CHAPTER-5

NON-PERFORMING ASSETS IN SELECTED PUBLIC SECTOR BANKS

5.1 Historical Conceptualization and Nature of NPAs

5.1.1 Historical Conceptualization

Initially, immediate after independence, as a result of protected economy, small fragmented capacities were set up under the regime of industrial licensing and controlled capital formation. The industry was protected by domestic licensing, restricted entry of international competitors and high tariff barriers. Afterwards, with liberalisation and opening up of economy, the units financed by Banks and other Financial Institutions were unable to compete with the new economically-scaled domestic entrants. Moreover, as time passed, the market was increasingly opened to foreign players and there was no protection to existing small players from high quality and less expensive imports.

In the next phase, the problem was further aggravated by creation of large capacities set up in "demand euphoria" with optimistic projections of domestic and export demand. The complexities of the new environment were not adequately understood by the players who built large capacities creating high levels of debt. In addition to this, there were certain issues in management capability to handle enhanced business complexity.[1]

As a result, the country is facing the challenges of changing competitive environment and has to tackle the problem of small and unviable pre-liberalisation units, large post-liberalisation investments impacted by global commodity cycles and aggressive capital structures, high dependence on institutional debt in a high interest rate environment, etc.

Apart from these factors which are beyond control of many, the deteriorating level of morality on the part of borrowers, tendency to hide the real level of non-performing loans and corruption have added to the woes of banks and financial institutions in managing NPAs. World over, there are increasing instances of corporate frauds which have shaken confidence of investors and have created turbulence in financial market. The cases of Enron, WorldCom, Quest Communication International, Adelphia Communications, Bristol-Myers Squibb, Halliburton, Arthur Andersen, Parmalat etc. are some of the instances of companies outside India which are charged with fraudulent endeavours to dupe investors and lenders. In India also, entities like Ispat Industries, Usha Ispat, Flex group, Core Healthcare, Mesco group, Ketan Parekh, etc. have given jolts of thousands crore of rupees to banks and financial institutions by not repaying their dues. In many cases, there were planned game to dupe the banks and financial institutions by playing with the reported accounting numbers and falsification of accounts.[2]

Apart from willful default on the part of borrowers, the tendency on the part of lenders to reschedule the debts even while knowing that the unit is not viable has aggravated the problem. On top of it, the Government has been regularly providing financial assistance out of public money to write off such dues from the books of Financial Institutions. This has been taken as opportunity by many to dupe lenders as they very well know that ultimately the government is going to bear the jolt of such unpaid amounts. The judiciary and bureaucracy appear to have played their own role in not taking stern actions against such willful defaulters thereby adding to the courage of wrong-doors. Many times, the loans are sanctioned, rescheduled, restructured and actions are stalled against defaulters at the instance of influential politicians. In many cases, the corruption plays an important role in exacerbating the problem of NPAs. Many promoters are reported to have transferred funds outside India after duping banks and FIs and hawala transactions through which the funds are transferred internationally.

Indian banking system comprising the nationalised banks, private sector banks, foreign banks, regional rural banks, and co-operatives banks has undergone a rapid transformation in past three decades. The Committee on Financial System well-known as the Narshimham Committee, set up in 1991, to recommend measures for bringing about necessary reforms in financial sector, did acknowledge the spectacular success of public sector banks since major banks were nationalised on July 19, 1969. The last four decades have witnessed vast expansion in the spread of branch network, mobilisation of savings, in creating employment opportunities and credit expansion.[3]

If credit gets impaired, it leads to imbalance not only in credit flow in financial market, but also in the economy as a whole. Therefore, the problem of poor credit management which ultimately leads to problem of non-performing assets should be viewed and dealt with seriously by all concerned.

5.1.2 Nature of NPAs

Banking sector is one of the important part of financial sector of an economy. Banking sector in the broad sense, is akin to the "Brain" of the economy which acts as conduit for channelising resources from ultimate savers to borrowers. Banking system also plays an important role in transmitting monetary policy impulses into the economic system. So, its efficiency and development are vital for enhancing growth and improving the stability in the economy. With several decades of rich and rewarding experience, Indian banking has emerged victorious till now. Although, sector was opened to private investment in 1995, but even then 85 per cent of commercial banking at present belongs to the public sector.[4]

Performance in terms of profitability is a benchmark for any enterprise including the banking industry. Despite the above stated performance, credit risk involved in the realisation of advances and interest thereon, is the greatest threat faced by the modern banks. Increasing level of failure of borrowers to fulfil their obligation in connection with the repayment of loans has resulted in increased non-performing assets which are affecting liquidity, profitability and equity of banks.

A non-performing asset can be defined as a credit facility in respect of which the interest and installment of principal has remained past due for a specified period of time. An asset is classified as NPA if borrower does not pay dues in the form of principal and interest for a period of 180 days. But from March 2004, default status will be given to a borrower account if dues are not paid in 90 days (Period specified by Reserve Bank of India). In case any advance or credit facility granted to a borrower beelines NPAs, bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to fact there may be certain facilities having performing assets.

Successful management presupposes that right type and right amount of credit is given in the right type of client. Various natures of NPAs are as follows[5] :

(i) Term Loans : A term loan is a loan repayable by installments. It is treated as Non Performing Asset if interest /installment remains past due for a period of six months or two quarters or more. An amount is considered as past due when it remains outstanding for 90 days beyond the date of payment.

(ii) Cash/Credit Overdraft : It is treated as NPA only if the account remains out of the order for two quarters or more. An account may belong out of order if the balance outstanding remains continuously in excess of the sectioned limit.

(iii) Bills Purchased/Discounted : A Bill including cheque/ draft purchased/discounted is treated as NPA if it remains overdue for two quarters or more as in the date of balance sheet.

(iv) Agriculture Advances : In case of advance granted for agriculture purposes including agricultural gold loan, the loan will become NPAs if interest /installment as the case may be remains unpaid after it has become due for two harvest seasons, but for a period not exceeding two and half years.

Other than above mentioned, one more nature of NPA visualized when the advances guaranteed by Government becomes NPAs and it comes true when the concerned government repudiates its guarantee.

5.2 Non Performing Assets in Indian Banking Industry

Management of assets is a critical part in banks all over the world. The assets are classified into two categories i.e. performing assets (PAs) and non-performing assets (NPAs). Performing assets are those which utilized in an efficient manner to their full capacity and improve productivity as well as profitability and NPAs are those which have not been yielding any revenue since a long period of time.

Much criticism has been made about the obligation of nationalized Banks to extend priority sector advances. But banks have neither fared better in non-priority sector. The comparative performance under priority and non-priority is only a difference of degree and not that of kind.

The assessment of the mix-of contributing factors should have included :

1. Human factors (those pertaining to the bankers and the credit customers),
2. Environmental imbalances in the economy on account of wholesale changes and also
3. Inherited problems of Indian banking and industry.

While banks functioned for several decades under ethnic culture, Indian business and industry were owned, controlled or managed by single families, all having been nurtured and developed through innovative zeal of pioneers, represented by one dominant individual towering at each set-up. This inherently convey the sole proprietorship culture and unable to quickly transform to modern professionally managed corporations of the global standard, where operations should be conducted on a decentralized knowledge-based work-group or an integrated team of specialists each contributing to a core area of management. The Indian management set up everywhere turns mostly as one-man show even today.[6]

Variable skill, efficiency and level integrity prevailing in different branches and in different banks accounts for the sweeping disparities between inter-bank and intra-bank performance. We may add that while the core or base level NPA in the industry is due to common contributory causes, the variations are on account of the structural and operational disparities. The heavy concentrated prevalence of NPA is definitely due to human factors contributing to the same.

No bank appears to have conducted studies involving a cross-section of its operating field staff, including them and inspection functionaries for a candid and comprehensive introspection based on a survey of the variables of NPA burden under different categories as with high, medium and low incidence of NPA. We do not hear the voice of the operating personnel in these banks candidly expressed and explaining their failures. Ex-bankers, i.e. the professional bankers who have retired from service, but possess a depth of inside knowledge, do not out-pour candidly their views. After three decades of nationalized banking, we must have some hundreds of retired Bank executives in the country, who can boldly and independently, but objectively voice their views. Bank executives hold 'willful defaulters' responsible for all the plague. Industry and business blames the government policies.

An important fact-revealing information for each NPA account is the gap period between the date, when the advance was originally made and the date of its becoming NPA. If the gap is long, it is the case of a sunset industry. Things were all right earlier, but economic variance in trade cycles or market sentiments have created the NPA. Credit customers who are in NPA today, but for years were earlier rated as good performers and credit worthy clients ranging within the top 50 or 100. But what is the proportion of this content? Significant part of the NPA is on account of clout banking or willfully given bad loans. Infant mortality in credit is solely on account of human factors and absence of human integrity.

Credit to different sectors given by the PSBs in fact represents different products. Advance to weaker sections below Rs. 25000/- represents the actual social banking. NPA in this sector forms 8 to 10% of the gross amount. Advance to agriculture, SSI and big industries each calls for different strategies interims of credit assessment, credit delivery, project implementation, and post advance supervision. NPA in different sector is not caused by the same result ant factors. Containing quantum of NPA is therefore to be programmed by a sector-wise strategy involving a role of the actively engaged participants who can tell where the boot pinches in each case. Business and industry has equal responsibility to accept accountability for containment of NPA many of the present defaulters were once trusted and valued customers of the banks.[7]

The credit portfolio of a nationalized bank also includes a number of low risk and risk-free segments, which cannot create NPA. Small personal loans against banks' own deposits and other tangible and easily marketable securities pledged to the bank and held in its custody are of this category. Such small loans universally given in almost all the branches and hence the aggregate constitutes a significant figure. Then there is food credit given to FCI for food procurement and similar credits given to major Public Utilities and Public Sector Undertakings of the Central Government. It is only there scheduled fragments of Bank credit that are exposed to credit failures and reasons for NPA can be ascertained by scrutinizing this segment.

Secondly, NPA is not a dilemma facing exclusively the Bankers. It is in fact an all pervasive national scourge saying the entire Indian economy. NPA is a sore throat of the Indian economy as a whole. The banks are only the ultimate victims, where life cycle of the virus is terminated.

By the year 2001, the view was crystallized that a bulk segment of NPA consists of credit availed by big corporates, who are willful defaulters. This section of borrowers is able to prolong and continue to default repayment taking advantages of the deficiencies in the Legal framework. These views are conveyed in RBI Report of Banking for the year 2001 published on 15th November 2001.

According to R.B.I. report, non-performing assts have been substantially reduced since regulation was tightened in 1993, but improvement has recently showed down and the levels of NPAs remain high compared to international standards. In 2001, the commercial banking system's gross NPA to gross advances ratio was 11.4 per cent; net of provisions it was 6.2 per cent. The public sector banks' NPA witnessed a decline in 2001, with the gross NPA to gross advances ratio being 12.4 per cent, and 7.4 per cent, respectively.[8]

Prior to the Nineties, PSBs were functioning under the overall control and direction of the Finance Ministry. The MOF appointed all whole-time and part-time directors of these banks. Along with RBI, it decided/directed all aspects of the working of the banks. Banks were not free to price their products in competition with each other. They cannot cater their products freely to any segment of their choice. They cannot park their funds in the best interest as they considered. In other words, rate of interest, credit policy and investment policy were all directed. It was thus a directed banking and the role of the Bank management was "executory" and not in real sense management of the Banking Institutions.

As majority policy decisions were taken externally by the Finance Ministry/RBI, the Board of Directors, were reduced to a status of insignificance. Though Directors were to be appointed based on their possession of specialized knowledge in Banking and related discipline, the environmental or receiving decisions from a political background as distinguished from a professional outfit, prevented the best talents coming to occupy the position as Directors of PSBs and taking part an active role in the deliberations of the Boards of these Banks. Consequently, the Directors were not assuming a role of real superintendence over the affairs of the Banks and correcting their path whenever they moved off-course.

"Audit and Inspections" remained as functions under the control of the executive officers. In fact, it is performance of these officers which needed to be audited. Such a subservient audit can never be independent or true and able to help to correct serious deviations in policies and decisions at the higher levels.[9]

The quantum of credit extended by the Scheduled Commercial Banks increased by about 160 times in the last three decades after nationalization (from around Rs. 3000 crores in 1970 to Rs.475113 crores on 31.03.2000.[10] Table 5.1 gives the extensive data for the period under study.

The Banks were not developed in terms of skills and expertise to regulate such stupendous growth in the volume and manage the diverse risks that emerged in the process.

The need for organizing an effective mechanism to gather an disseminate credit information amongst the commercial banks was never felt or implemented. The archaic laws or secrecy of customers information that was binding Bankers in India, disabled banks to publish names of defaulters for common knowledge of the other Bank in the system. Unscrupulous borrowers could easily indulge in availing credit from multiple institutions, or switching to other Institutions after defaulting the earlier ones, and still the affected banks were wholesomely remained unaware of these facts.

While quantum of banks credit was expanding by leaps and bounds, problems surfacing in recovery management were never tackled. Effective recovery of defaulters and overdue borrowers is "hampered on account of a sizeable overhand component arising from infirmities in the existing process of debt recover, inadequate legal provisions on foreclosure and bankruptcy and difficulties in the execution of court decrees." The issue recovery of overdue credit is closely related to the state of legal framework. The legal framework sets standards of behaviour for market participants, details about rights and responsibilities of transacting parties, assures that completed translocations are legally binding and provides regulators with the backing to enforce standards and ensure compliance and adherence to law. But in India, legal remedies were beset with too many formalities and too very time-consuming. Laws favoured the delaying tactics of willful defaulters and the Banks were helpless. This is turn encouraged more and more willful defaulters in the segment of big corporate borrowers availing credit over Rs. 5 crores. In fact, it is estimated that 40% of NPA heal is covered by this single segment.[11]

The emergence of NPA in Indian Banking and its Dimensions: Non-Performing Asset (NPA) has emerged since over a decade as an alarming threat to the Banking industry in our country sending distressing signals on the sustainability and durability of the affected banks. The positive results of the chain of measures effected under banking reforms by the government of India and RBI in terms of the two Narasimhan committee reports in this contemporary period have been neutralized by the ill effects of this surging threat. Despite various correctional steps administered to solve and end this problem, concrete results are eluding. It is a sweeping and all pervasive virus confronted universally on banking and financial institutions. The severity of the problem is however acutely suffered by Nationalised Banks, followed by the SBI group, and other Financial Institutions.

Table 5.2 gives gross and net NPAs of Scheduled Commercial Banks according to bank group-wise from 2006-07 to 2010-11 as figures for 2011-12 are not available. In this Table, gross and net advances, gross NPAs amount, percentage to gross advance and percentage to total assets, net NPAs amount, percentage to net advance and percentage to total assets have been given.

For Scheduled Commercial Banks, the NPAs showed a fluctuating trend as shown in Table 5.2. In 2006-07, gross NPAs amount was Rs.

Rs. 5048.6 crore which increased to Rs. 5630.9 crore in 2007-08, Rs. 6897.3 crore in 2008-09, Rs. 8469.8 crore in 2009-10 and reached upto Rs. 9792.2 crore in the year 2010-11.

As percentage of gross advances, gross NPAs was 2.5 percent in 2006-07 which came down to 2.3 percent in 2007-08 and remained same in next year 2008-09, then increased slightly to 2.4 percent in 2009-10 and remained at same percentage in the year 2010-11. The reason was that gross advances increased considerably in the same period otherwise the gross amount of NPAs had been increased as mentioned earlier.

Net NPAs amount for Scheduled Commercial Banks showed an increasing trend throughout the period under study. It was Rs. 2010.1 crore in 2006-07 which increased to Rs. 2473.0 crore in 2007-08, Rs. 3142.4 crore in 2008-09, Rs. 3872.3 crore in 2009-10 and reached upto Rs. 4181.3 crore in the year 2010-11.

In Public Sector Banks, gross NPAs showed an increasing trend. In 2006-07, it was Rs. 3896.8 crore which increased to Rs. 4045.2 crore in 2007-08, Rs. 4515.6 crore in 2008-09, Rs. 5992.6 crore in 2009-10 and reached to Rs. 7461.4 crore in the year 2010-11. As percentage of gross advances, it showed a decreasing cum increasing trend from 2.7 percent in 2006-07 to 2.0 percent in 2008-09 and then increased to 2.2 percent in 2009-10 and reached upto 2.3 percent in 2010-11.

Net NPAs in public sector banks also showed an increasing trend. In 2006-07, the amount of net NPAs was Rs. 1514.5 crore which increased to Rs. 1783.6 crore in 2007-08, Rs. 2103.3 crore in 2008-09, Rs. 2937.5 crore in 2009-10 and reached up to Rs. 3607.1 crore in the year 2010-11. As percentage of net advances, it showed a fluctuating trend. It was 1.1 percent in 2006-07, decreased to 1.0 percent in 2007-08 and further came down to 0.9 percent in 2008-09. Then it increased up to 1.1 percent in 2009-10 and remained same in next year 2010-11 also.

For old private sector banks, gross NPAs showed an increasing trend except in the year 2007-08. In the year 2006-07, the amount of gross NPAs for this category was Rs. 296.9 crore which came down to Rs. 255.7 crore in 2007-08 but increased to Rs. 307.2 crore in 2008-09, Rs. 362.2 crore in 2009-10 and reached up to Rs. 369.9 crore in 2010-11.

Net NPAs for old private banks showed a fluctuating trend during the period under study. In the year 2006-07, the amount of net NPAs was Rs. 89.1 crore that came down to Rs. 74 crore in 2007-08 but then, increased to Rs. 116.5 crore in 2008-09 and reached to Rs. 127.1 crore in 2009-10. After that, it declined up to Rs. 98.3 crore in the year 2010-11.

For new private sector banks and foreign banks in India, the gross and net NPAs amount showed an increasing trend which is not favourable for these banks.

The detailed composition of NPAs of public sector banks for priority sector, non-priority sector and public sector is depicted in Table 5.3.

Table 5.3
Composition of NPAs of Public Sector Banks
(From 2003 to 2012)

(Amount in Billion Rupees)

Bank group / Years	As on March 31						
	Priority Sector		Non-priority Sector		Public Sector		Total
	Amount	Per cent share	Amount	Per cent share	Amount	Per cent share	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. Nationalised Banks							
2003	168.86	47.10	184.02	51.33	5.61	1.56	358.49
2004	167.05	47.74	178.95	51.14	3.90	1.11	349.90
2005	163.80	49.81	162.25	49.33	2.83	0.86	328.88
2006	151.24	53.66	122.53	43.48	8.08	2.87	281.85
2007	157.79	61.28	96.68	37.55	3.02	1.17	257.49
2008	163.85	67.21	77.93	31.96	2.02	0.83	243.80
2009	157.21	60.09	101.44	38.77	2.97	1.14	261.62
2010	199.06	56.13	152.77	43.08	2.80	0.79	354.63
2011	257.21	59.90	169.47	39.47	2.73	0.64	429.41
2012	322.90	48.34	334.87	50.13	1.92	0.29	659.69
B. SBI and its Associates							
2003	80.53	47.49	83.79	49.41	5.26	3.10	169.58
2004	71.36	47.07	78.03	51.47	2.20	1.45	151.59
2005	70.17	47.39	76.24	51.49	1.68	1.13	148.09
2006	72.50	54.95	58.19	44.11	1.25	0.95	131.94
2007	71.75	57.14	51.93	41.36	1.88	1.50	125.56
2008	89.02	58.49	62.22	40.88	0.97	0.64	152.21
2009	84.47	47.26	92.50	51.75	1.77	0.99	178.74
2010	109.40	50.11	106.46	48.77	2.44	1.12	218.30
2011	155.67	55.32	125.67	44.66	0.06	0.02	281.40
2012	239.11	52.33	217.59	47.62	0.25	0.05	456.95
Public Sector Banks (A+B)							
2003	249.39	47.23	267.81	50.71	10.87	2.06	528.07
2004	238.41	47.54	256.98	51.24	6.10	1.22	501.49
2005	233.97	49.05	238.49	50.00	4.51	0.95	476.97
2006	223.74	54.07	180.72	43.68	9.33	2.25	413.79
2007	229.54	59.92	148.61	38.80	4.90	1.28	383.05
2008	252.87	63.86	140.15	35.39	2.99	0.76	369.01
2009	241.68	54.88	193.94	44.04	4.74	1.08	440.36
2010	308.46	53.84	259.23	45.25	5.24	0.91	572.93
2011	412.88	58.09	295.14	41.52	2.79	0.39	710.81
2012	562.01	49.96	552.46	49.11	2.17	0.19	1116.64

Source : Off-site returns (domestic & provisional) of banks, Department of Banking Supervision, RBI.

Table 5.3 shows that most of the NPAs of public sector banks are distributed between priority and non-priority sectors. For public sector banks (A+B in Table 5.3), percent share of total NPAs in priority sector showed a fluctuating trend. In 2003, it was 47.23 percent which increased to 47.54 percent in 2004, 49.04 percent in 2005, 54.07 percent in 2006, 59.92 percent in 2007 and reached up to 63.86 percent in 2008. Then it decreased to 54.88 percent in 2009 and further came down to 53.84 percent in 2010 but increased to 58.09 percent in 2011. Finally, it declined and came down to 49.96 percent in the final year of the period under study, 2012.

The percent share of total NPAs in non-priority sector also showed a fluctuating trend. In 2003, it was 50.71 percent which increased slightly to 51.24 percent in 2004, but then decreased to 50.00 percent in 2005, 43.68 percent in 2006, 38.80 percent in 2007 and came down to 35.39 percent in 2008. Then it increased to 44.04 percent in 2009 and further rose up to 45.25 percent in 2010 but decreased to 41.52 percent in 2011. Finally, it inclined and reached up to 49.11 percent in the final year, 2012.

In public sector, the percent share of total NPAs was 2.06 percent in 2003 which ultimately came down up to 0.19 percent in the year 2012. Hence, it is necessary to reduce the NPAs of priority and non-priority sector as much as possible.

Table 5.4(a)
Bank Group-wise Classification of Loan Assets
of Scheduled Commercial Banks
(From 2007 to 2012)

(Amount in Billion Rupees)

Bank group / Year	As on March 31					
	Standard Assets		Sub-Standard Assets		Doubtful Assets	
	Amount	Per cent share	Amount	Per cent share	Amount	Per cent share
	(1)	(2)	(3)	(4)	(5)	(6)
Public sector banks						
2007	13353.52	97.2	139.45	1.0	199.70	1.5
2008	16567.28	97.7	168.70	1.0	190.68	1.1
2009	20559.06	97.9	195.21	0.9	207.08	1.0
2010	24550.65	97.7	276.85	1.1	246.79	1.0
2011	29887.90	97.7	336.12	1.1	319.55	1.0
2012	34379.00	96.8	603.76	1.7	470.75	1.3
Private sector banks						
2007	3826.30	97.6	43.68	1.1	39.30	1.0
2008	4593.69	97.3	72.80	1.5	44.52	0.9
2009	5027.68	96.8	105.26	2.0	50.17	1.0
2010	5671.92	97.0	86.76	1.5	65.42	1.1
2011	7143.38	97.5	43.98	0.6	107.35	1.5
2012	8621.31	97.9	51.28	0.6	103.14	1.2
Foreign banks						
2007	1254.15	98.1	13.67	1.1	6.31	0.5
2008	1598.82	98.1	19.63	1.2	7.68	0.5
2009	1624.20	95.7	58.74	3.5	10.04	0.6
2010	1603.11	95.7	49.30	2.9	14.41	0.9
2011	1942.57	97.5	18.65	0.9	21.13	1.1
2012	2284.17	97.3	20.79	0.9	22.30	1.0
All scheduled Commercial Banks						
2007	18433.97	97.4	196.80	1.0	245.31	1.3
2008	22759.79	97.6	261.13	1.1	242.87	1.0
2009	27210.94	97.6	359.21	1.3	267.29	1.0
2010	31825.68	97.5	412.92	1.3	326.63	1.0
2011	38973.84	97.6	398.75	1.0	448.02	1.1
2012	45284.48	97.1	675.84	1.4	596.20	1.3

Source : Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

Table 5.4(b)
Bank Group-wise Classification of Loan Assets
of Scheduled Commercial Banks
(From 2007 to 2012)

(Amount in Billion Rupees)

Bank group / Year	As on March 31				
	Loss Assets		Gross NPAs		Total Advances
	Amount	Per cent share	Amount	Per cent share	Amount
	(7)	(8)	(9)	(10)	(11)
Public sector banks					
2007	45.10	0.3	384.25	2.8	13737.77
2008	36.68	0.2	396.06	2.3	16963.33
2009	38.03	0.2	440.32	2.1	20999.38
2010	49.28	0.2	572.93	2.3	25123.58
2011	55.14	0.2	710.80	2.3	30598.70
2012	50.37	0.1	1124.89	3.2	35503.89
Private sector banks					
2007	9.41	0.2	92.39	2.4	3918.69
2008	12.44	0.3	129.76	2.7	4723.45
2009	13.45	0.3	168.88	3.2	5196.55
2010	21.66	0.4	173.84	3.0	5845.76
2011	28.39	0.4	179.72	2.5	7323.10
2012	28.72	0.3	183.15	2.1	8804.45
Foreign banks					
2007	4.54	0.4	24.52	1.9	1278.67
2008	3.87	0.2	31.18	1.9	1629.99
2009	4.16	0.2	72.94	4.3	1697.14
2010	7.57	0.5	71.28	4.3	1674.39
2011	10.87	0.5	50.65	2.5	1993.21
2012	19.82	0.8	62.92	2.7	2347.10
All scheduled Commercial Banks					
2007	59.05	0.3	501.16	2.6	18935.13
2008	52.99	0.2	556.99	2.4	23316.78
2009	55.64	0.2	682.13	2.4	27893.07
2010	78.50	0.2	818.05	2.5	32643.72
2011	94.40	0.2	941.17	2.4	39915.01
2012	98.92	0.2	1370.96	2.9	46655.44

Source : Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

Table 5.4(a) and (b) showing the complete classification of loan assets of scheduled commercial banks for the period under study. This classification include standard, sub-standard, doubtful and loss assets. This table shows that standard assets were highest which is quite obvious (more than 95 percent) in any case. These were not the part of NPAs or in other words, these were performing assets.

Table 5.4 shows that for public sector banks, percent share of gross NPAs of total advances had a fluctuating trend. It was 2.8 percent in 2007 which decreased to 2.3 percent in 2008 and further came down to 2.1 percent in 2009. Then it increased to 2.3 percent in 2010 and remained same in 2011. Finally, it increased sharply up to 3.2 percent in the final year 2012.

In case of private sector banks, percent share of gross NPAs of total advances showed an increasing cum decreasing trend. In 2007, it was 2.4 percent which increased to 2.7 percent in 2008 and reached up to 3.2 percent in 2009. After that, it declined to 3.0 percent in 2010, 2.5 percent in 2011 and further came down to 2.1 percent in the year 2012.

For foreign banks, it had a fluctuatig trend. Initially in 2007, it was 1.9 percent which remained same in 2008. Then it suddenly inclined up to 4.3 percent in 2009 and remained same in 2010. After that, percent share of gross NPAs came down to 2.5 percent in 2011 and finally, increased to 2.7 percent in 2012.

From this analysis, it can be said that absolute amount of NPAs having an increasing trend in India in most of the banks of all categories. Secondly, in comparison to total assets, NPAs found in maximum percentage in foreign banks working in India followed by private sector banks and lastly public sector banks.

Tables 5.5a and 5.5b give details of Non-Performing Assets of Public Sector Banks - Sector-wise for the year ending March 2012. Agriculture, Small Scale Industries, Priority Sector, Public Sector, Non-Priority Sector and others have been covered in this Table for each bank.

These Tables showed sector-wise non-performing assets of public sector banks. It can be seen from Tables that maximum 55.2 percent NPAs was in priority sector followed by 43.7 percent in non-priority sector then comes others at 26.4 percent, small scale industries 15.9 percent, agriculture at 13 percent and only 1.1 percent of public sector.

In agriculture sector, State Bank of Patiala has maximum 19.1 percent non-performing assets while State Bank of Bikaner and Jaipur has minimum 1.4 percent.

In Small Scale Industries, Punjab and Sind Bank has maximum 36.6 percent non-performing assets while IDBI Ltd. has minimum 4.8 percent.

In Others, State Bank of Travancore has maximum 50.5 percent non-performing assets while Punjab and Sind Bank has minimum 10.0 percent. In Priority Sector, Punjab National Bank has maximum 88.0 percent non-performing assets while IDBI Ltd. has minimum 28.6 percent non-performing assets to total.

In Public Sector, Union Bank of India has maximum 6.5 percent non-performing assets while Bank of Baroda has minimum 0.1 percent.

In Non-Priority Sector, IDBI Ltd. has maximum 71.4 percent non-performing assets while Punjab National Bank has minimum 12.0 percent. The maximum amount which has been blocked as non-performing assets was of State Bank of India and the amount is Rs. 15,105 crore up to end-March 2009 while minimum amount is of Punjab and Sind Bank, Rs. 161 crore.

Tables 5.6a and 5.6b contained details of Non-Performing Assets of same sectors for Private Sector Banks and Tables 5.7a and 5.7b for Foreign Banks.

Tables 5.6a and 5.6b showed sector-wise non-performing assets of private sector banks. It can be seen from Table that maximum 78.0 percent NPAs was in non-priority sector followed by 21.6 percent in priority sector then comes others at 9.1 percent, agriculture at 8.5 percent, small scale industries 4.0 percent and only 0.4 percent of public sector.

In agriculture sector, Nainital Bank Ltd. has maximum 21.0 percent non-performing assets while Bank of Rajasthan has minimum 2.3 percent.

In Small Scale Industries, Ratnakar Bank Ltd. has maximum 31.2 percent non-performing assets while ICICI Bank has minimum 0.2 percent. In Others, Nainital Bank Ltd. has maximum 40.5 percent non-performing assets while Development Credit Bank Ltd. has minimum 0.7 percent.

In Priority Sector, Ratnakar Bank Ltd. has maximum 77.7 percent non-performing assets while Development Credit Bank Ltd. has minimum 13.1 percent non-performing assets to total.

In Public Sector, only Axis bank has involved whose non-performing amount is 75 crore which is 8.4 percent of total amount.

In Non-Priority Sector, Yes Bank Ltd. has maximum 100.0 percent non-performing assets while Ratnakar Bank Ltd. has minimum 22.3 percent. The maximum amount which has been blocked as non-performing assets was of ICICI Bank Ltd. and the amount is Rs. 9565 crore up to end-March 2009 while minimum amount is of SBI Commercial and International Bank Ltd., Rs. 5 crore.

Tables 5.7a and 5.7b showed sector-wise non-performing assets of foreign banks working in India. It can be seen from Table that maximum 90.9 percent NPAs was in non-priority sector followed by 9.1 percent in priority sector then comes others at 6.0 percent and small scale industries 3.1 percent. Public sector and agriculture sector both were not touched by foreign banks. Hence in both these sectors, no non-performing assets was there.

In Small Scale Industries, Antwerp Diamond Bank has maximum 100.0 percent non-performing assets while Barclays Bank has minimum 0.6 percent.

In Others, Mizuho Corporate Bank Ltd. has maximum 100.0 percent non-performing assets while BNP Paribas has minimum 0.6 percent.

In Priority Sector, Antwerp Diamond Bank and Mizuho Corporate Bank Ltd. Both have maximum 100.0 percent non-performing assets while BNP Paribas has minimum 0.6 percent non-performing assets to total.

In Non-Priority Sector, American Express Banking Corporation, Bank of America N.T. & S.A., Bank of Nova Scotia, Calyon Bank, DBS Bank Ltd., JP Morgan Chase Bank and Sonali Bank have maximum 100.0 percent non-performing assets while Mashreqbank PSC has minimum 12.5 percent.

The maximum amount which has been blocked as non-performing assets was of Citibank N.A. and the amount is Rs. 2087 crore up to end-March 2009 while minimum amount is of 1-1 crore of Bank of America N.T. & S.A., Caiyon Bank and Sonali Bank each.

Table 5.8(a)
Non Performing Assets in Advances to Weaker Sections under Priority Sector - Public Sector Banks (As at end-March 2012)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
	Public Sector Banks	**1,22,894**	**5,074**	**4.1**
	Nationalised Banks	**85,923**	**3,784**	**4.4**
1.	Allahabad Bank	5,010	165	3.3
2.	Andhra Bank	4,891	20	0.4
3.	Bank of Baroda	4,805	174	3.6
4.	Bank of India	10,400	1,400	13.5
5.	Bank of Maharashtra	1,921	136	7.1
6.	Canara Bank	10,809	205	1.9
7.	Central Bank of India	2,037	344	16.9
8.	Corporation Bank	2,118	51	2.4
9.	Dena Bank	1,250	69	5.5
10.	Indian Bank	1,508	41	2.7
11.	Indian Overseas Bank	6,238	15	0.2
12.	Oriental Bank of Commerce	3,019	54	1.8
13.	Punjab and Sind Bank	1,670	22	1.3
14.	Punjab National Bank	10,627	400	3.8
15.	Syndicate Bank	5,663	37	0.7
16.	UCO Bank	5,973	219	3.7
17.	Union Bank of India	2,250	198	8.8
18.	United Bank of India	2,613	175	6.7
19.	Vijaya Bank	3,045	59	1.9
	State Bank Group	**36,971**	**1,290**	**3.5**
20.	State Bank of Bikaner and Jaipur	2,801	47	1.7
21.	State Bank of Hyderabad	4,602	99	2.2
22.	State Bank of India	22,990	1,032	4.5
23.	State Bank of Indore	2,164	34	1.6
24.	State Bank of Mysore	1,203	13	1.1
25.	State Bank of Patiala	408	16	3.8
26.	State Bank of Travancore	2,803	50	1.8
	Other Public Sector Bank			
27.	IDBI Bank Ltd.	77	1	1.4

- : Nil/Negligible.

Source : Based on off-site returns submitted by banks.

Table 5.8(b)
Non Performing Assets in Advances to Weaker Sections under Priority Sector - Private Sector Banks (As at end-March 2012)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
	Private Sector Banks	**15,052**	**91**	**0.6**
	Old Private Sector Banks	**5,538**	**77**	**1.4**
1.	Bank of Rajasthan Ltd.	106	7	6.8
2.	Catholic Syrian Bank Ltd.	48	11	23.6
3.	City Union Bank Ltd.	211	-	0.2
4.	Dhanalakshmi Bank Ltd.	221	3	1.5
5.	Federal Bank Ltd.	905	-	
6.	ING Vysya Bank Ltd.	358	4	1.0
7.	Jammu and Kashmir Bank Ltd.	2,031	17	0.8
8.	Karnataka Bank Ltd.	150	5	3.0
9.	Karur Vysya Bank Ltd.	534	21	4.0
10.	Lakshmi Vilas Bank Ltd.	329	-	0.1
11.	Nainital Bank Ltd.	-	-	
12.	Ratnakar Bank Ltd.	-	-	
13.	SBI Commercial and International Bank Ltd.	-	-	
14.	South Indian Bank Ltd.	272	8	2.9
15.	Tamilnad Mercantile Bank Ltd.	372	-	0.1
	New Private Sector Banks	**9,514**	**14**	**0.1**
16.	Axis Bank Ltd.	3,671	-	
17.	Development Credit Bank Ltd.	210	-	
18.	HDFC Bank Ltd.	1,108	5	0.4
19.	ICICI Bank Ltd.	2,065	-	
20.	IndusInd Bank Ltd.	1,275	-	
21.	Kotak Mahindra Bank Ltd.	536	10	1.8
22.	Yes Bank Ltd.	649	-	

- : Nil/Negligible.

Source : Based on off-site returns submitted by banks.

According to Table 5.8a, Bank of India has maximum NPAs of Rs. 1400 crore i.e. 13.5 percent of total Rs. 10,400 crore given by bank as advances to weaker sections under priority sector whereas minimum Rs. 1 crore was NPA for IDBI Bank Ltd. which was 1.4 percent of total Rs. 77 crore given by the bank.

On the other hand, according to Table 5.8b, Karur Vysya Bank Ltd. has maximum NPAs of Rs. 21 crore i.e. 4.0 percent of total Rs. 534 crore given by bank as advances to weaker sections under priority sector whereas minimum Rs. 3 crore was NPA for Dhanalakshmi Bank Ltd. which was 1.5 percent of total Rs. 221 crore given by bank.

5.3 NPAs in Selected Public Sector Banks

For the present study, three public sector banks have been selected which are :

1. Bank of Baroda
2. Canara Bank, and
3. UCO Bank

Various NPAs conditions have been given for these banks in following Tables. Table 5.9 showing gross NPAs as percentage of total assets for the period under study from 2007-08 to 2011-12.

Table 5.9

Gross Non-Performing Assets as Percentage of Total Assets

Name of the Bank	2007-08	2008-09	2009-10	2010-11	2011-12
BOB	3.5	2.1	1.5	1.1	0.8
Canara Bank	2.1	1.3	0.9	0.7	1.0
UCO Bank	2.6	2.0	2.0	1.8	1.4

Source : Annual Reports and Accounts of selected banks from 2007-08 to 2011-12.

From Table 5.9, it is clear that the gross NPAs to total assets ratio was highest among selected banks in 2007-08 for Bank of Baroda at 3.5 percent but it showed sharp decrease and came down to 0.8 percent in 2011-12 ultimately.

In case of Canara Bank, the ratio of gross NPAs to total assets was 2.1 percent in 2007-08 which decreased to 1.3 percent in 2008-09, 0.9 percent in 2009-10 and 0.7 percent in 2010-11. In 2011-12, it increased and reached to 1.0 percent which is a factor of worry and the bank management should control it seriously. (Increase must have because of recession in world economy and most of the advances of Canara Bank may be to exporters.)

For UCO Bank, the ratio of gross NPAs to total assets was second highest after Bank of Baroda in 2007-08 at 2.6 percent which decreased to 2.0 percent in 2008-09 and remained same in 2009-10 also. Then it decreased to 1.8 percent in 2010-11 and finally came down to 1.4 percent in 2011-12. Though the ratio has decreased but it is still at alarming position and sincere efforts should be made to improve the same.

Table 5.10 gives net NPAs as percentage of total assets for the period under study from 2007-08 to 2011-12.

Table 5.10
Net Non-Performing Assets as Percentage of Total Assets

Name of the Bank	2007-08	2008-09	2009-10	2010-11	2011-12
BOB	0.7	0.5	0.4	0.3	0.2
Canara Bank	1.0	0.7	0.6	0.5	0.7
UCO Bank	1.5	1.3	1.3	1.2	0.7

Source : Annual Reports and Accounts of selected banks from 2007-08 to 2011-12.

From Table 5.10, it can be seen that the net NPAs to total assets ratio was lowest among selected banks in 2007-08 for Bank of Baroda at 0.7 percent but it showed sharp decrease and came down to 0.2 percent in 2011-12 ultimately which was again lowest among selected banks in 2011-12 and it can be said that BOB showed excellent performance in controlling net NPAs.

In case of Canara Bank, the ratio of net NPAs to total assets was 1.0 percent in 2007-08 which decreased to 0.7 percent in 2008-09, 0.6 percent in 2009-10 and 0.5 percent in 2010-11. In the year 2011-12, it increased and reached to 0.7 percent again which is a factor of worry and the bank management should try to keep it in control.

For UCO Bank, the ratio of net NPAs to total assets was highest among selected Banks in 2007-08 at 1.5 percent which decreased to 1.3 percent in 2008-09 and remained same in 2009-10 also. Then it decreased to 1.2 percent in 2010-11 and finally came down to 0.7

percent in 2011-12. It is suggested that the bank management should try more to decrease this ratio further in future.

Table 5.11 gives gross NPAs of selected banks as percentage of gross advances for the period under study from 2007-08 to 2011-12.

Table 5.11
Gross Non-Performing Assets as Percentage of Gross Advances

Name of the Bank	2004-05	2005-06	2006-07	2007-08	2008-09
BOB	7.3	3.9	2.5	1.8	1.3
Canara Bank	3.9	2.3	1.5	1.2	1.6
UCO Bank	5.0	3.3	3.2	3.0	2.2

Source : Annual Reports and Accounts of selected banks from 2007-08 to 2011-12.

As can be seen from Table 5.11 that in 2007-08, Bank of Baroda has highest 7.3 percent of gross NPAs to Gross Advances followed by UCO bank 5.0 percent and Canara Bank 3.9 percent. All these have decreased during the period under study but at the end in 2011-12, UCO bank was highest at 2.2 percent followed by Canara Bank at 1.6 percent and BOB at lowest i.e 1.3 percent. This analysis shows that among selected banks, BOB has fastest decline so its management shown excellent performance and other should follow it.

Table 5.12 gives net NPAs of selected banks as percentage of net advances for the period under study from 2007-08 to 2011-12.

Table 5.12
Net Non-Performing Assets as Percentage of Net Advances

Name of the Bank	2007-08	2008-09	2009-10	2010-11	2011-12
BOB	1.5	0.9	0.6	0.5	0.3
Canara Bank	1.9	1.1	0.9	0.8	1.1
UCO Bank	2.9	2.1	2.1	2.0	1.2

Source : Annual Reports and Accounts of selected banks from 2007-08 to 2011-12.

Table 5.12 shows that in 2007-08, UCO Bank has highest 2.9 percent of net NPAs to Net Advances followed by Canara Bank 1.9 percent and least BOB at 1.5 percent. All these have decreasing trend during the period under study and at the end in 2011-12, the order was the same for net NPAs to net advances as UCO bank was highest at 1.2 percent followed by Canara Bank 1.1 percent and least BOB at 0.3 percent. In this case also, BOB has shown excellent performance and other banks' management should perform like Bank of Baroda.

5.4 Causes and Remedies of Non Performing Assets

The Banks give loans to different entities. According to the intity, these loans can broadly be categorise as follows: (i) Personal Loans, (ii) Trade Loans, (iii) Agricultural Loans, (iv) Service Sector Loans, (v) Foreign Trade Loans, (vi) Industrial Loans etc.

(i) Personal Loans

This type of loans are given to individual persons for their personal needs. These are the smallest category of loans. These loans are generally given for personnel requirements e.g. vehicle loan, education loan, house loan etc. A particular person is directly resposible to pay this kind of loan. The chances of loan to become NPA in this category is almost nil. However, if it occurs, the causes may be as follows:

Causes of NPAs :

(a) To give loans without sufficient enquiry of the person and the information given by him found false e.g. wrong address, wrong employment status etc.

(b) To give loan without confirming re-paying capacity of the person.

Remedies of NPAs :

(a) Sufficient enquiry of the person and the information given by him before sanctioning the loan.

(b) Satisfactory confirmation of re-paying capacity of the person.

(ii) Trade Loans

This category of loans include the loans given to start a business and to extend an existing business. These are similar to personal loans except that here business and its growth possibility is more important and re-payment of loan depend on it. These loan amounts are generally higher than personal loans.

Causes of NPAs :

(a) To give loans to inexperienced person who has no experience of business before. Generally, banks sanction this type of loans under government schemes of self-employment.

(b) Insufficient enquiry of the business and its profitability.

Remedies of NPAs :

(a) The decision of participation in such government schemes where repayment of sanctioned loan is doubtful should be carefully taken and managerial level.

(b) Satisfactory enquiry of the business growth and its profitability.

(iii) Agricultural Loans

India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 15.7% of the GDP in 2009-10, employed 52.1% of the total workforce, and despite a steady decline of its share in the GDP, is still the largest economic sector and a significant piece of the overall socio-economic development of India.

Crop yield per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the Green Revolution in India. However, international comparisons reveal the average yield in India is generally 30% to 50% of the highest average yield in the world. Indian states Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Andhra Pradesh, Bihar, West Bengal, Gujarat and Maharashtra are key agricultural contributing states of India.

India receives an average annual rainfall of 1,208 millimetres (47.6 inch) and a total annual precipitation of 4000 billion cubic metres, with the total utilisable water resources, including surface and groundwater, amounting to 1123 billion cubic metres. 546,820 square kilometres (211,130 sq mi) of the land area, or about 39% of the total cultivated area, is irrigated. India's inland water resources including rivers, canals, ponds and lakes and marine resources comprising the east and west coasts of the Indian ocean and other gulfs and bays provide employment to nearly six million people in the fisheries sector. In 2008, India had the world's third largest fishing industry.[12]

India is the largest producer in the world of milk, jute and pulses, and also has the world's second largest cattle population with 175 million animals in 2008. It is the second largest producer of rice, wheat, sugarcane, cotton and groundnuts, as well as the second largest fruit and vegetable producer, accounting for 10.9% and 8.6% of the world fruit and vegetable production respectively. India is also the second largest producer and the largest consumer of silk in the world, producing 77,000 million tons in 2005.

Agriculture is an important part of Indian economy. In 2008, a New York Times article claimed, with the right technology and policies, India could contribute to feeding not just itself but the world. However, agricultural output of India lags far behind its potential. The low productivity in India is a result of several factors. According to the World Bank, India's large agricultural subsidies are hampering productivity-enhancing investment. While over-regulation of agriculture has increased costs, price risks and uncertainty, governmental intervention in labour, land, and credit markets are hurting the market. Infrastructure such as rural roads, electricity, ports, food storage, retail markets and services are inadequate. Further, the average size of land holdings is very small, with 70% of holdings being less than one hectare in size. The partial failure of land reforms in many states, exacerbated by poorly maintained or non-existent land records, has resulted in sharecropping with cultivators lacking ownership rights, and consequently low productivity of labour. Adoption of modern agricultural practices and use of technology is inadequate, hampered by ignorance of such practices, high costs, illiteracy, slow progress in implementing land reforms, inadequate or inefficient finance and marketing services for farm produce and impracticality in the case of small land holdings. The allocation of water is inefficient, unsustainable and inequitable. The irrigation infrastructure is deteriorating. Irrigation facilities are inadequate, as revealed by the fact that only 39% of the total cultivable land was irrigated as of 2010, resulting in farmers still being dependent on rainfall, specifically the monsoon season, which is often inconsistent and unevenly distributed across the country.

The agricultural loans are given to the farmers for purchasing of seeds, fertilizer, tractor, etc. In this type of loan, the possibility of loan to become NPAs is comparatively high. The causes are as follows:

Causes of NPAs :

(a) Insufficient rain, drought, flood, insect attack etc. and resultantly no crop or insufficient crop.

(b) Willful defaulters may give wrong information about crop quantity.

(c) Government interference and declaration to suspand the recovery of loans.

(d) To give loan without confirming re-paying capacity of the farmers under government scheme.

Remedies of NPAs :

(a) Banks must ascertain about the irrigation facility in the farms and hence possibility of sufficient crop.

(b) Time-to-time survey of farms to know about crop condition and to give necessary advice to the farmers for possible improvements.

(c) Confirming re-paying capacity of the farmers is necessary and if loan is sanctioned under any government scheme, guarantee of government should be ascertained.

(iv) Service Sector Loans

India is 13th in services output worldwide. The services sector provides employment to 23% of the work force and is growing quickly, with a growth rate of 7.5% in 1991-2000. It has the largest share in the GDP, accounting for 55% in 2007. Information technology and business process outsourcing are among the fastest growing sectors, having a cumulative growth rate of revenue 33.6% between 1997 and 1998 and 2002-03 and contributing to 25% of the country's total exports in 2007-08. The growth in the IT sector is attributed to increased specialisation, and an availability of a large pool of low cost, highly skilled, educated and fluent English-speaking workers, on the supply side, matched on the demand side by increased demand from foreign consumers interested in India's service exports, or those looking to outsource their operations. The share of the Indian IT industry in the country's GDP increased from 4.8% in 2005-06 to 7% in 2008. In 2009, seven Indian firms were listed among the top 15 technology outsourcing companies in the world.

Service sector is the portion of the economy that produces intangible goods. According to the U.S. Census Bureau, the service sector primarily consists of truck transportation, messenger services and warehousing; information sector services; securities, commodities and other financial investment services; rental and leasing services; professional, scientific and technical services; administrative and support services; waste management and remediation; health care and social assistance; and arts, entertainment and recreation services.[13]

Individuals employed in this sector produce services rather than products. Examples of service sector jobs include housekeeping, psychotherapy, tax preparation, guided tours, nursing and teaching. By contrast, individuals employed in the industrial/manufacturing sector might produce goods such as cars, clothing and toys. Loans given to the working persons in service sector or service sector firms can becomes NPAs by following reasons:

Causes of NPAs :

(a) In service sector, timely and satisfactory service is essential to get the payment in time and delay in service and unsatisfactory service results in delay and negotiation in payment which make the payment of loan difficult.

(b) Down fall in good will of any service sector firm.

(c) Job termination of service sector employee.

Remedies of NPAs :

(a) The loan should be given to well established service sector firm and its employees which has good track record.

(b) Bank should get timely updation about good will of the loanee firms and timely remind them about payment of the loan.

(v) Foreign Trade Loans

Since liberalisation, the value of India's foreign trade has increased sharply, with the contribution of total trade in goods and services to the GDP rising from 16% in 1990-91 to 47% in 2008-10. India accounts for

1.44% of exports and 2.12% of imports for merchandise trade and 3.34% of exports and 3.31% of imports for commercial services trade worldwide. India's major trading partners are the European Union, China, the United States of America and the United Arab Emirates. In 2006-07, major export commodities included engineering goods, petroleum products, chemicals and pharmaceuticals, gems and jewellery, textiles and garments, agricultural products, iron ore and other minerals. Major import commodities included crude oil and related products, machinery, electronic goods, gold and silver. In November 2010, exports increased 22.3% year-on-year to 85063 crore (US$16 billion), while imports were up 7.5% at 125133 crore (US$23 billion). Trade deficit for the same month dropped from 46865 crore (US$8.6 billion) in 2009 to 40070 crore (US$7.3 billion) in 2010.[14]

Foreign trade loans is given to the firms involved in export import business. Large amount of loans are required for foreign trade firms. It is necessary for the bank to be sure about the firm's re-paying capacity. But, actually some instantaneous factors may affect the foreign trade like some legal, political or environmental problem in other country or transport medium etc.

Causes of NPAs

(a) To give loans without sufficient enquiry of the party.

(b) Lack of managerial skill to identify the proper need and loan amount sanctioned.

(c) No quick action on willful defaulters.

(d) Influenced by political or other pressure.

Remedies:

(a) Sufficient enquiry of the party willing to take loan is compulsory and sufficient information should be collected from as many sources is possible.

(b) Sharp managerial skill is necessary to identify the proper need and repaying capacity of the party before sanctioning the loan.

(c) In case of first fault in repaying installment, the loanee should be properly informed about due date of payment.

(d) In case of genuine and unavoidable cause of fault, time relaxation should be given to good parties.

(vi) Industrial Loans

Industrial sector of India accounts for 28% of the GDP and employ 14% of the total workforce of the country. India is 11th in the world in terms of nominal factory output according to data compiled through CIA World Factbook figures. The Indian industrial sector underwent significant changes as a result of the economic liberalisation in India economic reforms of 1991, which removed import restrictions, brought in foreign competition, led to privatisation of certain public sector industries, liberalised the FDI regime, improved infrastructure and led to an expansion in the production of fast moving consumer goods. Post-liberalisation, the Indian private sector was faced with increasing domestic as well as foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, and relying on cheap labour and new technology. However, this has also reduced employment generation even by smaller manufacturers who earlier relied on relatively labour-intensive processes. The loan requirements increased significantly due to this scenario but re-paying capacity is not upto the mark. Hence, NPAs of the loans given to inductrial sector had increased at higher rate in comparison to other sectors.[15]

Loans given to industries are highest in amount and NPAs are also highest from this sector.

Causes of NPAs:

(1) To give loans without sufficient enquiry of the party.

(2) Lack of managerial skill to identify the proper need and loan amount sanctioned.

(3) No timely updation of defaulters.

(4) Failure in timely remind the loanee to pay his/her installment or dues.

(5) To quick action on willful defaulters.

(6) Influenced by political or other pressure.

(7) Industrial sickness after receiving the loan.

Remedies:

(1) Sufficient enquiry of the party willing to take loan is compulsory and sufficient information should be collected from as many sources is possible.

(2) Sharp managerial skill is necessary to identify the proper need and repaying capacity of the party before sanctioning the loan.

(3) In case of first fault in repaying installment, the loanee should be properly informed about due date of payment.

(4) It is necessary to remind well before the due date more than once, the loanee to pay his/her installment or dues.

(5) In case of willful defaulters, quick and firm action should be taken for recovery of loans.

(6) The manager has a vital role in sanctioning and collecting the loan. For timely recovery, it is necessary that he/she has not influenced by political or other pressure.

5.5 Recovery Tools and their Effectiveness

Timely recovery and strict credit discipline is of utmost important for all credit institutions. One of the most important problems in management of their loan portfolio faced by the public sector bank is low rate of recoveries. This has a bearing on the accounting standards as well as current operations of banks. In order to reduce NPAs the Union Budget for 1998-99 proposed strengthening of Debt Recovery Tribunals (DRTs) to cover all States. Accordingly, initially action for setting up five more DRTs and four Debt Recovery Appellate Tribunals (DRATs) has been initiated by the Government/RBI. Special Debt Recovery Tribunals (SDRTs) have been set up under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 for expeditious adjudication and recovery of debts. These courts now adjudicate suits involving amounts of Rs. 10 lakh and above by transferring the cases pending with the civil courts.[16]

On account of the initial problems faced by the DRTs mainly due to the validity of the Act being questioned in various High Courts, functioning of the DRTs was greatly affected. However, in the recent past, especially, with the intervention of the Supreme Court and with its judgment dated 14th March, 2002, legal hurdles have been removed and the performance of the DRTs have improved considerably as per details given in Table 5.13.

Table 5.13

Performance of Debt Recovery Tribunals (DRTs)

(Rs. in Crore)

Year	No. of Cases Disposed Off	Amount Involved	Amount Recovered
2008-09	4406	17045.80	451.76
2009-10	7776	47370.86	1504.28
2010-11	9274	48948.70	2369.84
2011-12	17862	55182.94	4306.38

Source : Debt Recovery Tribunals Statistical Data.

It can be seen from Table 5.13 that Debt Recovery Tribunals (DRTs) has been initiated by the Government/RBI worked remarkably as number of cases disposed off increased year to year and amount recovered was also showed a sharp increasing trend from 2008-09 to 2011-12. In 2008-09, 4406 cases have been disposed of by DRTs. This number increased to 7776 in 2009-10, 9274 in 2010-11 and reached to 17862 in 2011-12. The amount recovered was Rs. 451.76 crore in 2008-09 which increased continuously and in 2011-12, it reached up to

Rs. 4306.38 crores which clearly underlines the utility of Debt Recovery Tribunals (DRTs) as an effective recovery tool.

These loans are normally secured with collateral's. Only six such tribunals are operating now. The number of such tribunals is, no doubt, inadequate, resulting in a large number of cases pending before them. This situation is serious. Here it is suggested that these tribunals must decide a target for an year for accepted cases and also to disposal of cases and the difference between them must be not high.

For recovery of small loans and to ensure quick justice on settlement of dues, Lok Adalats (Peoples' Courts) have been set up in some States. The task force to study the co-operative credit system and suggest measures for its strengthening under the Chairmanship of Shri Jagdish Capoor has suggested, "the provisions of the existing DRT may be made applicable to cooperative banks also where loan size is more than Rs. 1 lakh so as to expedite recovery of chronic overdues."

Recovery Linked Refinance of the National Bank

Besides the above initiatives, at the institutional level (co-operatives and RRBs) the National Bank has been linking availability of refinance at concessional terms with the banks' recovery performance and also with their efforts to contain the level of non-performing assets. National Bank having three stages of provision of refinance viz., (i) determining the basic eligibility for refinance support; (ii) determining the quantum of refinance (credit limit) to be provided; (iii) allowing drawls on the sanctioned credit limits.

One Time Settlement Scheme

In the context of rising overdues/Non Performing Assets levels in banks and financial institutions, need for a simplified, non-discretionary and non-discriminatory mechanism for recovery of overdues/NPAs under all categories of loans and advances has been felt for a long time. Since the banks provide loans and advances through onlending as well as directly to constituents, the terms and process of recovery of overdues/NPAs under such a mechanism will have to be stipulated at the ultimate borrower level and the proceeds of the settlement as well as costs/losses arising there from will have to be shared among the various tiers involved on mutually agreed basis. National Bank has consulted RBI for firming up the guidelines for One Time Settlement (OTS) of chronic NPAs/overdues. It was to cover NPAs under all loans. The union budget also proposed creation of Assets Reconstruction Companies (ARCs) to tackle the problem of NPAs. A Task Force comprising representatives of Banking Division of RBI and nationalised banks has been constituted to prepare an action plan for setting up of ARCs. The Task Force has submitted its report.

Considering the above, it may be observed that though in terms of quantum, the NPA level of Public Sector Banks is quite large which could be considered as a fundamental weakness in the public sector banks, yet it may not be indicative of any systematic risk so as to render the Indian banking system unsound. World Bank studies have indicated that at a Capital Adequacy Ratio of 80 per cent, if the net NPAs (NPAs net of provisions) of a bank reach 15 per cent, it will wipe out its capital. Therefore, as a thumb rule, it is believed that when the net NPAs of a banking system may not be considered unsound, although few public sector banks may be in differing levels of distress. No doubt, the government ownership of public sector banks has served as pillar of confidence.

While considering any systematic risk on the Indian banking industry, it should necessarily be think that the NPA issue is critical. The Net NPAs of public sector banks was reached up to Rs. 36071 crore in March, 2011. It is important to resolve the huge overhand of NPAs which the public sector banks are carrying in their books. Besides affecting their ability to lower their interest rates, such overhung also compels banks to maintain higher spreads to protect their profit position.[17]

While addressing the large overhang of NPAs of the public sector banks it found crucial, and also found equally important to ensure that banks do not run up similar level of NPAs during the transition period. Therefore, these should be considered as the two crucial issues which one should concerned with.

While considering the issue to know the causes for the build-up of such high level of NPAs in the Indian context, one of the important reason has been the over-regulated environment, both in the real as well as financial sector. However, there are other important factors also as revealed from a study conducted by the Reserve Bank of India. After studying about 800 top NPA accounts in 17 banks, the RBI study has found the following, in order of importance, to be the causative factors for loan accounts turning NPAs.

diversion of funds, mostly for expansion/ diversification of business or for promoting associate concerns.

factors internal to business like product/marketing failure, inefficient management, inappropriate technology, labour unrest etc.

changes in the macro environment like recession, infrastructural bottlenecks etc.

time /cost overruns during project implementation.

changes in government policies (e.g., import duties).

deficiencies like delay in release of sanctioned limits by banks.

It has also been revealed that the internal factors far outweighed the external factors in accounts turning bad. The contribution to NPA burden of banks was also significant from directed lending (nearly one-fourth of the total gross NPAs were accounted by priority sector advances) where banks had little control under the sponsored programmes and where debt-forgiveness vitiated the repayment culture.

Subsequent to the implementation of prudential norms and the gradual tightening of such norms, banks have been addressing the burden of NPAs through all the available remedies. At the end of March 1998 as many as 17 of the 27 banks (19 PSBs, SBI and 7 Associates) had Net NPA ratio of up to 10 per cent, while in the case of 9 banks, it was above 10% but up to 20 per cent.[18]

Given the inadequate environment for enforcement of securities, the progress in recoveries has been slow. Besides resorting to legal remedies to recover their dues, banks have also utilised the services of the Debt Recovery Tribunals (DRTs). In addition, where desirable, they have adopted the route of negotiated settlement/compromise with borrowers, in the process, sacrificing some revenue and gaining in terms of time value of money. For the purpose, public sector banks have established Settlement Advisory Committees, for certain categories of borrowers, which are expected to approach the process of negotiated settlements in a simple and transparent manner. Where the chances of collecting the dues are ascertained to be bleak, write off have been made and such loss booked to banks' revenue. But as public sector banks are accountable to their ultimate owners viz., Government and the Parliament, such write-offs have been done selectively and as far as possible where the uncollectible nature of debt is beyond doubt.

The difficulties and ineffective methods available for resolution of bad debts by banks are amply highlighted by the RBI study as mentioned earlier. The data of 33 banks (27 public sector and 6 private banks) shows that at the end of March 1998, over 46 per cent of the total quantum of NPAs were in suit-filed accounts. The recoveries made out of such suit-filed accounts in March 1998 was as low as 4.3 per cent. The study found that over 14.37 crore suit-filed cases were pending disposal involving a whopping Rs. 21,825 crore and added to that, a significant portion of such suits were pending for more than a decade. It realised not sure whether the Narasimham Committee II (1988) had visualised such a situation while prescribing further tightening of the prudential accounting norms, which has been implemented already. No doubt, the Committee has voiced its concerns about the lack of quick remedial measures for resolution of bad debts of banks.

In the event of the borrower taking refuge under Section 22 of the Sick Industrial Companies (Special Provisions) Act (SICA) 1985 which forbids enforcement of securities without the consent of the Board for Industrial and Financial Reconstruction (BIFR) or the Appellate

Authority, the recovery of bank dues becomes further delayed; more so when the BIFR takes a very long time to decide the case for either winding up or for a debt work-out. The delays in amending the SICA to trigger off the remedial mechanisms at the incipient sickness stage itself has increased the difficulties of banks.[19]

In view of the relatively unsatisfactory performance of Settlement Advisory Committees set up by PSBs for compromise settlement of chronic NPAs in respect of the SSI sector, RBI issue guidelines to all categories of banks from time to time with regard to timely recovery. In this regard revised guidelines covering all sectors, including the small sector, to provide for a simplified, non-discretionary and non-discriminatory mechanism for recovery of NPAs with outstanding balances of upto Rs. 5 crore.

These guidelines specified the settlement formula and the manner of payment of the settled dues. Under these revised guidelines, the 27 public sector banks recovered Rs. 2,600 crore from 3,65,000 accounts. Though representations were received for further extension of the scheme, no extension beyond June/September 2001 was considered necessary because the purpose of the scheme was to provide an opportunity for a “one-time settlement”, within the specified time period.

However, under the broad framework of settlement as per the guidelines issued by RBI in July 1995, banks were free to design and implement their own policies for recovery and write-off with the approval of their respective Boards. The Reserve Bank issued guidelines for one-time settlement of NPAs outstanding up to Rs. 25,000 to public sector banks in December 2001.

Switchover from Recovery to NPA

The eligibility criteria for drawal of refinance by the banks is being reviewed and the possibility of switching over from the recovery criteria to the level of non-performing assets is under consideration and will be gradually made applicable to banks in the ensuing years.

Recovery of SCBs/DCCBs

The Recovery of co-operative credit sector was noticed continuously declining. Several steps have been taken to recast the cooperative credit system and place it on a viable and sustainable path. These can be classified into three broad categories. First, while recognising the differences between commercial and cooperative banks, it has been emphasised that some of the prudential norms introduced for commercial banks should be extended to co-operative banks as well, albeit in a phased manner. In particular, efforts have been made to improve the capital base of co-operative banks. Second, policies have been framed to contain the systemic risk emanating from the co-operative banking sector. Lastly, duality/multiplicity of control of co-operative banks has been recognised as an irritant to their effective regulation and supervision and measures have been initiated to address this issue.

In order to ensure financial stability at both micro and systemic levels, it would be necessary to extend some of the prudential measures introduced for commercial banks to cooperative banks as well, notwithstanding the recognition of various differences in terms of operations and culture of commercial and cooperative banks.

Accordingly, important policy changes have been initiated for UCBs in areas such as asset classification, income recognition, capital adequacy, Asset Liability Management (ALM), etc.

Rcovery Norms for Licensing

Sustained recovery performance is one of the important objective eligibility criteria to grant of license to SCBs/CCBs. The existing criteria in this respect described as follows:

Overdues should not exceed 5 per cent of the demand in case of SCBs.

Overdues should not exceed 30 per cent of demand in the case of DCCBs.

If overdues of a DCCB were between 30 per cent and 40 per cent of demand, the total overdues and erosion in the value of assets other than in loans and advances due from living societies should not exceed the total owned funds of the bank.

Recovery Norms for Obtaining Government Guarantee by SCBs under Schematic Refinance (Investment Credit)

The National Bank provides refinance to SCBs on behalf of DCCBs for investment credit under Section 25 of NABARD Act 1981. One of the important conditions governing such assistance for farm-sector is that state /central government, as the case may be, should provide full and unconditional guarantee on behalf of the SCB for payment of interest and repayment of principal to the National Bank. Such government guarantee was originally waived by the National Bank on the following conditions[20]:

The scheme in respect of which such accommodation required is technically feasible, and financially viable.

The concerned SCB is a scheduled bank with 'A' audit classification.

The central co-operative bank and/or the primary cooperative credit society or the primary cooperative bank participating in the scheme possesses 'A' audit classification.

The central co-operative bank and/ or the primary cooperative credit society or the primary co-operative bank has a minimum recovery performance of 80 per cent of demand.

The security to be obtained by the co-operative bank is in accordance with the instructions of Reserve Bank of India.

On the basis of the representations received from the SCBs, it was decided to relax the recovery norm for insisting on government guarantee from 80 per cent to a level synchronising with eligibility criteria for drawing unrestricted refinance from the National Bank. At the time of decision, this recovery norm for DCCBs (as also all other agencies) was 65 per cent of demand in general. Accordingly, the minimum recovery norm for DCCB/PACB was fixed at 65 per cent of demand for waiver of government guarantee. This relaxation was available to SCBs only upto 31 March 2001. As a matter of policy, the National Bank has been progressively tightening the criteria for unrestricted refinance and with effect from 1 April 2001 (for the year 2001-02) the cut off level of recovery for unrestricted refinance has been raised to 70 per cent.

Rural Non-Farm Sector

In another significant effort of timely recovery of dues, the recovery norms as applicable under farm sector were made applicable to advances under non-farm sector including advances under Industries, Services and Business (ISB) components given by the banks under Swarnjayanthi Gram Swarojgar Yojana (SGSY). However, the refinance support to SHGs under the SHGs-Banks Linkage Programme were kept outside the purview of eligibility criteria as in the earlier years.

The above analysis reveals that the recovery at the ground level continues to be low in a large number of areas and credit institutions.

All India averages are, in fact, no indicators and mask the abysmally low level of recovery in certain regions such as north-eastern region/locations will have to be proactive to improve their recovery performance to at least 90 per cent of demand. In these regions, where the co-operatives and RRBs have lost their ability to recycle funds, commercial banks with their stronger resilience have to step in for a more proactive role. Studies have shown that significant number of farmers borrow simultaneously from both formal and informal sources and give precedence to the informal sources in matter of repayment, keeping overdue the other loans. Therefore, the credit institutions, particularly in such regions will have to vigorously monitor 'end use' of credit and intensify recovery to attain sustainable viability.

In order to tone-up recovery management, some leading banks including State Bank of India have adopted a two-pronged approach comprising preventive and curative measure to control NPAs. These banks have also initiated potential borderline accounts and quickly diagnosed remedial measures so that accounts do not slip into NPA category. Accounts secured by assets, which have lost or are likely to lose value, are monitored now by almost all the banks on an ongoing basis. These banks as a matter of managing their non-performing assets relating to borrowers who have failed to meet their obligations to the Bank on account of genuine reasons.

In order to expedite disposal of cases transferred to the Debt Recovery Tribunals, several banks have created legal cells in their organisation. In case of remaining banks, progress in this regard is quite encouraging. Rehabilitation and recovery branches have also been opened at selected centres of leading public sector banks to strengthen the institutional set up for better NPA control and management.

No doubt, efforts have been made as mentioned above, in the direction of effective recovery management by RBI and other banks.

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