A STUDY ON PERFORMANCE OF DEBT RECOVERY CHANNELS IN MANAGEMENT OF NPAS OF SCHEDULED COMMERCIAL BANKS IN INDIA

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ABSTRACT

The Indian banking sector has been witnessing rising NPAs over the last few years. While research has focused on identifying reasons- whether environmental, or systematic, the Reserve Bank of India has been working on various mechanisms whereby stressed bank assets can be reconverted into being productive. Thus, the Indian Banking system has seen a slew of measures over the last few years to combat the NPA issue. At a time when bad loans are witnessing a surge, the rate of recovery of bad assets by banks has taken a knock. The rate of recovery of non-performing assets was Rs22800 crore out of the total NPAs of Rs 221400 crore during fiscal ended March 2016, against Rs 30800 crore of the total amount of Rs 248200 crore reported in March 2015. Public sector banks, which are burdened with a high proportion of the banking sector's NPAs. An attempt is made in this paper to understand the NPAs, trend in NPAs of Schedule commercial banks in India during the period of 2013-2016 and examine the role of various NPAs recovery channels.

Key words: NPAs, SCBs, Lok Adalats, DRTs and SARFAESI.

I. INTRODUCTION

The banking sector plays very important role in the economic development of a country. This role is played by banks by extending credit to various deficit sectors for their growth and development. Like other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it posses. Asset quality was not the major concern for Indian Banking sector till 1991, as the focus was on achieving the performance objectives such as widening the network of bank branches, priority sector lending, employment generation etc. after the recommendations made by Narasimham committee in 1991, it was found that Indian commercial banks were burdened with large amount of NPAs due to which banks had gone financially weak. The concept of NPAs emerged as a contemporary issue when Reserve Bank of India implemented the prudential norms in 1992-93. Before implementation of these norms, an asset was considered as non-performing if the installment or the interest of the principal remained unpaid for more than 180 days, but according to prudential norms the 180 days period for declaring the asset as non-performing was brought down to 90 days with effect

from 31st March 2004. In order to expedite the recovery of NPAs, the RBI designed several channels of recovery such as Debt Recovery Tribunals (DRTs), Lok Adalats, and the Securitization of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. Recently, in august, 2015, The Government of India launched a seven pronged plan "Indradhanush" to revamp the functioning of public sector banks to bring them out of the stress of piling up of NPAs. The 7 fundamentals of the plan include appointments, board of bureau, capitalization, de-stressing, empowerment, governance reforms and framework of accountability.

II. TYPES OF BANKING ASSETS

When assets of a bank stop generating regular income and there are possibilities of default/delay in the principal repayment, the assets can be classified as 'Non performing'. Being in the business of lending, banks always run the risk of 'Non performance'. But when such cases increase, not only to the bank balance sheets get impaired, but productive capital at the macro level also gets blocked to reduction in economic activity. Thus there is a need to reduce the incidence of Non-performing assets.

Banking assets are classified into two categories. They are

1. standard assets
2. Non-performing assets

Non-performing assets are further classified into the following three categories on the basis of duration for which they have remained non-performing:

A) Sub-standard assets

B) Doubtful assets

C) Loss assets

Sub-standard assets:

Assets that have remained NPA for a period of less than or equal to12 months. There a distinct possibility of the bank sustaining some losses on such assets if deficiencies are not corrected.

Doubtful assets:

Non- performing assets that have been in the sub-standard category for 12 months. Given the weaknesses in these assets, collection or liquidation is rendered highly improbable.

Loss assets:

Assets where loss has been identified by the bank or external auditor/RBI team but has not been fully written off. Such assets are considered uncollectible.

III. DISTINCTION BETWEEN GROSS NPA AND NET NPA

Gross NPA is the amount outstanding in the borrowers account in books of the bank other than the interest which has been recorded and not debited to the borrower' account. Net NPA is the amount of gross NPAs less

1. Interest debited to borrowers' and not recovered and not recognized as income and kept in interest suspense
2. Amount of provisions held in respect of NPAs and
3. Amount of claim received and not appropriated

The RBI defines Net NPA as equal to Gross NPA-(balance in interest suspense account+DICGC/ECGC claims received and held pending adjustment+ part payment received and kept in suspense account total provisions held). This is generally reported as a ratio to net advances.

The ideal value of net NPA is 0 and for practical purpose a benchmark is taken as 1 percent. Thus, the values of net NPA which are less than one may be considered as satisfactory and the values exceeding 1 percent indicate a situation calling for improvement by reducing the NPA.

IV. REVIEW OF LITERATURE

Rajeshwari Krishnan (2002) focused on the problem of swelling non-performing assets in banks and financial institution of the country becomes more and more unmanageable and created threats for the financial sector. She found that securitization can be used for the liquidating the illiquid and long terms debut like loan receivables of the financial institutions or bank by issuing marketable securities against them. She concluded that the SARFAESI act is defiantly and big leap forward not only in the filled of NPA management but also promoting the securitizing market in India. The act may be required to fine tuned to bring in 'natural justice'.

G.Chandrashakar Rao (2003) Studied the present and most critical issue faced by the banking system has been hug pile-up of nonperforming assets which the bank have come to be saddled with. As result the survival of many weak bank managements and unions of their employees. He noticed that the main reasons for the banking units to become weak leading to mounting NPAs in diversification of funds by promoters, the other region is the tardy legal system and the inadequate legislation for recoveries. The reasons stated for the increasing NPAs in the primary sector are directed and preapproved loans sanctioned under sponsored programmers' absence of any securities, lack of effective follow up etc,. In view of this, it is not desirable to expect the other hand, they have to work as promoted of the economic development on the other hand this call for effective risk return approach to be adopted by the banks. It is found that majority of the defaulters are willful defaulters and hence criminal proceedings against corporate defaulters are to be issued to recover this national wealth. Government shall ensure proper legal foundation for enforcement of contracts and recovery of dues by banks.

Datta Chaudhuri (2005) Examined the "Resolution Strategies for Maximizing Value of Non-performing Assets (NAPs)". The article indicates that declining capital adequacy adversely affects shareholder value and restricts the ability of the bank/institution to access the capital market for additional equity to enhance capital adequacy. So, if a resolution strategy for recovery of dues from NPAs is not put in place quickly and efficiently, these assets would deteriorate in value over time and little value would be realized at the end, except may be its scrap value. The purpose of this paper is to indicate the various considerations that one has to bear in mind before zeroing on a resolution strategy and provides a State-Resolution-Mapping (SRM) framework. However, the paper has not specifically discussed about the various resolution strategies that could be put in place for recovery from NPAs, and in particular, in which situation which type of strategy should be adopted.

Meenakashi Rajeev, H P Mahesh (2010) Studied banking sector reforms and NPA's in Indian commercial banks to examine the trends of NPA's in India from various dimensions and to explain how immediate recognition and self monitoring has been able to reduce it to a great extent. The study analyzed the different

aspects of NPA's like NPA in India comparative to other countries, NPAs of India banks as per the different sectors and recovery of naps through various channels. It was found that NPAs in the contributor factor for crisis in the economy and root cause of the recent global financial crisis. It was observed that NPAs in priority sector is still higher than that of the non priority sector due to socio economic objectives of banks.

Kamalpreet Kaur and Balraj Singh (2011) Consider that the Non-performing assets are on the major concerns for bank in India. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPAs growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. The issue of Non-performing Assets has been discussed at length for financial system all over the India. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. The Indian banking sector is facing a serious problem of NPAs. The extent of NPAs is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have Zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard. The problem of losses and lower profitability of Non-Performing Assets (NPAs) and liability mismatch in banks and financial sector depend on how various risks are managed in their business. An attempt is made in the paper that what is NPAs? The factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operation. Besides capital of risk weight age assets ratio of Public and Private sector banks, Management of credit risk and measures to control the menace of NPAs are also discussed.

Rekha Gupta and Nitin S. Sikarwar (2013) The Government and the banks have been initiated a number of strategies in the past and are being initiated at present to bring down the level of NPAs. In view of the vital role of Non-performing Assets on the profitability, Punjab National Bank and HDFC Bank have been selected for the purpose of present research because both are the giant banks in public and private sector, so a comparative study is made. The author make an analytical study in respect of Non Performing Assets and their recovery management, so that it may be useful at all banking levels regarding the efficient utilization of resources which may lead to better working of the banking sector.

Siraj K.K. and Sudarsanan Pillai P. (2013) investigate the growth of selected NPA variables and compare it with banking performance indicators. The authors utilized the growth rate measured using exponential growth equation to estimate the relative efficiency of different bank groups in India. The estimation using EG value is more accurate since variables used in this study showed non-linear movements. Variables that impact NPA of banks is assessed and based on its growth rate, inference is generated. The analysis focused on identifying relative efficiency of different bank groups in managing their NPA. The findings revealed relative efficiency of public sector banks, which of course may be judged as the major reason for the resilience of Indian banking towards financial crisis.

V. OBJECTIVES OF THE STUDY

To study the status of non-performing assets of scheduled commercial banks in India during the period of 2013-2016.

To study the role of Reserve Bank of India and the Government of India in reduction of NPAs of scheduled commercial banks since financial sector reforms in India.

To study the role of Lok Adalats, DRTs and SARFAESI with respect to recovery of NPAs of scheduled commercial banks in India during the period of 2013-2016.

VI. SCOPE OF THE STUDY

The present study has been considered Gross advances and Gross NPAs of scheduled commercial banks which includes public sector banks (Nationalized banks, SBI & its group), private sector banks during the period of 2013-2016. Lok Adalats, DRTs and SARFAESI are taken to study the recovery of NPAs of Scheduled commercial banks from 2013-2016. Role of RBI and Government of India has analyzed in related to recovery of NPAs since financial sector reforms in India.

VII. DATA SOURCES

The present study has been considered only secondary data sources like journals, magazines, RBI news letter and trends and progress of banking in India.

VIII. RECOVERY MECHANISM

Given the burgeoning NPAs, banks employ various tools to recover their dues. Some of these mechanisms derive their structure from laws, policies and regulations made at different points in time, while the others are non-statutory in nature two distinct approaches of restructuring are observed across the world:

1) The centralized approach
2) The decentralized approach

The centralized approach has a larger role for the government typically in the form of establishing asset recovery/reconstruction companies that would dispose of the assets of non-viable firms.

The decentralized approach on the other hand, expects banks to resolve the issues of high debt with the firms individually on a one to one basis.

The role of the government is limited to providing framework of norms for aiding this exercise typically in the form of tax concessions and recapitalization of banks. Most countries across the world follow a 'Mixed approach' that is a combination of both the centralized and the decentralized approaches. The mixed approach involves restructuring of loans of large enterprises in a government supported out of court mechanism. Restructuring mechanism in India too has evolved with different instruments being used by banks for rescheduling, renegotiation and rehabilitation for many years.

The board of Industrial & Financial Reconstruction (BIFR) was constituted under the Sick Industrial Companies Act, 1985 (SICA) with the intention of determining sickness in industrial companies and providing assistance to

viable entities and closing down unviable ones. But over time referring to BIFR was considered to be a haven for promoters of sick companies and in june 2016, the government formally closed its operations.

Few other ways of recovery were available to Indian banks under the 'Recovery of Debt due to Banks and Financial Institutions Act 1992'. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002) was constituted to provide larger power for bankers and financial institutions to settle secured corporate debt. It allowed for taking possession, selling or managing the secured assets of defaulters or sale of assets to asset reconstruction companies. It was expected to provide greater teeth to the recovery process that banks could adopt. The Act allowed for three ways of recovery of non-performing assets:

1) Securitization
2) Asset reconstruction
3) Sale of assets without court intervention

The act was applicable only in loan cases where the NPA amount was more than 20% of the principal and interest outstanding and was more than Rs 1.00 lakh.

The Reserve Bank of India also provided for a one time settlement (OTS) scheme for loans of smaller denomination (Rs 10 crore and below) that were classified as non-performing assets. Lok Adalats were also available for settling disputes and focused on working on a compromise which could then be referred back to the court. In addition, Debt Recovery Tribunals (DRT) and Debt Recovery Appellate Tribunals (DRATs) were established under the provisions of Recovery of Debt due to Banks and Financial Institutions Act, 1993. With the implementation of SARFAESI Act 2002, DRTs also implement the provisions of this Act.

'The insolvency and bankruptcy code, 2016' passed by the Indian Parliament in may 2016, is set to override all other existing laws pertaining to bankruptcy and insolvency. It aims at resolution of individual as well as corporate insolvency in a time bound manner to maximize the value of such assets and balance the interest of all stakeholders.

While there were multiple channels for recovering debt in the formal legal mechanism, individual one to one negotiation was the only mode adopted informally. There was no mechanism to address restructuring of consortium based loans. The Reserve Bank of India initiated the establishment of Corporate Debt Restructuring (CDR) system in India in 2001. The CDR mechanism is a voluntary, non statutory system that covered multiple bank accounts/ consortium accounts of debts of large borrowers having outstanding aggregate exposure exceeding Rs10 crores.

Despite the CDR mechanism, NPAs and restructured loans in the India banking system continued to rise, especially after the global financial crisis. Concerns of moral hazard were raised with possibilities of non deserving loans also getting restructured. This was exacerbated by the fact that RBI was practicing regulatory forbearance for all restructured loans before March 2015. With this backdrop, RBI mandated India banks to form a Joint Lenders' Forum (JLF) when any borrower having aggregate exposure exceeding Rs 100 crores. Lenders have an option of forming a JLF even before these conditions are triggered if they sense stress in the account. This was with the intention of identifying stress in banking assets early so that a corrective action plan

(CAP) can be initiated to preserve the economic value of the underlying asset. The JLF can be formed for lending under consortium as well as multiple banking arrangements. The CAP can be aimed towards

A) Rectification

B) Restructuring

C) Recovery.

The JLF can propose restructuring under the aegis of the CDR cell or outside it. Either way, the restructuring plan has to ensure that the promoters have more 'skin in the game' with possibility of transferring their equity stake to the lenders or promoters requiring to infuse more equity or by transferring promoters holding into an escrow account to facilitate change of management control at a later date, if required.

The Strategic Debt Restructuring Scheme (SDR) was implemented in 2015 to ensure that the shareholders bear the first loss rather than debt holders in cases of restructuring. Accounts that fail to achieve the agreed critical conditions and projected viability milestones after initial restructuring under or outside of CDR can be subjected to SDR. If the borrower is not able to achieve the viability milestones and/ or adhere to the 'critical conditions' after initial restructuring , the JLF immediately reviews the account and examine whether the account will be viable by effecting a change I n ownership. If found viable under such examination, the JLF may decide on whether to invoke the SDR. This involves converting loan dues to equity shares. Post the conversion of debt into equity, all lenders under the Joint lenders' Forum must collectively hold 51% or more of the equity shares issued by the company. Lenders can expect to divest their stake in the company as soon as possible. On completion of conversion of debt to equity existing asset classification of the account, as on the reference date continues for a period of 18 months from the reference date.

Bankers find this period of 18 months too less to find a buyer for ther stake in the company especially in cases of large exposures that require deep financial restructuring and substantial write down of debt. The current guidelines for SDR require larger provisioning requirements as the asset classification changes after 18 months. As such, bankers are not comfortable with the SDR scheme for large exposures. Thus, RBI floated the 'Scheme for Sustainable Structuring of Stressed Assets' in June 2016. The borrower should have commenced commercial operation on the project and should have an aggregate exposure of Rs 500 crores to be eligible. Its debt should also meet the test of sustainability. A debt level is considered sustainable when an independent techno economic viability study by the JLF/ consortium of bankers finds that the principal can be serviced over the same tenor as that of the existing facilities even if the future cash flows remain at their current level. Such sustainable debt level should be at least 50%. In the scheme of resolution, no moratorium is granted on the interest and principal.

NPAs of Scheduled Commercial Banks Recovered through lok Adalats

(Amountin Billion)

Year	No of cases referred	Amount involved	Amount recovered	% of Amount recovered
2013	840691	66	4	6.1
2014	1636957	232	14	6

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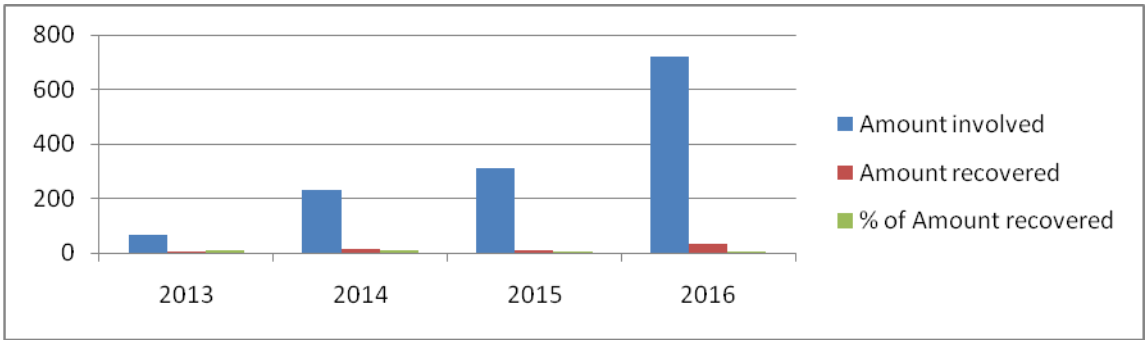
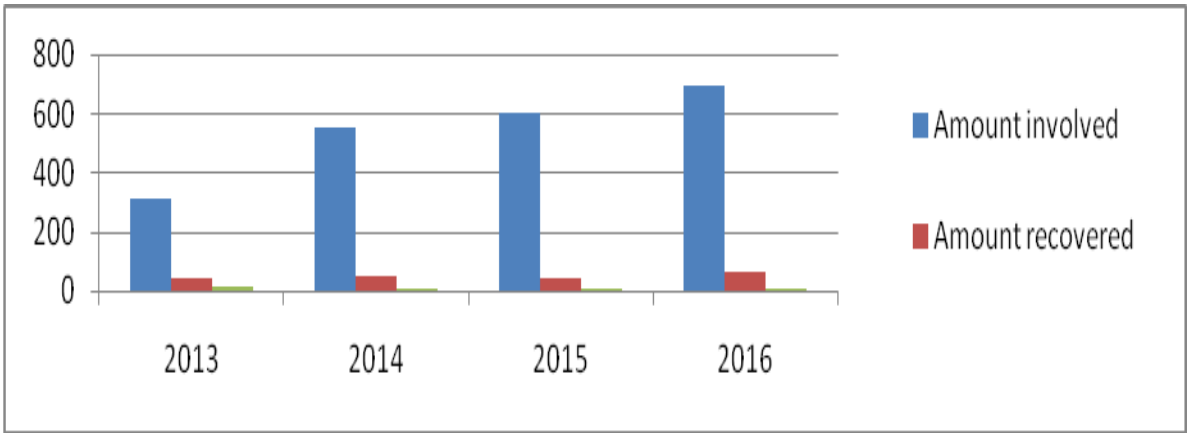
2015	2958313	310	10	3.2
2016	4456634	720	32	4.4



From the above table it is clear that the performance of Lok Adalats has been decreased from 6.1% to 4.4 that are from the year 2013-2016.

PAs of Scheduled Commercial Banks Recovered through DRTs (Amount in Billion)

Year	No of cases referred	Amount involved	Amount recovered	% of Amount recovered
2013	13408	310	44	14.2
2014	28258	553	53	9.6
2015	22004	604	42	7
2016	24537	693	64	9.2



The above table and figure indicates the performance of DRTs with respect to NPAs recovery. The total amount of NPAs increased year by year even though the no of cases referred decreased during the study period that is 2013-2016.

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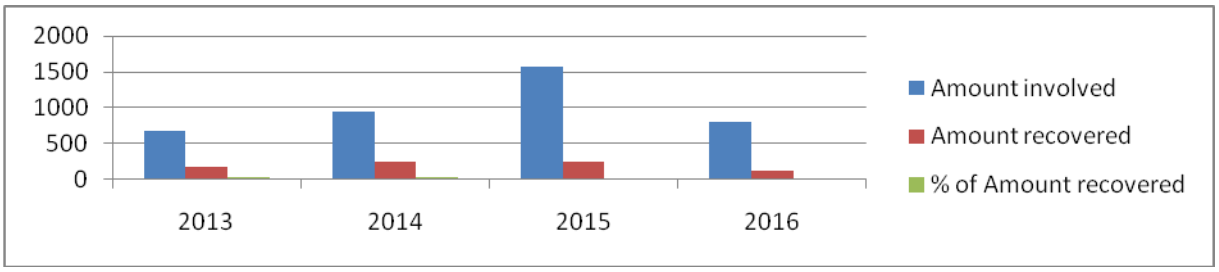
NPAs of Scheduled Commercial Banks Recovered through SARFAESI Act (Amount in Billion)

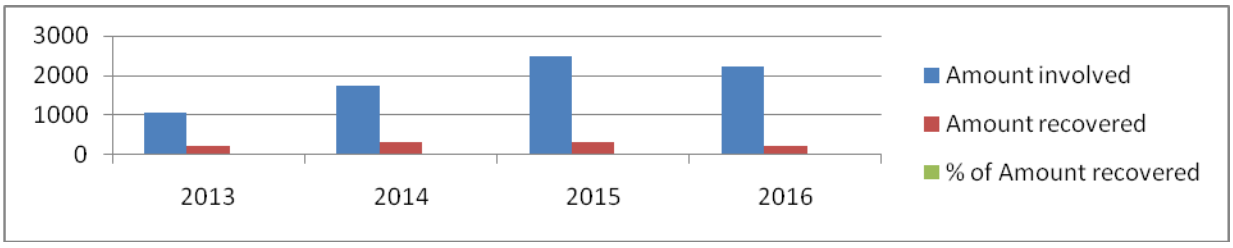
Year	No of cases referred	Amount involved	Amount recovered	% of Amount recovered
2013	190537	681	185	27.2
2014	194707	953	253	26.6
2015	175355	1568	256	16.3
2016	173582	801	132	16.5



From the table it can be understand that the role of SARFAESI in NPAs recovery. The performance of SARFAESI also keeps on decreasing which is not desirable for growth of banking system.

NPAs of Scheduled Commercial Banks Recovered through all channels (Amount in Billion)

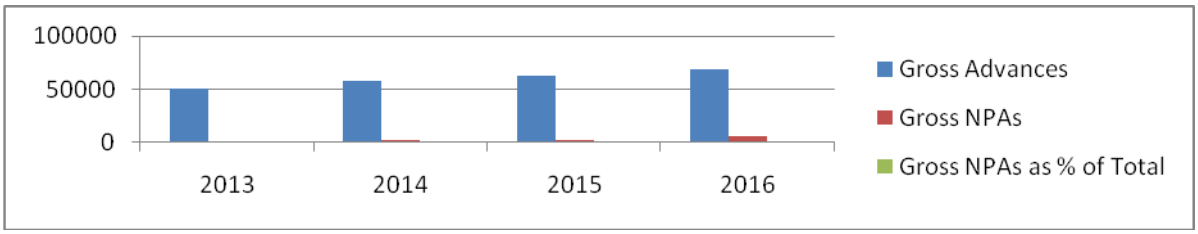
Year	No of cases referred	Amount involved	Amount recovered	% of Amount recovered
2013	1044636	1057	233	22
2014	1859922	1738	320	18.4
2015	3155672	2482	308	12.4
2016	4654743	2214	228	10.3



The above table & figure showed the performance debt recovery channels. No of cases and amount involved has increased but the percentage of amount recovery has decreased year on year during the study period which bad sign for health of the banking system.

Gross advances and Gross NPAs of Scheduled commercial banks (Amount in Billions)

Year	Gross Advances	Gross NPAs	Gross NPAs as % of Total
2013	51025	1759	3.45
2014	58022	2395	4.13
2015	62826	2943	4.69
2016	68738	5504	8.01



The above table explains that though the gross advances and gross NPAs of Scheduled commercial banks increased, the percentage of gross NPAs to total gross advances increased which means the performance of banks is not satisfactory.

IX. CONCLUSION

Banking industry plays a vital role for the development of Indian economy. But the banking industry has been in the severe problem of high NPAs. As the Government of India and Reserve bank of India have been taking several measures in order to bringing down the NPAs of banks, the implementation of measures is not up to the mark. Apart from Government of India and RBI, the banks also have to take appropriate measures to reduce the problem of risen NPAs.

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