# Titanic Moment?

## An Analysis of Non-Performing Assets & Loans by the Public Sector Banks in the Pre-COVID Era

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Authors:

**Vismay Basu, Neelamegan Kannan**

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info@cenfa.org  www.cenfa.org

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# Contents

# List of Tables

## Glossary of Terms

AIF - Alternate Investment Fund
AMC - Asset Management Company
ARC - Asset Reconstruction Company
CAGR - Compounded Annual Growth Rate
CAR - Capital Adequacy Ratio
CDR - Corporate Debt Restructuring
CRR - Cash Reserve Ratio
DFI - Development Financial Institutions
DRT - Debts Recovery Tribunal
FSR – Financial Stability Report
IBC - Insolvency & Bankruptcy Code
MSF - Marginal Standing Facility
MSME - Micro, Small and Medium Enterprises
NCLT - National Company Law Tribunal
NPA - Non-Performing Assets
PSB – Public Sector Banks
RBI – Reserve Bank of India
SCB - Scheduled Commercial Banks
SLR - Statutory Liquidity Ratio

# Preface

For the Indian banks, reeling under the weight of mounting Non-Performing Assets (NPAs), COVID came as a blessing in disguise. Reserve Bank of India had relaxed the NPA norms until May end, which the Indian Banks' Association is now seeking an extension of it until August. What has been in the news regularly in pre-COVID era, information about NPAs suddenly vanished.

There are many who believe that the impact of this pandemic on the economy, coupled with some of the schemes launched by the government in guise of an economic stimulus package, will aggravate the situation and NPA levels could sharply rise, even double, in the post-COVID era.

It is thus important to have a clear understanding about what the NPA situation was in the pre-COVID times, which sectors contributed the most and what could have caused the NPAs to rise at alarming levels.

This booklet is an attempt to put together that. In this, we are looking at the data of Public Sector Banks. We thank the authors of this booklet, Vismay Basu and Neelamegan Kannan for painstakingly putting this data and analysis in place. We also thank Com. Thomas Franco for writing the foreword for this booklet.

We hope this booklet will contribute to the efforts by a number of trade unions, civil society organisations and concerned citizens to bring focus on the growing NPAs and work towards recovering from willful defaulters and saving the public money, and thus the public sector banks.

**Joe Athialy**
Centre for Financial Accountability

## Foreword

The banking sector is undergoing a crisis created by the policies of the Government from the nineties under the garb of neoliberal globalization and liberalization. By reorienting credit to the rich instead of the poor by reducing staff strength through a VRS scheme, which reduced strength by 1,34,000 and ban on recruitment for 10 years, the banks were hit. In addition the priority sector lending norms were changed. Now an enterprise with Rs 1 crore investment is termed micro enterprise. Agro processing in large scale is also agriculture credit. Small credits have drastically come down and large credits continue to increase disproportionately. Earlier they were blaming priority sector loans for the NPA.

Now the data shows that it is corporate loans sanctioned by boards which have RBI as well as Finance Ministry representatives. From selling to ARCs owned by Corporates to haircuts through National Company Law Tribunal, once again Corporates are handed over public money. There appears to be a nexus between retired judges who head NCLTs, resolution agents and corporates. There are no real efforts to recover the loans. The outstanding NPA which was Rs. 2.78 lakh crores in 2015 has reached almost Rs 10 lakh crores now. This Government's efforts to hide them is by telling banks not to declare MSME loans as NPA last year. Now using COVID as an opportunity they have declared that no loans will be declared NPA and for one year no cases will be referred to NCLT. So after one year we will see

**Lenders have recovered money in just 14% of cases resolved by NCLT: Report**

Financial and operational creditors have managed to recover money in just 221 cases, or 14 per cent, of the 1,604 cases resolved by the National Company Law Tribunal (NCLT) till March-end. In the three years ended March 31, there were about 2,170 cases pending before various Benches of the NCLT, taking the overall cases admitted for resolution to 3,774. The NCLT ordered liquidation in 914 cases (57 per cent) while 312 cases (19 per cent) went on appeal and about 157 litigations (10 per cent) were withdrawn, said Motilal Oswal Research's three-year report card on the Insolvency and Bankruptcy Code (IBC). Interestingly, of the 914 cases where liquidation was ordered, the final report was submitted for just 69.

Business Line
May 22, 2020

a huge spurge in NPA and if this Govt continues it will use that as an opportunity to privatize the Public Sector Banks.

The alternative is to increase small loans and reduce corporate loans. They should borrow from market if they are really efficient. The Public Sector Banks also should be allowed to lend to State Governments at cheaper interest.

This booklet is an excellent effort to educate people on the real NPA crisis like many other publications of Centre for Financial Accountability. It has to reach large masses of our country who will start asking questions.

**Thomas Franco**
Former General Secretary, All India Bank Officers' Confederation

# Executive Summary

This analytical report is our yet another effort to provide a sketch of the persisting Non Performing Assets (NPAs) and the problems faced by the Indian Public Sector Banks, in particular, focusing more on the last six years period beginning from FY 2013-14 to 2018-19. The annual results of 2019-20 would be known in the next one month (July 2020) & we may expect some crucial changes due to the prolonged national lockdown since March 2020 on account of COVID-19. This report briefly analysis on the future prospects in the midst of present economic slowdown both domestically and globally.

With lakhs of crores of stressed assets, Indian banks are more struggling with Non- Performing Assets since 2014. Most information available on the public domain on NPAs is in the form of jargons of banking and financial economics, which makes difficult for the common people whose money, is lent by banks as loans. As such, we felt it necessary to study this issue comprehensively and represent the outcome in a lucid way to enhance the public engagement and awareness on the issue.

It is our attempt not to make this report clumsy with the jargon and terminologies, but instead to bring in the depth and sprit of the issue to communicate the menace of NPA to a larger section of the audience. In doing so, we have fully relied on the published reports, data available on the public domain and data accessed through RTI.

We can summarize the main observations of this study as:

- The Non-Performing assets (NPAs) has reached an alarming level due to many social factors added with the stringent provisioning policies and guidelines of the Regulators and the ruling Governments. Lack of Supervision, lack of transparency in the operations and lack of democratic atmosphere in the banking industry and certain indiscriminate lending's added fuel to the fire.
- Major write-off provisions including unhealthy prudential write-off & so called IBC haircuts provisions made during the last four years have

made the problem further critical. Mostly the Public Sectors Banks (PSBs) are the worst hit because of such provisions. Smaller banks also suffered more because of their presence of mute asset base and lesser diversified loans.

- Private business houses/Corporates hold the higher amount of NPAs — comparatively much higher than the Agricultural sector and Small and Medium Industries. The NPAs are more concentrated around sectors like Iron & Steel, Petroleum, Power, Electricity, Other Infrastructure, Mining and Food processing industries.
- Here, we need to mention on banker's prudential write-off methodology ( i.e., mere book entry as a part of total write-off) which affects the concept of real NPA as well as Net Advances. In the case of prudential write-off, NPAs are still exhibited/accounted in the branch books as if they are alive whereas the corresponding advances are also reduced/written-off to arrive the Net Advances figure as published in the audited books/Annual reports**.** This unhealthy practice is done by all the banks in order to show reduced net NPA position.
- Even now Govt and RBI are not willing to share the details of borrowers whose loans are written off except that of willful defaulters.
- Compounded Annualized growth (CAGR) of gross NPAs in the past five years is around 30%. It is also observed during the past 5 years that NPAs increased by 25% on an average basis as detailed in the report.
- This report was done based on articles published in various newspapers, other journals, annual reports, statistical documents published by the bank Employees' Unions/Associations, Reserve Bank of India (RBI) databases and replies received from PSBs/RBI on RTIs filed.

# Introduction

While the country was hoping for above 5% GDP growth for the current fiscal 2019-20 as against 6.8% recorded last year (GVA: Agri2.9%, Industry 6.2%,Services 7.9%), We hoped earlier that there would be no further hindrance on the banking system as faced in the last three years. To our surprise, India's economy grew at its slowest pace and the GDP growth has made a steep fall in the first three quarters of 2019-20 against our higher expectations. The Govt. justified that there was deceleration in consumer demand and tepid investment although it has already announced a series of measures as a part of its efforts to put the growth normal. But, as far as many economists are concerned (before COVID-19 impact), they blamed the economy for lesser productivity and larger unemployment situation in particular.

However, the Hon. Prime Minister Narendra Modi now announced massive new financial incentives on top of the previously announced packages for a combined stimulus of Rs 20 lakh crore (USD 260 billion) towards economic revival on account of coronavirus pandemic. But it is mostly Monetary stimulus by RBI whereas we need more fiscal stimulus to revive the economy. Latest statement of RBI Governor says we are in negative growth. RBI and Government are depending on Banking Sector to revive the economy. Hence, It is a matter of fact that the significance of Public Sector Banks (PSBs) is more predominant in measuring the economic growth in terms of GDP and the services rendered especially under social banking is the vital factor as they are the real back bone of our Indian economy. This has, in turn, been aggravated by acute banking sector problems, with banks being saddled by non-performing assets (NPAs) mainly in the past five years. Apart from this, there has been a generalized credit crunch in the financial system due to stresses in the non-banking financial sector, especially following the collapse of Infrastructure Leasing & Finance Services (IL&FS).

After various rounds of mergers/amalgamation process, there are now 12 PSBs functioning as of April 1, 2020 as given below:

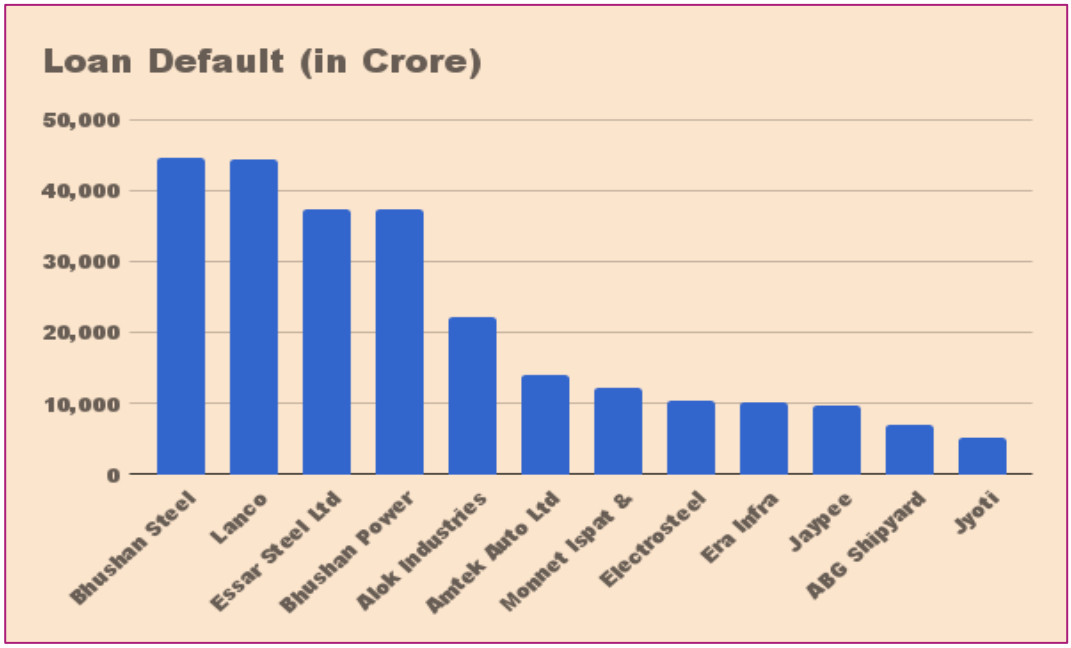
| | |
|---|---|
| 1 | State Bank of India (with merged group) |
| 2 | Punjab National Bank (merger of OBC &United Bank) |
| 3 | BOB (after Amalgamation of Dena & Vijaya Banks) |
| 4 | Bank of India |
| 5 | Canara Bank (with Syndicate bank merger) |
| 6 | Union Bank of India (merger of Andhra &Corporation bank) |
| 7 | Indian Bank (merger of Allahabad bank) |
| 8 | Central Bank of India |
| 9 | Indian Overseas Bank |
| 10 | UCO Bank |
| 11 | Bank of Maharashtra |
| 12 | Punjab & Sind Bank |

Also, PSBs constitute more than 65% of total banking business of all SCBs (Rs.136 lakhs cr deposits and Rs.104 lakhs cr advances as of March 2020) and the Private sector covers 30% of the business leaving the balance of 5% to Foreign banks and Small Finance banks. On the other hand, in the past five years of performance of PSBs on an average, share a very large portion of 85% total gross NPAs leaving 13% share to private sector and 2% to other sectors.

## Background

In June 2017, the RBI sent a list of twelve largest NPA accounts to banks of these twelve accounts, six were with the State Bank of India (SBI) followed by Punjab National Bank, ICICI Bank, Union Bank, IDBI, and Corporation Bank. Each of these NPA accounts had an exposure of more than Rs 5,000 crore, with 60 % or more classified as bad loans by banks as of March 2016.

In August 2017, the Reserve Bank had asked banks to either resolve the identified 28 more large stressed accounts by December 13,2017 or refer them to the National Company Law Tribunal (NCLT) by December 31. These 28 accounts together account for 40 per cent of bad loans of around Rs 4 trillion as on that date. Reacting to the gravity of the problem, RBI asked the banks to resolve their top 500 NPA accounts within six months.
And in case of non- resolution, the banks were further advised to approach the National Company Law Tribunal (NCLT) for intervention.[1] This is the first time in India when a dedicated tribunal has been established to deal with the defaulted loans.

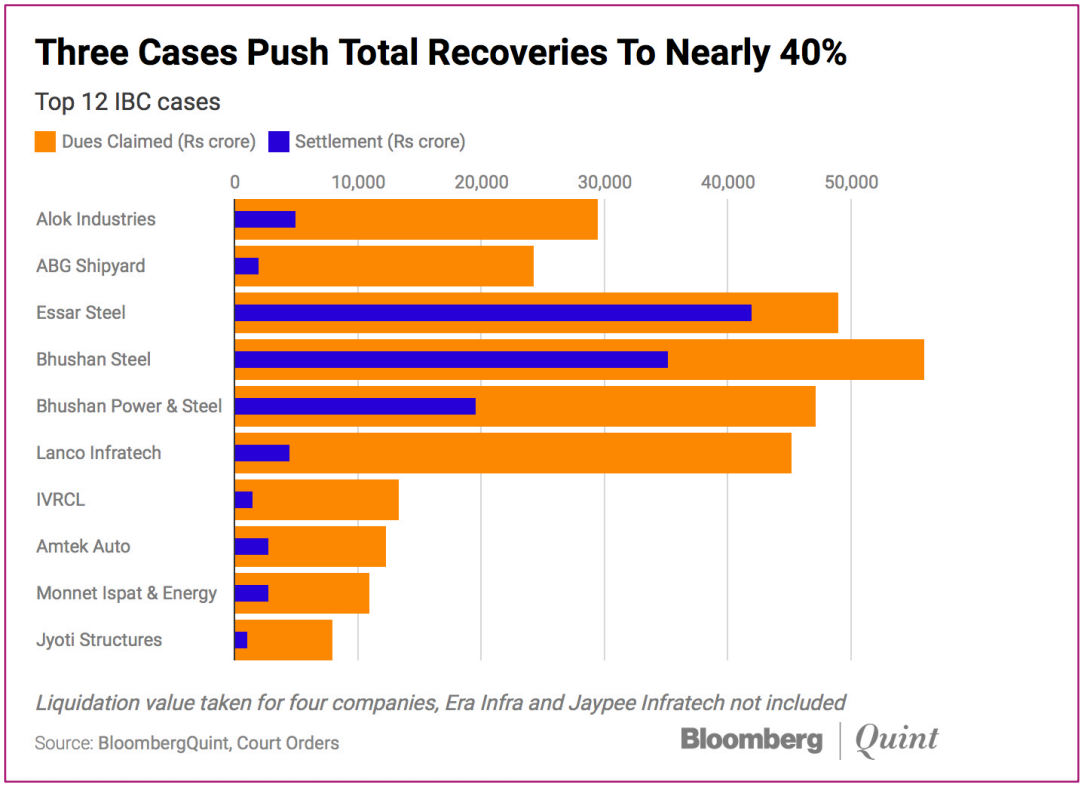


Source: PTI

In reality, Lenders have managed to recover only about 40% of their outstanding dues. So far, 11 cases out of the 12 have reached some form of resolution, while one case is still pending though the time frame was only 270 days. According to data compiled by Bloomberg Quint, lenders have recovered Rs 1.16 lakh crore out of the Rs 2.96 lakh crore in claims admitted by financial creditors in these cases. These 12 accounts, identified by the

[1] http://www.livemint.com/Industry/TECdaxHBGkvi0FRnQuorFL/RBI-identifies-40-more-large-loan-defaulter-

Reserve Bank of India, represented about 25 percent of the banking system's gross non-performing assets as of March 2016.




Further, the corona impact has made the recovery standstill due to court orders, Govt instructions and RBI directives. For one year no declaration of NPA and No case to NCLT. "The haircut taken by banks on these top accounts cumulatively is higher than the overall recovery performance so far. According to a report by Kotak Institutional Equities, banks have seen an average haircut of 88 percent in the cases which were resolved in the October-December 2019 period. While some accounts have shown superior results, banks have seen an average haircut of 88 percent in the cases which were resolved in the October-December 2019 period. This is the highest percentage of haircut that lenders have taken in a single quarter since the introduction of the IBC in 2016, the report said. "Barring a few cases, almost all resolutions in Q3 FY20 had a haircut of more than 60 percent. The average

premium to liquidation value was 120 percent for accounts resolved in Q3 FY20.

Further, RBI allowed cheaper funds for corporate bidders under IBC.
The Reserve Bank of India (RBI) has made a special provision for companies bidding for stressed firms under the insolvency and bankruptcy code (IBC) with a view to make funds cheaper for such companies. RBI said bidding companies can now raise foreign currency funds through foreign banks abroad and use these proceeds to repay the bank debt for stressed companies which they are looking to buy. However, the only caveat the central bank added was that such loans cannot be availed from overseas branches / subsidiaries of Indian banks. Despite this favorable situation to defaulters, we could not recover the defaults fully.

RBI has now made the following flexible policy changes mostly to benefit the borrowers and increase the liquidity in the banking system due to corona impact.

a. Maximum reduction of repo rates, at 4%. Reverse repo at 3.35% & CRR at 3%
b. Under the marginal standing facility (MSF), banks can now borrow overnight at their discretion by dipping up to 3% into the Statutory Liquidity Ratio (SLR) at the rate of 4.25%.
c. All commercial banks including all other lending institutions are being permitted to allow a moratorium of six months on payment of installments for all term loans outstanding as on March 1, 2020.
d. Deferment of Interest on Working Capital Facilities, Easing of Working Capital Financing, Deferment of Implementation of Net Stable Funding Ratio (NSFR), Deferment of Last Tranche of Capital Conservation Buffer
e. Additional Tier 1 instruments shall remain at 5.5% of risk-weighted assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020. The last tranche of 0.625%of the CCB to be implemented

from March 31, 2020 to September 30, 2020).

f. The Govt. increased the minimum amount of the default required to initiate the insolvency resolution and liquidation processes against companies from one lakh rupees to one crore rupees. Also, timelines are extended still further date due to covid-19 effect.
g. The Prime Minister of India extended the lockdown to 31st May 2020.

### Accounting Impact for the FY 2019-20

Although term loans component forms above 55% of total advances for the system as a whole, P&L income may not be affected for the FY 2019-20 on account of recent measures on extended moratorium of 3 months. However, total advances in balance sheet figure in GL heads would rise accordingly in next three months even if there is no actual credit disbursal. Though the RBI relaxed the moratorium period will be excluded from the classification of non-performing assets, the normal recoveries and special recoveries from NCLT accounts are made standstill.

As such, future NPAs are likely to increase rapidly. Banks may try to clean the BS figures by making huge write-off as there is now relief in maintaining the Capital norms. The write off may cross even Rs.250000 cr for the FY 2019-20 as indicated by the top union/association Leaders in the banking industry.

It is now doubtful whether banks are staged to show prompting a huge loss in FY 2019-20 by making huge provisions entirely blaming on the COVID-19 impact.

## Nationalisation of Banks & its Impact

Banks are the custodians of savings. They are arguably the most powerful institution for financial traffic. As soon as India became independent, a desire for nationalizing the banking sector was aired from various quarters in and outside the government.

The process of nationalisation started with the nationalisation of the RBI in 1949. The same year, Banking Regulation Act 1949, passed by the Government of India (GoI), vested special power to RBI and GoI over other existing joint stock banks for financial and banking matters. Another step towards nationalisation came on July 1, 1955 when the Imperial Bank of India was acquired by the GoI and rechristened as the State Bank of India.

After nationalisation of two major banks initially, the demand for further nationalisation only increased as the banks were favouring a handful of corporate houses.

The banks, in their bid to secure guaranteed profit, refrained from lending to newly-founded businesses, agriculture, and small-scale industries. This made credit available exclusively to a few industrialists.

Moreover, the senior management of the banks and business leaders made it impossible for others to avail the loan. As a consequence of this, the sectoral imbalance for credit was widening at an alarming rate. The credit directed to industries was 34 % in 1951 and it rose to 51 % and 67.5% respectively in 1961 and 1968. Seventy percent of these loans went towards 1% of the borrowal accounts. As per the RBI's Report on Currency and Finance (2008), "the share of agriculture in credit dispensed by scheduled commercial banks also did not improve. Credit to agriculture constituted only per cent, i.e., an increase of merely 0.1 per cent between 1951 and 1967 in sharp contrast to almost doubling of the share of industry from 34 per cent in 1951 to 64.3 per cent in 1967."[2] Due to the reasons mentioned above, it became imperative for the GoI to nationalise banks.

The impact of bank nationalisation was enormous. The Table 1, Table 2 and Table 3, underlines the importance of bank's nationalisation.

[2] https://www.rbi.org.in/scripts/publicationsview.aspx?id=10487

Table 1 shows the growth in the number of branches over the geographical territories of the PSBs since nationalisation. It is evident from this table that the number of branches of the PSBs — especially in the rural, semi-urban, and urban areas — increased rapidly during this period. One of the major handicaps of the pre-nationalised banking sector was its unwillingness to go beyond the comfortable business zone of Metropolitan and urban areas, which excluded majority of population from banking. This was a major impediment in the formalisation of Indian banking and finance sector.

The Tables given below shows that nationalisation led to the expansion of the banking sector beyond the metro cities. Moreover, this decision not only increased the number of branches but also the business levels.

With Govt. of India taking over the banks to common people, who were earlier scared of depositing money in banks due to the frequency of failure of private banks, started trusting on Govt. banks. (Three hundred and sixty-one banks failed during 1947 to 1955).[3] This led to massive deposits of money through deposits, bank bond, FDs etc. acquired by the banks.

This helped the banks to channelise the deposits for the national development in terms of social banking and at the same time it formalised the overall banking sector of India. This expansion of banking would not have been possible but for the nationalisation. Hence, it will not be an exaggeration to say that India's thriving banking sector is a product of the nationalisation of banks.

[3] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=17842, the detailed table is given in appendix of this report

## Table 1: Year wise Distribution of Branches of Banking System (Branches-in actual numbers)[4]

| Year | Rural | Semi-Urban | Urban | Metropolitan | Total |
|---|---|---|---|---|---|
| 1969 | 1833 | 3342 | 1584 | 1503 | 8262 |
| 1979 | 13337 | 7889 | 5037 | 3939 | 30202 |
| 1989 | 33014 | 11166 | 7524 | 5995 | 57699 |
| 1999 | 32857 | 14168 | 9898 | 8016 | 64939 |
| 2009 | 29215 | 19960 | 15920 | 18210 | 83305 |
| 2010 | 30113 | 21705 | 17506 | 19690 | 89014 |
| 2011 | 31429 | 24068 | 18569 | 20990 | 95056 |
| 2012 | 33785 | 26962 | 20063 | 22471 | 103281 |
| 2013 | 36764 | 29772 | 21267 | 23592 | 111395 |
| 2014 | 41947 | 32958 | 22923 | 25184 | 123012 |
| 2015 | 45217 | 35338 | 24473 | 26756 | 131784 |
| 2016 | 48344 | 38027 | 26070 | 28313 | 140754 |
| 2017 | 49927 | 39457 | 27365 | 29670 | 146419 |
| 2018 | 50869 | 40124 | 27703 | 29638 | 148334 |
| 2019 | 51646 | 41567 | 28577 | 30191 | 151981 |
| **CAGR %** | **7.05** | **5.28** | **6.08** | **6.31** | **6.12** |

It may be noted that Rural share of PSBs is predominant and Rural CAGR growth at 7.05% is higher than the average of all others in the past 50 years of nationalization.

[4] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=17842, the detailed table is given in appendix of this report

## Table 2: Number of Deposit Accounts (in 000's) and Amounts Deposits - All SCBs (Rs. Cr) [5] [6]

| | Rural | | Semi Urban | | Urban | | Metropolitan | |
|---|---|---|---|---|---|---|---|---|
| | Accounts | Amount | Accounts | Amount | Accounts | Amount | Accounts | Amount |
| 1981 | 34862 | 52.62 | 43690 | 93.69 | 33878 | 99.67 | 31197 | 158.15 |
| 1991 | 108876 | 310.10 | 98084 | 414.39 | 80889 | 491.40 | 67342 | 789.79 |
| 2001 | 131723 | 1394.31 | 116400 | 1861.88 | 92769 | 2178.33 | 87137 | 4059.81 |
| 2011 | 250254 | 4932.66 | 212043 | 7168.31 | 168037 | 11105.13 | 179796 | 30689.41 |
| 2012 | 283072 | 5731.86 | 239951 | 8425.45 | 180626 | 12725.92 | 199551 | 33899.21 |
| 2013 | 335347 | 6698.89 | 283990 | 9791.94 | 203091 | 14970.13 | 222677 | 38665.25 |
| 2014 | 406624 | 7871.51 | 340522 | 11410.77 | 231521 | 17140.10 | 248043 | 43134.83 |
| 2015 | 493970 | 9156.76 | 404661 | 13172.51 | 266228 | 19649.10 | 275033 | 47242.83 |
| 2016 | 576171 | 10089.41 | 470711 | 14772.12 | 297715 | 21505.76 | 301519 | 49628.20 |
| 2017 | 604231 | 11219.67 | 540511 | 17306.89 | 317462 | 22489.18 | 364447 | 56284.55 |
| 2018 | 642225 | 12097.86 | 568454 | 18513.69 | 327038 | 24374.98 | 373787 | 59357.98 |
| 2019 | 667461 | 13572.93 | 588848 | 20607.48 | 338747 | 26970.53 | 377664 | 65239.14 |

Table 2 depicts the trend in the increase in the bank deposits and savings accounts over the period of time and regions. We can see steady expansion of the banking sector, both in the number of account holders and amount of deposits. The expansion of banking in rural and semi urban area is worth observing.

[5] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=17830
[6] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=10575

## Table 3: Employment Pattern in All Scheduled Commercial Banks [7]

| Year | Number of Total Employees |
|---|---|
| 1990-91 | 262282 |
| 2000-01 | 926518 |
| 2010-11 | 1050885 |
| 2011-12 | 1175149 |
| 2012-13 | 1220731 |
| 2013-14 | 1253955 |
| 2014-15 | 1291542 |
| 2015-16 | 1300934 |
| 2016-17 | 1300008 |
| 2017-18 | 1333405 |
| 2018-19 | 1363508 |

Table 3 shows the employment generated by the banking sectors in India. The PSBs shared around 90 per cent of the banking sector during 1991. The majority of these banks were profitable.[8]

It has been observed by experts that Indian banking sector albeit with its shortcomings like smaller size or less penetration in comparison to its other East Asian counterparts like China and Japan, has come up with maturity and resilience over the period of time.

Indian banking sector was one of the earliest to have rescued itself from the severity of Global financial crisis of 2008-09, despite being hit by fall in exchange rate and plummeting share prices.[9]

[7] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=17828
[8] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=60
[9] https://www.jri.co.jp/MediaLibrary/file/english/periodical/rim/2010/36.pdf

## Trend of NPAs

In the last few years, the banks have been under scanner because of the increasing NPAs. Before going to further into the details, it is briefly here explained the concepts of NPA.

NPAs are the loans on which banks are not getting returns. Formally NPA is defined as:

> *"A credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time. In simple terms, an asset is tagged as non performing when it ceases to generate income for the lender."*[10]

It is noteworthy that loans do not become NPAs the very moment they are defaulted. As per the RBI's Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, only when the repayment of the interest or the principal is due for 90 days or more the loan is considered to be a NPA.[11]

RBI defines NPAs as any asset that has remained as NPA for a period of less than or equal to 12 months, is called a Substandard Assets (SAs).[12] After another twelve months, they are labelled as Doubtful Assets (DA). When doubtful asset still remains unpaid, the banks and the internal or external auditors consider it as a loss to a bank's asset. Then the same asset is called as Loss Asset (LA). After this stage, banks erase these loans from their books, which is called as Write Off. So, loans are not considered as losses for the banks, the moment the borrower defaults on them.

Two types of NPA data are published by the Banks, viz, Gross NPA and Net NPA. Before we move ahead, it would be useful to understand these terms

[10] https://rbi.org.in/Scripts/Glossary.aspx
[11] https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=1313&Mode=0
[12] https://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9009#

through an example. Let us assume that a bank has in its book a non-performing loan of Rs. 500 Crore to a company. The bank also keeps aside a percentage of amount as a 'provision' of the loan. In our example, bank would keep aside say 10% of the total amount (Rs. 50 crore) as security in case the loan is defaulted. Net NPA is the total non-performing assets (Gross NPA) minus the provision left aside. In the above example, in case of recovery at Rs 400 crores, Gross NPA is Rs. 100 Crores; Provision Aside: Rs. 50 crores. At the end of the year, Net NPA =gross NPA Rs. 100 Crores - Provision at Rs. 50 Crores = Rs. 50 Crores.

The following consolidated tables 4 & 5 explains the abnormal write-off made during the last five years and the trend in NPAs.

### Table 4: Movement of NPAs – 1 2014-15 to 2018-19 (Rs. Cr)[13]

| FY | Scheduled Commercial Banks | Slippage | Recovery & Others | Write-off during the Year | Total Gross NPAs | Total Gross Advances | Gross NPA Ratio % |
|---|---|---|---|---|---|---|---|
| 2018-19 | Public sector | 216763 | 133844 | 183391 | 739541 | 6382461 | 11.59 |
| | Private sector | 90526 | 42748 | 49098 | 183604 | 3442347 | 5.33 |
| | Foreign banks | 6114 | 2557 | 4048 | 12242 | 406881 | 3.01 |
| | Small Finance | 1046 | 562 | 411 | 1087 | 55396 | 1.96 |
| | TOTAL-SCBs | 314449 | 179711 | 236948 | 936474 | 10287085 | 9.10 |
| 2017-18 | Public sector banks | 488175 | 82280 | 129504 | 895601 | 6141698 | 14.58 |
| | Private sector banks | 107680 | 40803 | 30751 | 129335 | 2725891 | 4.74 |
| | Foreign banks | 7020 | 4736 | 2063 | 13849 | 363305 | 3.81 |

[13] https://www.rbi.org.in/scripts/PublicationsView.aspx?id=17840

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Small Finance banks | 1378 | 482 | 415 | 893 | 35316 | 2.53 |
| | TOTAL-SCBs | 604254 | 128301 | 162733 | 1039679 | 9266210 | 11.22 |
| 2016-17 | Public sector banks | 327594 | 100781 | 81991 | 684732 | 5866373 | 11.67 |
| | Private sector banks | 81337 | 23654 | 20661 | 93209 | 2266721 | 4.11 |
| | Foreign banks | 6605 | 3637 | 5144 | 13629 | 343611 | 3.97 |
| | Small Finance banks | 287 | 103 | 27 | 220 | 18900* | 1.17 |
| | TOTAL-SCBs | 415823 | 128175 | 107823 | 791791 | 8495605 | 9.32 |
| 2015-16 | Public sector banks | 385962 | 65029 | 59445 | 539956 | 5821951 | 9.27 |
| | Private sector banks | 48268 | 13516 | 11927 | 56186 | 1972659 | 2.85 |
| | Foreign banks | 7963 | 1790 | 1129 | 15805 | 376504 | 4.20 |
| | Small Finance banks | 0 | 0 | 0 | 0 | 0 | 0.00 |
| | TOTAL-SCBs | 442192 | 80334 | 72501 | 611947 | 8171114 | 7.49 |
| 2014-15 | Public sector banks | 177862 | 75678 | 50979 | 278468 | 5616717 | 4.96 |
| | Private sector banks | 26680 | 9887 | 7229 | 34106 | 1607339 | 2.12 |
| | Foreign banks | 4097 | 2903 | 1988 | 10761 | 336609 | 3.20 |
| | Small Finance banks | 0 | 0 | 0 | 0 | 0 | 0.00 |
| | TOTAL-SCBs | 208638 | 88468 | 60197 | 323335 | 7560666 | 4.28 |

* provisional

## Table 5: Movement of NPAs – 2 2014-15 to 2018-19 (in Rs. crores)

| Year | All SCBs | Gross NPAs Sharing% | Total Net NPAs | Net NPAs Sharing% | NPA provisions made | Net Profit for the year |
|---|---|---|---|---|---|---|
| 2018-19 | Public sector banks | 78.97 | 285123 | 80.30 | 230443 | -66608 |
| | Private sector banks | 19.61 | 67309 | 18.96 | 68084 | 27621 |
| | Foreign banks | 1.31 | 2050 | 0.58 | 1299 | 14508 |
| | Small Finance banks | 0.12 | 594 | 0.17 | 325 | 1082 |
| | TOTAL-SCBs | 100.00 | 355076 | 100.00 | 300151 | -23397 |
| 2017-18 | Public sector banks | 86.14 | 454473 | 87.26 | 272213 | -85371 |
| | Private sector banks | 12.44 | 64380 | 12.36 | 44906 | 41783 |
| | Foreign banks | 1.33 | 1548 | 0.30 | 2860 | 10853 |
| | Small Finance banks | 0.09 | 436 | 0.08 | 645 | 297 |
| | TOTAL-SCBs | 100.00 | 520838 | 100.00 | 320624 | -32438 |
| 2016-17 | Public sector banks | 86.48 | 383089 | 88.45 | 166329 | -11389 |
| | Private sector banks | 11.77 | 47780 | 11.03 | 35244 | 42204 |
| | Foreign banks | 1.72 | 2137 | 0.49 | 3479 | 12965 |
| | Small Finance banks | 0.03 | 115 | 0.03 | 110 | 119 |
| | TOTAL-SCBs | 100.00 | 433121 | 100.00 | 205162 | 43899 |
| 2015-16 | Public sector banks | 88.24 | 320375 | 91.58 | 153884 | -17993 |
| | Private sector banks | 9.18 | 26677 | 7.63 | 18004 | 41314 |
| | Foreign banks | 2.58 | 2762 | 0.79 | 4771 | 10827 |
| | Small Finance banks | 0.00 | 0 | 0.00 | 0 | 0 |
| | TOTAL-SCBs | 100.00 | 349814 | 100.00 | 176659 | 34148 |
| 2014-15 | Public sector banks | 86.12 | 159951 | 90.96 | 68376 | 37540 |
| | Private sector banks | 10.55 | 14128 | 8.03 | 9962 | 38735 |
| | Foreign banks | 3.33 | 1762 | 1.00 | 2145 | 12803 |
| | Small Finance banks | 0.00 | 0 | 0.00 | 0 | 0 |
| | TOTAL-SCBs | 100.00 | 175841 | 100.00 | 80483 | 89078 |

Source: Reserve Bank of India, Time series tables

## Table 6: Gross and Net NPAs of PSBs (in crore and percentage)

| Year | Gross Advances | Net Advances | Gross NPA Amount | Gross NPA% | % to Total Assets | Net NPA Amount | Net NPA% | % Total Assets |
|---|---|---|---|---|---|---|---|---|
| 2007-08 | 1819074 | 1797401 | 40452 | 2.3 | 1.3 | 17836 | 1.0 | 0.6 |
| 2008-09 | 2283473 | 2259212 | 44957 | 2.3 | 1.3 | 21155 | 1.1 | 0.6 |
| 2009-10 | 2733458 | 2701300 | 59926 | 2.4 | 1.4 | 29375 | 1.1 | 0.6 |
| 2010-11 | 3079804 | 3305632 | 74600 | 2.5 | 1.4 | 36000 | 1.1 | 0.6 |
| 2011-12 | 3550389 | 3877308 | 117262 | 3.1 | 1.7 | 59205 | 1.3 | 0.8 |
| 2012-13 | 4560169 | 4472845 | 164461 | 3.2 | 2.0 | 89952 | 1.7 | 1.0 |
| 2013-14 | 5215920 | 5101137 | 227264 | 3.8 | 2.4 | 130362 | 2.1 | 1.3 |
| 2014-15 | 5616718 | 5476250 | 278468 | 4.3 | 2.7 | 159951 | 2.4 | 1.5 |
| 2015-16 | 5818348 | 5593577 | 539956 | 7.5 | 4.7 | 320376 | 4.4 | 2.7 |
| 2016-17 | 5866373 | 5366399 | 684732 | 11.67 | 6.8 | 383089 | 6.7 | 3.8 |
| 2017-18 | 6141698 | 5525609 | 895601 | 14.58 | 8.7 | 454473 | 7.7 | 4.4 |
| 2018-19 | 6382461 | 5926286 | 739541 | 11.59 | 7.3 | 285123 | 4.8 | 2.8 |

From the above tables 4&5(2014-15 to 2018-19) it is observed that If opening NPA's are based at 100, on an average real slippages are being added at 67%, recoveries with upgradation only at 20% whereas write-off is contributing above the recoveries at 22% resulting the cumulative NPAs to increase at 25%(100+67-20-22=125)in the past five years.

It may be observed from the analysis whether the Govt. aims to keeps the burden of certain sticky private banks on the head of PSBs entity and in a later stage easily converts the Public sector entity into Private entity.(ex:IDBI,YES Bank,etc.,). Also, abnormal NPA provisions are made with the assurance of capital infusion leaving easy way to the major defaulters to enjoy the benefit of write-off/ haircuts. Unhealthy prudential write-off is also made in order to show a lower Net NPA.

Table 6 shows the trends in the gross and net NPAs of the PSBs during the

last 12 years. This table shows that the percentage of NPA has abruptly increased from FY 2015-16 to FY 2018-19 reasons as explained in the beginning of the report.

The Gross NPA of all banks in 2007-08 was Rs. 40452 Crore, and it rose to Rs. 539956 Crore for all PSBs in 2015-16 with a gross NPA ratio of 7.5% . Between 2015-16 to 2018-19, Gross NPA's share to Gross Advances increased at above 11% in all the years. It is observed that NPAs have gone up despite the poor credit growth. The gross and net NPA as a percentage share of the total assets of the PSBs have also increased. At the same time, net NPA ratios are favorably reduced by huge write-offs as mentioned earlier.

**Table 7: Gross NPAs &Gross NPA% in the year of 2018-19 for all PSBs**

| | PSBS 2018-19 | Gross NPAs (Rs.Cr) | Gross NPA% |
|---|---|---|---|
| 1 | State Bank of India-Group | 172750 | 7.53 |
| 2 | Punjab National Bank | 78473 | 15.50 |
| 3 | BOB after Amalgamation | 69924 | 10.02 |
| 4 | Bank of India | 60661 | 15.84 |
| 5 | Canara Bank | 39224 | 8.83 |
| 6 | Union Bank of India | 48729 | 14.98 |
| 7 | Syndicate Bank | 24680 | 11.37 |
| 8 | Central Bank of India | 32356 | 19.29 |
| 9 | Oriental Bank of Commerce | 21717 | 12.66 |
| 10 | Indian Overseas Bank | 33398 | 21.97 |
| 11 | Allahabad Bank | 28705 | 17.55 |
| 12 | Corporation Bank | 20724 | 15.35 |
| 13 | Andhra Bank | 28974 | 16.21 |
| 14 | Indian Bank | 13353 | 7.11 |
| 15 | UCO Bank | 29888 | 25.00 |
| 16 | Bank of Maharashtra | 15324 | 16.40 |
| 17 | United Bank of India | 12053 | 16.48 |
| 18 | Punjab & Sind Bank | 8606 | 11.83 |
| | Total PSBs | 739539 | 11.59 |

Table 7 explains the NPA position of PSBs 2018-19. It is expected that banks will give a similar NPA situation for the year 2019-20 also but position will definitely be worse in the coming next two years.

## NPA In Different Countries: A Snapshot

It may be interesting to ask that whether it is possible for the banks to operate without NPA for a long time. In any growing economy, some of the borrowers are bound to default on their loans. And banks, everywhere, incorporate these possibilities to determine the rate of interest, lending policies, quantum and merit of collaterals before lending.
The table 5 shows ratio of NPA's percentage share to gross loan of some of the important countries. It is evident that big and stable economies like USA, UK or Germany have considerably low rate of NPA to Gross loan ratio. Even when compared to other emerging economies, India's ratio is higher than every possible developing country, except for Russian Federation.

### Table 8: NPA to Gross Loan Ratio in Some Other Countries[14]

| Country | NPA as percentage of gross loan in 2016 | NPA as percentage of gross loan in 2018 |
|---|---|---|
| USA | 1.3 | 0.9 |
| UK | 0.9 | 1.1 |
| Germany | 1.7 | 1.2 |
| South Africa | 2.9 | 3.7 |
| China | 1.7 | 1.8 |
| Russian Federation | 9.445 | 10.1 |
| India | 9.2 | 9.5 |

[14] World Bank Data, https://data.worldbank.org/indicator/FB.AST.NPER.ZS, visited on 12th January, 2018

## Tackling NPA & Bad Bank proposal?

- This is not the first time when NPA has become a problem for the Indian banking sector. In such a situation during mid 1990s, the banking sector started tightening their credit policies. However, after 2012-13, the share of NPA to corporate sector started rising due to aggressive lending practices, willful default, loan frauds, political advantage, corruption in many cases and by economic slowdown.
- Many Economists felt "IL&FS has not been admitted to the IBC. It has not gone to NCLT but by virtue of a special dispensation it is enjoying those benefits (moratorium against claims by lenders moratorium to IL&FS in light of national importance and public interest).
- "IBC, the law that would've changed India, is now falling victim to calculated subversion. It has put both bedrocks of Indian economy under threat, thanks to equating bankruptcies with national crises" as viewed by one ET Bureau.
- The Indian Banks' Association (IBA) has now submitted a proposal to the finance ministry and the Reserve Bank of India (RBI) to set up a 'bad bank' for approximately Rs 75,000 crore worth of non-performing assets (NPAs). A bad bank is a corporate structure which isolates risky assets held by banks at one place. "We are requesting the government to provide Rs 10,000 crore of initial capital," the media source added.
- The proposed structure of a bad bank is based on the earlier recommendations of a panel headed by former PNB chairman Sunil Mehta, called 'Sashakt' two years ago. According to sources, IBA has proposed to set up asset reconstruction company (ARC), asset management company (AMC) and alternate Investment Fund (AIF). ARC will be owned by the government, but the AMC and AIF will have participation from public as well as the private sector, as per the proposal. The Mehta Committee had earlier proposed to set up an AMC and an AIF to resolve NPAs over Rs 500 crore.
- In an interview with CNBC TV18 last week, State Bank of India (SBI)

chairman, who is also the present chairman of IBA, said that the lenders were toying with the idea of creating a bad bank to deal with stressed assets. Kumar said the time was right to set up a structure, along the lines of a bad bank, given there are adequate provisions for existing NPAs.

- In his book "I Do What I Do," former RBI Governor Raghuram Rajan -- during whose time the idea has heavily debated -- said, "I just saw this (bad bank idea) as shifting loans from one government pocket (the public sector banks) to another (the bad bank) and did not see how it would improve matters. Indeed, if the bad bank were in the public sector, the reluctance to act would merely be shifted to the bad bank. Why not instead infuse the capital that would be given to the bad bank directly into the public sector banks? Alternatively, if the bad bank were to be in the private sector, the reluctance of public sector banks to sell loans to the bad bank at a significant haircut would still prevail. Once again, it would solve nothing."
- Again it is felt that the bottom line is that even with a bad bank structure, the NPA losses do not go away, and have to be shared between investors, taxpayers of these banks in general and those of the bad bank.
- It is the Govt's ego that they failed to implement their own Parliamentary standing committee recommendations on recovery of NPAs in sprit and vigor for some petty political reasons. At least, will they go through it now and review the recommendations (highlighted below) for the benefit of entire banking industry?.

## Parliament Standing Committee Recommendations (Feb 2016)

- Accountability of nominee Directors of RBI / Ministry on the Bank Boards as well as the CMDs / MDs of banks should also be annexed in the matter.
- The Committee desires 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.

- Further, till such time a project is commissioned as per approved schedule, banks should not hasten to categorise such a project as NPA.
- 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.
- 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.
- The Committee recommends that each bank must focus on their respective top 30 stressed Accounts involving those categorized as "willful 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 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.

- 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.
- The Committee would thus recommend that forensic audit of such loans (restructured loans becoming bad debts) as well as willful defaults be immediately undertaken.
- 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.
- Considering the non-efficacy of the CDR mechanism, the Committee believes 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 armor the banks with an additional tool to cope with their NPAs. A change in management must be made mandatory in such cases involving willful 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.

- 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 off load 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.
- The Committee notes 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 "willful defaulters" and other defaulters in the procedures prescribed under the relevant Acts and accordingly, "willfully 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 "willful defaulters" in public domain.

## Sectors with higher NPA

Different economic sectors require different financial assistance. Some industrial set ups need long gestation period to harvest desirable economic results. Capital-intensive industries like iron and steel, or heavy engineering require longer time to repay loans than other industries. These paternalistic diversities may often reflect in NPA numbers. In this section we will try to trace the specific industries causing more NPA than rest of the others! The sectoral analysis of NPA will be important in this regard.

RBI prepares a sector-wise priority list of lending for all PSBs. This list is updated at a regular basis to serve the economic needs of the country. Agriculture and allied services, being the highest employment provider in this country, had always remained in this priority list for lending. Table 9 shows the changing pattern of loans and NPA in priority and non-priority sectors of the economy. Though with moderate changes, the priority sector for lending have always revolved around agriculture, small scale industries, education and health. It is interesting to observe that it is the non-priority sector businesses that have the highest amount of NPA.

## Table 9: Composition of NPAs in PSBs (Rs. Cr)[15]

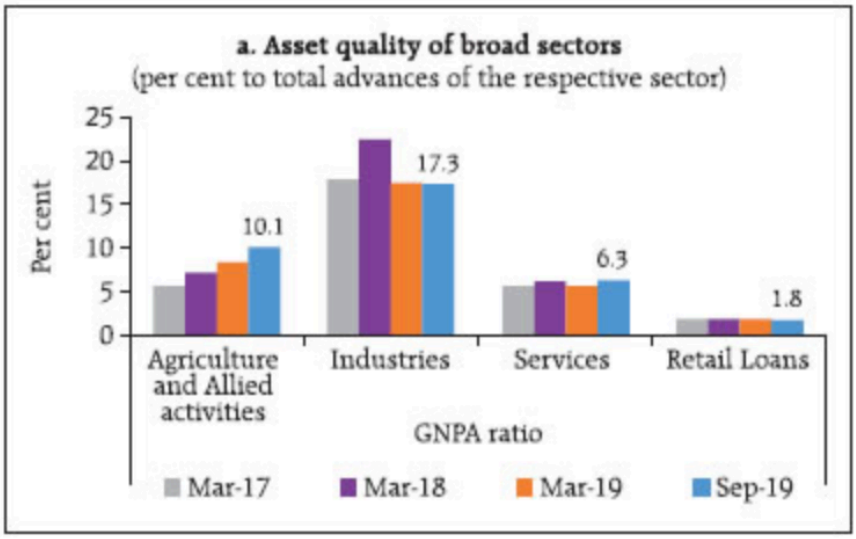
| Years (1) | Priority Sector | | Non- Priority Sector | | Public Sector | | Total |
|---|---|---|---|---|---|---|---|
| | Amount (2) | % (3) | Amount (4) | % (5) | Amount (6) | % (7) | Amount (8 = 2 + 4 + 6) |
| 2008 | 24874.00 | 61.48 | 15007.42 | 37.10 | 574.32 | 1.42 | 40455.74 |
| 2009 | 24201.00 | 53.75 | 20527.81 | 45.59 | 297.07 | 0.66 | 45025.88 |
| 2010 | 30496.00 | 50.89 | 29113.66 | 48.58 | 313.86 | 0.52 | 59923.52 |
| 2011 | 40186.00 | 53.82 | 34235.45 | 45.85 | 242.59 | 0.32 | 74664.04 |
| 2012 | 55780.00 | 47.57 | 58826.44 | 50.17 | 2656.00 | 2.27 | 117262.44 |
| 2013 | 67276.00 | 40.91 | 96030.81 | 58.39 | 1154.60 | 0.70 | 164461.41 |
| 2014 | 79899.00 | 35.16 | 147234.80 | 64.79 | 130.35 | 0.06 | 227264.15 |
| 2015 | 96611.00 | 34.69 | 181598.49 | 65.21 | 258.92 | 0.09 | 278468.41 |
| 2016 | 125809.00 | 23.30 | 414148.00 | 76.70 | 3482.00 | 0.64 | 539957.00 |
| 2017 | 160941.60 | 23.50 | 523790.71 | 76.50 | 15466.02 | 2.26 | 684732.31 |
| 2018 | 187511.00 | 20.94 | 708090.00 | 79.06 | 17388.00 | 1.94 | 895601.00 |
| 2019 | 197334.47 | 26.68 | 542206.53 | 73.32 | 13394.66 | 1.81 | 739541.00 |

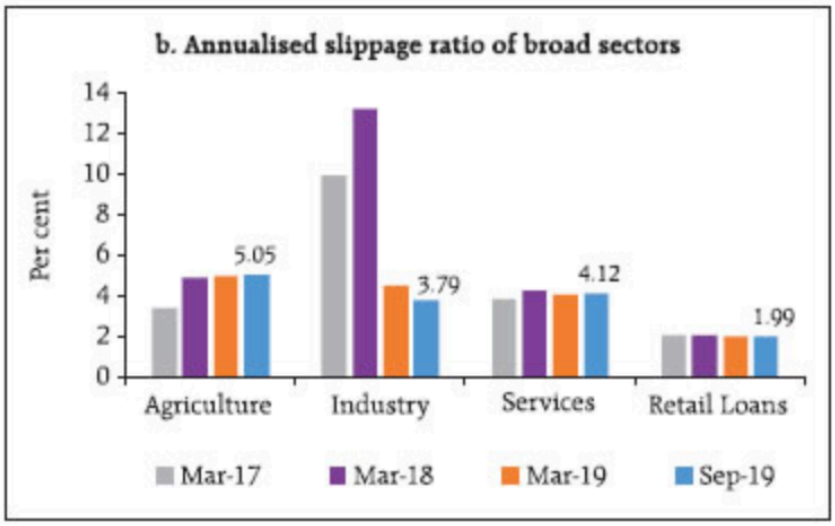
## Table 9A: Lending to Key Sectors

| | Agriculture | Micro & small industry | Medium industry | Large industry | Services | Others | Retail |
|---|---|---|---|---|---|---|---|
| 2017-18 | 14.27 | 5.00 | 1.51 | 29.45 | 23.91 | 2.63 | 23.23 |
| 2018-19 | 14.00 | 4.63 | 1.31 | 27.71 | 24.31 | 2.68 | 25.36 |

Source: RBI Time series tables

[15] Source: https://bit.ly/2KMm0xb




Source: RBI Financial Stability Report, Dec 2019

If we closely observe Table 9&9A in consonance with previous ones and the above RBI snapshot table , we can infer that:

a) As per FSR report of RBI (table given above) it can be easily observed that agriculture share of NPAs is more relevant and tolerable when compared to Corporate Industries.

b) Most of the bank assets are being lent to the big private industrial houses

while priority sectors like agriculture, small or medium scale industries are deprived of their stipulated share of 40 per cent of the total credit.

c) Over two-third of the loan defaulted is owned by the big industries. The share of loans granted to agriculture or MSME sector have almost remained the same in the last ten years. It is important to mention that agriculture and MSMEs are the two major constituents of priority sector.

## Industrial Sector wise distribution of NPA

The last section, based on the aggregated data provided by the RBI, offers idea about the lending pattern and distribution of NPAs. For accuracy, we had collated the sector and industry-wise data on lending and NPA of major banks from their annual statements19 in addition to filing RTI application at all the PSBs to get data according to the Basel III recommendation for the major industries and sectors from 2012-13 onwards.

Of the 21 PSBs, only 12 banks provided information, of which only nine banks provided data for all the five years. Three PSBs sent partial data, citing unavailability of data and requirement of disproportionately large manpower to furnish data as reason.

Table 10 sums up the sectoral allocation of advances of PSBs and distribution of NPA for the major economic activities like agriculture, industry services, and personal loans.

## Table 10: Sectoral break up of NPA and total Advances of Major PSBs[16]

| | Agriculture | | Industry | | Services+Trade +Finance+Others | | Personal Loan | |
|---|---|---|---|---|---|---|---|---|
| Year | Per cent share of total NPA | Per cent share of total advances | Per cent share of total NPA | Per cent share of total advances | Per cent share of total NPA | Per cent share of total advances | Per cent share of total NPA | Per cent share of total advances |
| 2013-14 | 14.57 | 13.00 | 41.47 | 28.99 | 34.22 | 41.28 | 9.44 | 16.73 |
| 2014-15 | 11.50 | 13.89 | 49.82 | 32.05 | 30.44 | 36.68 | 7.57 | 17.38 |
| 2015-16 | 8.97 | 13.39 | 71.76 | 46.45 | 14.38 | 23.78 | 4.16 | 16.38 |
| 2016-17 | 10.14 | 14.23 | 67.33 | 46.36 | 13.32 | 21.64 | 8.69 | 17.77 |
| 2017-18 | 8.74 | 11.35 | 74.65 | 43.17 | 12.55 | 26.95 | 4.06 | 18.53 |
| 2018-19 | 13.52 | 15.02 | 65.16 | 35.15 | 17.27 | 28.61 | 4.05 | 21.22 |

We can arrive a summarized consolidated table on an average basis for the above period as given below.

## Table 10 A: Share of NPAs

| 6 years average 2013-14 to 2018-19 | Total NPA share | Total Advances share% | Gross NPA% SEP 2019 |
|---|---|---|---|
| Industries | 61.70 | 38.70 | 17.3 |
| Services | 20.43 | 29.82 | 6.3 |
| Personal Loans | 6.63 | 18.00 | 1.8 |
| Agriculture | 11.24 | 13.48 | 10.1 |
| Total PSBs | 100.00 | 100.00 | 12.7 |

[16] This table is made from the reports of the State Bank of India, Allahabad Bank, Andhra Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Canara Bank, Central Bank of India, Corporation Bank, Dena Bank, Indian Bank, Indian Overseas bank, Punjab National Bank, Syndicate Bank, Vijaya Bank, UCO Bank, Union Bank.
For Dena Bank and Bank of India we could manage to find data for last three financial years 2014-15, 2015-16 and 2016-17. for the rest of the banks, it covers all the banks.

a) Industries forms biggest quantum of NPAs sharing at 61.70% with 38.70% of total credit
b) Next Services shares higher quantum of NPAs at 20.43% with sharing 29.82% of total credit
c) Personal Loans share, of course, lesser quantum of NPA at 6.63% with 18.00% of total credit
d) Lastly Agriculture contributes only 11.24% of total NPAs whereas the credit share is meagre at 13.48% of total advances.
e) In India, more than 50% of total working employment comes under Agriculture (mostly covered by poor labourers) whereas the sector enjoys only a limited average share of 13.48% total credit and surprisingly their NPA share as well as NPA% is lower and hovering around 10% only.
f) Policies are to be covered taking priorities to the individual sector contribution and performance.

**Table 11: Compound Annual Growth Rate of NPA and Total Advances (FY 2013-14 to FY 2016-17) CAGR in %**

| | NPA | Total Advances |
|---|---|---|
| Grand Total | 60.50 | 1.37 |
| Industrial Total | 86.58 | 21.92 |
| Services | 6.16 | -22.08 |
| Agriculture | 50.75 | 2.61 |
| Personal Loans | 71.92 | 2.55 |
| Others | 42.11 | -23.22 |

Table 11 shows growth of NPA in major sectors during 2013-14 to 2016-17.

Power generation industry has shown the highest rate of growth in NPA, followed by automobile, iron and steel, road, cement and others.

This list doesn't show a single industry to have negative growth in their NPAs. And despite that none of the industries showed any slowing in receiving the loans.

### Table 12: Compound Annual Growth Rate of NPA and Total Advances. All SCBs CAGR % (FY 2013-14 to FY 2018-19)

| | NPA 2013-14 (Rs. Cr) | NPA 2018-19 (Rs. Cr) | NPA CAGR Growth% | Total Advances 2013-14 (Rs. Cr) | Total Advances 2018-19 (Rs. Cr) | CAGR Advances Growth% |
|---|---|---|---|---|---|---|
| Grand Total | 227264 | 936474 | 32.73 | 4590458 | 10287085 | 17.51 |
| Large Industry | 94246 | 578364 | 43.74 | 1331230 | 3304940 | 19.94 |
| Services | 79453 | 220733 | 22.67 | 1927468 | 3354148 | 11.72 |
| Agriculture | 33112 | 95938 | 23.71 | 596760 | 1325824 | 17.31 |
| Personal Loans | 20453 | 41439 | 15.17 | 735000 | 2302173 | 25.65 |

### Table 13: Industry-wise position of NPA, Advances and CAGR (FY 2013-14 to 2016-17)

| FY 2013-14 to 2016-17 | NPA | Loan |
|---|---|---|
| | CAGR | CAGR |
| Power | 112.49 | 6.02 |
| Automobile, & Transport Equipment | 102.6 | 5.73 |
| Iron & Steel | 98.32 | 7.78 |
| Roads (Construction) | 90.27 | 8.2 |
| Cement & Cement Products | 89.83 | 4.29 |
| Basic Metal & Metal Product | 89.26 | 7.6 |
| Man-Made Textiles | 81.43 | 1.9 |
| Infrastructure | 71.42 | 5.57 |

**NPA CAGR**: The Compound Annual Growth Rate (CAGR) of NPA is the average annual growth rate of NPAs over a specified period of time longer than one year. It approximately represents the percentage by which NPAs are rising every year.

**LOAN CAGR:** The CAGR of loan is the average annual growth rate of loans over a specified period of time longer than one year. It approximately represents the percentage by which loans forwarded are rising every year

## NPAs and Power Sector

It can be seen from the Table 13A that the NPAs are rising every year in the power sector, with a CAGR as high as 95 per cent. Despite this, there has been no check on the loans forwarded to the power sector. The loan amount has been increasing, despite rising NPAs.

The specific problem with the power sector is that the entire sector is stressed, with a combined bad loan of about Rs. 1.75 lakh crore. Even if insolvency proceedings are initiated against the firms involved in the power sector, the banks would get no buyer for the firms, thus making the recovery of loans more difficult.

### Table 13A: NPA and loans in the power sector (Rs. Cr)

| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | CAGR |
|---|---|---|---|---|---|---|
| NPA | 3,036 | 6,783 | 14,043 | 31,957 | 43,604 | 94.67 |
| Loan | 480,176 | 551,742 | 613,712 | 631,105 | 584,995 | 5.06 |

## Bank's Specific Study on NPA

As mentioned in the introduction, we have made an attempt to build an individual PSB- wise database NPA and loans granted to specific industrial sectors since 2012-Most of the banks replied to the RTIs. In this section, we will look into the performances of individual banks vis-a- vis their loans and NPAs.

### State Bank of India

SBI is the largest PSB in this country. It also has the largest NPA. Table 13 gives us the list of industries with highest share of NPA of SBI. It is interesting to observe that there is a great similarity between the industrial sectors to have sky rocketing NPA growth both in Table 12 and Table 13. For SBI, petroleum is the sector to have fastest growing NPAs during 2012-13 to 2016-17, followed by electricity, automobile & trucks, iron & steel and petrochemicals (this is different from petroleum, as the petroleum refers to oil extraction and mining, the other is related to refineries and the ancillary industries related to petroleum). Another interesting thing is, despite heavy growth rate in the NPA, in none of these sectors, total advances stopped from growing.

**Table 14: Industry NPA, Advances and CAGR of SBI (2012-13 to 2016-17)**

| Industry | CAGR NPA% | CAGR% Advances | Total Advances (Rs. Cr) |
|---|---|---|---|
| Petroleum | 285.86 | 2.51 | 37967.98 |
| Electricity | 210.89 | 3.04 | 11615.69 |
| Automobiles & Trucks | 135.24 | 10.89 | 21955.94 |
| Iron & Steel | 95.71 | 6.67 | 154947.03 |
| Petrochemicals | 90.82 | 18.95 | 61812.72 |
| Tea | 87.76 | 8.95 | 713.58 |
| Power | 73.25 | 23.42 | 198797.15 |
| Roads & Ports | 72.13 | 8.58 | 45488.09 |

## Allahabad Bank

Allahabad Bank is a major PSB. This bank is heavily burdened with NPA. Following Table gives the details of the NPA and Loans offered to the some of the major defaulting sectors. Here again, we see, that Petroleum to be the biggest defaulting sector, followed by Sugar, Construction and others. Though, in some of the cases the growth in advances stopped growing, but that was confined to some industries.

**Table 15: Industry NPA, Advances and CAGR of Allahabad Bank (FY 2012-13 to 2016-17)**

| Industry | CAGR NPA% | CAGR% Advances | Total Advances (Rs.in Cr) |
|---|---|---|---|
| Petroleum | 499.98 | 0.00 | 987.54 |
| Sugar | 405.89 | 0.00 | 1180.32 |
| Construction | 204.63 | 2.13 | 8,355.69 |
| Vegetable Oils & Vanaspati | 143.01 | 17.23 | 1638.43 |
| Paper / Paper Products | 129.97 | 17.27 | 829.34 |
| Tobacco &Products | 127.63 | 6.42 | 80.95 |
| Other Textiles | 114.48 | 14.11 | 3,935.60 |
| Fertilisers | 107.22 | 0.00 | 64.31 |
| Power | 102.47 | 4.81 | 4958.47 |

## Andhra Bank

Andhra Bank is a comparatively smaller PSB. But, even smaller banks in India are not spared from the malignancy of defaulting big private industrial sector. Rather the burden of NPA is felt more harshly as their small and less diversified asset base lie under constant threat of insolvency, caused by the bad loans. For this bank, as can be seen in Table 15, tobacco and related products sector had the maximum NPAs, only to be followed by repeat offenders like power, iron & steel, other textile and others.

## Table 16: Industry NPA, Advances and CAGR of Andhra Bank (FY 2012-13 to 2016-17)

| Industry | CAG NPA (Per cent) | CAGR Total Advances (Per cent) | Total Advances (Crore Rupees) |
|---|---|---|---|
| Tobacco/Tobacco Products | 434.80 | 0.06 | 736.00 |
| Power | 346.43 | 1.46 | 14586.85 |
| Iron & Steel | 248.66 | 8.59 | 8,875.44 |
| Other Textiles | 199.08 | 19.87 | 1,884.28 |
| Vegetable Oils & Vanaspati | 175.58 | 0.90 | 1879.23 |
| Cotton Textiles | 160.50 | 2.84 | 3,609.44 |
| Infrastructure | 141.25 | 1.76 | 25,286.44 |
| Jute Textiles | 131.13 | 6.14 | 400.67 |
| Sugar | 118.64 | 1.24 | 1204.14 |
| Leather & Leather Products | 115.24 | 5.97 | 81.94 |
| Metal Products | 108.24 | 15.83 | 1,338.34 |

## Bank of Baroda

BoB is considered to be the third biggest PSB in India. The crises of NPA has grown at an alarming rate at BoB over the last few years,

a) NPA of electricity grew at a rate of 1556.98 per cent over the period of 2012-13 to 2016-17. This huge rise in NPA does not reflect in restriction in offering loans.
b) The other major defaulters with growing burden of NPA are, tobacco and its products, jute textile, iron & steel, metal products and mining.

## Table 17: Industry NPA, Advances and CAGR of BOB (FY 2012-13 to 2016-17)

| Industry | CAGR NPA (Percent) | CAGR Total Advances (Per cent) | Total Advances (Rs. Cr) |
|---|---|---|---|
| Electricity | 1556.98 | 0.30 | 18046.64 |
| Tobacco/Tobacco Products | 288.58 | 3.10 | 272.02 |
| Jute Textiles | 121.39 | 2.01 | 202.37 |
| Iron & Steel | 120.30 | 3.78 | 15094.73 |
| Metal Products | 117.52 | 2.71 | 19192.01 |
| Mining | 109.53 | 7.99 | 3539.85 |
| Coal and Mining | 104.96 | 7.33 | 3916.90 |
| Coal | 94.24 | 3.99 | 377.05 |
| Cotton Textiles | 89.02 | 5.23 | 7408.91 |
| Vegetable Oils & Vanaspati | 76.70 | 6.74 | 520.33 |
| Other Textiles | 39.98 | 6.86 | 7788.37 |

## Bank of India

Bank of India, founded in 1906, has been a PSB since nationalisation in 1969. Bank of India has 5100 branches as on January 31, 2017, including 56 offices outside India, which includes five subsidiaries, five representative offices, and one joint venture.

Table 18 shows the NPA growth pattern of this bank.

For this bank too, Iron and Steel sector had the highest NPAs.

The other big growing NPA sectors are auto-mobile and trucks, jute, and tobacco.

### Table 18: Industry NPA, Advances and CAGR of BOI (FY 2012-13 to 2016-17)

| Industry | CAGR NPA (Percent) | CAGR Total Advances (Percent) | Total Advances (Rs. Cr) |
|---|---|---|---|
| Iron & Steel | 66.68 | 0.06 | 12241.05 |
| Automobiles & Trucks | 50.52 | 4.02 | 3130.78 |
| Jute Textiles | 45.76 | 4.26 | 152.48 |
| Tobacco/Tobacco Products | 37.87 | 15.21 | 910.49 |
| Metal Products | 33.31 | 2.52 | 4,192.44 |
| Food Processing | 33.00 | 9.79 | 2,812.60 |
| Vegetable Oils & Vanaspati | 32.27 | 30.87 | 1793.70 |
| Paper/Paper Products | 27.57 | 5.50 | 1406.09 |
| Other Textiles | 25.01 | 4.65 | 4,991.49 |
| Cotton Textiles | 22.97 | 6.22 | 5,134.77 |

## Bank of Maharashtra

Bank of Maharashtra is an important PSB. According to Table 6, 11.76 per cent of its gross loans offered in 2016-17 were found to be NPA. Needless to say, this is much higher than the safe limit of NPA of 3 per cent.

Here too, it's the iron and steel industry to have grown at the highest rate on NPA, followed by cement, mining, power, coal and mining, infrastructure and others.

For this bank, the rate of growth of advances too have increased at an alarming rate.

**Table 19: Industry NPA, Advances and CAGR of Bank of Maharashtra (FY 2012-13 to 2016-17)**

| Industry | CAGR NPA (Per cent) | CAGR Total Advances (Per cent) | Total Advances (Rs. Cr) |
|---|---|---|---|
| Iron & Steel | 549.70 | 19974.19 | 2880.00 |
| Cement | 351.27 | 12171.12 | 1208.00 |
| Mining | 306.49 | 20579.87 | 1952.00 |
| Power | 300.59 | 28345.34 | 5958.00 |
| Coal and Mining | 286.45 | 21173.45 | 2012.00 |
| Infrastructure | 212.37 | 60,971.27 | 14,830.00 |
| Other Industries | 207.00 | 20933.00 | 2,837.00 |
| Metal Products | 147.39 | 21868.69 | 2,865.00 |
| Rubber / Rubber Products | 144.41 | 5,734.55 | 476.00 |

## Central Bank of India

Central Bank of India is another significant bank. Like other PSBs, CBI too is presently plagued by the NPA. Table 18 shows the major defaulting sectors and their NPA growth rate with this bank.

Cement, coal and mining, vegetable and vanaspati are the major sector with growing NPAs. Here also there no sign of any decline in the total advances

## Table 20: Industry NPA Advances and CAGR of Central Bank of India (FY 2012-13 to 2016-17)

| Industry | CAGR NPA % | CAGR% Total Advances | Total Advances (Rs. Cr) |
|---|---|---|---|
| Cement | 483.04 | 3.45 | 1990.20 |
| Coal and Mining | 264.23 | 11.51 | 358.80 |
| Vegetable Oils & Vanaspati | 230.02 | 14.40 | 2779.90 |
| Gems & Jewelry | 132.38 | 2.34 | 2,203.30 |
| Iron & Steel | 99.21 | 0.83 | 11869.60 |
| Tea | 83.83 | 8.54 | 272.80 |
| Cotton Textiles | 82.84 | 14.99 | 3,749.10 |

## Corporation Bank

## Table 21: Industry NPA, Advances and CAGR of Corporation Bank (FY 2012-13 to 2016-17)

| Industry | CAGR % NPA | CAGR% Total Advances | Total Advances (Rs.in cr) |
|---|---|---|---|
| Vegetable Oils & Vanaspati | 1424.72 | 12.41 | 989.46 |
| Power | 1082.78 | 41.98 | 12223.83 |
| Sugar | 453.18 | 7.21 | 524.36 |
| Petroleum | 432.66 | 8.58 | 2465.24 |
| Food Processing | 314.31 | 8.95 | 2,638.06 |
| Coal and Mining | 177.78 | 20.09 | 99.57 |
| Cement | 131.63 | 3.23 | 1130.91 |
| Iron & Steel | 111.87 | 5.62 | 6524.02 |
| Infrastructure | 110.99 | 1.21 | 22768.39 |

## Indian Overseas Bank

### Table 22: Industry NPA, Advances and CAGR of Indian Overseas Bank (FY 2012-13 to 2016-17)

| Industry | CAGR% NPA | CAGR % Total Advances | Total Advances (Rs. Cr) |
|---|---|---|---|
| Vegetable Oils & Vanaspati | 220.33 | 17.23 | 1,390.22 |
| Power | 145.59 | 3.81 | 13,260.04 |
| Iron & Steel | 134.42 | 6.42 | 14,810.89 |
| Other Industries | 117.99 | 3.20 | 5,683.78 |
| Infrastructure | 10 2.95 | 4.38 | 23,440.13 |
| Food Processing | 101.63 | 7.96 | 2,292.49 |

## Punjab National Bank (PNB)

PNB is the second largest PSB in India. Needless to say, PNB is also struggling hard with the menace of NPAs due to bank frauds. Table 21 shows the growth rate of NPA and Total Advances over the last few years to the major defaulting industrial sectors. Power (generation) is the sector to have recorded highest growth rate in NPA. However, for the first time, in this study, we can see a sector to have witnessed decline in the total advances. Despite this decline in total advances, the quantum of total loan to Power generation looms large at more than Rs 35000 Crores.

### Table 23: Industry NPA, Advances and CAGR of PNB (FY 2012-13 to 2016-17)

| Industry | CAGR% NPA | CAGR % Total Advances | Total Advances (Rs. Cr) |
|---|---|---|---|
| Power | 251.17 | -100 | 35437.43 |
| Petroleum | 203.23 | 13.40 | 2407.21 |
| Cement | 193.76 | 11.44 | 2201.91 |
| Sugar | 184.29 | 24.95 | 5284.66 |
| Infrastructure | 123.55 | -1.88 | 62484.15 |
| Food Processing | 93.94 | 45.44 | 12,023.63 |

## Vijaya Bank

### Table 24: Industry NPA, Advances and CAGR of Vijaya Bank (FY 2012-13 TO 2016-17)

| Industry | CAGR % NPA | CAGR% Total Advances | Total Advances (Rs.in cr) |
|---|---|---|---|
| Gems & Jewelry | 337.37 | 14.28 | 1,130.55 |
| Power | 317.89 | -1.63 | 10329.14 |
| Iron & Steel | 265.67 | 10.14 | 6903.37 |
| Of which Fertilisers | 253.72 | 49.30 | 83.38 |
| Food Processing | 134.35 | 11.89 | 315.46 |
| Metal Products | 96.62 | 10.75 | 718.43 |
| Rubber / Rubber Products | 93.08 | 4.64 | 266.89 |
| Of which Roads & Ports | 77.89 | 13.9 | 3586.72 |
| Infrastructure | 77.24 | 2.63 | 24692.78 |
| Cotton Textiles | 60.84 | 36.16 | 1,108.29 |
| Coal and Mining | 56.13 | 8.84 | 303.80 |
| Other Textiles | 47.53 | 24.44 | 939.14 |

## UCO Bank

### Table 25: Industry NPA, Advances and CAGR of UCO Bank (FY 2012-13 to 2016-17)

| Industry | CAGR % NPA | CAGR % Total Advances | Total Advances(Rs. Cr) |
|---|---|---|---|
| Power | 130.19 | 17.94 | 11638.77 |
| Automobiles & Trucks | 127.97 | 6.61 | 788.46 |
| Mining | 107.96 | 20.70 | 794.95 |
| Construction | 83.25 | 21.86 | 2651.45 |
| Iron & Steel | 73.88 | 8.13 | 9938.88 |
| Gems & Jewelry | 72.18 | 87.30 | 6634.38 |
| All Engineering | 66.73 | 15.12 | 4008.11 |
| Metal Products | 48.54 | 17.99 | 2079.66 |

## Common Trend for all the banks

In the above sub-section, we have separately discussed all the public banks' scenario vis-a-vis NPA and loans offered to the defaulting industries. Some of the common features in all these cases are:

a) The high growth rate of NPAs have seldom impeded growth of loan. This means that despite the increasing NPAs the banks are still lending to the defaulting industrial sectors.
b) There is definitely a pattern into the defaulting industries. We can confidently support the assertion that 'some industries default more than the others.'
c) Iron and steel industry, power generation, electricity, petroleum industry, coal and mining industry, vegetable and vanaspati are some of the sectors which figure in the lists of most of the banks.
d) Most of the industries, are sectors, where still we have strong presence of public sector units (PSUs). But they are not NPAs. In fact, industries like iron & steel, coal and mining, power generation and electricity (distribution), petroleum extractions are still dominated by PSUs. It is noteworthy that mining and large metal extractions industries have always been characterised as ventures engaged with heavy investment, longer gestation period, and high-risk profit-making industries. These are also the sectors prone to develop a natural monopoly. And it is because of these reasons, these sectors were kept under public control. One really wonders the validity of policies that advocate privatisation of these sectors and then fund those privatised entity through tax-payers' money in case of any loses, and then allow them to usurp profits, if any.
e) Small loans constitute 25 per cent of loans given by PSBs and large loans constitute 75 per cent of all loans.[17]

[17] Patnaik, P., Banks and Non-Performing Assets, People's Democracy. Vol XLII Non. 17, April29, 2018.

## Reasons behind the Rising NPAs

The reasons behind the rising NPAs are manifold. This section discusses them one by one. We have already seen that the PSBs are the worst hit. The reasons behind this are:

### Lack of transparency and accountability in banking

At present, very little information on where the money of the account holder is invested or who are the loan defaulters is made available by the banks. As customers, it is the right of the account holders who are saving their hard-earned money to know all these.

A common argument given by banks against transparency is that revealing certain information might hurt business interests. But it can be seen that not revealing information and subsequent absence of transparency and accountability is leading to rise in NPAs and is hurting the interests of the common depositors and the interests of the nation as a whole. Are business interests greater than national interests?

### Shortage of Staff Strength at all levels

The PSBs are heavily suffering from shortage of staffs at all levels. With the entrance of private and international banks in Indian markets, a large section of senior and experienced bank employees left the PSBs for high-salaried jobs. This exodus created a long-standing lacuna in the gentry of high-ranking officials in PSBs. According to the report by Standing Committee on Finance, "In public sector banks, 95% of the GM level employees, 75% of the Deputy GM level employees, and 58% of Additional GM level employees are going to retire by 2019-20."[18] This shortage of workforce has created disproportionate burden on the current employees. Shortfall in employees of employees has withered the necessary checks and balances needed in the

[18] http://164.100.47.193/lsscommittee/Finance/16_Finance_68.pdf

entire process from granting to recovery of loans. Taking advantage of this, Corporates get bad loans passed easily.

### Blurring of lines between Development Financial Institutions (DFIs) and Commercial Banks

DFIs were instituted to advance large and long-term loans for development purpose. These loans are long term loans for development projects and considered high-risk as the return is uncertain. IDBI, SIDBI, ICICI were examples of DFIs. After liberalisation, the DFIs or State DFIs either stopped lending or were converted into commercial banks (ICICI in 2002 and IDBI in 2004). Between 2000 and 2010, the outstanding loans of development banks as a percentage of GDP dropped from 7.4% to 0.8%. Commercial banks started lending more long-term and large loans, which changed their focus from retail/mass lending to corporate lending. This made the common depositors subjects to market volatility and NPAs.

### Political expediency to forward bad loans

There are cases where loans are sanctioned based on the political connection of the business houses, instead of the merit of the business proposal, and relevant experience. For example, despite having disproportionately high debt, which reduces their ability to earn profit and service debt, some corporate houses still get loans easily. The loans are made easily available to the business houses closer to the parties in power. In this process, banks are forced to bypass the scrutinisation of loan applications and project viabilities. In some cases, credit is taken for some other purpose and diverted from propsed project, which becomes NPAs in the end.

As bad loans are often a product of loans forwarded to business houses with closeness to the ruling party, there is also no political urge to recover the loans or take actions against the defaulters. This leads to unchecked rise in NPAs.

## Is Privatisation a solution?

It is predominantly PSBs who have suffered the brunt of NPA. Private banks were found to be more judicious in terms of lending their resources. In this backdrop, the argument for greater privatisation of banking sector is becoming louder. Advocates of privatisation argue that private banks are more cautious about offering loans whereas the PSBs, often under the pressure of ruling party, end up offering bad loans without properly checking the collaterals and the credibility of the projects. It would be better to undergo some historical fact checks before jumping into any bandwagon of hastily made conclusions.

Banking in India was primarily dominated by the private sector before and during the first few years of independence. It was in 1969 when the GoI nationalised 14 banks, and 6 banks in 1980. Indian banking system has undergone a tectonic change since then. From finance institutions constricted into the cities, it gradually became the ubiquitous part of the social life of the vast majority of the nation. Structural reorientation of banks led to accelerate the process of development, especially of the priority sector of the economy which had not previously received adequate fund. The GoI substantially succeeded in directing credit to agricultural sector, micro, small and medium enterprises and industry.

Banks were nationalised with the purpose of reaching out to the last person, to abolish informal moneylenders and their debt cycle, to provide banking services to each and every citizen of the nation. The idea of mass banking has helped immensely in providing credit and other banking services to the people. PSBs also serve as the last connecting point with the citizens to provide government's welfare schemes. PSBs also have a trust factor among the people due to their "public" nature. Therefore, despite many private banks and foreign banks operating in the country, PSBs still share around 80% of the total banking sector.

The re-privatisation of the PSBs is often raised as an argument to deal with these problems. Advocates of this idea argue that PSBs are often abused for providing favour to business houses. Their other argument hinges on the plank that the act of privatisation itself may contain this problem, banks due to strong profit motive makes employees act more responsibly. Whereas, on the contrary, in PSBs, a sense of impunity makes its employees more careless and at times corrupt. Given the fact that the private banks succeeded to insulate themselves from NPA, this argument have gained considerable traction and attention. Before jumping to any hasty and half-baked conclusion, we need to consider several other aspects as well.

It was the private banks, whose vulnerable asset bases and shoddy business practices that led to the bank nationalisation. After independence, India inherited a quite weak banking system. Other than Imperial Bank of India (later, State Bank of India), there were other joint stock banks. But 243 of these banks went out of business between 1947 to 1951.[19] The pre-nationalisation scenario can also be understood with the fact that the Banking Companies Act had to be revised 10 times between 1950 to 1967. An as a result of this, there were 48 compulsory merger, 20 voluntary amalgamation, 17 merges with State Bank of India, 125 transfers of asset liabilities, and all this happened around 210 banks. The number of banks were 567 in 1951, that was reduced to 292 in 1961 and finally 91 in 1967.[20]

a) It was only after the nationalisation, the network of banking services expanded beyond the urban and semi-urban landscapes. Moreover, nationalisation increased the number of depositors, branches and employees to a considerable degree. It may be noted that a credit survey was carried out in 1954, which found that only 9 per cent of the credits were coming from formal credit institution. Money lenders, traders and rich land lords handled more than 75 per cent of the rural credit. The share of rural credit from formal institutions were less than 5 per cent in 1950s, which rose to 20 per cent in 1970s.

[19] https://www.rbi.org.in/scripts/publicationsview.aspx?id=10487
[20] Ibid

b) The incidents of 'failed Banks' was a frequent phenomenon of the pre-nationalisation era. Nationalisation only stopped that.
c) Nationalisation greatly helped in managing finance for the industrialisation of India.

It is important to note that privatisation cannot be any solution to the NPA crisis. Privatisation will, on the other hand, constrict the banking business. The private banks have lesser NPAs as they constitute a small section of Indian banking sector, their outstanding loan is very low in comparison to PSBs, they don't provide credits to risky projects like PSBs and there is less political interference by the government. India cannot afford to go back to those days where the bank loans will be only available to rick and privileged people. Small businesses, farmers, new business venture may often not come up with the best available collaterals, but these are ventures, that constitute the majority of the economy. And there is no guarantee that their interest can be served properly in the private banks.

In 1993, eleven private banks were given license to operate in India. But three of such banks had to close their operations within few years. This is an important incident that shows the incapability of the private banks to operate in Indian market. And most importantly, the banks are repository of household savings and, the corporate sector is the main borrower. In this scenario, if the control of banks is given to the corporate sector, there may be situations, where the corporate sector uses the banking sector for their benefit at the cost of the depositors' interest.

## Will Mergers address the problem?

Merger of banks is being proposed as one of the possible solutions. However, there hasn't been any conclusive study till date which can prove so. A study in 2002 by A.T. Kearney, a consulting firm, of US banks, said that only 29 per cent of mergers and amalgamations delivered the expected benefits. Mergers are intended to reduce financial costs. But the social costs in the form of massive job cuts outweigh the reduction in financial costs, and thus

mergers wouldn't be a viable option. Different banks were instituted under different contexts and for different purposes. For example, IDBI was set up as a Development Financial Institution (DFIs) in order to forward high risk loans for development purpose. Some banks were instituted to cater to rural areas specifically, others to be commercial banks. Merger would lead to undermining the specific contexts and purposes for which a bank was instituted. It has already been noted how the blurring of line between DFIs and commercial banks has led to the rise of NPAs as commercial banks started issuing large scale loans for long term, which DFIs were doing before. These mergers could, in fact, increase NPAs rather than addressing the problem. If all banks become markets and profit oriented, how will financial inclusion of rural areas and national interest be ensured?

## Persisting problems & measures

So far, we have tried to delve with the NPA problem of Indian banking sector. In this section, we will discuss the possible measures to deal with the problem of NPAs:

a) Higher Transparency: Lack of transparency remains one of the key issues asking for due redressal.
b) On 16 May 2013, Thane-based Nanik Rajwani had filed the RTI application with Central Public Information Officer (CPIO) of Union Bank of India on the irregularities performed by banks.
c) But CPIO (Central Public Information Officer) denied information claiming it will affect "economic interest", and subsequently, First Appellate Authority (FAA) too denied disseminating the information, citing same explanation. In another cases, more recently, the CIC has refused to direct RBI to disclose defaulters and NPAs list.[21]
d) This kind of responses from semi or quasi-judicial bodies have created an atmosphere, where information that otherwise should be public, are unnecessarily shrouded behind the excuse of 'economic interest' of the country. These practices discourage transparency and efficiency of the

[21] http://www.livelaw.in/cic-refuses-direct-rbi-disclose-defaulters-npas-list-awaits-sc-verdict-read-order/

entire system. It should be made obligatory for the PSBs, which run on public money, to make all information accessible to public. Public vigilance is one of the key inputs that can ensure efficiency.

e) Higher Democratisation: This is one of the major areas, where plenty of work needs to be done. From the overall banking policy to the everyday functioning of the banking, everything deserves an overhauling in terms of democratisation and transparency. Major decisions, regarding the banking policies, are taken by the ministers in governments, without any participation of the bankers. During 1990s when private banks were again allowed to operate in Indian market, majority of the bankers' union opposed the move. But private banking was allowed without addressing the concerns of the banking employees and workers. Similarly, today the banking unions have raised their issues against the bank mergers.

f) Recruitment for Vacant Posts: Public banking sector in India is one of the biggest employers in India. However, last few years thousands of posts are vacant in these banks.[22] These vacancies created tremendous pressure on the existing staffs. It has now become an imperative for these banks to look into the shortage of workforce on an immediate basis.

g) It is also important to mention that there is also dearth in the gentry of senior officers. This are multiple reasons for that. The recruitment of officers is done through a board called IBPS, which had been working irregularly since last few years. Moreover, with the entry of new foreign private banks, a sizable section of senior and experienced bankers quit their government positions in search of higher salaries.

h) Proper Mechanism of Skill Development: Skill imparting programmes can be one of the most useful ways to create an efficient workforce. There are very few government institutions (MDI, Gurugram, and NIBM, Pune) dedicated for this. Ironically because of Court's order the public banks cannot hire employees through campus placements directly, whereas the private banks are recruiting from PSBs as well as from campus

[22] https://www.thehindubusinessline.com/money-and-banking/psbs-may-go-slow-on-recruitment-as-consolidation-grips-banking-sector/article26006042.ece

placements.[23] More institutes should be established for skill development of the bank employees.

## Conclusion

We attempted to provide a brief sketch of NPA problem. It was our attempt to not make it clumsy with the jargon and terminologies, but rather bringing out the essence of the problem to communicate to a larger section of audience. In doing so, we used the existing reports, literature and data available on the public domain, data accessed through RTI. We can summarise the main observations of this study as:

a) The NPA has reached an alarming high level in present situation.
b) The Public Sectors are worst hit by the NPA.
c) Smaller banks are suffering more because of their smaller asset base and less diversified loans.
d) Private business houses hold the highest amount of NPA, much higher than the agricultural sector or small and medium industries.
e) The NPA is concentrated around sectors like iron & steel, petroleum, power, electricity, mining and food processing industries.
f) The main reasons behind rising NPA are, lack of transparency in their operation, lack of democratic atmosphere in banking industry, where the bankers do not have any say in the major policy decision.
g) Further privatisation of banking will cause deterioration of the current situation.

We can conclude with a greater degree of certainty that the biggest share of the loans from PSBs was given to the industrial sector, of which a large section is NPA, and that is further increasing at an alarming rate. In this connection, we wish to share the view of Professor Thomas Piketty, Co-Director at the World Inequality Lab and World Inequality Database, from the Hindu Interview published on 20/05/2020.

[23] https://financialservices.gov.in/sites/default/files/Report%20as%20on%20Date02-11-2015%2011-09-48.pdf

> *"The basic idea of participatory socialism in my view is where everyone has the power to participate in the economy. This means access to private property …. We say that we believe in equal opportunity, but we live in a world where the bottom 50% of the population does not receive any inherited wealth from the upper rungs, whereas some other people receive millions or billions".*

Hence, we would like to put forward all these issues to the knowledge of common people and the authorities concerned thereby requesting the Regulators and the Govt to take feasible solution to overall improvement and success of the banking sector as a whole.

# Annexures

## Table 24: Industry-Wide Deployment of Gross Bank Credit (Rs. Cr)

| Sr. No. | Industry | Outstanding as on | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| **2.1** | **Mining & Quarrying (incl. Coal)** | **18084** | **25297** | **32446** | **34639** | **35845** | **35951** | **39021** | **34489** |
| **2.2** | **Food Processing** | **65677** | **76841** | **94145** | **117368** | **146254** | **171495** | **150088** | **145546** |
| 2.2.1 | Sugar | 19255 | 24943 | 31579 | 32976 | 34466 | 41411 | 39957 | 327 |
| 2.2.2 | Edible Oils & Vanaspati | 1038 | 11938 | 13237 | 17053 | 21293 | 21064 | 19916 | 18361 |
| 2.2.3 | Tea | 1995 | 2103 | 1991 | 2582 | 3241 | 3195 | 3597 | 354 |
| 2.2.4 | Others | 34046 | 37858 | 47338 | 64757 | 87253 | 105824 | 86617 | 90946 |
| **2.3** | **Beverage & Tobacco** | **10969** | **13297** | **15055** | **16511** | **18286** | **18648** | **18146** | **17258** |
| **2.4** | **Textiles** | **121375** | **145096** | **159414** | **183536** | **202213** | **201919** | **205796** | **196302** |
| 2.4.1 | Cotton Textiles | 61228 | 76826 | 83896 | 92495 | 100707 | 100045 | 103478 | 96355 |
| 2.4.2 | Jute Textiles | 138 | 1447 | 1395 | 2197 | 1998 | 2236 | 2176 | 2313 |
| 2.4.3 | Man-Made Textiles | 11672 | 15071 | 15916 | 18907 | 2156 | 20357 | 20815 | 20384 |
| 2.4.4 | Other Textiles | 47096 | 51753 | 58206 | 69936 | 77947 | 79281 | 79327 | 7725 |
| **2.5** | **Leather & Leather Products** | **6232** | **731** | **7633** | **8673** | **10208** | **10247** | **10498** | **10706** |
| **2.6** | **Wood & Wood Products** | **4371** | **4957** | **6145** | **7669** | **9423** | **9831** | **9494** | **10516** |
| **2.7** | **Paper & Paper Products** | **19074** | **21203** | **2498** | **28267** | **3282** | **34066** | **35505** | **32618** |
| **2.8** | **Petroleum, Coal Products & Nuclear Fuels** | **78579** | **50744** | **61175** | **64327** | **6484** | **56145** | **5123** | **59602** |
| **2.9** | **Chemicals & Chemical Products** | **85713** | **10792** | **126993** | **159244** | **166336** | **154487** | **164533** | **172379** |
| 2.9.1 | Fertiliser | 13847 | 14311 | 15762 | 26898 | 3059 | 25396 | 28481 | 3345 |
| 2.9.2 | Drugs & Pharmaceuticals | 3598 | 40539 | 46046 | 49542 | 48655 | 49295 | 53455 | 46351 |
| 2.9.3 | Petro Chemicals | 10046 | 23457 | 33282 | 44141 | 42188 | 33074 | 36531 | 50722 |
| 2.9.4 | Others | 2584 | 29613 | 31902 | 38663 | 44903 | 46722 | 46067 | 41856 |
| **2.10** | **Rubber, Plastic & their Products** | **15617** | **25699** | **29904** | **31217** | **37071** | **37773** | **37365** | **39171** |
| **2.11** | **Glass & Glassware** | **4831** | **5442** | **6269** | **7448** | **8704** | **8839** | **889** | **7934** |
| **2.12** | **Cement & Cement Products** | **24722** | **2944** | **3691** | **45858** | **53933** | **56038** | **54325** | **54247** |
| **2.13** | **Basic Metal & Metal Product** | **162929** | **212957** | **261809** | **314116** | **36078** | **385389** | **416016** | **421054** |
| 2.13.1 | Iron & Steel | 127464 | 164689 | 1959 | 236597 | 267398 | 283429 | 311458 | 319248 |
| 2.13.2 | Other Metal & Metal Product | 35465 | 48268 | 65909 | 77519 | 93382 | 101961 | 104559 | 101807 |
| **2.14** | **All Engineering** | **73821** | **92667** | **11301** | **128447** | **146362** | **154005** | **154167** | **14962** |
| 2.14.1 | Electronics | 221 | 20675 | 2872 | 33439 | 34676 | 3679 | 3824 | 33595 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2.14.2 | Others | 51722 | 71992 | 8429 | 95008 | 111686 | 117215 | 115928 | 116026 |
| **2.15** | **Vehicles, Vehicle Parts & Transport Equipment** | **3878** | **45559** | **51781** | **58863** | **66533** | **68209** | **68989** | **73571** |
| **2.16** | **Gems & Jewelry** | **31751** | **39743** | **51326** | **61144** | **69889** | **71819** | **72731** | **69036** |
| **2.17** | **Construction** | **44219** | **43432** | **48616** | **52166** | **62571** | **74303** | **74538** | **82227** |
| **2.18** | **Infrastructure** | **379887** | **521393** | **629991** | **729721** | **836356** | **924531** | **964811** | **9064** |
| 2.18.1 | Power | 18784 | 266551 | 330926 | 415849 | 486902 | 557567 | 579875 | 525393 |
| 2.18.2 | Telecommunications | 59362 | 93343 | 93995 | 87765 | 88204 | 9189 | 91282 | 85066 |
| 2.18.3 | Roads | 73569 | 9061 | 110941 | 131312 | 15786 | 168691 | 177518 | 179978 |
| 2.18.4 | Other Infrastructure | 59115 | 70889 | 94129 | 94796 | 10339 | 106383 | 116136 | 115964 |
| **2.19** | **Other Industries** | **124821** | **135578** | **179724** | **180968** | **18806** | **183934** | **194536** | **197346** |
| | **Industries** | **1311452** | **1604575** | **1937326** | **2230182** | **2516484** | **2657629** | **2730679** | **2680022** |

Source RBI

## Table 25: Industry-Wise NPA (Rs. Cr)

| | | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|---|
| 2 | **Mining & Quarrying (incl. Coal)** | **2112** | **2442** | **2813** | **4551** | **6511** |
| 2.2 | **Food Processing** | **5622** | **9446** | **15204** | **18450** | **26.48** |
| 2.2.1 | Sugar | 958 | 1693 | 2875 | 3128 | 4148 |
| 2.2.2 | Edible Oils & Vanaspati | 1434 | 3568 | 3296 | 4854 | 5032 |
| 2.2.3 | Tea | 69 | 94 | 106 | 156 | 377 |
| 2.2.4 | Others | 4092 | 3161 | 8926 | 10312 | 16927 |
| 2.3 | **Beverage & Tobacco** | **422** | **793** | **1051** | **2955** | **1846** |
| 2.4 | **Textiles** | **12355** | **17.4** | **21010** | **31044** | **47735** |
| 2.4.1 | Cotton Textiles | 5303 | 8323 | 10483 | 14867 | 28483 |
| 2.4.2 | Jute Textiles | 70 | 161 | 225 | 422 | 310 |
| 2.4.3 | Man-Made Textiles | 116 | 132 | 640 | 1155 | 1257 |
| 2.4.4 | Other Textiles | 6866 | 8783 | 9661 | 14600 | 17686 |
| 2.5 | **Leather & Leather Products** | **575** | **575** | **575** | **575** | **575** |
| 2.6 | **Wood & Wood Products** | **347** | **960** | **1124** | **1384** | **2002** |
| 2.7 | **Paper & Paper Products** | **2282** | **3681** | **4283** | **4779** | **7735** |
| 2.8 | **Petroleum, Coal Products & Nuclear Fuels** | **1202** | **1525** | **1864** | **1876** | **6212** |
| 2.9 | **Chemicals & Chemical Products** | **8283** | **11597** | **11529** | **16527** | **12853** |
| 2.9.1 | Fertiliser | 179 | 131 | 154 | 213 | 189 |
| 0 | Drugs & Pharmaceuticals | 5656 | 8786 | 8717 | 9804 | 6386 |
| 2.9.3 | Petro Chemicals | 421 | 1033 | 959 | 1154 | 1994 |
| 2.9.4 | Others | 2026 | 1647 | 1699 | 5356 | 4285 |
| 2.1 | **Rubber, Plastic & their Products** | **870** | **2080** | **2812** | **4051** | **3259** |
| 2.11 | **Glass & Glassware** | **878** | **1127** | **1221** | **1045** | **1585** |
| 2.12 | **Cement & Cement Products** | **1305** | **3226** | **3647** | **7039** | **16947** |
| 2.13 | **Basic Metal & Metal Product** | **14773** | **28210** | **29211** | **131274** | **189540** |
| 2.13.1 | Iron & Steel | 11297 | 20967 | 19867 | 115212 | 174763 |
| 2.13.2 | Other Metal & Metal Product | 3475 | 7243 | 9344 | 16063 | 14776 |
| 2.14 | **All Engineering** | **5920** | **11902** | **12781** | **20242** | **25503** |
| 2.14.1 | Electronics | 2334 | 3473 | 4136 | 2397 | 1800 |
| 2.14.2 | Others | 3586 | 8429 | 8645 | 17305 | 23703 |
| 2.15 | **Vehicles, Vehicle Parts & Transport Equipment** | **1118** | **2139** | **3089** | **7952** | **18836** |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2.16 | **Gems & Jewelry** | **2772** | **8428** | **7303** | **12123** | **9319** |
| 2.17 | **Construction** | **3530** | **4530** | **5966** | **13973** | **20361** |
| 2.18 | **Infrastructure** | **10436** | **201312** | **31836** | **80680** | **90115** |
| 2.18.1 | Power | 1834 | 5258 | 12179 | 30081 | 37392 |
| 2.18.2 | Telecommunications | 3159 | 4219 | 5261 | 6074 | 2639 |
| 2.18.3 | Roads | 2360 | 5289 | 7230 | 24749 | 30930 |
| 2.18.4 | Other Infrastructure | 3083 | 5546 | 7165 | 19776 | 19154 |
| 2.19 | **Other Industries** | **13780** | **18385** | **20340** | **25488** | **38430** |
| | **Industries** | **88582** | **148735** | **177689** | **386100** | **525898** |

Source RBI

## Table 26: Sector wise Distribution of Credit of PSBs (Rs.Cr)

| Sr. No. | Sector | Outstanding as on | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| | **Non-food Credit (1 to 4)** | **30396.15** | **36673.54** | **42897.45** | **48695.63** | **55296.01** | **60029.52** | **65469.03** | **70946.89** |
| **1** | **Agriculture & Allied Activities** | **4157.41** | **4806.34** | **5466.26** | **5899.14** | **6659.79** | **7658.80** | **8829.42** | **9923.87** |
| **2** | **Industry (Micro & Small, Medium and Large)** | **13114.51** | **16045.76** | **19373.25** | **22301.79** | **25164.83** | **26576.27** | **27306.77** | **26800.25** |
| 2.1 | Micro & Small | 2064.01 | 2102.06 | 2366.57 | 2843.48 | 3481.94 | 3800.28 | 3714.67 | 3697.32 |
| 2.2 | Medium | 1326.36 | 1164.87 | 1247.89 | 1247.04 | 1240.69 | 1245.36 | 1148.21 | 1048.13 |
| 2.3 | Large | 9724.15 | 12778.82 | 15758.80 | 18211.27 | 20442.20 | 21530.63 | 22443.89 | 22054.80 |
| **3** | **Services** | **7267.90** | **8942.01** | **10229.60** | **11518.86** | **13374.51** | **14130.97** | **15410.67** | **18022.43** |
| 3.1 | Transport Operators | 525.16 | 697.45 | 762.93 | 796.30 | 923.42 | 915.66 | 997.43 | 1104.46 |
| 3.2 | Computer Software | 125.43 | 138.58 | 142.97 | 169.10 | 185.89 | 172.14 | 190.96 | 178.84 |
| 3.3 | Tourism, Hotels & Restaurants | 194.10 | 276.38 | 323.19 | 354.41 | 398.75 | 370.36 | 370.53 | 375.03 |
| 3.4 | Shipping | 92.00 | 79.16 | 79.44 | 82.20 | 102.43 | 101.17 | 104.30 | 83.75 |
| 3.5 | Professional Services | 434.01 | 451.88 | 479.61 | 564.21 | 796.49 | 844.17 | 1046.00 | 1376.50 |
| 3.6 | Trade | 1644.97 | 1850.41 | 2249.77 | 2759.53 | 3257.77 | 3656.82 | 3810.98 | 4278.95 |
| 3.6.1 | Wholesale Trade (other than food procurement) | 863.57 | 946.89 | 1203.65 | 1500.99 | 1675.70 | 1800.77 | 1686.08 | 1932.08 |
| 3.6.2 | Retail Trade | 781.40 | 903.52 | 1046.12 | 1258.54 | 1582.07 | 1856.04 | 2124.90 | 2346.87 |
| 3.7 | Commercial Real Estate | 921.28 | 973.41 | 1126.52 | 1260.70 | 1532.40 | 1664.61 | 1776.13 | 1855.64 |
| 3.8 | Non-Banking Financial Companies (NBFCs) | 1134.41 | 1902.81 | 2332.21 | 2602.57 | 2937.73 | 3117.44 | 3527.42 | 3910.32 |
| 3.9 | Other Services | 2196.54 | 2571.94 | 2732.96 | 2929.83 | 3239.63 | 3288.58 | 3586.93 | 4858.95 |
| 4 | Personal Loans | 5856.33 | 6879.44 | 7828.35 | 8975.84 | 10096.89 | 11663.48 | 13922.16 | 16200.34 |
| 4.1 | Consumer Durables | 82.94 | 62.87 | 71.31 | 83.81 | 128.28 | 153.05 | 177.53 | 207.91 |
| 4.2 | Housing (Including Priority Sector Housing) | 3009.29 | 3499.25 | 3970.53 | 4566.65 | 5386.10 | 6285.35 | 7467.80 | 8600.86 |
| 4.3 | Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.) | 486.54 | 493.11 | 569.72 | 610.87 | 635.96 | 625.16 | 666.83 | 661.15 |
| | Advances to | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 4.4 | Individuals against share, bonds, etc. | 28.63 | 28.80 | 30.00 | 31.09 | 38.21 | 54.34 | 64.19 | 47.50 |
| 4.5 | Credit Card Outstanding | 201.45 | 180.98 | 204.35 | 249.12 | 248.57 | 304.62 | 376.79 | 521.32 |
| 4.6 | Education | 368.63 | 427.04 | 499.33 | 549.70 | 600.05 | 633.20 | 682.24 | 700.88 |
| 4.7 | Vehicle Loans | 637.91 | 726.01 | 890.54 | 1110.89 | 1063.00 | 1246.10 | 1529.08 | 1705.25 |
| 4.8 | Other Personal Loans | 1040.95 | 1461.38 | 1592.58 | 1773.72 | 1996.71 | 2361.65 | 2957.71 | 3755.47 |
| 5 | Priority Sector | 10921.79 | 12624.45 | 14210.45 | 15397.96 | 18297.24 | 20103.24 | 22259.07 | 24356.53 |
| 5.1 | Agriculture & Allied Activities | 4157.41 | 4806.34 | 5466.26 | 5899.14 | 6659.79 | 7658.80 | 8825.90 | 9909.22 |
| 5.2 | Micro & Small Enterprises | 3735.30 | 4428.48 | 4986.25 | 5622.96 | 7078.13 | 8003.43 | 8475.87 | 9019.75 |
| 5.2(a) | Manufacturing | 2064.01 | 2102.06 | 2366.57 | 2843.48 | 3481.94 | 3800.28 | 3714.67 | 3697.32 |
| 5.2(b) | Services | 1671.30 | 2326.42 | 2619.69 | 2779.47 | 3596.18 | 4203.14 | 4761.20 | 5322.43 |
| 5.3 | Housing | 2178.77 | 2391.05 | 2658.51 | 2672.03 | 3020.07 | 3223.86 | 3422.76 | 3683.44 |
| 5.4 | Micro-Credit | 217.99 | 192.31 | 160.24 | 165.07 | 172.13 | 177.01 | 188.46 | 188.94 |
| 5.5 | Education Loans | 362.47 | 425.89 | 480.67 | 526.12 | 578.88 | 591.84 | 601.37 | 604.36 |
| 5.6 | State-Sponsored Orgs. for SC/ST | 12.34 | 0.87 | 1.79 | 1.24 | 3.28 | 3.48 | 5.14 | 6.38 |
| 5.7 | Weaker Sections | 1891.64 | 1906.13 | 2333.59 | 2733.98 | 3860.00 | 4048.84 | 4773.97 | 5545.99 |
| 5.8 | Export Credit | 302.00 | 318.21 | 391.00 | 422.34 | 483.13 | 426.26 | 423.82 | 425.02 |

Source RBI

**Table IV.9: Classification of Loan Assets - Bank Group-wise**

(Amount in ₹crore)

| Bank Group | End-March | Standard Assets | | Sub-Standard Assets | | Doubtful Assets | | Loss Assets | |
|---|---|---|---|---|---|---|---|---|---|
| | | Amount | Per cent* | Amount | Per cent* | Amount | Per cent* | Amount | Per cent* |
| PSBs# | 2018 | 46,02,125 | 84.5 | 2,05,340 | 3.8 | 5,93,615 | 10.9 | 46,521 | 0.9 |
| | 2019 | 50,86,874 | 87.8 | 1,37,377 | 2.4 | 5,06,492 | 8.7 | 66,239 | 1.1 |
| PVBs ^ | 2018 | 24,50,552 | 96.0 | 27,203 | 1.1 | 69,978 | 2.7 | 5,243 | 0.2 |
| | 2019 | 31,03,581 | 95.2 | 42,440 | 1.3 | 1,04,696 | 3.2 | 9,576 | 0.3 |
| FBs | 2018 | 3,49,475 | 96.2 | 3,831 | 1.1 | 8,364 | 2.3 | 1,635 | 0.5 |
| | 2019 | 3,94,699 | 97.0 | 3,163 | 0.8 | 7,985 | 2.0 | 1,034 | 0.3 |
| All SCBs** | 2018 | 74,02,152 | 88.1 | 2,36,374 | 2.8 | 6,71,957 | 8.0 | 53,398 | 0.6 |
| | 2019 | 85,85,154 | 90.2 | 1,82,980 | 1.9 | 6,19,173 | 6.5 | 76,849 | 0.8 |

**Notes:** 1. Constituent items may not add up to the total due to rounding off.
2. *: As per cent to gross advances.
3. #: Includes IDBI Bank Ltd for 2018.
4. ^: Includes IDBI Bank Ltd for 2019.
5. **: Excludes SFBs.

**Source:** Off-site returns (domestic operations), RBI

[11] Defined as the amount recovered as a per cent of amount involved.

**Table IV.10: NPAs of SCBs Recovered through Various Channels**

(Amount in ₹crore)

| Recovery Channel | 2017-18 | | | | 2018-19 (P) | | | |
|---|---|---|---|---|---|---|---|---|
| | No. of cases referred | Amount involved | Amount recovered* | Col. (4) as per cent of Col. (3) | No. of cases referred | Amount involved | Amount recovered* | Col. (8) as per cent of Col. (7) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Lok Adalats | 33,17,897 | 45,728 | 1,811 | 4.0 | 40,80,947 | 53,506 | 2,816 | 5.3 |
| DRTs | 29,345 | 1,33,095 | 7,235 | 5.4 | 52,175 | 3,06,499 | 10,574 | 3.5 |
| SARFAESI Act | 91,330 | 81,879 | 26,380 | 32.2 | 2,48,312 | 2,89,073 | 41,876 | 14.5 |
| IBC | 704@ | 9,929 | 4,926 | 49.6 | 1,135@ | 1,66,600 | 70,819 | 42.5 |
| **Total** | **34,39,276** | **2,70,631** | **40,352** | **14.9** | **43,82,569** | **8,15,678** | **1,26,085** | **15.5** |

**Notes:** 1. P: Provisional.
2. *: Refers to the amount recovered during the given year, which could be with reference to the cases referred during the given year as well as during the earlier years.
3. DRTs: Debt Recovery Tribunals; SARFAESI Act: The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002.
4. @: Cases admitted by National Company Law Tribunals (NCLTs).
5. Figures relating to IBC for 2017-18 and 2018-19 are calculated by adding quarterly numbers from IBBI newsletters.

**Source:** Off-site returns, RBI and IBBI.

**Table IV.14: Sectoral Deployment of Gross Bank Credit**

(Amount in ₹crore)

| Sr. No & Item | Outstanding as on | | | Per cent variation (y-o-y) | | |
|---|---|---|---|---|---|---|
| | Mar-18 | Mar-19 | Sep-19 | 2017-18* | 2018-19** | 2019-20 (up to September) ^ |
| **1. Agriculture & Allied Activities** | **11,93,400** | **13,25,824** | **12,06,850** | **7.2** | **11.1** | -0.6 |
| **2. Industry,** *of which* | **31,29,512** | **33,04,940** | **31,74,214** | **6.2** | **5.6** | **0.2** |
| 2.1 Micro & Small Industries | 4,18,225 | 4,38,392 | 4,33,908 | 8.8 | 4.8 | -0.4 |
| 2.2 Medium | 1,25,960 | 1,23,843 | 1,18,261 | 6.3 | -1.7 | -6.6 |
| 2.3 Large | 24,62,576 | 26,24,288 | 25,30,553 | 4.6 | 6.6 | 1.8 |
| **3. Services,** *of which* | **19,98,817** | **24,77,517** | **25,77,530** | **10.6** | **23.9** | **16.9** |
| 3.1 Trade | 5,19,398 | 5,83,613 | 5,83,264 | 7.5 | 12.4 | 12.7 |
| 3.2 Commercial Real Estate | 2,04,414 | 2,43,122 | 2,57,959 | 3.4 | 18.9 | 12.4 |
| 3.3 Tourism, Hotels & Restaurants | 52,095 | 56,194 | 56,766 | 9.9 | 7.9 | 3.2 |
| 3.4 Computer Software | 22,299 | 22,236 | 22,576 | 14.9 | -0.3 | -0.7 |
| 3.5 Non-Banking Financial Companies | 4,53,123 | 6,14,922 | 7,09,833 | 31.7 | 35.7 | 30.5 |
| **4. Retail Loans,** *of which* | **19,42,501** | **23,02,173** | **24,64,985** | **20.5** | **18.5** | **18.1** |
| 4.1 Housing Loans | 10,08,013 | 12,04,332 | 13,03,629 | 18 | 19.5 | **18.5** |
| 4.2 Consumer Durables | 19,036 | 9,195 | 8,902 | -11.6 | -51.7 | **110.2** |
| 4.3 Credit Card Receivables | 82,827 | 1,11,361 | 1,21,708 | 27.7 | 34.5 | 30.5 |
| 4.4 Auto Loans | 2,38,787 | 2,69,672 | 2,75,500 | 27.9 | 12.9 | 8.6 |
| 4.5 Education Loans | 74,883 | 76,210 | 78,237 | 2.7 | 1.8 | 2.4 |
| 4.6 Advances against Fixed Deposits (incl. FCNR (B), etc.) | 77,175 | 77,080 | 63,215 | 13.5 | -0.1 | **-4.8** |
| 4.7 Advances to Individuals against Shares, Bonds, etc. | 6,385 | 9,339 | 8,655 | 26.1 | 46.3 | 33.4 |
| 4.8 Other Retail Loans | 4,35,396 | 5,44,983 | 6,05,139 | 28.2 | 25.2 | 24.2 |
| **5. Non-food Credit (1- 4)** | **83,61,294** | **94,71,480** | **36,71,836** | **10.5** | **13.3** | 8.6 |
| **6. Gross Bank Credit** | **83,99,196** | **95,19,554** | **95,57,487** | **10.4** | **13.3** | 8.9 |

*: March 2018 over March 2017. **: March 2019 over March 2018. ^: September 2019 over September 2018.
**Source:** Off-site returns (domestic operations), RBI

**Table IV.16: Sector-wise GNPAs of Banks**
(As at end-March)

(Amount in ₹crore)

| Bank Group | Priority Sector | | *Of which* | | | | | | Non-priority Sector | | Total NPAs | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Agriculture | | Micro and Small Enterprises | | Others | | | | | |
| | Amt. | Per cent# | Amt. | Per cent# | Amt. | Per cent# | Amt. | Per cent# | Amt. | Per cent# | Amt. | Per cent# |
| **PSBs*** | | | | | | | | | | | | |
| 2018 | 1,87,511 | 22.2 | 75,274 | 8.9 | 82,094 | 9.7 | 30,143 | 3.6 | 6,57,964 | 77.8 | 8,45,475 | 100 |
| 2019 | 1,97,334 | 27.8 | 95,938 | 13.5 | 73,381 | 10.3 | 28,016 | 3.9 | 5,12,774 | 72.2 | 7,10,109 | 100 |
| **PVBs ^** | | | | | | | | | | | | |
| 2018 | 18,426 | 18.0 | 7,789 | 7.6 | 8,013 | 7.8 | 2,624 | 2.6 | 83,998 | 82.0 | 1,02,424 | 100 |
| 2019 | 29,721 | 19.0 | 12,679 | 8.1 | 12,796 | 8.2 | 4,246 | 2.7 | 1,26,991 | 81.0 | 1,56,712 | 100 |
| **FBs** | | | | | | | | | | | | |
| 2018 | 1,184 | 8.6 | 78 | 0.6 | 552 | 4.0 | 554 | 4.0 | 12,645 | 91.4 | 13,830 | 100 |
| 2019 | 1,101 | 9.0 | 105 | 0.9 | 616 | 5.1 | 379 | 3.1 | 11,082 | 91.0 | 12,183 | 100 |
| **All SCBs**** | | | | | | | | | | | | |
| 2018 | 2,07,120 | 21.5 | 83,141 | 8.6 | 90,659 | 9.4 | 33,321 | 3.5 | 7,54,608 | 78.5 | 9,61,728 | 100 |
| 2019 | 2,28,156 | 26.0 | 1,08,722 | 12.4 | 86,792 | 9.9 | 32,642 | 3.7 | 6,50,847 | 74.0 | 8,79,003 | 100 |

**Notes:** 1. Amt.: – Amount; Per cent: Per cent of total NPAs.
2. *: Includes IDBI Bank Ltd for 2018.
3. ^: Includes IDBI Bank Ltd for 2019.
3. Constituent items may not add up to the total due to rounding off.
4. # Share in total NPAs.
5. **: Does not include SFBs.

**Source:** Off-site returns (domestic operations), RBI

Centre for Financial Accountability (CFA) engages and supports efforts to advance transparency and accountability in financial institutions. We use research, campaigns and trainings to help movements, organisations, activists, students and youth to engage in this fight, and we partake in campaigns that can shift policies and change public discourse on banking and economy.

We monitor the investments of national and international financial institutions, engages on policies that impact the banking sector and economy of the country, demystify the world of finance through workshops and short-term courses and help citizens make banks and government more transparent and accountable, for they use public money.

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