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Ballooning Non-Performing Assets in Indian Banking and Insolvency and Bankruptcy Code:
Resolution Plans and Cases

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ABSTRACT

The Indian Banking sector is witnessing a phenomenal deterioration of asset quality, raising potential losses for not making enough provisions or setting aside capital to combat the non-performing assets. The aftermath of this is that the sustainability of robust banking is becoming a big question. Over the period of time, NPAs and bad loans have adding to a spiralling manner in Indian Banks. In this data-driven banking, various frauds have occurred due to lapses in operational risk, and non-adherence to procedures. Despite the treatment of stressed assets, prompt corrective action as per asset quality report by regulators but results are appearing at a very slow pace. Strength and sustainability of the credit growth is the need for robust banking in the times to come.

KEYWORDS

ANOVA, Asset Quality, IBC Code 2016, Indian Banks, Non-Performing Assets (NPAs)

1. INTRODUCTION

Banks are fundamental to the nation's financial health. Robust Banking depicts safety and soundness and confidence in this service sector. For a sustainable growth in the Banking sector proper corrective measures have to be taken for credit creation, credit disbursement, credit monitoring and compliance. Unfortunately, over these years Non-performing assets and stressed assets have mopped up the Banks eroding the capital and thus the balance sheets are bleeding. The Bad Loans and restructuring have not helped in reducing the bad loans. Insolvency and the Bankruptcy Code came in 2016 but has to pave a here way in NPA resolutions. The Public sector Banks NPA accounts valuation at around 90% and value Rs 4,00,000 CR (US$61.5 Million) and rest 10% is only the Private Sector Banking (Source: RBI).

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1.1. Non-Performing Asset

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

1. Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan;
2. The account remains 'out of order' in respect of an overdraft/cash credit;
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;
4. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
5. The installment of principal or interest thereon remains overdue for one crop season for long duration crops;
6. 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;
7. 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.

1.2. Categories of NPAs

Banks classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the realizability of the dues:

1. Substandard Assets
2. Doubtful Assets
3. Loss Assets

1.2.1. Substandard Assets

With effect from March 31, 2005, a substandard asset is the one, which has remained NPA for a period less than or equal to 12 months. Such an asset has well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

1.2.2. Doubtful Assets

With effect from March 31, 2005, an asset is 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 sub-standard, 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.

1.2.3. 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. Source: RBI Master Circular: RBI/2015-16/101 DBR. No.BP.BC.2/21.04.048/2015-16ddJuly 1, 2015.