

**A  
SUMMER INTERNSHIP PROJECT REPORT**

**ON  
“A STUDY OF NPA MANAGEMENT”**

**AT  
SHREE SAI SAMARATHA NAGARI SAHAKARI PATSANSTHA, SHIRDI**

**SUBMITTED TO  
SAVITRIBAI PHULE PUNE UNIVERSITY, PUNE  
IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF MASTER OF  
BUSINESS ADMINISTRATION (MBA)**

**SUBMITTED BY  
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NASHIK**

**BATCH 2020-2022**

## **DECLARATION**

I, the undersigned, hereby declare that the Project Report entitled **“A Study of NPA Management”**, written and submitted by me to the University of Pune, Pune in partial fulfillment of the requirements for the award of degree of Master of Business Administration under the guidance of Ms. Seema Dhande is my original work and the conclusion drawn therein are based on the material collected by myself.

PLACE: NASHIK (SAURABH KASHINATH AGRE)

## ACKNOWLEDGMENT

With great pleasure I express my gratitude to the management of **Shree Sai Samaratha Nagari Sahakari Patsanstha, Shirdi**, For giving me this opportunity to work as a summer trainee in their organization, the guidance and support they have provided by the company have really made a learning experience for me. To begin with I would like to thank Mr. Gorakshanath Sapike Sir for assisting me throughout the training. Their advice was invaluable and indispensable. I express my sincere gratitude to my project guide Ms. Seema Dhande for her guidance and wholehearted cooperation throughout the project. This short period was full of rich experience, which will have me in my future career. It has been enriching experience learning about the practical aspect of business and application of idea learnt in business environment.

(SAURABH KASHINATH AGRE)

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## **EXECUTIVE SUMMARY**

The project aims studying the Prudential Norms of Income Recognition, Asset classification and provisioning pertaining to advances. Banking generally encourages loans as it has the effect of funds being transferred from system to productive purpose which results into economic growth. However, lending also carries credit risk which arises from the failure borrower to fulfill its contractual obligations either during the course of transaction or on a future obligation.

An asset is classified as Non-Performing Asset (NPA) if dues in the form of principal and interest are not paid by borrower for period of 90 days with effects from March 2013. Performance in terms of profitability is benchmark for banks. However, increase in NPA has direct impact on profitability of the banks. To achieve these banks, have to reduce default rate.

The project consists of analysis of defaulters, to identify the problems associated with recognizing credit risk of the defaulters. Analysis of such problems has resulted in some recommendations which when followed prior to lending may reduce the chances of defaults.

Types of NPA:

- Gross NPA: reflects the quality of the loan made by the banks.
- Net NPA: reflects the actual burden of the banks.

The main reason behind NPA would be lack of proper enquiry by the bank, wilful defaulter, change in government policies etc. which could affect the bank by restriction on flow of cash by the bank for sanctioning a loan, drain of profit, bad effects on goodwill, etc.

There are different acts and institution for the NPA recovery like SARFAESI ACT, 2002; SARC; ARC; DRT; Lokadalats; etc.

Current status of NPA in Indian banking system: analysis of the RBI NPA data demonstrates interesting recovery trends by Legal Channels. The NPA involved has increased for all three channels: Lok Adalats, DRTs (Debt Recovery Tribunals), SARFAESI Act. However, the highest year-on-year increase has been with the Lok Adalats (i.e. 80% per annum over last two years). The amount recovered by Lok Adalats however

is miniscule - a tiny 2% of the NPA amount. However, the recovery trend for this channel (as percentage of NPA involved) has been steadily falling. The Hindu Business Line suggests that this is being driven by majority of debtors who have been issued notice under the SARFAESI Act getting a stay from a High Court or a DRT.

**CHAPTER 1**  
**INTRODUCTION**



## **1.1 Introduction**

What Is a Nonperforming Asset (NPA)?

A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations.

Nonperforming assets are listed on the balance sheet of a bank or other financial institution. After a prolonged period of non-payment, the lender will force the borrower to liquidate any assets that were pledged as part of the debt agreement. If no assets were pledged, the lender might write-off the asset as a bad debt and then sell it at a discount to a collection agency.

In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days. While 90 days is the standard, the amount of elapsed time may be shorter or longer depending on the terms and conditions of each individual loan. A loan can be classified as a nonperforming asset at any point during the term of the loan or at its maturity.

## **1.2 OBJECTIVES OF THE STUDY**

- To study the policy regarding Non Performing Asset and it's calculation.
- To make the comparison of NPA for last three years.
- To study the management of NPA.
- To analyse the impact of NPA on assets.
- To study the impact of NPA on profitability .
- To study the measures of recovery of NPA.

### **1.3 SCOPE OF THE STUDY**

The study of NPA is restricted to the banking operations of Shirdi branch of **Shree Sai Samaratha Nagari Sahakari Patsanstha, Shirdi**. This study ensures the ups and down of NPA of Shirdi branch, and its effects on financial viability and profitability of a branch. This is not a comparative study to make a bench marking of Shree Sai Samaratha Nagari Sahakari Patsanstha or any other bank.

Fundamental banking business is very similar the world over a banker is a dealer in money and credit. The business of banking consists of borrowing and lending. Bank acts as financials intermediaries between savers (lenders) and investor ( borrowers) by accepting deposit of money from the large number of the customer and the lending a major portion of accumulated "POOL" of money to those who wish to borrow.

## **1.4 LIMITATIONS OF THE STUDY**

The project was conducted in a short span of 2 months which itself acts as constraint. Moreover, it also puts pressure for data collection and analysis of the data.

2. It is based on the study of only one nationalized bank.
3. The study reveals the reasons only from the point of view of the bank and not the view of the customers.
4. As per the bank's policy there are restrictions on disclosing some information data.
5. Approximate values are used for the analyzing. Hence the results also reveal the approximate values.

## **1.5 RATIONALE OF THE STUDY**

Rationale of study refers to the worth and utility of the study from the future point of view. Following is the worth and utility of the study from the future point of view:

- The project work will help me in my future job prospective, as it will guide me to conduct satisfactory survey or any other survey, interviews techniques for primary data collection.
- The study of the project will help in gaining practical knowledge.
- It will help to increase Self-Motivation for entering in the Banking Sector.
- It will help to make an action plan as per requirements of Banking Sector.
- The project work will help to improve efficiency and effectiveness of an organization.
- It will help me from the financial and operational points of views.

The recommendations and suggestions by this project work will guide to know the various dimensions and aspects of NPA Management.

## **CHAPTER 2**

### **COMPANY PROFILE**

## **2.1 MISSION OF THE ORGANIZATION**

### **Mission statement**

"To emerge as one of the premier and most preferred banks in the district by adopting highest standards of professionalism and excellence in all the areas of working!!!"

## **2.2 HISTORY OF THE ORGANIZATION.**

### **Bank Profile**

Trust and Security, founded on these two strong pillars, **SHREE SAI SAMARATHA NAGARI SAHAKARI PATSANSTHA, SHIRDI** has earned a place of repute. Established on 11<sup>th</sup> May 1986 Bank had a humble beginning.

Challenges were aplenty but with the strength of strategy and togetherness we moved ahead. Until March 1996 the deposits amounted to 2 crores 21 lakhs. In 1998 we shifted to our own, well-equipped building and the deposits doubled in just six months. In 1999 entire operations were computerized.

Shree Sai Samarath Nagari Sahakari Patsanstha is a socially responsible organization. Social activities such as finance for education to the needy, play school, blood donation camps, loans to small scale businessmen, assistance to the victims of natural calamities are undertaken.

Over the years Shree Sai Samarath Nagari Sahakari Patsanstha has earned unwavering trust of its customers. In 2021, we completed 45 years of successful finance. It is the success of our teamwork and the trust and support of our customers and well-wishers. The deposits have crossed the mark of 50 crores. The organization boasts of state-of-the-art technology and modern services along with dedicated staff.

Today the name Shree Sai Samarath Nagari Sahakari Patsanstha is synonymous with trust and transparency. Under the visionary leadership, the organization is taking long strides as a progressive and forward-looking co-operative credit society. It has been a trailblazing journey and the future looks bright.

## **2.3 SOME GLORIOUS ACHIEVEMENTS:**

- Certified as a Scheduled Bank from RBI on 22 April, 1996.
- Certified as a Multistate Scheduled Bank from RBI on 25 Oct, 2000.
- Working areas: (Ahmednagar) Maharashtra.
- Branch:Shirdi

In the new edge of technology, there are vast customer services options to provide better banking solutions. In India's 500 topmost software companies, 25% software companies are in our Maharashtra as well as 40% people using internet. In such situation the computerized banking concept is not only limited for the cosmopolitan cities but it started on the rural areas too. So reach more and more customers and provide them the fastest way of services, the bank moved towards the Core Banking Solutions and successfully completed his core banking solutions and implemented for branch in March 2007. Because of the strong technology base, bank is always ahead in banking.

To improve the strength of staff and officers, bank arranges time to time training schedules for the advance banking and better customer care. This bank is not behind in its social commitments.

## **2.4 INTRODUCTION OF THE ORGANIZATION**



### **Features at a Glance**

- Dedicated Board, for Dynamic decisions.
- Branch is with core banking facility.
- Strong Reserves and Best CRR at 38.91%
- Consistency in Profit & Growth for last 45 years.
- Value added services for the Customers, Such as Franking, Pan Card, and Electricity Bill Payments etc.
- Working as a bridge, between Rural & Urban.
- Transparency & Simplicity.

### **Product of the bank**

#### **1. Personal Loan:-**

To meet the personal expenses such as Medical Expenses, Travel expenses etc.

#### **2. Home Loan:-**

For Purchase of **Flat/Bungalow/Construction** of own house.

#### **3. Education Loan:-**

For Higher Education in **India** and **Abroad**.

#### **4. Super Fast Car Loan:-**

For Purchase a **New Car**.

#### **5. Doctor Delight loan:-**

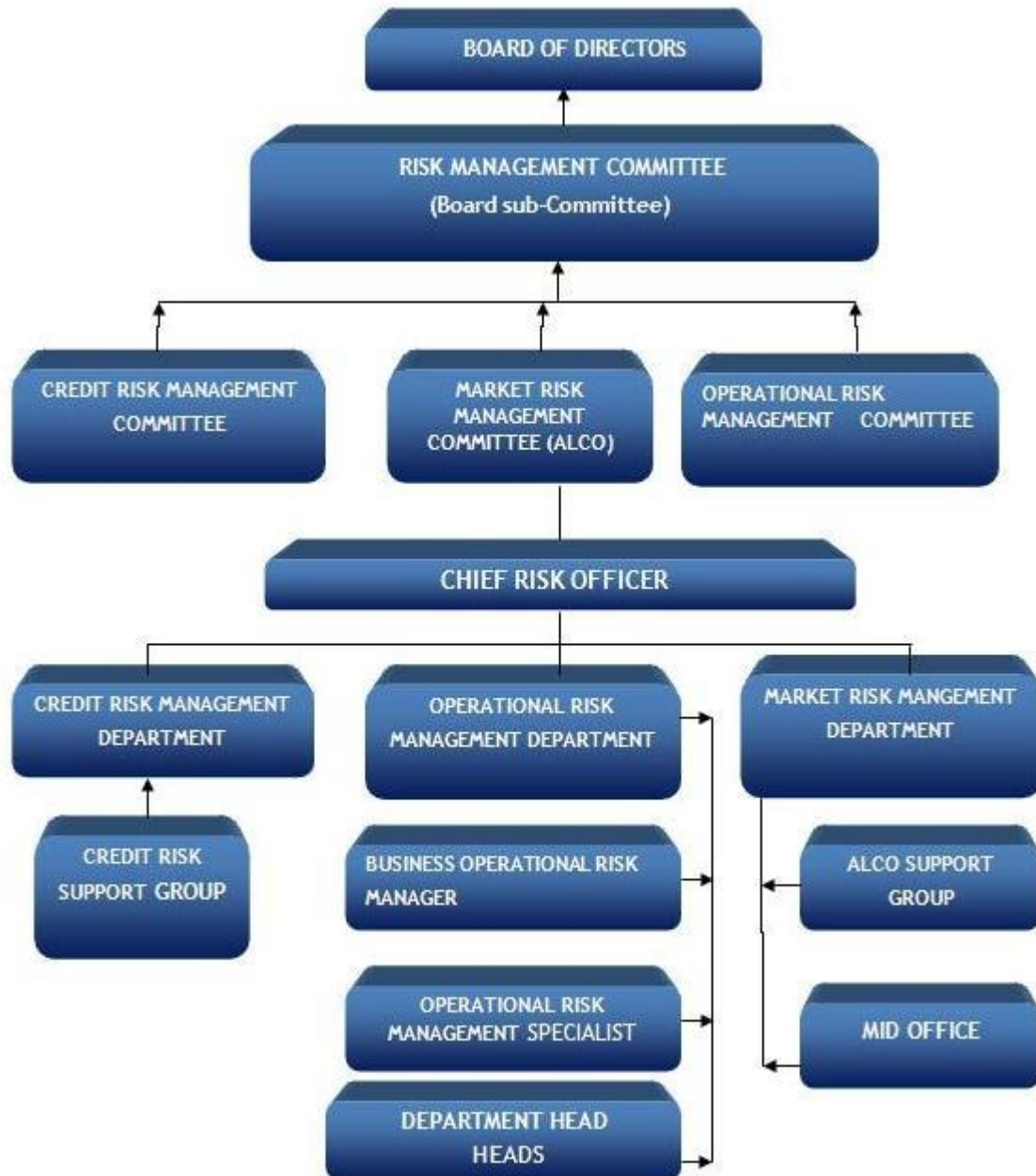
For Purchasing a New **Medical** Equipment.

#### **6. SME LOAN:-**

For Financial Support to **Small & Medium** Enterprise.

## **2.5 ORGANIZATIONAL STRUCTURE**

In order to enhance and fine – tune, the existing risk management practices and in line with the RBI guidelines, bank has already set up following organizational structure.



## **CHAPTER 3**

### **REVIEW OF LITERATURE**

Many published articles are available in the area of non-performing assets and a large number of researchers have studied the issue of NPA in banking industry. A review of the relevant literature has been described. Kumar (2013) in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing

Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years.

One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs). Selvarajan & Vadivalagan (2013) in A Study on Management of Non-Performing Assets in Priority.

1. Varuna Agarwala and Nidhi Agarwala  
Non-Performing Assets In the Indian Banking Industry  
Publication Date: 13 Dec 2019

**Purpose** – The level of non-performing assets (NPAs) best indicates the soundness of the banking sector of a country. The purpose of this study is an effort to look into the contribution of the different banks individually to the NPA in the industry by looking into its growth pattern during the period 2010-2017. Further, the study is made to look into the effect of different groups of banks, namely, State Bank of India (SBI) and its associates, nationalised banks and private sector banks on the banking industry in this regard

**Design/methodology/approach** – The individual private sector banks, nationalised banks and SBI and its associates have been considered for the purpose of the study. The analysis is based on secondary data collected from the Reserve Bank of India website for the period 2010-2017. The geometric mean has been used as a statistical tool for arriving at the mean growth rate of gross NPAs. Further, refinement of the result is done by comparing the growth of gross NPAs of individual banks with that of the average growth rate.

**Findings** – The assessment of private sector banks reveals that the growth rate of NPAs is low as compared to the nationalised banks, as well as the SBI and its associates. The nationalised banks and the associate banks of SBI failed to handle the issue of poor loans effectively due to which the growth in such loans has been phenomenally high.

**Originality/value** – The research is interesting as the study period follows the financial crisis. There is no such previous study that has looked at the perspective of banking from this angle. The research is valuable from two angles. Firstly, it brings to light the situation of the different categories of banks with regard to NPAs. Secondly, the information can be useful for investors as the issue of poor loans is a relevant one for them because it has an impact on the profitability of banks and thereby the future prospects.

2. Prof Preeti Sharma  
Publication Date: 14 Feb 2018
3. Atul Bansal

### **Abstract**

The asset quality of banks is one of the most important indicators of their financial health. It also reflects the effectiveness of banks' credit risk management and the recovery environment. It is important that the signs of distress in all stressed accounts are detected early and those which are viable are also extended restructuring facilities expeditiously to preserve their economic value. (RBI/2012-13/208). The Indian banking sector has been facing severe problems of raising Non- Performing Assets (NPAs). The NPAs growth directly affects the profitability of banks. The problem of NPAs is not only affecting the banks but is affecting the economy as a whole. In fact high level of NPAs in Indian banks is nothing but a reflection of industry and trade. NPA do not generate any income, whereas, the bank is required to make provisions for such as assets. NPAs do not just reflect badly in a bank's account books, they adversely impact the working of economy. There are many research conducted on the topic of Non- Performing Assets (NPA) Management, concerning particular bank, comparative study of public and private banks etc. In this paper the researcher is considering the aggregate data of select public sector and private sector banks and attempts to compare analyze and interpret the NPA management from the year 2010 -2015. On the conceptual side, it gives an overview of NPA, various types of NPA and its cause. The tools used in the study are Least square method and ANOVA. The findings reveals the percentage of Gross NPA to Gross advances is increasing for public banks, the Estimated Gross NPA for 2014-15 is also more in public banks as compared to private banks and from the ANOVA test, it is concluded Ratio of Gross NPA to Gross Advances for public sector and private Sector Banks does not have significant difference between 2010 to 2015.

4. Ankit Garg Research Scholar, Punjabi University, Patiala, INDIA

DOI: <https://doi.org/10.29121/ijetmr.v3.i11.2016.68>

Keywords: NPA, Bank, Profitability, Lending

### **Abstract**

Non-performing Asset is one of the prevalent problem of Indian Banking sector. For the past three decades, the banking system has several outstanding achievements to its credit. Many banks are facing the problem of NPAs which hampers the business of the banks. Nonperforming assets are a drain to the banks. Various research studies have been conducted to analyze the root causes of NPA. The following study tries to understand the

concept of NPA, its causes and impact on profitability. The problem of NPA impacts profitability, Liquidity and results in credit loss. Unless and otherwise proper remedial measures are taken the quantum of non-performing assets cannot be reduced and the bank will incur losses to a great extent.

## **CHAPTER 4**

### **RESEARCH METHODOLOGY**

#### **Research design**

Research is an art of scientific investigation through search of new facts in any branch of knowledge. It is movement from unknown to known. The study of research methodology

gives the student the necessary training in gathering materials required, and also training in technique for the collection of data appropriate to particular problem. It helps in the use of statistics, questionnaire and controlled experimentation and in recording evidence, sorting it out and interpreting it.

**Research Methodology** is the systematic, theoretical analysis of the methods applied to a field of study, or the theoretical analysis of the body of methods and principles associated with a branch of knowledge. A Research Methodology does not set out to provide solutions but offers the theoretical underpinning for understanding which method, set of methods or so called “best practices” can be applied to a specific case.

## **TYPES OF RESEARCH**

### **QUANTITATIVE RESEARCH**

Quantitative research aims to measure the quantity or amount and compares it with past records and tries to project for future period. In social sciences, “quantitative research refers to the systematic empirical investigation of quantitative properties and phenomena and their relationships”. Statistics is the most widely used branch of mathematics in quantitative research. Statistical methods are used extensively within fields such as economics and commerce

## **METHODS OF DATA COLLECTION**

Data collection is an elaborate process in which the researcher makes a planned search for all relevant data and is the foundation of all financial research. It is the raw material with which a marketer researcher functions. The task of data collection begins after a research problem has been defined and research plan is chalked out. While deciding about the method of data collection to be used for the study the researcher should keep in mind two types of data viz., Primary Data and Secondary Data.

## **SOURCES OF DATA**

### **(1) Primary Data:**



The data that is being collected for the first time or to particularly fulfill the objectives of the project is known as primary data. The data can be classified as primary data, which is gathered for the first time by the researcher and thus happen to be original in character.

Interpersonal interviews of authorities of Shree Sai Samarath Nagari Sahakari Patsanstha and observation and Practical work in bank this method were used to collect the Primary Data

## **(2) Secondary Data Collection:**

Secondary data may be defined as data that has been collected earlier through various processes for some purpose other than the purpose of the present study. There are various sources of secondary data:

- Annual reports
- Bank A/C statements
- Final A/C of a branch for the F.Y 2018-19, 2019-20 and 2020-21

## **CHAPTER 5**

### **DATA ANALYSIS AND INTERPRETATION**

**Data Analysis And Interpretation**

**Impact on profit & loss due to NPA.**

### Example

Say an advance of Rs.50,000/- become NPA as on 31/3/2020 in Shree Sai Samarath Nagari Sahakari Patsanstha,

We have to analyse the following first:

- 1) The advance Rs.50,000/- what is the quantum of the fund to be mobilized.
- 2) How much is to be invested from the fund mobilised under SLR, CRR.
- 3) What will be the earning or loss out of the above NPA.

Presently SLR:18% AND CRR 4%

Whatever deposit is mobilised, out of the SLR/CRR is to be maintained first then the rest amount can be lent at the maximum.

In the above case

<b>Deposit</b>	<b>SLR/CRR</b>	<b>Lending</b>
100	31	69

**OR,**

Rs,69 can be lent out of Rs 100/-

Rs, 50,000/- can be lent out of 72,464 /- (app. 72,463.76)

### Composition

<b>Deposit</b>	<b>Investment</b>	
<b>72,464/-</b>	<b>SLR 18 %</b>	<b>18116</b>
	<b>CRR 4 %</b>	<b>4348</b>
	<b>Advance</b>	<b>50,000</b>
<b>72,464/-</b>		<b>72,464/-</b>

### Returns

			Cost of fund Rs	Int. Loos Rs	Income Received Rs
A	1	Deposit of Rs 72,464/-Int.@ 8.5%	6159		
	2	If Rs 50,000/- slips to sub-standard provision for first year @ 10% p.a ( provided at fully secured)	5,000/-		
	3	Dividend provided 0n CRR 13.81% on Rs 5,000/-	690.50		
B	1	Interest loss @ 10.28 % PLR on 50,000/-		5140/-	
C	1	Earning on @ 7.5% on SLR 18116/-			1359/-
	2	Interest on CRR @ 7% 4348 /-			304/-
		Toatl	11849.5/-	5140/-	1663

**Loss (1 +2) = 11,850 +5140 = 16,990 /-**

**Gain = 1359+304 = 1663 / -**

**Total impact on P/L A/c = 16,990-1663= 15,327 /- los**

## **CONCULSION**

Preventing Rs 50,000/ to become NPA is more beneficial for bank than the mobilizing deposit of equal amount or fresh lending of the same amount.

## **REPORTING OF NPA'S**

While reporting of NPA figures to RBI , the amount held in the interest suspense account, should be shown as a deduction from gross NPA as well as advances arriving at the net NPA. Banks which do not maintain interest suspense account for banking interest due to NPA accounts, may furnish the amount of interest receivable on NPA's as a foot note to the report. Whenever NPA's reported to RBI , the amount of technical write off, if any should be reduced from the outstanding gross advances and gross NPA's to eliminate ant distortion in the quantum of NPA's being reported.

**Position of Net advances / Net NPA's of Shree Sai Samarath Nagari  
Sahakari Patsansthaas on 31/3/2019**

<b>Sr.no</b>	<b>Particulars</b>	<b>31/3/2019 Amt(in cores)</b>	<b>31/3/2020 Amt(in cores)</b>	<b>31/3/2021 Amt(in cores)</b>
<b>1.</b>	<b>Gross Advances</b>	<b>68058.59</b>	<b>48521.04</b>	<b>36977.15</b>
<b>2.</b>	<b>Gross NPA's</b>	<b>2659.27</b>	<b>3119.68</b>	<b>3485.44</b>
<b>3.</b>	<b>Gross NPA's as precentage to Gross Advances</b>	<b>3.90%</b>	<b>6.43%</b>	<b>9.43%</b>
<b>4.</b>	<b>Deduction</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>- Balance in interest suspense account/OIR*</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>- DICGC/ECGC claims received and held pending adjectment</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>- Part payment of NPA accounts received and kept in suspense account</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Total deduction</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>5.</b>	<b>Total NPA provision held (  BDDR, special BDDR balance after appropriation)</b>	<b>5864.40</b>	<b>5475.56</b>	<b>5011.07</b>
<b>6.</b>	<b>Net Advances ( 1-4-5 )</b>	<b>62194.19</b>	<b>43045.48</b>	<b>31966.08</b>
<b>7.</b>	<b>Net NPA ( 2-4-5 )</b>	<b>-5.15</b>	<b>-5.47</b>	<b>-5.63%</b>
<b>8.</b>	<b>Net NPA as percentage of net Advances.</b>			

**\*i.e accrued interest on NPA accounts if included ( capitalised ) in loans and advances**

**CERTIFIED that the non performing assets have been worked out as per the RBI instruction and provision made accordingly.**

**Chief Executive Officer**

**Statuory Auditors**

## **Types of NPA**

NPA have been divided or classified into following four types:-

1. **Standard Assets:** A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.
2. **Sub-Standard Assets:** All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets.
3. **Doubtful Assets:** All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets.
4. **Loss Assets:** All those assets which cannot be recovered are called as Loss Assets.

## Provision on types of assets

Provision is allocating money every year to meet possible future loss

	Types of Assets	Provisions
1	Standard Assets	0.25% for all types of Standard Advances
2	Sub-Standard Assets	10% for all types of Standard Advances
3	Doubtful Assets	
	-Up to One Year	100% of Unsecured Advances and 20% of Secured Advances
	-One to three Year	100% of Unsecured Advances and 30% of Secured Advances
	-more than three Year	100% of Unsecured Advances and 100% of Secured Advances
4	Loss Assets	100% of Unsecured Advances and 100% of Secured Advances

## Causes of NPA

NPA arises due to a number of factors or causes like:

1. **Speculation:** Investing in high risk assets to earn high income.

2. **Default:** Willful default by the borrowers.
3. **Fraudulent practices:** Fraudulent Practices like advancing loans to ineligible persons, advances without security or references, etc.
4. **Diversion of funds:** Most of the funds are diverted for unnecessary expansion and diversion of business.
5. **Internal reasons:** Many internal reasons like inefficient management, inappropriate technology, labor problems, marketing failure, etc. resulting in poor performance of the companies.
6. **External reasons:** External reasons like a recession in the economy, infrastructural problems, price rise, delay in release of sanctioned limits by banks, delays in settlements of payments by government, natural calamities, etc.

## **Types of NPA**

### **A]Gross NPA**

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA. Reflects the quality of the loans made by banks. It can be calculated with the help of following ratio:

$$\text{GROSS NPAs Ratio} = \text{Total NPA} / \text{Gross Advances}$$

### **B]Net NPA**

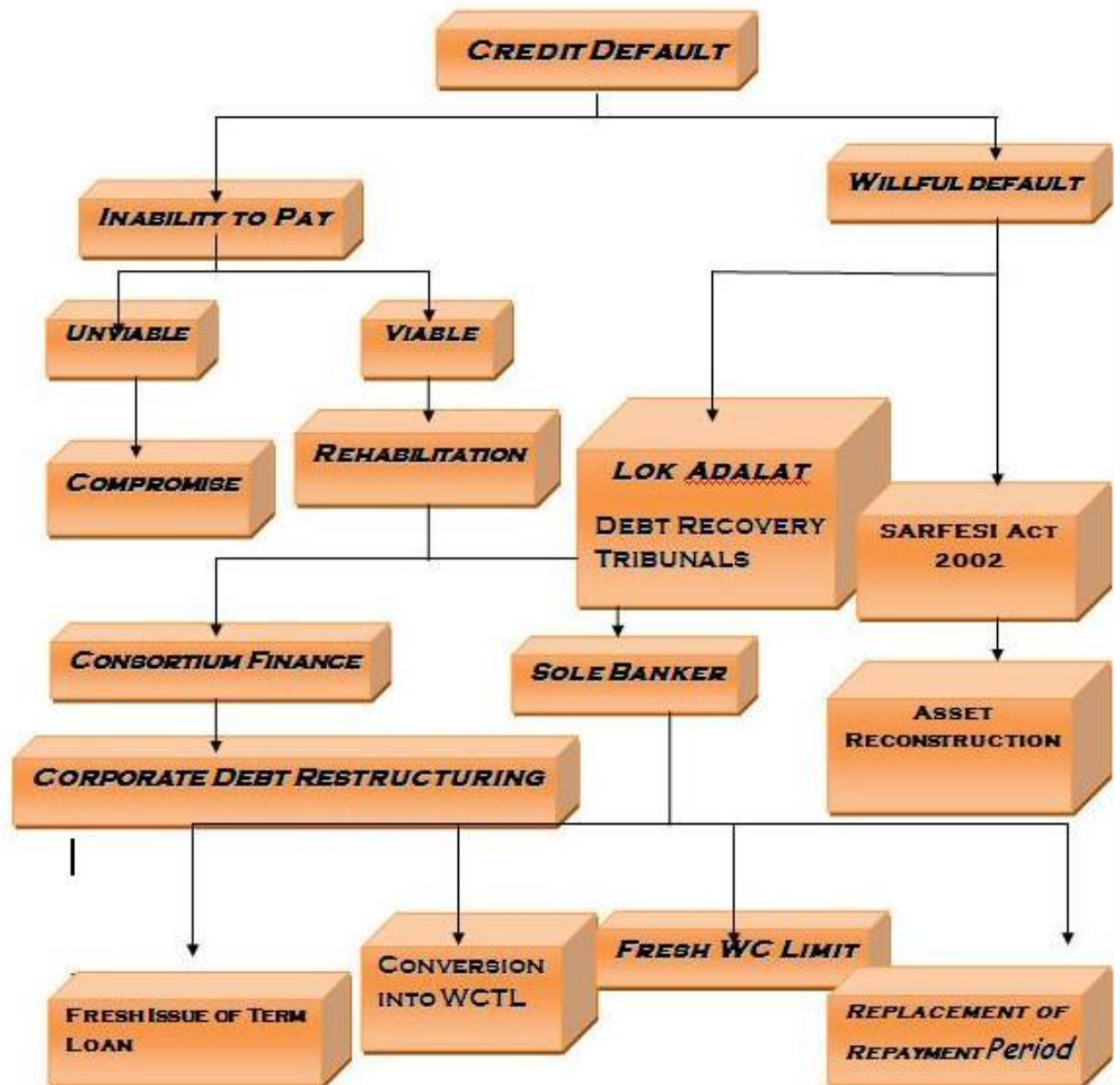
Net NPAs are those type of NPAs in which the bank has deducted the Provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the Central bank guidelines are quite significant. That is why the difference between gross and net NPA is quite high.

It can be calculated by following:

$$\text{Net NPAs Ratio} = \text{Gross NPA} - \text{Provision}$$



## TOOLS FOR RECOVERY OF NPA's



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.

## **Wilful Default**

### **A] LOK-ADALAT and Debt Recovery Tribunal**

#### **B] SARFAESI Act 2002**

#### **C] Asset Reconstruction**

### **A] LOK-ADALAT**

LOK-ADALAT institutions help banks to settle disputes involving account in “doubtful” and “loss” category, with outstanding balance of Rs. 5 Lakhs for compromise settlement under LOK-ADALAT. 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.

## **B) SARFESI ACT 2002**

- List of important Instruction & Guidance
  - 1) The SARFAESI act enables the bank whenever the bank is a secured creditor to enforce Security interest for recovery of its dues without intervention of court or tribunal Provided that secured interest has been created in favors of the bank
  - 2) Security interest means right, title and interest any kind whatsoever upon property created in favor of the bank and includes, Mortgage, Charged, Hypothecation and assignments.
  - 3) The account contents dates serving a notice for 60 days.
  - 4) The security document should be in full force on the serving the 60 days notice and that the documents are valid at “Least up to six months from the date of serving the notice.
  - 5) A separate Securitization cell headed by A.G.M. (law) has been formed at asset recovery department head office to guide the zone And their performance., creation of the data base and periodical reporting to Top management , RBI and Govt. of India, co-ordination with other Banks/FI.
  - 6) Similarly, recovery cells headed by the zone manager have been formed at zone offices to guide the branches in the matter and for effective fellow up.
  - 7) The authority for approving issuing of notice under the act is the same as that of recalling the advance with the provision that the zone manager will be the minimum authority for approval of issuing of notice. However, chief manager as Authorized officers can sign notices under the Act.
  - 8) The Act provides that the rights of a secured creditor under the Act may be exercised by one or his authorized officers in this behalf.
  - 8) A due diligent study should be conducted in respect of the secured assets probability of finding a buyer in the shortest period, expenses to be incurred in connection with safe keeping/storage, appointment of security guards, estimated reliable value of the assets in case of sale etc.

- 9) The pressure created by issuing of notice should be used fully to recover the dues with or compromise.
- 10) The Authorized officers so issuing the notice as well as exercising any of the rights of the secured creditor will have immunity granted for all action done in Good faith under this act
- 11) If The sale proceeds realized in the enforcement action are not sufficient to Liquidate banks dues; bank will have to file recovery suit / DRT application before civil court/DRT for enforcing the personal covenant against the borrower/guarantor. The issuing of notices under than act does not extend the limitation period.
- 12) If the Zone agar is of the opinion that for some cogent reasons filing of civil Suit/DRT. application is preferable than enforcing Bank rights under the act on notice issued accounts, then approval for withdrawing lie earlier notice / filing of suit should be obtained from the competent authority.
- 13) Enforcement action in suit filed/DRT accounts; bank has accorded approval, to Invoke powers under act in respects of pending suit filed/DRT cases wherever our rights as mortgage/hypothecated are not barred by law of limitations.

### **Eligibility Criteria for Proceeding under the SARFAESI Act**

- The contractual dues in the account should be more than Rs.1 lack.
- The account should have been classified as NPA as per the RBI policy
- Security interest must have been created in favour of the bank either by the borrower or by the guarantor. The security charged to the bank must be beneficial, clear and enforceable if the borrowers fail to pay in response to the notice.
- The security documents/securities in the NPA account should be enforceable on the date of serving the 60 days' notice. In case where documents are about to expire within one year decision may be taken by appropriate authority on a case to case basis to file suit first and then intimate action under SARFAESI. Action under the SARFAESI Act can also be taken even after filing of suit/DTR application if limitations are available to enforce the security which; 12 yrs. /3yrs. In case of mortgage/hypothecation respectively from the date of mortgage/ hypothecation or date of L444C whichever is later.
- Either our Bank must be sole banker to the borrower or in case of joint financing or financing by multiple lending against common security, at least lenders

representing 75% of the contractual amount due and outstanding agree to take action.

- In case of multiple banking, if a particular security is exclusively charged to bank or our banks charged by way of outstanding dues on the security is to the extent of 75% of the secured creditors dues on the same security, the bank precede as if it is the sole bankers.

#### **Exemption / Exclusion When Action Can Not Be Taken under The Act**

- When the security interest is created on agriculture land, the same cannot be enforced under this act. However other agricultural securities in the account like Tractor, implements etc. can be enforced if charged as securities bank advance.
- Where the conceptual dues, remaining unpaid are less than 29% of the principle and interest, no action can be taken as per section 31 of the act.
- Assets under pledge, line, and assets financed under lease or hire purchase cannot be proceeded against, under the act.

## **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)**

### **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 programme

### **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.

- 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. 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.

## **(B) CDR Empowered Group**

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 Ends, one of whom will participate in a specific meeting of the Empowered Group dealing with individual restructuring cases. Where, however, a bank / financial institution have only one Executive Director, the panel may consist of senior officials, duly authorized by its Board. 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 authorisation by the respective Boards of the participating institutions / banks in favour of their representatives on the CDR Empowered Group, authorising 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.

### **(C) 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.

### **Other features**

- CDR will be a Non-statutory mechanism
- CDR mechanism will be a voluntary system based on debtor-creditor agreement and inter-creditor agreement.
- The CDR system will be applicable only to standard and sub-standard 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**. 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.

## Treatment of standard accounts restructured under CDR

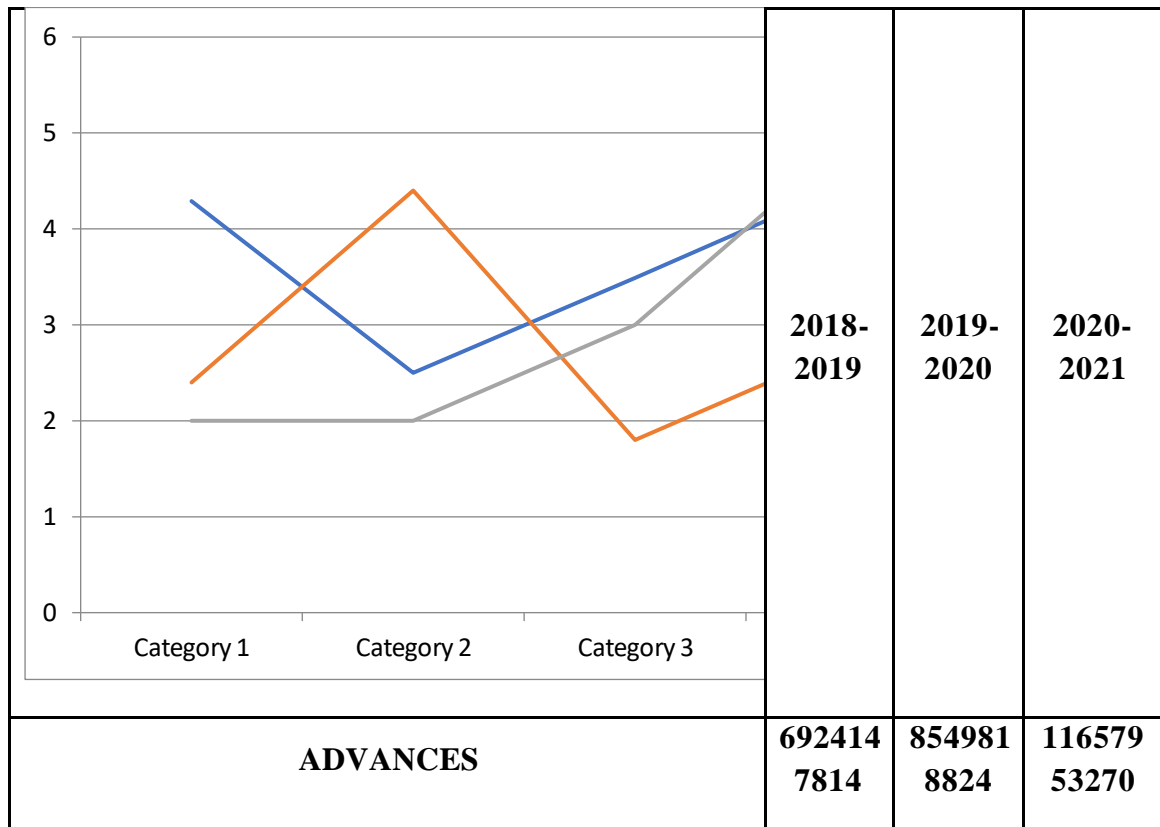
- A rescheduling of the instalments of principal alone, at any of the aforesaid first two stages [paragraph 5(a) and (b) above] would not cause a standard asset to be classified in the sub-standard category, provided the loan / credit facility is fully secured.
- A rescheduling of interest element at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

### **Treatment of sub-standard accounts restructured under CDR**

- A rescheduling of the instalments 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.
- 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.
- 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.
- 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.

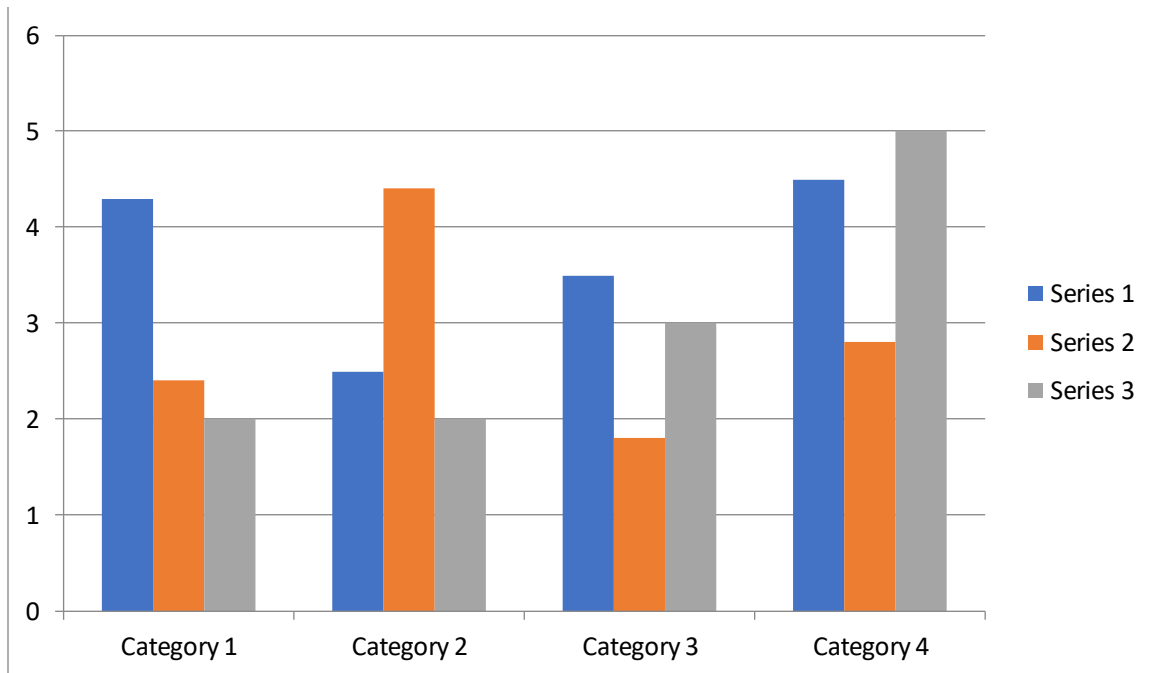
### ➤ 5.1 TOTAL ADVANCES (In Crores)



### Interpretation

From the above chart it shows the three years total advances in 2018-2019 the advance was 692.41 Crores, in 2019-2020 the advance was 854.98 Crores & in 2020-2021 the advance was 1165.79 Crores. It shows that the advances have been increased which has lead to increment in total assets of the bank.

## ➤ 5.2 GROSS NPA's (In Lakhs)

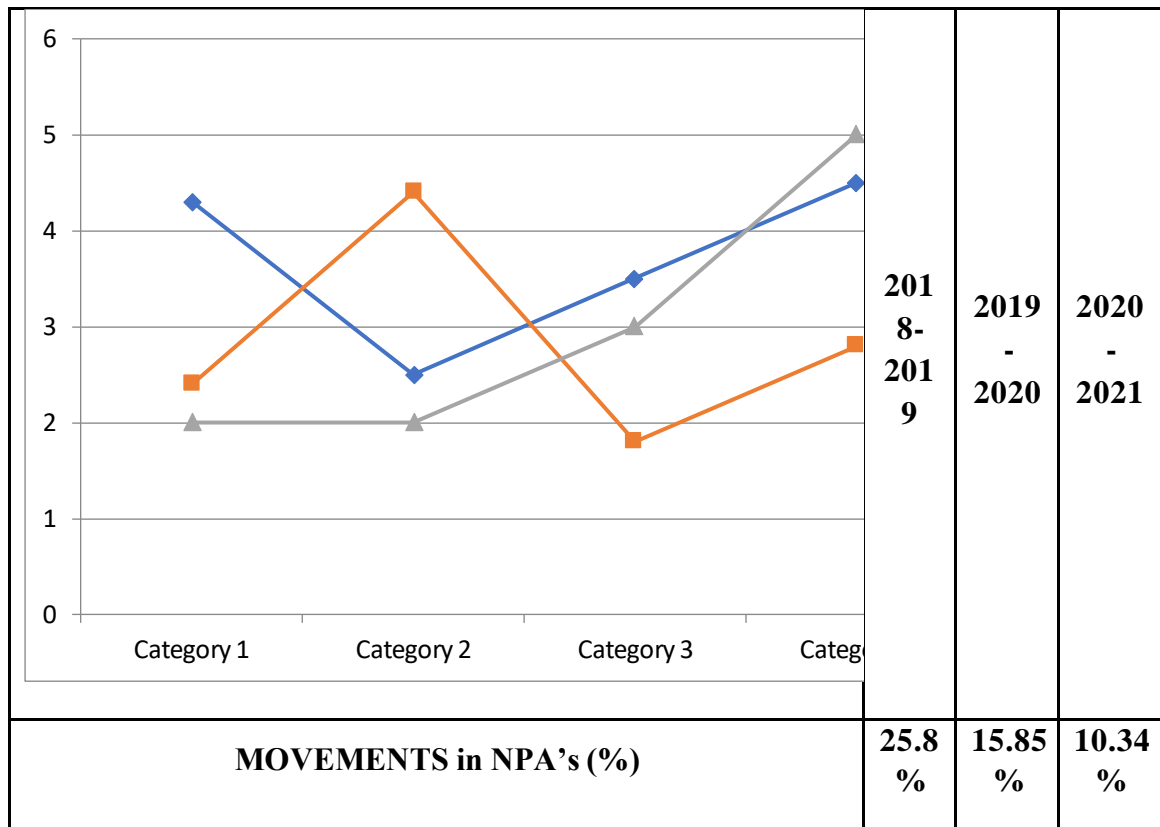


YEAR	2018-2019	2019-2020	2020-2021
GROSS NPA's (In Lakhs)	8767	6605	5779

### Interpretation

From the above chart it shows the three years gross NPA in 2018-2019 the gross NPA was 8767 Lakhs, in 2019-2020 the gross NPA was 6605 Lakhs & in 2020-2021 the gross NPA was 5779 Lakhs. It shows that the gross NPA has been decreased which shows the better recovery of loan.

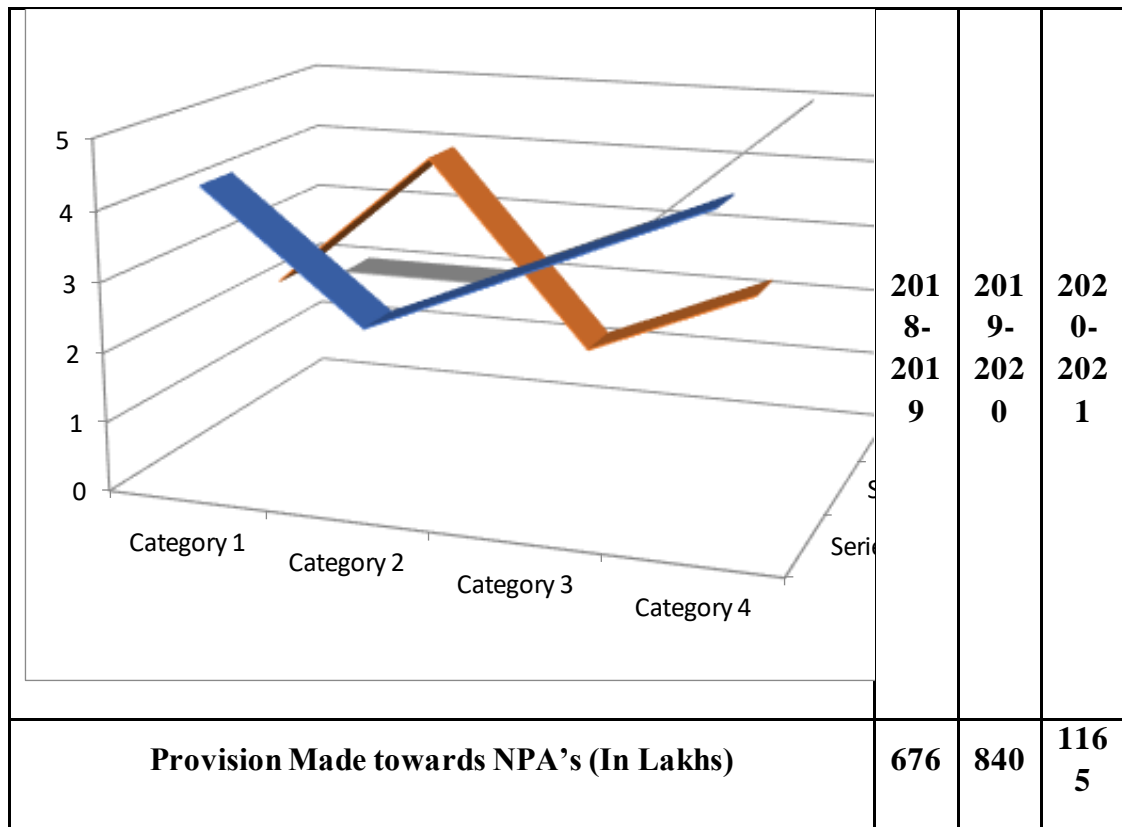
### ➤ 5.3 MOVEMENT in NPA's



### Interpretation

From the above chart it shows the three years movements in NPA in 2018-2019 the movements in NPA was 25.8%, in 2019-2020 the movements in NPA was 15.85% & in 2020-2021 the movements in NPA was 10.34%. It shows that the movements in NPA is decreasing means the position of the loan recovery is good.

### ➤ 5.4 PROVISION MADE TOWARDS NPA's (In Lakhs)



### Interpretation

From the above chart it shows the three years provision made towards NPA in 2018-2019 the provision made towards NPA was 676 Lakhs, in 2019-2020 the provision made towards NPA was 840 Lakhs & in 2020-2021 the provision made towards NPA was 1165 Lakhs. We can conclude that bank's provision for NPA has been increased though there is decrement in NPA.

➤ **5.5- Case of compromises**

**Shree Sai Samarath Nagari Sahakari Patsanstha**

**Shirdi Branch,**

<b>Sr .no</b>		<b>Particulars</b>		<b>Details</b>
		Branch	:	Head Office (Shirdi Office)
		Name of the Borrower	:	Akash .S. Gadhave
1		A/C No	:	SLPX1/ 1374
2		Category	:	Term loan
3		Date of sanction	:	27/3/2017
4		Amount Sanction	:	2,00,000
5		Sanction Authority	:	Chife officer Shirdi
6		Date since NPA	:	10/4/2019
7		Security available	:	House
8		Details of borrowers worth	:	5.00 lac.
9		Contractual amount due	:	
	a)	Present O/S	:	1.28 lac.
	b)	U.C.I. from 10/04/2016 to 31/3/2018	:	63,000/-
		Contractual dues (a+b)	:	1,91,000/-

10		Provision Held	:	7,000/-(9% UCI)
11		Adustable Net Amount Payable	:	As per Annnexe IV
	a)	Date of classification as NPA	:	27/3/2017
	b)	Balance O/S as on 10/04/2016	:	1.28 LAC
	c)	Additional Forced Details	:	Nil
	d)	Additional Notice fees	:	Nil
	e)	Total (b+c+d)	:	1.28 lac
	f)	Add 9% intrest from 10/04/2014 to 31/3/2016	:	11,520/-
	g)	Total (e+f)	:	1,39,520/-
	h)	Less.Recovery after	:	15,000
	i)	Adustable Net Amount payable	:	1,24,520/-
	j)	Compromise Amount Offered	:	1,20,000/-
	k)	Short fall (i-j)	:	4,520/-
12		Sacrifice by way of	:	
	a)	Write off in prinicipal amount	:	Nil
	b)	Waiver of UCI	:	7,000/-
	c)	Waiver of Legal expences	:	Nil
13		Impact on Profit and loss	:	23,000/-
		(Recovery + provision + URI-O/S)	:	



## **CHAPTER 6**

### **FINDING**

## **Finding**

- **Total NPA:**

Bank has NPA each year from its advances, though there is decrement in the NPA.

- **Defaulters:**

There are some wilful defaulters in case of repayment, but bank has done some good settlement.

- **Property disputes:**

That arises after the property is hypothecated to the bank as security.

- **Market condition:**

Demand and supply position also affected the paying capacity of the borrower.

- **Variety of loan schemes:**

The bank has variety of loan schemes to offer and thus the risk of NPA account is high.

## **CHAPTER 7**

### **SUGGESTIONS**

## **Suggestions**

1. Debt Recovery Turbinals Need to be Improved
2. Compromise or use Various Settlement Schemes
3. The Lender should Immediately Start Legal Proceeding once loan turned into an NPA.
4. Lending Institute Should Regularly Inform to Credit Bureaus about repayment of loan.

## **CHAPTER 8**

## **CONCLUSION**

## Conclusion

- With the introduction of the Securitisation Act 2002 bank can no issue notices to thier defaulters to repay their dues or else make defaulters face hard and tough action under an formantionact. This enables banks to get rid on sticky loans thereby improving thier bottom line. Also a hallmark fo a good business is approaching it with a fresh, fully alive and of course fully forced on making things better.
- It can be concluded that NPA is not a bad concept to the bank (lender) and the borrower . but through proper ways it can be rectified with the help of SRFESI Act, DRT, but for this it is very important that the bank should take into account first the borrowers capacity for repayment and his liability, date on which the account will become NPA.

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