Research reports, published articles and news reports available in both national and international level related to NPA. The information obtained from these sources are used for critical evaluation of the subject and identify research gap in the area of study. These secondary sources are part of different chapters in this report.
- Statistical Data on NPA, bank-specific and economic indicators during 2011-2015, collected mainly from RBI website, Indian Banks Association and Ministry of National Economy. In addition to the above, information is obtained from individual bank web sites.
- Unpublished reports on the above topic.

SAMPLING

We have collected the data from two Banks namely UCO Bank, Kanpur & Punjab National Bank, Gosaiganj. We have also collected the data regarding the Net NPA level of different Banks for the last 5 years i.e. 2011-2015 from the RBI website and related websites of those Banks.

LIMITATIONS OF THE STUDY

1. The present study is confined to the state of Uttar Pradesh only.
2. The conclusions of the study are based on the responses of the banks and secondary information. Thus, some amount of subjectivity might remain.

REVIEW OF LITERATURE

According to a study by **Brownbridge (1998)**, most of the bank failures were caused by nonperforming loans. Arrears affecting more than half the loan portfolios were typical of the failed banks. Many of the bad debts were attributable to moral hazard: the adverse incentives on bank owners to adopt imprudent lending strategies, in particular insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets.

Bloem and Gorter (2001) suggested that a more or less predictable level of non-performing loans, though it may vary slightly from year to year, is caused by an inevitable number of 'wrong economic decisions by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, etc.). Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, or they may spread the risk by taking out insurance. Enterprises may well be able to pass a large portion of these costs to customers in the form of higher prices. For instance, the interest margin applied by financial institutions will include a premium for the risk of nonperformance on granted loans. At this time, banks' non-performing loans increase, profits decline and substantial losses to capital may become apparent. Eventually, the economy reaches a trough and turns towards a new expansionary phase, as a result the risk of future losses reaches a low point, even though banks may still appear relatively unhealthy at this stage in the cycle.

According to **Gorter and Bloem (2002)** non-performing loans are mainly caused by an inevitable number of wrong economic decisions by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, etc.). Under such circumstances, the holders of loans can make an allowance for a normal share of nonperformance in the form of bad loan provisions, or they may spread the risk by taking out insurance.

Petya Koeva (2003), his study on the Performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behavior and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks.

Das and Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency indicators. Sergio (1996) in a study of non-performing loans in Italy found evidence that, an increase in the riskiness of loan assets is rooted in a bank's lending policy adducing to relatively unselective and inadequate assessment of sectoral prospects.

Vradi et.al (2006), his study on´ Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy in order to see the efficiency of Indian banks we have see the fore indicators i.e. profitability, productivity, assets, quality and financial management for all banks includes public sector, private sector banks in India for the period 2000 and 1999 to 2002-2003. For measuring efficiency of banks we have adopted development envelopment analysis and found that public sectors banks are more efficient than other banks in India

Brijesh K. Saho et.al (2007), this paper attempts to examine, the performance trends of the Indian commercial banks for the period: 1997-98 - 2004-05. Our broad empirical findings are indicative in many ways. First, the increasing average annual trends in technical efficiency for all ownership groups indicate an affirmative gesture about the effect of the reform process on the performance of the Indian banking sector. Second, the higher cost efficiency accrual of private banks over nationalized banks indicate that nationalized banks, though old, do not reflect their learning experience in their cost minimizing behavior due to X-inefficiency factors arising from government ownership. This finding also highlights the possible stronger disciplining role played by the capital market indicating a strong link between market for corporate control and efficiency of private enterprise assumed by property right hypothesis. And, finally, concerning the scale elasticity behavior, the technology and market-based results differ significantly supporting the empirical distinction between returns to scale and economies of scale, often used interchangeably in the literature.

Roma Mitra et.al (2008), A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance. This paper evaluates the performance of Banking Sectors in India.

Nelson M. Waweru et.al (2009), Study that many financial institutions that collapsed in Kenya since 1986 failed due to non-performing loans, this study investigated the causes of nonperforming loans, the actions that bank managers have taken to mitigate that problem and the level of success of such actions. Using a sample of 30 managers selected from the ten largest banks the study found that national economic downturn was perceived as the most important external factor. Customer failure to disclose vital information during the loan application process was considered to be the main customer specific factor. The study further found that Lack of an aggressive debt collection policy was perceived as the main bank specific factor, contributing to the non performing debt problem in Kenya.

Kevin Greenidge et.al (2010), study the evaluation of non-performing loans is of great importance given its association with bank failure and financial crises, and it should therefore be of interest to developing countries. The purpose of this paper is to build a multivariate model, incorporating macroeconomic and bank-specific variables, to forecast non-performing loans in the banking sector of Barbados. On an aggregate level, our model outperforms a simple random walk model on all forecast horizons, while for individual banks; these forecasts tend to be more accurate for longer prediction periods only.

Table: 1.1

COMPARISON OF NON-PERFORMING ASSETS (NPAs) OF PUBLIC AND PRIVATE BANKS

(In millions)

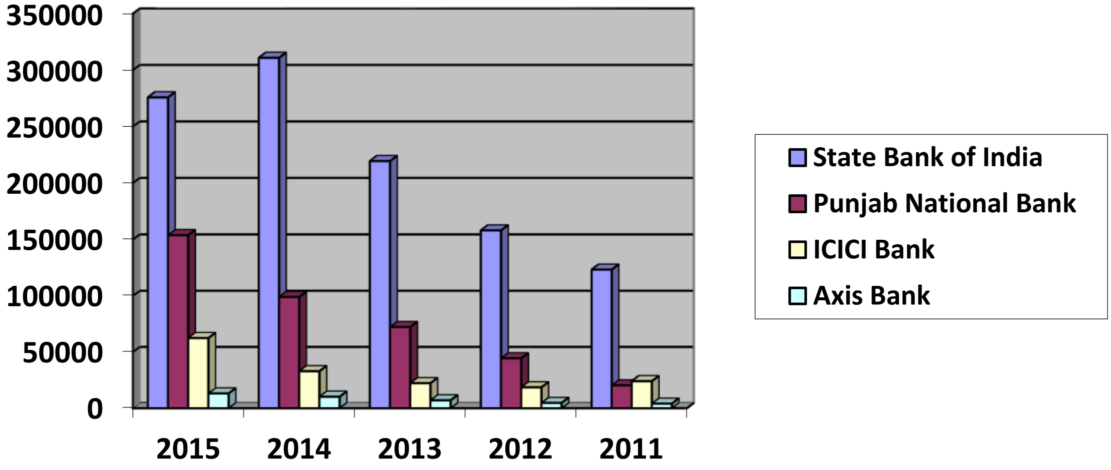
Year	Bank	Gross NPA	Net NPA
2015	STATE BANK OF INDIA	567253.4	275905.8
	PUNJAB NATIONAL BANK	256948.6	153965
	ICICI BANK	150946.9	62555.3
	AXIS BANK	41101.9	13167.1
2014	STATE BANK OF INDIA	616053.5	310960.7
	PUNJAB NATIONAL BANK	188800.6	99169.9
	ICICI BANK	105058.4	32979.6
	AXIS BANK	31464.1	10246.2

2013	STATE BANK OF INDIA	511893.9	219564.8
	PUNJAB NATIONAL BANK	134657.9	72365
	ICICI BANK	96077.5	22305.6
	AXIS BANK	23934.2	7041.3
2012	STATE BANK OF INDIA	396764.6	158188.5
	PUNJAB NATIONAL BANK	87196.2	44542.3
	ICICI BANK	94753.3	18608.4
	AXIS BANK	18063	4726.4
2011	STATE BANK OF INDIA	253262.9	123469
	PUNJAB NATIONAL BANK	43793.9	20386.3
	ICICI BANK	100342.6	24073.6
	AXIS BANK	15994.2	4103.5

Source: RBI

Chart: 1.2

COMPARISON OF NET NPA OF BANKS (IN MILLIONS)



Source: RBI

DATA ANALYSIS

As per the data analysis shown above, we have analyzed that all the Banks i.e. Punjab National Bank, ICICI Bank, Axis Bank the Net NPA level increasing from 2011-2015. Whereas in case of State Bank of India the Net NPA is increasing from the year 2011 to 2014, but in the year 2015 the level of Net NPA has been decreased. So, we can conclude that while comparing the Private and Public Sector Banks, State Bank of India has controlled the defaults as compared to other Banks.

STEPS TAKEN BY SBI TO REDUCE NPA LEVEL

1. Web based asset tracking & monitoring system.
2. Regular calls to stressed accounts in Retail Segment & Real Estate Sector.
3. Asset Tracking Centers at Central Level.
4. Formed various committees stressed assets periodically and suggest resolutions and turnaround strategies.
5. Dynamic Credit Rating review of Borrower Accounts to initiate corrective actions.

MANAGEMENT OF NPA

Banks must provide more information on NPAs, write-offs and their effects on stakeholders concerned.

The recent steep increase of non-performing assets (NPAs) of Indian banks in general, and public sector banks in particular, is a serious issue, which has implications for India's financial stability. While assessing the soundness of the banking sector, NPAs are the second most important criterion, next to capital-to-risk-weighted-as-set-ratio.

Although there has been steady improvement in NPAs since 1999, Gross NPAs have revealed a significant deterioration since 2008-09. Gross NPAs as a ratio to gross advances declined from 14.6 percent in end March 1999 to 2.25 percent at end March 2008. Even though this ratio remained at the same level in 2008-09, during 2009-10, this increased to 2.39 percent. Even after netting out provisions, net NPAs as ratio of net advances were 1.12 percent in end March 2010.

During 2011-12, the asset quality deteriorated further for Scheduled commercial banks (SCBs). The Gross NPA ratio touched 3.1 percent, against 2.5 percent in end March 2011. During 2012-13, this ratio was 3.25 at end June 2012 and slipped further to 3.50.

Further, if higher NPAs lead to higher write-offs, this will have negative effects on those who repay their loans promptly, and create a moral hazard problem.

Thirdly, under Basel III higher NPAs would require higher provisioning, and therefore higher economic capital. For the public sector banks, this is going to pose additional challenges, given the fiscal situation. Hence, meaningful reduction and containment of NPAs within a reasonable limit is very important at the current juncture.

Among the banking groups, the deterioration is pronounced for public sector banks, followed by foreign banks.

Slippage ratio, calculated as the addition of Gross NPAs during the year as a percentage of outstanding standard assets of the previous year, is an important indicator of asset quality. This has increased from 2.0 at end March 2011 to 2.5 at end March 2012 and further to 3.04 at end June 2012. NPAs recovered remained stagnant at about 57 percent in 2012 as against 59.8 percent during 2011-12.

Table 1.2

NPA'S IN INDIAN BANKS

Item	Public Sector Banks			Private sector banks			Foreign banks			Scheduled Commercial Banks		
	2009-10	**2010-11**	**2011-12**	**2009-10**	**2010-11**	**2011-12**	**2009-10**	**2010-11**	**2011-12**	**2009-10**	**2010-11**	**2011-12**
Gross NPA ratio	2.19	2.4	3.33	2.74	2.5	2.1	4.26	2.5	2.6	2.39	2.5	3.1
Net NPA ration	1.09	1.2	1.7	1.01	0.6	0.5	1.82	0.6	0.6	1.11	1.1	1.4
Gross NPA (Rs billion)	594	746	1,172	173	182	187	71	50	62	847	979	1423
Recovered (Rs billion)	269	371	478	65	54	73	55	55	32	390	481	585
Written off (Rs billion)	29	59	23	44	23	19	29	0.1	0	103	83	43

Sources: Business line 14/11/2013.

Table 1.3

IMPORTANT PARAMETERS OF NPA

Year	Growth in GNPA* in percent	NPAs written off (as a % of GNPA)	Slippage Ratio (as a % of GNPA)	NPAs recovered (in percent)
2007-08	11.8	0.4	1.8	55.6
2008-09	22.2	2.7	2.1	66.1
2009-10	22.8	14.9	2.2	56.5
2010-11	15.6	9.8	2	56.8
2011-12	40.2	4.4	2.5	59.8

*GNPA – Gross non-performing assets

Sources: Business line 14/11/2013.

There is an increase in the growth of Gross NPAs as well as lower provisioning, net NPAs also registered higher growth. It was higher for public sector banks, followed by private sector banks. In the last few years, banks restructured their advances to contain the deterioration in asset quality due to increasing NPAs.

The RBI issued a circular in 2008 providing a special dispensation mechanism to address this issue. In spite of this, the deterioration in asset quality was clearly evident in the form of rising sub-standard/doubtful assets as a percentage with strong implications for the financial inclusion exercise.

It is important that those who availed loans from banks do not misuse the write-off route. During 2010-11, the Government of India injected Rs 20,117 crore as capital in public sector banks; this infusion amounted to Rs 12,000 crore and Rs 12,517 crore, respectively, during 2011-12 and 2012-13. During 2013-14, the GOI announced an infusion of Rs.14, 000 crore in the latest Budget. On an average, the write-off amount accounts for about 15-25 percent of the capital injected in these years.

"Focused auditing" should be done separately for NPAs. Along with the audited statements, the external auditor must submit a special report regarding NPAs and write-off cases.

The written-off account holders should not be eligible for any bank loan for another three or five years and a data pool must be maintained by the Indian Banks Association. This data pool must be made available to other banks when needed. When the RBI grants new banking license, there should be a condition that for the first 10 years there cannot be any loan write-offs. Later, write-off amounts must be borne by the shareholders, which is to be certified by external auditors. A separate statement should be made so that all stakeholders are aware to what extent their profits were affected due to the write-off.

VIABLE NPA RECOVERY SYSTEMS IN COMMERCIAL BANKS

The mounting NPA of nationalized banks have been causing serious anxiety to bankers and Government. The increasing trend in the over dues of agricultural credit extended by banks lowered the resources available with banks for lending, thereby restricting the smooth flow of credit to this sector. Therefore, there is a need for viable recovery systems to speed up the recovery drive of commercial banks. For a viable recovery system, banks have to take following steps:

I. Lending Policy

Banks have to tailor their lending policies in such a way that it is production oriented and generates enough surplus. For this purpose, they have to adopt area approach in lending and desist from multiple and scattered financing. Target oriented approach has to be given up in favour of purpose-wise qualitative lending. They have to formulate lending schemes which should take care of backward and forward linkages. They have to take into consideration entire development needs of the clients and back-up the term loans by short term loans, simultaneously making provision for consumption loans, wherever necessary. They have to be vigilant and supervise the enduse of credit to avoid misutilisation. Banks have to fix repayment instalments after the proper assessment of their incremental income and rephrase it whenever necessary.

II. Lending Procedure

Banks have to tone up their lending procedure in such a way that it takes into account the following aspects.

1. Proper identification and selection of beneficiaries.
2. Careful assessment of loan requirements in order to check its misutilisation.
3. Proper scrutiny of Techno-Economic Viability.
4. Review of unit cost periodically.

5. Assessment of consumption needs to estimate credit requirements of small and marginal farmers.
6. Asking for no due certificates in order to avoid duplication of finance.
7. Assessment of suitability of borrowers for a particular type of project, i.e., whether borrowers posses adequate experience/training for the activities proposed?
8. Assessment of potential for the proposed investment in the area.

III. Loan Disbursement

While disbursing loans, banks should verify that all the loan documents are in order. They should accept these documents even in regional languages. Banks should generally disburse loans in kind component and prefer it direct to suppliers.

IV. Lending Terms

Lending terms should be clearly spelt out and made known to the borrowers. Banks should not demand more than minimum stipulated down payment. Repayment period should be decided after the careful assessment of the repaying capacity of the borrowers. For this purpose, about 45 percent of incremental income of the borrowers should be ear-marked for some other consumption purposes. Moratorium period of one or two years should be allowed invariably. Banks have to fix repayment period in such a way that the repayment instalment falls due when the borrowers are flush with funds, i.e., repayment instalments must coincide the income season.

V. Recovery Methods

For better recovery performance, it is necessary that banks should take the following steps:

1. Fortnight before crop is expected to be marketed, an intimation to borrowers in regional languages should be issued stating about dues to be paid by them to the Bank.
2. 2^{nd} reminder under postal certificates should be issued to borrower 10 days after the due date.
3. After 20 to 30 days, a 3^{rd} notice should be sent under registered A/D.
4. If there is no response, legal notice through Legal Adviser should be served both to borrowers and guarantors.
5. Bank staff should pay a visit to borrowers and guarantors in order to find out reasons for non-response/non-payment.

6. Moral pressure should be brought on borrowers and guarantors for repayment of Bank's dues.
7. At last, suits should be filed/claims should be made under State Recovery Acts.
8. Decrees should be executed at the time of harvesting and marketing of crops in case of selected willful defaulters. This would induce other borrowers for prompt repayment of dues.
9. Banks should put up claims with DI & CGC; &
10. They should allow rebate/remission in old overdue accounts.

VI. Recovery Strategies

Over and above the steps indicated, each bank should prepare their own strategies and ensure that:

1. Field Staff and vehicles are mobilized only for recovery during harvesting seasons.
2. Critical branches with huge overdues are strengthened with additional staff and vehicles are made available from controlling offices during recovery period at the time of harvesting and marketing.
3. Recovery and Deposit mobilization camps should be organized under the supervision of a Senior Management personnel from the controlling offices.
4. Suits/certificates cases pending under Recovery Acts should be expedited during this period to get good recovery performance.
5. Controlling offices should chalk out the programmes for executing decrees in selected cases of willful defaulters during harvesting period.
6. Senior Officers from Central Office should visit area/controlling offices, critical and problematic branches, having high incidence of overdues, for guiding them in improving their recovery performance.
7. Controlling Offices should depute officials at the branches where overdues are more and chances of recoveries are bleak with a view to study the situation and suggest suitable remedies.
8. Targets for recovery should be fixed for each Branch/Division/Region and not only the Branch Manager should be made responsible to achieve recovery targets but other officials working in the branch as well.
9. While fixing up the recovery targets branch-wise, following aspects should be taken:

(a) All branches should be targeted to increase their recovery performance by atleast 20 percent over the previous year.
(b) No branch should have recovery of less than 50 percent.
(c) Identify branches having large overdues and poor recovery performance and make concentrated efforts to maximize recoveries.

10. Recurrence of delayed monsoon, floods and cyclones may dislocate recovery schedules. Therefore, branches should be advised to take steps for conversion of loans and rescheduling of repayment in deserving cases in affected areas, as per government notification and bank's guidelines.
11. The matter should be seriously followed up by Top Management with regional/area offices and branches having large overdues should be instructed to take actions and pay attention to these problems without further delays by proper and timely follow-up at all levels, recovery performances will definitely improve.

VII. Role of Government in Recovery

Both Central and State Governments can rescue the banks and help speed up recovery drive by taking following steps;

1. Farm pass books with legal status should be introduced.
2. Identification of beneficiaries by DRDAs should be properly done.
3. Renewal of licence by RTO should be made only after clearance from banks are received.
4. State Recovery Acts should be so modified as to make it applicable with retrospective effect and liabilities fixed on the guarantors as well. The modified act should also provide the payment of interest after filing of certificate cases till the date of repayment.
5. Recovery officials of the State do not devote enough time in effecting recovery of bank dues on time as they are pre-occupied with the recovery of Governments dues. Therefore, there should be a separate machinery at district level for the recovery of bank dues.
6. There is a need for introducing Crop Insurance Scheme uniformally in each State. This will help recovery even in cases of crop losses.
7. Limitation Act should be so amended as to extent limitation period.
8. Writing-off Land Revenue or taccavi loan creates adverse recovery climate in the area/State. Therefore, such practice should be discouraged.

Suggestion & Conclusion

Guidelines issued by Reserve Bank of India regarding recognition, asset classification and provisioning norms have compelled banks in India not to show true financial picture in the balance sheet but also to take corrective steps for improving their loan portfolio. With the adoption of these guidelines, banks are now fully vigilant about quality of their loan assets and various steps are being taken by them to reduce the NPAs. It is always better to follow the proper policy for appraisal, supervision and follow-up of advances to avoid NPAs. However, risks attached to lending cannot be completely eliminated. If certain advances are converted into NPAs, it is necessary to take corrective steps to reduce them. Reduction in NPAs is necessary to improve profitability.

We would like to suggest following strategies (techniques) to Banks for reducing their NPAs:

- Rephasement of loans
- Rehabilitation of potentially viable units
- Acquisition of sick units by health units
- Compromised with borrowers
- Calling up of advances and filling of civil suits
- Approaching debt recovery tribunal
- Recovery of advances given under Government sponsored programs
- Settlement of claims with DICGC / ECGC
- Establishment of assets recovery branches
- Write off the outstanding

Other steps like select proper techniques for solving the problems of each NPA. Monitor implementation of the Time bound action plan drawn. Take corrective steps wherever found necessary while monitoring the action plan and take change in the original plan, if necessary Fix targets of recovery and draw Time bound action program. Identify critical branches for recovery. Create special recovery cells at Head / zonal / regional office level. Prepare a loan recovery policy and Strategies for reducing NPAs. Study the problem of NPAs branch wise, Amount wise and age wise.

In addition to solving the problem of existing NPAs, quality of approval, supervision and follow up should be improved for presentation advances to avoid future NPAs. Banks should examine the viability of the project before providing final assistance, it is necessary to ensure that project will generate sufficient returns of the resources invested unit. The viability of a project depends upon technical viability, marketability of the products at a profitable price, availability of final resource in time and proper management of the unit. Sanction of financial assistance after proper appraisal alone is not sufficient for recovery of advances. Disbursement of funds according to the requirements of the project and close supervision follow – up of the advances, further NPAs can be avoided. Although risk is a part of lending, taking necessary precautions, which may help in avoiding the NPAs, can minimize it. Special care must be taken for those advances which are showing irregularities and likely to become the NPAs. Steps taken at the appropriate time may help in avoiding NPAs. In other words banks should not take steps for reducing present NPAs, but necessary precautions should also be taken to avoid future NPAs.

Over and above the steps suggested, it is utmost necessary for providing necessary infrastructural facilities as success of developmental scheme depends on them. If these facilities are not provided on time, project lags behind and demonstrates considerable deviation in its actual economics. Consequently, incremental income gets reduced, thereby increasing overdues position. Besides, it is also essential on the part of banks' field staff to create personal rapport with the borrowers. They should not only visit them to serve the notices for recovery, but also to guide them in their extension work or whenever they find that they can advise the borrowers to increase the productivity. This will instill the confidence in the borrowers and they will come closer to banks by placing more reliance on the banks for their future needs. Simultaneously, they will feel obliged to repay the loans in time.

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ANNEXURE-1

QUESTIONNAIRES WITH BANKS

1. What are the criteria for providing Loan to Customers?

Answer:

UCO Bank, **Kanpur Branch (U.P.)**	**Punjab National Bank,** **Gosaiganj Branch, (U.P.)**
For different schemes of Loan different criteria are there but KYC compliance is must	Every Loan has its different criteria and eligibility like in housing the said property is mortgaged, in Car the key of the Car is hypothecated with Bank, in pension the payment order is kept in Bank Custody, in C/C Limit Title Deed and Stock Reports need to be given to Bank, in Kisan Credit Card land inspection is very crucial factor for agriculture official and non-encumbrance certificate is required.

2. Who are the common defaulters with Bank (Company, Individuals, Firms, Any Other?

Answer:

UCO Bank, **Kanpur Branch (U.P.)**	**Punjab National Bank,** **Gosaiganj Branch, (U.P.)**
In our branch commercial vehicle loans are mostly NPA, so we can say Firms who take loans are mostly the defaulters	It is very hard to distinguish the type of Individuals and Companies who are the defaulters, but it is the prime duty of the Bank to ensure all the formalities have been completed and thoroughly verified by the Concerned Official before sanctioning loan to the individuals or increasing the credit limit after thoroughly examining the Balance Sheet and Turnover of his account.

3. Which are the sectors in which default in common?

Answer:

UCO Bank, Kanpur Branch (U.P.)	Punjab National Bank, Gosaiganj Branch, (U.P.)
No such cases are there with the Branch.	Sector depends upon Branch to Branch and place to place. Nothing can be said concretely about the sector default like our Branch which is situated at Semi Urban Area so it is maximum of Kisan Credit Card Loans and Retail Loans. In Retail Loan all the collaterals are taken from the borrowers and thoroughly inspected so chances of defaults are very less, while in KCC non encumbrance is a must.

4. In your view what are the reasons when assets become NPA?

Answer:

UCO Bank, Kanpur Branch (U.P.)	Punjab National Bank, Gosaiganj Branch, (U.P.)
Retail and priority sector advances are main assets and irregular repayment of loan accounts is the main cause of NPA	Common Assets for the Bank are which have value in money and can be liquidated easily E.g. - FDR, Mortgaged Property, Jewelry Lien under Bank, Car hypothecation etc. Reasons for NPA can vary to a great extent like: 1. Wilful Defaulters 2. Genuinely not able to pay With the introduction of SARFAESI Act, 2002 banks are now effective in recovery of debts. Also because of the Debt Recovery Tribunals Banks get legal power in recovering their dues.

5. How do you manage the NPA Accounts?

Answer:

UCO Bank, Kanpur Branch (U.P.)	**Punjab National Bank, Gosaiganj Branch, (U.P.)**
By regular monitoring of advances we manage the NPA Accounts and use of technology system automatically generates the NPA list.	As a banker our first and foremost duty is to contact the Borrower and inform him about his dues and ask him to pay his debt at the earliest. Then we issue RC to DM for the particular account.

6. Have you appointed any Securitization Agency for controlling NPA in your Bank?

Answer:

UCO Bank, Kanpur Branch (U.P.)	**Punjab National Bank, Gosaiganj Branch, (U.P.)**
We have not yet appointed any Securitization Agency but this is done at our Head Office level.	No we have not appointed any Securitization Agency at branch level but it has been appointed in our Head Office Branch.

7. What are the Credit Policy and Credit Monitoring Policy adopted by the Bank?

Answer:

UCO Bank, Kanpur Branch (U.P.)	**Punjab National Bank, Gosaiganj Branch, (U.P.)**
Our Credit Policy is wholly decided by our Head Office but "Know Your Customer" Guidelines is mandatory for each and every advance. We also make sure that the funds are going to be used for appropriate purpose. By regular checking of our overdue loan accounts list and contacting them and following system generated NPA list we cope up to minimize our NPA's	We are following Credit Policy issued by our Head Office where an attempt is made to invest our funds in the best place so that we can receive the amount & interest easily.

8. What is the Risk Management Policy of the Bank?

Answer:

UCO Bank, Kanpur Branch (U.P.)	Punjab National Bank, Gosaiganj Branch, (U.P.)
We cover as much as we can by creating charge to primary and collateral security offered to us to minimize our risk. We also monitor our advances on regular basis and assure our funds are mobilized for right purpose for which advances have been sanctioned.	Risk Management is very crucial for the Banks because if we don't manage risks in best possible manner the organization won't survive in long run. Risk Management Policies are Due Diligence which should be taken up by the Banks.

9. Whether any instructions are given by RBI for handling NPA?

Answer:

UCO Bank, Kanpur Branch (U.P.)	Punjab National Bank, Gosaiganj Branch, (U.P.)
Yes time to time different policies and guidelines are issued by RBI	RBI has issued various circulars and guidelines for handling NPA's from time to time and they do revise them frequently.

10. What are the frequent measures taken by the Bank to recover the debt amount which are blocked as NPA?

Answer:

UCO Bank, Kanpur Branch (U.P.)	Punjab National Bank, Gosaiganj Branch, (U.P.)
Banks used to do daily monitoring of NPA as well as we issue recovery certificates to borrowers and go to administrators for recovery through these recovery certificates. For e.g. for land Govt. sponsors schemes, bank ask for subsidy to government and by liquidation of charge created by us on the asset given to us as collateral security bank tries to recover the amount.	Daily follow up and monitoring of the accounts has been done in order to recover the blocked NPA amounts easily.

ANNEXURE -2

VIJAY MALLYA CASE

Sometime in 2006, the Mumbai-based IDBI Bank got a proposal from Kingfisher Airlines, seeking funds to acquire aircraft. Vijay Mallya had launched the airline the previous year, in May 2005, on his son’s birthday and he had been cruising. He had bought Shaw Wallace, one of the oldest liquor manufacturers in India, for Rs 1,300 crore from the Chhabria family after the death his arch rival, Manu Chhabria, in 2002. He had topped that by striking a deal with the British beer maker Scottish and Newcastle, which had bought a 37.5 per cent stake in Mallya’s United Breweries Ltd for Rs 940 crore.

That was also the time most Indian business houses, riding on easy liquidity and buoyant growth, were getting into infrastructure projects — building airports, ports, power plants, roads and acquiring mines. However, when the Kingfisher proposal came up at a meeting of the credit committee of the IDBI in those go-go days, not many were convinced about financing the aircraft acquisition plan. They had their reasons: The highly competitive airline industry was known to be a capital guzzler and this, after all, was a fledgling airline. There was another reason too. Much earlier, as a development financial institution, IDBI had encountered lending problems while dealing with Mallya after his acquisition of Mangalore Chemicals and Fertilisers. So the committee chose not to approve the proposal.

Vijay Mallya is facing legal proceedings for defaulting on debt now amounting Rs. 9,000 crore from various banks. Vijay Mallya, the chairman of the now defunct Kingfisher Airlines, is caught between the devil and the deep blue sea with banks rejecting his settlement offer to pay Rs. 4,000 crore by September and the Supreme Court directing him to disclose by April 21 all assets owned by him and his family in India and abroad.

It is a double whammy for the so-called ‘King of Good Times’, who is facing legal proceedings for defaulting on debt now amounting Rs. 9,000 crore from various banks.

The airline had run up a debt of Rs. 934 crore by the end of March 2008. In the following year, the airline accumulated a debt of over Rs. 7,000 crore by 2009. Losses continued to pile up and the airline turned into a **Non-Performing Asset (NPA)** for banks.

In 2012: Tax authorities froze KFA's accounts over non-payment of tax deducted as source from employees' salaries. KFA was also unable to pay airports authority, and oil companies soon moved it to a cash-and-carry basis. The airline started cancelling flights, and eventually shut down multiple routes before becoming defunct. In the interim, KFA also defaulted on employee salaries, only occasionally paying part of back salaries and eventually stopped doing that as well.

In May 2014: United Bank of India was the first lender to declare Kingfisher and Mallya a 'wilful defaulter' in May 2014. The same year, the SBI too issued a notice to tag Kingfisher Airlines, Mallya and United Breweries Holdings as 'wilful defaulters'. The SBI notice of August 19 has alleged diversion of funds by Kingfisher Airlines to UB Group of companies and other firms. Mallya has challenged the decision of United Bank and the SBI in various courts. In February, Punjab National Bank, another lender, declared Mallya and Kingfisher a wilful defaulter

In April 2015: Mumbai International Airport Private Limited (MIAL) sold Mallya's personal aircraft (its registration number, VT-VJM, matches his initials) for Rs 22 lakh to recover airport dues of the grounded airline. Adding insult to injury, the service tax department seized eight aircraft and helicopters of the firm, including Mallya's prized Airbus A319 over non-payment of service tax of over Rs 115 crore.

November 2015: SBI declares Vijay Mallya a **'wilful defaulter'**, a term that means the company or individual who borrowed money has no intention of paying it back. April 8, 2016: There seems to be no end to Mallya's troubles as he finds himself named in the Panama Papers leaks as well. He has been linked directly to an offshore firm registered in the British Virgin Islands (BVI), which has been operational from February 2006, The Times of India reported, citing details accessed from the website of International Consortium of Investigative Journalists (ICIJ).

Why have Mallya, Kingfisher and United Breweries (Holdings) been named wilful defaulters?

State Bank of India has alleged that funds were diverted several times from Kingfisher Airlines to various UB Group companies and other firms. It said as much in an August 2014 notice sent to Mallya, Kingfisher, United Breweries, and its directors, and filed in the Bombay High Court. The notice also alleged that United Breweries (Holdings), the parent company, had been "deliberately avoiding payment to lenders".