

“NON-PERFORMING ASSET (NPA)” – A REAL MENACE TO BANKS AND FINANCIAL INSTITUTIONS

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In the recent times, the main thrust in the Indian Economy is about the alarming increase in the Non-Performing Assets (NPAs) of Banks. Increase in the number of bad loans and frauds in large scale is being reported everyday by Banks pertaining to the loans given, resulting in a critical imbroglio in Indian Banking System. The Government has shown agility and has taken preventive measures for mitigating the risk involved in the stalled loans like induction of the Insolvency and Bankruptcy Code, setting up of Asset Reconstruction Firms and Companies, Instant Corrective Actions etc. for faster resolution of stressed assets. In order to address the deep turmoil through which the Sector is currently going, all the Banks and Financial Institutions must be on proactive footing and enhance their layer of compliances and appraisals if they are looking for a happy ending in the lending-borrowing story. Indian economy is mostly the replication of what has been dictated in our sacrosanct “Arthashastra”, the brainchild of Kautilya and even today the crux of “Arthashastra” stands and holds good on the footing of its applicability. The message which Kautilya wanted to spread over is that every economy must have a transparent and system-oriented accounting procedure where every miniscule detail must be stored and maintained and should legibly be written without corrections (overwriting). Failure to do so is a crime and is punishable with utmost harshness.

STATUTORY STRICTURES

Various legislative mechanisms such as Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (DRT Act) and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) are in force to provide relief in recovering dues and values from the stressed accounts. Banks are free to choose the relief route with due intervention of the Debts Recovery Tribunals to recover the outstanding loans and even the secured creditors are free to enforce their security interests for getting debts realised through the tunnel of SARFAESI Act without intervention of courts or tribunals.

Besides this legislative prescription there are multiple voluntary mechanisms that have proven effective for Banks to recover their dues such as Corporate Debt Restructuring and Strategic Debt Restructuring which primarily allow the Banks to collectively restructure the debts of all the Borrowers which includes changing repayment schedule of loans and taking over management of the Borrower-Company.

FUNDAMENTALS

Since Banks are the backbones of Indian Economy and their contribution can largely make the economy more robust as such a solid plank is required to be set for them for bringing numerous innovative ideas followed by solutions. Banks should increase the criteria level and validation checking points on the financial health of the borrowers before converting any loan proposal to the recorded assets which will thoroughly ensure that the assets should go to the pockets of right borrowers who actually deserve it and the Government should act as a watchdog and control meter with a facility to provide periodical alert and warning in the incidence of large assets disbursement. In a stable economy system, the centre piece of document is “Balance Sheet” which must be regarded as ‘Horoscope of a Company’ and if one really knows how to analyse and digest it then probably

he is addressing various early warning signs available in such accounts which can help, to a great extent, in reducing the trauma of NPA and its menace to the Indian Banking System as well.

FACTORS LEADING TO NON PERFORMING ASSET

In a recent debate, the issue which really stormed the house of Public Accounts Committee (PAC) of Parliamentary Panel is the root cause of increasing Non Performing Asset and how to curb the rise. And finally, PAC has highlighted six key ingredients amongst the other causes for the recent spurt in NPA. The reasons they have cited include the following:

- A) Inaccurate and lazy Credit Risk Appraisals and loan monitoring in Banks.
- B) Delay in obtaining statutory and other necessary approvals for the projects under implementation.
- C) Desperate and aggressive lending practices during the upturn as are evident from high individual and corporate relaxations and leverages.
- D) Improper Due Diligence of the prospective Borrowers at the entry level pertaining to their credit worthiness.
- E) Irregular compliances and scattered exercises in judging the nature and character of the Borrowers and their willingness and capacity to repay the loan amounts.
- F) Improper valuation of the collateral which has been pledged in the process which often leads to a non-recovery or lesser recovery of loan amount.
- G) Wilful default, loan fraud or corruption in some cases.

REMEDY METER AND PANACEA

Agitation, movements, discussions and implementations are all taking place to make the existing relief route more result-oriented and creditors-centric. Everyone is attempting to take a complete holistic approach towards making a damage and loss proof Banking System, be it Government, Regulatory Authorities, Banks, Financial Institutions, Investors, Shareholders, Stakeholders and every citizen of India by and large because it is ultimately the public money which is going into the Bad Debts or loss claims.

We already have an active and trustworthy credit information platform established which is giving the sector a lot of pragmatic mechanisms to implement. CIBIL, CRISIL, ICRA, Experian, Equifax are all continually researching and analysing the records of all individual defaulters and acting as a repertoire of all highly confidential and critical data which they provide to the Banks to assist them in taking firm and effective lending policies in lieu of certain charges.

Banks should also publish the name of at least top-thirty wilful defaulters in the public domain. This mechanism will create fear in the mind of other defaulting borrowers and would act as deterrent for the others and the sector will invariably witness a notable drop in NPA rate.

I can't resist my temptation to share the five-pronged resolution routes strongly recommended by Mehta Panel (led by Mr. Sunil Mehta, Non-Executive Chairman of Punjab National Bank) to make the resolution process unimaginably speedy and amazingly time bound. SME Resolution Approach is suggesting us the way to concentrate on the smaller assets with exposure up to Rs.50 Crore which would be resolved through a template and specific guidelines and supported by a steering committee. This resolution process should be non-discretionary and completed in a time-bound manner within 90 days.

Bank-led Resolution Approach is considered highly fertile for any mid-category assets ranging between Rs.50 Crore and Rs.500 Crore where Banks usually get into an internal arrangement amongst all the creditors and the lead Bank is authorised and has the power to formulate and implement an efficacious resolution plan.

For loans above Rs.500 Crore, a composition has been suggested comprising of Asset Management Companies (AMC), Asset Reconstruction Companies (ARC) and Alternate Investment Fund (AIF) where multiple options can

be exploited and played to ensure operations turnaround in the Banks and Stressed Companies to stabilise and retain the value of assets.

Asset Trading Platform is probably the most innovative remedial wing which the industry can add to its belt for using the same in shorter spell and for motivating and galvanizing the smaller Public Sector Banks (PSBs) to rejig their loan portfolios. This wing will help and allow the smaller PSBs to offload and unburden some of their large corporate exposures and focus more on specific arenas in retail to medium and small enterprises to agriculture segments also.

There is no shortfall of any initiatives taken by the Government over the past five years to address every possible grey facet and angle and each Forum is well concerned and conscious about the upward trend in NPA and it has become a general woe as it is hitting hard our economy. The issues have been pinpointed and we need only a booster and panacea to inject in the system for a robust, responsible and clean Indian Banking System.

That time is not too far to reach!!!