

Project Sashakt : NPAs

Sunil Mehta Committee's 5-pronged strategy to resolve NPAs approved: Project Sashakt

History

The Sunil Mehta Committee, set up to look into the faster resolution of stressed assets, has recommended the creation of an asset management company for the resolution of stressed loans worth more than Rs500 crore. Finance minister Piyush Goyal announced that government has accepted a report submitted by a committee of bankers led by Punjab National Bank chairman Sunil Mehta.

As on March 31, 2018, bad loans across listed banks stood at over Rs 10 lakh crore. As per the RBI's recently released Financial Stability Report, the number of gross NPA ratio is set to rise by March 2019 to 12.2 percent from 11.6 percent in March 2018.

The assets of the banks which don't perform (that is - don't bring any return) are called Non Performing Assets (NPA) or bad loans. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan. Sunil Mehta committee on bad loans resolution has recommended a five-pronged strategy Project 'SASHAKT' to deal with Non-performing Assets in the country's banking system.

Recommendations of the Committee

The 'Sashakt' Report highlights guiding principles aimed at the operational turnaround of the banking sector in a manner that will create jobs and enhance the value of public sector banks.

- **Resolution of bad assets below Rs 50 crore within 90 days:** Banks will be required to create a 'Focused Vertical' for bad assets below Rs 50 crore and set up a Steering Committee for resolution of such bad assets within 90 days.
- **Resolution of consortium loans between Rs 50-500 crore within 180 days:** It suggested the Bank Led Resolution Approach (BLRA) for loans between Rs 50 and Rs 500 crore. It suggested constitution of an Independent Screening Committee to examine resolution of such loans within 180 days and if there is no resolution in 180 days, then these bad assets will be moved to the National Company Law Tribunal (NCLT).
- **Resolution of loans above Rs 500 crore:** The loans above Rs 500 crore will be dealt via AMC/AIF-led resolution process. The panel proposed creation of a national Asset Management Company (AMC) to take over such Non-Performing Assets from banks.
- Recommendations included creating platforms where banks can trade in bunched loan assets.

Reasons for the rise in NPA in recent years

- GDP slowdown -Between early 2000's and 2008 Indian economy were in the boom phase. During this period Banks especially Public sector banks lent extensively to corporate. However, the profits of most of the corporate dwindled due to slowdown in the global economy. This has affected their ability to pay back loans and is the most important reason behind increase in NPA of public sector banks.

Topic
Introduction

- One of the main reasons of rising NPA is the relaxed lending norms especially for corporate honchos when their financial status and credit rating is not analyzed properly.
- 5 sectors Textile, aviation, mining, Infrastructure contributes to most of the NPA, since most of the loan given in these sector are by PSB, They account for most of the NPA.
- Public Sector banks provide around 80% of the credit to industries and it is this part of the credit distribution that forms a great chunk of NPA. Last year, when kingfisher was marred in financial crisis, SBI provided it huge amount of loan which it is not able to recover from it.

Other Countries

NPAs are not a new phenomenon. They have been a part of our system over the years and have come up during certain economic cycles with prominence. Every country faces such problem. India's NPA ratio is slightly behind Russia. This was followed by Korea. Other countries like Brazil, South Africa and China have less NPA ratio.

China's NPAs in the early 2000s were far higher than India's were from the period 2001-2005. Since then, China has made a significant effort to fine-tune NPAs. Today, they are much less than in India. It is also interesting to note that during the same period, lending by Chinese banks has been far higher than by Indian banks, which have been historically reluctant to extend credit and even more reluctant lenders post the 2008 financial crisis.

China adopted a four-point strategy to address the problems. The first was to reduce risks by strengthening banks and spearheading reforms of the state-owned enterprises (SOEs) by reducing their level of debt. The Chinese ensured that the nationalized banks were strengthened by raising disclosure standards across the board.

Conclusion

Project Sashakt (recommendations) will help retain the value of the asset through operational turnaround. Sashakt aims to strengthen the credit capacity, credit culture and credit portfolio of public sector banks. However, Sashakt does not require any regulatory forbearance.

To conclude, it is important to look at some of the key measures taken by other countries to address the NPA issue. China's NPA rescue mission is one such case study. India should learn from it, especially in the context of valuation, securitization and more targeted NPA redressal mechanisms.

Read further:

https://www.business-standard.com/article/news-ani/project-sashakt-5-prong-strategy-on-stressed-asset-resolution-118070300072_1.html

<http://iasscore.in/economy/npa-issue-in-india-an-analysis>

https://economictimes.indiatimes.com/cibil/articles/the-mpa-crisis-3-of-4/becreditsavvy_show/61835992.cms

<https://www.livemint.com/Opinion/THhRqYhQRV5ftaTs5aHp7H/NPA-resolution-What-RBI-can-learn-from-Chinas-strategy-aga.html>