

**DECLARATION OF NPA,  
ELIMINATING SUBJECTIVITY &  
EVOLVING TRANSPARENT NORMS**

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# What is NPA? (Topics to be covered)

- Introduction of IRAC Norms
- Definition of NPA/Identification of NPA
- Impact of NPA
- Early warning signals (Prevention is better....)
- Available recourses to reduce NPAs

# Introduction of IRAC Norms

- To bring more transparency in Balance sheet RBI introduced and implemented IRAC norms w.e.f. 31.03.1993
- It is based on the concept “Book income on actual basis and not on accrual basis.”
- The assets are to be classified into 4 categories, i.e. Standard, Substandard, Doubtful and Loss assets based on the irregularity level.

# ASSET CLASSIFICATION

**Standard**- Regular account which does not show more than normal risk at any time.

**Substandard** - NPA for a period not exceeding 12 months;

**Doubtful** - NPA for a period exceeding 12 months; or if the value of security is eroded by more than 50% of the outstanding.

**Loss** - Classified by the Branch/ Internal/ external auditors, or value of security is less than 10% of the outstanding.

# NPA IDENTIFICATION

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graph TD; A[NPA IDENTIFICATION] --> B(90 Days Delinquency); A --> C(Erosion in security value); A --> D(Out of Order concept);
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90 Days  
Delinquency

Erosion in  
security value

Out of Order  
concept

# 90 DAYS DELINQUENCY

- Interest/Instalment overdue in Term Loans (including ATs for some specified purposes)
- Bill remains overdue in respect of Bills purchased/ discounted
- Any amount to be received overdue in respect of other accounts

# OUT OF ORDER (CC/OD A/cs)

- Outstanding balance continuously in excess of sanctioned limit/DP
- No Credits in the account for a continuous period of 90 days
- Credits in the 90 days are not sufficient to cover the interest debited during the same period

# CASH CREDIT A/CS

- Allowing drawings in the account for a continuous period of 90 days based on Stock Statement older than 3 months
- Regular/Adhoc limits are not renewed / reviewed within 180 days



# AGRICULTURAL ADVANCES

- Long Duration Crop: Non-payment of interest/instalment for one crop season. LDC = Season more than 1 year
- Short Duration Crop: Non-payment of interest/instalment for two crop seasons
- For ATLS (other than specified purposes) depending on the duration of crop raised.
- Other Advances:
- Advances against TDRs, NSCs, IVPs, KVPs and Life policies need not be treated as NPAs if  $O/s < \text{Value of security}$ .
- Classification of NPA is Borrowerwise and not accountwise.

## Technical NPAs/ Temporary deficiencies

- Non receipt of stock statement
- Non renewal/Review
- Proper security value not feed in the system
- Wrong interest application
- Improper repayment schedule.

# Impact of NPAs

- Do not generate income
- Require provisioning (Net Profit as on 31.03.2017 Rs. 10484 Crs. Provision for NPA Rs. 32247 Crs.)
- Opportunity loss due to non-recycling of funds
- 100% risk weight on net NPAs for CAR
- Cost of administration & recovery of NPAs, Legal costs
- Capital gets blocked
- Lowers image & rating of the bank
- Disclosure reduces investors' confidence
- Increases costs/difficulties in raising resources
- Affects employee morale & decision making

# Early warning signals

|                                   |   |
|-----------------------------------|---|
| <b>FINANCIAL</b>                  | Persistent irregularity in account<br>Defaults in repayment/periodic interest<br>Devolvement of LC/invocation of BG<br>Sales transactions not routed through account<br>Operating losses/net losses<br>Erosion in TNW                 |
| <b>OPERATIONAL &amp; PHYSICAL</b> | Low activity level- In plant/in Bank account<br>Disorderly diversification/frequent changes in Plans<br>Low inventory movement<br>Non repayment of wages/power bills<br>Frequent labour troubles<br>Frequent return of finished goods |
| <b>LOSS OF MARKET CREDIT</b>      | Court case against the unit<br>Inability to raise supplies on usual credit terms  |
| <b>ATTITUDINAL CHANGES</b>        | Non/delayed submission of data and financials<br>Fudging of financial statements<br>Dissension among partners/promoters<br>Avoid contacts with the Bank   |

# Early Warning Signals

- Frequent irregularities
- Default in meeting commitments frequently
- Delayed/Non-submission of stock statements/financial data
- Return of cheques/Bills
- Invocation of BGs/Devolvement of LCs
- Declining Sales/Profit/Erosion of Net Worth
- Non-compliance of terms & conditions of sanction
- Special Mentioned Accounts (SMA)

# Special Mentioned Accounts (SMA)

- New assets category introduced by RBI between “Standard” and Sub-standard”
- Integral part of Bank’s Risk management Process.
- Early identification of potential NPA.
- Shows tendencies for possible default or delinquency.
- To put in place internal monitoring and follow up mechanism to prevent slippage of accounts well in time.

# Categories of SMA

- Category I: Principal or interest not overdue for more than 30 days but the accounts showing signs of incipient stress. :-SMA-0
- Category II: Accounts where interest/installment has not been serviced between 31-60 days. :- SMA- I
- Category III: Accounts where interest/installment has not been serviced between 61-90 days.:-SMA-II

Branches to submit SMA review report to the controllers within stipulated period. ([Click](#) here)

# How to reduce NPAs?

- Non Legal Options:
  - Effective follow up and recovery.
  - Recovery through external agencies.
  - Restructuring/Rephasement
  - Compromise
  - RBI/SBI One Time Settlement
  - Write offs/AUCA
  - Sale of Assets



# Restructuring of Advances

- Examining the upgradation of impaired loan where there is prima facie scope for restoring viability of the business.
- Basic conditions for Restructuring:
  - a) The loan has become Stressed assets (SMA) due to problems of a temporary nature and advance is still potentially viable.
  - b) The Loan has become Substandard/NPA due to factors other than lack of integrity of promoters.
  - c) The loan in question is not Loss asset/AUCA
  - d) It is not a case of Malfeasance/Fraud or wilful default.

# Restructuring ....

- Viability of the unit and the promoter's intent (and stake) are the basic pre-requisite for the Bank to undertake restructuring.
- Viability on commercial basis should be the main criterion.
- No restructuring proposal may ordinarily be considered where the outlook for the concerned industry has been advised as "HOLD", "HOLD-Continue selectively" or "Contract" by RMD.
- Right of Recompense(ROR) clause must be stipulated in all restructuring packages stating that bank should be recouped with all sacrifices from the companies future profits when the unit turn the corner.

# Compromise Settlement

- Negotiated settlement to recover maximum dues with minimum sacrifice.
- Process to be initiated after Bank has exercised its right to set off or lien against any deposits of the borrower.

# How to reduce NPAs?

- Legal options:
  - a) Debt Recovery Tribunals (DRT)
  - b) Photo notices
  - c) Enforcement under SARFAESI Act
  - d) BIFR cases
  - e) Lok Adalat

***THANK YOU !!!***