Commercial's

NPA Management in Public & Private Sector Banks in INDIA

Causes & Remedial Measures

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CA. (Dr.) Amarjit Chopra

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WITH THE BLESSING OF MATA VAISHNO DEVI

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Dedicated to

My Parents

Late Sh. Sardari Lal Chopra and
Late Smt. Bimla Vati Chopra

and

My wife Monika (Dimpy) Chopra

Foreword

Non-Performing Assets (NPAs) in banks can be likened to cholesterol in the human body—the higher the levels, the greater the risk to the health of the overall banking system. A strong and well-functioning banking sector is fundamental to economic stability, and NPAs pose a significant challenge to its integrity and efficiency. In fact, any discussion on Indian banking is incomplete without addressing this critical issue, as public trust in financial institutions hinges on their soundness and resilience.

It is in this context that Dr. Amarjit Chopra's book, *NPA Management in Public & Private Sector Banks in INDIA – Causes & Remedial Measures*, emerges as a valuable and timely contribution. This work, born out of extensive research, offers insights into the causes of NPAs and actionable solutions to address them.

Dr. Chopra is far from being an armchair academician. He is a seasoned professional with extensive experience in the financial sector, having served as a leading Chartered Accountant and a former President of the Institute of Chartered Accountants of India. His active involvement in various policymaking committees and his tenure as a board member in several financial institutions further underscore his deep expertise. Enriched by his doctoral research on NPAs, Dr. Chopra has consistently been a significant voice in shaping India's financial landscape. I had the privilege of knowing him during his time as a board member while I was leading a large bank, and I can personally attest to the valuable contributions he has made to the sector.

This book presents a rigorous study of the performance of six banks—three from the public sector (State Bank of India, Central Bank of India, and Bank of Baroda) and three from the private sector (HDFC Bank, ICICI Bank, and Axis Bank). Dr. Chopra meticulously identifies the key patterns and underlying causes of NPAs while offering well-founded recommendations for more effective NPA management in Indian banks.

Among his critical findings are:

- Advances without tangible collateral are more prone to becoming NPAs.
- Internal shortcomings such as poor credit appraisal, weak underwriting standards, and ineffective credit monitoring exacerbate the issue.
- External factors, including corruption, political interference, and policy changes, significantly contribute to the problem.

While recovery mechanisms like Debt Recovery Tribunals, Lok Adalats, One-Time Settlements, and asset sales to Asset Reconstruction Companies have played a role in mitigating NPAs, the Insolvency and Bankruptcy Code (IBC) emerges as the most effective tool for recovery.

Dr. Chopra also provides a comprehensive set of 15 recommendations—both curative and preventive—to curb the emergence of NPAs in the Indian banking sector. Particularly noteworthy are his suggestions to:

- Provide budgetary support for recoveries stemming from government-directed, collateral-free lending.
- Link bankers' incentives to the long-term performance of the loans they sanction.

The analysis in this book further reveals the stark contrast between public and private sector banks in terms of NPA levels. Public Sector Banks face higher NPAs, largely due to:

1. Less timely and effective recovery measures.
2. Weaker credit monitoring mechanisms.
3. Greater political interference in sanctioning and restructuring loans.

This meticulously researched book is an invaluable resource for bankers, policymakers, and researchers. Its practical insights and actionable recommendations hold the potential to significantly enhance the resilience of India's banking system, contributing to broader financial stability.

Dr. Anil K. Khandelwal
Former CMD, Bank of Baroda and Dena Bank
Author of *Dare to Lead* and *The Gym of Leadership*

Preface

Indian banking industry is faced with the serious problem of huge amount of nonperforming Assets (NPAs). Banks big or small, public or private all are carrying the burden of NPAs in all sectors of economy. Infrastructure projects have contributed in a large measure to the kitty of NPAs. It appears that ever greening of accounts was resorted to in a big way by the banks and financial institutions till the time RBI cracked its whip and undertook Asset Quality Review across the banking system and this brought to surface the ground reality of NPA problem.

The incidence of non-performing assets (NPAs) is affecting the performance of the credit institutions both financially and psychologically. Non-performing assets (NPA) in many ways have rendered banks and bankers to be non-performing as these have:

- Prevented or delayed recycling of funds.
- Delayed income receipt and recognition of interest on such assets.
- Erosion of profits by way of huge provisions.

RBI has laid down prudential norms for classification of assets, income recognition and provisioning. Generally, an asset has to be classified as Non-Performing in case the borrower defaults on payment of interest and /or principal for a period exceeding 90 days. This applies to term loans and bills discounted/ purchased by banks. In case of working capital limits, if the account remains irregular for a period exceeding 90 days the account is classified as NPA. Irregular account means one in which the limits are exceeded from sanctioned limits or the drawing power. Also, in these loans if the interest remains unserviced in total or in part, the account is classified as non-performing.

NPA is a disorder resulting in non-performance of a portion of loan portfolio leading to non- recovery or under recovery of principal and/or income to the lender. NPAs represent the quantified “Credit Risk”. All this also plays havoc on the mental make-up of the banker where in the banker tries to go slow on lending, fearing future NPAs, which may lead to delay and denial of credit resulting in low off- take of lendable funds. NPAs are a burden on the banking industry. Success and health of a bank depends upon the methods of managing NPAs and keeping them within tolerance level.

Banks need to monitor their standard assets regularly for early detection of the weaknesses in the accounts and to take appropriate measures to prevent them slipping to NPA category.

There are four types of assets including Non-Performing Assets according to the guidelines given by the Reserve Bank of India, these are:

1. **Standard assets**: A standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset is not a non-performing assets.
2. **Sub-standard assets**: With effect from March 31, 2005 is the one which has remained NPA for a period less than or equal to 12 months.
3. **Doubtful assets**: With effect from March 31, 2005, an asset is classified as doubtful if it has remained in the sub-standard category for a period of 12 months. Such an asset has all the inherent weaknesses as in a sub-standard asset and an added characteristic that the weaknesses make the collection or liquidation in full highly improbable or questionable.
4. **Loss assets**: A loss asset is one where loss has been identified by: (i) The bank (ii) The internal or external auditors (iii) The RBI inspection. But the amount has not been written off wholly. In the other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. Generally, an asset is considered to be a Loss Asset, if the available security against the asset is less than ten percent of its value.

It may be noted that the above classification is meant for the purpose of computing the amount of provision to be made in respect of advances. The balance sheet presentation of advances is governed by the Schedule III of Banking Regulation Act, 1949.

Provisioning norms for NPA'S

Classification of loan assets requires the banks to make sufficient provision against each of the NPA accounts for possible loan losses as per prudential norms laid down by RBI. Provisioning requirements as per the RBI guidelines are furnished below:

- According to RBI, "A general provision of 15 percent on total outstanding should be made without making any allowances for ECGC guarantee cover and securities available".
- NPA under substandard asset category the 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 25 per cent on the outstanding balance.
- Unsecured portion of Doubtful Assets is to be provided for 100 per cent.

- In respect of secured portion of the Doubtful Assets the provision according to the length of the period for which the asset the remained doubtful.

Up to one year	25%
One to three years	40%
More than three years	100%

- Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

Factors contributing to rising NPAs

The banking sector is facing problem of fast rising NPAs. As compared to private and foreign bank public sector banks are witnessing this problem of higher magnitude. The NPAs have grown due to internal and external factors of the environment. These are:

Internal factors

1. **Poor Appraisal Process:** Deficiencies are observed in appraisal system as here under
   - Accepting higher projections in projects
   - Accepting higher level of current assets and lower level of current liabilities in assessing the working capital requirements
   - Accepting improper valuations
   - Flaws in verification of securities
   - Non adherence to common principles of lending
   - Non verification of antecedents of the promotor.
   - Inadequate assessment of capabilities of promotor's and management abilities to run the projects.
2. **Inappropriate Technology:** Due to inappropriate technology and management information system, market decisions on real time basis cannot be taken. Proper MIS and financial accounting system is not implemented in some banks, which leads to poor credit collection and thus NPAs. All the banks need to integrate their entire systems on a common platform to overcome this factor.
3. Inadequate knowledge of the markets in various sectors leading to poor credit analysis.
4. Poor monitoring of compliance with the terms and conditions of the sanction.
5. Absence of regular visits to borrowers premises
6. Non coordination amongst various banks to share information on borrower's conduct on regular basis.

External factors

1. **Legal impediments in recoveries:** The banks have found it difficult to effect recoveries due to legal hurdles. Despite setting up of the NCLT all the issues have not been resolved. In certain cases suits and in many cases decrees have been pending for a long time in courts of law. Enforcement of securities has been a major issue.
2. **Willful Defaulters**: It is well said that the units go sick but the promoter's become fat. There are large number of cases of siphoning off of the funds or diversion of funds by unscrupulous promoters. There are cases wherein despite the ability to pay the borrowers do not repay to bank and take advantage of lax recovery laws.
3. **Natural calamities:** This is one of the major factors, which is creating alarming raise in NPA in public sector banks especially in India major hit by natural calamities thus making a borrower unable to pay back their loans particularly in the agricultural sector.
4. **Industrial sickness:** Improper project handling, ineffective management, lack of adequate resources, lack of adequate technology give birth to industrial sickness and causes growth of NPAs.
5. **Government policies:** With the changing governments the banking sector gets new policies for its activities. Waivers of loans by certain Government's has promoted financial indiscipline and has dissuaded even able and willing borrowers not to repay thereby increasing the NPA level in the banking.
6. **Fear of 3C's:** There is a growing fear amongst bankers with regard to C&AG, CVC and CBI and they are not willing to extend credit thereby fueling sluggishness in economic activity and consequently accentuating NPA growth.

The present book is mainly divided in two parts, such as (1) Theoretical description and (2) Empirical analysis. In theoretical description, the first Chapter shows the introduction of the non-performing assets, the second Chapter discusses the Recoveries under Insolvency and Bankruptcy Code, 2016. The third Chapter reflects the genesis and historical growth of the public and private sector banks in India along with the history of the banks which are under stud. The fourth Chapter begins with the Research Methodology and the review of the literature related to the research work. The fifth chapter deals with the analysis of the NPA on the basis of the research methodology and RBI guidelines. The sixth Chapter deals with the measures taken to resolve NPA issues. The summary of the major findings and suggestions are given in the sixth Chapter.

(Amarjit Chopra)

Brief Profile of (Dr.) Amarjit Chopra

Born in June 1952, Amarjit Chopra did his graduation and post graduation from Delhi University in the years 1971 and 1973 respectively. He qualified as Chartered Accountant in the year 1975 and has been in the profession for a period of more than 46 years. He is a senior partner in GSA & Associates LLP Chartered Accountants New Delhi. He was also engaged in teaching at Deshbandhu (Eve.) College, a Delhi University maintained college for nearly 23 years.

He was elected to Northern India Regional Council of ICAI for two terms 1985-88 and 1988-91 and was its Chairman for the year 1988-89. He was elected to Central Council of ICAI for five consecutive terms of three years each beginning 1998 and ending 2013.He was elected as President of ICAI for the year 2010-11 and Vice President for the year before. During his term as Central Council Member he was member of various Standing and Non Standing Committees of ICAI. He Chaired some of the most significant Committees namely Accounting Standards Board, Auditing and Assurance Standards Board, Financial Reporting Review Board, Corporate Laws Committee, Expert Advisory Committee, Disciplinary Committee, Executive Committee, Examination Committee etc.

He was nominated by Govt of India on the Board of Bank of Baroda (2006-09), Indian Bank (2011-14), Garden Reach Ship Builders and Engineers Ltd (2011-14). He chaired Audit Committees of all the aforesaid companies. He was also on the Board of Insurance and Regulatory Authority (IRDA), South Asian Federation of Accountants, Confederation of Pacific Accountants for the year 2010-11. He was a member of the Committee on Accounting Issues of Insurance Companies constituted by IRDA.

He was nominated by Central Govt. as the Chairman of National Advisory Committee on Accounting Standards for a period of four years from 2014-18. During his this tenure Ind As equivalent to IFRS were introduced in the country. As Chairman Accounting Standards Board of ICAI he introduced IFRS certificate course and organised and participated in IFRS training programmes in Middle East, Nepal, Bhutan, Mynmmar and India. He was also nominated by Govt of India as member of Investor Education Protection Authority. He Chaired the Committee constituted by Govt to revise Manufacturing and Other Companies Auditors Report Order (MAOCARO) in 2003 and to revise Companies Auditor's Report Order (CARO) in the year 2019.Presently he is Part Time member of National

Reporting Authority (NFRA). He is also a member of Standing Committee on Corporate Laws constituted by Govt of India for last three years.

He acted as Technical Advisor to International Auditing and Assurance Standards Board of IFAC during the year 2009-10. He was a member of Professional Accountancy Organising Development Committee (PAODC) of IFAC for a period of three years (2011-14). He was Vice Chair of the Committee during 2013-14.

He has been conferred honorary membership by Australian Institute of Chartered Accountants. He has also been conferred honorary life membership by International Association of Accountants London. In his professional career he has conducted statutory/internal/forensic audits of large number of public sector organisations.

He is a prolific writer and speaker. He has delivered more than 3000 lectures on matters of professional interest in India and abroad. He is on the roaster of IMF as a resource person and has conducted missions in Mauritius, Bhutan and Seychelles. He has participated in debates on various TV channels. He has jointly authored a book on Indian Accounting Standards (IndAS)

He is recipient of "PGDAV Rattan" award from PGDAV College New Delhi and Lifetime Achievement award from Ramanujan College Delhi University. He is on the Board of Tata Power Delhi Distribution Companies Ltd (TPDDL), Tata Power Trading Company Ltd, SBI Mutual Fund Trustees Companies Pvt Ltd, Rico Auto Industries Ltd., Roop Auto Ltd, Accounting Research Foundation Ltd etc. He is the Chairman Audit Committee in most of these companies.

He has keen interest in music and sports particularly cricket.

Acknowledgement

Writing this book has been a journey of learning and growth, and I am deeply grateful to those who have supported me along the way.

First and foremost, I wish to acknowledge my parents Sh. Sardari Lal Chopra and Smt Bimla Vati Chopra, whose values and principles and blessings have shaped the person I am today. Also, I acknowledge the role of my Parents in law Sh. Gurdial Singh Chaudhary and Smt. Kamla Chaudhary whose blessings have stood me in good stead. I also express my sincere appreciation to my brothers and sisters for their constant belief in me and inspiring me all along.

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I am especially indebted to Tax Guru - Dr. Girish Ahuja ji, my source of inspiration, whose knowledge and mentorship have profoundly influenced my perspective.

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My gratitude goes out to the publishers of this book and all the fine people in the editorial team, including Ms Sunita Kackar. They have been extremely patient and have put their time and efforts to perfect this publication.

This book would not have been possible without the guidance, inspiration, and support of these incredible individuals. To each of you, I extend my deepest thanks.

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About the Book

Non-Performing Assets (NPAs) have emerged as one of the most critical challenges that Indian banking sector is facing today. This book provides an insightful examination of the causes, consequences and corrective measures related to the NPA crisis in a clear and structured manner. It explores the impact of NPAs on banking performance, credit growth and economic health through a balanced blend of theory and empirical analysis.

Key themes include the classification and provisioning norms prescribed by the RBI, the role of infrastructure financing, wilful default, legal bottlenecks, and the effectiveness of the Insolvency and Bankruptcy Code (IBC). The book also traces the historical development of public and private sector banks in India and presents field-based findings supported by robust research methodology.

It is an essential read for finance professionals, policy-makers, students of banking and finance and anyone interested in the evolving dynamics of India's financial system.

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