

UNFOLDING CRISIS



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The Case of Rising NPAs and
Sinking Public Accountability

PFPAAC

Public Finance Public Accountability Collective

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Public Finance Public Accountability Collective (PFPAC)
(Research conducted by The Research Collective)

September 2016

Public Finance Public Accountability Collective (PFPAC) is an initiative of a dozen organizations and individuals from different parts of the country, who have felt the need to analyze the financial ecosystems for grassroots peoples' movements, activists and NGOs. Be it the ubiquitous finance capital, or development finance, the world is increasingly falling prey to financialization of capital, which wields extreme economic powers to influence political processes. PFPAC calls for a constant upgrading of capacities in contouring this juggernaut by understanding and disseminating the various formulations in the larger scheme of political economy or fiscal governance.

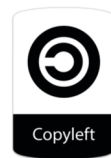
The Research Collective, the research unit of the Programme for Social Action (PSA), facilitates research around the theoretical framework and practical aspects of development, industry, sustainable alternatives, equitable growth, natural resources, community and people's rights. Cutting across subjects of economics, law, politics, environment and social sciences, the work bases itself on peoples' experiences and community perspectives. Our work aims to reflect ground realities, challenge detrimental growth paradigms and generate informed discussions on social, economic, political, environmental and cultural problems.

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Acknowledgements

With the storm brewing over the NPA issue in the last one year, there cannot be a better time to come up with Public Finance Public Accountability Collective (PFPAC)'s first publication on the topic of NPAs with an attempt to provide an overview of the current situation as where the problem of NPAs stand today and what really needs to be done to address it. The idea for this publication came up last year in December, when one of my colleagues Anil Tharayath Varghese suggested bringing out a document on NPAs, which can widen the understanding of people on this issue along with making it a tool for advocacy. At that time we were also exploring how the newly formed PFPAC should engage on this issue and the idea of a collaborative publication culminated.

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Nishank

The Research Collective

Programme for Social Action

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Preface

Of late, the media has been echoing non-performing assets, stressed assets, bad loans, bad debts and aligned terminologies. Such echoes extrapolate the narratives, often giving a semblance of two different camps, where the division is based on the methods of resolution. Agreed that the menace of NPAs is not a sudden bolt out of nowhere, but has been building up over the years and the question that remains is the urgency of the moment. The urgency of the moment also delves into the urgency of resolution, and if a deep surgery needs to be carried out, as echoed by the former RBI Governor, Raghuram Rajan, the compromise might lie in choking the lending flow of banks, in turn questioning the health of the banking system and the economy generally. On the contrary, if a robust mechanism is too far in the coming, the time bomb would continue ticking and explode endangering financial health and economy. So, it is a situation where the walls are closing in, and escape lies in resolving through mechanisms initiated by the Government, the RBI and the banks. Though, in no way should it reflect on the exhaustiveness of mechanisms initiated by these three, the component of public accountability adds a vigor to such mechanisms if discerned and implemented enhancing these mechanisms. The narrative is extrapolating due to it having entered the public domain and disseminated through data-mining, more than analysis, the absence of which only gives half the picture.

The banking sector in the country is growing, and in spite of afflictions, it has come a long way. The issue of non-performing assets is a traction to smooth functioning. In order to realize its full growth potential, the sector needs a clean-up act. The mechanisms dealt with subsequently in the document are yet to prove their veracity on expected lines; it nevertheless remains the case of synergistic approach to address NPAs, rather than isolationist tendencies at correctional measures. The statistics are alarming and attributed to defaulting borrowers, economic downturn, relentless lending based on collaterals and guarantees seldom assessed for risks, inadequate due diligence before and during transactions, and overburdened tardy legal system prejudicing legal proceedings. Remedial mechanisms fall short of exhaustive measures leading to an accumulation of NPAs. The rising figures of NPAs, of which the Public Sector Banks (PSBs) contribute a whopping majority is a testimony to the fact that PSBs are riddled with lending practices that tend to go unconstrained. Though, such a claim is hard to prove for various causes underlying NPAs, the question of proof is contextual to an absence of clearly outlining and

attaching such lending practices to PSBs. What is however accepted largely is the symptom extracting resources from within the banks through provisioning, or through having loans charged-off, or through evergreening. The last of these resources is resilience to come to terms with the threatening reality of inflationary bad debts on one hand, and lack of perseverance in recovering such loans on the other. Whatever be the reasons ascribed to, it is feeding into pressurising balance sheets and profits.

In the Indian context, banking sector reforms and financial sector reforms have generally been conceived to move ahead concomitantly. But, the real disconnect lies in delays associated with structural-institutional upgradation to match up to liberalising operational principles. This lag forces the banking sector reforms to trudge along slowly, and thus throwing the accelerated pace of financial sector reforms out of gear. An obvious speed correction is the imperative, the lack of which is realising in banking crises, NPAs being one of them. Banking has undergone shifts in focus from the era of nationalisation to post-liberalized Indian economy and is placed presently to adhere to markets-driven approach with a focus on improving asset quality and improved risk management. While the Narasimhan Committee recommended prudential norms on income recognition, asset classification and provisioning, it is the tightening of these prudential norms that has lent greater visibility to NPAs. Now that the visibility is getting sharper, what prevents it from getting nipped in the bud is as much an issue of polity, as it is of bureaucracy and legality. Unless these three are clubbed together, any resolution would become a complex scenario.

While cronyism and crony capitalism have gained common currency in financial circles, the terms, especially the latter is more colloquial rather than challenging political-corporate nexus legally. This is a crucial perspective, since merely blaming the corporates for defaulting or deflecting loans elsewhere when they have the capacity to repay, would be missing the woods for the trees. There is an underlying systemic fracture with banks unable to judiciously discern large quantum of lending in sectors where neither they nor corporates have proven track record of expertise. Add to that political manoeuvrability of pushing banks to release funds or restructure them for corporates, the notion of cronyism only gets fueled sparking a spate of decisions unhealthy not only for the banking system, but even for the general health of the economy. The real question is: what causes this manoeuvrability? The general sense is that corporates influence organized political parties to sway the banks'

decisions in their favour. There is legitimacy to this claim considering governmental influence on boards of public sector banks, which could be politically appropriated for vested interests, a soft sort of arm twisting.

Most of the concerns are dealt with in the subsequent pages backed with data from reliable sources. I take this as an opportunity to deliberate on three of them needing further justification, albeit briefly, the BASEL-III norms, corporate vulnerabilities post the 2008 global financial crisis, and Large Exposure Framework (LEF).

Though the document does not deal with BASEL-III explicitly, it is imperative to highlight it through this preface as a possible narrative to address NPAs in the future, and capturing the imagination of the people. The Basel Accords are norms issued by the Basel Committee on Banking Supervision (BCBS), formed under the auspices of the Bank of International Settlements (BIS), located in Basel, Switzerland. The Committee formulates guidelines and makes recommendations on best practices in the banking industry. The Basel Accords, which govern capital adequacy norms of the banking sector, aim to ensure financial stability and thereby increase the risk absorbing capability of the banks worldwide. How these shape up in addressing the problems of NPAs can be understood from the consequences of NPAs, which are multi-dimensional, in the sense, these are aggravated by what are termed 'hidden' NPAs, which are restructured advances and oftentimes not classified as NPAs. So, what appears to be the statistic on NPAs in popular discourse is without considering these 'hidden' NPAs, which ultimately prove to be a drag on banking health, especially as regards the provisioning mechanism. Correlatively, the minimum capital requirement set by BASEL-III that the PSBs must attain by 31st March 2019 will be dragged, once these 'hidden' NPAs get exposed. Now BASEL-III is a stricter measure, since it mandates banks to hold a capital conservation buffer of 2.5%. The aim of building a conservation buffer is to ensure that banks maintain a cushion of capital that can be used to absorb losses during periods of financial and economic stress. The counter cyclical buffer has been introduced with the objective to increase capital requirements in good times and decrease the same in leaner times. Since, the banks have to fulfil capital requirements as laid out in BASEL-III, PSBs find themselves in a tough spot as regards competencies in adopting financial systemic recommendations unless addressing rising NPAs. Competency in the sense is talked here country-specific and despite the uniformity in BASEL-III, is dependent on the political economy of individual countries.

Closely connected with Basel-III norms are corporate vulnerabilities impacting banking health at a time when banks are required to increase their capital base to meet the norms. If five years preceding the global financial crisis were the defining moments for Indian economic growth story and strengthening of corporate balance sheets, it reversed course following the crisis. Restructured advances of corporates, dealt with fairly in the text, were carried through the time of the crisis and subsequently provided regulatory forbearance by the RBI, resulting in a temporary reprieve from the crisis. Forbearance is a regulatory window that helps banks keep low provisioning even if assets are impaired. But, the RBI as a regulator does not make a loan, but merely offers principles when a loan will be termed a bad loan, an NPA, or a stressed asset. Importantly, the principles decide on when a forbearance could be exercised to declare it a performing loan. A regulator decides if a loan can be deemed of forbearance, based on the industry or the sector's optimism of recovery for the forbearance to be exercised. Though forbearance ended some years ago, when the economy was starting to stand back, it was revved up again, based on requests from banks and the Government of India. Why there is a toggle on forbearance when optimism of recovery is receding is anybody's guess.

It's not that the RBI's role is to be acquitted, for in the years of the immediate aftermath of global slowdown, the RBI did appear to be an extended arm of the government, which it now seems to be relinquishing. But, two contentious issues still remain, viz. the indiscriminate nature of loan write-offs sending signals of ineligible borrowers becoming governmental (read politicians') beneficiaries of such concessions; and indiscernible lending practices by banks to sectors with long gestation periods and a longer hand-holding period, the unaffordability of which spirals out of control into crises like NPAs. Both of these are closely tied with recapitalisation or capital infusion by the government raising the risk of increasing fiscal deficit, a sure detriment to economic health.

Although regulatory mechanisms are on an uptick, these efforts are not yielding results to be optimistic about, and even if they are, they are only peripheral at best. Deterrents to prevent large exposure of banks' bad accounts are marred by lenient approach towards: inadequate tangible collaterals during credit exposure enhancements; promoter-equity contribution financed out of debt borrowed by another bank, leading to significant stress of debt servicing; and short-term borrowings made by corporations to meet working capital and current debt servicing obligations exerting severe liquidity pressures on account of stress build-

up in their portfolios. These are cursory introductions to the necessity of Large Exposure Framework (LEF) by the Reserve Bank of India (RBI). Though not dealt with in this document for want of restricting the scope, this framework confines banking sector's exposure to highly leveraged corporates by recommending an overarching ceiling on total bank borrowing by the corporates. The idea is to secure other external sources of funding for corporates other than banks by introducing a cap on bank borrowings. With the introduction of this cap, corporates would have to fend for their working capital by tapping market sources. How well this augurs for mitigating NPAs is yet to be scrutinised as the framework will take effect from next financial year. But, the framework has scope for recognising risks, whereby banks would be able to draft additional standard asset provisioning and higher risk weights for a specific borrower no matter how leveraged the borrower is. The issue of concentrated sectoral-risk would get highlighted, even if the single and group borrower exposure for each bank remains within prescribed limits. The framework thus limits relentless lending to a borrower reducing risks of snowballing NPAs by throwing open avenues of market capitalisation on one hand and more discernment regarding sectors vulnerable to fluctuating performances. The efficacy will only have to stand the test of time.

The issue of NPAs is reaching alarming proportions, and there is no dearth of literature being written in explicating NPAs and ways to address them. What sets this document apart is not just the rich collated data or its lucid language, but rather the constituency aimed at. The constituency is scores of grassroots movements, and activists working on the ground resisting projects and policies promulgated by lending practices. This constituency is often found at the receiving end due to lack of dissemination of financial knowledge and analysis in a language they could relate to, and in turn use it as instruments to further strengthen their voices. This document, a first publication of Public Finance Public Accountability Collective (PFPAC), aims to make such inroads, where others have seldom tread. Here's hoping that this work sets into motion a train of thought amongst people still marginalized to mainstream information media, but aspiring to comprehend, discuss, debate and raise voices against the endangering of their rights.

The vision of PFPAC aims at providing a panorama of the public financial ecosystem. Despite the repeated engagement by a host of people's movements and non-governmental organisations with the socio-political implications of finance capitalism, we see much less engagement with the

actual economic framework of corporate-finance capital in today's struggles for socio-economic equality and justice. Finance capital is becoming a controlling tool given the increasing concentration and centralization of capital in the hands of large corporations, cartels, trusts and banks. Further, these supranational entities are also diversifying into fields with intense financial intent, thus bringing to effect financialization of economy the world over. One serious outcome has been the wielding of extreme economic powers to influence political processes through development finance with investments in regions otherwise unable to attract capital. This operates on market principles, and generally seeks to maximize profits and development impact by advancing policy reformulations meant to fall in line with market theories of neoliberal economics.

Dr. Himanshu Damle
PFPAC

Executive Summary

“It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning”

- Henry Ford

Over the last decade, Non-Performing Assets (NPAs) or bad loans as they are commonly referred to, have sky rocketed to such gargantuan proportions that the matter can no longer be ignored by the general public. From a mere Rs. 50,517 crores in March 2007, NPAs in Indian banks have risen to an eye-popping figure of Rs. 5,41,763 crores in March 2016. However, the most shocking aspect of this steep climb is the fact that in a period of six months between September 2015 and March 2016 the amount of NPAs shot up by a staggering 46%! This trend tells us that the crisis of bad loans is currently unfolding at a frantic pace, with the worst yet to come.

The troika of banks, RBI and the Ministry of Finance are pinning the crisis on the failure of both the Indian economy to keep momentum with the uncertainties prevalent in global financial markets and the projections of infrastructure-led growth. Though this is mere conjecture, assuming that we deem this claim, the crisis is a result of the vagaries of unstable economic conditions, to be acceptable, the Government of India and the RBI have still clearly failed to impose adequate regulatory mechanisms on the banks, especially Public Sector Banks, to keep a check on their NPAs by implementing robust risk assessment protocols for extending loans.

The disproportionate amount of bad loans in the Public Sector Banks (PSBs) provokes further disquiet as available data indicates that the Private Sector Banks have managed to maintain low levels of NPAs as compared to the PSBs. The PSBs' share of total NPAs increased from 65.54 % in 2008-09 to 86.24 % in 2014-15 while the Private Sector Banks for the same period brought down their share of NPAs from 24.05 % to 10.43 %. More than anything else, this information challenges the lending practices, i.e. risk assessment and due diligence

conducted by the PSBs while extending loans. However, it must be noted that of the total advances extended by the Indian banking sector, almost 75% belong to the PSBs. Furthermore, though the share of NPAs of the Private Sector Banks have reduced considerably, recent trends indicate a reversal of fortunes as their profits are declining while their NPAs surge.

While many of the banks habitually point to farmer debts as the major reason for the mounting bad loans, investigation reveals that loans to the large industries are one of the main causes for the current situation. For the year 2014-15, the Priority Sector Loans of the PSBs, which include agriculture, small scale businesses, micro credit, education and housing contributed to only 34.69% of the total NPAs whereas the remaining bulk of NPAs derive from the Non-Priority Sector which includes loans to large industries like Infrastructure and Iron & Steel. As on December 2014, the top 30 NPA accounts of the PSBs amounted to Rs. 95,122 crores, which constituted more than a third of the total NPAs of PSBs. For instance, in 2014-15, the top four accounts in IDBI Bank, all in the corporate sector, accounted for 26.53% of the total NPA of the bank.

The startling fact that it is corporate sector that is guzzling public money by taking huge loans and not repaying them has been corroborated by several reports published by independent agencies and government sources. In May 2015, the financial services firm Standard Chartered reported that the total debt of BSE 500 companies grew at a compounded rate of 20% from 2008-09 to 2014-15, whereas profits in the period grew at a mere 9%. In August 2012, Credit Suisse reported that the loan growth in the Indian corporate sector was monopolized by a select few corporate groups. The total loans of ten groups that included Adani, Essar, GMR, GVK, JSW, JPA, Lanco, Reliance ADA, Vedanta and Videocon increased five times in the last five years and amounts to 13% of the total bank loans and 98% of the net worth of the banking system.

The collaterals provided by companies to PSBs while borrowing these massive loans further cast doubts on the lending practices of PSBs. There is a dearth of information on the collaterals against which huge loans to companies are provided. Through various media reports it has been revealed that in many cases banks have been providing loans to companies against inadequate collateral including “virtual assets”

such as shares of promoter companies, shares of subsidiary companies, brand names of companies, etc. For instance, a consortium of banks headed by the State Bank of India had the audacity to provide Kingfisher Airlines loans worth Rs. 7,723 crores against collateral that included the Kingfisher Airline brand for Rs. 4,111 crores.

These loans are moreover concentrated in a few risky sectors. According to RBI, Infrastructure, Iron & Steel, Textiles, Mining (including Coal) and Aviation are the most stressed sectors. Another noteworthy fact is that loans to the power sector alone contributed to 9.07% of the loans given by the entire banking industry in the year 2014-15.

Furthermore, banks are refusing to publicly disclose basic information on corporate loans such as date of sanctioning, terms, interest rates, repayment periods, collateral secured and number of times restructured, thereby deliberately hindering public understanding on the matter. This has resulted in a dearth of data in relation to even the NPAs disclosed by the banks.

The above data argues that PSBs are biased towards corporate borrowers, at the cost of reducing loans to the Priority Sector. The PSBs are rather recklessly extending huge loans to poorly planned projects and heavily investing in risky sectors. This bias is evocative of corrupt practices within public sector banks, which however can only thrive in the absence of in-built mechanisms for due diligence and risk analysis.

The measures introduced by the Government and the RBI to address the problem of rising NPAs include Corporate Debt Restructuring, 5/25 Debt Restructuring Scheme, Strategic Debt Restructuring (SDR) Scheme, capital infusion, Debt Recovery Tribunals and the SARFAESI Act, 2002. Restructuring of debt, which should only be adopted as a last measure to fall back on, has become a relatively hassle-free option for companies. The amount of corporate debt that the PSBs restructured rose from Rs. 2,432 crores in 2007-08 to Rs. 1,80,300 crores in 2013-14. In the same period, the figure rose from Rs. 581 crores to Rs. 25,455 crores for Private Sector Banks. The numerous restructuring schemes are essentially contributing to the concealment of NPAs without really addressing the crux of the

problem.

Banks operate on public finances and the Public Sector Banks additionally benefit from capital infusion by the government when faced with a capital crunch. Therefore, they must be held answerable to a democratically accountable and transparent system. It must be made mandatory for banks, especially those nationalized, to publicly disclose information on loans above Rs. 100 crores. The monumental levels of NPAs are symptomatic of the inefficiency and limitations of the lending practices currently followed by banks. A closer look at the mechanisms conjured by the Government and the RBI reveals that they are short-sighted and primarily meant to remedy the situation of NPAs rather than proactively prevent the occurrence of NPAs.

The need of the hour is for the Government and the RBI to conceive a system of mechanisms to deal with lending. Decisions on sanctioning loans worth thousands of crores from public money, and restructuring them numerous times, cannot be left to the discretion of a select few on the board and management of these banks. The due diligence and risk assessment policies within banks must be reviewed and assessed for their efficiency. Such decisions and practices must regularly come under the scrutiny of the Parliament and a public authority, along with sufficient disclosures made to the public. The government must evolve legislative oversight to ensure the proper functioning of banks, especially Public Sector Banks.

Introduction

The high level of NPAs in banks and financial institutions has been a matter of grave concern to the public as bank credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit, one cause for which is the mounting NPAs, is bound to create adverse repercussions in the economy.

- G.P. Muniappan, ex-Deputy Governor of the RBI, *CII Banking Summit, 2002*

The citizens of India, in the last few years, have been flooded with reports of rising Non-Performing Assets (NPAs) in Indian Banks, and the manifold problems grappling the Public Sector Banks. The Gross NPAs of Indian Banks have jumped from Rs 50,517 crores¹ in March 2007 to a whopping Rs 5,41,763 crores² by March 2016. However, when we consider the fact that as by September 2015, the Gross NPAs stood at Rs 3,69,990 crores³, it is evident that the exponential increase over the past nine years is dwarfed by the change in the last six months. In terms of percentage of Gross NPAs to Gross Advances⁴, it has jumped from 2.26% in March 2007 to 7.43% in March 2016. However, with regard to Public Sector Banks the percentage of Gross NPAs has reached an unprecedented figure of 9.32%⁵. Currently, a humungous 86% of the

1 Source: Bank-Wise and Bank Group-Wise Gross Non-Performing Assets, Gross Advances, and Gross NPA Ratio of Scheduled Commercial Banks - RBI Database on Indian Economy - <<http://goo.gl/UzZ02>> - Last accessed July 20, 2016

2 The NPA figures for March 2016 are based on figures provided by Ministry of Finance in the form of a written reply to Question No. 208 of Session No. 240 in Rajya Sabha on July 19, 2016. However, the rest of the data provided in the document is primarily based on the information available till April 2016 <<http://164.100.47.234/question/annex/240/Au208.doc>> - Last accessed August 10, 2016

3 Source: Non-Performing Assets of Financial Institutions - Twenty Seventh Report - Standing Committee on Finance (2015-16) - Sixteenth Lok Sabha - February 2016 - <http://164.100.47.134/Isscommittee/Finance/16_Finance_27.pdf> - Last accessed July 20, 2016

4 Gross Advances - Gross Advances is the sum of the outstanding principal due to the bank

5 Refer Footnote 2

NPAs are lying with Public Sector Banks, which raises some really serious questions regarding the functioning of Public Sector Banks vis-à-vis the Private Sector Banks.

Such reports of rising bad loans have caught the public's imagination. Also, there is a likelihood of malfeasance regarding those responsible for the surge in NPAs. But, is this really justified without demystification? To demystify, it is imperative to comprehend Non-Performing Assets (NPAs) and some of the common misconceptions in narratives. NPAs are loans given by the banks, which fail to provide any returns.

According to the RBI, a Non-Performing Asset (NPA)⁶ is a loan or an advance where the interest and / or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan. Additionally, the RBI states that banks should classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. When banks extend loans to any individual or business, then that loan is entered as an asset in the bank's Balance Sheet, since the loan fetches income for the bank in the form of interest. When due to any reason, the repayment of loan or the interest gets delayed beyond a stipulated amount of time (e.g. 90 days), then that loan is categorized as a Non-Performing Asset. A term frequently used for NPAs is called Gross NPAs⁷, which is the sum of all loan assets categorized as NPAs as per the RBI Guidelines. One might also come across the term Net NPAs, which is the difference between the Gross NPAs and the actual recovery done by the banks minus the provision⁸ left aside.

The mounting problem of NPAs or bad loans⁹ for the Public Sector Banks has been largely blamed on the failure of the Indian economy to continue the momentum of high economic growth, especially since the global recession of 2007-08. This was further exacerbated by the inability of the infrastructure sector (especially Power and Iron & Steel) to grow as per

6 Please refer Sec 2.1 of the RBI Master Circular on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances' dated July 01, 2015 -

<<https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=9908>> - Last accessed July 20, 2016

7 Henceforth, NPAs mentioned anywhere refers to Gross NPAs, unless otherwise specified

8 Refer Footnote 24

9 Bad Loans - An informal term used for the NPAs

the earlier projections. Some of the other factors cited as the possible reasons for the growth of NPAs have been high interest rates, excessive lending by the banks, failure of the government to clear the stalled infrastructure projects, policy logjam, etc. Newspaper reports over the past year have also cited other reasons for rise in NPAs such as rise in wilful defaults, diversion of loans for other than stated purposes, irregularities in debt restructuring, arbitrary decision-making by banks while extending loans, etc. While multiple factors come into play behind the surge in NPAs, a more thorough analysis is required to address this evergrowing malaise.

While the banking and financial sector have constantly been expressing concern over the rise of NPAs, people are mostly unaware about deeper repercussions of threats posed by this trend, not just to the health of the national banking system, but also the larger threat to the financial stability of the entire economy. The degree of bad loans a bank has to deal with, directly affects its financial health and can affect the long-term stability of the bank. The inter-connectedness of the banking system can easily compound the problem, as banks have financial transactions with each other and hence it is not confined as an endemic problem for a specific bank. Moreover, when the banks give large loans to corporates through the ‘consortium banking model’¹⁰, then any loan turning into NPA can affect all these banks simultaneously. The higher NPAs of banks lead to their reduced profitability, which in turn erodes capital base, and puts the money of the ordinary depositors at risk.

NPA data for the past few years of various banks suggests that most banks have been grappling with the problem of rising NPAs, with almost a uniform pattern emerging across the Public Sector Banks. Public Sector Banks are backed up by the Government, which often resorts to bailing them out from any potential financial crises. This backing is a trust, which is often breached by the banks by recklessly extending high-risk loans to corporate sector with inadequate risk assessment leading to an increased accumulation of bad loans. The higher amount of bad loans implies that a large amount of taxpayers’ money goes towards periodic capital infusion of the banks significantly channeled towards offsetting the negative impact of these NPAs.

When compared to Public Sector Banks, Private Sector Banks have managed to keep their NPAs quite low (e.g. Gross NPAs of Public Sector

10 Consortium Banking Model is an arrangement where 10-15 banks come together to extend a loan of a large amount

Banks stood at 4.96% in March 2015, while Gross NPAs of Private Sector Banks was 2.10%). This compels one to inquire into the reasons underlying lower percentage of NPAs by Private Sector Banks. It has been observed that the management of Private Sector Banks is under tighter scrutiny than their counterparts in the Public Sector. The tighter levels of managerial control ensure that the Private Sector Banks keep a more vigilant approach when lending money in underdeveloped sectors and projects, thus avoiding a potential susceptibility to external risks. Additionally, the Private Sector Banks are more inclined towards routinely incorporating advanced technologies for their operations, thus keeping their administrative apparatus more competitive and operations more immune to such risks.

The problem of NPAs is also linked to Asset-Liability Mismatch, which is inherently associated with the lending practices of banks. The term Asset-Liability Mismatch arises from a corollary of Asset-Liability Management (ALM), which is basically about how banks strike a balance between their assets and liabilities. Usually, people deposit money in banks for a short-term (e.g. 2 to 5 years), which is entered as the bank's liability in its Balance Sheet. On the other hand, many a times banks extend loans, especially to corporates on long-term (e.g. 10-20 years), which is entered as the bank's asset in its balance sheet. As banks need to repay the deposits to its customers, along with interests, they require returns from previously extended loans, for which the repayment period is much longer than the cycle of deposits.¹¹ This leads to the problem of Asset-Liability Mismatch, especially when a large number of long-term loans are funded by short-term deposits. Asset-Liability Mismatch becomes more visible in the case of Project Finance model, where the repayment of the loan is entirely dependent on the future cash flows from a project. Ideally, long-term assets should be financed by long-term funds such as bonds. As a way of tackling Asset-Liability Mismatch, infrastructure companies can issue corporate bonds to finance their projects, which banks can trade in the open market. This ensures more liquidity on the balance sheet of banks and thus enable them to avoid being locked with the long-term loans to such companies. Asset-Liability Management and its corollary 'Mismatch' can serve as powerful tools for analyzing the liquidity crunch faced by the banks, provided there is sufficient data available in public domain to quantify this mismatch.

11 Cycle of deposit refers to a period from when money was deposited in the bank to the time when money was withdrawn

Often, it is portrayed that banks take a cautious approach while extending loans to its customers and they put in their best efforts in making financially sound decisions, lest they suffer poor returns from borrowers. However, several documented instances show that banks have been lending recklessly to the tune of thousands of crores to companies with poor and fuzzy financial track records. It has been noticed that these companies did not provide sufficient collaterals¹² and guarantees¹³ to the banks, which banks could eventually use to recover their loans in case of a default. The high amount of NPAs of Public Sector Banks also points towards one of the ways in which Corporate Capitalism operates, where some of the big industrialists are able to get huge amount of loans from the Public Sector Banks, in spite of not having the financial backing for taking a hefty loan and repaying it on time.

While on the one hand, banks leave no stone unturned in harassing people by shaming the defaulters and confiscating their property in the event of them not repaying the loans, on the other, when corporate houses default on their loans, banks themselves act as victims. Banks would give reasons, which often turn out to be implausible in their inability to recovering loans. These reasons mask inadequate and poor due diligence. Citizens should question such a biased and sycophantic behavior of the banks.

One of the most glaring examples in this case is of Kingfisher Airlines, which defaulted on loans close to Rs 7,000 crores and banks could avail only a meagre recovery because the loans had no substantial collateral attached to them. It sounds highly preposterous that banks had accepted the 'Brand Name of Kingfisher Airlines (Fly Kingfisher, King of Good Times, etc.)' valued at Rs 4,000 crores as collateral, which later turned out to be of junk value when the company went bust!¹⁴ Even attempts to

-
- 12 Collateral - Collateral can be defined as a property pledged against a loan, which may be seized by the lender if the borrower fails to make proper payments on the loan. Collaterals are used to minimize the risk for a lending institution while extending a loan
- 13 Loan Guarantee - A loan guarantee is a promise by one party (the guarantor) to assume the debt obligation of a borrower if that borrower defaults. The loan guarantee makes the outside party essentially a co-signer and holds that party equally responsible for repayment of the loan. A guarantee can be limited or unlimited, making the guarantor liable for only a portion or all of the debt
- 14 Kingfisher trademarks to be auctioned, base price fixed at Rs 366 crore - *Hindustan Times* - March 30, 2016 - <<http://www.hindustantimes.com/business/kingfisher-trademarks-to-be-auctioned-base-price-fixed-at-rs-366-crore/story-PMQda55TOEUit9wrf17ybL.html>> - Last accessed July 20, 2016

drag Vijay Mallya, Chairman of Kingfisher Airlines to courts have not been of much help for the banks at the moment.¹⁵ It is shocking to witness such financial dealings where banks accept a brand name as collateral for a massive Rs 4,000 crores. Such financial dealings should mandatorily be made public, so that people are aware of how public money is squandered by banks for speculative deals.

Apart from NPAs incurred due to loans given to big corporates, a huge chunk of NPAs also comes from loans given to the Priority Sector.¹⁶ The increase in NPAs of banks have often been attributed¹⁷ to loans given to farmers and loan waivers imposed by the Government on Public Sector Banks. However, the statistics¹⁸ for the past few years show that the share of NPAs of Priority Sector has declined substantially over the years, contributing to almost one-third of total NPAs, while at the same time the NPAs of Non-Priority Sector¹⁹ have risen at a drastic pace to contribute to two-thirds of total NPAs. This implies that the loans given to the Priority Sector cannot be blamed to be the major reason for the rise in NPAs anymore. Hence, banks cannot continue shifting the blame on the poor farmers²⁰ for swelling their NPA figures, but rather focus on the corporate sector, which is taking the banks for a ride.

As the situation in the banking system continues to worsen, the problem seems to be slipping out of hand rapidly. The RBI and the Government have been trying to appease the concerns of the citizens by claiming that they are trying their best to address the problem of NPAs. The passage of The Insolvency and Bankruptcy Code, 2016 by the Joint Parliamentary

15 At the time of going to press, Vijay Mallya's passport is revoked by the Ministry of External Affairs, and he stands to lose out his nomination to the Rajya Sabha through suspension

16 Priority Sector - With the motto of social banking, the RBI has made it compulsory for the banks to allocate 40% of their lending as Priority Sector lending to make banking accessible for the weaker sections of the society by providing small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. For more details on Priority Sector Lending, please refer - <<https://www.rbi.org.in/scripts/FAQView.aspx?Id=87>> - Last accessed July 20, 2016

17 Refer Footnote 34

18 Please refer Table 4

19 There is no formal definition of Non-Priority Sector. Any loans, other than loans given to Priority Sector, become part of the Non-Priority Sector

20 Bankers worried on rise in farm NPAs on deferment - *Business Standard* - April 29, 2015 - <http://www.business-standard.com/article/finance/bankers-worried-on-rise-in-farm-npas-on-deferment-115042800857_1.html> - Last accessed July 20, 2016

Standing Committee²¹ is being considered as one of the major steps to improve the recovery of the banks against the loans taken by defaulting companies. Further, over the past few months, Finance Minister Arun Jaitley has reiterated the various measures undertaken by the Government of India to counter the issue of NPAs.²² The measures included recapitalization of the Public Sector Banks; bringing transparency and professionalism in appointment process for top management positions in Public Sector Banks; providing full autonomy to the banks in taking commercial decisions without interference from the Government; measures taken towards reviving the stressed sectors, etc. However, many news reports²³ have been warning that the worse is yet to come and banks will have to face much more heat in dealing with their bad loans.

What should We, as concerned citizenry be doing, outlines the main scope of the document. The success of the document will lie in keeping the issue alive with deliberations and inquiring into:

- i. What factors led to the piling up of huge amount of NPAs for the Public Sector Banks over the past decade?
- ii. What role has the Public Sector Banks played in furthering the cause of Corporate Capitalism by extending undue favors to the business houses (e.g. NPAs of Kingfisher Airlines), thus adding further to the problem of bad loans?
- iii. What were the regulatory shortcomings in dealing with the problem of NPAs, which could have kept this problem under check? What was the role of the Government, the RBI and Indian Banking Association in allowing the bad loans to accumulate to this extent?
- iv. What was the role of the management board of the Public Sector Banks in allowing bad loans to accumulate? Within the banks, who

21 Joint Parliament Standing Committee clears Bankruptcy code: Arun Jaitley - *The Indian Express* - April 28, 2016 - <<http://indianexpress.com/article/business/companies/bankruptcy-code-arun-jaitley-joint-parliament-committee-2773504/>> - Last accessed July 20, 2016

22 Arun Jaitley on Non-Performing Assets (NPAs) in Banking Sector - *One India* - April 28, 2016 - <<http://www.oneindia.com/feature/arun-jaitley-on-non-performing-assets-npas-banking-sector-2083304.html>> - Last accessed July 20, 2016

23 Bankers expect NPA crisis to worsen in two-three years: E&Y - *Business Standard* - September 09, 2015 - <http://www.business-standard.com/article/finance/bankers-expect-npa-crisis-to-worsen-in-the-next-two-three-years-e-y-115090800669_1.html> - Last accessed July 20, 2016

could be held responsible for the poor financial decisions, leading to more NPAs? What are the penalties prescribed for the bank managers responsible for such poor decision-making? Which body within the banks gets to decide on how much of the loan can be written-off in case of a default?

- v. What were the levels of disclosures around NPAs available to citizens over the past decade? Were these disclosures enough to make people aware about the severity of the issue?
- vi. Does the staggering amount of NPAs, especially due to corporate loans hint towards a political interference in day-to-day running of the Public Sector Banks?
- vii. What are the steps being taken by the Government and the RBI to address the problem of mounting NPAs?

Unless, such questions, which obviously are not exhaustive in nature, are brought into the wider public debate, one would keep getting puzzled about how Public Sector Banks have landed into such a financial mess. The question looms as to how banks have been squandering away public money, hiding behind veils while taking unsound financial decisions in lending huge loans and jeopardizing the entire financial system of the country for the benefit of a few corporate houses. The problem of NPAs is not only a matter of concern for the Government or the banks, but also for the citizens of the country, who put their faith in the functioning of the banking system. People assume that banks would work towards their welfare and do not expect them to act as the private arm of the rich and elite of the country, who freely abuse the banking system to amass wealth for themselves and often refuse to pay back their loans. It is in peoples' interest that significant steps are taken to ensure that banks, especially the Public Sector Banks do not get a freehand in granting loans indiscriminately and subsequently complaining about the rise of NPAs incurred on such loans. The document is a humble attempt to address some of the above questions, but is in no way closed to investigating further avenues.

The Mounting Problem of NPAs of Public Sector Banks

Banking business has to inadvertently deal with the problem of bad loans. It is normal for any bank to have a few loans turn into non-performing ones due to the inherent risks involved in lending to individuals and business ventures. However, having bad loans above a certain percentage (usually more than 2%) raises a serious concern for the banks, as it erodes away their profitability, along with the requirement for higher level of provisioning²⁴ for bad loans, which reduces the reported income of the banks even further. This also affects the smooth flow of credit in the economy, as banks create credit not just from fresh deposits but also from recycling funds received back from borrowers. Given below are figures for Gross NPAs of Indian Banks, along with percentage²⁵ of Gross NPAs in the past few years:

24 Provisioning - Provisioning or Loan-Loss Provisioning is a process where banks set aside an amount from their earnings to a reserve account, which is used to offset losses caused by loan defaults. Provisioning does not have any impact on bank's net earnings, but it reduces profitability of the banks, as they have to report reduced earnings in their income statement. The amount for provisioning for loans is usually determined by the degree of risk associated with a loan

25 Percentage of Gross NPAs - Percentage of Gross NPAs represents the Gross NPAs as a percentage of Gross Advances

Table 1 – Gross NPAs of Indian Banks

(Figures in brackets represent Percentage²⁶ of Gross NPAs)

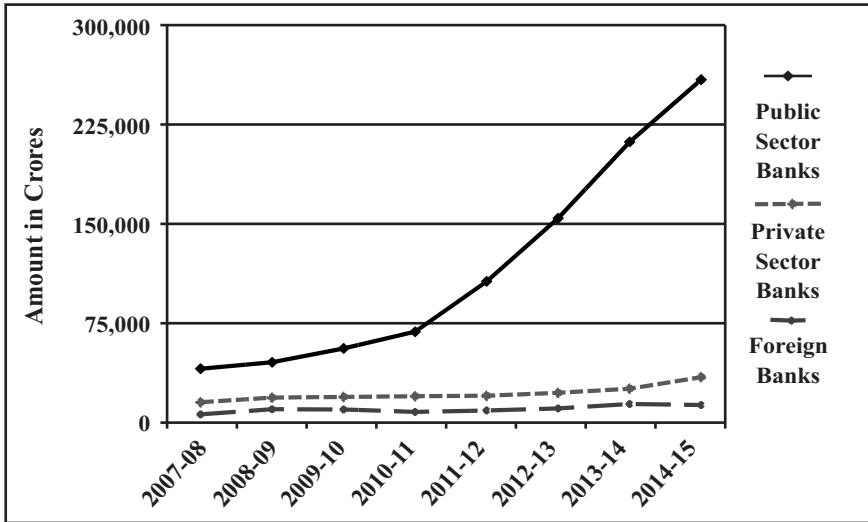
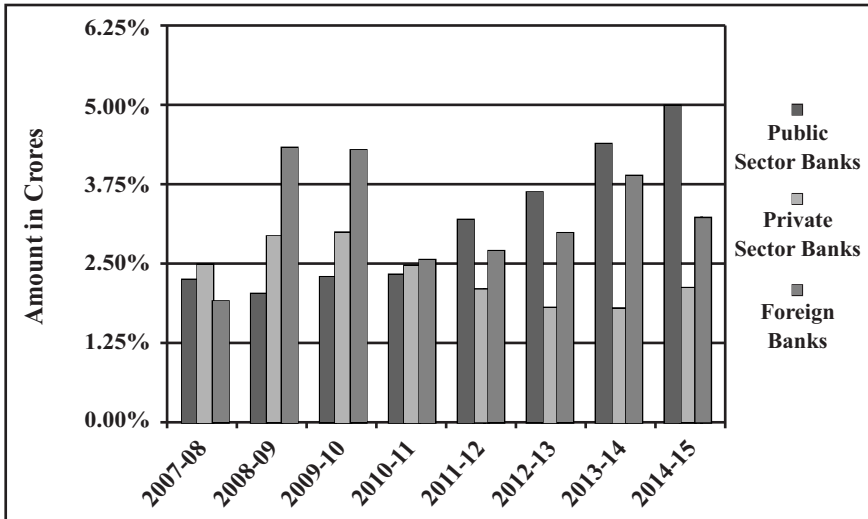
(Amount in Crores)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
PUBLIC SECTOR BANKS	40,600 (2.23%)	45,918 (2.01%)	57,301 (2.27%)	71,047 (2.31%)	1,12,489 (3.17%)	1,64,462 (3.61%)	2,27,264 (4.36%)	2,78,468 (4.96%)
PRIVATE SECTOR BANKS²⁷	12,922 (2.47%)	16,787 (2.92%)	17,307 (2.99%)	17,905 (2.48%)	18,210 (2.09%)	20,382 (1.77%)	24,184 (1.78%)	33,690 (2.10%)
FOREIGN BANKS²⁸	3,084 (1.92%)	7,249 (4.37%)	7,111 (4.36%)	5,045 (2.61%)	6,269 (2.76%)	7,926 (3.04%)	11,568 (3.86%)	10,758 (3.20%)
TOTAL	56,606 (2.26%)	69,954 (2.31%)	81,719 (2.50%)	93,997 (2.35%)	1,36,968 (2.95%)	1,92,770 (3.23%)	2,63,016 (3.83%)	3,22,916 (4.27%)

26 There is a data disparity between the two data sets on NPAs provided by the RBI. The data in Table 1 is taken from ‘Bank Wise and Bank Group-Wise Gross NPAs, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks’ - RBI Database of Indian Economy <<http://goo.gl/NSCSwR>> - Last accessed July 20, 2016. However, some news reports have quoted data from another table from RBI’s website titled ‘Gross NPA of SCBs’ <<http://goo.gl/HwzTJw>> - Last accessed July 20, 2016. The data for Table 1 is taken from the former source

27 Private Sector Banks – Private Sector Banks where the majority ownership of the bank and management lies with private individuals or institutions. This is unlike the Public Sector Banks where the majority ownership and management of the bank lies with the Government

28 Foreign Banks – Foreign Banks are the banks which are incorporated outside India (headquarters located outside India) and are operating through branches or representative offices in India

Fig.²⁹ - Gross NPAs of Indian Banks**Fig. - Gross NPAs of Indian Banks (Percentage)**

(Source: Bank Wise and Bank Group-Wise Gross NPAs, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks - RBI Database of Indian Economy - <<http://goo.gl/NSCSwR>> - Last accessed July 20, 2016)

29 The figures depicted in the document are primarily a graphical representation of the data provided in the various tables. The sources for the tables and the figures are the same

It can be inferred from Table 1 that the amount of NPAs for Public Sector Banks has grown almost seven times, while it has grown almost three times for Private Banks from 2007-08³⁰ to 2014-15. Similarly, while the percentage of Gross NPAs for Public Sector Banks has doubled in the past eight years, Private Sector Banks have been able to keep the percentage of their Gross NPAs low. While analyzing the huge amount of NPAs of Public Sector Banks, it is contextualized against the amount of loans extended by the Public Sector Banks. For example, for the year 2014-15, Gross NPAs of Public Sector Banks stood at Rs 2,78,468 crores, while the NPAs of Private Sector Banks stood at Rs 33,690 crores. At the same time, for the year 2014-15, Gross Advances of Public Sector Banks stood at Rs 56,16,717 crores, while the Gross Advances of Private Sector Banks stood at Rs 16,07,339 crores.

30 The Financial Year (FY) in India runs from April to March. Hence, the year ending financial data is often given for March, e.g. March 2014. A data for 2014-15 represents the period of April 2014 to March 2015

Table 2 – Share of Gross NPAs and Gross Advances Bank Group-Wise

(Figures outside brackets represent the share of Gross Advances Bank Group-Wise, while the figures inside represent the share of NPAs Bank Group-Wise)

(Amount in Crores)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
PUBLIC SECTOR BANKS	71.72% (72.66%)	65.54% (75.50%)	70.12% (77.01%)	77.23% (75.58%)	82.12% (76.37%)	85.32% (76.36%)	86.41% (75.86%)	86.24% (74.29%)
PRIVATE SECTOR BANKS	22.83% (20.92%)	24.00% (19.02%)	21.18% (17.87%)	19.05% (18.10%)	13.30% (18.75%)	10.57% (19.28%)	9.19% (19.78%)	10.43% (21.26%)
FOREIGN BANKS	5.45% (6.42%)	10.36% (5.49%)	8.70% (5.12%)	5.37% (4.83%)	4.58% (4.88%)	4.11% (4.36%)	4.40% (4.36%)	3.33% (4.45%)
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%

Fig. - Share of Gross NPAs of Indian Banks

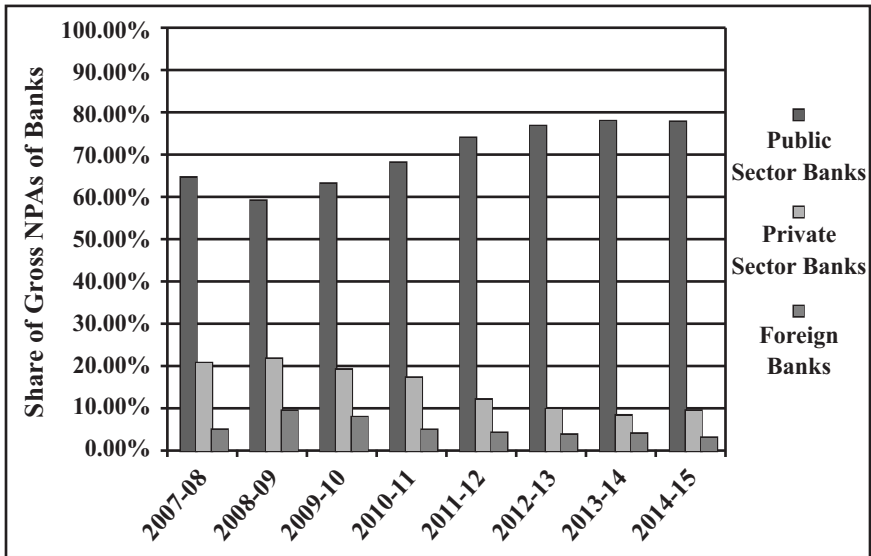
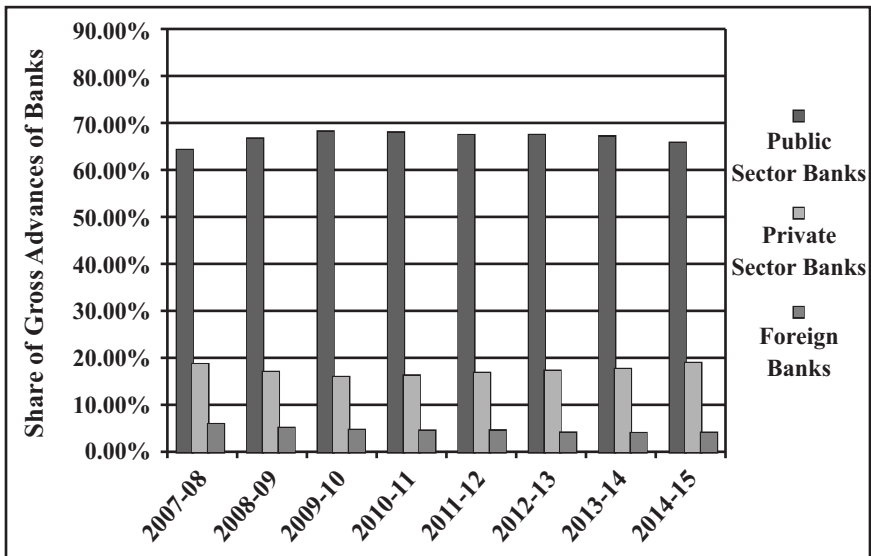


Fig. - Share of Gross Advances of Indian Banks



(Source: Bank Wise and Bank Group-Wise Gross NPAs, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks - Database of Indian Economy - <<http://goo.gl/NSCSwR>> - Last accessed July 20, 2016)

Apart from looking into the absolute figures of Gross NPAs, it is also important to analyze the share of NPAs across different categories of banks. Table 2 gives an insight into the share of Gross Advances³¹ across Public Sector Banks, Private Sector Banks and Foreign Banks, i.e. the percentage and extent each sector contributes to the total Gross Advances. It can be observed that while the share of Gross Advances for the Public Sector Banks remained roughly around 75% between 2008-09 and 2014-15, their share of Gross NPAs increased steadily from 65.54% to 86.41% till 2013-14, followed by a minor dip in 2014-15, where the share of NPAs stood at 86.24%³². Similarly, between 2008-09 and 2014-15, Private Sector Banks have managed to bring down their share of NPAs from 24.00% to 9.19% till 2013-14, along with a minor increase in 2014-15, where the share of NPAs stood at 10.43%, even though their share of Gross Advances remained roughly around 20%. This provokes tough questions on how in spite of Gross Advances of Private Sector Banks remaining roughly the same over the past few years, the Private Sector Banks have managed to bring down their share of Gross NPAs. On the other hand, Public Sector Banks have allowed the situation to worsen to the extent that it raises serious question on their ability to deal with the ongoing NPA crisis.

Standing Committee on Finance of Sixteenth Lok Sabha came out with a report in February 2016, titled 'Non-Performing Assets of Financial Institutions', which made an attempt to provide an overview of the current situation of NPAs in the country while offering its set of recommendations. RBI Governor, Dr. Raghuram Rajan deposed before the Committee in October 2014 to explain why there were more NPAs in Public Sector Banks. He said:

NPAs are more focused in the public sector banking system. That is not necessarily only because the public sector banking system has made more mistakes than the private sector system. The private sector system did not go into some of these large projects like infrastructure to same extent to the public sector system (*sic*). Moreover the private sector system also knows how to get out before the public sector system. Many people believe that the level of NPAs reflects a level of

31 Share of Gross Advances - Share of Gross Advances of a particular category of the banks represents the percentage of the total advances extended by the Indian Banks

32 2008-09 is taken for convenience as can be seen from the Table 2. For 2007-08, the share of Gross NPAs of Public Sector Banks was 71.64%, which declined to 65.54% in 2008-09

malfeasance in the public sector system. Malfeasance exists, I will not deny that. But I will not single that out as the primary reason. If you remember, many of the projects, which are in trouble today, were started in 2007-2008 after four or five years of very, very strong growth. The belief then was that the growth would continue growing and some of these were financing exports. The world was also growing very fast then. But then, we had the financial crisis. We had a slowdown in the Indian economy. All the optimistic projections about growth etc., came down substantially after that, both in the world and domestically. So, that was one reason we have problems.³³

However, when the RBI Governor blames external factors and the slowdown of economic growth for a rise in NPAs of Public Sector Banks, it does not sound convincing since banks are expected to take these factors into account when they are extending huge loans to infrastructure sector. The bias of the Public Sector Banks to lend heavily in infrastructure sector, unlike the Private Sector Banks, shows a lack of proper risk assessment on their part, rather than serving as one of the valid justifications for higher NPAs of Public Sector Banks.

33 Refer Footnote 3

Who Contributes the Most to NPAs?

Who is contributing the most to NPAs is the warranted question. Is the increase in NPAs due to the loans given to farmers, small enterprises, students, home-owners or the loans given to big industries and corporate houses? Banks share very limited data regarding which of their specific borrowers add to their NPAs. They broadly share only the proportion by which different sectors contribute to their NPAs. Given below is a sector-wise break-up of the NPAs of selected Public Sector Banks for FY 2014-15.

Table 3 (A) - Sector-wise NPAs for FY 2014-15 of Selected Public Sector Banks (for Agriculture and Allied Activities and Industry (Micro & Small, Medium and Large))

(Amount in Crores)

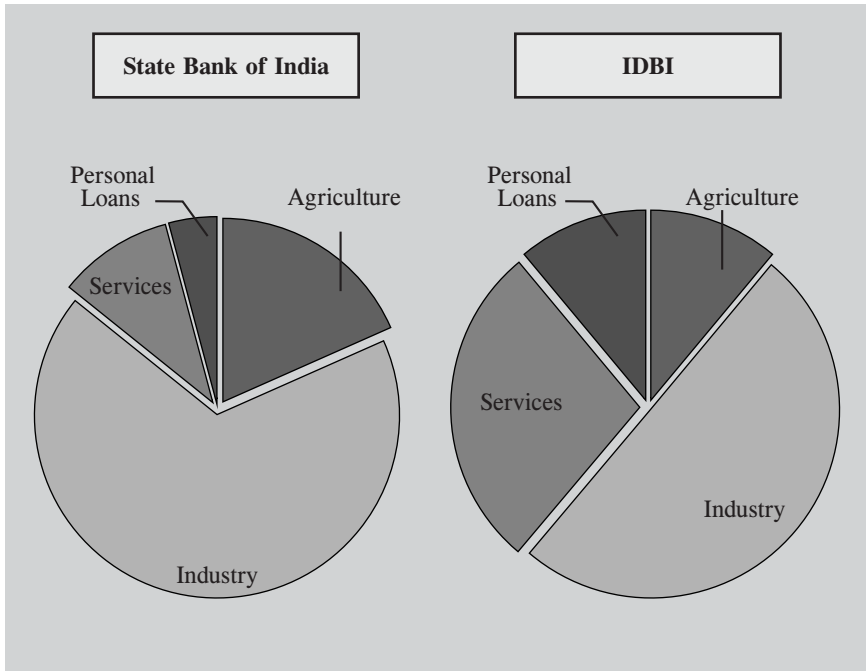
Sl. No.	Name of the Bank	Priority/ Non-Priority Sector	Agriculture and Allied Activities			Industry (Micro & Small, Medium and Large)		
			Total Advances	Gross NPAs	%age of NPAs	Total Advances	Gross NPAs	%age of NPAs
1.	State Bank of India	Priority	1,12,753	10,217	9.06	65,700	7,087	10.79
		Non-Priority	5,024	200	3.98	7,54,514	31,167	4.13
2.	Canara Bank	Priority	58,868	1,410	2.40	23,923	3,048	12.74
		Non-Priority	0	0	0.00	1,43,950	6,644	4.62
3.	Punjab National Bank	Priority	56,899	3,114	5.47	31,834	3,801	11.94
		Non-Priority	1,656	30	1.82	1,14,760	9,309	8.11
4.	Union Bank of India	Priority	30,297	1,374	4.54	15,998	1,250	7.81
		Non-Priority	3,665	156	4.26	81,575	5,458	6.69
5.	Bank of Baroda	Priority	32,586	1,728	5.30	27,465	2,152	7.84
		Non-Priority	0	0	0.00	78,291	5,435	6.94
6.	IDBI	Priority	15,260	1,403	9.19	10,463	934	8.92
		Non-Priority	0	0	0.00	71,111	5,420	7.62
7.	Indian Overseas Bank	Priority	26,284	2,012	7.66	13,866	1,883	13.58
		Non-Priority	0	0	0.00	61,771	6,501	10.52
8.	Allahabad Bank	Priority	21,903	1,451	6.62	9,400	684	7.27
		Non-Priority	0	0	0.00	56,428	4,421	7.83
9.	Central Bank of India	Priority	32,083	1,465	4.57	10,450	908	8.69
		Non-Priority	0	0	0.00	47,744	3,629	7.60
10.	United Bank of India	Priority	8,595	1,323	15.39	5,962	862	14.46
		Non-Priority	0	0	0.00	24,021	2,627	10.93

Table 3 (B) - Sector-wise NPAs for FY 2014-15 of Selected Public Sector Banks (for Services and Personal Loans)

(Amount in Crores)

Sl. No.	Name of the Bank	Priority/ Non-Priority Sector	Services			Personal Loans		
			Total Advances	Gross NPAs	%age of NPAs	Total Advances	Gross NPAs	%age of NPAs
1.	State Bank of India	Priority	26,146	1,700	6.50	90,352	1,203	1.33
		Non-Priority	1,75,823	4,018	2.29	1,93,469	1,152	0.60
2.	Canara Bank	Priority	20,328	380	1.87	15,115	0	0
		Non-Priority	45,581	1,342	2.95	27,183	216	0.79
3.	Punjab National Bank	Priority	24,379	2,481	10.18	28,670	1,216	4.24
		Non-Priority	68,407	2,346	3.43	65,816	3,397	5.16
4.	Union Bank of India	Priority	16,387	916	5.44	14,392	466	3.24
		Non-Priority	85,212	3,207	3.76	14,781	204	1.38
5.	Bank of Baroda	Priority	23,795	1501	6.31	14,169	383	2.70
		Non-Priority	1,19,315	2,662	2.23	4,186	60	1.43
6.	IDBI	Priority	8,818	542	6.15	18,167	176	0.97
		Non-Priority	36,531	2,983	8.17	55,441	1,227	2.21
7.	Indian Overseas Bank	Priority	11,653	1,263	10.84	12,269	643	5.24
		Non-Priority	29,040	517	1.78	7,955	334	4.20
8.	Allahabad Bank	Priority	12,841	790	6.15	51,516	3,073	5.97
		Non-Priority	1,681	179	10.64	0	0	0.00
9.	Central Bank of India	Priority	15,383	1346	8.75	14,208	518	3.65
		Non-Priority	0	0	0.00	5,682	186	3.27
10.	United Bank of India	Priority	6,382	883	13.84	5,479	163	2.97
		Non-Priority	10,656	461	4.32	6,572	234	3.55

Fig. – Sector-wise NPAs of SBI and IDBI for FY-2014-15



(Source: Compiled from Annual Reports of various banks)

Cursorily looking at the above tables, one might find the numbers jumbled up, especially with NPA figures varying significantly for different banks under different sectors. However, on a closer look at any one of the banks, State Bank of India for instance, one notices the NPAs of Priority Sector under Agriculture Sector stand at 9.06% against Gross Advances of Rs 1,12,753 crores, while NPAs of Non-Priority Sector stand at 3.98% against Gross Advances of Rs 5,024 crores. Similarly, if one observes the figures under the Industry Sector, one realizes that the NPAs of Priority Sector stands at 10.79% against Gross Advances of Rs 65,700 crores, while the NPAs of Non-Priority Sector stands at 4.13% against Gross Advances of Rs 7,54,514 crores. However, it is to be noted in Table 3 (A) and 3 (B) that the figures for the Industry sector have been clubbed together for Micro & Small, Medium and Large Industries, and hence it is difficult to ascertain how much the Small and Medium Industries contribute to the NPAs vis-à-vis the Large Industries. The

figures for Services Sector and Personal Loans can be interpreted in a similar manner. If one combines the figures for all the four sectors under Priority and Non-Priority Sector for State Bank of India, then one can see that NPAs for Priority Sector stand at 6.85%, while the NPAs for Non-Priority Sector stand at 3.24%. However, out of the total NPAs, the share of NPAs of Priority Sector stand at 35.61%, while the NPAs of Non-Priority Sector stand at 64.39%. Similarly, for IDBI, NPAs for Priority Sector stand at 5.80%, while the NPAs of Non-Priority Sector stand at 5.90%. However, out of the total NPAs, the share of NPAs of Priority Sector stand at 24.08%, while the NPAs of Non-Priority Sector stand at 75.92%.

Because of the binding requirement of Priority Sector Lending on the Indian banks, banks have to suffer some losses due to the inherent risks involved in lending to farmers, small scale entrepreneurs and other marginalized sections of society. However, Priority Sector Lending was not envisaged with the aim of maximizing profits for the banks, but to accommodate risks inherent in lending to the marginalized sections of society in order to make banking accessible to the poor. It has often been alleged that owing to the requirements of banks to comply with Priority Sector Lending, the banks have to suffer higher NPAs. An article in *The Hindu Business Line* from May 2015 states:

Agricultural loans grew 16 per cent in FY15 and have contributed 25 per cent to incremental credit growth since March 2014. With delinquencies in the agri-loan portfolio likely to rise, they will add to the already stressed assets of banks (10.6 per cent of loans on December 31, 2014). India Ratings estimates that system-wide agricultural NPAs as a percentage of total agricultural advances will rise to 8.4 per cent by FY16 from 4.9 per cent in FY14 as the direct result of unseasonal rains.³⁴

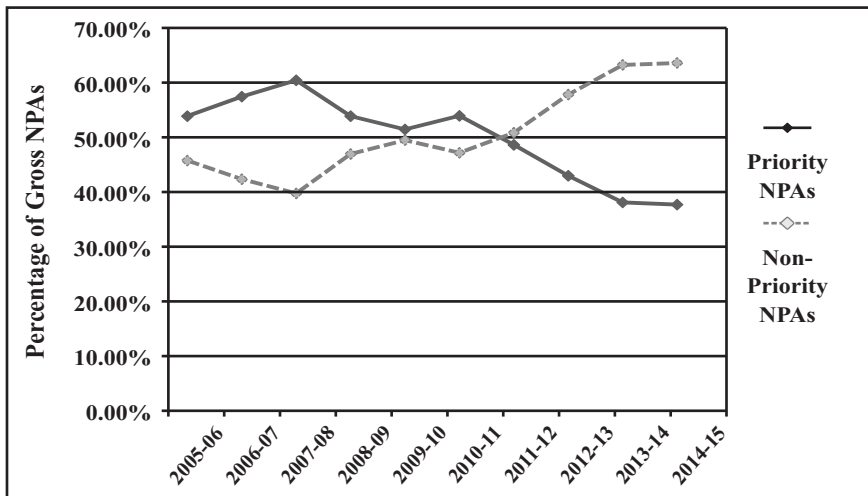
However, it is important to analyze the share of Priority Sector Lending towards NPAs and whether the escalating problem of NPAs is largely due to Priority Sector. Given below is the composition of NPAs in terms of Priority versus Non-Priority Sector for Public Sector Banks from 2005-06 to 2014-15.

34 Farm sector bad loans may shoot up: India Ratings- *The Hindu Business Line* - May 04, 2015 - <<http://www.thehindubusinessline.com/money-and-banking/unseasonal-rains-to-impact-asset-quality-of-farm-credit-india-ratings/article7170617.ece>> - Last accessed July 20, 2016

Table 4 - Composition of NPAs of Public Sector Banks – Priority v/s Non-Priority Sector

	Priority Sector	Non-Priority Sector
2005-06	53.75%	44.18%
2006-07	57.96%	40.16%
2007-08	61.48%	37.10%
2008-09	53.75%	45.59%
2009-10	50.89%	48.58%
2010-11	53.82%	45.85%
2011-12	47.57%	50.17%
2012-13	40.91%	58.39%
2013-14	35.16%	64.79%
2014-15	34.69%	65.21%

Fig. - Composition of NPAs of Public Sector Banks – Priority v/s Non-Priority Sector



(Source: Composition of NPAs of Public Sector Banks – RBI Database on Indian Economy - <<http://goo.gl/rNg1i9>> - Last accessed July 20, 2016)

As per the data shared by the RBI, in March 2008 the Priority Sector had 63.96% of the total NPAs of Public Sector Banks, while the Non-Priority Sector had 34.29% of the total NPAs.³⁵ However, the trend has reversed in the past few years and the share of Priority Sector in total NPAs of Public Sector Banks has come down drastically to 34.61% by March 2015, while the share of Non-Priority Sector in total NPAs has jumped to 65.26% for the Public Sector Banks.³⁶

The data above points out that the Priority Sector is no more the major contributor to the problem of NPAs. The Government should feel obligated to investigate the proportional increase in NPAs in Non-Priority Sector. It should also be underlined that most of the Indian Banks have been failing consistently to achieve their lending targets of 40% to the Priority Sector. Table 5 displays the level of priority sector targets met by Indian Banks over the past few years.

35 One might assume that the percentages of NPAs of Priority Sector and Non-Priority Sector add up to 100%. However, along with Priority Sector and Non-Priority Sector, Public Sector Banks also have a column for NPAs from loans given to the Public Sector, which is a minute percentage. Advances to Public Sector includes advances to Central and State Government and other Government undertakings including Government Companies and Corporations which are, according to the statutes, to be treated as public sector companies

36 Composition of NPAs of Public Sector Banks - RBI Database on Indian Economy - <<http://goo.gl/rNg1i9>> - Last accessed July 20, 2016

Table 5 - Ratio of Priority Sector Advances to Total Advances

(Figures in Percentage)

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks (SCBs)³⁷
2014-15	29.31	27.77	27.30	28.89
2013-14	28.48	28.04	29.39	28.43
2012-13	28.00	27.28	29.37	27.92
2011-12	28.82	29.08	31.55	28.99
2010-11	30.56	30.38	32.69	30.62
2009-10	30.89	31.90	33.93	31.22
2008-09	30.16	30.76	30.62	30.30
2007-08	32.38	29.27	29.58	31.55

(Source: Bank Group-wise Selected Ratios of Scheduled Commercial Banks – RBI Database on Indian Economy –

<<http://dbie.rbi.org.in/OpenDocument/publicOpenDocument.jsp?iDocID=17409887>> - Last accessed July 20, 2016; Data on SCBs is inclusive of Public Sector Banks, Private Sector Banks and Foreign Sector Banks, however, it also includes data from some other banks. For more clarity on SCBs please refer Footnote 37)

37 Scheduled Commercial Banks - By definition, any bank which is listed in the 2nd schedule of the Reserve Bank of India Act, 1934 is considered a scheduled bank. The list includes the State Bank of India and its subsidiaries (like State Bank of Travancore), all nationalized banks (Bank of Baroda, Bank of India etc.), regional rural banks (RRBs), foreign banks (HSBC Holdings Plc, Citibank NA) and some co-operative banks. These also include private sector banks, both classified as old (Karur Vysya Bank) and new (HDFC Bank Ltd). To qualify as a scheduled bank, the paid up capital and collected funds of the bank must not be less than Rs. 5 lakh. Scheduled banks are eligible for loans from the Reserve Bank of India at bank rate, and are given membership to clearing houses

Keeping in mind the declining share of advances to the Priority Sector, it is imperative that NPAs of Non-Priority Sector need higher attention. What then comprises NPAs within the Non-Priority Sector? High Net-Worth Individuals (HNIs), mid-size companies and large industrial and corporate houses form significant constituencies of Non-Priority Sector. Unfortunately, banks remain secretive about which specific loan accounts have contributed the most to their NPAs. Hence, such crucial information largely remains hidden from the purview of the people. In March 2014, ex-Finance Minister P. Chidambaram pointed out the rise of NPAs among the corporate accounts, where he mentioned, “High bad loans are the biggest challenge for the banking sector. Bad loans are the highest among the large corporate accounts.”³⁸

In a written reply to Rajya Sabha in March 2015, Jayant Sinha, Minister of State for Finance had stated that as per the data provided by the RBI, the top 30 NPA accounts of Public Sector Banks amounted to Rs 95,122 crores as of December 2014, which was more than one-third of the Gross NPAs of Public Sector Banks.³⁹ The report⁴⁰ by the Standing Committee on Finance highlights the top 30 NPA accounts within the total NPAs from December 2013 to September 2015, as displayed in Table 6 (A) and 6 (B).

38 FM blames big corporates as PSU banks log high NPAs - *Daily News and Analysis* - March 06, 2014 - <<http://www.dnaindia.com/india/report-fm-blames-big-corporates-as-psu-banks-log-high-npas-1967188>> - Last accessed July 20, 2016

39 Top 30 defaulters' NPAs amount to Rs 95,122 cr in PSU banks - *India Today* - March 17, 2015 - <<http://indiatoday.intoday.in/story/psu-banks-rbi-defaulters-account-npa-borrowers/1/424328.html>> - Last accessed July 20, 2016

40 Refer Footnote 3

Table 6 (A) - Top 30 NPAs as percentage of Gross NPAs

	Dec ⁴¹ 2013			Mar 2014		
Banks	Gross NPAs	Top 30 NPAs	Top 30 NPAs as % of Gross NPAs	Gross NPAs	Top 30 NPAs	Top 30 NPAs as % of Gross NPAs
Public Sector Banks	2,17,539	80,818	37.15%	2,16,739	84,922	39.18%
Private Sector Banks	23,637	11,725	49.60%	22,738	11,578	50.92%
Scheduled Commercial Banks	2,51,808	1,01,646	40.37%	2,51,060	1,06,641	42.48%

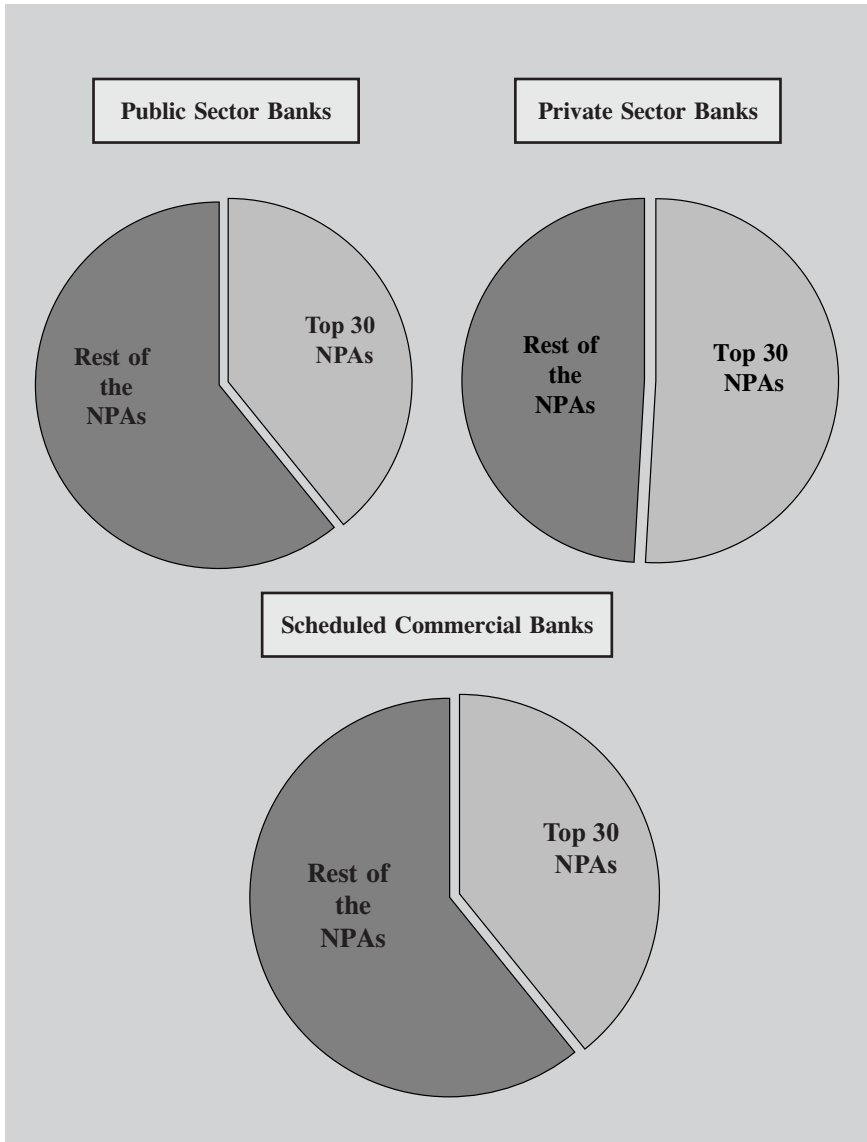
Table 6 (B) - Top 30 NPAs as percentage of Gross NPAs

	Dec 2014			Sep 2015*		
Banks	Gross NPAs	Top 30 NPAs	Top 30 NPAs as % of Gross NPAs	Gross NPAs	Top 30 NPAs	Top 30 NPAs as % of Gross NPAs
Public Sector Banks	2,62,402	95,122	36.25%	2,97,571	1,05,171	35.34%
Private Sector Banks	29,304	16,178	55.21%	-	-	-
Scheduled Commercial Banks	3,03,380	1,21,332	39.99%	-	-	-

* Dec 2014 and Sep 2015 data are provisional

41 The time periods provided in the data are not uniform, but have been taken verbatim from the Standing Committee Report

Fig. - Share of Top 30 NPAs of banks for March 2014



(Source: Non-Performing Assets of Financial Institutions – Twenty Seventh Report – Standing Committee on Finance (2015-16) – Sixteenth Lok Sabha – February 2016)

Similarly, the report provided the percentage of NPA accounts which are above Rs 1 crore against the Gross NPAs from March 2012 to March 2014. This highlights how much the 'large NPA accounts' contribute to the total NPAs of the banks, as mentioned in Table 7 (A) and 7 (B).

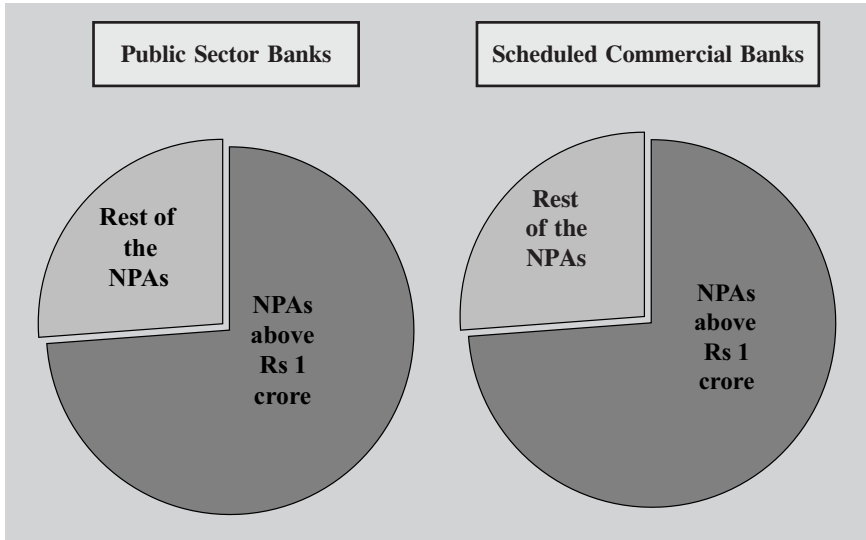
Table 7(A) - NPAs above Rs 1 Crore

	Mar 2012			Mar 2013		
Banks	Gross NPAs	NPAs above Rs 1 crore	NPAs above Rs 1 crore as % of Gross NPAs	Gross NPAs	NPAs above Rs 1 crore	NPAs above Rs 1 crore as % of Gross NPAs
Public Sector Banks	1,17,262	68,262	58.21%	1,64,462	1,08,646	66.06%
Scheduled Commercial Banks	1,42,048	80,600	56.74%	1,93,194	1,26,772	65.62%

Table 7(B) - NPAs above Rs 1 Crore

	Mar 2014		
Banks	Gross NPAs	NPAs above Rs 1 crore	NPAs above Rs 1 crore as % of Gross NPAs
Public Sector Banks	2,27,264	1,67,729	73.80%
Scheduled Commercial Banks	2,63,015	1,94,185	73.83%

Fig.- Share of 'NPAs above Rs 1 Crore' for Indian Banks for March 2014



(Source: *Non-Performing Assets of Financial Institutions – Twenty Seventh Report – Standing Committee on Finance (2015-16) – Sixteenth Lok Sabha – February 2016*)

This raises doubts on further concentration of the top 100 or the top 200 NPA accounts of Public Sector Banks. The citizens should have a right to know which companies or High-Net Worth Individuals (HNIs) add to the largest share of the NPAs of Public Sector Banks. These are definitely not the farmers who are adding to the biggest share of NPAs of the banks. Why are banks so reluctant in revealing a list of NPA accounts, having NPAs of say Rs 5 crores or more? Who are the banks trying to protect by not disclosing this data about NPAs? The Master Circular of the RBI, 'Disclosure in Financial Statements - Notes to Accounts'⁴² dated July 01, 2015, provides a detailed guidance to the banks in the matter of disclosures. Under these guidelines, banks only have to reveal the concentration of NPAs with the top four NPA accounts. Given below is a table, which mentions the ratio of exposure to top 4 NPA Accounts to Gross NPAs of selected banks for FY 2014-15.

42 RBI Master Circular on 'Disclosure in Financial Statements - Notes to Accounts' dated July 01, 2015 - <https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9906> - Last accessed July 20, 2016

Table 8- Ratio of Exposure to Top 4 NPA Accounts to Gross NPAs for Selected Banks for FY 2014-15

(Figures in Percentage)

Sl. No.	Name of Banks	Gross NPA (A)	Exposure of Top 4 NPA Accounts (B)	B as percentage of A
1.	State Bank of India	56,725	1,840	3.24%
2.	Punjab National Bank	25,695	2,048	7.97%
3.	Bank of Baroda	16,261	1,359	8.35%
4.	Indian Overseas Bank	14,992	1,443	9.62%
5.	IDBI	12,685	3,365	26.53%
6.	Central Bank of India	11,873	1,987	16.73%
7.	Canara Bank	13,040	1,885	14.45%
8.	Union Bank of India	13,031	1,482	11.37%
9.	Allahabad Bank	8,358	1,540	18.43%
10.	United Bank of India	6,553	934	14.25%

(Source: Compiled from Annual Reports of various banks)

Table 8 highlights that in the case of IDBI, the amount of Gross NPAs for FY 2014-15 stood at Rs 12,685 crores and the total exposure to the top four NPA accounts stood at Rs 3,365 crores. In terms of percentage, this implies that only four accounts comprise 26.53% of the total NPAs for IDBI. This piece of data gives us very limited insights into the concentration of NPAs caused by the top NPA accounts. **The RBI as the regulatory body should make it mandatory for banks to disclose more data about their top NPA accounts.**

The Steep Rise in Corporate Debts: India Inc's contribution to the NPA woes

While there is no specific data released by the RBI or the banks on the percentage of NPAs due to loans given specifically to corporate houses, many industry experts have alleged that the rise in NPAs of Indian Banks has taken place over the past few years due to indiscriminate lending by the banks to companies with poor financial records and loans for risky projects. The contribution of corporate loans leading to steady rise in NPAs cannot be analyzed without taking into consideration the enormous rise in corporate debt of Indian companies over the past few years and especially the concentration of debt in BSE 500 companies.⁴³

In a report published in May 2015 by financial services firm Standard Chartered, it is mentioned that the total debt of BSE 500 companies grew at a compounded rate of 20% from 2008-09 to 2014-15, whereas profits grew only at 9% in the period. Moreover, gross debt of the BSE 500 companies rose to Rs 24.3 lakh crore in FY 2013-14, more than 10 times the levels of Rs 2.3 lakh crore in FY 2001-02!⁴⁴ Similarly, another report published in March 2015 by credit rating agency Standard & Poor's titled 'India's Credit Spotlight' mentioned that the total debt of India's top 100 companies (except subsidiaries of multinational corporations) on the basis of market capitalization stood at Rs 10.5 lakh crore in the year ended March 2011, from where it has grown steadily to Rs 13 lakh crore in the year ended March 2012 to Rs 15 lakh crore in the year ended March 2013, and to Rs 18.5 lakh crore in the year ended March 2014.⁴⁵ In another report published by financial research firm Credit Suisse in August 2012 titled 'House of Debt', it is mentioned:

43 BSE 500 Companies is a common industry term used to refer the Top 500 companies listed on Bombay Stock Exchange ranked by their respective market capitalization

44 BSE 500 companies' gross debt rises to Rs 24.3 lakh crore - *The Economic Times* - May 08, 2015 - <http://articles.economictimes.indiatimes.com/2015-05-08/news/61947904_1_lakh-crore-total-debt-loss-making-companies> - Last accessed July 20, 2016

45 Indian infrastructure companies continue to be debt laden: S&P - *Business Standard* - March 25, 2015 - <http://www.business-standard.com/article/markets/indian-infrastructure-companies-continue-to-be-debt-laden-s-p-115032500365_1.html> - Last accessed July 20, 2016

Over the past five years, Indian banks have witnessed strong (20% CAGR⁴⁶) loan growth. However, this growth is increasingly being driven by a select few corporate groups. In FY12, over 20% of the incremental loans came from just ten groups. The total debt level of these ten (Adani, Essar, GMR, GVK, JSW, JPA, Lanco, Reliance ADA, Vedanta and Videocon) has jumped 5x in the past five years (40% CAGR) and now equates to 13% of the total bank loans and 98% of the net worth of the banking system. Each of these groups alone now accounts (*sic*) for 1–2% of total banking system loans. Therefore, now in terms of the concentration risk to the top groups or to the top borrowers, Indian banks rank high compared with most of their Asian and BRIC counterparts.

Moreover, we believe the concentration risk is high as: (1) all banks appear to have high exposure to the same few groups; and (2) investments of most of these groups are in similar sectors and projects (primarily, power and metals) and many of them may be stressed. The asset profile of many of these groups is similar, with infra, and to a large extent, power assets driving up investments in the past few years.⁴⁷

The increase in the levels of corporate debts is not a healthy sign for any economy and can also pose risk to the macroeconomic stability of a country, if the problem of bad loans multiplies suddenly. IMF in its report ‘Regional Economic Outlook (Asia and Pacific)’ published in April 2014 raises concerns about concentration of debt in the hands of a few firms where it mentions, “In some countries, even though aggregate measures are not excessive, a large share of corporate debt is concentrated in only a few, highly leveraged firms. The distribution of leverage does matter and Asia clearly has “pockets” of highly leveraged firms - including in China, Japan, India, and Korea - that may pose a risk to macroeconomic stability.”⁴⁸

Similar concerns were echoed by the RBI in its ‘Financial Stability Report’⁴⁹ published in June 2015.

46 CAGR – CAGR stands for Compound Annual Growth Rate. CAGR is a term to measure growth over a specific time period. It reflects an average growth rate, which is assumed to be compounding each year on a specific investment. This takes care of fluctuations in the growth rate of an investment, which might distort the real situation

47 Credit Suisse Report - House of Debt - August 2012 - <<https://goo.gl/GMh4Ev>> - Last accessed July 20, 2016

48 Regional Economic Outlook: Asia and Pacific - IMF - April 2014 - <<http://www.imf.org/external/pubs/ft/reo/2014/apd/eng/areo0414.htm>> - Last accessed July 20, 2016

49 The RBI in its Financial Stability Report published in June 2015 mentions, “Concerns

The RBI data on Sectoral Credit Deployment for March 2015 mentioned that out of the Total Non-Food Bank Credit⁵⁰ of Rs 60.03 Lakh Crores, loans given to Large Industries were Rs 21.51 Lakh Crores, i.e. roughly 36% of the entire bank loans. The loans extended just to the Power Sector alone, stood at a staggering 9.07% of the loans given by entire banking industry.⁵¹ Over the past few years, banks have rapidly expanded their credit portfolio, especially by lending heavily in infrastructure sector in hopes of a steady growth of the Indian economy. This has also increased the risk of a rise in NPAs because of an increased exposure in similar sectors, along with extending huge loans to companies concentrated in the same sector.

It is worth having a look at how the loans to Large Industries have grown over the past few years vis-à-vis the loans extended to Micro, Small & Medium Enterprises (MSMEs). Table 9 mentions the percentage of loans given to MSMEs against the total advances and percentage of loans given to the Large Industries against total advances.

remain around corporate sector leverage, especially in the context of its ability to service debt. While leverage has increased, the ability to repay debt (solvency ratio) and debt servicing ability (interest coverage ratio) of the corporates has declined. Besides its adverse impact on banks' balance sheets, high leverage of corporates may hinder the transmission of monetary policy impulses as corporates may not be in a position to benefit from falling interest rates due to high levels of debt." - <<https://rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=821>> - Last accessed July 20, 2016

50 Non-Food Bank Credit - The loan provided by the nationalized banks to the FCI (Food Corporation of India) is known as Food Credit. It is used for procurement of food grains by FCI and is a part of the Gross Bank Credit. The Gross Bank Credit minus Food Credit is termed as Non-Food Credit. The RBI usually categorizes Food Credit and Non-Food Bank Credit separately

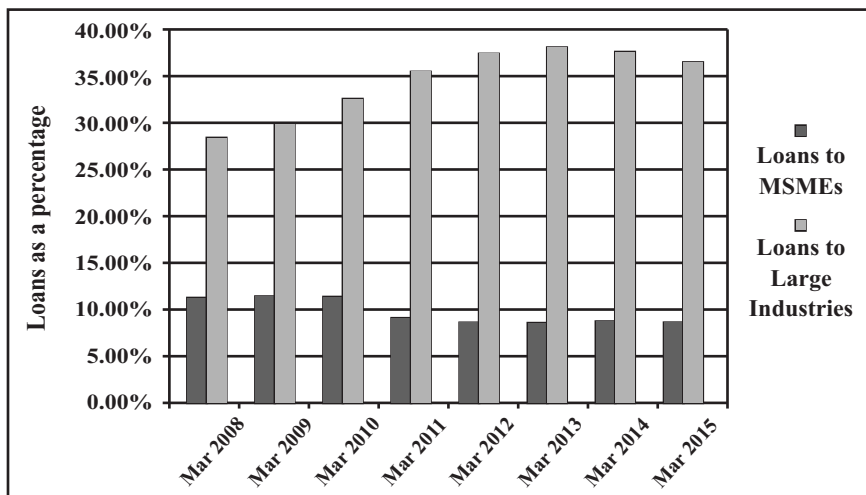
51 Sectoral Deployment of Bank Credit - RBI - March 2015 - <https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=33834> -Last accessed July 20, 2016

Table 9 - Loans to Industries as a Percentage of Total Non-Food Credit by Indian Banks

(Amount in Crores)

Year	Total Non-Food Credit (A)	Loans to Micro, Small and Medium Industries (B)	Percentage - B/A	Loans to Large Industries (C)	Percentage - C/A
Mar 2008	22,04,801	2,43,498	11.04%	6,14,846	27.89%
Mar 2009	26,01,825	2,91,152	11.19%	7,63,238	29.33%
Mar 2010	30,39,615	3,39,037	11.15%	9,72,415	31.99%
Mar 2011	36,67,354	3,26,693	8.91%	12,77,882	34.84%
Mar 2012	42,89,745	3,61,446	8.43%	15,75,880	36.74%
Mar 2013	48,69,563	4,09,052	8.40%	18,21,127	37.40%
Mar 2014	55,29,602	4,73,586	8.56%	20,42,897	36.94%
Mar 2015	60,02,952	5,06,564	8.44%	21,51,063	35.83%

Fig.- Loans to Industries as a Percentage of Total Non-Food Credit by Indian Banks



(Source: Sector-Wise Gross Bank Credit of Scheduled Commercial Banks - RBI Database on Indian Economy - <<http://goo.gl/i3yoLq>> - Last accessed July 20, 2016)

It is to be noted that over the past few years the percentage of loans given to MSMEs has declined and the percentage of loans given to Large Industries has steadily increased. The data provided by the RBI does give insights into the loans given across various industries, but there is lesser data available on which sector contributes to what percentage of NPAs.

A Brief Analysis of Loans to Infrastructure and Iron & Steel Sector

Among the loans given to Large Industries, different sectors contribute to NPAs to different degrees. While there is a paucity of data on sectoral NPAs, the RBI in its Financial Stability Report published in December 2014 had mentioned about the most ‘Stressed Sectors’ in the economy. These included Infrastructure, Iron & Steel, Textiles, Mining (including Coal) and Aviation. In the section below only Infrastructure and Iron & Steel sectors are being analyzed.

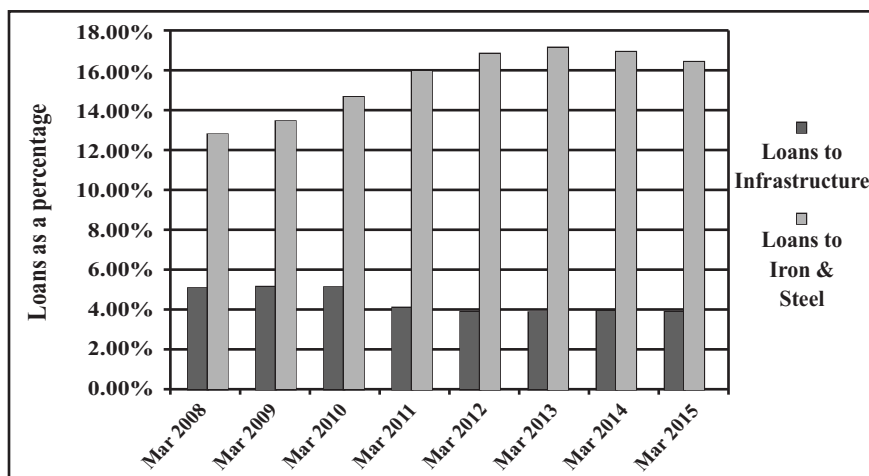
Table 10 shows the loans extended to Infrastructure and Iron & Steel Sector as a percentage of total advances over the past few years.

Table 10 – Loans to Infrastructure and Iron & Steel as Percentage of Total Non-Food Credit

(Amount in Crores)

Year	Total Non-Food Credit (A)	Loans to Infrastructure Sector	Percentage - B/A	Loans to Iron & Steel Sector	Percentage - C/A
Mar 2008	22,04,801	2,05,336	9.31%	82,696	3.75%
Mar 2009	26,01,825	2,69,972	10.38%	99,159	3.81%
Mar 2010	30,39,615	3,79,887	12.50%	1,27,464	4.19%
Mar 2011	36,67,354	5,21,393	14.22%	1,64,689	4.49%
Mar 2012	42,89,745	6,29,991	14.69%	1,95,900	4.57%
Mar 2013	48,69,563	7,29,721	14.99%	2,36,597	4.86%
Mar 2014	55,29,602	8,36,356	15.13%	2,67,398	4.84%
Mar 2015	60,02,952	9,24,531	15.40%	2,83,429	4.72%

Fig.- Loans to Infrastructure and Iron & Steel as a Percentage of Total Non-Food Credit



(Source: Sector-Wise Gross Bank Credit of Scheduled Commercial Banks – RBI Database on Indian Economy - <<http://goo.gl/i3yoLq>> - Last accessed July 20, 2016 and Industry-wise Deployment of Gross Bank Credit – RBI Database on Indian Economy - <<http://goo.gl/CB04L5>> - Last accessed July 20, 2016)

It can be observed that the loans extended to Infrastructure Sector and Iron & Steel Sector have increased steadily over the past few years. While Indian Banks, especially the Public Sector Banks have excessively increased their lending to sectors such as the Infrastructure and Iron & Steel sector, this has also jeopardized the banks, who are staring at a huge amount of NPAs due to the infrastructure sector not growing as per the earlier expectations of the bankers. In a letter addressed to the Indian Banks' Association in June 2013, Gajendra Haldea, Principal Adviser (infrastructure) at Planning Commission, had slammed banks for their infrastructure lending practices, where he mentioned, "Indiscriminate lending by commercial banks has led to gold plating of infra projects that may either raise consumer tariffs or cause defaults in debt service." Additionally, he mentioned, "This sub-prime lending⁵², predominantly by public sector banks, reflects inadequate due diligence and malfeasance as does the persistence of policy logjams which impede project implementation."⁵³

Apart from the increase in lending to the above sectors, there is limited data available on how these sectors are adding to the Stressed Advances (NPAs plus restructured assets). The RBI in its Financial Stability Report published in December 2014 provides the share of Infrastructure and Iron & Steel sectors in Total Advances and Stressed Advances from March 2013 to December 2014, as mentioned in Table 11.

52 Sub-prime lending refers to a type of lending, where the borrower is given loans at a higher interest rate (than the prevailing market rate), because of the higher credit risk associated with the borrower.

53 Banks slammed for 'reckless' lending to infra, power sectors - *The Indian Express* - September 11, 2013 - <<http://archive.indianexpress.com/news/banks-slammed-for-reckless-lending-to-infra-power-sectors/1167243/>> - Last accessed July 20, 2016

Table 11 - Share of Iron & Steel and Infrastructure sectors to the advances as well as stressed advances

(Figures in Percentage)

		Public Sector Banks			All Scheduled Commercial Banks		
		Mar 13	Mar 14	Dec 14	Mar 13	Mar 14	Dec 14
Infra-structure	Share in Advances	16.8	16.5	17.6	14.6	14.4	15.0
	Share in Stressed Advances	29.5	30.2	30.9	28.8	29.4	29.8
Iron & Steel	Share in Advances	5.7	5.5	5.2	4.9	4.8	4.5
	Share in Stressed Advances	8.7	11.2	10.5	8.2	10.8	10.2
Total	Share in Advances	22.5	22.0	22.8	19.5	19.2	19.5
	Share in Stressed Advances	38.2	41.4	41.4	37.0	40.2	40.0

(Source: RBI Financial Stability Report Dec 2014, June 2015)

With the figures in Table 11, it appears that one cannot discern much if they were to be looked at in isolation. But the crux of the matter lies in the share in stressed advances, which is almost double the share in advances, which is a matter of concern. While Iron & Steel and Infrastructure constitute only 20% of the total advances, these two sectors alone have close to 40% of the stressed advances, which highlights the vulnerability of the Public Sector Banks due to lending to these sectors.

However, the problem of NPAs is not endemic to only Infrastructure and Iron & Steel sectors, even though they might be having a major share in it. Apparently, State Bank of India is the only bank, which has come forward and shared the data in its Annual Report (under Basel III Disclosures⁵⁴),

54 Please refer Annexure I

regarding which industry sector has contributed to how much to its NPAs. Other Public Sector Banks have only mentioned their exposure industry-wise (both fund-based and non-fund based⁵⁵), but not the NPAs in the respective sector. Table 12 displays the Industry-Type distribution of fund-based exposures for SBI, along with data on NPA in different industries as on March 31, 2015. Please note that the data displayed below is only for selected sectors.

55 Fund based and Non-Fund based exposure of banks - The exposure of banks is categorized as fund-based and non-fund based. The exposure reflects the amount which a bank stands at risk of losing if the borrower defaults. Fund-based exposure is calculated on the basis of actual money advanced by the bank to its borrower. Fund-based exposure includes Gross advances, Investments other than Government securities and other assets excluding deposits with banks. In case of Non-Fund exposure, the bank does not lend money to the borrower, but provides a financial commitment on behalf of the borrower. Non-Fund based exposure includes outstanding Letter of Credit, Acceptances and Bank Guarantee exposures

Table 12 – Industry Type Distribution of Fund-based Exposures for SBI, along with Data on NPAs as on March 31st, 2015

(Amount in Crores)

Industry	Standard Advances (A)	NPA (B)	Total Fund-based Exposures (A+B)	NPA as % of Standard Advances (Fund-based Exposures) (B/A)
Coal	3,777	406	4,183	10.74%
Mining	6,947	649	7,596	9.34%
Iron & Steel	1,22,160	6,847	1,29,007	5.60%
Metal Products	39,208	1,814	41,022	4.62%
All Engineering	38,354	3,156	41,510	8.22%
Electricity	28,293	84	28,377	0.30%
Cement	10,265	424	10,689	4.13%
Construction	12,770	154	12,924	1.20%
Infrastructure	2,49,418	9,007	2,58,574	3.61%
Of which Power	1,32,656	2,647	1,35,303	1.99%
Of which Telecommunication	38,321	1,036	39,357	2.70%
Of which Roads & Ports	30,618	2,637	33,255	8.61%
Other Industries	1,10,366	2,265	1,12,631	2.05%
Total Advances to Industries	9,15,419	45,952	9,61,370	5.01%
NBFCs & Trading	1,53,456	6,837	1,60,293	4.45%
Res. Adv to bal.*				
Gross Advances	5,94,395	21,838	6,16,233	3.67%
Total	16,63,270	74,627	17,37,896	4.48%

(Source: SBI Annual Report 2014-15)

* Residual Advance to Balance

It can be inferred from Table 12 that out of the Gross NPAs of Rs 74,627 crores of SBI for its fund-based exposure, Industry alone contributed 61.58% of the NPAs.⁵⁶

Ideally, banks should disclose the data about NPAs accounts-wise, i.e. which company / project has contributed to how much NPA in case of corporate accounts. Keeping such a data inaccessible for the citizens is one of the key reasons that banks have been able to accumulate such huge NPAs, without people having a clue about it. The reluctance on the part of the banks to disclose the names of the big defaulters was recently echoed by the RBI Counsel Jaideep Gupta in an ongoing case in Supreme Court pertaining to denial of information by the RBI on big defaulters. Gupta told the court that the information held with the RBI on loan defaults was obtained in the fiduciary capacity and any disclosure of the aggregate figure may have an impact on the country's economy and reduce confidence within the business and investment sectors. He further said that any disclosure would be violative of the provisions of the RBI Act, 1934, the Credit Information Companies (Regulation) Act, 2005, and the Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983, which grant immunity from disclosure of details of non-performing assets.⁵⁷

56 Please note that the figure for Gross NPAs of Rs 74,627 crores is mentioned under the Basel-III Disclosures of the SBI Annual Report 2014-15 for its Fund-based exposure. Otherwise, the reported Gross NPAs for FY 2014-15 for SBI has been reported as Rs 56,725 crores

57 SC examines if NPA names can be disclosed, RBI says it will impact economy - *The Financial Express* - April 13, 2016 - <<http://www.financialexpress.com/article/economy/supreme-court-seeks-total-npas-rbi-says-no/235777/>> -Last accessed July 20, 2016

Corporate Debt Restructuring (CDR): Evergreening of NPAs?

“There has been major increase in CDR references in the recent period and an exposure-wise breakup of CDR referred cases shows that big-ticket accounts had a dominant share. There is enough evidence, to suggest that the provisions of the CDR mechanism have not been used very judiciously or effectively. While the debtors and creditors seek the benefits of restructuring, they tend to avoid the painful sacrifices in terms of provisioning and promoters’ sacrifice. Such circumvention of norms not only camouflage the weakness in the credit portfolio of banks but also weaken their defense against expected losses. The inherent credit weaknesses of such accounts are further aggravated due to lower stake of the promoters. I would go on to add that the availability of standing regulatory forbearance in the matter of CDR has prompted banks to avoid using other means of credit management judiciously.”

- Dr. K.C. Chakrabarty, ex-Deputy Governor of the RBI,
BANCON, 2013

Usually, when companies need loans of huge amounts (say more than Rs 100 crores), they take loans from the banks under the multiple banking arrangement, where various banks come together and pool in money to spread out their risk rather than a single bank lending the entire amount. With a surge in corporate loans over the past decade, and companies unable to repay the loans on time, Corporate Debt Restructuring (CDR) had evolved as a mechanism to restructure⁵⁸ the troubled accounts. CDR enables the companies to tide over difficult times when they are unable to pay the banks due to external factors, as well as some internal factors, along with preventing the loans of the banks and financial institutions to go sour. As defined on the website of Corporate Debt Restructuring Mechanism:

58 Restructuring – Restructuring a loan account usually implies giving a moratorium on the payment of interest or principal, readjusting the rate of interest or altering the period of repayment

The Corporate Debt Restructuring (CDR) Mechanism is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA) and the principle of approvals by super-majority of 75% creditors (by value) which makes it binding on the remaining 25% to fall in line with the majority decision. The CDR Mechanism covers only multiple banking accounts, syndication/consortium accounts, where all banks and institutions together have an outstanding aggregate exposure of Rs.100 million and above. It covers all categories of assets in the books of member-creditors classified in terms of the RBI's prudential asset classification standards.⁵⁹

What should have been used as a last resort mechanism to deal with a crisis, has become an easy instrument used by the banks and companies in collusion to mask the problem of poor financial health of the companies, along with hiding the true scale of the problem of NPAs. This is quite evident from the data provided by the CDR Cell mentioned in Table 13, which shows the number of cases submitted to the CDR Cell versus number of cases approved.

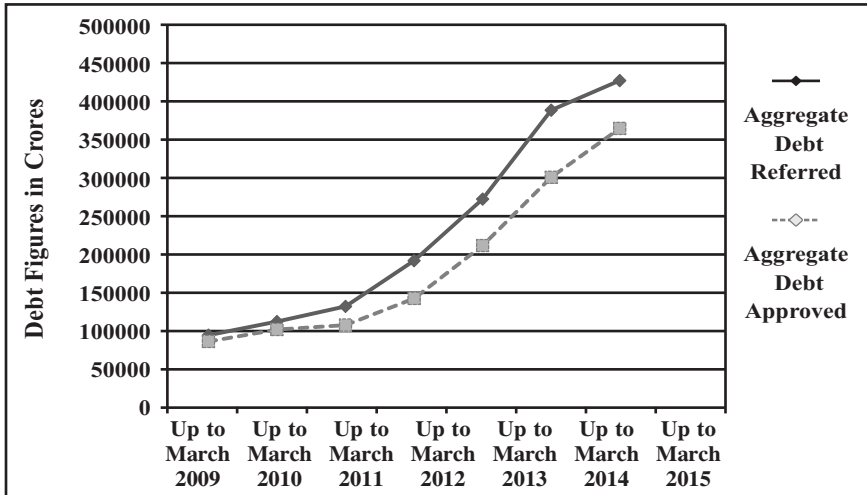
Table 13 - Addition to Number of Cases Referred to CDR Cell Year-wise from 2009 Onwards

	Up to March 2009	Up to March 2010	Up to March 2011	Up to March 2012	Up to March 2013	Up to March 2014	Up to March 2015 ⁶⁰
Total Cases Referred	225	256	305	392	521	622	655
Aggregate Debt (Rs Crores)	95,815	1,15,990	1,38,604	2,06,493	2,97,990	4,29,989	4,74,002
Total Cases Approved	184	215	242	292	401	476	530
Aggregate Debt (Rs Crores)	86,536	1,04,299	1,10,914	1,50,515	2,29,013	3,30,444	4,03,004

59 Corporate Debt Restructuring (CDR) Mechanism Website- <<http://www.cdriindia.org/aboutus.htm>> - Last accessed July 20, 2016

60 This piece of data provided on CDR India's website shows no change in this data from March 2015 to March 2016

Fig.- Aggregate Debt Referred and Aggregate Debt Approved under CDR from Mar 2009 to Mar 2015



(Source: CDR Cell - <http://www.cdrindia.org/statistical.htm> - Last accessed July 20, 2016)

It can be inferred from Table 13 that the amount of loans referred to CDR Cell from 2009 to 2015 has gone up almost by five times. It should also be noted that the number of cases approved by the CDR Cell is quite high. The staggering amount of debts referred to CDR Cell over the past few years indeed stresses the lack of due diligence on the part of banks while extending loans, and brings to light cases where corporate borrowers are not able to repay their loans on time and resort to restructuring their loans to avoid defaults. This also is a reflection on the part of the corporate borrowers, who rely heavily on banks for rapidly, expanding their territories, rather than relying on equity investments. Further, they often put themselves in such a precarious position, where they are not even able to repay their loan instalments on time.

**Table 14 – Number of Cases Referred to CDR Cell
Year-wise since FY 2009-10**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No. of Cases Referred	31	49	87	129	101	33
CDR Exposure (Rs Crores)	20,154	22,612	67,889	91,497	1,31,998	44,014
No. of Cases Approved*	8	22	42	84	67	30
CDR Exposure (Rs Crores)	10,758	12,501	45,755	68,875	99,476	39,230

(Source: CDR Cell - <<http://www.cdrindia.org/pdf/CDR-performance-yearly-comparison.pdf>> - Last accessed July 20, 2016)

Table 14 shows the number of cases referred to CDR Cell year-wise since FY 2009-10. One can note the steady jump in the increase in amount of CDR Exposure on a year-on-year basis till FY 2013-14. It might raise some curiosity as to why there had been a drastic drop in cases referred to CDR Cell in FY 2014-15. This change basically happened due to a notification from the RBI titled ‘Framework for Revitalising Distressed Assets in the Economy - Guidelines on Joint Lenders’ Forum (JLF) and Corrective Action Plan (CAP)’⁶¹, dated February 26, 2014. The guidelines stated that for accounts under Consortium Lending and

*No. of Cases Approved here refers to the cases approved in the same year referred as ‘Live Cases’. The data when compared with Table 13 would vary, from where the data about number of cases approved within a given year can be inferred, which differs from data in Table 14.

61 RBI Notification - Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders’ Forum (JLF) and Corrective Action Plan (CAP) - February 26, 2014 - <<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8754&Mode=0>> - Last accessed July 20, 2016

Multiple Banking Arrangements having Aggregate Exposure for more than Rs 100 crores (fund-based and non-fund based combined), if the principal or interest payment is overdue for more than 60 days, then banks compulsorily need to form a Joint Lenders' Forum (JLF) and constitute a Corrective Action Plan (CAP) to take corrective measures and may or may not refer to CDR Cell. This basically means that the data from the CDR Cell may show a reduction in the number of cases referred, but banks would continue to restructure the troubled accounts outside of CDR mechanism.

The RBI also provides some data about the amount of debt restructured for Corporate Accounts. Table 15 provides details about the Corporate Debt Restructured by the Indian Banks. One can note the huge surge in the level of restructuring from 2010-11 to 2013-14.

Table 15 – Corporate Debt Restructured by Indian Banks

	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15
PUBLIC SECTOR BANKS	2,431	4,486	16,552	11,400	30,473	90,413	1,41,387	1,80,300
PRIVATE SECTOR BANKS	581	502	2,916	884	5,671	10,299	18,773	25,455
FOREIGN BANKS	2	19	135	51	133	368	702	963
TOTAL	3,014	5,007	19,603	12,335	36,277	1,01,080	1,60,862	2,06,718

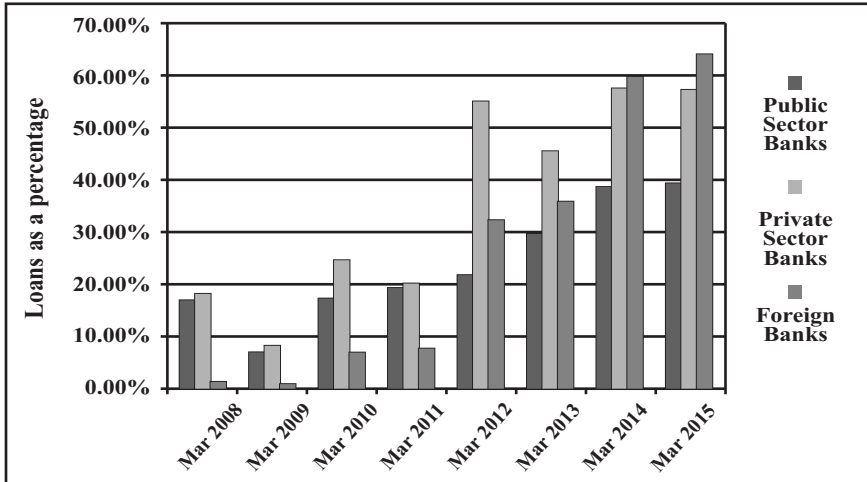
(Source: Loan Subjected to Restructuring and Corporate Debt Restructured - RBI Database on Indian Economy <<http://goo.gl/zVVPIC>> - Last accessed July 20, 2016)

Similarly, Table 16 mentions the share of Corporate Debt Restructured as a percentage of Total Loans Restructured by the banks.

Table 16 – Corporate Debt Restructured as a percentage of Total Loans Restructured by Indian Banks

	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15
PUBLIC SECTOR BANKS	16.26%	6.69%	16.60%	18.54%	20.91%	28.51%	37.13%	37.81%
PRIVATE SECTOR BANKS	17.45%	7.89%	23.66%	19.36%	52.89%	43.72%	55.28%	55.03%
FOREIGN BANKS	1.26%	0.85%	6.64%	7.38%	31.04%	34.44%	57.43%	61.57%
TOTAL	16.34%	6.62%	17.19%	18.48%	23.13%	29.58%	38.68%	39.40%

Fig. - Corporate Debt Restructured as a percentage of Total Loans Restructured by Indian Banks



(Source: Loan Subjected to Restructuring and Corporate Debt Restructured – RBI Database on Indian Economy - <<http://goo.gl/zVVP1C>> - Last accessed July 20, 2016)

One can note here that there has been a steep rise in the percentage of Corporate Debt Restructured as a proportion of the Total Debt Restructured over the past few years, both for Public Sector Banks as well as Private Sector Banks. This trend is a worrying signal for the banks who have been increasingly channelizing their loans to fund the corporate houses, where corporate houses have used last resort mechanisms like CDR in a regular manner to conduct business at the cost of jeopardizing their lenders. The data provided by the RBI on corporate debts restructured differs from the data provided by CDR Cell. This could probably be for the reason that CDR Cell provides data only for the debts restructured, which are referred to it, while the RBI might have a different parameter for defining corporate debts.

5/25 Debt Restructuring Scheme

Apart from Corporate Debt Restructuring, other kinds of mechanisms have evolved for restructuring the troubled loans. In July 2014, the RBI had come up with a '5/25 Debt Restructuring Scheme' where it allowed the banks to extend loans to infrastructure projects for a period of 25 years, with a provision of refinancing the loans every 5 years based on the

progress made by these projects.⁶² Refinancing of a loan involves a borrower getting into a new loan arrangement, replacing the earlier one, where the new loan might be used to pay off the previous obligation. Refinancing differs from restructuring since in case of refinancing, the loan contract keeps getting renewed, while in the case of restructuring only the specific terms of the contract are altered, e.g. the interest to be paid for the remaining loan, the period of repayment, etc. The notification of the RBI related to the 5/25 Debt Restructuring Scheme mentions:

Banks may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. The refinance may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as refinancing debt facility, and such refinancing may repeat till the end of the Fresh Loan Amortisation Schedule.

Additionally, the notification mentions:

If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing should stop and the bank which holds the loan when it becomes NPA would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions.

The RBI had warned the banks that they are exposing themselves to undue risk by using the 5/25 scheme.⁶³ The RBI notified towards the end of 2014 that banks could fix fresh loan amortization schedules without treating it as restructuring, as from April 2015, any such freshly restricted asset would have been considered as bad debt obligating the banks to set aside a 15% provisioning. The problem herein lies in the fact of treating projects viable, whereas only repayment schedules as unviable. Some of the industry experts have raised concerns that it might just become another means for the banks to hide the problem of bad loans of the infrastructure sector.

62 RBI Notification - Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries - July 15, 2014 - <<https://rbi.org.in/scripts/NotificationUser.aspx?Id=9101&Mode=0>> - Last accessed July 20, 2016

63 Reserve Bank warning on infra projects' loan refinancing - *Business Standard* - August 13, 2015 -

Strategic Debt Restructuring (SDR) Scheme

RBI had come up with Strategic Debt Restructuring (SDR) scheme⁶⁴ in June 2015, which was portrayed as a robust mechanism for the banks to cope up with mountains of bad loans. SDR scheme was formulated based on the observation that in many cases of restructuring of accounts, the borrower companies are not able to do a turnaround due to operational / managerial inefficiencies, despite substantial sacrifices made by the banks. Under this scheme, when a loan restructuring happens through a Joint Lenders Forum (JLF) of a consortium of bankers, then at the time of initial restructuring, a condition should be added that the lenders should get a right to convert the entire loan (including unpaid interest) into equity if the borrower is not able to achieve the viability mechanisms and / or adhere to 'critical conditions' as mentioned in the restructuring package. The conversion of loan into equity can happen only if banks end up owning majority shareholding in the company, i.e. owning at least 51% stake. Once the banks invoke SDR for any company, then the banks should divest their equity in the company to a 'new promoter' within 18 months of invoking SDR. In February 2016, the RBI revised the guidelines, stipulating that the banks should divest at least 26% of the stakes within 18 months and can then exit their remaining holdings gradually, with the turnaround of the company.⁶⁵

However, many industry experts have raised concerns over the efficacy of SDR scheme, alleging that this would be masking the problem of NPAs and delaying the inevitable. Even though the SDR provides banks significant relaxation from the RBI rules for a period of 18 months, the turnaround backfires in case banks are unable to identify a promoter within 18 months. When this happens, all regulatory relaxations cease, and lenders have to mandatorily declare the assets as NPAs and make a 100% provisioning. What really hurts SDR is a likelihood of procrastinating the NPAs, ballooning the debt of the companies, and

< http://www.business-standard.com/article/finance/reserve-bank-warning-on-infra-projects-loan-refinancing-115081300023_1.html > - Last accessed July 20, 2016

64 RBI Notification - Strategic Debt Restructuring Scheme - June 08, 2015 - < <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=9767> > - Last accessed July 20, 2016

65 RBI gives banks more time to exit SDR assets - *Livemint* - February 26, 2016 - < <http://www.livemint.com/Politics/S3hxeG81M5yP5A740RWHJM/RBI-revises-SDR-norms-asks-banks-to-higher-provisions-of-15.html> > - Last accessed July 20, 2016

leaving banks with little option but to go for a significant haircut.⁶⁶

In a news article on SDR scheme, Sanjay Bhattacharya, former Managing Director and Chief Credit and Risk Officer of State Bank of India mentioned :

Who will run the company for the bank? The bank itself does not have the wherewithal to run a company. The RBI notification does state that banks have to comply with the Banking Regulation Act, specifically Section 6, which stipulates the forms of businesses that banking companies can engage in. However, even looking for alternative management is a time-consuming process, while the company continues to flounder.” Additionally he mentioned, “This opens up all kinds of other issues. Banks will find it difficult to find buyers. Nobody will want stake in a floundering company.”⁶⁷

Similarly, Religare Institutional Research had come out with a report⁶⁸ in January 2016 titled, ‘SDR: A band-aid for a bullet wound’, which raised serious questions whether SDR can truly address the problem of NPAs. The report mentions, “Our analysis of 10 out of 15 strategic debt restructuring (SDR) cases suggests that this scheme is in no way a cure-all for Indian banks’ deteriorating asset health – instead it exacerbates the risk by deferring an estimated Rs 1.5 tn (US\$ 23bn) of NPA formation (30-40 accounts or 2.2% of total credit) from FY16/FY17 to later years.” In the key findings of this report, it is mentioned, “SDR does not solve the problem of ballooning bad assets in India’s banking system, but merely exacerbates it by postponing and obscuring true NPA recognition.”

If the restructuring of the corporate debts ensured healthy returns for the banks in the long run, then its use as a safety mechanism would not have come under the scanner. However, several instances have been reported where the restructured accounts have eventually turned into NPAs and CDR has been used by the companies to delay the repayments of the loans

66 Haircut - Haircut in banking parlance is the difference between the market value of an asset used as collateral and the amount of loan extended. The amount of haircut is the bank's loss of asset value falling

67 Strategic debt revamp scheme will not be a game-changer: experts - *The Hindu* - June 10, 2015 - <<http://www.thehindu.com/business/Industry/strategic-debt-revamp-scheme-will-not-be-a-gamechanger-experts/article7302472.ece>> - Last accessed July 20, 2016

68 SDR: A band-aid for a bullet wound - Religare Institutional Research - January 2016 - <<http://research.religarecm.com/INDIA/India%20Banks%20-%20Sector%20Report%204Jan16.pdf>> - Last accessed July 20, 2016

taken. On the other hand, banks have used this mechanism to make the possible NPAs 'evergreen'⁶⁹ in order to postpone the problem in their balance sheets. The practice of indiscriminately restructuring the corporate loans by the Public Sector Banks in order to hide the NPAs should come under tight scrutiny by the regulatory bodies, since this only hides the problem rather than using restructuring as a means to address it. Even schemes like 5/25 Debt Restructuring Scheme and Strategic Debt Restructuring Schemes are not meant for addressing the inherent flaws in the debt restructuring process and banks should have a stricter approach towards reviewing the need for restructuring the loans.

Restructuring the corporate loans by the banks have involved giving interest moratorium to the companies for a year or two and even reducing the interest rates to make things easy for the companies. Banks usually give the logic, that easing the repayment for the companies is better than losing the money altogether. But this also means that it erodes the profitability of the banks, which is a loss to the account holders. **Banks should be required to make the data public as which corporate accounts are restructured, for how much amount and on what grounds the loans are being restructured.** In some of the instances one cannot rule out the bribing of bank officials and undue political interference to get certain loans restructured, even though some companies may be suffering from poor financial records.

69 Evergreening of NPAs - An informal term used for obscuring the true status of loan accounts, which would eventually turn bad in the long run

Where are the Collaterals for the Loans Given?

In a layperson's understanding, whenever someone takes a loan from the bank, then bank asks for some 'security' known as collateral, which the bank may use to recover the loan if the borrower defaults. The higher the amount of the loan, the higher should be the value of the collateral pledged with the banks. For example, when an individual takes a loan, one may give the house or other immovable property, such as a piece of land as collateral. When companies take loans from the banks, it is normally assumed by people that these companies are required to pledge their 'immovable' fixed assets or some personal property of the owners / promoters of the company. While this collateral does not automatically reduce the risk for the bank of a borrower defaulting on the loan, it acts as a major safety net for the banks. The problem of bad loans gets worse when the banks compromise with this safety net and give loans to companies against 'virtual assets', like shares pledged by promoters, shares of subsidiary companies, brand names of the companies, etc., which may turn out to be of meager value when the company undergoes heavy losses and the shares of the company trade at a very low value. This became quite evident in the case of Kingfisher Airlines, where a loan of Rs 7,723 crores was given by a consortium of banks, against the collateral amount of Rs 5,329 crores, out of which the Kingfisher Airlines Brand was alone valued at Rs 4,111 crores. Banks are still having a hard time in recovering their money, along with dragging Vijay Mallya to courts to make him pay back the loans owned to the banks.

Table 17 - Details of the Collateral against the Kingfisher Airlines loans

Details	Amount
Loan Amount	Rs 7,723 Crores
Value of the Collateral	Rs 5,329 Crores
-- Out of which - Kingfisher Airlines Brand	Rs 4,111 Crores
-- Out of which - Promoters' Shares	Rs 342 Crores
-- Out of which - Mumbai real estate, Goa villa	Rs 118 Crores
-- Out of which - Two Helicopters	Rs 90 Crores

(Source: Of Rs 7,500 crore in default, collateral pledged by KFA may fetch only Rs 1,500 crore for banks – <http://articles.economictimes.indiatimes.com/2013-02-14/news/37100216_1_punjab-national-bank-lenders-bad-loans> - Last accessed July 20, 2016)

The Kingfisher story may not be an isolated case of handing out loans based on poor collaterals. **Banks usually are very secretive about their loan deals and people are not aware about what collaterals or guarantees are taken by the banks when extending loans worth thousands of crores to the companies.** When the companies default on their loans, it is the banks and the people who suffer and not necessarily the promoters of such companies.

The increasing trend of group companies / subsidiary companies acting as guarantors⁷⁰ for many of the loan deals also make the situation more precarious for the banks, when the guarantors do not comply with the banks in case of loan defaults.⁷¹ In a move to expand their businesses

70 Guarantor - A guarantor is a person who guarantees to pay for someone else's debt if he or she should default on a loan obligation. A guarantor acts as a co-signor of sorts, in that they pledge their own assets or services if a situation arises in which the original debtor cannot perform their obligations. (For more details, please refer: <<http://www.investopedia.com/terms/g/guarantor.asp>> - Last accessed July 20, 2016)

71 Non-group companies or individuals not related to the company taking loan can also act as guarantors

rapidly, many of the companies have relied on the medium of roping in corporate guarantors to avail loans from the banks. However, with the increasing instances of wilful defaults⁷², the role of guarantors needs to be spelled out more clearly in such circumstances. The RBI in its ‘Master Circular on Wilful Defaulters’⁷³ dated July 01, 2015 mentions:

While dealing with wilful default of a single borrowing company in a Group, the banks/FIs should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where guarantees furnished by the companies within the Group on behalf of the wilfully defaulting units are not honoured when invoked by the banks/FIs, such Group companies should also be reckoned as wilful defaulters.

In connection with the guarantors, in terms of Section 128 of the Indian Contract Act, 1872, the liability of the surety is co-extensive with that of the principal debtor unless it is otherwise provided by the contract. Therefore, when a default is made in making repayment by the principal debtor, the banker will be able to proceed against the guarantor / surety even without exhausting the remedies against the principal debtor. As such, where a banker has made a claim on the guarantor on account of the default made by the principal debtor, the liability of the guarantor is immediate. In case the said guarantor refuses to comply with the demand made by the creditor/banker, despite having sufficient means to make payment of the dues, such guarantor would also be treated as a wilful defaulter. This treatment of non-group corporate and individual guarantors was made applicable with effect from September 9, 2014 and not to cases where guarantees were taken prior to this date. Banks / FIs may ensure that this position is made known to all guarantors at the time of accepting guarantees.

Apart from the hassles of dealing with non-compliance of guarantors in the cases of loan defaults, the trend of pledging⁷⁴ of shares by the promoters of companies has been adding to the woes of the banks. Many of the listed companies in financial trouble have been pledging their

72 For more clarity as what qualifies as a ‘wilful default’, please refer Footnote 73

73 RBI Master Circular on Wilful Defaulters, dated July 01, 2015 - https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9907 - Last accessed July 20, 2016

74 A mechanism through which promoters of a company ‘pledge’ the shares they own in a company to the banks as collateral for obtaining a loan. Banks keep the “pledged shares” with them and if needed, they can invoke these shares and sell them in the market for recovering their money. In some instances while taking loans for a particular company, the promoters might pledge the shares of a different company in which they own shares

shares for taking more loans from the banks. This trend raises serious questions on the soundness of the rationale behind pledging, as share prices of companies can be highly volatile. When the pledged shares of a company perform poorly, then in case of recovery of loans, these shares would fetch very less money for the banks, along with jeopardizing the interests of the minority shareholders in the company.

Even the RBI has raised concerns about the issue of pledging of promoters' shares as a means of providing collateral for taking loans. The RBI in its Financial Stability Report⁷⁵ published in December 2014 mentions:

A majority of Indian companies are family owned / controlled, as substantial levels of promoter shareholding are concentrated within the family hold. The promoter shares can be significant collateral for a typical company if it wants to expand leverage. Pledging of shares is practiced in other advanced economies too, but it has taken a significantly different form in India. In the case of a typical Indian company, the promoters pledge shares not for funding 'outside' business ventures but for the company itself. By pledging shares, the promoters have no personal liability other than to the extent of their pledged shares. In some instances the shares pledged by unscrupulous promoters could go down in value and the promoters may not mind losing control of the company as there is a possibility of diversion of funds before the share prices collapse.

Similarly, *Livemint*, an online financial newspaper carried out a story⁷⁶ in July 2015, where it mentioned that promoters of 41 BSE listed firms had pledged all of their shares as collateral, along with 82 company promoters pledging 90% of their shares and promoter of 359 companies pledging more than half of their shares.

While Public Sector Banks might be blamed for not ensuring sufficient collaterals while extending the loans, the banks argue that they are following the guidelines laid out by the RBI. The RBI as a regulatory body has not specified that for collaterals taken against any specific loan deal,

75 RBI Financial Stability Report, Dec 2014 - <<https://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=809>> - Last accessed July 20, 2016

76 Promoters of 41 BSE firms have pledged 100% of their stake - *Livemint* - July 23, 2015 - <http://www.livemint.com/Companies/PeCNWg_H4hJ20oPye3iJfJN/Promoters-of-41-BSE-firms-have-pledged-100-of-their-stake.html> - Last accessed July 20, 2016

what percentage of collaterals should comprise fixed assets and what portion can be the virtual assets. **Moreover, whenever any corporate loan deals are above a certain amount, banks should disclose the data in the public domain explaining the grounds on which the loan has been sanctioned and what kind of collaterals banks have taken to ensure fair recovery of loans.**

In order to bring transparency in the loan sanctioning process, it should be mandatory for the banks to publicly disclose specific details about any sanctioned loan above a certain amount (say Rs 100 crores) to companies, such as:

- i. Details of the borrower**
- ii. Details of the lenders (applicable in case of consortium banking model)**
- iii. Details and type of the loan**
- iv. Amount of the loan approved**
- v. Grounds on which loans are approved**
- vi. Conditionalities attached to the loan**
- vii. Financial track record of the company applying for loan from the banks**
- viii. Collaterals taken by the banks for approving the loan**
- ix. Terms of repayment**

Banks should obligatorily disclose information of large debts that are restructured, as in the case of Corporate Debt Restructuring, lest such a mechanism should only result in evergreening bad loans rather than assist companies overcome a difficult phase.

Are Steps Taken by the RBI and the Government Enough?

With a flurry of news reports in the past few years on the issue of NPAs, both the Government and the RBI have taken cognizance of the matter and have been making rigorous efforts to deal with the situation. Some of the measures are being listed out here; though the steep rise in the NPA figures make their efficacies questionable.

a. Steps being taken by the RBI

Taking into account the steep rise of NPAs in the Indian Banking system, the RBI came out with a framework in January 2014, titled 'Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy'.⁷⁷ The framework stressed upon the need of the banking system to recognize financial distress at early stages and to take prompt steps towards resolving it, along with ensuring a fair recovery for lenders and investors. Early recognition entails highlighting the weakness at the very onset when the account shows signs of weakness before slipping towards becoming an NPA. In other words, recognition of stressed assets is correctional facility before it is too late for retrieval both in terms of rehabilitating the project and recovery of dues. It is at this stage that the banks are to be convinced if a turnaround is even possible after concluding through objective validation of risk assessments. The main proposals as mentioned in the framework are:

- i. Centralized reporting and dissemination of information on large credit.
- ii. Early formation of a lenders' committee with timelines to agree to a plan for resolution.
- iii. Incentives for lenders to agree collectively and quickly to a plan

⁷⁷ Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy - <<https://rbidocs.rbi.org.in/rdocs/content/pdfs/NPA300114RFF.pdf>> - Last accessed July 20, 2016

- better regulatory treatment of stressed assets if a resolution plan is under way, or accelerated provisioning if no agreement can be reached.
- iv. Improvement in current restructuring process: Independent evaluation of large value restructurings mandated, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors.
- v. More expensive future borrowing for borrowers who do not cooperate with lenders in resolution.
- vi. More liberal regulatory treatment of asset sales.

The role of the central bank in arresting the surge of NPAs stands questioned by many, the most notable of those being the Supreme Court of India and Parliamentary Standing Committee on Finance. The Supreme Court in December 2015 had held that the RBI should take rigid actions against those banks and financial institutions indulging in disreputable business practices and said that it cannot withhold information on defaulters and other issues covered under the RTI Act.⁷⁸ The Apex Court bench headed by the Chief Justice of India T. S. Thakur cracked the whip on bank NPAs and ordered the RBI to provide details of all defaulters with loans of Rs 500 crores or more in the past five years.⁷⁹ The Supreme Court acted sternly taking *suo moto* cognizance of *The Indian Express* report that Rs 1.14 Lakh Crore of bad loans were written off by state-owned banks between 2013 and 2015.⁸⁰ On March 30, 2016, the RBI, in a sealed envelope handed the list of defaulters, but urged the Supreme Court to keep the names under wraps and not disclose it publicly as that could have adverse impacts on business and accentuate failure of businesses. In the words of Raghuram Rajan, "The act of default happens

78 RBI cannot deny information sought under RTI, rules SC - *Livemint* - December 17, 2015 - <<http://www.livemint.com/Politics/TOGDORxIsIHEVKQ1S9mkLM/RBI-has-to-provide-information-sought-under-RTI-Supreme-Cou.html>> - Last accessed July 20, 2016

79 Apex court asks RBI to furnish list of defaulters - *Business Standard* - February 17, 2016 - <http://www.business-standard.com/article/finance/apex-court-asks-rbi-to-furnish-list-of-defaulters-116021600441_1.html> - Last accessed July 20, 2016

80 Rs 1.14 lakh crore of bad debts: The great government bank write-off - *The Indian Express* - February 09, 2016 - <<http://indianexpress.com/article/india/india-news-india/bad-loan-financial-year-rti-rbi-bank-loan-raghuram-rajn-bad-loan-financial-year-rti-rbi-bank-loan-raghuram-rajn-114000000000-bad-debts-the-great-govt-bank-write-off/>> - Last accessed July 20, 2016

in business. Sometimes it is not the business' fault; the demand is weak or the prices are low, there is dumping going on, or government permissions don't come on time... to then put the promoters' name up without the details of why the default happened will only lead to anxiety and a fall in business activity."⁸¹

But, the RBI Governor also clarified that he was not against the idea of making the list of wilful defaulters public. While to a layperson it might sound that any default on the loans by a person / entity is a wilful default, however, the RBI in its 'Master Circular on Wilful Defaulters'⁸², dated July 01, 2015, has clearly defined the events which qualify as a wilful default. The RBI Circular mentions:

A 'wilful default' would be deemed to have occurred if any of the following events is noted:

- i. The unit⁸³ has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.
- ii. The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- iii. The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
- iv. The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank / lender.

The circular further specifies, "The identification of the wilful default

81 Loan defaulters' list shouldn't be made public, Rajan explains why - *Daily News & Analysis* - April 05, 2016 - <<http://www.dnaindia.com/money/report-loan-defaulters-list-shouldn-t-be-made-public-rajan-explains-why-2198443>> - Last accessed July 20, 2016

82 Refer Footnote 73

83 Here the term 'unit' includes individuals, juristic persons and all other forms of business enterprises, whether incorporated or not

should be made keeping in view the track record of the borrowers and should not be decided on the basis of isolated transactions / incidents. The default to be categorized as wilful must be intentional, deliberate and calculated.”

b. Steps taken by the Government

- 1. Capital Infusion** – Capital Infusion is a governmental package created through budgetary allocations, with the intention of infusing capital into Public Sector Banks. This is constituted to help them recover outstanding debt. The regular capital infusion is seen as a measure to offset the problem of NPAs of the Public Sector Banks, along with aiding in maintaining their capital adequacy.⁸⁴ Between 2008-09 and 2014-15 the Government did a total capital infusion of roughly Rs 70,000 crores⁸⁵ in the Public Sector Banks. Further, the Government is planning to infuse Rs 70,000 crores more by 2019 to reinforce the capital base of the banks.⁸⁶ The need for capital infusion for such staggering amounts is seen by many as a ‘bail-out’ measure for the banks to offset the detrimental effects of NPAs to a large extent caused by mismanagement within the Public Sector Banks, while others are citing capital infusion as a necessary step to move towards adhering to the Basel III requirements⁸⁷ by 2019. In the Union Budget 2016-17, the Finance Minister Arun Jaitley announced the package for capital infusion at Rs. 25,000 crore. However, caveats are being raised that this would only exacerbate negative risks and would stall banks' revival as their credit growth would be limited by capital concerns. Though the amount infused is insufficient, the Government downplayed it stating that banks' efficiency was only likely with a meaningful action to restore capital adequacy levels across banks.

84 Capital Adequacy - Capital Adequacy refers to the statutory minimum amount of capital reserves, which a bank or a financial institution should have available with them

85 Source - Capital Infusion in Public Sector Banks by the Government - <<https://data.gov.in/catalog/capital-infusion-public-sector-banks-government>> - Last accessed July 20, 2016

86 Govt. to infuse Rs.70,000 crore in state-run banks over 4 years - *Livemint* - Aug 01, 2015- <<http://www.livemint.com/Politics/Z1vbaNRiiLdefJWJ3jnwCN/Govt-to-infuse-Rs70000-crore-in-staterun-banks-over-4-year.html>> - Last accessed July 20, 2016

87 Please refer Annexure I

2. Debt Recovery Tribunal (DRTs) – Debt Recovery Tribunals evolved as a mechanism to provide a legal alternative for the banks to recover their loans in a speedy manner. Earlier, banks needed to approach the civil courts, but the civil courts were constantly overburdened with other kind of recovery claims, thus causing years of delay for the banks in recovering loans. Debt Recovery Tribunals were established consequent to the passing of ‘Recovery of Debts Due to Banks and Financial Institutions Act’, 1993. DRTs deal with matters relating to recovery of NPAs of Rs 10 lakh and above and cover all debts owed to banks and financial institutions. After establishing DRTs, the jurisdiction of civil courts on debts over these cases ceased to exist. Appeals against orders passed by DRT could be challenged before Debts Recovery Appellate Tribunal (DRAT). Presently, there are 33 DRTs and 5 DRATs functioning all over the country. In December 2014, an announcement was made that Government has approved setting up of six new DRTs, however they are yet to become functional. In 2014-15, 1,71,113 cases were referred to DRTs⁸⁸, through which banks were able to recover Rs 53,100 crores for amount involving Rs 3,78,900 crores referred to DRTs.⁸⁹

Given below are the figures for the amount of NPAs recovered through DRTs from 2010-11 to 2014-15.

Table 18 - Amount of NPAs recovered through DRTs

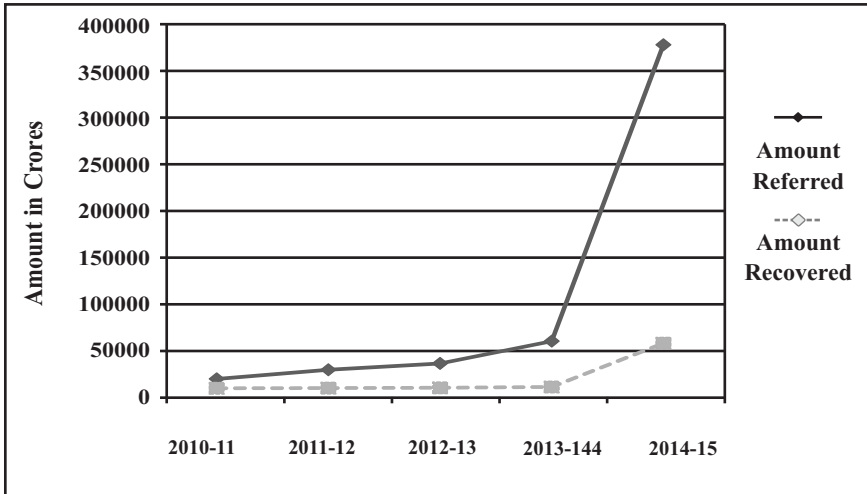
Sl. No.	Year	No. of Cases Referred	Amount Referred (Crores)	Amount Recovered* (Crores)	Recovery in Percentage
1.	2010-11	12,872	14,100	3,900	27.65%
2.	2011-12	13,365	24,100	4,100	17.01%
3.	2012-13	13,408	31,000	4,400	14.19%
4.	2013-14	28,258	55,300	5,300	9.58%
5.	2014-15	1,71,113	3,78,900	53,100	14.01%

*Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years.

88 Govt to set up 6 Debt Recovery Tribunals - *The Times of India* - December 10, 2014 - <<http://timesofindia.indiatimes.com/business/india-business/Govt-to-set-up-6-Debt-Recovery-Tribunals/articleshow/45461405.cms>> - Last accessed July 20, 2016

89 NPAs of Scheduled Commercial Banks Recovered through Various Channels - <<http://goo.gl/EXn0gk>> - Last accessed July 20, 2016

Fig.- Amount of NPAs Recovered Through DRTs



(Source: *Operation and Performance of Commercial Banks 2010-11* - <<https://www.rbi.org.in/scripts/PublicationsView.aspx?id=14629>> - Last accessed July 20, 2016; *Operation and Performance of Commercial Banks 2011-12* - <<https://www.rbi.org.in/scripts/PublicationsView.aspx?id=15440>> - Last accessed July 20, 2016; *NPAs of Scheduled Commercial Banks Recovered through Various Channels* - <<http://goo.gl/EXn0gk>> - Last accessed July 20, 2016)

DRTs, which were created to accelerate recovery of dues, have fallen into the trap of lengthy procedures akin to functioning of civil courts. In the words of Shaswat Sharma, Partner, KPMG, India, “The functioning of DRTs needs to improve to ensure banks are able to recover their existing loans and offer fresh advances at cheaper rates...In the current scheme of things there is no mechanism in place to ensure that the tribunal disposes the case in a timely manner. There is a strong case to bring in more accountability for the DRT.”⁹⁰

If dealing with the matter at hand with speed is the biggest challenge facing DRTs, then any number of additional DRTs and Appellate Tribunals should address this problem convincingly as was outlined by the Finance Minister during his Budget Speech 2016-17. The

⁹⁰ Debt recovery tribunals: More pain than gains for banks - *Business Standard* - December 17, 2014 - <http://www.business-standard.com/article/finance/debt-recovery-tribunals-more-pains-than-gains-for-banks-114121600139_1.html> - Last accessed July 20, 2016

underperformance is causing worry, even to the RBI. Raghuram Rajan, Governor, RBI mentioned his concerns in a monetary policy review meeting in December 2014 where he said, "If bankers cannot get their money back, they are not going to give out loans at cheap price. So, making sure DRTs work better, making sure that you don't have excess number of stays, excess number of appeals, is what needs to be focused on."⁹¹

- 3. SARFAESI Act, 2002** - The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 was introduced with an aim to provide a structured platform to the Banking sector for managing its mounting NPA stocks by allowing banks and Financial Institutions (FIs) to take possession of securities and sell them. The act envisaged the formation of Asset Reconstruction Companies (ARCs) / Securitization Companies (SCs). This act empowers Banks / Financial Institutions to recover their non-performing assets without the intervention of the Court. The Act has made provisions for:
- i. registration and regulation of securitization companies or reconstruction companies by the RBI;
 - ii. facilitating securitization⁹² of financial assets of banks
 - iii. empowering SCs/ARCs to raise funds by issuing security receipts to Qualified Institutional Buyers (QIBs)
 - iv. empowering banks and financial institutions to take possession of securities given for financial assistance and selling or leasing the same to take over management in the event of a default.

In 2014-15 12,41,086 cases were referred under SARFAESI Act, through which banks were able to recover Rs 1,15,200 crores for an amount involving Rs 4,70,500 crores referred under SARFAESI Act.⁹³ Given below are the figures for the amount of NPAs recovered through SARFAESI Act from 2010-11 to 2014-15.

91 Refer Footnote 90

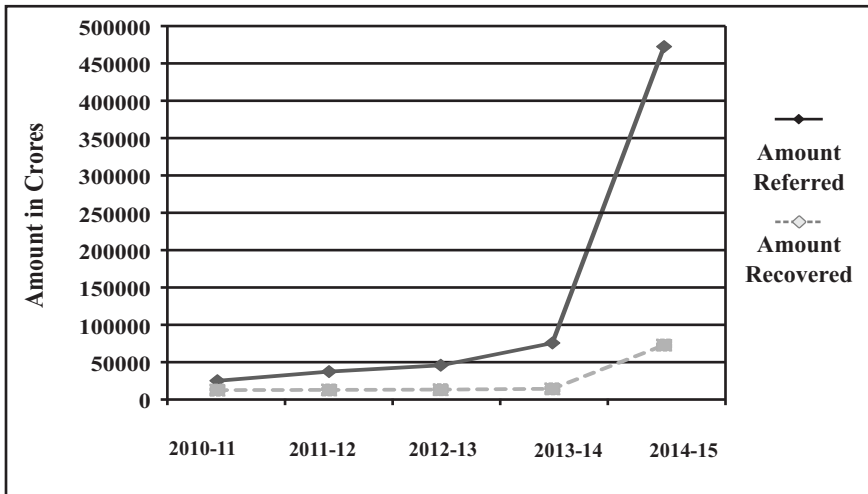
92 Securitization - Securitization is the process of conversion of existing assets or future cash flows into marketable securities. So, assets that are not marketable are converted into ones that are. Conversion of assets to make them secure are called asset-based securitization, whereas in the case of future cash flows, these are called future flows securitization.

93 Refer Footnote 89

Table 19 - Amount of NPAs recovered through SARFAESI Act

Sl. No.	Year	No. of Cases Referred	Amount Referred (Crores)	Amount Recovered* (Crores)	Recovery in Percentage
1.	2010-11	1,18,642#	30,600	11,600	37.90%
2.	2011-12	1,40,991#	35,300	10,100	28.61%
3.	2012-13	1,90,537	68,100	18,500	27.16%
4.	2013-14	1,94,707#	95,300	25,300	26.54%
5.	2014-15	12,41,086	4,70,500	1,15,200	24.48%

Fig.-Amount of NPAs recovered through SARFAESI Act



(Source: Operation and Performance of Commercial Banks 2010-11 - <<https://www.rbi.org.in/scripts/PublicationsView.aspx?id=14629>> - Last accessed July 20, 2016 ; Operation and Performance of Commercial Banks 2011-12 - <<https://www.rbi.org.in/scripts/PublicationsView.aspx?id=15440>> - Last accessed July 20, 2016 ; NPAs of Scheduled Commercial Banks Recovered through Various Channels - <<http://goo.gl/EXn0gk>> - Last accessed July 20, 2016)

*Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years
#No. of notices issued

As is suggestive of the name, Asset Reconstruction Companies are required to repackage assets to make them more saleable. But, in the context of bad loans, or non-performing assets, such companies often fall short of addressing the surging menace of NPAs. The Indian context is caused primarily by a systemic rot involving faulty practices of project finance and subsequent difficulties in recoveries on loans. ARCs are constituted to precisely address such hurdles. With their status as centralized agencies, these are programmed to buy stressed / distressed and non-performing assets and repackage them to sell to prospective promoters / buyers. ARCs are programmed to buy NPAs at a discounted price, which in turn helps the banks and lenders to clean up their sticky balance sheets. ARCs can either be public, private or jointly owned, and are also armed to float bonds to recover dues from borrowers. On paper the concept of ARCs looks robust and capable of increasing the saleability of a bad asset by combining it with a performing one. In reality, ARCs are prone to failures owing to a significant lack of buyers for their packages and are limited by capital concerns. But there are various challenges for ARCs such as piling of debts from the banks, which might become difficult to offload in a short term, along with the pursuit of constant financial support. Additionally, there is a discrepancy between banks and ARCs in pricing of assets, which can remain a contentious issue if a commonality is not achieved between the ARCs and the banks.

In the Union Budget 2016-17, Arun Jaitley announced a 100% FDI in ARCs to tackle bad debts in the banking industry. The efficacy of this announcement is yet to be recorded, but it nevertheless should act as an enabling provision for ARCs. It is to be noted that ARCs are struggling for funds as banks refuse to give steep discounts on stressed assets and the ARCs have to make an upfront payment of 15% of the cost of the asset. The Minister also announced that ARC Trusts issuing security receipts against the purchase of NPAs will have a complete pass through of income tax. The combination of these two measures should at least raise hopes of a fillip to the industry, but, these are still early days.

4. Bankruptcy Code: In an attempt to give more negotiating powers to the lenders and making it easier for the banks and financial institutions to liquidate assets of defaulting companies, the Government is mulling over a Bankruptcy code, modeled on similar laws in western countries. Recently, Finance Minister reiterated the commitment to introduce the Bill in the upcoming session of the Parliament. As with other mechanisms, the efficacy is still in hypothetical stage, but the Bill at least promises to accelerate the

winding-up process of defaulting companies and opening up a quicker exit route for lenders. The draft of the code draws on many parallels to the U.S. Bankruptcy Code, especially allowing companies to carry out businesses while simultaneously going through bankruptcy proceedings. It significantly differs from its United States counterpart on the front of management control, where, unlike in the U.S., the management control in India passes over to 'insolvency resolution processes'. But, the question remains as to how would this Bill address the issue of NPAs? The impact felt is likely to be in:

- i. The time frame of 180-days limit (an extension of a further 90 days in exceptional cases) would help lenders decide on the viability of the business, whereafter a liquidation process sets in.
- ii. Economic and financial viability of the debtor company would be discussed in negotiations with the creditors facilitated by "insolvency experts" rather than courts lending the process more credibility.
- iii. The Bill would have ample scope for early recognition of financial distress helping the process of easing out businesses under stress.

The success of the Bill would depend on how well it is implemented and whether setting up of an 'insolvency regulator' would have the requisite powers to realize its successful implementation. According to the RBI, 'an early clearance of the proposed insolvency and bankruptcy bill will play an important role in the face of mounting potential losses'.⁹⁴

In spite of various measures taken by the Government to tackle the issue of NPAs, the problem has been slipping out of hand year after year. This raises serious questions not only on the efficacy of the measures adopted by the banks to tackle the issue of NPAs, but also requires serious inquiry into whether banks should spend more efforts on the recovery of loans through Debt Recovery Tribunals and SARFAESI Act or whether there should be more regulatory oversight on the banks when they extend loans to corporate houses and risky projects.

94 Insolvency and Bankruptcy Bill: A good step to tackle bad assets - *The Financial Express* - January 15, 2016 - <<http://www.financialexpress.com/article/fecolumnist/insolvency-and-bankruptcy-bill-a-good-step-to-tackle-bad-assets/194222/>> - Last accessed July 20, 2016

Tackling the NPAs Menace: Challenges and The Way Forward

Do Banks Consider Environmental and Social Risks While Lending?

When banks lend huge sum of money for corporate loans / infrastructure projects, they take enormous risks in financing such projects. A study by The Research Collective, titled 'Down The Rabbit Hole'* in 2014 did a detailed analysis on how banks got saddled with massive amount of NPAs due to lending money to projects. Environmental and Social (E&S) risks associated inherently with these projects were overlooked, which rendered many of these projects unviable.

According to the study:

Large tracts of private, agricultural, community, forests, government and other lands are being diverted rapidly to private sector 'development' and infrastructure projects without proper assessment of its impact on communities, livelihoods, local economy and environment. Governments are facilitating this transfer of land to private sector projects under the guise of 'public purpose' without safeguarding the interest of the citizens. Given the lack of a central framework to comprehensively deal with assessment of impacts, acquisition of land, change of land use and resettlement and rehabilitation measures, project-impacted communities are forced to endure unreasonable arrangements.

Even in instances where the project proponents and parent companies are taken to task for destructive impacts of projects, no responsibility is placed on the lenders, whose money made the project possible. This weak link in regulating finance has led to a catch-22 situation. As long as financiers ensure unbridled flow of funds, project proponents feel no need or pressure to address environmental and social issues. And banks continue to finance projects regardless of the potential harm it can cause because they do not have any guidelines to direct them otherwise. However, regardless of the reasons a project cannot operationalize on schedule, the loans sanctioned to the project stand to be impaired.

** Down the Rabbit Hole – The Research Collective – February 2014
< <https://updatecollective.files.wordpress.com/2015/05/down-the-rabbit-hole.pdf> > - Last accessed July 20, 2016*

Over the last few months, if not years, the issue of Non-Performing Assets (NPAs) has caught the public imagination, thanks to the media frenzy surrounding it. Individuals and organizations who are deeply concerned about the steep rise of NPAs of Indian Banks often reach a dead-end due to high level of secrecy maintained by the banks around their data on NPAs. The Government, the RBI and the banks try to placate the citizens by stating that they are taking adequate steps to tackle the problem of NPAs, but the data on rising NPAs does not indicate that these steps are effective enough in curbing the surge of NPAs. Moreover, the rise in NPAs is not a standalone problem, but points largely towards the shortcomings in the lending processes of the Public Sector Banks. Without addressing the issues around the lending practices of banks, the efforts to keep NPAs in check will remain a pipe dream.

The bankers are supposed to be the custodians of the money deposited in the banks. How banks decide to give loans to its customers is usually considered a behind-the-scenes matter. Whether the banks advance this money for safer investments or high risk ventures, it essentially remains a prerogative of the banks. The ongoing crisis necessitates the need of a much tighter regulatory oversight and accountability to people when it comes to banks' lending. In an age when transparency and information sharing are considered as cornerstones of bringing higher level of public accountability, banks as public institutions cannot continue to hide the data on large scale lending from the public, which has direct bearings on the larger financial ecosystem.

Lending is inherently a risk-laden process, where some of the loans will turn out non-performing in the long run. However, to ensure that the banks suffer the least amount of losses due to various risk factors involved in lending, a thorough risk assessment (or due diligence) is needed while giving out loans. In response to people's curiosity about banks conducting risk assessment, only hollow assurances are given. The opaque decision-making process taking place in the boardrooms of the banks, distorted by political pressure and skewed by the incentives offered by corporate houses to fuel their growth makes the case stronger for demanding higher transparency, not just around the data on NPAs, but on the lending process itself.

Moreover, lending does not remain a one-off process for the banks, but over the course of time it requires a constant monitoring of the loans to ensure that the banks are able to get their returns. Monitoring would also help prioritize refinancing and restructuring within the ambit of responsible banking practices, but the process is also prone to getting

more complex for the banks under the consortium banking model, where a number of banks pool a large quantum of money together to provide loans. This stage of monitoring implies that transparency is inherited at this and subsequent stages. To improve the efficacy of restructuring or refinancing, such deals should come under the public scanner, as a lot of indiscriminate decision-making of the banks has been exposed in the past few years, where the companies with fairly poor balance sheets have been able to get their loans restructured, which in turn obfuscates the distressing situation of NPAs.

The media attention on NPAs often reaches a dead end due to the unavailability of an in-depth information on NPAs. Banks are highly wary of sharing the data on NPAs, often giving the pretext of protecting the secrecy of their customers. But then the question ensues as to what purpose such secrecy serves, especially for the larger public interest? If there are industrialists / promoters / companies taking huge loans from the banks and defaulting on the loans, then why should banks not release their names in the public domain? Why in such a situation the defaulters should get protection from the banks? Or are the banks trying to hide their own failures in terms of giving loans freely to risky companies and projects?

Banks can choose to cite the fiduciary⁹⁵ relationship with its customers as the reason for not disclosing mega-loans, but their continuing functionality in this manner is the larger question that needs to be addressed. A further question revolves around the purpose behind this veil of secrecy. The RBI Act, 1934, the Credit Information Companies (Regulation) Act, 2005, and the Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983 come into play to restrict any disclosure on data about its customers. However, there should be space for debates and discussions for assessing the need of amending certain legislations in order to serve the interests of the public.

Recently, even the Standing Committee on Finance in its report on NPAs echoed a need for amending the laws governing secrecy if required, along with mentioning the need for making public the names of wilful defaulters. The report mentioned in its Recommendations / Observations section that:

95 Fiduciary - Fiduciary is an individual in whom another has placed the utmost trust and confidence to manage and protect property or money. The duties of a fiduciary include loyalty and reasonable care of the assets within custody. All of the fiduciary's actions are performed for the advantage of the beneficiary

It has been reported that wilful defaulters owe Public Sector Banks a total of Rs. 64,335 Crore, which constitutes about 21% of the total NPAs. Therefore, as a measure of public accountability, the Committee recommend that each bank must focus on their respective top 30 stressed Accounts involving those categorized as "wilful defaulters" and make their names public. Such a step will act as a deterrent for other promoters against wilful defaults. It will also enable banks to withstand pressure and interference from various quarters in dealing with the promoters for recoveries or sanctioning further loans. On the other hand, promoters will also be cautious before applying for loans. The Committee, therefore, recommends that provisions of RBI Act or any other governing law or guidelines should be amended, if required, to facilitate such publishing of the names for each bank. The Committee are of the view that when companies, which have undergone restructuring process for their stressed loans, should be made public, there cannot be any justification for maintaining secrecy on this count.⁹⁶

The dire need for transparency in lending practices and NPAs of banks should also bring under its ambit the collateral and guarantees taken by the banks. As discussed previously, the loans are often backed by virtual assets as collateral is majorly fueling the speculative nature of lending, which grants a false sense of security to the banks as lenders. While on paper, it appears that the banks are securing the loans before lending, often the reality check comes when a loan is defaulted and banks are able to recover only a fraction of the loans. In such scenario, it emerges that the loans were backed by virtual assets like promoters' shares, shares of subsidiary companies, guarantees from group companies and directors, brand names, etc. If this kind of data is put out in public domain, then it would automatically expose the shaky foundations on which the lending spree in gargantuan proportions is taking place. The need for transparency is amplified in cases of massive write-offs done by the banks, which seemingly distort the true picture of the crisis.

The consequences of increase in NPAs are not just about reduced profitability for the banks, but this also erodes the capital base of the banks, which is detrimental to their health in the long run. The Government has intervened from time to time through capital infusion to offset the effect, though it also helps to reinvigorate the banks. But then the question ensues, where does the Government provide the resources for capital infusion? Such a provision comes from budgetary allocations, which could have been channelized for socially responsible governance.

96 Refer Footnote 3

While the onus primarily lies on the banks to take proper steps to address the problem of bad loans, the role of the RBI as the regulatory body for banks cannot be overlooked. The RBI, in its vested powers can make it mandatory for the banks to disclose more information about the sanctioned loans and NPAs in the public domain as recommended above. Moreover, the RBI should bring stricter norms for the quality of collateral taken by the banks, ensuring that only physical assets are pledged. The RBI should also devise mechanisms through which the current trend of supplanting the requirement of physical assets as collateral by pledging of promoters' shares and shares of subsidiary companies is checked. In the Standing Committee on Finance Report on NPAs, the committee came up with its Recommendations / Observations, where it mentions:

The Committee takes note of the various guidelines issued by RBI from time to time to ensure effective management of NPAs and to enable speedy and prompt recovery. However, the Committee is constrained to observe that the RBI does not seem to have quite succeeded, as a regulator, in so far as implementation and enforcement in letter and spirit of its own guidelines, on stressed loans is concerned. Mere issuing of guidelines by RBI does not seem to have yielded the desired results.

It further says, "As the Committee would not like the RBI to be a passive regulator, when major lapses occur in banks, it would be in the fitness of things if RBI exercises its regulatory powers vis-a-vis banks to take punitive action in cases of default and to enforce their guidelines."⁹⁷

While voluntary disclosures and proactive sharing of information will not be a panacea *per se* for tackling the menace of NPAs, this would still act as a major deterrent for the people within the banks. This would also prevent people outside the banking system from abusing the banks for their personal gains and jeopardizing the entire economy. Even reducing the NPAs cannot be the end goal for the banks, as it would be about treating the symptoms and not the inherent causes. Somewhere, the NPA problem is going malignant and unless a surgical treatment is administered, a band-aid therapy would remain at best futile, as echoed by Raghuram Rajan.

97 Refer Footnote 3

Recommendations

a) Re-visioning Transparency and Disclosures

Even though the media has been highlighting a lot of data revolving around NPAs accompanied with analysis around the data, it has come to notice during the study that there is a huge dearth of data that can be substantive in nature. This paucity highlights the glaring gaps in transparency, thereby making it inaccessible in the public domain. As far as disclosures are concerned, the main cause of NPAs and those responsible for it enjoy immunity under various clauses of the RBI Act and various banking regulations mentioned elsewhere in the document. To accomplish this, here are a set of recommendations⁹⁸:

1. In order to bring transparency in the loan sanctioning process, it should be made mandatory for the banks to publicly disclose specific details about any sanctioned loan above a certain amount (say Rs 100 crores⁹⁹) on a quarterly basis, such as:
 - i. Details of the borrower
 - ii. Details of the lenders (applicable in case of consortium banking model)
 - iii. Details and type of the loan
 - iv. Amount of the loan approved
 - v. Grounds on which loans are approved
 - vi. Conditionalities attached to the loan
 - vii. Financial track record of the borrower applying for loan from the banks
 - viii. Collaterals taken by the banks for approving the loan
 - ix. Terms of repayment
2. If a loan needs to be restructured due to the non-repayment of the principal or instalment, then the details for restructuring should be

98 These sets of recommendations are not exhaustive in nature

99 The proposed threshold for Rs 100 crores needs more deliberations, as what should be the benchmark figure, above which the banks should disclose details about their loans. For example, if the benchmark was Rs 1 crore, then the amount of information needed to be disclosed would be much higher. There needs to be a balance between the effective level of disclosures and the ensuing volume of information being generated

- publicly disclosed for loans above a certain amount (say Rs 100 crores) on a quarterly basis. The details should include the applicable fields mentioned in point 1, along with the following details specific to debt restructuring:
- i. Amount required to be restructured
 - ii. Grounds on which loans would be restructured
 - iii. Type of restructuring applicable for the loan, e.g. CDR, SDR, 5:25 Restructuring, restructuring at individual bank level, etc.
 - iv. Listing of factors which led to the need for restructuring (external or internal factors)
3. For accounts which turn into NPAs, all such accounts with NPAs above a certain amount (say Rs 100 crores) should be made public on a quarterly basis. The details should include the applicable fields mentioned in point 1, along with the following details specific to NPAs:
- i. Amount of the loan turned into NPAs
 - ii. Listing of probable factors which led to the account turn into NPA (external or internal factors)
 - iii. Were such accounts restructured before they turned into NPAs?
4. All banks should publish details of the sector-wise NPAs, i.e. which sector contributes to NPAs to what extent.

b) Re-envisioning ‘Public Accountability’

Hypocrisy occupies the space between language and action. This defines the need for accountability. It is very difficult to narrow down the concept of accountability, for it is generally considered to have a negative connotation in its reliance upon finding the perpetrator more than anything else. Accountability nevertheless is a political strategy and is invoked as a principal instrument of effectuating transparency. It is likely that the document has given the impression of being inclined towards transparency, which is overt compared to accountability, which runs covertly. When accountability is used in the sense of a political strategy, it emphasizes what needs to be done with transparency. Moreover, it also emphasizes how it needs to be done, which in itself is contextually set. To reiterate, the presence of accountability in the document calls for a concerted action and deliberation, either through a set of recommendations or by keeping the issues alive in public domain for making the political narrative adaptive to accommodating structural-institutional amendments, or both. Looking at the latter, no matter how

functionaries evolve, what needs to be necessitated is how functionalities evolve. In other words, institution bearers would come and go, but institutionalization is mandated for evolution. This is accountability as a political strategy.

Now looking at the former, accountability is accomplished through transparency and this is what the document purports to achieve. Through a set of recommendations mentioned below, it can be easily inferred that this understanding of accountability measures or mechanisms overlap with the one deliberated above:

1. As with the recent Parliamentary Standing Committee on Finance's scathing report on the rising NPAs, the issue should have rocked the Parliament, but it did not gather steam.¹⁰⁰ Even the Public Accounts Committee (PAC) which asked for the 'real' reasons underlying spiraling NPAs has been off the media radar in its follow up. Parliament as the highest representational office of the citizens is responsible for prudent governance and thus needs to have a more pro-active role in oversight of this NPA menace. This oversight should be legislative in nature to bring about effective interventions in the functioning of Public Sector Banks, either through overseeing lending mechanisms or through overseeing how these banks are responsible towards the citizens operationally.
2. The Public Sector Banks at present have no redressal mechanisms when it comes to answering citizens questioning these banks on NPAs. It is common understanding that hard-earned money gets transacted dubiously when loans turn bad. This jeopardizes savings and thus is mandated to be answered by the banks. To make these banks answerable to the people, a Grievance Redressal Authority should be installed in individual Public Sector Banks by necessary legislative means. This authority should also have a mandate to look into lending practices of the banks.
3. In the recent times, the RBI has tightened the norms, asking the banks to exhibit responsibility in identifying and recognizing stressed assets and sharing it in the public domain. This is positive but much road needs to be covered. This could be through the RBI playing the role of more active regulator than what it has delivered in the past. Actively regulating would mean delineating its regulatory role by

100 The only exception is the case of loan default of Kingfisher Airlines and Vijay Mallya escaping to UK

monitoring banks on a regular basis as regards its guidelines. This would enable the RBI to recognize any loopholes and plug it. This calls for a strong enforcement of its guidelines in both letter and spirit. But where a necessary caveat needs to be addressed is on the constitutive board of the RBI, which also houses industry experts and thus is liable to conflicting interest when decisions pertaining to its authority as a regulator are made. Does this mean recommending a structural-institutional amendment? While stepping up the role of the RBI as a regulator is foreseen as a desired outcome, the existing banking laws mandating the statutory powers given to the RBI could act as an impediment to its desired functioning. The requisite changes should also take into account the necessary constitutional amendments to achieve this objective.

4. It is not just the commercial banking establishments, which are getting impacted by NPAs, but also the Non-Banking Financial Companies (NBFC), such as LIC, which are not immune to this menace. Along with banks or consortium of banks, NBFCs have a huge quantum of investments turning bad. Unlike the commercial banks, NBFCs are not mandated to lend but invest. Such investments are shrouded in mystery for lack of any information in the public domain. Moreover, NBFCs also do not come under the purview of disclosure policies as far as their investments turning bad are concerned. As this happens to be a significant quantum of investment, one cannot do away with such lack of information making it imperative for a mechanism revealing their investments and accompanying trajectories. Government regulatory bodies covering different categories of NBFCs such as IRDA, SEBI, National Housing Bank, Ministry of Corporate Affairs, etc. should make it mandatory for the NBFCs to share more details about their investments and NPAs in public domain.
5. While the major thrust has been on the RBI to step up its role as a banking regulator to address the issue of NPAs, complementing this, Securities and Exchange Board of India (SEBI), a regulator of securities market in India can also play a major role in making the listed companies disclose details of their borrowing. SEBI should make it mandatory for the listed companies to disclose their sources of funding, including the details of amount borrowed from each Financial Institution in their Annual Reports. This would ensure that the onus of disclosures is not restricted to the lenders, but falls squarely on the borrowers.

Annexure I:

Basel III Requirements and NPAs

Basel Accords refer to a set of Banking Accords (recommendations on Banking regulations), i.e. Basel I, Basel II and Basel III, issued by Basel Committee on Banking Supervision (BCBS)¹⁰¹, which provides recommendations on banking regulations in regards to capital risk, market risk and operational risk. BCBS maintains its secretariat at Bank of International Settlements (BIS) located in Basel, Switzerland and hence the name given to the Accords.

The first Basel Accord, known as Basel I, was issued in 1988 and focused on the capital adequacy of the financial institutions. The second Basel Accord, known as Basel II, was issued in 2004 which used a three-pillar concept based on i) minimum capital requirements ii) supervisory review process and iii) market discipline. The RBI had implemented the Basel II Norms in March 2009. The global financial crisis of 2007-08 led to the early formulation of Basel III Accord, which was released in December 2010. The Basel III follows the similar three-pillar approach to Basel II norms. BCBS describes about Basel III on its website¹⁰²:

‘Basel III’ is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- i. improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- ii. improve risk management and governance
- iii. strengthen the transparency and disclosures of banks.

The reforms target:

- i. bank-level, or microprudential, regulation, which will help

101 Basel Committee on Banking Supervision (BCBS) was established in 1974 by the Central Bank governors of the Group of Ten countries, which seeks to improve the supervisory guidelines imposed by central banks and similar authorities on wholesale and retail banks, along with making policy guidelines for both member and non-member countries

102 Source-International regulatory framework for banks (Basel III) <<http://www.bis.org/bcbs/base13.htm?m=3%7C14%7C572>> - Last accessed July 20, 2016

raise the resilience of individual banking institutions to periods of stress.

- ii. macroprudential, system wide risks that can build up across the banking sector as well as the procyclical amplification of these risks over time.

These two approaches to supervision are complementary as greater resilience at the individual bank level reduces the risk of system wide shocks.

The implementation of Basel III was intended to begin in 2013, but most jurisdictions began implementation in 2014. The timeline for implementation of various aspects of Basel III has been allowed till January 2019 by BCBS. The RBI has extended the deadline for implementation of Basel III Capital Regulations for Indian Banks from March 31, 2018 to March 31, 2019, citing the reason that some of the banks may need more time to raise capital to meet the Basel III norms.¹⁰³

Pertaining to NPAs, the Pillar 3 Disclosure Requirements mandated by the RBI in accordance to the Basel III norms makes it compulsory for the banks to share more data about their NPAs, which they had been earlier reluctant to do so. BCBS in its Pillar 3 Disclosure Requirements mentions:

Market discipline has long been recognised as a key objective of BCBS. The provision of meaningful information about common key risk metrics to market participants is a fundamental tenet of a sound banking system. It reduces information asymmetry and helps promote comparability of banks' risk profiles within and across jurisdictions. Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

The following details are supposed to be furnished by the Indian Banks, as mentioned in the RBI Master Circular on '**Basel III Capital Regulations**', dated July 01, 2015.¹⁰⁴

103 RBI extends deadline to implement Basel III norms to 2019 – *The Hindu Business Line* – March 27, 2014 - <<http://www.thehindubusinessline.com/economy/policy/rbi-extends-deadline-to-implement-basel-iii-norms-to-2019/article5840399.ece>> - Last accessed July 20, 2016

104 RBI Master Circular on 'Basel III Capital Regulations' - July 01, 2015 - <https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9859> - Last accessed July 20, 2016

Credit Risk: General Disclosures for All Banks

Qualitative Disclosures

- (a) The general qualitative disclosure requirement with respect to credit risk, including:
 - Definitions of past due and impaired (for accounting purposes);
 - Discussion of the bank's credit risk management policy;

Quantitative Disclosures

- (b) Total gross credit risk exposures, Fund based and Non-fund based separately.
- (c) Geographic distribution of exposures, Fund based and Non-fund based separately
 - Overseas
 - Domestic
- (d) Industry type distribution of exposures, fund based and non-fund based separately
- (e) Residual contractual maturity breakdown of assets
- (f) Amount of NPAs (Gross)
 - Substandard
 - Doubtful 1
 - Doubtful 2
 - Doubtful 3
 - Loss
- (g) Net NPAs
- (h) NPA Ratios
 - Gross NPAs to gross advances
 - Net NPAs to net advances
- (i) Movement of NPAs (Gross)
 - Opening balance
 - Additions

- Reductions
 - Closing balance
- (j) Movement of provisions (Separate disclosure shall be made for specific provisions and general provisions held by the bank with a description of each type of provisions held)
- Opening balance
 - Provisions made during the period
 - Write-off

Write-back of excess provisions

- Any other adjustments, including transfers between provisions
- Closing balance

In addition, write-offs and recoveries that have been booked directly to the income statement should be disclosed separately.

- (k) Amount of Non-Performing Investments
- (l) Amount of provisions held for non-performing investments
- (m) Movement of provisions for depreciation on investments
- Opening balance
 - Provisions made during the period
 - Write-off
 - Write-back of excess provisions
 - Closing balance
- (n) By major industry or counterparty type:
- Amount of NPAs and if available, past due loans, provided separately;
 - Specific and general provisions; and
 - Specific provisions and write-offs during the current period.

In addition, banks are encouraged also to provide an analysis of the ageing of past-due loans.

- (o) Amount of NPAs and, if available, past due loans provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general provisions related to each geographical area. The portion of general provisions that is not allocated to a geographical area should be disclosed separately.

Notes

A series of horizontal dotted lines for writing notes.



PFPAC

Unfolding Crisis

The Case of Rising NPAs and
Sinking Public Accountability

Public Finance Public Accountability Collective (PFPAC) is an initiative of a dozen organizations and individuals from different parts of the country, who have felt the need to analyze the financial ecosystems for grassroots peoples' movements, activists and NGOs. Be it the ubiquitous finance capital, or development finance, the world is increasingly falling prey to financialization of capital, which wields extreme economic powers to influence political processes. PFPAC calls for a constant upgrading of capacities in contouring this juggernaut by understanding and disseminating the various formulations in the larger scheme of political economy or fiscal governance.

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