



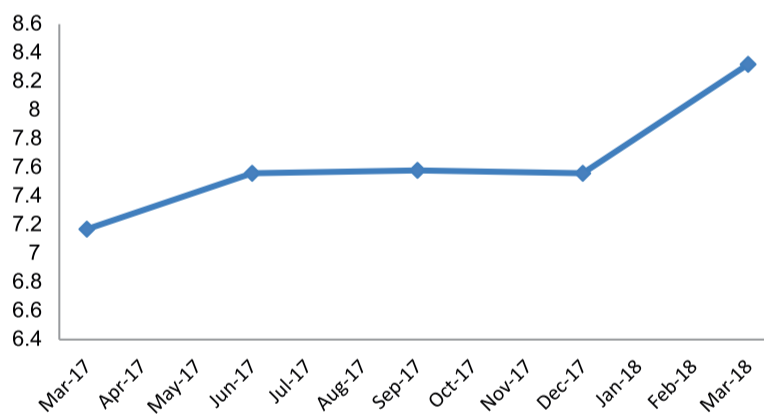
THE UNFOLDING NPA STORY

The story of Non-Performing Assets (NPA) is being heard and spoken about across many newsrooms, business meetings, lounges and dinner tables across India for more than a couple of years now. So what is the latest in this story? Let us take a look! Broadly, according to Reserve Bank of India (RBI), NPAs are those loans where repayment remains overdue for more than 90 days. NPAs of banks have been rising for the past few years. The major observations of the rising NPA story can be summarised as:

- Slowdown in GDP after 2009 after the initial boom from 2000 to 2008 leading to stressed liquidity positions in businesses
- Tightening of NPA recognition norms by RBI in 2015
- Relaxed lending norms of banks
- Sector specific defaults, including sectors such as mining, infrastructure, aviation, etc.
- Higher NPAs in corporate sector than in priority sector

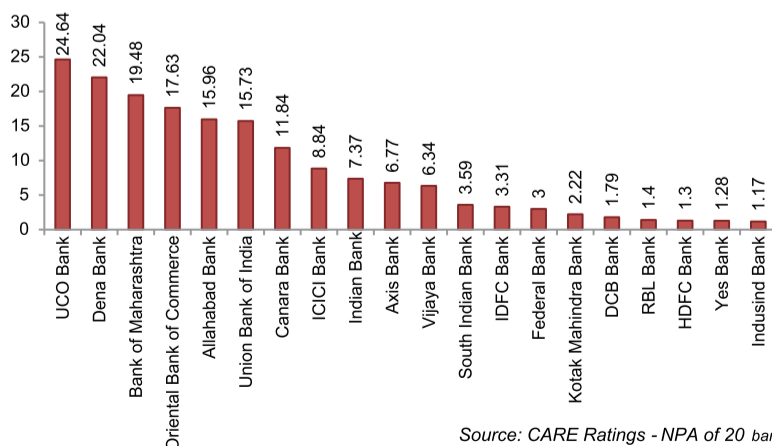
A recent report by CRISIL states that CRISIL-rated companies have shown steady improvement in capital structure and debt protection metrics over the past four years. CRISIL also opines that it expects resolution of stressed assets to provide much-needed respite from fiscal 2019 onwards.

RBI has recently imposed fines on many banks including Yes Bank, Axis Bank, Indian Overseas Bank and South Indian Bank for violation of asset classification and KYC norms. As a result, we may expect banks to report higher NPA numbers in the coming two quarters. The effect is already visible in the last quarter of FY17-18 as given in the graph below.



Source-CARE Ratings - NPAs of 20 banks

The above graph includes NPAs of 20 banks that have declared their results so far. While a comparison across time may not lead to much insight due to tightening of norms by RBI, it may be fruitful to compare NPA number reported by various banks for March 2018.



Source: CARE Ratings - NPA of 20 banks

This graph clearly tells a story, wherein reported NPA range from 1.17 to 24.64. Clearly, the NPA story is as much about micro trends relating to each bank as it is about macro-economic reasons.