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Non-Performing Assets (PSU Banks) are the biggest threat to the Indian Economy

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ABSTRACT

After the RBI conducted an Asset Quality Review, which was completed in March 2016, the NPAs of the banks increased much higher. It was 9.1% of total loans by September 2016, double their year ago level. Equally striking was the concentration of these bad loans. More than 80% of the NPAs were in the public-sector banks, where the NPA ratio had reached almost 12%. Meanwhile, on the corporate side around 40% of the corporate debt was owed by companies which had an interest coverage ratio less than 1 (it means that these companies did not earn enough to pay even the interest on their loans). The issue of NPAs have been discussed at length for financial system all over the world. The problem of NPAs are not only affecting Banks but also the whole economy. Infact, high level of NPAs in Indian banks in nothing but a reflection of the state of health of the industry and trade.

INTRODUCTION

According to RBI, an asset becomes non-performing when it ceases to generate income for bank. In other words, an asset should be treated as N.P.A. if interest or instalment of principal remains overdue and unpaid for a period of more than 90 days. Non-Performing Assets generally known as NPAs are the bad loans of the banks. The criteria to identify such Assets have been changing over the time. In order to follow international best practices and to the current policy in 2004. Under it, a loan is considered NPA if it has not been serviced for one term i.e. 90 days. This is known as 90 days overdue norm. For agriculture loans the period is tied with the period of the concerned crops-ranging from two crop seasons to one- year overdue norm.

Economic Survey 2017

Banks performance, particularly the PSU Banks, continued to be subdued-asset quality deteriorating further. The Gross NPAs to total advances ratio of scheduled commercial banks increased to 9.1% from 7.8% between march and September 2016. Profit After Tax(PAT) contracted year on year basis in the first half of 2016-17 due to higher growth in risk provisions, loan write-off and decline in net interest income.

NPAs are classified into different types:

1. **Sub-standard:** remaining NPAs for less than or equal to 18 months;
2. **Doubtful**: remaining NPAs for more than 18 months; and
3. **Loss Assets**: where the loss has been identified by the bank or the RBI inspection, but the amount has not been written-off.

Classification of Assets	Rate of Provision
1. Standard Assets	@0.40%
2. Sub-standard Assets	@20%
3. Doubtful Assets: - i. For the unsecured portion of the advance (i.e. the portion of advance which is not covered by security). ii. For the secured portion of the advance:	@100%

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a) If they are considered doubtful upto one year b) If they are considered doubtful for one year to three years c) If they are considered doubtful for more than three years.	@20% @30% @100%
4. Loss Assets	@100%

The **main reasons** for unprecedented increase in the NPAs of the banks have been as given below (as per various volumes of the economic survey including that of 2016-17):

I. Current macro-economic situation in the country;
II. Switchover to system-based identification of NPAs;
III. Lower economic growth;
IV. Increased interest rates in the recent past;
V. Aggressive lending by banks in the past, especially during good times;
VI. Poor credit Appraisal;
VII. Lack of Motivation;
VIII. Wrong selection of borrower;
IX. Too Ambitious project;
X. Poor credit collection;
XI. Lack of infrastructure;
XII. Sluggish legal system;
XIII. Poor Quality Management;
XIV. Lack of trained staff;
XV. Miss Management etc.

Gross NPAs Sector-wise as on March 2001

Borrowing Segment-wise Distribution of NPAs	Amount in Crores	% of NPAs
Large industries	11,498.70	20.99
Small Scale Industries	10,284.98	18.78
Other non-priority sector	9,516.62	17.37
Medium Industries	8,658.69	15.81
Agriculture	7,311.40	13.34
Other priority sector	6,169.30	11.72
PSUs	1,334.05	02.04

(Source: RBI website)

The RBI came out with the new guidelines to resolve the NPA issues by early 2014. The steps taken under it are:

i. Banks should start acting as soon as a sign of stress is noticed in a borrower's actions and not wait for it to become an NPA. Banks to carve out as a special category of assets termed special mention accounts in which early sign of stress are visible.
ii. Independent evaluation of large-value restructuring (above Rs. 500 Crore) made mandatory.
iii. Flexibility brought in project loans to infrastructure and core industry projects both existing and new.
iv. Non-cooperative borrowers in NPAs resolution will have to pay higher interest for any future borrowing. Banks will also be required to make higher provisions for further loans extended to borrowers who are considered to be non-cooperative.
v. Incentives to banks to quickly and collectively agree to resolution plan.
vi. The Apex Bank has set up a central repository of information on large credits to collect, store and disseminate credit data to lenders. For this, banks need to furnish credit information on all their borrowers with an exposure of Rs. 5 crores and above.
vii. Towards strengthening recovery from non-cooperative borrowers, the norms for asset reconstruction companies or ARC have been tightened, where by the minimum investment in security receipts should be 15%, as against the earlier norm of 5%.

viii. If a borrower's interest or principal payments are overdue by more than 60 days, a Joint Lender' Forum to be formed by the lenders for early resolution of stress.

5 PSUs Bank Post loss worth over Rs. 6,700 Crore

Banks	Losses	Gross NPAs
Bank of Baroda	3,230	9.99
UCO Bank	1,715	15.43
Central Bank	898	11.95
Allahabad Bank	581	9.76
Dena Bank	326	9.9

Indicating that worst is not yet over for the banking sectors, five public sector banks viz. Bank of Baroda, Central Bank of India, Dena Bank, UCO Bank and Allahabad Bank have plunged deep into the red with Rs. 6,750 Crore losses on the back of ballooning non-performing assets and provisions.

India's second largest public lender Bank of Baroda had reported a net loss of Rs. 3,342.04 for Q_3 in the wake of huge provisions. with this, the full year standalone loss for the Bank is Rs. 5,395 Crores, the largest annual loss for an Indian Banking history.

Non-Performing Assets Analysis

	Gross NPAs	Gross NPA (%)	Net NPAs (%)	Provisions Coverage
		Public Lenders		
SBI	1,58,750	14.0%	6.0%	56.9%
BoB	41,860	15.3%	6.8%	55.8%
Corp Bank	4,847	5.6%	2.0%	64.7%
		Private Lenders		
ICICI Bank	4,210	6.0%	2.2%	63.4%
HDFC Bank	1,468	3.2%	0.4%	85.9%
Axis Bank	2,258	4.7%	3.8%	19.7%

Above table shows India's PSU Banks NPAs just triple as compare to India's Private Banks. Although Indian banking sector dominated by public-sector banks and Public Lenders assets quality not bad compare to private lenders only PSU banks should work on their management and process to granting loans.

Resolution of the Non-Performing Assets or NPAs by the Government of India

India's Apex Bank tried to check the NPAs from rising by announcing new guidelines for the banks and it has also taken several steps to 'resolve' the problem. By February 2017, the RBI has implemented many schemes to facilitate resolution of the NPAs problem of the banks-briefly discussed below:

- ✓ **5/25 Refinancing:**

This scheme offered a larger window for revival of stressed assets in the infrastructure sectors and 8 core industries. Under this scheme lenders were allowed to extend the tenure of loans to 25 years with interest rates adjusted every 5 years, so tenure of the loans matches the long gestation period in the sectors. The scheme thus aimed to improve the credit profile and liquidity position of borrowers, while allowing banks to treat these loans as standard in their balance sheets, reducing provisioning costs against NPAs.

- ✓ **Strategic Debt Restructuring(SDR):**

In June 2015, RBI came up with the SDR scheme provide an opportunity to banks to convert debt of companies (whose stressed assets were restructured but which could not finally fulfil the conditions attached to such restructuring) to 51 per cent equity and sell them to the highest bidders-ownership change takes place in it. By end December 2016, only 2 such sales had materialized, in part because many firms remained financially unviable, since only a small portion of their debt had been converted to equity.

✓ **Asset Reconstruction Companies(ARCs):**

ARCs were introduced to India under the Securitization And Reconstruction of Financial Assets and Enforcement of Security Interest(SARFAESI) Act, 2002, as specialist to resolve the burden of NPAs. But the ARCs finding it difficult to resolve the NPAs they purchased, are today only willing to purchase such loans at low prices. As result, banks have been unwilling to sell them loans on a large scale. Since 2014 the fee structure of the ARCs was modified (requiring ARCs to pay greater proportion of the purchase price up-front in cash to the banks) purchases of NPAs by them have slowed down further-only about 5 per cent of total NPAs were sold during 2014-15 and 2015-16.

✓ **Asset Quality Review(AQR):**

Resolution of the problem of bad assets requires sound recognition of such assets. Therefore, the RBI emphasized AQR, to verify that banks were assessing loans in line with RBI loan classification rules. Any deviation from such rules were to be rectified by March 2016.

✓ **Scheme for Sustainable Structuring of Stressed Assets(S4A):**

Introduced in June 2016, in it, an independent agency is hired by the banks which decides as how much of the stressed debt of a company is sustainable. The rest unsustainable is converted into equity and preference shares. Unlike the SDR arrangement, this involves no change in the ownership of the company.

CONCLUSION

It’s no news that public-sector banks are in trouble while rising non-performing assets are a cause of wrong for the entire banking sector, it is more so in case of public sector banks than private banks. Poor credit appraisal, over leveraging and the practice of giving from loans to pay off the old ones and leaving the mess for the successor are some of the practices that are prevalent in the public banking system. Over the last decade the share of public-sector banks in banking loans has risen only marginally. However, this share in gross NPAs has gone up at an alarming rate. In contrast, the private lenders have more than doubled their share in loans while their contribution to gross NPAs has grown at a lesser rate. The actual situation for public lenders could be much worse because of the practice of loan write off.

Many NPAs rating don’t even include having debts of some highly indebted corporate groups. In a lot of cases, the tool of restructuring is being misused to manipulate the NPAs. Despite operating in the same economy, the poor performance of state-owned banks versus private banks enjoy better valuations over their public peers. It is time that banks and policy makers give a serious thought to bringing some positive changes in the way public sector banks operate. This is because no economy can be strong unless it enjoys the support of a strong and healthy banking system.

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