Discussion Paper

Asset Quality of Scheduled Commercial Banks:

A Prime Concern for Sustainable Growth

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*[**Abstract:** In any economy, the role of banks cannot be overlooked. It is because banking services are considered a catalyst for keeping the economy afloat. It was with an objective to achieve sustainable economic growth that various financial sector reforms were initiated in the past. As a result of these reform measures, India witnessed rapid growth in its financial sector, particularly the banking sector. However, there seems to be a reversal in this trend which needs to be corrected. An increasing trend of Gross Non-performing Assets of banks and its percentage to gross advances, coupled with the fact that there is a declining trend in the growth of advances, shall have multiple impacts to keep up the growth momentum of the economy.]*

Introduction

The financial results declared by banks in the recent past show that the quality of assets and efficiency of banks that move parallel to each other are now decelerating year after year. All major financial parameters of the banking sector are influenced by the quality of assets held by the banks. We have also witnessed a phase when various financial sector reforms were initiated to achieve the objective of sustainable economic growth. As a result, there was a rapid growth in the financial sector, particularly in the banking sector. A phenomenal growth in the business of Indian banks was seen in the past; however, there seems to be a reversal in this trend. An increasing trend in Gross Non Performing Assets (GNPA) of commercial banks as well as percentage of GNPA to gross advances, coupled with the fact that there is a declining trend in the growth of advances, shall have multiple impacts to keep up the growth momentum of the economy. This paper attempts to examine the current state of affairs with regards to the quality of assets and discusses whether there are any remedial measures available within the existing system.

Reasons for Current Situation of Stress in the Banking Sector

In the current economic scenario, the management of Non-Performing Assets (NPA) poses a serious threat to the sustainability of the banks and there is a need to find ways and means for its resolution. The public sector banks, with their ever-increasing

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trend of stressed assets, may face serious challenges to maintain their capital requirements, particularly when the profitability of these banks is squeezing because of the growth in NPAs. In respect of the current state of affairs, when banks are grappling with the pressure of stressed assets, the following points require further discussion.

1. The systems and procedures adopted by banks, particularly public sector banks, both for NPA management and credit delivery require a radical change in terms of the process and approach to business acquisition and expansion. There is a need to improve the risk management processes of the banks at all levels, particularly in credit delivery. It has been experienced that the administration, business initiatives, business planning as well as the marketing approach in public sector banks percolates down from the top management to the lower level functionaries. Under such circumstances, mobilisation of high-value advances or exposure in a particular sector/business segment by any particular office shall speak volumes about the present state of affairs with particular reference to its credit quality.
2. There was nearly a dry phase of several years in the recruitment process of public sector banks, which impacted the process of succession planning. Despite these gaps it is said that situations like "name the business venture – a Public Sector Undertaking (PSU) bank has exposure" could be the reasons for the present state of affairs. This raises important questions: How did PSU banks acquire knowledge and expertise to finance/expose themselves to all sectors? Are these banks capable of understanding, processing and evaluating the credit proposals of the sectors they are exposed to? It is certainly a point to be pondered over.
3. It is also important to know whether post-sanction monitoring is available/undertaken by banks to maintain the quality of their existing assets. There could be lack of prudence and the banks might be reluctant to provide post-sanction monitoring support to promoters/business ventures likely under stress.
4. Have banks defined the Risk Management Framework, including the role of a risk management officer in the credit process? There could be a need for more stringent prudential norms in relation to the risk-taking/bearing capacity of each bank. Various risks such as concentration risk, sectoral exposure, specific credit policy framework (particularly for sectors reported to be under stress), exposure norms, counterparty risk, country risk, and external/foreign exchange risk may require judicious examination at the processing level. Delegation of powers to individual sanctioning authority and credit committee, rate of interest, margin and security norms are also part of risk management. It is therefore essential to examine and evaluate whether these norms have been framed to help banks participate and acquire business share in the competitive market or it is based upon the risk perception of the bank. In addition to credit

risk, ascertaining the impact of credit exposure on liquidity, market and operational risk is equally important and relevant.

The Asset Quality Review (AQR) initiated by the Reserve Bank of India (RBI) in the year 2015 received diverse reactions, particularly from the banking sector. In his speech on February 11, 2016, at CII's first Banking Summit in Mumbai, Dr Raghuram Rajan, the then Governor RBI, said that:

> 'Of course, every new tool can be used to deal with a problem, but also perversely, to avoid it. So after giving banks the tools, the RBI ended forbearance in April 2015, and then started the Asset Quality Review to ensure that the banks were taking proactive steps to clean up their balance sheets.'

If at all the increase of 89.45 per cent in the NPA of Scheduled Commercial Banks (SCBs) and 93.90 per cent of PSU banks during the year 2015–16 has been majorly because of AQR initiated by the RBI following the Income Recognition and Assets Classification (IRAC) norms, it raises serious questions about the ability and credibility of data quality of the banks.

The Reality of Non-performing Assets – Current Scenario

It is indeed a matter of concern that even with an economic growth rate of 7.6 per cent during 2015–16 of the country, gross advances of SCBs grew by only 8.02 per cent while those of PSU banks could grow by only 3.58 per cent. At the same time, GNPA as ratio of the gross advances for all SCBs during the corresponding period increased by 7.5 per cent and for PSU banks it increased by 9.3 per cent. Deceleration of credit growth and at the same time the ever-increasing trend in NPA percentage of the banks may hinder economic growth of the country if left unaddressed. In the given circumstances, the scenario that emerges towards credit growth and NPA management of banks is discussed with following points of reference:

1. Near scarcity of Greenfield projects requiring financial support and, simultaneously, postponing or momentary shelving of ongoing projects/expansion plans by the promoters/industrial houses (due to several reasons) has limited the scope for credit growth.
2. Relatively less credit growth under priority sector lending of commercial banks as well as the contraction in and constraints that impair the improvement of profit margin (one of the key drivers for improving profitability by increasing the turn over and which understandably is, due to several reasons, adversely impacted in the present market conditions) are the reasons for poor credit growth.

3. Any kind of hindrance in money circulation will adversely impact the value of money multiplier; as a result, the velocity of money circulation will come down. Under these circumstances, there will be an adverse impact on the sales turnover of the business units which, in turn, will negatively impact the profitability of units of all sizes. The Micro, Small and Medium Enterprises (MSME) sector will be majorly impacted by the adverse velocity of money circulation. Thus, it will further squeeze the scope of credit growth.
4. Low profit margin, deceleration in sales turnover, and adverse market conditions have limited the scope of credit growth to a large extent. As a result, promoters of business ventures and beneficiaries of loan and advances are finding it difficult to service their existing debt. Hence, opportunities for credit growth/expansion will have to be created. In case banks are reluctant to take on new/additional exposure, the asset quality of the banks may only deteriorate further. Hence there is a need to make a conscious decision to initiate steps to improve the policy-driven lending approaches.
5. The current market scenario where banks are in news for various reasons and references, whether fear of accountability or future investigation of any credit decision taken by the bank officials is a hindrance to credit growth of banks requires careful study.

The fact remains that the gross domestic credit growth of all SCBs since 2010–11 up to the year 2015–16—except for the years 2011–12 and 2012–13 when credit growth was recorded at 16.28 per cent and 28.35 per cent respectively—has been sinking. In the year 2010–11, credit grown was recorded at 13.17 per cent, which improved to 16.28 per cent in the subsequent year and further to 28.35 per cent in 2012–13. Since then it has been gradually sliding down, reaching 8.02 per cent in 2015–16. The position remains the same or more depressing for PSU banks. The position, which includes the initial period (years) of growth, from 12.67 per cent to 15.28 per cent, 14.37 per cent, has come down to 7.68 per cent and finally to 3.58 per cent during the same period (*Table 1*).

As compared to the 8.02 per cent of credit growth of all SCBs, the credit growth of PSU banks came down to a mere 3.58 per cent in March 2016. Notwithstanding, the fact is that GDP growth in real terms remains near identical for the corresponding period with 6.29 per cent in the year 2010–11 with 5.43 per cent, 6.04 per cent, 7.08 per cent, 7.19 per cent for the subsequent years and finally 7.6 per cent for the year 2015–16 (Source: IMF Macroeconomic and Financial Data). It is thus observed that credit growth does not match the country's economic growth and that the pressure of stressed assets adversely affects the financial position of the Indian banks.

As indicated in *Figure 1*, the growth in advances of PSU banks for the years 2014–15 and 2015–16 as compared to that of SCBs has been far less. At the same time the spike in the GNPA of PSU banks for the years 2010–11, 2011–12, 2012–13 and 2015–16 indicates a serious concern over the quality of assets of banks—not only the

quality of assets acquired to gain exposure, but also the quality of data. The AQR undertaken by the RBI has not included small value accounts, which can, comparatively, contribute a sizeable share to the advance portfolio of PSU banks. The market expects that no further slippages will be added or reported because of the quality of data. Nevertheless, a 94 per cent jump in GNPA in a particular year not only requires us to analyse the causes of financial disruption, but also demands a quick action/resolution to tackle the prevailing threat of NPA in order to ensure sustainability both of the banks and the economic growth.

Restructured Loan Portfolio as a Part of Stressed Assets

Stressed assets have gained increasing attention because of the deteriorating quality of assets. They comprise NPAs and restructured loans. Going by the trend of slippages, 20 to 25 per cent of restructured loans slip into NPAs. As per the latest IRAC (Income Recognition Asset Classification) norms issued by the RBI, 'accounts classified as "standard assets" should immediately be classified as "sub-standard assets" on restructuring.' However, the account can be upgraded only when all outstanding loans/facilities in the account perform satisfactorily during the specified period.

As per RBI guidelines, restructuring of loan can be done for all categories of advances, viz. standard, sub-standard and doubtful assets, yet during the year 2015–16, contrary to the rising trend of restructured loan portfolio, it came down to Rs 4,423 billion from Rs 5,246 billion reported for the year 2014–15 for all SCBs. On similar lines, for PSU banks it came down to Rs 3,921 billion in the year 2015–16 from Rs 4,769 billion in the year 2014–15. The trend of restructuring remains the same for Corporate Debt Restructuring (CDR). *Table 2* exhibits the loan subject to restructuring as well as CDR. *Figure 2* exhibits the stressed assets of SCBs and PSU banks.

Incidentally, the revised guidelines of IRAC norms came into effect only from April 01, 2016. Is it a mere coincidence that the 'need and request for restructuring of loan reduced to the extent that one of the banking support for revival of account and ultimately the business venture, completely dried down.' It would therefore be interesting to analyse the reasons for such a steep deceleration in the loan book of the banks, subject to restructuring. Not out of context, there have been discussions referring to restructuring based on financial viability and not evergreening.

Movement of NPA: A Trend Noticed in the Recent Past

In the last six years, i.e. from 2009–10 to 2015–16, the level of NPA has gone up to Rs 6,119 billion from Rs 847 billion recorded in the year 2009–10. The percentage

increase in GNPA in a particular year as compared to the recovery/reduction started deteriorating from 2010–11, and has worsened over the years. The increase in GNPA of SCBs (89.70 per cent) and PSU banks (93.90 per cent) in the year 2015–16, despite sizeable amount of write-off, is certainly an area requiring focussed attention to improve the position (*Tables 3 and 4*).

As per the Financial Stability Report 2016 of the RBI, the GNPA ratio of the industrial sector has increased sharply from 7.3 per cent to 11.9 per cent though there is a marginal decline in the stressed sector from 19.9 per cent to 19.4 per cent. The major subsectors within the industrial sector are metal and metal products, followed by construction and textile. A silver lining in the improvement of stressed advances is the infrastructure sector, which shows a marked decline from 21.8 per cent to 16.7 per cent from September 2015 to March 2016. Yet during the year, the increasing trend in GNPA due to slippage is a major concern that needs to be tackled. Movement of NPA of SCBs/PSU banks have been shown in *Figure 3*.

Management of NPA: Measures Taken at Various Levels

Managing NPAs can be quiet challenging for banks, especially if they go unattended. Therefore, to ensure timely action, a number of reforms have been introduced to solve the issues. These are:

1. **Measures taken by the Government:**

    a) As per the Press Information Bureau report of December 10, 2014, 'a study conducted through Indian Bank Association (IBA) in consultation with all stake holders, recommended rationalisation of jurisdiction of some DRTs and setting up of six more DRTs. The number of cases pending with DRTs is over 50,000 and cases are increasing.' The Cabinet approved the establishment of six new Debt Recovery Tribunals (DRTs) at Chandigarh, Bengaluru, Ernakulum, Dehradun, Siliguri and Hyderabad (4 DRTs at Chandigarh, Bengaluru, Ernakulum, and Hyderabad are additional DRTs). With the setting up of these six DRTs there are now 39 DRTs and 5 DRATs (Debt Recovery Appellate Tribunals) functioning in the country. Yet considering the number of cases pending and those piling up (new applications), expeditious adjudication and recovery of dues payable to banks and financial institutions (FIs) needs much improvement.

    b) In the month of August 2015, the government announced a 2.5 per cent increase in customs duty on flat and long steel products to support the metal and steel industry, which was passing through a difficult phase due to crash in global prices and overcapacity in countries such as China. There was an unprecedented surge in the Chinese steel and aluminium shipment and India

witnessed a sharp jump of 57 per cent in import shipment of steel during the April–June quarter of 2015. The unprecedented surge in Chinese exports was the result of devaluation of the Chinese Yuan which appears to be a step taken to counter the slowdown that hit their domestic market and stimulate exports. Besides, to check "dumping" from countries like China and South Korea and to support the ailing domestic steel producers, the government imposed a Minimum Import Price (MIP) ranging from US$341 to US$752 per tonne on 173 steel products. The Mines and Minerals (Development and Regulation) Act (MMDR) was amended in the year 2015 and again in 2016 which enabled to obtain an enhanced value of mineral resources and also notify mines/blocks for auction in the first phase. The MMDR Amendment Bill, 2016 makes provision for transfer of captive mine leases which have not been granted through auction. These initiatives by the government aimed to stimulate the steel sector reeling under stress.

c) From the banking perspective, State Power Distributing Companies (DISCOMs) had accumulated losses of approximately Rs 3.8 lack crore and an outstanding debt of approximately Rs 4.3 lakh crore as in March 2015. DISCOMs under severe financial distress were more prone to defaults, which could have seriously impacted the banking sector and the economy at large. With an objective to strengthen the financial and operational aspects of power distribution companies, the Ujwal DISCOM Assurance Yojana (UDAY) scheme was introduced in 2015. As per the scheme, DISCOMs shall have the opportunity to break even in the next 2–3 years through four initiatives, viz. (1) improving operational efficiency of DISCOMs, (2) reducing the cost of power, (3) reducing the interest cost of DISCOMs, and (4) enforcing financial discipline on DISCOMs through alignment with state finances. State governments had taken over nearly 75 per cent of DISCOM debt as on September 30, 2015, over the course of two years—50 per cent in the financial year 2015–16 and 25 per cent in 2016–17. States can issue non-SLR (Statutory Liquidity Ratio) bonds, including State Development Loan (SDL) bonds, in the market or directly to the respective banks/ FIs holding DISCOM debt to the appropriate extent.

d) An Amended Technology Upgradation Fund Scheme (ATUFS) was approved in 2015. The scheme specifically targets (a) employment generation and exports by encouraging apparel and garment industry, (b) promotion of Technical Textiles, a sunrise sector, for export and employment, (c) conversion of existing looms to better technology looms for improving quality and productivity, and (4) encouraging better quality in processing industry and checking the need for import of fabrics by the garment sector. Under the scheme there are two broad categories, viz. (1) Apparel, Garment and Technical Textile, wherein 15 per cent subsidy will be provided on capital investment, subject to a ceiling of Rs 30 crore for entrepreneurs over a period

of five years, and (2) Remaining subsectors will be eligible for subsidy at a rate of 10 per cent, subject to a ceiling of Rs 20 crore on similar lines. Through this initiative, the government aims to support and encourage the textile sector which is under severe financial stress.

e) In view of the difficulties being faced by the concessionaires in Public Private Partnership (PPP) projects, the government decided to permit the substitution of existing concessionaire or the selected bidder/consortium members of such SPV (Special Purpose Vehicle) projects. However, the concessionaire will have to make a written representation to the lender's representative with a copy to the National Highways Authority of India (NHAI) seeking its approval for substitution. As such the concessionaire can be provided exit even during the construction period. Besides, provision was made for one-time financial assistance to revive the incomplete and languishing national highway projects.

f) The Project Monitoring Group (PMG), under the Cabinet Secretary of the Government of India, monitors the progress of stalled projects, coordinating with concerned functionaries to address the hiccups/interruptions and delays related to administrative clearances, operational support and financial decision regarding project take-off. There have been reports that large numbers of stalled projects are related to environmental concerns arising from power sector projects awaiting coal linkages. In view of this, the PMG had initiated a web-based clearance/monitoring system, following which a visible improvement is seen in the clearance procedure for projects.

2. Recovery through Legal Support

There are various channels through which banks are making efforts to improve the prevailing gloomy, disconsolate status of NPAs and stressed assets. Recovery of dues through various legal channels, viz. Lok Adalats, DRT and SARFAESIA (Securitisation and Reconstruction of Financial Assets and enforcement of Security Interest Act), has not proved very effective as the amount recovered vis-à-vis cases referred have been comparatively very small. Tables 5 and 6 below shall themselves speak about the recovery of dues by banks through legal support.

With the percentage of recovery hovering around 10.32 per cent in case of PSU banks for the year 2015–16 compared to 12.29 per cent recorded in the year 2014–15, the position of banks struggling with the mounting pressure of NPAs may further worsen as the impact would not only be felt on profitability of banks, but also on the requirement of additional capital to maintain the minimum required level of Capital to Risk Weighted Assets Ratio (CRAR) for the estimated business growth including expansion, which may otherwise suffer a severe hit.

3. Initiatives taken by the Reserve Bank of India

The Reserve Bank of India has initiated various measures to improve the position of mounting NPAs with the banks. The measures include:

a) **(i) Reporting of Special Mention Account (SMA):** Reporting of accounts under SMA-0 (not overdue for more than 30 days stress), SMA-1 (overdue for more than 31–60 days) and SMA-2 (overdue for more than 61–90 days) to the Central Repository of Information on Large Credit (CRILC) was introduced by RBI. For all accounts under SMA-2 with exposure of Rs 100 crore and above, directions were issued to form Joint Lenders' Forum (JLF) in order to draw Corrective Action Plan (CAP).

   (ii) Corrective Action Plan (CAP): Joint Lenders' Forum (JLF) to explore various options to resolve issues related to the nature of stress. It could be in the form of (a) Rectification, (b) Restructuring or (c) Recovery. The JLF shall make a decision within 45 days of reporting the account as SMA-2 and sign off the final CAP within the next 30 days.

b) **Flexible Structuring of Long Term Project Loans (5/25) Framework):** For infrastructure and core industries characterised by long gestation periods and large capital investments, longer amortisation schedules are required to correct the mismatch between the repayment schedule and the actual cash flow. As per RBI circular, an 'asset liability mismatch is to be considered for a longer amortisation period say 25 years with the proviso of periodic refinance say every 5 years.' The 5/25 framework was basically introduced to overcome the impact of Asset Liability Management issues and also to overcome the cash flow stress in the initial stage of the project. The scheme was initially available in case of term-loan to projects in which the aggregate exposure of all institutional lenders exceeded Rs 5000 million but subject to the condition that the loan is standard as on the date of change and the Net Present Value (NPV) of the loan remains the same before and after the change in the amortisation schedule.

   As per the scheme, infrastructure and core industries were to be allowed longer tenor amortisation (25 years) with periodic refinancing within the overall amortisation period. Though the amortisation period is long but funding shall be available only for 5 years. The amount for refinancing the project, however, shall be reduced as per the original amortisation scheme.

   The latest guidelines of the RBI provide that banks may apply Flexible Structuring to: (a) new project loans in all sectors and (b) existing project loans in which the aggregate exposure of all institutional lenders exceeds Rs 2500 million, in all sectors. In spite of this, the results have not been very encouraging. One of the

reasons could be overleveraging of debt, which has resulted in a wider gap in assets and liabilities mismatch besides additional funding/margin required to maintain the Net Present Value (NPV).

c) **Strategic Debt Restructuring (SDR) Scheme:** To explore the chances of revitalising the stressed assets that were a result of operational and/or managerial inefficiencies, the lender banks have the option of change of ownership. Under the scheme, banks have the option to convert a part of the loan dues to equity. In case the borrower is not able to achieve the viability milestone and/or adhere to restructuring conditions as decided by the JLF, the JLF with the support of minimum 75 per cent of creditors by value and 50 per cent by number, as part of CAP may approve conversion of whole or part of the loan into equity shares. Thus, the JLF will finalise the CAP and the same will be placed before the empowered group (EG) of lenders, which will be tasked to approve the rectification/restructuring package under CAP. As per the guidelines, the top two banks in the system in terms of advances shall become permanent members of JLF-EG irrespective of whether or not they are lenders in the particular JLF.

   Upon conversion of debt to equity, all lenders under the JLF must collectively hold 51 per cent or more of the equity share issued by the company. As per the revised guidelines, banks will get the asset classification advantage, provided they divest a minimum of 26 per cent of the shares of the company to the new promoters within the stipulated timeline of 18 months and the new promoters take over the management of the company.

   The success of the SDR scheme is gauged by evaluating/examining the commercial and financial performance of the account/company, which, in turn, will determine the chances of the unit's saleability or its ability to mobilise equity participation. In respect of case-by-case basis, the management of the respective banks will have to establish appropriate systems to assess whether it is a process to delay slippage and classification of account as NPA just by triggering SDR in the account.

d) **Scheme for Sustainable Structuring of Stressed Assets (S4A):** The S4A was introduced for projects that have commenced commercial operations and where the aggregate exposure (including accrued interest) of all institutional lenders in the account is more than Rs 5000 million and the sustainable debt is not less than 50 per cent of current funded liability. As per the scheme, there will be bifurcation of debt into sustainable and non-sustainable parts. The debt level will be deemed sustainable if the JLF/Consortium of lenders/banks conclude through an independent Techno Economic Viability (TEV) study that the debt of that principal value amongst the current funded/non-funded liability owned to institutional lenders can be served over the same tenure as that of the existing facilities, even if the future cash flows remain at their current level. As per the

scheme, the unsustainable portion of the debt (up to 50 per cent of the loan) can be converted in to equity or equity-like instrument.

All of the measures mentioned above were initiated with the objective to resolve issues concerning the management of NPAs. However, these schemes could not produce the desired response/results. The primary reasons for such a poor response were that (1) the over-leveraged debt-ridden companies were not able to maintain NPV of the assets, (2) some of the measures were not properly evaluated in terms of operational and financial performances, and (3) the banks were reluctant to make decisions due to fear of accountability and investigation.

Other Measures:

a) **The Insolvency and Bankruptcy Code:** Introduced in 2016, the Insolvency and Bankruptcy Code is considered an important step in the direction of NPA resolution. As per the Code, there will be two separate tribunals. One, a Debt Recovery Tribunal, the adjudicating authority for individuals and partnership firms. It shall have territorial jurisdiction over the place where the individual debtor actually and voluntarily resides or carries on business or personally works for gain. And, two, a National Company Law Tribunal, which shall be the adjudicating authority for corporates, including corporate debtors and personal guarantors thereof. In this case the adjudicating authority shall have territorial jurisdiction over the place where the registered office of the corporate person is located.

   As per the Code, fast track corporate insolvency resolution process shall be completed within a definite timeframe from the insolvency commencement date. For any extension, the resolution professional shall file an application to the adjudicating authority to extend the period of the fast-track corporate insolvency resolution process beyond ninety days, provided one is instructed to do so by a resolution passed in the meeting of the committee of creditors and supported by a vote of seventy five per cent of the voting share. On receipt of application, if the adjudicating authority is satisfied that the subject matter of the case is such that fast-track corporate insolvency resolution process cannot be completed within the stipulated timeframe, it may, by order, extend the duration of such process beyond the said period by such further period, as it thinks fit, but not exceeding forty-five days. Also, only a one-time extension will be granted under the fast-track corporate insolvency resolution process. The process can be initiated either by a debtor or a creditor.

   It is expected that the cases of bankruptcy and insolvency shall be speedily resolved. However, the volume (in terms of number) of bankruptcy cases—which could be very high as presently the eligibility for resolution process in respect of

default by corporate debtors is a minimum one lakh rupees and resolution/cognizance to the notice given by the corporate debtor relating to a dispute of the unpaid operational debt—may be a point of concern.

b) **Public Sector Asset Rehabilitation Agency (PARA) (yet to be formalised):** As per Economic Survey 2016–17, the problem of setbacks due to the deteriorating status of NPAs in the banking system persists, especially in public sector banks. The report says '… But decisive resolution of loans, concentrated in the large companies, have eluded successive attempts at reform. The problem has consequently continued to fester. NPAs keep growing while credit and investment keep falling… Perhaps it is time to consider a different approach – a centralised Public Sector Asset Rehabilitation Agency (PARA) that could take charge of the largest, most difficult cases, and make politically tough decisions to reduce debt.'

As per the Survey, a far more problematic area is to find out a way to resolve bad debts and not the "just" capital of the banks. Besides, stressed debt is heavily concentrated in large companies. Whereas the problem of repayment has been caused due to diversion of funds, at the same time the unexpected change in the economic environment is also a reason for the current state of affairs. Many of these companies are found to be unviable at the current levels of debt, and as such require debt write-downs. The banks are finding it difficult to resolve these cases, despite proliferation of schemes to help them. If a PSU bank grants a large debt reduction, it may attract the attention of investigating agencies. Private Asset Reconstruction Companies (ARCs) have not proved a successful/beneficial proposition in NPA resolution for various reasons such as capital and /or funds to invest in security receipts, size of account for resolution beyond the means of the ARCs, cumbersome acquisition and realisation process, and a very poor response that the banks have received in terms of realisation.

As proposed in the scheme, capital/funds requirement of PARA would come from securities issued by the government. Besides, funds can be sourced from the capital market, which will also ensure public participation. As per the Survey, RBI can also be a source of capital: it can transfer some of the government securities to public sector banks and PARA. But, to ensure that PARA works as intended, three major issues need to be resolved: a) confronting the heavy losses already incurred by the banks, b) dealing with any kind of intervention in high-value bankruptcy cases, and c) addressing the legal hurdles in the event of companies being taken over for sale.

On the matter relating to pricing, the Survey states that 'if loans are transferred at inflated prices, banks would be transferring losses to the Rehabilitation Agency.' The fact remains that private sector banks cannot be allowed to participate. Thus, in cases where exposure is taken by multiple banks, co-ordination issues would

remain. Therefore, a mechanism for an acceptable market price (for distressed loan) requires to be drawn.

As per the operational mechanism, PARA will purchase the specified loans (that is, those belonging to large, over-indebted infrastructure and others) from banks and then work them out either by converting debt to equity or selling the stake in auction or by granting debt reduction, depending on professional assessment of the value-maximising strategy. PARA, however, is yet to be taken off.

4. Declaring a Borrower as Wilful Defaulter

As per RBI guidelines, a "wilful default" would be deemed to have occurred if any of the following events is noted:

- i The unit has defaulted in meeting its payment/repayment obligations to the lender even when it has the capacity to honour the said obligations.
- ii The unit has defaulted in meeting its payment/repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- iii The unit has defaulted in meeting its payment/repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
- iv The unit has defaulted in meeting its payment/repayment obligations to the lender and has also disposed-off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank/lender.

As per the guidelines presently in vogue, any wilful defaulter with an outstanding balance of Rs 25 lakh—a limit fixed by the Central Vigilance Commission for reporting of cases of wilful defaulter by the bank/FI to RBI—will attract penal measures. The following penal measures should, therefore, be initiated by the banks and FIs against identified wilful defaulters.

- i No additional facilities should be granted by any bank/FI to the listed wilful defaulters. In addition, such companies (including entrepreneurs/promoters) where banks/FIs have identified siphoning/diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance from the SCBs, FIs, and Non-banking Financial Companies (NBFCs), for floating new ventures for a period of 5 years from the date of removal of their name from the list of wilful defaulters as published/disseminated by RBI/Credit Information Companies (CICs).

ii The legal process, wherever warranted, against the borrowers/guarantors and foreclosure for recovery of dues should be initiated expeditiously. The lenders may initiate criminal proceedings against wilful defaulters, wherever necessary.
iii Wherever possible, banks and FIs should adopt a proactive approach for a change of management of the wilfully defaulting borrower unit.
iv A covenant in the loan agreements, with the companies to which the banks/FIs have given funded/non-funded credit facility, should be incorporated by the banks/FIs to the effect that the borrowing company should not induct on its board a person whose name appears in the list of wilful defaulters. But, in case such a person is found to be on its board, it would take expeditious and effective steps for removal of the person from its board.

As such, as part of a penalty, no additional facilities shall be sanctioned for borrowers listed as wilful defaulters. Further, they shall not only be debarred from institutional finance for new ventures, but also, wherever necessary, lenders can take appropriate legal action against defaulting borrowers. Undoubtedly, these measures are aimed at bringing financial discipline and maintaining the quality of assets.

5. Recent Development/Steps taken by the Government in the Direction of NPA Resolution

a) **Banking Regulation (Amendment) Ordinance 2017:** On May 5, 2017 with the signature of the President, the Banking Regulation (Amendment) Ordinance Act was promulgated, giving new and more powers to the RBI and its oversight committees to act and intervene on behalf of banks while dealing with non-performing and/or stressed assets. As per the Ordinance, the following section shall be inserted after section 35A of the Banking Regulation Act, 1949:

> '35AA. The Central Government may by order authorise the Reserve Bank to issue directions to any banking company or banking companies to initiate insolvency resolution process in respect of a default, under the provisions of the Insolvency an Bankruptcy Code, 2016.
>
> 35AB. (1) Without prejudice to the provisions of section 35A, the Reserve Bank may, from time to time, issue directions to the banking companies for resolution of stressed assets.
>
> (2) The Reserve Bank may specify one or more authorities or committees with such members as the Reserve Bank may appoint or approve for appointment to advise banking companies on resolution of stressed assets.'

The RBI upon promulgation of the ordinance issued a revised directive on dealing with the stressed assets:

i. Corrective action plan could include flexible restructuring, SDR and S4A.
ii. In the JLF, consent required for approval of a proposal by 60 per cent members by value instead of 75 per cent earlier, while keeping that by number at 50 per cent.
iii. Banks in minority on the proposal approved by the JLF are required to either exit by complying with the substitution rules or adhere to the decision of the JLF.
iv. Participating banks have been mandated to implement the decision of JLF without any additional conditionality.
v. Boards of the banks to empower their executives to implement JLF decisions without further reference to them.

As per the RBI, non-adherence would invite enforcement actions.

It is further decided that the Oversight Committee (OC) constituted by Indian Banks Association (IBA) in consultation with the RBI be reconstituted under the aegis of RBI. The purpose is that the OC can constitute requisite benches to deal with the volume of cases referred to it.

While announcing the ordinance the Finance Minister said that new targets being fixed for state-run lenders, as part of the annual exercise, will link additional equity support to immediate cash release incentives such as sale of assets, closure of non-profitable branches, reduction of overheads, steps to turn around the business and strengthening of credit appraisal process.

RBI, the regulator, acting on behalf of banks on NPA resolution shall gain hands-on experience, both for banks (reporting banks to regulators) and also from the regulator's perspective. The market, therefore, is keenly awaiting the result. Incidentally, the Hilton-Young Commission, while recommending the establishment of a central bank for India in its report titled 'Indian Currency and Finance Royal (Hilton Young) Commission 1925-26' stated that 'the evidence has clearly brought out the inherent weakness of a system in which the control of currency and of credit is in the hands of two distinct authorities whose policies may be widely divergent and in which the currency and the banking reserves are controlled and managed separately one from the other.' The Commission finally concluded that the proper course to be taken is to entrust the central banking functions to a new organisation endowed with a character which wholly conforms to the requirement of a true central bank. How far, as part of control functions, the RBI is going to take operational functions of banks will be a crucial decision to be taken by the regulatory authority in resolution of NPA.

Remedial Measures for NPA Resolution: A Point for Discussion

Despite several attempts and schemes initiated/introduced for NPA resolution, the banking sector is reeling under the pressure of NPAs. In the current scenario, when the loan books of the banks show 9.6 per cent GNPAs and in certain cases even more than 15 per cent, there is a need to go beyond the limitation of current NPA redressal provisions. The sectoral distribution of NPA indicates that economic distress is not the only reason for the present state of affairs. *Banks, therefore, must change their approach and be prepared for supporting accounts with sustainable debt through restructuring of accounts, allowing equity conversion and also acquisition of business entities by healthy units*. Some of the steps that can be initiated are discussed hereunder:

i. All accounts under SMA-2 and also those classified as sub-standard and doubtful must be evaluated/examined in order to explore the scope of their revival/nursing in a time bound manner. It is therefore suggested that backed by policy guidelines duly approved by the board of each bank, all viable accounts/potentially viable sick units must be identified and taken up for nursing/restructuring. Banks shall have to shed the inhibition of nurturing accounts only when it is a standard asset.

ii. All banks, therefore, shall require a revised board-approved policy on nursing/restructuring of accounts, irrespective of whether the account is in standard category or otherwise.

iii. For NPA/stressed assets resolution, banks may either lack expertise in the field (operational level) or have exposure in several sectors. Besides, the role of the technical officers is confined to their giving report on techno-economic viability, which at times is with several conditionalities. The report not being part of the recommendations and/or sanction of the proposal does not make the technical officer accountable for any oversight and/or lapses in the sanction process. It is therefore suggested that each bank may have an evaluation committee with members of credit committee and a technical officer (to comment upon techno-economic viability) to identify potentially viable sick units and/or account for nursing/restructuring within the policy framework of the bank. For any condition on techno-economic viability, the technical officer shall offer his comments on completion/compliances and the capabilities within the means being considered in the proposal. Separate evaluation committees shall evaluate accounts falling under the delegated authority of Head Office/Central Office, and those within the authority of circle/zone and below, with specified cut-off limit. On similar lines, a committee comprising members of the consortium or multiple banking arrangement and/or joint lending/FIs, including a technical officer for techno-economic evaluation as a member of the committee, may be formed with the following composition:

Chairman of the committee: Leader of consortium or the bank having largest exposure or the bank having second highest exposure.

Members: All major banks contributing 60 per cent of the size of the loan/credit facility in terms of value and minimum 50 per cent in terms of number.

Official authorised to become member: Whereas the chairman shall be a senior management functionary of the bank not below the rank of executive director, other members shall be of the rank of general manager. Any representation by official(s) below these ranks shall require a letter of authority, authorising the person to participate in the meeting, issued by the regular official nominated by the respective bank as member of the committee or by the senior management functionary of the bank at head office. The objective is that the member representing each bank be sufficiently empowered by its board.

Participation of technical officer: Every bank shall have an approved panel of company/firm/individuals to undertake techno-economic viability study and the chairman of the committee shall be authorised to nominate a technical officer from any of the member bank and/or from the approved panel on case to case basis. Whereas a regular technical officer of the bank may become a member of the committee, empanelled company/firm/individuals will not be the member of committee; and it's only their services are availed to examine viability of the project.

Within a definite time frame, with only one exception of identifying the account for nursing/restructuring and to implement the plan at branch/operational level with penalty provision both on promoters and lenders, banks are required to implement the scheme in two stages. One is the identification process and the other is the implementation process. These are two basic structures that have been suggested to identify and initiate steps for correction, nursing/restructuring and recovery plan in eligible accounts. The scheme will ensure that every single account in a bank's book is taken up for resolution in a time bound manner. Banks therefore shall have to be prepared not only for restructuring of identified and evaluated sustainable debt, but also for equity conversion of part of the debt, wherever required, for all of their potentially viable units. *The larger question today is: Why do defaulting borrowers request, at times, for the sale of their assets (borrowal account) to Asset Reconstruction Companies (ARCs), and why are these accounts (which banks are reluctant to restructure) supported/restructured by ARCs?*

iv. In the Economic Survey 2016–17 it is mentioned that 'there is abundant caution in bureaucratic decision-making, which favours the status quo. In the case of the twin balance sheet problem…, it is well known that senior managers in public sector banks are reluctant to take decision to write down loans for fear of being seen as favouring corporate interest and hence becoming the target of the referee institutions, the so called "4 Cs": Courts, Central Vigilance Commission, Central Bureau of Investigation and Comptroller and Auditor General. This encourages ever-greening of loan, thereby postponing resolution of the problem.' The need of the hour, therefore, is that the approach to accountability process must be changed. To begin with, any operational decision taken by a bank could be a part of administrative requirement. Hence, the accounts that have been covered under Annual Financial Inspection (AFI) or Risk Base Supervision of RBI, unless pointed out specifically by RBI, may be exempted from any further accountability processes. Nevertheless, for any offence, criminal in nature, involving the top/senior management of the bank, there would be evidences/facts on record or a market report from which the investigating authorities/agencies shall initiate action. The offences committed by any individual or the institution are always perpetual in nature.

v. In respect of the sale of stressed assets, under the provision of SARFAESI Act, 2002 guidelines and directions were issued by the RBI under the title 'The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Direction 2003,' which came into force with effect from April 23, 2003. As per the guidelines, a Securitisation Company (SC) and a Reconstruction Company (RC) can commence/undertake only securitisation and asset reconstruction activities and the functions provided for in section 10 of the SARFAESI Act 2002. Some of the broad guidelines pertaining to asset reconstruction are: (1) acquisition of financial assets, (2) valuation procedure for assets having realisable value, and (3) plan for realisation of asset acquired for reconstruction.

Within the framework of asset reconstruction, as part of acquisition of financial assets, every SC/RC shall frame, with the approval of its board of directors, a Financial Asset Acquisition Policy, detailing norms and the procedure for acquisition, types and desirable profile of assets, valuation procedure, plan for realisation of assets acquired for reconstruction, etc. For the purpose of enforcement of security interest, the SCs/RCs shall obtain necessary consent from the secured creditors and shall have a board-approved policy for settlement of debts due from the borrowers.

Any SC/RC may after acquisition of any financial asset under subsection (1) Section 5 offer Security Receipts (SRs) to Qualified Institutional Buyers or QIBs (other than by offer to public) for subscription within the provision of those Acts. The SC/RC may raise funds from the QIBs by formulating schemes (to ensure realisations of

financial assets is held, applied towards redemption of investment and payment of return assured) for acquiring financial assets. The scheme for the purpose of offering SRs or raising funds may be in the nature of a trust to be managed by the SC/RC and the SC/RC shall hold the assets so acquired or funds so raised for acquiring assets. For the benefit of the QIBs holding the SRs or from whom funds are raised, the SC/RC shall transfer the assets to the said trust at the price at which those assets were acquired from the originator if the assets are not acquired directly on the books of the trust.

The SC/RC shall by transferring funds, invest a minimum 15 per cent of the SRs of each class issued by them under each scheme on an ongoing basis till the redemption of all SRs issued under such scheme. Prior to August 2014 (amendments in terms of RBI circular no RBI/2014-2915/164 dated August 05, 2014) SCs/RCs had to mandatorily invest and hold 5 per cent of the SRs issued by them against the assets acquired on an ongoing basis. The SC/RC can also utilise a part of the funds raised under the scheme from the QIBs for restructuring financial assets acquired. However, the extent of funds that are to be utilised for reconstruction purpose shall not be more than 25 per cent of the funds raised under the scheme.

Effective from August 05, 2014, the management fee is calculated and charged as a percentage of the Net Asset Value (NAV) at the lower end of the range of the NAV specified by the Credit Rating Agency (which otherwise was on the outstanding value of SRs), provided the same is not more than the acquisition value of the underlying assets.

Some of the practices observed in the banking industry:

- Minimum cash component of 15 per cent of the sale price in case sold to SC/RC and remaining 85 per cent is in the form of SRs or bonds For upside sharing, component of the bank in a ratio of 80:20 (Bank: SR/RC)
- Management fee at the rate of flat 2 per cent p.a. of the NAV at the lower range of the NAV specified by the credit rating agency, provided the same is not more than the acquisition value of the underlying assets,
- In addition to the management fee, cash incentive on cash value of SRs redeemed ranging from 3 to 4 per cent, and,
- All incidental expenses towards sale/purchase and realisation transaction shall be borne by the purchaser. In most of the cases, 85 per cent SRs backed by the sold assets and issued under the securitisation are investment of the bank on sale of their own stressed assets questioning thereby true sale of assets.

The RBI on September 1, 2016, further revised the guidelines on sale of assets to SCs/RCs and directed that the banks shall lay down detailed policies and guidelines covering the following aspects:

i. Financial assets to be sold,
ii. Norms and procedure for sale of such financial assets,
iii. Valuation procedure to be followed to ensure that the realisable value of financial assets is reasonably estimated, and,
iv. Delegation of powers of various functionaries for making a decision on the sale of the financial assets.

Some of the important revised guidelines are as follows:

a) Banks may adopt a top-down approach for identification of stressed assets beyond a specified value. The Head Office/Corporate Office of the banks shall be actively involved in the identification process of stressed assets.
b) Once in a year, preferably at the beginning of the year, banks shall, with the approval of their board, identify and list internally the assets identified for sale to other institutions including SCs/RCs.
c) The board or committee of the board shall review all assets classified as doubtful assets above a threshold amount with documented rationale of taking exit or otherwise. Assets identified for exit shall be listed for the purpose of sale.
d) Banks may offer sale of assets to other banks/NBFCs/FIs, etc., that have the necessary capital and expertise in resolving stressed assets.
e) Banks should have clear policies regarding valuation of assets proposed to be sold. In case of exposure beyond Rs 50 crore, banks should obtain valuation report from two external valuers.
f) As the investment in the form of SRs by the banks were backed by their own stressed assets, the RBI, in order to ensure that the sale of assets results in a true sale and creates a vibrant market for stressed assets, has decided to progressively restrict banks investment in SRs backed by their own stressed assets.

With effect from April 1, 2017, where the investment by a bank in SRs, backed by stressed assets sold by it, is more than 50 per cent, the provision held in respect of these SRs will be subject to a floor. In effect, the provisioning requirement on SRs will be higher of the:

i. Provision rate required in terms of net assets value declared by the SCs/RCs, and
ii. Provisioning rate as applicable to the underlying loans, assuming that the loans notionally continued in the books of the bank.

With effect from April 1, 2018, the above threshold of 50 per cent will be reduced to 10 per cent.

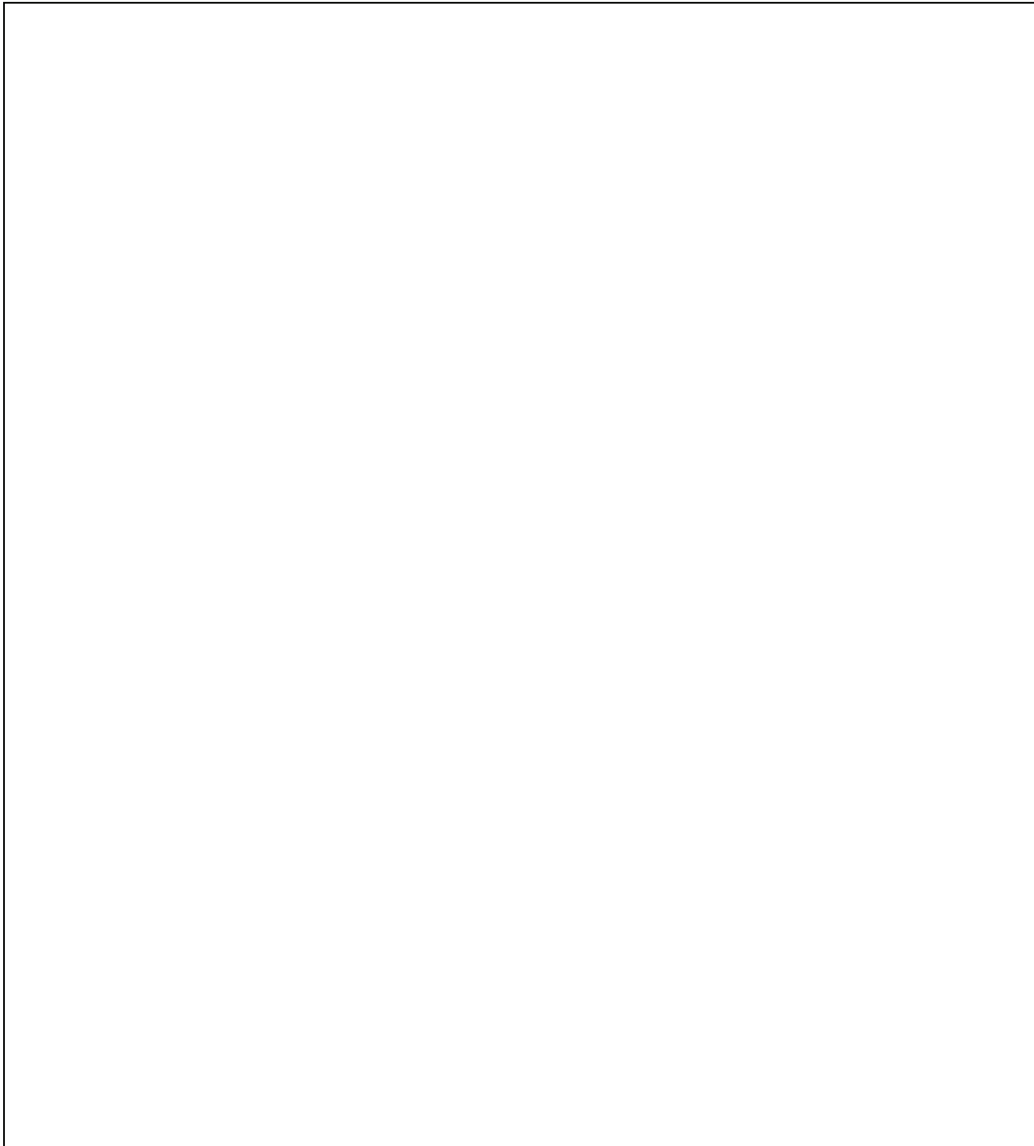
Though banks have a stake in several ARCs like Assets Reconstruction Company (India) Ltd. (ARCIL), India SME Asset Reconstruction Company Ltd (ISARC), ASREC (India) Ltd, Asset Care and Reconstruction Enterprise Ltd. (ACRE), and International Asset Reconstruction Company Pvt. Ltd. (IARC), the past experience in sale of assets is not very encouraging. Going by the reports, from about Rs 50,000.00 crore sale of bad loan in the year 2013–14 and 2014–15, it has fallen to Rs 20,000.00 crore in the year 2015–16 and further slipped to Rs 15,000.00 in the year 2016–17. Referring to a report of 2016 by ASSOCHAM India and EY titled 'ARC – At the Crossroad of Making a Paradigm Shift,' the position of sale of assets to ARC and SR issued emerges as shown in *Table 7.*

Besides in VIGEYE VANI, a quarterly newsletter of Central Vigilance Commission, there is a reference to 'issue faced after sale of assets to ARCs' as part of suggestion in systemic improvement in preventive vigilance areas. The newsletter quotes, 'The issue that needs to be understood is that "Sale to ARC" is not an absolute sale i.e. the banks continue to retain the risk of loss of funds unless the ARCs are able to find a suitable buyer for the assets and redeem the security receipts [SRs]. Hence any delay/non-disclosure of fraud, subsequent to "sale" to ARC, only further increases the pain for the bank since it continues to pay defined "maintenance fee" to the ARCs for an asset that does not exist/is fraudulent.'

We are of the opinion that any resolution on NPA management has to come from the system itself. Entities, incurring losses year after year, considered overleveraged in terms of its financial exposure, banks reluctant both to extend any further financial support, besides a reluctance in their approach to identify sustainable debt—it is for the individual banks that efforts are made for sharing its stress by a third agency or business entity. The RCs and SCs, with support from the regulatory authorities, government and banks, need to come forward. Given below are a few suggestions as to how ARCs are engaged in addressing the NPA issue.

1. There are about 21 ARCs operating in the country. The capital of these companies would be around Rs 4,000.00 crore whereas the bad loan in the banking system is estimated over Rs 6.50 lakh crore. Comparatively a very low capital base of the ARC compared to the market demand is an impediment for sale of assets to ARCs. Even if ARCs acquire NPAs at current trend of say 53 per cent, with capital of around Rs 4000.00, ARCs shall be able to acquire approximately only 7.73 per cent of assets from the banks. The fact remains that these companies have already bought assets worth over Rs 1 lakh crore.
2. There will be several requests for revival/restructuring of accounts. As such the ARCs shall also require working funds to meet the demand of revival/restructuring and serving the account already acquired. It will further put a strain on the capital requirement of ARCs.
3. Considering the current market conditions, the Standard Operating Procedure (SOP) needs to be redefined not only to arrive at the reserve price, but also the

modalities to de adopted for rescheduling/restructuring of accounts/sale of assets. In the event of large variation/gap in the discount rate adopted by the bank and ARCs, it will be difficult to arrive at an acceptable value of the assets by both the parties.



Some Suggestions/Points that May Be Looked Into

In order to create a vibrant market for stressed assets, the opportunities shall require to be explored within the available market. Some of the points that may be looked into are discussed below.

a) QIBs interested in investing in SRs backed by stressed assets shall require return on their investments. It is therefore important that the banks quickly

complete the procedure to identify accounts for sale and deal with the special mention and/or stressed accounts. A near zero value account, classified as loss account, may not have any interested buyer in most of the cases.

b) There has to be a commonality in the board-approved policy of all banks. Large value accounts shall definitely have multiple banks/FIs participating in their lending programme. In the event of diverse policy approach, multiple impacts on sale including "outside the purview of policy guidelines" may come in the way of speedier resolution.
c) There is a need for common SOP for all players in the market. Besides, there should be a common approach not only for arriving at the value of assets under sale, but also the management fee and out-of-pocket expenses to be paid by the banks in the "sale transactions."
d) It is suggested that to avoid any kind of unhealthy practices in the market, there should be total restriction on any kind of incentive payment.
e) Condition of 'total shareholding of an individual FII/FPI' shall be below 10 per cent of the total paid up capital' of the amended FDI policy may be re-examined. It may improve the scope of foreign investment.
f) Capital infusion or funding to ARCs promoted by banks and also to establish joint venture partnerships with ARCs is considered by the government, profit-making public sector entities and FIIs (Foreign Institutional Investment). Considering the role of PSU banks in priority sector lending, loan waiver schemes, "Annual Budgetary Allocation" for capital to the ARCs having more than 50 per cent shareholding of PSU banks/entities may be considered by the government. Besides, for infrastructure finance within the aegis of the National Investment and Infrastructure Funds (NIIF), a corpus may be created and earmarked for investment in SRs issued in respect of stressed assets under infrastructure lending by the banks/FIs.
g) The banks also qualify to participate in the sale process as QIB. Though with effect from April 1, 2018, the threshold limit to invest in SR backed by the bank's own stressed assets will be reduced to 10 per cent, it is suggested that the limit be enhanced to 20–25 per cent. The suggestion is to create a market for sale of assets. With SC/RC investing 15 per cent and banks about 20–25 per cent, it will be comparatively easier to find investors for the remaining 60–65 per cent. At the same time, backed by the board-approved policy, banks are/would be open to invest in SR backed by the stressed assets of other banks. However, circular transaction of investment amongst banks shall have to be restricted. It is therefore suggested that with a cap on investment per transaction/account, the authority to invest in SR may be restricted/delegated only to the management committee or sub-committee of the board of the banks.
h) As part of the follow-up and monitoring mechanism, a review committee, under the chairmanship of SC/RC representative, holding senior position in the company, and QIB with minimum investment of 15 per cent (representation from investors in SR) may be set up. Common monitoring

rules may be discussed and decided in the meeting. Meeting may be held on a monthly or quarterly basis, depending upon the value of assets with each SC/RC.

To conclude, the objective of “only recovery” cannot be the course correction needed to overcome the current scenario of stressed assets; banks shall have to come forward for rectification and restructuring as well. A changed approach may bring improvement in NPA resolution, which is the need of the hour.

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Table 1: Advances and NPAs of SCBs in India (Rs in Billion)

Year (End March)	*Gross Advances*						*Gross Non Performing Assets*						*Gross NPAs as % of Gross Advances*	
	PSBs	*% age growth*	*Private Banks*	*Foreign Banks*	*All SCBs*	*% age growth*	*PSBs*	*% age growth*	*Private Banks*	*Foreign Banks*	*All SCBs*	*% age growth*	*PSBs*	*All SCBs*
1996–97	2442.14	--	299.59	275.25	3016.98	--	435.77	--	25.42	11.81	473.00	--	17.8	15.7
1999–00	3794.61	--	582.2	374.32	4751.13	--	530.33	--	47.61	26.14	604.08	--	14.0	12.7
2009–10	27334.58	--	6440.7	1674.37	35449.65	--	599.26	--	176.39	71.33	846.98	--	2.2	2.4
2010–11	30798.04	12.67	7323.1	1993.21	40120.79	13.17	746.00	24.48	181	50.00	979.00	15.58	2.4	2.5
2011–12	35503.89	15.28	8804.46	2347.10	46655.44	16.28	1178.39	57.96	187.68	62.97	1429.03	27.58	3.3	3.1
2012–13	45601.69	28.44	11591.4	2689.67	59882.79	28.35	1656.06	40.53	210.71	79.97	1940.74	35.80	3.6	3.2
2013–14	52159.20	14.37	13602.5	2995.75	68757.48	14.82	2280.74	37.72	241.84	115.79	2641.95	36.13	4.4	3.8
2014–15	56167.2	7.68	16073.4	3366.1	75606.7	9.96	2784.68	22.09	336.90	107.58	3229.16	22.22	5.0	4.3
2015–16	58183.5	3.58	19726.6	3763.37	81673.4	8.02	5399.56	93.90	558.53	157.98	6116.07	89.40	9.3	7.5

Source: RBI Handbook of Statistics on Indian Economy.

Figure 1: A Comparison of Advances Growth with Growth in GNPA

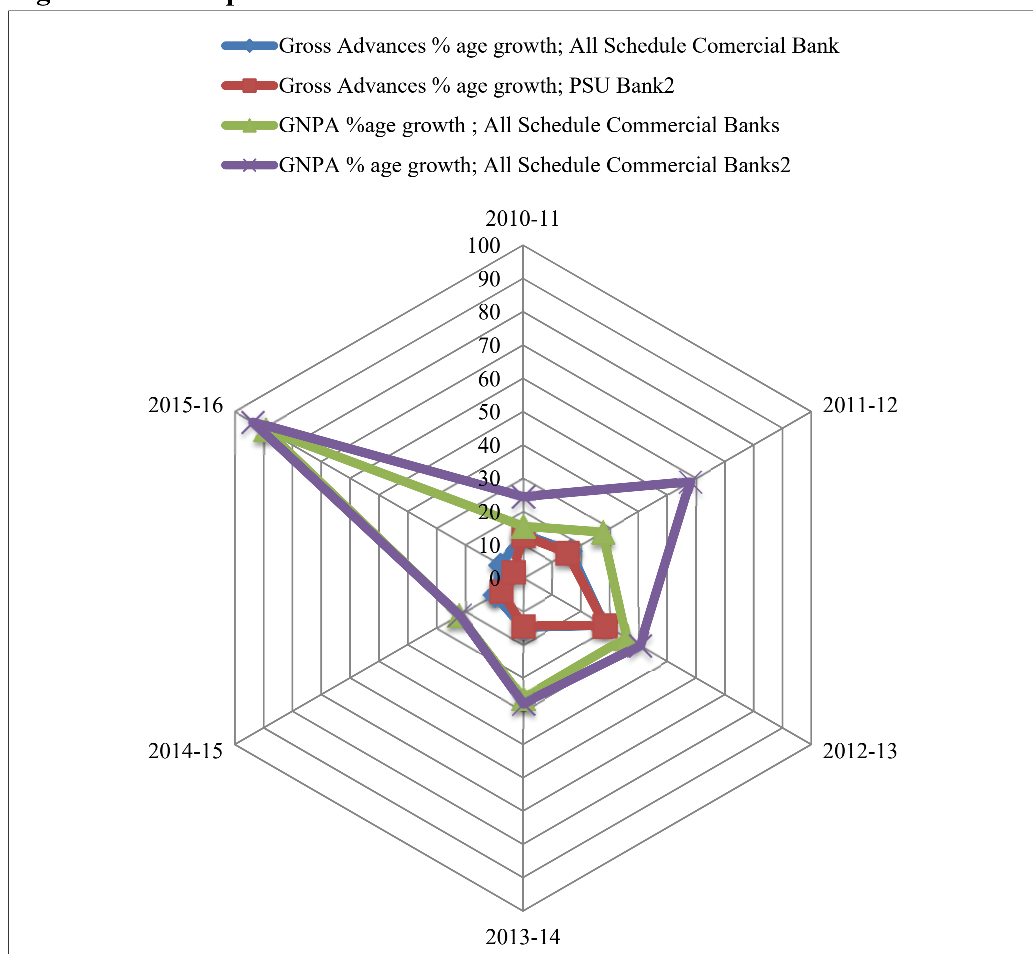

Figure 2: Stressed Assets of SCBs and PSU Banks at a Glance

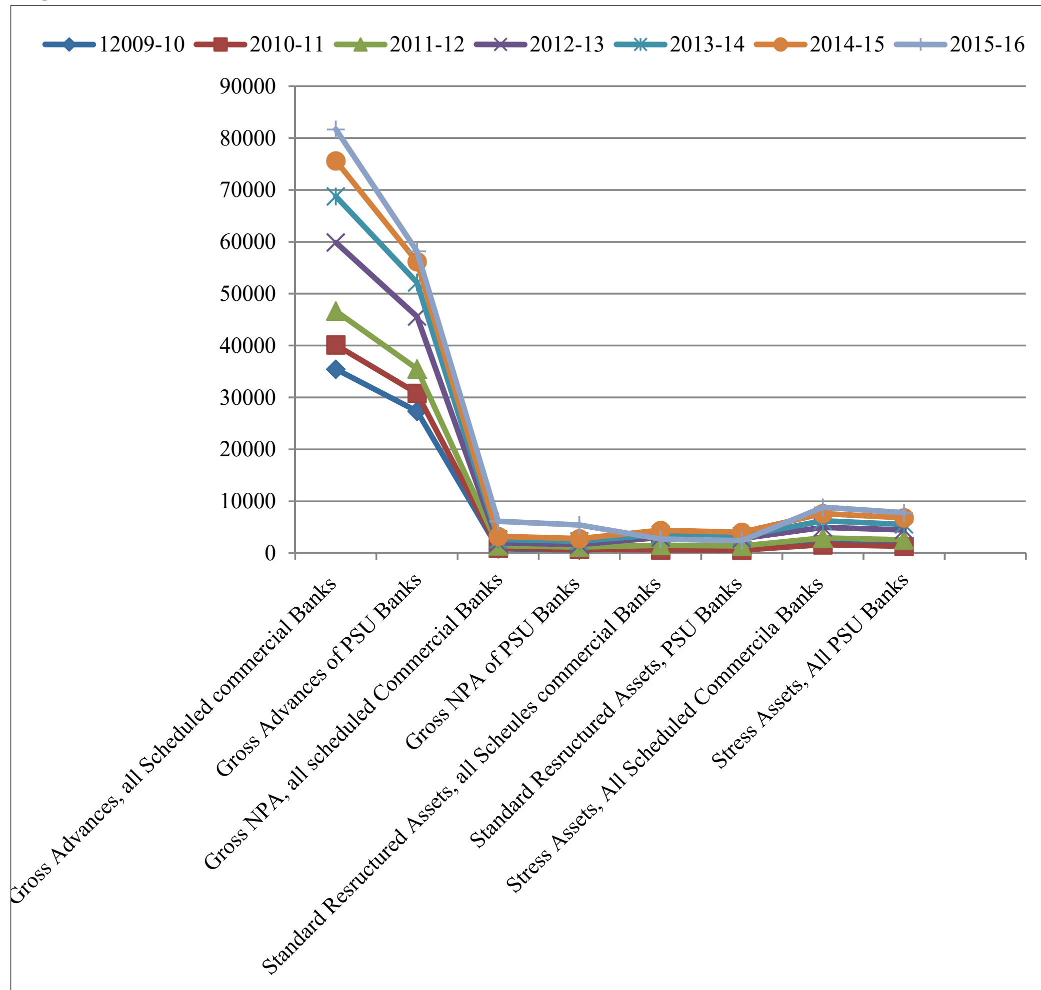

Table 2: Restructuring of Assets (Rs in Billion)

Year	*Loan Subject to Restructuring*				*Corporate Debt Restructuring*				*Total*
	PSBs	*Private Banks*	*Foreign Banks*	*All SCBs*	*PSBs*	*Private Banks*	*Foreign Banks*	*All SCBs*	
2009–10	831 (790)	94 (91)	19 (16)	944 (897)	166 (159)	29 (28)	1 (1)	196 (188)	1140 (1085)
2010–11	501 (462)	37 (34)	6 (3)	544 (499)	114 (105)	9 (7)	0.5 (0.5)	123 (113)	667 (612)
2011–12	1152 (1086)	50 (48)	3 (1)	1205 (1135)	305 (289)	57 (52)	1 (.5)	363 (341)	1568 (1476)
2012–13	2266 (1985)	133 (112)	7 (2)	2406 (2099)	904 (813)	103 (89)	4 (2)	1011 (904)	3417 (3003)
2013–14	2394 (2052)	152 (128)	5 (1)	2551 (2181)	1414 (1201)	188 (172)	7 (2)	1609 (1382)	4160 (3563)
2014–15	2966 (2583)	207 (171)	6 (0.5)	3179 (2755)	1803 (1430)	254 (199)	10 (3)	2067 (1632)	5246 (4387)
2015–16	2384 (1608)	242 (171)	17 (10)	2643 (1789)	1537 (767)	229 (141)	14 (2)	1780 (910)	4423 (2699)

Note: Figures in parenthesis represent the number of standard assets under each bank category of Banks.

Source: Reserve Bank of India.

Table 3: Movement of NPA of SCBs (Rs in Million)

Year	*Gross NPA*						*Net NPA*	
	As of March previous year	*Addition during the year*	*Reduction during the year*	*Write-off during the year*	*As of March current year*	*% age growth*	*As of March previous year*	*As of March current year*
2009–2010	682843	695797	284213	247419	847008	24.04	315642	391266
2010–2011	839089	704399	331630	232607	979250	16.70	387251	417992
2011–1012	979711	1071766	427590	200622	1423264	45.27	417801	650188
2012–2013	1423264	1380077	541479	326771	1935090	35.96	650186	986085
2013–2014	1934968	1897219	791387	407083	2633717	36.11	986078	1423826
2014–2015	2633619	2086381	884682	601966	3233352	22.77	1424210	1758411
2015–2016	3225899	4421925	803339	725012	6119473	89.70	1754423	3498201

Source: Reserve Bank of India.

Table 4: Movement of NPA of PSU Banks (Rs in Million)

Year	*Gross NPA*						*Net NPA*	
	As of March previous year	*Addition during the year*	*Reduction during the year*	*Write off during the year*	*As of March current year*	*% age growth*	*As of March previous year*	*As of March current year*
2009–2010	449574	448188	197679	100810	599273	33.29	211554	296434
2010–2011	594344	582270	258854	171602	746157	25.54	293753	360546
2011–1012	746639	928086	353209	148895	1172620	57.04	360636	592052
2012–2013	1172620	1196131	455408	268729	1644614	40.25	592052	899516
2013–2014	1644614	1635459	679148	328282	2272643	38.19	899508	1303615
2014–2015	2272639	1778615	756785	509790	2784679	22.53	1303938	1599511
2015–2016	2784679	3859621	650288	594448	5399564	93.90	1600003	3203758

Source: Reserve Bank of India.

Figure 3: Movement of NPA of SCBs/PSU Banks (Rs in Million)

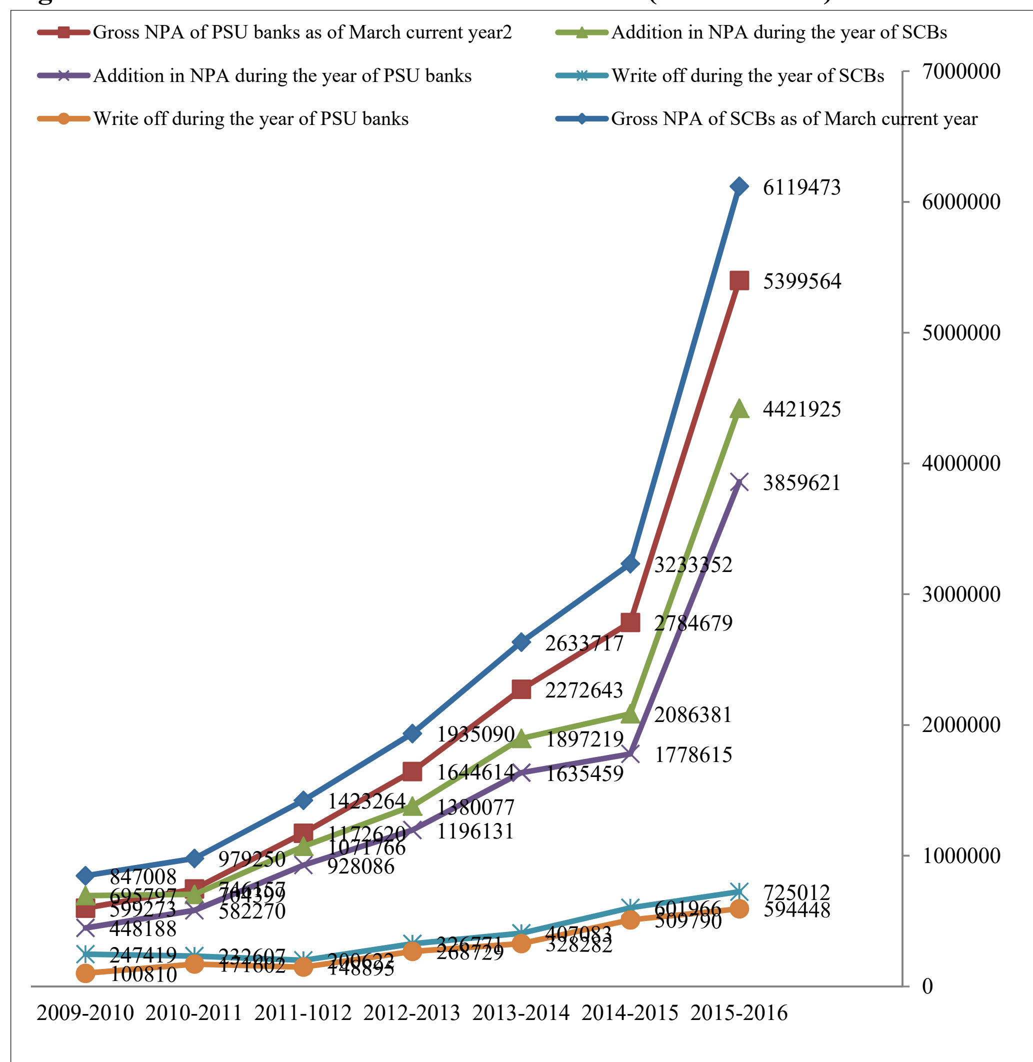

Table 5: NPAs of SCBs Recovered through Various Channels

Amount in Rs Billion

Channel of recovery	*2014–15 (Revised)*			*2015–16*		
	No. of cases referred	*Amount involved*	*Amount recovered**	*No. of cases referred*	*Amount involved*	*Amount recovered**
Lok Adalats	2958313	309.79	9.84	4456634	720.33	32.24
DRTs	22004	603.71	42.08	24537	693.41	63.65
SARHAESI	175355	1567.78	256.00	173582	801.00	131.79
Total	3155672	2481.28	307.92	4654753	2214.74	227.68

Source: Reserve Bank of India Publications – Consolidated Operations.

Table 6: NPAs of PSU Banks Recovered through Various Channels

Channel of recovery	*2014–15 (Revised)*			*2015–16*		
	No. of cases referred	*Amount involved*	*Amount recovered**	*No. of cases referred*	*Amount involved*	*Amount recovered**
Lok Adalats	2596351	270.20	9.31	4244800	690.17	31.34
DRTs	18397	532.03	34.84	19133	574.39	55.90
SARHAESI	166804	1463.06	234.34	159147	650.08	110.33
Total	2781552	2265.29	278.49	4423080	1914.64	197.57

Source: Reserve Bank of India Publications – Consolidated Operations.

Table 7: Position of Sale of Assets to ARC and SR

Amount in Rupees Crore

Particulars	*FY 2013*	*FY2014*	*FY 2015*	*FY 2016*
Book value of assets acquired by ARCs	8000	28000	40000	19700
SR issued during the year	2200	14800	21000	9800
%age of SRs to Book value of assets acquired	28%	53%	53%	50%

Source: Figures from "At the Cross Road of making a Paradigm Shift" of ASSOCHAM India and E&Y.