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A Research on the Effectiveness of Debt Collection Streams in the Management of NPAS in India's Scheduled Commercial Banks

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ABSTRACT

The Indian banking sector has been witnessing rising NPAs over the last few years. While research has concentrated on identifying causes, whether environmental or systemic, the Reserve Bank of India has been developing various strategies to turn stressed bank assets into productive assets. As a result, during the last several years, the Indian banking industry has witnessed a flurry of policies aimed at combating the NPA problem. The recovery rate of problematic assets by banks has slowed at a time when bad loans are on the rise. During the fiscal year ending March 2016, the rate of recovery of non-performing assets was Rs 22800 crore out of a total of Rs 221400 crore, compared to Rs 30800 crore out of a total of Rs 248200 crore recorded 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 industry plays a critical part in a country's economic growth. Banks fulfil this function by lending credit to various deficit sectors in order to help them grow and prosper. Like other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it posses. Asset quality was not a key concern for the Indian banking sector until 1991, when the focus was on meeting performance goals such as expanding the network of bank branches, prioritising certain sectors for lending, and creating jobs. Following the recommendations of the Narasimham Committee in 1991, it was discovered that Indian commercial banks were burdened with a huge number of nonperforming assets (NPAs), causing them to become financially fragile. The concept of NPAs emerged as a contemporary issue when Reserve Bank of India implemented the prudential norms in 1992-93. Related to the commencement of these regulations, an asset was considered non-performing if the instalment or interest on the principal remained unpaid for more than 180 days; however, prudential regulations reduced the 180-day period for declaring an asset non-performing to 90 days as of March 31, 2004. The RBI created multiple recovery routes, including Debt Recovery Tribunals (DRTs), Lok Adalats, and the Securitization of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, to speed up the recovery of NPAs. In August of 2015, the Indian government announced "Indradhanush," a seven-pronged strategy to restructure the operation of public sector banks and relieve them of the load of mounting nonperforming assets. 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

The properties of a bank might be categorised as 'non performing' when they stop generating regular revenue and there is a risk of default or delay in principle payments. When it comes to lending, banks are constantly at danger 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

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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 that have been determined as having a loss by the bank or an external auditor/RBI team but have not yet been completely written off. These assets are regarded as non-collectible.

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 usually expressed as a percentage of net advances.
The ideal value of net NPA is zero, however for practical purposes, one percent is used as a benchmark. Thus, net NPA levels less than one percent may be regarded good, whereas values more than one percent suggest a need for improvement through NPA reduction.

IV. REVIEW OF LITERATURE

Rajeshwari Krishnan (2002) focused on the issue of non-performing assets (NPAs) growing out of control in banks and financial institutions across the country, posing a danger to the financial industry.
She discovered that securitization may be utilised to liquidate illiquid and long-term assets such as financial institution or bank loan receivables by issuing marketable securities against them. She stated that the SARFAESI Act is a significant step forward not only in terms of NPA management, but also in terms of encouraging the Indian securitization market. The act may need to be fine-tuned to include 'natural justice.'
G.Chandrashakar Rao (2003) investigated the current and most pressing issue confronting the banking system: the massive pile-up of nonperforming assets that the banks have been encumbered with. As a result, many weak bank managements and employee unions have survived. He observed that the primary causes for the banking units becoming weak, resulting in rising NPAs, are promoters' diversification of capital and the slow judicial system and inadequate laws for recovery. The reasons given for the rise in NPAs in the primary sector include directed and preapproved loans sanctioned by sponsored programming, the lack of any collateral, and a lack of efficient follow-up, among others. As a result, it is not ideal to anticipate on the one hand, they must function as promoters of economic development on the other hand, this necessitates the adoption of an effective risk return approach by banks. The bulk of defaulters are discovered to be wilful defaulters, necessitating the filing of criminal charges against corporate defaulters in order to reclaim this national treasure. The government must guarantee that sufficient legal foundations are in place for contract enforcement and bank debt collection.
Datta Chaudhuri (2005) Examined the "Resolution Strategies for Maximizing Value of Non-performing Assets (NAPs)". According to the article, deteriorating capital adequacy has a negative impact on shareholder value and limits a bank's or institution's capacity to access the capital market for more equity to improve capital adequacy. As a result, if a resolution plan for recovering dues from NPAs is not put in place swiftly and efficiently, the value of these assets will decline over time, and little value will be realised in the end, unless it is scrap value. The goal of this study is to outline the numerous factors to consider before deciding on a resolution

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approach and to present a State-Resolution-Mapping (SRM) architecture. However, the report does not go into detail regarding the numerous resolution mechanisms that may be used to recover from NPAs, or which sort of strategy should be used in which circumstances.

Meenakashi Rajeev, H P Mahesh (2010) researched banking industry reforms and nonperforming assets (NPAs) in Indian commercial banks to study the patterns of NPAs in India from many perspectives and to explain how early detection and self-monitoring have been able to significantly reduce them. The research looked at several areas of NPAs, such as NPAs in India compared to other countries, NPAs in India banks by sector, and NPA recovery through various routes. NPAs were discovered to be a contributing component in the economy's crisis and the main cause of the recent global financial crisis. Due to banks' socioeconomic aims, NPAs in the priority sector are still greater than those in the non-priority sector.

Kamalpreet Kaur and Balraj Singh (2011) Recall that non-performing assets are a big source of worry for Indian banks. NPAs are a reflection of a bank's performance. A significant concentration of nonaccrual loans (NPAs) implies a high risk of a large number of loan defaults, which has an impact on bank profitability and net worth while also degrading asset value. The increase in nonperforming assets necessitates the use of provisions, which affects total earnings and shareholder value. The issue of Non-performing Assets has been discussed at length for financial system all over the India. In truth, the high level of nonperforming assets (NPAs) in Indian banks is only a reflection of the industry's and trade's state of health. To improve the efficiency and profitability, the NPAs have to be scheduled. The government has taken a number of efforts to minimise nonperforming assets (NPAs). It's nearly difficult to have no nonperforming assets (NPAs). The problem of Non-Performing Assets (NPAs) losses and poorer profitability, as well as liability mismatch, in banks and the financial industry, is dependent on how various risks are managed in their businesses. In the study, an attempt is made to define NPAs. The factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operation. Aside from the capital of risk weighted assets ratio of public and private sector banks, credit risk management and strategies to combat the threat of nonperforming assets (NPAs) are also mentioned.

Rekha Gupta and Nitin S. Sikarwar (2013) To reduce the amount of nonperforming assets (NPAs), the government and banks have used a number of methods in the past and are doing so now. Since of the critical significance of non-performing assets on profitability, Punjab National Bank and HDFC Bank were chosen for this study because they are both big banks in the public and private sectors, allowing for a comparative analysis. 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) examine the rise of selected nonperforming assets (NPAs) and relate it to banking performance metrics. To determine the relative efficiency of different bank groups in India, the authors used the growth rate calculated using the exponential growth equation. Because the variables in this study had non-linear motions, the estimation utilising EG value is more accurate. Variables that affect bank NPA are evaluated, and inferences are drawn based on their growth rate. The goal of the study was to determine the relative effectiveness of different bank groups in managing their nonperforming assets. The findings highlighted public sector banks' relative efficiency, which is, of course, a fundamental factor for Indian banking's resilience in the face of financial crises.

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.

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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 processes are structured by laws, rules, and regulations enacted at various times in time, while others are non-statutory in character. Around the world, two major methods to restructuring are observed:

1) The centralized strategy
2) The decentralized strategy

The government plays a stronger role in the centralized method, often through forming asset recovery/reconstruction organizations to dispose of the assets of non-viable businesses.

The decentralized approach, on the other hand, expects banks to deal with high debt difficulties on a one-to-one basis with businesses.

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 The Disease in Industrial Enterprises Act of 1985 (SICA) was enacted with the goal of identifying sickness in industrial companies, offering support to viable organisations, and shutting 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 of 2002 (SARFAESI Act of 2002) was enacted to provide bankers and financial institutions more authority over secured corporate debt settlement. It allowed for the seizure, sale, or management of defaulters' secured assets, as well as the sale of assets to asset reconstruction businesses. It was supposed to give the rehabilitation process that banks might use more heft. 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. DRTs also enforce the terms of the SARFAESI Act 2002, which was enacted in 2002.

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'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 strives to resolve individual and corporate insolvency in a timely way in order to optimize asset value and balance the interests of various parties.
While the official legal system provided many avenues for debt recovery, informally, individual one-on-one bargaining was the sole option. There was no system in place to deal with consortium-based debt restructuring. The Reserve Bank of India initiated the establishment of Corporate Debt Restructuring (CDR) system in India in 2001. The CDR method is a voluntary, non-statutory scheme that covers numerous bank accounts/ consortia accounts of big borrowers' loans with outstanding aggregate exposure of more than 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

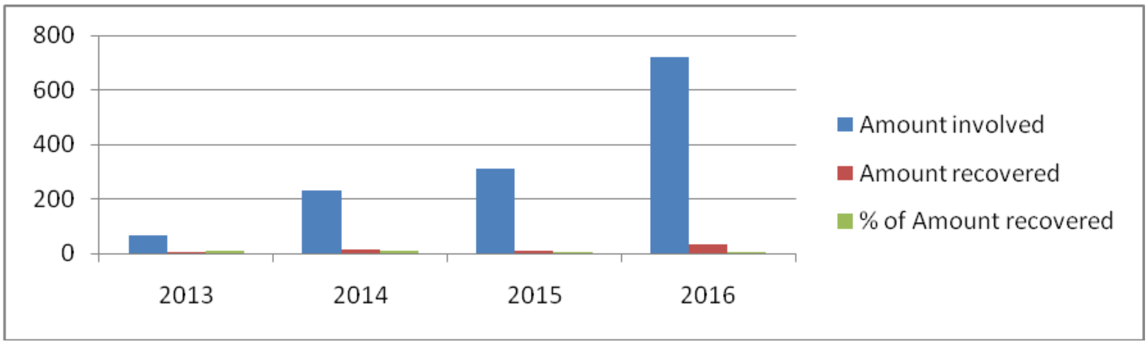
A) Rectification
B) Restructuring
C) Recovery.

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 the JLF determines that the SDR is feasible after such an evaluation, the SDR may be invoked. The process entails turning loan payments into equity shares. Following the debt conversion to equity, all lenders in the Joint Lenders' Forum must collectively own 51 percent or more of the company's share capital. 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. When an impartial technoeconomic viability analysis conducted by the JLF/banker collaboration establishes that the principal can be serviced over the same tenor as the existing facilities, even if future cash flows stay constant, the debt level is considered sustainable. 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

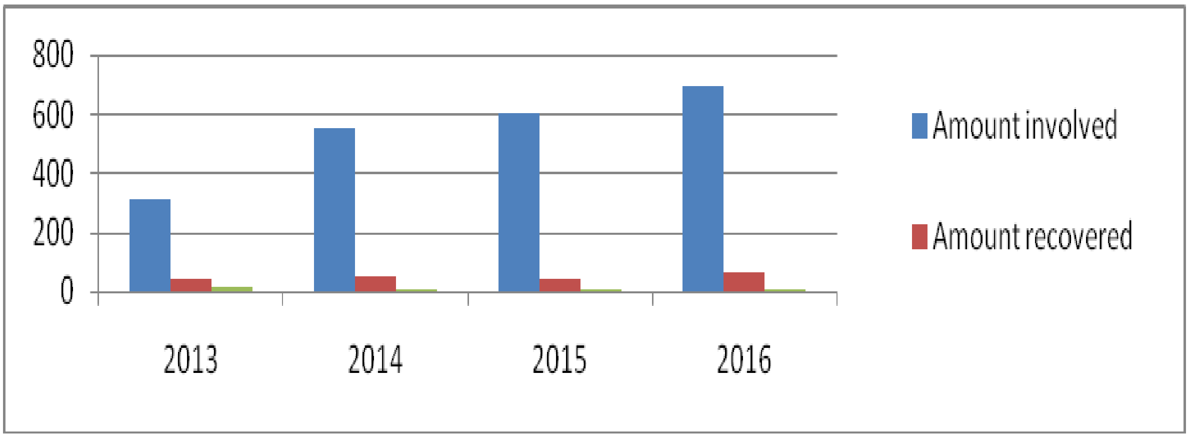
2015	2958313	310	10	3.2
2016	4456634	720	32	4.4



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. During the research period of 2013-2016, the overall number of NPAs climbed year after year, despite the fact that the number of cases referred reduced.

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

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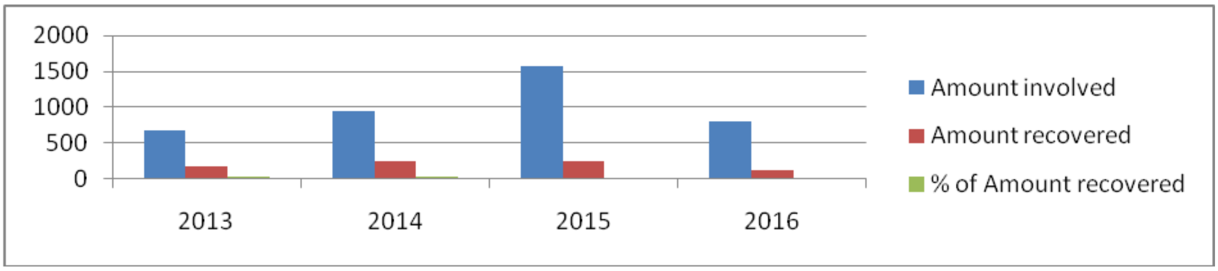
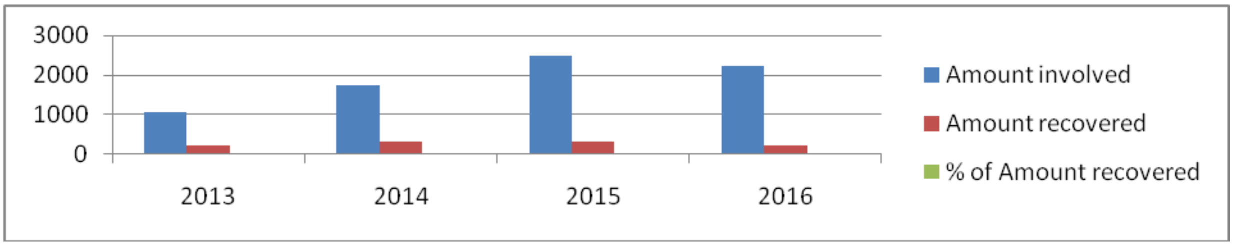


From the table it can be understand that the role of SARFAESI in NPAs recovery. The performance of SARFAESI also keeps on decreasing which is not desirable for growth of banking system.

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

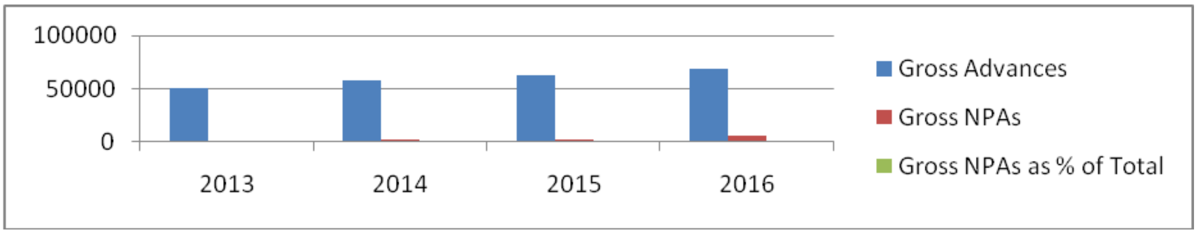
Year	No of cases referred	Amount involved	Amount recovered	% of Amount recovered
2013	1044636	1057	233	22
2014	1859922	1738	320	18.4
2015	3155672	2482	308	12.4
2016	4654743	2214	228	10.3



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

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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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