“STUDY ON GROWTH OF NON PERPORMING ASSESTS (NPA) IN INDIAN BANKS”

SUBMITTED BY

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SUBMITTED BY

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UNDER GUIDANCE OF

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CERTIFICATE

This is to certify that project titled "**STUDY ON EFFECTS OF NON PERPORMING ASSESTS (NPA) IN INDIAN BANKS**" is successfully completed by **Mr. RAJDEEP CHAKRAVORTY** during the IV Semester in partial fulfillment of the Master's Degree in Management Studies recognized by the University of Mumbai for the academic year **2020-21** through **RAJEEV GANDHI COLLEGE OF MANAGEMENT STUDIES, GHANSOLI**. This project work is original and not submitted earlier for the award of any degree/diploma or associateship of any other University / Institution.

Name: RAJDEEP CHAKRAVORTY

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DECLARATION

I, **RAJDEEP CHAKRAVORTY** hereby declare that this Project Report titled "**STUDY ON EFFECTS OF NON PERPORMING ASSESTS (NPA) IN INDIAN BANKS"** submitted by me to **RAJEEV GANDHI COLLEGE OF MANAGEMENT STUDIES, GHANSOLI** is a bonafide work undertaken by me and it is not submitted to any other University or Institution for the award of any degree diploma/certificate or published any time before.

Name - RAJDEEP CHAKRAVORTY

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CHAPTER 1

INTRODUCTION

INTRODUCTION

The accumulation of huge non-performing assets in banks has assumed great importance. The depth of the problem of bad debts was first realized only in early 1990s. The magnitude of NPAs in banks and financial institutions is over Rs.1, 50,000 crores. While gross NPA reflects the quality of the loans made by banks, net NPA shows the actual burden of banks. Now it is increasingly evident that the major defaulters are the big borrowers coming from the non-priority sector. The banks and financial institutions have to take the initiative to reduce NPAs in a time bound strategic approach. Public sector banks figure prominently in the debate not only because they dominate the banking industries, but also since they have much larger NPAs compared with the private sector banks. This raises a concern in the industry and academia because it is generally felt that NPAs reduce the profitability of banks, weaken its financial health and erode its solvency. For the recovery of NPAs a broad framework has evolved for the management of NPAs under which several options are provided for debt recovery and restructuring. Banks and FIs have the freedom to design and implement their own policies for recovery and write-off incorporating compromise and negotiated settlements.

The three letters “NPA” Strike terror in banking sector and business circle today. NPA is short form of “Non-Performing Asset”. The dreaded NPA rule says simply this: when interest or other due to a bank remains unpaid for more than **90 days**, the entire bank loan automatically turns a non performing asset. The recovery of loan has always been problem for banks and financial institution. To come out of these first we need to think is it possible to avoid NPA, no cannot be then left is to look after the factor responsible for it and managing those factors.

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A ‘non-performing asset’ (NPA) was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained ‘past due’ for a specified period of time. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the ‘***90 days’ overdue’*** norm for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

- The account remains ‘out of order’ for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),

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

- Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and

- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

As a facilitating measure for smooth transition to 90 days norm, banks have been advised to move over to charging of interest at monthly rests, by April 1, 2002. However, the date of classification of an advance as NPA should not be changed on account of charging of interest at monthly rests. Banks should, therefore, continue to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 180 days from the end of the quarter with effect from April 1, 2002 and 90 days from the end of the quarter with effect from March 31, 2004.

What is a NPA (Non-Performing Assets)?

Action for enforcement of security interest can be initiated only if the secured asset is classified as Nonperforming asset. Nonperforming asset means an asset or account of borrower, which has been classified by bank or financial institution as sub –standard, doubtful or loss asset, in accordance with the direction or guidelines relating to assets classification issued by RBI. An amount due under any credit facility is treated as “past due” when it is not been paid within 30 days from the due date. Due to the improvement in the payment and settlement system, recovery climate, up gradation of technology in the banking system etc, it was decided to dispense with “past due “concept, with effect from March 31, 2001. Accordingly, as from that date, a Non performing asset shell be an advance were

- Interest and/or installment of principal remain overdue for a period of more than 180 days in respect of a term loan,

- The account remains ‘out of order ‘for a period of more than 180 days, in respect of an overdraft/cash credit (OD/CC)

- The bill remains overdue for a period of more than 180 days in case of bill purchased or discounted.

- Interest and/or principal remains overdue for two harvest seasons but for a period not exceeding two half years in case of an advance granted for agricultural purpose, and

- Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt '90 days overdue 'norms for identification of NPAs, from the year ending March 31, 2004, a non performing asset shell be a loan or an advance where;

i) Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

ii) The account remains 'out of order 'for a period of more than 90 days, in respect of an overdraft/cash credit (OD/CC)

iii) The bill remains overdue for a period of more than 90 days in case of bill purchased or discounted.

iv) Interest and/or principal remains overdue for two harvest seasons but for a period not exceeding two half years in case of an advance granted for agricultural purpose, and

v) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts

Out of order:

An account should be treated as out of order if the outstanding balance remains continuously in excess of sanctioned limit /drawing power. in case where the outstanding balance in the principal operating account is less than the sanctioned amount /drawing power, but there are no credits continuously for six months as on the date of balance sheet or credit are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Overdue:

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on due date fixed by the bank.

Factors for rise in NPAs:

The banking sector has been facing the serious problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks. The NPAs in PSB are growing due to external as well as internal factors.

External Factors:

Ineffective recovery tribunal:

The Govt. has set of numbers of recovery tribunals, which works for recovery of loans and advances. Due to their negligence and ineffectiveness in their work the bank suffers the consequence of non-recover, thereby reducing their profitability and liquidity.

Willful Defaults:

There are borrowers who are able to pay back loans but are intentionally withdrawing it. These groups of people should be identified and proper measures should be taken in order to get back the money extended to them as advances and loans.

Natural calamities:

This is the measure factor, which is creating alarming rise in NPAs of the PSBs. every now and then India is hit by major natural calamities thus making the borrowers unable to pay back their loans. Thus, the bank has to make large amount of provisions in order to compensate those loans, hence end up the fiscal with a reduced profit. Mainly our farmers depend on rain fall for cropping. Due to irregularities of rain fall the farmers are not to achieve the production level thus they are not repaying the loans.

Industrial sickness:

Improper project handling, ineffective management, lack of adequate resources, lack of advance technology, day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.

Lack of demand:

Entrepreneurs in India could not foresee their product demand and starts production which ultimately piles up their product thus making them unable to pay back the money they borrow to operate these activities.

The banks recover the amount by selling of their assets, which covers a minimum label. Thus, the banks record the non-recovered part as NPAs and have to make provision for it.

Change on Govt. policies:

With every new govt. banking sector gets new policies for its operation. Thus, it has to cope with the changing principles and policies for the regulation of the rising of NPAs. The fallout of handloom sector is continuing as most of the weaver's Co-operative societies have become defunct largely due to withdrawal of state patronage. The rehabilitation plan worked out by the Central government to revive the handloom sector has not yet been implemented. So, the over dues due to the handloom sectors are becoming NPAs.

Internal Factors:

Defective Lending process:

There are three cardinal principles of bank lending that have been followed by the commercial banks since long.

i. Principles of safety

ii. Principle of liquidity

iii. Principles of profitability

Principles of safety:

By safety it means that the borrower is in a position to repay the loan both principal and interest. The repayment of loan depends upon the borrowers:

a. Capacity to pay

b. Willingness to pay

Capacity to pay depends upon:

1. Tangible assets

2. Success in business

Willingness to pay depends on:

1. Character

2. Honest

3. Reputation of borrower

The banker should, therefore take utmost care in ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is capable of carrying it out successfully. he should be a person of integrity and good character.

Inappropriate technology:

Due to inappropriate technology and management information system, market driven decisions on real time basis cannot be taken. Proper MIS and financial accounting system are not implemented in the banks, which leads to poor credit collection, thus NPA. All the branches of the bank should be computerized.

Improper SWOT analysis:

The improper strength, weakness, opportunity and threat analysis is another reason for rise in NPAs. While providing unsecured advances the banks depend more on the honesty, integrity, and financial soundness and credit worthiness of the borrower.

- Banks should consider the borrowers own capital investment.
- It should collect credit information of the borrowers from bankers.

Enquiry from market/segment of trade, industry, business.

From external credit rating agencies.

. Analyze the balance sheet

True picture of business will be revealed on analysis of profit/loss a/c and balance sheet.

· Purpose of the loan

When bankers give loan, he should analyze the purpose of the loan. To ensure safety and liquidity, banks should grant loan for productive purpose only. Bank should analyze the profitability, viability, long term acceptability of the project while financing.

Poor credit appraisal system:

Poor credit appraisal is another factor for the rise in NPAs. Due to poor credit appraisal the bank gives advances to those who are not able to repay it back. They should use good credit appraisal to decrease the NPAs.

Managerial deficiencies:

The banker should always select the borrower very carefully and should take tangible assets as security to safe guard its interests. When accepting securities banks should consider the:

1. Marketability

2. Acceptability

3. Safety

4. Transferability.

The banker should follow the principle of diversification of risk based on the famous maxim "*do not keep all the eggs in one basket";* it means that the banker should not grant advances to a few big farms only or to concentrate them in few industries or in a few cities. If a new big customer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected. Like OSCB suffered loss due to the OTM Cuttack, and Orissa hand loom industries. The biggest defaulters of OSCB are the OTM (117.77lakhs), and the handloom sector Orissa hand loom WCS ltd (2439.60lakhs).

Absence of regular industrial visit:

The irregularities in spot visit also increases the NPAs. Absence of regularly visit of bank officials to the customer point decreases the collection of interest and principals on the loan. The NPAs due to willful defaulters can be collected by regular visits.

Re loaning process:

Non remittance of recoveries to higher financing agencies and re loaning of the same have already affected the smooth operation of the credit cycle**.** Due to re loaning to the defaulters and CCBs and PACs, the NPAs of OSCB is increasing day by day.

PROBLEMS DUE TO NPA:

1. Owners do not receive a market return on their capital .in the worst case, if the banks fail, owners lose their assets. In modern times this may affect a broad pool of shareholders.

2. Depositors do not receive a market return on saving. In the worst case if the bank fails, depositors lose their assets or uninsured balance.

3. Banks redistribute losses to other borrowers by charging higher interest rates, lower deposit rates and higher lending rates repress saving and financial market, which hamper economic growth.

4. Non-performing loans epitomize bad investment. They misallocate credit from good projects, which do not receive funding, to failed projects. Bad investment ends up in misallocation of capital, and by extension, labour and natural resources.

Nonperforming asset may spill over the banking system and contract the money stock, which may lead to economic contraction. This spillover effect can channelize through liquidity or bank insolvency:

a) When many borrowers fail to pay interest, banks may experience liquidity shortage. This can jam payment across the country,

b) Illiquidity constraints bank in paying depositors

c) Undercapitalized banks exceed the banks' capital base.

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An account should be treated as ***'out of order'*** if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for six months as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as **'out of order'**.

Overdue:

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Income Recognition:

Income recognition – Policy

The policy of income recognition has to be objective and based on the record of recovery. Internationally income from non-performing assets (NPA) is not recognized on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA.

However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

Fees and commissions earned by the banks as a result of renegotiations or rescheduling of outstanding debts should be recognized on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit.

If Government guaranteed advances become NPA, the interest on such advances should **not** be taken to income account unless the interest has been realized.

Reversal of income:

If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realized. This will apply to Government guaranteed accounts also.

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

Leased Assets:

The net lease rentals (finance charge) on the leased asset accrued and credited to income account before the asset became nonperforming, and remaining unrealized, should be reversed or provided for in the current accounting period. The term 'net lease rentals' would mean the amount of finance charge taken to the credit of Profit & Loss Account and would be worked out as gross lease rentals adjusted by amount of statutory depreciation and lease equalization account.

As per the **'Guidance Note on Accounting for Leases'** issued by the Council of the Institute of Chartered Accountants of India (ICAI), a separate Lease Equalization Account should be opened by the banks with a corresponding debit or credit to Lease Adjustment Account, as the case may be. Further, Lease Equalization Account should be transferred every year to the Profit & Loss Account and disclosed separately as a deduction from/addition to gross value of lease rentals shown under the head 'Gross Income'.

Appropriation of recovery in NPAs:

- Interest realized on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

- In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e., towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

Interest Application:

There is no objection to the banks using their own discretion in debiting interest to an NPA account taking the same to Interest Suspense Account or maintaining only a record of such interest in proforma accounts.

REPORTING OF NPAS:

- Banks are required to furnish a Report on NPAs as on 31st March each year after completion of audit. The NPAs would relate to the banks' global portfolio, including the advances at the foreign branches.

- While reporting NPA figures to RBI, the amount held in interest suspense account, should be shown as a deduction from gross NPAs as well as gross advances while arriving at the net NPAs.

- Banks which do not maintain Interest Suspense account for parking interest due on non-performing advance accounts, may furnish the amount of interest receivable on NPAs as a foot note to the Report.

- Whenever NPAs are reported to RBI, the amount of technical write off, if any, should be reduced from the outstanding gross advances and gross NPAs to eliminate any distortion in the quantum of NPAs being reported.

Asset Classification:

Categories of NPAs:

Standard Assets:

Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan does not exceed 90 days at the end of financial year. If asset fails to be in category of standard asset that is amount due more than 90 days then it is NPA and NPAs are further need to classify in sub categories. Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained *non-performing* and the *reliability* of the dues:

(1) Sub-standard Assets

(2) Doubtful Assets

(3) Loss Assets

(1) Sub-standard Assets:

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. The following features are exhibited by substandard assets: the current net worth of the borrowers / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full; and the asset has well-defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

(2) Doubtful Assets:

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable. With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

(3) Loss Assets:

A loss asset is one which considered uncollectible and of such little value that its continuance as a bankable asset is not warranted- although there may be some salvage or recovery value. Also, these assets would have been identified as 'loss assets' by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

Guidelines for Provisions under Special Circumstances:

Government guaranteed advances:

With effect from 31 March 2000, in respect of advances sanctioned against State Government guarantee, if the guarantee is invoked and remains in default for more than two quarters (180 days at present), As regards advances guaranteed by State Governments, in respect of which guarantee stood invoked as on 31.03.2000, necessary provision was allowed to be made, in a phased manner, during the financial years ending 31.03.2000 to 31.03.2003 with a minimum of 25 percent each year.

Advances granted under rehabilitation packages approved by BIFR/term lending institutions:

In respect of advances under rehabilitation package approved by BIFR/term lending institutions, the provision should continue to be made in respect of dues to the bank **on the existing credit facilities** as per their classification as sub-standard or doubtful asset.

As regards the additional facilities sanctioned as per package finalized by BIFR and/or term lending institutions, provision on additional facilities sanctioned need not be made for a period of **one year** from the date of disbursement. In respect of additional credit facilities granted to SSI units which are identified as sick [as defined in RPCD circular No. PLNFS.BC.57 /06.04.01/2001-2002 dated 16 January 2002] and where rehabilitation packages/nursing programs have been drawn by the banks themselves or under consortium arrangements, no provision need be made for a period of one year.

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs, and life policies are exempted from provisioning requirements. However, advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.

Treatment of interest suspense account:

Amounts held in Interest Suspense Account should not be reckoned as part of provisions. Amounts lying in the Interest Suspense Account should be deducted from the relative advances and thereafter, provisioning as per the norms, should be made on the balances after such deduction.

Take-out finance:

The lending institution should make provisions against a 'take-out finance' turning into NPA pending its take-over by the taking-over institution. As and when the asset is taken-over by the taking-over institution, the corresponding provisions could be reversed.

Reserve for Exchange Rate Fluctuations Account (RERFA):

When exchange rate movements of Indian rupee turn adverse, the outstanding amount of foreign currency denominated a loan (where actual disbursement was made in Indian Rupee) which becomes overdue goes up correspondingly, with its attendant implications of provisioning requirements. Such assets should not normally be revalued. In case such assets need to be revalued as per requirement of accounting practices or for any other requirement, the following procedure may be adopted: The loss on revaluation of assets has to be booked in the bank's Profit & Loss Account. Besides the provisioning requirement as per Asset Classification, banks should treat the full amount of the Revaluation Gain relating to the corresponding assets, if any, on account of Foreign Exchange Fluctuation as provision against the particular assets.

IMPACT OF NPA:

Profitability:

NPA means booking of money in terms of bad asset, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (return on investment), which adversely affect current earning of bank.

Liquidity:

Money is getting blocked, decreased profit led to lack of enough cash at hand which lead to borrowing money for shot\rtes period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money. Routine payments and dues.

Involvement of Management:

Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Now day's banks have special employees to deal and handle NPAs, which is additional cost to the bank.

Credit loss:

Bank is facing problem of NPA then it adversely affects the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

<u>REASON FOR NPA:</u>

Reasons can be divided in to two broad categories: -

A] Internal Factor

***B]* External Factor**

[A] Internal Factors:

Internal Factors are those, which are internal to the bank and are controllable by banks.

- Poor lending decision:
- Non-Compliance to lending norms:

- Lack of post credit supervision:
- Failure to appreciate good payers:
- Excessive overdraft lending:
- Non – Transparent accounting policy:

[B] External Factors:

External factors are those, which are external to banks they are not controllable by banks.

- Socio political pressure:
- Chang in industry environment:
- Endangers macroeconomic disturbances:
- Natural calamities
- Industrial sickness
- Diversion of funds and willful defaults
- Time/ cost overrun in project implementation
- Labour problems of borrowed firm
- Business failure
- Inefficient management
- Obsolete technology
- Product obsolete

Early symptoms by which one can recognize a performing asset turning in to Non-performing asset:

Four categories of early symptoms:

(1) Financial:

Non-payment of the very first installment in case of term loan, bouncing of cheque due to insufficient balance in the accounts.

Irregularity in installment.

Irregularity of operations in the accounts.

Unpaid overdue bills.

Declining Current Ratio.

Payment which does not cover the interest and principal amount of that installment.

While monitoring the accounts it is found that partial amount is diverted to sister concern or parent company.

(2) Operational and Physical:

If information is received that the borrower has either initiated the process of winding up or are not doing the business.

Overdue receivables

Stock statement not submitted on time.

External non-controllable factor like natural calamities in the city where borrower conduct his business

Frequent changes in plan

Nonpayment of wages

(3) Attitudinal Changes:

Use for personal comfort, stocks and shares by borrower.

Avoidance of contact with bank

Problem between partners

(4) Others:

Changes in Government policies

Death of borrower

Competition in the market

PREVENTIVE MEASURES FOR NPA

Early Recognition of the Problem:

Invariably, by the time banks start their efforts to get involved in a revival process, it's too late to retrieve the situation- both in terms of rehabilitation of the project and recovery of bank's dues. Identification of weakness in the very beginning that is: When the account starts showing first signs of weakness regardless of the fact that it may not have become NPA, is imperative. Assessment of the potential of revival may be done on the basis of a techno-economic viability study. Restructuring should be attempted where, after an objective assessment of the promoter's intention, banks are convinced of a turnaround within a scheduled timeframe. In respect of totally unviable units as decided by the bank, it is better to facilitate winding up/ selling of the unit earlier, so as to recover whatever is possible through legal means before the security position becomes worse.

Identifying Borrowers with Genuine Intent:

Identifying borrowers with genuine intent from those who are non- serious with no commitment or stake in revival is a challenge confronting banker. Here the role of frontline officials at the branch level is paramount as they are the ones who has intelligent inputs with regard to promoters' sincerity, and capability to achieve turnaround. Based on this objective assessment, banks should decide as quickly as possible whether it would be worthwhile to commit additional finance.

In this regard banks may consider having **"Special Investigation"** of all financial transaction or business transaction, books of account in order to ascertain real factors that contributed to sickness of the borrower. Banks may have penal of technical experts with proven expertise and track record of preparing techno-economic study of the project of the borrowers. Borrowers having genuine problems due to temporary mismatch in fund flow or sudden requirement of additional fund may be entertained at branch level, and for this purpose a special limit to such type of cases should be decided. This will obviate the need to route the additional funding through the controlling offices in deserving cases, and help avert many accounts slipping into NPA category.

Timeliness and Adequacy of response:

Longer the delay in response, grater the injury to the account and the asset, time is a crucial element in any restructuring or rehabilitation activity. The response decided on the basis of techno-economic study and promoter's commitment, has to be adequate in terms of extend of additional funding and relaxations etc. under the restructuring exercise. The package of assistance may be flexible and bank may look at the exit option.

Focus on Cash Flows:

While financing, at the time of restructuring the banks may not be guided by the conventional fund flow analysis only, which could yield a potentially misleading picture. Appraisal for fresh credit requirements may be done by analyzing funds flow in conjunction with the Cash Flow rather than only on the basis of Funds Flow.

Management Effectiveness:

The general perception among borrower is that it is lack of finance that leads to sickness and NPAs. But this may not be the case all the time. Management effectiveness in tackling adverse business conditions is a very important aspect that affects a borrowing unit's fortunes. A bank may commit additional finance to an aling unit only after basic viability of the enterprise also in the context of quality of management is examined and confirmed. Where the default is due to deeper malady, viability study or investigative audit should be done – it will be useful to have consultant appointed as early as possible to examine this aspect. A proper techno economic viability study must thus become the basis on which any future action can be considered.

Multiple Financing:

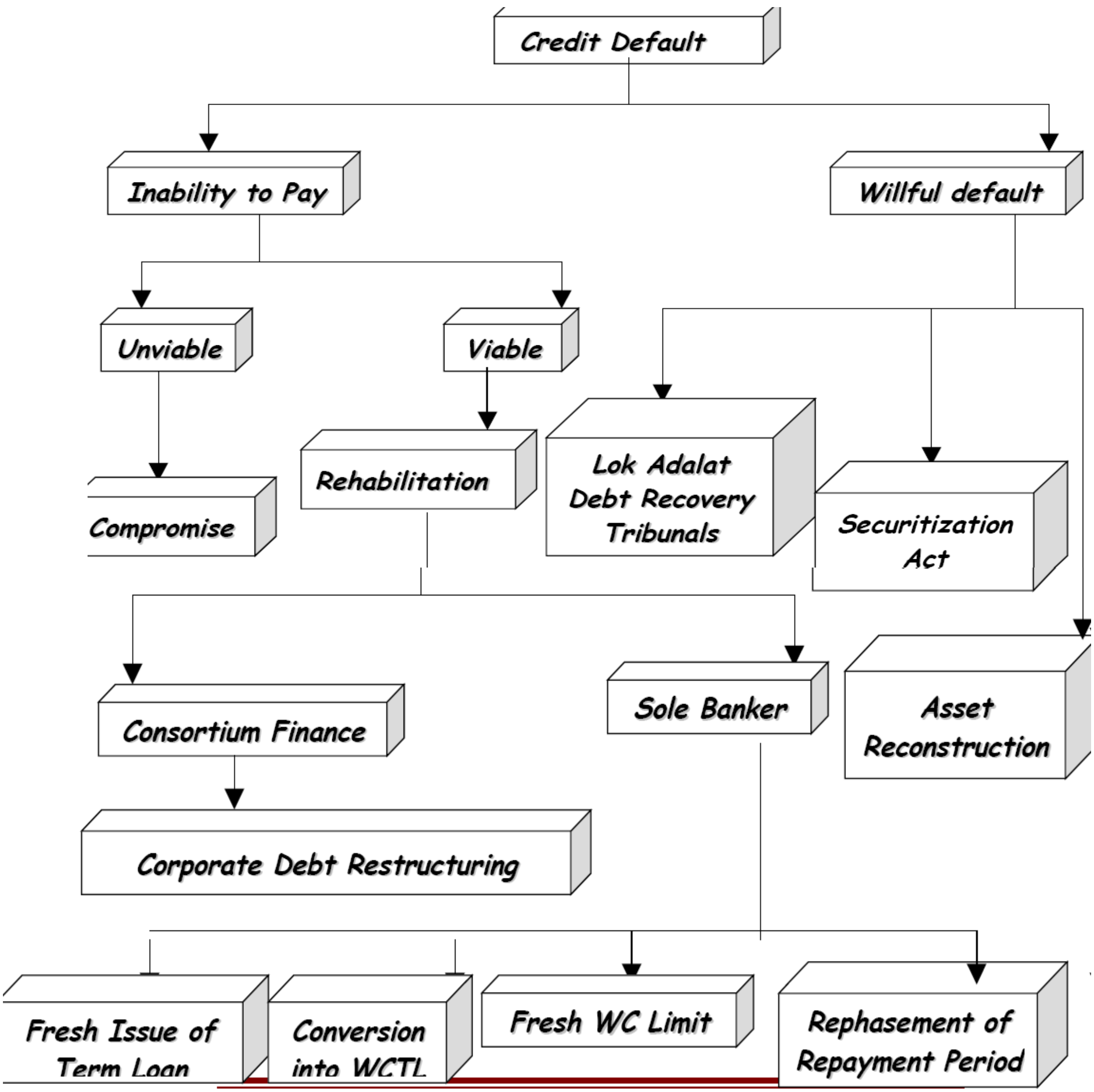
A. During the exercise for assessment of viability and restructuring, a **Pragmatic and unified approach** by all the lending banks/ FIs as also sharing of all relevant information on the borrower would go a long way toward overall success of rehabilitation exercise, given the probability of success/failure.

B. In some default cases, where the unit is still working, the bank should make sure that **it captures the cash flows** (there is a tendency on part of the borrowers to switch bankers once they default, for fear of getting their cash flows forfeited), and ensure that such cash flows are used for working capital purposes. Toward this end, there should be regular flow of information among consortium members. A bank, which is not part of the consortium, may not be allowed to offer credit facilities to such defaulting clients. Current account facilities may also be denied at non consortium banks to such clients and violation may attract penal action. The **Credit Information Bureau of India Ltd (CIBIL)** may be very useful for meaningful information exchange on defaulting borrowers once the setup becomes fully operational.

C. In a forum of lenders, the priority of each lender will be different. While one set of lenders may be willing to wait for a longer time to recover its dues, another lender may have a much shorter timeframe in mind. So, it is possible that the letter categories of lenders may be willing to exit, even at a cost – by a discounted settlement of the exposure. Therefore, any plan for restructuring/rehabilitation may take this aspect into account.

D. Corporate Debt Restructuring mechanism has been institutionalized in 2001 to provide a timely and transparent system for restructuring of the corporate debt of Rs. 20 crore and above with the banks and FIs on a voluntary basis and outside the legal framework. Under this system, banks may greatly benefit in terms of restructuring of large standard accounts (potential NPAs) and viable sub-standard accounts with consortium/multiple banking arrangements.

Tools for recovery of NPAs:



Once NPA occurred, one must come out of it or it should be managed in most efficient manner. Legal ways and means are there to overcome and manage NPAs. We will look into each one of it.

Willful Default:

- Lok Adalat and Debt Recovery Tribunal
- Securitization Act
- Asset Reconstruction

Lok Adalat:

Lok Adalat institutions help banks to settle disputes involving account in “doubtful” and “loss” category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. Debt recovery tribunals have been empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. This mechanism has proved to be quite effective for speedy justice and recovery of small loans. The progress through this channel is expected to pick up in the coming years.

Debt Recovery Tribunals (DRT):

The recovery of debts due to banks and financial institution passed in March 2000 has helped in strengthening the function of DRTs. Provision for placement of more than one recovery officer, power to attach defendant’s property/assets before judgment, penal provision for disobedience of tribunal’s order or for breach of any terms of order and appointment of receiver with power of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in the times to come. DRTs which have been set up by the Government to facilitate speedy recovery by banks/DFIs, have not been able make much impact on loan recovery due to variety of reasons like inadequate number, lack of infrastructure, under staffing and frequent adjournment of cases. It is essential that DRT mechanism is strengthened and vested with a proper enforcement mechanism to enforce their orders. Non observation of any order passed by the tribunal should amount to contempt of court, the DRT should have right to initiate contempt proceedings. The DRT should empower to sell asset of the debtor companies and forward the proceed to the winding – up court for distribution among the lenders

Inability to Pay:

Consortium arrangements**:**

Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances**.** Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

Corporate Debt Restructuring (CDR):

Background:

In spite of their best efforts and intentions, sometimes corporate find themselves in financial difficulty because of factors beyond their control and also due to certain internal reasons. For the revival of the corporate as well as for the safety of the money lent by the banks and FIs, timely support through restructuring in genuine cases is called for. However, delay in agreement amongst different lending institutions often comes in the way of such endeavors. Based on the experience in other countries like the U.K., Thailand, Korea, etc. of putting in place institutional mechanism for restructuring of corporate debt and need for a similar mechanism in India, a Corporate Debt Restructuring System has been evolved, as under:

Objective:

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

Structure:

CDR system in the country will have a three-tier structure:

(A) CDR Standing Forum

(B) CDR Empowered Group

(C) CDR Cell

(A) CDR Standing Forum:

The CDR Standing Forum would be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions and banks should participate in the system in their own interest. CDR Standing Forum will be a self-empowered body, which will lay down policies and guidelines, guide and monitor the progress of corporate debt restructuring. The Forum will also provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.

The CDR Standing Forum shall comprise Chairman & Managing Director, Industrial Development Bank of India; Managing Director, Industrial Credit & Investment Corporation of India Limited; Chairman, State Bank of India; Chairman, Indian Banks Association and Executive Director, Reserve Bank of India as well as Chairmen and Managing Directors of all banks and financial institutions participating as permanent members in the system. The Forum will elect its Chairman for a period of one year and the principle of rotation will be followed in the subsequent years. However, the Forum may decide to have a Working Chairman as a whole-time officer to guide and carry out the decisions of the CDR Standing Forum. A CDR Core Group will be carved out of the CDR Standing Forum to assist the Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The Core Group will consist of Chief Executives of IDBI, ICICI, SBI, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks Association and a representative of Reserve Bank of India.

The CDR Standing Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The Forum would also lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and would ensure their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It can also review any individual decisions of the CDR Empowered Group and CDR Cell. The CDR Standing Forum, the CDR Empowered Group and CDR Cell (described in following paragraphs) shall be housed in IDBI. All financial institutions and banks shall share the administrative and other costs. The sharing pattern shall be as determined by the Standing Forum.

CDR Empowered Group and CDR Cell:

The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of IDBI, ICICI Limited and SBI as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it would have to be ensured that each financial institution and bank, as participants of the CDR system, nominates a panel of two or three EDs, one of whom will participate in a specific meeting of the Empowered Group dealing with individual restructuring cases. Where, however, a bank / financial institution has only one Executive Director, the panel may consist of senior officials, duly authorized by its Board. The level of representation of banks/ financial institutions on the CDR Empowered Group should be at a sufficiently senior level to ensure that concerned bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring.

The Empowered Group will consider the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package will be worked out by the CDR Cell in conjunction with the Lead Institution. The CDR Empowered Group would be mandated to look into each case of debt restructuring, **examine the viability and rehabilitation potential of the Company** and approve the restructuring package within a **specified time frame of 90 days,** or at best 180 days of reference to the Empowered Group.

There should be a general authorization by the respective Boards of the participating institutions / banks in favor of their representatives on the CDR Empowered Group, authorizing them to take decisions on behalf of their organization, regarding restructuring of debts of individual corporate. The decisions of the CDR Empowered Group shall be final and action-reference point. If restructuring of debt is found viable and feasible and accepted by the Empowered Group, the company would be put on the restructuring mode. If, however, restructuring is not found viable, the creditors would then be free to take necessary steps for immediate recovery of dues and / or liquidation or winding up of the company, collectively or individually.

CDR Cell:

The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers / lenders, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible, if so, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of lenders and if necessary, experts to be engaged from outside. If not found prima facie feasible, the lenders may start action for recovery of their dues. To begin with, CDR Cell will be constituted in IDBI, Mumbai and adequate members of staff for the Cell will be deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The initial cost in operating the CDR mechanism including CDR Cell will be met by IDBI initially for one year and then from contribution from the financial institutions and banks in the Core Group at the rate of Rs.50 lakh each and contribution from other institutions and banks at the rate of Rs.5 lakh each. All references for corporate debt restructuring by lenders or borrowers will be made to the CDR Cell. It shall be the responsibility of the lead institution / major stakeholder to the corporate, to work out a preliminary restructuring plan in consultation with other stakeholders and submit to the CDR Cell within one month. The CDR Cell will prepare the restructuring plan in terms of the general policies and guidelines approved by the CDR Standing Forum and place for the consideration of the Empowered Group within 30 days for decision. The Empowered Group can approve or suggest modifications, so, however, that a final decision must be taken within a total period of 90 days. However, for sufficient reasons the period can be extended maximum upto 180 days from the date of reference to the CDR Cell.

Other features:

CDR will be a Non-statutory mechanism. CDR mechanism will be a voluntary system based on debt or creditor agreement and inter-creditor agreement. The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will cover only multiple banking accounts / syndication / consortium accounts with outstanding exposure of Rs.20 crore and above by banks and institutions. The CDR system will be applicable only to standard and substandard accounts. However, as an interim measure, permission for corporate debt restructuring will be made available by RBI on the basis of specific recommendation of CDR "Core-Group", if a minimum of 75 per cent (by value) of the lenders constituting banks and FIs consent for CDR, irrespective of differences in asset classification status in banks/ financial institutions. There would be **no requirement of the account / company being sick, NPA or being in default for a specified** period before reference to the CDR Group. However, **potentially viable cases of NPAs will get priority.** This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent. In no case, the requests of any corporate indulging in wilful default or misfeasance will be considered for restructuring under CDR. Reference to

Corporate Debt Restructuring System could be triggered by (i) any or more of the secured creditor who have minimum 20% share in either working capital or term finance, or (ii) by the concerned corporate, if supported by a bank or financial institution having stake as in (i) above.

Legal Basis:

The legal basis to the CDR mechanism shall be provided by the **Debtor-Creditor Agreement (DCA)** and the **Inter-Creditor Agreement.** The debtors shall have to accede to the DCA, either at the time of original loan documentation (for future cases) or at the time of reference to Corporate Debt Restructuring Cell. Similarly, all participants in the CDR mechanism through their membership of the Standing Forum shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the System through laid-down policies and guidelines.

Stand-Still Clause:

One of the most important elements of Debtor- Creditor Agreement would be **'stand still' agreement binding for 90 days,** or 180 days by both sides. Under this clause, both the debtor and creditor(s) shall **agree to a legally binding 'stand-still' whereby both the parties commit themselves not to taking recourse to any other legal action** during the 'stand-still' period, this would be necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention judicial or otherwise. The Inter-Creditors Agreement would be a legally binding agreement amongst the secured creditors, with necessary enforcement and penal clauses, wherein the creditors would commit them to abide by the various elements of CDR system. Further, the creditors shall agree that if **75% of secured creditors by value,** agree to a debt restructuring package, the same would be binding on the remaining secured creditors.

Accounting treatment for restructured accounts:

The accounting treatment of accounts restructured under CDR would be governed by the prudential norms indicated in circular DBOD. BP. BC. 98 / 21.04.048 / 2000-01 dated March 30, 2001. Restructuring of corporate debts under CDR could take place in the following stages:

- Before commencement of commercial production;
- After commencement of commercial production but before the asset has been classified as sub-standard;
- After commencement of commercial production and the asset has been classified as sub-standard.

The prudential treatment of the accounts, subjected to restructuring under CDR, would be governed by the following norms:

Treatment of standard accounts restructured under CDR:

 A rescheduling of the installments of principal alone, at any of the aforesaid first two stages [paragraph 5(a) and (b) above] would not cause a standard asset to be classified in the sub-standard category, provided the loan / credit facility is fully secured.

 A rescheduling of interest element at any of the foregoing first two stages would not cause an asset to be downgraded to substandard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis

In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved.

Treatment of sub-standard accounts restructured under CDR

A rescheduling of the installments of principal alone, would render a sub-standard asset eligible to be continued in the sub-standard category for the specified period, provided the loan / credit facility is fully secured. A rescheduling of interest element would render a sub-standard asset eligible to be continued to be classified in sub-standard category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis. In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved. Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as sub-standard.

The sub-standard accounts at (ii) (a), (b) and (c) above, which have been subjected to restructuring, etc. whether in respect of principal instalment or interest amount, by whatever modality, would be eligible to be upgraded to the standard category **only after the specified period, i.e., a period of one year** after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period. The amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms as aforesaid, could also be reversed after the one-year period. During this one-year period, the sub-standard asset will not deteriorate in its classification if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one-year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule. The asset classification under CDR would continue to be bank specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

Restructuring / Rescheduling of Loans:

A standard asset where the terms of the loan agreement regarding interest and principal have been renegotiated or rescheduled after commencement of production should be classified as sub-standard and should remain in such category for at least one year of satisfactory performance under the renegotiated or rescheduled terms. In the case of sub-standard and doubtful assets also, rescheduling does not entitle a bank to upgrade the quality of advance automatically unless there is satisfactory performance under the rescheduled / renegotiated terms. Following representations from banks that the foregoing stipulations deter the banks from **restructuring of standard and sub-standard loan** assets even though the modification of terms might not jeopardise the assurance of repayment of dues from the borrower, the norms relating to restructuring of standard and sub-standard assets were reviewed in March 2001. In the context of restructuring of the accounts, the following stages at which the restructuring / rescheduling / renegotiation of the terms of loan agreement could take place, can be identified:

Before commencement of commercial production; After commencement of commercial production but before the asset has been classified as substandard, After commencement of commercial production and after the asset has been classified as substandard. In each of the foregoing three stages, the rescheduling, etc., of principal and/or of interest could take place, with or without sacrifice, as part of the restructuring package evolved.

Treatment of Restructured Standard Accounts:

A rescheduling of the installments of **principal alone**, at any of the aforesaid first two stages would not cause a standard asset to be classified in the substandard category provided the loan/credit facility is fully secured. A rescheduling of **interest element** at any of the foregoing first two stages would not cause an asset to be downgraded to substandard category subject to the condition that the amount of sacrifice, if any, in the element of interest, **measured in present value terms**, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR+ the appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis. In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be **written off or provision made** to the extent of the sacrifice involved.

For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate credit risk premium for the borrower category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis. In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved. Even in cases where the sacrifice is by way of write off of the **past** interest dues, the asset should continue to be treated as sub-standard.

Up gradation of restructured accounts:

The sub-standard accounts which have been subjected to restructuring etc., whether in respect of principal instalment or interest amount, by whatever modality, would be eligible to be upgraded to the standard category only after the specified period i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period. The amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms as aforesaid, could also be reversed after the one-year period. During this one-year period, the substandard asset will not deteriorate in its classification if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one-year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre restructuring payment schedule.

General:

These instructions would be applicable to all type of credit facilities including working capital limits, extended to industrial units, provided they are fully covered by tangible securities. As trading involves only buying and selling of commodities and the problems associated with manufacturing units such as bottleneck in commercial production, time and cost escalation etc. are not applicable to them, these guidelines should not be applied to restructuring/ rescheduling of credit facilities extended to traders. While assessing the extent of security cover available to the credit facilities, which are being restructured/ rescheduled, collateral security would also be reckoned, provided such collateral is a tangible security properly charged to the bank and is not in the intangible form like guarantee etc. of the promoter/ others.

Income recognition:

There will be no change in the existing instructions on income recognition. Consequently, banks should not recognize income on accrual basis in respect of the projects even though the asset is classified as a standard asset if the asset is a "nonperforming asset" in terms of the extant instructions. In other words, while the accounts of the project may be classified as a standard asset, banks shall recognize income in such accounts only on realization on cash basis if the asset has otherwise become 'non performing' as per the extant delinquency norm of 180 days. The delinquency norm would become 90 days with effect from 31 March 2004. Consequently, banks, which have wrongly recognized income in the past, should reverse the interest if it was recognized as income during the current year or make a provision for an equivalent amount if it was recognized as income in the previous year(s). As regards the regulatory treatment of income recognized as 'funded interest' and 'conversion into equity, debentures or any other instrument' banks should adopt the following:

Funded Interest: Income recognition in respect of the NPAs, regardless of whether these are or are not subjected to restructuring/ rescheduling/ renegotiation of terms of the loan agreement, should be done strictly on cash basis, only on realization and not if the amount of interest overdue has been funded. If, however, the amount of funded interest is recognized as income, a provision for an equal amount should also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognized as income, should be fully provided for.

Conversion into equity, debentures or any other instrument*:* The amount outstanding converted into other instruments would normally comprise principal and the interest components. If the amount of interest dues is converted into equity **or any other instrument**, and income is recognized in consequence, full provision should be made for the amount of income so recognized to offset the effect of such income recognition. Such provision would be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments, as per the investment valuation norms. However, if the conversion of interest is into equity, which is quoted, interest income can be recognized at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such equity must thereafter be classified in the "available for sale" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures should be treated as NPA, *ab initio*, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm would also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income should be recognized only on realization basis. The income in respect of unrealized interest, which is converted into debentures or any other fixed maturity instrument, should be recognized only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan would also be subject to the usual prudential valuation norms as applicable to such instruments.

Provisioning:

While there will be no change in the extant norms on provisioning for NPAs, banks which are already holding provisions against some of the accounts, which may now be classified as ‘standard’, shall continue to hold the provisions and shall not reverse the same.

CHAPTER 2

LITERATURE REVIEW

LITERATURE REVIEW

The issue of NPAs has been a major area of concern for the lenders and the policymakers. Various research studies have been made to understand the causes contributing to the rise in NPAs, measures that should be taken to resolve the issue in its nascent stage and reforms that have come into effect to reduce the piling up of NPAs. Some of the relevant studies are arranged in a chronological sequence.

Karunakar *et al.* (2008) discuss the various factors that boost NPAs, their size, their effect on Indian banking operations and suggest measures to control the curse on the banking industry. Use of suitable credit assessment and risk management methods is the key to solve the problem of NPA accumulation.

Rajeev and Mahesh (2010), in their article deal with the issue of NPAs after the global financial crisis. They suggest that mere recognition of the problem and self-monitoring can help to manage the NPA problem to a great extent. Self-help groups can also play an important role in the recovery of the loans.

Barge (2012) examines that early monitoring and management of lent funds is the necessity of the hour. The study suggests several measures like better supervision of end use of funds, information about the credit history of the borrower and assisting the borrowers to develop entrepreneurial skills to ensure that the asset does not convert into a non-performing asset.

Gupta (2012) makes a comparative study of the position of NPAs of State Bank of India (SBI) and associates and other public sector banks. The researcher concludes that for evaluation of the solvency of borrowers each bank should set up a separate credit rating agency. It also suggests the need for a committee comprising of financial experts to supervise and monitor the issue of NPAs.

Shalini (2013) has analysed the causes and suggested remedies for reducing NPAs in Indian public sector banks with special reference to the agricultural sector. The analysis of the different problems faced by the Indian farmers deduces the conclusion that banks should follow some measures before lending the loan. Prior collection of reports regarding the goodwill of the farmers, post sanction inspection, educating the farmers regarding the effects and consequences of defaulting are some of the suggested measures.

Singh (2013) in the investigation on the position of Indian commercial banks with regard to NPAs finds that these poor quality loans are a major problem for the public sector banks, which show a consistent rise over the years. The main contribution comes from the loans directed at the micro sector and for poverty alleviation programmes.

Bhaskaran *et al.* (2016) in their paper have compared the NPAs of public sector banks and private sector banks over a period of ten years (2004-2013). From their study, it is evident that private sector banks are performing better than public sector banks in reducing the level of NPAs. The authors propose that banks should be proactive in adopting structured NPAs management policy where prevention of NPAs receive priority.

Thomas and Vyas (2016) in a recent study on loan recovery strategy of Indian banks suggests two measures, preventive and corrective. The paper also discusses several corrective measures – legal, regulatory and non-legal that are to be taken to recover the non-performing loans. **Singh (2016)** in another recent study on NPAs and recovery status find that the problem is more severe for the public sector banks compared to the private sector banks. The academic review points to the need to have strict lending policies for speedy recovery of loans.

Meher (2017) in the post-demonetization period looks into the impact of the government's notebandi decision on the NPA of Indian Banks. The researcher finds both positives and negatives of the event on the banking industry.

Sengupta and Vardhan (2017) have compared the two banking crisis episodes post-liberalization- one that took place in the late 1990s and the other that commenced after the 2008 global financial crisis that raised the issue of NPAs. The authors are of the view that strong governance, proactive banking regulations and a strong legal framework for resolution of NPAs would assist in solving the problem of NPAs. On the other hand, regulatory forbearance would adversely affect the banking crisis.

Mittal and Suneja (2017) have analysed the level of NPAs in the banking sector in India and the causes that have led to the rise in NPAs. They have proposed that though the government has taken a number of steps to reduce the problem of NPAs, bankers should also be proactive in adopting well-structured policies to manage NPAs. The loan should be sanctioned after considering the return on investment of a proposed project and the credit-worthiness of the customers.

Sahni and Seth (2017) study the different causes responsible for rising NPAs and the impact it has on the operation of banks. The authors have mentioned several preventive and curative measures to control the NPAs. They have suggested that proper assessment regarding the credit-worthiness of the borrower should be done to ensure the speedy recovery of loans.

Mishra and Pawaskar (2017) have recommended that banks should have a good credit appraisal system so as to avoid NPAs. They point out that the problem of NPAs can be solved if there is a proper legal structure to support the banks in recovery of debt.

Banerjee *et al.* (2018) have examined the status of gross NPAs and net NPAs in private sector banks and public sector banks to study their effect on the asset quality of the banks. Deliberate loan defaults, poor credit management policies, sanctioning of loans without analysing the risk-bearing capacity of the borrowers are the main reasons for piling up of NPAs. The banks should stress on better strategy formulation and its proper execution as well. Stringent provisions by the government could help in reducing the level of NPAs.

Mukhopadhyay (2018), in his paper, has discussed about finding solutions to India's NPA woes. He has suggested that to resolve the problems of NPAs the RBI should not abide by a single model, instead, an innovative and flexible approach is needed for each affected bank, which should differ on case-by-case basis.

Kumar (2018), in her study has found that NPAs have a serious negative impact on the profitability and liquidity of the banking sector. According to her if the issue of NPAs is managed efficiently, then many microeconomic issues such as poverty, unemployment, imbalances of balance of payments can be reduced, the money market can be strengthened, and thus, the image of Indian banking system can be improved in the international market.

Sharma (2018) emphasizes the role of the banking sector as an instrument of economic growth and development. The paper discusses how banks are burdened due to growing NPAs especially in case of public sector banks. The author states a number of preventive measures that would curtail the level of NPAs. Viable regulatory standards and timely implementation of them could pave the way for a strong financial sector in India.

Dey (2018) in a very recent research paper looks at the recovery aspect of recovery of poor loans of the Indian commercial banks. The author finds the role of DRTs to be much better compared to the recovery through Lok Adalats and SARFASEI Act.

Kumar *et al.* (2018) make an interesting study to find out the main reasons behind accumulating NPAs. They find the main reasons to be industrial sickness, change in government policies, poor credit appraisal system, willful defaults and defect in the lending process.

Vivek Rajbahadur Singh (2016) analysed that the number of NPA cases referred to SARFAESI Act has increased during the period 2008 to 14. He has interpreted that this increase is due to the efficiency of the Act in recovering the NPAs of commercial banks. According to him this Act has emerged as a blessing is in disguise for the commercial banks as they are using this Act largely in recovering their NPAs in order to increase their profitability.

CHAPTER 3

RESEARCH METHODOLOGY

RESEARCH METHODOLOGY

STATEMENT OF THE PROBLEM

The main aim behind making this report is to know how public sector banks are operating their business and how NPAs play its role to the operations of the public sector banks. The report NPAs are classified according to the sector, industry, and state wise. The present study also focuses on the existing system in India to solve the problem of NPAs and comparative analysis to understand which bank is playing what role with concerned to NPAs. Thus, the study will help the decision makers to understand the financial performance and growth of public sector banks as compared to the NPAs

OBJECTIVE OF THE STUDY

Following are the objectives of the study:

- To study and understand the concept of NPA
- To analyze the bank's policy to recover the level of NPA
- To understand how corrective measures taken by bank for NPA
- To understand the credit appraisal policy and NPA recovery policy of bank

SCOPE OF THE STUDY

This report will explore an empirical approach to the analysis of Non-Performing Assets (NPAs) in Indian Banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This report aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behavior of NPAs of the three categories of banks is observed. The empirical analysis assesses how macroeconomic factors and bank-specific parameters affect NPAs of a particular category of banks. The other important results derived from the analysis include the finding that banks' exposure to priority sector lending reduces NPAs.

RESEARCH METHODOLOGY

Type of Research Design : Descriptive Research

I have used *Descriptive research* as my research design for this particular project. Descriptive research is defined as a research method that describes the characteristics of the population or phenomenon that is being studied. This methodology focuses more on the “what” of the research subject rather than the “why” of the research subject.

Data collection method : Secondary Data

For the purpose of my project *Secondary data* is used. It consists of information that already exists somewhere and has been collected for some specific purpose in the study.

Secondary Data used for my project were as follows :

- Business Magazines
- Books on mergers and acquisitions
- Research papers
- Articles
- Internet Sources

Methods used to represent the data

- **Bar Charts**

- **Pie charts**

- **Tables**

LIMITATIONS TO THE STUDY:

In the course of the study, some challenges were encountered that limited the research in one way or another and some of them are as follows so that the findings of the study are understood in proper perspective.

The limitations to the study are as follows:

- The first and foremost important limitation was time constraint.
- The subject of this project is quite vast and deep so it is very difficult to cover every aspect of the topic.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

DATA ANALYSIS AND INTERPRETATION

1. SUB-STANDARD ASSETS

The following table shows the percentage change in sub-standard assets to Gross NPA at Indian Bank.

$$\textbf{Sub-standard assets (\%)} = \frac{\textbf{Substandard Assets}}{\textbf{Gross NPA}} \times \mathbf{100}$$

TABLE NO. 1

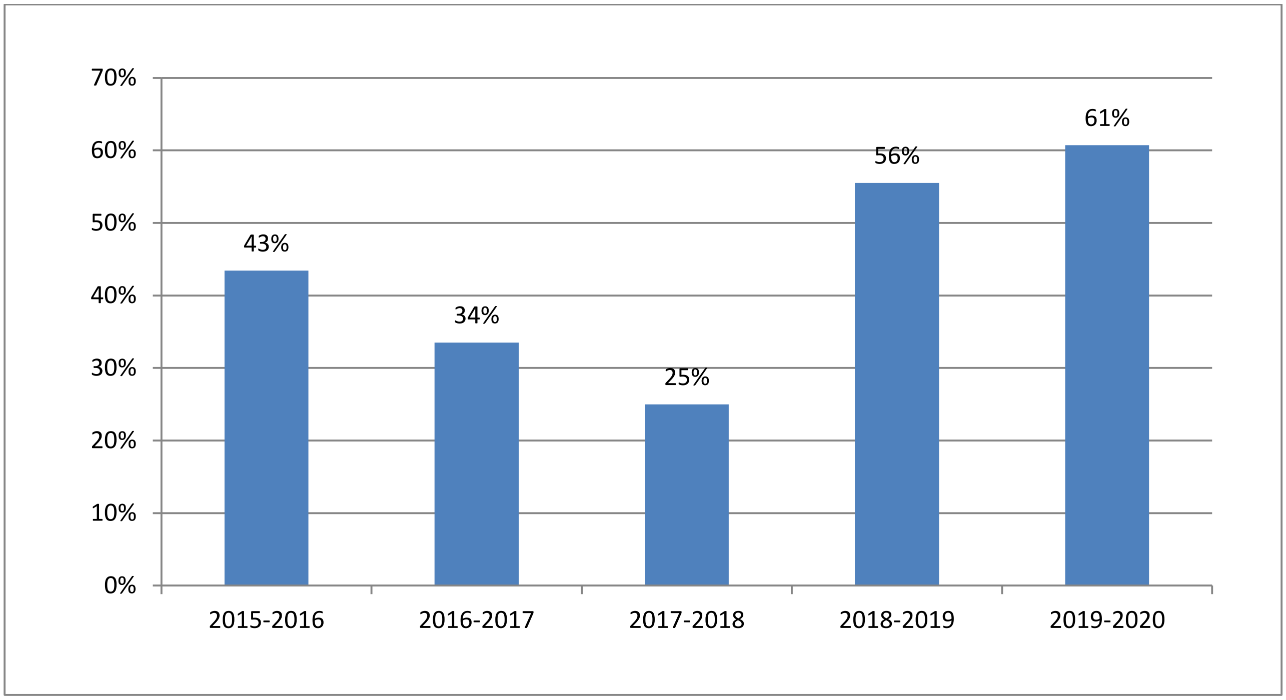
(Rs In lakhs)

SR.No	Year	Sub-Standard Assets	Gross NPA	Sub-Standard Assets (In %)
1	2015-2016	9074.82	20895.3	43.43
2	2016-2017	6438.28	19202	33.52
3	2017-2018	3823.42	14808.1	25.81
4	2018-2019	9670.49	17512.4	55.22
5	2019-2020	16057.5	26437.3	60.73

Analysis

The above table depicts that, there was noticeably diminishing sub-standard assets from 2015-16 to 2016-17, whereas in 2018-19 it raised to 55.22%. Again, further to 60.73% in 2019-2020.

Graph showing percentage change in sub-standard assets to Gross NPA given at Indian Bank.



Interpretation

The above graph reveals the sub-standard assets in percentage wise. We can observe that, in 2015-16 substandard assets was 43.43%, progressively it was decreased in 2016-17 with percentage of 33.52, with good recovery policy of Indian Bank, 2017-18 sub- standard assets condensed to 25.81%. But bank unable to continue the recovery policy in efficient manner with result of that we can view that substandard assets increased to 55.52% and 60.73% in 2018-19 and 2019-2020 respectively.

2. DOUBTFUL ASSETS

The following table shows the percentage change in doubtful assets to gross NPA.

$$\textbf{Doubtful assets (\%)} = \frac{\textbf{Doubtful Assets}}{\textbf{Gross NPA}} \times \mathbf{100}$$

TABLE NO -2

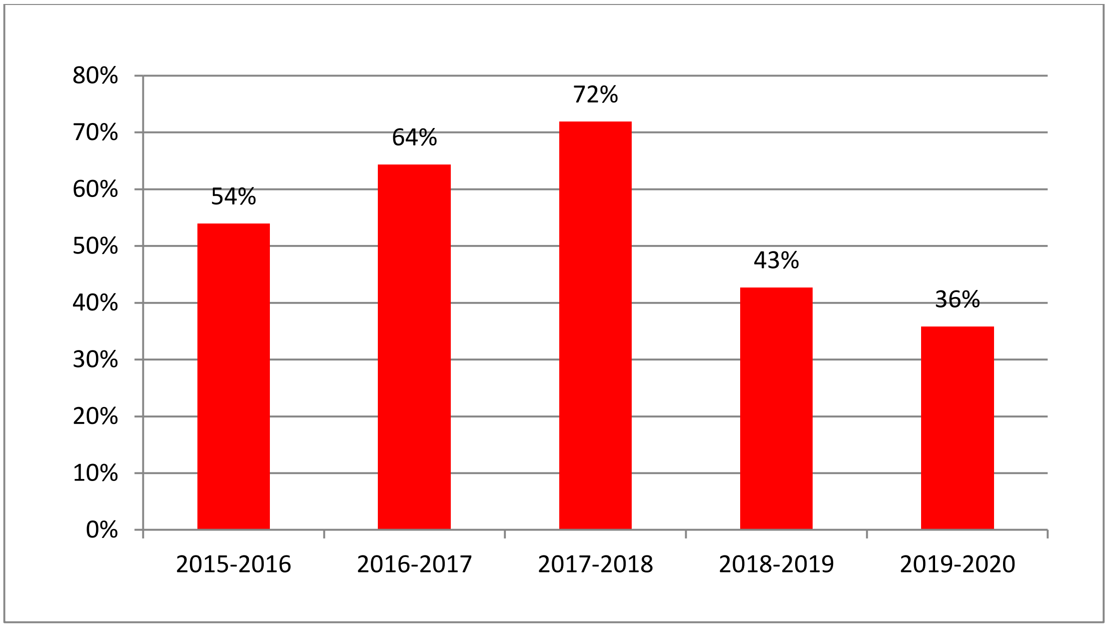
(Rs. In lakhs)

SR.NO	Year	Doubtful Assets	Gross NPA	Doubtful Assets (In %)
1	2015-16	11273.7	20895.3	53.95
2	2016-17	12358.9	19202	64.36
3	2017-18	10648.2	14808.1	71.91
4	2018-19	7478.44	17512.4	42.7
5	2019-2020	9474.95	26437.3	35.83

Analysis

The above table exhibits that the doubtful assets increased noticeably from 2015-16, 2016-17 and 2017-18 with percentage of 53.95%, 64.36%, and 71.91% respectively. Because of good management recovery policy, doubtful assets decreased in 2018-19 and 2019-2020 with 42.70% and 35.83% respectively.

Graph showing percentage change in doubtful assets to gross NPA.



Interpretation

The above graph shows that doubtful assets are increasing noticeably from 2015-16, 2016-17 and 2017-18 with 53.95%, 64.36%, and 71.91% respectively. And bank took appropriate measures to reduce doubtful assets; as a result, we can also see assets are decreased to 42.70% in 2018-19 and 35.83% in 2019-2020.

3. LOSS ASSETS

The following table shows the percentage change in loss assets to gross NPA.

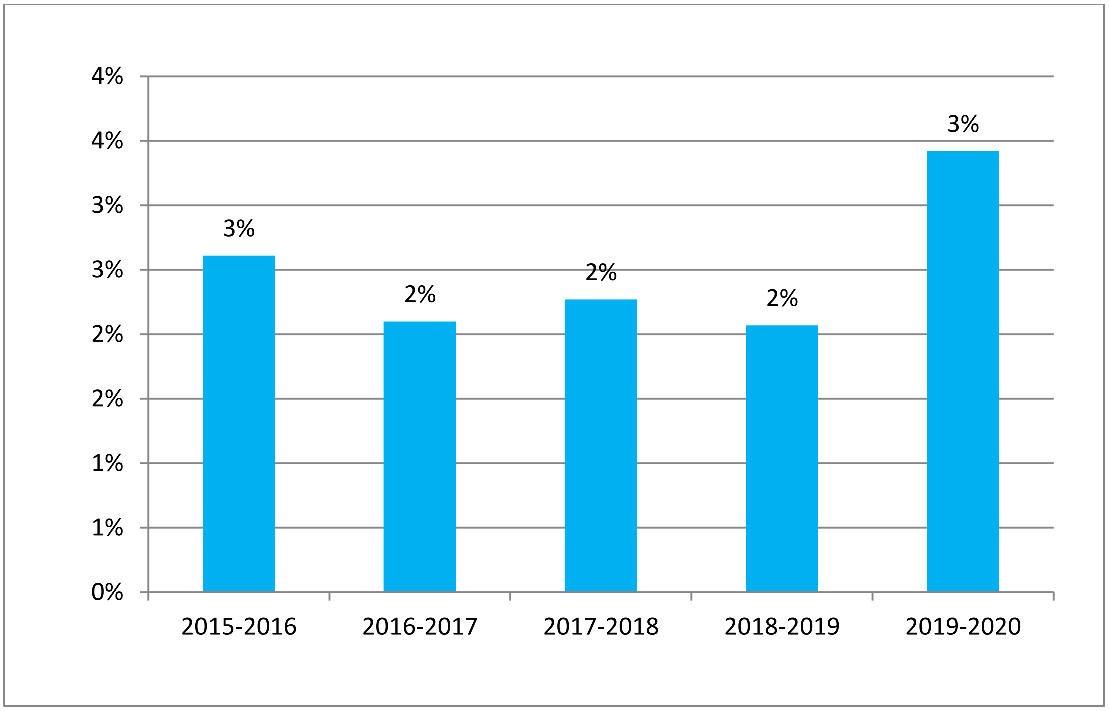
$$\textbf{Loss assets (\%)} = \frac{\textbf{Loss Assets}}{\textbf{Gross NPA}} \times \mathbf{100}$$

TABLE NO -3

SR.NO	Year	Loss Assets	Gross NPA	Loss Assets (In %)
1	2015-16	546.77	20895.3	2.61
2	2016-17	404.82	19202	2.1
3	2017-18	336.52	14808.1	2.27
4	2018-19	363.47	17512.4	2.07
5	2019-2020	904.88	26437.3	3.42

Analysis

The above table reveals that the loss assets of Indian Bank was decreasing considerably from 2015-16 with percentage of 2.61, 2016-17 with 2.10%, 2017-18 with 2.27% and 2018-19 with 2.07% but the loss of assets was increased in 2019-2020 with percentage of 3.42%, because bank management fail to take appropriate decisions at a right time to reduce the loss of assets.



Graph shows the percentage change in loss assets to gross NPA

Interpretation

The above graph reveals the loss assets to Indian Bank In 2015-16 the loss assets of apex bank was 2.61%. In 2016-17 it decreased to 2.10% and in 2017-18 it increased marginally to 2.27% because bank fails to take proper decisions at right time. In order reduce the loss of assets the bank have taken appropriate decision i.e., bank adopted SARFAESI act to reduce the loss in assets as a result it is reduced to 2.07% in 2018-19 But the decisions taken by Bank did not serve increased to 3.42% the purpose in 2019-2020 that doubtful

4. NET NPA PROVISION RATIO

The table shows the percentage change in Net NPA to Net advances at the Indian Bank

$$\textbf{Net NPA (\%)} = \frac{\textbf{Net NPA}}{\textbf{Net Advances}} \times \mathbf{100}$$

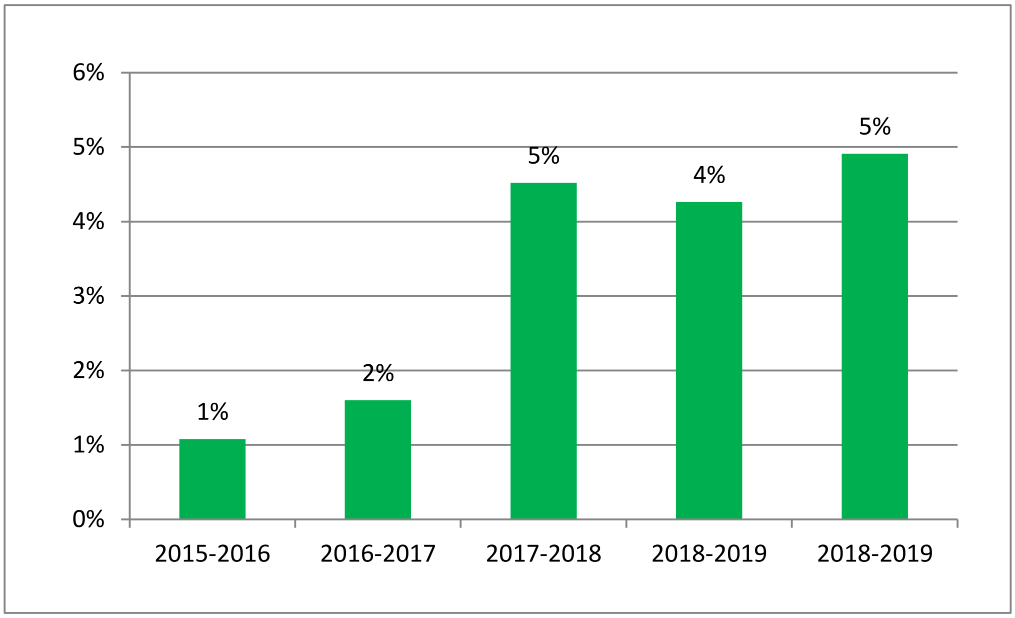
TABLE NO. 4

SL.NO	Year	Net NPA	Net Advances	Net NPA (In %)
1	2015-16	2615.3	240484	1.08
2	2016-17	3501	218245	1.60
3	2017-18	13708.1	302728	4.52
4	2018-19	16412.4	385184	4.26
5	2019-2020	25487.3	518131	4.91

Analysis

The above table reveals the Net NPA provisions of Indian Bank. Net NPA reduced step by step from 7.44% in 2015-16 to 4.31% in 2018-19 progressively, but slightly increased to 4.91% in 2019-2020

Graph shows the percentage change in Net NPA to Net advances at the Indian Bank.



Interpretation

The above graph reveals the Net NPA Provisions in Net advances from 2015-16 to 2019-2020. The Net NPA gradually reduced because of good credit appraisal policy. In 2015-16 the Net NPA was 1.08% over its net advances. In 2016-17 it reduced to 1.60%, in 2017-18 it further reduced to 4.52% and in 2018-19 it got further reduced to 4.26% but in 2019-2020 it increased marginally to 4.90% over its Net advances.

5. RATIO OF GROSS NPA TO TOTAL ADVANCES

The table shows the percentage change in Gross NPA to total advances at the Indian Bank

$$\textbf{Gross NPA (\%)} = \frac{\textbf{Gross NPA}}{\textbf{Total Advances}} \times \mathbf{100}$$

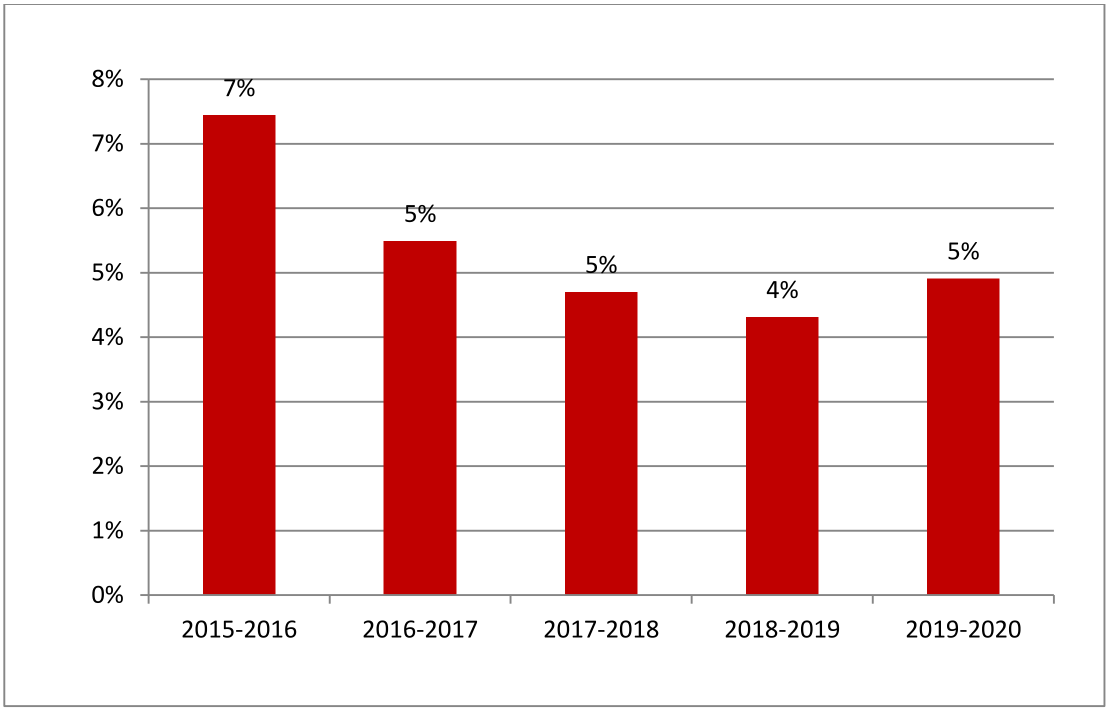
TABLE NO. 5

SR.NO	Year	Gross NPA	Total Advances	Gross NPA (In %)
1	2015-16	20895.3	280484	7.44
2	2016-17	19202	349255	5.49
3	2017-18	14808.1	314628	4.7
4	2018-19	17512.4	406284	4.31
5	2019-2020	26437.3	538151	4.91

Analysis

The above table reveals the gross NPA of Indian Bank. Gross NPA reduced step by step from 7.44% in 2015-16 to 4.31% in 2018-19 progressively, but slightly increased to 4.91% in 2019-2020

Graph shows the percentage change in Gross NPA to total advances at the Indian Bank.



Interpretation

The above graph reveals the total gross NPA in total advances from 2015-16 to 2019-2020. The total gross NPA gradually reduced because of good credit appraisal policy. In 2015-16 the gross NPA was 7.44% over its total advances. In 2016-17 it reduced to 5.49%, in 2017-18 it further reduced to 4.70% and in 2018-19 it got further reduced to 4.31% but in 2019-2020 it increased marginally to 4.91% over its total advances.

6. NPA IN AGRICULTURE SECTOR

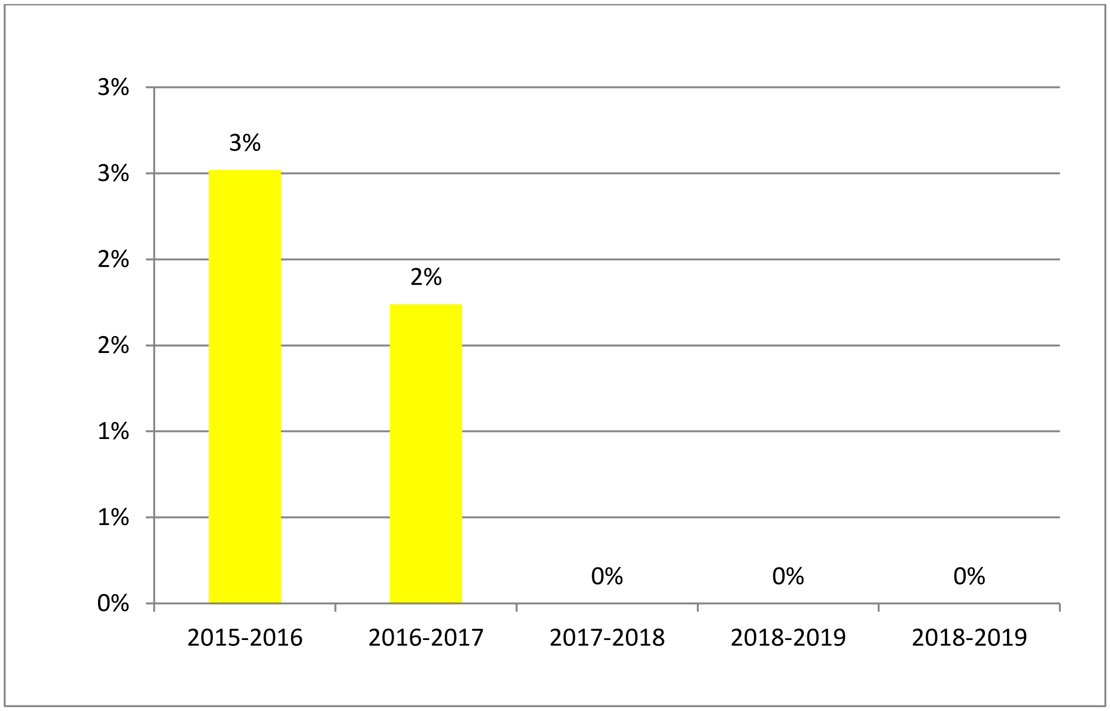
The percentage change in NPA in Agriculture sector to total advances in Agriculture sector at Indian Bank is given in the following table

TABLE NO 6

SR.NO	Year	NPA (Rs in lakhs)	Total advance (Rs in lakhs)	NPA (in %)
1	2015-16	5117.88	209012	2.44
2	2016-17	4765.47	272614	1.74
3	2017-18	0	226798	0
4	2018-19	0	269925	0
5	2019-2020	0	380227	0

Analysis

The percentage of NPA to total advance in Agriculture sector is showing as increasing trend only during the financial year 2015-16 and 2016-17 and there is no NPA in the financial year 2017-18, 2018-19 and 2019-2020. It was completely recovered by the bank and it is noticed that all farmers who took the advances, paid very promptly to the bank within due date. The above results reveal the effort has been taken to control NPA in agriculture sector advances.



Interpretation

The above chart reveals the NPA in agriculture sector to total advances from 2015-16 to 2016-17. The NPA control in agriculture is good, it reduced year by year. The specific findings of the study are that, the bank took proper measure to monitor NPA in agriculture sector.

7. NPA IN MANUFACTURING SECTOR

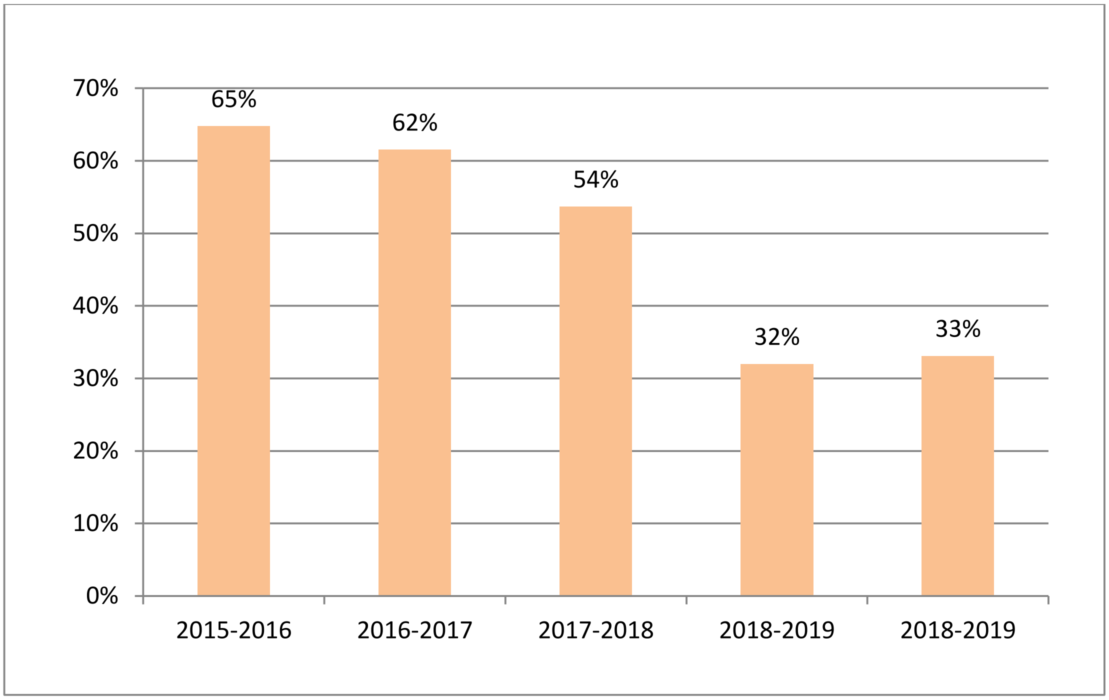
The percentage change in NPA in manufacturing sector to total advance given in manufacturing sector at Indian Bank.

TABLE NO 7

SR. NO	Year	NPA (Rs in lakhs)	Total advance (Rs in lakhs)	NPA (in %)
1	2015-16	12711.8	19627.1	64.76
2	2016-17	11501	18693.5	61.52
3	2017-18	10755.5	20039.5	53.67
4	2018-19	7511.39	23489.1	31.97
5	2019-2020	7392.35	21936.8	33.09

Analysis

The percentage of NPA to total advance in Manufacturing sector is shows increasing trend in the financial years 2015-16, 2016-17 and 2017-18. But slightly decreased during the years 2018-19 and 2019-2020. The above results reveal the efforts taken to control NPA in Manufacturing sector advances were more effective in the first three years. The percentage change in NPA in manufacturing sector to total advance given in manufacturing sector at Indian Bank is represented in the following graph.



Interpretation

The above graph reveals decreasing trend in NPA in Manufacturing sector to total advances from 2015-16 to 2018-19 and marginal increase in 2019-2020. However, the NPA in Manufacturing sector shows that is more than 30% of the total credit given, it indicates dangerous signal. Hence the bank has to take proper measure to monitor NPA in Manufacturing sector in time.

8. NPA IN RETAIL SECTORS

The percentage change in NPA in retail sector (retail than Agriculture and manufacturing) to total advance given by Indian Bank.

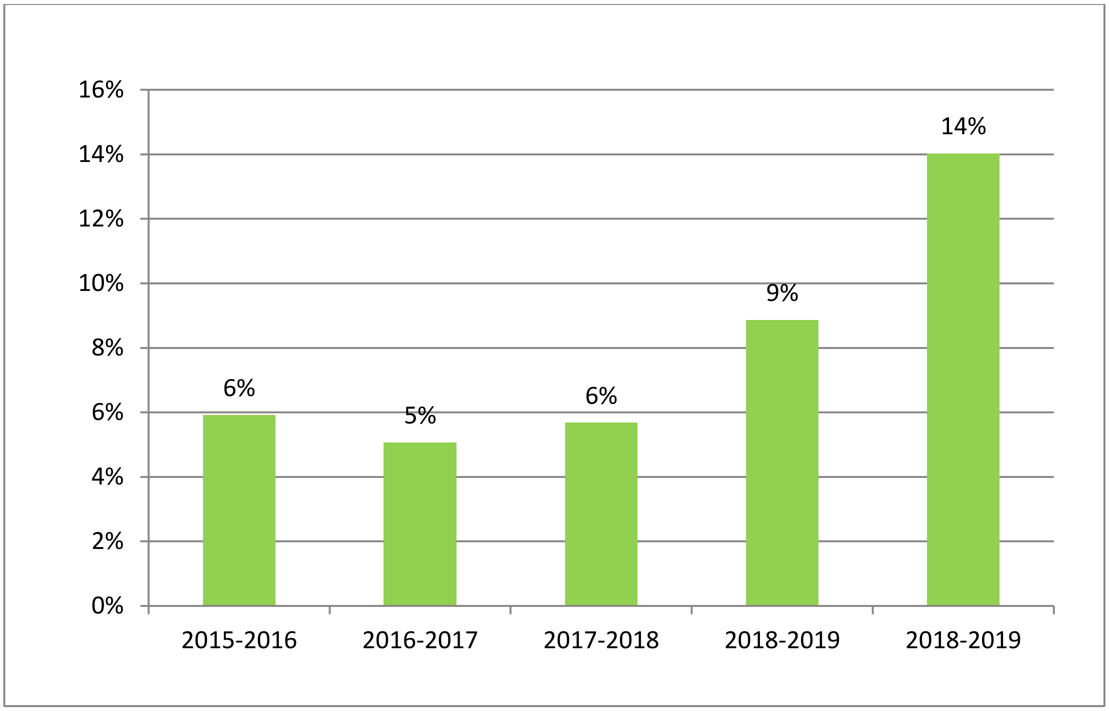
TABLE NO 8

SR. NO	Year	NPA (Rs in lakhs)	Total advance (Rs in lakhs)	NPA (in %)
1	2015-16	3065.61	51844.1	5.91
2	2016-17	2935.5	57946.8	5.06
3	2017-18	3847.08	67790.8	5.67
4	2018-19	10001	112869	8.86
5	2019-2020	19044.9	135684	14.03

Analysis

The percentage of the total NPA in retail sector to total credit given shows the decreasing trend during the financial year 2015-16, 2016-17 and thereafter, it shows increasing trend during the years 2017-18, 2018-19 and 2019-2020.

The percentage change in NPA in other sector to total advances given in retail sector at Indian Bank



Interpretation

The above graph reveals the NPA in retail sector to total advances is decreasing from 2015-16 to 2016-17. And thereafter, there is step increase in the following four years indicates unsafe/ dangerous signal. Hence bank has to take proper measure to monitor NPA in retail sector.

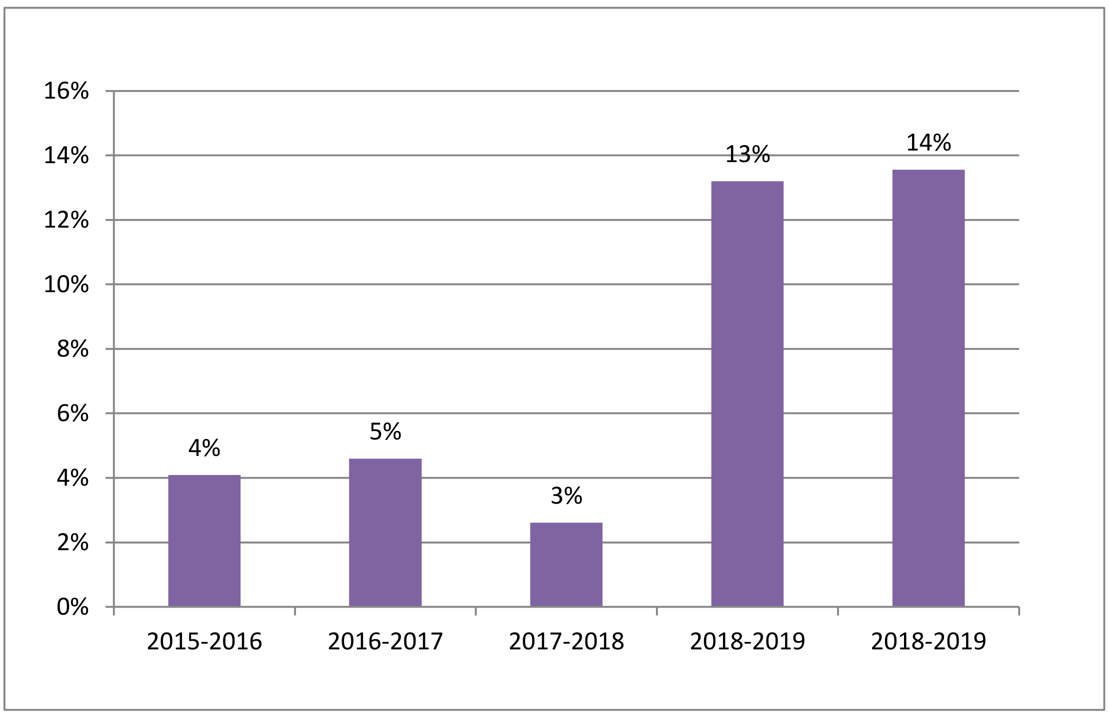
9. NPA IN EDUCATION SECTORS

The percentage change in NPA in education sector to total advance given by Indian Bank.

SR. NO	Year	NPA (Rs in lakhs)	Total advance (Rs in lakhs)	NPA (in %)
1	2015-16	2165.61	52844.1	4.098
2	2016-17	2745.5	59646.8	4.60
3	2017-18	2347.08	89790.8	2.61
4	2018-19	15001	113568	13.20
5	2019-2020	17044.8	125644	13.56

Analysis

The percentage of the total NPA in education sector to total credit given shows the decreasing trend during the financial year 2015-16, 2016-17 and thereafter, it shows increasing trend during the years 2017-18, 2018-19 and 2019-2020.



CHAPTER 5

FINDINGS AND RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

Findings

- Non performing asset (NPA) means an asset or account of borrower, which has been classified by bank or financial institution as sub –standard, doubtful or loss asset, in accordance with the direction or guidelines relating to assets classification issued by RBI.
- The NPA can be recovered through the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest **Act**, 2002 (also known as the **SARFAESI Act**) which is an Indian law. It allows banks and other financial institution to auction residential or commercial properties (of Defaulter) to recover loans.
- The Study reveals the loss assets to Indian Bank In 2015-16 the loss assets of apex bank was 2.61%. In 2016-17 it decreased to 2.10% and in 2017-18 it increased marginally to 2.27% because bank fails to take proper decisions at right time. In order reduce the loss of assets the bank have taken appropriate decision i.e., bank adopted SARFAESI act to reduce the loss in assets as a result it is reduced to 2.07% in 2018-19.The Study reveals the Net NPA provisions of Indian Bank. Net NPA reduced step by step from 7.44% in 2015-16 to 4.31% in 2018-19 progressively, but slightly increased to 4.91% in 2019-2020
- The Study reveals the total gross NPA in total advances from 2015-16 to 2019-2020. The total gross NPA gradually reduced because of good credit appraisal policy. In 2015-16 the gross NPA was 7.44% over its total advances. In 2016-17 it reduced to 5.49%, in 2017-18 it further reduced to 4.70% and in 2018-19 it got further reduced to 4.31% but in 2019-2020 it increased marginally to 4.91% over its total advances.

Suggestions

- Effective and regular follow-up of the end use of the funds sanctioned is required to ascertain any embezzlement or diversion of funds. This process can be undertaken every quarter so that any account converting to NPA can be properly accounted for.

- Combining traditional wisdom with modern statistical tools like Value-at-risk analysis and Markov Chain Analysis should be employed to assess the borrowers. This is to be supplemented by information sharing among the bankers about the credit history of the borrower. In case of new borrowers, especially corporate borrowers, proper analysis of the cash flow statement of last five years is to be done carefully.

- A healthy Banker-Borrower relationship should be developed. Many instances have been reported about forceful recovery by the banks, which is against corporate ethics. Debt recovery will be much easier in a congenial environment.

- Assisting the borrowers in developing his entrepreneurial skills will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds.

- Countries such as Korea, China, Japan, Taiwan have a well-functioning Asset Reconstruction/ Recovery mechanism wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. In India, there is an absence of such mechanism and whatever exists, it is still in nascent stage. One problem that can be accorded is the pricing of such loans. Therefore, there is a need to develop a common prescription for pricing of distressed assets so that they can be easily and quickly disposed. The ARCs should have clear ‘financial acquisition policy’ and guidelines relating to proper diligence and valuation of NPA portfolio.

- Some tax incentives like capital gain tax exemption, carry forward the losses to set off the same with other income of the Qualified Institutional Borrowers (QIBs) should be granted so as to ensure their active participation by way of investing sizeable amount in distressed assets of banks and financial institutions.

- So far, the Public Sector Banks have done well as far as lending to the priority sector is concerned. However, it is not enough to make lending to this sector mandatory; it must be made profitable by sharply reducing the transaction costs. This entails faster embracing of technology and minimizing documentation.

- Commercial Banks should be allowed to come up with their own measures to address the problem of NPAs. This may include waiving and reducing the principal and interest on such loans, or extending the loans, or settling the loan accounts. They should be fully authorized and they should be able to apply all the preferential policies granted to the asset management companies.

- Another way to manage the NPAs by the banks is Compromise Settlement Schemes or One Time Settlement Schemes. However, under such schemes the banks keep the actual amount recovered secret. Under these circumstances, it is necessary to bring more transparency in such deals so that any flaw could be removed.

CHAPTER 6

CONCLUSION

CONCLUSION

Today the Net NPAs of Indian PSBs (which account for around three-fourths of the total assets of Indian banking industry) are as low as 0.72 percent and gross NPAs are at 2.5 percent. However, once there is a slowdown in private expenditure and corporate earnings growth, companies on these banks' books will not be in a position to service their debts on time and there is a strong likelihood of generation of new NPAs. Moreover, he also suggests that with rising interest rates in the government bond market, the banks' treasury incomes have declined considerably.

So, banks will not have enough profits to make provisions for NPAs Under these circumstances, management of NPAs are a difficult task. Therefore, my study focused on the problem of NPAs being faced by the public sector banks and its management. Furthermore, in the context of NPAs on account of priority sector lending, it was pointed out that the statistics may or may not confirm this. There may be only a marginal difference in the NPAs of banks' lending to priority sector and the banks' lending to private corporate sector.

Against this background, the study suggests that given the deficiencies in these areas, it is imperative that banks need to be guided by fairness based on economic and financial decisions rather than system of conventions, if reform has to serve the meaningful purpose. Experience shows that policies of liberalization, deregulation and enabling environment of comfortable liquidity at a reasonable price do not automatically translate themselves into enhanced credit flow.

Although public sector banks have recorded improvements in profitability, efficiency (in terms of intermediation costs) and asset quality in the 1990s, they continue to have higher interest rate spreads but at the same time earn lower rates of return, reflecting higher operating costs. The fact that in an increasing rate regime, quality borrowers would switch over to other avenues such as capital markets, internal accruals for their requirement of funds. Under such circumstances, banks would have no option but to dilute the quality of borrowers thereby increasing the probability of generation of NPAs. In another study, lending rates of banks have not come down as much as deposit rates and interest rates on Government bonds.

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