

Definition of Non-Performing Asset (NPA)

An asset including a leased asset becomes non-performing when it ceases to generate income for the bank. A loan gets qualified as a NPA when the Interest and / or instalment of principal or a discounted bill remains overdue for a period of more than 90 days in respect of a term loan. An Overdraft / Cash Credit becomes NPA if the account remains 'out of order' in respect of an Overdraft / Cash Credit (OD/CC). In case of interest payments, bank should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

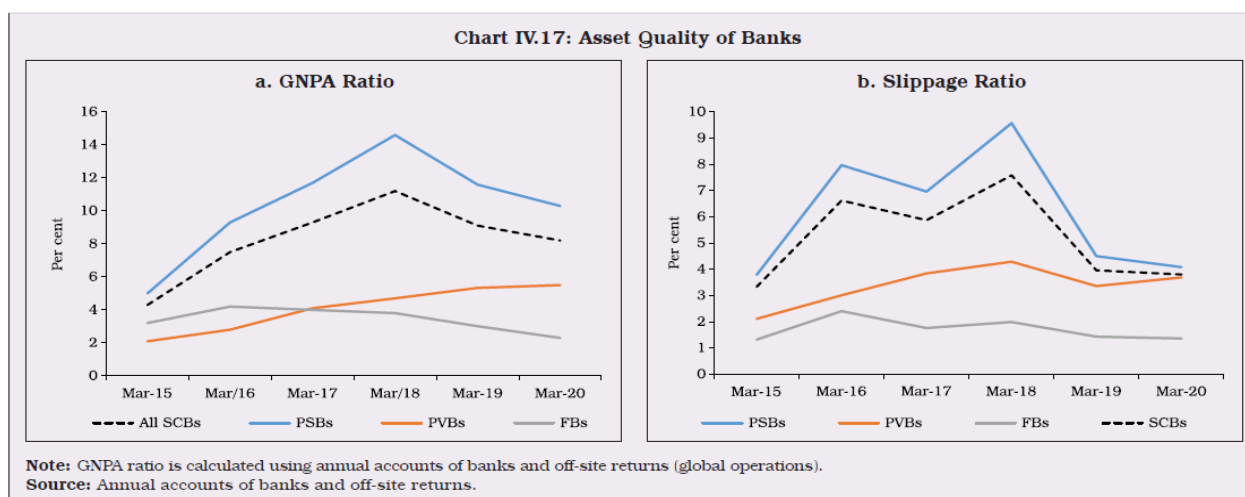
(Source: RBI Master Circular DBR No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015)

Non-Performing Assets

In the Indian Banking Sector, the moderation in the GNPA ratio, which started after the peak in March 2018, continued through 2019-20 and 2020-21 and had breached 7.5% by end-September 2020. The improvement was driven by lower slippages which declined to 0.74 per cent in September 2020 and resolution of a few large accounts through the Insolvency and Bankruptcy Code (IBC). Fresh slippages remained the highest among PSBs

The modest GNPA ratio of 7.5 per cent at end-September 2020 veils the strong undercurrent of slippage. The accretion to NPAs as per the Reserve Bank's Income Recognition and Asset Classification (IRAC) norms would have been higher in the absence of the asset quality standstill provided as a COVID-19 relief measure (Table IV.10). Given the uncertainty induced by COVID-19 and its real economic impact, the asset quality of the banking system may deteriorate sharply, going forward.

The rapid credit growth during 2005-12, coupled with absence of strong credit appraisal and monitoring standards and wilful defaults, are responsible for sizeable asset impairments in subsequent years.



The reduction in NPAs during the year was largely driven by write-offs (Chart IV.18a and b). NPAs older than four years require 100 per cent provisioning and, therefore, banks may prefer to write them off. In addition, banks voluntarily write-off NPAs in order to clean up their balance-sheets, avail tax benefits and optimise the use of capital. At the same time, borrowers of written-off loans remain liable for repayment.

Table IV.11: Movements in Non-Performing Assets by Bank Group

(Amount in ₹ crore)

Item	PSBs*	PVBs	FBs	SFBs	All SCBs#
Gross NPAs					
Closing Balance for 2018-19	7,39,541	1,83,604	12,242	1,087	9,36,474
Opening Balance for 2019-20	7,17,850	1,83,604	12,242	1,660	9,15,355
Addition during the year 2019-20	2,38,464	1,31,249	6,751	1,764	3,78,228
Reduction during the year 2019-20	99,692	51,335	3,832	1,046	1,55,905
Written-off during the year 2019-20	1,78,305	53,949	4,953	669	2,37,876
Closing Balance for 2019-20	6,78,317	2,09,568	10,208	1,709	8,99,803
Gross NPAs as per cent of Gross Advances**					
2018-19	11.6	5.3	3.0	1.7	9.1
2019-20	10.3	5.5	2.3	1.9	8.2
Net NPAs					
Closing Balance for 2018-19	2,85,122	67,309	2,051	586	3,55,068
Closing Balance for 2019-20	2,30,918	55,746	2,084	784	2,89,531
Net NPAs as per cent of Net Advances**					
2018-19	4.8	2.0	0.5	1.0	3.7
2019-20	3.7	1.5	0.5	0.9	2.8

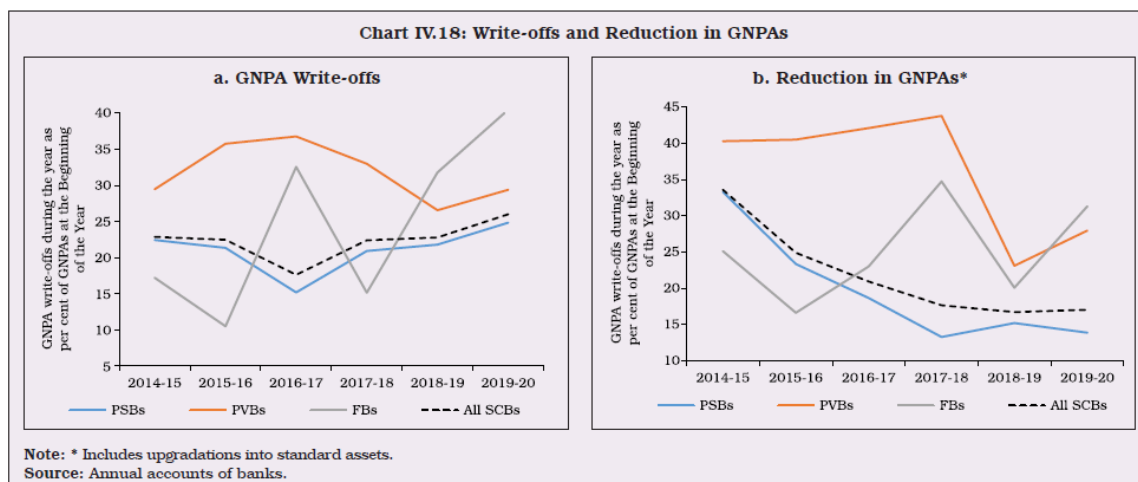
Notes: 1. #: Data includes scheduled SFBs.

2. *: Closing balance for 2018-19 and opening balance for 2019-20 do not match due to amalgamation of Dena Bank and Vijaya Bank into Bank of Baroda.

3. **: Calculated by taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns (global operations).

Source: Annual accounts of banks and off-site returns (global operations), RBI.

Large Write-offs contributed to reduction of GNPA



Large borrower accounts (exposure of ₹5 crore and above) constituted 79.8% of NPAs and 53.7% of total loans at end-September 2020. The share of Special Mention Accounts (SMA-0) witnessed a sharp rise in September 2020. This may be an initial sign of stress after lifting of moratorium on August 31, 2020. However, the share of other categories of SMAs i.e., SMA-1 and SMA-2 remained at a relatively lower level

Recoveries

Insolvency and Bankruptcy Code (IBC), under which recovery is incidental to rescue of companies, remained the dominant mode of recovery in large borrower accounts. However, the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI) channel also emerged as a major mode of recovery in terms of the amount recovered as well as the recovery rate (Table IV.13). With the applicability of the SARFAESI Act extended to co-operative banks, recovery through this channel is expected to gain further traction. Going forward, insolvency outcomes will hinge around uncertainties relating to COVID-19. The government has suspended any fresh initiation of insolvency proceedings in respect of defaults arising during one year commencing March 25, 2020 to shield companies impacted by COVID-19.

Table IV.12: Classification of Loan Assets by Bank Group

(Amount in ₹ crore)

Bank Group	End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
PSBs	2019	50,86,874	87.8	1,37,377	2.4	5,06,492	8.7	66,239	1.1
	2020	53,27,903	89.2	1,32,530	2.2	4,04,724	6.8	1,07,163	1.8
PVBs	2019	31,03,581	95.2	42,440	1.3	1,04,696	3.2	9,576	0.3
	2020	34,14,554	94.9	56,588	1.6	92,396	2.6	34,986	1.0
FBs	2019	3,94,638	97.0	3,190	0.8	8,019	2.0	1,034	0.3
	2020	4,25,857	97.7	3,273	0.8	5,775	1.3	1,161	0.3
SFBs**	2019	61,652	98.2	719	1.1	360	0.6	44	0.1
	2020	89,800	98.1	1,023	1.1	648	0.7	39	0.0
All SCBs	2019	86,46,745	90.8	1,83,726	1.9	6,19,567	6.5	76,894	0.8
	2020	92,58,114	91.7	1,93,413	1.9	5,03,543	5.0	1,43,349	1.4

Notes: 1. Constituent items may not add up to the total due to rounding off.

2. *: As per cent to gross advances.

3. **: Refers to scheduled SFBs.

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

Table IV.13: NPAs of SCBs Recovered through Various Channels

(Amount in ₹ crore)

Recovery Channel	2018-19				2019-20			
	No. of cases referred	Amount involved	Amount recovered*	Col. (4) as per cent of Col. (3)	No. of cases referred	Amount involved	Amount recovered*	Col. (8) as per cent of Col. (7)
1	2	3	4	5	6	7	8	9
Lok Adalats	40,87,555	53,484	2,750	5.1	59,86,790	67,801	4,211	6.2
DRTs	51,679	2,68,413	10,552	3.9	40,818	2,45,570	10,018	4.1
SARFAESI Act	2,35,437	2,58,642	38,905	15.0	1,05,523	1,96,582	52,563	26.7
IBC	1,152@	1,45,457	66,440	45.7	1,953@	2,32,478	1,05,773	45.5
Total	43,75,823	7,25,996	1,18,647	16.3	61,35,084	7,42,431	1,72,565	23.2

Notes: 1. Data are provisional.

2. DRTs: Debt Recovery Tribunals

3. *: Refers to the amount recovered during the given year, which could be with reference to the cases referred during the given year as well as during the earlier years. In the case of IBC, the realisation does not include amount realisable for operational creditors, from guarantors of corporate debtors and disposal of avoidance transactions.

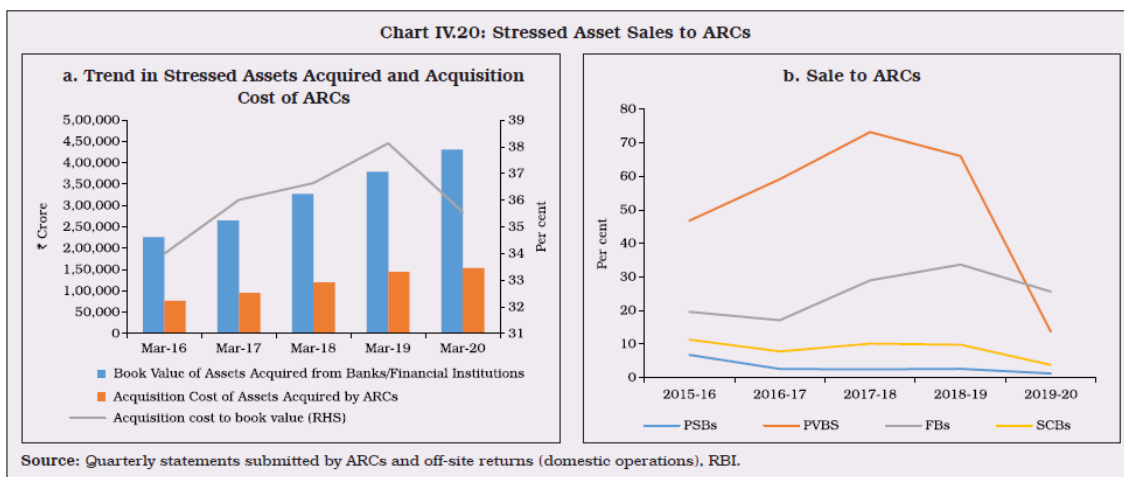
4. @: Cases admitted by National Company Law Tribunals (NCLTs) under IBC. However, figures appearing for amount involved and amount recovered are for cases whose resolution plan was approved during the given financial year i.e. 81 cases for 2018-19 and 135 cases in 2019-20. Also, the amount recovered refers to realisables by all financial creditors, not just SCBs.

5. The resolution plan of Essar Steel India Ltd. was approved in 2018-19. However, as apportionment among creditors was settled in 2019-20, the recovery is reflected in the latter year data.

Source: Off-site returns, RBI and Insolvency and Bankruptcy Board of India (IBBI).

Banks/FIs and Asset Reconstruction Companies: A symbiotic relationship

Apart from recovery through various resolution mechanisms, banks also clean up balance sheets through sale of NPAs to Assets Reconstruction Companies (ARCs) for a quick exit. During 2019-20, asset sales by SCBs to ARCs declined which could probably be due to SCBs opting for other resolution channels such as IBC and SARFAESI. The acquisition cost of ARCs as a proportion to the book value of assets declined suggesting lower realisable value of the assets



The share of security receipts (SRs) subscribed to by banks steadily declined, reaching 66.7% by end-March 2020 from 80.5 per cent at end-March 2018 as ARCs were incentivised to increase skin-in-the-game and diversify the investor base by bringing in other financial institutions

Table IV.14: Details of Financial Assets Securitised by ARCs

(Amount in ₹ crore)

Item	March-2018	March-2019	March-2020
1. Book Value of Assets Acquired	3,27,400	3,79,383	4,31,339
2. Security Receipt issued by ARCs	1,18,351	1,42,885	1,51,435
3. Security Receipts Subscribed to by			
(a) Banks	95,299	99,840	1,00,934
(b) ARCs	18,924	26,470	29,435
(c) FIs	505	1,681	10,366
(d) Others (Qualified Institutional Buyers)	3,622	14,895	10,700
4. Amount of Security Receipts Completely Redeemed	8,413	12,240	17,947
5. Security Receipts Outstanding	98,203	1,12,651	1,07,877

Source: Quarterly statements submitted by ARCs.

(Source: RBI Report on Trends and Progress in Banking dated Dec 29, 2020)