27

STANDING COMMITTEE ON FINANCE
(2015-16)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

NON-PERFORMING ASSETS OF FINANCIAL INSTITUTIONS

TWENTY-SEVENTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

February, 2016 / Magha, 1937 (Saka)

TWENTY-SEVENTH REPORT

STANDING COMMITTEE ON FINANCE
(2015-2016)

(SIXTEENTH LOK SABHA)

MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

NON-PERFORMING ASSETS OF FINANCIAL INSTITUTIONS

Presented to Lok Sabha on 24 February, 2016

Laid in Rajya Sabha on 24 February, 2016

LOK SABHA SECRETARIAT
NEW DELHI

February, 2016 / Magha, 1937 (Saka)

CONTENTS

REPORT
PART I
BACKGROUND ANALYSIS

PART- II

ANNEXURE

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2015-16

Dr. M. Veerappa Moily - Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Sudip Bandyopadhyay
5. Shri Nishikant Dubey
6. Shri P.C. Gaddigoudar
7. Dr. Gopalakrishnan C.
8. Shri Shyama Charan Gupta
9. Shri Prataprao Jadhav
10. Shri Rattan Lal Kataria
11. Shri Bhartruhari Mahtab
12. Shri Prem Das Rai
13. Shri Rayapati Sambasiva Rao
14. Prof. Saugata Roy
15. Shri Jyotiraditya M. Scindia
16. Shri Gajendra Singh Sekhawat
17. Shri Gopal Shetty
18. Shri Anil Shirole
19. Shri Shivkumar Udasi
20. Dr. Kiritbhai Solanki
21. Dr. Kirit Somaiya

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Shri A. Navaneethakrishnan
25. Shri Satish Chandra Misra
26. Dr. Mahendra Prasad
27. Shri P. Rajeeve
28. Shri C.M. Ramesh
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

1. Smt. Abha Singh Yaduvanshi - Joint Secretary
2. Shri P.C. Tripathy - Director
3. Shri Ramkumar Suryanarayanan - Additional Director
4. Shri Kuldeep Pegu - Committee Officer

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorised by the Committee, present this Twenty-Seventh report on the subject "Non-Performing Assets of Financial Institutions".

2. The Committee heard the views of the representatives of Association of Power Producers at their Sitting held on 11 December, 2014.

3. The Committee heard the views of the representatives of the Ministry of Finance (Department of Financial Services) at their Sitting held on 08 January, 2015.

4. The Committee heard the views of the representatives of Confederation of Indian Industry (CII) at their Sitting held on 14 May, 2015.

5. At their Sitting held on 21 May, 2015, the Committee took evidence of the representatives of the Ministry of Finance (Department of Financial Services), National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI).

6. The Committee also heard the views of the representatives of Indian Banks' Association (IBA), Investment Information and Credit Rating Agency of India Limited (ICRA) and Credit Information Bureau (India) Limited (CIBIL) at their sitting held on 28 January, 2016.

7. The Committee at their Sitting held on 05 February, 2016 considered and adopted the draft report and authorised the Chairperson to finalise the same and present it to the Speaker/Parliament.

8. The Committee wish to express their thanks to the officials of NABARD, SIDBI, Ministry of Finance (Department of Financial Services), Confederation of Indian Industry, Association of Power Producers, IBA, ICRA and CIBIL for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

9. For facility of reference, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI
05 February, 2016
16 Magha, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance

REPORT

PART I

1. INTRODUCTION

(a) **Banking**

As per 'The Banking Regulation Act, 1949' (Act. No. 10 of 1949) "Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise. And "Banking Company" means any company which transacts the business of banking in India. Further, in addition to the business of banking, a banking company may *inter-alia* engage in "the borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security ……"

The Banking system of the Country has witnessed and also has been an integral part of two important transitions that the Indian Financial system has undergone, *i.e.*, nationalisation of commercial banks in 1969 and the introduction of the policy of economic liberalisation in 1991. At the same time, it is also a matter of fact that the volume of Non-Performing Assets (NPAs) or bad loans of banks are increasing every year during this period, which is not a healthy sign for any emerging economy.

(b) **Non-Performing Assets**

An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. A Non-Performing Asset (NPA) is a loan or an advance where:

i. interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,

ii. the account remains ‘out of order’ in respect of an Overdraft/Cash Credit (OD/CC),

iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

iv. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

viii. in case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2. Categories of NPAs:

Banks are required to classify non-performing assets into the three Categories based on the period for which the asset has remained non-performing and the realisability of the dues:

i. **Sub-standard Assets**

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months

Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

ii **Doubtful Assets**

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

iii **Loss Assets**

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

3. Reasons leading to NPAs

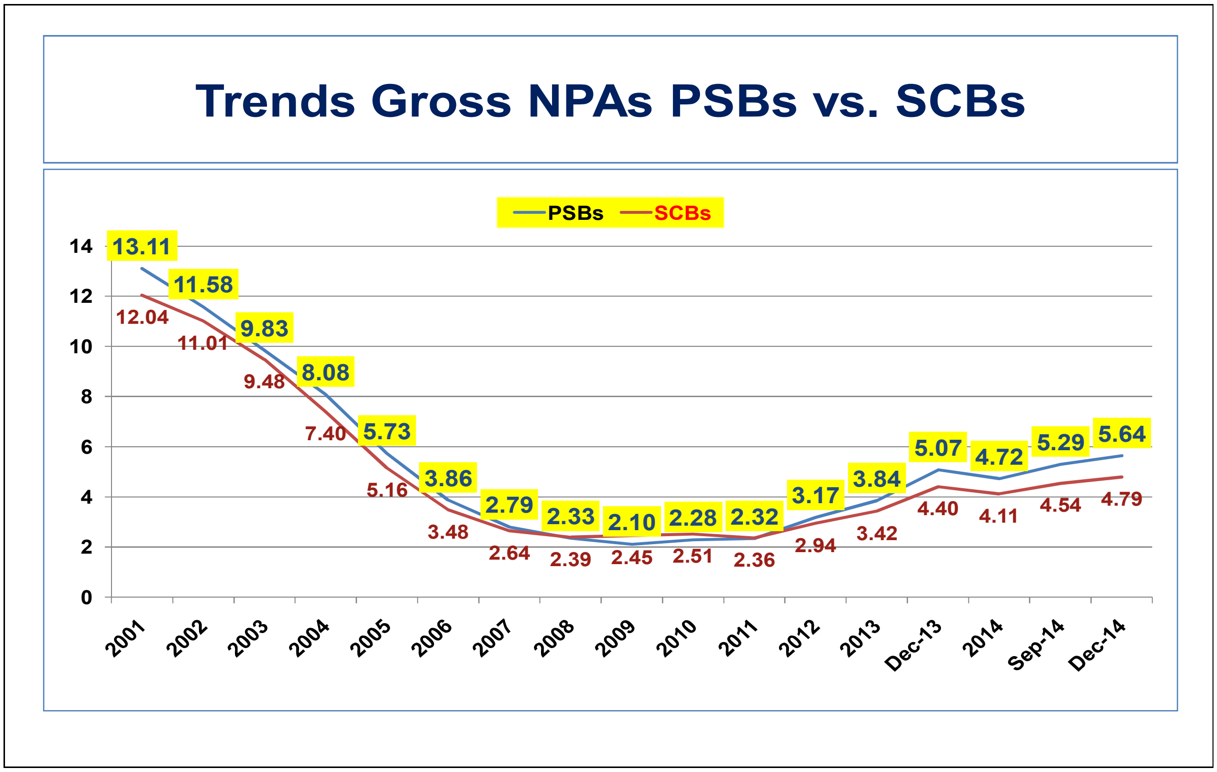
Main reasons for increase in NPAs of banks, inter-alia, are sluggishness in the domestic growth during the recent past, slowdown in recovery in the global economy and continuing uncertainty in the global markets leading to lower exports of various products like textiles, engineering goods, leather, gems, external factors including the ban in mining projects, delay in clearances affecting Power, Iron & Steel sector, volatility in prices of raw material and the shortage in availability of power have impacted the operations in the Textiles, Iron & steel, Infrastructure sectors, delay in collection of receivables causing a strain on various Infrastructure projects, aggressive lending by banks in past.

4. Gross Non Performing Assets (NPAs):

4.1 As per the data made available by the Reserve Bank of India (RBI), Gross NPAs of the Scheduled Commercial Banks, especially Public Sector Banks (PSBs) have shown an increase during the recent years i.e. Rs. 71,080 crore (March, 2011, GNPA ratio 2.32%), Rs.112,489 crore (March, 2012, GNPA ratio 3.17%), Rs. 1,55,890 crore (March, 2013, GNPA ratio 3.84%), Rs. 1,83,778 crore (June, 2013, GNPA ratio 4.59%),Rs. 2,16,739 crore (March 2014, GNPA Ratio 4.72%), Rs. 2,24,458 crore (June, 2014, GNPA ratio 4.98%) and Rs. 3,69,990 crores (December, 2014, GNPA ratio 5.47%).

4.2 On account of good economic conditions, establishment of DRTs and enactment of SARFAESI Act, the **GNPAs ratio of PSBs steadily declined from 13.11per cent in 2000-01 to 2.10 percent in 2008-09 and GNPA ratio of SCBs steadily declined from 12.04 per cent to 2.45 percent.** NPAs have risen to 3.84% as on March, 2013, 4.72% as on March 2014, 5.29% as on Sept 2014 and further to 5.64%(provisional) as on Dec 2014 in respect of PSBs and the same have risen from 3.42% as on March 2013, 4.11% as on March 2014, 4.54% as on Sept 2014 and further to 4.79 per cent (provisional) as on Dec 2014 in respect of SCBs due to sluggishness in the domestic growth during the recent past, slowdown in recovery in the global economy and continuing uncertainty in the global markets leading to lower exports of various products like textiles, engineering goods, leather, gems etc.The PSBs continue to be under stress on account of their past lending. Taking GNPA and restructured advances together the stress on PSBs is 13.03% to total advances as on December, 2014 (12.90% as on Sept, 2014). [Stressed assets as % of total assets is 8.71% as on September, 2015- (Provisional Data)].

4.3 **Table on Trends Gross NPAs PSBs vs. SCBs:**



Dec 14 Data Provisional

4.4 **Gross NPAs, Gross NPA to Gross Advances and Total Gross Advances of PSBs/ Private Banks/SCBs as on Dec 2014**:

(Amount in Rs.Crore)

Bank Group	Gross NPA s					Gross NPA to Gross Advances (%)					Total Gross Advances			
	Dec 2013	Mar 2014	Sept 2014	Dec 2014	Sep 2015*	Dec 2013	Mar 2014	Sept 2014	Dec 2014	Sep 2015 *	Dec 2013	Mar 2014	Sept 2014	Dec 2014
Nationalised Bank	135462	140709	164151	181867	210591	4.55	4.40	5.16	5.61		2974358	3195935	3181150	3238987
SBI Group	82077	76030	76835	80535	72419	6.24	5.45	5.58	5.71		1316087	1394425	1375903	1410856
PSBs	217539	216739	240986	262402	297571	5.07	4.72	5.29	5.64	6.15	4290445	4590458	4557053	4649843
PRIVATE BANKS	23637	22738	26634	29304	-	2.05	1.88	2.06	2.16	-	1150483	1210661	1293888	1356828
SCBs	251808	251060	279948	303380	-	4.40	4.11	4.54	4.79	-	5726456	6101775	6167682	6332383

Source: RBI : OSMOS Database (Based on latest up-dation) – Dec 14 data provisional

** Source: RBI : OSMOS Database (Domestic Operations) – Sep 15 data are provisional*

(Bank wise details in Annex-I).

4.5 **<u>Net NPAs to Net Advances</u> (%)**

Bank-Group	Mar 2013	Dec 2013	Mar 2014	Sept 2014	Dec 2014	Sept 2015
Nationalised Banks	2.08	2.81	2.65	3.15	3.45	
SBI Group	1.90	3.53	2.93	3.12	3.19	
PSBs	**2.02**	**3.03**	**2.74**	**3.14**	**3.37**	**3.60**
PRIVATE BANKS	**0.52**	**0.73**	**0.68**	**0.82**	**0.86**	**-**
SCBs	**1.68**	**2.49**	**2.24**	**2.64**	**2.69**	**-**

Source : RBI

(Bank wise details in Annex-II).

4.6 **<u>Trends in Gross NPAs of Scheduled Commercial Banks (Amounts in Rs. Crore)</u>**

As At March	Gross NPA	Total Gross Advances	% of Gross NPAs to Gross Advances
2008	56606	2503431	2.26%
2009	69953.75	3024652	2.31%
2010	81718.11	3262079	2.51%
2011	93996.88	3995982	2.35%
2012	136968.3	4648808	2.95%
2013	192768.8	5971820	3.23%
2014	263015.2	6875748	3.83%
2015	322916.1	7560666	4.27%

Source : Statistical Tables relating to Banks in India

4.7 **<u>Gross and Net NPAs of SCBs</u>**

As at March	**Gross NPAs**		**Net NPAs**	
	Amount	**% to gross Loans**	**Amount**	**% to Net Loans**
2014	**264181**	**3.83**	**142410**	**2.11**
2015	**322916**	**4.27**	**175392**	**2.39**

Source : IBA

4.8 <u>Stressed assets of SCBs</u>

As at March	Gross NPAs		Restructured Assets		Stressed Assets	
	Amount	% to Gross Loans	Amount	% to Gross Loans	Amount	% to Gross Loans
2014	263015.2	3.83%	415927.7	6.05	6875748	9.88
2015	322916.1	4.27%	524668.5	6.94	7560666	11.21

Source : IBA

5. <u>Restructuring of Advances</u>

5.1 According to the RBI, the total credit off-take of Public Sector Banks stood at Rs. 60,60,69 crores as on (December, 2014).

5.2 RBI instructions permit four types of Restructuring:

a) Restructuring of advances extended to industrial units

b) Restructuring of advances extended to industrial units under the Corporate Debt Restructuring (CDR) Mechanism – Multiple banking, exposure of Rs. 10 crore and above.

c) Restructuring of advances extended to Small and Medium Enterprises (SME)

d) Restructuring of all other advances

5.3 <u>GNPAs Ratio and Restructured Standard Advances Ratio</u>

Public Sector Banks (PSBs) in %:

S. No.	PSBs	<u>Mar 2013</u>	<u>Dec 2013</u>	<u>Mar 2014</u>	<u>Sept 2014</u>	<u>Dec 2014</u>
I	GNPA Ratio	3.84	5.07	4.72	5.29	5.64
II	Restructured Standard Advances	7.18	7.09	7.17	7.61	7.39
III	TOTAL: GNPA Ratio and Restructured Standard Advances	11.02	12.16	11.89	12.90	13.03

Source : RBI

5.4 **GNPAs Ratio and Restructured Standard Advances Ratio**

Private Sector Banks in %:

S. No.	SCBs	Mar 2013	Dec 2013	Mar 2014	Sept 2014	Dec 2014
I	GNPA Ratio	1.91	2.05	1.88	2.06	2.16
II	Restructured Standard Advances Ratio	1.93	2.07	2.34	2.37	2.35
III	TOTAL: GNPA Ratio and Restructured Standard	3.84	4.12	4.22	4.43	4.51

Data provisional

5.5 **GNPAs Ratio and Restructured Standard Advances Ratio**

Scheduled Commercial Banks (SCBs) in %:

S. No.	SCBs	Mar 2013	Dec 2013	Mar 2014	Sept 2014	Dec 2014
I	GNPA Ratio	3.42	4.40	4.11	4.54	4.79
II	Restructured Standard Advances Ratio	5.81	5.73	5.87	6.13	5.94
III	TOTAL: GNPA Ratio and Restructured Standard	9.23	10.13	9.98	10.67	10.73

Source : RBI

As far as small loans are concerned RBI has not prescribed any Board/Bank level position at which these loans need to be approved. The operational rules have been left to the concerned banks.

5.6 **Trend in PSBs' Asset Quality**

	Q2, FY15	Q3, FY15	Q4, FY15	Q1, FY16	Q2, FY16
Gross NPA (Rs billion)	2,510	2,727	2785	2963	3142
Net NPA (Rs billion)	1,484	1,645	1600	1700	1786
Fresh NPA Generation Rate (annualised)	3.3%	3.3%	3.3%	3.3%	4.0%
Recovery & upgrades as % of opening gross NPAs (annualised)	28%	14%	30%	22%	23%
Write-offs as % of opening gross NPAs (annualised)	20%	22%	20%	19%	23%
Gross NPA %	4.8%	5.1%	5.0%	5.4%	5.6%
Net NPA %	2.9%	3.2%	2.9%	3.2%	3.3%
Provisioning cover	41%	40%	43%	43%	43%
Standard Restructured Advances	6.1%	6.5%	7.5%	7.5%	7.2%

Note: Data for slippages, standard restructured advances pertain to select banks; data not available for all banks. (*Source: ICRA Research; Banks)*

5.7 Trend in PSBs' Asset Quality (Annual Trend)

	FY11	FY12	FY13	FY14	FY15
Gross NPA (Rs billion)	732	1214	1645	2273	2785
Net NPA (Rs billion)	361	592	871	1306	1600
Fresh NPA Generation Rate (annualised)	2.2%	2.8%	3.1%	3.7%	3.3%
Recovery & upgrades as % of opening gross NPAs (annualised)	43%	42%	38%	43%	28%
Write-offs as % of opening gross NPAs (annualised)	30.6%	19.6%	22.6%	17.6%	20.5%
Gross NPA %	2.1%	3.1%	3.6%	4.2%	5.0%
Net NPA %	1.1%	1.5%	1.9%	2.5%	2.9%
Provisioning cover	50.8%	51.3%	47.1%	42.5%	43%
Standard Restructured Advances as % of standard advances				6.4%	7.5%

Note: Data for slippages, standard restructured advances pertain to select banks; data not available for all banks. (*Source: ICRA Research; Banks)*

5.8 Trend in All Banks' (PSBs + Private) Asset Quality (Annual Trend)

	FY11	FY12	FY13	FY14	FY15
Gross NPA (Rs billion)	940	1362	1855	2513	3116
Net NPA (Rs billion)	406	635	957	1388	1734
Fresh NPA Generation Rate (annualised)	2.0%	2.5%	2.8%	3.3%	3.2%
Gross NPA %	2.3%	2.8%	3.3%	3.9%	4.4%
Net NPA %	1.0%	1.3%	1.7%	2.2%	2.5%
Provisioning cover	56.8%	53.4%	48.4%	44.8%	44.4%
Standard Restructured Advances as % of standard advances				~5.3%	~6.2%

Note: Data for slippages, standard restructured advances pertain to select banks; data not available for all banks. (*Source: ICRA Research; Banks)*

6. NPAs in NABARD

6.1 Trend and Movement :

Year	Total Loan & Advances	Gross NPA Amount	Gross NPA%	Net NPA Amount	Net NPA %
(1)	(2)	(3)	(4)	(5)	(6)
2011-12	165265.53	91.42	0.06%	37.15	0.02%
2012-13	195552.25	111.37	0.05%	23.84	0.01%
2013-14	221454.71	95.80	0.04%	19.73	0.01%
2014-15*	252715.72	124.74	0.05%	22.40	0.01%

*Provisional

As can be observed above the NPAs of NABARD have remained at negligible level even though the asset size has increased substantially.

6.2 The NABARD in a note submitted to the committee, attributed the following reasons for NPAs in their organisation:-

(i) NPAs are limited to direct financing activities, generally experimental in nature.
(ii) Consortium financing for activities which are venturous in nature.
(iii) Sunrise /innovative areas which are risk prone e g. Asaad Farms and Mint Biofuels.
(iv) Finance being provided to start-up ventures
(v) Promotional loans being extended to vulnerable areas i.e. Left wing affected, predominantly tribal areas and purposes like Producer Organizations of small and marginal farmers etc.
(vi) Pilot projects where generally banks and other lenders are not willing to finance due to risk perception
(vii) NABARD does not have access to avail guarantee funds

7. NPAs in SIDBI

7.1 **Sector wise NPA - Direct Assistance - March 31, 2014 & Dec. 31, 2014**

(Rs. in crore)

S. No.	Sector	March 31, 2014				December 31, 2014			
		No.	NPA Amt.	Prin. O/s (Portfolio)	NPA %	No.	NPA Amt.	Prin. O/s (Portfolio)	NPA %
1	Chemical & Chemical Products	49	147	326	45.09%	57	192	351	54.70%
2	Wood & wood Products	24	7	36	19.44%	29	10	47	21.28%
3	Other Services Incl. E-Commerce	234	70	1244	5.63%	25	101	536	18.84%
4	Iron & Steel	35	54	443	12.19%	8	5	30	16.67%
5	Hotels	22	94	510	18.43%	219	208	1276	16.30%
6	Food & Food Products	68	30	298	10.07%	34	55	365	15.07%
7	Textile incl. Jute	219	83	957	8.67%	226	91	926	9.83%
8	Paper & Papers	43	18	248	7.26%	91	36	386	9.33%

	Products								
9	Others Incl. Fertilisers	280	88	2866	3.07%	32	31	364	8.52%
10	Machinery	28	30	335	8.96%	45	21	252	8.33%
11	Hospitals	9	6	95	6.32%	18	22	382	5.76%
12	Metal Products	67	19	768	2.47%	9	6	113	5.31%
13	Electrical / Electronic Equipments	30	18	617	2.92%	271	98	2043	4.80%
14	Construction	15	15	343	4.37%	3	22	463	4.75%
15	Transport Equipments	29	12	977	1.23%	27	21	613	3.43%
16	Non-Metallic Mineral Products & Mining	9	2	254	0.79%	74	23	818	2.81%
17	Leather & Leather Products	6	1	87	1.15%	35	19	1103	1.72%
18	Rubber & Rubber Products	7	5	29	17.24%	15	3	235	1.28%
19	Non Ferrous Metals	7	1	108	0.93%	8	1	92	1.09%
20	Electricity Generation	1	0.5	1064	0.05%	6	1	97	1.03%
21	Cement	3	8	557	1.44%	2	3	957	0.31%
	Total	**1185**	**709**	**12162**	**5.83%**	**1234**	**969**	**11449**	**8.46%**

7.2 The major reasons for NPAs in the Micro, Small and Medium Enterprises (MSME) sector according to SIDBI are as follows:-

(i) Infrastructure, Iron & Steel, Textiles, Pharmaceuticals are the sectors showing higher stress / delinquency, this is generally in line with RBI's Financial Stability Report.
(ii) General Industrial slowdown, especially in Iron & Steel, Textile, Pharmaceuticals and Auto components, lower room occupancy in respect of hotels apart from delay in implementation/completion of project.
(iii) Shortage of power & fuel in some parts of the country. [North and East India]
(iv) Temporary liquidity problem owing to delayed payment from large corporate/ clients.

8. Dwelling on the issue of causes leading to rise in the level of NPAs and as to why there are more NPAs in public sector banks, Dr. Raghuram Rajan, Governor, RBI, deposed before the committee, on 30.10.2014, as follows:-

"NPAs are more focused in the public sector banking system. That is not necessarily only because the public sector banking system has made more mistakes than the private sector system. The private sector system did not go into some of these large projects like infrastructure to same extent to the public sector system. Moreover the private sector system also knows how to get out before the public sector system. Many people believe that the level of NPAs reflects a level of malfeasance in the public sector system. Malfeasance exists, I will not deny that. But I will not single that out as the primary reason. If you remember, many of the projects, which are in trouble today, were started in 2007-2008 after four or five years of very, very strong growth. The belief then was that the growth would continue growing and some of these were financing exports. The world was also growing very fast then. But then, we had the financial crisis. We had a slowdown in the Indian economy. All the optimistic projections about growth etc., came down substantially after that, both in the world and domestically. So, that was one reason we have problems".

9. <u>Prudential Guidelines on Restructuring of Advances by Banks</u>

9.1 **<u>Background and General Principles:</u>**

(i) Banks restructure accounts classified under 'standard', 'substandard' and 'doubtful' categories.
(ii) Banks cannot reschedule / restructure / renegotiate accounts with retrospective effect.
(iii) Reclassification should not stop merely because restructuring proposal is under consideration.
(iv) The asset classification status as on date of approval of restructured package would be relevant to decide asset classification status after restructuring.
(v) Viability should be determined based on parameters like Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of diminution in fair value of restructured advance.
(vi) BIFR cases are not eligible for restructuring without approval of BIFR.

9.2 <u>Asset Classification Norms:</u>

(i) Restructuring of advances could take place in the following stages:-
  (a) Before commencement of commercial production / operation
  (b) After commencement of commercial production / operation but before the asset has been classified as 'sub-standard';
  (c) After commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

(ii) The accounts classified as 'standard assets' should be immediately reclassified as 'sub-standard assets' upon restructuring.
(iii) NPA accounts should be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the ‘specified period’
(iv)Interest income for restructured 'standard assets' will be recognized on accrual basis and for restructured NPAs will be recognized on cash basis.
(v) A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. Conversion into preference shares may be done in case of listed companies.
(vi) FITL/debt or equity created out of unpaid interest will be classified in the same asset classification category as for restructured advance.

9.3 Provisioning Norms:

(i) Banks will hold provision against the restructured advance as per provision norms.
(ii) Restructured standard advance will attract higher provision in the first two years from restructuring date. In case of accounts with moratorium, higher provisioning for the moratorium period and two years thereafter will be attracted.
(iii) Restructured NPA, when upgraded to standard category will attract higher provision in the first year from the date of up gradation.
(iv) Provisioning for restructured standard advance:-
    (a) 3.5% with effect from March 31,2014
    (b) 4.25% with effect from March 31,2015
    (b) 5% with effect from March 31,2016
(v) Banks needs to make provisions for sacrifice in addition to the above provisions.
(vi) Total provision (normal provision plus provision in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt.

9.4 Special regulatory treatment for asset classification:

(i) As an incentive for quick implementation, the asset classification status may be restored to the position:-
    (a) Within 120 days from the date of approval under the CDR mechanism
    (b) Within 120 days from the date of receipt of application by the Bank for non CDR cases.
(ii) Asset classification benefit- an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring and the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.
(iii) However, the above mentioned incentive for quick implementation of package and asset classification benefits on restructuring have been withdrawn for all restructuring from April 1, 2015 with the exception of provisions related to changes in DCCO in respect of infrastructure as well as non-infrastructure project loans.

10. Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)

10.1 Formation of JLF:

(i) Guidelines applicable for lending under Consortium and Multiple Banking Arrangement.

(ii) Before a loan account turns NPA, Banks are required to identify stress in the account under three sub-categories of Special Mention Account (SMA) i.e.
  (a) SMA 0 (interest and principal overdue not more than 30 days)
  (b) SMA 1 (interest and principal overdue between 31-60 days)
  (c) SMA 2 (interest and principal overdue between 61-90 days)

(iii) Banks are required to report credit information on borrowers having aggregate exposure more than Rs 5 crore to Central Repository of Information on Large Credits (CRILC).

(iv) As soon as an account is reported by any of the lenders to CRILC as SMA-2, Joint Lenders' Forum (JLF) is to be mandatorily formed if the Aggregate Exposure (AE) of lenders is more than Rs 100 crore. In case the exposure is less than Rs 100 crore and/or account is reported as SMA 0 or 1, lenders have an option of forming a JLF.

(v) Existing consortium leader will serve as Convenor of JLF. In case of MBA, lender with highest AE will convene JLF. All lenders should sign a JLF agreement.

(vi) Decisions agreed upon by a minimum of 75% of creditors by value and 60% of creditors by number in JLF would be considered as the basis for proceeding for restructuring.

(vii) JLF is required to arrive at an agreement on the option for Corrective Action Plan (CAP) within 30 days from (i) the date of an account being reported as SMA-2 by one or more lender, or (ii) receipt of request from the borrower to form JLF. The Final CAP to be signed by JLF within the next 30 days.

10.2 Corrective Action Plan:

(i) Rectification: Obtaining a specific commitment (supported with identifiable cash flows) so that the account comes out of SMA status or does not become NPA. The options of getting equity/strategic investors and additional need based finance may be considered.

(ii) Restructuring: Consider possibility of restructuring if it is prima facie viable and the borrower is not a wilful defaulter. Inter Creditor Agreement (ICA) and Debtor Creditor Agreement (DCA) to be signed.

(iii) Recovery: Recovery process may be resorted to in event of non-feasibility of the above options.

10.3 Restructuring by JLF:

(i) TEV study to be carried out by JLF. If found viable, restructuring package to be finalized within 30 days from date of signing off the final CAP.

(ii) For accounts with AE of less than Rs 500 crore, restructuring package to be approved by JLF within next 15 days for implementation. For accounts with AE of more than Rs 500 crore, the restructuring package shall be evaluated by Independent Evaluation Committee (IEC). The IEC shall be required to give their recommendation within 30 days. Thereafter, lenders shall have next 15 days for approval of the package for implementation.

(iii) Asset classification benefit (asset classification as on the date of formation of JLF) under extant guidelines shall apply.

10.4 Restructuring Referred by JLF to CDR Cell:

(i) TEV study and restructuring plan to be prepared within 30 days from date of reference to CDR Cell by JLF.

(ii) For accounts with AE of less than Rs 500 crore, restructuring package to be submitted to CDREG and CDREG to finally decide the case within the next 30 days. If approved by CDREG, package to be approved by all lenders within next 30 days for implementation.

(iii) For accounts with AE of more than Rs 500 crore, TEV study and package prepared by CDR Cell to be evaluated by an IEC of experts who will be required to give their recommendation to CDR Cell within 30 days. If JLF decides to go for restructuring, same should be communicated to CDR Cell, who in turn shall submit the package to CDREG within 7 days of receiving views from IEC. CDREG should then decide the case within next 30 days. If approved by CDREG, package to be approved by all lenders within next 30 days for implementation.

10.5 Accelerated Provisioning:

(i) In cases where Banks fail to report SMA status of accounts to CRILC or conceal actual status of accounts/evergreen accounts, they will be subjected to accelerated provisioning for these accounts as under:

Asset Classification	Period as NPA	Current Provisioning	Revised accelerated provisioning
Sub-standard (secured)	Up to 6 months	15%	15%
	6 months – 1 year	15%	25%
Sub-standard (unsecured ab-initio)	Up to 6 months	25% (other than infra)	25%
		20% (infra)	
	6 months – 1 year	25% (other than infra)	40%
		20% (infra)	
Doubtful I	2nd year	25% (secured)	40% (secured)
		100% (unsecured)	100% (unsecured)
Doubtful II	3rd & 4th year	40% (secured)	100%
		100% (unsecured)	
Doubtful III	5th year onwards	100%	100%

(ii) Banks who are signatories under JLF and ICA/DCA, but change their stance later or delay/refuse to implement package, shall be subjected to Accelerated Provisioning.

(iii) If lenders fail to convene JLF or agree upon a common CAP within stipulated time, account shall be subject to Accelerated Provisioning.

(iv) If appropriation of funds is not done as per agreed terms by escrow maintaining Bank, the Bank shall attract the lowest asset classification among the lender banks.

(v) Companies having wilful defaulters as Directors on their Board shall be subjected to Accelerated Provisioning.

(vi) Non-cooperative Borrowers (as classified by Bank in case of unreasonable and non-cooperative borrowers) shall be subject to Accelerated Provisioning.

10.6 Refinancing of Project Loans:

If Banks refinance any infra or other project loans by way of take-out financing, even without a pre-determined agreement with other Banks/FIs, and fix a longer repayment period, same would not be considered as restructuring under following conditions:-

(i) Loans should be standard in books of existing Banks/FIs and should not have been restructured.

(ii) More than 50% of outstanding value of such loans should be taken over from existing Banks/FIs

(ii) Repayment period to be fixed by taking into account life cycle of project and cash flows.

11. Provisioning Requirements:

11.1 Provisioning rates for NPAs and restructured standard assets are given in the table below:

Category of Advances		Rate of Provisioning (%)
Sub-standard Advances		
*	Secured Exposures	15.00
*	Unsecured Exposures	25.00
*	Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow	20.00
Doubtful Advances - Unsecured Portion		100.00
	Doubtful Advances - Secured Portion	25.00
*	For Doubtful upto 1 year	
*	For Doubtful > 1 year and upto 3	40.00
*	For Doubtful > 3 years	100.00

Loss Advances	100.00
Restructured accounts classified as standard advances	
Project Loans for Infrastructure Sector	
If the revised Date of Commencement of Commercial Operations (DCCO) is within two years from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay	Project loans restructured with effect from June 1, 2013: 5.00 per cent – From the date of such restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later Stock of project loans classified as restructured as on June 1, 2013: * 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013- 14) * 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15) * 5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16) The above provisions will be applicable from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.
Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)	
If the revised DCCO is within one year from the original DCCO prescribed at the time of	0.40 per cent

financial closure	
If the DCCO is extended beyond one year and upto two years from the original DCCO prescribed at the time of financial closure	Project loans restructured with effect from June 1, 2013: 5.00 per cent – From the date of restructuring for 2 years Stock of Project loans classified as restructured before June 01, 2013: * 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14) * 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15) * 5.00 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015-16) The above provisions will be applicable from the date of restructuring for 2 years.

Source: RBI

11.2 <u>Wilful Defaulter:</u>

As per RBI Master Circular No. DBOD No.CID.BC.3/20.16.003/2014-15 dated July 01, 2014, a "wilful default" would be deemed to have occurred if any of the following events is noted:-

(i) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.

(ii) The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was aviled of but has diverted the funds for other purposes.

(iii) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

(iv) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.

Wilful defaulters are not allowed to access funds from banks the list is shared with SEBI to ensure that they do not have access to capital markets. RBI now has came out with new category of borrower called **Non-Cooperative borrower**. A non cooperative borrower is a borrower who does not provide information on its finances to the banks. Banks will have to do higher provisioning if they give fresh loan to such a borrower. According to news reports, wilful defaulters owe Public Sector Banks a total of Rs. 64,335 crore, which constitutes about 21% of the total NPAs.

11.3 Dissemination of information: Suit Filed Accounts/Non Suit filed Accounts:

Banks/FIs submit the list of **suit-filed accounts of borrowal accounts of Rs. 1 crore & above and wilful defaulters of Rs. 25 lakh and above** at regular intervals to a credit information company which has obtained certificate of registration from RBI in terms of Section 5 of the Credit Information Companies (Regulation) Act, 2005 and of which it is a member. Reserve Bank of India has, in exercise of the powers conferred by the Act and the Rules and Regulations framed there under, granted Certificate of Registration to (i) Experian Credit Information Company of India Private Limited, (ii) Equifax Credit Information Services Private Limited, (iii) High Mark Credit Information Services Private Limited and (iv) Credit Information Bureau (India) Limited (CIBIL) to commence/carryon the business of credit information. **Banks/FIs, however, submit the list of wilful defaulters where suits have not been filed only to RBI**. Credit Information Companies have also been advised to disseminate the information pertaining to suit filed accounts of Wilful Defaulters on their respective websites. Section 45E of the RBI Act, 1934 and the banking laws provide for obligation of a bank or financial institution to maintain secrecy about the affairs of its constituents.

In terms of Credit Information Companies (Regulation) Act, 2005, banks/FIs have been advised by RBI to furnish the aforementioned data in respect of wilful defaulters (non-suit filed accounts) of Rs. 25 lakhs and above for the quarter ending December 31, 2014 and the data on defaulters (non-suit filed accounts) of Rs. 1 crore and above for the half year ending December 31, 2014 to CICs and not to RBI. Thereafter, banks/FIs may continue to furnish data in respect of defaulters/wilful defaulters to CICs on a monthly or a more frequent basis. This would enable such information to be available to the banks/FIs on a near real time basis.

12. NPAs in different Sectors:-

12.1 RBI in its **Financial Stability Report (FSR) December**, **2014 has indentified five sectors - Infrastructure, Iron & Steel, Textiles, Aviation and Mining (including coal)** as the stressed sectors and these sectors have 54% of total stressed advances of Public Sectors Banks as on June 2014. Among bank groups, exposure of PSBs to Infrastructure stood at 17.5% of their gross advances as of September 2014. This was significantly higher than that of private sector banks (9.6%) and foreign banks (12.1%).

infrastructure loan requirements are such that only the big public sector banks could assume the exposure under consortium arrangements.

12.2 Public Sector Banks (PSBs) in %:

Sector	Mar 2013	Dec 2013	Mar 2014	Sept 2014	Dec 2014
Agriculture Sector	5.25	5.95	4.96	5.64	6.05
SSI/MSE Sector	6.14	7.06	6.34	7.60	8.13
Other Priority Sector	3.72	4.15	3.70	3.89	4.02
Total Priority Sector	5.23	5.95	5.21	5.97	6.33
Other than Priority Sector	3.20	4.66	4.48	4.94	5.30
Total Gross NPA Ratio	3.84	5.07	4.72	5.29	5.64
Retail Sector	2.38	2.73	2.27	2.50	2.42
Real Estate Sector	1.78	1.76	1.55	1.80	3.02
Corporate lending#	3.49	5.15	5.01	5.54	6.01

Source : RBI - # - NPA Corporate [GNPAs – Agri. NPA – MSE – Retail NPA]

Note: Data for Dect-14 are provisional

12.3 Scheduled Commercial Banks (SCBs) in %:

Sector	Mar 2013	Dec 2013	Mar 2014	Sept 2014	Dec 2014
Agriculture Sector	4.67	5.34	4.43	5.09	5.34
SSI/MSE Sector	5.08	5.82	5.18	6.07	6.40
Other Priority Sector	2.97	3.48	2.95	3.13	3.21
Total Priority Sector	4.39	5.06	4.37	5.00	5.21
Other than Priority Sector	2.99	4.10	3.99	4.31	4.59

Total Gross NPA Ratio	3.42	4.40	4.11	4.54	4.79
Retail Sector	2.27	2.33	1.96	2.04	1.97
Real Estate Sector	1.42	1.41	1.24	1.40	2.14
Corporate lending#	3.22	4.63	4.55	4.98	5.36

Source : RBI - # - NPA Corporate [GNPAs – Agri. NPA – MSE – Retail NPA]

Note: Data for Dec-14 are provisional

12.4 **Industries wise GNPA ratio (PSBs) in (%):**

Credit to major Industry	**Mar-13**	**Dec-13**	**Mar-14**	**Sep-14**	**Dec-14**
Mining and Quarrying	5.7	8.5	6.1	7.3	8.2
Coal	13.8	16.0	11.1	12.7	8.1
Others	4.7	7.3	5.3	6.4	8.3
Food Processing	4.7	7.3	6.6	8.1	8.6
Textiles	6.8	8.0	8.8	10.5	10.9
Cotton	5.7	8.3	8.3	10.0	10.0
Jute	3.3	3.6	8.9	11.0	8.6
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	2.3	2.9	2.6	1.8	1.9
Chemicals and Chemical Products (Dyes, Paints, etc.)	6.1	8.6	7.6	8.5	9.0
Cement and Cement Products	3.9	6.0	8.6	9.6	9.5
Iron and Steel	4.8	7.3	7.8	6.9	7.5
All Engineering	4.7	8.3	8.2	9.1	9.2
Vehicles, Vehicle Parts and Transport Equipments	1.2	3.2	3.9	6.3	7.0
Gems and Jewellery	5.3	11.8	14.1	13.9	14.4
Construction	6.7	7.0	5.7	4.9	5.5
Infrastructure (sum of Transport+Energy+Telecommunication)	1.1	2.0	2.1	2.4	2.8

Transport	2.2	4.5	3.9	3.9	4.5
Energy	0.4	0.8	1.1	1.4	1.7
Telecommunication	1.0	2.0	2.3	3.1	3.5
Aviation	14.1	13.7	12.0	9.1	9.2

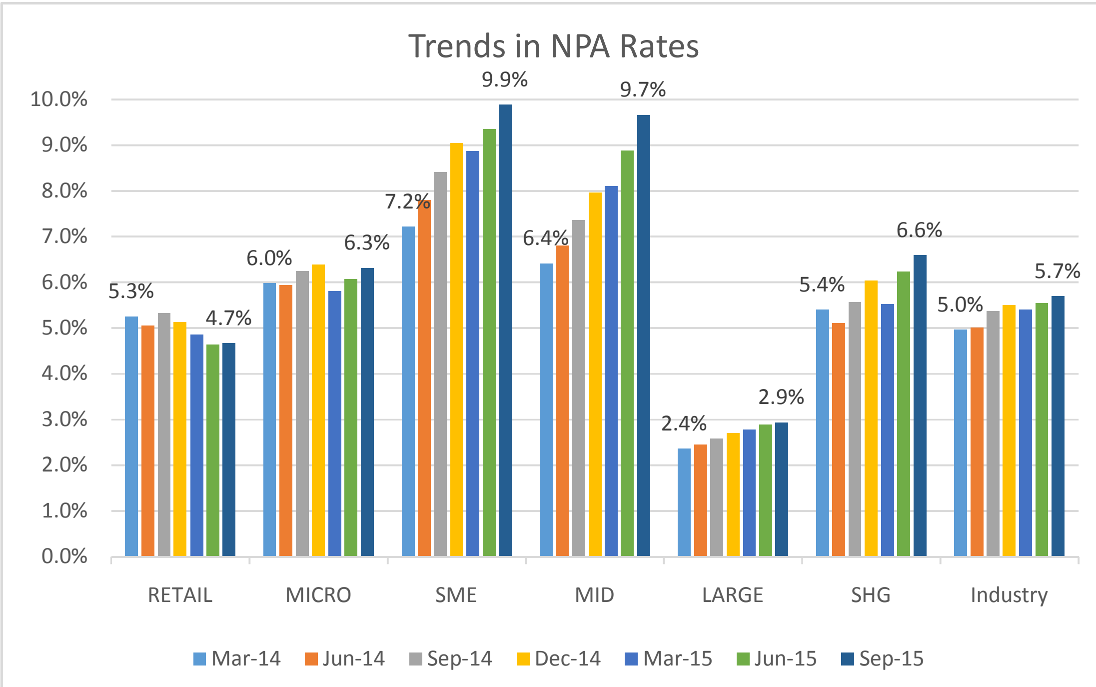
Source: RBI-Off-site returns, domestic operations

Dect-14 Data Provisional

12.5 **Trend in NPA Rates:**

The Chart below has Gross NPA Rates .Gross NPA Rates is defined as Gross NPA Exposure divided by Total Exposure. As per CIBIL's database, the Overall (Commercial plus retail) Gross NPA Rate has increased to 5.7% in Sep-15 from 5.0% in Mar-14. The surge in NPA rates has been contributed by Mid-Size Corporate (9.7% in Sep 2015; 6.4% in Mar 2014), SME Segment (9.9% in Sep 2015; 7.2% in Mar 2014). SHG which contributes just 0.4% of aggregate credit exposure as of Sep 2015 has also seen as deterioration in NPA rate(6.6% in Sep 2015; 5.3% in Mar 2014).

The bright spot, thus far, remains the retail segment which actually exhibited a reduction in NPA rate (4.7% in Sep 2015; 5.3% in Mar 2014). Of course a part of this may be explained by the 25% CAGR growth rate in retail exposure, which played a role in keeping the NPA rate in check. Gross NPA rate of Large Corporate exposure, which account for 27.4% of overall exposure (as of 30 September 2015) has shown a marginal uptick (2.4% in Sep 2015; 2.9% in Mar 2014).



Source: CIBIL

Table for Trends in NPA Rates							
Period	**RETAIL**	**MICRO**	**SME**	**MID**	**LARGE**	**SHG**	**Industry**
Mar-14	5.3%	6.0%	7.2%	6.4%	2.4%	5.4%	5.0%
Sep-15	4.7%	6.3%	9.9%	9.7%	2.9%	6.6%	5.7%

Source: CIBIL

As per the estimates from agencies like CRISIL, ICRA, CIBIL etc. gross NPAs may increase and touch Rs. 4 lakh crore by the end of this fiscal year.

The NPA trends reflected in the CIBIL data, are well aligned with the NPA trends reported by RBI. The NPA situation is delicate and requires close monitoring. CIBIL given its database and expertise in handling large amount of sensitive data is well positioned to monitor some of the systemic risks related to lending. To conclude the credit industry analysis for the country, following points may be noted:

1. The overall credit industry in the country has grown at a cumulative annual growth rate of 21%.
    - **a.** Micro Loans (<1 crores exposure to Commercial Entities) and Retail Loans showing the strongest credit growth of 26% and 25% respectively.
2. The overall NPA Rates of the industry have increased to 5.7% in Sep-15 from 5.0% in Mar-14
3. The sharpest increase in NPA rates is observed for Mid-Size Corporates (25 crores to 100 crores exposure to Commercial Entities) to 9.7% in Sep-15 from 6.4% in Mar-14.
    - **a.** Within banks, for Mid-Size Corporates, PSBs have seen the sharpest increase in NPA Rates to 11.4% in Sep-15 from 7.1% in Mar-14 .
    - **b.** Within banks, for SMEs, PSBs have seen the sharpest increase in NPA Rates to 12.2% in Sep-15 from 8.8% in Mar-14.
4. The Retail Loans NPA Rates have seen at an industry level reduction to 4.7% in Sep-15 from 5.3% in Mar-14.
    - **a.** The NPA Rates have dropped most sharply for unsecured loan products (Personal Loan and Credit Cards) which have contributed to the overall fall of NPA Rates in Retail Loans. Also, the drop in NPA Rates for Retail Loans is observed across all lender types.

13. <u>Top 30 NPAs:</u>

(Amount in Rs. Crore)

BANKS	GNPAs	TOP 30 NPAs	Top 30 NPAs as % of GNPAs	GNPAs	TOP 30 NPAs	Top 30 NPAs as % of GNPAs	GNPAs	TOP 30 NPAs	Top 30 NPAs as % of GNPAs	GNPAs	TOP 30 NPAs	Top 30 NPAs as % of GNPAs
	Dec 2013			**March, 2014**			**Dec, 2014**			**Sep, 2015***		
NATIONALISED BANKS	1,35,462	59,292	43.8%	1,40,709	63,294	45.0%	1,81,867	74,396	40.9%	210591	81882	38.88%
SBI GROUP	82,077	21,526	26.2%	76,030	21,629	28.4%	80,535	20,726	25.7%	72419	16313	22.52%
PUBLIC SECTOR BANKS	2,17,539	80,818	37.2%	2,16,739	84.922	39.2%	2,62,402	95,122	36.3%	297571	105171	35.34%
PRIVATE SECTOR BANKS	23,637	11,725	49.6%	22,738	11,578	50.9%	29,304	16,178	55.2%	-	-	
SCHEDULED COMMERCIAL BANKS	2,51,808	1,01,646	40.4%	2,51,060	1,06,641	42.5%	3,03,380	1,21,332	40.0%	-	-	

Source: RBI (Domestic Operations)

** Source: RBI-OSMOS Database (Domestic Operations), September 2015 data are provisional*

Dect-14 Data Provisional

14. NPAs above 1 Crore: (Amount in Rs. Crore)

BANKS	GNPAs	GROSS NPAs ABOVE Rs. 1 CRORE	**As % of GNPAs**	GNPAs	GROSS NPAs ABOVE Rs. 1 CRORE	**As % of GNPAs**	GNPAs	GROSS NPAs ABOVE Rs. 1 CRORE	**As % of GNPAs**
	March 2012			**March, 2013**			**March, 2014**		
NATIONALISED BANKS	69,048	40,952	59.30	1,01,683	70,203	69.04	1,47,447	1,10,006	74.61
SBI GROUP	48,214	27,310	56.64	62,778	38,443	61.24	79,817	57,723	72.32
PUBLIC SECTOR BANKS	1,17,262	68,262	58.21	1,64,462	1,08,646	66.06	2,27,264	1,67,729	73.80
SCHEDULED COMMERCIAL BANKS	1,42,048	80,600	56.74	1,93,194	1,26,772	65.62	2,63,015	1,94,185	73.83

Source: RBI (off-site returns global operations)

15. NPAs in Infrastructure Sector

15.1 The Confederation of Indian Industry (CII), in a note submitted to the committee, highlighted the following factors as responsible for NPAs in the infrastructure sector :-

(i) **Equity Constraints:** Most of the developers are predominantly family owned &controlled business entities, having low capital base. The SPV structure of project execution, mandatory in BOT, often under marks the real availability of capital with the developers. More often, the debt by developer is used to subscribe to the equity of the SPVs. The economic slowdown in the last few years has caused revenue realization at much lower rates than was anticipated. In the view of projected higher growth rates, many developers had assumed higher revenues and had undertaken correspondingly high level of equity obligations. As the revenues have taken a hit, the availability of the equity even to meet existing commitments has become inadequate. Hence many projects under BOT had gone without eliciting response from bidders.

(ii) **Over-leveraged balance sheet of the developers:** Anticipating high levels of revenue growth, many developers factored in future projections which created overleveraging of their balance sheets. Reduced revenue realisations affected debt servicing by concessionaires as the contracted debt servicing obligations could not be met. This caused widespread default in accounts of the concessionaires.

(iii) **Reduced growth of traffic:** on account of economic slowdown, restrictions on mining, decline in manufacturing and exports. Under Indian conditions the elasticity between GDP growth rate versus traffic growth rate is 1.2, which means that for every one per cent drop in GDP growth rate the traffic growth rate goes down by 1.2 per cent. When the GDP growth rate fell from 9% to 4.5% there was a corresponding drop in the traffic growth rate which eventually affected revenue realization in projects and debt servicing.

(iv) **Variation in Total Project Cost:** The Model Concession Agreement (MCA) recognizes the TPC as the lower of the actual project cost, lenders estimates and NHAI's estimate of the project cost. The capital grant and termination payments are specified as a percentage of the TPC. However it has been observed that NHAI's estimate of TPC is much lower than the actual project cost even during Financial closure (More than 30-40% in some cases), thus affecting the capital grant and the termination payments.

(v) **Inaccessible Capital Market:** Capital Market continues to remain inaccessible at large due to absence of Investors. Hardly any large new IPO or QIP has hit the market in the last 2 to 3 years. Thus the high gearing coupled with high interest rates becomes a reason for default.

(vi) **Ineffective Dispute Resolution Mechanism:** The existing Dispute Resolution Mechanism process is ineffective as it goes through the rigmarole process of reconciliatory meetings (Dispute Resolution Board) followed by Arbitration. Substantial amount of funds are locked in claims to be settled by NHAI. Several of these claims have remained unpaid despite decision of Dispute Resolution Body (DRB), Arbitral awards and High Court judgments in favour of contractors. This is affecting the liquidity of contractors and has severely constrained their ability to pursue upcoming EPC projects as well as the ability to invest equity in upcoming BOT projects. As on date, 112 projects worth Rs. 25,399 crore worth of money is stuck in disputes with NHAI.

(vii) **Regulatory Challenges affecting the Industry:**

(A) Concession Agreement

(a) Inappropriate Risk allocation mechanism
(b) No provision for re-negotiations, even when such large black-swan events happen;
(c) No Compensation for delay by the Authority;
(d) Major gap between the Estimate by the Authority and L1 bidder; major gap between L1 & others;
(e) Allowing bidding beyond capacity;
(f) Non pass-through of input costs, while the tariff is fixed;
(g) Allowing tolling, even on incomplete projects
(h) Daunting requirements for application of modifications/reforms.
(i) Abrupt political or administrative decisions.
(j) Inadequate Inter-department (Authority-State, Authority-Railways....) coordination

(B) Approvals for ROBs / RUBs, GADs, etc:- Inordinate delays in approval of GADs, Non-rationalisation of ROB maintenance charges, large scale changes post GAD approval, delay in shifting of railway utilities have resulted in inordinate cost & time overruns for the concessionaires.

(C) State Support Agreements

State Support Agreement is a tripartite agreement between NHAI, concessionaire and state government. It’s an all-inclusive agreement that calls for necessary support from the state, in the matters of land acquisition, right of way, removing encroachments, shifting of utilities, rehabilitation, maintaining local law and order, etc. It’s often seen that most of the projects are stuck due to ineffective State Support Agreement in place.

15.2 When the committee wanted to know the factors responsible for high volume of NPAs in the infrastructure sector, the Governor, RBI, while deposing before the committee, stated as under :-

> "...Perhaps, they did not bring enough equity. Perhaps, the equity they brought was borrowed from the previous project which they had just completed. So, in that sense, this is the capital structure of these projects. We thought these promoters were really very good. There is very little chance of failure. There is too much debt put on these projects, too little genuine equity brought in, and so once there were problems down the line, these projects ran into trouble very quickly........................"
>
> "...there was inadequate project evaluation of assessment of promoter or management capacity or even financial capacity. We did not do a good job. Therefore, some of these projects have got into trouble........"
>
> ".....There was a *modus operandi* in some of these projects, which was, I bid for the project. I start the project and then I re-negotiate terms so that the project makes sense. So I bid very aggressively so I get in and then I re-negotiate. That also stopped the project being feasible. The Government officials are much more reluctant to re-negotiate and we see that is continuing that many Government agencies are reluctant to pay for projects that have been completed because there are terms which have changed, etc., and they are repealing the terms. So, in general, there were a bunch of factors..."

15.3 Asked as to what extent is the problem of over-leveraging of balance sheets responsible for the growth of NPAs particularly in the infrastructure sector, the CII, in their post-evidence reply, stated as under :-

> "Over-leveraging of balance sheet simply means the entity is carrying too much debt and is incapable of servicing its debt load with available sources. It is important to note that infrastructure /construction requires huge funds which have to be timely serviced by the cash flows. In recent times as the economy has slowed down due to global factors, it has become really difficult to service debt. In fact, extraneous factors have fuelled growth in NPAs. Overleveraging cannot be the only factor. There are a number of cases of projects being funded at 5:1 Debt Equity structure – particularly in respect of Road Annuity Projects, yet such Projects are `Standard' and enjoy a very high Credit Rating. Determination of right Debt to Equity is to be viewed on case to case basis. Most cases, in the past particularly, when Banks been competing for growth – their credit off take has increased manifold especially in Infrastructure space without due observation of Project finance fundamentals. Overleveraging was permitted even when the project never deserved such over leveraging".

15.4 Further, the secretary, Dept. of Financial Services (Ministry of Finance), on the issue of over-leveraging of balance sheets, stated the following during the course of post evidence held on 21st May, 2015 :-

> "Over-leveraging of balance sheets of companies is very true. They have been over-ambitious in expanding their projects. Equities are really becoming less and less. It is becoming very scarce now. It is an issue. That is why the issue of converting some part of their debt into equity has arisen which is a very legitimate thing to do because we need these projects to survive. The only way to do is by conversion of part of debt into equity".

15.5 In a letter sent to the Committee, on the issue of NPAs in the power sector, Mr. Ashok Khurana, DG, Association of Power Producers, *inter-alia* stated as below :-

> "Since the enactment of the Electricity Act in 2003, the private sector has emerged as a major contributor to the nation's power generating capacity. A record capacity of 54,964 MW was added during the 11th plan period. However, despite the impressive capacity addition, the end consumer has not benefited as a majority of the above capacity has been rendered unviable or stranded due to factors beyond the developer's control. It is estimated that more than 136 GW of power generation projects across various categories of fuel sources and in different stages of operation/implementation are facing stress due to various factors outside their control.

Projects Facing Viability Challenges

Following the rollout of the Competitive Bidding Guidelines in 2005 and the subsequent notification of the Standard Bidding Documents, the power sector witnessed a strong response from the private sector. However, a vast majority of these projects are facing viability challenges due to under recovery of fixed and variable cost for reasons beyond their control. These include fuel availability, fuel price and quality related issues, changes in macro-economic parameters such as exchange rates and interest rates, increase in capital costs (due to change in law, land and R&R costs), delayed land acquisition and clearances and transmission constraints.

These factors have made quoted tariffs non cost-reflective and led to under-recovery of capital related and operating costs.

Projects Without Linkages

As the GOI has not granted any fresh coal linkages in the last few years, many projects which had started construction in anticipation of these coal linkages are now ready but are unable to operate for want of requisite coal linkages.

Stranded Gas Based Projects

Out of the total capacity of 24,149 MW of gas based capacity, about 13,140 MW is from the private sector and is completely stressed due to fuel shortages, leading to almost Rs. 43,000 crore of debt under the risk of being classified as NPAs.

Projects Impacted by Supreme Court Judgement

The recent Supreme Court Judgement cancelling all coal block allocations has impacted the future of about 20,000 MW of IPP projects as the availability of coal for these mine linked power projects is now uncertain, especially when some of these plants have been designed specifically to utilize locational advantages of the allocated mines".

15.6 When the Committee expressed their apprehensions about the possibility of corruption and bad administration of advance leading to NPAs, the Governor, RBI, during his deposition before the Committee, stated as under :-

"There were a bunch of factors. Corruption was part of it. There was corruption at the project initiation, etc. But I would not say it is the only factor ...."

" We have to go after corrupt bank management as well as corrupt promoters. There is no doubt that we need to do it. You asked me, where do we need more teeth? That is the place we need more teeth. We do not have enough teeth. There are these promoters who have diverted funds. Diverted fund is a euphemism. I would say plainly that they have stolen the funds, and we cannot go after them. It takes too long. There are too many processes, and the judicial system is too friendly, not necessarily in a bad way but is biased towards protecting the borrower, rather than protecting the bank whose money is at stake. So, we need to think about what we can do further. We are developing some ideas.

But at the same time we have to be careful in creating a witch hunt here. If we go after everybody who has failed, everybody who has an NPA, why would they ever start projects again? Why would a bank manager take risk by lending? So, we have to be careful that when we start identifying, we are careful about identifying, go after situations where money has changed hands, where illegal gratification has taken place rather than go just on the signature of failure or even on the fact that full due diligence was not done..........."

"What we have to look at is from the perspective of the person making the decision then. If we did all the analysis, it would take too long. So, even without being corrupt, just being a more able or a more aggressive manager, you may actually take some decisions which, with the benefit of hindsight, prove wrong. Let us look for illegal gratification rather than just the evidence that things have gone wrong. If we punish risks that have gone wrong, you will get a banking system that does not lend and you will have enormous projects which nobody will actually finance. So, that is something that we need to be careful about."

16. NPA REDUCTION:

16.1 Public Sector Banks (PSBs):

(Amount in Rs. Crore)				
Period	Total NPA Reduction	Up-gradation	Actual recoveries	Write-Offs (incl. write-offs in compromise accounts)
Mar-11	42,997	11, 081(25.77%)	14,122 (32.84%)	17,794 (41.38%)
Mar-12	50,000	17,177 (34.35%)	17,272 (34.54%)	15,551 (31.10%)
Mar-13	72,323	25,260 (34.93%)	19,832 (27.42%)	27,231 (37.65%)
Mar-14	1,01,042	32,936 (32.60%)	33,486 (33.14%)	34,620 (34.26%)

Source: RBI- Off-site sheet returns (annual returns) as reported by banks,

*(**Global operations)***

16.2 Scheduled Commercial Banks (SCBs):

(Amount in Rs. Crore)				
Period	Total NPA Reduction	Up-gradation	Actual recoveries	Write-Offs (incl. write-offs in compromise accounts)
Mar-11	56,333	13,621 (24.18%)	18,817 (33.40%)	23,895 (42.42%)
Mar-12	62,603	19,862 (31.92%)	21,989 (35.12%)	20,752 (33.15%)
Mar-13	85,303	28,228 (33.09%)	24,083 (28.23%)	32,992 (38.68%)
Mar-14	1,19,875	37,779 (31.56%)	39,649 (33.13%)	42,447 (35.46%)

Source: RBI- Off-site sheet returns (annual returns) as reported by banks,

*(**Global operations)***

17. CDR Mechanism:

17.1 The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework aims at preserving viable corporate that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

CDR is a voluntary, non-statutory mechanism, based on Debtor- Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA) designed by Reserve Bank of India (RBI) to facilitate restructuring of advances of borrowers enjoying credit facilities from more than one bank / Financial Institution in a coordinated manner. The Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA) provides the legal basis to the CDR mechanism. CDR is a self empowered body, which provides broad guidelines and policies and is neither owned, controlled or substantially financed, directly or indirectly, by funds provided by the Government.

The CDR Mechanism is an organizational framework institutionalized for speedy disposal of restructuring proposals of large borrowers availing finance from more than one banks/FIs. This mechanism is available to all borrowers engaged in any type of activity subject to the following conditions:

a) The borrowers enjoy credit facilities from more than one bank/FI under multiple banking / syndication / consortium system of lending.

b) The total outstanding (fund- based and non-fund based) exposure is Rs. 10 crore or above.

CDR system in the country has a three tier structure:

(a) CDR Standing Forum and its Core Group
(b) CDR Empowered Group
(c) CDR Cell

17.2 **CDR Standing Forum –** It is the representative general body of all financial institutions and banks participating in CDR system. The Forum provides an official platform for both the creditors and borrowers (by consultation) to amicable and collectively evolve policies and guidelines for working out debt restructuring plans in the interest of all concerned. The Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The **CDR Core Group** is carved out of the CDR Standing Forum to assist the Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The group lays down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring.

17.3 **CDR Empowered Group** – The individual cases of corporate debt restructuring are decided by the CDR Empowered Group consisting of ED level representatives of IDBI Ltd, ICICI Bank Ltd and SBI as standing members, in addition to EDs of financial institutions and banks who have an exposure to the concerned company. The group will look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and approve the restructuring package within a specified time frame of 90 days, or at best within 180 days of reference to the Empowered Group. The decisions of the group shall be final.

17.4 **CDR Cell –** The CDR Standing Forum and CDR Empowered Group are assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers/creditors and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible. All references for corporate debt restructuring by creditors or borrowers will be made to the CDR Cell.

The CDR Standing Forum, the CDR Empowered Group and CDR Cell is at present housed in Industrial Development Bank of India Ltd.

17.5 **Eligibility Criteria-**

The CDR mechanism covers only multiple banking accounts / syndication / consortium accounts of corporate borrowers engaged in any type of activity with outstanding fund-based and non-fund based exposure of Rs. 10 crore and above by banks and institutions.

17.6 **The category 1 CDR system** - is applicable only to accounts classified as ‘standard’ and ‘sub-standard’. There would be no requirement of the account/company being sick, NPA or being in default for a specified period before reference to the CDR system. However, potentially viable cases of NPAs will get priority.

Corporates indulging in frauds and malfeasance even in a single bank will continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group may review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the CDR mechanism. Such exceptional cases may be admitted for restructuring with the approval of the Core Group only.

The accounts where recovery suits have been filed by the creditors against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the creditors (by value) and 60% of creditors (by number).

The accounts where recovery suits have been filed by the creditors against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the creditors (by value) and 60% of creditors (by number).

Additional finance, if any, is to be provided by all creditors of a 'standard' or 'substandard account' irrespective of whether they are working capital or term creditors, on a pro-rata basis. A creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance will have an option to exit in accordance with the provisions. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option.

In order to bring more flexibility in the exit option, One Time Settlement can also be considered, wherever necessary, as a part of the restructuring package. If an account with any creditor is subjected to One Time Settlement (OTS) by a borrower before its reference to the CDR mechanism, any fulfilled commitments under such OTS may not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS may be factored into the restructuring package.

17.7 **The category 2 CDR system** - There have been instances where the projects have been found to be viable by the creditors but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases where the accounts have been classified as 'doubtful' in the books of creditors, and if a minimum of 75% of creditors (by value) and 60% creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the conditions prescribed. No individual case be referred to RBI. CDR Core Group may take a final decision whether a particular case falls under the CDR guidelines or it does not. All the other features of the CDR system as applicable to the First Category will also be applicable to cases restructured under the Second Category.

All CDR approved packages must incorporate creditors' right to accelerate repayment and borrowers' right to pre-pay. All restructuring packages must incorporate 'Right to recompense' clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount is to be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount is to be recovered.

17.8 The performance of the CDR Cell for the last five years and current year is as under:

CORPORATE DEBT RESTRUCTURING CELL
PROGRESS REPORT
(As on Dec 31, 2014)

(Amount in Rs. Crore)

Period	Total References Received		Cases Rejected before		Cases under consideration of CDR EG		Total Cases Approved	
	(1)		**(2)**		**(3)**		**(4)**	
	No. of cases	Aggregate Debt	No. of cases	Aggregate Debt	No. of cases	Aggregate Debt	No. of cases	Aggregate Debt
Mar-10	256	115990	32	7050	9	4641	215	104299
Mar-11	305	138604	42	9667	21	18023	242	110914
Mar-12	392	206493	59	20817	41	35161	292	150515
Mar-13	521	297990	87	36894	33	32083	401	229013
Mar-14	622	429989	111	57540	35	42005	476	330444
Sep-14	638	446156	121	65581	12	12968	505	367607
Dec-14	647	452940	122	65925	5	6130	520	380885

(Source: CDR Cell)

17.9 When asked specifically as to whether CDR mechanism has not been effective enough to bring about significant reduction in NPAs, the CII, in their post-evidence written reply, stated as under:-

> "In most cases especially in the recent past, many CDR cases have not been effective and have only helped in giving a temporary respite to Banks and the borrower entity, without addressing the root cause and resolving the same.
>
> There are occasions when corporates find themselves in financial difficulties because of factors beyond their control and also due to certain internal reasons. CDR is a mechanism for the revival of such corporates as well as for the safety of the money lent by the banks and financial institutions through restructuring of genuine cases. However, a more holistic approach is required to bring about significant reduction in NPAs and restoring the health of the bank's balance sheet:
>
> (a) Delay in project completion due to delays in acquisition of land/clearances which leads to exponential cost escalations impacting the financial viability of the project and hence there is a need for timely clearances and land acquisition.
>
> (b) Delay in resolution of dispute leading to delay in settlement of claims which is negatively impacting the developer's ability to service debt obligations."

17.10 In response to a query by the Committee as to whether the banks have cold-shouldered the 5/25 scheme proposed by the RBI for restructuring bad loans, the secretary, Dept. of Financial Services (Ministry of Finance), stated the following, during the course of oral evidence :-

> "Regarding 5/25 scheme of the RBI of restructuring, there are apprehensions that not much has been done, which is not exactly correct. There are cases which are already restructured by banks. We do not know the exact number. But as per one estimate, about Rs. 25,000 crore of cases have been restructured in 5/25 scheme. Of course, the Reserve Bank's guidelines are somewhat restrictive in nature because of which it is difficult for banks to do restructuring of 5/25 in all the cases. The restructuring can be done only after the DCCO is achieved, that is the Date of Commencement of Operation has been achieved. After that only it can be done. So, that is one restriction. There is not conflict between RBI and the banks in this regard. But the point is the banks will look at everything from their point of view, while the RBI will have to look at it from the safety point of view and from the regulation point of view. Of course, the banks can make a demand and the RBI can decide. We also feel that we could probably relax it. The Ministry has recommended to the RBI to relax this and make it more favourable so that more number of cases can be done."

17.11 Further, on the issue of 5/25 scheme of restructuring, the CII, in their post-evidence reply, *inter-alia* stated as under :-

> "While 5/25 Scheme suits best for Infrastructure Projects having a visible cash flow stream over a long tenure – a modified scheme that suits other sectors should also be explored – especially for the sectors who are heavily dependent on growth and performance of Infrastructure Sector. (eg: EPC Contractors/ Hospitality etc.).
>
> RBI's 5/25 scheme addresses the long standing need to align the debt repayment obligations with the cash flows generated during the economic life of the project, there are various concerns and clarifications in this regard:
>
> All Secured Term Loans taken by a Company whether by way of Corporate Loan, Short term Loan, Bridge Loanand Refinance Term Loans should be allowed to be eligible under the scheme.
>
> (i) The scheme should clearly entail that at the end of each 5/7 year period the existing Bankers have to mandatorily refinance their term loan if not taken up by any new lender. Presently the scheme is vague in the matter.
>
> (ii) The scheme should be made applicable even for Projects during their implementation period and completion of Commercial Operations Date (COD) should not be mandatory.
>
> (iii) Current scheme for refinancing is available only for projects which has loan greater than Rs.500 Cr. Extension of this refinancing scheme to all projects would also provide smaller projects to avail the benefit of the scheme.
>
> (v) 5/25 scheme is limited to the Infrastructure sector only. It should be extended to ship building and other sectors as well where project completion period is longer.

18. LEGAL MECHANISMS FOR RECOVERY OF DUES BY BANKS:

18.1 The present set-up of SARFAESI Act, DRT and Lok Adalats provides an effective and expeditious mechanism to the banks and financial institutions to recover their dues. A brief synopsis of the existing mechanism in this regard is given below:

(i) The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002: The Act, inter alia, provides for enforcement of security interest for realisation of dues without the intervention of courts or tribunals.

(ii) Recovery of Debts Due to Banks and Financial Institution (DRT) Act: The Act provides setting up of Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs) for expeditious and exclusive disposal of suit filed by banks/FIs for recovery of their dues in NPA accounts with outstanding amount of Rs. 10 lacs and above.

(iii) Lok Adalats: Section 89 of the Civil Procedure Code provides resolution of disputes through ADR methods such as Arbitration, Conciliation, Lok Adalats and mediation. Lok Adalat mechanism offers expeditious, in-expensive and mutually acceptable way of settlement of disputes.

18.2 The details relating to Recovery of NPAs through SARFAESI Act, 2002, DRT Act, 1993 and Lok Adalats by the Public Sector Banks are given below:

(2010-11) (Amount in Rs.

Recovery Channels	Cases filed for the amount	Amount recovered	Percentage
DRT	10849	2338	21.55
Lok Adalat	967	125	12.93
SARFAESI Act	21745	7928	36.46
Total	33561	10391	30.96

(2011-12) (Amount in Rs. Crore)

Recovery Channels	Cases filed for the amount	Amount recovered	Percentage
DRT	16798	2642	15.73
LokAdalat	2160	201	9.33
SARFAESI Act	39658	11750	29.63
Total	58616	14593	24.9

(2012-13) (Amount in Rs. Crore)

Recovery Channels	Cases filed for the amount	Amount recovered	Percentage
DRT	24177	3557	14.71
LokAdalat	3828	386	10.08
SARFAESI Act	58301	16020	27.48
Total	86306	19963	23.13

(2013-14) (Amount in Rs. Crore)

Recovery Channels	Cases filed for the amount	Amount recovered	Percentage
DRT	45350	4460	9.83
LokAdalat	17016	1414	8.31
SARFAESI Act	86783	22178	25.56
Total	149149	28052	18.81

Source : RBI

18.3 Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the Debt Recovery Tribunals (DRTs) have been the most effective in terms of amount recovered.

18.4 When the Committee pointed out that the DRT and SARFAESI Acts has failed to rein in NPAs and as to whether any change is required to make these two mechanisms efficient, the secretary, Dept. of Financial Services (Ministry of Finance), deposed before the committee as follows :-

"..... because the number of cases filed is increasing every year, that is why the percentage of recovery is coming down. But otherwise in terms of absolute number, not only the number of cases disposed of by the DRTs have increased over a period of last so many years, but even the amount has increased. If I may quote the figures, the recovery of cases because of DRTs' efforts is Rs. 16,000 crore in 2012; it was Rs. 21, 495 crore in 2013; in 2014 it has become Rs. 29,378 crore. So, on the whole the DRTs' graph is going up. Apart from the existing DRTs, in the interim Budget of 2014-15, we have announced setting up of six new DRTs. We would try to see to it that the judges are appointed to these positions as early as possible. The interviews will be held in the month of June itself. Then some delegation of initiative powers has been given to DRTs so that they can function properly. Simplification of procedure which was prescribed by a Committee of Judges has been done. In addition to DRTs, we are also going to Lok Adalats in a big way for disposal of cases of DRT and SARFAESAI. So, Lok Adalats are also being resorted to for solving these cases. The computerisation of all the DRTs is being done. So, there would be an IT system in place which will give us real time information about disposal and about the cases being listed for the day."

18.5 Commenting on the effectiveness of RDBFI Act and SARFAESI Acts, the NABARD in a written note submitted to the Committee, stated as under :-

"It is felt that the machinery under the RDBFI Act and SARFAESI Act, intended to be quick and effective, in practice, is not yielding the desired results in the absence of definite time frames for DRT or DRATs either in entertaining or disposing off the applications or the appeals, as the case may be. This delay can be avoided by stipulating definite time frames. Mandating higher pre-deposits for filing appeals would deter the parties from rushing to DRAT."

18.6 When the Committee asked for the views/suggestions of CII, on dispute resolution mechanism, the CII in their post-evidence reply, stated as under :-

"Decisions made by Dispute Resolution Board (DRB) and Arbitration Tribunal (AT) are invariably challenged in High Court/Supreme Court, which takes 3-5 years to finally settle, frustrating the entire dispute resolution process. Considering the enormous litigation costs / lost time, developers / contractors are entering into sub-optimal settlements. Effective and prompt dispute resolution mechanism needs to be established in order to free up funds held by the authorities. Arbitration awards must be honoured and courts must be resorted to selectively. Further, before challenging any adverse arbitral awards in courts, authorities may be asked to pay at least 75% of amount awarded in favour of the contractor/ developer by DRB / AT. A transparent and fast tracked dispute resolution mechanism needs to be implemented to ensure confidence is restored in the sector."

19. Steps taken to deal with NPAs

19.1 Steps taken by RBI:

RBI has taken substantive measures in the recent years energizing various channels which are summarized hereunder:-

'Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy' – Guidelines:

19.1.1 Joint Lenders' Forum (JLF), Corrective Action Plan (CAP)

Detailed Guidelines on formation of Joint Lenders' Forum (JLF), Corrective Action Plan (CAP), 'Refinancing of Project Loans', 'Sale of NPAs by Banks' and other regulatory measures were issued by RBI on February 26, 2014 to banks, covering, inter-alia, the need to ensure that the banking system recognizes financial distress early, takes prompt steps to resolve it, ensures fair recovery for lenders and investors and a corrective action plan that will incentivize early identification of problem cases, timely restructuring of accounts which are considered to be viable, and taking prompt steps by banks for recovery or sale of unviable accounts.

19.1.2 Central Repository of Information on Large Credits (CRILIC):

RBI Guidelines on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders : Framework for Revitalizing Distressed Assets in the Economy" was placed on RBI website on January 30, 2014 and subsequently RBI circulars dated February 26, 2014 were issued to banks on the subject. The Guidelines, inter-alia, have led to the creation of a Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate data on all borrowers' credit exposures including Special Mention Accounts (SMA 0, 1 & 2) having aggregate fund-based and non-fund based exposure of Rs.50 million and above. The repository is expected to help in tracking and reviewing exposures/impairment of such large borrowers more effectively across banking institutions so that timely remedial measures can be taken. Detailed guidelines were issued by RBI to banks on May 22, 2014 on Reporting to CRILC.

19.1.3 **Special Asset Classification Benefit**:

The Reserve Bank has recently reviewed on October 21, 2014 the Framework based on the representation received from banks and the Indian Banks' Association (IBA) on difficulties faced by them in its effective implementation. The special asset classification benefit on restructuring of accounts as per extant instructions would be available for accounts undertaken for restructuring under these guidelines, subject to adherence to the overall timeframe for approval and implementation of restructuring package.

The intention of the above stated Framework is not to encourage a particular resolution option, e.g. restructuring or recovery, but to arrive at an early and feasible resolution to preserve the economic value of the underlying assets as well as the lenders' loans.

19.1.4 **Wilful Default/Non-Cooperative Borrowers**:

RBI in past came out with a circular to address the issue of willful default. Wilful defaulters are not allowed to access funds from banks the list is shared with SEBI to ensure that they do not have access to capital markets. RBI now has came out with new category of borrower called Non-Cooperative borrower. A non cooperative borrower is a borrower who does not provide information on its finances to the banks. Banks will have to do higher provisioning if they give fresh loan to such a borrower.

19.1.5 **Asset Reconstruction Companies**:

Taking further steps in the area, RBI has tightened the norms for Asset Reconstruction Companies (ARCs),vide guidelines dated August 5, 2014, where the minimum investment in Security Receipts should be 15% which was earlier 5%.

19.1.6 **IT & MIS System:**

RBI has also advised banks to make their IT and MIS system robust so that they are able to generate reliable and quality information with regard to asset quality for effective decision making. Banks were also advised to have (i) system generated segment wise information on non-performing assets and restructured assets which may include data on the opening balances, additions, reductions (up-gradations, actual recoveries, write-offs etc.), closing balances, provisions held, technical write-offs, etc, (ii) undertake analysis of sectoral trends in NPAs and restructuring of advances in detail and initiate appropriate corrective strategies to take care of build-up of stress or weakness at sector level (asset class, industry, geographic, size, etc.) or at account level, at an early stage.

19.1.7 **Board Level Monitoring:**

Further, RBI has issued instructions to the Banks to review slippages in asset classification in the borrowal accounts with outstanding Rs.5 crore and above by the Board of Directors of the bank and review NPA accounts which have registered recoveries of Rs.1 crore and above. Management Committee of the Board should review top 100 borrowal accounts of below Rs.5 crore in each category of NPA i.e., Sub-standard/Doubtful/Loss (75 in each quarter).

19.1.8 **MSMEs:**

Banks have been issued instructions for devising a comprehensive strategy and its effective implementation as a key to achieve the target. Besides, RBI has issued Guidelines for rehabilitation of sick Micro and Small Enterprises (MSE) on November 01, 2012. The emphasis of the revised guidelines is on handholding by early detection of incipient sickness and decision on the viability of the unit and giving timely and adequate assistance to MSEs found viable. The banks are expected to take a sympathetic attitude and strive for rehabilitation of MSEs, particularly whenever the sickness is on account of circumstances beyond the control of entrepreneurs.

19.2 <u>Steps Taken By NABARD:</u>

(i) NABARD is making concerted efforts for reducing its NPAs even though they form a negligible percent of their assets. Some of the initiatives taken are as under:

(ii) A department for Risk Management has been constituted for framing up of policies for NPA management and risk mitigation.

(iii) A Task Force has been formed with top management as its members which monitors NPAs and gives directions

(iv) A recovery cell has been constituted which initiates and maintains continuous dialogue and meetings with the borrowers and co-financers, keeping a watch on loan accounts and taking pro-active steps in respect of stressed accounts, takes legal measures for ensuring recoveries of NPAs, enters into compromise with borrowers etc.

(v) NABARD is also a member of CIBIL, CDR and similar forums for sharing of information.

19.3 **<u>Steps Taken by SIDBI:</u>**

(i) A comprehensive Loan Recovery Policy is in place.

(ii) The Board / Recovery Review Committee / EC monitor recovery related matters. [Further, the Board level Recovery Review Committee (RRC) reviews all NPA cases with outstanding of `3 crore and above.]

(iii) Three tier monitoring at HO, RO and BO level. [Default Review Committees, at respective BOs, also carry out monthly review of NPAs and other accounts causing concern and the same are reported to ROs / HO. In order to provide focus on monitoring of critical high value NPA accounts at HO level, the Fast Track Committee of senior officials from different HO verticals reviews on a monthly basis, NPA and SMA1 / SMA2 accounts with outstanding of `1 crore and above.

(iv) Senior officials of the Bank interact with promoters to understand problems & suggests timely action to prevent slippage. Discussion with bankers is also carried out.

(v) Restructuring / Reschedulement in deserving cases.

(vi) Need based relief and concessions like reduction in interest rate, reduction / waiver of penalties, funding of interest, fresh assistance on selective basis, liquidation of part security.

(vii) Close monitoring of cases where no legal action has been initiated.

19.4 **<u>Steps taken by Government of India:</u>**

Keeping in view the rising trend of NPAs the following steps have been initiated:

a) Government has decided to establish six new Debt Recovery Tribunals (DRT) (at Chandigarh, Bengaluru, Ernakulum, Dehradun, Siliguri, Hyderabad) to speed up the recovery of bad loans of the banking sector.

b) The Government of India has suggested banks to give more focused monitoring in coordination with other members of consortium, assigning the responsibility at the Executive Director level, hiring best lawyers and monitoring their performance in defending bank's interest in the Debt Recovery Tribunals (DRTs) and High Courts.

c) In addition, the Government has advised PSBs to constitute a Board level Committee for monitoring of recovery and to increase the pace of recovery and manage NPAs.

To remove bottlenecks in the recovery of bad debts The Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2012 has been passed by Parliament and has come into force from 15.01.2013.

20. Role and Performance of RBI as a Regulator *vis-a-vis* NPAs

20.1 NPA Management – Requirement of a Strong Mechanism and Granular Data:

In the Monetary Policy statement of April 17, 2012, the RBI, stated that the asset quality of banks is one of the most important indicators of their financial health. It also reflects the efficacy of banks' credit risk management and the recovery environment. It is important that the signs of distress in all stressed accounts are detected early and those which are viable are also extended restructuring facilities expeditiously to preserve their economic value. During annual financial inspection (AFIs), it has been observed that the restructuring facilities are not readily extended to small accounts. To improve the banks' ability to manage their non-performing assets (NPAs) and restructured accounts in an effective manner and considering that almost all branches of banks have been fully computerised, it is proposed:

(i) to mandate banks to put in place a robust mechanism for early detection of signs of distress, and measures, including prompt restructuring in the case of all viable accounts wherever required, with a view to preserving the economic value of such accounts; and

(ii) to mandate banks to have proper system generated segment–wise data on their NPA accounts, write-offs, compromise settlements, recovery and restructured accounts.

20.2 On a specific querry by the Committee regarding the steps taken by RBI for realistic recognition of NPAs and their management, the RBI in a written submission,

stated as under :-

" In terms of Reserve Bank's guidelines, classification of assets of banks as Non-Performing Assets (NPAs) has to be done on the basis of objective criteria of record of recovery, which would ensure a uniform and consistent application of the norms. The overdue period after which the dues receivable by the banks need to be classified as NPAs, in terms of the prudential norms, has been reduced in a phased manner, and currently it stands at 90 days. The 90 days delinquency is uniformly applicable to all loans and advances (except for agricultural advances where it is linked to crop cycle), as is done internationally, as it is essential to identify impairment in order to provide for it.

RBI's prudential norms on income recognition, asset classification and provisioning were introduced in 1992. Initially a term loan was to be treated as NPA if interest remains past due for a period of four quarters as on that date and the time was brought down to two quarters since 1995. Subsequently, in order to align our prudential norms with the international benchmarks, we have stipulated that, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.

In order to make sure that books of the banks reflect the true value of their assets, we have advised that banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs and responsibility and validation levels for ensuring proper asset classification may be fixed by the bank. As any delay in recognition of deterioration in asset quality removes pressure on the banks to deal promptly with the problem, we have advised banks vide a circular dated August 04, 2011 to put in a place appropriate systems for system based identification of problem / NPA accounts and generation of returns by October 31, 2011.

20.3 Replying to the concerns expressed by the Committee on the performance of RBI in dealing with NPAs, the Secretary, Dept. of Financial Services (Ministry of Finance), during course of oral evidence, stated as under :-

"As far as the RBI is concerned, the impression in the Ministry is that the RBI is a very strict regulator. It is doing its job properly. Even banks find it difficult. Even if there is a default of one day, instead of 90 days, it becomes 91 days, the banks have no option but to immediately call it an NPA. So, that kind of a strictness is there. In fact, a part of the reason why the NPA percentage is building up is also because of the strictness of the RBI because no kind of a leeway is allowed to banks in terms of fudging their balances. Somebody asked: Are we fudging the figures? No. In fact, the RBI is so strict with all the banks. That is how it should be."

*****

PART-II

RECOMMENDATIONS / OBSERVATIONS

1. The Committee note with deep concern that inspite of various measures taken by the Government and Reserve Bank of India (RBI) from time to time, the NPA problem confronting the financial sector and threatening the stability of the banking system seems far from over. Instead of declining, the cumulative net volume of NPAs of all banks and financial institutions are only increasing every year. The total credit off-take of Public Sector Banks (December, 2014) stood at Rs. 60,60,699 Crores. As on September 2015, the Net NPAs of Public Sector Banks stood at Rs. 2,05,024 crores and the Gross NPAs during the corresponding period stood at Rs. 3,69,990 crores. Such high incidence of NPAs obviously raises serious questions on the credibility of the mechanisms to deal with NPAs and stressed loans as such, even as certain estimates indicate that gross NPAs may touch Rs. 4 lakh crore by the end of this fiscal year. The stressed assets ratio (gross NPAs plus restructured standard advances to gross advances) for the system as a whole exceeded 11% at the end March, 2015 compared to 10% in March last year. This figure is expected to be even higher this fiscal, as there is apprehension that the number of failures of restructured advances would increase. As on September 2015, it is alarming that nearly Rs. 6.8 lakh crore worth of bank loans were in the 'stressed' category, compared with Rs. 5.91 lakh crore the previous year. Bank balance sheets continue to remain under pressure and recent quarterly results of banks are a grim reminder of the situation that banks find themselves in, with most of them reporting sharp dip in profits, with NPAs and provision for write offs ballooning. On the one hand, the country's economy is growing fast and competing with economic superpowers and on the other hand, the rising trend of NPAs has the potential to damage this growth story. The Committee are thus not happy with the management of the problem, on both fronts *viz* at the level of the RBI and at the level of the banks. The banks have evidently failed to notice the early signs of stress on the loans disbursed by them. The Committee believe that banks should have intervened at the right time,

when signs of stress were visible in its loans including restructured assets. Early and timely intervention and consequential remedial measures are necessary to stem the rising trend of NPAs. Considering the effect bad loans have in eroding not only the overall image but also the capital and liquidity of banks as also their ability to raise capital in the future, there is an urgent need for banks to reduce their stressed assets and clean up their balance sheets, lest they become a drag on the economy.

2. The Committee would like to underscore that one of the fundamental issues that hampers NPA management is the inadequacy in the credit appraisal capability of banks, more specifically on project appraisal. There is thus an urgent need now for bolstering the technical capabilities of banks to undertake proper evaluation of projects, post sanction monitoring etc. The banks should be extremely careful in evaluation of the projects and be vigilant about the requisite clearances and not being subjudice. In this regard, the Committee would expect the RBI to take the initiative and organise capacity building programmes for banks which would help them do better project appraisal. In this context, the Committee would also recommend that specially empowered Committees at all the three levels, namely, RBI, Banks and the borrower should be set up to continually monitor the status / progress of large loan portfolios. Such a mechanism will help strengthen the existing governance structure to manage large loan accounts. These specially tasked Committees may be mandated to submit periodical reports to Government and Parliament on their findings. The Committee hope that this exercise would result in better governance standards and professionalism in the top bank management in the coming days. Accountability of nominee Directors of RBI / Ministry on the Bank Boards as well as the CMDs / MDs of banks should also be fixed in the matter.

3. Keeping in view the fact that diversion of funds by promoters to unrelated businesses and poor pre-sanction due diligence have been cited as key reasons for bank loans turning toxic, the Committee are of the opinion that forensic audit should be made mandatory for specific class of borrowers. Since it is also widely

believed that the current internal audit practices in banks are not effective enough to prevent diversion of funds by borrowers, the Committee would like to once again emphasise that 'due diligence' processes before banks disburse large loans (beyond a certain threshold) require urgent attention. In this context, the Committee desire that the decisions taken to sanction loans in violation of norms/guidelines should also be enquired into, responsibility fixed, adequate penal action taken and the Committee apprised accordingly.

4. The Committee would also like to point out that banks should give up the 'one size fits all' approach to credit, even as they tone up their credit appraisal skills and systems. It thus becomes expedient and prudent that while granting credit, banks should set realistic re-payment schedules on the basis of an objective analysis of cash flows of borrowers. This would go a long way in facilitating prompt repayment by the borrowers and thus improve the record of recovery in advances. Similarly, the Committee believe that the decision of banks in restructuring of loans should also be driven by their motivation to revive an account, which may be under temporary financial difficulty and preservation of the economic value of viable entities, rather than merely focussing on asset classification and provisioning benefits. This would clearly work in the interest of both the creditors and borrowers. Further, till such time a project is commissioned as per approved schedule, banks should not hasten to categorise such a project as NPA.

In this context, it may be considered if "Lead indicators" could be developed for every project when loan is sanctioned. The project developers should also be involved in this process. Appropriate information could be reported in due time so that the financial health of the project is assessed well in time so as to pre-empt the possibility of NPA. Such "Lead indicators" sets could be available for a particular type of activity, industry etc off-the shelf based on the experience with a number of similar projects. This process could form the basis of a proactive MIS.

5. The industry representatives who appeared before the Committee mentioned about equity constraints affecting the industry. However, it has been observed that in many projects, the equity brought in by the concerned investors are sparse and insufficient. The equity that some promoters bring are also borrowed from other projects. Therefore, such over-leveraged projects remain vulnerable to degenerate as stressed assets. The extent and the quality of the equity that the promoters are capable of infusing into a project, therefore, also needs to be factored in by a lender bank.

6. As a way forward, the Committee are of the view that developing and strengthening a vibrant bond market to finance infrastructure projects will be a sound proposition. At present, only banks and such other financial institutions are involved in funding large projects on a short term lending basis. There is also a huge mis-match between their deposit tenure and credit term. Thus, every time there is even a minor delay in projects, they are declared as NPAs and the banks have to resort to restructuring of the loans. Therefore, the Committee would recommend that the Government should make the necessary structural changes including revival of Development Financial Institutions (DFI) for long-term finance, especially for Infrastructure projects, which will go a long way in nipping the problem of NPAs in the bud. The Committee also urge the Government for allowing Infrastructure Finance Companies (IFCs) to purchase infrastructure projects turning into NPAs and keep them as Standard Assets, as this step would not only provide the much needed relief from stressed portfolio but also create an enabling environment for funding the infrastructure sector facing resource crunch. Besides, the IFCs should also be allowed to participate in equity. The Banks should have equity component built in the loan agreement itself. The Committee desire that the RBI should explore the possibility of developing a mechanism *wherein* there would be separate norms for NPA classification for infrastructure and non-infrastructure loans.

7. It has been reported that wilful defaulters owe Public Sector Banks a total of Rs. 64,335 Crore, which constitutes about 21% of the total NPAs. Therefore, as

a measure of public accountability, the Committee recommend that each bank must focus on their respective top 30 stressed Accounts involving those categorised as "wilful defaulters" and make their names public. Such a step will act as a deterrent for other promoters against wilful defaults. It will also enable banks to withstand pressure and interference from various quarters in dealing with the promoters for recoveries or sanctioning further loans. On the other hand, promoters will also be cautious before applying for loans. The Committee, therefore, recommend that provisions of RBI Act or any other governing law or guidelines should be amended, if required, to facilitate such publishing of the names for each bank. The Committee are of the view that when companies, which have undergone restructuring process for their stressed loans, should be made public, there cannot be any justification for maintaining secrecy on this count.

Further, to make the system more transparent RBI can explore the possibility of conducting capital assessment, wherein each bank is analysed across parameters including its loan and securities portfolios as well as other off balance sheet commitments and their liabilities and exposures. This will help in ascertaining their potential losses and the capacity of the bank to absorb it while determining the CAR and its financial health.

8. The Committee take note of the various guidelines issued by RBI from time to time to ensure effective management of NPAs and to enable speedy and prompt recovery. However, the Committee are constrained to observe that the RBI does not seem to have quite succeeded, as a regulator, in so far as implementation and enforcement in letter and spirit of its own guidelines, on stressed loans is concerned. Mere issuing of guidelines by RBI does not seem to have yielded the desired results. The Committee would, therefore, expect RBI to monitor and follow it up with the banks and financial institutions on a regular basis till concrete outcomes materialise. Such a pro-active action by RBI will also enable it to review the guidelines, whenever required and plug loopholes, if any. As the Committee would not like the RBI to be a passive regulator, when major

lapses occur in banks, it would be in the fitness of things if RBI exercises its regulatory powers *vis-a-vis* banks to take punitive action in cases of default and to enforce their guidelines. The Committee also believe that RBI as a regulator should have its regulatory role well delineated and thus not have its Director in the Board(s) of the Banks as part of their management, as conflict of interest may lead to avoidable laxity.

9. With regard to Corporate Debt Restructuring (CDR) mechanism, it appears that majority of the CDR cases have failed to achieve the desired objectives. The Committee are concerned over reports of various agencies, which state that banking system in the country may be heading for a crisis due to failed or stressed CDR cases. The Committee are of the view that there should be a definite timeline of about six months to settle CDR cases, as there are instances where discussions with stakeholders are dragging on for years to settle such cases. Such inordinate delay defeats the very purpose of the CDR mechanism. The Committee also find that during the year 2014-15, most of the slippages came from the restructured debt, which is expected to further increase. The Committee would thus recommend that forensic audit of such loans (restructured loans becoming bad debts) as well as wilful defaults be immediately undertaken. RBI may prepare guidelines for the same. The analytical report of the same should be submitted to the Committee in six months. The Committee desire that necessary stipulations should be brought to monitor the restructuring of loans so that it is carried out with the purpose of making the projects viable and not with malafide intent.

Delay in taking final decisions in the cases of failed CDR results in erosion of assets. Therefore, appropriate system should be evolved and guidelines be prepared to take charge of assets and management of such failed CDR companies, while initiating action against such management. Further, disposal of the assets should be given priority.

10. Considering the non-efficacy of the CDR mechanism, the Committee believe that the RBI's scheme for Strategic Debt Restructuring (SDR), which

empowers banks to take control of defaulting entity and its assets by converting loan into equity, may armour the banks with an additional tool to cope with their NPAs. A change in management must be made mandatory in such cases involving wilful default or sheer inability on the part of the promoters, where they have diverted funds and no redemption is possible. The Committee would however like to put a caveat here that the SDR mechanism should be used sparingly so that it does not become a smoke screen for large scale write-offs. It is necessary that even after SDR, the penal consequences for a wilful defaulter should continue to operate.

11. The Committee note that bulk of bad loans may be linked to firms that are struck with over-capacity and weak demand and are, therefore, simply unable to service their debt. The prolonged slowdown in the economy has eroded the market for distressed assets so much so that even Asset Reconstruction Companies (ARCs) have found it hard to offload them. The Committee would, however, still suggest that the RBI should consider such a dispensation that allows banks to absorb their write-off losses in a staggered manner, can help them restore their balance sheets to their normal health, while ridding the banking sector of its toxicity.

12. The Committee note that the value of cases relating to bad loans awaiting resolution and recovery through DRTs across the Country has touched an all time high of around Rs. 3.75 lakh crore. The recovery of NPAs through DRT and SARFAESI Acts have shown steady decline from 2010-11 through 2013-14. The recovery through the channel of DRT Act has shown constant decline from 21.55% in 2010-11 *(Amount recovered Rs. 2,338 crores against cases filed for the amount of Rs. 10,849 crores)* to 9.83% in 2013-14 (*Amount recovered Rs. 4,460 crores as against cases filed for the amount of Rs. 45,350 crores).* Similarly, under the SARFAESI Act, the recovery of NPAs has dipped from 36.46% in 2010-11 (*Amount recovered Rs. 7,928 crores against cases filed for the amount of Rs. 21,745 crores)* to 25.56% in 2013-14 *(Amount recovered Rs. 22,178 crores against cases filed for the amount of Rs. 86,783 crores).* These facts thus present a rather

dismal picture of the actual working of DRTs and the efficacy of the SARFAESI Act per se. Time-bound disposal of cases thus becomes the need of the hour. A distinction now needs to be drawn between "wilful defaulters" and other defaulters in the procedures prescribed under the relevant Acts and accordingly, "wilfully defaulting" promoters must be dealt with sternly and promptly. Banks must be fully empowered to recover their dues promptly after necessary orders are passed by the Tribunal. The Committee would strongly recommend a thorough overhaul of the legal regime governing debt recovery, which may include stringent provisions to safeguard public money. Furthermore, there is a need for authentic and large Credit data base including posting the Credit Status of "wilful defaulters" in public domain.

In this connection, the Committee would also recommend certain specific changes / amendments in the Debt Recovery dispensation as mentioned below:

- i. **In DRT summary procedure should be followed. In case of appeal against the order of recovery officer a provision for deposit of substantial amount i.e. minimum 50% of the amount claimed and costs should be there**
- ii. **A provision for disclosure of assets on affidavit by the defendants needs to be incorporated.**
- iii. **The important issue of priority of charge should be clearly decided. In this regard, priority of secured creditor should be treated to be of universal priority.**
- iv. **Rule 9 of Security Interest Rules provides for 30 days' notice required before sale. In case of second or subsequent sale, 30 days' notice, again, is a wasteful exercise. Therefore, a specific provision is required on subsequent attempt of sale by giving notice of 7 days. In case of sale by Private equity provision is required stating that private sale shall be on terms settled between the secured creditor and the purchaser.**
- v. **Stays/Exparte stays, if granted, should be for a short and specific period and on condition of payment of dues or as warranted as per the facts of the case.**
- vi. **Provisions for faster foreclosure of mortgages need to be considered.**

vii. More DRTs for better distribution and expeditious disposal of cases should be set up and adequate infrastructure provided to them.

viii. One DRT/Presiding Officer should have a prescribed maximum of only 1000 OAs for disposal.

13. Confederation of Indian Industry (CII) have submitted to the Committee that delay in settlement of cases is resulting from delay in resolution of disputes which, in turn, is negatively impacting the developer's ability to service debt obligations. Further, delays in acquisition of land / grant of clearances are resulting in exponential cost escalations, thereby impacting upon the financial viability of the projects. The Committee would recommend that urgent remedial measures be taken on these issues within a stipulated time frame so that viable projects can take off quickly, thereby easing the NPA burden to a certain extent. The Committee desire that a cogent road map may be prepared to tackle and resolve the NPA tangle within a period of one year.

14. The Committee would also like the RBI to conduct an objective evaluation of the efficacy of different instruments / schemes implemented by banks to deal with their NPAs / Stressed assets like OTS, CDR, SDR, 5 by 25 scheme, ARC sale etc., so that pitfalls can be identified and plugged with a view to making these efforts more purposeful.

NEW DELHI	**DR. M. VEERAPPA MOILY,**
05 February, 2016	**Chairperson,**
16 Magha, 1937 (Saka)	**Standing Committee on Finance**

Minutes of the Thirteenth Sitting of the Standing Committee on Finance

The Committee sat on Thursday, the 11th December, 2014 from 1500 hrs. to 1630 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Venkatesh Babu T.G.
3. Shri P.C. Gaddigoudar
4. Shri Shyama Charan Gupta
5. Shri Rattan Lal Kataria
6. Shri Bhartruhari Mahtab Rai
7. Shri Gopal Shetty
8. Shri Anil Shirole
9. Dr. Kirit Somaiya

RAJYA SABHA

10. Dr. Mahendra Prasad
11. Shri C.M. Ramesh
12. Shri Ajay Sancheti
13. Dr. Manmohan Singh

SECRETARIAT

1.	Shri R. K. Jain	-	Joint Secretary
2.	Shri P.C. Koul	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESS

Association of Power Producers

1. Shri Raj Gopal, Chairman, Association of Power Producers (CEO, Lanco Power Ltd.)
2. Shri Lalit Jalan, Group Director, Reliance ADAG Group
3. Shri Ravi Uppal, MD&CEO, Jindal Steel & Power Ltd.
4. Shri Rajat Kumar Singh, Group Head, Resources, Adani Power Ltd.

5. Shri Ashok Kumar Khurana, Director General, Association of Power Producers

2. At the outset, Joint Secretary, Lok Sabha Secretariat, conveyed that the hon'ble Chairperson has decided to recuse himself from the first part of the Sitting as he had given legal opinion, at one point of time to the Association of Power Producers on Section 62 and 63 of the Electricity Act. Subsequently, in the absence of the Chairperson, the Committee chose Dr. Kirit Somaiya to chair the Sitting under Rule 258(3) of the Rules of Procedure.

3. The Acting Chairperson welcomed the representatives of Association of Power Producers to the Sitting of the Committee. After the customary introduction, the representatives of Association made an audio-visual presentation on the Subject 'Non-Performing Assets (NPAs) in Financial Institutions' with specific reference to the power sector. Members, thereafter sought clarifications on a range of issues on the aforementioned subject, particularly the policy measures required to revive the power sector and make the ongoing projects viable.

(The Witnesses then withdrew).

(The Committee then adjourned for Tea).

(At around 1605 hours the Sitting resumed with the Chairperson in Chair)

4. XX XX XX XX XX XX

5. XX XX XX XX XX XX

6. XX XX XX XX XX XX

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

Minutes of the Sixteenth sitting of the Standing Committee on Finance

The Committee sat on Thursday, the 8^{th} January, 2015 from 1500 hrs. to 1635 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Venkatesh Babu T.G.
3. Shri P.C. Gaddigoudar
4. Shri Rattan Lal Kataria
5. Shri Prem Das Rai
6. Shri Rayapati Sambasiva Rao
7. Prof. Saugata Roy
8. Shri Gajendra Singh Sekhawat
9. Shri Gopal Shetty

RAJYA SABHA

10. Shri Naresh Gujral
11. Dr. Mahendra Prasad
12. Shri P. Rajeeve
13. Shri C. M. Ramesh
14. Shri Digvijaya Singh
15. Dr. Manmohan Singh

SECRETARIAT

1.	Shri R. K. Jain	-	Joint Secretary
2.	Shri P.C. Koul	-	Director
3.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

Ministry of Finance (Department of Financial Services)

1. Dr. Hasmukh Adhia, Secretary, (Department of Financial Services) 2.
2. Smt. Snehlata Shrivastava, Additional Secretary
3. Shri Mohammad Mustafa, Joint Secretary
4. Shri Alok Tandon, Joint Secretary

Reserve Bank of India

1. Shri N. S. Vishwanathan, Executive Director
2. Shri Ajay Kumar Chaodhary, General Manager

Public Sector Banks

1. Shri V. S. Ohri, General Manager, State Bank of India
2. Dr. Ram S. Sangapure, Executive Director, Punjab National Bank
3. Shri Rathin Dey, General Manager, United Bank of India
4. Ms. Salila George, Chief General Manager, IDBI
5. Shri Parvesh Kapoor, General Manager, Indian Overseas Bank

2. At the outset, the Chairperson welcomed the Members and the Witnesses to the Sitting of the Committee.

3. After the customary introduction, the Secretary, Department of Financial Services briefed the Committee on the Subject 'Non-Performing Assets (NPAs) of Financial Institutions'.

4. Once the briefing was over, the Members sought clarifications on a wide range of issues, which included reasons for increasing level of Non-Performing Assets (NPAs) in Banks/Financial Institution, steps taken by the Government to reduce the same, outcome of the Gyan Sangam held by the Government recently to address the problem of rising level of NPAs, efficacy of Asset Re-construction Companies (ARCs) in improving the asset quality of banks, proposals to merge banks with higher NPAs with other banks, distinctions between aggressive lending practices and non-aggressive lending practices of banks and reasons for Public Sector Banks adopting the aggressive lending practices, mechanism of classification of outstanding loan by banks, mitigating strategies adopted by the Government to help bank defaulters compelled by reasons beyond their control so as to revive them and enable them to positively contribute to the economy of the Country etc.

5. The Witnesses replied to the queries of the Members. The Chairperson, considering the vast number of points raised and clarification sought by the Members, directed the Witnesses to furnish detailed written replies to the Committee Secretariat within 15 days.

(The witnesses then withdrew.)

A verbatim record of the proceedings was kept.

The Committee then Adjourned.

Minutes of the Twenty-Fifth sitting of the Standing Committee on Finance

The Committee sat on Thursday, the 14th May, 2015 at 1100 hrs. to 1300 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

MEMBERS

<u>LOK SABHA</u>

2. Shri Venkatesh Babu T.G
3. Shri Nishikant Dubey
4. Shri Shyama Charan Gupta
5. Shri Rattan Lal Kataria
6. Shri Bhartruhari Mahtab
7. Shri Prem Das Rai
8. Shri Gajendra Singh Sekhawat
9. Shri Gopal Shetty
10. Shri Anil Shirole
11. Shri Shivkumar Udasi
12. Dr. Kirit Somaiya

<u>RAJYA SABHA</u>

13. Shri Satish Chandra Misra
14. Shri C.M. Ramesh
15. Dr. Manmohan Singh

<u>SECRETARIAT</u>

1.	Shri P.K. Misra	-	Additional Secretary
2.	Shri P.C. Tripathi	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

<u>WITNESSES</u>

<u>Industry</u>

1. Shri Ajit Gulabchand, Member CII National Council & Chairman & Managing Director, Hindustan Construction Company Ltd.
2. Shri Rathin Basu, Member, CII National Committee on Power & Country President and Managing Director, Alstom India.

3. Shri Parvesh Minocha Member, CII National Committee on Infrastructure & Chairman, Feedback International.
4. Shri Lalit Jain, CEO, Wind, Hindustan Power projects Pvt. Ltd.
5. Shri Asesh Jyoti Dutta, Chief Operating Officer, IL&FS Financial Services Ltd.
6. Shri Arun Srivastava, Chief-Regulations & Advocacy, The Tata Power Company Ltd.

Confederation of Indian Industry (CII) Secretariat

1. Shri S. Sen, Principal Adviser
2. Shri Danish Hashim, Director
3. Shri Amitabh Shrivastava, Director
4. Ms. Rasika Chandihok, Director

2. At the outset, the Chairperson welcomed the Members and witnesses to the Sitting of the Committee.

3. After the customary introduction, the Chairman and Managing Director, Hindustan Construction Company Ltd and Member CII National Council briefed the Committee on the Subject 'Non-Performing Assets (NPAs) of Financial Institutions'.

4. Once the briefing was over, the Members sought clarifications on various issues, which included dismal sales growth rate of companies during fiscal year 2014-15; restructured assets of public sector banks turning into NPAs; the need for banks and financial institutions to notice early signs of stress; wilful defaults; stress loans in the infrastructure industry and power projects; over-leveraging of balance sheets; corporate debt restructuring; ways to nip NPAs in the bud; equity constraints; aggressive bidding by companies and whether the industry do any assessment of likely cost overruns before bidding for a project.

5. The Witnesses replied to the queries of the Members. The Chairperson, considering the vast number of points raised and clarifications sought by the Members, directed the Witnesses to furnish detailed written replies to the Committee Secretariat within 15 days.

(The witnesses then withdrew.)

A verbatim record of the proceedings was kept.

The Committee then Adjourned.

Minutes of the Twenty-Sixth sitting of the Standing Committee on Finance

The Committee sat on Thursday, the 21st May, 2015 at 1100 hrs. to 1340 hrs. in Committee Room 'C', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

Members

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Nishikant Dubey
4. Shri P.C. Gaddigoudar
5. Shri Shyama Charan Gupta
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Shri Prem Das Rai
9. Shri Rayapati Sambasiva Rao
10. Shri Jyotiraditya M. Scindia
11. Shri Gopal Shetty
12. Shri Anil Shirole
13. Shri Shivkumar Udasi
14. Dr. Kirit Somaiya

RAJYA SABHA

15. Shri Naresh Gujral
16. Dr. Mahendra Prasad
17. Shri K.N. Balagopal
18. Shri C.M. Ramesh
19. Shri Ajay Sancheti
20. Dr. Manmohan Singh

SECRETARIAT

1.	Shri P.C. Tripathy	-	Director
2.	Shri Ramkumar Suryanarayanan	-	Additional Director
3.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

Ministry of Finance (Department of Financial Services)

1. Dr. Hasmukh Adhia, Secretary (Department of Financial Services)

2. Smt. Snehlata Shrivastava, Additional Secretary
3. Shri Rajesh Aggarwal, Joint Secretary
4. Mohammad Mustafa, Joint Secretary

NABARD

1. Dr. Harsh Kumar Bhanwala, Chairman
2. Shri S.K. Bansal, CGM
3. Shri A.K. Mohanty, GM
4. Shri Rajiv, DGM

SIDBI

1. Dr. Kshatrapati Shivaji, CMD
2. Shri Ajay Kumar Kapur, CGM

Scheduled Commercial Banks

1. Shri Rajeev Krishan, CGM, SBI
2. Dr. Ram Sangapure, ED, PNB
3. Shri Manoranjan Bhuyan, GM, BOB
4. Shri B.K. Batra, DMD, IDBI
5. Smt. Mythili Balasubramanian, ED, IDBI
6. Shri Satish Boel, GM, IDBI

Reserve Bank of India

1. Shri Ajay Kumar Chaudhary, GM

2. At the outset, the Chairperson welcomed the Members and witnesses to the Sitting of the Committee.

3. After the customary introduction, the Secretary, Department of Financial Services briefed the Committee on the Subject 'Non-Performing Assets (NPAs) of Financial Institutions'.

4. After the briefing, the Members sought clarifications on a wide range of issues, which included mechanism to tackle NPAs, stalled power projects, lessons from NABARD in dealing with NPAs, criteria for write offs by banks, NPAs in North-Eastern States, top 30 leading NPAs / defaulters, action taken on the basis of SARFAESI Act and the effects of enactment of the said Act, the need to empower CDR mechanism, aggressive bidding by companies without making assessment of likely returns, consequential NPAs, NPAs in relation to

economic slowdown, willful defaulters and non-cooperative defaulters and restructured assets slipping into fresh NPAs.

5. The Witnesses replied to the queries of the Members. The Chairperson, considering the vast number of points raised and clarifications sought by the Members, directed the Witnesses to furnish detailed written replies to the Committee Secretariat within 15 days.

(The witnesses then withdrew.)

A verbatim record of the proceedings was kept.

The Committee then Adjourned.

Minutes of the Ninth sitting of the Standing Committee on Finance

The Committee sat on Thursday, the 28th January, 2016 from 1100 hrs. to 1330 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Prof. Saugata Roy
9. Shri Gajendra Singh Sekhawat
10. Shri Gopal Shetty
11. Dr. Kiritbhai Solanki
12. Dr. Kirit Somaiya
13. Shri Shivkumar Udasi

RAJYA SABHA

14. Shri Naresh Agrawal
15. Shri K.N. Balagopal
16. Shri Naresh Gujral
17. Shri A. Navaneethakrishnan
18. Dr. Mahendra Prasad
19. Shri Digvijay Singh
20. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

Indian Banks' Association (IBA)

1. Shri Ashwani Kumar,
   Chairman, IBA and CMD, Dena Bank

2. Shri Rajeev Rishi,
   Dy. Chairman, IBA and CMD, Central Bank of India

3. Ms. Arundhati Bhattacharya,
   Chairperson, State Bank of India

4. Shri M V Tanksale,
   Chief Executive, IBA

5. Shri H.N. Visheshwar,
   Sr. Advisor, IBA

Investment Information and Credit Rating Agency of India Limited (ICRA)

1. Shri Naresh Takkar
   Managing Director & Group CEO

2. Ms. Vibha Batra
   Senior Vice President-Financial Sector

Credit Information Bureau (India) Limited (CIBIL)

1. Shri Satish Pillai
   Managing Director & CEO

2. Shri Vipul Mahajan
   Joint Vice President (Products)

2. At the outset, the Chairperson welcomed the Members and the representatives of Indian Banks' Association (IBA), Investment Information and Credit Rating Agency of India Limited (ICRA) and Credit Information Bureau (India) Limited (CIBIL) to the sitting of the Committee. The Committee then heard the views of the representatives of IBA, ICRA and CIBIL who appeared as witnesses.

3. The major issues discussed were the festering NPA problem, its dimensions and magnitude, effectiveness of the existing credit appraisal / monitoring systems, and efficacy of the measures thus far taken to address the problem including Corporate Debt Restructuring (CDR), Strategic Debt Restructuring (SDR), Asset Reconstruction Companies (ARCs) and Debt Recovery Tribunals (DRTs). The Witnesses responded to some of the queries of the members. The Chairperson directed the representatives to furnish written replies on the remaining points within a week.

A verbatim record of the proceedings has been kept
(The witnesses then withdrew)

4. The Committee then took up for consideration the draft Report on "Non Performing Assets (NPAs) of Financial Institutions". After some deliberations the Committee decided to adopt the draft report in their next sitting on 5.02.2016, after incorporating the inputs gathered from the sitting held on 28.01.16.

5. XX XX XX XX XX XX

The Committee then adjourned.

Minutes of the Tenth sitting of the Standing Committee on Finance

The Committee sat on Friday, the 05th February, 2016 from 1500 hrs. to 1630 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Venkatesh Babu T.G.
3. Shri Nishikant Dubey
4. Shri Rattan Lal Kataria
5. Shri Rayapati Sambasiva Rao
6. Prof. Saugata Roy
7. Shri Gajendra Singh Sekhawat
8. Shri Gopal Shetty
9. Dr. Kiritbhai Solanki
10. Dr. Kirit Somaiya

RAJYA SABHA

11. Shri Naresh Gujral
12. Shri Ajay Sancheti
13. Shri Digvijay Singh
14. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

XX XX XX XX XX XX

2. XX XX XX XX XX XX.

(The witnesses then withdrew)

A verbatim record of the proceedings has been kept

3. Thereafter, the Committee took up for consideration the draft Report on the Subject "Non-Performing Assets (NPAs) of Financial Institutions". The Committee expressed their appreciation of the draft Report and adopted the same with minor modifications as suggested by Members. The Committee authorised the Chairperson to present the Report to Hon'ble Speaker / Parliament.

The Committee then adjourned.