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RECOVERY OF NPAS IN INDIAN COMMERCIAL BANKS

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ABSTRACT

The problem of non-performing assets has shaken the entire Indian banking sector. The main reason of high percentage of NPA's is the target-oriented approach, which deteriorates the qualitative aspect of lending. NPA's put detrimental impact on the profitability, capital adequacy ratio and credibility of banks. The paper highlights the most significant factors contributing towards the problem of nonperforming assets from the point of view of top bankers from public sector banks in India, some foreign banks and themeasures required for management of NPA's like reformulation of banks' credit appraisal techniques, establishment of monitoring department.

The best indicator for the health of the banking industry in a country is its level of Non-performing assets(NPAs). High NPAs are one of the major concerns for banks in India. It reflects the performance of banks. Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPAs. To improve the efficiency and profitability of banks, NPAs should be reduced and controlled. This paper deals with recovery of NPAs from various Channels, major causes and effects of NPAs on Indian banks.

Keywords: *Banking System in India, Commercial Banks, NPAs, Recovery,*

INTRODUCTION

The problem of non-performing assets has shaken the entire Indian banking sector. The main reason of high percentage of NPA's is the target-oriented approach, which deteriorates the qualitative aspect of lending. The other reasons are willful defaults, ineffective supervision of loan accounts and lack of technical and managerial expertise on the part of borrowers. NPA's put detrimental impact on the profitability, capital adequacy ratio and credibility of banks. The paper highlights the most significant factors contributing towards the problem of nonperforming assets from the point of view of top bankers from public sector banks in India, some foreign banks and the measures required for management of NPA's like reformulation of banks' credit appraisal techniques, establishment of monitoring department.

As the build-up of NPAs has been a major factor in the erosion of profitability of public sector banks in India, the Narasimham Committee (II) underscored the need to reduce the average level of NPAs of all banks from 15 to 3 percent by 2002. The definition of weak banks given by this committee has internalized the concept of NPAs. The Working Group on Restructuring Weak Public Sector Banks supplemented the above definition by a combination of seven parameters covering solvency, earning capacity and profitability.

An asset is classified as non-performing asset (NPA's) if the borrower does not pay dues in the form of principal and interest for a period of 180 days. However with effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days. If any advances or credit facility granted by bank to a borrower becomes non- performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status.

LITERATURE REVIEW

Non Performing Assets engender negative impact on banking stability and growth. Issue of NPA and its impact on erosion of profit and quality of asset was not seriously considered in Indian banking prior to 1991. There are many reasons cited for the alarming level of NPA in Indian banking sector. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. The accounting treatment also failed to project the problem of NPA, as interest on loan accounts were accounted on accrual basis.

The accumulated and enormous level of NPA in post-liberalization period forced policy makers to reform banking sector. A Committee on Banking Sector Reforms known as Narasimham Committee was set up by RBI to study the problems faced by Indian banking sector and to suggest measures revitalize the sector. The committee identified NPA as a major threat and recommended prudential measures for income recognition, asset classification and provisioning requirements. These measures embarked on transformation of the Indian banking sector into a viable, competitive and vibrant sector. The committee recommended measures to improve "operational flexibility" and "functional autonomy" so as to enhance "efficiency, productivity and profitability" (Chaudhary and Singh, 2012).

NPA may be classified into Gross NPA and Net NPA. Gross NPA is the total of substandard advances, doubtful assets and loss assets. Net NPA is calculated by deducting the total of; (1) balance in interest suspense account, (2) DICGC/ECGC claims received and held for pending adjustment, (3) part payment received and kept in suspense account, and (4) total provisions held from the Gross NPA. Literature focused on post-liberalization period mainly focused on trends in movement of NPA, its major reasons, impact and effectiveness of various NPA management measures. Most of these studies utilized NPA ratios to derive conclusions on NPA in post-liberalization period.

Siraj. K.K and Prof. (Dr). P. Sudarsanan Pillai, in their study, A Study on the Performance of Non-Performing Assets (NPAs) of Indian Banking during Post Millennium Period, found that NPA still remains a major concern for banks in India. Even though the NPA indicators showed recovery of NPA during the first half of last decade, it remained challenging in the second half of the period. The recessionary pressures faced by the banking sector is an important reason for the growth of NPA indicators, it should be managed to maintain a healthy and viable banking environment. The increased level of additions to NPA remained as an area of concern as it indicates the real efficiency of credit risk management.

OBJECTIVE OF THE STUDY

Main objective of the study is to analysis the recovery performance of Indian banks through various recovery channels.

To analysis the causes of high NPAs in banks.

To analysis the effects of high NPAs on banking sector.

RESEARCH METHODOLOGY

Present study is based on secondary data. Data has been collected from various publication of RBI. To analysis the data we used mean value and percentage methods.

Causes and Consequences of NPA's in Banks

One of the reasons for the accumulation of large portfolio of NPAs with banks is:

Often lending is not linked to productive investment and the recovery of credit is not linked to product scale. The borrowers are mainly farmers and small scale industries owner whose financial condition are generally weak. The volume of bank credit tacked in sick industries is the evidence of this malady. Sometimes it is found that advice given by BIFR and directions given by the courts to banks that they should provide loans to sick industries. This type of practice is aggravating NPAs situation. Another, faulty lending policy and making compulsion lending to priority sector by banks. There are many other causes which are also responsible for accumulation of NPAs. Many of these causes are related to faulty credit management like

defective credit in recovery mechanism, lack of professionalism in the work force, time lag between sanctions and disbursement of loan, unscientific repayment schedule, mis-utilision of loans by user, untimely communication to the borrowers regarding their due date, lack of sponge legal mechanism, political at local levels and waive-off policy of loan by government (1991 & (2008) etc have also been contributing to mounting NPAs in SCBs in India. If the level of NPAs is not controlled timely they will:-

- Reduce the earning capacity of assets and badly affect the ROA.
- Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
- Cost of Capital will increase due to high NPAs and require economic value added. (EVA=Net Operation Profit After Tax-Cost of Capital)
- NPAs causes to decrease the value of share sometimes even below their book value in the capital market.
- Affect the market competitiveness
- Cause reduction in availability of funds for further credit expansion due to the unproductiveness of the existing portfolio.
- NPAs affect the risk facing ability of banks.
- On the whole it effect the credibly of the banks and banks will be in difficult position in raising fresh capital from the market for future financial needs.

Occurrence of NPA

Present level of NPAs was considered as a very big problem for the banks and needs immediate steps to be taken to check it. As far as causes of NPAs are concerned, it may be different in case of priority sector and non-priority sector. The factors responsible for NPAs may be classified into two broad categories internal as well as external.

- **Priority sector advances**: Willful default induced by officially announced loan waiver scheme vitiates the payment culture. People feel that loans given to them will be waived off with the passage of time by one political party or the other. Genuine viability problem of borrowing unit and willful default caused by other factors are graded as next in importance. Weak monitoring and absence of effective supervision of loan accounts on their part also leads to this problem. Lack of technical and managerial expertise on the part of borrowers is the next important factor. Moreover, wrong identification of beneficiary and weakness in credit appraisal systems are the other important reasons of this problem. Banks do not have much discretion in granting of loans to priority sector because targets are fixed under directed priority sector lending irrespective of recovery potential. Other factors like non- availability of reliable data related to market and industry and delay in disbursement of credit.

- **Intravenous causes in non- priority sector advances**: Due to lack of networking banks do not have any information sharing system by which they can know the information regarding borrowers, his credit worthiness and past record. Credit appraisal system of the banks is also weak which leads to improper assessment of returns from the activities being financed, repaying capacities and risk bearing ability of the borrower and resultantly the NPAs. Slow disposal of recovery cases is major factor contributing towards accumulation of NPAs in non-priority sector advances. Once NPAs occurs, recovery through legal measures is a very lengthy and tedious process. There are some other external factor such as inadequate infrastructural facilities like supply of power and other essential inputs, and withdrawal of policies like product reservation and price preference etc., which make the units unviable in this competitive environment.

Issues and Challenges for Banking Industry:

The Indian banking system witnessed a series of reforms over the past few years like the deregulation of interest rates, dilution of the government stake in public sector banks and the increased participation of private sector banks but Indian banks (both public and private) have not able to tap the domestic market also to compete in the global market place. New foreign banks are very enthusiastic to gain in the Indian market. There are several challenges that Indian banks will have to face as they look to compete in a globalize environment. They are:

- Risk Management & Basel II
- Consolidation
- Overseas Expansion
- Technology
- Government Reforms
- Non Performing Assets (NPAs)
- Skilled Manpower
- Consumer Protection

IMPACT OF NON-PERFORMING ASSETS:

There are some indicators on which basis we can analyze the impact of NPAs on the performance of banks.

- **Profitability:** NPAs put detrimental impact on the profitability, as interest on NPAs cannot be included in the income of banks. Moreover, it puts an end to recycling of funds mobilized with great difficulty, hence reduces the ability of banks for lending more and thus results in lesser interest income. The profitability of bank will increase if standard assets are increasing. These assets have increased from 88.55 percent to 90.74 percent during the study period. More ever total NPAs have declined from 11.44% in 2001to 2.3% in 2008.

- **Employment Generation:** Since NPA's are reducing than banks will able to provide more and more loan to borrowers for set up their business which will turn improves employment opportunities for unemployed.

- **Living Standard of People:** When people are getting more & more employment their purchasing power will improve. Due to this their standard of living will improve. They will able to meet their basic requirements on both ends. Population below poverty line came down from 49.5% in 1951 to 26% in 2008 which implies the growth of Indian economy.

- **Income Level**: The productivity of individual funds and manpower will utilize. The advances given by bank to borrower will also utilize properly. Banks will get their advances back on time. Due to this banks will also able to provide extra benefit and bonus to their employees, high dividend to their share holders which will increase their income level.

- **Capital Adequacy Level**: It may be pointed out with higher amount of NPAs in the total of risk weighted loan assets. The loss would continue to be a part of risk weighted assets whereas these assets are not earning any income. As per Basel committee norms, capital should be eight percent of risk- weighted assets. Thus distribution base is increasing whereas profitability is falling due to higher level of NPAs. Credibility of banking system is also affected greatly due to higher level NPAs because it shakes the confidence of general public in the soundness of the banking system. NPAs not only affect the performance of the banks but also affect the economy as a whole.

Some other impacts of NPA's are like as:

- Owners do not receive a market return on their capital. In the worst case, if the bank fails, owners lose their assets. In Modern times, this may affect a broad pool of share holder.

- Depositors do not receive a market on savings in the worst case if the bank fails, depositors lose their assets or uninsured balance. Banks also redistribute losses to other borrowers bycharging higher interest rates. Lower deposits rate and higher lending rate repress saving and repress saving and financial markets, which hampers economic growth.

- Non-performing loan epitomize bad investment. They misallocate credit from good projects. Which do not receive funding to failed projects? Bad-investment ends up in misallocation of capital and by extension, labour and natural resources. The economy is performing below its production potential.

- Non-performing loans may spill over the banking system and contract the money stock, which may lead to economic contraction. These spills over effect can channels through illiquidity or bank insolvency.

- When many borrowers fail to pay interest, banks may experience liquidity shortage. Theseshortages can jam payment across the country.

- Illiquidity constraints bank in paying depositors e.g. cash their pay checks. Banking panicfollows a run bank by depositors.

- The NPAs have destructive impact on the return on assets.

- The interest income of banks reduced it is to be accounted only on receipt basis.
- The current profits of the banks are eroded because the providing of doubtful debts and writing it off as bad debts and it limits the recycling funds.
- The capital adequacy ratio is disturbed and cost of capital will go up.
- The economic value addition (EVA) by banks gets upset because EVA is equal to the netoperating profit minus cost of capital.

Recovery Channels:

Some measures are designed to maximize the NPAs recoveries in Indian banking. The Central government and RBI have taken steps for controlling incidence of fresh NPAs and creating legal and regulatory environment to facilitate the recovery of existing NPAs of banks. They are:

1. One Time Settlement Schemes

This scheme covers all sectors sub – standard assets, doubtful or loss assets as on 31st March 2000. All cases on which the banks have initiated action under the SRFAESI Act and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR are covered. However cases of willful default, fraud and malfeasance are not covered. As per the OTS scheme, for NPAs up to Rs. 10crores, the minimum amount that should be recovered should be 100% of the outstanding balance in the account.

2. Lok Adalats

Lok Adalat institutions help banks to settle disputes involving account in “doubtful” and “loss” category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. Debt recovery tribunals have been empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. This mechanism has proved to be quite effective for speedy justice and recovery of small loans. The progress through this channel is expected to pick up in the coming years.

3. Debt Recovery Tribunals (DRTs)

The Debt Recovery Tribunals have been established by the Government of India under an Act of Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. The Debt Recovery Tribunal is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act. The recovery of debts due to banks and financial institution passed in March 2000 has helped in strengthening the function of DRTs. Provision for placement of more than one recovery officer, power to attach defendant’s property/assets before judgment, penal provision for disobedience of tribunal’s order or for breach of any terms of order and appointment of receiver with power of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in the times to come. DRTs which have been set up by the Government to facilitate speedy recovery by banks/DFIs, have not been able make much impact on loan recovery due to variety of reasons like inadequate number, lack of infrastructure, under staffing and frequent adjournment of cases. It is essential that DRT mechanism is strengthened and vested with a proper enforcement mechanism to enforce their orders. Non observation of any order passed by the tribunal should amount to contempt of court, the DRT should have right to initiate contempt proceedings. The DRT should empowered to sell asset of the debtor companies and forward the proceed to the winding – up court for distribution among the lenders.

4. Securitization and SARFAESI Act

Securitization is a relatively new concept that is taking roots in India of late. It is still in its infancy with only a few market players. Securitization is considered an effective tool for improvement of capital adequacy. It is also seen as a tool for transferring the reinvestment risk, apart from credit risk helping the banks to maintain proper match between assets and liabilities. Securitization can also help in reducing the risk arising out of credit exposure norms and the imbalances of credit exposure, which can help in the maintenance of healthy assets. The SARFAESI Act intends to promote Securitization, pool together NPAs of banks to realize them and make enforcement of Security Interest Transfer. The SARFAESI Act-2002 is seen as a booster, initially, for banks in tackling the menace of NPAs without having to approach the courts. With certain loopholes still remaining in the act, the experiences of banks were that the Act in its present form would not serve the envisaged objective of optimum recovery of NPAs, particularly with the hard-core NPA borrowers dragging the banks into endless litigation to delay the recovery process. The Supreme Court decision in regard to certain proviso of the SARFAESI Act also vindicated this view. This section deals with the features of Securitization and its resourcefulness in tackling NPAS and about the SARFAESI Act, its resourcefulness and limitations in tackling the NPA borrowers and the implication of the recent Supreme Court judgment. With the steady sophistication of the Indian Financial Services Sector, the structured finance market is also growing significantly, of which Securitization occupies a prominent place. With Basel II norms imminently being implemented by 2008, banks are required to pool up huge capital to offset the credit risk and operational risk components. Securitization, therefore, is seen to be an effective and vibrant tool for capital formation for banks in future.

5. Asset Reconstruction Company (ARC)

This empowerment encouraged the three major players in Indian banking system, namely, State Bank of India (SBI), ICICI Bank Limited (ICICI) and IDBI Bank Limited (IDBI) to come together to set-up the first ARC. Arcil was incorporated as a public limited company on February 11, 2002 and obtained its certificate of commencement of business on May 7, 2003. In pursuance of Section

3 of the Securitization Act 2002, it holds a certificate of registration dated August 29, 2003, issued by the Reserve Bank of India (RBI) and operates under powers conferred under the Securitization Act, 2002. Arcil is also a "financial institution" within the meaning of Section 2 (h) (ia) of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 (the "DRT Act"). Arcil is the first ARC in the country to commence business of resolution of non-performing assets (NPAs) upon acquisition from Indian banks and financial institutions. As the first ARC, Arcil has played a pioneering role in setting standards for the industry in India.

A. Unlocking capital for the banking system and the economy the primary objective of Arcil is to expedite recovery of the amounts locked in NPAs of lenders and thereby recycling capital. Arcil thus, provides relief to the banking system by managing NPAs and help them concentrate on core banking activities thereby enhancing shareholders value.

B. Creating a vibrant market for distressed debt assets / securities in India offering a trading platform for Lenders Arcil has made successful efforts in funneling investment from both from domestic and international players for funding these acquisitions of distressed assets, followed by showcasing them to prospective buyers. This has initiated creation of a secondary market of distressed assets in the country besides hastening their resolution. The efforts of Arcil would lead the country's distressed debt market to international standards.

C. To evolve and create significant capacity in the system for quicker resolution of NPAs by deploying the assets optimally With a view to achieving high delivery capabilities for resolution, Arcil has put in place a structure aimed at outsourcing the various sub-functions of resolution to specialized agencies, wherever applicable under the provision of the Securitization Act, 2002. Arcil has also encourage, groomed and developed many such agencies to enhance its capacity in line with the growth of its activity.

6. Corporate Debt Restructuring (CDR)

Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring of the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporate that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme. CDR system in the country will have a three- tier structure:

A. CDR Standing Forum

B. CDR Empowered Group

C. CDR Cell

A. CDR Standing Forum:

The CDR Standing Forum would be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions and banks should participate in the system in their own interest. CDR Standing Forum will be a self-empowered body, which will lay down policies and guidelines, guide and monitor the progress of corporate debt restructuring.

B. CDR Empowered Group:

The CDR Empowered Group would be mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and prove the restructuring package within a specified time frame of 90 days, or at best 180 days of reference to the Empowered Group.

C. CDR Cell

The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers / lenders, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible, if so, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of lenders and if necessary, experts to be engaged from outside. If not found prima facie feasible, the lenders may start action for recovery of their dues.

7. The Mechanism of the CDR

CDR will be a Non-statutory mechanism. CDR mechanism will be a voluntary system based on debtor-creditor agreement and inter-creditor agreement. The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will cover only multiple banking accounts/ syndication / consortium accounts with outstanding exposure of Rs.20 crore and above by banks and institutions. The CDR system will be applicable only to standard and sub-standard accounts. However, as an interim measure, permission for corporate debt restructuring will be made available by RBI on the basis of specific recommendation of CDR "Core-Group", if a minimum of 75 per cent (by value) of the lenders constituting banks and FIs consent for CDR, irrespective of differences in asset classification status in banks/ financial institutions. There would be no requirement of the account / company being sick NPA or being in default for a specified period before reference to the CDR Group.

This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent. In no case, the requests of any corporate indulging in willful default or misfeasance will be considered for restructuring under CDR.

8. Circulation of Information of Defaulters

The RBI has put in place a system for periodical circulation of details of willful defaulters of banks and financial institutions. The RBI also publishes a list of borrowers (with outstanding aggregate rupees one crore and above) against whom banks and financial institutions in recovery of funds have filed suits as on 31st March every year. It will serve as a caution list while considering a request for new or additional credit limits from defaulting borrowing units and also from the directors, proprietors and partners of these entities.

9. Recovery Action against Large NPAs

Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the Debt Recovery Tribunals (DRTs) have been the most effective in terms of amount recovered. The amount recovered as percentage of amount involved was the highest under the DRTs, followed by SARFAESI Act. The RBI has directed the PSBs to examine all cases of willful default of Rs. One crore and above and file criminal cases against willful defaulters. The board of directors are requested to review NPAs accounts of one crore and above with special reference to fix staff accountability in individually. The gross NPAs of the banks is gradually declined from Rs. 70861 crores in 2001 - 02 to Rs. 50552 crores in 2006 – 07, later the gross NPA are increased, it reached to Rs. 84747 crores in the year 2009-10. On the other hand the recovery percentage of NPA s increased, 17%by DRTs and 14.7% by SARFAESI Act from the year 2003-04 to 81% by DRTs and 33% by SARFAESI Act in 2008-09. Following the gross NPAs the recovery percentage decreased to 32% by DRTs and 30% by SARFAESI Act in the year 2009-10. The increase in level of NPAs and diminishing percentage of recoveries are due to Indian banks having largely followed a lagged cyclical pattern with regardto credit growth. This underlined the pro-cyclical behaviour of the banking system, wherein assetquality can get compromised during periods of high credit growth and this can result in the creation of nonperforming assets for banks in the later years.

10. Credit Information Bureau

The institutionalization of information sharing arrangement is now possible through the newly formed Credit Information Bureau of India Limited (CIBIL). It was set up in January 2001, by SBI, HDFC, and two foreign technology partners. This will prevent those who take advantage of lack of system of information sharing amongst leading institutions to borrow large amount against same assets and property, which has in no measures contributed to the incremental of NPAs of banks.

Table -1 No. of Cases for Recovery through various channels

Year	Lok Adalats	DRTs	Sarfaesi Act	One time Settlement	Total
2003-04	186100	7544	2661	139562	335867
2004-05	185395	4744	39288	132781	362208
2005-06	181547	3524	38969	10262	234302
2006-07	160368	4028	60178	-	224574
2007-08	186535	3728	83942	-	274205
2008-09	548308	2004	61760	-	612072
2009-10	778833	6019	78366	-	863218
2010-11	616018	12872	118642	-	747532
Mean	355388	5557.88	60475.88	35325.63	456747.25

Source: Report on Trend and Progress in India 2000-2011.

Table No. 1 Shows the mean value of no. of cases of all channels me for recovery of NPAs. This table shows that mean value of total cases recovery from all channels is 456747.25 during the period 2003-04 to 2010-11. Mean value of the cases of Lok-Adalats, DRTs, Sarfaesi Act and One time Settlement is 355388, 5557.88, 60475.88 and 35325.63 respectively in the above said time period. It shows the achievement of various recovery channels. But it is not good for the health for public sector banks. It is not a good indicator for the growth of all banks groups in India.

Table-2 Amount Involved in Recovery of NPAs through various channels by Scheduled Commercial Banks (Rs. in Crore)

Year	Lok Adalats	DRTs	Sarfaesi Act	One time Settlement	Total
2003-04	1063	12305	7847	1510	22725
2004-05	801	14317	13224	1332	29674
2005-06	1101	6123	9831	772	17827
2006-07	758	9156	9058	-	18972
2007-08	2142	5819	7263	-	15224
2008-09	4023	4130	12067	-	20220
2009-10	7235	9797	14249	-	31281
2010-11	5254	14092	30604	-	49950
Mean	2797.13	9467.38	13017.88	451.75	25734.13

Source: Report on Trend and Progress in India 2000-2011.

The Table 2 depicts the amount of NPAs involved for recovery through various channels of all Scheduled Commercial Banks. Mean value of total NPAs amount that shifted to Lok-Adalats, DRTs, Sarfaesi Act and One time Settlement is 25734.13 during the period 2003-04 to 2010-11. Mean value of the NPAs amount that shifted of Lok-Adalats, DRTs, Sarfaesi Act and One time Settlement is 2797.13, 9467.38, 13017.88 and 451.75 respectively in the above said time period. It shows the failure of Indian banking sector.

Table-3 Amount Recovered of NPAs through various channels by Scheduled Commercial Banks (Rs. in Crore)

Year	Lok Adalats	DRTs	Sarfaesi Act	One time Settlement	Total
2003-04	149	2117	1156	617	4039
2004-05	113	2688	2391	880	6072
2005-06	223	4710	3423	608	8964
2006-07	106	3463	3749	-	7318
2007-08	176	3020	4429	-	7625
2008-09	96	3348	3982	-	7426
2009-10	112	3133	4269	-	7514
2010-11	151	3930	11561	-	15642
Mean	140.75	3301.13	4730	263.13	8075

Source: Report on Trend and Progress in India 2000-2011.

The Table 3 depicts amount of NPAs recovered through various channels of all Scheduled Commercial Banks. Mean value of total NPAs amount that recovered by Lok-Adalats, DRTs, Sarfaesi Act and One time Settlement is 8075 during the period 2003-04 to 2010-11. Mean value of the NPAs amount that recovered by Lok-Adalats, DRTs, Sarfaesi Act and One time Settlement is 140.75, 3301.13, 4730 and 263.13 respectively in the above said time period. It shows the less recovery of Indian banking sector.

Table 4 Percentage of Amount Recovered in respect of Amount Involved in Recovery of NPAs

Year	Lok Adalats	DRTs	Sarfaesi Act	One time Settlement
2003-04	14.02	17.20	14.73	40.86
2004-05	14.11	18.77	18.08	66.07
2005-06	20.25	76.92	34.82	78.76
2006-07	14.0	37.8	41.4	-
2007-08	8.2	51.9	61.0	-
2008-09	5.4	81.1	33.0	-
2009-10	1.55	32.0	30.0	-
2010-11	2.87	27.89	37.78	-
Mean	10.05	42.95	33.85	23.21

Source: Report on Trend and Progress in India 2000-2011.

Amount Recovered as % of Amount Involved
(--) data is not available

The Table 4 depicts percentage amount of NPAs recovered through various channels of all Scheduled Commercial Banks. Mean value of Percentage Amount of NPAs that recovered through Lok-Adalats, DRTs, Sarfaesi Act and One time Settlement is found 10.05, 42.95, 33.85 &23.21 respectively during the study period.

Table 5: Compensation under Agriculture Debt Waiver and Debt Relief Scheme (Rs. in Crore)

Year/ Institution	Sept. 2008	July 2009	July 2010	Nov. 2011	Mean
RRBs & Cooperatives	17500	10500	2800	1240	8010
SCBs, UCBs & LABs	7500	4500	9200	11100	8075
Total	25000	15000	12000	12400	16100

Source: Report on Trend and Progress in India 2000-2011.

The Table 5 depicts the Compensation under Agriculture Debt Waiver and Debt Relief Scheme of all Scheduled Commercial Banks. It shows decline in Compensation under Agriculture Debt Waiver and Debt Relief Scheme. It is good for the Indian banking sector.

Table 6: NPAs written off as % age of Previous Year's Gross NPAs

Year	All SCBs	Recovery Ratio
2008	0.4	55.6
2009	2.7	66.1
2010	14.9	56.5
2011	9.8	56.8
Mean	6.95	58.75

Source: Report on Trend and Progress in India 2000-2011.

The Table 6 depicts the NPAs written off percentage of all Scheduled Commercial Banks. Meanvalue of total recovery ratio is found 58.75 during the study period. While in case of All SCBs this values came 6.95 in the same time period. Written off of NPAs by Indian banks was lowest (0.4%) in 2008 and highest was14.9% in 2010. Recovery ratio of NPAs was highest (66.1%) in 2009 and lowest in (55.6%) 2008.

Table 7: Recovery of Direct Agricultural Advances of PSBs

Year	Demand	Recovery	Over dues	% age
2004	33544	25002	8542	74.5
2005	45454	35733	9721	78.6
2006	46567	37298	9269	80.1
2007	73802	58840	14958	79.7
2008	95100	71739	23361	75.4
Mean	58893.4	45722.4	13170.2	77.66

Source: Report on Trend and Progress in India 2000-2011.

The Table 7 shows the Recovery of Direct Agricultural Advances of PSBs. This ratio was lowest (74.5%) in 2008 and highest in (80.1%) in 2010. Demand of direct agriculture advances of PSBs has increased from 33544 crore in 2004 to 95100 crore in 2008. Recovery of direct agriculture advances of PSBs has increased from 25002 crore in 2004 to 71739 crore in 2008.But over dues also has increased from 8542 crore in 2004 to 23361 crore in 2008. On an average 77.66 percentage NPAs were recovered.

CONCLUSION

The problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. In a situation of liquidity overhang, the enthusiasm of the banking system to increase lending may compromise on asset quality, raising concern about their adverse selection and potential danger of addition to the stock of NPAs. It is necessary that the banking system is to be equipped with prudential norms to minimize if not completely to avoid the problem of NPAs. The onus for containing the factors leading to NPAs rests with banks themselves. This will necessitates organizational restructuring, improvement in the managerial efficiency and skill up gradation for proper assessment of credit worthiness. It is better to avoid NPAs at the recent stage of credit consideration by putting in place of rigorous and appropriate credit appraisal mechanisms. At last we can say that performance of various recovery channels of NPAs in Indian banking system is not found satisfactory. So that, there is requirement of improved the recovery of the NPAs and try to reduce the NPAs for the good health & future of Indian banks.

A component is as important as the right dose of medicine for a patient. The illness is a sign of deficiency in the body, which has to be remedied. For the patient's recovery the right dose of medicine at the right time is vital. Too much medicine can be harmful while too little can delay recovery. And for this, the patient has to trust the doctor implicit. A poor patient cannot afford costly medicines and if the medicine is not taken he/she may die. Indian banking system required a right dose for NPAs reduction unless our banking system will be died.

SUGGESTIONS

There are some suggestions for banks to make high beneficiary are like as:

Other Income Sources: The banks are now concentrating on increasing its share of high- margin based income by expanding third party product offerings and increase their fee-based services. Banks intends to grow its other income from fee-based services by offering new products and services by cross selling. The share of fee income in Non-interest income is rising continuously, as the bank ventures into wealth management, custody services, online broking and third party product distribution as alternative sources of income.

General ways of dealing with NPA's: There are 3 ways of dealing with NPA's: - (i) recapitalization of banks with Government aid, (ii) disposal and write off of NPA's, (iii) increased regulation.

Credit Management System: The origin of the problem of burgeoning NPA's lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing.

Proper Provisioning: The Basel Committee on Banking Supervision (BCBS) has also provisioning laid down certain minimum risk based capital standards that apply to all internationally active commercial banks. That is, bank's capital should at least be 8% of their risk-weighted assets. This helps bank to provide protection to the depositor's and the creditor's interest. The main objective of BCBS is to build a sort of support system to take care of unexpected financial losses due to market risks and operational risks thereby ensuring healthy financial markets and protecting depositors.

Strictness in Rules: The SRFESAI Act should be made stricter & the legal actions should be taken against the defaulters. The retail borrowers should also have unlimited liability towards their loan and mortgaged assets.

Power to Banks: Banks have to be given powers of inspection of the use of loans and the loan should be disbursed on the point of purchase by the borrowers to ensure proper utilization of deposits. Banks may also be given powers to recover loans from the guarantor of the borrower.

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