NPA/STRESS ASSETS

The global economy is presently marred in economic chaos leading to slow growth in industry and related investments. It is very encouraging that inspite of the weakened global intentions India has been projected to grow at 7.1%. Hence, in order to keep pace with the expected projections the only hurdle faced by Indian economics is that of the huge NPA issue eating away major portion of the banking profits.

The NPA issue has been a shadow to the banking industry since times immemorial however an appropriate tuning at regular juncture had helped to keep the same at bay. A volume of attention is now being received by the NPA issue as the same very critical to the smooth running of the Indian economy. In today's economic figures the NPA issue will cost India 12million jobs both in banking and allied sectors, a negative return of Rs 2000 million dollars to domestic and international investments and a probable inflation rate of 14% in the next half decade etc. Thus, an absolute loss to human and monetary capital.

We have been trying to understand the solution and reason to the NPA crisis and to our dismay have neither found anything worth. But our representation strongly feels that the main cause of the NPA issue is weak corporate governance and lack of will on behalf of the government to tweak policies friendlier to the industry. Both the industry and government needs to accept the blame of not being prompt in their habit to respond to corrections in the economy in the most beneficial way. It would be still fine that the proprietors and the industry owners will have their way out as they are having the first hand information about their balance sheets however sufferers of the NPA issue will be the job holders in the banking and allied industries which will be affected.

Inspite of the seriousness of the issue the Indian Government has been trying to work out solutions at the micro level when the issue majorly lies across those 13 industry firms whose names have been still hidden by the RBI at the large. Crores of investments already siphoned by the kingfisher and the Sahara group whose group heads are still enjoying the sun leaving scores of families in darkness. Along with them are the insiders who were majorly helped in this scandal. The NPA should be now declared as a scam rather than an issue looking at the gravity of people involved in it.

As mentioned earlier NPA is a shadow of the banking industry. Increase in growth figures leading to increase in lending has always allowed this shadow to grow manifold when the sun set on this sector and decline in growth was hinted. The NPA crisis has not been a new one in India's history. A member of a Parliamentary Committee on Banking reportedly has stated that public sector banks (PSBs) have failed to make effective use of the Sarfaesi Act (The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002), the latest addition to the banks' arsenal to recover bad debts. It was pointed out that the actual recovery, between June 21, 2003, last year, when the Act was passed, and March 31 this year, was a mere 0.5 per cent, or Rs 450 crore of the total non-performing assets with the banking system amounting to over Rs 1,00,000 crore. It should be however, noted that India's net NPA as a percentage of net advance of banks, at 7 per cent in 2001, compared favourably with, for instance, 18.9 per cent in Mexico, 18.7 per cent in Finland, 23.1 per cent in Philippines and 10.8 per cent in Sweden.

The Indian Government irrespective to the party which controls it has demonstrated callousness which is visible at the micro level solutions rendered by the banking industry to overcome this issue which is just an eyewash. The Government has introduced various micro solutions in the form of the SARFESI Act in the past, the newer ones like SDR, CDR, S4A strategies which have failed to make any relevant impact on the entire NPA issue.

Banks incur bad debts or non-performing assets (NPAs) due to various reasons, wilful defaults being just one of them. Major reasons include diversion of funds, time or cost overruns in project completion, supply bottlenecks in raw materials and infrastructure, market failure, poor recovery of receivables, industrial recession and the liquidity crunch.

NPAs occurring across the MSME sector and amongst the 100 cr to 500 cr turnover sector are systemic rather than political which are smaller contributions to the NPA issue on the whole however, using the SDR or CDR will hardly help the removal of NPA in this bandwidth. It should be noted here that the corporate debt restructuring (CDR) cell's failure rate was 43%. Since its inception in 2001, the cell has approved CDR in 530 instances. Of that, 228 had failed in the implementation stages. Most cases that have failed are from the infrastructure sector as restructuring packages typically prescribe only a two-year moratorium, even though these cases need long-term hand holding. Infrastructure projects typically take a long time to develop, and longer to pay back, and bank loans of a five- to seven-year tenure and short-term restructuring options, only delay the inevitable. In the year 2012 CDR was Rs. 1,87,000 crore and now the said amount has scaled upto Rs. 3,27,000 crore with interest. This is more so because of accumulation of interest due to the non performance of the above mentioned infra industries and no funding was given for projects only for interest. This was all due to policy paralysis for which entrepreneurs are shown in a bad light.

It's official the strategic debt restructuring (SDR) scheme, introduced by the Reserve Bank of India (RBI) in June 2015 to address the rising bad debt problem of the banking system, has failed. Under SDR (which a domestic brokerage described as "a band-aid for a bullet wound"), a consortium of lenders could convert part of their loan exposure in a stressed company into equity and own at least 51% of it. The banks were given a window of 18 months to bring the houses of stressed companies in order, but they found the time period too short to get any benefit out of it.

In case of the S4A only those projects that have started commercial production can take advantage of this scheme. There are many projects, particularly in the power sector, which have not yet started commercial production for lack of regulatory clearances and/or fuel linkages; they will remain outside its ambit. While working on the revival package, the banks need to use the current cash flows of the concerned projects to determine the quantum of sustainable debt; they do not have any flexibility for changing the terms and conditions of the loan while drafting the scheme and even in the future. Any project functions in a dynamic business scenario and hence unless the bankers who will manage the show are able to respond to the changes in the external environment, it will be difficult to achieve commercial viability of this scheme.

There is also a proposition of putting the bad bank in place with already the ARC infrastructure in pipeline. However, this concept is not a digestible one, when viewed in context of removal of the NPA from its roots. The banking system in this case will not stop producing NPAs due to inadequate infrastructure for reconciliation and there will be a time when this type of dumping continues by the banks leading to the bank having a negative balance sheet larger than the CAD itself.

To give impetus and boost growth in MSME and infrastructure sector, there is need to resolve the NPA crisis being faced by the banks as industries are looking forward for better growth. Earlier too, the Government had come out with Package scheme of settlement to resolve NPA in 2000-01 and spurt in growth was observed after 2-3 years with a turnaround in all the sectors.

The Indian Banking System has been acknowledged as one of the sturdiest structure in the world economic crisis. However, inflationary tendencies due to NPA crisis may be alarmingly responsible for major issue in the lending bandwidth. In the global weakening economic scenario Indian banks are the only ones to provide the necessary respite to the capital thirsty sectors of manufacturing, SME and infrastructure.

The NPA crisis is a contagion effect which has not remained confined to the helms of the banking system but has interspersed to the allied sectors of lending such as trade credit, micro credit etc. The trade credit distortions, akin to Black Swan effect is one such event amongst other banking crisis issues which has been creating industrial sluggishness and financial instability in the export sector hampering the same.

The Indian Government thus needs to provide macro solution and treat the problem with understanding and quick respite to the industry. Undoubtedly, there is an urgent need to bring in the necessary reforms in policies so as to optimize the efficiency of the banking sector to cater to the needs of the Indian economy. Along with reforms we suggest that:-

1. The trade credit sector in the banking industry has seen a steep rise in financial infirmities and NPAs and needs attention. The main reason, for this issues not being in the center stage of deliberations is due to the non-availability of correct and reliable data on TC distortions due to the huge size of the informal economy in the country. Thus, there is an urgent need for RBI intervention on a priority basis before the issue transforms into a major crisis. Currently, the Indian economy is in a trend is to institutionalize vital policy changes and this presents the most opportune time to ring in reforms in the trade credit sector too.

2. The Indian banking system is interlinked with each and every Development Agenda of the Indian Government. Government's initiative on Make in India, Ease of Doing Business, Start Ups and Digital India needs special dispensation and boost from financial sectors to achieve its optimum purpose to boost economic growth, employment and exports.

3. Finance policies have been formulated but their reach to the beneficiaries is still restricted. In event of same a pro policy structure can be adhered to and ways and means be devised to aggressively fund the manufacturing, SME and Infrastructure sector and thus ensure the much needed growth in economy.

4. What needs to be actually done is provision of refinance at rate lower than the base rate by atleast 2 % for a time horizon of 20 years to allow cooling of the bottlenecks to which had arisen due to global economic problems. This will help stabilize the industry without actually affecting organizational structure most importantly the expulsion of jobs. However the provision of such relief to be needs to be treated with strict discipline and suspicion so that the benefit is forwarded only to the ones really eligible for the same.

With the near failure of SDR scheme, there is no other way but to subsidize potential infrastructure and manufacturing projects by availing them lower interest rate for repayment or fifty percent reduction in interest load. A similar process had already been implemented in 2009-2014, at the time of policy paralysis and no growth in manufacturing and infrastructure sector.

5. Further the Joint Lender's Forum (JLF) which is still considered among the participating banks as informal agreement and different participating banks are putting
   a) Different rate of Interest
   b) Panel rate /Penalty
   c) Service charges fees etc.
   d) Security and guarantee etc.

Therefore we request RBI to issue formal guidelines for implement of JLF (fully implements within 90 days). This will facilitate the industry including infrastructure and SMEs serve the present crisis and generate employment and export. This will facilitate the industry including infrastructure and SMEs to serve the present crisis and generate employment and export.