Interest Dynamics and NPA

Gross non-performing assets (NPA) grew to 4.8 per cent as of the quarter ended September, from 4.4 per cent in the previous three months, according to domestic rating agency ICRA.

In the Indian context, it can be safely stated NPA is the effect of monetary policy on the manufacturing and infrastructure industry. ICICI chief Chanda Kochhar said rather than blaming banks for shoddy diligence, it is the predictable policies and “unshackling” of stuck projects are the key to tackle the problem of bad loans.

Kochhar said every time money is given to a company by a bank or when an investor puts it in, there are certain set of assumptions which are made. When the assumptions go awry, it leads to stress. Returns on Investment on capital in infrastructure projects by the relevant industry deviates variably with central as well as International monetary policy decisions along with other deficiency scenarios. The latter are still easy to tackle but the former not only difficult to tackle but are responsible for killing a booming industrial activity. A fair example of this scenario are the national and international policies in the year 2010 which converged to distress the Indian manufacturing and infrastructure sector resulting in decline in not only exports but industrial activity itself. Projects were financed by banks believing the fast growing pace of the Indian economy being part of the BRIC super power group. However, the assumptions based upon which advances made took an adverse downturn due to the ongoing national and international chaos. The envisaged investment in infrastructure and manufacturing projects fell into a process of getting eroded and finally turning into an NPA. Non stability in framing monetary and corporate policies which change inadvertently influenced by international economic scenario also become a reason for downturn of investments turning into NPAs. Introduction of unconventional schemes such as the 5/25 or the SDR though sound, fails to match the needs of such an eroded non performing investment and play any important role to recover bank capital so as allow further capital to the entity.

In the kaleidoscope of changing economic policy, patterns thrusted upon an array of processes deemed for their revival does not guarantee the same for the mere reason of it being culturally apart from the actual needs. In today’s economic scenario the rising number of NPAs is a challenge which is an outcome of absolutely wrong economic decisions. Salvage instruments such as the SDR, 5/25 scheme etc will only work efficiently if they recreate the projected ROI growth and the sustained consistency of involved financial variables when the project was implemented. 90% of the Projects in today’s economic scenario have gone waste due to the mere fact that the above 2 projected aspects have changed.

If such is the case, the parlance of declaring a project a NPA, is highly blasphemous. Declaration of the NPA status only because the project is not able to pay off the debt burden should not be criteria for such a declaration. Due to disturbances in the inflow of capital or clearance of licenses project timelines are deferred leading to deference in the payment of the liabilities. If such instance gets prolonged well beyond the projected timeline, leads to the over stressing of the payment liabilities resulting into a NPA, examples of such scenario are non clearance of environment license to start a chemical based industry on time with the infrastructure being in place well above half mast. The fluidity in flow of decisions from the center to the concerned authorities in case of declared governmental waivers too is debatable as evidently the project head runs pillar to post transporting such decisions very much mundane to the state of art working of Government departments.

Indian economy has been grappling with the NPA issues since the inception and has been ineffective in immunizing the industry against internal and external influences. Not only has the country’s economic capital in form of bank advances but also individually raised capital has been eroded leading to bankruptcy and deluge of the Indian manufacturing and infrastructure sector. This has resulted in loss of alternate capital available for public investment in terms projected returns from the bank advances to the industrial or infrastructure projects. Leading to a spiraling vicious doldrum of state of the affairs which is seen in the Indian scenario viz a viz the International one. Public infrastructure such as roads, sanitation etc are in a peril even today. Location of projects envisaged as per projected public investment in connectivity in terms of roads, airports and ports for transport are staggering due to these reasons.

The NPA status can be subdued by subjecting the project to either a tax holiday or an initial investment waiver for a determined time say 5 years, allowance of operating profits to be deployed for working capital needs etc. Indian economy was at one point of time a major exporter of steel with nearly 70 % domestic consumption however industries depending on this inflow of raw material were subjected to shortage due to the non resolvance of the mining policy leading to a heavy damage on monetary returns due to the same. This lead to major steel based industries turning into NPAs. Instant address to such a situation by the governmental agencies declaring subsidies or rebate on lending to such industries ideally would have saved them from the NPA tag. Inflow of subsidy on raw material from the government end was thus desirable at the same time maintaining the ongoing exports It may noted the infrastructure sector accounts for a bulk of the NPAs banks are saddled with, along with other sectors like steel and power, where projects are stuck for want of clearances. In context to this fact, speaking at a conference Reserve Bank Governor Raghuram Rajan said, “There is a component of poor project evaluation and poor project structuring and we need to adequate machinery to enhance evaluating capabilities. Thus genuineness of such a favor can be determined by addressing the depression in projected variables responsible for the project’s growth. All NPAs cannot be given same treatment and need to be treated diligently applying a multi-pronged strategy to help banks tide over asset quality issues along with the concerned NPA fostering a stronger economic growth and improvement in fiscal situation.

Intervention of asset reconstruction companies or ARCs are not viewed with positive horizon as an element of changing the NPA status of a project and a bank level intervention sensing probable risk of NPA being the better choice for elimination of NPA status of a particular project. Efforts are being made from the Indian government in which the finance Minister Arun Jaitley has asked state-run banks to clean-up their balance sheets of nonperforming assets, saying the government was willing to take the necessary policy corrective measures to help them. He said the government has already initiated several measures to bring down NPAs or bad loans of these banks. Gross NPAs of state-run banks rose 25.19 per cent year-on-year to Rs 3.14 lakh crore in September 2015, constituting 5.64 per cent of total advances.

However, the country’s credit risk remains high, with weak foreclosure laws accentuating challenges despite moderate private sector debt” .