

# TURN AROUND OF INDIAN BANKS

SEPTEMBER 2023





# KEY CONTENTS

- 🎯 What is A NPA?
- 🎯 What's The Big Deal with A Non Performing Asset(NPA)?
- 🎯 What Led To The NPA Mess?
- 🎯 Reforms-The Swachh Abhiyaan Begins
- 🎯 Tangible Outcomes Manifest
- 🎯 Robust Banking Outlook 2023




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# WHAT IS NPA


- 🎯 An asset that ceases to generate revenue to the lender (Banks here)!
- 🎯 A loan or advance for which the principal or interest payment remained overdue for a period of 90 days!




# WRITE-OFF VS. WAIVE-OFF

 **Write-off** primarily refers to a business accounting entry made to acknowledge uncollected payments or losses on assets.

 A write-off doesn't imply full debt cancellation but is used by the lender to maintain a clean balance sheet.

 **Waive-off** refers to the lender's action of forgiving or eliminating a portion or the entirety of a borrower's remaining debt.

 Here, the bank refrains from pursuing any legal measures against the borrower to reclaim the loan.



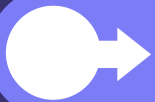


# WHY EXCESS NPAs ARE AN ALARM BELL!

- 🎯 Reflection of reckless lending practices by banks.
- 🎯 NPAs are blot on a bank's credibility and profitability.
- 🎯 Triggers loss of trust and withdrawal options among customers.
- 🎯 Credit rating of banks falls, making it difficult for them to obtain/rollover lines of credit from overseas markets as well.

# TRANSITION OF NPA TO BAD LOAN: IMPLICATIONS ON BANKS

Blind lending without proper due diligence to family and friends



**Outcome 1 : Piling of STRESSED assets.**

Compromise on norms set for Banks to provision for risky loans by RBI



**Outcome 2 : Increases probabilities of spread of bad loan BUBBLE**

Lack of timely intervention by RBI as the danger line is close to breach



**Outcome 3 : ALL IS WELL picture posted instead of REALITY**

**ERA OF 2006–2014**

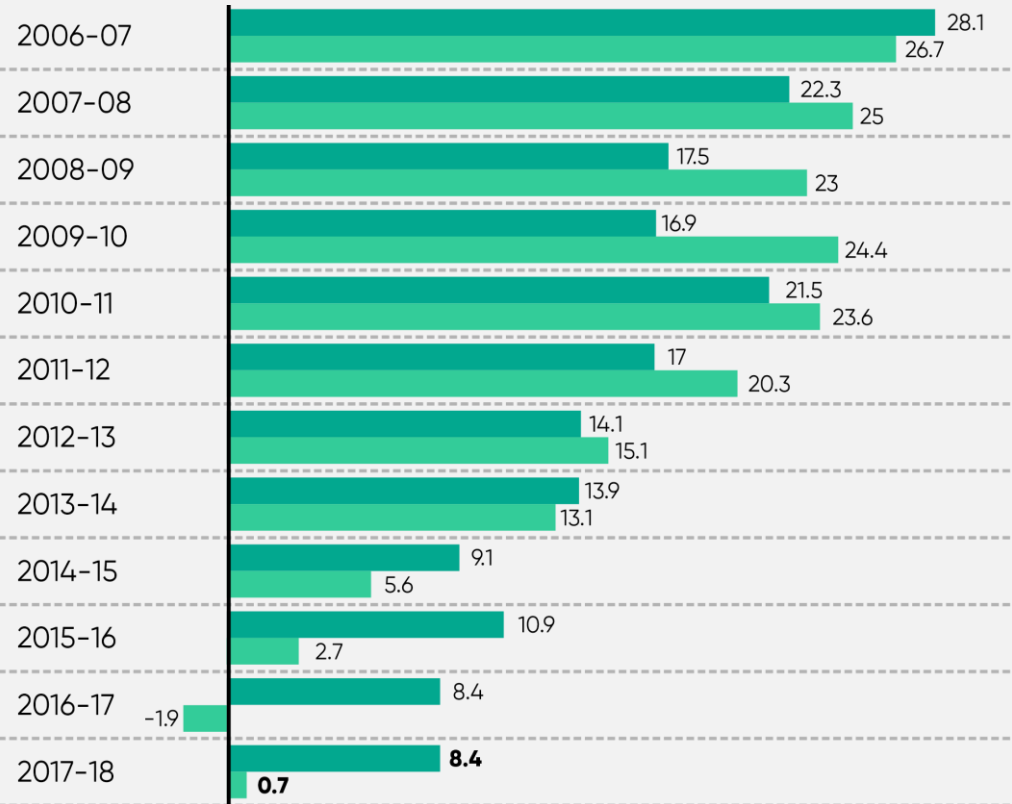
**ALL OUTCOMES  
FOUND  
EXISTENT IN  
INDIAN  
BANKING  
SYSTEM**

**PARTICULARLY FOR  
PUBLIC SECTOR BANKS**



# PAYING THE PRICE

Bank without due diligence lent to Industry in The Boom Period



■ Annual Credit Growth (in %)
   
■ Credit Growth in Industrial Sector (in %)

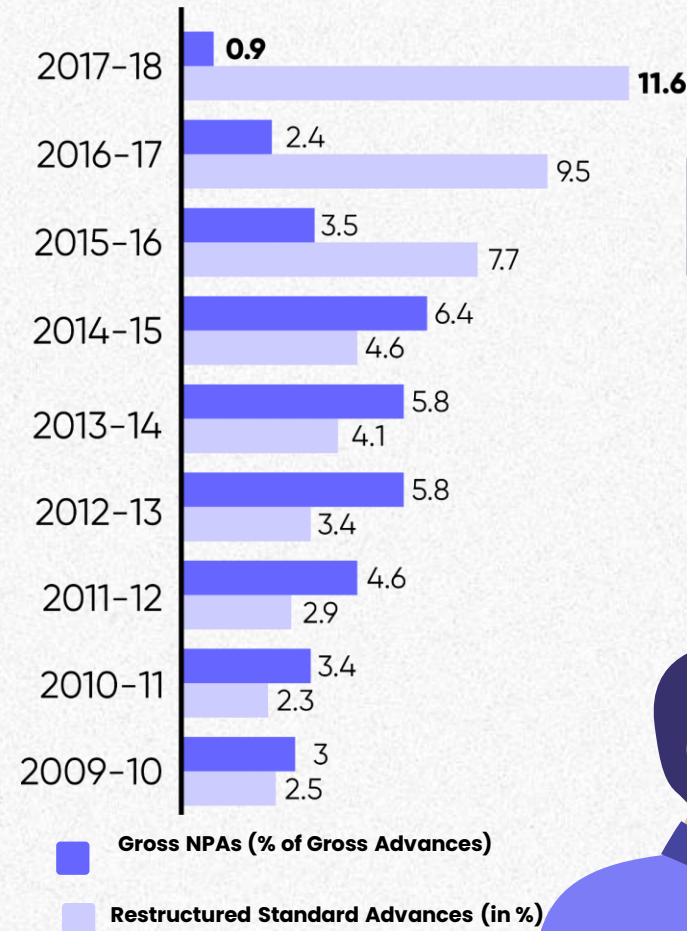
# RAPID RISE IN STRESSED ASSETS

# THE REALITY

## 2006-2018

**2006-11:** Major infrastructure, power, textile projects were funded by banks, especially the public-sector ones.

**2009-14:** These turned to bad loans and it kept rising.



■ Gross NPAs (% of Gross Advances)
   
■ Restructured Standard Advances (in %)







→  
**Pre 2014: PSBs  
Succumb to Famous**

**PHONE-A-  
LOAN-SCAM**

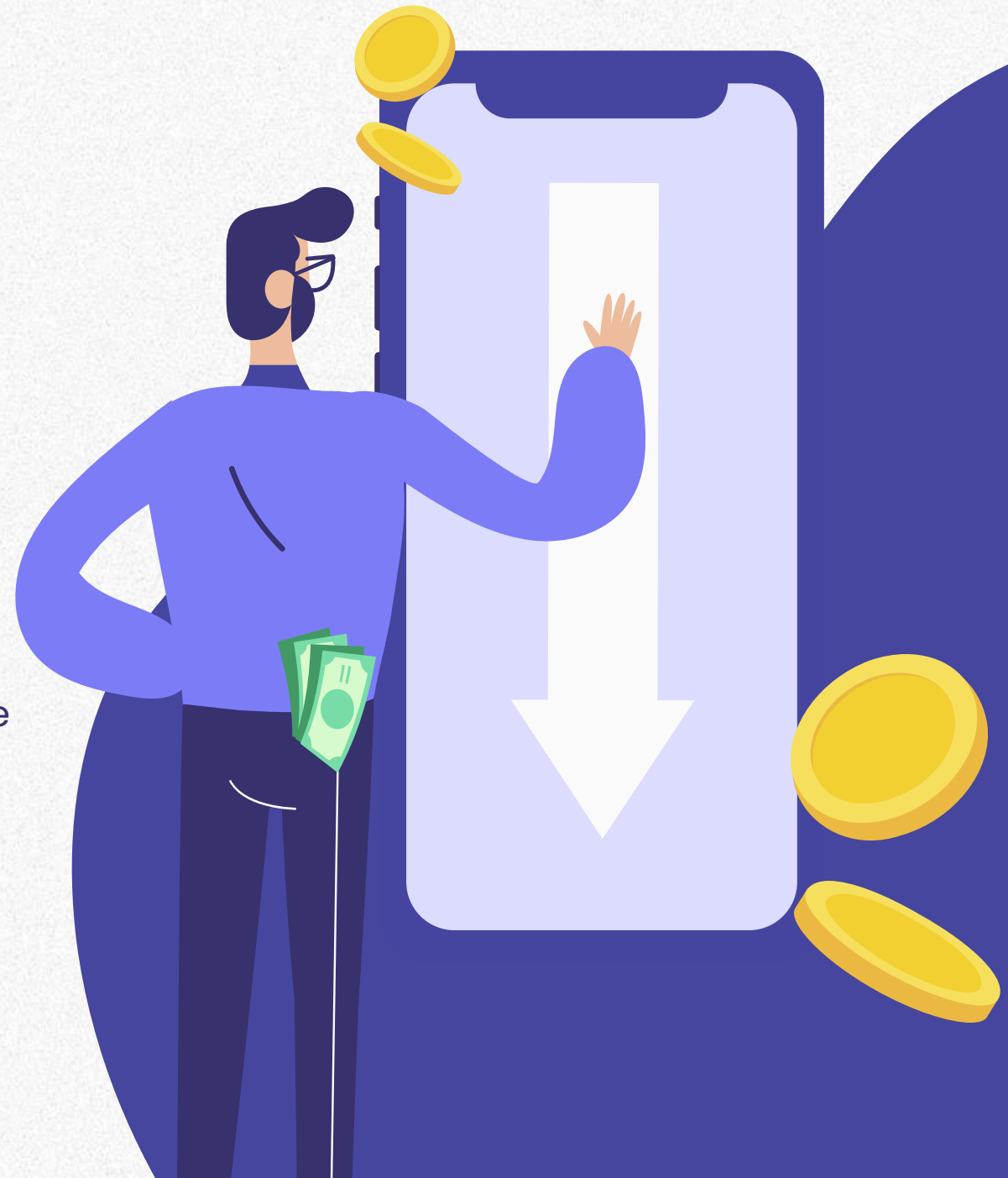
**Made Available to**

**“THE FAVOURITES  
OF GOVERNMENT”**









# A NPA BOMB GIFTED TO ELECTED GOVERNMENT IN 2014!

- 🕒 Gross non-performing assets (GNPAs) of banks were reported close to Rs. 2.40 lakh crore in FY 14. **Actual figures were much higher and hidden.**
- 🕒 Of the above, Rs. 2.16 lakh crore gross NPAs reported from **purely Public Sector Banks in FY 14.**
- 🕒 High NPAs had an adverse impact on profitability; **annual return on assets down from 1.09% (FY 11) to minuscule 0.78 % (FY 15).**



# BANKS ENTER DOOM STATE & WHOSE ACCOUNTABLE?

## UNCONTROLLED MALPRACTICE OF "SHORT-CUTS" PRIOR TO 2014!

-  Poor risk controls in PSBs -due diligence skipped.
-  Easy loans to high-level government contacts on mere phone calls. Phone banking scam in progress.
-  Rampant willful default by borrowers.
-  PSBs nudged to (over-)lend to pump the economy/boost preferred sectors.
-  Senior Management posts remained vacant in PSBs impairing timely course corrections.
-  Evergreening of loan accounts through restructuring was rampant and regulatory forbearance continued despite end of subprime crisis.



# SERIES OF EXPERT WARNINGS...EVEN FROM RBI IGNORED TILL 2013!



Business News › News › Economy › Policy › RBI Governor Raghuram Rajan warns bankers on ever-greening of bad loans

## RBI Governor Raghuram Rajan warns bankers on ever-greening of bad loans

PTI • Last Updated: Nov 15, 2013, 10:16 PM IST

SHARE FONT SIZE SAVE PRINT COMMENT <sup>7</sup>

"You can put lipstick on a pig but it doesn't become a princess. So dressing up a loan and showing it as restructured and not provisioning for it when it stops paying, is an issue. Anything which postpones a problem than recognising it is to be avoided," Rajan said.

# WHAT HAPPENS NEXT? EXPERT OPINION 1



India's bad loan problem slowly morphed into a **full-blown crisis** due to a lack of timely action by regulators and the government **for several years until 2014**, and it was largely driven by state-owned banks.

About **90% of fraud cases** have occurred in government banks.

**Urjit Patel (Ex RBI Governor), Stanford University**

Annual Conference on Indian Economic Policy' on June 3, 2019

# WHAT HAPPENS NEXT? EXPERT OPINION 2



A larger number of **bad loans originated in the period 2006–2008**....too many loans had been given to well-connected promoters who have **a history of defaulting on their loans.**

**Raghuram Rajan**

Ex. Governor of the Reserve Bank of India, (2013 to 2016)

## GROSS NPA RATIO OF SCHEDULED COMMERCIAL BANKS

In %



Source: Reserve Bank of India

# THE REALITY

## 2004-2023

Gross NPAs had already started climbing in 2011-12.

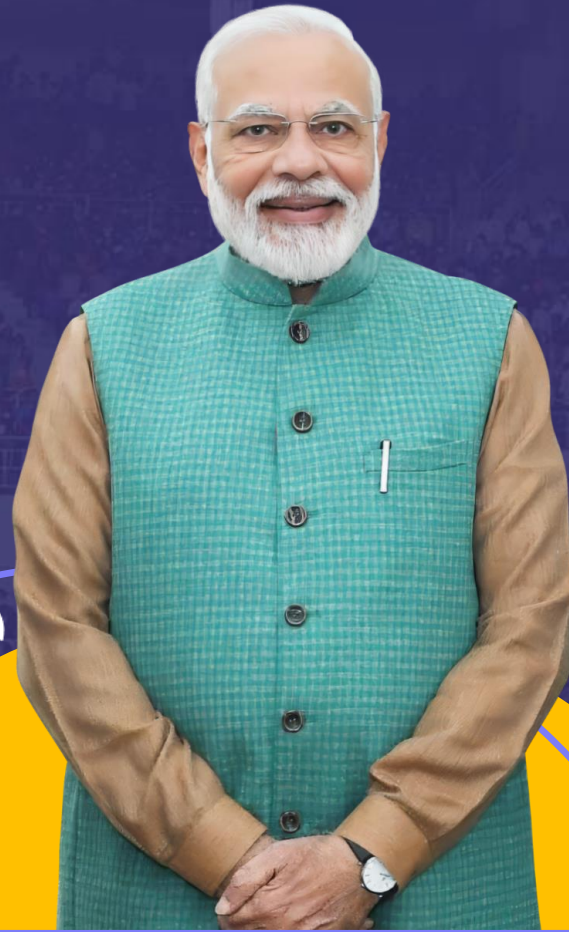
An Asset Quality Review, which was completed in 2015.

All the previously undetected bad loans caused the gross NPA ratio to soar to 7.5 percent within a year.

This marks the start of Swachh Balance Sheet Abhiyaan of the Banking Sector.

ना  
खाऊंगा ना  
खाने दूंगा

August 12, 2014



It is important to report NPA for even a day rather than sweeping it under the carpet or fudging entries to escape

Feb 26, 2021

**THE RESOLVE OF THE  
NATIONAL LEADER**



# MISSION INDRADHANUSH: SOLUTIONS FOR PROBLEMS

Have you professionalized your decision-making boards?

Announcement of the Bank Board Bureau (BBB)?

Separate the post of Chairman and Managing Director

No interference from government

Strengthening Risk Control measures and NPA Disclosures

Meet all the Basel III and RBI norms

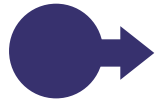
Governance Reforms- Gyan Sangam



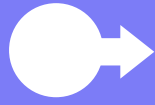
# 4R STRATEGY



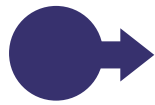
**Recognition:** Asset Quality Review and timely recognition of NPA



**Resolution & Recovery:** Insolvency Bankruptcy Code In 2016



**Recapitalisation:** Fresh Capital infused for enabling future lending



**Reforms:** Mergers, concentration risk dissolved.



## IMPACT OF BANK REFORMS

- QUALITY CREDIT GROWTH
- REDUCTION IN NPA LEVELS
- NO MORE BANKS UNDER PROMPT CORRECTIVE ACTION (PCA)
- INCREASED TOP AND BOTTOM LINES

# RISING GOVERNMENT INFUSIONS HANDHOLDS PSBs



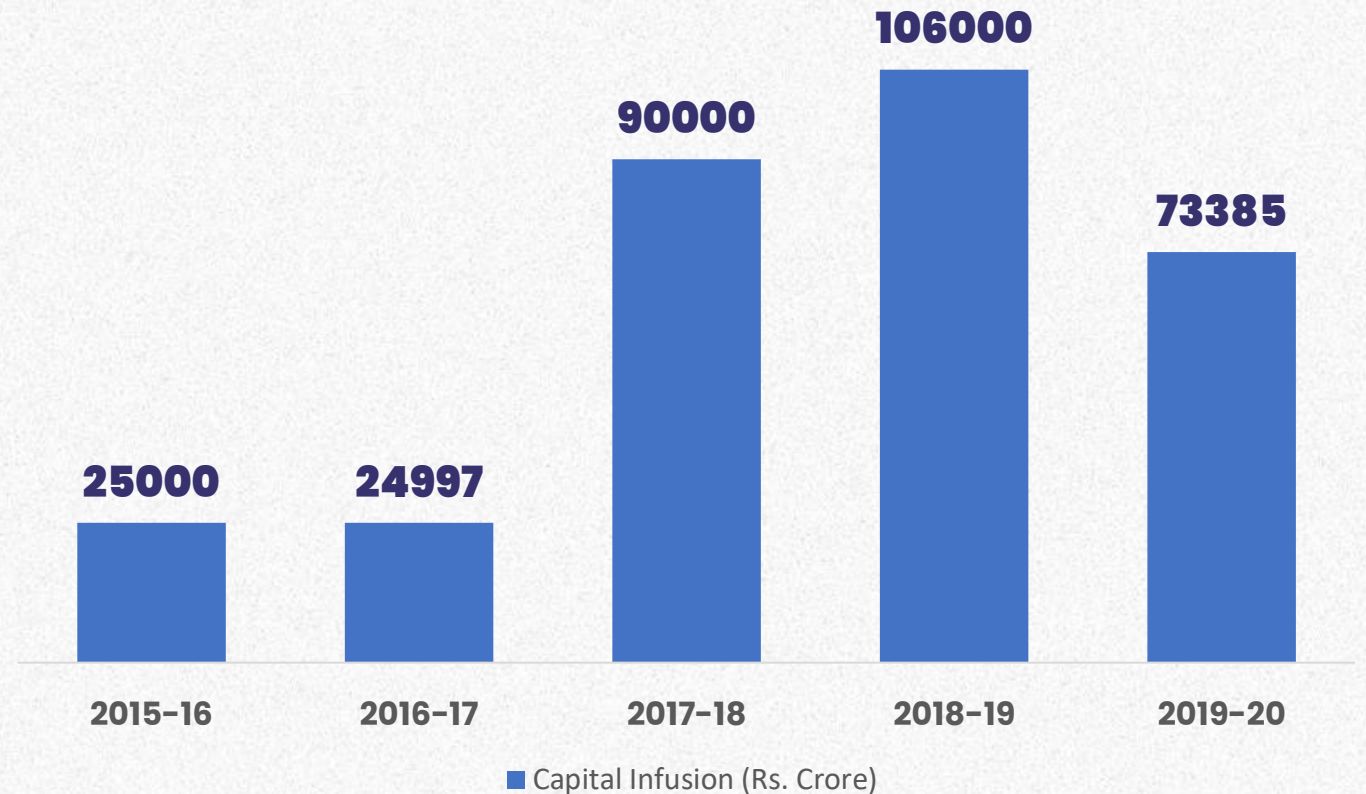
## Takeaway:



Due to three waves of mergers of public sector banks (PSBs) on bank NPAs, a near 10% reduction in NPAs due to amalgamation of weaker banks identified.



Almost all the decline is due to a decrease in strategic defaults.



# IMPACT OF BANK REFORMS

- Gross NPA ratio declined



From **14.6%** March 2018 to **3.9%** March 2023.

- Profit of PSBs almost tripled in 9 years.



From **Rs. 36,270 cr.** profits in FY14 to **Rs. 1.05 lakh cr.** in FY23.

- Market cap of PSBs increased



From **Rs. 4.52 lakh crore** in March 2018 to **Rs 10.47 lakh crore** in March 2023.

DUE TO REFORMS, INDIAN BANKING SECTOR HAS DEMONSTRATED RESILIENCE AND RESURGENCE

# IMPACT OF BANK REFORMS

## Bank Reforms in Numbers

- ✿ SBI's annual profit tops **Rs. 50,000 crore in 2022-23**. It was **Rs. 11,000 crore in 2013-14**
- ✿ **Rs.10 lakh crore of NPA** recovered in **last 9 years** by banks.
- ✿ HDFC emerged as the **world's fourth-largest** bank
- ✿ Public Sector Banks book consolidated profits of **Rs. 1 lakh crore in FY 2022-23**



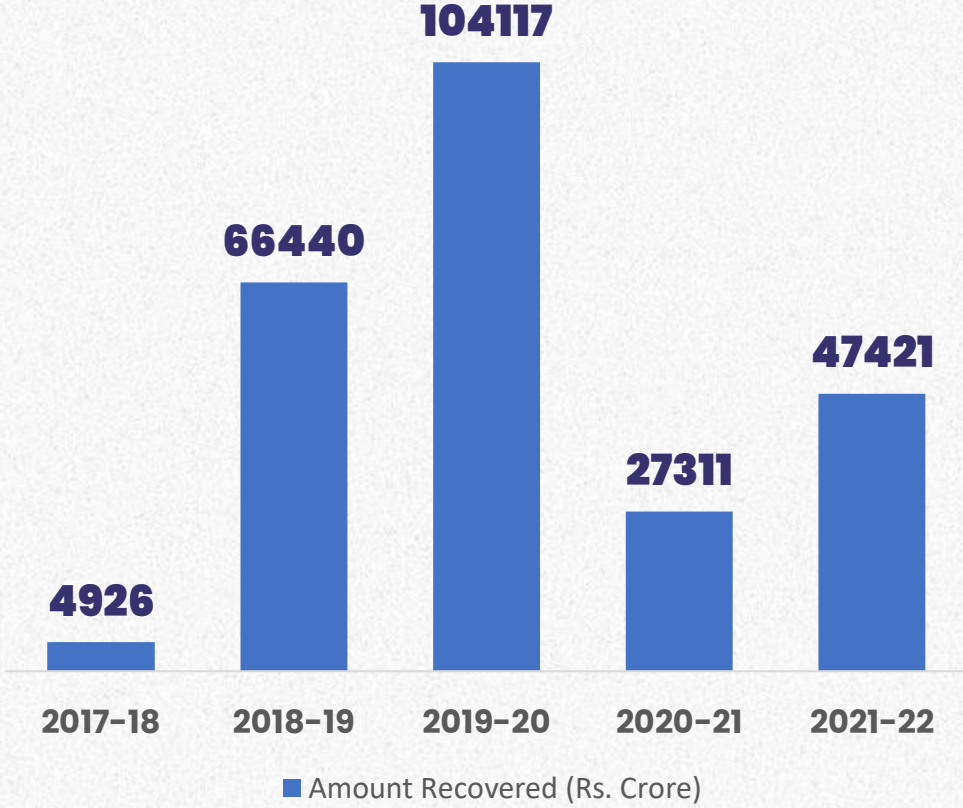
A graphic advertisement for Punjab National Bank. At the top is the bank's logo and tagline: "punjab national bank ...the name you can BANK upon!". Below this, the text "RS 11,400 CRORE" is displayed in large, bold letters. In the center, the word "FRAUD" is written in very large, bold letters, with a magnifying glass icon over it. Below "FRAUD" is the text "And It's Top 13 Important Facts". At the bottom of the graphic is the "13angle" logo. The graphic also includes small icons of a bank building and a person with a magnifying glass.

From **THIS** due to pre-2014  
scams  
TO  
**THIS** due to post-2014 Bank  
Reforms

**Punjab National Bank Q1 profit surges four-fold to Rs 1,255 crore aided by improvement in interest income**

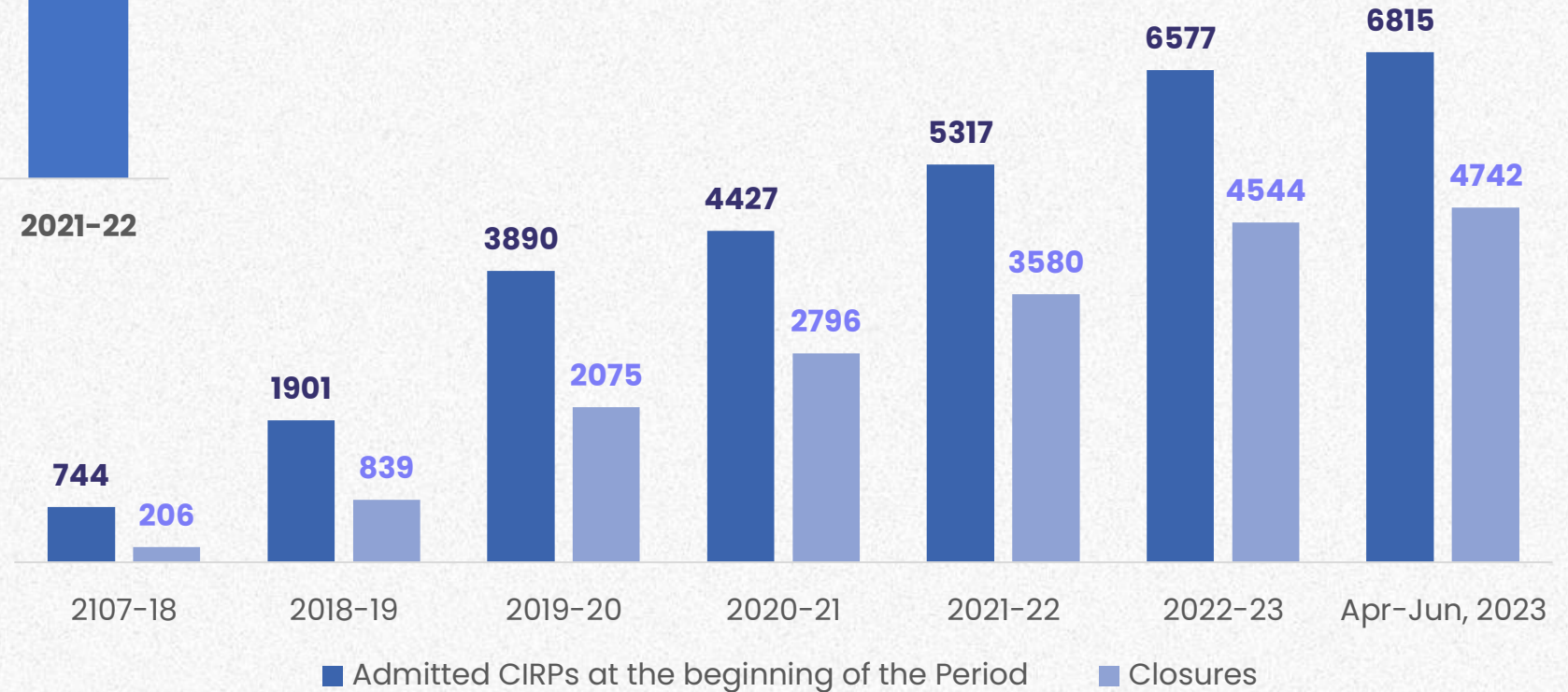
PTI / Jul 26, 2023, 18:00 IST

## Recoveries Are On A Rise For SCBs

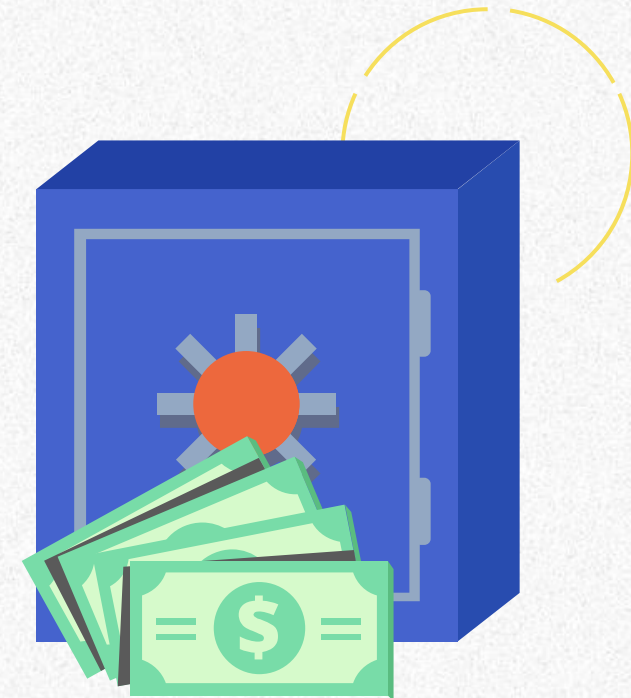
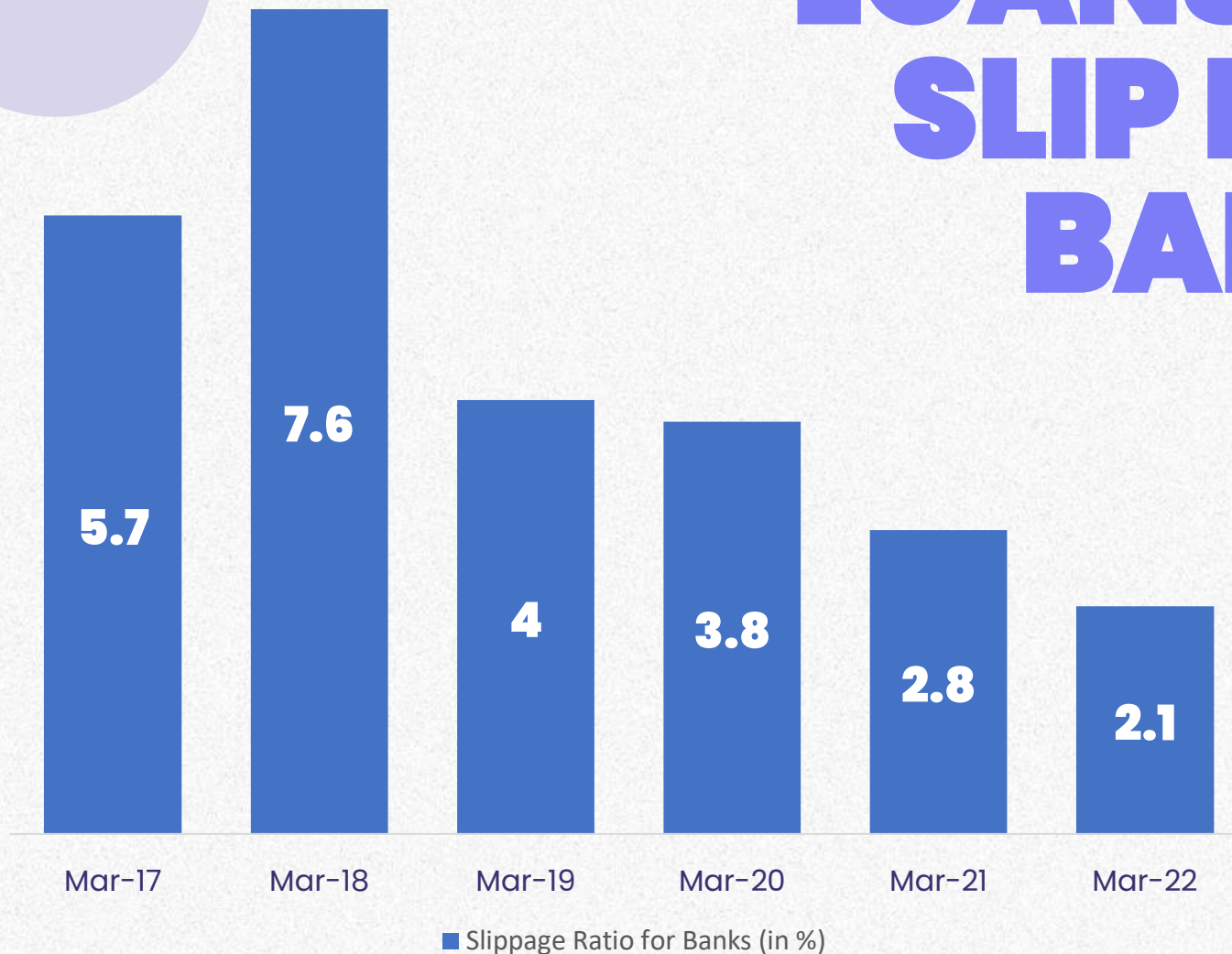


# STELLAR PERFORMANCE OF IBC REFORM

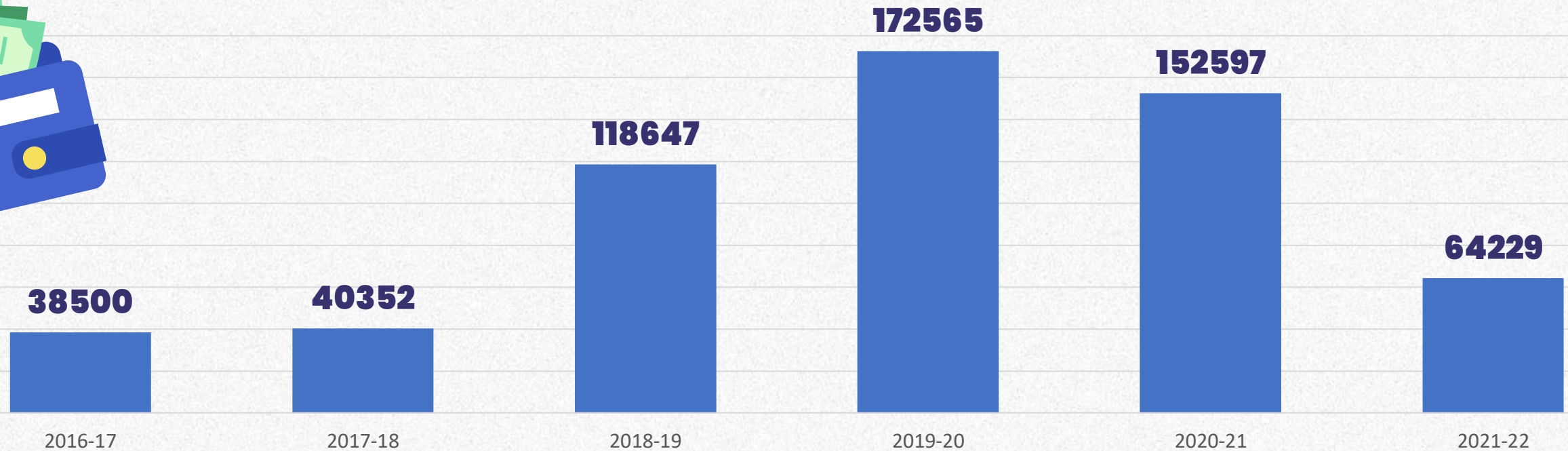
## IBC Process Appealing To Lenders As An Effective Option



# TANGIBLE OUTCOMES – LOANS THAT COULD SLIP INTO NPA FOR BANKS REDUCES



# TANGIBLE OUTCOMES – BETTER MONETISATION RECOVERIES FOR SCBS



■ Money Recovered (In Rs. Crore)



# TANGIBLE OUTCOMES – DECLINE IN MONEY LOST TO BANK FRAUDS



**67760**



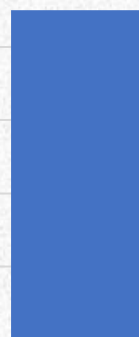
2015-16

**59966.4**



2016-17

**45000**



2017-18

**45000**



2018-19

**27698.4**



2019-20

**10699.9**



2020-21



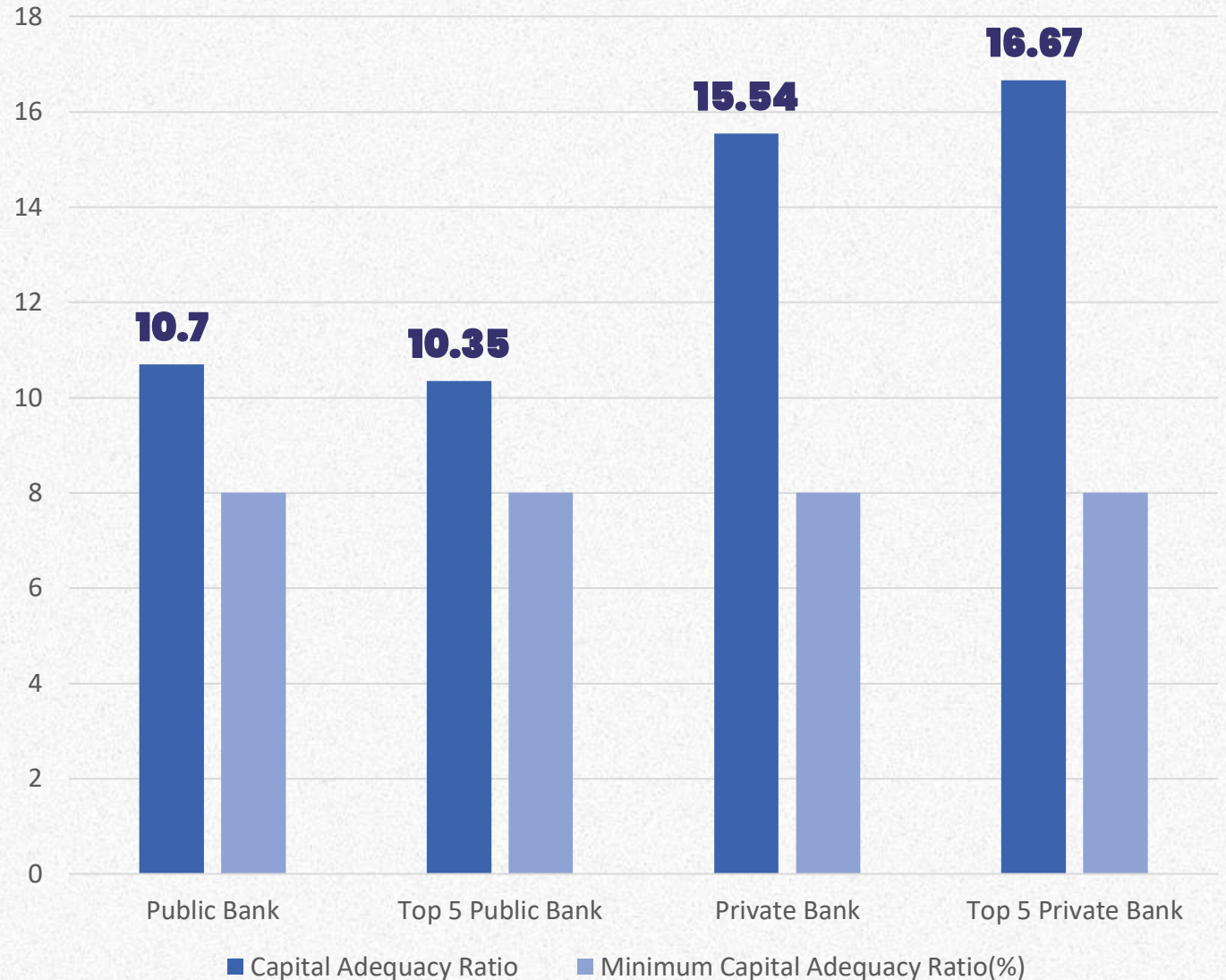
■ Money Lost to Fraud(Crore)

# STEADY SAILING THROUGH GLOBAL FINANCIAL TURMOIL

Indian banks well insulated from the fallout of global banking contagion

## Reasons:

- ✿ Cushion of local deposits
- ✿ Lower loan to assets ratio than failed banks such as Silicon Valley Bank (SVB) and Signature Bank
- ✿ Government bonds account for 80% of banks securities



# THEN vs NOW



Bad loans of Public Sector Banks rise to Rs 1.12 lakh crore in 2012

## **PSU banks pile up bad debts**

Banks report fraud cases involving Rs 6,457 crore in 2012

Indian banks' gross bad loans fall to a 10-year low of 3.9%: RBI's Financial Stability Report

Public sector banks' total profit crosses Rs 1 trn-mark in 2022-23

Indian banks can endure global banking turmoil fallout: S&P Global Ratings

# INDIAN BANKS



## IN 2023; SAFER, STABLER, PROFITABLE

Healthy Provision  
Coverage  
**(74%) for FY  
2022-23**

High Capital  
Adequacy Ratio  
**15.53%**

**3rd Largest  
Fintech**  
Ecosystem Globally

Highest Profitability  
Reported In  
**14 Years**

**80% Financial  
Inclusion**  
PM Jan Dhan  
Yojana

Better Industrial  
Health With  
Consolidation Of  
PSBs From  
**27 To 12**

Mkt Cap  
of PSU banks  
crosses  
**Rs. 10 lakh crore**

Average Credit  
Growth  
**(10% Over  
Last Decade)**

Banks recovered  
**Rs. 10 lakh  
crore**  
NPA in last 9 FY

