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Impact Of Revised Framework For Resolution Of Stressed Assets On Npa: An Analysis

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ABSTRACT - On February 2018, the reserve bank of India (RBI) introduced the resolution of stressed assets-revised framework, replacing the regime of voluntary restructuring for Indian banks. Under the new framework, the RBI has primarily focused on NPA of the borrowers where the total banking loan exposure exceeds Rs 2000 cores banks are now required to resolve the defaults in all such accounts (whether trough curing non-payments or restructuring) within a period of six months, failing which they have to mandatorily refer the borrower for corporate insolvency. Few of the best tools to deal with the overwhelming stressed assets that the reserve bank of India had, were corporate debt restructuring; strategic debt restructuring; change in ownership outside the strategic debt restructuring etc, which were implemented under the structure of joint lenders' forum. But with the enactment of the insolvency and bankruptcy code 2016, the speed of converting the non-performing assets to either performing assets or eradicating them got amplified. An attempt is made in this paper to analyse the impact of revised framework on NPA. This paper also compares and analyse the NPA during previous regime and after the new framework.

Keywords: ***Insolvency and bankruptcy code 2016, JLF, NPA, RBI, Stressed assets.***

I. INTRODUCTION

Since a long time period, the problem of non-performing assets has been faced by the economy. Various schemes were introduced to tackle the problem of bad loans. But the problem has not been yet solved. The main point to be considered is that high rate of NPA is falling from various accounts restructured under different schemes; the main target from past few years has been the resolution of stressed assets. To identify and resolve the stressed assets in an efficient and effective way various measures has been adopted by Reserve bank of India and SEBI.

Earlier in 2018, when the new framework was implemented, the provision of reporting quarterly losses increased. As, the rules and regulations for the resolution of stressed assets, the procedures, disclosures, etc have been made rigid. The treatment of borrowing in large quantity remaining default has been treated strictly. Because of this, banks make tough schemes, this all happened because of the launch of the new framework for the resolution of stressed assets on 12 February, 2018.

FUNDAMENTAL DIFFERENCE BETWEEN THE TWO REGIMES

Firstly, the restructuring attempts are very tightly time bound. While all previous restructuring schemes were also required to be implemented within well defined time frames, the consequence of over shooting the dead line required the bank to adopt higher provisioning norms. For the borrower itself a delay meant precious little. However, under the new framework, the banks have to compulsorily take the borrower to the NCLT and initiate insolvency proceeding. Thus, both the lenders and the borrowers are under pressure to finalize and implement the resolution plan within a fairly short period of time.

Secondly, the new framework does not provide for a concept of a binding majority lenders' vote, either in line with the previous restructuring regime or in line with the IBC. A scheme of restructuring under the new framework could only be successful if 100% of the lenders agree to it.

A resolution plan with a 100% approval in any consortium setting is unrealistic, to say the least. Every scheme of restructuring up until now required the approval of only 75% of the lenders by voting share and 50% by number, while the insolvency code required a resolution plan to be approved by 75 % of the lenders by voting share, in order to become binding on everybody else. Without a similar threshold in place, the high value accounts are practically bound to end up before the NCLT. Several times, a fully implemented scheme did not ultimately result in the borrower's economic recovery, at most serving only to delay future defaults in respect of the restructured facilities.

The new framework states that it would apply to all accounts where an earlier scheme of restructuring had been invoked but not implemented. However, given that earlier restructuring plans could be in indifferent phases of implementation (including conversion of debt to equity under SDR, outside SDR or S4A schemes), this is a point6 on which banks may need more clarification from the RBI.

II. LITERATURE REVIEW

- Abhirup Ghosh (2018) studied "Reserve Bank of India's endeavour to tackle stressed assets continues" and compared the old framework and impact of each of the provision of the revised framework. He states that

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to eradicate the bad loans from the economy this new framework will surely be a big move by RBI.

- Vivek Rajbahadur Singh (2016) in his research paper on "a study of non-performing assets of commercial banks and its recovery in India", studies the status and trend of NPA in Indian scheduled commercial banks, factors contributing to NPA and its recovery through various channels.
- PWC in its article dated 14 February, 2018 studied the new framework and highlights the notification of RBI and conclude that over a long term, the new approach should result in win-win situation for all stakeholders.
- Credit Analysis and Research Limited (Care Ratings) in its report-"RBI revisits framework for resolution of distressed assets" summarizes the key points of the revised framework and commented on the same in a tabulated form. It assumes that NPA will grow in next quarters and will show a positive impact both in short & long time period.
- EY (Ernst & Young Global Ltd) in its report headed-"Revised framework for resolution of stressed assets" describe the key concepts, practical applicability and impact of revised framework on current cases.

OBJECTIVES OF THE STUDY

1. To study the new framework for resolution of stressed assets.
2. To evaluate the NPA prior to the regime and compare it with the revised framework.
3. To analyse the impact of revised regulation on NPA.
4. To impart suggestions regarding the continuance of the framework.

III. RESEARCH METHODOLOGY

The research study is primarily based on secondary sources, which is collected from reports from Reserve Bank of India (RBI) website, RBI annual reports, and newspapers and from review of literature. The period of 10 years i.e., from 2008-18 has been considered for the study of NPA of Scheduled Commercial Banks.

KEY POINTS OF THE REVISED FRAMEWORK

- Applicable to all Scheduled Commercial Banks and Financial Institutions.
- The stressed assets are divided into special mention accounts according to the number of days overdue.
- 1-30 days overdue loan account categorized as SMA-0, 31-60 days as SMA-1 and 61-90 days as SMA-2.
- The information about the credit must be provided to CRILC monthly and the list of defaulters must be updated weekly.

IV. ANALYSIS

Table 1: Gross Advances & Gross NPA of SCBs (Amount in Rs. Billion)

Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (Percentage of Gross Advances)
2008-09	30246.52	699.54	2.3
2009-10	32620.79	817.18	2.5
2010-11	39959.82	939.97	2.4
2011-12	46488.08	1369.68	2.9
2012-13	59718.20	1927.69	3.2
2013-14	68757.48	2630.15	3.8
2014-15	75606.66	3229.16	4.3
2015-16	81711.14	6116.07	7.5
2016-17	84767.05	7902.68	9.3
2017-18	92830.35	10397.00	11.20

Source: dbie.rbi.org.in

In the above table, Gross advances & gross NPA from 2008-18 has been shown. Gross advances increased from 30247 billion in 2008-09 to 92830 billion in 2017-18. Gross NPA shows an increment of 9697 billion during the period. Similarly percentage of Gross NPA to gross Advances also rises from 2.3 in 2008-09 to 11.20 in 2017-18.

Table 2: Net Advances and Net NPA of Scheduled Commercial Banks (Amount in Rs. Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs(Percentage of Net Advances)
2008-09	29999.24	315.64	1.1
2009-10	34967.20	391.27	1.1
2010-11	42974.87	417.99	1.0
2011-12	50735.59	652.05	1.3
2012-13	58797.73	986.93	1.7
2013-14	67352.13	1426.56	2.1
2014-15	73881.60	1758.41	2.4
2015-16	78964.67	3498.14	4.4
2016-17	81161.97	4330.10	5.3
2017-18	86783.33	5207.00	6.0

The above table shows the Net advances and Net NPA for the period of 2008-2018. Net Advances increased from Rs. 30000 billion to Rs. 86783 billion. The Net NPA amount also show an increment from Rs. 316 billion in 2008-09 to Rs. 5207 billion in 2017-18. NPA percentage shows a rising trend from 1.1% to 6%.

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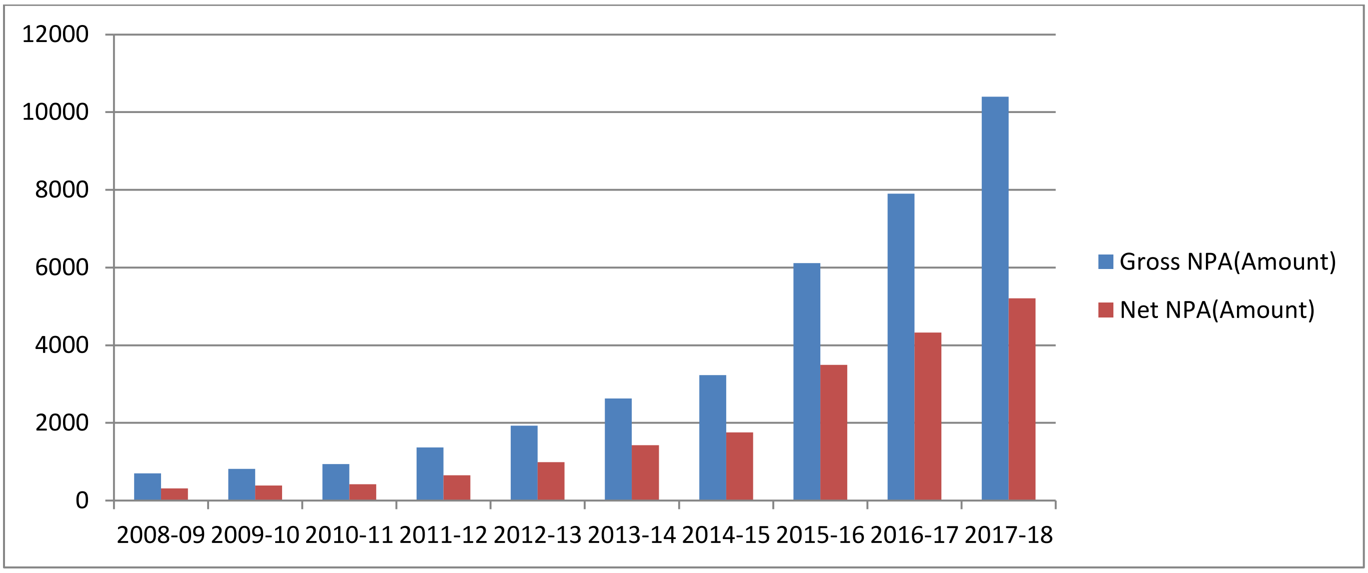
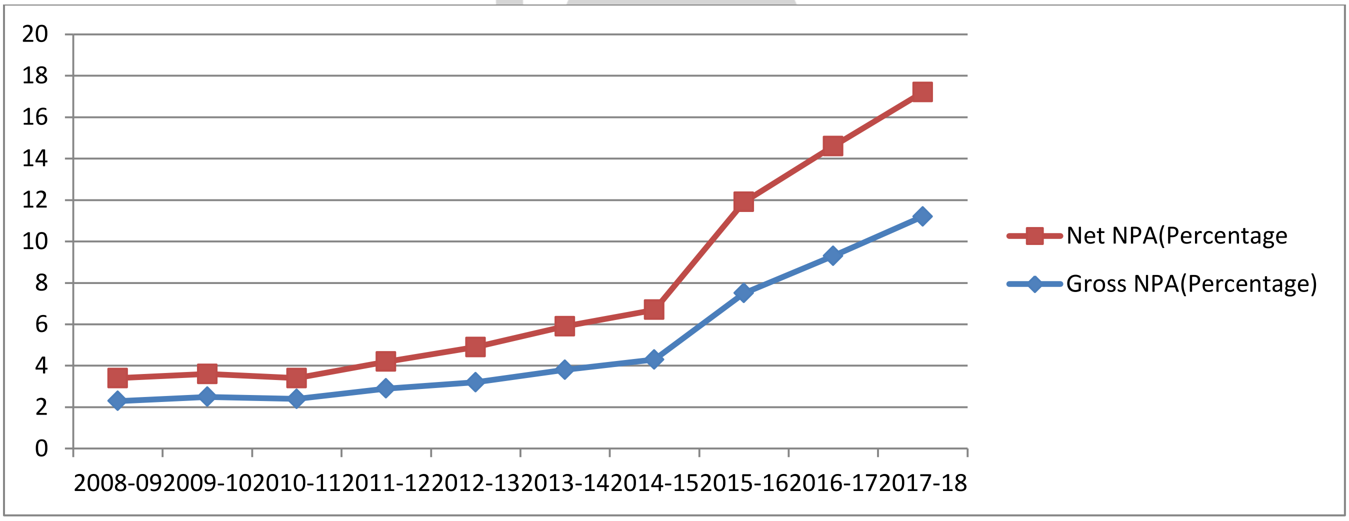
Fig. 1: Gross NPA and Net NPA of Scheduled Commercial Banks



In the above figure, the time period is represented on x-axis and the amount of NPA is represented on y-axis. It shows the trend of Gross NPA and net NPA in billion from 2008-2019. From the figure, it can be observed that the NPA amount has been showing an upward trend during the period of study.

Fig. 2: Gross NPA & Net NPA of Scheduled Commercial Banks (in Percentage)



The above figure shows the trend of Gross and Net NPA in percentage. The x-axis represents the years and NPA is shown on y-axis. During the period of study i.e., from 2008-2018, there is an upward trend in NPA but in 2014-15 it can be observed that there is a rapid increment.

According to the report of RBI, the asset quality of banks exhibit improvement with gross non-performing assets ratio declining to 10.8% in Sep 2018 from 11.5% in Mar 2018. The net NPA ratio also depicts a fall at 5.3% in Sep 2018 as against 6.2% in March 2018.

V. CONCLUSION

The revised framework is a big move by the RBI towards eradication of the growing burden of sick loans from the economy. Some challenges like agreeing on a resolution plan within 180 days especially when a number of lenders are involved will increase the problem. On the other hand norms like early recognition of stress, timely reporting of defaults to RBI will increase the reporting requirement of the banks.

With the help of revised framework, the lenders are able to individually treat defaults in the borrower's entity account. It will leave an important effect on borrowings given by lenders. It will result in persuasion of different actions by different lenders. To deal with restructuring various initiations were taken by RBI using various schemes to solve the problem of NPA in the economy. All lenders must have to initiate to cure the default in the borrower's account with any lenders so that the interpretation of assets can be eliminated which leads to divergence in NPA. In other words, if one lender marked the asset as stressed, then all other lenders has to follow the same procedure.

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In conclusion it can be stated that the divergent asset classification norms on the same account are now prevented or inhibited from reporting under the revised framework, since many schemes has been unified providing various options to lenders.

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