Welcome students and welcome to
the DHE’s initiative for the development
of E-Content.

Today we will see,
the paper
titled Banking in India.
This is unit #2 titled as
‘Banking Sector Reforms.

Your host for today is Professor
Manoj Kamat, Principal of Shree Mallikarjun College.

We will be discussing Module number
12, we will deal will be discussing Management of NPAs in India.

We have seen in the last Module that NPAs are a problem.
NPA's make the balance sheets
of the bank bleed.

Now we will see what are the requirements
in terms of the provision of NPAs in India
and what are the preventive and
legal measures for NP management in India?

In short, at the end of this module,
you must be able to understand

how NPAs are measured,
how NPAs must be provided for
How does one manage NPAs in the Indian context,
and what is the impact?

First, let us start with
measurement of NPAs

Now there are four basic.
Terms or Keywords through which one should understand
to measure the nonperforming assets.

a non-performing asset,

doesn't generate income
to the Bank
In simple words,
if a borrower has defaulted
in payment of principal and the
interest for more than three months
then it is called NPA.

If you add up all these NPA in rupees
And minus the amount of
provisions which you made,
It is called Net NPA.

what is GNPA?

A gross non-performing asset
is the total rupee value
of all non-performing assets over a
period for a particular bank
minus the provisions.

So with the above NNPA, and the GNPA, we have two ratios,
Gross NPA Ratio and the NET NPA Ratio:

The Gross NPA ratio is the total gross NPA divided by the total loans of the bank.

The net NPA ratio is the total net NPA divided by the total loans of the bank.

The last one is provision coverage
ratio or NPA coverage ratio.

To what extent are your NPAs provided with
your reserve funds or your provisions?

Or how much is the percentage
of provision on your NP?

I have provided for 60% of my NPA our gross NPA ratio is 60%.

So this is your provision conversion ratio.

Now we will see what is the impact
of high NPAs on banks.

What happens to the bank when
your NPAs are high?

If your NPAs are high,
you have
fewer funds to lend to the borrowers.

2nd,
If you are any NPAs you are high.
It also means you require more amount
of provisions to become safe because
you need to provide through
reserves and provisions in
order to increase your safety net.

3rd, If you have more NPAs,
that means you are not able
to generate interest income.

4th If you have more NPAs,
it also means that the profitability
of the bank is in a problem.

Point #5 if you have more NPAs,
it also means the total
interest what we have earned.
divided by the total assets would be less,
so therefore your net interest margin.

Your total interest divided by your
total assets or the proportion
of your interest on the basis
of your investment is less.

Finally, if you are NPAs or larger,
it is an indication of bad

management of the bank.

That means you unable to protect
the health of your bank
The safety is in danger.
There are security issues for the borrowers.
Bank would be in problem.

So when NPA increases it is
an indicator of bad management
and therefore the RBI will look
at you or the regulators and
stakeholders will look for closer scrutiny.

Thus the impact of NPAs on banks arises,
we say higher the amount
of NPA lead to a higher amount of riskiness.

Now let us see how should
we provide for as we say,
what is a standard asset?

that particular asset
which generates income for the bank
You don't have to make a big provision

Suppose it is a commercial assent
or if you made a commercial loan.
The provisioning is just 1%.

If it is for private use,
provisioning is 0.40%.

If it is given to SMEs or for agricultural use,
it is 0.25,

so this is in the case of standard assets.
Remember,
standard assets are not NPAs or assets that are non-substandard

If any assets are due for more than
three months and less than a year.

Then it is a substandard asset

For such substandard assets,
provisioning is required to the extent of
15% and if there is no
security on that particular asset,
then the provision requirement is 25%.

Then what is a doubtful asset?
So if the doubtful asset is
something which is more than three
months up till one year due,
if the doubtful asset exists,
the provisioning rate is 25%.

If the NBA is doubtful for
more than one year,
and to the extent of fewer than three years,
you will have to make a 40% provision.

If the NPA is doubtful for
more than three years,
you have to make 100% provision.

Similarly, foreign asset
which cannot be recovered,
the provision is 100%.

What is the moral of the story?

The provisioning says that in
case your risk increases whenever
your risk increases,
your provisioning increases.

If you are asset is
standardized standard or
it is generating income, It is safe.
And there is minimal provision.

If the asset is substandard,
that means it is outstanding only

for a period of more than three
months and less than a year.
Again, the provisioning is very minimal,

15% if it is unsecured it is 25%,
but as the asset goes from being
substandard towards being doubtful,

This means your provisioning increased towards
being 100% and in case of a Loss Asset
set or an unsecured portion the
provision is always 100%.

So whenever a bank realises there is an NPA,
a bank will have to make
proper provision based on its riskiness
but banks always have
two different sets of measures,
preventive measures and legal
measures for managing the NP.

Now let us look at the preventive measures.

Preventive measures are those
measures which are within the
control of the Bank, and it exercises
entire control over this problem.

The bank has to be more transparent
about their portfolio
Tell others (disclose) what you are doing.

Tell others where you are investing.
Second, they must categorically
spell out and announce their NPA ratios,
whether it is GNPA or the NNPA ratio.
or whether it is NPA to provisioning ratio,

Next, follow the principle of conservatism.

In accounting.
There is,

principle of conservatism,
which says that anticipate
profits but don't provide.
For all the losses.
In a sense,
in case you think.
That there is even a slight chance
of that asset becoming risky.
Make a provision for that particular asset.
Most importantly,
at any particular loan is
being sanctioned to a borrower.
It is the responsibility of the bank
to ensure there is proper credit.
History is taken.

The credit history is considered and
there is liquid and sufficient security
which is obtained before alone is given.
So if the bank follows all this
transparent disclosure practices
and follows the due diligence,
the incidences of NBA will come down.

Now let us look at the last slide,
the legal measures available for a Bank.

What is the legal measure?

if NPAs already exist, the problem is out of control and you
are now looking at the recourse meaning
trying to recover this particular money through a legal remedy.

Where can you go now?

These are the various mechanisms
which government is created,
Agencies and civil courts.

Second, the DRT or

Debt Recovery Tribunal

So tribunal is like a second court or quasi-judicial body.
Where once can approach them for
your recovery of losses or you do
something called the one-time settlement,
which usually says OTS or the compromise settlement scheme.

There is something called
corporate debt restructuring.
We will see corporate debt restructuring in the subsequent modules.
We will also see.
Debt recovery tribunals, in the next Modules.

And of course, we have something
called Credit Information Bureau.

Now this credit information Bureau runs a
a search of the credit history of the customers.

So today we have seen the legal measures.

legal measures are post-mortem
measures just to recover your NPS.
Obviously will not be able to recover
full and we will study all this legal
measures in detail in the subsequent models.

We have also seen preventive measures.
The actions that the banks can
taken to avoid the problem
of NPAs in the country.