Research Paper

GYAN MANAGEMENT

AN INTERNATIONAL BI-ANNUAL REFEREED JOURNAL OF MANAGEMENT & TECHNOLOGY

Year 2021, Volume-15, Issue-2 (July-December)

ISSN 0974-7621 (Print)

Mechanism of a Bad Bank is to Reduce Stress Assets for Achieving Economic Growth and Financial Stability

Mahesh K.M.[1] & P.S.Aithal[2]

[1]Post-Doctoral Research Fellow, College of Management & Commerce, Srinivas University, Mangalore-575001, India and principal- SBM Jain Evening College, V.V.Puram, Bangalore-560004, India
[2]Vice Chancellor, Srinivas University, Mangalore-575001, India

***Corresponding author:** km.mahesh@jaincollege.ac.in (Mahesh K.M.)

ARTICLE INFO

Key Words: Bad Bank, Covid-19, Financial Crises, Non- Performing Assets(NPA), Stress Assets, SME, PMMY, RBI, Balance sheet, FinancialInstitutions, Financial Stability and Economic growth.

ABSTRACT

The setting of Bad bank for purpose of resolve the Non-Performing Assets/ Taxie Assets.[1]US based Mellon Bank created the First bad back in 1988. Government created[2]Stressed Asset Stabilization Fund (SASF) in 2004, When IDBI was converted in to Bank. The 2008 Financial Crises, Coronavirus Pandemic 19 ,implementation of [3]Bankruptcy Code and the recent amendment to the Banking Regulation Act[4],creation of a 'bad bank mechanism is assess the bad loans of corporate, individuals , Small and Medium enterprise's(SME), PMMY and the true extent of stressed assets. Bad Bank mechanism has been implemented in other countries including Sweden, Finland, France and Germany[5], Japan set up bad bank in the name of Credit Co-operative Purchasing Company which bought the stressed

[1]Explained: The Arguments for and against a bad bank-,By Sunny Verma,GeorgeMathem- The Indian Express ,Friday ,February 12,2021
[2]Bad bank : a resolve or a respite for the Indian Banking system –By Garvita Goyal-ET-BFSI.COM -13 May 2020.
[3]Bad bank a bad idea? Five reasons why India needs durable solution on NPA's –By Rajkumar 31st May 2017.
[4]What is a bad bank and why are some people pushing for it a head of budget 2021-By Pradhjote Gill, January,19,2021
[5]It's Budget Season and that means Talk of a 'Bad Bank' yet again-By K.T Jagannathan and V Ranganathan 26th January 2021.

Received 13.09.2021; Accepted 18.12.2021
DOI: 10.48165/gm.2021.1528

assets of the Japanese banks at a discount. Indian Banking Assignation[6] as submitted the proposal to RBI for setting up Bad bank mechanism to reduce the NPA has impact on the Gross Domestic Product (GDP) of country and If NPA are reduced form the active Balance sheet of Financial institutions are helps in maintaining Financial Stability and Nurturing the Economic growth.

Introduction

The Non- performing assets (NPA's) of the public and private banking sector and the Covid-19 Pandemic,Emergency credit line Guarantee Scheme for MSME and to make Financial institution focus on their core competence [7](Alexejant Ropov-2010), as per RBI [8]Financial Stability Report states that Gross NPA ratio may increase from 7.5 per cent in September 2020 to 13.5 by September 2021 and Non- performing Assets totalling 899803 crore.[9]In India Insolvency and Bankruptcy code will helps Bad Bank for resolution.[10]The first Bad Bank of Grant Street National Bank was created in 1988 by US-based Mellon Bank. It merely served as a mechanism to resolve or liquidate bad debt to recover the maximum amount of money.[11]The Economic Survey of 2016-17 highlighted resolving stressed assets of PMC Bank, Punjab National Bank, ICICI Bank, Yes Bank, Lakshmi Vilas Bank, IL&FS, HDIL, DHFL, etc. Banking needs comprehensive structural changes to address stressed assets. In 2018, a committee headed by the former Chairman, Punjab National Bank (PNB), Sunil Mehta, had recommended setting up of an asset management company (AMC) to be named 'Sashakt India Asset Management' for fast track resolution of large bad loans.The mechanism of "bad bank" is to buys the NPAs and other non-liquid holdings of other banks and thereby helps clear their balance sheets. Economic Survey 2017 had also suggested creation of a bad bank called Public Sector Asset Rehabilitation Agency (PARA) to help tide over the problem of stressed assets. In India there is a significant impact of bank NPAs (non-performing assets) on the country's GDP. An Asset Reconstruction Company Limited and Asset Management Company to consolidate and take over the existing stressed debt and then manage and dispose of the assets to Alternate Investment Funds and other potential investors for eventual value realization,

The GDP of a nation is an indicator of the economic soundness of a nation. In theory, GDP is defined as the monetary value of all finished goods and services which have been produced within a nation's borders within a specific period of time. GDP is a growth indicator of an economy. As GDP grows, loans and advances also grow and hence it directly impacts on NPAs.[12](H.P.Kumar,2020) All borrowing businesses, irrespective of their size, whether large or MSMEs, engaged in any of the economic activities and providing employment to millions of workers, are covered by this provision of NPAs.

As per the Reserve Bank of India's directives to Banks, 'loan and advances granted to various categories of borrowers will become NPAs when they cease to generate income for the bank and where the interest and/ or instalment of principal loan amount remain overdue for a period of more than 90 days or the account remains 'out of order' in respect of an Overdraft/Cash Credit/Bills purchase continuously in excess of the sanctioned limit/drawing power for 90 days'.

Need of Bad Bank

- [13]The stockpile of bad loans has had several ill-effects on the economy at large.

---

[6]RBI's Bad Banks Proposal and How it works in the Economy-The Federal ,18th January, 2021

[7]How does the Bad Banks " Concept influence the commercial Banks" Ability a and Willingness to increase commercial lending.-Grin ,Seminar paper,2010

[8]What is 'Bad Bank' and can it resolve NPA woes?, Times of India,31 January ,2021

[9]What is Bad Bank? How Modi Govt plans to address stressed Assets of public sectors Bank-India TV, February 02,2021.

[10]A good " Bad Bank" Analysis of an alternative tool for Resolution, By Winy Digavane and PavanBelmannu-Indian Corp Law, 14,June ,2020

[11]Rebooting Economy '65' IBC has failed will a bad bank succeed?, by PrasannaMohanty- February 7,2021

[12]NPA's Cleaner of banks or Killer of Indian Economy By HP Kumar:The Times of India,December 12,2020

[13]Insights mind maps –General studies-3,Topic –Indian Economy

- Stressed assets of banks are making it difficult for new lending.
- This is constraining new investments in projects that can power the economy.
- As bad debt keeps rising, it raises the costs for the government to finance the PSBs.
- High NPAs force banks to keep their lending rates high to boost their profits.
- Private Asset Reconstruction Companies (ARCs), Joint Lenders Forum (JLF), Strategic Debt Restructuring (SDR) and Scheme for Sustainable Structuring of Stressed Assets (S4A) haven't proved successful in resolving bad debts.
- Bad Bank is expected to solve these problems, by relieving the banks of their NPAs.
- To clean the balance sheets of banks in India,
- To enable the banks to reach the required level of capital adequacy by mobilising fresh capital from the market
- To focus on credit growth to boost investment and ultimately economic growth.

Literature Review

Bad loans are considered to be an "unwanted byproduct", generated by banks in the process of extending credit (Umar and Sun, 2018). By way of making the banks go insolvent due to increasing losses, NPA can lead to a banking crisis, ultimately causing the whole economy to go down (Barr et al., 1994). Also, aggregate demand for loanable funds gets affected by NPA because bad loans increase uncertainty and cause lower lending by banks. The significance of NPA and bank profitability for the stability of the economy was emphasized by the US financial crisis of 2007–08. Thus, today, NPA forms a major part of many central banks' stress test models (Marcelo et al., 2008). Owing

Table 1: Bad Bank Model in Different Countries

Countries	Model	Year
China	4 State controlled AMC's 1.Cinda 2.Huarong 3.Great Wall 4.Orient	1999
Germany	Berliner Immobilien Holding(BIH)	2006
Indonesia	Indonesian Bank Restructuring Agency (IBRA)	
Japan	Credit Co-operative Purchasing Company(CCPC)	1992
Malaysian	Sovereign Bad Bank -Danaharta	
Finland	Property Management Companies	1990
United Kingdom	UK Asset Resolution	2010
Sweden	Swedish Government setup two Bad Bank 1.Securum 2.Retriva SPV & Consolidation Model	
United States of America	Mellon Bank created Grant Street National Bank(GSNB)	1988
Spain	SAREB Company for the Management of Assets Proceeding from Restructuring of The Banking System	2012
Ireland	The National Asset Management Agency	2009
Korea	Korea Asset Management Corporation(KAMCO)	1998
Ghana	Non- performing Asset Resolution Trust	1990

to the increasing seriousness of the problem loan issue, NPA gained popularity among researchers and academicians, analysing the subject matter from different aspects. Many researchers have examined determinants of NPA taking samples from some specific country or a region (Louzis et al., 2012; Espinoza and Prasad, 2010). However, in most of these studies, either a cross country analysis has been made using macroeconomic data or only bank-specific variables have been considered. A comprehensive model for NPA determinants has not been much explored, particularly in the Indian context. In addition to it, the relationship between priority sector lending and NPA is still a grey area.

Banks showing efficient performance and generating higher profits as compared to others are expected to suffer less from the issue of loan no repayment (Farooq et al., 2019; Shkodra and Ismajli, 2017). On the contrary, less efficient banks face higher bad loan accounts. This negative relationship between bank profitability and NPA was established by the bad management hypothesis given by Berger and DeYoung (1997). The hypothesis states that less efficient banks, with lower or negative profits, perform badly on the front of credit monitoring and managing their borrowers as well, which ultimately leads to loans going bad in the future. However, contradictory results are posed by Kumar et al. (2018), with respect to the impact of net interest margin on NPA. In a similar study by Berger and DeYoung (1997), the moral hazard hypothesis was tested. The hypothesis states that banks with a narrow capital base face "moral hazard incentives," and while responding to them, take up riskier loan portfolios, which further exposes them to a higher probability of no repayment of loans. Thus, the moral hazard hypothesis expects a negative impact of owners' capital on NPA.

Theoretical Framework

The creation of a bad bank under an Asset Reconstruction Company (ARC)-Asset Management Company (AMC) structure, wherein the ARC will aggregate the debt, while the AMC will act as a resolution manager. The proposed structure envisages setting up of a National Asset Reconstruction Company (NARC) to acquire stressed assets in an aggregated manner from lenders, which will be resolved by the National Asset Management Company (NAMC). A skilled and professional set-up dedicated for Stressed Asset Resolution will be ably supported by attracting institutional funding in stressed assets through strategic investors, AIFs, special situation funds, stressed asset funds etc., for participation in the resolution process. The net effect of this approach would be to build an open architecture and a vibrant market for stressed assets.

[14]The IBA has purposed 3 tier structures for Bad Bank comprising of:

- Asset reconstruction company (ARC)
- Asset management company (AMC)
- Alternate Investment Fund (AIF)

[15]Non-Performing Asset (NPA) An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is a loan or an advance where; Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted. The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.

National Asset Reconstruction Company Limited (NARCL) or called as Bad Bank, Indian banks have identified 22 loan accounts worth a total outstanding of Rs 89,000 crore to shift to the proposed National Asset Reconstruction Company (NARCL), the different entities operating in India in the asset reconstruction space, the oldest is Asset Reconstruction Company India (Arcil). In fact, Arcil is also owned by a clutch of financial institutions including State Bank of India (SBI), IDBI Bank, ICICI Bank (ICICI), Punjab National Bank (PNB) and Avenue India Resurgence Pvt.

The concept of bad bank is not new. The sovereign bad bank of Malaysia, Danaharta, established after the Asian crisis in 1998, is the oft-quoted success story. Danaharta was established as a national asset management company, for removing NPAs from the financial

[14] Bad Bank : A good alternative Mechanism for resolution of the Stressed assets By Pankaj Grover,IJARCMSS,VOLUME 04 No o1 January- March ,2021

[15]Stressed Assets Funding (Restructuring & Alternative Fund Raising options)- By Dr. Anil Yadavrao Gaikwad

system and maximizing the recovery value. It received funding from the government and appointed special administrators, foreclosed on property collateral, or took legal action for nonviable borrowers. Danaharta ceased operations by December 2005 after managing to recover about 60% of the face value of NPAs.

Similarly, the US had launched the Troubled Asset Relief Program (TARP) just after the Lehman crisis in 2008 to deal with stressed assets in the financial system. Citibank, Lloyds, and ING used governmental support to isolate the good assets of their portfolio against losses. The UBS of Switzerland too hived off bad assets to a government fund after the Global Financial Crisis. The assets in that fund turned profitable in 2013 and UBS repurchased the fund for $3.7 billion, which was a profit for the Swiss Central Bank.There are several asset restructuring companies already in the market. Asset Reconstruction Company India (Arcil), a private company, is one of the oldest.

[16]According to Reserve Bank of India's *Trends and Progress Report 2020*, gross non-performing assets (GNPAs) of Indian banks reached 8.2 per cent (equivalent to 9 lakh crore) at the end of March 2020 as against 9.1 per cent (equivalent to 9.36 lakh crore) at the end of March 31, 2019. In fact, GNPAs of public sector banks (PSBs) stood at 10.3 per cent (equivalent to 6.78 lakh crore) as on March 31, 2020.There were approximately 10,000 NBFCs in India registered with Reserve Bank of India (RBI), of which 89 deposit accepting NBFC in India.

[17]Stressed assets of non-banking financial companies (NBFCs) are expected to reach Rs 1.5-1.8 lakh crore, or 6.0-7.5% of the assets under management (AUM), by the end of the current fiscal. NBFCs play an important role in promoting inclusive growth in the country as it provides tailor made solutions to diverse customer needs and mobilizing funds by the distribution of money which leads to income regulation, thereby shaping economic development of the country. [18] Public Sector Banks (PSBs) may see gross NPAs rise from 9.7 per cent in September 2020 to 16.2 per cent by September 2021, as per RBI's projection. Private Banks' may see Gross NPAs rise from 4.6 per cent in September 2020 to 7.9 per cent by September 2021 and Foreign Banks from 2.5 per cent to 5.4 per cent.

[16]Bad bank is actually a good idea, M Srikanth/P Saravanan February 15, 2021

[17]CRISIL –February ,16th 2021

Research Methodology

The study is based on Secondary data which is collected from reports, Journals and websites for the latest happenings in the area of "Bad Bank", where a major part of the data is extracted from the Banking Annual and Reports. The conceptual study emphasizes on issue of non-performing assets(NPAs) and the NPA position and the achievements of the existing mechanisms in solving the problem of NPAs in the banks and management by the new entity ARC with special purpose vehicleother countries are managing

Data Analysis

The data pertaining to NPA, outstanding loans across private, public and small saving banks are provided in Table 3 to Table 10.

Table 3 indicates the information on sum of funded advances outstanding and amount technically/ prudentially written off of 100 top companies in India.

[18]CNBCTV-18,January,11th 2021

Table 2: Act and Committee Related to Bad Bank

Year	Act and Committee
In 1981Sick Industrial Companies (Special Provisions) Act, 1985 SICA	In 1981 Committee of Experts under the Chairmanship of Mr. T. Tiwari was set-up by Govt. to examine and recommend the remedies for increasing Industrial sickness. Board Of Industrial And Financial Reconstruction (BIFR)
1993	Recoveries of Debts due to Banks and Financial Institutions (RDDBFI) Act, 1993

Year	Act and Committee
2002	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) Securitisation: It means issue of security by rising of receipts or funds by Securitisation Company (SC) or Assets Reconstruction Company (ARCs). Asset Reconstruction Enforcement of Security without the intervention of the Court
2004	Corporate Debt Restructuring (CDR) System 2004
2014	Introduction Of Joint Lenders Forum 2014
2015	Strategic Debt Restructuring (SDR) in 2015-ARC Now in India, Asset Reconstruction company are in both Public as well as Private Sector
2002	ARCIL – Asset Reconstruction company India (Limited) Set up in 2002, ARCIL India First & among the leading asset reconstruction companies in the country.ARCIL is also an associate member of Indian Bankers AssociationOTHER ARC IN INDIA 65 ACRE – Asset care & Reconstruction Enterprise Limited ASREC (India) Limited Reliance Asset Reconstruction Company Limited PHOENIX ARC Private Limited INVENT Assets Securitisation & Reconstruction Private Limited
2016.	Insolvency and Bankruptcy Code, 2016.
2017,	The recapitalization plan
2021	an Asset Reconstruction Company or “bad bank”

Table 3: Sum of Funds Prudentially Written off

Sl. No	Borrower Name	Sum of funded advances outstanding and amount technically/ prudentially written off
1	Gitanjali gems	5,492
2	Rei Agro limited	4,314
3	Winsome Diamonds and Jewellery Limited	4,076
4	Rotomac Global Private Limited	2,850
5	Kudos Chemie limited	2,326
6	Ruchi Soya Industries Limited	2,212
7	Zoom Developers Private Limited	2,012
8	Forever Precious Jewellery and Diamonds Private Limited	1,962
9	Kingfisher Airlines Limited	1,943
10	Deccan Chronicle Holdings Limited	1,915
11	ABG Shilpyard Limited	1.875
12	Transstory (India) limited	1,790
13	Surya Vinayak Industries Limited	1,783
14	S Kumars Nationwide limited	1,581
15	Gili India Limited	1,447
16	Siddhi Vinayak Logistic Limited	1,347
17	VMC Systems limited	1,331

Sl. No	Borrower Name	Sum of funded advances outstanding and amount technically/ prudentially written off
18	Gupta Coal India Private Limited	1,235
19	Surya Pharmaceutical Limited	1,208
20	Nakshatra Brands Limited	1,109
21	Indian Technomic Company Limited	1,091
22	Jain Infra-projects Limited	1,073
23	Hanung Toys and Textiles Limited	1,039
24	KS Oils limited	1,026
25	Nakoda limited	1,025
26	Coastal projects limited	984
27	Parekh Aluminex Limited	975
28	First Leasing Co of India Limited	929
29	Comcast Steel and Power Limited	888
30	Sterling Oil Resources Limited	888
31	Action Ispat and Power private Limited	887
32	Sterling Biotech limited	887
33	Diamond Power Infrastructure	870
34	Surana Corporation limited	855
35	Indu projects limited	835
36	Arss Infrastructure Projects Limited	794
37	Shree Ganesh Jewellery House (i) Limited	774
38	Electorotherm (India) Limited	768
39	ABC Cotspin Private Limited	766
40	Varun Industries Limited	764
41	Era Infra Engineering limited	738
42	SEL Textiles Limited	718
43	Spanco Limited	705
44	BS limited	701
45	Sai Infosysstem India limited	683
46	Jay Polychem (India) limited	677
47	LohaIspaat limited	646
48	Jas Infrastructure and power limited	630
49	Century Communication Limited	607
50	Kemrock Industries and Exports Limited	605
51	Zylog System limited	581
52	G.E.T. Power limited	577
53	Kanishk Gold Private limited	561

Sl. No	Borrower Name	Sum of funded advances outstanding and amount technically/ prudentially written off
54	Dunar Foods Limited	530
55	Totem infrastructure Limited	528
56	Radikal Foods Limited	523
57	Allied Strips Limited	509
58	Pathbreaking Projects Limited	504
59	Leo Meridian Infrastructure Projects and Hotels limited	502
60	Krishna Knitwear Technology Limited	484
61	ACIL Limited	467
62	Prakash Vanijya Private limited	461
63	Biotor Industries limited	456
64	Bhadresh Trading corporation limited	444
65	Best Foods Limited	439
66	Gupta Exim India private limited	426
67	Pixion Media private limited	426
68	Shree Shyam Pulp and Board mills Limited	420
69	Surana Industries Limited	420
70	KSL and Industries limited	418
71	ICSA (India) limited	417
72	Arvind remedies limited	412
73	R.P Info System limited	410
74	Unitech limited	403
75	P&S Jewellery limited	401
76	Rotomac Exports Private limited	389
77	Indian Technometal Company limited	375
78	Ardor International limited	373
79	Bengal India Global Infrastructure limited	370
80	Pearl Vision private limited	362
81	C Mahendra Exports	360
82	AravaliInfrapower limited	358
83	Calyx Chemicals and pharmaceuticals limited	355
84	RTIL limited	355
85	Jyoti Power corporation private limited	339
86	Crown Alba writing instruments India Private limited	337
87	Firestar International limited	336
88	Agnite Education limited	331
89	PSL limited	327

Sl. No	Borrower Name	Sum of funded advances outstanding and amount technically/ prudentially written off
90	ECI Engineering and Construction Company limited	325
91	Parabolic Drugs limited	315
92	SR Foils and Tissue limited	313
93	Lilliput Kidswear limited	311
94	RajatPhamachem limited	302
95	NathellaSampath Jewellery private Limited	301
96	VibhaAgrotech limited	301
97	KBF Industries limited	297
98	Auro Gold Jewellery private limited	286
99	MSP Metallics limited	285
100	Shreem Corporation limited	283

Table 4: Outstanding Loans

Company	Outstanding Loans (crore)	NPA Year
VOLVO	22,532	2017
Amtek Auto	9014	2015
Reliance Naval & Engineering	8934	2018
JaypeeInfratech	7950	2016
Castex Technologies	6337	2015
GTL	4860	2015
Visa Steel	3394	2016
Wind World	3161	2016
Meenakshi Energy	2799	2017
Simhapuri Energy	2,196	2017

Source: Business Standard Banking Annual February 2021

Table 4 provides the information on outstanding highest loans held by the companies in the financial year since 2015.

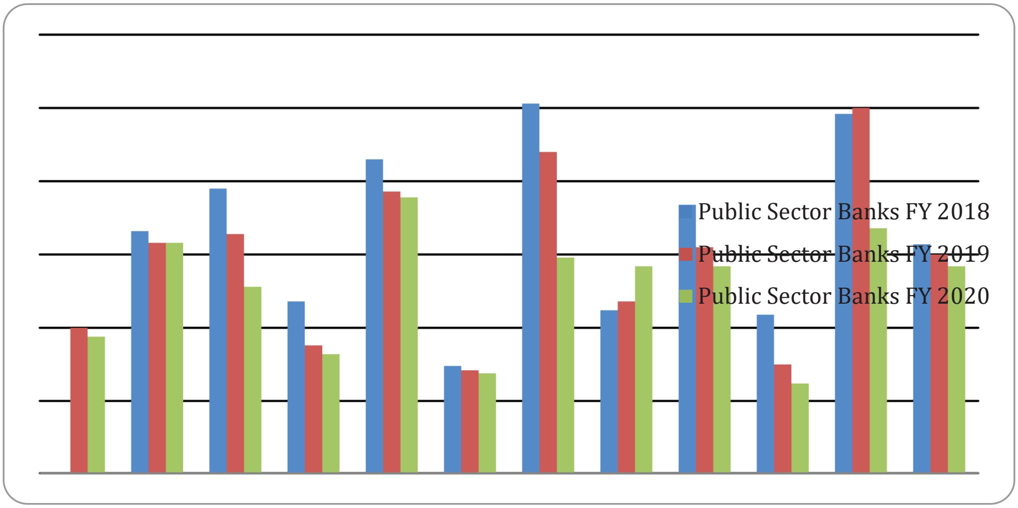
Table 5: Percentage of NPA in Public Sector Banks

Public Sector Banks			
In (%)	**FY 2018**	**FY 2019**	**FY 2020**
Bank of Baroda	-	10.0	9.4
Bank of India	16.6	15.8	15.8
Bank of Maharashtra	19.5	16.4	12.8
Canara Bank	11.8	8.8	8.2
Central Bank of India	21.5	19.3	18.9
Indian Bank	7.4	7.1	6.9

Public Sector Banks			
In (%)	**FY 2018**	**FY 2019**	**FY 2020**
Indian Overseas Bank	25.3	22.0	14.8
Punjab and Sind Bank	11.2	11.8	14.2
Punjab National Bank	18.4	15.5	14.2
State Bank of India	10.9	7.5	6.2
UCO Bank	24.6	25.0	16.8
Union Bank of India	15.7	15.0	14.2

Source: Business Standard Banking Annual February 2021

Table 5 provides the information on percentage of NPA in public sector banks of a financial year since 2018.



Graph 5

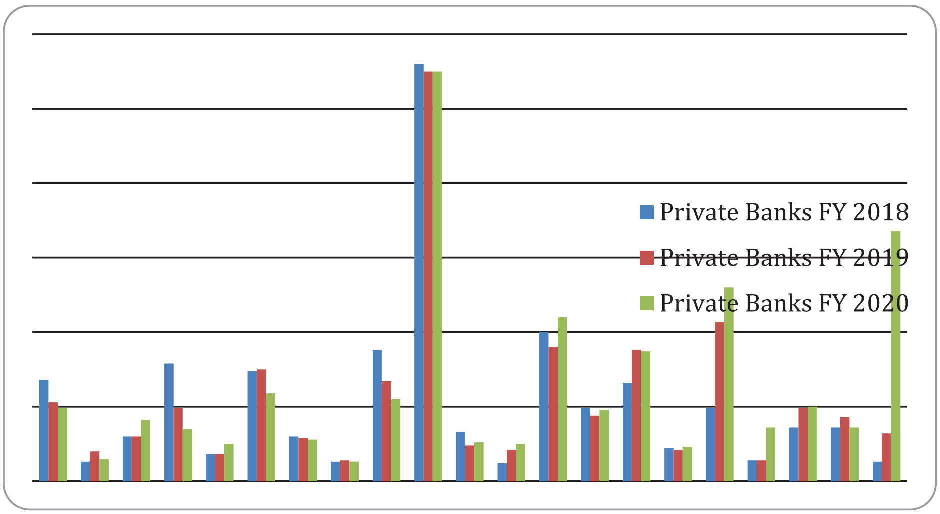
Table 6: Percentage of NPA in Private Sector Banks

Private Banks			
In (%)	**FY 2018**	**FY 2019**	**FY 2020**
Axis Bank	6.8	5.3	4.9
Bandhan Bank	1.3	2.0	1.5
City Union Bank	3.0	3.0	4.1
CSB Bank	7.9	4.9	3.5
DCB Bank	1.8	1.8	2.5
Dhanlaxmi Bank	7.4	7.5	5.9
Federal Bank	3.0	2.9	2.8
HDFC Bank	1.3	1.4	1.3
ICICI Bank	8.8	6.7	5.5
IDBI Bank	28.0	27.5	27.5

Private Banks			
In (%)	**FY 2018**	**FY 2019**	**FY 2020**
IDFC First Bank	3.3	2.4	2.6
Indusland Bank	1.2	2.1	2.5
Jammu and Kashmir Bank	10.0	9.0	11.0
Karnataka Bank	4.9	4.4	4.8
KarurVysya Bank	6.6	8.8	8.7
Kotak Mahindra Bank	2.2	2.1	2.3
Nainital Bank	4.9	10.7	13.0
RBL Bank	1.4	1.4	3.6
South Indian Bank	3.6	4.9	5.0
Tamilnad Mercantile Bank	3.6	4.3	3.6
Yes Bank	1.3	3.2	16.8

Source:Business Standard Banking Annual February 2021

Table 6 provides the information on percentage of NPA in private sector banks of a financial year since 2018.



Graph 6

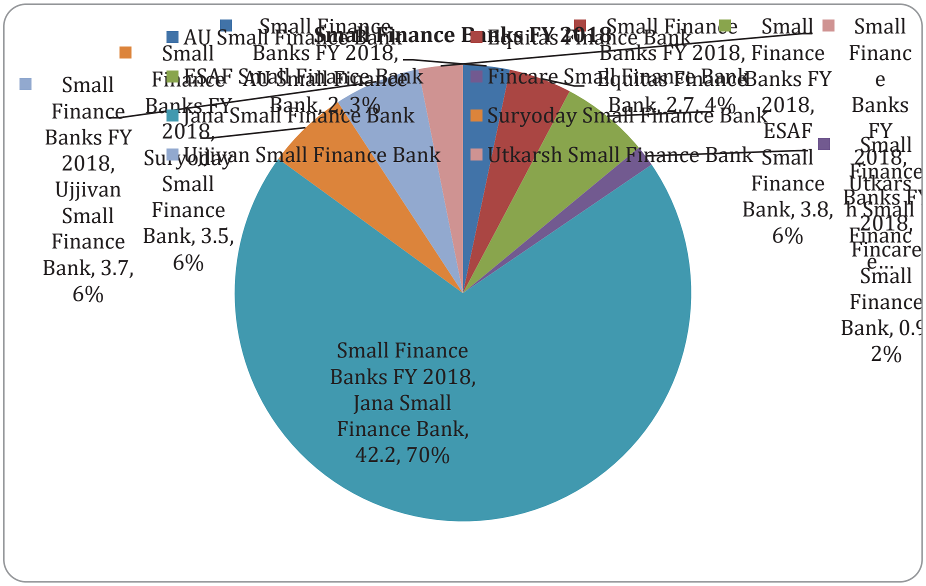
Table 7: Percentage of NPA in Small Finance Banks

Small Finance Banks			
In (%)	**FY 2018**	**FY 2019**	**FY 2020**
AU Small Finance Bank	2.0	2.0	1.7
Equitas Finance Bank	2.7	2.5	2.7
ESAF Small Finance Bank	3.8	1.6	1.5
Fincare Small Finance Bank	0.9	1.3	0.9
Jana Small Finance Bank	42.2	8.1	2.8

Small Finance Banks			
In (%)	**FY 2018**	**FY 2019**	**FY 2020**
Suryoday Small Finance Bank	3.5	1.8	2.8
Ujjivan Small Finance Bank	3.7	0.9	1.0
Utkarsh Small Finance Bank	1.9	1.4	0.7

Source: Business Standard Banking Annual February 2021

Table 7 provides the information on percentage of NPA in small finance banks of a financial year since 2018.



Graph 7

Table 8: Stressed Asset Estimates across Segments for NBFCs

Segment	Share to AUM (March 2021 [E])	GNPA		Collection Efficiency	Stressed Asset
		March 2019	**March 2020**	**December 2020**	**March 2021**
Gold Loans	~3-5%	4.2%	1.9%	99%+	-
Home Loans	35-40%	0.9%	1.2%	98-99%	1.8-2.0%
Vehicle Finance	20-25%	4.9%	6.0%	90.95%	9.0-10.0%
MSME	10-15%	3.2%	3.4%	80-85%	7.5-8.0%
Unreserved loans**	~3-5%	2.3%	2.2%	80-85%	9.5-10.0%
Real Estate Finance	10-15%	1.8%	4.5%	75.80%	15.0-20.0%
Overall NBFCs					Rs 1.5-1.8Lakh Crore

Sources: CRISIL, February 16,2021

Table 8 provides the information on share of asset estimates, gross NPA, collection efficiency and stressed asset during March 2019, March 2020, December 2020 and March 2021.

Table 9: Gross Non-Preforming Assets of Banking Sector

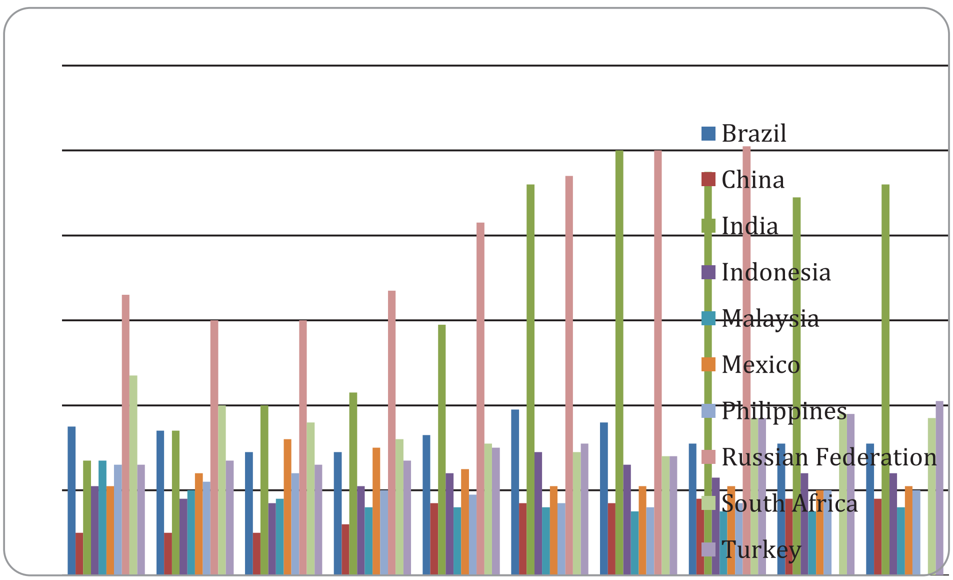
	2018 (Rs.cr)	2019(Rs.cr)	2020(Rs.cr)
Opening NPAs	7,26,500	10,38,684	9,50,000
Addition	6,04,300	3,14,449	4,77,000
Reduction	1,28,300	1,79,711	1,94,000
Write -off	1,62,700	2,36,948	2,60,000
Closing NPAs	10,39,800	9,36,474	9,73,000
Gross NPA %	11.20%	9.10%	9.14%
Gross Advances (For NPA computation)	92,83,929	102,90,923	106,50,000

Table 9 provides the information on share of gross non-performing assets of banking sector since 2018.

Table 10: India Bad Loans Highest among Emerging Market

	2011	2012	2013	2014	2015	2016	2017	2018	2019: Q1	2019: Q2
Brazil	3.5	3.4	2.9	2.9	3.3	3.9	3.6	3.1	3.1	3.1
China	1	1	1	1.2	1.7	1.7	1.7	1.8	1.8	1.8
India	2.7	3.4	4	4.3	5.9	9.2	10	9.5	8.9	9.2
Indonesia	2.1	1.8	1.7	2.1	2.4	2.9	2.6	2.3	2.4	2.4
Malaysia	2.7	2	1.8	1.6	1.6	1.6	1.5	1.5	1.5	1.6
Mexico	2.1	2.4	3.2	3	2.5	2.1	2.1	2.1	2	2.1
Philippines	2.6	2.2	2.4	2	1.9	1.7	1.6	1.7	2	2
Russian Federation	6.6	6	6	6.7	8.3	9.4	10	10.1	-	-
South Africa	4.7	4	3.6	3.2	3.1	2.9	2.8	3.7	3.8	3.7
Turkey	2.6	2.7	2.6	2.7	3	3.1	2.8	3.7	3.8	4.1

Table 10 provides the information on position of India in highest bad loan counties list among emerging market.



Findings

Thefollowing findings are identified in the study

1. Indian ARCs have been private sector entities registered with the Reserve Bank. Public sector AMCs in other countries have often enjoyed easy access to government funding or government-backed. By contrast, capital constraints have often been highlighted as an area of concern for ARCs in India.
2. During 2019-20, asset sales by banks to ARCs declined, which could probably be due to banks 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,
3. The decline of NPA is essential to improve profitability of banks and fulfil with the capital adequacy norms as per the Basel norms.A mounting level of non-performing assets (NPAs) in the banking sector can severely affect the economy in many ways
4. For the recovery of NPAs a broad framework has evolved for the management of NPAs under which several options are provided for debt recovery and restructuring.
5. Investment climate[19]
6. These advances need pre-sanctioning evaluation and post-disbursement control to contain rising NPAs in the Indian banking sector
7. Recoveries of banks (predominantly PSBs) is among the lowest in the world.
8. NPAs recognition as a step towards 'Cleaning of Banks Balance Sheets' to make them financially stronger.
9. NBFCs may not be included in the initial stage. NBFC participation, even if permitted, will be less compared with banks since not many NBFCs have large corporate NPAs unlike banks.
10. ARCs do not have the ability to do cash deals with respect to big accounts. Hence, banks are often stuck with these accounts or are forced to move to NCLT court where the chances of resolution are relatively less and the process is time-consuming.
11. The existing ARCs do not have the capital required to buy large assets.
12. Professional management of the stressed assets help to protect those firms from insolvency
13. The creation of bad banks will free the commercial banks from investigations by the central agencies like CBI and CVC

ABCD Analysis

Analysis of the advantages, Benefits, Constraints, Disadvantages Mechanism of a Bad Bank is to Reduce Stress Assets for achieving economic growth and Financial stability for Public Sector banks through new Mechanism for a wipe of NPAs.

Advantages

- Bad Bank helps to reduce the distressed assets / toxic assets.
- In other countries, Bad bank mechanism success is a vital step for the creation of Bad Bank in India.
- NPAs written off through Bad Bank will push more leading by banks.
- It will boost the Macro Economy in long term.
- It will help the Banks to raise capital in the Market.
- Benefits
- It improves the banking system by the focus on the core bank business operation.
- It controls the NPAs and gives more profitability to shareholders and customers.
- It enhances credit discipline and reduces the burden on taxpayers.
- It enhances the competency of the public sectors banks.

Constraints

- The PSBs has assessed the risk related to the NPAs before transferring to the Bad Bank.
- The Bad Bank regulatory mechanism is to be transparent in buying assets.
- The government must provide more capital for PSBs to perform better.
- Professionals and Skilled staff are necessary to manage the stressed assets.

Disadvantages

- If NPA is not resolving within the time-bound it leads to the danger to the PSBs in leading.

[19]Namita Rajput (India), AnuPriya Arora (India), Baljeet Kaur (India) Non-performing assets in the Indian public sector banks: an analytical study

- So Many Mechanisms for regularising bad loans like NARCL, IBC, ARCs, Lok Adalats, DRTS. Created a complex and delays in writing off the NPAs.
- It is created to improve the NPAs of only public sectors bank not Private sectors banks.
- Government has to initiate a regulating Mechanism to bring global funding companies to take over the NPAs.

Conclusion

The idea of creating bank for managing the bad loan is quite complicated but it has a potential to solve the problem of NPAs**.**The bad bank will pay lenders 15% in cash for the loans it purchases, while the rest 85% will be paid as securitized receipts.

References

Bajaj, R. V., Sanati, G., &Lodha, C. (2021). Impact Assessment Study of NPAs and Rate of Recovery: Are Private Sector Banks in India Better off?. *Global Business Review*, 0972150920980305.

Bayar, Y., Borozan, D., &Gavriletea, M. D. (2021).Banking sector stability and economic growth in post-transition European Union countries. *International Journal of Finance & Economics*, *26*(1), 949-961.

Curott, N. A., & Watts, T. (2020).Government-cheerleading bias in money and banking textbooks. *Econ Journal Watch*, *17*(1), 98-151.

Prieto, P. P. (2020). Governing the (Banking) Commons. *Exploring the Political Economy and Social Philosophy of Vincent and Elinor Ostrom*, 115.

Shukla, A., Narayanasamy, S., &Krishnakumar, R. (2020). Impact of board size on the accounting returns and the asset quality of Indian banks. *International Journal of Law and Management*.

Sikarwar, T. S., & Sharma, S. (2020). An operational approach to financial stability: On the beneficial role of regulatory governance. *Corp Gov Sustain Rev*, *4*(1), 74-81.

Thomas, R., & Thakur, S. S. (2021). Bank group-wise comparison of loan recovery performance of commercial banks in India. *International Journal of Business Excellence*, *23*(2), 139-152.

Thomas, R., & Thakur, S. S. (2021). Bank group-wise comparison of loan recovery performance of commercial banks in India. *International Journal of Business Excellence*, *23*(2), 139-152.

Tushaj, A., & Sinaj, V. (2020). The Effect of Banking Concentration on Non-Performing Loans: The Case of Albania. *International Journal of Economics & Business Administration (IJEBA)*, *8*(2), 433-442.

Aithal, P. S. (2016). Study on ABCD analysis technique for business models, business strategies, operating concepts & business systems. *International Journal in Management and Social Science, 4*(1), 95-115.

Aithal, P. S., Shailashree, V. T, & Kumar, P. M. (2016). Application of ABCD Analysis Framework on Private University System in India. *International Journal of Management Sciences and Business Research, 5*(4), 159-170.

Aithal, P. S. (2017). ABCD Analysis as Research Methodology in Company Case Studies. *International Journal of Management, Technology, and Social Sciences (IJMTS), 2*(2), 40-54.

Aithal, A., & Aithal, P. S. (2017). ABCD analysis of task shifting–an optimum alternative solution to professional healthcare personnel shortage. *International Journal of Health Sciences and Pharmacy (IJHSP), 1*(2), 36-51.

Aithal, P. S., Shailashree V. T, S., & Kumar, P. M. (2016). Analysis of ABC Model of Annual Research Productivity using ABCD Framework. *International Journal of Current Research and Modern Education (IJCRME), 1*(1), 846-858.

Shenoy, V., & Aithal, P. S. (2017). Quantitative ABCD Analysis of IEDRA Model of Placement Determination. *International Journal of Case Studies in Business, IT and Education (IJCSBE), 1*(2), 103-113.