CHAPTER IV

BANKING SCENARIO

INTRODUCTION

In this chapter the causes of NPAs are discussed. Several recovery measures, Lok Adalats, Debt Recovery Tribunals (DRTs), Corporate Debt Restructuring mechanism (CDR), Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 and Asset Reconstruction Companies (ARCs) performance have been discussed.

Banking sector will have abundant opportunities for profitable growth with minimal downward presence on pricing or asset quality.\(^1\) As in the past, consumer credit will continue to be the prime drive of credit growth. The financial profile of the banking industry is adequate and stable. The recent banking reforms have tightened operational, prudential and accounting standards. The total distressed asset stock in India, as in March 2005, excluding State financial corporation, mutual funds and the insurance sector is in the region of Rs.2,55,000 crore.\(^2\)


Causes of NPA

The major reasons for NPAs are stated in Table 4.1 as per survey.

**TABLE 4.1**

**CAUSES OF NPA**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Causes of NPA</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Diversion of funds</td>
<td>51</td>
<td>21.25</td>
</tr>
<tr>
<td>2.</td>
<td>Wilful default</td>
<td>41</td>
<td>17.08</td>
</tr>
<tr>
<td>3.</td>
<td>Lack of supervision</td>
<td>33</td>
<td>13.75</td>
</tr>
<tr>
<td>4.</td>
<td>Poor credit appraisal</td>
<td>32</td>
<td>13.33</td>
</tr>
<tr>
<td>5.</td>
<td>Lack of legal support</td>
<td>30</td>
<td>12.50</td>
</tr>
<tr>
<td>6.</td>
<td>Political interference</td>
<td>28</td>
<td>11.67</td>
</tr>
<tr>
<td>7.</td>
<td>Higher interest rate</td>
<td>25</td>
<td>10.42</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>240</td>
<td>100.00</td>
</tr>
</tbody>
</table>

The important causes of NPAs are provided in Table 4.1, 21.25 per cent of the respondents reveal that the reason for NPA is diversion of funds and 17.08 per cent of respondents consider that wilful default is another cause of NPA.
A study conducted by the RBI on the NPAs of public sector banks (PSBs) confirms diversion of funds as a major cause for NPAs. The officials of State Bank of India and Canara Bank had given that the poor credit appraisal, 13.33 per cent and lack of supervision 13.75 per cent are the major causes of NPAs. Lack of legal support 12.50 per cent, political interference 11.67 per cent and high rate of interest 10.42 are the relatively low causes of NPAs. In fact, wilful default and diversion of funds are viewed together, as the main causes of NPA.

The other causes of NPAs are

- Natural calamities like earthquake, flood, famine, drought, tsunami etc.
- Economic recession
- Improper identification of borrowers
- Delay in sanction of loans
- Inadequate system of monitoring
- Corruption
- Bad financial management
- Increasing competitive market pressure
- Inadequate technical knowledge
- Lack of sophisticated equipment to compete with the global market
- Unskilled labour force

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- Time/cost overrun during the project implementation stage
- Business/product failure
- Inefficiency in management
- Input/power shortage
- Exchange rate fluctuation
- Lack of co-ordination among lenders
- High leveraged borrowers
- Over optimistic promoters

The most important dimension of the banking sector reforms was reduction of the Non-Performing Assets (NPAs). Infact the whole effort to reform the banking sector would collapse if the banks are not able to contain and reduce their NPAs. It would be impossible for a bank with high NPAs to be either vibrant or competitive. The reported gross level of NPAs in the Indian banking system is pegged at about Rs. 2,55,000 crore representing about 8 per cent of advances. The net NPAs are at 5 per cent of total advances. The estimates of various agencies indicate the gross NPA level to be about more crores of rupees than the reported level. Year after year analysis shows that while net NPAs have been increasing, indicating high level of provisioning but limited progress on recoveries of the banking system.\(^4\)

In the case of direct agricultural advances, the recovery percent has improved significantly from 72.6 in the year 2003 to 84.1 in the year 2005.\textsuperscript{5} The ministry of finance seems yet to be one step closer to solving the puzzle. Price Water House Coopers (PWC), technical consultancy gave its recommendation on how to recover these loans. The thrust of the PWC report is on facilitating loan transfers to Asset Reconstruction Companies (ARCs), creating a favourable environment for investors, especially foreign ones, and making resolution strategies workable.

The initial reaction to these recommendations has been positive, both from banks as well as the ARCs in India, ARCIL. Kalpana Morparia,\textsuperscript{6} Deputy Managing Director, ICICI Bank, said; “The resolution strategies suggested are comprehensive”. PWC expedites the general pace of reforms in NPA resolution. Ashwini Puri, Director, PWC said: “There are between six and ten foreign players who are actively monitoring the Indian market. They will jump in once they see the deals happening. The tax recommendations are expected to be passed in the budget. Action should pick-up very shortly”.

Meanwhile, other issues that have vexed banks and institutions are slowly being sorted out. Stamp duty may be taken. As Morparia said “In the important states, it is now capped at Rs. 1 lakh for the purpose of transfer to ARCs. In other

\textsuperscript{5}RBI, \textit{Report on Trend and Progress of Banking in India}, Mumbai, 2005-06, p.86.

states too things are moving”. Just five states account for nearly two-thirds of the large NPAs of the six banks and one FI. After their establishment in 1999, China’s four Asset Management Companies (AMCs) acquired $168 bn worth of bad loans. They are to dispose off them by 2009. But, so far, the results have been disappointing. A recent study by another global consultant Ernst and Young states that AMCs have been slow to offer large portfolios for international auctions mainly because their employees fear that if they disposed off - the loans in bulk on a regular and consistent basis, they would soon be jobless. Will such a mind set be seen in India too? In an interesting deal Kotak Mahendra Bank has taken over the junk loans worth Rs.215 crore from ICICI Bank”.

Banks were beginning to opt for one time settlements and sale of some stressed assets to institutions specialized in taking out NPAs, such as the Asset Reconstruction Company of India Ltd (ARCIL). However, ‘any liquidation of stressed assets to ARCIL will depend upon pricing”.

ARCIL which is currently owned by public sector banks to the tune of 49 per cent and by private bankers with 51 per cent in the Rs.10 crore paid-up equity share

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capital. So far ARCIL has appointed two Government Bodies\textsuperscript{10} – the Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd (ITCOT) and the Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO) and one NBFC, Usha Martin Finance as the enforcement agencies.

Then, there is the problem of interpreting guidelines. IDBI and State Bank of India treat the Dabhol power company as an NPA. The PWC report suggests if ARCs hold 25 per cent or more of the loan, they may be allowed to ask the Reserve Bank of India to review the classification. Then review would be applicable to all lenders.

\textbf{TABLE 4.2}

\textsc{Details of Financial Assets Acquired by ARCIL}

\begin{tabular}{|l|c|c|c|c|}
\hline
\textbf{Banks} & \textbf{No. of Cases} & \textbf{Principal Debt Acquired} & \textbf{Interest and Other charges} & \textbf{Total Dues Purchased} \\
\hline
Public Sector Banks & 599 & 3638 & 3917 & 7555 \\
Old Private Sector Banks & 34 & 186 & 150 & 336 \\
New Private Sector Banks & 152 & 5037 & 4727 & 9763 \\
\hline
Total & 785 & 8861 & 8794 & 17654 \\
\hline
\end{tabular}


Note: ARCIL was set up by RBI in the year 2003.

During 2005-06, ARCIL acquired 785 cases of NPAs from banks with a total dues amounting to Rs.17,654 crore. The assets acquired by ARCIL was diversified across major industry segments. These industry segments were performing well in the stock market.

The Securitisation and Reconstruction Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002\textsuperscript{11} has enabled banks to enforce security interest for realization of dues without the intervention of the Court. The Government has amended SARFAESI Act in 2004 to enable the secured creditors to make speedy recovery through enforcement of the Act. Public sector banks have until March 31, 2006 issued 1,18,980 notices for an outstanding amount of Rs.35,650 crore and recovered Rs.6376 crore from 65,334 cases. The RBI reported more than 17,000 cases banking frauds involving a total sum of Rs.893 crore during 2006-07 in the Lok Sabha.

The Supreme Court\textsuperscript{12} in the Mardia case permitted banks to acquire assets but not to sell them. After the amendment of the SARFAESI Act, the Supreme Court upheld the right of the banks and financial institutions to attach and sell assets of defaulting companies and the borrower’s right to appear.


Non-Performing Advances – A Disease

Non-Performing Advances (NPAs) are, quite understandably, a cause of concern for bankers and those connected with the health of the financial system. Gross NPAs at Rs. 60,841 crore (12.8 per cent of gross advances) as in March 2000, were higher in absolute terms by Rs. 2,119 crore over the level as in March 1999, although in terms of percentage and in relation to gross advances, there was an improvement from 14.7 per cent to 12.8 per cent.

PROPORTION OF NPAs DECLINE FOR MOST BANKS

It is noted clearly,\textsuperscript{13} the decline trend of NPAs is clearly noted in many banks. We compare the Net NPAs ratio of Canara Bank has decreased from 3.9 per cent to 3.6 per cent in 2001-02 and 2002-03. Likewise State Bank of India Net NPAs ratio also decreased from 5.6 per cent to 4.5 per cent in 2001-02 and 2002-03.

Inspite of the strenuous efforts taken by the bankers at all levels for the recovery of NPAs and also the amounts written off, the increase in NPAs at gross level is certainly not heartening. It is also to be remembered that this figure of NPAs does not include the amount of unapplied interest which does not enter any calculations and gets recorded, for being made use of, hopefully, incase the bank is in a position to recover that amount or a part thereof on execution of decree or through some compromise proposal. If the amount of unapplied interest is added to the figure

\textsuperscript{13}Business Line, Madurai Edition, 27\textsuperscript{th} July 2003, p.7.
of NPAs, the gross may perhaps be of the order of Rs.2,55,000 crore and more, as claimed by some bank employees’ unions.

Income recognition, asset classification norms and objective definition of NPAs have been on the scene for almost a decade now. While the initial devastating impact of these measures on the bottom line of banks was understandable, it is a matter of concern for all, that even after 10 years, the NPAs are cannot be brought down to acceptable levels. Slow-down in industrial production is a recent phenomenon and cannot be made the sole reason for this state of affairs. The need is to sit up and do honest introspection to avoid a situation or take steps at the behest of others or outside powers, or give such an impression.

**TABLE 4.3**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tamilnad Mercantile Bank</th>
<th>Canara Bank</th>
<th>Karur Vysya Bank</th>
<th>State Bank of India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>52</td>
<td>3039</td>
<td>20</td>
<td>11398</td>
</tr>
<tr>
<td>1996-97</td>
<td>61</td>
<td>3637</td>
<td>38</td>
<td>11613</td>
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<tr>
<td>1997-98</td>
<td>93</td>
<td>3466</td>
<td>53</td>
<td>11515</td>
</tr>
<tr>
<td>1998-99</td>
<td>106</td>
<td>3578</td>
<td>97</td>
<td>12815</td>
</tr>
<tr>
<td>1999-2000</td>
<td>136</td>
<td>2261</td>
<td>112</td>
<td>13979</td>
</tr>
<tr>
<td>2000-2001</td>
<td>176</td>
<td>2171</td>
<td>165</td>
<td>14687</td>
</tr>
<tr>
<td>2001-2002</td>
<td>325</td>
<td>2112</td>
<td>226</td>
<td>15486</td>
</tr>
<tr>
<td>2002-2003</td>
<td>341</td>
<td>2475</td>
<td>255</td>
<td>13506</td>
</tr>
<tr>
<td>2003-2004</td>
<td>319</td>
<td>3127</td>
<td>239</td>
<td>12667</td>
</tr>
<tr>
<td>2004-2005</td>
<td>321</td>
<td>1432</td>
<td>242</td>
<td>12456</td>
</tr>
</tbody>
</table>

The Gross NPAs of the selected four banks are shown in Table 4.3. According to that the Gross NPAs in Tamilnad Mercantile Bank were in the increasing trend upto the year 2002-03 and afterwards it decreased upto the end of 2004-05. In Karur Vysya Bank, the Gross NPAs increased upto the year 2002-03 and afterwards it decreased upto 2004-05. In State Bank of India, the Gross NPAs were in the increasing trend upto the year 2001-02 and in the decreasing trend upto 2004-05. In Canara Bank, the Gross NPAs were fluctuating.

Each bank has an inspection department which carries out periodical inspection. Concurrent audits have also been in vogue for the past six years or so. Then, there are statutory audits, the RBI inspections and other supervisory control mechanisms. It is possible that all these inspections or some of them at least throw up probable NPAs warning signals. Findings of inspection need to be respected and necessary compliance rectification, carried out promptly. Many times, it is observed that inspection irregularities are rectified but irregular practices continue. This should be guarded against. Such an approach by the operating staff will also substantially reduce their accountability.

According to a report published in Business Standard\textsuperscript{14} on 3.7.2000, 15 out of 16 public sector banks chosen for survey, added fresh NPAs which were higher than the recoveries effected by them during the year 1999-2000. It needs hardly to be

\textsuperscript{14}H.P. Vidwans, “Non-Performing Advances: A Disease or a Symptom”, \textit{Vinimaya}, Vol. XXII, No.2, National Institute of Banking Management, Pune, 2001-02, pp. 18 –21.
emphasised that unless slippage of standard assets to NPAs is effectively curbed, it is impossible to control and curtail NPAs to a minimum possible level.

NPAs can be reduced by the detailed study of the account, thereby suggesting bold and imaginative steps to be taken to set right the things and help the borrower unit review its activity if possible. An NPA account need not be treated as ‘untouchable’ or marked from recovery. By strengthening security and improving activity level, an NPA account can be turned the corner. Banks could also provide incentive, say by way of relief from the interest charged for the regular accounts so that more and more borrowers are encouraged to keep their accounts alive.
### TABLE 4.4
**NET NPAs OF SELECTED BANKS** (Rs. in crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tamilnad Mercantile Bank</th>
<th>Canara Bank</th>
<th>Karur Vysya Bank</th>
<th>State Bank of India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>23</td>
<td>976</td>
<td>7</td>
<td>3921</td>
</tr>
<tr>
<td>1996-97</td>
<td>26</td>
<td>1343</td>
<td>11</td>
<td>4525</td>
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<tr>
<td>1997-98</td>
<td>44</td>
<td>1265</td>
<td>22</td>
<td>4506</td>
</tr>
<tr>
<td>1998-99</td>
<td>55</td>
<td>1385</td>
<td>63</td>
<td>5913</td>
</tr>
<tr>
<td>1999-2000</td>
<td>72</td>
<td>1243</td>
<td>68</td>
<td>6288</td>
</tr>
<tr>
<td>2000-2001</td>
<td>95</td>
<td>1347</td>
<td>107</td>
<td>6849</td>
</tr>
<tr>
<td>2001-2002</td>
<td>118</td>
<td>1289</td>
<td>156</td>
<td>6813</td>
</tr>
<tr>
<td>2002-2003</td>
<td>169</td>
<td>1454</td>
<td>139</td>
<td>6183</td>
</tr>
<tr>
<td>2003-2004</td>
<td>105</td>
<td>1378</td>
<td>92</td>
<td>5442</td>
</tr>
<tr>
<td>2004-2005</td>
<td>77</td>
<td>1129</td>
<td>76</td>
<td>5349</td>
</tr>
</tbody>
</table>


In Table 4.4, the Net NPAs of the selected banks are shown. In Tamilnad Mercantile Bank and Canara Bank, the Net NPAs have increased up to the year 2002-03. But after that there was a declining trend in Tamilnad Mercantile Bank and Canara Bank in 2003-04 and 2004-05. In Karur Vysya Bank and State Bank of India the trend of Net NPAs started declining from the year 2002-03 up to 2004-05. This decreasing trend might be because of treasury profits.

While the authorities stipulated NPA norms and prescribed the reduction of NPAs for banks, the required steps to tone up the legal system and administration
have not effectively been taken yet. The benefits of the recovery of debts due to
Banks and Financial Institutions Act, passed in 1993 to give special status to banks
and financial institutions are yet to acceptable to the banks as the DRTs have not
been established in many States; and where they are established they are not staffed
adequately. It is also necessary to tone up the follow up of suit-field cases with the
advocates of the bank.

The Reserve Bank of India\textsuperscript{15} has issued a directive to banks to make
provisions where the State Government that issues a guarantee on account of an
industrial unit, does not honour its commitment and the amount of the invoked
guarantee remains unpaid. It is therefore important to remember that even where the
State Government guarantee is available, the proposals should be subjected to normal
credit appraisal and advance, sanctioned and conducted without giving undue
weightage to the availability of government guarantee. BIFR, which was set up with
a laudable objective of helping an industrial unit to come out of difficulties, has been
misused to avoid or at least delay the settlement of bank dues. It has been widely
accepted that in a large number of cases, while the company suffers, the promoters
have prospered. There is a proposal to replace SICA by a more effective legislation.

\textsuperscript{15}H.P. Vidwans, “Non-Performing Advances: A Disease or A Symptom”, \textit{Vinimaya},
In a developing economy, where agriculture is the main occupation of the majority of population, this does not spell a happy state of affairs. It has been noticed that investment in agriculture is not growing and agricultural production as a percentage of GDP is stagnant during 1995-2000. While with regard to industrial advances, there are rehabilitation schemes and packages to take care of the difficulties of the individual borrowers. For specific reasons if the account turns an NPA, there are no schemes or packages to bail him out. There are schemes and guidelines to help only if the agricultural borrowers come to grief because of natural calamities like drought and floods, but not for individual reasons like sickness etc. Banks could pay attention to this aspect so that the number of NPA agricultural borrowers, who, therefore become ineligible for fresh finance, can be brought down and agri-lending stepped up. This can improve economics of agri-operations also, as the farmers deprived of bank credit are forced to borrow from village money lenders at higher rates of interest.

It is reported that food-processing industry is not doing well and the percentage of NPAs to total exposure of financial institutions to that industry, is as high as 35 per cent. If it is accepted that food-processing industry has a crucial role to play in the Indian economy, it is necessary that reasons of sickness are examined promptly and intelligently.

Recovery through Debt Recovery Tribunals (DRTs)

An act has been passed by the parliament for setting up DRTs\textsuperscript{17} for expeditious adjudication and recovery of debts due to the banks and the financial institutions. The provisions of this act titled “The Recovery of Debts due to Banks and Financial Institutions Act, 1993” are applicable where the amount of debt due to any bank or financial institution or to a consortium of banks or financial institutions is not less than Rs. 10 lakhs.

The Government set up a Working Group\textsuperscript{18} (Chairman: Shri S.N. Aggarwal) to review the existing provisions of the recovery of debts due to Bankers and Financial Institutions Act, 1993. The Working Group suggested amendments to the Act and rules were framed there under. The Government has substantially amended the Debts Recovery Tribunal Rules, 2003, to facilitate better administration of the Act including Plural remedies for banks. As on June 30, 2003, out of 57,915 cases involving Rs.82,266 crore filed by the banks to the DRTs, 22,163 cases involving Rs.19,633 crore were adjudicated and the amount recovered so far stood at Rs.5,787 crore.


\textsuperscript{18}RBI, \textit{Report on Trend and Progress of Banking in India}, Mumbai, 2002-03, p. 70.
The data suggests that the working of DRTs has fallen short of the expectations, (ie) creating a fast-track system for the recovery of bank’s dues. Banks are of the view that so far the constitution of the DRTs has not contributed substantially to the recovery of problem loans and enforcement of securities as they are not equipped with proper infrastructure and the required flexibility. There is therefore an immediate need for removing all the impediments coming in the way of their smooth functioning so as to make them play the role expected of them.

DRT-I,\textsuperscript{19} the first for a unified territory of Tamil Nadu, Kerala and Pondicherry, came up in Chennai in October 1996, three years after the Recovery of Debts due to Banks and Financial Institutions Act was legislated. The Act was validated by the Supreme Court in 2002.

A significant feature of the DRT performance in Tamil Nadu is that many mega borrowers did not pay crores of rupees in instalments. Ninety per cent of the recovered amount was from the small borrowers hailing from the “God-fearing middle class” said Mr. Vijayakumar, Presiding Officer of DRT-II, Coimbatore.

From the Table 4.5, the number of suits filed in the year 1995-96 was 6338 and there was an increasing trend upto the year 2004-05 and the suit filed cases then were 78,459. The amount involved in the suit filed cases was Rs.10122.24 crore in the year 1995-96 and the suit filed cases amount increased to 1,59,829.92 crores during the year 2004-05. The number of cases disposed off through DRTs, during the year 2004-05 increased from 579 to 48,595. The amount involved in DRTs suit filed cases increased to 61808.80 crore in the year 2004-05. The amount recovered through DRTs during the year 2004-05 was Rs.14484.50 crore. As many as 29864 cases were pending disposal during the year 2004-05 in DRTs. In case of sale of assets covered by the non-performing loan, the buyers should clear all dues from Government and local bodies which usually cause delay in disposal. Due to market factors that price received by the bank is not sufficient even to cover its own outstanding balance.

The Debt Recovery Ordinance has incorporated several provisions, which are beneficial to the banks and financial institutions. Harihar P. Chaturvedi, \(^{20}\) Presiding Officer of the DRT-I, points out that the DRTs in the four southern states account for the recovery of more than Rs.3000 crore; with the one in Bangalore there was a recovery of Rs.1200 crore and the one in Hyderabad; recovered Rs. 900 crore.

Legal Reforms in the Banking Sector

The expert committee on legal reforms in the banking sector, headed by the farmer solicitor—general, T.R. Andhyarujina\textsuperscript{21} has hit the nail on the head in identifying what ails the recovery process in Banks. It has suggested that banks and financial institutions should be empowered to take possession of securities and sell them in case of default by borrowers. It has also suggested that they should be empowered to enforce mortgages without the intervention of the court. If accepted and put on the statute books, the two recommendations alone will revolutionise the present long-drawn out recovery process in the financial sector.

NPAs and Board for Industrial and Financial Reconstruction (BIFR)

In the course of RBI study,\textsuperscript{22} it had been observed that recovery process has been further delayed due to BIFR and the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) taking up these cases. Based on the recommendations of the Tiwari Committee, the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) was enacted. The main objective of SICA\textsuperscript{23} was to

\textsuperscript{21}Vinimaya, Vol. XXIII, No. 1, National Institute of Banking Management, Pune, 2001-02, pp. 28-34.


determine sickness and expedite either the revival of potentially viable industrial company units or the closure of unviable industrial companies. An important feature of SICA is that, upon reference to the BIFR, no proceedings for recovery can be proceeded against the company. It has been observed that some unscrupulous borrowers\textsuperscript{24} take advantage of the unit norms. They are intentionally making the unit sick and approaching BIFR to avail benefits which are normally available to genuine sick units.

Banks strongly feel that BIFR\textsuperscript{25} generally takes a very long time to decide the case and approve rehabilitation package in case of sick units. BIFR was introduced with the good intention to protect investment and employment but it is serving as an escape route for wilful defaulters. In the budget placed in the parliament on February 28, 2001 the Finance Minister made a proposition to wind up the BIFR.

The Law Commission\textsuperscript{26} recently has suggested the scrapping of SICA based on the fact that many companies were misusing its provisions to evade payment of their dues to financial institutions; Justice Jeevan Reddy, Chairman of the


commission, termed the act as “bad in law”. He said that in market economy, if an industry cannot survive on its own, it should better die.

**Lok Adalats**

The Reserve Bank of India has issued guidelines to commercial banks and financial institutions to enable them to make an increasing use of Lok Adalats.\(^{27}\) They have been advised to participate in Lok Adalats for resolving cases involving Rs.10 lakhs and above to reduce the stock of NPAs. As on June 30, 2003, the number of cases filed by banks in Lok Adalats stood at 2,72,793 involving an amount of Rs.1,193.3 crore and the amount recovered from 87,907 cases was Rs.190.5 crores.

Lok Adalats have gained importance over a period of time as a forum to settle the disputes among the parties through an expeditious compromise settlement by adopting the principles of justice, equity, fair play and other legal principles.

Lok Adalats may prove to be advantageous for the banks because long pending cases could be immediately taken up for settlement. Since the settlement arrived has the force of a decree, most of the compromises arrived at are likely to be honoured by the borrower. It is economical in the sense that the stamp duty refund

could be obtained in the case of 34 pending suits. Since even the pre-litigation cases are taken up in Adalats, legal expenses on filing of suit, etc., can be avoided.

Adalats are equally advantageous for the borrower as they ensure speedy disposal of cases. It gives a quick relief from the tension arising out of court proceedings and frees him from the clutches of lawyers.

**State Government’s Role in Reduction of NPAs**

Banks should take advantage of the legislation enacted by State Governments for speedy recovery of their dues. They should promptly file cases against wilful defaulters with the concerned district authorities, while filing the cases, they may ensure that necessary details and statements are submitted as per requirement. Banks should arrange periodical reconciliation of recovery certificates. It may be useful to organise recovery camps jointly with the revenue authorities. The matters relating to recovery under Revenue Recovery Acts should be discussed in the state level bankers’ meetings. The bank loans written off by public sector banks during the year 2002, 2003 and 2004 are Rs.7869.92 crore, Rs.7169.85 crore and Rs.2198 crore respectively.

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The country’s 33rd DRT\textsuperscript{29} inaugurated in Madurai will have jurisdiction over 14 districts, namely, Madurai, Tiruchi, Karur, Salem, Erode, Namakkal, Theni, Dindigul, Sivaganga, Ramanathapuram, Virudhunagar, Tirunelveli, Tuticorin and Kanyakumari districts. Nearly 1450 cases were to be transferred to Madurai DRT from Chennai DRT. The DRT-I in Chennai was directed to recover Rs.1,663 crore since its inception in 1996 and the DRT-II ordered the recovery of another Rs.1600 crore since 2001.

K. Gnanaprakasam (Retired Judge of Madras High Court), the Chair Person of the DRAT (Debt Recovery Appellate Tribunal) in Chennai said that the Union Finance Ministry notified the establishment of a third DRT in Chennai and it would be inaugurated soon.

**Corporate Debt Restructuring**

Corporate Debt Restructuring (CDR)\textsuperscript{30} is a non-statutory mechanism institutionalized in the year 2001 by the Reserve Bank of India to provide a timely and transparent system for restructuring the corporate debts of Rs.20 crores and above financed by banks and financial institutions. BIFR, DRT referred, wilful defaults, unviable doubtful and loss accounts and suit filed cases are outside the

\textsuperscript{29}The Hindu, Madurai Edition, 17.2.2007, p.9.

purview of CDR. A scheme of CDR was developed by the RBI in India based on the international experience and detailed guidelines on the same were issued for implementation by banks and financial institutions in 2001. The CDR mechanism has a three-tier system: CDR standing Forum, CDR Empowered Group and CDR Cell.

A Debtor-Creditor Agreement (DCA) is required to be executed by the borrower, according to it, for a period of 90/180 days, both the borrower and the lenders shall not take recourse to any legal action. The sectoral data show the steel sector debts aggravating to Rs.23,861 crore under restructuring by the CDR. While 5 cases of the petrochemical sector amounting to Rs.8,907 crore is with the CDR, the power sector accounts for Rs.2966 crore.

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At the end of March 2006 the ratio of Net NPAs to net advances of public sector banks and private sector banks was less than 2 per cent at the bank group level. As at the end of March 2006, 44 banks had Net NPAs to net advances ratio less than 2 per cent. Only one bank had above 5 per cent Net NPAs to net advances ratio among the private sector banks. No public sector banks had Net NPAs to net advances ratio more than 5 per cent in the year March 2006 as is shown in the table.

**Debt and Performance**

There are a number of theories regarding the significance or the lack of it of debt in the capital structure of the firm. There have been extreme views ranging from a decided impact to those, which maintain that the existence or non-existence of debt has nothing to do with the valuation of a firm. Each view offers its own examples but the fact remains that the use of debt does have some impact on the profitability of the company. An empirical study on the correlation between debt and various other ratios of companies, which was conducted on a sample of 208 companies covering a span of eight years between 1978 to 1986, proves that there is correlation among the companies. The study indicates a strong negative correlation between the growth rate

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in EBIT and a firm’s debt levels. The study further found that the firms whose size is increasing are using a higher debt ratio.

**TABLE 4.7**

**PRIORITY SECTOR ADVANCES (PSA) BY BANKS**

(March end 2006, Rs. in Crore)

<table>
<thead>
<tr>
<th></th>
<th>Public Sector Bank</th>
<th>Private Sector Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances to Agriculture</td>
<td>15490</td>
<td>361859</td>
</tr>
<tr>
<td>SSI Advance</td>
<td>82492</td>
<td>10449</td>
</tr>
<tr>
<td>Other priority sector advances</td>
<td>164473</td>
<td>58423</td>
</tr>
<tr>
<td>Net Bank Credit (NBC)</td>
<td>1017614</td>
<td>249088</td>
</tr>
<tr>
<td>Total PSAs</td>
<td>410379</td>
<td>106566</td>
</tr>
<tr>
<td>Percentage of PSA to NBC</td>
<td>40.30</td>
<td>42.80</td>
</tr>
</tbody>
</table>


Though the target of 18 per cent of NBC to agriculture has not been achieved by some public and private sector banks, the credit to agriculture by domestic scheduled commercial banks, both in the public and private sectors, has increased in absolute terms from Rs.64,724 crore in March, 2002 to Rs.1,91,085 crore in March 2006. However, the target of 40 per cent of NBC to the priority sector has been achieved.
A Judicious Remedy

The South Asian tigers put in place corporate debt restructuring mechanisms which are to look into the matter and try to address restructuring issues faster than the traditional methods, such as approaching the judiciary would make it possible. Notable among them are the measures implemented by Thailand and Malaysia. Thailand in particular has been successful in speedily bringing about debt restructuring in most of its corporates via the route of its corporate debt restructuring committee.

The Chinese banking system has a bad debt of 50 – 60 per cent of GDP. Internationally, it has been observed that the willingness of the creditors to co-operate in pulling out a company from the brink of bankruptcy is one of the major requirements for the successful implementation of debt restructuring measures. Their objective attitude in considering the pros and cons of each case individually and working with the intention to get back the company into shape rather than limiting the help to getting back their investments unscathed is a major help to companies trying to get back on their feet. This positive attitude and support from the creditors would go a long way in bringing companies back to shape.

### TABLE 4.8
NPAs RECOVERED BY SCHEDULED COMMERCIAL BANKS (SCanara Banks) THROUGH VARIOUS CHANNELS

(Rs. in crore)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Item</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of cases referred</td>
<td>Amount Involved</td>
</tr>
<tr>
<td>1.</td>
<td>One time settlement / Compromise Schemes*</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2.</td>
<td>Lok Adalats</td>
<td>185395</td>
<td>801</td>
</tr>
<tr>
<td>3.</td>
<td>DRTs</td>
<td>4744</td>
<td>14317</td>
</tr>
<tr>
<td>4.</td>
<td>SARFAESI Act</td>
<td>39288</td>
<td>13224</td>
</tr>
</tbody>
</table>

Source: Compiled from RBI, Report on Trend and Progress of Banking in India, Mumbai, 2004-05

* The scheme was introduced by RBI on 31st March 2004.

Several options available to banks for dealing in bad loans and the improved industrial climate in the country helped in recovering a significant amount of NPAs during the year 2004-05 and 2005-06 as shown in Table 4.11. Total amount recovered from various schemes of NPAs recovery during the year 2004-05 was Rs.5192 crore. The recovery amount increased to Rs.8964 crore during the year 2005-06, because of one-time settlement/compromising schemes.

**RBI Waking Up**

The Indian Government and the RBI too are aware of the increasing malice of NPAs and have sought to establish a corporate debt restructuring system in place.
This system would be working outside the purview of either the BIFR (Board for Industrial and Financial Reconstruction) or the DRT (Debt Recovery Tribunal). Thus, this measure can be utilised before the company is actually declared a sick unit or before the loan account is declared NPA. Putting such a measure into practice, the RBI has established a corporate restructuring committee\textsuperscript{37} which is to look into the loans lent by multiple banks, syndication or through consortium accounts where the limit is 20 crore and above. The cases of restructuring of standard and sub-standard class of assets are covered in Category-I, while cases of doubtful assets are covered under Category-II. The CDR system would be voluntary mechanism\textsuperscript{38} to be entered into by lenders and debtors. However, the restructuring exercise would become binding on all parties once 75 per cent of the secured creditors by value agree on a debt restructuring plan for an ailing corporate. The CDR system would operate under the regulatory powers of the RBI, which would issue guidelines and instructions as and when required.

**PREVENTION IS BETTER THAN CURE**

Billions of Rupees of banks are locked up in Non-Performing Assets (NPAs) in the country. Even today banks are advancing funds to the corporate sector.


A major problem that plagues Indian banking industry is that it has to carry a high level of non-performing assets (NPAs). This problem ought to get the attention of stalwarts in Indian banking industry. It is sometimes said that an alarmist view is taken of the NPA; this type of complacency may do incalculable harm to the banking industry.\(^{39}\)

### TABLE 4.9

**SECTOR-WISE NPAs – PUBLIC SECTOR BANKS AND PRIVATE SECTOR BANKS** (Rs. in Crore)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Priority Sector</td>
<td>23397</td>
<td>22374</td>
<td>182</td>
</tr>
<tr>
<td>(i) Agriculture</td>
<td>7254</td>
<td>6203</td>
<td>304</td>
</tr>
<tr>
<td>(ii) Small Scale Industries</td>
<td>7835</td>
<td>6917</td>
<td>792</td>
</tr>
<tr>
<td>(iii) Others</td>
<td>8308</td>
<td>9253</td>
<td>686</td>
</tr>
<tr>
<td>B. Public Sector</td>
<td>450</td>
<td>340</td>
<td>8</td>
</tr>
<tr>
<td>C. Non-Priority Sector</td>
<td>23849</td>
<td>18664</td>
<td>2444</td>
</tr>
<tr>
<td>Total (A+B+C)</td>
<td>47696</td>
<td>41378</td>
<td>4234</td>
</tr>
</tbody>
</table>


NPAs of public sector and private sector banks are classified into three broad sectors, namely, priority sector, public sector and non-priority sector as shown in Table 4.12. NPAs in two sectors, priority and non-priority sectors, declined during

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2005-06 in public sector banks and priority sector declined from Rs.23397 crore to Rs.22374 crore. Non-priority sector also decreased from Rs.23849 crore to Rs.18664 crore in public sector banks during 2005-06. In private sector banks, priority sector NPAs increased from Rs.182 crore to Rs.1632 crore during 2005-06. Likewise in non-priority sector the NPAs decreased from Rs.2444 crore to Rs.2078 crore during 2005-06.

As per the RBI Survey, several reasons were cited for the non-performing loans of the banks and the consequent sickness. Diversion of funds is one of the major reasons in which the loanee, instead of using, the borrowed fund for the purpose of the loan, diverts it for expansion, modernisation, setting up new projects and helping or promoting sister concerns. At the time of implementing the project, there may be over-run of time or cost, leading to liquidity strain.

Right from the beginning, the banker should make strict credit appraisal and follow the principle of narrow banking which gives him a straight view on loan proposals. Yielding to political pressure for loan is another major anomaly which causes NPA on the later stage in which the loanee manages pressure by politicians on his behalf. As per the provisions of the RBI, banks are required to closely monitor

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the operations of borrowal units and accounts by way of analysing periodic operation statements. In the case of incipient sickness, detailed guidelines have been issued to banks to take steps for avoiding sickness and nursing them back to health.

In regard to the NPA’s relating to small-scale sector, the RBI has already issued guidelines to public sector banks to set up settlement advisory committees for compromise settlement of the NPAs. Over and above the usual recovery measures like issue of notices for enforcement of securities and recovery of dues, the commercial banks are required to resort to the legal process by way of money or mortgage suits or file claim with debt recovery tribunals which have been set up at several places. Disposal of suits takes a long time in the courts which not only enhances the incidence of NPAs but also prolongs their existence.

The RBI may issue guidelines for installing a special personnel wing in each bank to monitor and take follow-up action in the case of non-performing loans. The concerned banks have to surrender the NPA loan in case of incipient sickness. The special wing, before taking over the case, should satisfy that the bank has already taken prudent steps for the recovery of the loan. The special wing should be accountable for its operation to the RBI, which could decide the efficacy of its operations; such specialised department will expedite the treatment of NPAs rather

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than the regular banking department since the regular incumbents may show little interest over and above their routine work in dealing with NPAs.

The moment the sickness\textsuperscript{43} is noted, a bank nominee must be appointed as a director in the governing board of the sick unit to monitor the operations to prevent further delay. The RBI should empower the bank to appoint such a director. Banks should lend money only to the deserving proposals on the liquefying strength of main and collateral securities. In spite of preventive measures, NPAs may arise due to several internal and external phenomena which could be managed by prudent measures of recovery. Thus the remedial action on the lines indicated above is the need of the day for safeguarding the banking sector from further delay on this front.

TACKLING OF NPAs

The Scheduled Commercial Banks (SCanara Banks) in India face the colossal problem of non-performing assets which currently total more than Rs. 2,55,000 crore.\textsuperscript{44} No easy-to follow formula is available in order to resolve this problem. Today, non-performing assets (NPAs) are the biggest problem of the banking and financial sectors; Rs. 2,55,000 crore is blocked in NPAs. With the stabilisation of income recognition, asset classification and provisioning norms, banks have become increasingly sensitive to credit risk and there is a growing awareness to contain NPAs

\textsuperscript{44}Chartered Financial Analyst, Hyderabad, November 2006, p. 63.
NPAs adversely affect the profitability of banks and FIs due to non-recognition of interest income and making provisions. For banks, NPA reduction is a key performance parameter as per Memorandum of Understanding with the Reserve Bank of India (RBI).

For the funds blocked in NPAs, banks have to maintain capital as per capital adequacy requirements, continue to incur the cost of funds so blocked, bear the cost for loss of opportunity to recycle them at favourable rates and earn profits. The Government has come out with one or more policies to tackle the whooping problem. Even before the introduction of NPA concept in India, the government implemented the scheme of debt relief which was provided to borrowers having agriculture and allied debts.

While announcing monetary and credit policy for the year 1999-2000 on April 20, 1999, the government had directed public sector banks to set up settlement advisory committees for settling chronic cases, especially those relating to the small sector, in a timely and speedy manner. Under the guidelines, the minimum amount to be recovered by banks would be 100 per cent of the outstanding balance.

Arresting of NPAs is fast turning out to be a myth. Despite an aggressive recovery drive, the public sector banking industry has failed to arrest the growth of NPAs at all levels.\textsuperscript{45} NPAs adversely affect the profitability of banks and FIs due to non-recognition of interest income and making provisions. For banks, NPA reduction is a key performance parameter as per Memorandum of Understanding with the Reserve Bank of India (RBI).

\textsuperscript{45} RBI, \textit{Credit Information Review}, Mumbai, 29 April 2004, p. 3.
\textsuperscript{46} RBI \textit{Bulletin}, Mumbai, May 1999, pp. 6-10.
NPAs. The fresh accretion of NPAs during the financial year 1999-2000 has out-paced the recovery of bad loans- notable exceptions are Canara Bank and United Bank of India.

But, Bank should not focus on disproportionated credit appraisal and neglect the other aspects of credit process. Though appraisal is important, experience has shown that loans often go bad due to poor monitoring. The Latin American\(^{47}\) experience shows that only in 30 per cent of NPAs, the original credit decision was bad. The rest 70 per cent of the loans went bad due to poor monitoring.

Banks in advanced countries are looking for new ways to manage their asset portfolios actively so as to have better returns on loan assets. The Indian banking industry has one of the highest percentage of NPAs compared to international levels. The international norms can be followed to tackle the NPAs.

India’s provisioning norms are considerably tighter than the best international practices. In developed countries, for instance, lower provisions are made for collaterised NPAs. However, in India, collaterisation is not meaningful as banks are just not able to realise the collateral. In international practices, net NPA to total assets is seen, while in India it is seen as net NPA to total loans. Total assets also include SLR and CRR that are risk free. These aspects of NPAs need to be carefully

reckoned for a realistic calculation of NPA ratio and its comparison with NPAs by international banks. However, we should worry about gross levels that are only meant for consumption by the sensitive public for analysis by the vibrant media.

The Indian political system,\textsuperscript{48} one of the contributors for NPAs, has to become a responsible system. To cite an example, in Madhya Pradesh, 144 MLAs and former MLAs together owe Rs. 29.6 million to various district co-operative banks, of which Rs. 2,180 million has long become overdue, sending the already precarious banks into a tizzy. Instead of repaying their debts many of the concerned MLAs and former MLAs have appealed to the State Government to waive the loans or at least the interest on the loans.

Another important aspect of managing NPAs is accountability. It implies owning responsibility for decisions taken, discretions exercised and the liability for failure to take timely corrective action. Its main purpose is to identify the lacuna in bank’s systems and suggest measures to rectify/ remove the same with a view to avoid such recurrence. One of the time-tested strategies for improving recoveries has been the maintenance of close contact with and regular visits to the borrower. Personal contact with borrowers should be a cornerstone of credit management, as per the earlier experiences.

The problem arising out of the legal infrastructure can be gauged from the fact that there are 23 or more Acts\textsuperscript{49} operating simultaneously making it convenient for borrowers to find escape routes. The Acts extant are

- Sick Industrial Companies Act, 1993
- Securities and Exchange Board of India Act, 1992
- Debt Recovery Tribunals Act, 1993

The need of the hour is a strong, bold and vision policy. Bank’s NPA must be sold to private agencies at discount. Even Verma’s Committee\textsuperscript{50} emphasized the need to develop secondary market for impaired loans.

Even though compromise/negotiated settlement has been suggested as a possible means to address NPA problem\textsuperscript{51} it has negative impacts in two ways. Banks lose the opportunity to bargain the higher amount /offer, as big and clever defaulters become aware of the policy guidelines. The borrowers, who are good paymasters, feel cheated/ frustrated; as the tendency grows in them to avail the benefits and they allow their accounts to slip into an NPA. The good payment of bank credit should be awarded for being good citizens. Some incentives may be marked out; if one

\textsuperscript{49}T.V. Gopalakrishnan, *Management of Non-Performing Advances*, Indian Institute of Banking and Finance, Mumbai, pp. 33-34.


borrower repays all his debts regularly, one per cent interest may be lessened and this concession may be adjusted towards final repayment. This step will boost the morale of regular paymasters and encourage the borderline defaulters to upgrade their repayments.

The time is perhaps ripe to have a fresh look at the constitution. As N.V. Deshpande, Principal Legal Advisor, RBI, pointed out, “The constitution was framed keeping in view the planned economy and not the market – driven economy. Therefore the constitution has to bring about certain changes in so far as functioning of the financial sector is concerned. Also it is necessary to have a separate law commission to have a look at the financial sector reform to ensure that the laws are made to suit a market driven economy.

INDIAN BANK

Indian Bank underwent the embarrassment of having made the largest losses in banking history just a decade ago. The bank experienced some financial set backs in 1990s consequent upon the introduction of prudential norms by the RBI and other factors that incurred losses in 1994 and during the period between 1996 to 2001. The Government has dumped in several branches a capital of Rs.4565 crore. Further the Government has also allowed the bank to write-off losses of about Rs.3830 crore.

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against its contribution. Of course, sovereign backing saved the bank despite being classified as a weak bank by some committees.

Credit also goes to the senior management of the bank who is motivating the bank employees in putting special efforts for the recoveries. Since computerisation has reduced the work load for a majority of the employees, they are being urged to follow up recoveries not in individual capacities but as groups of bankmen. It goes without saying that the recoveries could brighten up the balance sheet for 2000-2001. Improved performance by the bankmen would embolden the central ministry of finance to have won with its re-capitalisation plan. May be, the success of Indian bank would embolden other banks to follow its foot steps.

Bank defaults should also be treated as a punishable offence. There is a need to change the outlook towards NPAs. Today, tackling past NPAs is not a big problem; but arresting the slippage of standard assets is the real challenge.\textsuperscript{54} It is the joint responsibility of the policy makers, judiciary, entrepreneurs and bankers to collectively fight this problem.

From the regulator’s perspective,\textsuperscript{55} NPA management involves four steps i.e., assessment, provisioning, recovery and prevention. A menu approach is adopted in


India which involves intensification of recovery with ongoing tightening of norms for assessment and provisioning.

In 2001, a Corporate Debt Restructuring (CDR) mechanism as prevalent in the UK and South East Asian Countries\(^{56}\) was finalised for restructuring debts of viable corporate entities. Lok Adalats have proved to be an effective institution for settlement of similar dues. The Union Budget for 2002-2003 announced the setting up of a pilot Asset Reconstruction Company (ARC) with the participation of banks, financial institution and multilateral agencies. The new credit information bureau will provide an institutional mechanism for sharing of information on borrowers.

**Financial Crisis in Japan**

Japan is an industrial country which uses so much advanced and developed technology. The bank lending interest rate is slow compared with that of other country. The financial crisis affecting the system in Japan has been compounded by economic factors as well as the increasing non-performing loans of the banking system. Economic growth\(^ {57}\) was placed at 3.8 per cent on an average during 1974-91, subsequently dipped to 1.1 per cent during 1992-2001. The slow growth in economy, in some of the years, negative growth was also associated with decline in the general price level leading to deflation. Though the decline in stock and land prices at the

\(^{56}\) RBI, *Report on Trend and Progress of Banking in India*, Mumbai, 2002-03, p. 27.

\(^{57}\) *IBA Bulletin*, Special Issue, Global Scene, Mumbai, 2003, p. 36.
beginning of 1990 triggered the present financial crisis, the problems associated with large non performing corporate loans, general fall in prices and interest rates have also contributed their share to the present crisis.

The deflation has reduced the gap between funding costs and lending rates. The falling prices helped in the reduction in interest rates from 1 to 2 per cent. In view of near zero lending rates, banks are in a position to get back interest payments more easily. While recovering the principal amounts, banks are experiencing defaults by the corporate sector due to slow growth in the economy. Since 1992, the cumulative loan losses of the Japanese banks amounted to Yen 83 (16.5 per cent of GDP) including write-offs of Yen 32 trillion. The banks are incurring net losses since 1993 thereby affecting their networth and capital adequacy.

A comparison of the profitability of Japanese banks and the US shows that Japanese banks earn 76 per cent of their income from lending operations. While US banks earn only 58 per cent from lending. Similarly fee and commission income are very low for Japanese banks compared to the US banks. There are several cases of insolvency in Japanese banking system. Lehman Brothers estimate that around Yen 30 to 50 trillion is required to restore the balance sheet health and credibility of the Japanese banking system.

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59 Ibid.
TABLE 4.10

SYSTEMATIC BANKING CRISIS DURING THE PREVIOUS DECADE

<table>
<thead>
<tr>
<th>Country</th>
<th>Crises Year</th>
<th>Fiscal Cost (% of GDP)</th>
<th>Peak NPL (% of Loans)</th>
<th>Real GDP Growth (%)</th>
<th>Change in Exchange rate (%)</th>
<th>Peak in real interest rates</th>
<th>Decline in real asset prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>1992</td>
<td>11.0</td>
<td>13</td>
<td>-4.6</td>
<td>-5.5</td>
<td>14.3</td>
<td>-34.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1998</td>
<td>50.0</td>
<td>65.75</td>
<td>-15.4</td>
<td>-57.5</td>
<td>3.3</td>
<td>-78.5</td>
</tr>
<tr>
<td>Korea</td>
<td>1998</td>
<td>37.0</td>
<td>30.40</td>
<td>-10.6</td>
<td>-28.8</td>
<td>21.6</td>
<td>-45.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1998</td>
<td>16.4</td>
<td>25.35</td>
<td>-12.7</td>
<td>-13.9</td>
<td>5.3</td>
<td>-79.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>1995</td>
<td>19.3</td>
<td>29.8</td>
<td>-6.2</td>
<td>-39.8</td>
<td>24.7</td>
<td>-53.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>1998</td>
<td>0.5</td>
<td>20</td>
<td>-0.8</td>
<td>-13.0</td>
<td>6.3</td>
<td>-67.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>1992</td>
<td>4.0</td>
<td>18</td>
<td>-3.3</td>
<td>1.0</td>
<td>79.2</td>
<td>-6.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>1998</td>
<td>32.8</td>
<td>33</td>
<td>-5.4</td>
<td>-13.7</td>
<td>17.2</td>
<td>-77.4</td>
</tr>
</tbody>
</table>


In Table 4.10, it can be observed that in the year of crises, non-performing loans went up steeply and real asset prices dropped substantially. All the countries mentioned in the Table 4.10 had recorded negative growth in GDP and depreciation of their currencies during those years of crises. The instability of the financial system in the case of some countries highlights the need for further strengthening of international financial system.
### TABLE 4.11

**CAPITAL RESTRUCTURING IN THE BANKING SECTOR**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Assistance</th>
<th>Provision made in Central Government Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationalised Banks</td>
<td>Rs. 21.746 crore provided as recapitalisation support to nationalised banks upto end March 2003</td>
<td>The Central Government budget 2002-03 has made a provision of Rs. 770 crore.</td>
</tr>
<tr>
<td>Regional Rural Bank</td>
<td>Rs. 2188 crore has been infused by the share holder as additional capital support to 187 RRB through several doses of recapitalisation upto January 2000</td>
<td>No recapitalisation exercise was undertaken during 2000-01 and 2001-02 further the government has not made any budgetary allocation in this regard for the year 2002-03.</td>
</tr>
<tr>
<td>Co-operative Bank</td>
<td></td>
<td>Rs. 100 crore was proposed in the central government budget 2002-03. The provision is for grants through NABARD for providing incentives to states and co-operative institution to adopt reform measures for strengthening cooperative credit structure.</td>
</tr>
</tbody>
</table>


In the aftermath of the implementation of capital adequacy, income recognition and provisioning norms based on the recommendation of Narasimham committee – I, some of the nationalised banks sustained huge losses mainly due to the provision made for large non-performing loans.  

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In order to provide the required capital support, the government recapitalised the banks through recapitalisation bonds, while other banks have taken recourse to the capital market to raise capital either by way of equity or debt. The government has undertaken a process of capital restructuring in India in order to strengthen the financial system and support the banks in meeting the capital adequacy norms. The following table presents the capital infusion into the banks by the government over the years. Compared to many countries, the cost of restructuring is minimal in the case of India.

The present chapter has presented various measures to recover the NPAs through various channels. The Corporate Debt Restructuring (CDR) as a non-statutory mechanism has been discussed. The functioning of DRTs and ARCIL is given. SARFAESI Act, 2002 has been analysed with which banks can recover the dues from the lender, without the intervention of the court.
## TABLE 4.5

### RECOVERY OF BANK DUES THROUGH DRTs

<table>
<thead>
<tr>
<th>Position As on</th>
<th>Number of DRTs</th>
<th>No. of Cases filed</th>
<th>Amount Involved (Rs. in crores)</th>
<th>No. of cases Disposed-off</th>
<th>Amount Involved (Rs. in crores)</th>
<th>Amount Recovered (Rs. in crores)</th>
<th>No. of pending cases</th>
<th>Percentage of Disposal of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>5</td>
<td>6338</td>
<td>10122.24</td>
<td>579</td>
<td>442.28</td>
<td>74.27</td>
<td>5759</td>
<td>9</td>
</tr>
<tr>
<td>1996-97</td>
<td>8</td>
<td>11635</td>
<td>14313.59</td>
<td>1629</td>
<td>958.69</td>
<td>153.54</td>
<td>10008</td>
<td>14</td>
</tr>
<tr>
<td>1997-98</td>
<td>8</td>
<td>18878</td>
<td>17972.82</td>
<td>3734</td>
<td>2137.06</td>
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### TABLE 4.6

**DISTRIBUTION OF SCHEDULED COMMERCIAL BANKS BY RATIO OF NET NPAs TO NET ADVANCES**

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