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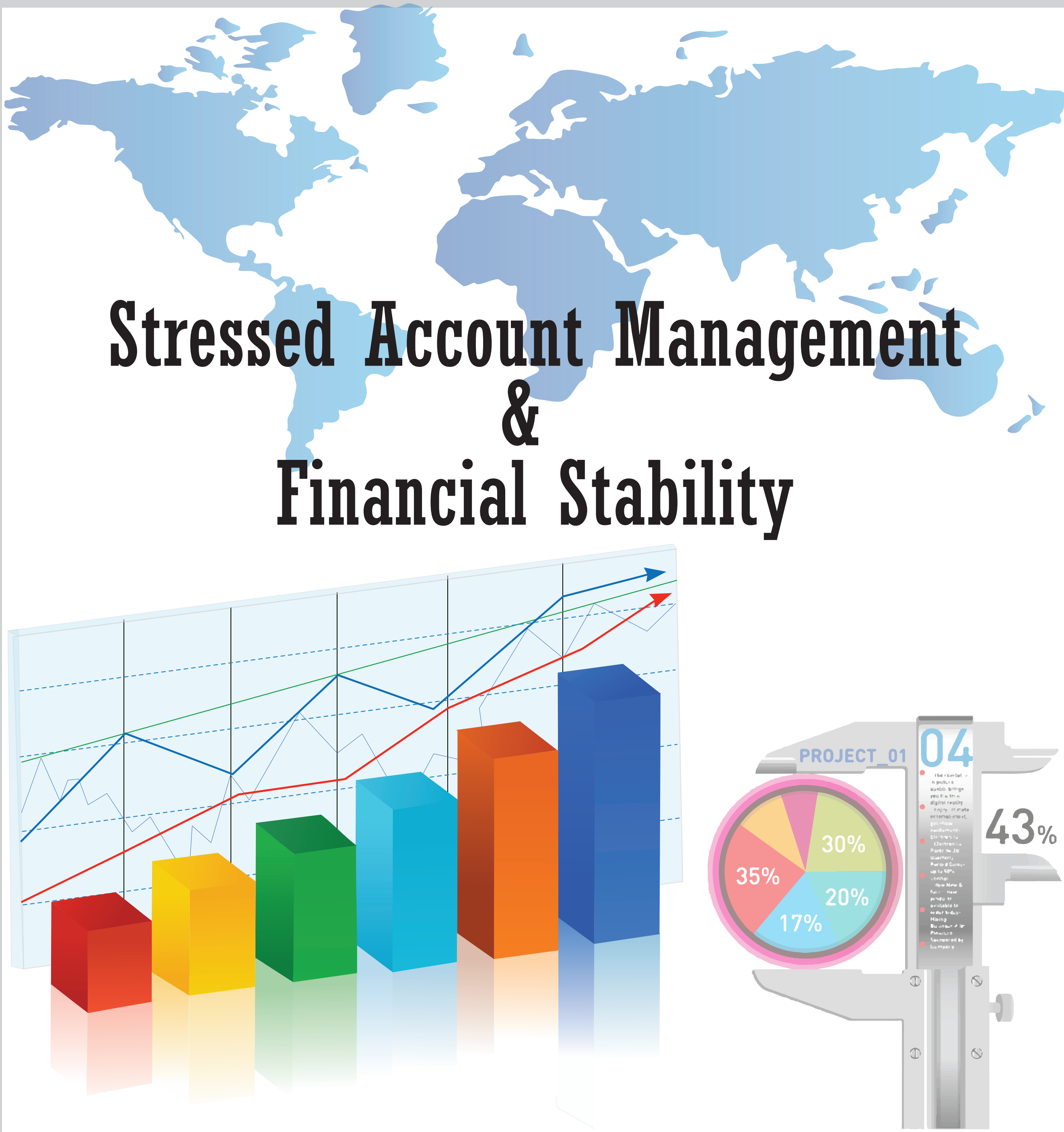
Stressed Account Management & Financial Stability



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Bank Quest

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MISSION

The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.

ध्येय

संस्थान का ध्येय मूलत: शिक्षण, प्रशिक्षण, परीक्षा, परामर्शिता और निरंतर विशेषज्ञता को बढ़ाने वाले कार्यक्रमों के द्वारा सुयोग्य और सक्षम बैंकरों तथा वित्त विशेषज्ञों को विकसित करना है ।

Printed by Shri J. N. Misra, **published by** Shri J. N. Misra on behalf of Indian Institute of Banking & Finance, and **printed at** Onlooker Press 16, Sasoon Dock, Colaba, Mumbai-400 005 and **published from** Indian Institute of Banking & Finance, Kohinoor City, Commercial-II, Tower-I, 2nd Floor, Kirol Road, Kurla (W), Mumbai - 400 070. **Editor** Shri J. N. Misra.

editorial

Dr. J. N. Misra

Chief Executive Officer,

IIBF, Mumbai

Development of a country's economy is interlinked with a robust financial system mainly comprising of banks and other financial institutions. Indian Banking has shown resilience in the past and has withstood the after shocks of the financial crisis. Of late, however, the asset quality of the banks, particularly of the Public Sector Banks, has been under strain. The total stressed assets in the Indian Commercial Banks was 11.5% as at the end of March 2016. Several measures have been taken by Government of India (GOI), regulator and banks to improve the asset portfolios.

In this milieu, the Institute felt if the Bank Quest issue focused on this aspect, it may be useful. Keeping this in view, the current Bank Quest issue is based on the theme "Stressed Asset Management and Financial Stability".

The first article of this issue is titled "Stressed Accounts Management & Financial Stability" authored by Dr. R.C. Lodha, Executive Director, Central Bank of India, wherein, the author has offered an interesting perspective on the process of managing stressed accounts of the banks and is of the opinion that simply managing a stressed account, after identification of stress, is nothing but post facto fire – fighting which can be avoided to a great extent by due diligence and an analytical approach at the selection stage.

The second article is on "Stressed Accounts Management & Financial Stability" authored by Dr. M.G. Vaidyan, Deputy Managing Director (Stressed Assets Management Group), State Bank of India (SBI). The author has mentioned that expeditious resolution and management of NPAs is the need of the hour. The initiatives taken by GOI & Reserve Bank of India have also been outlined.

The third article is on the topic "Stressed Account Management" by Dr. Soumya Kanti Ghosh, Chief Economic Advisor, SBI, Mr. Sumit Jain, Economist, SBI, and Dr. Tapas K. Parida, Economist, SBI. Through this article, the authors have highlighted on the Asset Quality Review Mechanism of RBI.

The fourth article is on "Evolution of Stressed Assets Management in Indian Scenario" by Ms. K. Malathi, Head, Professional Development Centre, Southern Zone, Indian Institute of Banking and Finance (IIBF). This article is intended to take the readers through the genesis of identifying the weak assets in the loan portfolio through early warning signals and reviving the same if viable or to initiate speedy recovery.

The fifth article is on "NPA and stock prices of Public Sector Banks in India" authored by Dr. B. K. Bhattacharya, Principal and Head, Faculty of Management Studies, The ICFAI University, Tripura, Mr. L.K. Sinha Ray, Retired General Manager, West Bengal Financial Corporation, and Mr. M. K. Ghosh, Financial Analyst and Ex-Officer of West Bengal Financial Corporation. The study conducted by the three researchers on 21 public sector banks reveals that the Net Non Performing Assets (NNPAs) has some impact on the stock price but its effect is quite short living and the stock price moves in its own way depending on the current sentiment with regard to respective bank stocks.

This issue has two Hindi articles titled as "दबाव आस्तियों का प्रबंधन एवं वित्तीय स्थिरता"*by Mr. Jagdish Rajput,* प्रमुख, प्रोफेशनल डेवलपमेंट सेंटर, उत्तरीय अंचल, इंडियन इंस्टिट्यूट ऑफ बैंकिग एंड फ़ाइनैन्स *and* आस्ति पुनर्निर्माण कम्पनियों की अनुत्पादक आस्तियों की वसूली में बढ़ती भूमिका *by Mr. Rajendra Singh,* मुख्य प्रबंधक, इंडियन ओव्हरसीज बँक.

We also carry an article on "Legal Decisions Affecting Bankers" by Mr. M.G. Kulkarni, Deputy Director (Legal), IIBF, focusing on the issue "Whether, Bank is liable for deficiency in service?"

We are sure that the articles included in this edition will stimulate your interest. Your suggestions and feedback for improving the contents are welcome.

Dr. J. N. Misra

Stressed Accounts Management & Financial Stability

Dr R. C. Lodha*

"If you owe your Bank manager a thousand pounds, you are at his mercy. If you owe him a million pounds, he is at your mercy".

J. M. Keynes

Stressed Accounts Management is actually a misnomer. The actual process of managing an account to avoid stress and future deterioration begins right from the very selection of the borrower itself. Simply managing a stressed account, after identification of stress, is nothing but post facto fire – fighting which can be avoided to a great extent by due diligent and an analytical approach at the selection stage.

JOURNEY OF NPA MANAGEMENT:

In order to promote a healthy platform and enable the objective categorization of asset quality in banks, the Reserve Bank of India introduced the Income Recognition and Asset Classification (IRAC) norms in the early nineties. Transparency in disclosing the asset quality would eventually benefit stakeholders, like shareholders, depositors, regulators, etc. This has also drawn the attention of the banks towards emphasizing on monitoring of asset quality on an ongoing basis.

Currently, the banking and financial services industry is struggling under the pressure of the corporate loan 'crisis', as the number of Non-Berforming Assets (NPAs) in this sector continue to soar. A close scrutiny of the loan sanctioning, disbursement and recovery process have uncovered a number of gaps and inefficiencies. This includes identification and reporting of NPAs. Regulators have taken a note of it and are suggesting a number of steps to tackle this economic debacle. On the other hand, early identification, correct classification and reporting of NPAs require greater focus and improvement.

Regulators are increasing their efforts in curbing the alarming rate of growth in stressed assets. However, one of the less talked about issues here is that how these assets are currently monitored and reported. Banks have their own systems and processes in place for the identification of NPAs and provisioning. The matter for concern is, how foolproof are the systems with respect to allowing possible manipulations and manual interventions while classifying NPAs category.

The key issues that banks are facing today are in the nature of complexities around different systems used for NPA identification and provisioning, over dependence on third parties for technology support, lack of audit trails to identify changes affecting NPA classification, lack of training and awareness at remote branches, etc.

The history of classification of stress accounts:

- Until mid-eighties, management of NPAs was left to the banks and the auditors.
- In 1985, the first ever system for classification of assets in the Indian Banking system was introduced on the recommendations of A. Ghosh Committee on Final Accounts. This system, called the "Health Code System" (HCS) involved classification of loan accounts into eight categories ranging from 1 (satisfactory) to 8 (bad and doubtful debt).
- In 1991, the Narasimham Committee on the financial system felt that the classification of assets, according to the HCS was not in line with international standards. It was suggested that for the purpose of provisioning, banks should classify their advances into four broad groups. viz. (i) standard assets; (ii) substandard assets; (iii) doubtful assets; (iv) loss assets.
- Following this, prudential norms on income

* Executive Director, Central Bank of India.

recognition, asset classification and provisioning were introduced in 1992, in a phased manner.

- In 1998, the Narasimham Committee on Banking Sector Reforms recommended the further tightening of prudential standards in order to strengthen the prevailing norms and bring them at par with evolving international best practices.
- With the introduction of 90-days norms for classification of NPAs in 2001, the NPA guidelines were brought at par with international standards.

MANAGING STRESSED ACCOUNTS:

1. Prevention of potential stressed accounts.

This involves right selection of borrowers at the initial stage. The primary reason for high NPAs in Banks is the simple fact that, instead of going to the market and selecting good customers, most of the Banks are depending on a few walk in customers or customers brought in by unscrupulous Consultants. The choices here are limited and the possibility of fraud and misappropriation is high. Most of the corporate customers are referred to the Banks by merchant bankers and loan syndicators instead of the Banks identifying 'A' rated borrowers themselves and formulating strategies to get a share in their business. In fact, most of the banks do not have a robust credit marketing system. This could address the issue of unhealthy exposure in the beginning itself.

This gap can be bridged to a certain extent by proper due diligence about the genuineness of the borrower, his track record and the genuineness of his intent based on market inquiry and verification of the various reports and records available in the public domain.

Analysis of technical and economic viability of the project is very important. This requires a significant amount of technical skills. In many cases, the obtaining of a TEV study report is entrusted directly to the borrower without realizing that he can manipulate the report. Another area of expertise is the correct assessment of fund requirement, cash flow and marketability of the product.

The following are some of the issues which call for careful examination.

a) The realistic level of sales based on past performance / industry outlook

b) The utilization of capacity

c) The break even period and volume

d) The requirement funds

e) Cash flow based on the sales and its adequacy to meet the repayment obligations.

Many of the projects are failing due to improper assessment of cash flow, fixing of repayments which do not match with generation of cash and time/ cost overrun leading to the debt mounting to unsustainable levels.

The next area requiring focus is to ensure that the assets are created and funds are not diverted elsewhere. This should not end at the installation phase, but continue on a continuous basis. Such monitoring will ensure that not only the term loan component, but even the working capital is also not diverted. Hence Credit Monitoring during Pre-disbursement; during disbursement and post disbursement is very critical in maintenance of asset quality. Disproportionate blocking of funds in receivables and not routing the transactions through the account should not be allowed. This will also prevent any possible diversion of funds.

2. Initiating timely action upon identifying stress

Once stress is detected in an account, the first thing one must do is to assess the triggers of stress. It could be any of the following reasons.

a) Due to diversion of funds

b) Low market demand

c) Blocking funds in receivables (In conducive to the business profile)

d) Slow picking up of sales

e) Using working capital for long term investments

f) Other reasons,

(1) On-site Internal Signals.

- Non – compliance with the terms of sanction.
- Unplanned borrowing for margin contribution.
- Delay in payment of interest.
- Installment overdue beyond 30 days.
- Return of cheques for financial reasons.
- Reduction in credit summations – not routing entire (or prorata) transactions through the Bank, Opening

of collection accounts with another Bank without prior approval of appropriate authority.

- Longer outstanding in the bills purchased accounts.
- Longer period of credit allowed on sales, Bills negotiated through the bank outstanding after due dates, frequent return of Bills and late or non-realization of receivables.
- Constant utilization of working capital limits to the brim.
- Unexplained delay or failure to submit periodical statements such as stock / book debts statements, MSOD, CMA, QPR, balance sheets etc. / other papers needed for review of account.
- Frequent requests for excess/ additional limit or for extension of time for repayment of interest / installments.
- Adhoc/excess/Bill purchase overdue, LC devolvement / Guarantee invocation.
- Lack of transparency in borrower's dealings with the Bank / avoiding meeting bank officials.
- Constant failure or unwillingness to mention unpaid stock in stock statements or age of book debts in book debt statement.

(2) Off-site External Signs

- Delay in project implementation.
- Installation of sub – standard machinery or machinery not as per the project report / approved quotations.
- Frequent break down in plant / machinery.
- Production noticeably below projected level of capacity utilization.
- Labour problem and frequent interruptions in manufacturing.
- Non – availability of vital spare parts/major raw material.
- Production of unplanned items without reporting to the Bank.
- Disposal / replacement of vital plant and machinery without Bank's knowledge.
- Downward trend in sales.
- Higher rate of rejection at process stage / final stage / after sales.
- Delay or failure to pay statutory dues.
- Abnormal increase in debtors and creditors.
- Increase in inventory, which may include large quantity of slow and non- moving items.
- General decline in the particular industry combined with many failures.
- Rapid turnover of key personnel.
- Filing of law suits against the company by its customers, creditors, employees etc.
- Unjustified rapid expansion within a short time without appropriate financial tie up.
- Sudden / frequent changes in Management / infighting within the management.
- Reduction in profit / unit starts incurring losses.
- Dependence on single or few buyers / no alternate market for product.
- Threat of action against the borrower from statutory bodies e.g. Pollution control, Labour Welfare Dept., Income Tax / Sales Tax / Octroi / Excise / Customs Dept. etc.
- Poor or dubious record maintenance.
- Speculative inventory acquisition not in line with normal purchasing practices.
- Poor maintenance of plant / machinery.
- Adverse market reports on the borrower / concern.
- Loss of crucial customers.

Once the account is under stress corrective action is to be initiated immediately or else it will result in the mounting of interest and the debt reaching unsustainable levels.

The required corrective action will be different in each case. Say for example, if diversion of funds is established, the borrower should either bring the diverted funds back along with the margin or else legal action should be initiated immediately.

In case the issue is of low market demand for the manufactured product and there being no provision for switching over to an alternate product, it is better to prepare ground for exit in the initial stage itself. It is observed that many new generation banks make an early exit in such cases, by compelling the borrower to leave by raising the rate of interest or stipulating new terms & conditions.

Though re-scheduling is an option in case of ‘c’ and ‘d’ above, it is always better to create ground for exit or impress upon the borrower to bring additional capital or a strategic investor.

In case of ‘e’, even though it is an irregularity on the part of the borrower, the issue can be addressed by reimbursement of capital / long term expenditure; if the working capital funds are genuinely utilized / diversified for creation of assets like plant & machinery or equipment needed to run enhance the problem or by way of extending the required working capital if the increased capacity can be productively used to increase production and sale.

Where the market and industry conditions are not conducive, borrowers and lenders can resort to bringing down the debt to a sustainable level by selling off the noncore assets or inviting investors for a stake in the company by converting the unsustainable portion of debt into equity.

Change of Management outside SDR can also be thought of as a good strategy for management of stressed assets /NPAs. Banks can also explore the option of converting a part of the debt into equity through SDR route. This can be off loaded within 18 months and Bank can retain the IRAC status till then, at the same time working out alternate plans for a change in the management of the unit.

Even, as per latest RBI guidelines issued on 25th February 2016, fraud accounts can also be restructured with dispensation of keeping the account as standard; provided change of Management happens. The idea is that it’s not the business commits fraud, its promoter/ person who commits fraud.

The new scheme of S4A is also more or less on the same lines of separating sustainable from unsustainable debt and can be explored in such cases.

(3) Revival strategies are not viable, initiate recovery proceedings.

Banks can initiate SARFAESI action and take required steps in a time bound manner. Wherever the borrower is likely to go for a stay order from caveat be filed. Wide publicity be given for auctions.

Uncharged assets to be identified and attached through court by filing ABJ (Attachment Before Judgement) along with the Original Application with DRT.

Declaring the borrower as a wilful Defaulter and a Non Cooperative Borrower will stop the company or promoters or other companies of the promoters from availing credit facilities from any other financial institution.

Publishing photograph of defaulters will put pressure on the borrowers/ guarantors.

In case of companies, filing of winding up petition can be thought of.

The option of the attachment of debts of the company and getting a garnishee order can be explored.

Filing case under section138 of Negotiable Instruments Act if a cheque given by the borrower has bounced.

Each file is to be studied minutely in order to understand what kind of action is required in a particular case.

CAUSES:

1. **Fundamental Reasons :**

   The first important reason is the lack of due diligence, post sanction inspections, monitoring and audit alongside a weak governance mechanism to check corrupt practices and political interference. This often leads to the diversion of funds into creations of personal assets.

2. **Corporate Imprudence:**

   The imprudence of the corporates can be considered to be the second most important factor for poor asset quality in the system. Some of the major failings that the corporates exhibit are:

- Overleverage - All debt, no equity. Veiled and complex corporate structures impede assessment by banks.
- Obsession for higher growth- Excess capacities, unrelated diversification. The liquidity generated due to ultra-accommodative monetary policy stance by Central Banks in advanced economies also created misaligned incentives.
- Chasing profits- Ignoring risks inherent in unhedged forex exposures.

3. **Corporate Misdemeanors**

Not all promoters have a same inner voice and some of them are out to hoodwink the system. They are hardheaded defaulters in banks' books as they have been unwilling to respect their repayment commitments, even while having an ability to do so. A section of the promoters have redirected funds for purposes other than for which the money was granted. There are similar events where a section of the borrowers have redirected reserves for individual extravagance and indulgence and not created any gainful asset. Some promoters have disposed of assets created out of Banks funds without the information of the Bank. The resulting defaults are intentional and hence wilful.

The mistakes of the banks and corporates, whether coincidental or purposeful, have brought about a gigantic heap up of non-performing assets in the Banking industry. While the banks were expected to prevent credit risk concentration, particularly in areas, with unreasonably high risk, the corporates should have had better understanding of the emerging market.

4. The Environment factors:

The economic downturn, since the Financial Crisis in 2008, can be considered one of the significant reasons for the Asset Quality issues in India. There are other issues as well, like fall in prices, dumping by China and so forth which has impacted competition and resulted in the creation of idle assets. The policy logjam added fuel to the fire. The growth in large scale ventures in the nation have remained slowed down because of absence of clearances, cancellation of coal blocks, falling through of the fuel supply, etc.

Such promoters can't be termed as willful defaulters or such lenders can't be called to have malafide intentions, but it sure leads to financial instability. While we battle to address these issues, the priority is in focusing on remedial measures;

<u>The Remedial Measures</u>

The deterioration in the asset quality in India for the first time has been influenced powerfully by the global factors. This is the reason that the simple strategies of re scheduling the loan, acquiring assets through SARFAESI act or settling dues through DRT, is proving to be inadequate. CDR is mostly useful when the industry or the borrowal account is influenced by domestic cyclical factors of Indian economy. But when the impact of global factors start playing and economic revival gets linked to Global factors the models of recovery and paradigm of life cycle of Borrowal accounts undergoes changes .The hesitation to declare different stages of a disease has to change. We as people need to bravely declare particularly when the critical care is called for, or when there is a multiple organ failure or when the patient is dead. As the new paradigm emerges, a patient is shown under several categories beginning from mild illness, curable through medicines or patient needing surgery or patient to be declared incurable or finally dead.

The model of recovery which was personal contacts, demand notices or filing a debt recovery suit has been changing continuously over the last 50 years or so in order to keep pace with changing times. DRT Act of 1993 gave special teeth to Bankers when Banks were getting exposed to the impact of liberalization on lending and recovery. SARFAESI Act of 2002 brought a revolutionary change as lengthy court procedures gave way to notice, possession and auction sale of assets both primary or collateral. CDR was a more sophisticated version to meet the cyclical misfortunes of any corporate owing to domestic factors. SDR is a great step forward as it aims to eliminate non serious players from the market who probably could not bring the proper management practices. SDR takes the next step of taking a partial ownership and management control, run to revive the stressed assets and finally find a new owner to manage the company and its assets. And finally the SDR which takes care of all listed companies moves to S4A to focus exclusively on companies having extraordinarily high exposures from institutional lenders beyond a threshold of Rs 500 crore.

Since companies with such high exposures impact the financial stability of the national economy, sustainability factor is taken into account. And finally, when the patient is beyond a cure, insolvency and Bankruptcy is resorted to protect the surviving organs, protect them from further decay, keeping the possibility of utilizing them productively by organ transplantation approach.

1. Financial Re-engineering

Financial re-engineering is a multidisciplinary field involving economic theory, statistics, the methods of engineering, tools of mathematics and the practice of programming. The key objectives of financial re-engineering are facilitation of the new budget framework, identification, review and improvement of key process control, improve the efficiency and accuracy of financial data capturing, changing products, systems, people, brands technically, improving in availability and accessibility of financial reporting, decision making and risk management and continuous improvement. Financial reengineering plays a key role in the customer driven derivatives business which encompasses quantitative modeling and programming, trading and risk management, derivative products in compliance with the regulations and Capital /Liquidity requirements. These things look very complicated or to use Indian proverbial saying “Theoretical”. As the Indian economy gets more and more intertwined with global economy, predictability has to be based upon certain models and theories as gut feelings of Indian businessmen may not be adequate to read the global trends.

2. **Joint Venture Fund (JVF)**

   Recently SBI and a Canadian firm, Brookfield Asset Management Co have proposed to launch a joint venture fund to which the Canadian partner would commit Rs 7000 crore to purchase the distressed assets .SBI would contribute 5% of the investments.

3. **Insolvency and Bankruptcy Code 2016**

   The insolvency and bankruptcy code 2016 will establish some very basic principles of doing business in India. The focus is on quick decision making, be it turn around or liquidation, apart from the early settlement of all stakeholders. Indian promoters have always believed or perceived their right over their business as if it were their divine right, as they were protected by multiple laws and Indian courts. Courts were driven by a concern that in case, insolvency and bankruptcy were to be declared, the resultant closure of any business would mean a heavy loss of livelihood or employment to hundreds of families. The new code snatches away this right of promoters over their business perceived all along these years. But I would request you to appreciate this from the angle of financial stability, as there are more than 5000 cases of insolvency locked up in the Indian courts for years or for decades.

The most significant provision of the codes is the water fall mechanism – Liquidation will be paid in the following sequential manner; Secured creditors, Workmen dues for 12 months, Employees other than the workmen, Unsecured creditors. Government dues have been put in the last. The code protects the interest of operational creditor also besides Banks.

The code will open floodgates of requirement for insolvency professionals capable of objectively assessing business and able to turn around, or liquidate them with a governance framework with minimum court intervention. Once the legislation comes into force new standards of professionalism to match global trends may come up in the natural course. These professionals might be required to shoulder accountability with penal provisions for negligence.

Strengthening asset quality is the second phase of transformation agenda. The finance ministry and RBI had been working on the asset quality review (AQR) envisaging that the stressed assets should be stabilized by March 2017.

Therefore the perceived feeling of some of the Indian Businessmen that all this happened due to an overzealous or premature initiative of the regulator is quite ill placed. It was agreed to between Banks, Government and RBI to consciously move in this direction. Therefore, with this mandate, RBI wants to complete the cleanup of bad loans through AQR by March 2017, and most banks have reported a sharp drop in their profits or posted losses because of higher provisioning to cover potential losses.

4. **Central Repository of Information on Large Credits (CRILC)**

To address the problem early, a Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders, has been set up. Under this arrangement, banks are reporting credit information, including classification of an account as SMA to CRILC on all their borrowers having an aggregate fund-based and non-fund based exposure of Rs. 5 crore and above to RBI.

As soon as an account is reported by any of the lenders to CRILC as SMA-2, they should mandatorily form a committee to be called Joint Lenders’ Forum (JLF) if the aggregate exposure (AE) (fund based and non-fund based taken together) of lenders in that account is Rs. 1000 million and above. Lenders also have the option of forming a JLF even when the AE in an account is less than Rs. 1000 million and/or when the account is reported as SMA-0 or SMA-1.

5. **<u>Structuring of the credit facilities extended to various borrowers:</u>**

   Setting realistic repayment schedules on the basis of a proper analysis of cash flows of the borrowers.

This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in advances. A 'one size fits all' approach and providing plain vanilla loans to all clients may not be in the interest of banks as well as its customers.

6. **Flexible Structuring** of long term project loans with periodic refinancing option (known as 5:25 scheme) In order to effect a structural change in the way project loans are granted by banks, and considering the need to facilitate banks to offer long term project financing, which may ensure long term viability of infrastructure and core industry sector projects by smoothening the cash flow stress in the initial years of such projects. Reserve Bank of India has issued guidelines on Flexible Restructuring.

7. **Restructure / Rehabilitation**

Despite proper credit appraisal and proper structuring of loans, slippages in the asset quality may not be unavoidable, especially when the economic cycles turn worse. Hence, once a weak account is identified, one of the remedial options is restructuring. Inspite, of their best efforts and intentions, sometimes borrowers find themselves in financial difficulty because of factors beyond their control and also due to certain internal reasons. For the revival of the viable entities as well as for the safety of the money lent by the banks, timely support through restructuring in genuine cases is called for. The objective of restructuring is to preserve the economic value of viable entities that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders.

RBI's prudential guidelines on restructuring of advances lay down detailed methodology and norms for restructuring of advances under sole banking as well as multiple / consortium arrangements.

8. **Corporate Debt Restructuring (CDR)** mechanism is an institutional framework for restructuring of multiple / consortium advances of banks where even creditors who are not part of CDR system can join by signing transaction to transaction based agreements.

Mere classification of an account as non-performing asset need not result in withdrawal of support to viable borrowal accounts. The purpose of asset classification and provisioning is to present a true picture of bank's balance sheet and not to stigmatize accounts / borrowers. However, while considering their support to accounts under stress, proper distinction between wilful defaulters / non-cooperative / unscrupulous borrowers on the one hand, and on the other hand, borrowers defaulting on their debt obligations due to circumstances beyond their control should be made.

9. **Strategic Debt Restructuring (SDR) Scheme**

The Strategic Debt Restructuring (SDR) has been introduced with a view to ensuring more stake of promoters in reviving stressed accounts and providing banks with enhanced capabilities to initiate change of ownership, where necessary, in accounts which fail to achieve the agreed critical conditions and viability milestones. SDR is about taking control of distressed listed companies with an objective to initiate change of management of companies, which fail to achieve the milestones under corporate debt restructuring.

SDR is subsequent to CDR or any other restructuring exercise undertaken by the companies. The consortium of lenders in case of SDR is known as Joint Lenders Forum or JLF, which is empowered to convert the entire or part of the loan, including the unpaid interest into equity shares, if the company fails to acquire the milestones and critical conditions stipulated in the restructuring package.

The JLF has to evoke the SDR within 30 days of review of account and JLF must approve the debt to equity conversion within 90 days of deciding to invoke SDR. The JLF gets further 90 days to actually convert loan into shares. On completion of conversion of debt to equity & take over minimum 51% by lenders within 210 days from date of review, JLF shall hold the existing assets status for another/ total 18 months provided at least 26% is taken/ purchased by a new promoter(out of 51% which lenders took over within 210 days of date of review) and thereafter divert their remaining(25%) holding to another promoters following which the loan will be upgraded to "STANDARD"(if the account is NPA on the date of reference). The new promoters should not be a person entity from the existing promoters / promoters group.

10. **Joint Lenders' Forum Empowered Group (JLF – EG)**

JLF will finalize the Corrective Action Plan (CAP) and the same will be placed before an Empowered Group (EG) of lenders, which will be tasked to approve the rectification / restructuring packages under CAPs.

The decision on the CAP must be approved by a minimum of 75% of creditors by value and 60% of creditors by number in the JLF. After a review, the proportion of lenders by number, required for approving the CAP has been reduced to 50%. The top two banks in the systems in terms of advances, namely SBI and ICICI Bank, will be permanent members of JLF EG, irrespective of whether or not they are lenders in the particular JLF.

11. **Scheme for Sustainable Structuring of Stressed Assets: (S-4A)**

Reserve Bank, has formulated the "Scheme for Sustainable Structuring of Stressed Assets" (S4A) as an optional framework for the resolution of large stressed accounts. The S4A envisages determination of the 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 borrowers turns around.

A debt level will be deemed sustainable if the Joint Lenders Forum (JLF) Consortium of lenders / bank conclude through independent techno-economic viability (TEV) that debt of that principal value amongst the current funded / non-funded liabilities owed to institutional lenders can be serviced over the same tenor as that of the existing facilities even if the future cash flows remain at their current levels.

To sum up, management of Stressed Accounts Portfolio is an ongoing process starting from the selection of the borrower till the settlement of the account. Stronger the foundation, i.e. the selection of the borrower, lesser will be the subsequent stress and efforts required to manage the portfolio.

FINANCIAL STABILITY:

Financial stability is a prerequisite for the kind of growth we dream of from the sweet spot where India is today. Effective and efficient use of the tools available for clean-up, in the most expeditious manner, is the need of the moment.

The Government and the RBI have embarked upon programmes for containing inflation to tolerable levels, employment generation through big thrust on manufacturing enterprises, and accelerate pace of GDP growth. De-clogging and cleaning up the financing channels have brought us to several initiatives from DRT to S4A mechanisms and Bankruptcy Code which are mainly targeted at large corporates and big accounts which account for major chunk of stressed assets of all Banks.

Banks play a vital role in providing financial resources, especially to capital-intensive sectors such as infrastructure, automobiles, iron and steel, industrials and high-growth sectors such as pharmaceuticals, healthcare and consumer expenses. In emerging economies, banks are more than mere agents of financial intermediation and carry the additional responsibility of achieving the government's social agenda also. Because of this close relationship between banking and economic development, the growth of the overall economy is intrinsically correlated with the health of the banking industry.

The large amount of stressed Assets in the Banking System had resulted in the slowdown in Credit Growth due to the absence of any fresh funding by the Banks which have directly affected employment opportunities and affected production and thereby leading to fall in the National Income. In a country like India, where Public Sector Banks play a vital role in the development of key sectors, the increase in the Stressed Assets have dried up the resources leading to absence of any major lending activity which tells upon the financial stability of the Nation.

The build-up of stressed loans has led to a slowdown in public sector bank lending in certain sectors. High distressed exposures in such sectors were already occupying Public sector Bank's attention and holding them back. The only way for them to fulfill the economy's credit needs, which is essential for economic growth, is to clean up and recapitalize.

Of late, in an attempt to reduce the size of stressed assets in an already expanded balance sheet, Banks have not been lending much and this bodes well for future slippages too. When it comes to choosing between clean up or growth the answer is unambiguously "Clean up!". Rather, this is the lesson that every other country, which has faced such financial stress has on offer.

The Government is in the process of speeding up Debt Recovery and has already created a new Bankruptcy Code. This is an important step towards improving the resolution process. In the near term, however, the following action will pay large dividends. That is to improve the governance of public sector banks so that they are not faced with such a situation in future. The Government, through the Indradhanush initiative, has sent a clear signal that it wants to make sure that public sector, once healthy, stay healthy.

Conclusion and Future Outlook

Post AQR, challenges abound, even if the Bankruptcy code is implemented. Corporates to a great extent are overleveraged with extremely impaired cash flows. These corporates require capital, new administration and new promoters. Banks are hesitant in increasing their exposures in stressed assets for a number of reasons. It might be very difficult to run unit profitability without bringing down the burden of debt on the corporate. Therefore the first step would be to bring down the debt exposure to a reasonable level. This may include writing down a part of the debt obligation by the lenders and/or converting a part of the debt into equity and get another promoter to run the undertaking. This may, nonetheless, be a time consuming and lengthy process and consequently, in the meantime the banks may need to designate an O and M operator to run the operations. In specific cases, there might be a need for some additional funding for investment or for working capital needs. A major obstacle that one comes across, in the working of the JLF is lack of consensus or slow advancement of consensus among the members of the consortium as also lack of authority at Branch level and, therefore, the resultant action by the unit keeps getting delayed. The delay somehow defeats the very purpose for which the JLF mechanism is set up.

There are some views about setting up an investment fund which might come in as a last mile lender. The investment fund could lend to the truncated enterprise and help it get back to profitability at which level banks could profitably dilute their equity holdings in the firm. Question is who would fund this investment fund? The recent in principle agreement between SBI and Brookfield Asset Management co to launch a joint venture fund could be forerunner to many such ventures of future.

The global economy has been passing through a difficult phase and the vulnerabilities still remain. Against this backdrop and that in a globally integrated economy, a general decline in the asset quality was not totally unexpected. However, the extent being witnessed could have been avoided. It is probably because neither the banks nor the corporates resorted to preventive healthcare.

Amidst the continued global slowdown, the prospect of domestic growth remains positive for 2016-17 mainly on account of various monetary and non-monetary reforms undertaken, expectations of a normal monsoon, easing of CPI inflation and rising private consumption. Focus on rural and social infrastructure sector and decline in subsidy outflow have resulted in improvements in the fiscal front, both quantitatively and qualitatively. One can expect that everyone would emerge much wiser after enduring the pain and be judicious in the approach and get a periodic check-up done so that they can stay healthy and live longer.

The pivots of macro-economic indicator of any economy, namely growth, inflation and employment shape the economic outlook. Individual improvement on these three pivots will have significant bearing on taking out any economy from economic stress which will in turn have impact on financial stress being observed in that particular economy.

The two traditional constituents of growth i.e. manufacturing and agriculture has substantial linkages to the pivots of economic growth. GDP growth coming from manufacturing and agriculture will result into de-stressing the financial sector by turning non-performing assets into performing which will further add to GDP growth. Lower inflation always helps in keeping the interest rate capped and thereby supporting both manufacturing & agriculture which will again add to growth besides credit employment. Therefore, improvement in economic stress will automatically lead to distressing of financial sector.

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Stressed Account Management and Financial Stability

Dr. M. G. Vaidyan*

Introduction

Banking sector forms the backbone of an economy. A robust and flourishing banking sector holds the key towards unlocking growth inertia and propelling growth impulses to all sectors of the economy. A buoyant banking industry catalyses the financial system. It has the potential to uplift market sentiment, boost enterprise confidence, increase credit off take, enhance consumption capacity, incentivize savings, create a fertile ground for fresh investment appetite and reduce risk aversion. The banking sector thus plays a pivotal role in the growth and financial stability of the country.

At the same time, the most fundamental business of banks is mobilization of deposits and lending it onwards to earn income. If for any reason, banks get handicapped in achieving their core objective, it adversely hurts their bottom line and jeopardizes their financial health. Therefore, during hostile periods of industrial bust and economic downturns / crisis, banks get suffocated in carrying out their quintessential business of lending which hurts the businesses in dire need of finance thereby crippling any residual growth revival prospects. Moreover, their deteriorating financial health hurts public confidence with serious consequences of a bank run in the worst case. Stress in the banking industry has therefore systemic implications with far reaching outcomes. Health of the banks and macro financial stability are thus destined to exist in a symbiotic relationship where the growth of one becomes imperative for the other to flourish.

Challenges facing the Banking Industry

The Banking industry in India is going through challenging times. The global financial crisis with its origins in the US in 2007-08 has since engulfed the whole world and India is no exception. Banking sector has been one of the major casualties of the crisis. As per RBI's basic statistical returns, overall credit growth of the scheduled commercial banks declined from a high of 22.30% during 2007-08 to a meager 5.88% during 2014-15. This reflects the lower risk appetite of Banks in lending to the industrial sector. In fact, the somber state of lack of trust and confidence was so mutual between the banks and the industry that neither the banks were willing to lend to large corporates nor the industry demonstrated any inclination to tap bank's resources. The same becomes conspicuously evident when growth became hostage to the mutual hostility. Bank credit as a percentage of Net National Product was on an upswing during 2007-08 as it grew from 58.41% to 62.06% from 2007 to 2008 but remained constant or rather fell in the later years from 62.06% in 2007-08 to 58.43% in 2014-15. Similarly, the deposit growth reduced from 22.40% during 2007-08 to 12.45% during 2014-15 which indicates the loss of confidence in the erstwhile time tested notion of banks being safe custodians of public money. Here again the rate of growth of time deposits fell from 22.47% during 2007-08 to 14.57% during 2014-15. This declining growth of long term funds with banks further exacerbated the situation as it made them even more vulnerable to the Asset Liability Mismatches on account of exposure to infrastructure sector with large gestation periods. This further fueled the reticence of banks to lend to the industrial sector and made them more risk averse. In fact, the interplay of all these negative forces crowded out the already starved small and medium enterprises which witnessed increase in their cost of funds due to (a) lesser bargaining power, (b) limited sources to tap funds, and (c) over cautious lending by primary financial institutions. All this resulted in an inertia which put breaks on the growth momentum and threatened the very foundations of financial stability.

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Table 1

(in Rs. Billion)

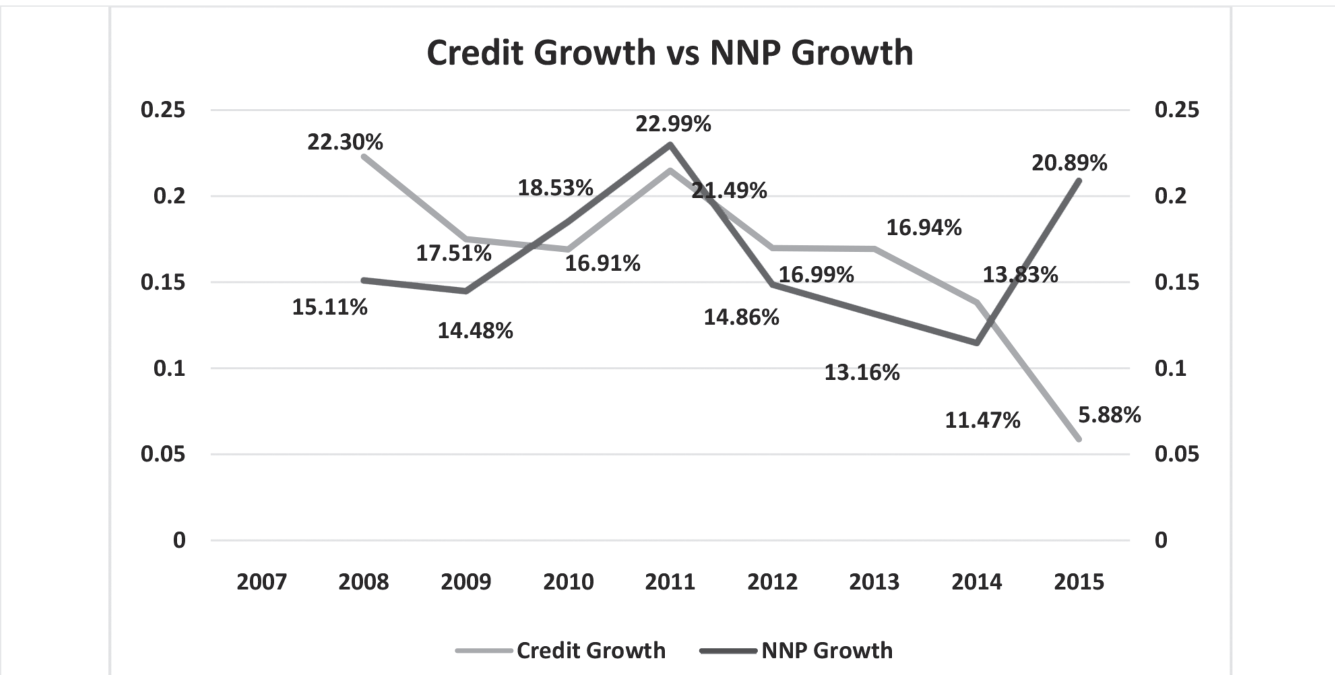
Year	Credit of Scheduled Commercial Banks	Credit Growth	(Net National Product) NNP	Credit % of NNP
2007	19311.89		33062.44	58.41%
2008	23619.14	22.30%	38058.80	62.06%
2009	27755.49	17.51%	43569.43	63.70%
2010	32447.88	16.91%	51641.68	62.83%
2011	39420.82	21.49%	63511.82	62.07%
2012	46118.52	16.99%	72951.63	63.22%
2013	53931.58	16.94%	82550.95	65.33%
2014	61390.45	13.83%	92016.78	66.72%
2015	64998.29	5.88%	111236.26	58.43%

Source: RBI

12.04% in 2000-01 to 2.45% in 2008-09 on account of good economic conditions, establishment of DRTs and enactment of SARFAESI Act. However, the NPAs started to rise again and became 4.27% of the gross advances as on December 2015 and if restructured accounts are taken into account, the total stressed assets touched 11.21% as on March 2015. (Source IBA). A number of reasons can be attributed to the rise in NPA menace like:

1. Slowdown in the global recovery and stress in developed economies;
2. Less than adequate pick up in domestic growth and declining exports;
3. Lack of private sector investments;
4. Fall in commodity prices;
5. Continuing uncertainty in global markets and its negative spillovers;

Chart 1



Stress in the banking sector is reflected in the form of impaired assets or Non-Performing Assets and the resultant deterioration in their asset quality. According to a February 2016 report of standing committee on finance in Lok Sabha, the gross non-performing assets (GNPAs) of scheduled commercial banks declined from

6. Stalling of projects due to infrastructure bottlenecks, delays in obtaining Govt. approvals, problems in land acquisition, supply side constraints, etc;
7. Poor and variable monsoon and the resultant crop loss;

8. Cancellation of coal blocks;
9. Limited off-take of power by Discoms (Power Distribution Companies) given their reducing purchasing capacity;
10. Labour laws constraints;
11. Stress in important sectors like Textiles, Power, Sugar, Steel, Aviation, etc;
12. Delay in realisation of receivables due to subdued demand, reduced market confidence, etc;
13. Delays in resolution of NPAs through legal proceedings;
14. Poor credit assessment and lack of end use monitoring of funds;
15. Willful non-payment by the borrower due to diversion and / or siphoning off funds; etc.

Non-Performing Assets and Financial Health

Rise in the non-performing assets forces banks to make extra provisioning as per Income Recognition and Asset Classification (IRAC) norms of RBI which erodes their capital base and retained earnings. Thus banks have to raise fresh capital which has its own challenges especially for public sector banks. Even for private sector banks or foreign banks, raising fresh capital may yield lower value realization due to financial downturn and lack of investor confidence. Deteriorating asset quality of banks leads to down gradation of their credit rating and increases their cost of funds which directly impacts their bottom line. Extra capital buffering, mandatory RBI ratio requirements and directed lending stipulations leave banks with lesser funds to lend for profitable ventures. Banks have to selectively and over cautiously lend to certain sectors, industry and borrowers which limits their earning capacity. Clustering of NPAs to certain sectors makes them wary in further lending to those sectors without properly analyzing the financial viability of projects. The suspicion that creeps in the mindset makes them doubt the projected earnings of projects resulting in under financing. Promoters with very limited options to raise funds from other sources unwillingly accept bank's proposition and in adverse times become unable to run the project due to financial flows mismatch which further adds to NPAs. On the contrary, banks may get more inclined in lending to certain designated sectors or borrowers with better credit worthiness and end up over financing. Surplus funds may induce financial profligacy and complacency which has the potential to destabilize projected returns. This ambiguous credit assessment and delivery prevents lending to deserving sectors and borrowers, hurting entrepreneurial zeal and enterprise development thereby creating a fertile ground on which seeds of financial instability are sown and harvested.

Moreover, in times of economic crisis and financial downturn, stress is not just restricted to the banking industry but gets pervasively rampant cutting across industry segments. Among the worst hit are infrastructure projects with dwindling cash flows, delay in project completions and escalation in project costs. These put enormous pressure on their ability to service debt obligations which further adds to the banks' NPA woes. During these times, production suffers a blow as over production may reap diminishing returns and supply glut will exert downward pressure on the price realization. Consumption falls as people don't have surplus money. Apprehensions about revival of the economy take front seat and growth prospects turn bleak. Industry defers investment as returns no longer remain assured and viable. Lack of private investment pushes the Government to increase public spending. This, however, has the following repercussions:

1. Excess public spending may fuel inflation resulting in diminishing or even negative real rates of interest. This further leads to reduction in savings and hurts investment;
2. Social sector schemes of the Government suffer due to paucity of funds and the worst hit are sectors like Health, Education, Poverty reduction and employment generation, etc. This has serious long term consequences;
3. It crowds out private sector and increases their cost of funds;
4. Increased Government borrowing and a rise in fiscal deficit which coupled with a monetary deficit can prove to be disastrous for an already sick economy.

Further, continued suppressed demand hurts domestic economy and export growth which exacerbates economic recovery. In these testing times, businesses find it difficult to augment / enhance income and pay their debts. As a result, banks face rise in NPAs and suffer due to deterioration in their asset quality. In order to expedite recovery, the Government signals its intent to the Reserve Bank of India for lowering policy rates which has its own limitations. Even if the rates are lowered, banks are not in a position to pass on the rate cuts due to a reduction in their income and only reduce interest rates with a time lag further delaying recovery prospects.

And then there are outliers

The problem is further exacerbated by some opportunists who audaciously exploit chinks in the system with impunity. They indulge in diversion and siphoning of funds through inflated import bills, transfer of money to related parties and others in the name of loans and advances, cash transactions, creation of assets other than those for which they were financed and deploy these borrowed funds in amassing disproportionate personal wealth. Moreover, by inflating project cost and projecting unrealistic cash flows, they avail excess bank finance and replace their own capital with excess borrowed funds. Such projects naturally turn non-performing due to mala fide intent of the promoters' right from the inception. Further, this parallel exploit of money from the system prevents its use for wealth creation in the economy and welfare of the masses. Thus, a portion of the public money that should have been used for industrial growth, employment generation, entrepreneurial development, social sector upliftment, etc. ends up in getting converted into black money which further finds its way into the economy through hawala route, round tripping and other such illegitimate avenues. This money is then parked in assets such as gold and real estate which results in their undue appreciation with serious social and economic consequences. This plundering of public money, therefore, not only deprives people in genuine need of bank finance but also hurts them due to artificial appreciation of assets and commodities. The consequences of such unlawful acts become more threatening during times of crises and serve as a feeder for social unrest. Addressing this issue requires a strong political will, inter departmental and institutional collaboration, strong laws and their effective implementation, independence of watchdog and investigative agencies, competence building of the banking sector workforce, especially towards assessment of projects and good governance.

Curing the malaise

It is therefore not wrong to believe that primary to the aim of restoring financial stability is a healthy and robust functioning banking system ridden of its malaise – the Non-Performing Assets. Expeditious resolution and management of NPAs is thus the need of the hour. The Reserve Bank of India and the Government of India have taken the following initiatives for managing the distressed accounts:

1. **Asset Quality Review (AQR)** – For any medication to be effective against a disease, it is imperative to fully understand the reasons behind it. In the same way, RBI conducted AQR to correctly assess the depth and reach with which NPAs had gripped the banking system. It was inspired by the idea of cleaning the balance sheet of banks. For the Government to reckon the total amount of capital to be infused into the banking system, it was essential to correctly gauge the extent of NPAs for which AQR was a relevant exercise. Post AQR, there was a spurt in the NPAs of banks which reflected an almost correct approximation of the true health of banks.

   However, certain sections of the intelligentsia are of the view that the AQR exercise was a little harsh on the banks in the testing times of economic distress. Consequent to the AQR, a number of large banks reported losses and saw an erosion in the net worth which did not augur well for the banking system.

   The consequences and benefits of AQR can be debatable, but the exercise has definitely induced prudence and discipline in the entire lending process of banks from pre sanction to post sanction.

2. **Declaration of borrowers as wilful defaulters** - Declaring borrowers as wilful defaulters is a tool at the hands of Bankers to recover legitimate dues from recalcitrant borrowers. It also assists the Banks in restoring public faith in the Banking system as a safe custodian of their deposits and sends warning signals to such borrowers who abhorrently exploit the system with impunity.

   There is a well-defined mechanism of declaring borrowers as wilful defaulters as per RBI guidelines. Wilful defaulters are debarred from availing institutional finance for a period of 5 years from the date of removal of their name from the list of wilful defaulters. It also makes it easier for banks to initiate criminal proceedings against such borrowers. Thus, wilful defaulter tool acts as a strong source of deterrence for banks to prevent potential deviant borrowers to indulge in illicit activities of diverting / siphoning of public money.

3. **Sale to ARCs** – Depending on the merits of the case, banks can sell some of the non performing accounts to Asset Reconstruction Companies (ARCs) who are better equipped to recover money from such accounts. 15% of the sale value is paid in cash and the remaining 85% is paid in the form of Security Receipts (SRs). In order to strengthen ARCs, the government has allowed 100% FDI in ARCs. The step is likely to breathe fresh life in the capital starved ARCs. Further, in order to make ARCs more independent and operate with freedom, the government has issued instructions to Banks to withdraw their stake in existing ARCs. This will avoid conflict of interest and allow banks to increase their capital. RBI also has directed ARCs not to acquire assets from their sponsor banks on a bilateral basis. Foreign portfolio investors and foreign institutional investors are also allowed to invest in 100% of the tranche of SRs issued by ARCs.

Further, as part of the Framework for Revitalising Distressed Assets in the Economy, RBI has amended certain guidelines relating to sale of non- performing assets (NPAs) by banks to Securitisation Companies (SCs)/ Reconstruction Companies (RCs). Following are some of the amendments and their effects:

Existing Guideline	New Guideline	Impact
Sale on SR basis does not attract provisioning except Mark to market provisioning based on NAV of the SRs.	Stressed Assets sold on SR basis will attract progressive provisioning in the same manner in which they would have attracted had they remained in the Bank's books as under: 01.04.17 – If cash portion is less than 50%. 01.04.18 – If cash portion is less than 90%1.	1. Sale on SR basis becomes unattractive. 2. Banks would like to sell assets on cash basis only. 3. Cash rich ARCs will see competition diminishing as cash starved ARCs will go out of business.
Financial assets at present are showcased to:- 1. All the ARCs. 2. Banks who have executed NDA with the Bank by inviting bids through e-mail.	Bids to be invited from ARC/ BANK/ NBFC/ FI/etc through e-Auction	1. Potential for better price discovery due to increased number of players through e-Auction. 2. Competition will increase compelling ARCs to bid higher.
Identification process is bottom up approach i.e. initiated by branches	Identification process to follow top down approach i.e. Committee of the Board will be involved in identification process beyond a threshold as decided by Bank's Board.	This will formalize the identification process. Change internal to banks. No impact on ARC is foreseen.
Assets are at present sold to the highest bidder regardless of whether the bidder already has a certain share of the assets in a case of consortium finance.	In order to encourage debt aggregation, the ARC/ BANK etc other buyer holding a significant share of the assets, say 25% to 30%, will be given preference provided it is willing to match the highest bid.	Debt aggregation will help the purchasers i.e. ARC/ BANK etc as they would be able to enforce security under the SARFAESI Act which mandates a minimum 60% holding so as to initiate action, without wasting time on debt aggregation.
At present, there is no system to assign any order of preference to the buyers for sale of assets.	Swiss Challenge Method to be adopted as under: The Bank to share a list of assets for sale and receive a bid from a buyer If the bid amount matches the minimum stipulated by the Bank, the Bank to invite counter-bids from other buyers. The asset will be sold in the following order of preference:- 1. Buyer already holding the highest share of the asset. 2. The original bidder. 3. The highest bidder during the counter bidding process.	Will help debt aggregation and consequently, the ability of ARC/ BANK etc to enforce security under the SARFAESI Act will increase, improving recoveries and redemption.

Existing Guideline	New Guideline	Impact
The financial asset to be sold is at present discounted at the base rate while arriving at the reserve price.	The financial asset to be sold will be discounted at any relevant rate (such as cost of equity, cost of funds, opportunity cost) with a minimum of contracted rate plus penalty, if any.	1. May increase the amount of haircut for the Bank. 2. Will benefit the buying ARC/ BANK etc as the Reserve Price may be lower.
The Bank may take over standard asset from an ARC.	The Bank may take over such a loan only after the "specified period" under the restructuring plan, is over. The Bank cannot take over any loan sold by it to the ARC at any point of time.	Restricts the Bank's ability for buy back. Paves the way for ARC to exit a financial asset after the specified period is over.

4. **Amendments to the existing SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act and RDDBFI (Recovery of Debts Due to Banks and Financial Institutions) Act** – Despite the presence of tools like SARFAESI and DRT, banks have faced challenges in enforcing their security interests due to legal hurdles, insufficient manpower and inadequate DRT infrastructure. With that in mind, the government has made amendments in the said acts. These amendments will empower banks in recovering their legitimate dues and reducing their NPAs. Following are the amended provisions and their benefits for the Banks:

Old Provision	Amended Provision	Benefit to Bank
Right of redemption of the borrower for redeeming his mortgaged property extinguishes before the date fixed for sale or transfer of the property	Right of redemption of the borrower for redeeming his mortgaged property extinguishes on the date of publication of notice for public auction or inviting quotations or tender from public or private treaty for transfer by way of sale, lease or assignment.	This will reduce scope for staying the Auctions after release of Advertisement.
No time frame specified for disposal of/passing of orders in the application made to the District Magistrate/ Collector for taking physical possession of the secured properties.	30 days' time limit is specified. Grace time of another 30 days permitted.	Expeditious disposal of cases by District Magistrate as he/she will face accountability if 60 days' time is exceeded.
No remedy specified in case of any claims of tenancy or leasehold rights on the secured assets and cases were decided based on the past Supreme Court Judgments	Jurisdiction conferred on DRT to decide on the claims of tenancy or leasehold rights upon the secured assets.	Bank need not approach any District Courts or any Authority under Rent Control Act for resolving any claims of tenancy or leasehold rights.
Where the management of the business of a borrower had been taken over by the secured creditor, the secured creditor shall, on realisation of his debt in full, restore the management of the business of the borrower to him.	If the secured creditor has converted part of its debts into shares of borrower company and acquired controlling interest in the borrower company, such secured creditors shall not be liable to restore the management of the business of the borrower.	This is an additional benefit given to Bank.

Old Provision	Amended Provision	Benefit to Bank
The borrower shall file reply statement to the Original Application filed by the Bank within 30 days from the date of service of summons by the DRT in this regard. No specific period of time for extension of time mentioned.	Extension of time is granted only for further 15 days from the expiry of said 30 days' time.	Cause for inordinate delay removed.
No such provision	Computerised processing of applications filed by Banks in DRTs.	Saves Bank from inordinate delays on account of improper documentation.
No such provision	If any appeal is preferred in DRT, against the order of the recovery officer, the borrower shall make a deposit of 50% of the amounts due with the DRT.	Scope for waste appeal process to DRT against the order of Recovery Officer removed.
No such provision.	The debts due to the secured creditors shall be paid in priority to all other debts.	Bank gets priority over the claims of State and Central Government dues, taxes, cesses and all other revenues payable by the borrower.
No such provision.	CERSAI registration must for taking physical possession. (Both for movable and immovable properties)	Assists in checking frauds.

5. **5:25 Flexible Structuring Scheme** - As per the 5:25 flexible structuring scheme, the lenders are allowed to fix longer amortization period for loans to projects in the infrastructure and core industries sector, for say 25 years, based on the economic life or concession period of the project, with periodic refinancing, say every 5 years. The repayment at the end of each refinancing period would be structured as a bullet repayment, with the intent specified upfront that it will be refinanced and such bullet repayment shall be allowed to be considered in Asset Liability Management (ALM) of banks. The repayment may be taken up by the same lender / a set of new lenders / a combination of both / by issue of corporate bonds as a refinancing debt facility and such refinancing may repeat till the end of the amortization schedule.

6. **Scheme for Sustainable Structuring of Stressed Assets (S4A)** - Scheme for Sustainable Structuring of Stressed Assets (S4A) addresses some of the issues faced in the "Strategic Debt Restructuring", wherein, in most of the cases banks were unable to find new buyers/investors to take over the company after converting their debt into equity. Under the scheme banks would have to divide the existing debt of a company into 'sustainable' (the share which can be serviced by the company even if cash flow remains at the present level) and unsustainable portion. The unsustainable portion of the debt would be converted into equity / redeemable cumulative optionally convertible preference shares. The Scheme limits lenders from granting any fresh moratorium on interest or principal repayment or reduction of interest rate for servicing of the sustainable debt portion. If a company has become stressed due to factors which are not under the control of management of the company, then this option can be exercised and thus the account can be turned around by giving time to existing management. However, S4A is applicable only for the projects that are operational, which would leave several power and infrastructure projects out of this scheme.

7. **Strategic Debt Restructuring (SDR)** - The concept of Strategic Debt restructuring (SDR) has been introduced by RBI to help banks recover their loans

by taking control of the distressed listed companies. The Scheme has been enacted with a view to revive stressed companies and provide lending institutions with a way to initiate change of management in companies if the companies fail to meet conditions stipulated under earlier restructuring package. The Scheme is useful in the cases where the borrower has been non-compliant and the lenders are confident that a new promoter or buyer can turn around things. The critical issue which arises out of the scheme is the ability of banks to find buyers to divest their equity holdings.

8. Insolvency and Bankruptcy Code 2016 – The act will replace all earlier bankruptcy laws and form a uniform and comprehensive piece of legislation on the subject of bankruptcy and corporate insolvency. It seeks to ensure time bound settlement of insolvency, enable faster turnaround of business and create a database of serial defaulters. The act sets well defined priorities in case of liquidation of assets and will enable creditors in faster recovery of loans.

9. Enhancing Credit Supply for Large Borrowers through Market Mechanism – RBI has come out with prudential norms on enhancing credit supply to large borrowers through market mechanism in order to mitigate the risk of high exposure of banking system to any large single borrower. These norms shall come into effect from 01.04.2017. Thus, from 2017-18 onwards, incremental exposure of the banking system to a specified borrower beyond Normally Permitted Lending Limit (NPLL) shall be deemed to carry higher risk which shall be recognised by way of additional provisioning and higher risk weights as under:

    (i) Additional provisions of 3 percentage points over and above the applicable provision on the incremental exposure of the banking system in excess of NPLL, which shall be distributed in proportion to each bank's funded exposure to the specified borrower.

    (ii) Additional Risk weight of 75 percentage points over and above the applicable risk weight for the exposure to the specified borrower. The resultant additional risk weighted exposure, in terms of Risk Weighted Assets (RWA), shall be distributed in proportion to each bank's funded exposure to the specified borrower.

As per the existing single and group exposure norms, there is a ceiling on the amount an entity can borrow from a single bank, but there is no ceiling on the total bank borrowing by a corporate entity. As per RBI, absence of any such ceiling limits has resulted in banks collectively having very large exposures to some of the large corporates in India, particularly in the power/ infrastructure, housing finance and steel sectors/ industries. Thus, many large corporates are excessively leveraged and banking sector's aggregate exposure towards such companies is also excessively high. This poses a collective concentration risk to the banking sector, even when the single and group borrower exposures for each bank remain well within the prescribed exposure limits. These guidelines are therefore in the right direction as they seek to encourage sources of funding other than bank credit for the corporate sector to finance growth. Basically, these guidelines are based on an RBI discussion paper on the subject which proposed ways to encourage large corporates with borrowings from the banking system above a cut-off level to tap the market for their working capital and term loan needs.

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Stressed Account Management



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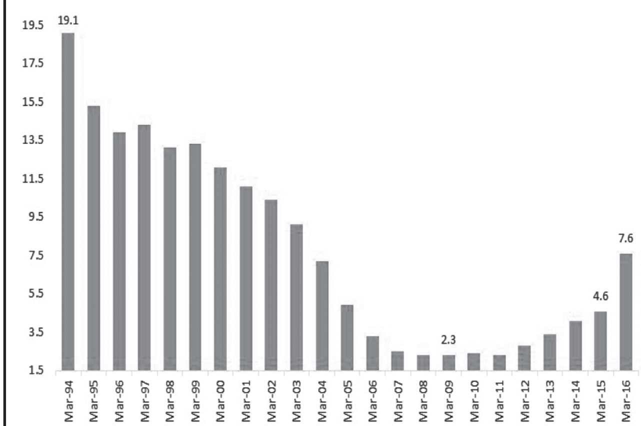
I. Introduction

The banks are the lifelines of any economy and play a catalytic role in activating and sustaining economic growth, especially, in developing countries and India is no exception. The Indian banking system, at the present juncture is, however facing significant challenges from several quarters. These challenges, if not addressed quickly and adequately, may result in loss of opportunities, when the economic growth starts picking up momentum. In a sense, it has implications for both the banks as well as for the economy as a whole, because a strong banking system is one of the essential pre-requisites in the quest for growth. In a bank dominated economy such as India, the asset quality of the banking system has important implications for the stability of the overall financial system. The general perception about a bank's health is greatly determined by the level of Non-Performing Advances (NPAs) held in its books. So, the recent rise in stressed assets of the Indian banking sector is a cause for concern for the economy.

The problem of rising NPAs is not new to the Indian banking industry. In 1994, the Gross NPAs as a percentage of gross advances stood at 19.1%, however, it has progressively declined during the period when the structural reforms were implemented and also through the "boom" years leading up to the global financial crisis. The industry NPA level reached the all-time low of 2.3% in FY08, FY09 and FY11.

II. Trend Analysis of Asset Quality in Indian Banks

Chart 1: Movement of Gross NPA of Indian Banking System



Source: RBI, SBI Research

The signs of rising stress in the banking system have become increasingly apparent in the years beginning 2012. The Gross Non-Performing Advances (GNPAs) of ASCBs has increased to 7.6% in FY16 from 2.8% in FY12. The stressed assets of the banks (GNPA + restructured) also increased to around 11.5% in FY16 from 9.8% in FY12. However, the problem is not uniform either across bank groups refer chart 2). The reasons for such increase are manifold, the Asset Quality Review (AQR) being conducted by RBI from Dec'15 has also resulted in such an increase.

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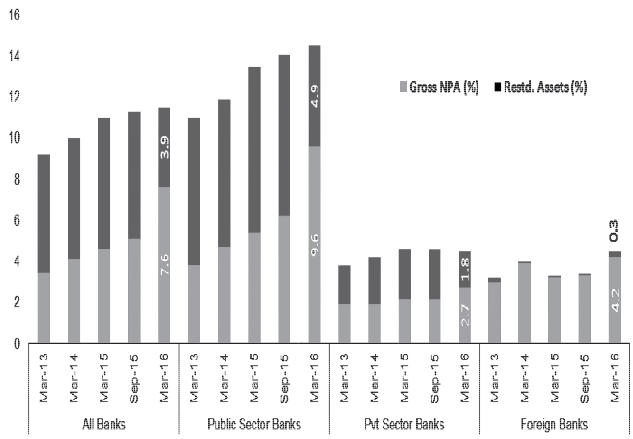
Chart 2: Divergent NPA Trends



Source: SBI Research

III. Measures to Curb Rising NPAs in Indian Banks

Some of the important measures taken by RBI and Government are as under:

a) **Increase in FDI cap for ARCs:** In order to promote the business of asset reconstruction in India, increased foreign direct investment (FDI) cap on asset reconstruction companies to 100% under the automatic route. It also allowed the Foreign Institutional Investors (FIIs) to participate in the equity of the ARCs, however, the maximum shareholding by FII cannot exceed 10% of the paid up capital of the ARC. By allowing the sponsors to have 100% stake, may encourage many foreign entities that have been waiting to take the plunge and address the capital problem of ARCs.

b) **Bankruptcy Code:** Government's commitment to place a comprehensive bankruptcy code in the budget session of Parliament is another piece of good news. This will help banks in the recovery of bad assets as they will be able to fight the recalcitrant corporate borrowers with vigour.

c) **Framework for Distressed Assets:** This is one such framework, through which the RBI has tried to bring in a number of changes in order to stabilise the current stressed out situation in the economy. It has concentrated more on early recognition of stressed assets as the banks and financial institutions are required to route the assets through three classes of Special Mention Accounts-SMA (SMA-0, SMA-1 and SMA-2) before finally classifying it as a NPA. It also requires all lenders with respect to the borrower classified under SMA-2 to form a Joint Lenders Forum (JLF) whereby, they are to formulate a corrective action plan in order to remove the stress over the asset. This framework also requires the formation of a Central Registry of Information on Large Credits (CRILC), which will be responsible to accumulate the data relating to the borrowers having aggregate fund based and non-fund based exposures worth Rs 500 crore or more from the banks, non-banking financial companies-systemically important (NBFC-SIs) and NBFC-Factors. There are various other things that RBI has brought forward including the requirement of a proper credit risk management mechanism within the organisation. Further on 01 September 2016, RBI permitted banks to sold the distressed assets to other lenders, including NBFCs.

d) **Central Registry of Information on Large Credits (CRILC):** The main intent of setting up this registry was to keep a record of the large borrowers and those which are under stress. The RBI requires all the banks, NBFC-SIs and NBFC-Factors to report all the data relating to the borrowers having an aggregate fund based and non-fund based exposure of Rs 500 crore or more or of such borrowers who have been classified as SMA-0 in the books.

Apart from the above measures, RBI earlier came out with several other such reforms, however, still it could not get the control over the rising NPAs. So, RBI conducted an Asset Quality Review (AQR) in Dec'15 and had asked banks to made additional provisioning against stressed accounts over the six months between Oct'15 and Mar'16, and asked banks to stop delaying recognition of visibly stressed assets.

IV. Impact of RBI's Asset Quality Review (AQR)

In literature, it is evident that high level of NPAs is associated with contraction of credit, slowdown of GDP growth, and depreciation of exchange rates, inflation and unemployment. The impact starts with the pressure NPAs create on the income statement and balance sheet of banks. So, NPAs can worsen the financial performance of a bank by way of its adverse impact on bank's interest income, higher provisioning requirements and higher expenses involved in NPA recovery. It can also create a dent into the capital adequacy ratio of a bank and impair its liquidity, its growth and its ability to raise funds from the market. All this can have an adverse effect on the solvency as well the stock prices of the bank.

The impact of AQR on the banks and financial markets can be analysed in respect of the following parameters: (a) Bank profitability, (b) Bank credit growth, (c) Credit ratings of banks, (d) Movement of financial markets and (e) Bank capitalisation. Let us analyse them one by one.

(a) Bank Profitability

NPAs affect the profitability of the banks adversely by way of affecting both income and expenses. A high NPA means the asset is not performing or bringing in the interest income it was expected to bring. So this will have an adverse impact on bank's interest income. A lower interest income would lead to lower total income and hence, lower net profits. From expenses point of view, a high NPA means higher provisioning requirements as well as higher expenses involved in NPA recovery process (like litigation and administrative costs), both of which would reduce the net profits.

Banks are following the prudential guidelines and making extra provisions for restructured accounts. This has negatively impacted banks' profit & loss accounts as many large lenders have slipped into losses in Q3 & Q4 of FY16, even resulting in some of them reporting losses for the full financial year. Record losses were posted in Q4 FY16 by many large lenders like Bank of Baroda (Rs. 3,230 crore), Punjab National Bank (Rs. 5,367 crore), Bank of India (Rs. 3,587 crore), Canara Bank (Rs. 3,905 crore) and IDBI Bank (Rs. 1,736 crore) - to name a few.

Table 1: Banks' Performance (Rs. Crore)

	Pre-AQR	AQR	% Change	Post AQR		% Change
Indicators	(H1=Q1 + Q2)	(H2=Q3 + Q4)	(H2/H1)	Q1 FY16	Q1 FY17	
Banking Indicators						
Deposits	8473836	8547158	0.9	7565302	8375011	10.7
Advances	6749830	6644089	-1.6	6110606	6516652	6.6
Interest Income	430592	431323	0.2	201409	203458	1.0
Interest Expenses	293227	293586	0.1	137976	136985	-0.7
Net Interest Income	137365	137737	0.3	63433	66473	4.8
Other Income	54217	70666	30.3	25123	33225	32.2
Operating Expenses	91247	99727	9.3	42250	47776	13.1
Operating Profit	100335	108676	8.3	46307	51922	12.1
Net Profit	36540	-9982	-127.3	18091	11482	-36.5
CRAR (Basel III) - %	12.2	12.5	-	12.2	12.5	-
Market Indicators						
BSE Sensex (Average)	27306	25314	-7.3	27,536	25,984	-5.6
BSE BANKEX (Average)	20715	18436	-11.0	20,859	19,334	-7.3
Rating Downgrade	1 Bank	9 Banks	-	-	-	-
Source: SBI Research, H! & H2: Total Banks 35: 23 Public sector & 12 Private Banks, Q1 & Q2: Total Banks 30						

(b) Bank Credit Growth

Lower profits or earnings arising from NPAs also boils down to lower cash inflow, thereby impairing bank's liquidity. Poor liquidity together with pressure on profits and capital adequacy adversely affects the willingness and ability of the banks to expand its loan portfolio. Additionally, a silver lining message in slower credit growth is that banks have not been lending indiscriminately in an attempt to reduce the size of stressed assets in an expanded overall balance sheet, and this bodes well for future slippages.

The aggregate numbers of 35 banks (23 PSBs & 12 private banks) in pre-AQR (H1) and during AQR (H2) in 2015-16, indicate that the net profit of the banks declined by 127%, with Return on Assets (RoA) and advances growth turning negative (current credit growth to industry has further slumped to 0.6% y-o-y in June 2016). However, the decline in credit growth is not only due to AQR but the factors like low credit demand, weak investments by private investors, low export growth and weak global environments. In the post AQR period, the business growth of ASCB is improving, compared to the AQR period.

(c) Credit Ratings of Banks

A credit rating estimates ability to repay debt. A credit rating is a formal assessment of a corporation, autonomous governments, individuals, conglomerates or even a country. Credit rating is evaluated on the basis of financial transactions carried in the past and assets and liabilities at present. Credit rating allows a lender or a credit granter to evaluate the ability of the borrower top repay a loan. Due to AQR, credit rating of 9 banks has been downgraded during H2 compared to only 1 bank in H1.

(d) Movement of Financial Markets

High NPA signals weakness in asset quality of banks and is likely to bring down the stock prices of banks because the investors would perceive assets of such banks to be of high risk. During AQR, the return on stock exchanges had turned negative (H2 FY16 vis-à-vis H1 FY16). However the good thing is that recent rally in the stock markets / BSE Sensex has lifted the marginal returns (28,423 as on 01 Sep'16, vis-a-vis average 27,306 in pre AQR). The average stock market returns in the current fiscal at 26,760 is still lower than pre AQR levels but ahead of the H2 FY16. BSE BANKEX has accelerated to 22,678 (01 Sep'16), though the average at 20,275 is miniscule lower than pre AQR levels.

(e) Bank Capitalisation

Reduction in profits due to high NPA is likely to result in lower retained earnings, which in turn is likely to create adverse effect on Tier 1 component of CRAR. Moreover, Total Risk Weighted Assets (TRWA) increase because of the risks attached to NPA portion of the total asset composition. Increase in TRWA with absolute amount of capital funds remaining intact is likely to bring down CRAR. For the system as a whole, CRAR has been steadily declining and as at the end of September 2015, it stood at 12.70% against 14.2% March 2014.

Table 2: Capital Requirement by PSBs during FY17-FY19 to Adhere Basel III Norms

Rs. lakh crore	Earlier Estimate	Latest Estimate
ICRA	1.8	3.0
Moody's		2.6
Macquarie		2.8-3.1
India Ratings		3.7

Source: SBI Research

Due to rising NPAs, the capital position of PSBs is also under strain. Earlier, under Indradhanush in August 2015, Government had estimated a total capital requirement of Rs. 1.8 lakh crore of capital for the PSBs. of the Rs. 1.8 lakh crore capital requirement for Basel-III, the Government has promised to provide Rs. 70,000 crore over a four-year period and the remaining Rs. 1.1 lakh crore asked banks to raise from the markets. However, after the AQR, the total requirement has increased on an average to Rs. 3.0 lakh crore/ incremental Rs. 1.2 lakh crore.

V. Issues Relating to Rising NPAs

In 1990s, after the prudential norms were introduced, banks had more bad assets on their books, but there were no mega projects then and banks' exposure to individual corporate accounts was relatively smaller. Besides, there was no competition as the set of new private banks were just starting their operations. This time around, the exposures are much larger and an economic weakness complicates the problem for the banks.

In the following sections, we have highlighted some of the issues and concerns in the banking industry.

a) **Growth vs Survival Capital:** Everybody wants the Government to infuse capital into the PSBs. However, capital is not the panacea for all ills that are afflicting the PSBs. The amount could be modest and yet it will not disappoint the market if the Government clearly distinguishes between growth and survival capital. Only those banks that have been doing reasonably well and have the right tools in place for risk management and monitoring, among other things, should be given handsome capital to grow, while others can have minimum capital just to survive. Anyway, it will take a while for the investment cycle to start; there is no need to panic for capital overnight.

In view of the scarcity of funds with Government for infusion of capital in PSBs, Government has asked Banks to look for various other alternatives to raise capital. A few of such measures that can be taken are: (i) sale of non-core assets; (ii) higher retained earnings; (iii) monetization of real estate Assets; (iv) Raising Capital from Market Subject to 52% of Government Stake; (v) Issuance of Shares with Differential Voting Rights (DVRs); and (vi) Capital Conservation through internal mechanism.

b) **Bad Bank:** Speculation has been rife on the formation of a bad bank to clean up the balance sheets of banks. What can a bad bank do that 15 asset reconstruction companies or ARCs have not been able to do? It's not a bad idea - but only if it is well capitalized and the Government has nothing to do with it except for giving capital. The ARCs are capital-starved and because they buy bad assets offering security receipts and not money in most cases, they don't get the right pricing. They also seldom reconstruct assets; the focus has been on managing the assets and earning fees. A well-capitalized bad bank, run by competent professionals and not under the shadow of the Government, can address the problem of stressed assets in a more effective way as this will free up the bandwidth of the top management of banks to focus on fresh credit and not recovery alone and encourage investors to take a fresh look at these banks.

c) **Foreign Stake:** Historically, foreign investment in public sector banks has been capped at 20%, even as for private banks, it is now 74%, and the time is ripe for raising the ceiling. This will help raise banks' valuation and lessen the Government's headache of having to periodically infuse capital in them.

d) **Narrow banking:** We need to approach the problem of rising NPAs in a different way. The weak banks should be marginalized - they must turn into narrow banks or banks that cannot lend but invest in risk-free Government bonds.

VI. Expectation from the Government of India / RBI

Reserve Bank of India (RBI) has facilitated Banks to sell their NPAs to ARCs to clean up their Balance Sheets. For encouraging this process, RBI has provided some relaxations like losses on sale of NPAs to ARCs to be charged to the Profit & Loss account over a period of eight quarters. However, the same relaxation is not available for computation of capital and the amount of unamortized losses on account of sale of NPAs to ARCs are being deducted from the capital funds. RBI may also allow this relaxation of deferment of losses over a period of eight quarters for the calculation of capital funds. It will reduce the capital requirement of the banks.

RBI has issued circular No. DBR.BP.BC. No.101/21.04.132/2014-15 dated 08th June, 2015 on "Strategic Debt Restructuring Scheme", a framework for revitalizing Distressed Assets in the economy. In this circular, it is defined that "Conversion of debt into equity in an enterprise by a bank may result in the bank holding more than 20% of voting power, which will normally result in an investor-associate relationship under applicable accounting standards. However, as the lender acquires such voting power in the borrower entity in satisfaction of its advances under the SDR, and the rights exercised by the lenders are more protective in nature and not participative, such investment may not be treated as investment in associate." Further, the circular clarifies that equity shares of the entity acquired by the Bank under SDR shall be assigned a risk weight of 150% for the period of 18 months from the reference date and after the lapse of 18 months, the risk weighting will be done as per the extant capital adequacy norms.

On the same interpretation, RBI should allow Banks to treat the existing investments acquired through CDR or other restructuring package in various corporates and to risk weight them at 150% instead of 1250%. It will help in improving Capital Adequacy of the Banks and will reduce their capital requirements.

Finally, RBI's Basel III guidelines are more stringent in terms of capital requirements than that of Basel Committee on Banking Supervision (BCBS) by 1%. This should be aligned to BCBS guidelines.

VII. Conclusion

Going forward, NPAs will remain to be a matter of concern for all. The main check should be implemented at the initial stages of a transaction - strict credibility criteria. The policy makers should try to make good use of the ARCs. Although the asset reconstruction companies (ARCs) are in India for more than 13 years, they have not been of much help in realising the objective of reducing bad loans of banks and reviving them. It is estimated that ARCs, since their inception, have acquired just Rs 75,000 crore of loans by paying Rs 8,000 crore as cash, this number is very miniscule. The RBI and Government should promote ARCs more and try to utilise this in order to utilise the collateral backing the stressed assets. These ARCs, if utilised properly, can actually turn out to be very strong measure of control for the policy makers in future.

Though AQR is now accepted by most of the stakeholders like investors/markets, as an inevitable outcome of the stress sittings that was on banks' books. Most investors are happy that it has been recognized & provisioning started in these accounts. However, some concerns are: (i) Before AQR, some infrastructure for resolution should have been put in place - not after AQR has happened and some large value accounts has become NPA without resolution in sight; and (ii) as credit demand is weaker, to boost credit growth further, the only option is available is public investment as private investment are not happening.

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Masala Bonds

Foreign currency denominated funding through debt – including external commercial borrowings (ECBs), trade credits and bonds – accounts for about one-fifth of the total corporate funding in India (IMF, 2016). Corporates are thus exposed to exchange rate risks, if insufficiently hedged. This makes a case for raising foreign debt (both contractual and marketable) in Indian rupees.

Issuers from a few countries have floated offshore local currency bonds in recent years. However, such issuances have not grown significantly, except in China. Efforts by Chinese authorities to internationalise the Chinese yuan (CNY), a large offshore Renminbi deposit base and gradual CNY appreciation during 2010-14 led to a surge in issuances of offshore CNY bonds. However, CNY depreciation, default by some Chinese entities and improved access to local markets have dampened investor appetite recently. In 2015, offshore CNY bond issuances slumped to USD equivalent 17 billion after hitting a record USD equivalent 33 billion in 2014 with no new issuances in the first two months of 2016. Mexico, Brazil and Philippines have also seen some amount of offshore local currency bond issuances. In summary, offshore domestic currency bonds still form a very small portion of issuances from emerging market countries.

In India, while rupee denominated contractual borrowings from abroad were permitted in September 2011, in September 2015 the Reserve Bank also allowed Indian entities to issue rupee denominated bonds overseas. Prior to this general permission by the Reserve Bank, international financial institutions like the Asian Development Bank and the International Finance Corporation (IFC) had already obtained permission from the Reserve Bank to issue rupee denominated bonds overseas. IFC, which named its rupee denominated bonds as 'Masala Bonds', has been successful in issuing such bonds on multiple occasions with maturity as long as 15 years. A robust macroeconomic scenario in India and a relatively stable currency view could attract investors to rupee bonds issued overseas by Indian corporates. Foreign investors already involved in the Indian domestic currency space could also be interested in the overseas rupee product. Rupee bonds overseas offer ease of access compared to the process of direct investments in India (registration as a foreign portfolio investor (FPI) and involvement of domestic custodians and brokers and local settlement systems). With restrictions primarily in the form of minimum maturity and no restrictions on cost and end-uses virtually opened up, the window for rupee denominated bonds overseas is expected to become a meeting ground for fund seeking Indian corporates and return seeking foreign investors. The window which witnessed initial activities in the form of private placements of bonds overseas, has gathered steam with diverse offshore investors now getting interested in rupee denominated paper of Indian companies. Total agreements for such papers till the first week of August 2016 by Indian companies were to the tune of `60 billion. The borrowings would help in discovery of benchmark rates. Further, addressing of issues like: (i) tax adjusted returns to investors and comparative costs for borrowers and (ii) liquidity in the secondary market for overseas bonds, will render the route even more attractive.

Reference:

International Monetary Fund (IMF), 2016 Country Report No. 16/76 – India, March.

Source: Annual Report 2015-16, Reserve Bank of India.

Evolution of Stressed Assets Management in Indian Scenario- Potential Tools for Resolution

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INTRODUCTION:

This article is intended to take the readers through the genesis of identifying the weak assets in the loan portfolio through early warning signals and reviving the same if viable or to initiate speedy recovery.

With the globalization, concept of weak assets also changes with risk perceptions. A stable Banking system is important for the financial stability of the country as a whole.

It is in this context, an attempt is made on the following:

1. The evolution of concepts of performing and non-performing assets and various stages in the process of identification.
2. The definition of Stressed assets and its impact in the Bank's Balance Sheet.
3. Reasons for recent surge in Stressed Assets/NPA in the Banking Sector.
4. Potential tools for redressal of the same either for revitalizing or for recovery.
5. Recent major measures initiated by RBI/Government in the past 2 - 3 years.

PERFORMING AND NON PERFORMING ASSETS:

Since the beginning of banking system in India, both during pre and post nationalization till Globalization, loan assets were associated with only lending norms, disbursement, refinance, monitoring and repayment. The loan sizes were also manageable and monitor able and no special skills or approach were needed to monitor them. The bankers were never saddled with issues viz. non-implementation/stalled projects, non-repayment, becoming stressed assets (both to the lender and the borrower) and ending as a non performing advance. Only on introduction of IRAC norms in 1990-91 as part of BASEL -I Implementation and Globalization, bankers were tuned to think that there are things beyond the existing concept of lending, monitoring and recovery. But only with the advent of technology and computerization, the risk perspectives such as probability of default, loss given default, expected loan loss etc. have started taking front seat. The project sizes are also from very small to very huge, requiring multifaceted skills for appraisal, assessment and monitoring.

A question can come to the mind as to whether such risks were nonexistent earlier and only as part of globalization evolved later… There is no direct answer to this except that at every point of time, the earlier situation appeared normal and the worst was not expected, only to realize that things are different day by day. All the issues surfaced when the loan ledger was automated and system driven. The bankers were clearly informed that unless the loan asset generates cash and actual repayment / recovery happens as scheduled, that asset would fall under "stressed category". This is the genesis of the concept of Distress Assets. The differentiating factor between a distress asset and non performing asset is only the time period as per IRAC norms.

Financial System and its Stability Vis-a-Vis Banking System:

As per Financial Stability Report (FSR)-June 2016 dated 28.06.16, India's financial system remains stable, even though the banking sector is facing significant challenges. As all are aware, banking system and its stability are the major pillars for country's financial system and its stability among other factors. Having

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said that let us look at what is the position of banking system today.

As per the FSR - June 2016 of RBI, to quote a few,

1. Economies around the world are experiencing stress and slower growth even though India reflects a relatively stronger growth and good economic fundamentals.
2. Risks to Indian Banking Sector have increased on account of
   - (a) Deterioration in asset quality
   - (b) Slow credit off- take
   - (c) Low profitability
   - (d) Increasing demand for capital etc.

   The system could become vulnerable if the macroeconomic condition were to deteriorate sharply.
3. The Gross Non Performing Advances {GNPAs} ratio has a steep increase from 5.1% in September 2015 to 7.6% in March 2016 and expected to increase further, to say around 8.5% in this financial year. This is mainly because of reclassification of restructured advances to NPAs following Asset Quality Review {AQR} by RBI. The consequent increase in Stress Advances Ratio is only marginal 11.3% to 11.5%. Under such stress scenario, CRAR of Scheduled Commercial Banks (SCBs) may decline to 11.5% by March 2017 from 13.2% previous year.
4. The performance of NBFCs is reasonably alright and their CRAR remains well above regulatory prescription.
5. Overall credit and deposit growth of SCBs remained in single digit because of the subdued performances of the Public Sector Banks (PSBs).
6. Calculative Monitory Policy to guard the country from the volatile global economy and registering 7.5% growth despite weak International Market.
7. RBI to cleanse the Banks' Balance Sheets and strengthen the macro level stability which is underway. As Indian banks are on this, various measures are taken by the Government to address the issues related to distressed industrial sectors. RBI has also undertaken measures urging banks for early identification of stressed assets, timely restructuring of viable advances and initiate recovery measures otherwise. The early identification of asset quality problems will also strengthen the lenders' ability to deal with stressed assets.
8. With the regulatory impetus, the commodity derivatives is poised to evolve with new products and participants leading to better liquidity and more efficient price discovery. Equity market is fairly developed with larger number of listed companies though only stocks of few companies are only traded. Under SEBI's framework corporate bond market is expected to improve.

{The other factors related to Financial Stability are not discussed here, as the focus of this article is on Stressed Asset Management only}

Going by the above, it can be inferred that it is imperative and need of the hour to stablise the Banking System with good governance apart from measures for improving the Capital and Liquidity position of the banks towards greater stability so that socio economic requirements can be addressed and the estimated GDP growth can be targeted by next March.

According to India Ratings and Research, limited availability of growth capital with PSBs can be restricting their credit growth. However the central banker observes that the state controlled banks are burdened with a ballooned bad loan crisis and the consequent risk aversion. Also this is not across all sectors but only in some high value credit exposures to industries.

WHAT IS A STRESSED ASSET?

During initial years viz.1985-86, the bankers used to classify the loan accounts as either performing or sick under eight classifications through Health Code System as per RBI. This system offered information regarding the health of individual advances, the quality of the credit portfolio and the extent of advances causing concern in relation to total advances. They are: (i) Satisfactory (ii) Irregular (iii) Sick viable (iv) Sick non viable (v) Advances recalled (vi) Suit filed Accounts (vii) Decreed Debts (viii) Bad and Doubtful Debts.

Under the above Health Code System, RBI classified problem loans of each bank into three categories:

(iv) & (v) – Advances with undesirable features

(vi) & (vii) – Advances where suit filed /decrees obtained

(viii) – Bad & Doubtful Debts

Subsequently based on The Narasimham Committee1991, IRAC norms were introduced with classification of advances as standard/Performing and Non Performing, and replaced the Health Code System as this was not in line with International practices. The committee felt that a policy of income recognition based on the record of recovery and provisioning for the inadequacy is fundamental to preserve the strength of the banking system. However, till the asset qualifies for substandard classification, it would be standard asset only. Distressed accounts were not separately identified, though early warning signals were studied, this exercise was aimed at only to avoid account slipping to NPA.

Only when Concept of Special Mentioned Accounts was brought in and standard advances were also classified as stressful accounts and stress free accounts, and the early warning signals, the need for identifying, analyzing and resolving the distress assets became the concern of bankers as otherwise the account would slip to NPA. The potential deterioration in the quality of standard asset have been measured through different parameters and classified under different time buckets as Special Mentioned Account SMA-1, SMA-2 etc. before the advance slips to NPA. This was the break through point in identifying distress assets. This is with the intent to identify the incipient sickness through early warning signals and an opportunity for initiating relief measures well before the asset becoming NPA. With system generated NPAs without manual interventions, the true picture of stressed accounts have surfaced causing concern to the bankers. ***Hence for all practical purpose a stressed asset is one which could not generate expected cash flow towards servicing of interest charged and repayment of principal installments due etc., partially or fully***.

For the purpose of analyzing the asset quality stressed advances are defined as Restructured Standard Advances + Gross NPAs. The written-off assets including technically written off are not added as stressed accounts. As a matter of prudence, SMA accounts not restructured can also be looked up as stressed assets only from the point of view of resolution as to revive or recover.

An NPA is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. NPA assets are further classified into substandard asset, doubtful asset and loss assets depending upon how long a loan remains as an NPA. This sub classification of NPA not only indicates the deterioration in the NPA but also for increased provisioning. However under gross NPA, written off including technically written off accounts are not taken.

Restructured Assets are that assets which got an extended repayment period, reduced interest rate converting a part of the loan into equity, providing additional financing or some combination of these measures. Hence, under restructuring a bad loan is modified as a new loan. But the real problem is that it was actually an NPA. Hence, the restructured loans otherwise have the propensity to become NPA.

All possible efforts are to be made for recovery of **Written off assets** of the bank just as any other NPA account as the borrower still owes the money to the bank. Also any amount recovered here will be eligible to be taken directly as income being already fully provided for.

IMPACT OF STRESSED ASSETS IN THE BANK'S BALANCE SHEET:

Going by the definition as above

i. A stressed advance if NPA does not yield income at the first place. Hence there is a drop in the profitability figure. The interest charged on NPAs cannot be booked to income till actually recovered.

ii. As per provisioning norms, depending on the asset status, the account is to be provided for from the P&L. In the case of restructured accounts turning into NPA, Asset Status will be reckoned from the first date of default and accordingly provided for.

iii. Additional capital is to be provided for these risk weighted assets also.

iv. Overall rating of the bank will be pulled down.

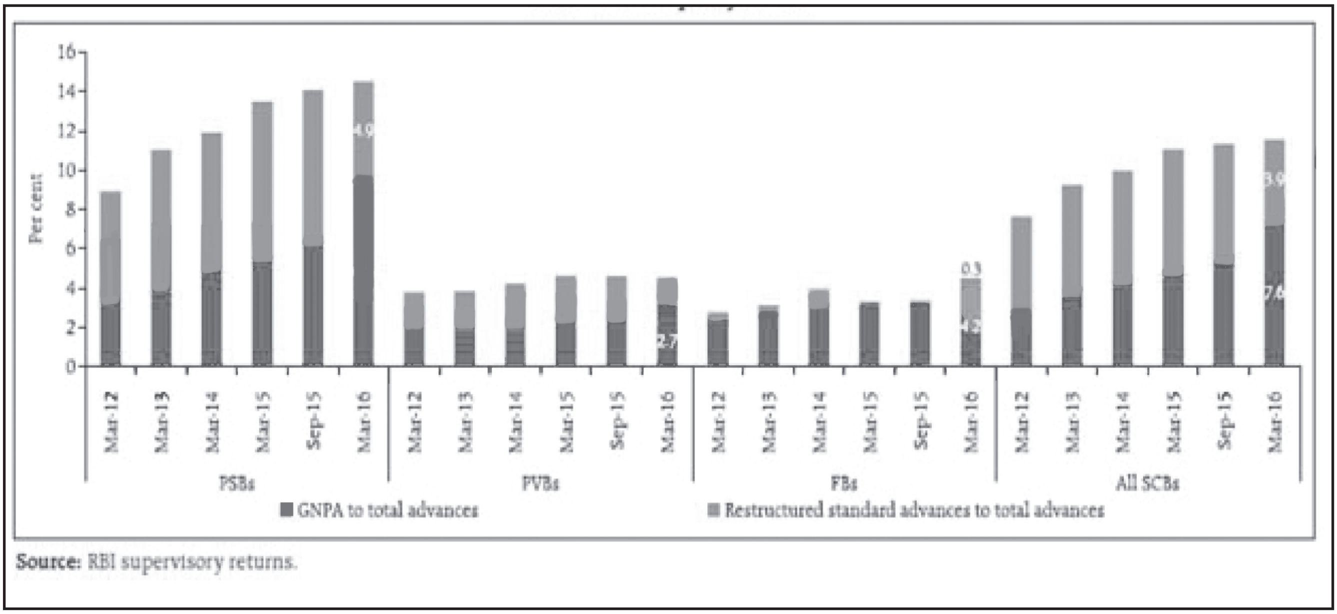
v. Cost of maintenance of these assets is high.

vi. In other words, significant pile up of stress loans on the balance sheet would keep credit cost elevated with limited support from core pre provision operating profit. So, the need of the hour is either to bail out viable stressed assets to new entity, further capitalization to increase credit flow OR to go for aggressive recovery measures on gross NPAs and written off accounts.

Reasons for recent surge in Non Performing Assets:

As mentioned in the earlier Para, stressed assets include NPAs and restructured asset portfolio also. The recent surge is on GNPAs on account of reclassification of restructured standard advances as NPA. Consequently restructured advances ratio declined sharply from 6.2% to 3.9% but the increase in overall stressed advances is marginal. The GNPA ratio in PSBs is as high as 14.5%, the chart below gives the picture of asset quality of SCBs.

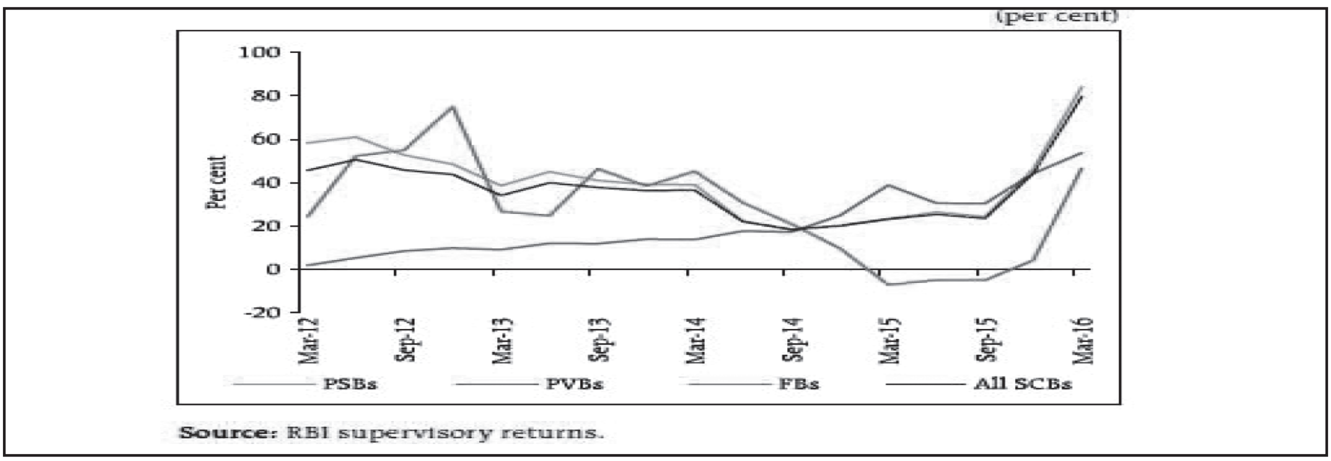
Figure - 1 Asset Quality of SCBs



(Source: Financial Stability Report (FSR)-June 2016 dated 28.06.16)

Subsequent to RBI's AQR exercise, the banks GNPA showed an increase of 79.7% in March '16. Large increases were observed across bank groups. Chart below will indicate the situation.

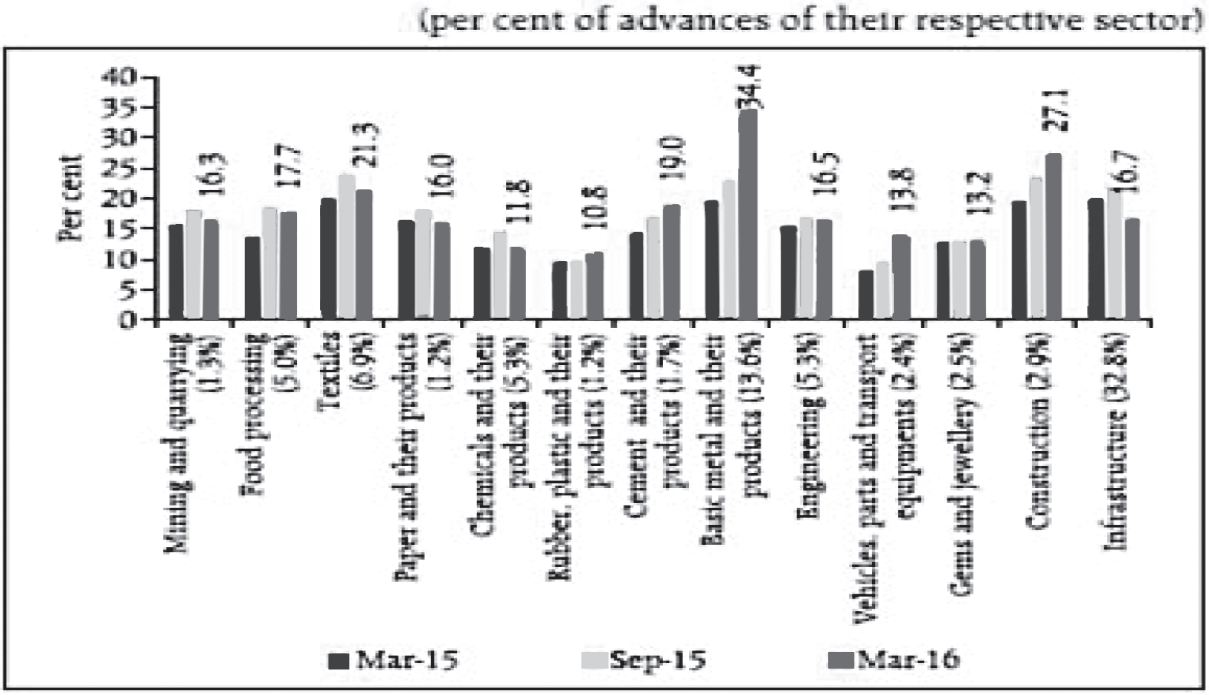
Figure - 2: Y-o-Y Growth of GNPA



(Source: Financial Stability Report (FSR)-June 2016 dated 28.06.16)

Amongst major sectors, the industrial sector showed small decline in stressed advances ratio but banks showed sharp increase in GNPA ratio say from 7.3% to 11.9% in March ‘16. Of the major subsectors within this, basic metal and metal products accounted for highest stressed advances ratio for March 2016 followed by construction and textiles. Surprisingly the stressed advances of ‘infrastructure’ reported to have declined to 16.7% from 21.8% between September ‘15 and March ‘16.

Figure - 3: Stressed Advances Ration of Major Sub-Sectors within Industry



Note: Numbers given in parenthesis with the legend are share of the respective sub-sector's credit in total credit to industry.
Source: RBI supervisory returns.

(Source: Financial Stability Report (FSR)-June 2016 dated 28.06.16)

On the whole it can be observed that the situation keeps changing Quarter after Quarter and is very cyclical. Hence one cannot relax seeing the positive trend in any industry. Many banks took a hit on profitability besides increase in GNPA ratio because of the provisioning requirements on RBI-AQR as many of restructured advances were reclassified as NPA from the original date of default leading to higher provisioning and increase in GNPA.

Share of large borrower accounts in total advances is very significant (about 58 % in March 2016), so also their share in GNPA (86.4%) especially after AQR. Earlier this percentage was high under SMA – 2 and restructured standard accounts which have significantly shifted to NPAs under reclassification. The following table will explain the status of banking system with the exposure to large borrower accounts.

It is reported that among the bank groups, PSBs may continue to register the highest GNPA ratio. Under the baseline scenario, their GNPA ratio may go up to 10.1% by March 2017 and that of PVBs 3.1% by March 2017 from 2.7% last year.

Table 1

Exposure of SCBs to large borrowers			
			(per cent)
	Mar-15	**Sep-15**	**Mar-16***
Composition of total funded amount outstanding of large borrowers			
i. Standard	86.2	84.1	83.2
ii. Restructured standard	8.4	8.9	6.2
ii. Sub-standard	1.7	2.0	3.3
iv. Doubtful	3.0	4.2	6.6
v. Loss	0.7	0.8	0.7
Top 100 borrowers			
i. Fund-based amount outstanding to total fund-based amount outstanding of large borrowers	28.1	27.5	27.9
ii. Fund-based amount outstanding to total gross advances of SCBs	18.3	15.6	16.2
iii. GNPAs to total GNPAs of large borrowers	0.8	3.4	22.3
iv. GNPAs to total GNPAs of SCBs	0.7	2.9	19.3
Note: * Provisional data.			
Source: RBI supervisory returns.			

(Source: Financial Stability Report (FSR)-June 2016 dated 28.06.16)

The FSR Report June 2016, speaks volumes about the position of the banking system with specific reference to PSBs. Unless stringent revival measures are taken, the large borrower accounts will turn unviable but initiating recovery measures on such accounts will be a Herculean task. All the lending banks of such accounts have to stand together and initiate measures. Time is the essence in dealing with such accounts.

In a nutshell, the current deterioration in the asset quality of Indian banks, particularly PSBs would be attributed partly to the domestic and global economic slowdown, delays in statutory and other approvals causing delay in project implementation and achievement of DCCO, Change of Government policies and also to the excessive leverage on bank debts by corporate during the boom period besides internal reasons such as diversion of funds for associate concern, expansion, inefficient management , business failure, willful default etc. there are certain sector specific issues also in sectors like infrastructure, Iron and Steel, Textiles, Mining, Aviation etc, where in the ticket size of the single borrower from banking system is very huge.

<u>POTENTIAL TOOLS FOR REVIVAL MEASURES</u>

The restructuring and recapitalization process associated with post 1991 “Reforms” resulted in sharp decline is GNPA ratio and in the year of Global Financial Crisis 2008-09, it came down to 2.3%, the best scenario so far. The health of any bank is generally measured by this ratio together with provision coverage ratio and profitability. However in the subsequent years this trend has been reversed and this ratio showed continuous rise and as per latest FSR Report it will worsen further. As of March 16, it is 9.6%.

1. **Restructuring**

   All said and done recourse to restructuring of loans and advances, with all its plus and minus, pros and cons, is all time effective tool for reviving the genuine accounts. Though as per Mahapatra Committee recommendations, this tool does not save the account from being classified as NPA from 1st April 2015, still this is very hand holding from adverse economic downturns on the borrowers as well as lenders.

   Board for Industrial and Financial Reconstruction {BIFR} was created in 1987 under MoF to revise sick industrial companies by relief measures and further funding or to undertake sale of distress companies. However BIFR has failed in many cases in safe guarding the interest of the bankers due to prolonged proceedings enabling unscrupulous promoters taking shelter under this to escape legal actions. Unviable companies continued to operate for years on government support.

2. **Corporate Debt Restructuring {CDR}**

   Established in 2001 when RBI came up with guidelines. CDR mechanism is a voluntary, non statutory mechanism under which financial institutions and banks come together to restructure the debts of companies facing financial difficulties in a speedy, transparent and time bound manner. This mechanism is available only when there are more than one lending institutions and for Rs 10 crore and above. CDR can take a variety of forms. The plan can provide for conversion of debt into equity or preference shares convertible into ordinary shares, adjustment of secured creditors' rights, a compromise in which creditors waive a part of their claims with right of recompense etc. Everything gets documented for implementation. If 75% of the creditors agree, it binds other creditors.

   While it has proved fruitful in many cases, still there was lot of scope for improvement. Many industries have successfully gone through CDR package and on returning to normalcy have chosen to exit also.

   Equally some of the package have failed in implementation stage mainly due to promoter not being able to bring the additional equity or not able to comply with the terms and conditions. Bankers chose to exit and proceed with recovery measures.

3. RBI came out with 'Frame work for revitalizing Distressed Assets' with specific guidelines on Joint Lender Forum {JLF] and Corrective Action Plan {CAP} on Feb., 26,2014 which is a landmark resolution method in dealing with the stressed Assets at the initial stage itself. This gave the bankers a real fillip as it is in lieu of any restructuring, very time bound action amongst the bankers, by identifying and resolving the early warning signals before the account slips into NPA and no extra provisioning is needed to be provided and above all it made the bankers to act together swiftly. {Kind references: RBI Circular RBI/2013-14/502 and 503 dated February 26, 2014}

The essence of this guideline is that early recognition of financial distress, prompt steps for resolution and fair recovery for lenders. The main proposals of the framework are:

- Applicable to lending under consortium or multiple banking with cutoff Rs 100 crore total exposure from any bank.
- Primary responsibility vested with leader in consortium or highest lender in multiple banking.
- The frameworks recommends for action under 3 'R's; Rectification, Restructuring or Recovery and time bound decisions binding all bankers through a Join Lending Forum and Corrective Action Plan (CAP) to be implemented. This is to be initiated as soon as the a/c comes to SMA-2. Penalty for inaction by the leader/ highest lender through enhanced provisioning.
- Centralized reporting and dissemination of information on large credit (CRILC) among all bankers in respect of accounts with aggregate credit exposure of Rs. 5cr and above.
- In order to bring quick consensus among bankers, if 75% of bankers by value and 60% by numbers agree for CAP in JLF, it binds all other remaining bankers.
- Better regulatory treatment of Stressed Assets if a resolution plan is underway. Otherwise accelerated provisioning if no agreement is reached amongst the bankers or with the borrower.
- Improvement in current restructuring process: Independent Evaluation Committee (IEC) will decide and mandate the large value restructuring.
- Pricing will be more on borrowings if a borrower does not cooperate with lenders in resolution.
- For recovery route, more liberal regulatory treatment for sale of assets to Asset Reconstruction Companies, banks or NBFC.
- Provision for borrower with lesser loan value or at SMA-1 stage itself to come forward and ask lenders for JLF and CAP.
- A separate set of classification "SMA-0" is

newly introduced wherein the early warning signals are listed based on the operational deficiencies rather than time period.

- Borrower can go to CDR also based on JLF decision.
- Sector specific companies/Private Equity Forms encouraged to play active role in stressed assets market.
- Takeout financing/refinancing possible over a longer period without treating as restructured.

a} 'Rectification' is:- obtaining a specific commitment from the borrower supported by data to regularized the account and come out of SMA status or does not slip to NPA.

b}'Restructuring' is"- considering to restructure if it is primafacie viable and borrower is not a willful defaulter or non-cooperative borrower.

c} 'Recovery' is:- once the other two options are found not feasible, to initiate recovery process.

4. Strategic Debt Restructuring Scheme {SDR}

Para 5.3 of Framework for Revitalizing Distressed Assets dated 26th Feb 2014 states that the shareholders should bear the first loss rather than the debt holders under restructuring. With a view to ensure more stake of promoters in reviving Stressed Accounts and provide banks to initiate change of ownership if projected viability milestone parameters not being achieved, banks may at their discretion undertake 'SDR' by converting loan dues to equity shares.

(Kind reference is invited to RBI/201-15/627 dated 8th June 2015 for detailed guidelines on this scheme).

5 'RBI's Flexible Structuring of Long Term Project loans to infrastructures and core industries:

These guidelines came in three circulars of RBI viz., RBI/2014-15/126 dated July 15, 2014, RBI/2014-15/167 dated Aug. 7, 2014 and RBI/2014-15/354 dated Dec. 15, 2014. Infrastructure and core industries projects are characterized by long gestation periods and large capital investments. The long maturities of such project loans consist of the initial construction period and the economic life of the asset/underlying concession period (usually 25-30 years). In order to ensure stress free repayment of such long gestation loans, their repayment tenor should bear some correspondence to the period when cash flows are generated by the asset. Banks are unable to provide such long tenor financing owing to asset-liability mismatch issues. To overcome the asset liability mismatch, they invariably restrict their finance to a maximum period of 12-15 years. After factoring in the initial construction period and repayment moratorium, the repayment of the bank loan is compressed to a shorter period of 10-12 years(with resultant higher loan installments), which not only strains the viability of the project, but also constrains the ability of promoters to generate fresh equity out of internal generation for further investments.

These guidelines bring about allowing banks to refinance (not restructuring) existing infrastructure projects (under takeout financing model) under the 5/25 scheme provided commercial operations have begun and total exposure is over Rs. 500cr.

Initially RBI considered only to new loan under this scheme but in subsequent circular included existing exposures also but only once during the lifecycle provided commencement of commercial operations is over.

In this 5/25 model as it is called, banks can extend loans to such projects for up to 25 years with the option to refinance it every five years, till it remains as standard asset. If at any point of time, the asset turns NPA refinancing will stop.

If an NPA has been refinanced under this flexible restructuring, it will be treated as restructuring and restructuring norms will apply.

Refinance can be by existing bankers or by entirely new lenders or a combination of both or by issue of corporate bonds.

Ever since this model has been introduced both bankers and borrowers utilized the advantages of this scheme. For good projects, good demand was seen from the existing and new lenders. Even some of the existing lenders were proposing for higher share also.

It is suggested that for full understanding of this scheme, the guidelines outlined in all the three circulars referred above.

6. Scheme for sustainable structuring of Stressed Assets (S4A)

RBI, vide their latest circular RBI/2015-16/422 dated 13th June 2016 have come out with S4A scheme. This has been issued to strengthen the lenders ability to deal with stressed assets. Resolution of large borrower accounts which are in severe financial difficulties may envisage deep restructuring, as otherwise, they will not be able to ensure sustained revival despite normal restructuring. Even SDR mechanism will not be able to take care of their requirement. Highlights of the scheme as per RBI circular are as below:

a) **Eligible Accounts:** For being eligible under the scheme, the account should meet all the following conditions:

    (i) The project has commenced commercial operations.

    (ii) The aggregate exposure (including accrued interest) of all institutional lenders in the account is more than Rs. 500 crore (including Rupee loans, Foreign Currency loans/External Commercial Borrowings).

    (iii) The debt meets the test of sustainability as outlined below.

b) **Debt Sustainability:** A debt level will be deemed sustainable if the Joint Lenders Forum (JLF)/ Consortium of lenders/bank conclude through independent Techno Economic Viability (TEV) that debt of that principal value amongst the current funded/non –funded liabilities owed to institutional lenders can be serviced over the same tenor as that of the existing facilities even if the future cash flows remain at their current level. For this scheme to apply, sustainable debt should not be less than 50 percent of current funded liabilities. This is referred to below.

c) **Sustainable Debt:** The resolution plan may involve one of the following options with regard to the post-resolution ownership of the borrowing entity:

    (a) The current promoter continues to hold majority of the shares or shares required to have control.

    (b) The current promoter has been replaced with a new promoter, in one of the following ways:

    (i) Through conversion of a part of the debt into equity under SDR mechanism which is thereafter sold to a new promoter.

    (ii) In the manner contemplated as per Prudential Norms on Change in Ownership of borrowing Entities (Outside SDR Scheme).

(c) The lenders have acquired majority shareholding in the entity through conversion of debt into equity either under SDR or otherwise and:

(i) Allow the current management to continue or

(ii) Hand over management to another agency/ professionals under an operate and manage contract.

Note: Where malfeasance on the part of the promoter has been established, through a forensic audit or otherwise. This scheme shall not be applicable if there is no change in promoter or the management is vested in the delinquent promoter.

In any of the circumstances mentioned above, the JLF/consortium/bank shall, after an independent TEV, bifurcate the current dues of the borrower into part A and part B as described below:

(a) Determine the level of debt (including new funding required to be sanctioned within next six months and non-funded credit facilities crystallizing within next 6 months) that can be serviced (both interest and principal) within the respective residual maturities of existing debt, from all sources, based on the cash flows available from the current as well as immediately prospective (not more than six months) level of operations. For this purpose, free cash flows (i.e. Cash flow from operations minus committed capital expenditure) available for servicing debt as per latest audited/reviewed financial statement will be considered. Where there is more than one debt facility, the maturity profile of each facility shall be that which exists on the date of finalizing this resolution plan. For the purpose of determining the level of debt that can be serviced, the assessed free cash flow shall be allocated to servicing each existing debt facility in the order in which its servicing falls due The level of debt so determined will be referred to as Part A in these guidelines.

(b) The difference between the aggregate current outstanding debt, from all sources, and Part A will be referred to as Part B in these guidelines.

(c) The security position of lenders will, however, not be diluted.

POTENTIAL TOOLS FOR RECOVERY OF MONEY FROM UNVIABLE ASSETS

Despite various corrective measures, if some accounts cannot be revived, then banker has to take timely decision to expedite recovery measures.

There are conventional recovery channels which prove effective even today. Some of these are, one time settlement Lok Adalat, Debt Recovery Tribunals (DRT) Securitizations and SARFEASI Act, critical amount recovery and upgradation of the advance etc.

Among the various channels, recovery through SARFEASI Act 2002 forms the major chunk. However the present legal system is unable to cope with the mammoth task. Huge delays are happening with reference to DRT and SARFEASI cases, which are the two powerful tools intended for speedy and time bound recoveries.

Sale of Assets

In the past two or three years, sale of financial assets to ARCs, other banks and NBFCs are very actively used by Banks for reduction of gross NPA. RBI has also improved the roles and responsibilities of Securitizations Company (SC)/Reconstruction Company (RC) through various major measures brought in between Feb 2014 and July 2015. Some amendments have been stipulated subsequently till June 2016 also.

Advantages of assigning NPAs to ARCs

The recovery percentage of NPA on an average will be 10% to 15% in any year against the increase by way of Fresh NPAs of 2% to 3% of the gross advances for all the Banks. Banks take a hit on their profits by way of loss in interest as well as making specific provisions on these NPAs at varying rates.

When assigning in NPA account to ARCs Banks will get at least 50% to 60% of the book balance and depending upon the security the percentage will even be higher. By this way Banks can hive off of these accounts form their books whereas through other recovery mode it will take a minimum of 3 to 5 years to recover even the book balance alone.

If individual accounts can be sold on full cash basis, even with a haircut, banks can remove them from their books and it is the responsibility of the concerned ARCs to continue further recovery measures. This will enable the field level functionaries to concentrate on fresh business and the amount is replenished for further lending.

If the sale is in Cash and Security Receipts (SR) mode, after the redemption of SRs, Banks will be getting direct income by way of yield on SRs and upside sharing of recovery. Wherever the sale is for a value higher than the Net Book Value, Banks can reverse the excess provision to their profit and loss account when the cash received (by way of initial consideration and/or redemption of SRs) is higher than the NBV of the NPAs sold to SCs/RCs. The quantum of excess provision reversed to Profit and Loss and Account will be limited to the extent to which cash received exceeds the NBV of the NPA s sold.

In accounts where there are litigations and where recovery is possible but time consuming branches can be relieved of follow up of these accounts as otherwise that work will consume majority of the time which will be remunerative to the Bank only in the long run.

Disadvantages

(i) While assigning to ARCs Banks have to necessarily take some hair cut depending upon the available securities and the stage of litigations. Whereas if Banks themselves undertake recovery they can get full recovery also but it may be time consuming.

(ii) In the SR mode Banks have to pay Management Fees yearly besides commission for recovery. Apart from that, ARCs are now demanding incentive for the first 3 years at rates varying from 4% to 2% depending upon the recoverability.

(iii) The SRs are to be rated after 6 months and if the NAV is below 100% then Banks have to provide for depreciation.

(iv) If the entire SRs are not redeemed within a period of 8 years the same have to be written off in the books of the Bank.

(v) If the sale consideration is less than the Net Book Value (NBV)(Book balance less available provision) the same has to be written off in the books of the Bank.

RBI Master Circular on Income Recognition, Asset Classification and Provisioning Pertaining to Advances gives the various guidelines for sale of assets of ARCs and to Banks/NBFCs separately. Latest circular dated DBR.No.BP.BC.2/21.04.048/2015-16 01.07.2015 and subsequent amendments there on, latest being June 13, 2016.

Further ARCs can employ all recovery measures which normally the Banks can take besides taking over the management of the company.

As per the RBI guidelines ARCs can purchase an asset either by way of full cash or cash and SR mode. If cash and SR mode the mandatory requirement is 15% for the ARCs. As regards Banks it will be on full cash basis. Earlier only NPAs were sold. Now even SMA2 accounts can be sold.

It is pertinent to mention here that due to sudden surge of sale of assets to ARCs by banks together with the cash component to be brought by ARCs increased to 15%, there is inadequacy of capital with ARCs.

A main guideline which came after Feb. 26, 2014, framework on revitalization is that Banks have to declare a Reserve Price while floating the tender. Internally, Reserve Price will be fixed taking into consideration the available securities, provision, nature of litigation and time to be consumed for clearing the litigation and working out the net present value of the estimated cash flows associated with the realizable value of the available securities net of cost of realization.

Based on RBI guidelines a Board Approved Policy should be drawn for sale of Assets. Generally Net Present Value (NPV) of the cash flow, realisable value of the securities and Net Book Value (NBV) of the asset will be the key factors.

RECENT MEASURES TAKEN BY THE CENTRAL BANK AND GOVERNMENT TO ADDRESS STRESS IN BANKING SECTOR

Revival measures:

1. Fresh capital infusion to accelerate credit growth in PSBs by the Government to the tune of Rs. 22915Cr. for 13 no. of banks and 75% of the amount is released. Balance 25% will be given after watching the performance. The GOI, Finance Ministry has asked banks to submit plans for raising resources through markets including public offer and sale of non-core assets. Under Indradhanush road map, the government will infuse Rs.70000 crore in PSBs over 4years while they will have to raise a further Rs.1.10 lakh crore from markets to meet their capital requirements in line with BASEL III.

For the Banks to go public, they have to strengthen their Balance Sheet first with good amount of reduction of the large NPAs, either by revival, recovery or by sale of NPA assets. This is a single big task ahead for PSBs.

2. RBI has issued guidelines on Sustainable Structuring of Stressed Assets (S4A}, applicable to accounts where projects have achieved commencement of operations with more than Rs 500cr debt. (Reference is drawn to RBI circular RBI/2015-16/422 dated June 13, 2016 for the guidelines).

3. Stalled Road sector projects :-In the case of stalled projects in road sector, several measures were taken such as substitution of concessionaire at the instance of lenders along with NHAI, onetime fund infusion by NHAI in project affected by lack of funds, so that they can be completed. Most important is facilitating project implementation by de-linking of statutory clearances such as forest/ environmental clearance. New structures such as Hybrid Annuity Model and Toll Operate Transfer model etc. are introduced.

4. For the power sector, DISCOMS are in stress. To strengthen them, a scheme has been introduced. The scheme envisages takeover of 75% of the debt by respective State Governments. This is beside certain other measures initiated.

5.For distressed steel sector, suitable measures like increasing import duty, auction of long term coal linkages, stipulating a minimum import price etc. have been introduced.

6. An “Amended Technology Up-gradation Fund Scheme” which provides one time capital subsidy which will help to deal with issues relating to textile industry.

7. The “Central Repository of Information on Large Credits” (CRILC) system of disseminating data has been further strengthened to capture red flagged accounts, fraud accounts, updates on SMA-2 accounts, status of JLF and non cooperative borrowers. CRILC is more or else stabilized and put to use by bankers for their credit requirements.

8. RBI is proposing a frame work for large corporate borrowers, which norms would put in place managing risks arising from the credit exposure to a single large corporate from banking system.

This framework will take effect from the next financial year. Full guidelines are available in RBI website.

9. RBI has allowed NBFCs to refinance any existing infrastructure and other project loans through takeout financing. This will not be considered as restructuring. However these loans should be under standard category

in the books of existing lenders, and should not have been restructured early. More than 50% of outstanding loan by value should be taken over and repayment fixed as per the life cycle of the project.

Some of the recent steps initiated by RBI/GOI towards speedy recovery incase of unviable accounts are below:

(a) Six new Debt Recovery Tribunals (DRTs) are established.

(b) Insolvency and Bankruptcy code 2016 has been passed:

It is a very important tool in the recent times for dealing with defaulters with a clear focus and quick decision making, be it turnaround or liquidation. Bankruptcy Law Reform Committee(BLRC) set up by MOF in Aug 2014 to study the "corporate bankruptcy legal framework in India" The drafts bill has consolidated the existing loss relating to insolvency of companies, limited liability entities, unlimited liability partnerships and individuals, which are scattered in a number of legislations presently and now consolidated into a single legislation. The Government is proposing a separate framework for bankruptcy resolution in failing banks and financial sector entities.

The code differentiates insolvency and bankruptcy has short term and long term view on the business and allows creditors to access the viability of a debtor as a business decision and agree upon a plan of action for revival or speedy liquidation.

The code clearly seeks to:

- improve the resolution of conflicts between creditors and debtors.
- quick decisions making to revive or not; if not viable, then to wind down and distribute the assets of the debtors.
- clearly allocate losses in macroeconomic downtowns.
- distinguish business failure against other reasons.
- clearly defining the priority waterfall mechanism for distribution of liquidation proceeds wherein the secured creditor's settlement in the first priority.

In all, banks as secured creditors will be benefited if these codes are implemented in all earnestness; otherwise it will become just one more piece of legislation.

(c) Government moves amendments to SARFAESI, Debt Recovery Tribunal Acts. This will also confer more power to RBI to regulate ARCs. The Government is hoping that these amendments, together with Bankruptcy code, will provide a time bound framework to deal with stressed assets.

(d) Improved guidelines for sale of assets by banks to ARCs with responsibilities of ARCs clearly defined.

Road Ahead for Banks:

Banks have to be innovative in their approach in dealing with stressed assets. Banks must realize that there is no quick fix solution to the Stressed asset problem and they cannot expect overnight recovery to happen in these accounts. When the banks' exposure is in thousands of crores in each unit, it is not possible for the promoters to repay the entire sum in a short span of time. The promoters or the unit in particular has to be allowed to do business by providing it with sufficient liquidity and other support and the unit should earn profits first. Once the unit starts earning profit, the stressed asset loan can be recovered over a period of time. Even if the banks chose to proceed with recovery either directly or through the ARCs, there cannot be any willing party to buy these ailing assets with huge investment. Within the Regulatory framework, banks may think of creating a separate stressed assets fund if needed with two or more banks joining together in the form of a separate company and infuse Equity into viable units and hand over the management to industry-specific professional companies under "Lease and Operate" for a period of say 6 to 7 years. On its successful turnaround, banks may sell their equity holding at a profitable price to interested parties and exit the account.

CONCLUSION:

The borrowers and bankers must understand and work with each other to resolve the bad loans issue. The reasons for the advances turning bad to be analyzed objectively and relief measures are to be planned accordingly. Where it is beyond the borrower's scope and purely environmental and macro level changes, but the advance is otherwise viable, a hand holding, minimum assistance and more monitoring can bring down their bad debt burden. If the stressed asset is because of borrower's imprudence, over leverage on bank debt than equity, the correction has to happen accordingly; may be a change management with the promoter allowed to continue with restricted power. If any malafied or willful act is observed, total change management can also be a solution along with restructuring if otherwise project is viable. However in any of these moves the banker's prudence will play a greater role in understanding the requirement. Mutual trust between the promoters, borrowers and other stakeholders is critical in revival measures.

Major measures taken by Central Bank like Asset Quality Review etc, though puts large procedural burden and responsibility on the banking system, it also leads to greater transparency and timely resolution plans to recover loans.

The new frameworks and various schemes brought out by RBI and Government since Feb 2014; enable the Bankers to extend timely help to viable projects and the deserving promoters for revival of the Unit. The undeserving can be dealt with Iron hands with Stringent Measures of recovery.

References

1. Financial Stability Report – June 2016 dated 28.08.2016
2. RBI circulars related to Asset Quality with Stressed Assets Concepts and various schemes/ frameworks issued from time to time.

Priority Sector Lending Certificates (PSLCs)

A scheme of PSLCs was introduced in April 2016. The Reserve Bank provided a platform to enable trading in the certificates through its core banking solution (CBS) portal (e-Kuber). All scheduled commercial banks (including RRBs), urban co-operative banks, small finance banks (when they become operational) and local area banks are eligible to participate in trading. Some of the main features of the scheme are:

- Four kinds of PSLCs: Agriculture, Small and Marginal farmers (SF/MF), Micro enterprises and General can be bought and sold via the platform.
- The certificates will have a standard lot size of ₹2.5 million and its multiples.
- There will be no transfer of credit risk on underlying assets as there is no transfer of tangible assets or related cash flows.
- Banks will be permitted to issue PSLCs up to 50 per cent of the previous year's priority sector lending achievement without having the underlying in their books. Banks should meet priority sector targets through direct lending and net PSLCs.
- Banks may be required to invest in the Rural Infrastructure Development Fund (RIDF)/other funds to the extent of the shortfall.
- A bank with a shortfall in achieving any sub-target (for example, SF/MF, micro enterprises) will have to buy specific PSLCs to achieve the target. However, if a bank has a shortfall only with respect to the overall target, it could buy any PSLC.
- PSLCs will not be valid beyond the reporting date (March 31), irrespective of the date of first sale.
- A bank's priority sector lending achievement will be computed as the sum of outstanding priority sector loans and the net nominal value of the PSLCs issued and purchased. Such computation will be done separately where sub-targets are prescribed as on the reporting date.

Source: Annual Report 2015-16, Reserve Bank of India.

NPA and stock prices of Public Sector Banks in India

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Abstract: This is an endeavor to throw light on NPA (non-performing assets) and the prices of bank stocks in recent times. The persistent adverse news of NPAs of bank stocks has rattled our banking sector as well as the economy. Public sector banks have been affected specially because of their huge exposure in various segments of the society. Therefore an attempt has been made how NPAs of public sector banks do affect the stock prices in recent times. Our studies have been based on data on year wise NPA, EPS, return on equity and stock prices, Sensex, Bankex. However, any significant correlation between NPA and stock price has not been emerged though transient effect has been noted.

Key words: Economy, Banks, NPA, Stock price,

INTRODUCTION

In recent times we are very much concerned about Non-Berforming Assets (NPA) of banks in India especially in public sector banks. Though in reality all banks are bound to be affected by NPA to different degrees, the effect of NPA has largely engulfed the public sector banks because of their huge exposure in various segments of the economy. Sometimes we note that stock price of a bank suffers because of NPA status of that particular bank. However, yearly high and low values of stock prices of such banks baffles the NPA effect which has been narrated in short in the following paragraphs.

Gross Non-Performing Assets (GNPAs) for banking sector was 4% as a percentage of total advances as on 31st March, 2014. The figure shot to 4.6% on 31st March, 2015 and again rose to 7.6% as of 31st March, 2016 (Public Sector Banks at 9.6% whereas Foreign Banks at 4.2% and Private Sector Banks at 2.7% respectively).

Reserve Bank of India (RBI) raised an alarm through Financial Stability Report (FSR) that this figure could be around 8.5% by March, 2017 provided another round of Asset Quality Review (AQR) is ordered. RBI warned that under severe stress situation the GNPAs may touch the figure of 9.3% by the end of March, 2017.

Exactly a year ago, RBI had predicted through FSR that GNPAs figure at the end of March, 2016 could be 5.9%, but the exact figure is 7.6% that is 1.7% higher than the predicted value.

Outgoing RBI Governor Mr. Raghuram Rajan has opined that the stress in India's Banking Sector mirrors the stress in the corporate sector. This has to be dealt with in order to revive credit growth.

Current FSR also noted that the country's financial system remained stable, even though the banking sector was facing significant challenges.

Comptroller and Auditor General of India Mr. Shashi Kant Sharma has observed that NPAs of Public Sector Banks, a significant part of which could have been

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fraudulently obtained as advances by debtors from banking system and transferred abroad- from where they may never be recovered.

The situation was so worse that huge amount of loans were written off by the public sector banks in recent times (Figure1). Banks are estimated to have stressed assets of Rs.8.00 lakh Crore. Several state run banks have reported huge losses in past few quarters.

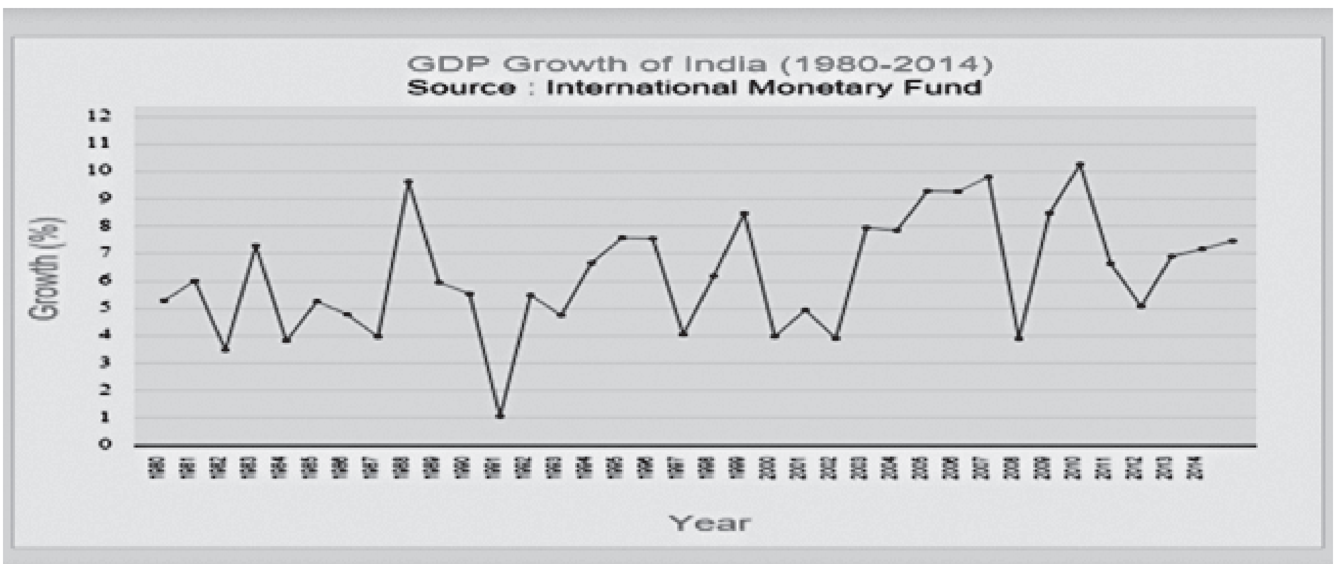
(Figure 1)

WRITE - OFF STATISTICS

Top 10 banks in writing off bad debts in 2015 (in Rs crore):		Top 10 banks in writing off bad debts in last 3 financial years (in Rs crore):	
SBI 21,313, PNB	6,587	SBI 40,084, PNB	9,531
Indian Overseas Bank	3,131	Indian Overseas bank	6,247
Allahabad Bank	2,109	Bank of India	4,983
IDBI bank Ltd	1,609	Bank of Baroda	4,884
Bank of Baroda	1,564	Canara Bank	4,598
Syndicate Bank	1,527	Central Bank of India	4,442
Canara Bank	1,472	Allahabad Bank	4,243
UCO Bank	1,401	Syndicate Bank	3,849
Central Bank of India	1,386	Oriental Bank of Commerce	3,593

However, our GDP growth rate (Figure 2) was favorable comparing the world economic position as a whole. Even in recent times India has surpassed China (Figure 3) to establish a vibrant economy in the world (Figure 4).

(Figure 2)



(Figure 3)

(Figure 4)

Source: http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

Objective of the study:

Here we are trying to develop whether effects of NPAs do contribute to the prices of the banking stocks in India in recent times (2011-2015) and whether there exists any relation of price and market sentiment (Sensex).

Collection of data: Data have been collected from reliable secondary sources like indiabulls.com, nseindia.com, moneycontrol.com. RBI web sites, and various other reputed websites.

Method:

(1) The data of NNPAs (net non-performing assets) of 21 public sector banks from the year 2008 to the year 2015 have been collected, (NNPAs as percentage of total advances) on judgmental sampling basis.

(2) The earning power of these banks has been collected from the year 2011 to the year 2015.

(3) The return on equity of 19 of such banks has been obtained (on judgmental sampling basis).

(4) The yearly closing stock price of 21 banks has been noted from the year 2008 to the year 2015 (on judgmental sampling basis).

(5) The yearly high low of stock prices has also been collected.

(6) The yearly closing values of both Sensex and Bankex have been incorporated (from the year 2008 to the year 2015).

Table 1 shows the year wise NNPA of 21 public sector banks

The year wise (2008 to 2015) NNPAs of 21 public sector banks (percentage of total advances)								
BANKS / YEAR	2008	2009	2010	2011	2012	2013	2014	2015
State Bank of India	1.78	1.79	1.72	1.63	1.82	2.10	2.57	2.12
Allahabad Bank	0.8	0.72	0.66	0.79	0.98	3.19	4.2	4.0
Andhra Bank	0.15	0.18	0.17	0.38	0.91	2.45	3.1	2.9
Bank of Baroda	0.47	0.31	0.34	0.35	0.54	1.28	1.5	1.9
Bank of India	0.52	0.44	1.31	0.91	1.47	2.06	2.0	3.4
Bank of Maharashtra	0.87	0.79	1.64	1.32	0.84	0.52	2.0	4.2
Canara Bank	0.84	1.09	1.06	1.1	1.46	2.18	2.0	2.7
Central Bank of India	1.45	1.24	0.69	0.65	3.09	3.9	4.0	4.0
Corporation Bank	0.32	0.29	0.31	0.46	0.87	1.19	2.3	3.1
Dena Bank	0.94	1.09	1.21	1.22	1.01	1.39	2.4	3.8
IDBI Bank Ltd	1.3	0.92	1.02	1.06	1.61	1.58	2.5	2.9
Indian Bank	0.24	0.18	0.23	0.53	1.33	2.26	2.3	2.5
Indian Overseas Bank	0.6	1.33	2.52	1.19	1.35	2.5	3.2	5.7
Oriental Bank of Commerce	0.99	0.65	0.87	0.98	2.21	2.27	2.8	3.3
Punjab and Sind Bank	0.37	0.32	0.36	0.56	1.19	2.16	3.4	3.6
Punjab National Bank	0.64	0.17	0.53	0.85	1.52	2.35	2.9	4.1
Syndicate Bank	0.97	0.77	1.07	0.97	0.96	0.76	1.6	1.9
UCO Bank	1.98	1.18	1.17	1.84	1.96	3.17	2.38	4.30
Union Bank of India	0.17	0.34	0.81	1.19	1.7	1.61	2.3	2.7
United Bank of India	1.1	1.48	1.84	1.42	1.72	2.87	7.2	6.2
Vijaya Bank	0.57	0.82	1.4	1.52	1.72	1.3	1.6	1.9

Source: rbi.org.in

Findings of Table 1: Out of 21 public sector banks only 5 banks (indicated in bold letters) managed to contain or lowered the NNPAs in the years 2012 and 2013 respectively. From that time onward the NNPAs of all these banks escalated alarmingly. For simplicity and better understandability, aforesaid banks have been placed in two groups to analyse the matter more precisely. Otherwise graphical presentation will be cumbersome.

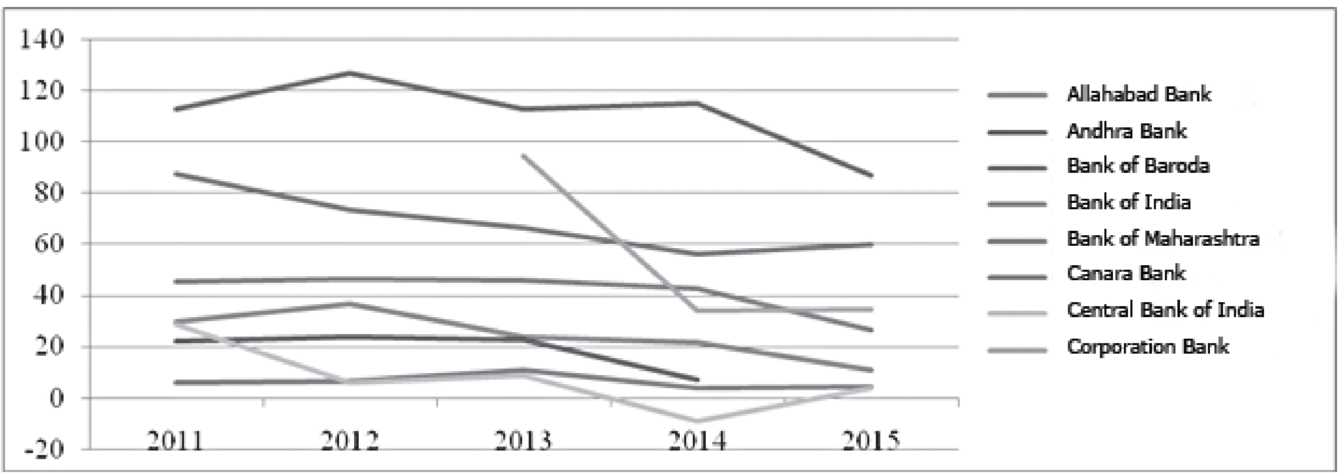
Table 1A: This table shows the earning per share (EPS) of one of above banks. For better understanding of the data we have simply divided the banks in two groups. The result has been shown also graphically below the table.

Table 1A

EARNING PER SHARE IN Rs FROM 2011-2015					
Banks / Year	2011	2012	2013	2014	2015
Allahabad Bank	29.67	36.91	23.78	21.68	11.05
Andhra Bank	22.35	23.76	22.83	7.27	
Bank of Baroda	112.87	126.88	112.77	114.84	86.65
Bank of India	45.54	46.61	46	42.5	26.26
Bank of Maharashtra	6.25	6.36	10.73	3.97	4.24
Canara Bank	87.53	73.3	66.63	56.14	60.14
Central bank of India	28.53	5.68	8.42	-9.27	3.73
Corporation Bank	81.89		94.38	33.93	34.2

Graphical representation is shown in Figure 5

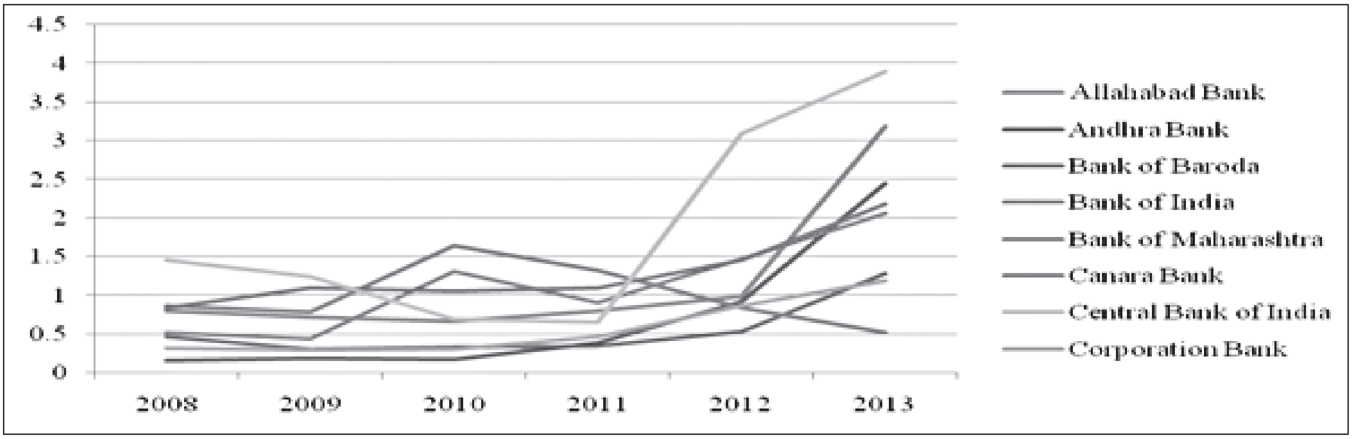
Figure 5



Findings: EPS of these banks have been gradually down ward especially from the year 2013. In some instances it was from the year 2011(Canara Bank, Central Bank of India).

NNPA chart of these banks is in Figure 6.

Figure 6.



From the year 2008 to the year 2011 it was either quite stagnant for some banks or in fluctuating stage for some others. The NNPAs of these banks have been in rising mood from the year 2011.NNPAs of a few banks started rising from the years 2011-13. It was significantly up for all in the years 2013-15.

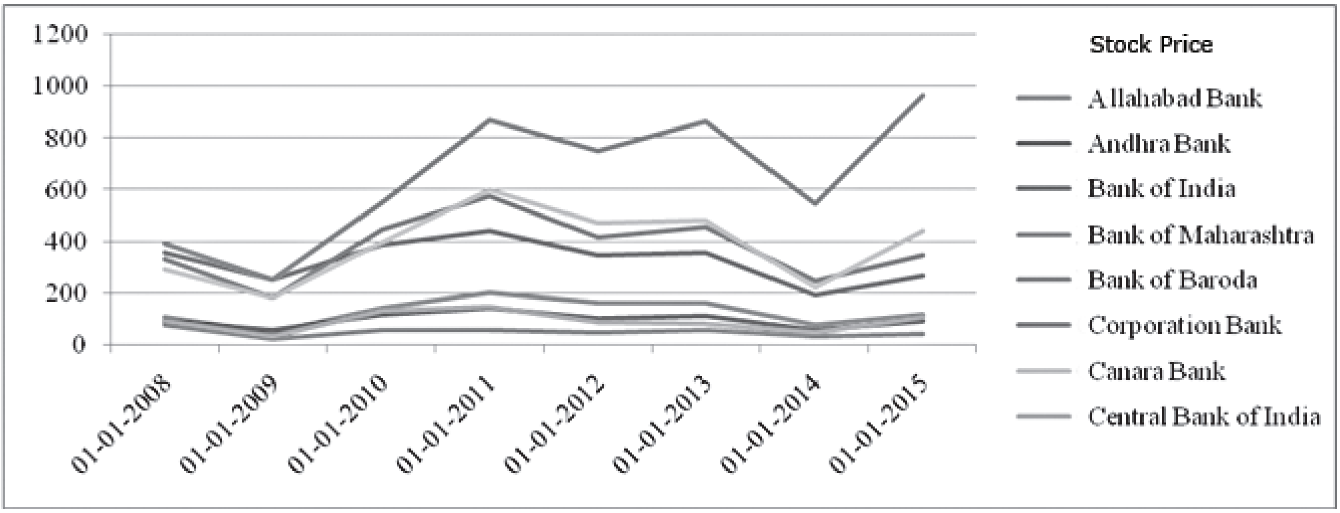
Table 1B: Following table shows yearly closing price; the graphical representation is also given below the Table in Figure 7.

Table 1 B

THE YEARLY CLOSING PRICE OF BANKS IN RS								
Banks / Dates	**1/1/2015**	1/1/2014	**1/1/2013**	1/1/2012	**1/1/2011**	**1/1/2010**	1/1/2009	1/1/2008
Allahabad Bank	**116**	79.45	**163.55**	161.55	**202.45**	**142.25**	49	108.85
Andhra Bank	**91.1**	57.85	**112.1**	101.9	**139.65**	**112.7**	55.45	90.5
Bank of India	**266.25**	191.7	**353**	344.65	**439.1**	**385.5**	249.2	353
Bank of Maharashtra	**41.6**	34.8	**58.85**	47.7	**59.15**	**55.85**	22.95	77
Bank of Baroda	**965.75**	548.4	**867.75**	753.75	**869.5**	**554.4**	253.05	391
Corporation Bank	**346.5**	248.6	**456.7**	415	**575.35**	**447.95**	181.9	330
Canara Bank	**443.15**	221.15	**481.1**	470.1	**602.9**	**396**	180.2	292
Central Bank of India	**104.85**	45.7	**84.05**	84.95	**146.43**	**133.12**	33.22	90.17

Bold indicates higher price with respect to previous year.

Figure 7.



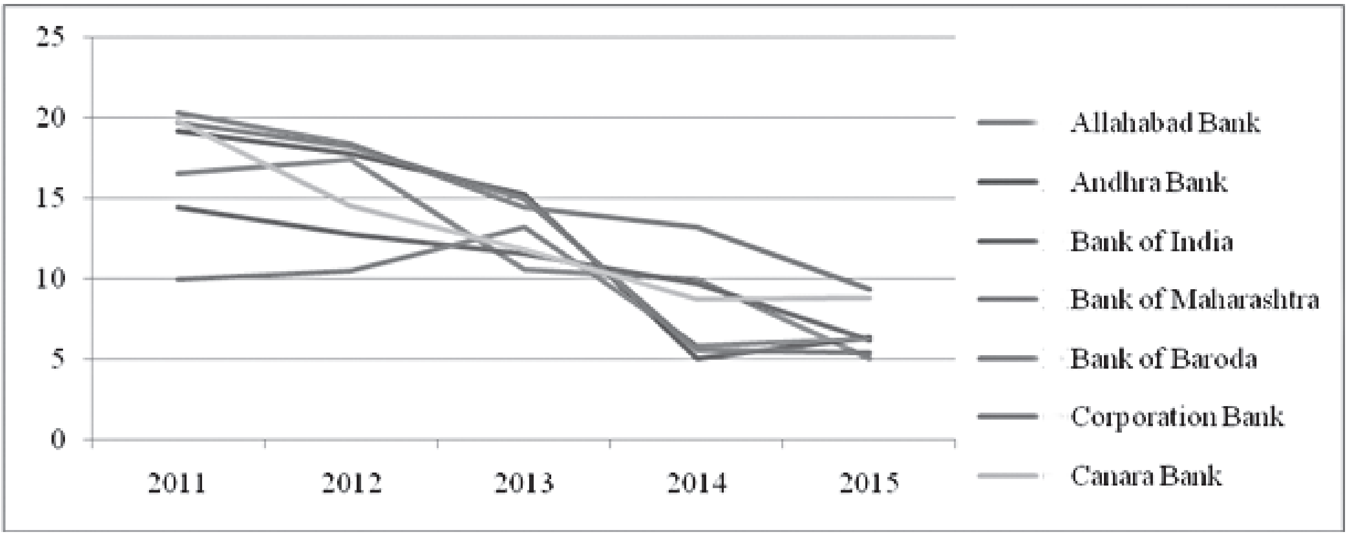
Findings: The stock price of such banks more or less followed the same trend in all these years. From 2009 to 2011 it was in rising mood, thereafter from the years 2011 to 2014 stock prices were downwards. From the year 2014 prices were quite upbeat.

Table 1C: This table indicates return on equity of the following banks from the year 2011 to the year 2015 (graphical representation has also been given below the Table in Figure 8).

Table 1C

RETURN ON EQUITY IN PERCENTAGE					
Banks / Year	2011	2012	2013	2014	2015
Allahabad Bank	16.5	17.4	10.5	9.9	5.0
Andhra Bank	19.2	17.8	15.2	5.0	6.3
Bank of India	14.4	12.7	11.5	9.7	6.2
Bank of Maharashtra	9.9	10.5	13.2	5.8	6.2
Bank of Baroda	20.3	18.4	14.4	13.2	9.3
Corporation Bank	19.7	18.2	15.0	5.6	5.4
Canara Bank	19.8	14.5	11.8	8.7	8.8
Central Bank of India	NA	NA	NA	NA	NA

Figure 8.



Return on equity down wards from the year 2011. Allahabad Bank and Bank of Maharashtra put some brakes in the years 2012 and 2013 respectively.

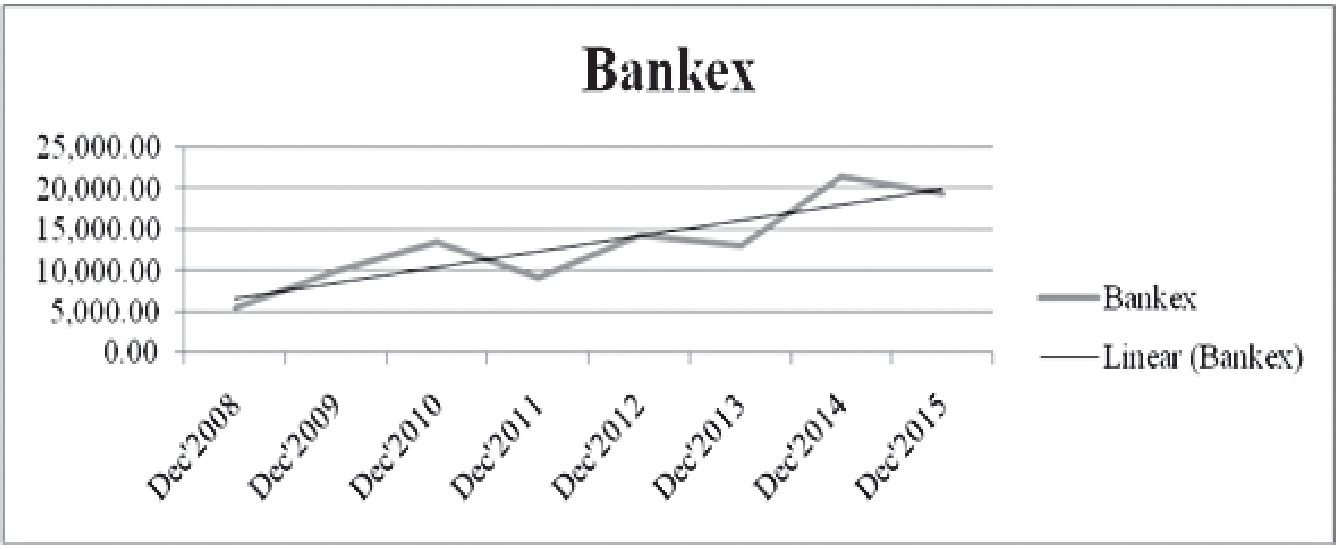
Now let us see what is the status of the Sensex and Bankex in all these years? Graphical representation is in Figure 9.

S&P BSE BANKEX

Table 1D

Year	Open	High	Low	Close
2008	11,440.69	12,678.98	4,139.28	5,454.54
2009	5,497.61	10,698.69	3,598.92	10,030.80
2010	10,066.40	15,108.27	9,137.36	13,379.73
2011	13,457.99	13,656.63	8,947.37	9,153.39
2012	9,212.56	14,439.96	9,058.86	14,344.99
2013	14,434.14	15,335.89	9,535.75	13,001.94
2014	13,042.38	21,665.73	11,373.07	21,458.11
2015	21,489.27	23,903.82	18,009.10	19,328.74

Figure 9.



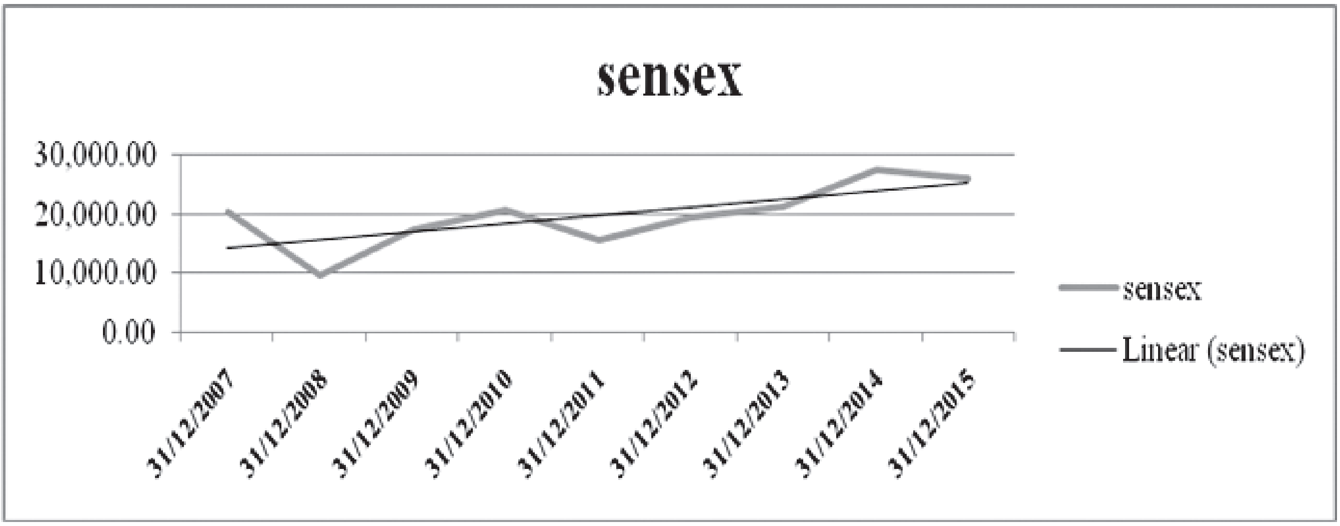
Findings: The trend line was upwards. Cyclically with higher upward thrust the price has been pushed upwards.

Let us also see the BSE Sensex chart in Table 1E. Trend was rising since 2011to 2014. 2015 witnessed some down trend. Graphical presentation is in Figure 10.

Table 1E

Year	Open	High	Low	Close
2008	20,325.27	21,206.77	7,697.39	9,647.31
2009	9,720.55	17,530.94	8,047.17	17,464.81
2010	17,473.45	21,108.64	15,651.99	20,509.09
2011	20,621.61	20,664.80	15,135.86	15,454.92
2012	15,534.67	19,612.18	15,358.02	19,426.71
2013	19,513.45	21,483.74	17,448.71	21,170.68
2014	21,222.19	28,822.37	19,963.12	27,499.42
2015	27,485.77	30,024.74	24,833.54	26,117.54

Figure 10.



Findings: Sensex was also in upward mood after subprime effect in the year 2008-09, except for the year 2011

The following **Table 1F** shows all the above findings in concise form

Table 1 F

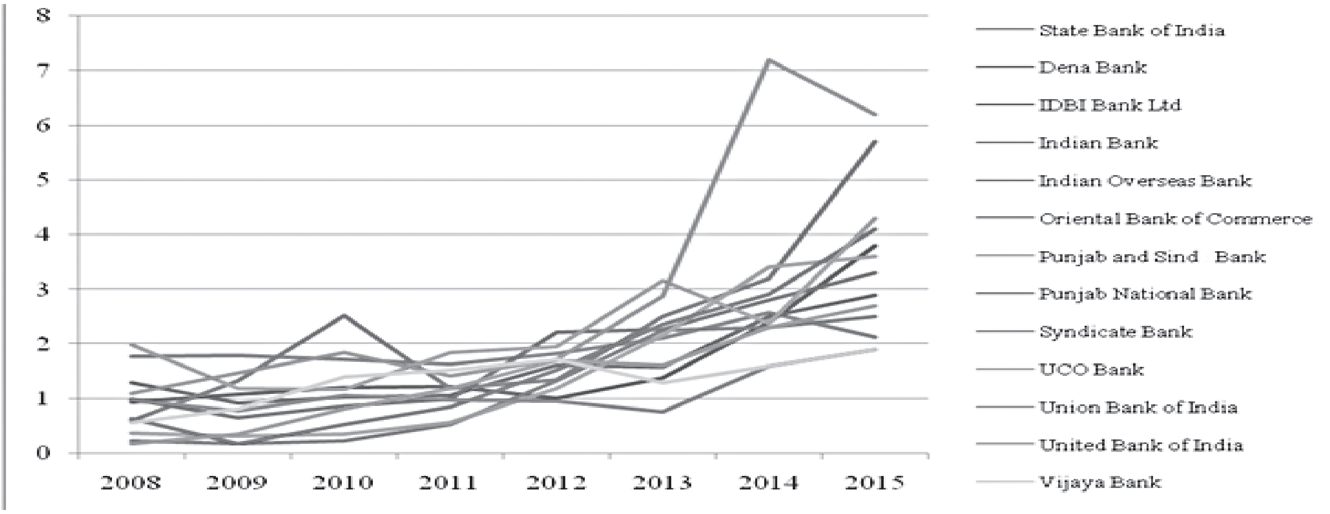
Period (Years)	**NNPAs**	**EPS**	**Return on equity**	**Stock price (yearly closing price)**	**Sensex**	**Bankex**
2008-2010	Change not very significant	NA	NA	All stocks gained after subprime effect	Upward	Upward
2010-2011	Some stocks Started rising	NA	NA	Upward for all	Down ward	Down ward
2011-2012	Some other stocks Started rising	Both up and down trend noted for different stock	Down trend for all	Down trend for all	Up trend	Up trend
2013-15	Up trend	Down trend	Down wards	Down trend in 2014 but up trend in 2015	Upward in 2014 down ward in 2015	Upward in 2014 down ward in 2015

NA= Not available

Interpretation: It can be noted that in spite of gradual poor return on equity, up trend in NNPAs and unfavourable EPS, the price of these stocks behaved differently. Stock price ignored the fundamental financial factors like their earning power, NNPAs etc. and market sentiment i.e. the movement of Sensex and Bankex and **GDP** growth and moved in their own way.

Now let us see what the performances of rest of the 13 banks are. The following Figure 11 shows the NNPA of these banks

Figure 11



Findings: the sub-prime effect in the period 2008-09 has caused some economic turmoil in India also, a few banks here in our discussion showed some down trend in NNPAs. The overall picture was rising NNPAs for all since the year 2011. The effect was more pronounced from the year 2014.

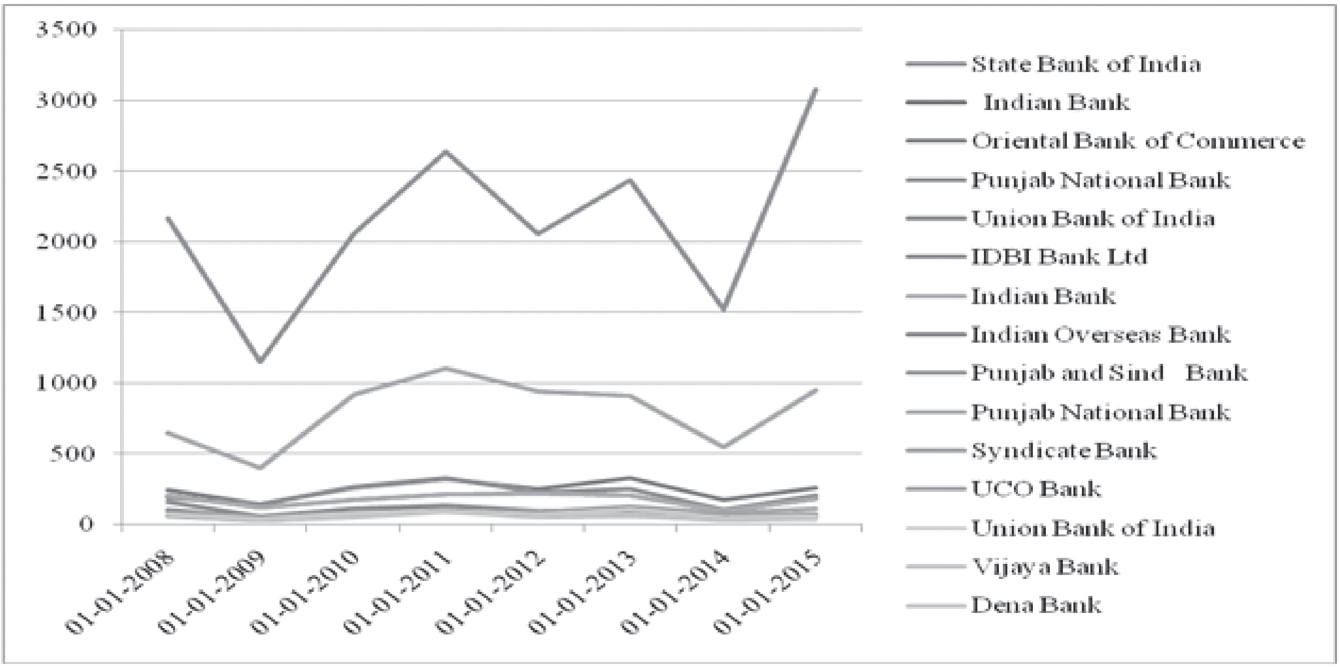
Table 1G shows the year wise closing price of these banks in Rupees. This is followed by graphical representation in Figure 12

Table 1G

YEARLY CLOSING PRICE OF BANKS								
Banks / Dates	**1/1/2015**	**1/1/2014**	**1/1/2013**	**1/1/2012**	**1/1/2011**	**1/1/2010**	**1/1/2009**	**1/1/2008**
*State Bank of India	**3080.95**	1523.85	**2438**	2061.66	**2642.4**	**2056.6**	1151	2167.35
Indian Bank	**185.75**	99.6	202.2	**220.8**	**210.45**	**175.5**	122.75	209
Oriental Bank of Commerce	**265.65**	174.4	**334.65**	255.2	**330.3**	**266.5**	144.8	251
*Punjab National Bank	**948.25**	547.55	912.1	941.15	**1104.45**	**917.05**	401	646.7
Union Bank of India	**209.15**	108.2	**255.05**	228.2	**330.1**	**270**	148	194
IDBI Bank Ltd	**70.8**	55.55	**107.6**	101.4	**141.75**	**121.2**	57.75	112.1
Indian Overseas Bank	**56.9**	46.35	80.8	87.55	**130.1**	**113.9**	60.55	162
Punjab and Sindh Bank	**60.15**	44.25	**71.9**	68.05	105			
Syndicate Bank	**117.15**	84.55	**134.5**	96.45	**106.6**	**93.55**	61.2	91.8
UCO Bank	**75.3**	66.05	**75.85**	68.8	**107.65**	**62.45**	27.75	58.6
Union Bank of India	**41.1**	29.6	**74.05**	69.65	94.75			
Vijaya Bank	**49.7**	37	**59.25**	55.9	**90.65**	**54.75**	28.95	66.5
Dena Bank	**56.95**	53.75	**111.05**	67.9	**104.75**	**77.4**	35	65.95

*Suitable adjustment in stock prices of State bank of India and Punjab National Bank has been made for stock split. Bold numerical figures indicate rise in prices with respect previous year's closing prices.

Figure 12

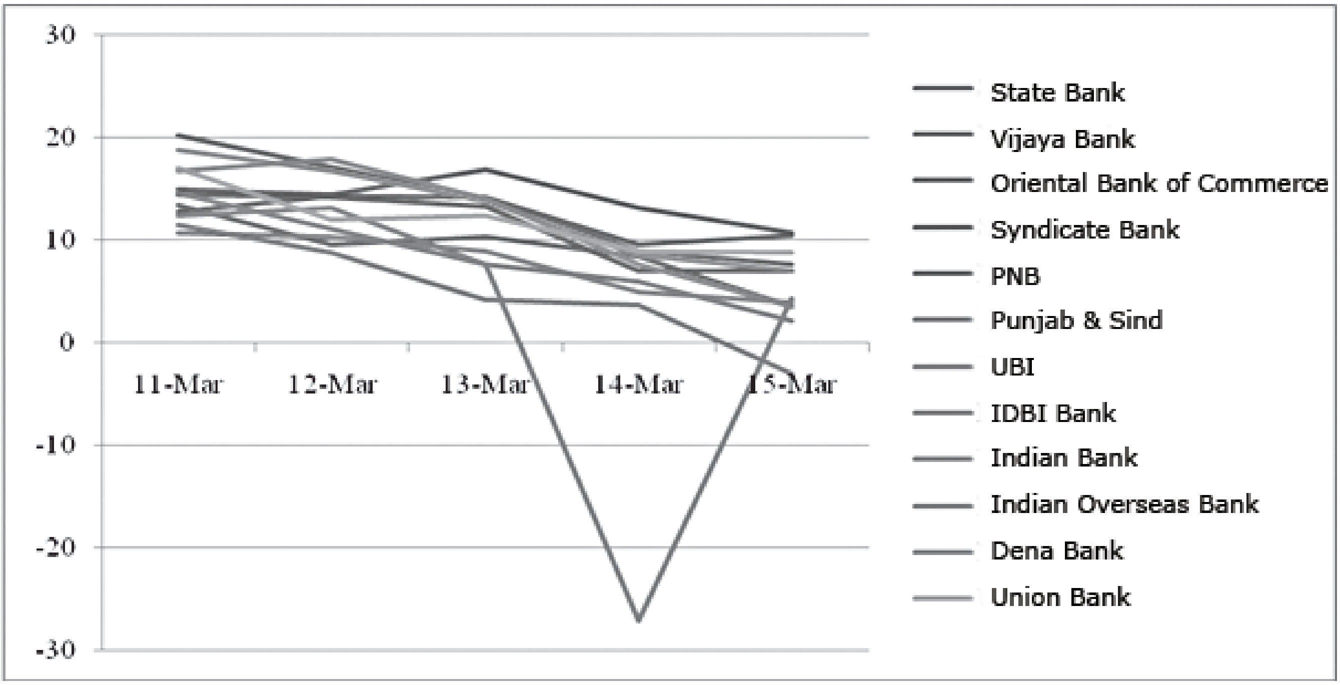


Findings: the stock prices of these banks followed the same trend that of the previous group. The sub-prime effect caused a down trend for prices of all the stocks. There after the stock prices showed up trend up to 2011. We again witnessed the minor down trend and up trend in 2012-2013. From 2014-15 again surge in stock prices were noted.

Table 1H: Year wise Return on Equity and graphical representation in Figure 13

RETURN ON EQUITY IN PERCENTAGE					
Banks / Year	2011-Mar	2012-Mar	2013-Mar	2014-Mar	2015-Mar
State Bank	12.8	14.4	14.3	9.6	10.5
Vijaya Bank	14.5	14.3	13.4	7.1	7.1
Oriental Bank of Commerce	13.5	9.6	10.4	8.5	3.6
Syndicate Bank	14.9	14.5	16.9	13.2	10.7
PNB	20.2	17.2	14.1	9	7.7
Punjab & Sind	14.6	11.1	7.7	6	2.2
UBI	12.4	13.2	7.7	-27.1	4.4
IDBI Bank	10.7	10.3	8.9	4.9	3.9
INDIAN Bank	18.8	16.8	13.8	8.5	7
Indian Overseas	11.5	8.8	4.2	3.7	-2.9
Dena Bank	16.7	17.9	14.1	7.7	3.6
Union Bank	17.1	12.1	12.4	8.9	8.8

Figure 13



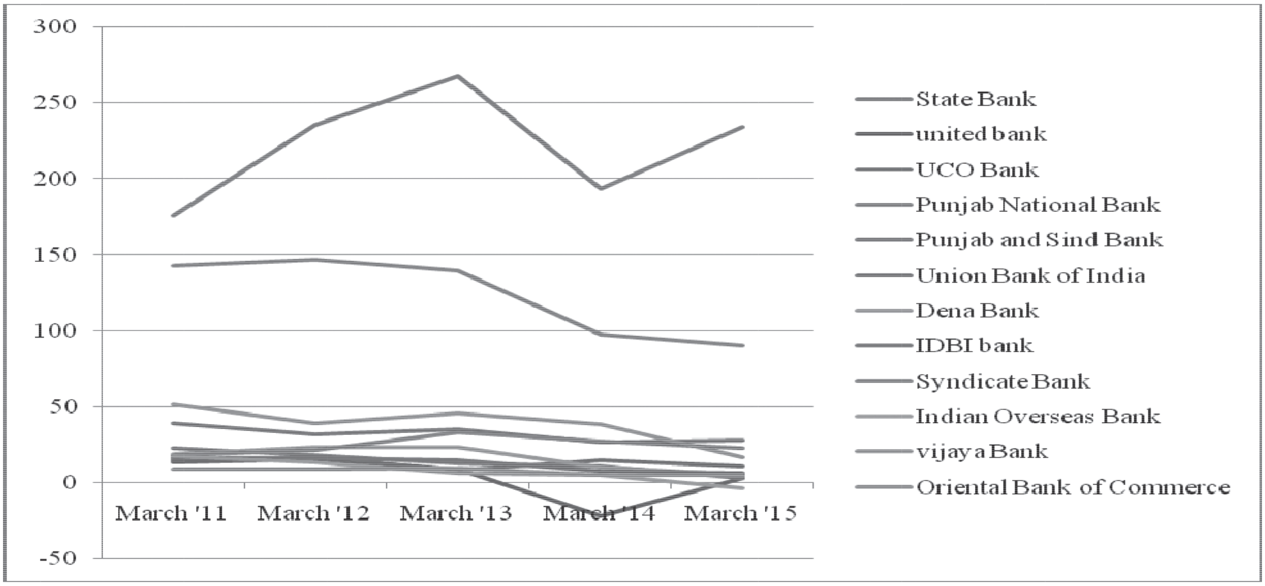
Findings: the return on equity in all these years were down wards virtually for all these second group banks

Table 1l: the EPS of the banks in Rs can be noted from 2011-2015, the graphical representation is also given below in Figure 14

Table 1l

EPS OF THE BANKS IN Rs					
Banks / Year	**March '11**	**March '12**	**March '13**	**March '14**	**March '15**
State Bank	176.06	235.89	267.87	194.08	234.6
United bank	13.51	15.42	8.64	-21.87	3.05
UCO Bank	14.45	16.68	8.21	14.89	10.58
Punjab National Bank	142.53	146.67	139.39	97.62	90.1
Punjab and Sind Bank	22.98	18.46	12.71	10.92	3.03
Union Bank of India	39.36	31.7	35.55	26.33	27.56
Dena Bank	18.35	22.94	23.15	10.26	4.73
IDBI bank	15.88	15.75	14.3	7.27	5.97
Syndicate Bank	18.29	21.84	33.32	27.42	23.03
Indian Overseas Bank	17.33	13.18	6.14	4.87	-3.68
Vijaya Bank	9.08	9.05	9.41	4.84	5.11
Oriental Bank of Commerce	51.51	39.13	45.51	38	16.58

Figure 14



Findings: the earning power of all these banks except State Bank of India was down ward. Here in the second group it can be noted that in spite of poor earning and rising NNPA the bank stocks moved in their own way, even disregarding the market sentiment (Sensex).

Now, we can develop a **Table 1J** in the light of the data gathered from various table and graphs for all these 21 banking stocks.

Table 1J

Year	NNPA w.r.t. previous year	Return on equity	EPS w.r.t. previous year	Closing Stock price w.r.t. previous year	Bankex w.r.t. previous year	Sensex w.r.t. previous year
2009	8up / 13Dn	NA	NA	All down	up	up
2010	15up / 6Dn	NA	NA	All up	up	up
2011	14up / 7Dn	NA	NA	All up	down	down
2012	18up / 3Dn	5up / 14Dn	11up/8Dn	20 down	up	Up
2013	16up / 5Dn	5Up /14Dn	9up/11Dn	16 up/5Dn	down	up
2014	18up / 3Dn	1up/19 Dn	2up/18Dn	20 down	Up	Up
2015	16up / 5Dn	6up / 13Dn	8Up/11Dn	20 up	down	down

NA= not available, Number indicates number of banks, w.r.t. = with respect to

Discussion, analysis and interpretation:

The stock price of two groups almost followed the same trend. If we look at the Sensex chart and the respective price tables, the subprime effect was overcome by end of the year 2009, however Greece effect or more precisely the European debt crisis surfaced in the year 2010. Its impact was noted in the year 2011.

In the year 2011 when most of these banks developed rising NNPAs the prices moved upward disregarding negative market sentiment (Sensex).

In the year 2012 the market rebounded and more or less kept rising trend but all stocks under discussion went downward with rising NNPAs disobeying positive market sentiment.

In the year 2013, again when most banks showed rising NNPAs, most of the banks showed higher closing prices, obeying positive market sentiment. However in the year 2014 these banks showed again the rising trend in NNPAs and the prices went wards also. This time again obeyed positive market sentiment.

In the year 2015, again majority of banks showed further rise of NNPAs as well as lowering of EPS and Return on equity, but the prices moved upwards disregarding negative market sentiment.

However our stock price chart of banks indicates that prices could not maintain steady growth from the year 2011 rather it was showing down trend till 2014. When NNPAs of banks rose alarmingly from the year 2013 the stock price rebounded appreciably.

It has been noticed that from the period (2012-13) many well-known reputed companies became defaulter in paying the debt obligation. This is one of the reasons for NNPAs rise of the banks.

The reduction of earning power of the companies has impacted also the profitability of the Banks. They have also started facing the heat as companies show inability to service the debt. The net non-performing assets, or NNPAs, of commercial banks rose from Rs 19,000 Crore in 2007 to Rs 94,000 Crore in 2013.

The banking sector's asset quality woes further worsened in the last one year, with gross non-performing asset (GNPAs) ratio inching to 4.45 per cent as on March 15, 2015, as compared to 4.1 per cent in March 2014, according to the data released by the Reserve Bank of India (RBI). GNPAs for public sector banks as on March 2015 stood at 5.17 per cent, while the stressed assets ratio stood at 13.2 per cent, which is nearly 230 bps more than that for the system.

The yearly high low of stock prices of some banks is very interesting to note in table 1K. The yearly variation of stock prices of banks with respect to its low was quite massive. In most instances the variation was more than 200%. **NPA had nothing to do with it, rather speculation factor associated with respective banks were more important.** The news of capital infusion by the government has sent ripples across the banking stocks for some time from 29th March 2016. United bank of India, Bank of India, Oriental Bank of Commerce, Vijay Bank, IDBI Bank gained because of this news.

Mere growing NPA does not guide the direction of the price of the stock. Our tables speak so. Perhaps the profitability matters most. Of course the temporary impact of NPA cannot be ruled out as speculators with huge money power try to generate ripples in the market as well as the stock price of the banks in order extract profit or benefit out of the news.

On 27/05/2016 State bank of India recorded net drop of net profit by 66% for fourth quarter ended March 2016 on bad loans in respect to corresponding quarter last year. For 2015-16, SBI posted a 24% decline in net profit to Rs 9951 Cr against Rs 13102Cr in 2014-15. But the stock price grew from 184.10 to 201.30 on NSE on 27/05/2016 registering a growth of 9.31% over the previous close.

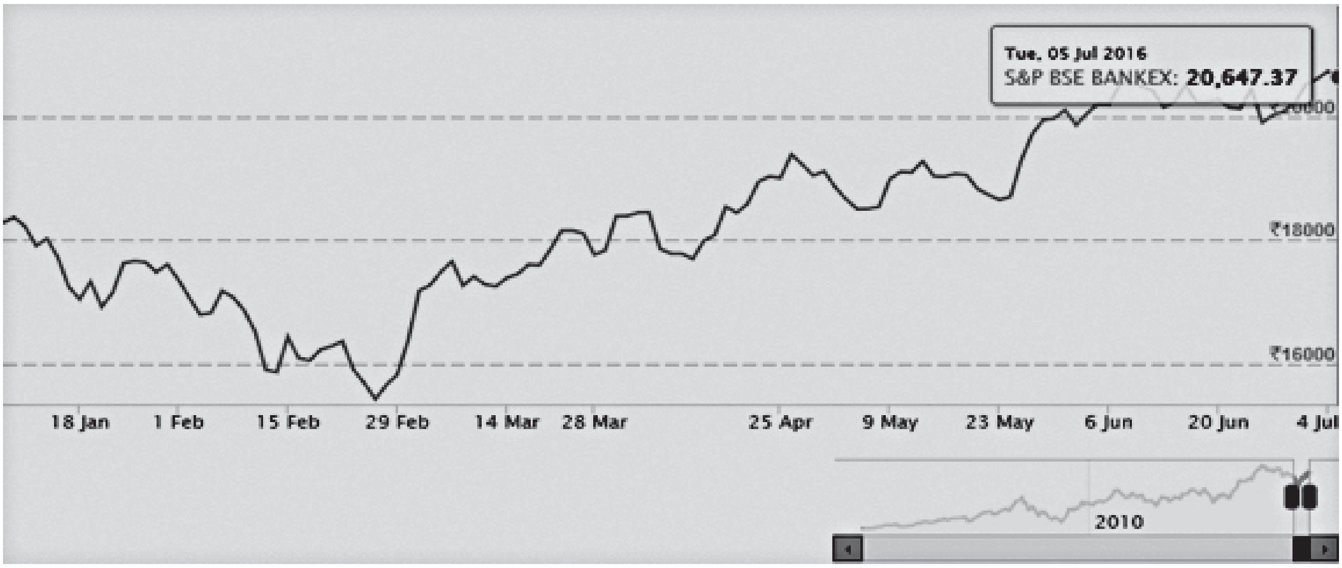
In our case the earning power of these banks in recent times has been deteriorated significantly. Undoubtedly this lowering of EPS coupled with rising NPA has played a significant role in directing the movement of stock price. However if we look at the yearly high/low of the stock prices we will be somewhat confused as to what pulled down the price and what caused so much of enthusiasm to drag the price to higher levels. The variation with respect to low was quite high as in majority of cases it was over 200%.

Table 1K

Banks / Year		2007	2008	2009	2010	2011	2012	2013	2014	2015
State Bank of India	high	2475.25	2540	2500	3515	2959.9	2474.8	2550	2977.85	3359*
*Stock split Rs10/- to Re1/-	low	845	991.1	894	1863	1576	1611.5	1452.9	2872*	2206*
Allahabad Bank	high	127	143	143.8	270.9	240	211.4	190.8	150	136
	low	68.1	42.05	36.85	125.6	113.6	113.6	64.9	72.45	67.15
yearly H/L variation in %		186.49	340.07	390.23	215.68	211.27	186.09	293.99	207.04	202.53
NNPAs			0.80	0.72	0.66	0.79	0.98	3.19		
Bank of India	high	415	466	474.7	588	498.4	408	392.2	356.75	311.75
	low	132	189	179.6	308.85	364.6	253.8	126.95	166	113
yearly H/L variation in %		314.39	246.56	264.31	190.38	136.70	160.76	308.94	214.91	275.88
NNPAs			0.52	0.44	1.31	0.91	1.47	2.06		
Bank of Baroda	high	465	501	563	1050	1006.5	881	899.65	1125.6	1138.1
	low	188.5	188.3	180.5	508	630.35	606.25	429.25	509	137.6
yearly H/L variation in %		246.68	266.06	311.91	206.69	159.67	145.32	209.59	221.14	827.11
Central Bank of India	high	151.2	154.9	178.9	249.05	185.2	111.8	95.6	92.5	121
	low	113.3	32.25	29.75	138.3	65.55	62.3	48.9	43.05	60.1
yearly H/L variation in %		133.45	480.31	601.34	180.079	282.53	179.45	195.50	214.86	201.33
DENA Bank	high	94.5	99.55	93	151	118.5	122.3	128	94.4	64.45
	low	28.5	24.4	27.1	71.05	48.3	47.5	41.85	51.1	38.5
yearly H/L variation in %		331.58	407.99	343.17	212.53	245.34	257.47	305.85	184.74	167.40
Oriental Bank of Commerce	high	291	321	295.95	545	411.9	367.5	366.5	377.3	344.4
	low	156.5	109.95	94.6	224.5	193	190.1	121.4	160.5	121.45
yearly H/L variation in %		185.94	291.95	312.84	242.76	213.42	193.32	301.89	235.08	283.57
Punjab National Bank	high	700	721	943	1395	1237	1091	922.1	1135.6	222.2
	low	400	332.35	286.2	842.1	751.1	659	402.2	216.05	115.1
yearly H/L variation in %		175	216.939973	329.49	165.66	164.69	165.55	229.26	525.62	193.05
UCO Bank	high	64.5	88.4	61.5	152.35	121.85	95	86.65	115.75	86.9
	low	19.3	22.15	22.1	54.1	45.25	44.8	46	62.05	40.35
yearly H/L variation in %		334.20	399.10	278.28	281.61	269.28	212.05	188.37	186.54	215.37
UBI	high				152.2	114.1	87.15	84.95	61.65	46.55
	low				66.1	46.05	45.55	27.4	23.4	20.4
yearly H/L variation in %					230.26	247.77	191.33	310.04	263.46	228.19

H/L stands for High/Low of stock price

Figure 15



If we look at the bank Bankex since February 2016 it can be noted that there was sharp increase in bank index, (however many private sector banks are included in it and they have also sizeable contribution.). It can be concluded that NPA scenario cannot be changed in a short time and needs time for rejuvenation.

Conclusion: This study on 21 public sector banks reveals that though NNPAs has some impact on the stock price but its effect is quite short living. The stock price move in its own way depending on current sentiment with regard to respective bank stock (As explained above) and in the process sometimes disregards the market sentiment and sometimes obeys it.

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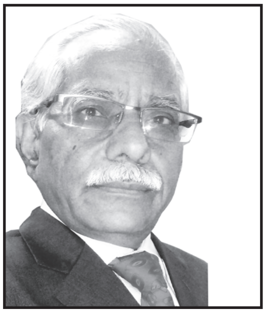
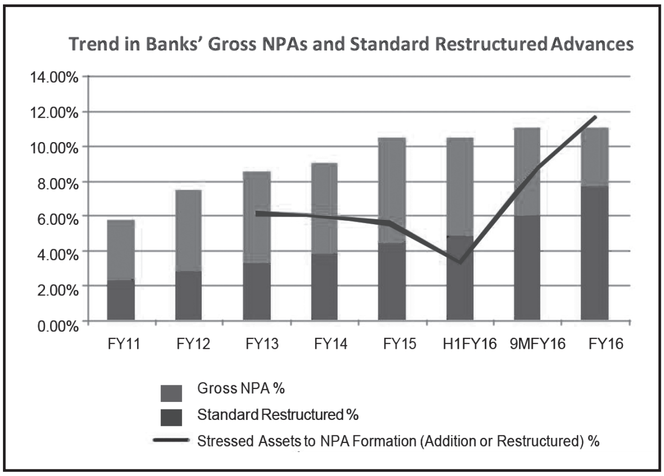


दबाव आस्तियों का प्रबंधन एवं वित्तीय स्थिरता

जगदिश राजपूत*

कुछ वर्षों से दबावग्रस्त आस्तियां न केवल बैंकों और रेग्यूलेटर के लिए बल्कि सरकार के लिए भी अत्यधिक चिंता का विषय बनी हुई हैं।



Source: ICRA Research Service

भारतीय अर्थव्यवस्था में मंदी आने से कई कंपनियां/परियोजनाएं दबाव में हैं। परिणामस्वरूप, हाल के वर्षों में भारतीय बैंकिंग प्रणाली में अनर्जक आस्तियों और पुनर्संरचित खातों में वृद्धि हुई हैं। वित्तीय रूप से चिंताजनक आस्तियां न केवल आर्थिक संभावना की तुलना में कम उत्पादन करती हैं बल्कि उनके मूल्य में भी तेजी से गिरावट आती है। इसलिए यह सुनिश्चित करने की आवश्यकता है कि बैंकिंग प्रणाली शुरुआत् में ही वित्तीय चिंता की पहचान करे, इसे दूर करने के लिए कदम उठाए और ऋणदाताओं तथा निवेशकों के लिए उचित वसूली सुनिश्चित करे।

उपर्युक्त को ध्यान में रखते हुए भारतीय रिज़र्व बैंक ने 26 फरवरी, 2014 को Framework for Revitalising Distressed Assets in the Economy - Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures पर विस्तृत दिशानिर्देश जारी किए।

यह रूपरेखा एक सुधारात्मक कार्य-योजना रेखांकित करती है जो समस्या वाले मामलों की प्रारंभ में ही पहचान करने, व्यवहार्य माने जाने वाले खातों की समय पर पुनर्संरचना करने और अव्यवहार्य खातों की वसूली या बिक्री के लिए बैंकों द्वारा शीघ्र कदम उठाने के लिए प्रोत्साहन प्रदान करती है।

भारतीय रिज़र्व बैंक ने 15 जुलाई, 2014 को बैंकों को कई अनुदेश जारी किए हैं जिनमें परिचालनात्मक दिशानिर्देश और ऋण संरचना और पुनर्वित्त के लचीलेपन के रूप में प्रोत्साहन और आरक्षित नकदी निधि अनुपात (सीआरआर), सांविधिक चलनिधि अनुपात (एसएलआर) और प्राथमिकताप्राप्त क्षेत्र उधार जैसी विनियामक आवश्यकताओं से छूट प्रदान करना विनिर्दिष्ट किया गया है। इन अनुदेशों का उद्देश्य मूलभूत सुविधा और मुख्य उद्योग क्षेत्र के लिए परियोजना ऋण प्रदान करने में बैंकों द्वारा सामना की जाने वाली आस्ति-देयता प्रबन्ध (एएलएम) समस्याओं को कम करना है और मूलभूत सुविधा तथा वहनीय आवास क्षेत्रों के लिये परियोजना ऋण हेतु दीर्घावधि संसाधन जुटाना आसान करना है। अधिसूचना में अनुदेश मूलभूत सुविधा और मुख्य उद्योग क्षेत्रों के लिए नए परियोजना ऋण की लचीली संरचना और पुनर्वित्त के लिए परिचालनात्मक दिशानिर्देश दर्शाते हैं।

बैंकों द्वारा की गई मांग को ध्यान में रखते हुए 15 दिसम्बर,2014

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को रिज़र्व बैंक ने उन्हें नए ऋणों (जुलाई 2014 में यथा अधिसूचित) के अलावा मौजूदा दीर्घावधिक ऋणों की संरचना, जिसके साथ आवधिक पुनर्वित्तपोषण का विकल्प भी उपलब्ध है, तय करने के लिए लचीलापन प्रदान किया।

भारतीय रिज़र्व बैंक ने अर्थव्यवस्था में दबावग्रस्त आस्तियों को सशक्त करने के उद्देश्य से विभिन्न दिशानिर्देश जारी किए हैं। रिज़र्व बैंक द्वारा किए गए उपायों में कार्यनीतिक ऋण पुनर्रचना प्रणाली, अर्थव्यवस्था में दबावग्रस्त आस्तियों को सशक्त करने के लिए ढांचा, दीर्घावधि परियोजना ऋणों की लचीली संरचना तथा प्रतिभूतीकरण कंपनियों (एससी)/पुनर्निर्माण कंपनियों (आरसी) को वित्तीय आस्तियों की बिक्री संबंधी दिशानिर्देशों में संशोधन शामिल है।

(दबावपूर्ण खातों को सशक्त करने हेतु प्रवर्तकों का अधिक हिस्सा सुनिश्चित करने के लिए तथा सहमत संकटपूर्ण परिस्थितियों में अर्थक्षम उपलब्धियां पाने में असफल रहने वाले खातों में, जहां आवश्यक हो, स्वामित्व परिवर्तन शुरू करने के लिए बैंकों को अधिक क्षमताएं उपलब्ध कराने की दृष्टि से कार्यनीतिक ऋण पुनर्रचना (एसडीआर) की शुरुआत की गई है।)

दबावग्रस्त आस्तियों से निपटने के लिए ऋणदाताओं को अधिक समर्थ बनाने और वास्तविक कठिनाइयों का सामना करने वाली संस्थाओं की वित्तीय संरचना में संशोधन करने के लिए अवसर उपलब्ध कराकर वास्तविक आस्तियों को पुन: ट्रैक पर लाने के लिए भारतीय रिज़र्व बैंक ने 13 जून, 2016 को 'दबावग्रस्त आस्तियों की धारणीय संरचना की योजना' पर दिशानिर्देश जारी किए हैं।

गंभीर वित्तीय कठिनाइयों का सामना कर रहे बड़े उधार लेखों के समाधान के लिए, अन्य बातों के साथ-साथ, समन्वित गहन वित्तीय पुनर्संरचना की आवश्यकता है जिसमें प्राय: ऋण मूल्य काफी कम करना और/या बड़े प्रावधान करना शामिल है। प्राय: इस प्रकार बड़ी मात्रा में ऋण का मूल्य कम करने से ऋणदाता हतोत्साहित हो जाते हैं जिसके परिणामस्वरूप दबाव महसूस करने वाले उधारों की देयता संरचना में महत्वपूर्ण बदलाव नहीं हो पाता है। बैंकों ने विनियामकीय ढांचे के लिए भी अभ्यावेदन किया है जो ढांचा वर्तमान में इन कंपनियों द्वारा सामना किए जाने वाले आस्ति गुणवत्ता दबाव के संदर्भ में ऋणदाताओं की देयता संरचना में संशोधन करने की कार्रवाई शुरू करने की सुविधा देगा जिन कंपनियों में उनका एक्सपोजर काफी अधिक है।

तदनुसार, रिज़र्व बैंक ने ऋणदाताओं से इस संबंध में परामर्श के पश्चात बड़े दबावग्रस्त लेखों के समाधान के एक विकल्प के रूप में "दबावग्रस्त आस्तियों की धारणीय संरचना की योजना" (एस4ए) में तैयार की। एस4ए दबावग्रस्त ऋणदाता के लिए धारणीय ऋण के स्तर का निर्धारण करने और बकाया ऋण को धारणीय ऋण और इक्विटी/अर्ध-इक्विटी लिखतों में बांटने की परिकल्पना करता है जिससे कि उधारकर्ता के मुकरने पर ऋणदाता लाभ की स्थिति में बना रहे।

भारतीय रिज़र्व बैंक ने 28 जून, 2016 को वित्तीय स्थिरता रिपोर्ट (एफएसआर) जून 2016 जारी की जो छमाही प्रकाशन है।

एफएसआर भारत की वित्तीय प्रणाली की स्थिरता और वैश्विक तथा घरेलू कारकों से उत्पन्न जोखिमों के प्रति इसके लचीलेपन का समग्र आकलन करती है।

एफएसआर-जून 2016 के कुछ अंश इस प्रकर हैं:

संस्थागत जोखिमों का समग्र आकलन

- भारत की वित्तीय प्रणाली स्थिर है, हालांकि बैंकिंग क्षेत्र काफी चुनौतियों का सामना कर रहा है। चूंकि वैश्विक अनिश्चितता और बदलते भौगोलिक-राजनीतिक जोखिम भारत को प्रभावित कर रहे हैं, लगातार अच्छी घरेलू नीतियां और संरचनागत सुधार समष्टि आर्थिक स्थिरता के लिए महत्वपूर्ण बने हुए हैं।

वित्तीय संस्थाएं: कार्य-निष्पादन और जोखिम

- वर्ष 2015-16 के दौरान अनुसूचित वाणिज्यिक बैंकों

(एससीबी) का कारोबार मंद रहा। सकल अनर्जक अग्रिमों (जीएनपीए) का अनुपात सितंबर 2015 से मार्च 2016 के बीच 5.1 प्रतिशत से काफी बढ़कर 7.6 प्रतिशत हो गया जो मुख्य रूप से आस्ति गुणवत्ता समीक्षा (एक्यूआर) के कारण पुनर्संरचित मानक अग्रिमों को अनर्जक आस्तियों के रूप में पुनर्वर्गीकृत करने के कारण हुआ। पुनर्संरचित मानक अग्रिमों के अनुपात में गिरावट आई किंतु समग्र दबाव वाले अग्रिमों के अनुपात में सितंबर 2015 के 11.3 प्रतिशत से मार्च 2016 में 11.5 प्रतिशत की थोड़ी-सी वृद्धि हुई। अनुसूचित वाणिज्यिक बैंकों के जोखिम भारित आस्ति पूंजी अनुपात (सीआरएआर) में बैंक-समूहों में कुछ सुधार देखा गया। तथापि, अनुसूचित वाणिज्यिक बैंकों की लाभप्रदता में काफी कमी आई और सार्वजनिक क्षेत्र के बैंकों (पीएसबी) ने 2015-16 के दौरान हानि दर्ज की।

- अनुसूचित शहरी सहकारी बैंकों (एसयूसीबी) और गैर-बैंकिंग वित्तीय कंपनियों (एनबीएफसी) की आस्ति गुणवत्ता में सुधार हुआ। सामान्य रूप से एनबीएफसी क्षेत्र का कार्य निष्पादन तुलनात्मक रूप से सार्वजनिक क्षेत्र के बैंकों से बेहतर रहा है।

वित्तीय क्षेत्र के विनियमन

- अंतरराष्ट्रीय स्तर पर, बैंकों की पूंजी और तरलता की स्थिति में सुधार से संबंधित उपायों पर ध्यान केंद्रित करने के अलावा, नीतियों को जनता का विश्वास बढ़ाने और बैंकिंग प्रणाली की सुरक्षा और सुदृढ़ता को कायम रखने के लिए पारदर्शिता और जवाबदेही के मुद्दों पर जोर देना एक बड़ा महत्वपूर्ण उद्देश्य माना।

- जैसा कि भारतीय बैंक वर्तमान में एक्यूआर के मद्देनजर अपने तुलन पत्रों की दुरुस्ती पर ध्यान केंद्रित कर रहे हैं, सरकार द्वारा तंग औद्योगिक क्षेत्रों से संबंधित मुद्दों का समाधान करने के लिए विभिन्न उपाय किए जा रहे हैं जिससे प्रक्रिया में मदद और ऋण वृद्धि में सुधार की उम्मीद की जा सकती है। रिज़र्व बैंक द्वारा उठाए गए विनियामक कदमों का उद्देश्य बैंकों की दबावग्रस्त आस्तियों से मुकाबला करने की क्षमता में सुधार लाना है। जबकि प्रस्तावित 'बड़े निवेश जोखिम ढांचा', से बैंकिंग प्रणाली को एक एकल निगम इकाई को बड़े समग्र ऋण देने में आनेवाले जोखिम को कम करने में मदद मिलेगी, 'तनावग्रस्त आस्तियां (एस4ए) की सतत् संरचना के लिए योजना' पर हाल ही के दिशानिर्देशों से वास्तविक कठिनाइयों का सामने करने वाली संस्था की वित्तीय संरचना को नए सिरे से एक और अवसर के माध्यम से वास्तविक आस्तियों को पुन: पटरी पर लाने में मदद मिलेगी, जब उधारकर्ता बदल जाएगा और उधारदाता लाभ की स्थिति में रहेगा।

संदर्भ :

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आस्ति पुनर्निर्माण कम्पनियों की अनुत्पादक आस्तियों की वसूली में बढ़ती भूमिका

राजेन्द्र सिंह*

आस्ति पुनर्निर्माण कम्पनियाँ (आ.पु.क.) एक ऐसी संगठनात्मक इकाइयाँ हैं जिन्हें विशेष प्रयोजन माध्यम (स्पेशल पर्पज़ वेहिकल) की रूप में गठित किया गया है। इसका उद्देश्य बैंकों/वित्तीय संस्थाओं की अनुत्पादक आस्तियों को खरीदकर उनका प्रबन्धन एवं उनकी वसूली करना है। इसका गठन सरफेसी अधिनियम, 2002 के अन्तर्गत किया गया है।

आ.पु.क. की स्थापना निजी क्षेत्र में गैर-बैंकिंग वित्तीय कंपनियों के रूप में की गयी है। इसकी स्थापना के पीछे कारण यही रहा है कि सिविल कोर्ट, वसूली न्यायाधिकरण और सरफेसी अधिनियम,2002 अनुत्पादक आस्तियों की वसूली में प्रभावपूर्ण नहीं रहे।

आ.पु.क. के सकारात्मक पहलू

जब वर्तमान में उपलब्ध प्रक्रियाओं/प्रणालियों से अनुत्पादक वसूली संतोषजनक नहीं है और भविष्य में ऋणकर्ताओं द्वारा इसके आगे वसूली की संभावनाएं क्षीण नजर आती हैं तो बैंकों के समक्ष एक विकल्प के रूप में इन आस्तियों को आ.पु.क. को बिक्री करके तुलन-पत्र को साफ-सुथरा बनाया जा सकता है।

- आ.पु.क. को अनुत्पादक आस्तियों को बेचकर, अग्रिम राशियों को मुक्त कर उनसे लाभप्रदता में वृद्धि की जा सकती है।
- सहायता संघ (कन्सोर्टियम)/बहुबैंकिंग व्यवस्था में, जहाँ अन्य सदस्यों द्वारा अपने अंश की बिक्री कर दी गई है, वहाँ वर्तमान सदस्यों के समक्ष विकल्प के रूप में आ.पु.क. को बिक्री करना ही तर्कसंगत है।
- जहां सांविधिक देयताओं जैसे बिक्री कर/आयकर/कर्मचारियों का वेतन लम्बित पड़े हुए हैं वहाँ आ.पु.क. को आस्तियों की बिक्री एक बेहतर विकल्प हो सकता है।

आ.पु.क. के नकारात्मक पहलू

- जहाँ नकद की जगह प्रतिभूति रसीदों के माध्यम से आस्तियों की बिक्री होती है वहां आ.पु.क. का हित शामिल नहीं होता क्योंकि बैंकों के लिए यह ऋण से निवेश में परिवर्तित हो जाता है।

  भारत में अभी तक आ.पु.क. की पूंजी बहुत कम है और उनकी मंशा प्रतिभूति रसीदों के माध्यम से अनुत्पादक आस्तियों को अधिगृहीत करना रहा है। ऐसी स्थिति में बैंकों को मात्र अभी तक 5 प्रतिशत नकद रूप में मिलता था जो अब बढ़ाकर 15 प्रतिशत कर दिया गया है। इससे बैंकों की तरलता में कोई सुधार संभव नहीं लगता।
- प्रतिभूति रसीदों के आधार पर अधिग्रहण करने पर आ.पु.क. बहुत कम बट्टे (डिस्काउंट) पर खरीद के लिए तैयार हो जाती है क्योंकि यह 5 प्रतिशत 2-3 वर्षों में ही वसूल हो जाता है। यहां 1.5 प्रतिशत प्रबंधन शुल्क भी बैंकों को देना पड़ता है। प्रतिभूति रसीदों को 5-6 वर्षों के बाद छुड़ाया जा सकता है। भारतीय रिज़र्व बैंक की अनुमति से यह समय 8 वर्षों तक बढ़ाया भी जा सकता है।

*मुख्य प्रबंधक (सेवा-निवृत्त), इंडियन ओव्हरसीज बैंक.

- आ.पु.क. हानिगत आस्तियों की खरीद में रुचि नहीं रखती क्योंकि उनकी दिलचस्पी वहीं होती है जहां भरपूर प्रतिभूतियाँ उपलब्ध होती हैं। इसी तरह वे इस्पात, ऊर्जा, संरचनात्मक क्षेत्र और टेक्सटाइल्स में दिलचस्पी नहीं लेतीं जबकि लघु मध्यम उद्यम क्षेत्र में इनकी दिलचस्पी होती है।

आ.पु.क. की बढ़ती भूमिका

आ.पु.क. की भूमिका अनुत्पादक आस्तियों के समाधान में बढ़ती जा रही है। इसके पीछे कारण यह है कि दबावग्रस्त आस्तियाँ (अनुत्पादक आस्तियों एवं पुन: संरचनाकृत आस्तियों को मिलाकर) मार्च 2015 तक सकल अग्रिम राशियों का 13.5 प्रतिशत तक पहुंच गई हैं।

क्रेडिट रेटिंग एजेंसी क्रिसिल के अनुमान के अनुसार मार्च 2016 तक सकल अनुत्पादक राशियाँ 4 लाख करोड़ रु. तक पहुंचने की संभावना है। अन्य शब्दों में कहा जा सकता है कि अनुत्पादक आस्तियों की समस्या एक गंभीर रूप धारण कर रही है।

वित्तीय स्थिरता रिपोर्ट में भारतीय रिज़र्व बैंक द्वारा किये गये विभिन्न स्ट्रेस परीक्षण के परिदृश्यों में एक ऐसा भी परिदृश्य आया जब अनुत्पादक आस्तियां सकल अग्रिमों का 7.6 प्रतिशत तक हो सकती हैं जिस स्थिति में सभी अनुसूचित व्यावसायिक बैंकों को घाटे की भेंट चढ़ने की संभावना है। इन स्थितियों को देखने से आ.पु.क. की प्रासंगिकता अपने आप बढ़ रही है।

पंजाब नेशनल बैंक जो पहले आ.पु.क. को अनुत्पादक आस्तियों की बिक्री के प्रति गंभीर नहीं था, अब 6 वर्षों बाद, वर्तमान वित्तीय वर्ष में लगभग 2-3 हजार करोड़ रु. अनुत्पादक आस्तियों की नीलामी करने का प्रस्ताव किया है।

आ.पु.क. लिमिटेड के प्रबन्ध निदेशक एवं मुख्य कार्यपालक अधिकारी विजय बहुगुणा के अनुसार दिवालियापन बिल संसद द्वारा पास हो जाने पर आ.पु.क. द्वारा अधिगृहीत किये गये अनुत्पादक आस्तियों में से 30-35 प्रतिशत मामलों में वसूली में सुधार आ सकता है जबकि वर्तमान समय में यह 10-15 प्रतिशत है।

दिवालियापन कोड लागू होने से, इससे संबंधित विधिक कानूनों में समेकन और संशोधन करके, सभी हितधारकों- कार्पोरेट इकाइयों, भागीदारी फर्मों और व्यक्तियों के हितों में संतुलन स्थापित हो सकेगा और आस्तियों के मूल्यांकन में वृद्धि का रास्ता भी साफ हो सकेगा।

आने वाले 6 से 12 महीनों में बैंकों द्वारा अधिक से अधिक अनुत्पादक आस्तियों की बिक्री की संभावनाएं बढ़ गई हैं। जो बैंक आ.पु.क. को आस्तियों की बिक्री के प्रति अब तक इच्छुक नहीं थे वे भी इच्छुक हो जायेंगे। आ.पु.क. लिमिटेड के प्रबंध निदेशक ने इस राशि को 2017 में 3 लाख करोड़ रु. तक बढ़ने का अनुमान लगाया है। जबकि वित्तीय वर्ष 2016 में 01 लाख करोड़ रु. तक बढ़ने का अनुमान है जबकि पहली छमाही में केवल 50,000 करोड़ रु.की ही आस्तियों की बिक्री हुई है।

भारतीय रिज़र्व बैंक ने 2017 तक सभी बैंकों को अपने-अपने तुलन-पत्रों को साफ-सुथरा बनाने का निर्देश दिया है जिसके आधार पर अब बैंकों ने आ.पु.क. का सहारा लेने का निश्चय किया है।

नीलामी प्रक्रिया में सावधानियाँ

मार्च 2015 तक सार्वजनिक क्षेत्र के बैंकों ने 62,500 करोड़ रु. अनुत्पादक आस्तियों की बिक्री की है, जहाँ 61,300 करोड़ रु. (98 प्रतिशत) प्रतिभूति रसीदों के माध्यम से की गई है।

सार्वजनिक क्षेत्र के बैंकों द्वारा अनुत्पादक आस्तियों की नीलामी प्रक्रिया के लिए ऊंची बोली लगाने वाले को आबंटन कर दिया जाता है जो पूरी तरह एक तर्कसंगत प्रक्रिया है और ऐसे में यदि पूरी राशि का नकद भुगतान हो तो इसे श्रेष्ठ प्रणाली भी कहा जा सकता है, परन्तु वास्तविकता में ऐसा नहीं होता।

बैंक/वित्तीय संस्थाएँ, जिन्हें आ.पु.क. द्वारा इन प्रतिभूति रसीदों को जारी किया जाता है, वे इन आस्तियों/सम्पत्तियों से वसूल होने वाली राशि की अधिकृत लेनदार बन जाती हैं।

आ.पु.क. द्वारा अनुत्पादक राशियों की खरीद के संबंध में मूल

बात यह है कि आ.पु.क. द्वारा कितनी वास्तविक वसूली हो पाती है। बुनियादी तौर पर यह इस बात पर निर्भर होता है कि आस्तियों का आन्तरिक मूल्य कितना है और आ.पु.क. द्वारा खरीदने के बाद इसके मूल्यांकन में कितनी वृद्धि हो पाती है। यहां दो बिन्दु महत्वपूर्ण हैं- पहला, आस्तियों का मूल्यांकन और दूसरा, आ.पु.क. के प्रबन्धकों की योग्यता, कुशलता और निपुणता। अतएव ऊंची बोली पर प्रतिभूति रसीदों से भुगतान की राशि का आश्वासन नहीं दिया जा सकता, यही कारण है कि इसे श्रेष्ठ विकल्प नहीं कहा जा सकता। इसी तरह प्रतिभूति रसीदों का मूल्य जितना ही अधिक होगा, बैंकों/वित्तीय संस्थाओं को प्रबन्धन शुल्क और इससे संबंधित व्यय में उतनी ही वृद्धि होगी और इससे लागत बढ़ेगी।

प्रतिभूति रसीदों की सुरक्षा

बैंकों द्वारा अनुत्पादक आस्तियों के एवज़ में जो प्रतिभूति रसीदें प्राप्त की गयी हैं, उनकी असुरक्षा बढ़ रही है। जून 2015 की क्रिसिल स्टडी रिपोर्ट के अनुसार, 75 प्रतिशत प्रतिभूति रसीदों में निवेश कमजोर आस्तियों से संबद्ध है। एक स्वतंत्र परिप्रेक्ष्य के आधार पर यह संकेत मिलता है कि आस्तियों का मूल्य निर्धारण बढ़ा-चढ़ाकर किया गया है। इस कारण ऊंची बोली पर नीलामी के पहले गहन समीक्षा और आत्म निरीक्षण की आवश्यकता है।

नीलामी प्रक्रिया अधिकतर असफल हो जाती है जिसका मुख्य कारण बिक्री करने वाले बैंकों एवं खरीदने वाली आ.पु.क. के बीच आस्तियों के मूल्यों की अपेक्षाओं में अन्तर का होना है।

आ.पु.क. की अपर्याप्त अवशोषण क्षमता

क्रिसिल एवं एसोचैम द्वारा किये गये एक संयुक्त अध्ययन के अनुसार आ.पु.क. 2015-16 में संभावित वृद्धिशील अनुत्पादक राशि जो 60,000 करोड़ रु. अनुमानित की गयी है उसका मात्र 20 प्रतिशत ही खरीद सकती है। इस अपर्याप्त अवशोषण क्षमता का कारण आ.पु.क. में पूंजी की कमी और बैंकों तथा आ.पु.क. के बीच आस्तियों के मूल्यांकन में बेमेल अपेक्षाएं हैं।

आज बैंकों/वित्तीय संस्थाओं की अनुत्पादक राशियों में लगातार वृद्धि हो रही है जिसके समाधान में वर्तमान तौर-तरीके, दीवानी मुकदमें, वसूली न्यायाधिकरण, सरफेसी अधिनियम, 2002, एकमुश्त समझौता आदि प्रभावकारी साबित नहीं हो पा रहे हैं। ऐसी स्थिति में निश्चित रूप से आ.पु.क. को पर्याप्त पूंजी उपलब्ध कराना एक प्राथमिकता है।

आ.पु. कम्पनियों की निवल मालियत

भारतीय रिज़र्व बैंक की एक रिपोर्ट के अनुसार 15 आ.पु. कम्पनियों की कुल निवल मालियत 4 हजार करोड़ रु. है। यदि इस राशि को सकल अनुत्पादक आस्तियों की राशि जो 5 लाख करोड़ रु. तक पहुंचने वाली है, उसके आधार पर देखा जाए तो प्रत्येक आ.पु.क. को लगभग 1 लाख करोड़ रु. की आवश्यकता होगी। प्रस्तुत वर्तमान बजट में आ.पु. कम्पनियों को पूंजी बढ़ाने के लिए पर्याप्त सुविधाओं की घोषणा की है।

वर्तमान बजट में आ.पु.क. के सशक्तीकरण का प्रस्ताव

प्रस्तुत वर्तमान बजट में केन्द्रीय वित्त मंत्री ने आ.पु.क. के लिए नए प्रस्तावों को प्रस्तुत किया है। इसमें एक प्रस्ताव यह भी है कि सरफेसी अधिनियम, 2002 में आवश्यक संशोधन किया जाना। संशोधन बिल पास होने के बाद आ.पु.क. अपनी इक्विटी 100 प्रतिशत तक कर सकती हैं जबकि वर्तमान में यह 49 प्रतिशत है।

इस कदम से निवेशक इन कम्पनियों की तरफ आकर्षित होंगे और पूंजी में वृद्धि होगी। साथ ही विदेशी प्रत्यक्ष निवेश जिसकी सीमा वर्तमान में 74 प्रतिशत है अब स्वत: मार्ग से 100 प्रतिशत बढ़ाने का प्रस्ताव किया गया है।

आयकर का अन्तरण

आ.पु. कम्पनियों को यह भी छूट देने का प्रस्ताव किया है कि इनके पूरे आयकर को प्रतिभूति ट्रस्ट को अन्तरित करने का अधिकार दिया जाए। यह एक बड़ा सकारात्मक कदम कहा जा सकता है। जब एक प्रतिभूति ट्रस्ट काफी बड़ी राशि से अनुत्पादक आस्तियों को अधिगृहीत करता है तो उसे निधियों की आवश्यकता पड़ती है, ऐसे में इन कम्पनियों को अपने आयकर को प्रतिभूति ट्रस्ट को अन्तरण करने का अधिकार होगा। इस कदम से आयकर के बारे

में अस्पष्टता समाप्त हो गयी है। अब निवेशकों को अपने निवेश पर ही आयकर का भुगतान करना पड़ेगा।

उपसंहार

आ.पु.क. की सफलता मात्र अनुत्पादक आस्तियों की खरीद से नहीं होती परन्तु इन कम्पनियों को सफल बनाने के लिए आवश्यक है कि वसूली न्यायाधिकरणों की संख्या में वृद्धि की जाए, सुप्रीम कोर्ट के न्यायाधीश की अध्यक्षता में गठित समिति के माध्यम से मामलों के अति विलम्ब होने के कारणों का पता लगाकर सम्बन्धित बैंकों/वित्तीय संस्थाओं को आवश्यक दिशा-निर्देश जारी किये जा सकें वसूली न्यायाधिकरणों को उत्तरदायी बनाया जा सके, इनको मजबूती प्रदान की जा सके। साथ ही विधिक प्रक्रिया में तेजी लाई जा सके और ऋणकर्ताओं द्वारा न्यायालय और वसूली न्यायाधिकरणों के समक्ष बार-बार लाये जाने वाले स्थगन आदेशों पर रोक लगाई जा सके।

आ.पु.क. की सफलता इस बात पर भी निर्भर होगी कि आस्तियों का सही मूल्यांकन किया जाए, अधिग्रहण के बाद इनके मूल्यांकन में संवृद्धि भी करना है। साथ ही आ.पु.क. के अधिकारियों/कर्मचारियों की योग्यता, कुशलता और निपुणता भी आवश्यक है।

बैंकों द्वारा आस्तियों के नीलामी प्रक्रिया में सुधार की आवश्यकता है जिससे ऊंची बोली लगाने वालों को आस्तियों की बिक्री करते समय उनकी पृष्ठभूमि के बारे में जानकारी हासिल करना भी आवश्यक है।

पहले नए निवेशकों को आ.पु.क. में निवेश करने में आशंका थी परन्तु नए बजट में केन्द्रीय वित्त मंत्री ने इन कंपनियों को पूंजी जुटाने के जो नए उपायों की घोषणा की है उससे इन निवेशकों में एक नई आशा का संचार हुआ है।

इसी के साथ अब तक आ.पु.क. के हितों की सुरक्षा के लिए कोई विनियामक व्यवस्था नहीं थी परन्तु प्रस्तावित दिवालियापन (बैंकरप्शी) कानून लाने से इनके हितों की सुरक्षा का रास्ता साफ हो जायेगा।

दूसरी आशंका इन कम्पनियों द्वारा अधिगृहीत की गयी आस्तियों के नियंत्रण की थी। इसके लिए स्ट्रैटजिक डेट रिस्ट्रक्चरिंग (अपेक्षित कर्ज पुन: संरचना योजना) के लागू होने से अब इनके प्रबंधन को अपने नियंत्रण में लिया जा सकता है।

इन नीतियों के फलस्वरूप आ.पु.क. निवेशकों के लिए आकर्षक बन गई हैं, साथ ही उनकी भूमिका अनुत्पादक आस्तियों की वसूली में बढ़ गयी है।

BANK QUEST

THEMES FOR NEXT ISSUES

The themes for next issues of “Bank Quest” are identified as:

- October-December, 2016: Digital Banking
- January-March, 2017:Business Analytics
- April-June, 2017: Challenges in Infrastructure financing

Legal Decisions Affecting Bankers

M.G. Kulkarni*

State Bank of Patiala Patiala, ... Appellant

v/s

1) Smt.Surinder Kaur, Laddi, Sangur

2) State Bank of India, Sangrur. . . . Respondents

State Consumers Disputes Redressal

Commission- Date of order 22nd January, 2014

Issue:

Whether, Bank is liable for deficiency in service?

Facts:

Smt. Surinder Kaur (Kaur/Complainant) and her husband had joint savings account with State Bank of India (SBI). The Bank had issued two ATM cards both for Husband and Wife at their request. Kaur's husband was serving in army in West Bengal. His salary was credited to the said joint account by his employer.

It was the case of Kaur that on 15/3/2011 she went to operate ATM of State Bank of Patiala (SBOP/Appellant). After pressing the button of ATM by Kaur for withdrawal of ₹ 27,000/-, the ATM could not dispense the cash and thinking that the ATM may not be working, she went to adjoining ATM maintained by SBOP. At the adjoining ATM she was apprised by some other customer that, she cannot withdraw ₹ 27,000/- at one stroke and as such she withdrew ₹ 10,000/- from the ATM. She also confirmed that the Balance to the credit of said joint account after said withdrawal was ₹ 28,967.02 as on 15/3/2011. On 24/3/2011, her husband operated ATM at West Bengal to withdraw from the said account; but he could not get the money due to insufficient funds. On an inquiry, his wife informed him that she had withdrawn only ₹10,000/- not ₹ 27000/- and account was having balance of ₹ 28,967.02. She made enquiries with SBI and the SBI after checking the account credited ₹ 27000/- to the said account on 8/4/2011. However SBI on 15/4/2011 debited said account by ₹ 27000/-. When her request for refund/credit of ₹ 27000/- was not entertained by the SBI/SBOP, alleging deficiency in service she filed a consumer complaint before District Consumer Redressal Forum (Forum) against SBI/ SBOP for refund of ₹ 27000/- with interest @24% from 15/3/2011 till realization. She also claimed compensation of ₹ 50,000/- for mental agony and physical harassment besides ₹ 5,500/- towards litigations expenses.

SBI filed written statement stating that the ATMs of the banks are interlinked and whenever amount was withdrawn by Kaur, the same will be debited to her account. SBI further contended that the complaint of Kaur was forwarded to their office at Belapur/Navi Mumbai and as per their instructions the amount was credited to her account. Though the matter was taken up with SBOP to reimburse the said amount; but on their refusal SBI debited her account by ₹ 27,000/-. SBOP also denied any deficiency in service on its part by filing written statement by producing various documents. SBOP further denied having knowledge about disputed transaction for want of notice from the Kaur/Complainant.

The Forum after hearing the parties and based on the evidence before it allowed the claim of Complainant Kaur. Aggrieved by the order of Forum, SBOP filed an Appeal challenging the same before State Consumer Disputes Redressal Commission (SCDRC), Chandigarh.

Observations and Decision:

It was the case of SBOP that the transaction for withdrawal of ₹ 27000/- by the Complainant/Kaur was successful. It could be seen from the entries in Logs dated 15/3/2011 relating to both ATM machines that

*Deputy Director (Legal), Indian Institute of Banking & Finance.

as per transaction No. 988, ₹ 27000/- was successfully withdrawn from ATM machine No. xxx at 14:37:18 with the help of ATM card issued to Kaur. Further as per the records it is apparent that the cash in the ATM prior to said transaction was ₹ 38,54,400/- and was reduced to ₹ 38,27,400/- after the transaction (₹ 38,54,00 -- ₹ 38,27,400 = ₹ 27000). Therefore there was sufficient cash balance in the machine to dispense ₹ 27000/- There were subsequent entries of transaction as forthcoming from the log and it goes to show that ATM was indeed working without fault. On the specific demand dated 03/11/2011 by the complainant for production of CCTV footage of the transaction/s; SBOP had submitted that the CCTV footage was not possible to be retrieved after 6 months from the date of transaction. It was also explained by the SBOP that the customers of SBI ATM card holders can withdraw maximum ₹ 40,000/- in a day and Rs. 35,000/- in a single transaction. The said fact is forthcoming from the records of other customers having transacted accordingly. Therefore it is utter false on the part of Kaur to state that ₹ 27000/- could not be dispensed to her in one stroke.

SBOP, based on the evidences submitted has proved that transaction No. 988 for ₹ 27,000/- had taken place at 14:37 hrs and after the said transaction/withdrawal, the balance in the account of Kaur was ₹ 1,967.02. Hence it is false to state by Kaur that she withdrew another ₹ 10,000/- after failed transaction (No. 988) as it is utterly impossible to withdraw another Rs. 10,000/- when the balance in her account itself was to the tune of ₹ 1,967.02, (₹ 28,967.02 – ₹ 27,000= Rs.1967.02). Further it could be seen from the records produced by the SBOP that the transaction No. 8561 for ₹ 10,000/- was made at 14:30:04 hrs on 15/3/2011 and which was apparently prior to the transaction for ₹ 27,000/- made at 14:37 hrs. The records go to show that the complainant in-fact withdrew Rs. 10,000/- at the first instance and there-after ₹ 27,000/- on 15/3/2011 by two ATM transactions. The whole story put-up by the complainant Kaur was false and concocted. She has produced statement of account from 17/3/2011 onwards to show the credit of ₹ 27,000/- on 7/4/2011 and the debit of same on 15/4/2011. She withheld the relevant statement dated 15/3/2011 to conceal actual facts and entries of withdrawals made on that day.

Complainant Kaur makes an application on 3/11/2011 for CCTV footage of relevant transaction after 6 months of disputed transaction as she was sure that same could not be retrieved after 6 months from the date of transaction. Moreover, had it been the case of Complainant/ Kaur that her ATM card was stolen and in such situation CCTV footage could have been relevant. Hence the reasoning of Forum that CCTV footage was not available does not mean that the money could have been withdrawn fraudulently. Her account was initially credited by ₹ 27,000/- on 7.4.2011 but was debited later on 13.4.2011 as per the advice of SBOP. From the logs, reports and other records, it is clear that the there was indeed withdrawal of ₹ 27,000/- on 15/3/2011 and as such the debit of said amount is absolutely based on the said documents/records.

Therefore the State Consumer Disputes Redressal Commission accepting the Appeal of SBOP set aside the order of Forum and dismissed the complaint of Kaur with cost of ₹ 5000/- for presenting wrong and concocted facts in her complaint.

☯

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