Chapter-VII

FINDINGS AND SUGGESTIONS

The objective of this chapter is to present the findings of the analysis of the study and give suggestions for streamlining the effective implementation of the NPA reduction strategies in State Bank of India, Krishna District. The first phase of the current reforms of the financial sector was initiated in 1992 based on the recommendations of the committee on financial system (CFS, 1992). The concept of non-performing advances / assets (NPAs) in the Indian banking system has been developed over the years. Based on the Narasimham Committee (1991), the new concept of NPAs emerged, which is based on the record of recovery of interest and instalments irrespective of ability of security and net worth of the borrowers/guarantors.

Based on the Narasimham Committee, the RBI introduced prudential accounting standards for the scheduled commercial banks in April 1998. The essence of this accounting system is the recognition of the record of recovery as the basis for classification of the advance portfolios of the banks. In other words, a bank could have in its portfolio only two categories of advances viz., “performing” and non-performing”, depending on the record of recovery. Thus, an investment which does not contribute to production, value addition or capital formation or “the advances have ceased to yield any income to the bank” are treated as non-performing Advances/Assets (NPAs). Even since the introduction of financial sector reforms in India, the NPAs of the banking system have started getting highly focussed and received greater attention. As rightly pointed out by the Narasimham Committee II (1998), that “NPA constitute a real economic cause
to the nation in that they reflect the application of scarce capital and credit funds to unproductive uses. The money locked up in NPAs are not available for productive use and to the extent that bank seeks to make provision for NPAs for write-off, it is a charge on their profit. NPA is a double-edged knife that tells on the bank’s profitability. On the one hand, banks cannot recognize/bank income (interest) on NPA accounts and on the other, it is a drain on the bank’s profitability due to funding costs. The report of the Committee on Banking Sector Reforms (CBSR, 1998) provides a form of work for the second phase of reform in the banking system. The broad feature of the ongoing banking reforms have been gradual removal of presumptions (reduction in CRR and SLR) deregulation of interest rates, tightening of prudential standards, completion and transparency, improving the quality of supervision, partial removal of selective credit controls, assistance to banks in debt recovery and reforms in money and form markets.

The extension of reforms, particularly prudential standards to banking institutions, an important component of the banking system was a natural corollary as the weaknesses in banking segment could pose systemic risks. Accordingly, prudential standards covering capital adequacy, income recognition, asset classification and provisioning norms were made applicable to State Bank of India in a phased manner.

NEED FOR THE STUDY

Banks have become an indispensable part of our economic system. The banking institution today forms the heart of the financial structure of the country. Indian banking has made a significant progress after nationalisation especially in three aspects viz., branch expansion, deposit mobilisation and loan maximisation. Among these,
monitoring of loans took a back seat in an era of mass banking and social banking. In the changing scenario of the banking, Non-Performing Assets (NPAs/NPA) have been the most vexing problem faced by the banks. The Reserve Bank of India (RBI) and Government of India (GoI) have initiated various measures to curb NPA in the post-financial sector reforms. But PSBs are still unable to solve the problem. In the liberalised scenario, the continuation of the NPAs is a menace for the survival of the banks. Over a decade of implementation of financial sector reforms and prudential norms, there is a need for a systematic analysis of NPAs. In this context, this study is an investigation of the trends in NPAs, bank group-wise, sector-wise composition of NPAs, asset quality diagnosis, socio-economic conditions of borrowers and causes of NPAs from the borrowers’ perception.

The importance of a study of this kind, which focuses its attention on the commercial banks in the country in general and the premier public sector banks, i.e., SBI need not be over emphasised. A study of this nature is essential at present when banks are facing various challenges in the face of far reaching reforms in the changing environment. The study seeks to offer specific suggestions to resolve the problems faced by commercial banks, which are highlighted through the present study so as to improve the performance of commercial banks in the country.

The study has a greater relevance and significance in the present context of financial sector reforms as the studies earlier have been absolutely lacking a micro perspective of the macro level problem of NPAs in Banks.
HYPOTHESES

It is hypothesised that

(i) Socio-economic factors have significant influence on the amount paid by the borrowers.

(ii) There is significant difference in the response of respondents related to reasons for non-existence of Unit.

(iii) Financial constraints or non-financial constraints have significant influence on the existence of the unit.

(iv) There is significant difference in the response on reasons for failure of repaying the loan.

(v) The incidence of NPAs is due to the failure of borrowers or the policy deficiency of the banks and regulatory bodies.

OBJECTIVES OF THE STUDY

The major objective of this study is to examine and evaluate the performance of the scheduled commercial banks in India with reference to the problem of non-performing assets both at the All India level and the study bank level.

The specific objectives of this study are enlisted as shown below:

a) to analyse the trends of NPAs related to scheduled commercial banks in India;

b) to assess the trends in the magnitude of non-performing assets and provisioning of SBI in Krishna district;
c) to examine the socio-economic conditions of defaulting borrowers in the study area with a view to understand their correlation to the magnitude of the NPA menace;

d) to identify the factors responsible for NPAs in SBI Krishna district by analysing the perceptions of the defaulting borrowers;

e) to offer suggestions for policy issues in dealing with the problem of NPAs.

METHODOLOGY

State Bank of India is chosen as the focal bank for the study as it has a long history of 50 years, rich status and strength. The history of SBI in Krishna district dates back to 1905 where the first branch of the bank was established in Machilipatnam as sub office of the Bank of Madras with headquarters at Guntur after the emergence of Imperial bank, it has come under the banner in 1921 of Imperial bank branch in the district. In 1955, the SBI Act was passed in Parliament for the nationalisation of Imperial bank. Consequently, the first licensed SBI bank branch came into picture in the district at Machilipatnam, the district headquarters on 26 November, 1956. Since, it is not possible to cover all districts of State Bank of India in view of time, efforts and the expenditure constraints, the study has been restricted to Krishna District only. SBI has 71 bank branches at the end of March 2007, only 9 bank branches are chosen for research purpose, three bank branches in rural areas, three branches in semi-urban areas and the other three branches in urban areas.
FINDINGS OF THE STUDY

1. Commercial banking system in India comprises of the scheduled and non-scheduled commercial banks. The scheduled commercial banks are further classified as public sector and private sector banks. The public sector banks consist of the State Bank of India and its Seven Associate Banks, 14 major commercial banks nationalised on July 19, 1969 and 6 commercial banks nationalised on April 15, 1980 (under this category New Bank of India was merged in 1993 with Punjab National Bank) and Regional Rural Banks. Apart from the other Indian Scheduled Commercial Banks are the foreign banks and private sector banks.

2. The banking scenario has experienced tremendous transformation in the last two decades. The edifice built over two decades is crumbling and emphasis is more on the viability of the system, instead of feeling pride solely in meeting social obligations. However, this does not mean that they are not to make any profits at all. In particular, there is substantial investment of public funds in banks and a reasonable return on this investment would be expected by the Government. Thus for incessant growth, it is a must for banks to generate adequate surplus not only to meet current obligations but also to strengthen their reserves and enable them to assume greater responsibility. At present, most of the public sector banks are working on wafer thin profits and if this trend persists, the financial viability of the banks may even be undermined in future. In view of this, profitability of banks has gained considerable significance in public debate in India.
3. In the pre reform period, the profitability of Indian banks was extremely low in spite of rapid growth of deposits. The average return on assets in the second half of 1980 was about 0.155 per cent. The profit on the working capital of the nationalized banks in 1975 was 0.2 per cent and it declined to 0.17 per cent in 1987 and 0.14 per cent in 1991. On the other hand, in 1991, the rate of profit of the private sector banks and 22 foreign banks was 0.35 per cent and 1.41 per cent, respectively.

4. It can be observed that during the pre-reforms period, in the case of the total scheduled commercial banks, the net profit of Rs.53.92 crores in 1980 increased to Rs.639.38 crores in 1991 with a growth rate of 25.2 per cent. Comparatively the private sector and foreign banks registered a growth rate in net profits above that of the total scheduled commercial banks whereas the SBI and its associates and the nationalised banks stood below the average of 25.2 per cent. It can be surmised that all the groups of scheduled commercial banks experienced a marked growth in the net profits during 1980 to 1991, but the public sector banks and their constitutes i.e., SBI and its associates and the nationalised banks lagged behind. This scenario highlights the need for reforms to tone up the profit performance of the public sector banks in India.

5. It can be observed that the problem of NPA is multi-dimensional and unless the same is checked and the NPA level is brought down to the international standards of 2 to 3 per cent of total loan assets, it is bound to weaken the banking system. A major stumbling block for the banks to reduce their NPA’s has been the prevailing legal system in the country. After the implementation of prudential norms, the gross NPAs
of public sector banks increased from about Rs.18,000 crores in 1991-92 (prior to introduction of prudential norms) to Rs.39,253 crores at the end of March 1993 (as a result of introduction of prudential norms) and Rs.53,033 crores at the end of March 2000. Whereas in terms of percentage it declined from 23.2 per cent in 1993 to 2.7 per cent by the end of March 2007. In the case of net non-performing assets, in absolute terms, it increased from Rs.17,567 crores in 1995 to Rs.27,969 crores by the end of March 2001. However, it has come down to Rs.15,145 crores by the end of March 2007. The net NPAs as a percentage to net advances come down from 10.7 per cent to 1.1 per cent during the period.

6. The analysis brings forth that the gross NPAs of Public Sector Banks declined at a compound rate of –0.5 per cent. The rate of decline is comparatively sharper in the case of net NPAs which declined from Rs.17,567 crores in 1995 to Rs.15,145 crores in 2007 registering a rate of decline at 1.13 per cent. The gross NPAs as a ratio of gross advances and total assets which were 23.2 per cent and 11.8 per cent in 1999 respectively, remarkably dropped down to 2.7 per cent and 1.6 per cent respectively in the year 2007. The scenario is similar in the case of net NPAs as a percentage of net advances and also to total assets. These two ratios which were respectively at 10.7 per cent and 4 per cent in 1995 experienced a marked decline to 1.1 per cent and 0.6 per cent respectively in the year 2007. Thus, it can be concluded that the incidence and intensity of the gross and net NPAs of public sector banks in the post reform period ending with 2007 has diluted over the years as can be observed from the rolling down ratios of gross NPAs and Net NPAs to advances and total assets.
7. It can be observed from the analysis that among the various parameters and reflections from bankers and borrowers there are quite contradictory views among all the respondents. This is not unusual because the bankers and borrowers cannot have the same opinion about the reasons. What is true for the bankers may not hold true with the borrower.

8. It can be noted that the worrisome factor with regard to NPA is its impact on economy on various fronts. A bank with high level of NPA would be forced to incur carrying costs on a non-income yielding assets. Other consequences would be reduction in interest income, high level of provisioning, stress on profitability and capital adequacy, gradual decline in ability to meet steady increase in cost, increased pressure on net interest margin (NIM) thereby reducing competitiveness, steady erosion of capital resources and increased difficulty in augmenting capital resources. The lesser-appreciated implications are reputational risks arising out of greater disclosures on quantum and movement of NPA, provisions etc.

9. The analysis brings forth that the amount of gross NPAs which was Rs.50,815 crores in 1998 increased to Rs.70,861 crores in 2002 but thereafter experienced a decline to stand at Rs.50,486 crores by 2007. This shows that the incidence of NPAs in Scheduled Commercial Banks has increased in absolute terms upto year 2002 but gradually receded afterwards. It is also evident from the fact that the annual rate of growth in gross NPAs which was 15.56 per cent in 1999, stood at 10.92 per cent in 2002 and recorded a negative growth in the following years ending with 2007 (-
Moreover, during 1998-2007, though the gross advances of the SCBs increased at 21.3 per cent, the gross NPAs registered a negative growth rate of 0.07 per cent. A similar trend can also be observed with respect to the Net NPAs. The rate of growth in Net NPAs which was 17.92 per cent in 1999, stood at 9.5 per cent in 2002 and 8.40 per cent in 2007 though registered negative in the intermittent years.

10. The analysis reveals that in the case of public sector banks the gross advances of Rs.2,84,971 crores in 1998 increased to Rs.14,64,493 crores by the year 2002 with a growth rate of 19.9 per cent. Contrarily the amount of gross NPAs of Rs.45,653 crores in 1998 declined to stand at Rs.38,968 crores registering a negative growth rate of 1.7 per cent. The decline in the absolute amount of gross NPAs of the Public Sector Banks is evident since 2002 where it is Rs.56,473 crores. The annual rate of growth in gross NPAs experienced a marked decline from 13.2 per cent to stand at –14.80 per cent in 2006 and –5.77 per cent in 2007. It can be concluded from the analysis that there is gradual decline in the gross advances as well as gross NPAs over a period of time.

11. The analysis reveals that over the period under review the non-priority sector contributed for a greater share of the total NPAs of public sector banks in most of the years (1997 to 2005). A bird’s eye view reveals that the share of the priority sector in the total NPAs which was 50.04 per cent in 1995 went up to 59.46 per cent in 2007, as against the dwindled share of non-priority sector. This affirms that the priority sector lending stands as a relatively strong breeding ground for NPAs in public sector banks over the years under review. The vulnerabilities of the priority sector and the policy
leniency of the government are in favour of the priority sector lending loan waivers etc.

12. It can be observed from the analysis that out of the total advances of the PSBs, the component of Standard Assets which was 76.5 per cent in 1993, though dropped down marginally to 75.02 per cent in 1994, continuously looked up to record appreciably at 97.3 per cent by 2007. On the other hand, the proportion of loss assets to total advances which was 2.3 per cent and 2.4 per cent respectively in 1993 and 1994 nose-dived to the ground to stand at 0.3 per cent in 2007. Thus the Net advances of the Public Sector Banks experienced a galloping increase over the years, the loss assets and the total NPAs have been well bridled and the standard assets well improved.

13. It can be noted that the growth of NPAs in private sector banks is comparatively alarming as evident from the fact that the tempo of the growth in the amount of NPAs over the years is menacingly higher, though the annual growth rates in NPAs have fluctuated. The severity of the problem can be gauged through the fact that with respect to the gross NPAs the annual growth rate ranged between –15.18 per cent (2005) to 93.11 per cent (2002) whereas in the case of Net NPAs, it is in between –29.42 per cent (2002) to 80.48 per cent (2004).

14. It is observed that in the case of foreign banks in India, the amount of both gross and net NPAs crept up over the years under review but the annual rate of growth in NPAs has come down indicating a decline in the intensity of the problem of NPAs in
foreign banks in India. The net NPAs of the foreign banks which experienced a growth rate of 30.03 per cent in 1999, though with intermittent fluctuations, came down to 14.72 per cent by 2007.

15. It is inferred from the analysis that compared to the private sector banks and foreign banks in India, the public sector banks and State Bank group could well contain the proportion of gross NPAs to gross advances. It can be observed that the Nationalised banks where the ratio of gross NPAs to gross advances of 16.88 per cent during 1997-98 consistently dwindled down to 2.27 per cent during 2006-07. Public sector banks experienced a decline in the ratio from 16.02 per cent to 2.7 per cent over the period under reference. The State Bank group also has gone with the wind where the ratio of gross NPAs to gross advances of 14.14 per cent in 1997-98 and 15.67 per cent in 1998-99 gradually dropped down to 2.6 per cent during 2006-07.

16. It can be observed that in the case of Nationalised banks the ratio witnessed a decline from 8.91 per cent during 1997-98 to 0.9 per cent during 2006-07. The State Bank group also, which recorded 6.89 per cent and 7.74 per cent of the ratio during 1997-98 and 1998-99 respectively, experienced a nosedive to only 1.3 per cent during 2006-07. Thus in the case of all the bank groups especially with respect to the public sector banks and State Bank group, the net NPAs as a percentage of Net advances remarkably came down. This indicates the improved recovery performance and a sensibly cautious management of NPAs.
17. The analysis reveals that among all the bank groups, a majority of banks are with the ratio of net NPAs to net advances only up to 10 per cent. In the case of the new private sector banks not even a single bank is with above 10 per cent ratio of Net NPAs to net advances during 1998-2007. But in the case of foreign banks, though the majority of the banks are with the ratio of net NPAs to net advances upto 10 per cent, there existed a few foreign banks with the ratio above 10 per cent and even above 20 per cent. In the case of public sector banks, though a majority of the banks are upto 10 per cent ratio of net NPAs to net advances, some banks stood with above 10 per cent of the ratio upto the year 2003. But since 2004 to 2007, all the public sector banks are with up to 10 per cent of the ratio indicating a marked fall in the incidence of NPAs.

18. It can be noted that the public sector banks including the nationalised banks and the State Bank group experienced a consistent decline in the ratio of gross NPAs to total assets. The public sector banks which stood with only 1.6 per cent of the ratio during 2006-07, consistently came down from 7.03 per cent during 1997-98. State Bank group where the ratio came down from 6.67 per cent during 1997-98 to 1.92 per cent during 2005-06.

19. It is inferred from the analysis that the public sector banks experienced a glaring decline in their ratio of net NPAs to total assets from 3.27 per cent during 1997-98 to only 0.6 per cent during 2006-07. In the case of State Bank group, the ratio comes down to 0.88 per cent (2005-06) from 2.89 per cent and 2.94 per cent respectively during 1997-98 and 1998-99. The public sector banks including the nationalised
banks and State Bank group experienced containment in the problem and incidence of NPAs and stood relatively ahead of the private sector banks and foreign banks in India in controlling the non-performing assets.

20. The analysis reveals that the total advances of SBI in the district was Rs.25,578.36 lakhs in 1998 and it increased to Rs.1,76,182.92 lakhs by the year 2007 registering a growth rate of 23.9 per cent. The gross NPAs and net NPAs respectively stood at Rs.3,527.25 lakhs and Rs.1,729.09 lakhs in 1999 constituting 13.79 per cent and 6.79 per cent respectively of the total advances. By the year 2007, the gross NPAs and Net NPAs of the SBI in the district respectively went-up to stand at Rs.6,712.56 lakhs and Rs.3,413.94 lakhs. Thus the SBI in the district experienced an increase in the magnitude of NPAs, but the rate of growth is relatively low compared to the total advances during the period 1978 and 2007.

21. An analysis of the composition of the total advances (Assets) reveals that in 1998 the standard assets accounted for 86.21 per cent as against the Non-Performing Assets (NPAs) share of 13.79 per cent. Between “1998 and 2007”, the growth in total advances is 23.9 per cent as against the growth in Standard Assets 25.4 per cent and only 7.4 per cent growth in total NPAs. It can be concluded that a major proportion of the total advances of the SBI in the district stand as Standard Assets whereas the menacing proportion of NPAs has been well contained though there observed an increase in the absolute amount of NPAs over the year.
22. The Non-Performing Assets, according to standard classification by the RBI, consist of the Sub-Standard Assets, Doubtful Assets and the Loss Assets. It is observed that the composition of NPAs of Rs.3,527.25 lakhs in 1998 includes Sub-Standard Assets (58.7%) followed by Doubtful Assets (34.7%) and Loss Assets (6.6%). The Sub-Standard Assets accounted for 48.58 per cent followed by doubtful assets 36.22 per cent and Loss Assets 15.22 per cent. The ratio of the sub-standard assets to NPAs has come down from 58.7 per cent (1998), though with intermittent fluctuations to 48.58 per cent by the year 2007. This shows that in the SBI in Krishna District, the loss assets have increased both relatively and absolutely followed by the doubtful assets which may contribute to intensify the magnitude of the NPAs of the bank. The problem highlighted can be further gauged through the fact that the compound annual growth rate in the loss asset is 17.59 per cent as against 7.9 per cent in doubtful assets, 7.41 per cent in total NPAs and only 5.18 per cent in sub-standard assets. It can be concluded that the menace of increasing loss assets can be traced through this analysis which need be contained to dilute the intensity of the problem of NPAs in SBI.

23. It can be observed that out of the total NPAs of SBI in the district, the priority sector accounted for a greater share ranging between 57.66 per cent (2005) to 67.60 per cent (1998) during the period 1998 to 2007. On the other hand, the share of Non-priority sector in the total NPAs ranging between 32.40 per cent (1998) to 42.44 per cent (2005). Thus the priority sector accounts for the major chunk of the magnitude of NPAs of SBI in the district. But the NPAs from the non-priority sector registered
relatively a higher growth standing ahead of the total NPAs and the NPAs from the priority sector.

24. It is observed that out of the total NPAs of the bank in the identified years (1998, 2003 and 2007), the priority sector assumes a lion’s share ranging from 63.53 per cent to 67.60 per cent whereas the non-priority sector accounts for the minor share ranging between 32.40 per cent to 36.47 per cent. Moreover, it could also be noticed that the share of the priority sector, though dominant, has come down from 67.60 per cent in 1998 to 63.53 per cent in 2007, and in contrast the share of non-priority sector in total NPAs exhibited an upward trend raising from 32.40 per cent in 1998 to 36.47 per cent in 2007. The priority sector accounts for a major share of the total NPAs, but it is the non-priority sector with a minor share that experienced a growth trend in the share of the total NPAs.

25. The analysis brings forth that during the identified years for analysis the share of the priority sector ranged between “62.50 per cent to 70.80 per cent”, whereas the non-priority sector assumed a share ranging between 29.20 per cent to 37.50 per cent. Moreover, the growth trend of different classes of assets, between 1998 to 2007 reveals that in the case of priority sector, the standard assets registered marginally a higher growth rate (25.9%) as against 24.4 per cent growth of the non-priority sector with respect to the standard assets. This shows that the standard assets in the case of priority sector advances by the SBI in the district recorded relatively a higher growth compared to the non-priority sector. In the case of SBI in Krishna district, though the priority sector accounted for a dominant share of the NPAs and other identified
classes of assets, over the years under reference, the priority sector could register comparatively a promising rate of growth in standard assets and a reliving decline in the growth of loss assets.

26. It can be noted from the analysis that the provisioning for D3 doubtful assets as a ratio of the total provisions of doubtful assets which was 4.85 per cent in 1998, looked up to 25.47 per cent in 2004 and stood at 9.73 per cent in 2007. The D3 doubtful assets matter much in swelling of the total NPAs of SBI in Krishna district. Moreover, the provisioning for D3 assets registered an increase in its magnitude both absolutely and relatively over the years under review.

27. It is observed that in the year 1998, out of the total doubtful assets of Rs.1,225.20 lakhs, the D1 doubtful assets constituted 58.36 per cent followed by D2 category (35.27%) and D3 category (6.37%) with respect to provisions also in 1998, out of the total provisions of Rs.311.65 lakhs, the provision for D1 category accounted for 45.89 per cent followed by D2 (41.59%) and D3 12.52 per cent. By 2007, there appears a marked shift in the composition of total doubtful assets and the associated provisioning. Out of the total doubtful assets of Rs.2,431.32 lakhs, the D1 doubtful assets assumed a share of 43.50 per cent followed by the D2 (36.54%) and the D3 (19.96%). With regard to the total provisions of Rs.720.67 lakhs, the provision for D2 assets (Rs.266.54 lakhs) accounted for 36.98 per cent followed by D3 (33.67%) and D1 (29.35%). It can be surmised that the doubtful assets under D1 and D2 category contributed much for the magnitude of the NPAs, whereas during the later
years under review, the doubtful assets under D3 category i.e., those over due for above six years increasingly contributed for bulging up of the amount of NPAs.

28. It can be noted that the asset provisioning on loss assets as a ratio of total provision of NPAs of the bank was 28.86 per cent in 1998, but it crept up to 42.92 per cent in 2006 and stands at 41 per cent in 2007. As a component of NPAs of the SBI in the district, the loss assets matter much. On the whole, the doubtful assets under the D3 category and also the loss assets stand as the eye of the problem of NPAs in the bank.

29. It can be observed that the annual percentage of reduction to NPAs recovered between 24.23 per cent (1998) to 45.10 per cent (2001). On the other hand, the percentage of additions to NPAs, during the same period ranged between 29.25 per cent (2000) to 69.22 per cent (2003). This scenario indicates that the additions to the incidence of the NPAs have been at a greater pace when compared to the pace of reduction but a sign of relief is that, between 1998 and 2007, the growth rate in the magnitude of reductions in NPAs is 1.58 per cent as against 3.6 per cent in additions.

30. It can be observed that the share of cash recovery in the total reduction of NPAs has gradually come down from 58.4 per cent in 1998 to 26.2 per cent in 2007. On the other hand the reduction of NPAs through up gradation of assets (from loss to doubtful, doubtful to sub-standard and sub-standard to standard assets) which was 11.8 per cent in 1998 has improved to stand at 47.4 per cent in 2007. Compromise through one time settlement and write off of NPAs assume a minor proportion of the total reduction in NPAs over the years. The analysis thus helps to infer that the
reduction in NPAs of SBI over the years has been largely due to the upgradation of assets followed by the cash recovery. This signifies that the SBI in Krishna district has been much on the task of diluting the menace of NPAs.

31. Recovery of NPAs through Lok Adalat is a widely followed practice of the contemporary period. The total number of cases settled in this process was 37 involving the amount of Rs.28.5 lakhs in 1998 out of which an amount of Rs.11.5 lakhs (40.35%) could be recovered. The number of cases settled through Lok Adalat has increased to stand at 62 involving an amount of Rs.84.2 lakhs out of which only Rs.16.2 lakhs (19.24%) could be recovered. SARFAES Act which is prominently known as Securitisation Act has came into force since 2003. By the SBI in Krishna district under SARFAES Act, 258 cases were identified and action was initiated in only 54 cases (20.93%) leading to the recovery of the amount of Rs.30.5 lakhs in 2003. The number of cases identified under the Act has remarkably increased to 1,055 cases in 2007, whereas action was initiated in 544 cases (54.13%) resulting in the recovery of an amount of Rs.162 lakhs. From the analysis, it can be inferred that compared to the recovery proceedings through the Lok Adalat, the initiations under SARFAES Act by the bank have considerably increased over the years under reference.

32. It could be observed from the study that though the SC and BC community borrowers constitute a sizeable proportion of 59.2 per cent, they lag behind the forward caste people in running the unit successfully and also in financial well-being and loan repayment. This is because the borrowers belonging to SC, ST and BC communities
are observed to have low annual income and also meagre asset back-up. Moreover, the value of savings is low and debt levels are high in borrowers of these communities. All these factors have been observed to influence the repayment ability, defaulting status and NPA accumulation.

33. It is observed that the bank borrowers belonging to the SC, ST and BC communities are relatively with low levels of education, occupational skills and knowledge in running an enterprise. It could be surmised that this inhibits the entrepreneurs belonging to the above stated communities in successful management and operation of the enterprise.

34. The family size of the borrowers which is observed to have an average total members of above 4 to influence the saving capacity and the expenditure levels. This is observed to act positively for accumulation of NPAs.

35. Occupation is an important economic variable to influence the economic capacity and social status of an individual. As observed the primary occupation of the many of the respondents are running small businesses and agriculture. Moreover, about 84.3 per cent of the borrowers do not have any secondary occupation. These observations help to surmise that the income generating capacity and potential for saving stay at low levels.

36. Besides the size of the family, the rate of economic dependency is also observed higher in the case of the borrower respondents. This is because of the traditional culture of dependence of family members, the head of the family as a single earning member. The low number of earning members, high rate of dependence, limited
source of income and also low levels of income add fuel to the fire in intensifying the problem of non-repayment and consequently the NPAs.

37. The analysis reveals that the rising of the annual expenditure levels, the low savings intensity coupled with the increasing debt trap of the borrowers deter not only their repaying ability that also dilutes their willingness to pay, thus the low debt servicing ability and diluted willingness to pay on the part of the borrowers contribute in the direction of flaring up the problem of NPAs in the bank.

38. It is observed that there is considerable delay in disbursing the loan by the bank after loan application by the borrower. Moreover, the gap between sanction and disbursement of the loan is also observed much against the interest of the borrowers in commencing their business in time without cost escalation and the other associated problems.

39. It is widely felt by the borrower respondents that there is a complicated security considerations and dimensions that insisted by the bank in sanctioning, disbursement as well as recovery of loans. No doubt the security emphasis helps the bankers to minimise the NPAs but it complicates the procedure in obtaining the loan. This procedural cumbersomeness and security complications do need a favourable consideration and concern of the bank officials in respect of NPA management.

40. It is observed that the majority of loans sanctioned by the banks, in respect of the select respondents have been towards the purpose of self-employment.
41. It is observed that in respect of the repayment of the loan paid to the bank, the annual expenditure of the borrowers, number of years and dependants in the family and debt condition have been observed to have a significant influence when compare to the annual income and saving levels.

42. The repaying habit of the borrower respondents has been observed not positive as evident from the fact that a majority of the respondents paid a less proportion of an average of 36.6 per cent of the total instalments due to the bank.

43. The intensity of the loans outstanding to the bank as evident from the ratio of loan outstanding to the total amount of the loan of the borrowers with the banks stands alarming. It is observed that with respect to the majority of the borrowers the ratio of loans outstanding to the total amount of loan stands above 50 per cent. Moreover, the number of instalments to be paid by the borrowers stands over due causing a concern to the bank. Further, there observed a chronic irregularity in the payment of scheduled instalments to the bank by the borrowers. It is found that those borrowers who have paid just 10 instalments regularly are only 50.5 per cent of the total borrowers in addition to the unpaid instalments as a proportion of total instalments to be paid stand very high and call for the attention of the concerned.

44. The borrowers of the bank loan are observed to have resorted to multiple borrowing from different sources like many lenders, NBFCs and private banks. Therefore, they are under pressure to meet the payment obligations from other sources which stand a potential reason for turning the bank loan as NPA due to the non-payment or inability
in debt service. On the whole, the irregularity in repayment of loan to the bank is largely due to the multiple borrowing, inadequate income and high pressure from private institutions etc.

45. Multiple loan repayment obligations, inadequate income generation, insufficiency of funds etc., of the borrowers enhance the menace of NPAs with the bank.

46. The weak fundamentals of knowledge of the borrowers with respect to the technical, marketing, production and marginal issues of the unit concerned, besides the absence of adequate experience and level of knowledge in running the unit also found to contribute for driving the borrower to non-payment and consequently turning the accounts of the bank as NPAs and the unit as sick.

47. It is observed that a considerable proportion of the borrowing enterprises are facing closure due to symptoms of sickness. Among the facts responsible for such a state of affairs, the prominent are observed to be uncontrolled expenditure, declining income, insufficient working capital, increase in credits and intensity of competition, besides the increased pressure and harassment for loan repayment from other sources like indigenous bankers, NBFCs and private money lenders.

48. For proper repayment of the loan, the ability as well as willingness of the borrower to repay the loan matters significantly. It is observed that though a majority of above 93 per cent of the borrowers have willingness to repay the loans, they are found lacking in ability. Therefore, the borrowers stand impossible and indifferent in repaying the
loans to the bank. They are hardly found to stick on to the terms of the loans as majority of them prefer rescheduling and extension of time for repayment.

49. The insufficiency or non-availability of funds banned by the low returns generated by the business, the diversification of funds for conspicuous consumptions for activity such as marriages, family functions, in addition to the unforeseen expenditure to health, are observed to force the borrowers for seeking extension of time and also rescheduling of the loans for repayment.

50. A majority of the borrowers from the bank (93.3%) have reported to face a number of operational, financial, managerial and business environmental problems in running their units. The chief among such problems is the market acceptance and the inability to capture the market. As high as 86 per cent of the respondents reported the problem relating to market acceptance of the product. Moreover, a majority of 84.3 per cent of them reported their inability to make adequate arrangements for marketing and transportation problems taking the reasons of improper timing of loans and also lack of sufficient funds for such a phenomenon.

51. It is observed that the loan repayment scenario is highly influenced by the socio-political pressure. It is also felt by a majority of 97.8 per cent of the borrower respondents.

52. In the management of NPAs proper monitoring and regular follow-up for repayment of loans by the bank authorities is significantly called for. Though such monitoring and follow-up is said to exist, as endorsed by 90.1 per cent of the borrowers, the
seriousness and desired objective orientation in such monitoring and frequency of visits by the bank authority are not encouraging.

53. For ensuring the repayment of the loan, reminders from the bank authorities, frequent visits to the borrower premises and creating enlightenment and awareness among the borrowers in general and the defaulters in particular are very important. Though such efforts are observed to exist, the frequency, direction and the modus operandi of such arrangements are found not at the desirable level. In addition, the bank is found to conduct recovery camps for diluting the intensity of the NPAs to a less extent as it can be assessed from the fact that 73.1 per cent of the borrower respondent reported that the bank authority does not conduct the loan recovery camps. And moreover, the frequency and timing of conducting such recovery camps are reported to be uncertain and without prior notice.

54. In the present competitive business environment, skill empowerment to the borrower entrepreneur is essential for survival, sustainability and success of any assisted unit by the bank. It is observed that many of the borrowers do not have the basic skills of running the business. In addition, the bank is not taking any requisite initiative in skill building through training. It is as stated by 77.4 per cent of the respondents that they have not received any training. Moreover, even though 22.6 per cent of the borrowers reflected that they are trained by the bank, the content of the training is branded as unqualitative, ritualistic and without purposive orientation.
Undoubtedly, neither it is the normal expectation nor it is the bank’s job to train the borrower. Moreover, the bank is absolutely not equipped to be a business consultant in a variety of industries and markets. Though the banks establish alliance with the local educational institutions or NGOs, necessary expertise and practical oriented training could not be possible and moreover, the professional bodies like Chamber of Commerce, existing active entrepreneurs and entrepreneurial training institutes can be resorted to by the banks in this regard.

55. Dealing with defaulting borrowers strategically according to the procedural arrangements is the need of the hour in the case of public sector bank by the SBI. For settling with the loan defaulters the modes of asset reconstruction, compromise through one time settlements, proceeding through the debt recovery tribunals and Securitisation Act are generally resorted to. Among the stated modes of the settlements the loan defaulters of the bank widely resorted to the securitisation act followed by the proceeding of the debt recovery tribunals and one time settlement etc.

56. The progress of scheduled commercial banks in India is remarkable by the fact that the amount of gross advances which was Rs.3,52,679 crores in 1998 increased tremendously to Rs.20,12,510 by 2007 with a growth rate of 21.3 per cent. In case of SBI of Krishna District, the extent of growth in advances registered a growth rate of 23.9 per cent over a period under reference increasing from Rs.25,578.36 lakhs in 1998 to Rs.1,76,182.92 lakhs. The gross NPAs of SCBs in India which amounted to Rs.50,815 crores in 1998, increased to Rs.70,861 crores in 2002 and stood at Rs.50,486 crores by 2007 registering a compound annual growth rate of 0.07 per cent.
But in the case of SBI in the Krishna District, the amount of gross NPAs which was Rs.3,527.25 lakhs in 1998 after intermittent fluctuations increased to Rs.5,969.24 lakhs in 2005 and further escalated to Rs.6,892.27 lakhs in 2006, but marginally declined to Rs.6,712.56 lakhs in 2007. Thus between 1998 to 2007, the gross NPAs of SBI in Krishna District experienced a compound annual growth rate of 7.4 per cent which indicates a trend of divergence with SCBs in India.

57. The net advances of SCBs experienced a compound annual growth rate of 19.9 per cent as against –1.7 per cent in the amount of net NPAs. However, in the case of SBI in Krishna District, the extent of net advances increase registered a growth rate of 23.9 per cent and the extent of Net NPAs increase experienced 7.8 per cent growth rate.

58. The ratio of gross NPAs to total advances SCBs in India was 14.41 per cent during 1997-98 though increased to 14.70 per cent (1998-99), came down to 2.51 per cent during 2006-07. A similar trend of the ratio could be observed in the case of the SBI in Krishna district, as the ratio stood 13.79 per cent in 1997-98, though went up to 15.32 per cent (1998-99), gradually came down to stand at 3.81 per cent by the year 2006-07. A similar trend in the behaviour of the ratio could be observed in the case of the other groups of banks also. The analysis helps to observe that there is a marked convergence between the total SCBs in India and the SBI in the district under study with respect to the trend of gross NPAs as a percentage of total advances.
59. The ratio of Net NPAs to Net Advances in the case of SBI in Krishna District was 6.76 per cent in 1997-98 escalated to 6.92 per cent in the following year, but consistently dwindled down to 1.94 per cent during 2006-07. Thus, it can be observed that the ratio of Net NPAs to Net Advances of SBI in the district under study behaved (1997-98 to 2006-07) absolutely in tune with the ratio of total SCBs and other groups of banks in the country.

60. There has been a sea change in the public policy and orientation of banks in the direction of marketing. Consequently, just like sales targets, it has become a strategy of marketing and sales to fix targets for the amount of loan sanctions. In this regard, all the respondents reflected that changing targets stand as the task for them in sanctioning loans. Sometimes this is reported to stand as a constraint for the bankers in recovery the loans.

61. India being a welfare state constitutionally, the wellbeing of the downtrodden and disadvantaged sections of the society stands in the priority of the Government policy. The public sector banks like SBI are instrumental in implementing the Government policy of sanctioning of loans on the basis of socio-demographic factors. Though recovery of loans is somewhat sluggish in the case of the loans sanctioned to the socially and economically disadvantaged groups, it is imperative for the banks to sanction in view of the policy emphasised by the Government and also the RBI.

62. It is to the observation and assessment that absence of motivation in bank staff, lacuna of effective monitoring, inadequate manpower are the frontline internal issues
reported to contribute for the improper and inadequate assessment of the loan applications.

63. The Government is said to provide training to the entrepreneurial borrowers as reflected by 97.62 per cent of the bankers. Alliance with Government agencies and NGOs with regard to provision of training to borrowers stands as the *modus operandi*, as reported by 80.95 per cent of the bankers, in the provision of training to borrowers.

64. About 85.71 per cent of the bankers vehemently stated that the intensity of the defaulters is more in the case of Government sponsored schemes.

65. The priority sector is reported to account for 59.52 per cent of the loan defaulters as against only 40.48 per cent in the case of non-priority sector. This shows that much emphasis need be laid down with respect to priority sector, both in sanctions and recovery so as to manage the NPAs in banks with diligence.

66. The major vulnerability that poses the Indian Banking sector is levels of NPAs which are still not at the level of acceptability by prudent international standards. 100.00 per cent of the bankers opined NPAs occurred due to the wilful default of the borrowers followed by business failure (95.23%). It is also evident that diversion of funds to other activities (92.58%) and the lack of managerial skills among the borrowers (61.90%) are also the major reasons for the incidence of NPAs. About 71.42 per cent of the bankers do not agree that incidence of NPAs is due to the lapse in the bank follow-up (71.42%) and Government policy on loan waiver (80.95%).
Little over 90.48 per cent of the bankers opined continuous monitoring as the most needed measures to deal with the problem of NPAs. It is followed by the need for revision of policy by the Government policy on loan waivers (61.90%), stringent revenue recovery powers (42.80%), liberalising the lengthy legal system (28.57%) and punishment mechanism (21.43%).

**SUGGESTIONS**

The primary data and secondary data form the basis for the study analysis and interpretation. It need be noted that some of the inferences are based upon the observed phenomena. As the observation methodology holds good in research, some of the recommendations are derived from the observations of the researcher.

1. V.S. Kaveri and others (1997) found that an account becomes NPA because of improper selection of borrowers, under financing/delays in financing, socio-political pressure for financing, lack of income generation due to natural calamities, mismanagement of funds, lack of proper follow-up, wilful defaults, etc. The management of banks is seriously concerned about the growing NPA menace, which is taking its toll on the efficiency and profitability. The problem of NPA is multi-dimensional and unless the same is checked and the NPA level is brought down to the international standards of 2 to 3 per cent of total loan assets, it is bound to weaken the banking system.

2. The onus of solving the ever recurring NPA problem barely lies with the zonal office which is the controlling authority to manage the affairs of their NPA portfolio. They
should take up a review of branch-wise progress of NPAs in the zone and immediately fix targets monthly/quarterly for each branch for reduction of NPAs. Zonal banks should try hard to reduce the NPA level appreciably and also should see that new NPAs are not added.

3. NPA reduction is a task which could be achieved only by full involvement of all the staff. As a measure to create awareness among all cadres of the staff about the need for intensifying NPA reduction efforts and to motivate them to voluntarily involve in the task of NPA reduction action programme.

4. As a measure of ensuring that all the branches achieve the set goals in a planned and sustained manner and also to make the task of NPA reduction a continuous programme at field level, it is suggested to constitute recovery squads at branch level and recovery teams at each of the zonal offices for the purpose of continuous monitoring and regular follow-up with the branches.

5. The RBI has already come out in 2002 with broad guidelines for training, for framing the fair practices code with regard to lenders liability to be followed by commercial banks and financial institutions, emphasising on transparency and proper assessment of borrower’s credit requirements in this regard accountability has to be fixed on the concerned staff for the noticed deviations because regarding the internal factors leading to NPAs, the onus rests with the banks themselves. This calls for organisational restructuring, improvement in managerial efficiency, skill upgradation
for proper assessment of credit worthiness and change in the attitude of the banks towards legal action which is traditionally viewed as a measure of the last resort.

6. In the banking system, there is no dearth of measures for managing NPAs but the implementation is crippled because of understaffing at the branch level. The branch level staff is found inadequate even to carry out the regular banking operations. To match with the level of concern for NPA management every bank branch has to be not only adequately staffed but specially skilled human resource, for credit assessment, disbursement, NPA review, identification, recovery and NPA management, need be appointed.

7. Besides the broad policy framework suggested by RBI providing for the measures and procedures of managing NPAs, the individual banks and branches of the Bank should be given a free hand to design and implement their own policies for recovery and write-off incorporating compromise and negotiated settlements.

8. No doubt, the public sector banks like SBI have been maintaining sustained efforts in recovering problem loans but the provisioning for NPAs of these banks is around 50 per cent of gross NPAs. This level of coverage is quite low against International standards, which are high. Therefore, full provisioning towards already impaired assets, needs to be a priority corporate goal of a frontline public sector bank like State Bank of India.

9. Increasing provision for already impaired assets and NPAs and a close and objective oriented monitoring of credit at the levels of sanction, disbursement and operations
should be the priority for banks in general and for public sector banks in particular in the country. The SBI need to design dove-tailed mechanism based on situational analysis in order to minimise risks and over exposures. Moreover, the Credit Information Bureau (India) Ltd., (CIBIL) set up by the SBI in association with HSBC in August 2000 should be geared in the direction of systematising the credit and investment decisions by the SBI to curb the accretion of fresh NPAs.

10. Recovery action generally starts with a reminder letter to the borrower. The process of sending reminder letters continuously until recovery is made. But care is not taken to write the contents of the letter for proper pursuit of the borrower for repayment. Therefore, due care should be taken to write the contents of the letter to adequately motivate the borrower to come to the branch for payment of the instalments. No doubt the borrowers may not respond to the reminder and therefore it becomes essential to visit them personally. During the visits, the bank staff should enquire their difficulties in loan payment and request them to co-operate even by making a small payment. The personal visits should not have any sign of harassment. It need be cognitive that every planned visit to the borrowers premises helps in recovery through convincing.

11. The populist policies of the Government and the politically motivated schemes of loan waivers are observed to encourage an attitude of indifference among the borrowers especially with respect to the agriculture and priority sector loans. The borrower wilfully abstains from repaying the loan with an anticipation of the waivers. The Government should consider this observation and take necessary precautions in
this regard to resolve the plight of the public sector banks with respect to mounting NPAs.

12. Through a continuous review of NPAs in the bank, the borrowers are to be categorised to identify the regular payers who should be duly rewarded with incentives and concessions in interest and number of instalments. Moreover, as a measure of encouraging and creating awareness among the borrowers in general, for regular payment, the identified borrowers who are regular in paying instalments should be felicitated at the periodical customer meets organised by the bank.

13. As observed through the study the bank authorities have been dealing with the NPAs and projecting a reduction in the magnitude of NPAs through the adjustments in the records and books of accounts, besides rescheduling and writing-off of the loans a realistic reduction in the level of NPAs could not be achieved, therefore the bank authorities need to change their mindset and modus operandi in dealing with the NPAs by finding the root causes through systematic field studies and motivating the borrowers for repayment of the loan instalments.

14. The bank has to organise the customer meets in the rural areas. No doubt inadequacy of staff may be a serious bottleneck in this regard, therefore the banks have to plan the rural customer meets in collaboration with the NGOs and with the assistance of local Governments like village panchayatis. Moreover, in considering the eligibility of a candidate to contest the elections, the indebtedness to bank should also be taken into account.
15. Successful and sustainable running of the assisted unit is important for regular loan repayment and containing the problem of NPAs. This is not possible, if the funds for running the unit are inadequate. It is widely reported that the loan amount sanctioned by the bank is insufficient for running the unit successfully. This is the reason why the bank loan borrowers have been forced to resort to multiple loans even from the moneylenders. In view of this observation, the bank has to make a systematic pre-credit appraisal to judge the loan adequacy considering the nature and type of business proposed, to a large extent this helps to get rid of the problem of insufficiency of loan amount.

16. The necessary changes in the Banking Regulation Act and other Bank related Acts may be expedited, providing therein, repossession of the collateral, foreclosure and bankruptcy procedures for defaulting borrowers.

17. Priority sector lending involves more risk and less return. Hence, the priority sector lending benchmark of 40 per cent of net bank credit should be redefined as suggested by Narasimham Committee on Banking sector reforms.

18. State Governments have to pass legislations relating to recovery of bank dues and the defaulters have to be considered economic offenders and cases should be filed against them.

19. RBI has to take initiative and publish the list of defaulters (of at least more than one crore) in the daily news papers and frequently announce/display the names of very
big defaulters on T.V. in cinema theatres and at railway stations etc., and it makes other financial institutions be aware of such people.

20. Total elimination of NPAs is not possible in banking business owing to externalities but their incidence can be minimized. It is always wise to follow proper policy for appraisal, supervision and follow-up of advances to avoid NPAs. Armed with the securitisation Act recently, the banking industry is targeting to reduce its NPA with full vigor. Although the Act has no doubt given a lot of leverage to the banks to recover their NPAs, the success shall lie only in its proper and forceful enforcement. Given the situation that a large amount of NPAs are towards big industrialists who wield a considerable influence in the corridors of power, only strong political will on the part of Government to act against such elements will bring some tangible results to the fore.

21. Growing overdue and slow recovery from non-performing advances have been the matter of concern to banks, financial institutions, RBI and Government. Despite issuing policy guidelines on NPAs by the RBI and creating special tribunals, Board for Industrial and Financial Reconstruction (BIFR), strengthening the organizational arrangements etc., recovery from NPAs is yet to be stepped up.

22. The management of NPA’s in institutional agencies can be made easy with proper identification of the borrower, proper assessment of credit need, timely sanction and supervision. Utilizing the opportunity given for settlement of small NPA’s under Settlement Advisory Committee (SAC), encouraging compromise sanction in
deserving cases, quickening or expeditious disposal, or suit filed cases and realization of securities. Steps are to be initiated to involve all staff members in recovery to allocate identified accounts among all the staff members individually or by creating small teams for follow up and recovery.

23. The NPA problem needs to be tackled at two independent levels namely, policies and procedures, to rapidly reduce the current stock of NPA, and reforms that are needed to prevent future flow. To avoid further increase in the NPAs, Branch of the Bank must constitute a committee for sanctioning an advance. This committee must consist of an Officer (Advances), another supporting Officer, two additional staff and also a sub-staff. Before we go in for any proposal, we must take the opinion of the above and the same must be reported to the Branch Manager so that he can get a clear picture well before the release of the advance.

24. The problem of willful default arises because of the fact that the general atmosphere for frequent waiver and write-off have vitiated recovery of banks’ dues. Banks have at present virtually no power to exert pressure on willful defaulters. The threatening letters warning them of penal rate of interest and legal action carry no weight. It is suggested to set up a group of auctioneers. Banks should start with assignment of decrees in their favour. This will enable banks to sell/assign their decrees at an agreed discount to the auctioneers who would in turn execute it for its full worth.

25. NPA is not just a problem for banks, they are bad for the economy. The money locked up in NPA is not available for productive use and to that extent the banks seek
to make provisions for NPA or write them off. It adversely affects their profits and results in higher rate of interest to their diligent credit customers. This also raises the cost and thus denying the diligent credit customer. Steps taken at the appropriate time may help in avoiding NPA. Qualitative appraisal, supervision, and follow up should be taken up for the present advances to avoid further NPAs. Things have reached a stage where a broader look at some of the basic issues will have to be taken to improve banks general capabilities and to meet prudential requirements.

26. Banks should take full advantage of the tribunals by taking necessary steps. It is hoped that establishment of DRTs may not only facilitate quick decisions but also induce borrowers to enter settlements with banks. Establishment of Asset Recovery Branches at critical centers for undertaking recovery, fix targets of recovery and draw time bound action programmes will help reduce the NPAs to a certain extent.

27. The banks bottom line improvement largely depends on reduction in NPAs would also help to improve the profitability of banks. However good the credit dispensation process may be, total elimination of NPAs cannot be minimized. The following steps may be taken to reduce NPAs. Massive recovery campaigns are to be launched. At specific branches where recovery targets are allocated and budget for recovery may also be preferred, recovery agents may be appointed. Infrastructure/adequate machinery is provided to branch to render a helping hand. Branch managers are exhorted to exercise extraordinary care in the selection of fresh borrowers so that new borrower accounts does not enter in NPA list. A lot of understanding is needed among bank staff and customers to address themselves to the problem of recovery.
28. Better co-ordination between financial institutions and banks, a new credit insurance scheme for priority sector lending, gradual shift from bank based lending and sound credit risk management skills will enable banks to meet the challenges in the present environment and keep their NPAs low.

29. Banks, while granting advances, generally secure such advances with adequate collateral security. But, due to inordinate delay which is inherent in our legal system, bulk of the banks available resources gets blocked up. The Narasimham committee report has recommended introduction of legislation to set up special tribunals for speedy recovery which came into existence at certain centers. But the functioning of debt recovery tribunals is not satisfactory due to shortage of infrastructure facilities, staff, etc. which needs improvement.

30. It is always wise to follow proper policy for appraisal, supervision and follow-up of advances to avoid non-performing assets. Special Recovery cells may be set up at regional/zonal levels. Similarly, Recovery officers may be appointed at branches having sizeable NPAs and their recovery progress may be monitored on a monthly basis. Banks should encourage mergers acquisition of sick units wherever they feel it may reduce the NPAs. A large number of compromise proposals are being approved by banks with a view to reducing the NPAs and recycling the funds instead of resorting to reducing to expensive recovery proceedings spread over a long period.

31. The SBI realised this early and accordingly evolved an effective system of NPAs management which is crucial to resurrect its profitability over the past half a decade.
The bank undertook sincere efforts to scale down the magnitude of existing NPAs and avoiding of the emergence of new NPAs. Despite these efforts, the level of NPAs in the bank continues to be at undesirable level. The bank, therefore, needs further to strengthen its efforts to reach the desired level of NPAs in the years to come.

32. The experiences of branches covered in the study indicate that recovery from NPAs is possible if adequate care is taken. With pragmatic approach, sincerity and involvement of staff, recovery problem can be effectively solved. In other words, they should shoulder the recovery drive more enthusiastically and confidently. A vigorous effort has to be made by the bank to strengthen its internal control and risk management systems, and to set up early warning signals for timely detection and action.

33. The government and the other concerned agencies could device policies having a bearing on the industrial sector, agriculture and trade with a long term perspective to avoid sickness in the industry. The issue of Non-performing assets should, therefore, be treated as national priority to make the Indian Banking system strong, and geared to meet the challenges of globalisation.

34. At the pre-disbursement stage, appraisal techniques of all aspects of bank loan such as economic, commercial, organizational, technical and financial aspects of the project need to be sharpened and should be appraised realistically. Proper follow up and supervision is a must to ensure asset creation, asset utilization and to prevent under utilization and miss-utilization of loans.
35. Today the quality of loan assets is the most important factor for the basic viability of the banking system. The overdue advances of banks in India are mounting and as a consequence, the NPAs in their portfolio are on the rise, impinging on the banks viability. This not only hampers the banks profitability but also reduces their ability to recycle the funds for productive purpose. Avoidance of loan losses is one of the preoccupations of management of banks. While complete elimination of such losses is not possible, bank management should aim at keeping the losses at low level. Infact, it is the level of NPAs which to a great extent, differentiates between a good and bad bank.

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