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RECOVERY OF NPAS- BECOMES THE CRITICAL PERFORMANCE AREA (CPA) FOR BANKS IN INDIA

Dr Gajanan Bhakare

M Com (Cost and Tax) M Com (Tax) M Phil, B.Ed

G D C & A, I Cwa (Int), Ph D

INTRODUCTION

With a view to enhance operational efficiency, procedure, policy, productivity, profitability and with the objective of implementing best practices in Indian Banks especially with regard to income recognition, assets classification and provisioning for advance portfolio of banks, and recognition of Non-Performing Assets and gradually strengthening the financial position of banks.

After the Nationalization of banking sector, the Indian banking and financial system has made commendable progress in extending in geographical spread and financial reach. The banking industry in India is also undergoing rapid changes with the introduction of financial sector reforms and follow-up actions by Reserve Bank of India based on the Narasimham Committee recommendations.

However before 1990 the Indian banking business was on the way to dismal performance. Most of the nationalized, private and co-operative sector banks outwardly were sharing profits, but in reality they were fictitious. As a result the basic elements of the banking system were getting shattered. M. Narasimham committee was to examine all aspects relating to the structure, organization, functions and procedures of the Indian financial system.

It is the right time therefore to take a review of the performance of NPAs in various banks. Banks and financial institutions do not have much control over external factors which may include natural calamities, changes in Govt. policies, adverse effects of cyclical changes, etc. But internal factors are within the reach of these institutions. It is significant to study such internal factors and analyze them carefully so as to formulate suitable strategies to prevent the growth in NPAs.

These norms, implemented in a phased manner, have gradually become stricter and stricter. They brought the much desired changes in the profitability performance as well as recapitalized bases of public sector banks.

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RECAPITALIZATION OF PUBLIC SECTOR BANKS

Capital forms the basic requirement for banks to expand balance sheets. Thus, banks will have to raise substantially higher levels of capital in order to provide the adequate resources needed by a growing economy. In the budget for 2010-11, the Government has provided for recapitalization of Rs 16,500 crore to help banks maintain a Tier I capital adequacy ratio in excess of 8 per cent. As part of this programmed Rs 5,691 crore was infused up to the end of July 2010 (Table No 1.1) the capital infusions have been in the form of direct equity and hybrid Tier I capital including perpetual non-cumulative preference shares. Implications of Enhanced Basel II Capital1.35 In addition to the recapitalization by the Union Government, in the medium to long run, banks will have to continue to shore up their capital base to support higher credit growth.

Table NO 1: Recapitalization of Public sector banks (Rs In crore)

Banks	**2008-09**	**2009-10**	**2010-11 ***
Uco Bank	450	450	673
Vijaya Bank	500		700
United Bank of India	250	300	250
Central bank of India @	700	450	250
I D B I Bank			3119
Bank of Maharashtra			588
Union bank			111
Total	1900	1200	5691

* Already Completed by July 2010

@ Through participation in the proposal rights issue

Source: Press Information Bureau, Government of India

RESONS OF NPAS

Management of NPAs have become the critical performance area for the public sector banks. The banking sector to identify the reasons for the pile up of NPAs and the strategies to be implemented for their recovery, following are the major reasons for non-performing assets:

1. The branch manager are lacking in expertise required for proper management of NPAs. Especially the proper follow up and management of substandard assets is not done which results in addition to NPA every year. The loan proposals are not proper scrutiny which is important reason for NPA.
2. While banks and borrowers have not much of control over external factors, lack of co-ordination between banks and other agencies involved particularly to have a tie-up for funding requirements etc. many borrowers funds are not use proper purpose but actually use were personal and other non-productive purposes.
3. Political interference in the lending of banking leading to the neglect of proper credit appraisal need based credit follow-up and supervision has been proceed as one of major reasons for increasing on non–performance advance.
4. Economic causes be external and internal, several studies have gone into the causes of NPAs and come done conclusion that changes in the macro-economic environment like recession infrastructural bottlenecks, changes in Govt. policies etc. After 1992 our Government is using Liberation and Globalization polices, that way hug investment units to go sick.
5. Banks Head Office / Zonal Office / Regional Office to delay in the sanctioning of loans, grant of inadequate credit deficiency in the credit appraisal standards lack of supervision and follow-up general level of inefficiency in containing the cost of funds due to very high intermediation costs low level of technology and high rate of interest changes to borrowers to covering up the loss on NPAs .
6. Lack of integrity on the part of both banker and borrowers has also influenced formation of NPAs erosion in social value, ethics and accountability have been highlighted as formation of huge NPAs.

7. High NPAs level are will-default mismanagement and lack of planning, public money obtained form banks has been systematically siphoned away form our industry.
8. A general lack of repayment consciousness among Indian borrowers and especially among the powerful and influential class of borrowers, can be cited as on other reason for poor recovery and growth of NPAs.
    a. In addition to above causes of the overdue, inordinate delays in the matter of taking coercive or legal actions for recovery of overdue, lukewarm attitude by the bank management, branch managers, bank employees and the State Co-operative Department in regard to expediting defaulting cases lack of follow-up actions, lack of continuous efforts and review of the recovery of loans, natural calamities, losses in the business of the borrowers are also some other causes of overdue.

Banks met with varying degrees of success in their efforts, UCO Bank, United Bank of India and Vijaya Bank have been classified as weak bank with a very high percentage of Gross NPA, raising question about their viability.(Table No1.2)

Table No 2 High Percentage of NPA

Name of the Banks	2008-2009		2009-2010		2010-11	
	Gross NPA	Net NPA	Gross NPA	Net NPA	Gross NPA	Net NPA
UCO Bank	2.21	1.18	1.99	1.17	3.13	1.84
Vijaya Bank	1.60	0.57	2.37	1.40	2.56	1.52
United Bank of India	2.10	1.50	2.21	1.84	2.51	1.42

Source: Report of Trend and Progress of Banking In India 2008- 2011 It indicates the quality of credit portfolio of the bank. High Gross NPAs ratio indicates low quality credit portfolio. The international prescribed level of gross NPA is 5%.

Banks are likely to use **six mantra for recovery risk management to be affected by banks profit.**

1) To improve relationship between bank and borrowers.
2) First fund out potential NPAs and recovery attempts be made carefully.
3) To use short term legal mechanism like Compromise, OTS, Write off, Up-gradation and Cash recovery.
4) To use long term legal mechanism like Debt Recovery Tribunals (DRT), Securitization Act, filling suit.
5) To use Branch wise recovery budgets.
6) To close follow-up of NPAs from recovery angle.

MICRO –LEVEL RACOVREY OF NPAs

A major contributing to the high level of NPAs in India has been the inadequate legal tram work for collecting overdue loans. Although loans are largely collateralized, in practice, the value of the collateral may not be commensurate with the loans more importantly; timely exaction of collateral often remains difficult. The large difference between banks gross and net NPAs typically equal to nearly one and half of the gross NPA reflects both obligatory provision against NPA and limited write-off of NPAs by public sectors. A disquieting feature is that even private banks and foreign banks of late, are finding it difficult to contain the rise of NPAs with more stringent classification and provisioning norms in the offing the task of containment becomes more daunting.

The concept of overdues and reducing of NPA are related each other in the banking business. Bank provided loan to the needy persons in anticipation to regular repayment of loan, with interest either in installment or lump sum, with in the stipulated period. However, these borrowers do not repay loans regulatory those account convert on NPA account, so recovery of NPA related to irregular and overdue and recovery of such loan arise there fore, it would be proper to throw light on the mean by of overdue and recovery of NPA.

Banks have to display professionalism and scientific temperament in appraisal, monitoring and supervision of loan accounts. systems overload and fragmented nature of supervisory functions in the public and private sector banks really hamper the recovery efforts. At macro level banks are confronted with many hurdles, first and foremost a very tardy judicial system. Reportedly, the time required so clear the old pending suits is around 10 year considering the pace at which the judicial system works. Often central government expresses its concern on the enormity of the problem but no radical reforms appear to be in the offing.

Table No 3 Showing Recovery of NPAs of various channels of SCBs in India (Rs in Crore)

Year	**Lok Adalats**				**DRTs**				**SARFAESI Act**			
	No cases referred	Amount involved Rs Crore	Amount recovered	%	No cases referred	Amount involved Rs Crore	Amount recovered	%	No cases referred	Amount involved Rs Crore	Amount recovered	%
2007-08	186535	2142	176	8.20	3728	5819	3020	51.90	83942	7268	4429	61.00
2008-09	548308	4023	96	5.40	2004	4130	3340	81.10	61710	12067	3782	33.00
2009-10	778833	7235	112	1.55	6019	9797	3133	32.00	78366	14249	4269	32
2010-11	616018	5254	151	2.87	12872	14092	3930	27.89	118642	30604	11561	37.78

Source: Report of Trend and Progress of Banking in India 2008- 2011

This analysis comprises recovery made through Lok Adalats , DRTs (Debt Recovery Tribunals) and Securitization Act.. It is observed DRTs are very less in compare to SARFAESI Act . Maximum recovery was made in the year 2008 -09 DRTs (81.10 %) amount Rs 3340 Crore and SARFAESI Act (33%) and amount Rs 3782 Crore. But last year DRTs are very less in recovery. There are many practical problem in enforcing the recovery certificates issued by the DRTs by recovery officers. Perhaps DRTs and SARFAESI Act and One Time Settlement are more helpful in recovery of NPAs.

The recovery climate has been vitiated by political industries especially with regard in rural credit. During 2006 there was a massive waiver of rural debt amounting to over Rs 62000 crores. This unimaginative exercise has put a premium on willful default and dishonestly. It has lowered the repayment ethics and even now rural sector borrowers wait for another dose of loan waiver.

ASSETS CLASSIFICATION AND RECOVERY MANGAEMENT

Assets classification of the bank indicates the quality of the assets poses. Standard assets are the most reliable assets and therefore more standard assets indicate less NPAs. Lower standard assets signify more NPAs which is hazardous to the bank. As per RBI norms there should not be more than 3% NPAs of net advances. The assets of banks under study are classified as under-

1) Standard Assets
2) Substandard Assets
3) Doubtful Assets
4) Loss Assets

Table No.4 Showing Assets Classification Banks Group (Rs in Crores)

Banks Group	Year	Standard Assets		Sub – Standard Assets		Doubtful Assets		Loss Assets	
		Amount	%	Amount	%	Amount	%	Amount	%
Nationalized Bank	**2009**	15,08,798	98.25	11,086	0.72	13,306	0.87	2,412	0.16
	2010	18,27,061	98.05	18,520	0.99	15,034	0.81	2,841	0.15

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	2011	22,91,111	98.11	21,758	0.93	19,282	0.83	3,183	0.14
S B I Group	**2009**	7,287258	97.44	9,517	1.27	7,713	10.3	1,884	0.25
	2010	8,46,473	97.30	10,271	1.18	10,349	1.19	2,909	0.33
	2011	9,81,803	97.00	13,215	1.31	13,898	1.37	3,280	0.32
Old Private Sector	**2009**	1,27, 280	97.64	1,334	1.02	1,327	1.02	411	0.32
	2010	1,52,745	97.69	1,395	0.89	1,637	1.05	580	0.37
	2011	1,83,601	98.03	1,253	0.67	1,815	0.97	626	0.33
New Private Sector	**2009**	4,40, 813	96.94	9,258	2.04	3,708	0.82	934	0.21
	2010	4.73,727	97.13	7,447	1.53	4,953	1.02	1,586	0.33
	2011	6,09,989	97.68	3,277	0.52	8,980	1.44	2,238	0.36

Sources: Report of Trend and Progress of Banking in India 2008- 2011

The standard advance of the banks has increased from during the year over the previous year, the doubtful assets and loss assets increased from 2009 to 2011 which is a bad indication. It is observed that in banking sector there is an absence of 100% standard assets. Nationalized Bank, SBI Group, old private Sector more standard assets as compared to New Private sector.

From 2009- 2011, every bank has increased its recovery because RBI and Government gives special attention, by using a New ordinance Act 2002. In comparison of the SCBs and New Private scheduled banks percentage of recovery to Net NPAs is going up. In last five years both sectors have recovery of loan ratio is during 2006 to 2011 is more than 50%. In short the banks have improved their performance in recovery of loans and reduce the amount of Net NPAs.

To affect recovery, one has to try various methods including persuasive and coercive improper lending policies may lead to overdue and faulty documentation may add to the problem in process. So far as responsibility of recovery is concerned there is hardly anything specified anywhere though it is said that cooperator are morally responsible. This moral responsibility is to be spelt out in specific terms both in the act and the rules and bye laws of the society.

Management efficiency of concerned co operative also plays an important role in effecting recovery. The management efficiency is composed of many factors so far as recovery of credit is concerned it relates to proper lending policies and advancing of loans effective and timely supervision over the utilization of loan and prompt action for recoveries by adopting persuasive and coercive method whenever necessary this is possible by proper planning, delegation of powers and functions to executives and observing a discipline to non-interference in the recovery process.

The poverty alleviation programs have not met their objective. Schemes like IRDP, SUME, Prime Minister Rozgar Yojana etc, have suffered massive defaults. What the ultimate borrower secured from these loans is also only a fraction of the loan amount and thanks to the misuse of fund and non –bankability of some of these target oriented schemes, on significant economic prosperity has been achieved.

One time settlement, Cash Recovery, and write off is a important part of legal mechanism to reduce NPAs. This repots less profit on one hand but reduce the NPAs amount on the other hand. This provides scope for willful defaulters becoming eligible candidates for such a settlement.

"We do not fear to negotiate, but we do no negotiate out of fear", so goes a wise saying. Banks appear to be forced to negotiate with defaulter more out of fear of non recovery. The argument in favor of these negotiated settlements is that the present discounted value of future but recovery less. This may be good legal mechanism but very bad banking. However, short legal mechanisms are perfectly fair practices, with regard to honest borrowers whose unit are no longer viable.

A recent research study has revealed that incidence of NPAs is more with regard to "One Time Settlement, compromise and write–off powers should be assigned to the branch manager up to a minimum limit of amount this will help to take immediate actions and resultantly NPA level will be minimum"

Management of NPAs is not merely a problem of recovery is irregular accounts. This incidence in the first place could be arrested the better sanctioning a loan Quality assets of the borrower be assessed carefully so that at the time of recovery if circumstances compel it can be liquidated and advanced loan can be recovered. If required the present loan sanctioning policy be modified to avoid losses affecting profitability of the bank.

CONCLUSION

The solution to the problem of NPAs should strengthen the credit portfolio of banks over a period by removing the present deficiencies observed standard credit appraisal, monitoring and follow-up and improving the overall lending policies of bank as well as Governments Policies. The weak capital position of Indian banking system is largely a reflection of growing assets – quality problems stemming from weak underwriting and credit management systems and vulnerabilities of the Indian banking sector to the impact of globalization on the country’s key industrial sectors. The assets quality position has also suffered from regulations with respect to lending to priority sectors.

The problem of NPAs in Indian banking system is very high because our credit policies are weak which has made our so the banking system weak and unsound. The ripple effect of NPAs as in the case of cancer is gradually felt in all parts of the economy i.e. saving, investment, production, employment, and services which affected capital, economic growth.

REFERENCES

1) Press Information Bureau, Government of India, July 2010

2) Report of Trend and Progress of Banking in India 2008- 2011