



Asset Resolution & Managing NPAs – What, Why and How?

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1st CII Banking Summit

February 11, 2016

Mumbai



What ?

- Extent of the problem

	All Banks				Public Sector Banks			
	Mar 13	Mar 14	Mar 15	Sep 15	Mar 13	Mar 14	Mar 15	Sep 15
Gross NPA (%)	3.42	4.1	4.6	5.1	3.8	4.7	5.4	6.2
Net NPA (%)	1.7	2.2	2.5	2.8	2.0	2.7	3.2	3.6
Restd. Assets (%)	5.8	5.9	6.4	6.2	7.2	7.2	8.1	7.9
Gross +Restd. Assets (%)	9.2	10.0	11.1	11.3	11.0	11.9	13.5	14.0
Gross+ Restd.+ W/off Assets(%)	11.5	12.1	13.6	14.1	13.4	14.1	16.1	17.0

**But..... the problem is not uniform...
either across bank groups or across sectors**



Divergent NPA trends

	Pvt. Sector Banks				Foreign Banks			
	Mar 13	Mar 14	Mar 15	Sep 15	Mar 13	Mar 14	Mar 15	Sep 15
Gross NPA (%)	1.9	1.9	2.2	2.2	3.0	3.9	3.2	3.3
Net NPA (%)	0.5	0.7	0.9	0.9	1.0	1.1	0.5	0.5
Restd. Assets (%)	1.9	2.3	2.4	2.4	0.2	0.1	0.1	0.1
Gross +Restd. Assets (%)	3.8	4.2	4.6	4.6	3.1	4.0	3.3	3.4
Gross +Restd.+ W/Off Assets (%)	5.4	6.4	6.7	6.7	5.5	6.3	6.5	5.8

All Banks (Gross +Restd. + W/Off Assets (%))				
	Mar 13	Mar 14	Mar 15	Sep 15
Agriculture	8.2	7.4	7.5	7.9
Industry (Micro)	10.2	10.0	10.5	12.3
Industry (Small)	13.2	13.3	14.8	16.8
Industry (Medium)	20.2	23.6	27.0	31.5
Industry(Large)	16.3	19.0	23.0	23.7

**Contrary to popular perception, stress relatively much less in priority sector
Restructuring mostly in larger accounts**



What NPA means?

- Assets/project not generating cash flow to the extent and in the period originally envisaged.
- By translation, banks may not be able to timely recover the entire amount lent and hence, provisioning

- However, in real world, NPAs arise due to:
 - Genuine reasons
 - Wrong assumptions/inefficiencies
 - Misdemeanour



Why?

- **External Environment-** Global slowdown, Fall in domestic demand, Policy logjam & Disputed Contracts
- **Internal environment**
 - **Banks:** Governance deficit, Poor credit appraisal; Weak risk management; All debt-no equity; Infra financing particularly highways- 'gold plated' contracts; Power – Faulty FSAs, Pass through arrangement, termination payments; Chasing quick growth; Pretend and Extend
 - **Corporate India:** Complex web- hold co, step down entities; High leverage; Overseas acquisitions; Unhedged exposures; siphoning, diversion and so on
 - Value sale v/s distress sale: Minsky's Financial Instability Hypothesis- 3 types of borrowers (Hedge, Speculative and Ponzi)
 - **Beyond Corporate Universe:**
 - KCC/Agri distress vis-a-vis crop insurance
 - Small/ medium enterprises.... lack of timely support and delayed payments

Promoters must recognize their failure and cooperate



INNOVATION IS IMPORTANT IN BANKING
BUT NOT OF THE FOLLOWING TYPES.....



AQR Insights

- DP manipulations, EPBG abuse, funding satellite entities, devolved L/Cs .. late adjustments etc.
- Round tripping- last week to first week – 50 cr to 500 cr
- Short term O/D to repay.. then O/D paid by fresh sanctions
- Sale of assets within groups inflated.. same lenders
- CDR ..equity upfront/security creation/personal guarantees
- Interchanges...NFB to FB
- DCCO- not achieved/cosmetic/very small capacity
- Restructuring- incomplete TEV study



Asset Resolution :How?

- **Acknowledge**-Shift the balance-borrowers to lenders
- **Redress or recover**
 - Need to preserve economic value of assets where cash flow potential exists (Under construction projects, lower capacity utilization)
 - Don't prolong the agony...both for the patient and the caretaker
- **Enablers :**
 - Forbearance ended, CRILC and Monitoring of SMA, JLF, 5/25 scheme, SDR



Last Words

To err is human but to keep on repeating the errors is foolish...learn from past

- Not ownership but governance issue – Improve credit origination / administration standards
- (Re) Defining risk appetite at banks
- Early cleansing better- **IFRS beckons**
- Bankruptcy framework - SDR subsumed
- Strengthening ARCs- Capital an issue
- Handholding support to SMEs - make TReDS compulsory for PSUs/Large corporates/ Govt. Depts.
- Capital planning (exercising all possibilities)
- Borrowers should 'cooperate' in their own long term interest
- Retail Loan - guard against adverse selection



Our broad sense is ...

Prevention is better than cure !

- Present ailment is well within cure and that 'cure' is being administered
- Willingness of the affected persons is as important as the medicine... happy to see that such will power is being shown
- Recent signs indicate that the preventive measures are also being embraced

All should be optimistic about a sustained recovery and continuous well being thereafter....

THANKS
