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EFFECTIVE MANAGEMENT OF STRESSED ASSETS: CROSS EXAMINING THE LEGAL & OPERATIONAL FRAMEWORK IN INDIA

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Abstract-The present research contribution primarily makes an attempt to accentuate the enactment of unified insolvency code in India. Increasing burden non-performing and pitiable assets revival mechanism in India are key reason of mounting burden of Stressed Assets in Indian Banking Industry. Under the legal framework of India, the present research work covers the focal areas responsible for deteriorating assets quality and identifying the practical challenges in existing stressed assets resolution mechanism. Moreover, the paper highlights practices opted in developed economy and suggests best suited measures in Indian context for resolution of the complication of bad loans.
Keywords: Insolvency Code, Stressed Assets, Assets Quality, Bad Loans.

1. INTRODUCTION

"The stress in the banking sector, which the mirror in the corporate sector has to be dealt with in order to require credit growth" words by Raghuram Govind Rajan 23rd governor of Reserve Bank of India. The complication of NPAs (non-performing assets) has secured the attention of banking institutions, as accumulation of NPAs has been caused a banking crisis and rendered many banking institutions insolvency. To restraint the increases in NPAs, it is obligatory to understand the factors that are the cause of variations in these non-performing loans. NPAs are also named as "loan losses", "problem loans", "delinquencies", "stressed assets" and "bad loans". The factors which are accountable for the loan losses are generally country-specific due to the variants in regulatory frameworks and roles of the central banks. The determinants, of loan losses at banks in emerging economies have sustain limited attention in the literature. Generally, foreground has been given to the macroeconomic factors or to the composite set of variables consisting that consists of both macroeconomic and bank-specific factors. Limited work has been performed in the Indian the context to examine determinants of NPAs for improving the functioning of the banking sector. This is our main motive for undertaking this present research.
The present research work assesses the impact of different bank-level characteristics on NPAs of PSBs (public sector banks). The major motive has been to explain variability in the NPAs, specifically to evaluate whether bank-specific factors are good descriptive variables, given the homogenous ownership which contains structure of the sampled banks. The exertion is confined only to PSBs to examine the determinants of stressed assets that are within the class of the institutions which is homogenous with respect to their ownership and corporate governance arrangements and with which comprises the greater proportion of the banking sector assets of the state. The used of panel regression to determine that whether a significant relationship still exists between the GNPAs (gross non-performing advances) of PSBs and the selected bank-specific variables. This included all PSBs as the sample. Further, the data which are from 2001 are more recent than those of the other studies [Rajaraman and Vasishtha (2002) sample period to 2000. The need to contribute to the existing, but limited, body of the research on the determinants of loan losses towards the Indian business context by a providing empirical evidence that authorize the assessment of the roles of operative indicators on the credit of risk management at Indian PSBs. It also contributes by providing evidence concerning the importance of the bank-specific factors as it determinants of the loan losses in the context of Indian PSBs. As a brief preview of the main findings, this shows that NIMs (net interest margin) is negatively related to gross NPAs ratios, the ratio of gross loan loss identified as per the regulatory requirements over total advances. Our analysis highlights the importance of two other factors in explaining dissimilitude in NPAs.

2. WHERE WE STAND NOW

The presence of the large NPAs affects a bank's profit in a numerous of ways:

- Through decline interest income, and
- Through the creation of the reserves and provisions (to act as a cushions against loan losses) at the expense of profits in the banks.

This decline in the profit has a bearing on to variables like the CARC capital to risk-weighted assets ratio, or the capital adequacy ratio). With the dip in profit it becomes burdensome for the bank to raise the Tier-I capital so the 'capital base' is affected. In the face of declining the profit, in order to maintain the stipulated CRAR, the bank might have to raise the Tier-II capital through these bond-issues. The interest cost then will be higher too, pushing the cost ratio of the bank up and thereby resulting into a further shrinkage of profit. Thus the presence of larger NPAs might have led to a vicious circle, for making the financial health of a bank deteriorate over time. Hence, the bank should able to break the vicious circle, has to take the steps for reduction of the accumulated 'bad debt' or removal of such debt through the way of separate entity.

Dealing with NPAs may involve two sets of policies:

- The first relation between the existing NPAs, and
- The second concerning steps to diminish fresh NPA generation.

In far scenario, as old NPAs are concerned, a bank could remove it on its own or sell assets to the AMCs to make the balance sheet upright. For preventing fresh NPAs generation, that the bank itself should adopt proper policies to it. However, some pre-conditions are need to be satisfied in order to enable the bank diminish NPAs successfully. There should be an appropriate legal and institutional environment for efficiency and quick recuperations of debts. In India, the depths of the problem for the bad debts was first realised only in early 1990s. Subsequently, following the exhortation of the Narasimham Committee (1991, 1998) & Verma Committee (1999a), some guidelines have been taken to undermine the problem of old NPAs. Though concern regarding the existence demolish of NPAs from the balance sheets of the banks, particularly PSBs, continues to be communicate from every corner, there has hardly been any systematic estimation of the best way of dealing with the problems. Earlier there seems to be non-unanimity regarding the proper policy to be taken under our country in resolving the old bad debts NPAs. A noting of policies has been followed by different countries in times of their crises related to 'bad debt'. International experiences may vary and India tries to find out whether those policies can be applicable the state context. Thus the focal theme for this paper is the resolution of accumulated bad debt in India so the profitability increases.

3. PSBS CONSTANT TO BE UNDER STRESS OF THEIR PAST LENDING'S

The Indian banking system as a whole has been witnessing the elevate level of NPAs. The restructure load turning in to the wrong direction, the problem of the industries has only being compounded. State-run banks has been continue to report higher bad loans and the GNPA (gross non-performing assets) as on March 31, 2015, stood at the 5.17%. The stressed assets ratio (which includes NPAs, restructured loans and written of assets) was 13.2%, according to RBI data.

At the annual review meeting of Union Finance Minister with the CEOs of banks (including private banks), insurance companies and FIs (financial institutions) held on the June 12 in New Delhi concerns were raised over the increase in NPAs(non-performing assets) which were impacting credit growth of banks.

The rise was due to the slowdown in global economic recovery, some infrastructure projects, and continuing uncertainty in the global markets leading to lower extension of credit. It was stated that public sector banks continued to be under stressed assets on account of their past lending.

Going through the element of annual financial results for public and private sector banks including old private banks for 2014-15, it might be noted that the GNPAs (gross non-performing assets) of 26 public sector banks (including State Bank of India, 19 nationalised banks, and its associates and IDBI) have risen by the 22.5% to Rs.2.78 lakh crore against Rs.2.27 lakh crore in the foregoing financial year. While the 19 nationalised banks have registered a rise of 39.8 per cent in gross NPAs at Rs.1,92,270 crore against Rs.1,37,487 crore in the previous financial year, State Bank of India and its associates have reported 8 per cent drop in their NPAs at Rs.73,508 crore against Rs.79,818 crore.

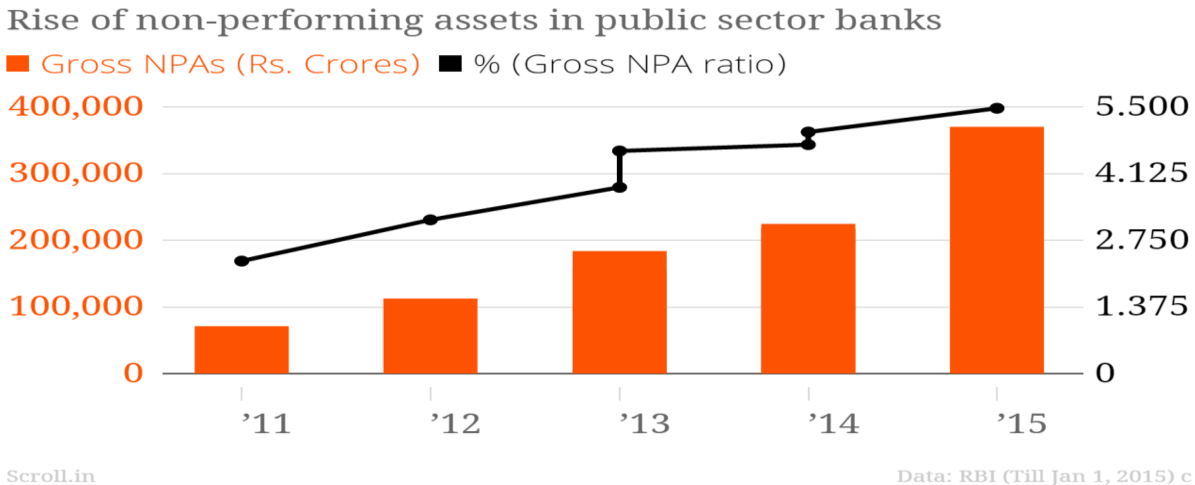

Fig. 3.1 Rise of Non-performing Assets in Public Sector Banks

For years government, has been trying for tracking down the bad loan defaulters but there has minor progress as the borrowers take exploit the legal procedure by finding of some loopholes to retard the payment. Statistic with, finance ministry reveals that PSBs are able to recover only 1,100 crore with half of the amount came from Mallya's Kingfisher Airlines that has emerged India top NPAs after the company has fail to pay more than 4,000 crore which is mainly owed to state owned banks and according to the finance ministry list 2nd is Winsome Diamonds. To ensure that the entire amount 53,000 crore is recovered a tough task as bankers admit that banks would be able to meet the nearly quarter of their resource would be requirement for the next five years. This will reduce their need for the government to sell its shares in the state-run entities to let help them meet their capital requirement and also ensure do away with the need for banks to sell their real estate and for stake in joint ventures. Banks might have already written off the amount and for any kind of recovery will be added to their profits.

The outstanding in top 50 NPAs it is in addition to several others those who have been classified as wilful defaulters. In fact, even from this list defaulters those like Mallya's and other directors on the airline board have been served a notice to be declared 'wilful defaulter' that will choke fund flow to other group companies.

The problem of mounting bad loans on the financial books of PSBs first caught public scrutiny in early 2012 when there was a spurt, especially in their restructured standard of loans (uncollectible loans that have been given on a fresh lease of life) happened. As of at the end-March 2012, ratio of gross NPAs and plus restructured standard loans (for this combination, a experimental and somewhat obfuscating term 'stressed assets' was coined later) rose to 8.8% from 6.6% a year earlier. The corresponding numbers for the few new private sector and foreign banks were much lower that the above.

But NPAs alone doesn't tell the whole scenario of bad asset quality of loans given by the banks. Some of the loans are restructured by banks for giving a further opportunity to the borrower if they can default. This opportunity is taken in the form of an extended time span for repayment and a reduced interest rate for such soft conditions. Hence a new classification is being made in the form of stressed assets that comprises of restructured loans and written off assets besides NPAs (non-performing assets).

"Stressed assets = NPAs + Written off assets + Restructured loans"

Restructuring of loans – a barrage (avalanche)

3 years later (end-March, 2015), the ratio of the stressed assets of PSBs to their total loans were at a record high of 13.5%, rising further to about 15% in June itself. For private sector banks and foreign banks the ratio were lying in between 4.4% and 3.6% respectively. The actual size of the impaired assets of PSBs is now in excess of amount 7 lakh crores, taking into account the SR (securities receipts) received on sale for NPAs and bonds of power distribution companies in state.

4. POLITICAL ECONOMY OF BANKING

The conventional wisdom concerning the provenance of the record build up for the impaired loans at PSBs is the decline in the country's GR (growth rate) in the aftermath of the Global Financial Catastrophe (2008-10) and the policy for atrophy during the second UPA regime, engender significant damage to the power generation, new projects in infrastructure and civil aviation sectors. This line for reasoning is not completely devoid of calibre, but it does not explain why PSBs should be haemorrhage profusely and private sector and foreign banks could remain largely unscathed.

The agricultural debt waiver scheme was announced in budget 2008-09 is possibly the fountainhead of current PSBs malaise. RBI's apparent enthusiasm in executing it swiftly was in sharp contrast to its discomfiture with debt for forgiveness of two decades earlier and more recently towards in Andhra Pradesh. The inspiration for the debt restructuring programs were plausible derived from the loan waiver scheme and might serve as the lynchpin for "extending and pretending" regime.

4.1 Indiscretion of can't 'Spread into Madness of the Many'

RBI issued an adorns of the comprehensive guidelines on restructuring for loans in August 2008, but have been no relaxation of asset classification norms. However, soon subsequently in April 2009, major relaxations in the asset classification norms were being announced, permitted restructured loans should be categorized as 'standard', with a very much interesting rider though. Banks could take advantage for the relaxation that is provided with the restructuring was done within 120 days, from the date of acquiescence under the CDR mechanism and within the time span of 90 days from the date for receipt of application in other cases.

The coercion of time did not mean that PSBs were restructuring indiscriminately. Their revealed predilection was more for large loans under the CDR mechanism and minus for loans to the small-scale industries. During these years following the asset classification relaxation in the year 2009, 'supervisory forbearance' was also on the display, as RBI's bank examiners did make a little effort to make these independent assessments for the extra provision and capital requirements of PSBs in the esteem of their burgeoning restructured standard loans, has been required under Basel II standards. Even as a straightforward fact that during the year 2009 and in the following few years, while the ratio of gross NPAs towards gross loans remained more or less steady, the restructured of standard loans were rising very fast -- apparently, they did not warrant any serious supervisory response. The Mr. Tarapore, RBI's former deputy governor had a scenario where he cautioned RBI staff about their pitfalls of what he termed as 'kind-hearted supervision'. His pronouncement seems prophetic today. It is only matter of time span that recently the RBI under the leadership of Dr. Raghuram Rajan has called a full stop towards the charade of 'extending and pretending'.

4.2 Arrangements With Little Accountability

The lack of accountability has been most manifest at the level for the boards of PSBs. The PJ Nayak Committee report has highlighted several interesting bits of anecdotal statistic about their dysfunctional role. But the alongside reforms in this regard, might the past boards should be held accountable for which they have appears to has been a systematic gaming of rules on restructuring. The little-known fact about the boards of PSBs is that the nominee directors for the central government and the RBI would perceived as primus inter pares vis-a-vis alternative directors. The trio comprising about the government, executive chair and RBI nominee directors would take entirely important business and other decisions, including the career progression of their senior management staff. Quite clearly, they couldn't escape accountability for the big holes that are in the finances of PSBs. The taxpayers for the country have a right to ask the authorities to originate against those who were being lax in discharging for their fiduciary responsibilities.

4.3 Economic Consequences of the 'Extending and Pretending'

But serious damage has already been caused. Provisions held by PSBs are now very minus provisions even vis-à-vis their recognition for impaired assets. For the shortfall that will widen sharply if they likely accretion to impaired assets in future that is taken into account. As of in the end-March, 2015, their loan loss provision was only 2.0% vis-à-vis 'aggregate stressed assets' of 13.5%. Assuming that for all the PSBs, for their restructured standard loans that have a probability of 30% to slip to NPAs by end-March 2016, and taking the adequate provision for coverage in respect of the NPAs to be at least 70%, the provisioning shortfall for PSBs works out to 3.4%. It is highly possible that few PSBs are completely insolvent now.

4.4 Insinuation to Deal with the Impaired Assets Problem

There are some five specific insinuations to deal with 'bad debts' problem.

First, the RBI and government should recognize the plate of the problem. The capitalization of the PSBs is grossly inadequate. Furthermore, there is a high impaired asset of the PSBs that has already begun impeding for the credit flow for the economy thereby hindering growth.

Second, subsequent the lead provided by the SBI in this regard in time span of 2014-15, PSBs should ready to sell their NPAs to asset reconstruction companies for revenue at deep discount (PSBs, UCO bank put 22 NPAs a/c up for sale), if required. RBI should provide flexibility that is required to recognise the loss on sale of NPAs over a five-year time span in place of the extant two years. The banks are not only too big to fail but also these are too slow to change unless they are goaded with incentives. As RBI's moral suasion alone will not be able to work.

Third, the disclosure of the full and comprehensive information on the financial health of banks which does not happen in India. It would be a admirable idea for RBI to conduct annual 'stress testing' for banks, consecutive the methodology in the EU and US, and share the conclusions publicly.

Fourth, the government should be prepared to lower its stake in PSBs. The 'Indradhanush' reforms are a good beginning. For accomplishing something real and the government, durable, the political class and the opinion-makers would have to jettison the long-held for ideological belief that is reduction of government's equity stake which is below 50% would be an act of sedition and sacrilege.

Fifth, all the stakeholders must realize that commercial banking is enduring a major transformation right now, driven largely by the technology industries.

"New innovations known as 'Blockchain' have the potential for disrupting banking business". Unless PSBs invest in the cutting-edge technology and HR they would become irrelevant in 5-10 years.

5. POLICES PURSED SO FAR IN INDIA

A bank that having a large amount of NPAs on its balance sheet, has three observant options: to pursue with the NPAs and make provisions for NPAs; to initiate recuperated of 'bad debt' itself; or to shift the bad loans to ARCs (Asset Reconstruction Companies) to make its balance sheet polished. These decisions might affect the financial health of the banks is important to examine, in order formulating proper policies. As these are noted in herein, convening NPAs on its balance sheet has a deleterious collision on the functioning of the banks in more ways than one. If the banks continue to make contingency for NPAs year after year, larger parts of the profit go under this head. Consequently, CRAR may be affected severely with the contraction of their capital base along with the decline in Tier I capital. Thus erosion of the profitability might create several problems on the bank's functioning over the period of time span and even may force the bank to close its operations. Thereafter, the bank would be left only with the other two options, that is, either the banks itself have to take the enterprise to reduce NPAs by adopting rigorous measures to recuperate bad debt, or banks has to remove such assets from its balance sheet through AMCs(assets management companies). If the banks sell AMCs there bad assets, there would be a one-time reduction in its assets. But the necessity for provisions being lowered with the dismissal of NPAs, profits could be used to enhance capital base, and their value of risk weighted assets would go down with the removal of non-performing loans. Thus selling bad debts to AMCs have a positive collision on CRAR. On the other side of coin, the bank itself might initiate bankruptcy procedures for recovering its debt and this is likely to lower NPAs from its balance sheets moderately.

6. INTERNATIONAL POLISIES AND INDIA

As in the present scenario, we should look towards the other countries how they get their grip with their banking catastrophe and resolved the problems of the weaker banks and NPAs. This might help in assess the Indian situation and formulating policies. The countries from Scandinavia to Central and Eastern Europe and from the USA to Japan, banking catastrophe emerged in different forms possession to varied reasons. The countries, those who are inherently differ in terms of the nature and composition of their banking composition, quite naturally responded in variants of ways to resolve the problems. For example, in developing countries (e.g. India, Mexico, Chile and Hungary), their banking is the leading (and sometimes the only) form of financial intermediation, while in the USA and some other developed countries, there are many avenues of finance for endeavour. The degree for concentration in the banking industry and for the ownership pattern also played a crucial role in the formulation of the policies and their effectiveness. However, some common ingredients may enhance the successful policies could be discerned and these might assist other countries come out of similar problems in the future time span.

The restructuring of policies would undertake almost all around in order to restore solvency and profitability as additionally to reinstate public confidence. The solvency facet was taken care of by financial restructuring. This may involve improvement for the balance sheet by rising of additional capital, boosting the value of assets or by the reducing liabilities. Operational restructuring measures would undertake to raise profitability along improved management for lending and accounting systems, adoption of the better risk-assessment techniques and proper management of valuable cost. However, in most of the countries, the policies ranged from closure of banks, to the mergers and acquisitions, government capital injections, etc. But in some countries, the closure of banks was inevitable. In some other countries, the closure would not be possible for banks that were “too big to fail”. Hence, signifying the high social cost that is involved in the liquidation for such banks; in most of the countries there are large banks that would not closed, but recapitalised.

6.1 RBI Guideline for ‘Bad Assets’

In the direction of continuation towards its policy to curb bad loans and apprehend incipient stress in the system, the RBI (Reserve Bank of India) had introduced a recently developed scheme on June 13, 2016 titled the 'Scheme for Sustainable Structuring of Stressed Assets' (S4A Scheme), offering an alternative for restructuring opportunity to lenders those who are struggling with delinquencies in large accounts. The S4A Scheme is the latest appearance in a series of initiatives introduced by RBI (the Reserve Bank of India) in the last two year of time period to tackle rising NPAs in the financial books of banking channels.

The main objective of RBI in driving this circular seems to stem from the complication faced by financial institutions and the banks in India in successfully invoking the SDR Scheme issued by RBI in 2015 (Strategic Debt Restructuring Scheme), which permit the lenders to rephrase their outstanding debt to equity to take lager part of their ownership and control of the stressed company and propose the lenders an eighteen - month window to discover a white knight willing and able to reverse the company and regularise the repayments.

In spite of the fact that, RBI had its heart in the right direction while introducing the SDR Scheme and it present certain immediate relief to the bleeding lenders, SDR Scheme has been denounce by several market players as a NPAs postponing exercise, as it might leads to deferral of debt obligations (the lenders end up acquiring most of the control of the defaulting company by conversion a fraction of debt to equity) alternatively bringing the debt to sustainable levels. In addition, a fair amount of the stress cases require companies which have also been hit by external part (steel, EPC and power sector companies). In such scenario, finding a recently developed promoter willing to purchase the absolutely whole stake of a stressed company within 18 months would very difficult and impractical. Consequently, a requirement was felt to find an option where the lenders could minus the debt to the level commensurate with its cash proceeds and even if that necessitate working with the prevailing promoters to turn around the company.

It may be in this backdrop and after due discourse with the lenders, the RBI compose the S4A Scheme with the motive of deep reorganising of large accounts to revive projects, that are feasible. The Scheme allows lenders to determine and set apart the debt into a 'sustainable debt' constituent (representing the loans which are having a potential of being serviced by the contemporary cash flows of the company and represent to play for not less than 50 per cent of the current funded liabilities) and reestablishment of the balance equilibrium into equity/ quasi-equity instruments which are anticipate to provide an overview to the lenders, in case of recuperation.

In order to be qualified under the S4A Scheme, the lenders are constituent to ensure that they should fulfil the undermine conditions (i) account should be owned to a project that has commenced commercial performance,

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(ii) aggregate exposure (including precise interest) of all unpalatable lenders in the account exceed Rs 500 Crores (inclusive of foreign currency loans, rupee loans, external commercial borrowings) and (iii) debt should encounter the test of sustainability. While RBI has tried to enlarge the applicability of the Scheme to a enormous number of accounts by surrounding of a de-minims threshold as low as Rs 500 Crores, there will be lot of accounts will be unprivileged of this beneficial pronouncement, for want of achieving commercial performance, specific stressed cases in sectors like steel and roads, power, where projects are administrated behind schedule on account of retard in land acquisition and accord of regulatory and environmental approvals.
Diversify an account in terms of the S4A Scheme; necessitate the lenders appointing an autonomous agency, responsible for managing a techno-economic viability report and governing of the amount of sustainable debt. Ensuring the determination of the 'sustainable debt', the lenders are necessitating formulating a resolution plan, which stand in need to be approved by a minimum of 75% of lenders by the value and 50% of lenders by numerical value in the consortium.
This S4A Scheme offers an ample of options rather than embrace a one-size-fits-all approach. The lenders, while contriving a resolution plan that might either chose to allow the promoter to pursue with majority shareholding and predominating or replace the promoter in expression of the SDR Scheme (or, the other side of the coin where under the Prudential Norms on alteration in Ownership of Borrowing Entities (exterior to Strategic Debt Restructuring Scheme)) or exercise the conversion and allow the existing management to pursue or bring in a professional management agency. The scenario where the promoter is permitted to continue, the lenders have also been given the alternative to convert the non-sustainable debt into possibility of convertible debentures.
Following the S4A Scheme envisages minimums of debt to sustainable levels; it does not allow grant of fresh moratorium or expansion of repayment schedule or lessen of interest rates. Hence, the implementation of the S4A Scheme rests on the capability of the lenders to accurately intent on levels of sustainable debt (not being lessen than 50% of the current funded liabilities) which could be repaid within the same deadlines and interest rates and their appetite to take risks related with equity investments.
As regards valuation at the occurrence of conversion, the shares are necessitate to be marked to market on a regular basis or at the least, on a weekly time basis. If in case of unlisted companies or where citations are not available, the banks are necessitated to value the shares using the break-up value procedure or the commonly used discounted cash flow procedure. For the redeemable cumulative alternatively convertible preference shares/ optionally convertible debentures, as the lenders are required to value such instruments by embracing the discounted cash flow method. The scenario where the lenders opt to proceed with the existing promoters, such persons will be necessitate to dilute their shareholding in the company (by way of issue of new shares upon conversion to lenders or sale of promoters' shares to the lenders) there must be in the same proportion as of the converted debt to the total debt. Promoters has been mandated to furnish personal guarantees to make sure that they are motivated to the act of assistance to debt and turn around the company, and make sure that their skin is in the game.
To be on the precautionary side, RBI (reserve bank of Indian) has adopted a stricter provisioning norm for scenario where the lenders are permitted the promoters to continue, in provision of the S4A Scheme. The lenders are necessitated to provision, either 20per cent of the total omitted debt or 40 per cent of the amount that is considered sustainable, who so ever is higher, in order to maintain a line of classification. However, as a silver lining, for the time period of 90 days has been provided from the date of allusion to in order to enable the lenders to draw up the resolution plan and impose it. This will work out as an advantage for lenders, who has been maintaining excessive provisioning on stressed assets.
Therefore, to ensure transparency; the S4A Scheme (Scheme for Substantial Structuring of Stressed Assets) requires the resolution plan to be affirmed by an overseeing committee, set up by the Indian Banks Association in dialogue with RBI, comprising of illustrations experts who would be responsible for reviewing and evaluating the resolution plan. Hence, on one hand this works as an inducement for bank officers to take decisions and safeguards them from any liability in the future, the conformation of the period is not time bound. This could create difficulties for the lenders specifically in the scenario where the lenders would like to use the S4A Scheme. Henceforth, determining the insolvency resolution plan through which under the new Insolvency and Bankruptcy Code, 2016 was evolved (the Insolvency Code). The Insolvency Code authorise a strict time line of 180 days (extended by another 90 days) for the determination of the intentional plan from the date of approval of application for insolvency. Upon which the Insolvency Code being notified, the lenders would have no option but to stand by for the ratification, time the clock under the Insolvency and Bankruptcy Code shall have commenced ticking. Therefore, the Overseeing Committee does not permits the resolution plan or suggests altering; the lenders would have to scramble to scope up with a more applicable plan within the remaining time. Hence fore, the working of the S4A Scheme would be tested once the Insolvency Code comes into force of the state.
The jury is still out their deciding whether the S4A Scheme would pan out like its predecessors or be the prosperity. However, there is no contradicting that it emerges as of an important tool in the possession of the bankers, offering them a chance to restructure on the basis of considerable cash flows and upgrade their returns

through equity upside post revival. In spite of making losses by disposing of assets to asset reconstruction companies at a reduction on actual price or scrambling to sell 51per cent equity to a recently developed promoter within 18 months, lenders would now be able to make their own assessment of the considerable debt and wait out till the company is resuscitate to make excessive profits in the long run, just similar to any other investor.

Only the era would able tell whether the financial economy is still ripe for this sort of disturbance and if this scheme will have any serious affirmative impact in resolving mounting NPAs in the banking channels.

7. ASSETS QUALITY REVIEW IN THE BANKS OF INDIA

The RBI (reserve bank of India) has conducted an assets quality review with the motive to clean up the balance sheet in the banks of state. Which has been resulted in the mounting of loses in the banking sector of India. Typically, RBI inspector checks the books of the bank every year as AFI (annual financial inspection) operation. In the time span of 2015-2016 a special inspection was conducted in August- November period. This is identifying as AQR (assets quality review) Continuously AFI, take a small sample of loans being inspected to examine if asset classification was in line towards the loan repayment and if banks have made provisions adequately.

The scenario in AQR, the sample size was much vast and in fact, most of the large borrower accounts were inspected to make sure if classification was in line with prudential norms. Some reports suggest that there is a list of close to 200 accounts was acknowledge, which the banks that were asked to treat as non-performing. Banks were given two quarters, one from October-December and from January-March of 2016 to absolute the asset classification.

The RBI is convinced by that asset categorisation was not being done properly and that the banks were reinstating to ever-greening of accounts. The banks were delaying bad-loan classification and adjourning the inevitable. “At the Reserve Bank of India, corporations and the banks come to them saying: ‘Give us some forbearance. Don’t call our loans bad even if it has not been paid for three years. Permit us to postpone recognition.’ This is a wrong way to go about it,” RBI former governor Raghuram Rajan had once pronounced. Mr Rajan had also utter ‘Band-Aids’ would no longer would able to work and banks need deeper surgeries.

The investors were also cladding uncertainties as guidance by the banks on ‘bad debts’ was erratic. So eventually, the governor decided to terminate the uncertainty as he committed to cleanse up bank balance sheets by March 2017.

CONCLUSION

The paper stresses the significance of a sound understanding of the macroeconomic changeable and systemic issues pertaining to the banks and the economy for solving NPAs problem along with the critical state of the strong legal framework and legislative framework. The foreign experiences must be utilized among with a clear comprehension of the local conditions to create a customized made solution which should transparent and fair to all stakeholders.

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