Asset Reconstruction Companies: A Cure for Non-Performing Assets – An Indian Context

Dr. Sanjeev Dhawan, Associate Professor,
Post Graduate Department of Economics, DAV College, Jalandhar, India.

Abstract

Indian financial system is burdened with a large volume of nonperforming assets (NPAs). These assets impede the ability of banks and financial institutions to serve the prudent intermediation needs of the society. To resolve NPA problems and help restore the health and confidence of the financial sector, Indian government and RBI have adopted various measures. Among those measures, Asset Reconstruction Companies are considered as the most viable and latest solution. A bank which has a large amount of non-performing assets on its balance sheet has two options i.e. to continue with the non-performing assets in the books of accounts while making loan provisions and initiating recovery of bad debts itself; or to write off such assets and shift these non-performing assets to Asset Reconstruction Companies to make its balance sheet clean. The present study explores the various recovery measures adopted by Indian banks and financial institutions and explains the mechanism of working of Asset Reconstruction Companies particularly ARCIL in India.

Keywords: Non-performing Assets, SARFAESI, Asset Reconstruction Companies, Debt Recovery Tribunal, Corporate Debt Restructuring.

Introduction

The banking industry in India is governed by Banking Regulation Act of India, 1949. Since 1949 this sector has undergone phenomenal reforms with the efforts and the vision of the banking policymakers. Especially, it has undergone a transformation since the beginning of liberalization era in India. Till early 90's the Indian Banking environment was insulated from the global context and dominated by state controls, investment structure and regulated interest rates which did not participate in the vibrant global banking revolution. Imperfect accounting standards, policies and opaque balance sheets were used for hiding the shortcomings which resulted in failure to reveal the gradual deterioration and structural weakness of the country's banks and financial institutions. The turning point came when India faced economic crisis including severe balance of payments deficit in 1990, with India's sovereign rating downgraded. In 1991 the first phase of financial and banking sector reforms was introduced to quickly restructure the health of Indian Banking system and bridge the gap between Indian and global banking developments and regulations. The international standards and norms came to be accepted and introduced to unlearn the traditional operating methods of credit, investment and interest rates, all of which resulted in deterioration in the quality of loan portfolios, erosion of profitability and inadequacy of capital.

Indian banking system has made a rapid and significant progress after nationalization. The banking system gave special attention towards Branch Expansion, Loan maximization and deposit mobilization, but mass banking and social banking faced a set back in monitoring of loan. In the era of mass banking the monitoring of the loans took a back seat which crept large scale of inefficiencies into the system. The public sector banks which were backed by government guarantees have deviated from their basic principle of banking. Absence of accountability, political interference, poor law enforcement, archaic law and procedures and lack of prudence and transparency in operations and accounting have made these giants disorganized. Indiscriminant lending policies, corruption, absence of post-sanction monitoring of loans, lax recovery procedures and weak or lender biased legislations resulted in deterioration of quality of loan portfolio over the years. As a result of then appropriation credit appraisal and inefficient recovery mechanism several banks have been reeling under high level of bad debt. One of the major problems faced by Banks/FIs in India is that of bad debts termed in glorified phrase as "Non Performing Assets" in official terminology. The crucial factor that decides the performance of banks now a day is the spotting of NPAs. The growing NPAs have been a cause of concern for the entire banking industry. Indian banks are struggling to come out of the net of Non-performing Assets.

Review of Literature

The review of past references reveals a number of factors which led to slow recovery of loans and interest thereon which resulted in mounting of non-performing assets. India's legal system has traditionally been friendly towards borrowers and famously inefficient and slow in the recovery of loans and interest. As a result, once a bank provides a loan or advance to a borrower, it has very little bargaining power in terms of calling the loan back or getting its hands on assets that formally securitize that particular loan or advance.

Sergio (1996) revealed that an increase in the riskiness of loan assets is rooted in a bank's lending policy and business cycle could be a primary reason for banks' NPLs. **McGoven (1998)** argued that 'character' has historically been a paramount factor of credit and a major determinant in the decision to lend money. Banks have suffered loan losses through relaxed lending standards, unguaranteed credits, and the borrowers' perceptions. **Fuentes** and **Maquieira (1998)** investigated an in-depth analysis of loan losses due to the composition of lending by type of contract, volume, cost of credit and default rates in the Chilean credit market. Different variables may affect loan repayment are limitations on the access to credit; macroeconomic stability; bankruptcy code; information sharing; the judicial system; and key changes in regulation. **Iyer (1999)** concluded that banking business is confronted to various risks like as interest risk, credit risk, liquidity risk, market risk, operational risk, and managerial risk. But, credit risk stands out as the most detrimental among all, which lead to the pilling of NPAs in banks. **Bhattacharya (2001)** revealed that an increasing rate regime will attract the quality borrowers to switch over to other investment avenues like capital markets, internal accruals for their requirement of funds. Under such situations, banks would have no other option but to dilute the quality of borrowers which in turn increase the probability of generation of NPAs.

A study on NPAs by **Bloem** and **Gorter (2001)** suggested that a more or less predictable level of NPAs, though it may vary slightly from year to year, is caused by an inevitable number of 'wrong economic decisions' by individuals and plain bad luck such as inclement weather, unexpected price changes, etc. **Muniappan (2002)** pointed out various internal factors which caused for mounting of NPAs are diversion of funds for expansion/ diversification/ modernization, business failure, inefficient management, strained labour relations, inappropriate technology, product obsolescence, while external factors are recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities. The observations of Study of **Bardhan** and **Sugata (2002)** has raised doubts about the efficacy of the existing official criteria of determining an asset to be non-performing, which is entirely based on the loan repayment status and does not consider the actual financial performance of banks. They defined a "tolerable limit" of non-performing assets that explicitly considers the actual financial performance of banks. **Rajaraman** and **Vasishtha (2002)** in their empirical study concluded an evidence of significant bivariate relationship between an operating inefficiency indicator and the NPAs problem of public sector banks. **Ranjan** and **Dhal (2003)** explored that the non-performing loans are influenced by three major sets of economic and financial factors, *i.e.,* terms of credit, bank size induced risk preferences and macroeconomic shocks. The empirical results from panel regression models suggest that terms of credit variables have significant effect on the banks' non-performing loans in the presence of bank size induced risk preferences and macroeconomic shocks. The investigations of **Mukherjee (2003)** argued that in recent years the relative contribution of non-priority sector in the Non Performing Assets of banks has been increasing. Willful default and tunneling of funds being the most important causes of NPAs. **Sharma (2005)** suggested that the main reason for high percentage of NPAs is the target-oriented approach, which deteriorates the qualitative aspects of the lending. The other reasons are willful defaults, ineffective supervision of loan account and lack of technical and managerial expertise on the part of the borrowers. **Das** and **Ghosh (2007)** empirically examined non- performing assets of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency.

So keeping in view of above problems and shortcomings the government of India took various steps to curb the piling of NPAs problem. In 1993, (DRTs) were set up precisely to avert this problem, to give banks faster access to justice. In 2002, a major step in empowering banks in their loan recovery efforts came in the form of the NPA Ordinance, later turned into the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act. The Act paves the way for the establishment of Asset Reconstruction Companies that can take the Non Performing Assets off the balance sheets of banks and recover them. **Muniappan (2002)** pointed out that till 2001, DRTs reached a decision in less than 23% of the cases with them involving less than 13% and even in those cases, the recovery rate is below 30%. In order to give more teeth to Indian banks in this respect the NPA ordinance was introduced in the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Ordinance Act of 2002. The act enables banks to attach and sell off pledged assets in case of default, a feature that has been used considerably by the banks to improve their NPA situation in recent years. **Mohan (2002)** highlighted the need to work towards reducing the real lending rates of banks. This would require concerted efforts on the part of the Government and the RBI in respect of removing certain structural rigidities and by banks themselves through improving efficiency. **Mukherjee (2003)** pointed out that there are broadly two ways to financially restructure a banking system out of the Non Performing Assets situation. One can either follow the Asset Management/Reconstruction Company (AMC/ARC) approach to clean the balance sheet of banks of their Non Performing Assets (at a discount) and use the greater efficiency of the (government-funded) specialized Asset Management Companies in realizing the bad debts. **Mohan (2007)** highlighted that the bankruptcy procedures have been strengthened over the years with a view to putting in place a mechanism for timely and transparent restructuring of corporate debts of viable entities facing problems, a Scheme of Corporate Debt Restructuring was started in 2001 outside the purview of Board for Industrial and Financial Reconstruction.

Objectives of the Study

In the light of the above review of literature and discussion the primary objectives of the study are:

- To study the impact of non-performing assets on Indian banking sector.
- To study the mechanism of non-performing assets transfer to Asset Reconstruction Companies and valuation of non-performing assets.

Non Performing Assets

Non Performing Assets are a natural by-product of the business of lending. *As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as "Performing Asset". An* asset becomes Non-performing when it ceases to generate income i.e interest, fees, commission or any other dues for the bank and financial institution for more than 90 days.

With a view to moving towards international best practices and to ensure greater transparency, the '90 days' overdue' norm for identification of Non-performing Asset has been adopted, from the year ending March 31, 2004. As such, except certain relaxations mentioned below, with effect from March 31 2004, a Non-performing Asset (NPA) shall be a loan or advance where: -

1. Interest and /or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan,
2. The account remains out of order for a period of more than 90 days, in respect of an overdraft/ cash credit (OD/CC),
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
4. In the case of Direct Agriculture Advance, the overdue norm would be applicable. In respect of other agriculture loans, identification of NPA would be done on the same basis as non-agriculture advances.
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Recovery Measures: Initiatives and Solutions in Indian Scenario

Narsimham Committee and Verma Committee recommended a number of measures to solve the problem of non-performing assets. A few of them are setting up of Debt Recovery Tribunal and Lok Adalats, setting up of Credit Information Bureaus, formulation of policies regarding one-time settlement, Corporate Debt Restructuring and formation of Asset Reconstruction Companies. The Committee recommended substantial diminution of existing non-performing assets through the setting up of Asset Reconstruction Companies. The Confederation of Indian Industries (CII) gave recommendations in its report that non-performing assets should remove from bank balance sheets with the help of Asset Reconstruction Companies. The most radical step taken so far is the enactment of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 for the recovery process. The aim of this act is the change of legal system for securitization, empowering banks and financial institutions to take possession of the securities and sell them without intervention of court. The legislation identifies measures of asset reconstruction and enforcement of security interest (the measures include the sale or lease of a part or a whole of the borrower assets, rescheduling of the payment of debts and settlement of dues payable by the borrower and taking possession of secured assets according to the provisions of the law) after allowing the borrower a 60 days limit to settle the dues without intervention of court. In order to make the recovery process quick and smooth, the government recommended the formation of Asset Reconstruction Companies to remove the non-performing assets from the balance sheet of banks.

Since independence, the Government of India has adopted several ad-hoc measures to tackle sickness among financial institutions, foremost through nationalization of banks and relief measures. The problem of recovery from the non-performing assets in the Indian Financial System was first highlighted in the Narsimham Committee Report, which suggested financial sector reforms. The Government of India proactively initiated certain measures to control the non-performing assets, which includes:

1. Recovery through Courts

Once an advance is identified as non-recoverable the bank should resort to civil litigation without any loss of time. Experience shows that recovery through legal procedure is quite time consuming and long drawn out affair. Yet, filing of civil suits has almost become a routine practice in the banking industry. It is, therefore, necessary for people entrusted with the responsibility of handling such civil litigations to understand the legal procedures. While many steps have been taken in the recent past in bringing changes to the legal environment to facilitate effective management of non-performing assets, a lot is still desired. Practical issues and legal hurdles in implementation of several rights conferred by law to the lenders have reduced the efficacy of these laws.

2. Debt Recovery Tribunal (DRT)

The banks/FIs can file a petition with DRTs to hasten the recovery process. DRTs were established by Government of India vide the recovery of debt due to Banks and Financial Institutions Act, 1993. The poor recovery through DRTs can be attributed to various issues like lack of infrastructure, manpower, banking knowledge and challenge to the verdicts of appellate tribunals in the High Court.

3. Company Mergers

In 1977, Section 72-A was inserted in the Income Tax Act to offer tax incentives to healthy companies, which take over the sick companies and prepare revival plans. Response to this scheme has been limited because of delay in completing formalities. Tax incentives are found to be inadequate to motivate healthy companies to come forward and take advantage of the scheme. But over the time there has not been any significant improvement on this front.

4. Lok Adalats

These are voluntary agencies created by the State Government to assist the matters of loan compromise. Lok Adalats meet at different places for the convenience of Banks and borrowers on a given date where both the bankers and the borrower should be present. After looking into the evidence and listening to the both parties, the Lok Adalat works out an acceptable compromise. Thereafter, Lok Adalat issues a recovery certificate, which will enable the bank in obtaining decree from the concerned court. The arrangement shortens the period in obtaining decree from the concerned court, which would otherwise, normally, be awarded after a much longer period. And, efforts should be made to give wide publicity to the scheme, besides educating both banks and borrower on Lok Adalats.

5. Credit Information Bureau India Ltd. (CIBIL)

In pursuance to the Central Government Budget proposals, 2000-01, Credit Information Bureau India Ltd. (CIBIL) was set up in January 2001 by State Bank of India in collaboration with HDFC Ltd. The CIBIL was to be technology driven to ensure speedy processing, periodic updating and availability of error free data at all times in the system. All sectors of the financial industry in India recognize the need for a credit bureau. RBI had issued instructions to banks/FIs to obtain the consent of all the borrowers for dissemination of credit information to enable CIBIL to compile and disseminate credit information.

6. Corporate Debt Restructuring (CDR)

CDR system was introduced on August 25th, 2001 with the objective of ensuring timely and transparent mechanism for restructuring of the corporate debts of the viable entities facing problems, outside the preview of BIFR, DRT and other legal proceedings, for the benefits of all concerned. The framework will aim at preserving viable corporate that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme. This is applicable to only multiple banking/syndicate/consortium accounts, in the standard and sub-standard categories with an exposure amount of Rs. 20 Crores and above with banks and FIs.

7. National Company Law Tribunal (NCLT)

As per the announcement made in the budget 2001-02, Sick Industrial Company Act (SICA) will be repealed and Board for Industrial Finance & Reconstruction will be wound up. National Company Law Tribunal (NCLT) is a consolidation of the powers of BIFR, High Court and Company Law Board to avoid multiplicity of forums. It deals with the rehabilitation, reconstruction and winding up of the companies. It is estimated to complete the entire process during a period of 2-3 years as against 10-12 years taken presently. A rehabilitation and revival fund will be constituted to make interim payments of dues to the workers of the companies declared sick.

8. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

The SARFEASI Act empowers banks and FIs to directly enforce the security interest, pledge to them at the time of sanctioning the loan without having to go through the judicial process. The process of enforcement of the securities can be done either by the banks/FIs themselves or through Asset Reconstruction Companies. The banks/FIs now have the right to directly sell the financial assets to these Asset Reconstruction Companies. These ARCs will pay the bank's dues usually in the form of bonds or debentures. After acquisition from the bank, it is up to the ARCs to recover the asset from the borrower and then either further sell-off/auction-off the assets; or in case of the asset being a business, try to revive it i.e. reconstruct the asset. The act will lead to the reconstruction of hitherto decaying financial assets, a large number of which are sick industrial units, which will give a great boost to the overall health of the economy.

Inception of Asset Reconstruction Companies in India

In the Indian context, the Committee on the Financial System (Chairman: Shri M. Narasimham) (1991) had recommended the setting up of an Asset Reconstruction Fund (ARF). A number of concerns were expressed.

First, it was felt that a centralized India fund would be severely handicapped in its recovery efforts by lack of widespread geographical reach which individual bank possess.

Secondly, there could be a moral hazard problem, and banks could become complacent about recovery and even the healthy accounts could become sick, in course of time.

Thirdly, given the large fiscal deficits, there would be a problem of financing the Asset Reconstruction Fund. Subsequently, the committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) in 1998 recommended transfer of sticky assets of banks to an ARC.

Thereafter, the Committee on Restructuring Weak Public Sector Banks (Chairman: Shri M.S. Verma) also viewed the separation of NPAs and their transfers thereof to an Asset Reconstruction Fund as an important element in a comprehensive reconstructing strategy for the weak banks. In recognition of the same, the Union Budget, 2002-2003, proposed setting up of a pilot Asset Reconstruction Companies.

Background of ARCIL

Asset Reconstruction Company India Limited (ARCIL) is the first Asset Reconstruction Company (ARC) to commence business in India. ARCIL was registered under Reserve Bank of India under section of The Securitization and Reconstruction of financial Assets and Enforcement of Security interest Act, 2002 (SARFAESI Act). And registered as a Reconstruction Company from August 29, 2003 and is a financial institution within the meaning of section 2(h) (ia) of the recovery of Debts due to Banks and Financial Institutions Act, 1993. ARCIL is also a member of Indian Banker's Association. As per the vision of ARCIL, it shall be a major contributor to the Indian economy by capturing value from the impaired assets. Its mission is to maximize value through innovative resolution, establish fair and transparent business practices, and facilitate development of market for distressed debt. So far, ARCIL is the only ARC in India, though Reserve Bank of India has allowed licenses to a few more ARCs recently. As the first ARC, Asset Reconstruction Company India Limited (ARCIL) played a pioneering role in setting standards for the industry in India. It has been spearheading the drive to recreate value out of NPAs and in doing so; it continues to play a proactive role in reenergizing the Indian industry through critical times.

As the leader in this genre of business, ARCIL undertook significant efforts in market seeding, creating awareness and acquainting banks and financial institutions with the concept and business model, attracting capital to this new class of asset. Some of the significant initiatives of Asset Reconstruction Company India Limited (ARCIL) in this context are:

- Participation in the process of framing of guidelines by Reserve Bank of India for the acquisition, resolution and valuation of Non-performing assets and operating guidelines for conducting asset reconstruction business in India
- Rationalization of stamp duty payable on acquisition of NPA from sellers in several States in the country thereby reducing the transaction costs, which is a sine-qua-non for business viability (all major States have provided for remission in stamp duty to notional levels)
- Setting up a valuation framework in line with international best practices which addresses sellers' expectations as well as investors' perspective in the Indian context (sellers doubling as investors)
- Creation of a unique transaction model taking into account conflicting interests of sellers doubling as investors(in the absence of new money) in the Special Purpose Vehicles (SPV) with Asset Reconstruction Company India Limited (ARCIL) as trustee for the investors in the trusts, by sharing upside from the resolution
- Setting up a fund involving third party investors (not being sellers doubling as investors)
- Establishment of a framework for rating of security receipts(SRs) with underlying non-performing assets and the security interest – a first of its kind in India

Sponsors of ARCIL

Asset Reconstruction Company India Limited (ARCIL) was sponsored by State Bank of India, ICICI Bank Ltd. IDBI Ltd., and Punjab National Bank. It has since adopted a bank-based model of ARC. The share holding pattern of ARCIL comprises the sponsors as under:

Sr. No.	Shareholders	Shareholding	
		Numbers	Percentage
1.	State Bank of India	64,816,980	19.95
2.	IDBI Bank Ltd.	43,076,000	13.26
3.	ICICI Bank Ltd.	32,506,486	10.01
4.	Punjab National Bank	32,506,486	10.01
5.	Lathe Investment Pte Ltd.*	32,164,818	9.90
6.	Infrastructure Development Finance Company Ltd.	27,197,743	8.37
7.	First Rand Bank Ltd., South Africa	13,358,662	4.11
8.	Karnataka Bank Ltd.	8,562,600	2.64
9.	Housing Development Finance Corporation Ltd.	75,41,137	2.32
10.	ICICI Home Finance Company Ltd.	7,340,000	2.26
11.	The Karur Vysya Bank Ltd.	6,380,000	1.96
12.	Barclays Bank, plc	48,66,757	1.50
13.	Quiveo Enterprises Ltd.	4,400,000	1.35
14.	The South Indian Bank Ltd.	4,139,300	1.27
15.	Federal Bank Ltd.	4,139,300	1.27
16.	Others	20,83,557	0.65
17.	**Total Shares**	**324,897,140**	**100.00**

Source: http://www.arcil.co.in

* Wholly owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte Ltd.

Mechanism of NPAs Transfers and Valuation of NPAs

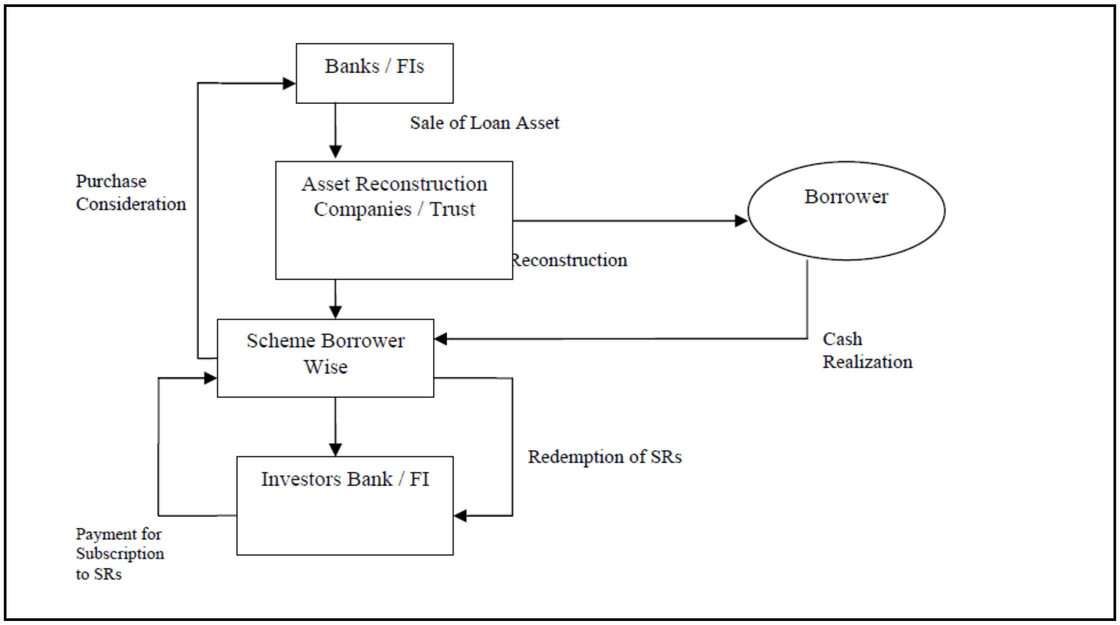
The strategic advantage of addressing the NPA resolution and recovery in a timely manner is well understood by the banking sector. One of the important aspect being unlocking financial and human capital of the banks, it is important to decide to deal with it by selling down to ARCs. ARCs acquire the NPAs by way of "true sale ". That is, once an NPA is sold then the seller has no further interest in that asset. The ARCs have set the trusts for the purpose of acquiring NPAs from banks and financial institutions. The price offered and valuation of NPA by the ARC depends upon the nature of the security over the borrower's asset, the value realizable from that particular security and the time required realizing that value. The Reserve Bank of India has laid down guidelines for the valuation of NPAs**.** After acquiring the NPA, the trust raises the funds through the issue of Security Receipts (SRs) to the eligible investor. The funds received from the issue of SRs are used for the payment of purchase consideration to the bank or financial institutions from where the particular NPA is acquired. Subsequently the trust becomes the legal owner of that particular NPA and the Security Receipt holder becomes the beneficial owner and the security receipts represent the undivided rights, title and interest of the investors in the financial assets held in the fund floated by the trust. These are redeemed out of the realization from financial assets held under the trust and carry no fixed return.

Once decided, identifying the cases for transfer and constituting a portfolio is the second important step. Due care must be taken to constitute the portfolio based on the requirements of the selling banks. It is also important that once a portfolio is constituted, the same should not be modified during the process of sale having regard to the substantial efforts put in by the prospective buyers as well as the selling banks during the process. The portfolio is identified as of a reference date commonly known as "cut-off date", with information frozen as of that date and offered to prospective sellers. The offers are invited as of the cut-off date and any changes in the portfolio after the cut-off date are promptly informed to the prospective buyers and adjustments made for the same accordingly.

It is important for either party to be aware and be sensitive to the expectations of the other. While seller’s expectation is to maximize value out of the portfolio on sale, the same is to be seen from perspective of transfer of various risks relating to the NPAs. The value expectation by the sellers should be from the perspective of net present value of the expected realization from the underlying NPA related risks, associated probability of realization after considering costs of resolution, legal and other risks, relative security status with reference to other participating lenders and most importantly factoring estimated time to realize. While the buyers should be aware of the maximum value expectation in the hands of the seller based on the above, the sellers should also be aware that the buyers interest would be vanishing unless the transaction is commercially viable taking into consideration the risks and reward equation. Accordingly the seller establishes documentary back up to justify its value expectation, and shares the same with the prospective buyers in a transparent manner during the sale process. Like, any other product sale in a NPA sale situation, it is critically important for the seller side to provide adequate information to maximize value.

Then the buyers are assisted to conduct the due-diligence with all the relevant information to facilitate them decide on appropriate valuation of the portfolio. Information provided by seller is the key for value driver. Whenever the prospective buyer is in ARC, the selling bank needs to also decide whether to exit clean for cash or risk-participate by staying invested in the SRs issued by the ARC. The buyers enter into the transaction, where there are possibilities of value addition and are commercially beneficial. The same is achieved by focused deployment of resources, legal empowerments and adopting appropriate resolution strategies. The sellers, depending on the risk appetite may decide upfront, whether to benefit by staying invested in SRs out of the value addition by the buyers upon resolution or to exit clean by accepting up-front payment.

The mechanism of NPAs transfers and valuation of NPAs is highlighted in the following chart:



Source: www.indialawoffices.com

Role of ARCIL

1. Unlocking and recycling capital for the banking system and the economy:

The primary objective of ARCIL is to expedite recovery of the amounts locked in NPAs of lenders and thereby recycling capital. ARCIL thus, provides relief to the banks by managing NPAs and help to concentrate on core banking activities thereby enhancing shareholders value.

2. Creating a vibrant market for distressed debt assets / securities in India offering a trading platform for Lender:

ARCIL has made successful efforts in funneling investment from both domestic and international players for funding these acquisitions of distressed assets, followed by showcasing them to prospective buyers. This has initiated creation of a secondary market of distressed assets in the country besides hastening their resolution. These efforts have the potential of leading the country's distressed debt market to international standards.

3. Evolving and creating significant capacity in the system for quicker resolution of NPAs by optimal deployment of the assets:

With a view to achieve high delivery capabilities for resolution, ARCIL has put in place a structure aimed at the various sub-functions of resolution to specialized agencies, wherever applicable under the provisions of the Securitization Act, 2002. ARCIL has also encouraged, groomed and developed many such agencies to enhance its capacity in line with the growth of its activities.

Conclusion

During the recent past, banks in India are found to be eager to sell NPAs to Asset Reconstruction Companies. Sale of NPAs to Asset Reconstruction Companies is expected to pick up in the coming years. But there are several issues associated with their overall working. These relate to capital augmentation, liquidity management to honor redemption of Security Receipts (SRs) timely, improving loan recovery with the existing legal framework, cost control etc. To resolve these issues, though Reserve Bank of India and Government of India have taken several initiatives, much needs to be done to make Asset Reconstruction Companies stronger.

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