
NON-PERFORMING ASSETS (NPAs)-HOW TO CONVERT INTO PERFORMING ASSETS AND SUPPORT THE ECONOMIC GROWTH

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ABSTRACT

The concept of Non Performing Assets was first introduced by the Narsimham Committee (1991) on “Financial Sector Reforms”. Public Sector Banks (PSBs) have always faced the problem of rising NPAs year after year. The deterioration of NPAs is primarily driven by the public sector banks. Many reasons are attributed to the heavy debt piling of PSBs such as, improper evaluation at the appraisal stage of borrower screening, irregular monitoring of loans, deficiencies in the recovery mechanism, etc. Creditors had weak rights and hence the recovery rate was very low.

The problem of NPAs has been a hindrance in the economic development of the country. For measuring the effects of NPAs, we have to assess the performance of banking sector with respect to the factors of economic development.

This research article studies the phenomenal deterioration of stressed asset quality, raising potential losses for not making enough provisions to combat the NPAs in the Indian Banking sector. The article observes that over the period of time, NPAs and bad loans have been adding in a spiralling manner in Indian Banks. Despite the treatment of stressed assets and prompt corrective actions as per asset quality report by regulators, the results are appearing at a very slow pace. They are of the opinion that strength and sustainability of the credit growth is the need for robust banking in the times to come.

Key words: India, PPP, ADF, PP, KPSS, Melitz Model, Unit Root, VECM, Regression, Johansen test, CUSUM, CUSUMQ, Exchange Rate, Inflation Rate, Interest Rate

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1. INTRODUCTION

Economy may be defined as aggregation of economic activities in terms of the production and consumption of goods and services and supply of money. For development of any economy,

economic activities should remain ongoing and undisrupted. For any developing countries such as India, to support economic activity for economic development, Government has to facilitate credit facilities. Proper system of credit facilities boosts production which results in economic growth. To build up such credit environment, banking sector plays a vital role. Banking Sector gets deposits from public or stakeholders and provide loans and advances back to the public or industry. Through this cycle, it is a win-win situation for both, industry who takes loan for their capital requirement and the banking sector who generate income from such transactions, both of them contribute in the development of economy. If any of them fails to perform their determined roles and disturb the cycle, then it will have a negative impact on economic development of the country. Therefore, in order to carry on the smooth functioning of the economy, banks should have sufficient funds to lend the money to the industry; and borrowers should repay on timely basis.

Banks get impacted when the credits provided by banks are not returned or stucked due to non-payment of debts and its interest, which is technically termed as non-performing assets. Due to which there is a limitation of available funds for investors as well as there will be a loss of assets for the banks which will have negative impact on the economy. Banking sector faces all time, the fear of NPAs on part of borrowers.

According to the Reserve Bank of India (RBI)[1], NPA is defined as a credit facility in respect of which the interest and/or instalment of principal is “past due” for a period of 90 days. Generally, if the loan payments have not been made for a period of 90 days, the asset is classified as non-performing asset. On the basis of how long the asset has been non-performing, banks are required to sort the non-performing assets in one of the following categories:

- sub-standard asset: If an asset has been non-performing for less than 12 months;
- doubtful asset: If an asset has been non-performing for more than 12 months; and
- loss assets: Assets where losses have been identified by the bank, auditor or inspector and have not been fully written off.

The level of non-performing assets (NPAs) best indicates the soundness of the banking sector of a country. The issue of Non-Performing Assets in the Indian banking sector has become the subject of much discussion and scrutiny. The Indian banking sector has been facing a very serious problem for a very long period because of rising non-performing assets. The banking sector is a keys pillar of any financial system. The smooth functioning of the banking sector ensures the healthy condition of an entire economy.

The purpose of this Research Article is to find out the causes of NPAs, measures taken and to be taken for reducing NPAs and for increasing performing assets to support the economy.

2. A REVIEW OF NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR

The Non-Performing Assets (loans overdue for >90 days) ratio for all commercial banks declined in FY19 after rising for seven consecutive years. However, in the first half of FY20, stressed assets (potential NPAs) inched up. Moreover, the NPA ratio of Indian banks is the poorest among emerging economies.

The share of Gross Non-Performing Assets (GNPAs) among total loans declined to 9.1% in FY19 after having risen for seven consecutive years. The slippage ratio (indicating fresh accretion of NPAs in a year) also declined.

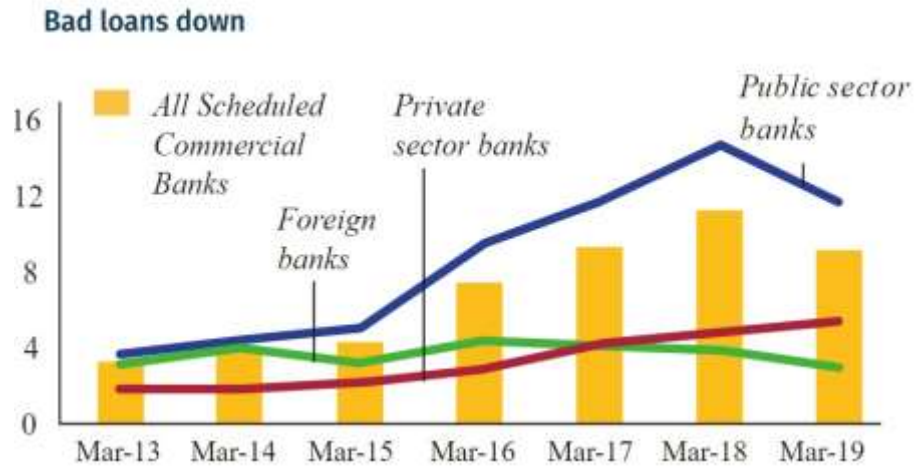


Figure 1 Graph depicts GNPA Ratio

Source: The Hindu

India’s Non-Performing loans ratio (%) is the worst among emerging economies. Table lists the ratio between 2011 and 2019. In recent years, the ratio improved for Brazil while it deteriorated in Russia, South Africa and Turkey. India’s NPA ratio saw a surge in 2016 after the RBI carried out an expansive Asset Quality Review in the year before. The review resulted in identification of many large loan accounts which had gone bad resulting in a huge jump in NPAs in India.

Table 1 Worst among emerging economies

| Worst among emerging economies | | | | | | | | | | |
|--------------------------------|-------|-----|-----|-----|-----|-----|-----|------|--------|--------|
| | 20 11 | '12 | '13 | '14 | '15 | '16 | '17 | '18 | '19:Q1 | '19:Q2 |
| Brazil | 3.5 | 3.4 | 2.9 | 2.9 | 3.3 | 3.9 | 3.6 | 3.1 | 3.1 | 3.1 |
| China | 1 | 1 | 1 | 1.2 | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | 1.8 |
| India | 2.7 | 3.4 | 4 | 4.3 | 5.9 | 9.2 | 10 | 9.5 | 8.9 | 9.2 |
| Indonesia | 2.1 | 1.8 | 1.7 | 2.1 | 2.4 | 2.9 | 2.6 | 2.3 | 2.4 | 2.4 |
| Malaysia | 2.7 | 2 | 1.8 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.6 |
| Mexico | 2.1 | 2.4 | 3.2 | 3 | 2.5 | 2.1 | 2.1 | 2.1 | 2 | 2.1 |
| Philippines | 2.6 | 2.2 | 2.4 | 2 | 1.9 | 1.7 | 1.6 | 1.7 | 2 | 2 |
| Russia | 6.6 | 6 | 6 | 6.7 | 8.3 | 9.4 | 10 | 10.1 | - | - |
| South Africa | 4.7 | 4 | 3.6 | 3.2 | 3.1 | 2.9 | 2.8 | 3.7 | 3.8 | 3.7 |
| Turkey | 2.6 | 2.7 | 2.6 | 2.7 | 3 | 3.1 | 2.8 | 3.7 | 3.8 | 4.1 |

Source: The Hindu Newspaper

2.1. Covid-19 Pandemic-Effect on NPAs

RBI regularly publishes the data on NPAs as a part of its Financial Stability Reports. Most recently in July, 2020, RBI in its latest Financial Stability Report[2] said bank NPAs may touch 22-year high in severe-stress scenario due to the impact of Covid-19 pandemic. It added to expect COVID-19 to create Rs 4-6.2 lakh crore fresh gross NPAs. The RBI warned that

the Gross Non-performing Assets (GNPA) ratio of all Scheduled Commercial Banks (SCBs) may increase from 8.5% in March 2020 to 12.5% by March 2021. The GNPA ratio may also worsen to as high as 14.7% by the end of the current financial year, if the adverse economic impact of the Covid-19 pandemic would be ‘very severe’.

According to RBI Report, at least 5% of the moratorium loans could turn into NPA if Covid-19 impact persists in the economy. In the wake of Covid-19, the RBI had announced a six months loan moratorium to all term loans. The moratorium was first given for March-May (2020) but was later extended to June-August (2020). The Covid-19 lockdown had a significant impact on all industrial activities in the economy resulting in major income loss. This has impacted their loan repayment ability. This may lead to Gross Domestic Product (GDP) contraction by 8.9% in 2020-21.

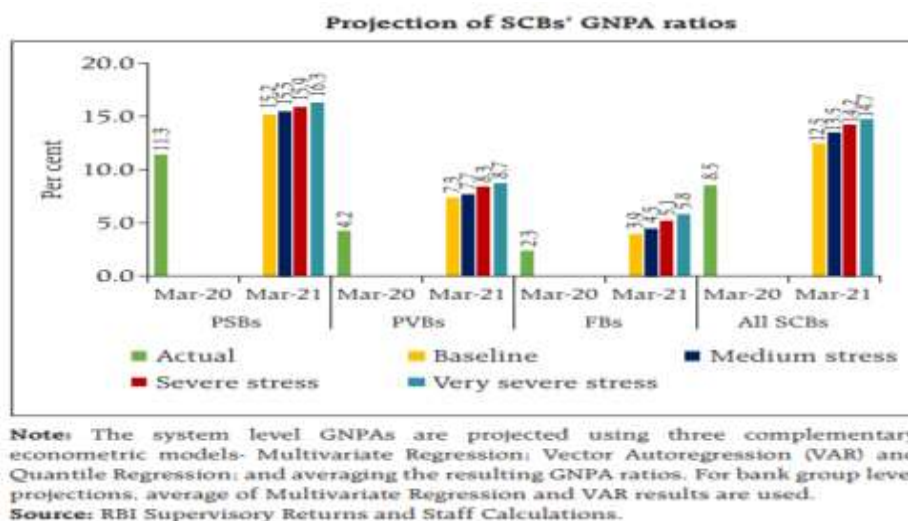


Figure 2 Projection of SCB's GNPA ratios

As we have evidenced from the above figures that the NPA was rising consecutive seven years except the year 2019, which may be due to the impact of IBC, 2016. The banks recovered ₹70,819 cr. worth stressed assets in FY19 under the Insolvency and Bankruptcy Code, compared to ₹4,926 cr. in FY18. This played a part in the GNPA's decline.

The same situation again became worst as per the recent RBI's Financial Feasibility Report. That report estimates the increase percentage of NPAs due to the impact of Covid-19 pandemic as the main factor. There is most probably a chance that estimated figure will become actual which can be approximately reached of the given data on the basis of the classifications of the deposits and advance in Special Mention Account-1 (Overdue more than 60 days), Special Mention Account-2 (Overdue more than 60 days to 90 days) that overdue period has greater chance of overdue of more than 90 days in next 6 months ended 31st March, 2021 and become NPA for the year. Here is a chance mainly because of lack of economic activities due to Covid-19 pandemic.

While GNPA's are down, stress in large borrowal accounts (exposure of >₹5 cr.) rose in the first half of FY20. Special Mention Accounts-1 (loans overdue between 30 and 60 days) & Special Mention Accounts-2 (loans overdue between 60 and 90 days) rose in H1FY20. Simply put, SMA accounts are red flags which, if not addressed, can become NPAs in the next cycle.

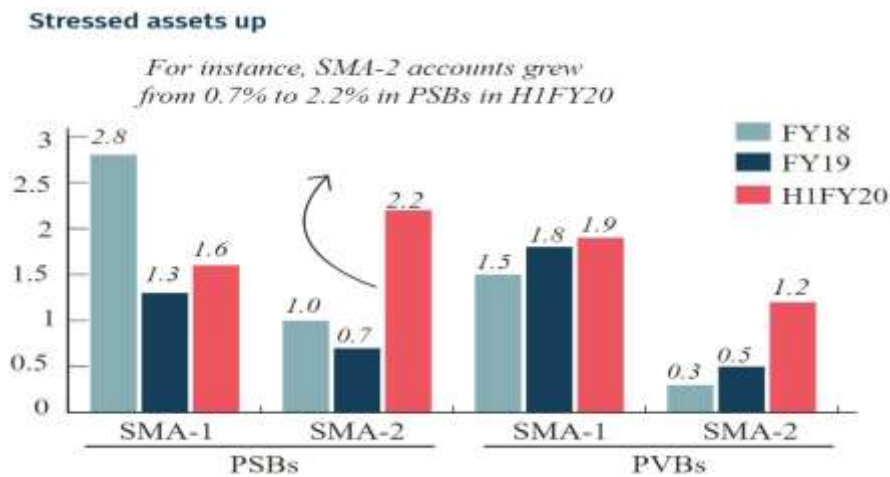


Figure 3 Stressed Assets Up

Source: The Hindu Newspaper

Through this above discussion we can say NPA is a problem since so many years and will also remain the problem until economy can get back to the normal after covid and until the results of measures taken to reduce defaulters in banking system get actualise. To control the NPA situation we have to first identify the actual reasons whether it would be administrative reasons or legal lapses or economic factors or misc. factors. These reasons are explained categorically in the below paragraph.

3. REASONS FOR THE RISE IN NPA LEVELS

Some of the factors leading to the increased occurrence of NPAs are external, such as decreases in global commodity prices leading to slower exports. Some are more intrinsic to the Indian banking sector.

A lot of the loans currently classified as NPAs originated in the mid-2000s, at a time when the economy was booming and business outlook was very positive. Large corporations were granted loans for projects based on extrapolation of their recent growth and performance. With loans being available more easily than before, corporations grew highly leveraged, implying that most financing was through external borrowings rather than internal promoter equity. From 2000-2008, the Indian economy was in a boom phase and banks, especially public sector banks, started lending extensively to companies. As economic growth stagnated following the global financial crisis of 2008, the repayment capability of these corporations decreased. This contributed to what is now known as India's Twin Balance Sheet problem, where both the banking sector (that gives loans) and the corporate sector (that takes and has to repay these loans) have come under financial stress.

When the project for which the loan was taken started underperforming, borrowers lost their capability of paying back the bank. The banks at this time took to the practice of 'evergreening', where fresh loans were given to some promoters to enable them to pay off their interest. This effectively pushed the recognition of these loans as non-performing to a later date, but did not address the root causes of their unprofitability.

Another reason is the relaxed lending norms adopted by banks, especially to the big corporate houses, foregoing analysis of their financials and credit ratings.

Further, recently there have also been frauds of high magnitude that have contributed to rising NPAs. Although the size of frauds relative to the total volume of NPAs is relatively small, these frauds have been increasing, and there have been no instances of high profile fraudsters being penalised.

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The reasons for NPAs may also be categorically summarised as below:

Table 2

| | |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Administrative reasons | <ul style="list-style-type: none"> • Lapses due to diligence. • Unplanned expansion of corporate houses during the boom period and loan taken at low rates later being serviced at high rates, therefore, resulting in NPAs. • Due to mal-administration by the corporates, for example, willful defaulters. • Due to mis-governance and policy paralysis which hampers the timeline and speed of projects, therefore, loans become NPAs. For example the Infrastructure Sector. • Lack of morale, particularly after government schemes which had written off loans. • A bad lending practice which is a non-transparent way of giving loans. |
| Legal lapses | Overlapping of laws |
| Economic factors | <ul style="list-style-type: none"> • Business losses due to changes in business/regulatory environment. • Global, regional or national financial crisis which results in erosion of margins and profits of companies, therefore, stressing their balance sheet which finally results into non-servicing of interest and loan payments. (For example, the 2008 global financial crisis). • The general slowdown of entire economy for example after 2011 there was a slowdown in the Indian economy which resulted in the faster growth of NPAs. • Severe competition in any particular market segment. For example the Telecom sector in India. • The slowdown in a specific industrial segment, therefore, companies in that area bear the heat and some become NPAs. |
| Misc. factors | <ul style="list-style-type: none"> • Delay in land acquisition due to social, political, cultural and environmental reasons. • Due to natural reasons such as floods, droughts, disease outbreak, earthquakes, tsunami, pandemic like Covid-19 etc. |

4. STEPS TAKEN BY THE GOVERNMENT OF INDIA SO FAR TO TACKLE NPAS

There have been several steps taken by the Government of India on legal, financial, policy level reforms. In the year 1991, Narsimham committee recommended many reforms to tackle NPAs. Some of them were implemented:

4.1. The Debt Recovery Tribunals (DRTs) – 1993

To decrease the time required for settling cases. They are governed by the provisions of the Recovery of Debt Due to Banks and Financial Institutions Act, 1993. However, their number is not sufficient therefore they also suffer from time lag and cases are pending for more than 2-3 years in many areas.

4.2. Credit Information Bureau – 2000

A good information system is required to prevent loan falling into bad hands and therefore prevention of NPAs. It helps banks by maintaining and sharing data of individual defaulters and wilful defaulters.

4.3. Lok Adalats – 2001

They are helpful in tackling and recovery of small loans however they are limited up to 5 lakh rupees loans only by the RBI guidelines issued in 2001. They are positive in the sense that they avoid more cases into the legal system.

4.4. Compromise Settlement – 2001

It provides a simple mechanism for recovery of NPA for the advances below Rs. 10 Crores. It covers lawsuits with courts and DRTs (Debt Recovery Tribunals) however willful default and fraud cases are excluded.

4.5. SARFAESI Act – 2002

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 – The Act permits Banks / Financial Institutions to recover their NPAs without the involvement of the Court, through acquiring and disposing of the secured assets in NPA accounts with an outstanding amount of Rs. 1 lakh and above. The banks have to first issue a notice. Then, on the borrower's failure to repay, they can:

- Take ownership of security and/or
- Control over the management of the borrowing concern.
- Appoint a person to manage the concern.

Further, this act has been amended last year to make its enforcement faster.

4.6. ARC (Asset Reconstruction Companies)

The RBI gave license to 14 new ARCs recently after the amendment of the SARFAESI Act of 2002. These companies are created to unlock value from stressed loans. Before this law came, lenders could enforce their security interests only through courts, which was a time-consuming process.

4.7. Corporate Debt Restructuring – 2005

It is for reducing the burden of the debts on the company by decreasing the rates paid and increasing the time the company has to pay the obligation back.

4.8. 5:25 rule – 2014

Also known as, Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries. It was proposed to maintain the cash flow of such companies since the project timeline is long and they do not get the money back into their books for a long time, therefore, the requirement of loans at every 5-7 years and thus refinancing for long term projects.

4.9. Joint Lenders Forum – 2014

It was created by the inclusion of all PSBs whose loans have become stressed. It is present so as to avoid loan to the same individual or company from different banks. It is formulated to prevent the instances where one person takes a loan from one bank to give a loan of the other bank.

4.10. Mission Indradhanush – 2015

The Indradhanush framework for transforming the PSBs represents the most comprehensive reform effort undertaken since banking nationalization in the year 1970 to revamp the Public Sector Banks (PSBs) and improve their overall performance by ABCDEFG.



Figure 4

A-Appointments: Based upon global best practices and as per the guidelines in the companies act, separate post of Chairman and Managing Director and the CEO will get the designation of MD & CEO and there would be another person who would be appointed as non-Executive Chairman of PSBs.

B-Bank Board Bureau: The BBB will be a body of eminent professionals and officials, which will replace the Appointments Board for the appointment of Whole-time Directors as well as non-Executive Chairman of PSBs

C-Capitalization: As per finance ministry, the capital requirement of extra capital for the next four years up to FY 2019 is likely to be about Rs.1,80,000 crore out of which 70000 crores will be provided by the GOI and the rest PSBs will have to raise from the market.

D-Destressing: PSBs and strengthening risk control measures and NPAs disclosure.

E-Employment: GOI has said there will be no interference from Government and Banks are encouraged to take independent decisions keeping in mind the commercial the organizational interests.

F-Framework of Accountability: New KPI(key performance indicators) which would be linked with performance and also the consideration of ESOPs for top management PSBs.

G-Governance Reforms: For Example, Gyan Sangam, a conclave of PSBs and financial institutions. Bank Board Bureau for transparent and meritorious appointments in PSBs.

4.11. Strategic debt restructuring (SDR) – 2015

Under this scheme banks who have given loans to a corporate borrower gets the right to convert the complete or part of their loans into equity shares in the loan taken company. Its basic purpose is to ensure that more stake of promoters in reviving stressed accounts and providing banks with enhanced capabilities for initiating a change of ownership in appropriate cases.

4.12. Asset Quality Review – 2015

Classify stressed assets and provisioning for them so as to secure the future of the banks and further early identification of the assets and prevent them from becoming stressed by appropriate action.

4.13. Sustainable structuring of stressed assets (S4A) – 2016

It has been formulated as an optional framework for the resolution of largely stressed accounts. It involves the determination of sustainable debt level for a stressed borrower and bifurcation of the outstanding debt into sustainable debt and equity/quasi-equity instruments which are expected to provide upside to the lenders when the borrower turns around.

4.14. Insolvency and Bankruptcy code Act-2016

Insolvency and Bankruptcy Code has been formulated to tackle the Chakravayuha Challenge (Economic Survey) of the exit problem in India. The aim of this law is to promote entrepreneurship, availability of credit, and balance the interests of all stakeholders by consolidating and amending the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time-bound manner and for maximization of value of assets of such persons and matters connected therewith or incidental thereto.

The Insolvency and Bankruptcy Code (IBC) was enacted in May 2016 to provide a time-bound 180-day recovery process for insolvent accounts (where the borrowers are unable to pay their dues). Under the IBC, the creditors of these insolvent accounts, presided over by an insolvency professional, decide whether to restructure the loan, or to sell the defaulter's assets to recover the outstanding amount. If a timely decision is not arrived at, the defaulter's assets are liquidated. Proceedings under the IBC are adjudicated by the Debt Recovery Tribunal for personal insolvencies, and the National Company Law Tribunal (NCLT) for corporate insolvencies. With the RBI's push for the IBC, the resolution process is expected to quicken while continuing to exercise control over the quality of the assets. There will be changes in the provision requirement, with the requirement for the higher proportion of provisions going to make the books better.

4.15. Public ARC vs. Private ARC – 2017

This debate is recently in the news which is about the idea of a Public Asset Reconstruction Companies (ARC) fully funded and administered by the government as mooted by this year's Economic Survey Vs. the private ARC as advocated by the deputy governor of RBI Mr. Viral Acharya. Economic survey calls it as PARA (Public Asset Rehabilitation Agency) and the recommendation is based on a similar agency being used during the East Asian crisis of 1997 which was a success.

4.16. Bad Banks – 2017

Economic survey 16-17, also talks about the formation of a bad bank which will take all the stressed loans and it will tackle it according to flexible rules and mechanism. It will ease the

balance sheet of PSBs giving them the space to fund new projects and continue the funding of development projects.

4.17. 4R's strategy to reduce NPAs of Public Sector Banks-2019[3]

Government has implemented a comprehensive 4R's strategy, consisting of recognition of NPAs transparently, resolution and recovery of value from stressed accounts, recapitalising of PSBs, and reforms in PSBs and the wider financial ecosystem for a responsible and clean system. Comprehensive steps have been taken under the 4R's strategy to reduce NPAs of PSBs, including, *inter-alia*, the following:

- Change in credit culture has been effected, with the Insolvency and Bankruptcy Code (IBC) fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarring wilful defaulters from the resolution process and debarring them from raising funds from the market.
- Over the last four financial years, PSBs have been recapitalised to the extent of Rs. 3.12 lakh crore, with infusion of Rs. 2.46 lakh crore by the Government and mobilisation of over Rs. 0.66 lakh crore by PSBs themselves enabling PSBs to pursue timely resolution of NPAs.
- Key reforms have been instituted in PSBs as part of the PSBs Reforms Agenda, including the following:
 - Board-approved Loan Policies of PSBs now mandate tying up necessary clearances/approvals and linkages before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, non-fund and tail risk appraisal in project financing.
 - Use of third-party data sources for comprehensive due diligence across data sources has been instituted, thus mitigating risk on account of misrepresentation and fraud.
 - Monitoring has been strictly segregated from sanctioning roles in high-value loans, and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs. 250 crore.
 - To ensure timely and better realisation in one-time settlements (OTSs), online end-to-end OTS platforms have been set up.

5. MEASURES AND WAYS TO TACKLE NPAS

The measures taken to resolve and prevent NPAs can broadly be classified into two kinds –

- first, regulatory means of resolving NPAs per various laws (like the Insolvency and Bankruptcy Code), and
- second, remedial measures for banks prescribed and regulated by the RBI for internal restructuring of stressed assets.

Accountability – Lower-level executives are often made accountable for lapses; however, major decisions are made by Credit Sanction Committee of senior-level executives. Hence, it is very important to make senior executives accountable if Indian banks are to tackle the problem of NPAs.

Credit Risk Management – This involves credit appraisal and monitoring accountability and credit by performing various analyses on profit and loss accounts. Proper credit appraisal of the project, credit worthiness of clients and their skills and experience should strictly be carried out. While conducting these analyses, banks should also do a sensitivity analysis and should build safeguards against external factors.

Corporate Governance Issues – Banks, especially the public sector ones, need to come up with proper guidance and framework for appointments to senior-level positions. Although Government had set up Banks Board Bureau in April, 2016, Corporate Governance has not improved to the desired level with certain issues persisting.

Tightening Credit Monitoring – A proper and effective Management Information System (MIS) needs to be implemented to monitor warnings. The MIS should ideally detect issues and set off timely alerts to management so that necessary actions can be taken.

Fraud Management—Frauds in PSBs rose both in number and value over the last years. There is an urgent need to tighten bank’s internal and external audit systems.

More “Haircuts” for Banks – For quite some time, PSU lenders have started putting aside a large portion of their profits for provisions and losses because of NPA. The situation is so serious that the RBI may ask them to create a bigger reserve and thus, report lower profits.

Stricter NPA recovery – The Government needs to amend the laws and give more power to banks to recover NPA rather than play the game of “wait-and-watch.” The Insolvency and Bankruptcy Code has brought in discipline because of fear of losing the asset.

Assets Reconstruction Company—Assets Reconstruction Companies also play a vital role in fast track resolution of stressed assets of PSBs. The Government should initiate necessary steps to explore the feasibility after thorough discussions on pricing and capital issue.

Amendments to Banking Law to give RBI more power – The present scenario allows the RBI just to conduct an inspection of a lender but doesn’t give them the power to set up an oversight committee. With the amendment to the law, the RBI will be able to monitor large accounts and create oversight committees.

Other measures: This may include:

- Technology and data analytics to identify the early warning signals.
- Mechanism to identify the hidden NPAs.
- Development of internal skills for credit assessment.
- Forensic audits to understand the intent of the borrower.

6. CONCLUSION

From the year 2008, the NPAs of Banks grew at an alarming rate. The resolution of these NPAs is at a slower pace through various forums. Therefore, it became very crucial to resolve and prevent NPAs. The measures taken to resolve the problem of NPAs can be broadly classified as Regulatory and Remedial measures. Regulatory measures involve resolution of NPAs through law like, Insolvency and Bankruptcy Code, 2016(IBC). Remedial measures are prescribed and regulated by the Reserve Bank of India for the internal restructuring of the stressed assets. IBC has been enacted when the Indian economy was in the midst of soaring NPAs, falling GDP, bad credit perspective in the country, when the domestic banking industry was struggling to cope with a welter of bad loans and last but not the least the Mallya Saga. The Internal Advisory Committee of RBI identified 12 business accounts which comprised 25% of NPAs of the Indian banks which needed immediate resolution under IBC. The RBI Report of 2017-18 shows that the recovery made through the route of IBC has given better realisation to the lenders in comparison to the erstwhile channels of recovery.

However, an analysis of the growth rate in the NPA level shows that the problem is evident in the banking space. Hence, the entire sector is gripped in the crisis. The poor asset for the banks is a problem because as per the guidelines, given by the RBI, banks are required to keep some amount as provision depending on their asset quality thereby leading to declining profitability of the banks. Hence, it impacts not only the profitability level of these

banks but also affects the shareholders' wealth. Thus, the time is apt that the RBI has been coming up with very stringent norms so that the growth in these assets can be put under control. The Insolvency and Bankruptcy Code of 2016 is playing an important role with regard to recovery of assets of those creditors whose case has been filed with the National Company Law Tribunal. Only time will say how successful has the RBI been in controlling the NPA growth in the sector.

It is necessary to pull the trigger hard as poor loans are having a severe impact on the liquidity position of banks and even the banks have been asked to go slow with regard to lending, which is ultimately having an impact on the economic growth, which has been slow during the past few quarters.

The non-performing assets have been a very big problem for the banking sector in India. This doesn't only affect the banking sector in India but also affects the Indian economy. It can be considered that it is far from impossible for banks to have 0 NPA, but still this increasing NPAs must be controlled in order to revive the banking sector and to boost the economy of India. For this, banks will have to introduce the speedy recovery process to combat this situation. Reserve Bank of India, which is the Central Bank of India, should revise the existing credit appraisals and the monitoring system, and banks should improve upon the existing methods of loan recovery process, and strengthen them and should also bring new methods of loan recovery. Credit appraisal and the monitoring system are the two very important and crucial steps that all the banks should focus on, especially public sector banks. For this, banks should do regular follow-up with the defaulters and remind them, and if possible personal visits may also be made.

The government has already brought legislations to recover these NPAs through SARFAESI Act and Bankruptcy & Insolvency Code. Now, it is time for government to make stringent provisions so that all the defaulters have to repay these NPAs. Now, if we see the defaulters, we would find that the problem of NPA is not with the small borrowers, but with the borrowers with larger amount. There should be speedy recovery mechanism and speedy trials to adjudicate the NPA cases, otherwise this problem of NPA will be continuously affecting the profitability of the banks, which is not at all good for the Indian economy, which tends to grow at the fastest rate among other economies.

KEYNOTES

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