A DISSERTATION REPORT

ON

INDIAN BANKING INDUSTRY AND PROBLEM OF NPAs

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ABSTRACT/EXECUTIVE SUMMARY

Granting of credit facility for economic activities in the main reason of banking. Apart from raising the resources' through the fresh deposits, borrowing etc. recycling of the funds received back from borrowers constitute a major part of funding credit dissension activity. Non recovery of installment as also interest on the loans portfolio negates the effectiveness of this process of the credit cycles. Non recovery also effect s the profitability of the banks besides being required to maintain more owned funds by way of capital and creation of reserves and provisions to act as the cushion for the loans losses. Avoidance of the loan losses is one of the pre-occupation of the management of the banks. While complete elimination of the losses is not possible, bank management aims at keeping the loan losses at lowest level. In fact it is the level of non-performing advances which, to a great extent differ between a good and bad bank. Mounting NPAs may have more wide spread repercussions. To avoid shock waves affecting the system, the salvaging exercise is done by the Government or by the Industry on the behest of the Government/Central Bank of the country pulling pressure on the exchequer.

In India the NPAs, which are considered to be at higher levels then those in other countries, have, of late, attracted attention of the public as also International Financial Institutions. This has gained further prominence in the wake of transparency and disclosures measures initiated by RBI during recent years. The Committee on Financial System, Capital Account Convertibility Committee on Non Performing Assets of Public Sector Banks have been dealt with the subject of NPAS in Indian Banks. The subject of high NPAs level in banks has also been frequently raised in various for a. these developments have prompted us to undertake a study of NPAs in banks, to understand the problem, its genesis and influence on the banking industry.

In this report there are five chapters . The first chapter on banking industry – growth and emerging issues discussing the history of Indian Banks and its growth and development. The second chapter on Non-performing Assets – Theoretical explains the concept of Non-performing Assets, the norms provided by RBI, causes and effects of NPAs.

Third chapter on research design includes review of literature, objectives of the study, scope of the study, research methodology, plan of the study and limitations.

The fourth chapter on NPAs deals with the presentation, analysis and interpretation of the data. The data has been collected from various reports of RBI and analysis has been done on its basis. The fifth chapter concludes the study and gives more findings and suggestions.

CHAPTER – I

BANKING INDUSTRY – GROWTH & EMERGING ISSUES

CHAPTER -1

BANKING INDUSTREY – GROWTH AND EMERGING ISSUES

The Indian financial system comprises of an impressive network of banks and other financial and investment institutions offering a wide range of products and services which together function in a fairly developed capital and money market. The Indian banking industry is characterized by a move towards liberalization of the financial, money and capital market and its globalization by entering foreign trade as per the changes in the global economy. It has seen many changes in the last decade. Greater competition among banks, entry of new private banks, merger and increasing complexity in business are it's critical success factors. Also more emphasis is given to risk management. Even though NPAs is not a new phenomenon for the past few years Indian banks have been weighted down by it's enormous amounts. It has caused banking crisis and sometimes even threatened the very health of the banking system. In spite of ht prudential norms framed by the RBI and continued focus of the various policy initiatives of the govt. of India a continuous increase of the NPAs level has been experienced by all Indian banks with some variations. Apart from the internal and external complexities, increase in NPAs directly affects banks profitability, sometimes even theirs existence. This chapter covers the history of the banking industry, nationalization and it's growth over the period. The development in the commercial banking and the financial performance of the scheduled commercial banks is also discussed here.

HISTORY OF BANKING

The Indian banking sector is consisted of the Reserve Bank of the India (RBI), which is the central bank, commercial banks and co-operative banks. Commercial banks are of two types – Scheduled Commercial Banks, which are subject to statutory requirements and Non-scheduled Commercial Banks, which are not. Scheduled banks can be classified further into Public Sector Banks[comprising of the State Bank of India, it's seven associates, other nationalized banks and the Regional Rural Banks (RRBs)] and the private sector banks, which can be either domestic or foreign. The primary objective of the nationalization in 1969 was to provide assistance at concessional rates of the interest to relatively backward areas.

Pursuant to the nationalization, the banking sector became dominated by a plethora of the rules and regulations. Nationalization increased the scale of the banking operations substantially but, at the cost of the profitability and efficiency of the banking system; in many instances, this led to a piling of the Non-Performing Assets (NPAs) with the banks causing major concerns.

As part of the reform process initiated after the balance of payment crisis in 1991, large scale of the reforms brought about in the financial sector in general and in the banking sector in particular. As the architect of these reforms , Mr. Narsimham (1998) had pointed out, the reforms in the banking sector can be classified into two phases: the first phase is consisted of the *curative measures,* which were brought about for making the banking sector more oriented to the market and impart competition to the environment. The second phase consisted of the *preventive measures,* which were brought about to ensure smooth functioning of the banking sector in the long run. The primary curative measure included the reduction of the reserved requirements , interest rate deregulation and lifting of the entry barriers. Other important measures introduced in this category included prudential reforms in terms of the following capital adequacy norms as well as adhering to well-defined assets classification and provisioning standards. Supervisory and regulatory reforms were introduced to ensure transparency and adequate risk management practices were made mandatory. The thrust of the preventive measures was primarily on the privatization and govt. stake was reduced to 30 %. The establishment of the assets reconstruction company was envisaged and capital adequacy norms were made stringent. Besides these, there was an Endeavour to convert “weak banks” into “narrow banks” and changes were also brought about in wage negotiation.

With increased competition, in 1994-95, six private banks namely UTI Bank Ltd, ICICI Banking Corporation ltd, Global Trust Bank Ltd, Centurion Bank Ltd, and HDFC Bank Ltd were set up. In 1995-96four new private banks namely Times Bank Ltd, Bank of Punjab Ltd, Development Credit Bank Ltd and IDBI Bank Ltd were set up. Thus, by 1995-96, a total of nine private sector banks were in operation. Now there are a total of 30 private sector banks in India.

DEVELOPMENT IN COMMERCIAL BANKING

During the year 2004-05, the strong macroeconomic environment and supporting monetary and financial policies had a favorable impact on business growth and financial performance of the commercial banks. The balance-sheet of the banks witnessed further strengthening due to the robust growth of the deposits on the liabilities side accompanied by strong growth of the loans and advances, and investment on the assets side. The record growth in bank credit in the priority sector including agriculture, small industries and ther sector including housing, and also in non-priority sector including the consumer credit reflected an improvement in access to credit. There was a significance improvement in the assets quality and profitability of commercial banks with a continuing focus on inte-grated risk management system to monitor credit, market and operational risk, recovery management and corporate governance practices. The capital to risk weighted assets ratio showed further improvements across various banks. A notable achievement was that despite the switch over to 90 days delinquency norms with effect from March 2004, gross non-performing assets declined in absolute terms in a second successive year. Despite sluggish income growth consequent upon the lower interest rates prevailing, the momentum of high growth of profits witnessed in recent years was sustained during 2003-04 mainly driven by the substantial increase in interest income and a significant containment in the overall expenditure, primarily, interest expenditure as shown in the table. This section further

Regional Spread of Banking

The total number of branches of SCBs at end-June 2005 was 68,316 comprising 32,091 rural branches, 15,387 semi-urban branches and 20,838 urban and metropolitan branches. The share of rural branches declined further to 47.0 per cent during 2004-05 from 47.7 per cent of the previous year. In recent years, a number of new branches have been opened in urban and metropolitan area, while the share of semi-urban branches has remained more or less unchanged. As a result, the share of urban and metropolitan branches in total branches has increased, while that of rural branches declined. The share of top hundred centers in aggregate deposits and gross bank credit increased during 2004-05, reflecting the increase in share of offices and branches. The share of top hundred centers in credit was higher than their shares in deposits, implying that deposits raised in other centres were deployed to meet the high credit demand at these centers. The Southern region continued to account for the highest percentage of existing bank branches. Also, most of the new branches during 2004-05 were opened in the Southern region. In terms of existing bank branches, Southern region was followed by the Central region, the Eastern region & the Northern region.

Guidelines for Licensing of New Banks in the Private Sector

Preamble

Over the last two decades, the Reserve Bank of India (RBI) licensed twelve banks in the private sector. This happened in two phases. Ten banks were licensed on the basis of guidelines issued in January 1993. The guidelines were revised in January 2001 based on the experience gained from the functioning of these banks, and fresh applications were invited. The applications received in response to this invitation were vetted by a High Level Advisory Committee constituted by the RBI, and two more licences were issued.

The Union Finance Minister had made an announcement in his budget speech for 2010-11 that the RBI was considering giving some additional banking licences to private sector players. Non-Banking Financial Companies could also be considered, if they meet the RBI's eligibility criteria.

In pursuance of the budget announcement, the RBI put out a Discussion Paper on its website on August 11, 2010 inviting feedback and comments.

The Discussion Paper elicited wide response from the general public, consultants, existing banks, industrial and business houses, Non-Banking Financial Companies, Micro Finance Institutions, etc. through emails and letters. There was extensive discussion in the media through analytical pieces as well as editorial opinion. The RBI also held discussions with important stakeholders. The gist of these comments and discussions was placed on the RBI's website on December 23, 2010.

The draft guidelines on 'Licensing of New Banks in the Private Sector' were framed taking into account the experience gained from the functioning of the banks licensed under the guidelines of 1993 and 2001 and the feedback and suggestions received in response to the Discussion Paper. The draft guidelines were placed on the RBI's website on August 29, 2011 for comments. The comments received on the draft guidelines have been examined. The guidelines have been finalized taking into account the important amendments in December 2012 to the Banking Regulation Act, 1949, the suggestions/comments received on the draft guidelines and in consultation with the Government of India.

While preparing these guidelines, the Reserve Bank recognizes the need for an explicit policy on banking structure in India keeping in view the recommendations of the Narasimham Committee, Raghuram Rajan Committee and other viewpoints. Accordingly, the Reserve Bank would come out with an overall policy discussion paper on banking structure in India within two months.

2. Guidelines

(A) Eligible Promoters

(i) Entities / groups in the private sector that are 'owned and controlled by residents' [as defined in Department of Industrial Policy and Promotion (DIPP) Press Note 2, 3 and 4 of 2009 / FEMA Regulations as amended from time to time] and entities in public sector shall be eligible to promote a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

(ii) Promoters / Promoter Groups[1] with an existing non-banking financial company (NBFC) will be eligible to apply for a bank licence. If considered eligible for promoting a bank, they will have to comply with the requirements laid down in these guidelines as also the conditions specified in paragraph 2 (L) below.

(B) 'Fit and Proper' criteria

Promoters/ Promoter Groups as defined in these guidelines should be 'fit and proper' in order to be eligible to promote banks through a wholly owned NOFHC. RBI would assess the 'fit and proper' status of the applicants on the basis of following criteria:

(a) Promoters/ Promoter Groups should have a past record of sound credentials and integrity;

(b) Promoters/ Promoter Groups should be financially sound and have a successful track record of running their business for at least 10 years.

RBI may, *inter alia*, seek feedback on applicant Groups on these or any other relevant aspects from other regulators, and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, etc. as deemed appropriate.

(c) Promoter / Promoter Groups' business model and business culture should not be misaligned with the banking model and their business should not potentially put the bank and the banking system at risk on account of group activities such as those which are speculative in nature or subject to high asset price volatility.

(C) Corporate structure of the NOFHC

(I) Promoter / Promoter Group will be permitted to set up a bank only through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

(ii) The capital structure of the wholly-owned NOFHC set up by Promoter / Promoter Groups in Private Sector shall consist of :

a) voting equity shares not exceeding 10 per cent of the total voting equity shares of the NOFHC held by any individual belonging to the Promoter Group, along with his relatives (as defined in Section 6 of the Companies Act 1956) and along with entities in which he and / or his relatives hold not less than 50 per cent of the voting equity shares, and

b) companies forming part of the Promoter Group whereof companies in which the public hold not less than 51 per cent of the voting equity shares shall hold not less than 51 per cent of the total voting equity shares of the NOFHC.

(iii) The NOFHC shall hold the bank as well as all the other financial services entities of the Group regulated by RBI or other financial sector regulators. The objective is that the Holding Company should ring fence the regulated financial services entities of the Group, including the bank from other activities of the Group i.e., commercial, industrial and financial activities not regulated by financial sector regulators and also that the bank should be ring fenced from other regulated financial activities of the Group. Thus, only non-financial services companies / entities and non-operative financial holding company in the Group and individuals belonging to Promoter Group will be allowed to hold shares in the NOFHC. Financial services entities whose shares are held by the NOFHC cannot be shareholders of the NOFHC.

(iv) The general principle is that no financial services entity held by the NOFHC would be allowed to engage in any activity that a bank is permitted to undertake departmentally. In this context, it is clarified that :

(a) RBI requires certain specialised activities, such as, insurance, mutual funds, stock broking, infrastructure debt funds, etc. to be conducted through a separate Subsidiary / Joint Venture / Associate structure;

(b) There are certain activities such as credit cards, primary dealers, leasing, hire purchase, factoring, etc., which a bank can conduct either from within the bank or through a separate outside structure (Subsidiary / Joint Venture / Associate).

Accordingly, the activities at (a) above and activities at (b) above which are to be carried outside the bank will have to be carried out through separate financial entities under the NOFHC.

(v) RBI will have to be satisfied that the corporate structure does not impede the financial services entities held by the NOFHC from being ring fenced, that it would be able to supervise the bank, the NOFHC, and its Subsidiaries / Joint Ventures / Associates on a consolidated basis, and that, it will be able to obtain all required information relevant for this purpose, smoothly and promptly. However, the primary supervision of the entities held by the NOFHC will be by the sectoral regulators.

(vi) The NOFHC shall not be permitted to set up any new financial services entity for at least three years from the date of commencement of business of the NOFHC. However, this would not preclude the bank from having a subsidiary or joint venture or associate, where it is legally required or specifically permitted by RBI.

(vii) Only those regulated financial sector entities in which a Promoter Group has significant influence[2] or control will be held under the NOFHC.

(viii) The Promoter / Promoter Group entities / individuals associated with Promoter Group shall hold equity investment, in the bank and other financial entities held by it, only through the NOFHC.

(ix) Shares of the NOFHC shall not be transferred to any entity outside the Promoter Group. Any change in shareholding (by the Promoter Group) with in the NOFHC as a result of which a shareholder acquires 5 per cent or more of the voting equity capital of the NOFHC shall be with the prior approval of RBI.

(D) Minimum voting equity capital requirements for banks and shareholding by NOFHC

(i) The initial minimum paid-up voting equity capital for a bank shall be `5 billion. Any additional voting equity capital to be brought in will depend on the business plan of the Promoters.

(ii) The NOFHC shall hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked in for a period of five years from the date of commencement of business of the bank.

(iii) Shareholding by NOFHC in the bank in excess of 40 per cent of the total paid-up voting equity capital shall be brought down to 40 per cent within three years from the date of commencement of business of the bank.

(iv) In the event of the bank raising further voting equity capital during the first five years from the date of commencement of business, the NOFHC should continue to hold 40 per cent of the enhanced voting equity capital of the bank for a period of five years from the date of commencement of business of the bank. Voting equity capital, other than the holding by NOFHC, could be raised through public issue or private placements.

(v) The shareholding by NOFHC shall be brought down to 20 per cent of the paid-up voting equity capital of the bank within a period of 10 years, and to 15 per cent within 12 years from the date of commencement of business of the bank.

(vi) The capital requirements for the regulated financial services entities held by the NOFHC shall be as prescribed by the respective sectoral regulators. The bank shall be required to maintain a minimum capital adequacy ratio of 13 per cent of its risk weighted assets (RWA) for a minimum period of 3 years after the commencement of its operations subject to any higher percentage as may be prescribed by RBI from time to time. On a consolidated basis, the NOFHC and the entities held by it shall maintain a minimum capital adequacy of 13 per cent of its consolidated RWA for a minimum period of 3 years.

(vii) The bank shall get its shares listed on the stock exchanges within three years of the commencement of business by the bank.

(E) Regulatory framework

(i) The bank will be governed by the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, other relevant Statutes and the Directives, Prudential regulations and other Guidelines/Instructions issued by RBI and other regulators from time to time, including the regulations of SEBI regarding public issues and other guidelines applicable to listed banking companies.

(ii) The NOFHC will be registered as a non-banking financial company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.

(iii) The financial entities held by the NOFHC will be governed by the applicable Statutes and regulations prescribed by the respective financial sector regulators.

(F) Foreign shareholding in the bank

Notwithstanding the current FDI policy, where foreign shareholding in private sector banks is allowed up to a ceiling of 74 per cent of the paid-up voting equity capital, the aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector banks shall not exceed 49 per cent of the paid-up voting equity capital for the first 5 years from the date of licensing of the bank. No non-resident shareholder, directly or indirectly, individually or in groups, or through subsidiary, associate or joint venture will be permitted to hold 5 per cent or more of the paid-up voting equity capital of the bank for a period of 5 years from the date of commencement of business of the bank. After the expiry of 5 years from the date of commencement of business of the bank, the aggregate foreign shareholding would be as per the extant FDI policy.

(G) Corporate governance of NOFHC

The NOFHC should comply with the corporate governance guidelines as issued by RBI from time to time. Such guidelines may include the following:

(i) No NOFHC shall have as a Director in its Board of Directors, any person who is a Director in any other NOFHC or a bank other than a banking company under it.

(ii) No NOFHC shall be managed by any person-

(a) who is a Director in any other company not being

- a subsidiary of the NOFHC or
- a company registered under Section 25 of the Companies Act, 1956 (1 of 1956) or

(b) who is engaged in any other business or vocation.

(iii) NOFHC shall comply with such soundness standards in terms of corporate governance including ‘fit and proper’ criteria, as applicable to banks[3] to the extent they are appropriate.

(iv) At least 50 per cent of the Directors of NOFHC shall be totally independent of the Promoter or Promoter Group entities and their major customers and major suppliers[4].

(v) The Independent Directors referred to above shall have special knowledge or practical experience in respect of one or more of the following matters, namely,

(a) Accountancy, (b) Agriculture, rural economy and co-operation, (c) Banking, (d) Insurance, (e) Economics, (f) Finance, (g) Micro, Small and Medium Enterprises (MSME), (h) Law; or, (i) any other matter, the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to NOFHC.

(vi) NOFHC shall be managed professionally with adequate corporate governance standards.

(vii) Ownership and management shall be separate and distinct in the NOFHC, the bank and entities regulated by RBI.

(viii) The source of funds for Promoters’ and Promoter Groups’ equity in the NOFHC shall be transparent and verifiable.

(ix) NOFHC shall ensure that there is a policy in place for ascertaining the ‘fit and proper’ criteria for appointment of Directors of the NOFHC.

(x) NOFHC shall undertake a process of due diligence to determine the suitability of the person for appointment and/or continuing to hold appointment as a Director on its Board based on qualification, expertise, track record, integrity and other ‘fit and proper’ criteria.

(xi) NOFHC shall obtain from every Director, a Deed of Covenant and a declaration and undertaking in its favour, as may be specified by RBI.

(xii) NOFHC shall obtain an annual declaration from its Directors that the information provided has not undergone change and where there is any change, obtain requisite details from them forthwith.

(xiii) NOFHC shall have a Nomination Committee to perform due diligence in respect of its Directors.

(xiv) Nomination Committee shall scrutinize Deed of Covenant and declaration and undertaking submitted by each of its Directors and on a continuing basis perform due diligence in respect of each of its Directors and the NOFHC shall report to the Reserve Bank if any of its directors fails to fulfill the 'fit and proper' criteria as specified by Reserve Bank from time to time.

(xv) NOFHC shall have a Remuneration Committee of the Board to decide on the compensation payable to the key management executives of NOFHC.

(H) Prudential Norms for the NOFHC

The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis. Some of the major prudential norms are as under:

(i) NOFHC on a stand-alone basis

(a) Prudential norms for classification, valuation and operation of investment portfolio[5].

(b) Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances[6].

(c) The NOFHC for the purpose of its liquidity management can make investments in bank deposits, money market instruments, government securities and actively traded bonds and debentures.

(d) The NOFHC shall create a reserve fund and shall, out of the balance of profit each year as disclosed in the profit and loss account and before any dividend is declared, transfer to the reserve fund a sum equivalent to not less than 25 per cent of such profit.

(e) Any dividend proposed to be paid by the NOFHC to its shareholders shall be payable only out of the profits and further subject to meeting the following conditions:

- Compliance with all prudential norms prescribed for the NOFHC both on stand-alone as well as consolidated level.
- There are no serious observations by any of the regulators / supervisors of the NOFHC as well as of entities held under it.
- The financial statements of the NOFHC both on stand-alone and consolidated level shall be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

(f) The NOFHC shall closely monitor its liquidity position and interest rate risk. For this purpose, the NOFHC shall prepare a structural liquidity statement (STL) and interest rate sensitivity statement (IRS)[7].

(g) The NOFHC may have a leverage up to 1.25 times of its paid-up equity capital and free reserves. The actual leverage assumed within this limit should be based on the ability of the NOFHC to service its borrowings from its dividend income.

(ii) NOFHC on a consolidated basis

(a) NOFHC shall maintain capital adequacy and other requirements on a consolidated basis based on the prudential guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF) issued under Basel II framework and Guidelines on Implementation of Basel III Capital Regulations in India[8], when implemented.

(b) The NOFHC shall prepare consolidated financial statements and other consolidated prudential reports in terms of the Guidelines for 'consolidated accounting and other quantitative methods to facilitate consolidated supervision' contained in circular DBOD.No.BP.BC.72 /21.04.018/2001-02 dated February 25, 2003[9] and in terms of Scope of Prudential Consolidation indicated under Basel III Capital Regulations[10].

(c) The consolidated NOFHC shall adhere to the instructions on disclosure in Financial Statements - Notes to Accounts[11].

(d) The consolidated NOFHC shall prepare a structural liquidity statement (STL), interest rate sensitivity statement (IRS)[12].

(I) Exposure norms

(i) Exposure norms for stand-alone NOFHC

(a) NOFHC shall not have any credit and investment (including investment in equity / debt capital instrument[13]) exposure to any entity belonging to the Promoter Group except those held under it.

(b) NOFHC shall not have any equity, debt capital and credit exposure to any entity outside the Group including other NOFHCs or other banks, financial and non-financial entities.

(c) NOFHC's exposure for the purpose of its liquidity management [please refer to paragraph 2 (H) (i) (c)] to non-Group entities will be within the extant exposure limits[14].

(ii) Exposure norms for consolidated NOFHC

(a) The consolidated NOFHC shall adhere to all the exposure norms[15] on the consolidated basis such as single and group borrower exposure limits, capital market exposure limit etc, as applicable to bank groups.

(b) The consolidated NOFHC's investments in the capital instruments issued by banking, financial and insurance entities outside its Group together with the unconsolidated[16] financial and insurance entities within the Group should not exceed 10 per cent of its consolidated capital funds.

(iii) Exposure norms for the bank

(a) The bank cannot take any credit and investments (including investments in the equity/debt capital instruments) exposure on the Promoters / Promoter Group entities or individuals associated with the Promoter Group or the NOFHC.

(b) The bank shall not invest in the equity / debt capital instruments of any financial entities under the NOFHC.

(c) The bank's credit and investment (other than equity / debt capital instruments) exposure to financial entities under the NOFHC will be subject to Intra-Group Transactions & Exposures (ITEs) norms[17].

(d) The bank cannot invest in the equity of other NOFHCs.

(e) The bank's investments in equity / debt capital instruments of other banks / financial institutions including other NOFHCs[18]should be guided by the extant cross holding norms.

(f) The bank's permissible exposures will be as per extant exposure norms..

(g) Investment in equity by the bank in the entities engaged in financial and non-financial activities, outside the Promoter Group would be subject to a limit of 10 per cent of the investee entity's paid-up share capital or 10 per cent of the bank's paid-up share capital and reserves, whichever is less, and the aggregate of all such investments should not exceed 20 per cent of the bank's paid-up share capital and reserves.

(iv) Exposure norms for the financial entities (other than bank) held by the NOFHC

There is a need for the financial entities held by the NOFHC to follow certain overarching principles in order to avoid round tripping of funds and to avoid circular movement of funds in the banking group, such as :

(a) The financial entities held by NOFHC shall not have any credit and investments (including investments in the equity/debt capital instruments) exposure to the Promoters / Promoter Group entities or individuals associated with the Promoter Group or the NOFHC.

(b) The financial entities held by NOFHC shall not make investment in the equity / debt capital instruments amongst themselves.

(c) The entities held by the NOFHC cannot invest in equity instruments of other NOFHCs.

(J) Business Plan for the bank

(a) Applicants for new bank licences will be required to furnish their business plans for the banks along with their applications. The business plan will have to address how the bank proposes to achieve financial inclusion.

(b) The business plan submitted by the applicant should be realistic and viable. In case of deviation from the stated business plan after issue of licence, RBI may consider restricting the bank's expansion, effecting change in management and imposing other penal measures as may be necessary.

(K) Other conditions for the bank

(i) The Board of the bank should have a majority of independent Directors.

(ii) Any acquisition of shares which will take the aggregate holding of an individual / entity / group to the equivalent of 5 per cent or more of the paid-up voting equity capital of the bank, will require prior approval of RBI.

(iii) No single entity or group of related entities, other than the NOFHC, shall have shareholding or control, directly or indirectly, in excess of 10 per cent of the paid-up voting equity capital of the bank.

(iv) Without prejudice to the requirements under paragraph 2 (I) (iii) (a), the bank shall maintain arm's length relationship with Promoter / Promoter Group entities, and the major suppliers and major customers of these entities.

(v) In taking a view on whether an entity belongs to a particular Promoter Group or not or whether the entities are linked / related to the Promoter Group, RBI will be guided by the provisions of the Banking Regulation Act, 1949, Accounting Standards and other related factors. The decision of the RBI in the matter will be final.

(vi) The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks. For this purpose, the bank should build its priority sector lending portfolio from the commencement of its operations.

(vii) The bank shall open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census) to avoid over concentration of their branches in metropolitan areas and cities which are already having adequate banking presence.

(viii) The bank should operate on Core Banking Solutions (CBS) from the beginning with all modern infrastructural facilities.

(ix) The bank should have a high powered Customer Grievances Cell to handle customer complaints.

(x) Banks promoted by Groups having 40 per cent or more assets / income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond `10 billion for every block of `5 billion. RBI while examining such proposals would primarily look into whether the corporate governance standards are adequate, whether information from Promoter Group has been forthcoming to facilitate consolidated supervision and whether the Board members remain 'fit and proper'.

(xi) The compliance of terms and conditions laid down by RBI is an essential condition of grant of licence. Any non-compliance will attract penal measures including cancellation of licence of the bank.

(L) Additional conditions for NBFCs promoting / converting into a bank

The Promoters / Promoter Groups with an existing NBFC, if considered eligible for a bank licence, will have three options:

(a) Promote a bank, if some or all the activities undertaken by the NBFC are not permitted to be undertaken by banks departmentally. In such cases, the activities undertaken by the NBFC which banks are allowed to undertake departmentally, will have to be transferred to the new bank, or

(b) Convert the NBFC into a bank, if all the activities undertaken by it are allowed to be undertaken by a bank departmentally. In such a case, the NBFC shall have a minimum networth of `5 billion, or

(c) Convert the NBFC into a bank and divest the activities which banks are not allowed to undertake departmentally. In such a case, the bank shall have a minimum networth of `5 billion.

Under the above options, the Promoters will have to set up a NOFHC. The NOFHC and the bank set up under it should comply with all the requirements laid down in the guidelines. RBI will consider allowing the bank to take over and convert the existing NBFC branches into bank branches only in the Tier 2 to 6 centres. Existing branches of the NBFC in Tier 1 centres may be allowed to convert into bank branches only with the prior approval of RBI and subject to the existing rules / methodology applicable to domestic banks regarding opening of branches in these centres and also subject to maintaining 25 per cent of the bank branches in unbanked rural centres (population up to 9,999 as per the latest census) required of all banks as specified in 2 K (vii) above.

CHAPTER – II

NPAs - THEORITICAL SURVEY

CHAPTER-II

NON-PERFORMING ASSETS – A THEORTICAL SURVEY

This chapter is on non-performing assets- a theoretical survey and it explains the concept of Non-performing Assets (NPAs), the norms provided by RBI, causes of NPAs and its effects on the banking industry. These are discussed hereunder:-

Introduction

Its known fact that banks and financial institution in India face the problem of swelling non-performing assets and the issue is becoming more and more unmanageable. In order to bring the situation under control, some steps have been taken recently. The securitization and the reconstruction of the Financial Assets and enforcement of the4 Security Interest Act, 2002, was passed by Parliament, which is an important step towards the elimination or the reduction of the NPAs.

Meaning of NPAs

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

RBI guidelines on income recognition (Interest income on NPAs).

Bank recognizes income including interest income on advances on accrual basis. That is, income is accounted for as and when it is earned. The prima-facie condition for accrual of income is that it should not be unreasonable to expect it' ultimate collection however, NPAs involves significant uncertainties with respect to its ultimate collection. Considering this fact, in accordance with the guidelines for income recognition issued by the Reserve bank of India, bank should not recognize interest income on such NPAs until it is actually realized.

RBI guidelines on classification of bank advances

Reserve Bank of India has issued guidelines on provisioning requirement with respect to bank advances. In terms of these guidelines, bank advances are mainly classified into:

Standard Assets: such an asset is not non-performing assets. In other words, it carries not more then normal risk attached to the business.

Sub-standard Assets: It is classified as non-performing assets for a period not exceeding 18 months.

Doubtful Assets: Assets that has remained NPA for a period exceeding 18 months is a doubtful asset.

Loss Assets: Here loss is identified by banks concerned or by internal auditors or by Reserve Bank of India (RBI) inspection.

In terms of RBI guidelines, as and when an asset becomes an NPAs, such advance would be first classified as a sub-standard one for a period that should not exceed 18 months and subsequently as doubtful assets. It should be noted that the above classification is only for the purpose of computing the amount of the provision that should be made with respect to bank advances and certainly not for the purpose of the presentation of advances in the bank balance sheet.

The third schedule to the Banking Regulation Act, 1949, solely governs presentation of advances in the balance sheet. Banks have started issuing notices under the Securitization Act, 2002 directing the defaulter either pay back the dues to the bank or else give the possession of the secured assets mentioned in the notice. However, there is potential threat of recovery if there is substantial erosion in the value of security given by the borrower or if borrower has committed fraud. Under such a situation it will be prudent to directly classify the advances as a doubtful or loss assets, as appropriate.

RBI guidelines on provisioning requirement of bank advances

As and when an asset is classified as an NPAs, the bank has to further sub classify it into sub-standard, loss and doubtful assets. Based on this classification, bank makes the necessary provision against these assets. Reserve Bank of India has issued the guidelines on provisioning requirements of the bank advances where the recovery is doubtful. Banks are also required to comply with such guidelines in making adequate provision to the satisfaction of its auditors before declaring any dividend on its shares.

In case of loss assts, guidelines specifically require that full provision for the amount outstanding should be made by the concerned bank. This is justified on the grounds that such an asset is considered uncollectible and cannot be classified as bankable assets.

Also in case of doubtful asset, guidelines requires the bank concerned to provide entirely the unsecured portion and in case secured portion an additional provision of 20%-50% of the secured portion should be made depending upon the period for which the advance has been considered as doubtful.

For instance, for NPAs which are up to one year old, provision should be made of 20% of secured portion, in case of 1-3 year old NPAs up to 30% of the secured portion and finally in case of more then three years old NPAs up to 50% of secured portion should be made by the concerned bank.

Non-performing assets in the Indian banking industry

Traditional view

Non-performing assets in the banking sector may be termed as an asset not contributing to the income of the bank or can be termed as zero-yield asset when applied particularly to loans and advances. The non-performing assets inter-alias include surplus cash and bank balance held over the norms/optimum level, amount lying in the suspense account, investment in shares and debentures of the company not yielding any dividend or interest, advances where interest is not forthcoming and even the principal amount is difficult of recovery, suit filed/decreed and bad and doubtful debts etc. while suspense account and cash balance are within the control of the bank, it is the amount locked up in the non-performing loans assets that is causing the concern.

The premises, equipment, furniture, vehicle and like constitute the infrastructure assts and physical assets. The information on the obsolescence or performance of these assets is not available through financial statement or any other management information system. The information for judging the performance of these assts thus is not available. It seldom receives the attention of the senior management since no relevant data is available.

Different authors have tried to define the NPAs. Bhaskaran Roa has attempted to define non-performing assets as “an asset which does not directly contribute to a bank’s profitability”. He further stated that non performing assets are essentially loans and advances interest on which it is doubtful to be realized. While banks have always had bad loans or “problem loans” on the one side and “good” or “performing loans” on the other, the concept of non performing assets in its current form gained currency with default of sovereign loans made by western banks to the Latin American nations. In the ‘dictionary of finance’ Eitan A-A, Avneyou described non performing assets as “…..loans for which no interest is paid for a specific period …..Often ones made to foreign countries”. In 1977, the securities and exchange commission of the United States defined non-performing loans as “Loans which are contractually past due for 60 days or more as to interest on principal payments and loans, the term of which has been renegotiated to provide a reduction or deferral of interest or principal…..”

Gross NPAs

Gross non-performing assets (NPAs) is the total outstanding of all the borrowers classified as non-performing assets (viz., substandard, doubtful and loss assets).

Net non-performing assets

Net non-performing assets is the gross NPAs minus gross provision made, unrealized interest and unadjusted credit balances with regard to various NPAs accounts.

1.6 Factors of NPAs

In the last two decade or so, recovery of loan has become a major problem for banking industry. More and more borrows are twining useful defaults taking the benefit of mainly inherent deficiencies in our legal system. The problem of recovery has been further aggravated by the external factor like the Government loan worker scheme other reasons are:

1. Non availability of proper, sufficient and valid securities.
2. Weak monitoring appropriate lending policies.
3. Improper execution of documents.
4. Lack of constant efforts towards recovery.
5. Cumbersome time consuming and costly legal process.
6. Lack of technical and marketing skill expertise.

7. Commercial policy of government

8. Personal reason of Borrower Company.

9. Target oriented approach to lending

10. Slow disposable of recovery cases under the public debt recovery act.

11. Wrong identification of beneficiaries.

12. Genuine viability problem of borrowing unit.

13. Willful default induced by officially anno9unced loan waiver scheme.

14. Lack of due diligence on the part of staff and loans proposal are approved by the board as the matter of routine.

15. Systematic failure and corruption.

1.6.1 `There are also some of the preventive measure that should be dealt

Efficient credit appraisal

Credit monitoring

Credit risk rating

Imparting good training to bank officers

Monitoring of standard assets

When a borrower becomes a defaulter, a Bank may have two remedies viz. either to file a suit in the court of law for recovery of dues or to adopt non legal remedies depending upon the circumstances of each case.

1.7 RECOVERY METHODS

1.7(a) NON-LEGAL REMEDIES

Non legal remedies are gaining popularity with the bankers. The banks have realized that litigation never comes to an end unless it brought to an end by them. Some of the effective non legal remedies for improving the recovery management are as follows:

1. Rehabilitation
2. Compromise

3. Merger and Take-over
4. Sale of pledged and hypothecated goods
5. Assignment
6. Lok adalat

1.7.1(a) Rehabilitation

Rehabilitation, from banker's angle is a process of patient waiting for the unit to turn around. The bank depending on the unit's need, may plump in further funds, provide interest caps, reschedule the over dues or opt for a combination. In India, rehabilitation is not purely scientific. It takes a greater commercial view with a high default risk. This is not advisable.

What is scientific rehabilitation?

a) Early identification of the symptoms

While the branches have to keep track of all problem accounts continuously, monitoring of accounts in sub Standard Assets (SSA) category involving large amounts has to take place intensively to identify the early symptoms.

b) Environmental scanning and scenario building

Although these are a planner's job, they are needed for making an effective rehabilitation package with contingency plans. Further the package calls for the ensuring five or seven years, there could be alternate scenarios, each with a probability. So, for each scenario, a projection of performance has to be given. For each projection a probability has to be assigned.

c) Forecasting ability

It is a slippery area. However, with the technology supported data base and expertise available with the bankers, the banks can make a reasonable appreciative progress in this area.

d) Borrower's commitment

If the commitment from the borrower is not visible and forthcoming, the failure is almost certain. Hence, formulation and implementation of a rehabilitation scheme is a difficult task and has to be handled in a prudent manner.

1.7.2(a) Compromise

Reduction of Non-performing Assets in banks can be achieved through a compromise strategy where e the objective of the genuine borrower is to optimize his gain having suffered a loss in the units working, and that of the banker to minimize his loss. The ultimate strike point is possible only through negotiation.

When a compromise is arrived at, certain amount of sacrifice in the form of write off and/or waiver off uncharged interest would be inevitable. Some feel that in a compromise, if one can recover the book outstanding, it would be adequate because it would not entail a write off but would only involve waiver to the uncharged interest component, which is after all notional. This is one extreme. The other side thinks that sacrificing a claim is more akin to sin and therefore, one has to stay hard and fast in negotiation. This is the other extreme.

There are only two approaches relevant:

- Recovering as much as possible by negotiation – this is possible when the banker can negotiate from a position of strength.
- Clearing the problem loan in order to cleanse the portfolio – this essential.
- When the banker does not negotiate form a position of strength

It is true that when bank negotiate compromises, the

Primary objective should be to optimize recovery gaining as much of uncharged interest as possible. An

arbitrary slide down at any point would give forth wrong singles to the borrower and prompt him to ask for huge concessions. With a view therefore to ensure against such a possibility, bank have to create benchmarks for borrowers. The borrowers' benchmarks comprise of concessions to be considered form date of sickness; date of closure of unit; date of suit; date of decree.

1.7.3(a) Merger and take over

The term merger, amalgamation, take-over, consolidation, acquisition etc. are often used interchangeably. In technical jargon;

- A merger is the absorption of one or more corporation by another with the acquiring firm retaining its corporate entity and other firm disappearing from the corporate entity.

- In acquisition, one survives and other losses its existence and the survivor acquire the assets.
- A consolidation means all the combining firms disappear as distinct and separate corporate entities and a new consolidated entity comes into being.

  Merger/acquisition is a process under which a sick unit is merged healthy unit one or sometimes, a healthy unit acquires the sick unit. A part of the consideration is paid to the sick unit by the healthy unit is used to liquidate the NPAs, wholly or partly.The merger/acquisitions are especially beneficial to the healthy unit because u/s 72 of the IT Act, it is allowed to carry-forward and set-off accumulated losses and absorbed depreciation of the sick unit.

In the case of the merger, the NPAs (sick unit) will get immediately converted into a performing assets because it will acquire the status of the healthy unit – in fact, the sick unit will be wiped out from the books of the bank and the healthy unit will show increased outstanding under different account – heads:

Sale of pledged and hypothecated goods

Pledge and hypothecation of the stocks from a major portion of the securities obtained by the bank. In case in default of repayment of loans, if properly tackled, the security may bring maximum recovery without resorting to legal remedies.

- Pledge of the security is the best form of the security as the possession o the goods remain with the bank.
- In case of the hypothecation, the possession is not with the bank.

  In pledge, in case of the default of the borrower, the bank can easily dispose of the the goods in its favor. But before sale, the bank should give reasonable notice to the borrower to repay the loan. Generally the hypothecation agreement gives power to the bank to seize/obtain possession of the securities charged in its favor, in case of default.

1.7.5(a) Assignment

Assignment is the transfer of actionable claim. Banks finance against LIC, book-debts, and Supply-Bill to the government departments. In case of default by the borrowers, the banks could recover the debts through this non-legal remedy. In this case appropriate notice should be given by the assigner to the debtor. Instead of going to the courts, exercise of the right of assignment by a bank can be a good remedy.

1.7.6(a) Lok Adalat

The concept of Lok Adalat is of recent origin. Where the borrowers and the bankers are not able to reach any compromise, brining the case before the Lok Adalat can be helpful. Experiences have shown in many cases, particularly borrower to terms by using some kind of social pressure.

1.7.7(a) OTS Collection put at Rs. 1,600 Cr.

The one time settlement (OTS) scheme for NPAs up to Rs. 5 crores which came to an end in Sep. 2001, has regulated in aggregated recoveries of Rs. 2,600 corores by the public sector banks through settlement arrived at in 3,64,655 borrower account till date.

According to figure complied by the ministry of finance for the meeting of banks chiefs with the Finance Minister on Monday settlement have been approved in 8,87193 accounts involving a sum of Rs. 4,649 crores. Thud the balance to be recovered by the amounts to Rs. 1,879 crores. The OTS schemes which were open till June 30, 2001, for corporate to apply for settlement. However, time was given till Sep. 30, for banks to arrive at a decision on settlement. Public sector banks have identified 46,11,306 accounts which were eligible for settlement under the parameters laid down under the OTS scheme involving a sum of Rs. 18,574 crores. Out of this application for settlement received from 9,18,900 accounts involving Rs. 3,847 crores.

1.7.8(a) SAC

Banks must put together reliance upon the recommendations of the Settlement Advisory Committee (SAC) in order to make better use of compromises for reduction for NPAs in their books. The most effective way of removing NPAs from the books of the weak banks would be to move these out to separate agency which will buy the loans and make its own efforts for their recovery. The proper financial vehicle through which n9on-performing loans can be transferred would be that of the FRA-owned (govt.) Assets Reconstruction Fund (ARE) managed by an independent private sector.

(B) LEGAL REMEDIES

1.7.8(b) Follow-up of civil suit field cases

Some important suggestive measures for improving banks recovery through courts:

<u>Steps to be taken before filing suit</u>

- Once it is observed that the borrower is making willful default, no more time should be lost in instituting appropriate recovery proceedings.
- Check up the ensure before the issue of call-up notice that all the document to be relied upon in the case are in order.
- Bank must select a good and competent lawyer for the purpose, out of the panel in consultation with law department.
- Notice must be sent through registered post.
- In case registered post if the notice is returned unsaved, the envelope should be opened but be kept intact.
- Notice 'infused' is deemed as served under law and also presumed that the person refusing knows the content.
- In case of pledge account, suit should be instituted after the sale of the pledged goods/stocks. This will save and properly from further depreciation and quicken recovery to the extent of sale proceeds. Serving of notice to borrower before affecting the sale of in case pledge is mandatory u/s
- 176 of the Contract Act. It can not be waived.
- The borrower is still liable to pay the balance amount, if the sale proceeds are less then the amount due from him.
- If the proceeds are more then the amount due, the bank shall pay the surplus amount to the neither paw nor (borrower).

Filing the suit

- A list of all the documents such as revival letters, balance confirmation, title deeds, demand notice, which in the opinion of lawyer are useful and necessary for the supporting the case should be prepared.
- Up to date interest should be calculated and added in the outstanding balance and a statement of account dully certified under 'Bank Book of Evidence Act' should be prepared and filed along with plaint.
- The delay that takes place in the serving of summons can be curtailed if Registered AD envelopes with address of person to be summoned are given in the court in addition to routine process.
- If serving of summons could not be affected in spite of aforesaid method, steps should be taken to serve the summons through proclamation through newspapers under the order of the courts.

Development of the suit

- After serving of summons, the defendant may file his written statement in the court with the copy to opposite party. If the defendant remains absent. The case is preceded expelled. The defendant should be called upon to admit or deny the documents Order 12 of CPC in consolidation with local lawyer this will help in reducing the expenditure required for evidence.
- The witnessed to be produced by the bank (as plaintiff) should be identified at the time of filing of the suit and theirs particulars and addresses should be ascertained.
- Out of identified witnesses/evidences after settlement of the issue, a final list of witnesses required can be made.
- When the case for fixed for banks 'evidences efforts should be made to produce all the evidence on the date fixed.
- Efforts can be made also to get the cases listed on the same day in which a same official is a witness.
- Similarly our lawyer should be advised to seriously oppose the seeking of frequent adjournments by the borrowers/defendants.

- Frequent it happens that an official in whose presence a document was executed stands transferred, is not needed to attend the court, unless the execution of the document relied upon the bank is denied. Any member of the staff of the bank who filled up the document or was present at the time of execution, could be examined.

Follow-up after decree

- The branch manager and counsel should not feel that by ostentation of decree their job is over. Execution of decree is the logical conclusion of the legal remedy and this is the initial step legally to release the blocked-up funds in the bad accounts.
- Immediately after announcement of judgment, application for ostentation of certified copy judgment and decree sheet should be moved through the lawyers' fee should be paid only after the copy of judgment of sheet is received.
- In the matter of the lost case, the copies along with the case file and local lawyers' opinion should be forwarded to the controlling authority immediately so that timely decision for availing of further remedy regarding filing of appeal, revision/review etc. may be taken.
- Before forwarding such copies, the branch should also examine the case as to why the bank has lost the case and given its specific recommendations.

Execution

- In a case there is not stay order against the execution of decree or the payment is not being made in accordance with the term so the decree, execution petition should be filed immediately.
- For filing execution petition, list of assts of judgment debtor's movable and immovable property should be supplied to the lawyer by the bank.
- The attachment order issued by the court should be got served by taking plaintiff of the court of the spot and an officer of the branch should accompany him so that attachment is not delayed.
- In case of moveable asset appropriate person should be arranged by the branch to take custody of the attached property after the orders are passed by the court to this effect.

1.7.9(b) Debt recovery tribunal

Procedure of tribunal

Where application bank or FI has to recovery any debt from any person, it may make an application to the tribunal within the local limits of jurisdiction:

- The defendant or each of the defendants where there are more then one at the time of making application actually and voluntarily residues or carries on business or personally works for gains.
- On receipt of the application the tribunal shall issue summons requiring the defendants to show cause within thirty days of the service of summons as to why the relief prayed should not be granted.
- The Tribunal may, after giving the applicant and defendant an opportunity of being heard, pass such orders on the application as it thinks to meet the ends of justice.
- The Tribunal shall send the copy of every order passed by it to the applicant and the defendant.
- The Presiding Officer will issue a certificate under his signature on the basis of the orders of the Tribunal to the recovery officer for recovery of the amount of debt specified in the certificate.
- The application made to the Tribunal shall be dealt with as expeditiously as possible and endeavor shall be made by it to dispose of the application finally within six months from the date of receipt of the application.
- Any person aggrieved by an order, made or deemed to have been made by a Tribunal under the Act, may prefer an appeal to the appellate Tribunal.
-
- No appeal shall lie in the Appellate Tribunal from an order made by a Tribunal with the consent of the parties.
- The Appellate Tribunal may, after giving the parties to the appeal an opportunity of being an head, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against.
- The Appellate Tribunal shall send a copy of every order made by it to the parties to the appeal and to the concerned Tribunal.

SECURITIZATION ACT 2002

Introduction

The principal objective of the ordinance is to facilitate quick and efficient recovery of the debts due Bans and Financial Institutions from the defaulting companies which are invariable sick. The debts which have been classified as 'non-performing assets' by the lending banks and the financial Institutions, can now be transferred to separate company and recovered by such companies. The lending Institution is called the "originator" and the borrowing company is called as "obligator" in the ordinance.

Concept and definitions

The ordinance provides for establishment of the securitization companies to be incorporated under Companies Act. 'securitization' means acquisition of the financial assets by any securitization company or reconstruction company from any originator qualified institutional buyers by issue of any security receipts representing any undivided interest in such financial assets or otherwise section 2(1) (Z). under the scheme of the ordinance, the non-performing assets held by the banks and the financial institutions can be acquired by a securitization company or reconstruction by a mutual agreement between the company and the lending bank or institution. The consideration for the transfer could be by issue of debenture, bond or any other security in the nature of debenture. Alternatively, the securitization or reconstruction company can act as an agent of the bank or financial institution for recovering the dues from the borrowers on mutual agrees remuneration.

Formation of securitization/reconstruction companies

Reconstruction Company shall commence the business of the securitization or asset reconstruction only after obtaining a certificate of registration from the RBI. This registration is in addition to the registration effected by the Registrar of Companies on incorporation of the company. Further, every reconstruction/securitization company shall have 'net owned funds' of not less then 2 crore or equalent to 15% of the total financial assets required or to be are also required to apply to the Reserve Bank for registration within 6 months from the due of the commencement of the Ordinance (21.03.2002). they can continue to carry on business on the expiry of the said period of 6 months only when registration is granted by the RBI (Section 3).

Eligibility criteria

(a) It should not have incurred losses in any of three preceding financial years.

(b) The company should have adequate infrastructure for realization of the financial assets acquired for purpose of securitization and shall be able to pay periodical returns and redeem on respective due dates the investment made in the company by the qualified institutional buyers or other persons.

(c) The directors of the company should have adequate professional experience in matters relating to finance, securitization and reconstruction.

(d) At least one half of the number of the directors shall be persons independent of the paid up equity capital, or its subsidiaries.

(e) None of the directors is convicted of an offence involving moral turpitude.

(f) The sponsor is not the holding company of the securitization company nor does it held any controlling interest.

(g) The company should be in the position to comply with the prudential norms prescribed by RBI.

Recovery of debt

Its is empowered to bring about change in or take over, of the business of the borrower. It can also take the possession of the borrower, and appropriate the proceeds towards the satisfaction of the debts. It can also reschedule the payment of the debts by the borrower and enter into the arrangement or settlement with borrower on appropriate term. It can also continue and carry on the legal proceedings initiated prior to the acquisition of the financial assets.

RBI guidelines

Latest RBI guidelines for NPAs Management

RBI wants the system to be changed and has asked the banks to classify an account as an NPAs provided the interest or installment is not paid for more then 90 days from March 31st, 2004. RBI has prescribed five steps for treating an account as NPAs. These are:

- If the interest or the installment of principal remains overdue for a period of more then 90 days in respect of a term loan;
- The account remains out of order for a period of more then 90 days in respect of an overdraft or cash credit;
- The bill remains overdue for a period of more then 90 days in case of bill purchased and discounted;
- Interest or installment of principal remains overdue for two “harvest seasons”, but for a period not exceeding two” half years” in case of an advance granted for agricultural purposes; and
- Any amount to be received remains overdue for a period of more then 90 days in respect of other accounts.

Though RBI has issued these directives through a confidential circular a couple of months back, very few banks have, however. Actually informed theirs respective clients about the new accounting norms. The reasons being that banks are aware that most of theirs clients would find it extremely difficult to pay interest on monthly basis.

RBI has directed the banks to “substantially upgrade” their existing management information system (MIS) for collecting data on loans, and “crystallize NPAs on a day norms”. RBI has instructed the banks to start making “additional provisions” for such loans, starting from the year ending March 30, 2002.

RBI guidelines for settlement banks’ NPAs

The following are the RBI’s guidelines for the settlement of the banks NPAs issued by the central bank’s department of banking operation and development

- Please refer to our circular DBOD. BP. BC. 54/21.01.040/99 dated May 27, 1999, setting out the guidelines for the constitution of settlement advisory committee or compromise settlement of chronic NPAs of small sector.
- A review of compromise settlement advisory committee made by us has revealed that the progress of recovery of NPA through this mechanism has not been encouraging. The recovery position in respect of categories of borrower's other then small sector has not been satisfactory. Banks have represented to that on account of the relative inflexibility of the parameters given in the aforesaid guidelines; much progress could not be made in the recovery of NPAs. While banks should take effective measures to strengthen the credit appraisal and post credit monitoring to arrest the incidence of fresh NPAs, a more realistic approach is needed to reduce the stock of existing and chronic NPAs in allcategories. Therefore, been decided to modify the guidelines, which will provide a simplified, non discretionary and non-discriminatory mechanism for recovery of the stock of NPAs. All

public sector banks should uniformly implement these guidelines, so that maximum realization of due is achieved from the stock of the NPAs within the stipulated time.

- The revised guidelines will cover NPAs related to all sectors including the all small sector. The guidelines will not, however, case of willful default, fraud and malfeasance. The banks should identify the case of willful default, fraud and malfeasance and intimate prompt action against them. Accordingly, in modification of guidelines set out in our circular of 27th May, 1999, revised guidelines for recovery of dues relating to NPAs of public sector banks in all sector are given below:

Guidelines for recovery of NPAs up to 50 million:

<u>Coverage:</u>

- The revised guidelines will cover all NPAs in all sectors irrespective of nature of the business which have become doubtful or loss as on 31st March, 1997, with outstanding balance of 50 million rupees and below on the cut-off date.
- The guidelines will cover NPAs classified ad substandard as on 31st March 1997, which have subsequently become doubtful or loss category.
- These guidelines will also cover cases pending before DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.

- Cases of willful default, fraud and malfeasance will not be covered.
- The revised guidelines were enforced till 31^{st} March 2001.

Settlement formulae- Amount and cut-off rate:

- NPAs classified as doubtful or loss as on 31^{st} march 1997 the minimum amount that should be recovered under the revised guidelines in respect of compromise settlement of NPAs classifieds doubtful or loss as on 31^{st} March 1997 would be 100% of the outstanding balance of the account as on the date of transfer to the protested bills account or the amount outstanding as on the date on which the account was categorized as doubtful NPAs, whichever happened earlier, as the case may be.
- NPAs classified as sub-standard as on 31^{st} March, 1997 which became doubtful or loss subsequently would be 100% of the outstanding balance in the account as on the date of transfer to

  the protested bills account the amount as on the data on which the account was categorized as doubtful NPAs, whichever happened earlier, as the case may be, plus interest at existing Prime Lending Rate from 1^{st} April, 1997, till the date of final payment.
- The amount of settlement arrived at in both the above cases, should preferably be paid in one lump-sum. Incases where the borrowers are unable to pay the entire amount in one lump-sum, at east 25% amount of the settlement should be paid up from and the balance of 75% should be recovered in installments within a period of one year together with interest at the existing Prime Lending Rate from the date or settlement up to the date of final payment.
- The amount of settlement arrived at in the both above cases, should preferably bepaid in one lump-sum. In cases where the borrowers are unable to pay the entire amount in one lump-sum, at least 25% of the amount of settlement should be paid up from and the balance of 75% should be recovered in installments within one year period together with interest the existing Prime Lending Rate from the date or settlement up to the date of final payment.
- Sanctioning Authority – the decision on the compromise settlement and consequent sanction of waiver or remission or write-off should be taken by the competent authority under the delegated powers.

- Non-discriminatory Treatment – the banks should follow the above guidelines for compromise settlement for all NPAs covered under the revised scheme, without discrimination and a monthly report on the progress and details of settlement should be submitted by the concerned authority to the next higher authority and their central office banks should give notice by 31st August 2000 to the eligible defaulting borrowers to avail of the opportunities for one time settlement of their outstanding dues in terms of these guidelines. Adequate publicity through various means to these guidelines must be ensured.
- Reporting to board – the bank should submit a report on the progress in the recovery of NPAs under the revised guidelines every quarter to the Bard of Directors. A copy of the quarterly progress report should also be sent.

Guidelines for recovery of NPAs over Rs. 50 million

- CMDS should personally supervise the NPAs of 50 million rupees and above on case to case basis reviewed by CMD personally and the course of action decided in terms of the rehabilitation/restructuring, one time settlement or filling of suits , by 32st August, 2000. the matter should be placed before the board of directors, finalizing the course of action by 30th Sep. 2000in each case.
- The Board of Directors may evolve policy guidelines one time settlement of NPAs over 50 million rupees covering the computation formula, realizing amount, cut-off date and payment condition

  with reference to factors of security disposability, etc, as part of its loans recovery policy including setting up of Sttlement of Advisory committee, staff accountability and other relevant aspects and decide individual cases in accordance with such policy. A copy of such policy also should be sent to us.
- Whenever a suit is required to be filed against the defaulters, who have not come for one time settlement, or where restructuring is not feasible, suits must be filed in all such case s by 31st October, 2000. Banks should follow up suit filed cases vigorously and effectively in courses to enable DRTs to decide the cases within 6 months as laid down in the DRT Act and realization of the dues completed at the earliest. A quarterly report in regard to outstanding of above Rs. 5000 crores should sent to us.

CHAPTER – III

RESEARCH DESIGN

CHAPTER 3
RESEARCH DESIGN

"All progress is born of inquiry. Doubt is better than overconfidence, for it leads to inquiry of invention."

Research is for knowledge. In India, the NPAS which are considered to be at higher level then those of other countries have attracted the attention of the people. This has gained further prominence in the wake of transparency and disclosure measures initiated by the RBI during recent years. The Committee on Financial System, Capital Account Convertibility Committee and Committee on Non-performing Assets of public sector banks has been dealt with the subject of NPAs in Indian banks. These developments have prompted us to undertake a study of NPAs in Indian banks, to understand the problem, its genesis and influence on the Indian bank industry. This chapter covers the review of the literature and the objective of the present study. It also defines the research design, scope of the study and plan of the study.

REVIEW OF LITERATURE ON NPAs

Various studies have shown that NPAs have two components; the overhang component and the increment component (Jalan 2002, Manniuppan, 2002). The overhang component arises due to infirmities in structural and institutional environment while the incremental component arises due to factors internal to banks' management and credit culture. At the internal level, several studies have identified a range of factors influencing NPAs of banks. Some have argued that the problem of NPAs could be due to plan bad luck attributing to business cycle, and unanticipated shocks such as business failures of producing firms, and disruption of activities due to various calamities. Another viewpoint is that the problem of NPAs may be due to bad management but banks (Capiro & Klingebiel, 2000). According to the latter view , in an increasingly competitive financial market, economic factors have evolved as the key influences on the banks non-performing loans. In this context, various studies have underscored the role of banks' lending policy in general and the 'terms of credit' define over, inter alia, cost, maturity, and collateral in influencing the movements of the non-performing loans (Reddy, 2004, Mohan, 2003.2004, Sergio,1996, Mcgoven, 1993, Chiristen,1995, Bloem and Gorterl 2001). In the Indian context, during the period 1993-2004, the ratio of banks' gross non-performing loans to advances has declined about 24-25% to 7-8% amidst significance improvement in the lending terms. A comparative position of the gross NPAs to advances ratio and the terms of the credit variables including maturity (share of term loans in total advances), interest cost

of deposits, operating expenses to assets ratio, total expenses to ratio, lending rate and credit-deposit ratio of public sector banks during the last ten years provide useful insights. There is evidence that, for the public sector banks, the gross NPAs ratio has declined fro 23% in 1992-93 to 7.8% in 2003-04. the prime lending rate of interest of banks has declined by 500-750 basis points during the period 1992-93 to 2003-2004. the maturity terms of the loans, defined as the ratio of the term loan to advances, has improved about 305 to about 45%. the credit orientation of banks measured by credit deposit ratio, which declined during the period 1993-99, has improved in the recent years. The proportion of secured loans has remained at high level, reflecting the stability in banks approach to risk management. Besides, bank size induced risk element has moderated with stronger balance sheets. Rajaraman and vasishtha (2000)in an empirical study provided evidence of significant bivariate relationship between operating enefficiency indicator and problem loans of India's public sector banks. Das and Ghos made and empirical analysis of non performing loans of India's public sector banks relating to various indicators such and asset size, credit growth and macroeconomic condition, and operating efficiency indicators. An empirical analysis suggests that besides supporting policy environment, banks have to devise appropriate lending terms taking account the cost of credit, cost of funds, maturity of loan credit orientation among other factors so as to induce lower defaults a on borrowers. On the basis of literature review it is found the area of NPAs needs a fresh look I the current context. The present study on Non Performing Assets in Banking Industry and analytical study, has been undertaken to fill up the gap in literature.

OBJECTIVE OF THE STUDY

The main objective of the study is to evaluate the problem of NPAs in banking industry in India. To achieve this objective the following sub-objective has been identified for the study.

- *To study the size and extent of NPAs in banking industry in India.*
- *To study the* assets wise classification and analysis of NPAs.
- *To study the* Bank wise classification of NPAs in relation to Advances.
- *To study the* bank wise classification of NPAs in relation to Total Assets.
- *To* Sector wise classification and analysis of NPAs.
- *To give suggestions to improve the position of NPAs in the banking industry in India.*
- *To study the responses of the questionnaire and draw conclusion based on it to make banks more customer friendly.*

SCOPE OF THE STUDY

The scope of the present study has been defined on three dimensions – the concept of NPAs the banks covered and the time frame over which the data has been taken for analysis. For this study both gross and net concept of NPAs has been used. Gross NPAs includes actual NpAs and net NPAs include gross NPAS deducting provision from it. In this study all the public sector, private sector and foreign sector banks have been included. The study excludes the Regional Rural Banks. The data relating to their NPAs, total advances, and total assets, over a period of time from 2000 to 2005 has been collected and analyzed.

RESEARCH METHODOLOGY

The present research study is based on primarily on the secondary data taken from various reports issued by RBI and information available on the internet. In this study assets wise, bank wise and sector wise analysis of NPAs has been made. A systematized research process has been followed for this purpose.

Research design

Research design is preparing a blueprint of planned and structured process of collecting the sample and conducting the research.

The research design is of three types:

Exploratory research: it is done where the problem is not known and we want to have deep insights into the problem.

Descriptive type research: this type of research defines the basic characteristics of the problems in hand.

Experimental research: it is done in case of basic science. The present study may be called an exploratory research as it makes an investigation to the problem of NPAs in SCBs in India.

Data collection

Primary and Secondary sources of data collection have been used. The study has been carried out using the RBI inspection reports on banks. Data related to public sector banks, private sector banks, and foreign sector banks has been taken for comparative analysis the data has been collected from 2000 to 2005. the collected data was then processed for further analysis and interpretation. During the course of analysis and interpretation of data, the statistical techniques of tabulation, frequencies presentation, etc. have been used.

PLAN OF THE STUDY

The reports contain five chapters excluding the appendices. The first chapter on banking industry – growth and emerging issues, discusses the history of Indian banking industry and its growth and development. The second chapter on Non Performing Assets – theoretical survey, explains the concept of NPAs, the norms provided by the RBI, causes and effect of NPAs. Third chapter on Research Design includes review of literature, objective of the study, scope of the study, research methodology, plan of the study and limitations.The fourth chapter on NPAs deals with the presentation, analysis and interpretation of data. The data has been collected from various reports of RBI and analysis has been done on its basis. The fifth chapter concludes the study and gives major finding and suggestions.

LIMITATION OF THE STUDY

The present study is not without the limitations. It being a part of the course work in fourth semester the availability of the time and resources is the major limitation of this research work./ the study could have been developed into a major research taking data of longer period then what is used in this work, including primary data in the process of analysis and comparing Indian banking performance in the management of NPAs with foreign banks standards. These limitation can be taken care of in the near future research work on this topic.

CHAPTER – IV

ANALYSIS & INTERPRETATION OF DATA

CHAPTER – IV

ANALYSIS AND INTERPRETATION OF DATA

Non-performing assets is a very serious issue in banking industry these days. As per one estimate about 7.2% of total advances of commercial banks are in the form of NPAs. The advances given by the banks are theirs' assets. The assets or the advances of the banks may be classified into four parts 0- standard assets, sub-standard assets, doubt full assets and the loss assets. The sub-standard assets, doubtful assets and the loss assets constitute the gross NPAs or the total NPAs. The NPAs can be classified into two parts – gross NPAS & the net NPAs. Gross NPAs are the actual NPAs occurred in the business. Net NPAs are the gross NPAs after deducting the provisioning from it. The banks advances the loans mainly to three sectors – priority sector, non-priority sector and the public sector. The priority sector includes - agriculture, small scale industries and others. So the banks get NPAs from these three sectors.

The analysis in this chapter relates to the size of the NPAs in relation to the toptal advaces, total assets, gross advances and net advances. further sector wise analysis of the NPAs has been done. The analysis of NPAs in this chapter has been given in the following four sections:

I. Assets wise classification and analysis of NPAs.
II. Bank wise classification of NPAs in relation to Advances.
III. Bank wise classification of NPAs in relation to Total Assets.
IV. Sector wise classification and analysis of NPAs.

These are discussed in detail hereunder:

Table III.31: Classification of Loan Assets – Bank Group-wise (As at end-March)											
									(Amount in Rs. crore)		
Bank Group/Year	Standard Assets		Sub-standard Assets		Doubtful Ass		Loss Assets		Total NPAs		Total Advances
	Amount	Per Cent	Amount	per cent	Amount	per cent	Amount	per cen	Amoun	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Public Sector Bank											
2002	4,52,862	88.9	15,788	3.1	33,658	6.6	7,061	1.4	56,507	11.1	5,09,369
2003	5,23,724	90.6	14,909	2.6	32,340	5.6	6,840	1.2	54,089	9.4	5,77,813
2004	6,10,435	92.2	16,909	2.6	28,756	4.3	5,876	0.9	51,541	7.8	6,61,975
2005	8,30,029	94.6	11,068	1.3	30,799	3.5	5,929	0.7	47,796	5.4	8,77,825

Table III.31: Classification of Loan Assets – Bank Group-wise (As at end-March)											
									(Amount in Rs. crore)		
Bank Group/Year	Standard Assets		Sub-standard Assets		Doubtful Ass		Loss Assets		Total NPA		Total Advances
	Amount	Per Cent	Amount	per cent	Amount	per cent	Amount	per cent	Amou	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Old Private Sector Banks											
2002	39,262	89.0	1,834	4.2	2,668	6.0	348	0.8	4,850	11.0	44,112
2003	46,761	91.1	1,474	2.9	2,772	5.4	321	0.6	4,567	8.9	51,328

2004	53,516	92.4	1,161	2.0	2,727	4.7	504	0.9	4,392	7.6	57,908
2005	66,212	94.0	784	1.1	2,868	4.1	549	0.8	4,201	6.0	70,413
New Private Sector Banks											
2002	70,010	91.1	2,904	3.8	3,871	5.0	41	0.1	6,816	8.9	76,826
2003	87,487	92.4	2,700	2.9	3,675	3.9	856	0.9	7,231	7.6	94,718
2004	1,13,560	95.0	1,966	1.6	3,665	3.1	321	0.3	5,952	5.0	1,19,512
2005	1,22,577	96.2	1,449	1.1	3,061	2.4	334	0.3	4,844	3.8	1,27,421

SECTION – I ASSET WISE CLASSIFICATION AND ANALYSIS OF DATA

As discussed above the advanced given by the bank are their assets. So the assts are mainly classified into four parts – Standard Assets, Sub Standards, Doubtful Assets and Loss Assets. The Sub-standard Assets, Doubtful Assets and Loss Assets constitute the gross NPAs or the total NPAs.

In the section we had made the asset wise classification of assets. So the size and composition of the bank assets in relation to their total advances have been tabulated in the given table.

Size and composition of public sector banks' assets in relation to their total advances.

Given table is showing the size and composition public sector banks assets in relation to their total advanced from the year 2000 to the year 2005. the table shows that the total advances from 2000, march 31 to March 31st 2005 have been increased considerably from Rs. 380077 crorer to Rs. 870851 crore and at the same time the total NPAs has been decreased from 53294 crore Rs. in 2000 to 56597 crore Rs. (in prencentage from 14% of total advances 5.4% in 2005) in the year 2000 the standard asset was just 86% of total advances but in the year 2005 it touched 94.6% of the total advances.

Size and composition and private sector bank assets in relation to their total advances.

As the figure given in the table suggested that in the year 2000 the private sector banks standard assets were 91.5% as compared to their total advances. And in the same way the loss assets also considerably came down from 0.8% of the total advances in 2000 to just .4% into 2005. but the figures in total NPAs are not showing the gradual and consistence decrease in terms of value. As it is clear that in 2000 the total NPAs were worth rupees 4932 cr and till March 2003 it increased up to 13333 cr. Rupees and only after 2003 its started decreasing.

Table III.31: Classification of Loan Assets – Bank Group-wise
(As at end-March)

									(Amount in Rs. crore)		
Bank Group/Year	Standard Assets		Sub-standard Assets		Doubtful Ass		Loss Assets		Total NPA		Total Advances
	Amount	Per Cent	Amount	per cent	Amount	per cent	Amount	per cent	Amou	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Foreign Banks											
2002	47,838	94.5	856	1.7	1,004	2.0	920	1.8	2,780	5.5	50,618
2003	51,288	94.7	995	1.8	944	1.7	954	1.8	2,893	5.3	54,181
2004	59,619	95.2	990	1.6	1,099	1.8	924	1.5	3,013	4.8	62,632
2005	74,705	97.0	715	0.9	1,035	1.3	570	0.7	2,320	3.0	77,025

Note: Constituent items may not add up to the totals due to rounding off.
Source : DSB Returns(BSA) submitted by respective banks.

Table III.31: Classification of Loan Assets – Bank Group-wise
(As at end-March)

									(Amount in Rs. crore)		
Bank Group/Year	Standard Assets		Sub-standard Assets		Doubtful Ass		Loss Assets		Total NPA		Total Advances
	Amount	Per Cent	Amount	per cent	Amount	per cent	Amount	per cent	Amou	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2002	6,09,972	89.6	21,382	3.1	41,201	6.1	8,370	1.2	70,95	10.4	6,80,925
2003	7,09,260	91.2	20,078	2.6	39,731	5.1	8,971	1.2	68,78	8.8	7,78,040
2004	8,37,130	92.8	21,026	2.3	36,247	4.0	7,625	0.8	64,89	7.2	9,02,027
2005	10,93,523	94.9	14,016	1.2	37,763	3.3	7,382	0.6	59,16	5.1	11,52,684

Size and composition of foreign sector banks assets in relation to their total advances

Since 2000 the foreign banks have been increasing their advanced credits and from rupees 37432 cr. (in advances) they came up to rupees 75220 cr. In 2005 but as for total NPAs is concern that is not showing consistent decreasing in its value but as a % of the total advanced it has come down from 7% into 2000 to 3% in 2005. and in the same way the p.c. of the standard assets in 2000 was 93% of the total advances which had been increased in 2005 up to 97% that is showing that foreign sector banks have been able to manage their NPAs to a great extent.

Size and composition of all scheduled commercial banks assets as compared to their total advanced

This is noticeable from the given figure in the table that all the scheduled commercial banks have been too much successful in managing theirs NPAs in the year 2000 the p.c. of the standard assets was just 87.2% of the total advances that was increased later on up to 95.1% of the total advances in the year 2005. In the same way the loss assets also has been decreased from 1.6% in year 2000 to just 0.6% in year 2005. and the total NPAs also has been taken under control by the SCBs while managing the total NPAs from 60841cr. Rupees in 2000 to 57545 cr. Rupees in 2005. that is remarkable reduction of the NPAs in SCBs as a p.c. of the total advances form 12.8% in 2000 to just 4.9 % in the year 2005. but the total advances of the all the SCBs have been reached form 475758 cr. Rupees to 1171210 cr. Rupees in 2005.

		Gross NPAs as % to gross advances of PSBs					
Sr.No.	Name of Banks				Gross NPAs/Gross Advances		
				2001-02	2002-03	2003-04	2004-05
1	2						
	Scheduled Commercial Banks			10.4	8.8	7.2	5.2
	Public Sector Banks			11.09	9.36	7.79	5.53
	Nationalized Banks			11.01	9.72	8.21	5.84
1	Allahabad bank			16.94	13.65	8.66	5.8
2	Andra bank			5.26	4.89	4.1	2.46
3	Bank of baroda			12.39	11.02	10.52	7.3
4	Bank of India			9.37	8.55	7.86	5.45
5	Bank of Maharastrya			10.44	9.55	7.7	7
6	Canra bank			6.22	5.96	6.33	3.89
7	Central bank of India			14.7	13.06	12.55	9.5
8	Corporation bank			5.19	5.27	5.03	3.41
9	Dena bank			24.11	17.86	14.82	9.47
10	Indian bank			17.86	12.39	7.98	4.19
11	Indian Overseas Bank			11.35	10.2	7.4	5.28
12	Oriental bank of Commerce			6.57	6.94	5.37	9.06
13	Punjab & Sindh bank			18.19	19.25	18.16	17.17

14	Punjab National bank			11.38	11.58	9.33	5.96
15	Syndicate bank			8.35	8.34	7.33	5.17
16	UCO bank			9.59	8.24	6.93	4.96
17	Union bank of India			10.7	8.96	7.59	5.01
18	United bank of India			16.16	12.15	9.07	6.14
19	Vijaya bank			9.39	6.18	3.44	2.94
	State bank group			11.23	8.68	6.98	5.32
20	State bank of India			9.36	8.15	5.36	3.26
21	SB of Bikaner & Jaipur			10.08	7.28	5.6	3.46
22	SB of Hydrabed			7.18	5.53	3.99	3.28
23	State bank of Indore			12.07	10.14	7.76	4.56
24	State bank of Mysor			6.94	4.8	3.71	4.13
25	State bank of Patiala			10.18	7.32	3.68	2.7
26	SB of Saurastrya			9.41	6.67	5.63	4.29
27	SB of travencor						
	Other Public Sector Banks						
28	IDBI ldt.			_	_	_	2.92

		Net NPAs as % to net advances of PSBs					
Sr.No.	Name of Banks				Net NPAs/Net Advances		
				2001-02	2002-03	2003-04	2004-05
1	2			3	4	5	6
	Scheduled Commercial Banks			5.5	4.4	2.9	2
	Public Sector Banks			5.82	4.53	2.99	2.06
	Nationalized Banks			6.01	4.74	3.14	1.96
1	Allahabad bank			10.55	7.07	2.37	1.28
2	Andra bank			2.45	1.79	0.93	0.28
3	Bank of baroda			5.68	4.82	4.95	2.82
4	Bank of India			6.01	5.36	4.49	2.77
5	Bank of Maharastrya			5.81	4.83	2.46	1.83
6	Canra bank			3.89	3.59	2.49	1.88

7	Central bank of India			7.91	6.74	5.57	2.98
8	Corporation bank			2.31	1.65	1.87	1.12
9	Dena bank			16.31	11.84	9.4	5.27
10	Indian bank			8.28	6.15	2.71	1.42
11	Indian Overseas Bank			6.31	5.23	2.85	1.27
12	Oriental bank of Commerce			3.21	1.44	_	1.29
13	Punjab & Sindh bank			11.68	10.85	9.62	8.09
14	Punjab National bank			5.27	3.8	0.98	0.2
15	Syndicate bank			4.53	4.29	2.57	1.59
16	UCO bank			5.65	4.38	3.65	2.93
17	Union bank of India			6.24	4.91	2.87	2.64
18	United bank of India			7.94	5.52	3.75	2.43
19	Vijaya bank			6.02	2.61	0.91	0.59
	State bank group			5.45	4.12	2.7	2.24
20	State bank of India			5.64	4.19	3.45	2.65
21	SB of Bikaner & Jaipur			5.77	4.16	1.24	1.61
22	SB of Hydrabed			4.96	3.26	0.65	0.61
23	State bank of Indore			3.58	2.66	_	1.01
24	State bank of Mysor			7.36	5.19	2.96	0.92
25	State bank of Patiala			2.94	1.49	_	1.23
26	SB of Saurastrya			4.95	3.63	_	1.42
27	SB of travencor			5.72	3.05	1.39	1.8
	Other Public Sector Banks						
28	IDBI ldt.			_	_	_	2.04

		Gross NPAS as % to gross advances of Pvt. Sector Bank					
Sr.No.	Name of Banks			Gross			

				NPAs/Gross Advances			
				2001-02	2002-03	2003-04	2004-05
1	2			3	4	5	6
	Private Sector Banks			9.64	8.07	5.84	4.44
	Old Private Sector Banks			11.01	8.86	7.59	5.97
1	Bank of Rajsthan	jsthan ltd		15.73	11.39	9.14	5.34
2	Bhart Overseas Bank		ltd	8.77	6.75	4.99	3.44
3	Catholic Syrian Bank		ltd	14.88	13.01	8.84	7.16
4	City Union Bank	Bank ltd		13.2	12.11	10.36	5.89
5	Dhanlakshami bank ltd			15.29	13.18	11.43	8.51
6	Fedral bank ltd			11.88	8.21	7.44	7.29
7	Gnaesh bank ltd			18.08	18.42	17.32	18.04
8	ING Vysya bank ltd			4.64	3.61	2.65	2.14
9	j&k bank ltd			3.62	3.11	3.04	2.72
10	Karnatka bank ltd			10.43	12.99	11.93	7.58
11	Karur Vysya bank ltd			8.97	7.96	5.83	5.1
12	Lakshmi bank ltd			13.42	11.47	10.15	7.88
13	Lord Krishna bank ltd			12.32	8.96	8.32	6.39
14	Nainital bank ltd			8.68	6.22	4	2.57
15	Ratnakar bank ltd			12.88	11.96	10.63	10.31
16	Sangli bank ltd			11.8	12.35	11.79	8.95
17	SBI commerce &Inter.bank ltd			32.72	38.48	41.28	24.06
18	South Indian bank ltd			10.05	9.27	7.29	6.66
19	Tamilnad Mercantile bank ltd			16.47	16.05	13.79	11.26
20	United Western bank ltd			14.08	13.58	13.14	10.87
	New Private Sector Banks			8.86	7.64	4.99	3.59
21	Bank of punjab ltd Centurian bank ltd	njab ltd		5.49	9.23	6.2	9.43
22	Centurian bank ltd			12.49	15.88	12.96	6.81
23	Development Credit bank ltd			9.29	9.56	8.19	14.19
24	HDFC bank ltd			3.18	2.22	1.86	1.69
25	ICICI bank ltd			10.23	8.72	4.7	4.27
26	Indusland bank ltd			7.41	4.94	3.3	3.53
27	Kotak Mahindra bank ltd			_	1.2	0.85	0.69
28	UTI bank ltd			5.18	3.16	2.88	1.98
29	Yes bank ltd			_	_	_	_

		Net NPAs as % to the Net Advances of Pvt. Sector Banks					
Sr.No.	Name of Banks			Net NPAs/Net Advances			
				2001-02	2002-03	2003-04	2004-05
1	2			3	4	5	6
	Private Sector Banks			5.73	4.95	2.84	2.17
	Old Private Sector Banks			7.13	5.54	3.85	2.74
1	Bank of Rajsthan	jsthan ltd		8.86	6.8	2.99	2.49
2	Bhart Overseas Bank		Ltd	4.32	3.3	2.26	1.89
3	Catholic Syrian Bank		Ltd	9.91	7.89	4.65	3.8
4	City Union bank ltd	Bank ltd		8.2	8.16	6.37	3.37
5	Dhanlakshami bank ltd			11.94	9.71	7.06	4.27
6	Fedral bank ltd			8.59	4.95	2.89	2.21
7	Gnaesh bank ltd			14.08	12.9	10.59	8.32
8	ING Vysya bank ltd			4.59	3.55	2.6	2.13
9	j&k bank ltd			1.88	1.59	1.49	1.42
10	Karnatka bank ltd			5.88	7.34	4.98	2.29
11	Karur Vysya bank ltd			6.3	4.16	2.32	1.67
12	Lakshmi bank ltd			9.1	7.11	5.4	4.99
13	Lord Krishna bank ltd			9.85	6.33	6.05	4.4
14	Nainital bank ltd			–	–	–	–
15	Ratnakar bank ltd			8.6	7.42	5.58	5.54
16	Sangli bank ltd			5.95	6.87	6.56	4.3
17	SBI commerce &Inter.bank ltd			23.39	20.85	18.31	17.66
18	South Indian bank ltd			6.85	5.96	4.55	3.81
19	Tamilnad Mercantile bank ltd			6.63	8.66	5	2.74
20	United Western bank ltd			10.72	9.5	8.96	5.97
	New Private Sector Banks			4.94	4.63	2.36	1.85

21	Bank of punjab ltd Centurian bank ltd	njab ltd		2.93	7.17	4.69	4.64
22	Centurian bank ltd			6.09	7.92	4.43	2.51
23	Development Credit bank ltd			6.61	7.76	4.87	6.83
24	HDFC bank ltd			0.5	0.37	0.16	0.24
25	ICICI bank ltd			5.48	5.21	2.21	2.34
26	Indusland bank ltd			6.59	4.25	2.72	2.71
27	Kotak Mahindra bank ltd			_	0.11	0.17	0.37
28	UTI bank ltd			3.46	2.26	1.2	1.39
29	Yes bank ltd			_	_	_	_

SECTION-2 Bank wise classification of NPAs in relation to advances

In this section we are studying bank wise NPAs of public sector banks & Pvt. Sector bank. As studied above the NPAs can be classified into two group gross NPAs occurred in a business. Net NPAs are the gross NPAs after deducting the provisions from it. So have gross NPAs occurred in a business. Net NPAs are the gross NPAs after deducting the provision from it. So her gross NPAs and net NPAs in relations to advances of both PSBs & Pvt. Sector banks are studied.

Gross NPAs as percentage to Gross Advances of Public Sector Banks

The figures are showing the gross NPAs of the public sector banks from the year 2001-02 to 2004-05. as it is shown that in 2001-02 the gross NPAs of the public sector bank was 11.9% of the total gross advance which was decreased significantly in year 2004-05 to 5.53% of the gross advances. In public sector banks the nationalized banks. Figure was 11.1% of gross advances in year 2001-02 & diminished to 5.84% of the gross advances. Much less comparatively decrease in the gross NPAs in the nationalized banks in year 2001-02 the highest gross NPAs was with Dena Bank 24.11% & in 2004-05 the highest gross NPAs of the gross advances is with Punjab & Sindh Bank 17.17% of gross advances. The minimum NPAs in nationalized banks is with Andhra Bank 2.46% that is followed by Vijay a Bank 2.94% , Corporation Bank 3.41% and Indian Bank 4.19%.In the State Bank group the gross NPAs as p.c. of gross advances in year 2001-02 was 11.23% & that was reduced to 5.32% in 2004-05 means the comparatively more efficiency in managing the NPAs. The State bank of saurustrya is with the minimum gross NPAs p.c. 2.70%.

Gross NPAs as percentage to gross advances of Private Sector Banks

Overall private sector banks gross NPAs percentage was 9.64% as compared to gross advances in year 2001-02. the maximum gross NPAs in 2001-02 was with SBI Commercial & Interaction bank Ltd. 32.72% and the minimum was with Jammu & Kashmir bank ltd. 3.62% which was followed by ING Vysya bank Ltd. 5.18% in fact all the private sector banks have been able to manage the NPAs and they have been able to put the gross NPAs compared to gross advances at lower level in the subsequent years. In the year 204-05 the maximum p.c. is with SBI comm. & Int. Bank 24.06% & the minmum is with kotak mhindra bank ltd. 0.69% and UTI Bank Ltd. 1.98% the overall p.c. in year 2004-05 has been 4.44% for the private sector bank.

Net NPAs as percentage to Net Advances of public sector banks

In the year 2001-02 the net NPAs of the public sector bank as compared to the net advances was 5.82 p.c. which was camedown in the year 2004-05 to 2.06%In case of nationalized banks it was 6.01% in the year 2001-02 as for the prencentage of net NPAs to net advanced is concerned. The maximum and the minimum for the year 2001-2002 the net NPAs as percentage to the net advances were (in case of nationalized banks) Dena Bank 16.31% and Corporation Bank 2.31% respectively. This percentage was 10.55 for Allahabad Bank and for Bank of Baroda it was 5.68% for Punjab National Bank it was 11.68%.

In year 2004-05 the maximum and the minimum percentage the net NPAs to the net advances was respectively Punjab & Sindh Bank 8.09% and Punjab National Bank 0.20% which was floured by Andhra Bank 0.28% Vijay a Bank 0.59%. nse of state bank group in the year 2001-02 it was state bank of India which was having the maximum p.c. of the NPAs 11.95% and its was state bank of Patiala with the minimum p.c. 6.94% in year 2004-05 almost all the public sector bank reduced theirs NPAs Net considerably. State bank of Indore was the with the minimum net NPAs p.c. as compared to net advances 1.01%.

Net NPAs as percentage of net advances of Private sector banks

As for overall net NPAs of all the private sector banks (Old Pvt. Sector & New Pvt. Sector bank) is concerned in year 201-02 that was 5.73 cr. Of net advances and which in the year 204-05 came down to 2.17 p.c. and in the case of old pvt. Sector banks it was 7.13 p.c. of net advances in year 2001-02 and in case of new pvt. Sector banks it was 4.94 p.c. at net advances in year 2001-02 which later on in the year 2004-05 come to 2.74 cr. And 1.85 p.c. of net advances respectively. Means net pvt. Sector banks such as Kotak Mahindra 0.37% HDFC bank 0.24% yes bank ltd. 1.39% and ICICI bank ltd. 2.34% were more efficient in managing the net non performing asset comparatively to old pvt. Sector banks such as J&K bank ltd. 1.92% City Union Bank 3.34% Lord Krishna bank 4.40p.c. Ganesh bank of kurund was ltd. 8.32% and SBI commercial & international bank 17.66%.

	GROSS NPAs AS P.C. TO TOTAL ASSETS PUBLIC SECTOR BANKS				
Sr.	Name of the Bank	Gross NPAs/Total Assets			
		2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6
	Scheduled Commercial Banks	4.6	4	3.3	2.5
	Public Sector Banks	4.89	4.21	3.5	2.74
	Nationalized Banks	5.21	4.66	3.86	2.98
1	Allahabad Bank	8.08	6.56	4.09	2.84
2	Andhra Bank	2.5	2.35	2.28	1.35
3	Bank of Baroda	6.33	5.45	4.68	3.51
4	Bank of India	5.33	4.99	4.4	3.32
5	Bank of Maharashtra	4.22	3.84	2.96	2.93
6	Canara Bank	2.93	3.02	3.15	2.15
7	Central Bank of India	6.42	5.68	4.88	4.03
8	Corporation Bank	2.49	2.5	2.48	1.91
9	Dena Bank	10.59	8.02	6.7	4.78
10	Indian Bank	7.19	4.61	3.04	1.71
11	Indian Overseas Bank	5.13	4.61	3.33	2.73
12	Oriental Bank of Commerce	2.95	3.37	2.95	4.61
13	Punjab and Sind Bank	7.94	8.6	8.02	7.62
14	Punjab National Bank	5.68	5.78	4.56	2.96
15	Syndicate Bank	4.08	4.12	3.37	2.75
16	UCO Bank	4.25	3.91	3.38	2.56
17	Union Bank of India	5.46	4.68	4.02	2.84
18	United Bank of India	5.34	3.95	2.96	2.5
19	Vijaya Bank	3.73	2.65	1.62	1.47
	State Bank Group	4.39	3.48	2.91	2.49
20	State Bank of India	4.45	3.59	3.11	2.71
21	State Bank of Bikaner and Jaipur	3.77	3.23	2.4	1.71
22	State Bank of Hyderabad	4.06	2.83	2.26	1.58

23	State Bank of Indore	3.25	2.6	2.04	1.8
24	State Bank of Mysore	6.03	4.96	3.74	2.51
25	State Bank of Patiala	3.62	2.51	1.87	2.07
26	State Bank of Saurashtra	4.73	3.09	1.56	1.22
27	State Bank of Travancore	4.41	3.34	2.76	2.26
	Other Public Sector Banks				
28	IDBI Ltd.	–	–	–	1.49

	NET NPAs AS P.C. TO TOTAL ASSETS (PSBs)				
Sr.	Name of the Bank	Net NPAs/Total Assets			
No.					
		2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6
	Scheduled Commercial Banks	2.3	1.9	1.2	0.9
	Public Sector Banks	2.42	1.93	1.28	0.99
	Nationalised Banks	2.69	2.16	1.4	0.96
1	Allahabad Bank	4.68	3.16	1.05	0.6
2	Andhra Bank	1.13	0.84	0.44	0.15
3	Bank of Baroda	2.7	2.22	2.07	1.27
4	Bank of India	3.3	3	2.43	1.64
5	Bank of Maharashtra	2.23	1.84	0.89	0.85
6	Canara Bank	1.79	1.77	1.39	1.02
7	Central Bank of India	3.23	2.74	2.01	1.19
8	Corporation Bank	1.07	0.76	0.86	0.61
9	Dena Bank	6.51	4.95	3.99	2.46
10	Indian Bank	2.99	2.13	0.98	0.56
11	Indian Overseas Bank	2.7	2.22	1.22	0.63
12	Oriental Bank of Commerce	1.41	0.66	–	0.61
13	Punjab and Sind Bank	4.73	4.41	3.85	3.24
14	Punjab National Bank	2.48	1.77	0.44	0.09
15	Syndicate Bank	2.12	2.03	1.13	0.82

16	UCO Bank	2.31	2	1.72	1.49
17	Union Bank of India	3.02	2.45	1.45	1.46
18	United Bank of India	2.38	1.67	1.16	0.95
19	Vijaya Bank	2.31	1.08	0.42	0.29
	State Bank Group	2	1.58	1.09	1.01
20	State Bank of India	1.96	1.64	1.33	1.16
21	State Bank of Bikaner and Jaipur	2.21	1.57	0.53	0.83
22	State Bank of Hyderabad	1.89	1.21	0.25	0.27
23	State Bank of Indore	1.56	1.21	–	0.54
24	State Bank of Mysore	3.49	2.41	1.35	0.49
25	State Bank of Patiala	1.47	0.75	–	0.6
26	State Bank of Saurashtra	2.17	1.43	–	0.63
27	State Bank of Travancore	2.58	1.47	0.64	0.93
	Other Public Sector Banks		–	–	–
28	IDBI Ltd.	–	–	–	1.04

SECTION 3. Bank wise classification of NPAs in relation to total assets

Here bank wise NPAs both public sector banks & private sector banks are studied in relation to total assets. Which are discussed hereafter. Gross NPAs as percentage to total assets of Public Sector Banks As the data given in the table devotes the gross NPAs at the public sector banks as a percentage of the Gross Assets. The public sector banks are divided into two parts nationalized banks and state bank group and other public sector bank. As it is clear that in the year 2001-2002.The gross NPAs of all the public sector banks in relation to their total assets was 4.98 cr. Which was subsequently managed by the public sector banks to 2.74 p.c. in the year 2004-05.As for the gross NPAs of the nationalized banks in relation to gross assets is concerned in the year 2001-02 it was 5.21 p.c. and in the year 2004-05 it came to 2.98 p.c. at the same time in the year 2001-02 the maximum gross NPAs is relation to gross asset at banks was with Dena bank 10.59% which in the year 2004-05 came down to 4.78% and in the ;year 2004-05 to minimum gross NPAs p.c. of total asset was with Andhra bank 1.35% in cased state bank group it was 4.39

in S2001-02 and in 2004-05, its 2.49%, it shows that State bank Group has been able to manage the gross NPAs in relation to gross assets at lower level as comparatively to nationalized banks.

Gross NPAs as percentage to total assets of private sector banks

The overall gross NPAs of all the pvt sector bank in 2001-02 in relation with the total assets had been 4.36% and which latter on in the year, 2004-05 came down to 2.05%. in case of old private sector banks it was 5.2% in the year 2001-02 and which subsequently came down to 3.15% of total assets. And in case of new pvt sector banks it was 3.9% of total assets in the year 2001-02 which was latter on managed to 1.55% of total assets. It means that new pvt sec banks such as – UTI Bank ltd, HDFC Bank ltd, kotak Mahindra Bank ltd have been able to manage their gross NPAs in relation with the toal assets more comparatively to the old pvt sec banks such as – Bank of Rajsthan ltd, Sangli Bank ltd, ING Vysya Bank ltd, City Union Bnak ltd South Indian bank ltd, United Bank Ltd, and Karnataka bank ltd.

Net NPAs as percentage of total assets in Public Sector banks

As that is shown in the year 2001-02 the overall net NPAs of the PSBs has been 2.42% of the total assets which in the year 2004-05 came down to 0.99%of the total assets. In case with Nationalized banks it was 5.21% in the year 2001-02 and later on in the year 2004-05 it came down to 0.96% of the total assets. In the year 2004-05 the bank such as – Allahabad bank, Indian bank, Andhra Bank, corporation bank, Syndicate

bank, Punjab National bank, United Bank of India, Vijaya bank, have been able to put their NPAs in relation with the total assets under one percentage.In case of State Bank Group the banks such as – State bank of Hydrabad, State bank of Indore, State bank of BIkaner & Jaipur, State bank of Mysore, State bank of saurstrya, and State bank of Travencor managed the net NPAs in relation with the total assets successfully.

Net NPAs as percentage of total assets in pvt sector bank

In the year 2001-02the net NPAs of the pvt sector banksin relation to the total assets has been 2.47%, which came down to 0.97% in the year 2004-05. in case of old pvt sector banks it was 3.23% in 2001-02 and that in the year 2004-05 became1.39%. and in the case of new pvt sector banks it was 2.1% in the year 2001-02and in the year 2004-05 it became to 0.78%. the bank such as Bank of Rajsthan, Bharat Overseas Bank(0.8%), Jammu & Kashmir Bank, Karur Vysya bank ltd, HDFC Bank ltd, ICICI Bank ltd, Koptak Mahindra Ltd, and UTI Bank ltd have been able too much successful in managing their net NPAs in relation with the total assets lower then one percentage.

SECTION – 4 Sector **wise classification and analysis of NPAs**

This section covers section wise analysis of public sector bank and pvt sector banks

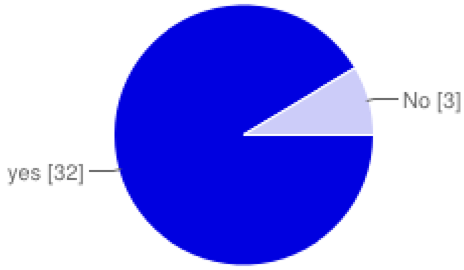
Sector wise NPAs of pvt sector banks

Here the NPAs of all the pvt sector banks are given according top their section – agriculture, small- scale industry, others, priority sector, public sector and non-priority sector. The total NPAs of the pvt sector bank as at the end of the March, 2005 has been 8799cr Rs. The amount of NPAs in non-proirity sector has been the maximum (74.65%) as a percentage of total NPAs of the all pvt sector banks. Which is followed by the priority sector and then the public sector, which has the very small percentage of the total NPAs of the pvt. Sector banks and that is just 0.48% of the total NPAs of the pvt. Sector banks. In the case of priority sector small scale industries brings about the maximum percentage of the NPAs out of the total NPAs of Pvt. Sector banks which is 10.96% or Rs. 964.31 cr. In the March 2005. NPAs amount of agricultural sector Rs or 5.29% of total NPAs in the priority sector other then agriculture and the small sector industries also a very big amount 758 cr. Rs has been attracted as the NPAs of Pvt. Sector banks that is 8.62 of the Total NPAs. Here one thing is noticeable that in case of non priority sector the instances of NPAs has been very high th;at is near about three fourth of the total NPAs and in case of priority sector lending the instances of NPAs and in cased public sector lending the NPAs are very minuscule that is just meager 0.48% of total NPAs.In the old pvt. Sector banks & the new private sector banks these were only two banks fedral Bank Ltd & ICICI bank ltd which experienced a slight NPAs on the part of public sector lending. Among all the banks it was on 31st March 2005 fedral bank ltd, which experienced the maximum NPAs in both - priority sector lending & non priority sector lending, on the contrary it was centurian bank ltd. whose lending's NPAs remained just upto Rs. 4.8 cr. Rs. for the same period.

Sector wise NPAS of public sector bank

As the data given in the table showing the sector wise NPAS of the public sector banks. Under sector wise diviosion og the total NPAs of PSBs are having the three main components such as – priority sector (agriculture, small-scale industries & others), public sector and the third one is, non-priority sector. And the public sector has been divided into two parts – nationalized banks and the banks associated with the state bank group. In fact, in the priority sector this is 49.05% of total NPAS or that is 23397.38 cr Rs. This priority sector is consisting of , agriculture, small sector industries and others. And in the case public sector's lending of all the PSBs, the NPAS is very less, 451 cr Rs. And in the case of non-priority sector the amount for NPAshas been at the end of the March, 2005, Rs23848 cr.In the case of Nationalized banksthe total NPAs at the end of the March 2005 has been 31964.03 cr Rs, as compared to Rs 14808.19 cr Rs in the case of State bank group. Among all the banks the maximum instances for the NPAs in agriculture sector has been there on the part of State Bank of India, with the NPAs in amount 1912.12 cr Rs and if we analyze the table then the maximum instances of the NPAS in terms of Rs as overall from PSBs then it is again SBI with ther total amount stood at 11647.47 cr Rs, which is followed by Bank of Baroda with the total amount of Rs 3161.61 crore, Bank of India, central bank of India, Oriental Bank of India, Union Bank of India, Syndicate Bank. The minimum NPAs as overall in retained in March, 2005 by State bank of Saurastrya, State bank of Indore, State bank of Bikaner & Jaipur, Vijaya Bank and Andhra bank.This shows that the State bank groups' banks have been able to manage theirs' NPAs, comparatively better to the other PSBs, such as – Allahabad bank, Andhra bank, Vijay a bank, Dena bank, Indian bank, Corporation bank, Central bank of India, Union bank of India & United bank of India.

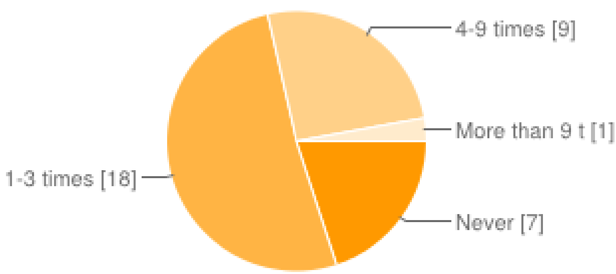
Have you visited your branch in the last year?



yes	**32**	91%
No	**3**	9%

This shows that around 91% persons have banks accounts

Approximately how many times have you visited your branch in last 3 months?



Never	**7**	20%
1-3 times	**18**	51%
4-9 times	**9**	26%
More than 9 times	**1**	3%

This shows that around 51% visit banks around 3 times a month

Friendly and courteous manner In terms of the service you received from the customer service representatives/tellers, how satisfied were you with the following?]

Very satisfied	**18**	51%
Satisfied	**11**	31%
Neutral	**2**	6%
Dissatisfied	**1**	3%
Very dissatisfied	**3**	9%

This shows that around 51% are very satisfied with bank.

Knowledge of bank's products & Services [In terms of the service you received from the customer service representatives/tellers, how satisfied were you with the following?]

Very satisfied	**8**	23%
Satisfied	**20**	57%
Neutral	**4**	11%
Dissatisfied	**0**	0%
Very dissatisfied	**3**	9%

This shows that around 57% are satisfied with customer services representatives

Willingness to listen and respond to your need [In terms of the service you received from the customer service representatives/tellers, how satisfied were you with the following?]

Very satisfied	**7**	20%
Satisfied	**17**	49%
Neutral	**7**	20%
Dissatisfied	**2**	6%
Very dissatisfied	**2**	6%

This shows that 49% are satisfied with banks regarding the responses they provide

Fast and efficient service [In terms of the service you received from the customer service representatives/tellers, how satisfied were you with the following?]

Very satisfied	**9**	26%
Satisfied	**19**	54%
Neutral	**4**	11%
Dissatisfied	**1**	3%
Very dissatisfied	**2**	6%

This shows that around 54% are satisfied that banks provide fast and efficient services.

Recognition of you as valued customer [In terms of the service you received from the customer service representatives/tellers, how satisfied were you with the following?]

Very satisfied	**6**	17%
Satisfied	**19**	54%
Neutral	**5**	14%
Dissatisfied	**3**	9%
Very dissatisfied	**2**	6%

Professional and attractive appearance [In terms of the service you received from the customer service representatives/tellers, how satisfied were you with the following?]

Very satisfied	**8**	23%
Satisfied	**16**	46%
Neutral	**7**	20%
Dissatisfied	**0**	0%
Very dissatisfied	**4**	11%

Friendly and courteous manner [In terms of the service you recieved from the Supervisors and Management of the branch, how satisfied were you with the following?]

Very satisfied	**8**	23%
Satisfied	**21**	60%
Neutral	**4**	11%
Dissatisfied	**0**	0%
Very dissatisfied	**2**	6%

Knowledge of bank's products & Services [In terms of the service you recieved from the Supervisors and Management of the branch, how satisfied were you with the following?]

Very satisfied	**13**	37%
Satisfied	**15**	43%
Neutral	**4**	11%
Dissatisfied	**1**	3%
Very dissatisfied	**2**	6%

Willingness to listen and respond to your need [In terms of the service you recieved from the Supervisors and Management of the branch, how satisfied were you with the following?]

Very satisfied	**8**	24%
Satisfied	**19**	56%
Neutral	**4**	12%
Dissatisfied	**1**	3%
Very dissatisfied	**2**	6%

Fast and efficient service [In terms of the service you recieved from the Supervisors and Management of the branch, how satisfied were you with the following?]

Very satisfied	**6**	17%
Satisfied	**21**	60%
Neutral	**5**	14%
Dissatisfied	**1**	3%
Very dissatisfied	**2**	6%

Recognition of you as valued customer [In terms of the service you recieved from the Supervisors and Management of the branch, how satisfied were you with the following?]

Very satisfied	**9**	26%
Satisfied	**16**	46%
Neutral	**6**	17%
Dissatisfied	**2**	6%
Very dissatisfied	**2**	6%

Professional and attractive appearance [In terms of the service you received from the Supervisors and Management of the branch, how satisfied were you with the following?]

Very satisfied	**6**	17%
Satisfied	**17**	49%
Neutral	**8**	23%
Dissatisfied	**2**	6%
Very dissatisfied	**2**	6%

Available to customers when needed [In terms of the service you recieved from the Supervisors and Management of the branch, how satisfied were you with the following?]

Very satisfied	**6**	17%
Satisfied	**20**	57%
Neutral	**5**	14%
Dissatisfied	**2**	6%

Very dissatisfied	**2**	6%

Clean & well cared facilities [How satisfied were you with the following aspects of the branch facility?]

Very satisfied	**8**	23%
Satisfied	**21**	60%
Neutral	**2**	6%
Dissatisfied	**1**	3%
Very dissatisfied	**3**	9%

Efficient, no wait service [How satisfied were you with the following aspects of the branch facility?]

Very satisfied	**9**	26%
Satisfied	**14**	40%
Neutral	**5**	14%
Dissatisfied	**3**	9%
Very dissatisfied	**4**	11%

No long line ups at counter [How satisfied were you with the following aspects of the branch facility?]

Very satisfied	**6**	17%
Satisfied	**16**	46%
Neutral	**9**	26%
Dissatisfied	**2**	6%
Very dissatisfied	**2**	6%

Availability of information brochures [How satisfied were you with the following aspects of the branch facility?]

Very satisfied	**5**	14%

Satisfied	**22**	63%
Neutral	**5**	14%
Dissatisfied	**1**	3%
Very dissatisfied	**2**	6%

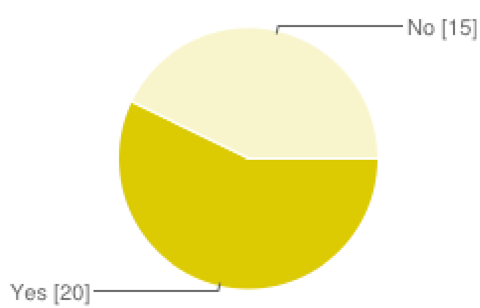
Pleasant & attractive decor [How satisfied were you with the following aspects of the branch facility?]

Very satisfied	**7**	20%
Satisfied	**18**	51%
Neutral	**6**	17%
Dissatisfied	**2**	6%
Very dissatisfied	**2**	6%

Automatic bank machines in convenient locations [How satisfied were you with the following aspects of the branch facility?]

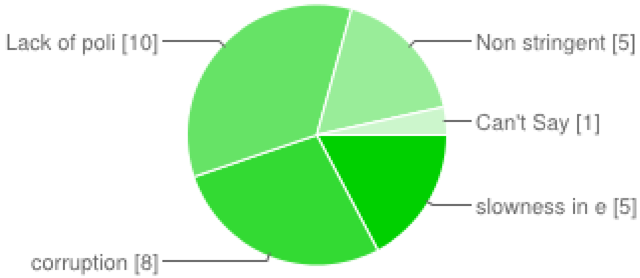
Very satisfied	**3**	9%
Satisfied	**20**	57%
Neutral	**7**	20%
Dissatisfied	**3**	9%
Very dissatisfied	**2**	6%

Do you receive statements monthly?



Yes	**20**	57%
No	**15**	43%

why do you think NPA of banks are increasing?



slowness in economy	**5**	17%
Corruption	**8**	28%
Lack of policies	**10**	34%
Non stringent enforcement measures	**5**	17%
Can't Say	**1**	3%

Sent out reliably and on time [In terms of your expectations regarding mailed statements, please indicate your satisfaction with the following.?]

Very satisfied	**16**	46%
Satisfied	**8**	23%
Neutral	**7**	20%
Dissatisfied	**1**	3%
Very dissatisfied	**3**	9%

Complete record of transactions [In terms of your expectations regarding mailed statements, please indicate your satisfaction with the following.?]

Very satisfied	**4**	11%
Satisfied	**22**	63%
Neutral	**4**	11%
Dissatisfied	**3**	9%
Very dissatisfied	**2**	6%

Accurate [In terms of your expectations regarding mailed statements, please indicate your satisfaction with the following.?]

Very satisfied	**3**	9%
Satisfied	**20**	57%
Neutral	**9**	26%
Dissatisfied	**1**	3%
Very dissatisfied	**2**	6%

Easy to read and understand [In terms of your expectations regarding mailed statements, please indicate your satisfaction with the following.?]

Very satisfied	**6**	17%
Satisfied	**14**	40%
Neutral	**10**	29%
Dissatisfied	**2**	6%
Very dissatisfied	**3**	9%

CHAPTER – V

FINDINGS & SUGGESTIOS

FINDINGS

- Total assets of the PSBs are on the southwards move, as in the case of year, 2000, these stood at 53942 cr Rs and In the year 2005 these are at 46597 cr Rs. But till the year, 2000 these were moving northwards, the reason for the fast move was due to the fast credit policy by the banks.
- In case of private sector banks, the size of the standard assets has been fustily moving onwards. In the year, 2000, these standard assets were at the level of 53317 cr Rs, while in the year, 2005, when these standard assets witnessed a great move in the northwards, closed at 216448 cr Rs in the year 2005.
- In case of all scheduled commercial banks, the size of the standard assets has been increasing rapidely; that is from 414917 cr Rs in the year, 2000, to the amount of Rs1113664cr in the year, 2005.
- In case of private sector banks one thing is worthy noticeable, that though the size of the total loans/advances has increased substantially from 58249 cr Rs to 225139 cr Rs in the year 2005. but the size of the NPAs in relation to the percentage of the total advances has been moving downwards drastically; and that is from 8.5% in the year 2000 to almost 3.9% in the year ,2005.
- The private sector banks till March, 2000, were not able to manage their' NPAs efficiently, but after that they have managed theirs' NPAs to a great extent.
- The loss assets of all the scheduled commercial banks also have been moving very fastly downwards as compared to total advances. But at the same time, this is very important to note here is that the size of the total loss assets is in constant mode, but as the total advances are moving upwards, hence the percentage of the loss assets to the total assets is decreasing. In the Rs terms the loss assets of the scheduled commercial banks was – 7558 cr Rs (1.6%) in the year, 2000, and at the same time this is also one of the facts, is that in the year, 2005these were stood at Rs7241 cr (.6%) in total terms.
- The net NPAS of the net advances of the scheduled commercial banks are also on the downwards mode, which was 5.5% in the year 2000, & in the year2005 that came down to only two

- Private sector banks are more efficient in managing the NPAs, where the public sector banks were having the gross NPAs of 4.89% of gross assets in 2001 and managed it to 2.74% in the year 2005, whereas the private sector banks were having the 4.36% in the year 2001 and managed that level in the year 2005 to just, 2.05%. and in case of new pvt sector bank the management of NPAs is worthy mentioning, which was 3.9% of total assets in 2001 & was only 1.55% in 2005.
- As for the overall NPAs of the PSBs is concerned that is too much high comparatively to pvt. Sector banks. In case pvt. Sector banks this is 8799.83 crore Rs. But on the contrary in case of PSBs this is as much as 47696.48 crore in March 2005.
- The maximum NPAs in case of PSBs was experienced in 2005 in the priority sector's advances where the total NPAs has been 23397.38 cr. Rs. Where as in case of pvt. Sector banks the priority sector NPAs were as less as 2188.46 cr. Rs.
- This questionnaire and the responses give in this bank survey prove that more or less bank customers are generally satisfied with the services which the bank provide to its customers like customers problems ,queries etc
- A large section of bank customers think that the problem of growing NPAs in our country is largely because of lack of proper policies in the country.

SUGGESTIONS

Banking is the heart of the economy. Any problem in it should be treated as the national priority to make the Indian banking system stronger, resilient and geared to meet the challenges. Biggest challenge Indian banks are facing with the reduction of the NPAs. This issue is the intimately connected with the overall stability of the financial system and need to be so recognized for concerted and multipronged efforts.

However RBI and all the banks are trying to finish the NPAs but they are failed to do so. However it is going to be decreased and decrease. Public sector banks account for more then 90% of the lending's. When the loans taken are not paid so much funds are gone out of the financial system and the cycle of the lending-repaying, borrowing is broken. Banks become reluctant to lend the fresh loans which leads to the liquidity crunch. Once the credit to various sector of the economy is slowed down, the economy is badly hit. There is slow down in the growth in the GDP industrial output and fall in the profit margins of the corporate and consequent depression in the market. Government being the sole shareholders of the banks, any dividend declared could have gone to govt exchequer, which would have been spent on the welfare and development programs. In fact the society is bearing the cost of these NPAs.

Efforts should be made to improve the smiles of the officials for proper assessme4nt iof the credit proposals, risk factor and repayment possibilities. Though there are problems in effecting recoveries and write offs and in compromise settlements, it is of utmost importance that necessary changes are brought in related legislations for making recovery process more smooth and less time consuming and also create other alternative channels for recovery of debts. The setting up of assets reconstruction Company can also play a important role in reduction of NPAs. This agency can buy these assets from the banks at a suitable discount. This will not only clean the balanceseets of the banks but also pave the way; for speedier recovery of the debts.

The officials responsible or sanction of loans should also be made accountable if here is evidence of malafide intentions. Big borrowers and thousand of small borrowers are let off set free at least for the time being. This encourages more people to take small loans and not repay. Added to this is legal system which can be used either to delay repayments or to avoid payment altogether. Further the govt. uses PSBs as a vehicle to achieve its political objectives by lending to unviable projects. Govt. should restrain itself from announcing loan meals and loan waver schemes. The day the Govt. stops interfering in the commercial functioning of the banks, the entire banking sector will start getting healthy. The public sector banks should not be loaded with twin objective of profitability and social welfare which are mutually incongruent. This calls for a strong political will only then can Indian banks be able to find satisfactory solution of the problem.

- After having carried out the exhaustive no doubt exercise the researcher has been putting forward the following suggestions, which he believes would go a long way with the facilitation of the speedy recovery of the NPAs.
- There should be an increase coordination between State financial Corp[oration of banks where the corporation restore to secure the assets and initiations for separate recovery proceedings.
- There should be flexibility with regard to the minimum amount that can be recovered under the revised guidelines to be issuied by RBI. Till now there is start jacked off take way flexibility, banks have with regard to recovery of NPAs.
- If banks have to file a suit knowing well that there is no chance of recovery the bqd loans, bank will end-up increasing legal expenses to no purpose, as RBI has made mandatory for a bank to file, a suit against defaulter who comes for one time settlement, so there should not be such conditions.
- RBI should change the guidelines to curb the discretionary mechanism for recovery of the stock of NPAs and that guidelines should be uniformly adopted by banks.
- Income tax has two flows – one that it does not account for NPAS not written- off & two its retrospective leading to assessed problem. In income tax act modification to make prospective & also allow for provisioning of the assets instead being limited to written-off loans. This will encourage the bank & FI to present clear picture of their loan portfolio of NPAs levels.
- The corruption problem does not lie only in business sector but in banking system as well but to prove that is entirely different. The laws to be made stringent so that successful prosecution & conviction be made.
- Quality of internal and effective utilization of human resources will lead bank to better credit evaluation process & prudent like risk management. The banks will have to

develop a sound credit rating framework towards this direction which will standardized & communicate the credit selection.

- More authorities/autonomy power to FIs and banks to recover the amount of loans with the intervention of the court.
- Add motivational factors to the officers to involve in credit advanced and they should be made accountable for default to some extent. If the loans default increase in the branch.
- Political will must be generated to curb the NPA whole is missing, hence this also needs to be ensured.
- Laws should be made stringent , if anyone defaults, he can be prosecuted & imprisioned so that the justice can be qualitstive &immediate.
- Free hand in Lok Adalat &compromise.
- Political interference should be avoided at the time of granting advances to the clients.
- More power should be given for selling of the pledged good irrespective of sector of economy.
- Law should be passed so as to give more power to banks for dealing with willful defaulter like recent year passing of securitization bill by the Govt. of India.
- Co-operation from top official in recovery of bank dues, besides not making mandatory advances in certain weak sector which affect appraisal & follow-up.
- Proper policies formulation is need to tame the evil of growing NPAs in the country.

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ANNEXURES

Questionnaire

Bank survey

what is your name?

Do you have bank account?

If yes, In which bank?

Have you visited your branch in the last year?

- yes
- No

Approximately how many times have you visited your branch in last 3 months?

- Never
- 1-3 times
- 4-9 times
- More than 9 times

In terms of the service you received from the customer service representatives/tellers, how satisfied were you with the following?

	Very satisfied	Satisfied	Neutral	Dissatisfied	Very dissatisfied
Friendly and courteous manner					
Knowledge of bank's products & Services					
Willingness to listen and respond to your need					

	Very satisfied	Satisfied	Neutral	Dissatisfied	Very dissatisfied
Fast and efficient service					
Recognition of you as valued customer					
Professional and attractive appearance					

In terms of the service you received from the Supervisors and Management of the branch, how satisfied were you with the following?

	Very satisfied	Satisfied	Neutral	Dissatisfied	Very dissatisfied
Friendly and courteous manner					
Knowledge of bank's products & Services					
Willingness to listen and respond to your need					
Fast and efficient service					
Recognition of you as valued customer					
Professional and attractive appearance					
Available to customers when needed					

How satisfied were you with the following aspects of the branch facility?

	Very satisfied	Satisfied	Neutral	Dissatisfied	Very dissatisfied
Clean & well cared facilities					
Efficient, no wait service					

	Very satisfied	Satisfied	Neutral	Dissatisfied	Very dissatisfied
No long line ups at counter					
Availability of information brochures					
Pleasant & attractive decor					
Automatic bank machines in convenient locations					

Do you receive statements monthly?

- Yes
- No

Why do you think NPA of banks are increasing?

- slowness in economy
- corruption
- Lack of policies
- Non stringent enforcement measures
- Can't Say

In terms of your expectations regarding mailed statements, please indicate your satisfaction with the following.

	Very satisfied	Satisfied	Neutral	Dissatisfied	Very dissatisfied
Sent out reliably and on time					
Complete record of transactions					
Accurate					
Easy to read and understand					

Do you have any remarks you want to add concerning the service you have been receiving at your branch?