EUROPEAN ACADEMIC RESEARCH
Vol. I, Issue 11/ February 2014

ISSN 2286-4822
www.euacademic.org

Impact Factor: 3.1 (UIF)
DRJI Value: 5.9 (B+)

Non Performing Assets by Public Sector Bank in Recent Years

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Abstract:

The paper analyzes the growth performance of banking sector from a long term perspective and attempts to provide a broad base description of how to combat of Non Performing Assets by Banks in India. Non performing advance is defined as an advance where payment of interest or repayment of instalment of principal or both remains unpaid for a period of two quarters or more. The study begins by analysing the meaning of NPA and the problems associated with banks. The paper also suggests that in order to ensure that, banks operate under the standard regulation.

Key words: Non Performing Assets, Public Sector Banks (PSUs), Loan Defaulters, Finance Ministry.

Introduction

Managing NPAs is one of the most important and difficult areas for Indian Banking Industry. Reduction of the level of NPAs is the most challenging task for banks because it reduces the profitability and operations, due to increasing levels of NPAs in banks, are required to maintain high levels of provisions for NPAs, which creates problems in further lending operations of banks.

The most crucial factors that govern the performance of banks are spotting their NPAs. The banks management has assumed NPAs as critical important as they amounted to Rs. 392.53cr or 23.2% of the gross as on 31st March 93.

*At present Gross non-performing assets (NPAs) have increased sharply in public sector banks (PSBs) in the first quarter of the current financial year as a rapidly slowing economy is resulting in a quantum leap in bad loans. Gross NPAs as a percentage of advances stood at a two-and-half year high in several leading PSBs in the April-June quarter.

Non-performing assets for the Indian banking system are likely to deteriorate further in the year 2014 and it may reach Rs 1,50,000 cr mark by the end of the year, according to The Associated Chambers of Commerce and Industry of India (ASSOCHAM) in its recent release.

State Bank of India is the country's largest lender, topped in the list of banks with the highest gross NPAs (in term of percentage) during the quarter among BSE-Bankex constituents. The gross NPA to advances for SBI, which has seen a steady increase in bad loans, surged to 5.56% in April-June, the highest since the quarter ending March 2011. Gross NPAs have increased 81 basis points (0.81%) for SBI during the quarter, data with the Centre for Monitoring Indian Economy (CMIE) showed. "The rise of bad loans is across the board. The growth has lowered, manufacturing sector is not doing that well and interest rates are going up instead of moving down. In such an environment, NPAs will only move up," Vaibhav Agrawal, vice president, Angel Broking said.

Gross NPA to advances surged to the highest in 10 quarters for Bank of Baroda, Canara Bank and Punjab National Bank. Incidentally, global ratings agency Moody's downgraded the bank finance strength ratings of Bank of Baroda, Canara Bank and Union Bank of India on August 16. Moody's says PSBs would find it difficult to respond to slower economic growth, deteriorating asset quality and declining profit margins. The top 30 loan defaulters of the group had a loan outstanding of Rs. 16,511 crore or 21.7 per cent of the total

loan.
***M Allirajan & Aparna Ramalingam, TNN | Aug 24, 2013**

To achieve the level of international standard of 5 in NPAs management in the year to come, distinct three pronged strategy to be drowns as under-

- Chalking out a concrete action play in recovering the major chunk of NPAs through legal and non-legal remedies.
- Restoring to write – offs only as the last resort after exhausting all the avenues of recovery.
- Not allowing the new loan to drift to NPA stars.

For effecting the recovery in NPA, the management depends on the manager of the branches; the manager is the most important in the scheme, the one who can galvanize people around him and swing into action to produce results as desired by the management.

Meaning and Definition of NPA

NPAs are those loans given by banks or financial institutions where the borrower defaults of delays in payment or repayment amount. The Narashiman Committee in the year 1992-93, recommended that an asset may be treated as NPA, if interest and/or Instalments of Principal remain overdue for a period exceeding 180 days and that Banks $ FIs should not take into their income account, the interest accrued on such NPA, unless it is actually received/recovered.

Non performing advance is defined as an advance where payment of interest or repayment of instalment of principal or both remain unpaid for a period of two quarters or more. An amount under any of the credit facilities is to be treated as 'past due' when it remains unpaid for days beyond due date.

In other words we can say an asset which ceases to generate income for when party could not pay interest or instalment on loan, which remains "past due" for two quarters consecutively, then it becomes Non Performing.

The public sector banks undertake lending to different sectors of the economy and have geographical spread through its branch network. Its viability will depend on the profit generating capacities of its operations. The most critical area in the improvement of the profitability of banks continues to be the reduction of NPAs. With the introduction of international norms of income Recognition, Assets classification and provisioning in the banking sector, managing NPAs has emerged as one of the major challenges facing the banks. The public sector banks with their vast network of branches and mass retail-business base, cannot escape the applicability of near uniform global standards if they have to become competitive.

A NPA is defined as a credit facility in respect to which interest/instalments of principal have remained due for a period of two quarters from the year ending March, 31 1995, and onwards. It needs to be recognized that reducing the levels of NPAs is a time consuming process. Apart from internal factors, such as weak credit appraisal, noncompliance and wilful default, there are several external factors such as preponderance of certain traditional industries in the portfolio of certain banks, natural calamities, policy and technological changes which increase labour problems, non availability of raw materials and other such factors which are caused to NPAs not within the control of banks.

Classification of Advances

Banking are now required to recognise advances faster and then classify them as problem assets. The basic factor to determine NPAs is the necessary record of recovery and not the availability of security.

Health Code System

In order to get information regarding the health of individual advances, the quality of credit portfolio and the extent of advances causing growth of NPAs, RBI provided a code system in 1985.

This was divided in following eight categories:

1. Satisfactory
2. Irregular
3. Sick viable
4. Advances recalled
5. Suit filed accounts
6. Decreed debts
7. Bad and doubtful debts

Under the health code system RBI has classified problem loans in the following two categories:

A) Performing Assets/Standard Assets

Loans where interest and/or principal are not past due beyond 180 days as at the end of the financial year. It does not disclose any problem and does not carry more than normal credit risk. All fraud shall be treated as NPA and dealt with accordingly; previously, no provisions were required, however recently RBI allowed all commercial banks to create a provision of 0.25%.

B) Non Performing Assets

Any loan repayment which is passed due beyond 180 days, NPAs further classified into:

1. Sub standards assets
2. Doubtful assets
3. Loss assets

Sub standards assets

Sub-standard assets is one which has been classified as NPA for a period not exceeding 2 years. In such cases the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the bank in full.

Doubtful assets

A doubtful asset is one which remained NPA for a period exceeding two years. Here too as in the case of sub standard assets, rescheduling does not entitle a bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weakness inherent in that classified as sub standard with the added characteristics that the weakness makes collection or liquidation in full.

Loss assets

A loss asset is one where loss has been identified by the bank or internal auditors or RBI inspectors, but the amount has been written off, wholly or partially.

Objectives of the Study:

1. Recognise income on the account which does not have such status is a step forward to bringing about a prudent financial accounting standard in the banks.
2. Classifying assets into different categories basically aims at bringing about some objectives, a basis for provisioning that bank's balance sheet has more transactions.
3. To assess the significance of NPAs.
4. To analyze the component of NPAs and to find how the public sector bank is managing its NPAs requirement.
5. To find out the various techniques and methods used by banks for managing NPAs.
6. To analyse constraints and problems faced by banks while arranging NPAs.
7. To ascertain the corrective action needed to check NPAs in banks.
8. To suggest the remedies to cope up with the situation by NPAs.

Importance of the Study:

During the early 1990s, new dimensions have been added in the lending operations of banks with acceptance of certain important recommendations of committee on financial services system reforms. The most important among these relate to income recognition and provisions against NPA loan assets and concepts of Non performing loans themselves, which was based not on security considerations but on the recovery in individual loan account. In terms of these guidelines a NPA is one which remains unpaid for a period of more than 180 days.

The implication of such advances that income can be recognised means that only the account becomes NPA, while the interest will not be debited to the account. Not only this, but the banks are required to create provision reserves against non performing loans ranging from 10 % to 50% in loss asset cases up to 100% based on record of recovery and security. In such circumstances the primary concern of any bank has to keep the assets performing so that they get income on a regular basis and they are not required to make any provision against the loan assets. Otherwise it will not be possible to lend profitability.

Further, the bankers are now facing another dilemma where their lending capacity is not restricted by the available recourses in the shape of deposits or borrowing or refinance support alone, but by the level of funds to be called capital fund and examined with reference to the level of risk weighted assets and reflected through capital adequacy ratio in the respective bank. With the increase in loans, the amount of risk weighted assets increases, this bringing down the capital adequacy ratio unless it is equally augmented by regular flow of income from such loans or other sources.

Incidentally, by complementing the recommendations of Narasimham Committee, RBI has gradually reduced the statutory pre-emption of SLR and CRR, which have improved the funds availability with banks to go in for lending operations. This naturally will require the bank branch managers to increase the volume of credit and increase the credit deposit-ratio but, in order to avoid the application of strict rules on non-performing loans and also the strict provisioning regulations, the quality of assets/lending will have to be improved, which will be possible if the viability of the financed actively is not compromised at any cost, irrespective of the amount of loan hence the actions taken at pre-sanction stage and monitoring made at post-sanction are likely to have a more important role in keeping the banks operating with profits.

Bankers to formulate the tools and techniques to control NPAs can use the study.

Research Methodology/Design

Research has its special significance in involving various operational and planning of business and Industry.

Objective of Research

The purpose of research is to discover answer to questions through the application of some appropriate procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered. The topic of this study, "managing NPA by public sector banks in recent years", has its own significance for different sectors of Indian Banking System and Industrial sector.

The objective of my research work is to analyse the complicated problem of NPAs being faced by banking sector and to find how the public sector banks can effectively manage this problem of NPA. I have to give my own suggestions and recommendations concerning the issue.

Type of Research

The research type for the topic selected by me is based on secondary data drawn on existing sources. Some tables relating to NPAs have been taken for the purpose of analysis.

Research Approach

NPAs management and regulation are specific tools adopted by RBI and followed by the banks to control their NPAs problem, along with ARCs, DRTs. In this context my research approach follows the qualitative approach to find out NPAs problem and its remedies.

Research Problem

The banks being financial intermediaries are in the business of accepting deposits for the purposes of lending; to augment their resources, at times they borrow money from other sources and meet the ever increasing borrowing requirement of their customers. My research problem is first to study the NPAs and then to find out up to what extent co-ordination exists between NPAs and the affecting areas of the lending policy. Thereafter I have to give my own possible suggestions and recommendations.

Research Methodology

We have selected public sector banks. In this there is a number of factors that led to the choice of this unit. These institutions have always earned the profit and now they are facing NPAs problems. It is also a matter of convenience for the researcher to collect statistical data in a tabular form on secondary sources, the net website www.rbi.org.in, RBI bulletin, yojna, kurukshetra and other concerned magazines, newspapers and annual reports of the banks; the period of the study to concerning data is about eight years. The data thus collected will be analysed with help of suitable statistical tools. To substantialize the analysis, existing literature on the subject will be used to draw certain conclusions, which will be required future verification.

Hypotheses

- Managing NPAs on the one hand are supporting banking sector reforms.
- The securitisation act will enable banks to tackle NPAs problem of bank.
- ARCs and DRTs have a positive role in NPAs problem of bank.
- Banks should also follow compromise model to reduce NPAs.

In this study it will be analysed what is the growth potential of NPAs related to public sector they are facing in today's scenario.

The above mentioned hypothesis is subject to testing after a proper study and analysis of existing literature in the form of books, journals, periodicals, Magazines, Newspapers, RBI press releases.

Reasons for Growing NPAs

The NPAs in Indian banking sector as a historic legacy due to lacunae in credit recovery largely and arising from inadequate legal procedures and difficulties in execution of the decrees awarded by court.

A paper brought by IBCA, an International agency, which places the blame for the legal system, is "sympathetic" towards the borrowers and works against the banks interest. Despite most of the loans being backed by security, banks are unable to enforce their claim on the collateral when the loans turn NPA and therefore, loan recoveries have been considered insignificantly.

Various reasons for growing NPAs are mentioned as under:

- Diversions of funds by borrowers. The borrower diversifies funds which are borrowed for a particular purpose, in order to shift the responsibilities, which indicates losses in the primary mortgage assets.

- Priority sector lending and lending under Government sponsored schemes.
- Ineffective monitoring over the use of funds.
- Lack of effective follow up due to the large number of accounts and their books are not maintained properly and accordingly.
- Compliance legal informalities for credit recovery.
- Absence of adequate security.
- Weak credit appraisal.
- Directed and pre-approved natures of loans sanctioned under sponsored programmes.
- Mis-utilisation of loans and subsidies.
- Diversion of funds.
- Lack of effective follow-up.
- Absence of bankruptcy and fore-closure laws.
- Decrepit legal system.
- Cost in-effective legal recovery measures.
- Lack of marketing support.

Impact of NPAs

At the macro level, NPAs have choked off the supply line of credit of the potential lenders thereby having a deleterious effect on capital formulation and arresting the economic activity in the country.

At the micro level, unsustainable levels of NPAs have eroded current profits of banks and FIs. They have led to reduction in interest income and increase in provision and have restricted the cycling of funds leading to various assets liability mismatches. Besides this, it has led to erosion in their capital base and reduction in their competitiveness.

The problem of NPAs is not a matter of concern for banks and FIs alone. It is a matter of great concern for the entire public, as credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit is bound to create adverse repercussions in the economy. The mounting menace of NPAs has raised the cost of credit, made Indian businessman uncompetitive as compared to their counterparts in other countries.

It has made banks more averse to risks and squeezed genuine Small and Medium Enterprises from accessing competitive credit and has throttled their enterprising spirits as well to a great extent.

Due to their crippling effects on the operation of banks, assets quality has been considered as one of the most important parameters in the measurement of Bank's Performance under the CAMELS Supervisory Rating System of RBI.

NPAs in the Indian Banking System have assumed astronomical dimensions: the NPAs of the 40 Scheduled Commercial Banks (both Private/Public) alone totalled Rs. 93,109 cr. As on 31st March 2013.

(Rs. Crore)

Bank	Sep-2013	Mar-2013	Amount Change	% Change
ING Vysya Bank	62	9	53	***584.8***
Bank of Maharashtra	1535	393	1142	***290.7***
Syndicate Bank	2547	1125	1422	***126.4***
United Bank	4385	1970	2415	***122.6***
Corporation Bank	2668	1411	1257	***89.1***
South Indian Bank	440	250	190	***76.3***
Kotak Mahindra Bank	547	311	236	***75.8***
IDBI Bank	5174	3100	2074	***66.9***
HDFC Bank	767	469	298	***63.6***
TOTAL – 40 Banks	**1,28,533**	**93,109**	**35,424**	***38.0***

(Source: BSE)

Table No.1. Fourteen banks report more than 50% rise in net NPAs in first half of 2013-14

COMPOSITION OF NPAs OF PUBLIC SECTOR BANKS - 2004 TO 2013								
								(Rs.Billion)
	As on March 31							
Bank Name	**Year**	**Priority Sector**		**Non Priority Sector**		**Public Sector**		**Gross NPAs**
		Amount	Percent Share	Amount	Percent Share	Amount	Percent Share	Amount
		1	2	3	4	5	6	7
Nationalised Banks	2004	167.05	47.74	178.95	51.14	3.90	1.11	349.90
	2005	163.81	51.17	153.46	47.94	2.83	0.88	320.09
	2006	151.24	53.66	122.53	43.48	8.08	2.87	281.85
	2007	157.79	61.28	96.68	37.55	3.02	1.17	257.49
	2008	163.85	67.21	77.93	31.96	2.02	0.83	243.80
	2009	157.21	60.10	101.40	38.76	2.97	1.13	261.58
	2010	199.06	56.13	152.77	43.08	2.80	0.79	354.62
	2011	257.21	59.90	169.47	39.47	2.73	0.64	429.40
	2012	322.90	48.34	343.13	51.37	1.92	0.29	667.95
	2013	404.86	42.21	553.59	57.71	0.78	0.08	959.22
SBI Group	2004	71.36	47.07	78.03	51.48	2.20	1.45	151.59
	2005	70.17	47.39	76.24	51.48	1.68	1.13	148.08
	2006	72.50	54.95	58.19	44.10	1.25	0.95	131.93
	2007	71.75	57.15	51.93	41.36	1.88	1.50	125.56
	2008	89.02	58.49	62.22	40.88	0.97	0.63	152.20
	2009	84.47	47.26	92.50	51.75	1.77	0.99	178.74
	2010	109.40	50.11	106.46	48.77	2.44	1.12	218.31
	2011	155.67	55.32	125.67	44.66	0.06	0.02	281.40
	2012	239.11	52.33	217.59	47.62	0.25	0.05	456.94
	2013	264.42	44.09	334.94	55.85	0.31	0.05	599.67
Public Sector Banks	2004	238.40	47.54	256.98	51.24	6.10	1.22	501.48
	2005	233.97	49.98	229.69	49.06	4.50	0.96	468.17
	2006	223.74	54.07	180.72	43.68	9.32	2.25	413.78
	2007	229.54	59.92	148.61	38.80	4.90	1.28	383.05
	2008	252.87	63.85	140.15	35.39	2.99	0.75	396.00
	2009	241.68	54.89	193.90	44.04	4.74	1.08	440.32
	2010	308.46	53.84	259.23	45.25	5.24	0.91	572.93
	2011	412.87	58.09	295.15	41.52	2.78	0.39	710.80
	2012	562.01	49.96	560.71	49.85	2.17	0.19	1,124.89
	2013	669.28	42.93	888.53	57.00	1.08	0.07	1,558.90
Source: Department of Banking Supervision,RBI								

Table No.2. Sector-wise Distribution of NPAs

Group-wise classification of Loan Assets of SCBs-2008 to 2013												
												(Rs.Billion)
						As on March 31						
Bank Name	**Year**	**Standard Advances**	**Percent Share**	**Sub-Standard Advances**	**Percent Share**	**Doubtful Advances**	**Percent Share**	**Loss Advances**	**Percent Share**	**Gross NPAs**	**Percent Share**	**Total Gross Advances**
		1	2	3	4	5	6	7	8	9	10	11
Public Sector Banks	2008	16,564.51	97.67	168.46	0.99	190.83	1.13	36.72	0.22	396.00	2.33	16,960.51
	2009	20,546.01	97.90	195.21	0.93	207.08	0.99	38.03	0.18	440.32	2.10	20,986.33
	2010	24,551.47	97.72	276.85	1.10	246.79	0.98	49.28	0.20	572.93	2.28	25,124.39
	2011	29,888.72	97.68	336.12	1.10	319.55	1.04	55.14	0.18	710.80	2.32	30,599.53
	2012	34,379.00	96.83	603.76	1.70	470.75	1.33	50.37	0.14	1,124.89	3.17	35,503.89
	2013	38,999.85	96.16	765.89	1.89	734.85	1.81	58.15	0.14	1,558.90	3.84	40,558.74
Private Sector Banks	2008	4,597.22	97.25	72.81	1.54	44.53	0.94	12.44	0.26	129.78	2.75	4,727.00
	2009	5,031.87	96.75	105.27	2.02	50.18	0.96	13.45	0.26	168.90	3.25	5,200.77
	2010	5,677.23	97.03	86.78	1.48	65.43	1.12	21.66	0.37	173.87	2.97	5,851.10
	2011	7,149.78	97.55	44.00	0.60	107.36	1.46	28.39	0.39	179.75	2.45	7,329.53
	2012	8,628.96	97.92	51.33	0.58	103.16	1.17	28.72	0.33	183.21	2.08	8,812.16
	2013	10,266.73	98.09	58.54	0.56	110.69	1.06	30.69	0.29	199.92	1.91	10,466.65
Foreign Banks	2008	1,598.82	98.09	19.63	1.20	7.68	0.47	3.87	0.24	31.17	1.91	1,629.99
	2009	1,624.20	95.70	58.74	3.46	10.04	0.59	4.16	0.25	72.94	4.30	1,697.14
	2010	1,603.11	95.74	49.30	2.94	14.41	0.86	7.57	0.45	71.28	4.26	1,674.39
	2011	1,942.57	97.46	18.65	0.94	21.13	1.06	10.87	0.55	50.65	2.54	1,993.21
	2012	2,284.40	97.32	20.78	0.89	22.32	0.95	19.82	0.84	62.92	2.68	2,347.32
	2013	2,606.39	97.03	28.82	1.07	27.51	1.02	23.39	0.87	79.72	2.97	2,686.12
All Banks	2008	22,760.54	97.61	260.89	1.12	243.04	1.04	53.02	0.23	556.95	2.39	23,317.50
	2009	27,202.08	97.55	359.22	1.29	267.30	0.96	55.64	0.20	682.16	2.45	27,884.24
	2010	31,831.81	97.49	412.93	1.26	326.64	1.00	78.51	0.24	818.08	2.51	32,649.89
	2011	38,981.07	97.64	398.77	1.00	448.04	1.12	94.40	0.24	941.21	2.36	39,922.28
	2012	45,292.36	97.06	675.87	1.45	596.23	1.28	98.92	0.21	1,371.02	2.94	46,663.37
	2013	51,872.97	96.58	853.25	1.59	873.05	1.63	112.24	0.21	1,838.54	3.42	53,711.51
Source: Department of Banking Supervision,RBI												

Table No.3. Group-wise classification of Loan Assets of SCBs-2008 to 2013

STATISTICS RELATING TO COMMERCIAL BANKS AT A GLANCE									
Indicators	March 2005	March 2006	March 2007	March 2008	March 2009	March 2010	March 2011	March 2012	March 2013
Number of Commercial Banks	288	222	182	173	170	167	167	173	155
(a) Scheduled Commercial Banks	284	218	178	169	166	163	163	169	151
of which : Regional Rural Banks	196	133	96	90	86	82	82	82	64
(b) Non-Scheduled Commercial Banks	4	4	4	4	4	4	4	4	4
Number of Bank Offices in India	70373	72072	74653	78787	82897	88203	94019	102377	109811
(a) Rural	30790	30251	30409	30927	31598	32529	33868	36503	39439
(b) Semi-Urban	15325	15991	16770	18027	19337	21022	23299	26144	28691
(c) Urban	12419	13232	14202	15566	16726	18288	19046	20650	21720
(d) Metropolitan	11839	12598	13272	14267	15236	16364	17806	19080	19961
Population per Office (in thousands)	16	16	15	15	15	14	13	13	12
Aggregate deposits of Scheduled	17001.98	21090.49	26119.34	31969.40	38341.10	44928.26	52079.69	59090.82	67504.54
(a) Demand deposits	2480.28	3646.40	4297.31	5243.10	5230.85	6456.10	6417.05	6253.30	6622.99
(b) Time deposits	14521.71	17444.09	21822.03	26726.30	33110.25	38472.16	45662.64	52837.52	60881.55
Bank credit of Scheduled Commercial B	11004.28	15070.77	19311.90	23619.13	27755.49	32447.88	39420.83	46118.52	52604.59
SLR investments of Scheduled Commerc	7391.54	7174.54	7915.16	9717.14	11664.10	13847.53	15016.19	17377.87	20061.05
Deposits of Scheduled Commercial	257	305	368	434	498	548	609	643	674
Credit of Scheduled Commercial Banks	170	221	276	322	362	398	458	498	526
Per capita Deposit of Scheduled Commercial Banks (Rs.)	16281	19130	23382	28610	33919	39107	45505	50183	56380
Per capita Credit of ScheduledCommerc	10752	13869	17541	21218	24617	28431	34187	38874	44028
Deposits of Scheduled Commercial Banks as percentage to Gross National	62.3	64.3	68.8	72.8	77.1	78.2	78.2	78.0	79.4
Scheduled Commercial Banks' Advances	3706.03	5127.90	6553.17	7814.76	9089.29	10915.10	13158.59	14710.5	16411.0
Share of Priority Sector Advances in Total Advances of Scheduled	32.2	33.8	33.1	31.6	30.3	31.2	30.6	29.5	28.8
Credit-Deposit Ratio (per cent)	62.6	70.1	73.5	74.6	73.8	73.7	76.5	78.6	79.1
Investment-Deposit Ratio (per cent)	47.3	40.0	35.3	35.5	35.7	36.4	34.3	34.6	35.2
Cash-Deposit Ratio (per cent)	6.4	6.7	7.2	9.7	7.3	7.7	8.2	5.8	5.1

Note :

1) Number of bank offices includes Administrative Offices.
2) Classification of bank offices according to population, for years are based on 2001 census.
3) Population per office, per capita deposits and per capita credit are based on the estimated population figures as on
4) Aggregate deposits, bank credit and SLR investments of Scheduled Commercial Banks in India are as per "Form-A"
5) Scheduled Commercial Banks' advances to priority sectors and the related ratios are exclusive of Regional Rural
6) For working out cash-deposit ratio, cash is taken as the total of 'cash in hand' and 'balances with the Reserve Bank
7) Investments of Scheduled Commercial Banks in India include only investments in government securities and other

Table No. 4. Statistics Relating to Commercial Banks at a Glance

Analysis of the above tables

The above tables indicated that the majority of PSBs improved their net NPAs percentage in recent years. Indian Bank, along with UCO bank, the UBI, have been identified as weak banks in view of their massive losses and high level of NPAs; Corporation Bank, Syndicate Bank, Andhra Bank, OBC have been recorded an outstanding performance with a low net NPA percentage.

Measures to recover NPAs

Seeing the gravity of the situation, RBI has taken several constructive steps for arresting the incidence of NPAs. It has also created a Regulatory Environment to facilitate the recovery of existing NPAs of banks. Some of the steps are listed below:

1. **Lok adalats**: Lok adalat have been set up for recovery of dues in accounts falling in the doubtful and loss category with outstanding balance up to Rs. 5 lac, by way of compromise settlements, PSBs filed 109558 cases involving Rs. 645.63 cr. up to Dec 2001. They have been able to recover Rs. 49.77 cr. only up till 30 Sep 2001.

Lok Adalat for NPA cases on November 24

*SURAT: Around 250 cases pertaining to NPAs (non-performing assets) are likely to be taken up in the Lok Adalat by Debt Recovery Tribunal (DRT), in association with several nationalised banks, on November 24. This is aimed at giving opportunity to defaulters for one time settlement of loans.

According to DRT presiding officer Vijay Verma, notices have been issued through Bank of Baroda, Dena Bank, Union Bank of India and Oriental Bank of Commerce in Surat to the borrowers and guarantors to participate in the Lok Adalat, so that cases of NPAs could be settled amicably.

TNN Nov 15, 2002

*More than 45,000 cases would come up before the Fourth Maha Lok Adalat being organised by The Nagpur District Legal Services Authority (DLSA) on September 16. The litigants can approach DLSA till last date to settle their cases, Principal District and Sessions Judge Subhash Mohod said. Senior Judge G J Akarte and Nagpur DLSA Secretary Kishor Jaiswal are the coordinators for the event. They have constituted 93 panels of sitting judges to settle over 45,310 cases.

"Each panel would have a judicial officer, a lawyer and para-legal volunteer or social worker. Even District Bar Association (DBA) is wholeheartedly backing us," Mohod told reporters here yesterday.

The Principal Judge had conducted a series of meetings with all the concerned parties including lawyers, finance and insurance companies, Commissioner and District Superintendent of Police, District Collector and others," the trio informed.

They pointed out that in previous three sessions, over 1.12 lakh cases were disposed of. Due to this, then pendency of cases in Nagpur district dropped significantly to 2.10 lakh cases. In the third edition of Maha Lok Adalat held on March 4 this year, around 17 per cent of the Nagpur District and Sessions Courts pendency was reduced on a single day.

***Press Trust Of India | Mumbai/ Nagpur September 14, 2012**

Debt Recovery Tribunal (DRTs)

22 DRTs have been set up in the country during half a decade. DRTs have not been able to deliver as expected as they got swamped under the burden of a large number of cases filed wild them since their inception. Out of this 3049 cases involving Rs. 42989 cr. were still pending as on 30th September.

One Time Settlement Schemes

One time settlement schemes launched in May 1999 and July 2000 have enabled banks to recover Rs. 668 cr. and Rs. 2600 cr. respectively by September 2001. One more one time settlement scheme for outstanding amount in default up to Rs. 10 cr. has been introduced in the month of Feb, 2003. Its result will be seen in the due course.

Corporate Debt Restructuring (CDR)

CDR is a non- statutory mechanism institutionalised in the year 2001 to provide a timely and transparent system for restructuring of corporate debts of Rs. 20 cr. and above of viable entities financed by banks and FIs under consortium or multiple banking arrangements. It is a voluntary system based on debtors - creditors Agreements and Inter creditors Agreements. At present 10 Financial Institutions and 49 Public & Private Sector Banks are the members of the CDR mechanism.

Super Majority Concept

In case any restructuring is approved by CDR by not less than 75% of the Secured Creditors, it becomes binding on all the Secured Creditors even if minority secured creditors have different mandates. However, RBI has recently fine-tuned CDR guidelines in this regard and has now given the lenders option to exit from the packages by selling their exposure to either the existing or fresh lenders at an appropriate price to be decided mutually.

Conclusion

On the NPA front banks are to try and work out rehabilitation packages or one time settlements for large defaulters. For those owing Rs. 10 cr. or less the RBI has guidelines for banking to deal with defaulters.

The inability of the government to deal with the public sector banks in any meaningful way has been one of its biggest failures of the reform process of the nineties. Margins are under tremendous pressure in virtually all sectors. Survival depends on being able to get maximum value for money from all inputs. The brief spell of liberalization that resulted in the issue of new banking licences did induce some competitive private entry but more is needed to be done to make public sector banks in bread and butter banking so as to change their ways. The objective of the Government's recent moves is very clear and completely justifiable with time.

On the debt recovery front the success of the new initiative will depend heavily on the political resolve at the helm.

Suggestions

First the bank should improve the quality of lending before granting loan banks should do fair and in-depth analysis of financial position of the borrower.

Second, they should try to explore the window dressing of financial statement. Granting of loans should be on the basis of performance and repayment ability which should be judged prior to the sanction of loans.

Third, banks should set up their own recovery branches at different parts of the city for recovery sticky loans.

Fourth banks should avoid lead bans policy.

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