

A STUDY ON RECOVERY OF NON-PERFORMING ASSETS IN SCHEDULED COMMERCIAL BANKS IN INDIA

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Abstract

The magnitude of NPAs in banks and financial institutions has emerged as an alarming threat to the banking industry in our country. The NPAs growth has a direct impact on the profitability of banks. Several prudential and provisioning norms have been introduced by RBI for improving efficiency and trim down NPAs to improve the financial health of banks. The problem recovery is not with the small borrowers but with large corporate borrowers for which strict policy should be laid down by the banks. The channels of recovery of NPAs like Lok Adalats, DRTs and SARFAESI Act have extensively been studied in this paper. It is observed that the percentage and amount of recovery in case of DRTs and SARFAESI Act. is comparatively higher than the Lok Adalat channel. The status of Asset Reconstruction Companies has also been studied.

Key words: NPA, Lok Adalats, DRTs and SARFAESI Act

Introduction:

During the last two decades the banking sector in India has witnessed significant transformation. Advancements in the field of information technology coupled with strong, competitive and effective financial system compels the banking sector to offer innovative services to their customers. An efficient and developed financial system is key for rapid economic growth of a nation. It also helps the nation's economic development. Banks are considered

as the most important segment in Indian Financial System. They act as financial intermediaries between the depositors and borrowers. Acceptance of deposits and granting of loans and advances are the two primary functions that a bank performs. Banks provide credit for personal, business, housing, agriculture or for other purposes. According to RBI, term loans on which interest and principal remain overdue for a period of more than 90 days from the end of particular quarter is called a Non-Performing Asset.

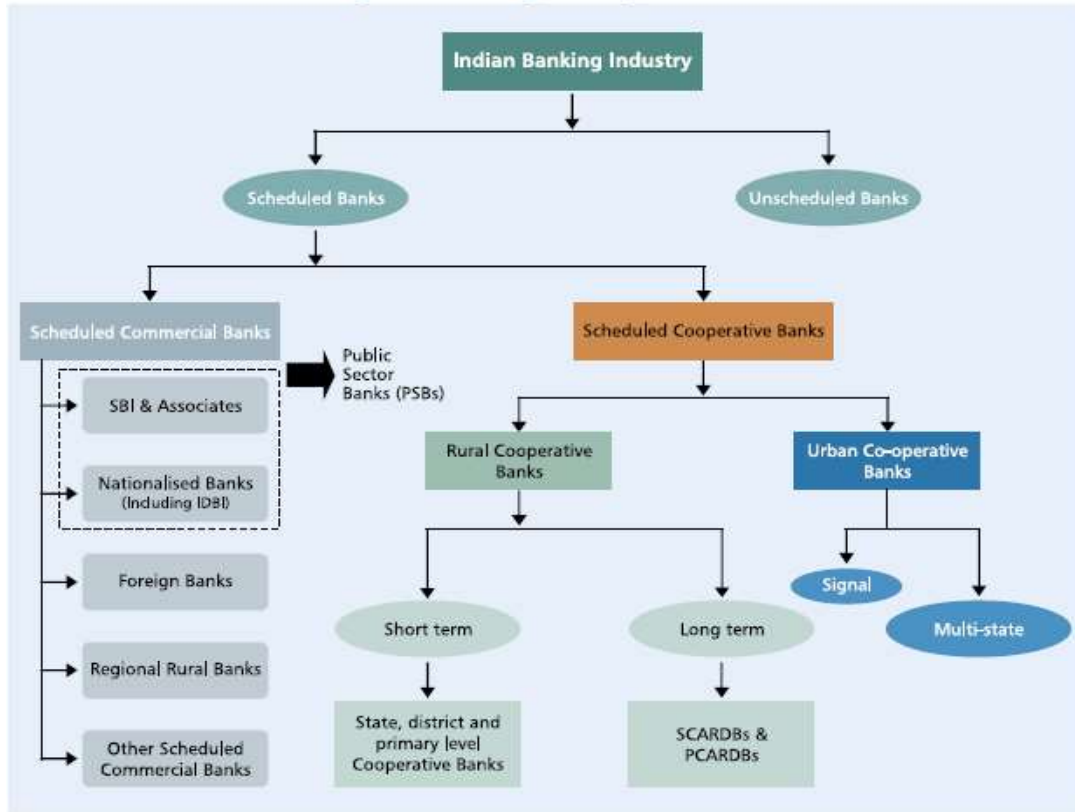
‘As of June 2016, the total amount of Gross Non-Performing Assets for public and private sector banks is around Rs. 6 lakh crore. (Source: *RBI, Parliament Question, published in The Hindu, New Delhi, November 21, 2016*)’. Despite the RBI’s numerous restructuring schemes, the bad loans have risen up by 135% in the last two years (see Table-1). In all, the total NPAs including both the public and private sector banks were Rs.6, 97,409 crore in December, 2016. (*CARE Ratings*) The magnitude of NPAs in banks and financial institutions has emerged as an alarming threat to the banking industry in our country. The NPAs growth has a direct impact on profitability of banks. Several prudential and provisioning norms have been introduced by RBI for improving efficiency and trim down NPAs to improve the financial health of banks.

The public sector banks figure prominently in the debate because they dominate the banking industries. The magnitude of NPAs in public sector is much larger as compared to their private sector counterparts. The ratio of NPAs between the public sector banks and private sector banks is approximately 90: 10. However, the major defaulters are the big borrowers from the non-priority sector i.e. big corporate houses which should be immediately addressed for example the case Vijay Mallya of King Fisher Airlines. Therefore, a study on the magnitude and recovery of NPAs in case of Scheduled Commercial Banks is expected to explore many new aspects relating the issue.

Scheduled Commercial Banks in India are the banks which are listed in the Second Schedule of the Reserve Bank of India Act.1934. They enjoy certain privileges like refinance facilities from RBI, Currency Chest facilities or

becoming members of the Clearing Houses. The bank which comes under the category of Scheduled Commercial Banks is depicted in the Chart entitled *Structure of the Organized Banking Industry* as shown below:

Exhibit 2.2: Structure of the Organised Banking Industry



Source: D&B Industry Research Service

Review of Literature:

Numerous studies have been published in the area of Non-Performing Assets in the banking sector of India. Most of the studies published have given emphasis on topics like the Management of NPAs, Comparative study on NPAs in private and public sector banks, NPAs in Indian Commercial Banks, Trend Analysis of NPAs in Scheduled Commercial Banks etc. using the secondary sources of data published by Reserve Bank of India. However, we found that there was not a single paper dedicated exclusively on Recovery of Non-Performing Assets in Scheduled Commercial Banks in India. This project has been undertaken to fill this research gap. A brief review of the related literature

has been presented below to get an insight into the research works conducted in this area.

Singh, V. R. (2016) in his article 'Non-Performing Assets of Commercial Banks and its Recovery in India' concluded that a high level of NPAs suggests high probability of a large number of credit defaults that affects the profitability and net worth of banks and also erodes the value of the asset. 'Singh pointed out that NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks'. 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 state of health of the industry and trade.

Chatterjee, C; Mukherjee, J and Das, R (2012) observed that RBI has introduced several prudential and provisioning norms to improve efficiency and trimming down the NPAs to improve the financial health of banking sector. ' According to the authors NPA involves the necessity of provisions, any increase in which bring down the overall profitability of banks. NPAs have a negative influence on the achievement of capital adequacy level, funds mobilization and deployment policy, banking system credibility, productivity and overall economy'.

On one hand, the Public Sector Banks which are in trouble with excessive governmental equity, excessive NPAs and excessive manpower. On the other hand the private sector banks are merging themselves through adoption of most up-to-date expertise and technological systems. Therefore considerable efforts are required by RBI, Ministry of Finance and all the banks level to control the threat of NPAs. The public sector banks should not be loaded with the twin objectives of social welfare and profitability which seems to be mutually contrasting.

Sontakke, N. R and Tiwari, Chandan (2013) in their paper entitled ' *Trend Analysis of Non Performing Assets in Scheduled Commercial Banks in India*' observes that the Gross and Net percentage of NPA has been showing an upward trend

during the study period. The findings are similar to the observations made by Singh (2016) and Pasha et.al.(2014).

NPA cause serious strain on the profitability due to high provisioning of NPAs in their books of account. An escalating level of NPA in the banking sector can severely affect the economy in many ways which may include financial and economic degradation, hamper investment climate etc. Bankers are also of the opinion that NPA is unavoidable in banking because of the basic nature of business of banking.

Objectives of the study:

- 1) To present an overview of the status and trend of Non Performing Assets of Indian Scheduled Commercial Banks in India.
- 2) To analyze the data regarding recoveries of NPAs through various channels.
- 3) To provide fundamental idea on the recent amendment in the Banking Regulation Act. regarding NPAs recovery.

Research Methodology:

The study is basically based on secondary data. For our study, we have considered data regarding Recovery of Non-Performing Assets in Scheduled Commercial Banks which includes public sector banks, private sector banks and foreign banks which are listed in the Second Schedule of the Reserve Bank of India Act.1934. The paper discusses the data on various recovery channels and amount recovered during the last five years i.e. from 2012 to 2016 using the RBI Report on Trend and Progress of Banking in India for various years. Several reputed journals, business newspapers like The Economic Times, Business Standard, books and websites has been referred during the study .

Data Analysis, Interpretation and Findings :**Table-1: Banks Gross NPAs in Rs. crore from December, 2013 to March, 2016
(10 Quarters)**

Sl.No.	Quarter	Public Sector Banks	Private Banks	Total
1.	December,2013	2,28,244	24,031	2,52,275
2.	March,2014	2,27,264	23,379	2,50,643
3.	June,2014	2,34,583	25,999	2,60,582
4.	September,2014	2,51,010	27,449	2,78,458
5.	December,2014	2,72,706	30,349	3,03,055
6.	March,2015	2,78,468	32,379	3,10,847
7.	June,2015	2,96,321	34,805	3,31,127
8.	September,2015	3,14,321	36,716	3,50,948
9.	December,2015	4,04,667	44,813	4,49,479
10.	March,2016	5,39,955	54,974	5,94,929
	<i>% of Total for March,2016</i>	90.76	9.24	100.00

Table-1 presented above reflects the position of Gross NPAs in Public and Private sector banks for 10 quarters starting from December,2013 to March,2016 comprising for a period of last 2 ½ years. Although Reserve Bank of India has announced numerous restructuring provisions, Gross NPA has risen up from Rs. 4,49,479 crore to Rs.5,94,929 crore during January-March,2016 quarter which represents an increase of 132% over the last quarter. However, *as per the figures compiled by CARE Ratings , the total NPAs including both the public and private sector banks were Rs.6,97,409 crore in December 2016. So if we compare the total NPAs figure between December, 2015 and December, 2016, we can observe that there is an increase of 155% in the total amount of NPA during the calendar year 2016.*

It is also observed from the above table that out of the total amount of Gross NPA 90.76% comprises from public sector banks and the rest 9.24% only in case of private banks. This may be attributed due to higher cost efficiency accrual of private banks over nationalized banks. Adoption of latest technology in providing innovative services to customers may also bring the difference.

The Reserve Bank of India (RBI) report on financial stability pointed out that rapidly increasing NPA has touched the highest level during the last 10 years. NPA has become a major cause concern for banks, Government and regulatory bodies. Slow credit growth in the banking sector is also affecting other sectors which depend heavily on financing from banks. According to RBI's Ex-Governor *Mr. Raghuram Rajan* "The stress in the banking sector, which mirror in the corporate sector, has to be dealt with in order to revive credit growth." In simple words the banking sector stress epitomizes the same in the corporate sector also. The rising phenomenon of Net NPA, Gross NPA and Stressed Assets reported in the Financial Stability Report 2015 substantiate the position. The important sectors responsible for the increasing trend of NPA are: Mining, Iron and Steel, Textiles, Infrastructure and Aviation.

Table-2: NPAs recovered by Scheduled Commercial Banks through Lok Adalats

Year	Number of Cases Referred	Amount Involved (in Rs. Crore)	Amount Recovered(in Rs. Crore)	Percentage (%) of amount Recovered
2012	4,76,073	1,700	200	11.80
2013	8,40,691	6,600	400	6.10
2014	16,36,957	23,200	1,400	6.03
2015	29,58,313	30,979	984	3.20
2016	44,56,634	73,033	3,224	4.50

Source: RBI, Report on Trend and Progress of Banking in India 2015-16

The above table shows NPAs of scheduled commercial banks recovered through Lok Adalat during the study period from 2012 to 2016. From the analysis of the table, it is clearly observed that the number of cases referred to Lok Adalats for the recovery of NPAs in scheduled commercial banks has increased manifold and the number of cases shows an increasing trend over the last five years. However, if we look at the amount of recovery made through Lok Adalat it shows a decline in 2015 as compared to 2014 both in absolute terms and also in the percentage of amount recovered. In 2016, these Lok Adalats are only successful in recovering 3,224 crore out of 73,033 crore which constitute only 4.50% of total amount involved in NPAs of commercial banks. Due to its inefficiency in recovery which represents the lowest percentage of recovery as compared with other channels like DRTs or SARFAESI, the commercial banks are resorting to other channels.

Table-3: NPAs recovered by Scheduled Commercial Banks through Debt Recovery Tribunals (DRTs)

Year	Number of Cases Referred	Amount Involved (in Rs. Crore)	Amount Recovered(in Rs. Crore)	Percentage (%) of amount Recovered
2012	13,365	24,100	4,100	17.01
2013	13,408	31,000	4,400	14.10
2014	28,252	55,300	5,300	9.58
2015	22,004	60,371	4,208	6.97
2016	24,357	69,341	6,365	9.18

Source: RBI, Report on Trend and Progress of Banking in India 2015-16

Table-3 as shown above reflects the NPAs of commercial banks recovered through DRTs during the study period 2012 to 2016. From the analysis of the table, it is clear that the number of cases for the recovery of NPAs to DRTs is

increasing through the study period and also the amount involved in these cases and the amount recovered through DRTs has increased. DRTs shows their efficiency in 2012 where it recovers 17.01% of the amount involved and in later years also the amount recovered is quite significant. This is the basic reason why commercial banks are approaching DRTs for the recovery of NPAs as compared to Lok Adalats in which the percentage of recovered amount is very low. The Debt Recovery Tribunal is a special court established by the Central Government for the purpose of bank or a financial institution for recovery. The most important feature of DRT is that only the recovery cases of Rs. 10 lakhs and above can be filed in DRTs. That is why the number cases referred to DRTs is very less as compared to the number of cases referred to Lok Adalats.

Table-4: NPAs recovered by Scheduled Commercial Banks through SARFAESI

Year	Number of Cases Referred	Amount Involved (in Rs. Crore)	Amount Recovered(in Rs. Crore)	Percentage (%) of amount Recovered
2012	1,40,991	35,300	10,100	28.61
2013	1,90,537	68,100	18,500	27.16
2014	1,94,707	94,600	24,400	25.79
2015	1,75,355	1,56,778	25,600	16.33
2016	1,73,582	80,100	13,179	16.45

Source: RBI, Report on Trend and Progress of Banking in India 2015-16

Table-4 presented above portrays the number of cases referred, amount involved, amount recovered and the percentage of recovery made by commercial banks through the SARFAESI* Act.2002. From the analysis of the table, it is observed that there is an increasing trend in number of cases, amount involved and amount recovered through SARFAESI from 2012 to 2015. In 2012

the recovery percentage was 28.61% which is the highest amongst all these five years. However, in other years the percentage of amount recovered is also significant. It is observed that banks are using this Act, largely for recovering the bad loans as the most effective tool of recovery for increasing their profitability and also for bringing improvement in the overall financial health of the banks.

*SARFAESI means Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act. Banks utilise this act as an effective tool for bad loans (NPA) recovery. It is possible where Non-Performing Assets are backed by securities charged to the bank by way of hypothecation, mortgage or assignment. SARFAESI Act, also provides for establishment of Asset Reconstruction Companies (ARC) regulated by RBI to acquire assets from banks.

Table-5: NPAs recovered by Public Sector Banks through various channels in 2014-15

Channel of Recovery	Number of Cases Referred	Amount Involved (in Rs. Crore)	Amount Recovered(in Rs. Crore)	Percentage (%) of amount Recovered
Lok Adalats	25,96,351	27,020	931	3.45
DRTs	18,397	53,203	3,484	6.55
SARFAESI	1,66,804	1,46,306	23,434	16.02

Source: RBI, Report on Trend and Progress of Banking in India 2015-16

Table-5 shown above reflects the amount of NPAs recovered by public sector banks through various channels in 2014-15. Public sector banks, which are burdened with high proportion of the banking sector's NPAs, could recover only Rs.19,757 crore as against Rs.27,849 crore during the previous year 2014-15. The deceleration in recovery was mainly due to a reduction in recovery through

the SARFAESI channel by 51% from 23,434 crore in 2014-15 to 11,033 crore in 2015-16. On the other hand, recovery through the channel of Lok Adalats and DRTs has been substantially increased. The data regarding the findings substantiated in Table-6.

Table-6: NPAs recovered by Public Sector Banks through various channels in 2015-16

Channel of Recovery	Number of Cases Referred	Amount Involved (in Rs. Crore)	Amount Recovered(in Rs. Crore)	Percentage (%) of amount Recovered
Lok Adalats	42,44,800	69,017	3,134	4.54
DRTs	19,133	57,439	5,590	9.73
SARFAESI	1,54,144	65,008	11,033	16.97

Source: RBI, Report on Trend and Progress of Banking in India 2015-16

Table-7: No of ARCs (Asset Reconstruction Companies) and Assets Acquired from Banks

	Dec. 2013	March, 2014	March,2015	March,2016
Company Count	5	13	14	16
Total assets acquired from banks (Rs. in crore)	16,356	35,164	58,479	72,626

Source: RBI, Report on Trend and Progress of Banking in India 2015-16

Banks also reduce their stressed assets by selling them to ARCs. This has been increasing since March, 2014 because of the regulatory support extended to banks under the Framework to revitalize the Distressed Assets in the economy.

Recent Amendments in Banking Regulation Act. 1949

The Union Cabinet has brought an Ordinance to give RBI more powers to tackle the huge amount of Non-Performing Assets that the banking sector is presently facing. The proposed amendments empower the RBI to enjoy some direct powers to deal with bad loans as presently it cannot interfere in the matter. The RBI may appoint an Oversight Committee comprising eminent persons named by Indian Banking Association (IBA) in consultation with RBI to tackle the problem of NPAs and also to look into the probable probe by vigilance agencies. The most important feature of this amendment is that banks can file for resolution before an account turns into an NPA. It is hoped that this new Ordinance after getting the assent of the Honourable President of India would set a milestone in tackling the huge amount of NPAs in banking sector. The operational part of recovery of NPAs through this amendment is as presented below through a Chart.

The Cleanup Act

AMENDMENT IN BANKING REGULATION ACT ENSURES FASTER RESOLUTION

- Banks can file for resolution before an account turns into an NPA
- Banks to go by definition of 'default' under Bankruptcy Code
- No need to wait for 90-day period for account to turn into an NPA

IBA & RBI TO IDENTIFY CASES FOR RESOLUTION

- BANKS CAN PLAN THEIR remedial action in advance
- RBI CAN ISSUE DIRECTIONS to banks for resolution of stressed assets

CREDITORS' panel to decide on revival plan or liquidation within a period of 180 days

Source: www.economicstimes.indiatimes.com

Conclusion:

The magnitude of NPAs in banks and financial institutions has emerged as an alarming threat to the banking industry in our country. The NPAs growth has a direct impact on the profitability of banks. Several prudential and provisioning norms have been introduced by RBI for improving efficiency and trim down NPAs to improve the financial health of banks. The problem recovery is not with the small borrowers but with large corporate borrowers for which strict policy should be laid down by the banks. The channels of recovery of NPAs like Lok Adalats, DRTs and SARFAESI Act. has extensively been studied in this paper. It is observed that the percentage and amount of recovery in case of DRTs and SARFAESI Act. is comparatively higher than the Lok Adalat channel. The status of Asset Reconstruction Companies has also been studied. It is felt that other channels like One Time Settlement Schemes, Agents appointed for recovery of NPA like Recovery Agent, Enforcement Agent, Self Help Groups especially for recovery of Govt. sponsored schemes could have been studied. It is hoped that the new Ordinance for making amendments in the Banking Regulation Act.1949 after getting the assent of the Honourable President of India would set a new milestone in tackling the huge amount of NPAs in banking sector.

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