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     INTRODUCTION

     REVIEW OF LITERATURE

     NEED/IMPORTANCE OF THE STUDY

     STATEMENT OF THE PROBLEM

     OBJECTIVES

     HYPOTHESES

     RESEARCH METHODOLOGY

     RESULTS & DISCUSSION

     FINDINGS

     RECOMMENDATIONS/SUGGESTIONS

     CONCLUSIONS

     SCOPE FOR FURTHER RESEARCH

     ACKNOWLEDGMENTS

     REFERENCES

     APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS
- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES
- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS
- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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WEBSITES
- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

PROBLEM OF NON-PERFORMING ASSETS OF STATE BANK OF INDIA: A CASE STUDY OF NAGPUR DISTRICT

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ABSTRACT

The banking sector is the back bone of the financial system of the country. The State Bank of India being the biggest Public Sector Bank having largest national and international presence with highest consumer base and heading on its way to implement BASEL-II recommendations of the best international banking practices, Reserve Bank of India has release guidelines for meeting deadline for implementing BASEL-II norms. Now, the growing size of NPA is a matter of grave concern especially when State Bank of India is the largest Gross NPA holder in which huge amount of funds are blocked, crunching fund availability for credit creation and channelization of funds from excess to the needy sector of society, thereby hindering the growth prospects of the bank in particular and economy as a whole. However, the bank is undergoing transition period from conventional banking to International best practices, according to which the percentage of gross NPA should come down 9% to 3% another important necessary of reducing burgeoning NPAs is, when commercial banks are already under heavy pressure to maintain high statutory reserves under Cash Reserve Ratio, Statutory Liquidity Ratios in addition to 9% of Credit to Risk Weighted Assets Ratio of total lending, consequent upon this a substantial part of active fund kept under aforesaid reserves leaving the banks with short of funds for credit creation, in such situation huge bulk of burgeoning Gross NPA cant be afforded especially when a lot of instruments for reducing NPA is available in the market such as Special Purpose Vehicles, Corporate Debt Restructuring and SARFESI Act by Govt. of India. The importance of study of subject with reference to the State Bank of India in the Nagpur district i.e in Vidarbha Region arises when the State Bank of India's NPA is touching its all time high due to severe crop failure in whole of the Vidarbha Region. The subject is of great relevance and importance not only for banking industry in the region but also for which operating all over India. RBI in one of its report on the subject has stated that the reduction of NPAs to be treated as "National Priority"

KEYWORDS

NPA- Non Performing Assets, SARFESI-Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest, STD-Standard Assets, DOUB - Doubtful Assets, EA-Enforcement Agents.

INTRODUCTION

The State Bank of India being the biggest Public Sector Bank having largest national and international presence with highest consumer base and heading on its way to implement BASEL-II recommendations of the best international banking practices. The growing size of NPA is a matter of grave concern especially when State Bank of India is the largest Gross NPA holder in which huge amount of funds are blocked, crunching fund availability for credit creation and channelization of funds from excess to the needy sector of society, thereby hindering the growth prospects of the bank in particular and economy as a whole. However, the bank is undergoing transition period from conventional banking to International best practices, according to which the percentage of gross NPA should come down 9% to 3% another important necessary of reducing burgeoning NPAs is, when commercial banks are already under heavy pressure to maintain high statutory reserves under Cash Reserve Ratio, Statutory Liquidity Ratios in addition to 9% of Credit to Risk Weighted Assets Ratio of total lending, consequent upon this a substantial part of active fund kept under aforesaid reserves leaving the banks with short of funds for credit creation, in such situation huge bulk of burgeoning Gross NPA can't be afforded especially when a lot of instruments for reducing NPA is available in the market such as Special Purpose Vehicles, Corporate Debt Restructuring and SARFESI Act by Govt. of India.

OBJECTIVES

1. To study the loan profile, pattern and causes of NPA in the Nagpur Region.
2. To examine the recovery procedure of loan and exact causes of default in the repayment of loans by beneficiaries of State Bank of India in study area.
3. To probe into the credit availability and the end use.
4. To work out optimum tools and solution to alleviate the size of NPA by making bad loans to good loans of State Bank of India in Nagpur District.

The objective of study of NPA is to work out institution and problem specific effective measures to contain the problem of NPA.

RESEARCH METHODOLOGY

AREA OF STUDY
The area of study is Nagpur District, Vidarbh region Maharashtra.

PERIOD OF STUDY
The period chosen is from March 2005 to March 2008. To analyses the relation between the social-economic characteristic of beneficiary and defaulter.

SOURCES OF DATA
The data sources used in this dissertation are basically taken as the secondary data. The data are collected through various books, magazines, articles, journals, internet etc. The important source of data for the research work is as follows:

o   Annual report of Reserve Bank of India.
o   Annual Report of State Bank of India.
o   Report on Trends Progress in the Banking Sector.
o   Various magazines and journals.

Analysis Procedure: In this study a sample of six blocks of Nagpur and has been taken out of a total 13 blocks and they are:

• Nagpur City
• Kamti
• Katol

- Narkhed
- Kalmeshwer
- Saoner

The selection is based on the fact that the above districts represent about 80% of total industries in and about of total bank credit sanctioned to various quarters. The study has been divided into two phases:

STATE BANK OF INDIA

State Bank of India was formed in 1955 by an Act of the Parliament, the State Bank of India Act 1955 (Act). A Central Board of Directors was constituted according to the Act. The Board is headed by the Chairman, appointed under section 19(a) of SBI Act. The Chairman and Managing Directors are whole time Directors. There were 9 other directors on the Board including eminent personalities from academics and industry. These included representatives of shareholders and staff of the Bank, nominee officials of Government of India and Reserve Bank of India and directors nominated by the Government of India under Section 19(d) of the State Bank of India Act. 1955.

2 Directors elected by the shareholders under Section 19 C

1 Director, appointed by the GOI U/s 19(ca), representing workman staff of the Bank.

1 Director, appointed by GOI U/s 19(cb), representing non-workmen staff of the Bank.

3 Directors nominated by the Central Government under Section 19(d)

1 Director nominated by the Central Government under Section 19(e)

1 Director nominated by the Reserve Bank of India under section 19(f)

The composition of the board complied with the provisions laid down in Clause 49.

SHAREHOLDING PATTERN OF SBI- TABLE-9

COMPOSITION OF THE BOARD

The State Bank of India is committed to the best practices in the area of corporate governance, in letter and in spirit. The Bank believes that good corporate governance is much more than complying with legal and regulatory requirements. Good governance facilities effective management and control of business, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders. The following is the list of top ten shareholder of the Bank as on 31.03.2008

NAGPUR DISTRICT

Nagpur is known as the second capital of Maharshtra State and the geographical centre of Indian Subcontinent. The total area of Nagpur district, 228 sq kms comprises of 13 blocks of Tehsils namely, Kuhi, Mauda, Ramtek, Saoner, Nagpur Rural, Umerer, Katol, Kalameshwar, Narkhed, Bhiwapur, Parsivni, and Kamti. Nagpur became capital of Central Provinces in 1861 later in 1950 Nagpur declared as the capital of Madhya Pradesh, but in 1960 again Nagpur city the district were transferred to Maharashtra State, as a part of state reorganization. The surrounding region is an undulating plateau rising northward to the Satpura Range, from 889 to 2,142 feet (271 to 663m) high and is drained by the Kanhan and Pench rivers in the centre, the Wardha in the west, and the Wainganga in the east. Both these rivers later merge as tributaries into the Godavari River. The soil is fertile black (cotton) in the west and the north and alluvial in the east, this way. The foundation of Cotton Market was laid in 1950. The average annual rainfall is 45 inches, with more rain in east than in the west. In the west, the hills are forested. In the northeast are the hills of Ramtek. The main agricultural crops in the district along with the cropping period and market area are given below. The banking sector can play leading role in development of the region. The State Bank of India is having highest branch net work of 271 branches amongst the commercial banks in Nagpur District.

Nagpur District comprises of 13 blocks or Tehsils as discussed above. However, Following is the administrative set of State Bank of India, Nagpur Zone which is comprised of 12 districts of Vidarbha region (Including Nagpur District) as shown below.

REGIONS/DISTRICT

Region-1	Nagpur City, Bhandara and Gondia
Region-2	Nagpur Rural, Chandrapur and Gadchiroli
Region-3	Buldana
Region-4	Akola and Washim
Region-5	Amravati
Region-6	Yavatmal and Wardha

NON PERFORMING ASSETS

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and on aspects like credit management, interest rate deregulation, reduction in reserve requirements; barriers to entry, prudential norms and risks based supervision. But progress on structural institutional aspects has been much slower and is a cause for concern. The sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective. Changes required to tackle the NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective.

Today the Net NPAs of State Bank of India (which account for around three-fourths of the total assets of Public Sector Banks) are as low as 0.72 percent and gross NPAs are at 2.5 percent. However, Nitsure (2007) contends that once there is a slowdown in private expenditure and corporate earnings growth, companies on these banks' books will not be in a position to service their debts on time and there is a strong likelihood of generation of new NPAs. Moreover, he also suggests that with rising interest rates in the government bond market, the banks' treasury incomes have declined considerably. So banks will not have enough profits to make provisions for NPAs. Under these circumstances, management of NPAs is a difficult task. Therefore, my study focused on the problem of NPAs being faced by the State Bank of India and its management with a reference to the Nagpur District.

ASSET CLASSIFICATION

With a view to moving towards international best practices and to ensure greater transparency, it has been decided that 90 days overdue norms for identification of NPA's from the year ending 31st March 2004 should be adopted. NPA's classified into three categories:

(i)   Sub-standard assets: - A loan asset that has remained non- performing for a period less than or equal to 12 months.

(ii)   Doubtful assets :- A loan asset that has remained sub- standard category for a period less than or equal to 12 months

(iii)   Loss assets: - A loan asset where loss has been identified but the amount has not been identified.

Earlier as mentioned above we had only four categories of assets but now as another step towards mitigating NPA account, another category of account has been introduced, the details about which is discussed below.

- **OVERDUE**

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

- **'Out of order' status:** An account should be treated as 'out of order' if:

a)   The outstanding balance remains continuously in excess of the sanctioned Limit / Drawing Power, or

b)   If the outstanding balance in the principal operating account is less than the sanctioned Limit / Drawing Power, but there are no credits continuously for 90 days as on the date of Balance Sheet, or

c)   Credits are not enough to cover the interest debited during the same period.

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Banks should classify an account as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

OBSERVATION AND ANALYSIS

Expansion of credit is a must for a region like Nagpur, but as mentioned above, high credit growth may lead to high NPAs. Policymakers, therefore, face the dilemma as to how to minimize such risks that arise from dilution in credit quality, while still allowing bank lending to contribute to higher growth and efficiency. There is no gainsaying in the fact that every commercial organization exists with a motive to earn profit and banks are no exception. The objective function is therefore to maximize profit or the Net Interest Margin. Commercial banks use the deposits to extend loans and advances. The figure1 shows that how a bank can maximize profit (assuming existence of Pure Competition Market):

FIG. 1
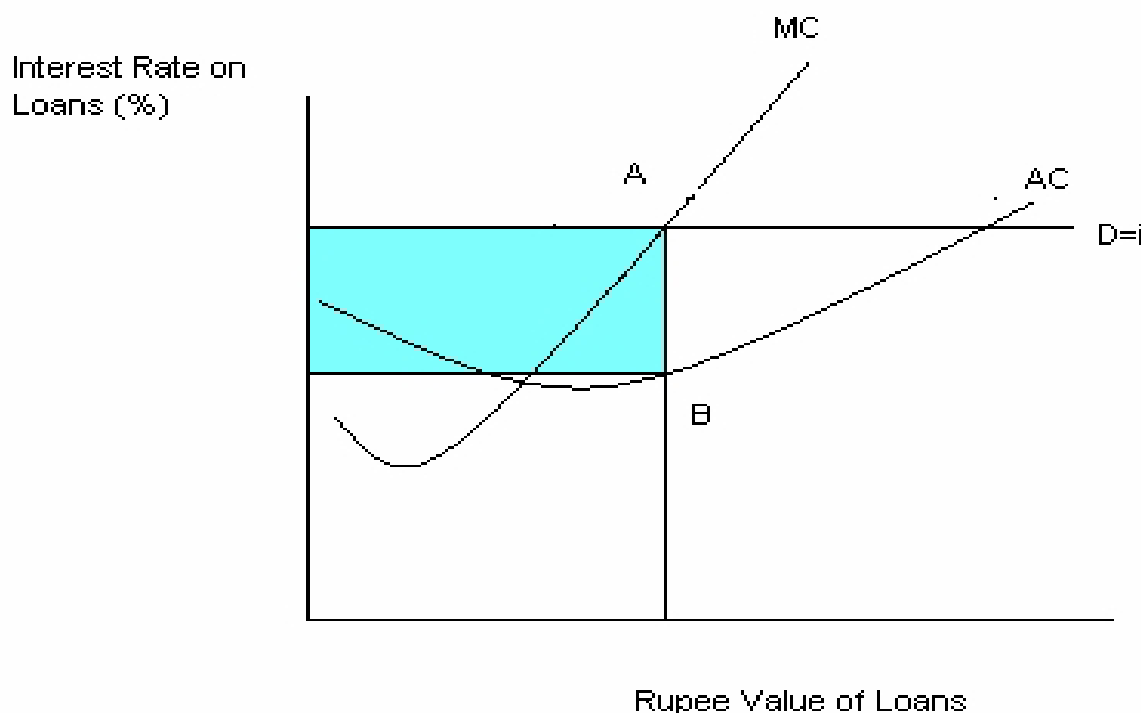
In **Figure 1**, MC is the Marginal Cost to the banks, AC is the Average Cost, i is the interest rates on loans, point B represents the cost of funds and the shaded portion is the profit. To maximize profits, a purely competitive bank issues loans such that the marginal cost of an additional loan equals the marginal revenue from such loans. The marginal revenue from an additional loan is simply the market determined interest rate. Profits are maximized when MC equals interest rate. Therefore, it is evident that profits can be maximized if more and more loans are extended at a given rate of interest. This may result in poor assessment of the borrower leading to fresh generation of NPAs.

TABLE-1: OVER ALL NPA POSITION - NAGPUR REGION STATE BANK OF INDIA

S.No.	Particulars (Rs. in Crores)	MARCH 2006	MARCH 2007	MARCH 2008
1.	Op. Level	242.72	237.67	194.80
2.	Less: Redn.	88.83	123.92	75.43
3.	Add: New NPAs	83.78	81.05	114.94
4.	Net Inc.(3-2)	- 5.05	- 42.87	39.51
5.	Cl. Level	237.67	194.80	234.31

It is observed that, as on 30 March 2008 block wise bad loans and number of defaulting companies in the sample blocks of Kamti, Narkhed, Saoner, Kalmeshwar, Nagpur and Katol are the worst sufferers as far as quantum of bad loans is concerned. As on 30 March 2008, the total quantity of bad loans was Rs 152 Cr in Nagpur and Rs 93 Cr in the Katol blockwise. If all the districts are taken then this figure stood at Rs 407 Cr as on the same date. Therefore, the bad loans in Nagpur was about 37.3% of total such loans in all the sample blocks and the same figure is about 23% in the Katol block and together they constitute about 60% of total bad loans. This figure may be taken as the representation of Nagpur district as a whole as these blocks combined have the highest concentration of industries. Moreover, these figures reveal that about 94% of total such loans is concentrated in Nagpur city and Katol.

We can see the gross reduction in quantity of NPA on opening balance on YoY basis, from 242.72Cr in March 2006 to 194.80Cr. March 2008, net decrease of 42.92 cr. due to the various contributing factors in bringing down the NPAs of State Bank of India's targeted approach the following was being one of their action plan.

As per the NBG Policy Guidelines 2007-08, target set for the year 2007-08. The NPA should be brought down to the following levels.

1.	Fresh NPA slippages (to total advances as on 31.03.2007).	< 1%
2.	Reduction in Gross NPAs (Net of fresh slippages)	> 10%
3.	Gross NPA Ratio (reduction by).	1%
4.	Recovery from AUCA & Non AUCA Accounts to increase over 2006-07 recoveries by.	25%
5.	Gross NPA in Personal loans Segment should come down from March '07 level) by at least.	10%
6.	Gross NPA in SME Segment should be brought down to.	1%
7.	Gross NPA in AGL Segment should be brought down to.	3%

The above target has contributed greatly on surge in Reduction of NPA from Rs.88.83 cr in March 2006 to Rs. 123.92 cr. March 2007. Then again we can see reduction activity loosing grip and significant surge in New NPAs on March 2008 as evident in **Table-1.** There by plotting net increase of 39.51 % over –ve growth of March 2007. The reason for addition of New NPA accounts is discussed chapters to follow.

In the year 2005, the State Bank of India had around 50% of their NPA profile in the 5 to 10 % category which has been totally eliminated by 2007 wherein about 75% of their total NPA is below 2% mark. The performance has steadily improved over the period after the enactment of the Securitization Act, 2002. However, available data point to the fact that majority of the loans are recovered through the Debt Recovery Tribunals.

The figure reveals that as far as recovery is concerned, Debt Recovery Tribunals are the most effective means of loan recovery. From 2003-04 to 2005-06 though the number of cases referred to the DRTs have reduced as compared to that under the Securitization Act the percentage of recovery is almost double as compared to the Securitization Act. The percentage recovery through the DRTs has increased from 17.2% to about 77% as compared to the recoveries through the Securitization Act where it increased from 14.7% to about 35%. This can be attributed to the absence of any structured market for selling the distressed assets which are securitized under the SARFAESI Act. Moreover, selling sticky assets is a problem due to differences between the seller and the buyer in the valuation of such loans. Apart from this any dissatisfied borrower against whom the Securitization Act has been initiated can take recourse to court of law and file a suit against the lender thereby making the lender to fall in what is termed as 'legal trap'. On the other hand recovery through the DRTs is much speedier. Though there is a provision of filing a suit against the lender as under the Securitization Act, but here the borrower filing the suit has to deposit 25% of the amount involved for further processing and hearing of the case. This provision ensures that only the genuine cases are taken up by the DRTs.

NON-PERFORMING ASSETS IN THE PRIORITY SECTOR

Priority sector was regarded as a "People Sector" by policymakers, regulators and banks till 1990. As one of the prime objectives of nationalization of banks was radical development of the society in general and 'certain sectors' in particular, credit flow to these sectors was ensured. This directed lending did not come without a cost. While granting credit to these sectors, institutional viability was neglected, low interest rates were charged. This resulted in huge over dues from priority sector. The recommendations of the Narsimham Committee were not accepted in-toto especially to reduce the mandatory 40% lending norm to the priority sector to 10% level. **TABLE- 4** shows Sector wise NPAs in the State Bank of India. Regarding Farm loans, all the commercial, Co-operative and Rural banks have mandate of loan conversion. State Bank of India is strictly adhering to the mandate; farmers can get conversion up to 3 times.

The Credit-Deposit Ratio in Nagpur District is almost half that as compared to the ratio on Maharashtra State basis and there has been a stagnation in the figure. This is despite the fact that there has been a tremendous appetite for bank credit from all sectors due to the various social- economic reasons.

It is observed from figure 7 that maximum credit was sanctioned to the Personal Segment and second largest in Small and Medium Enterprise sector.. In the year 2007-08, the total credit sanctioned to these sectors was Rs 115.33 Cr and Rs.90.55 Cr. for SBI which registers an increase of 16.51% in personal loans from the year 2005's Rs. 85.91 cr. and SME segment registers an increase of 07.14% over 2005's Rs 84.62 Cr in 2006.

CAUSES OF NPA
IMMEDIATE CAUSES
1. **Repayment Risk:** There was a sudden spurt in disbursal of Personal/ Retail Loan segment like Car loan, Home loan, Consumer loans etc. most of borrowers were having repayment schedule through post dated cheques, which leading to spurt in cheque bouncing cases, although bankers have clear protection against such cases under Section 138 of Negotiable Instruments Act 2002, since the number of case are enormous and slow and tedious legal system adding to the plight. However, it takes at least 2-3 years to settle a single case of cheque bouncing in such case banker have no option but to declare the account NPA.
2. **Low Credit Quality:** The low credit quality in State Bank of India's portfolio particularly in the dominant Sub-Sectors of the Nagpur region. The high incidence of NPAs in State Bank of India is result of many factors, including poor credit analysis, lending skills and lending decisions, external shocks e.g. unexpected slowdown in economic activities, credit crunch), and shortcomings in the legal and judicial system that prevent the timely exercise of creditor rights.
3. **Lack of Effective Executive Mechanism:** The State Bank of India in the regions lacks the strong supporting legal and regulatory environment, effective leadership, operational independence, appropriately structured incentives and commercial orientation.
4. **Delay in One Time Settlement policy announcement:** The last time Reserve Bank of India has come up with One Time Settlement Scheme is in 2004, since then it has not come out with scheme of any such resolution scheme, this again is one of the main reason for accumulation of NPA in various segments.
5. **Various Government Schemes:** Agriculture is having huge chunk of NPA because of various Government scheme, with the mere announcement of such schemes the farmers stop repaying their installments on presumption of their loans were being waived. However, such government schemes increases the burden of NPAs at bankers part, same is the case of cause and effect happened recently with debt relief package.
6. **Poor State of Asset Reconstruction Companies**: The Asset Reconstruction Companies in Nagpur district are almost absent and whatever exists, just in nascent state. Otherwise It could have helped greatly to resolve NPAs in the area of study, as it has huge potential to contain the bad assets and easy way out in their resolution, such vehicles provides an effective mechanism of pooling together the scarce skill of managing and disposing off of impaired assets.
7. **Understatements:** State Bank of India has been plagued by a large stock of NPAs. Where NPAs/ Credit ratio before provisioning was 12.5% of gross credit. This ratio was brought down sharply from the peak of 25% in 2004, mainly on account of a rapid growth in the volume of credit (i.e. the denominator) rather than a decrease in the level of NPAs (numerator). Net of provisions, NPAs still accounts for a sizeable 6.66% of net credit.
8. **Slow Legal Procedure:** Slow legal procedures adding up to the problem of NPA resolution at banker's part. The Courts are not reliable enforcement vehicles, 90% of State Bank of India's NPA cases are pending with the civil court, yet to pass the decree. The reported NPA numbers are also believed to understate the true magnitude of impaired assets. The private sector analyst believe that NPA levels for PSBs especially (State Bank of India in the region) are significantly higher at 20 to 25 percent of the total loans rather than the reported 12.5 % , even further picture would be little gloomy, if more conservative classifications standards are adopted more of ever- greened loans would be identified as impaired assets.
9. **Poor Human Resource Management:** The state of affairs in Human Resource Management is still poor, most of the front end staff is not computer literate, those who are having not willing to work. The age profile of the staff is the cause of poor human resource. At the same time frequency training sessions are also low.
10. **Poor Infrastructure:** In terms of providing basic infrastructure like power, roads housing etc. The poor infrastructure facilities like power, adding to the huge chunk of bad assets- as the production get hampered with long hour of power cuts, corporate are not able to repay installments of loans in scheduled time. Likewise, other infrastructural problems adding up to the bad loans in the region.

ACTION TAKEN REPORT BY STATE BANK OF INDIA- NAGPUR

State Bank of India is initiating various types of strategy to bring down NPAs which include not only account specific action but also framing policy frequent meetings with the borrowers to provide support in their efforts to upgrade accounts and/or recover the dues. The bank have realized that the only to check slippage is to strengthen their follows up systems of loans and taking expeditious corrective actions in accounts where some deteriorations are observed. Some of the tools discussed below:

S. No.	Particulars		No.	Amt. In cr.	Action Plan devised on 15.05.2008
1	Writing off-100% provision accounts		5335	40.13	Writing off exercise to be completed by 31st May, 2008.
2	a.	Housing Loans	2555	60.21	Housing Loans : 1) Photo Notices to be issued in all cases. Notices under SARFAESI Act to be issued in all cases.2) Action u/s 13(4) to be initiated after expiry of 60 days. Services of Enforcement Agents to be engaged and auction of properties to be arranged the Salary disbursing authorities to be notified regarding defaulting borrowers. 2) Car / Education / Personal/ Consumer Loans : 5) Photo Notices to be issued in all cases. Services of Seizure Agents to be engaged and auction of vehicles to be arranged Salary disbursing authority to be notified regarding defaulting borrowers.
	b.	Car Loans	880	8.66	
	c.	Education Loans	576	9.04	
	d.	Personal Loans	6702	31.05	
	e.	Consumer Loans	174	0.60	
3	SME Accounts		9298	90.52	1) Photo Notices to be issued in all cases. Where immovable properties are available, action under SARFAESI Act to be initiated. Action u/s 13(4) to be initiated after expiry of 60 days. Services of Enforcement Agents to be engaged and auction of properties to be arranged.
4	Agriculture Accounts		6905	24.72	To ensure Restructure of dues/ Compromise settlements
5	Bank Adalat		-	-	To hold Bank Adalats–each Region every month.
6	Compromise Settlements		-	-	To settle at least 25 cases per Region per month
7	Outsourcing Recovery		-	-	Monthly targets to be given to Recovery Agents

CONCLUSIONS AND SUGGESTIONS

A.   Recommendations for reducing NPAs of State Bank of India in Nagpur Dist.

1.   Effective and regular follow-up of the end use of the funds sanctioned is required to ascertain any embezzlement or diversion of funds. This process can be undertaken every quarter so that any account converting to NPA can be properly accounted for.

2.   Combining traditional wisdom with modern statistical tools like Value-at-risk analysis and Markov Chain Analysis (as detailed below) should be employed to assess the borrowers.

3.   This is to be supplemented by information sharing among the bankers about the credit history of the borrower. In case of new borrowers, especially corporate borrowers, proper analysis of the cash flow statement of last five years is to be done carefully.

4.   A healthy Banker-Borrower relationship should be developed. Many instances have been reported about forceful recovery by the banks, which is against corporate ethics. Debt recovery will be much easier in a congenial environment.

5.   A well functioning Asset Reconstruction/ Recovery mechanism wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. There is an absence of strong of hold of such mechanism in Vidarbh region, However whatever exists in Nagpur district still is in nascent stage. One problem that can be accorded is the pricing of such loans. Therefore, there is a need to develop a common prescription for pricing of distressed assets so that they can be easily and quickly disposed. The ARCs should have clear 'financial acquisition policy' and guidelines relating to proper diligence and valuation of NPA portfolio.

6.   Some tax incentives like capital gain tax exemption, carry forward the losses to set off the same with other income of the Qualified Institutional Borrowers (QIBs) should be granted so as to ensure their active participation by way of investing sizeable amount in distressed assets of banks and financial institutions.

7.   So far the Public Sector Banks have done well as far as lending to the priority sector is concerned. However, it is not enough to make lending to this sector mandatory; it must be made profitable by sharply reducing the transaction costs. This entails faster
        embracing of technology and minimizing documentation.

8.   The Bank should be allowed to come up with their own measures to address the problem of NPAs. This may include waiving and reducing the principal and interest on such loans, or extending the loans, or settling the loan accounts. They should be fully authorized and they should be able to apply all the preferential policies granted to the asset management companies.

9.   Another way to manage the NPAs by the SBI is Compromise Settlement Schemes or One Time Settlement Schemes Reserve Bank of India can come up frequently with such schemes. However, under such schemes the banks keep the actual amount recovered secret. In such circumstances, it is necessary to bring more transparency in dealings and procedures to be followed, so that all sorts of shortcomings and flaws could be checked and resolved immediately.

B.   Markov Transition Matrix and Loan Tracking

Markov Transition theory deals with the probability of variable at a given state at any given time to move to another state at a time t+1. We can, therefore, define a transition matrix, P = [pij], as a matrix of probability showing the likelihood of credit quality staying unchanged or moving into R-1 category over a given time horizon, where R is a set off discrete categories into which all observations can be ordered.

Let me frame a matrix:

$$P_{ij} = \begin{matrix} P11 & P12 & P13.............P1R \\ P21 & P22 & P23.............P2R \\ \text{.................................} \\ \text{.................................} \\ PR1 & PR2 & PR3.............PRR \end{matrix}$$

Where Pij are the state at any given time.

The above matrix can be used by credit officers to monitor the loan assets and take preventive steps to control the slippage of a loan asset to any lower category.

Based on the asset classification viz. Standard Assets (STD), Sub-standard Assets (SUB), Doubtful Assets (DOUB) and Loss Assets (LOSS), a matrix can be formed with a given probability (Das & Bose, 2005):

Time t+1

	STD	SUB	DOUB	LOSS
STD	P11	P12	P13	P14
SUB	P21	P22	P23	P24
DOUB	P31	P32	P33	P34
LOSS	P41=0	P42=0	P43=0	P44=1

Since the probability of a loss asset being converted to any higher asset category is zero, $p41 = p42 = p43 = 0$ and thus $p44 = 1$.

This transition matrix can be used to assess the loan quality of a firm level borrower by evaluating the financial position. However, this matrix will be difficult to apply to assess individual borrowers because unlike a firm level borrower, financial data of an individual is not available. Therefore, this matrix can be better applied for a firm level or corporate level borrower.

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ANNEXURE

FIG.- 1: OVER ALL NPA POSITION - NAGPUR REGION STATE BANK OF INDIA
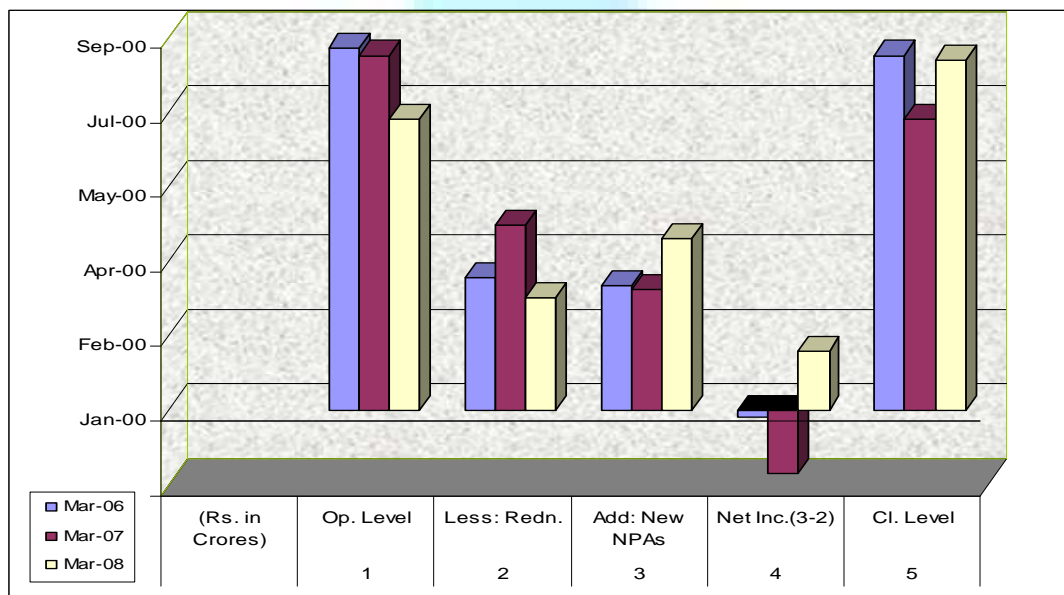
TABLE-2: ASSET WISE NPA

S.No.	Particulars	MAR 2005		MAR 2006		MAR 2007		MARCH 2008	
(Rs. in Crores)		Amt	(%)	Amt	(%)	Amt	(%)	Amt	(%)
1.	STD.	2022.29	89.21	2698.98	91.91	3725.19	95.03	4837.98	95.39
2.	SUB STD.	104.35	4.60	82.33	2.80	70.15	1.79	117.18	2.31
3.	Doubtful	118.64	5.23	130.50	4.44	107.03	2.73	96.85	1.90
4.	LOSS	21.48	0.95	24.85	0.85	17.62	0.45	20.28	0.40
5.	TOT. NPA	244.47	10.79	237.67	8.09	194.80	4.97	234.31	4.61
6.	TOT. ADV	2266.77	100.00	2936.66	100.00	3919.99	100.00	5072.29	100.00

CHART-2: ASSET WISE NPA
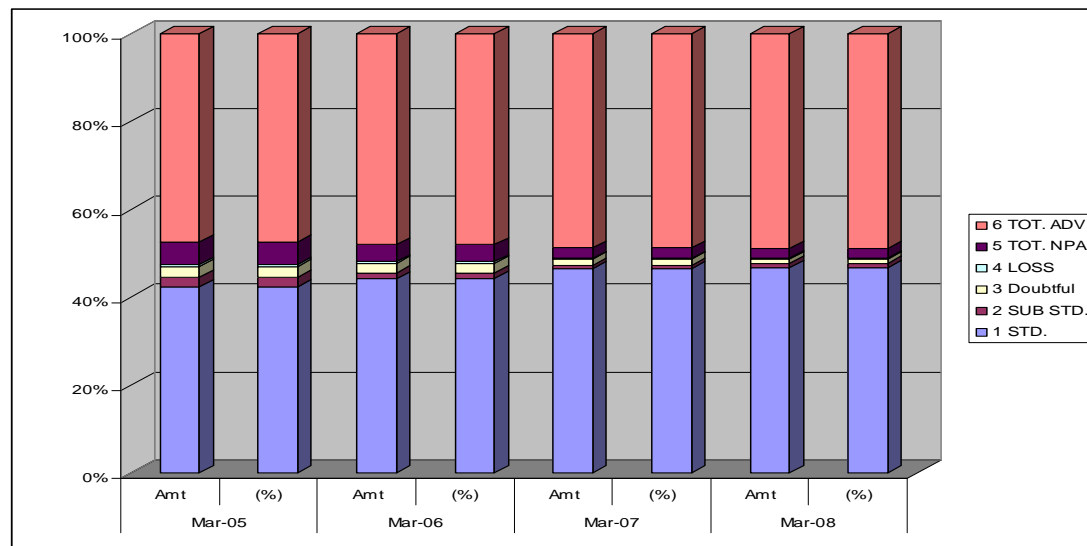
TABLE NO- 3: ACTUAL / BUDGETED NPA

S.No.	Particulars	MAR 2005		MAR 2006		MAR 2007		MAR 2008
(Rs. in Crores)		Amt	(%)	Amt	(%)	Amt	(%)	Amt
1.	SME	84.62	6.31	83.89	6.21	73.57	4.20	90.52
2.	AGR	73.42	7.22	59.49	6.05	21.19	3.34	24.72
3.	PER	85.91	6.01	93.36	5.59	97.43	6.69	115.33
4.	MISC	0.53	1.32	0.94	1.42	2.62	3.33	3.74
5.	TOTAL	244.47	10.79	237.67	8.09	194.80	4.97	234.31

CHART- 3: ACTUAL / BUDGETED NPA
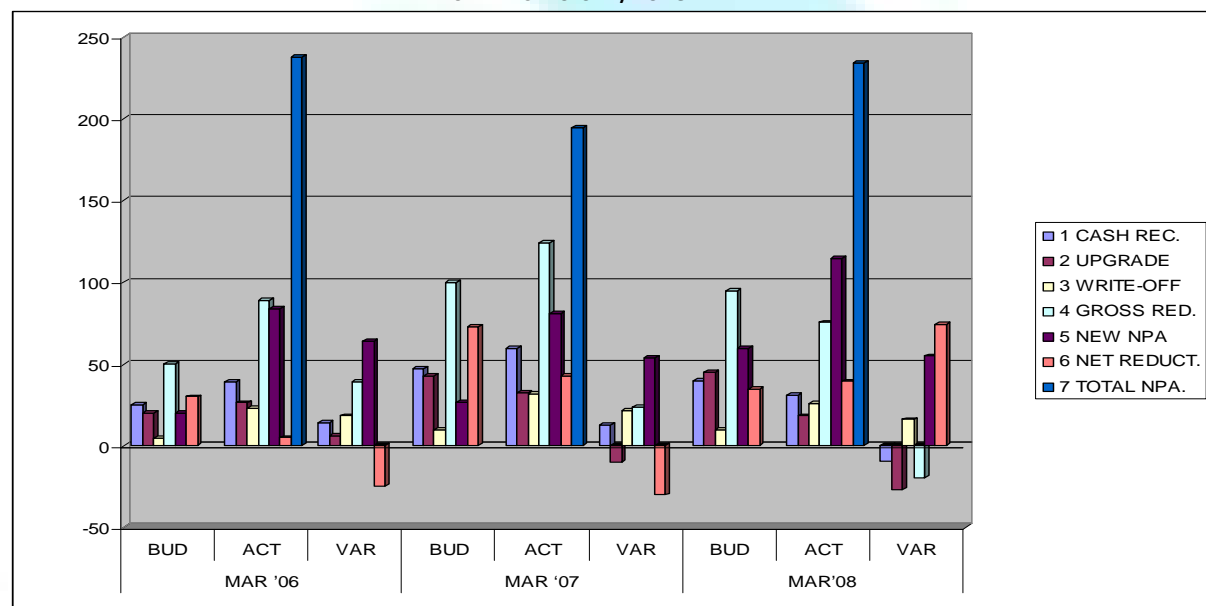
TABLE NO. 4: SEGMENT WISE NPA

(Rs. in Crores)		MAR '06			MAR '07			MAR'08		
S.No.	Components	BUD	ACT	VAR	BUD	ACT	VAR	BUD	ACT	VAR
1.	CASH REC.	25.00	39.25	14.25	47.00	59.44	+12.44	40.00	31.07	-8.93
2.	UPGRADE	20.00	26.34	6.34	43.00	32.73	-10.27	45.00	18.28	-26.72
3.	WRITE-OFF	5.00	23.24	18.24	10.00	31.74	+21.74	10.00	26.08	16.08
4.	GROSS RED.	50.00	88.83	38.83	100.00	123.91	+23.91	95.00	75.43	-19.57
5.	NEW NPA	20.00	83.78	63.78	27.00	81.05	+54.05	60.00	114.94	54.94
6.	NET REDUCT.	30.00	5.05	- 24.95	73.00	42.86	-30.14	35.00	39.51	74.51
7.	TOTAL NPA.		237.67			194.81			234.31	

CHART- 4: SEGMENT WISE NPA (Rs. in Crores)
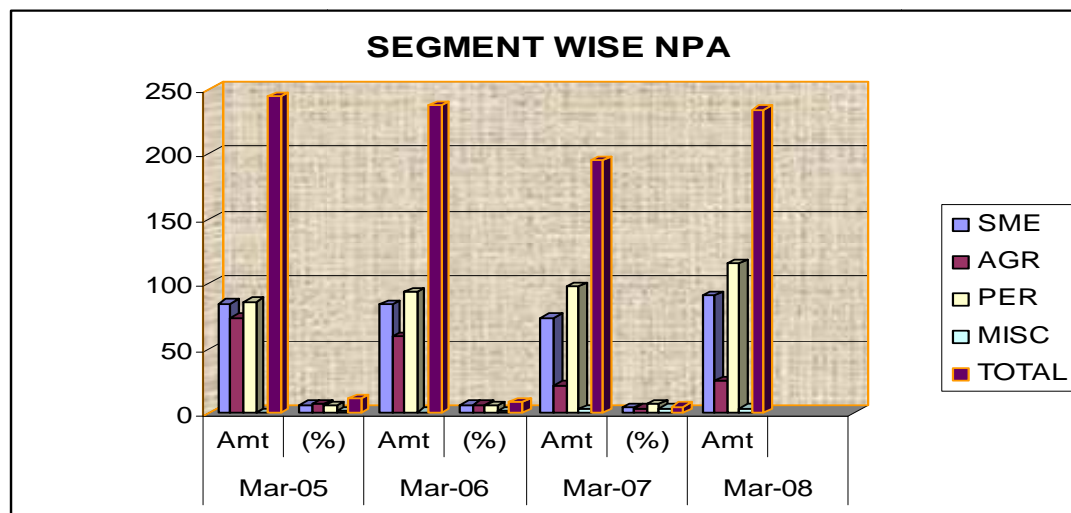
Source: Primary data

TABLE-5: NPA DENSITY IN BRANCHES

S.No.	Particulars	MAR 2005		MAR 2006		MAR 2007		MAR 2008	
(Rs. in Crores)		No. of Brs.	Amt	No. of Brs.	Amt	No. of Brs.	Amt	No. of Brs.	Amt
1.	>20%	84	107.39	51	68.57	03	10.97	02	5.84
2.	15-20%	38	34.20	27	32.78	11	11.86	10	31.08
3.	10-15%	42	41.85	54	46.28	32	52.45	21	27.58
4.	5-10%	46	43.53	68	61.61	82	67.99	73	92.12
5.	<5%	27	17.50	38	28.43	108	51.54	131	77.69
6.	0%	02	0.00	01	0.00	03	0.00	25	0.00
7.	TOTAL	239	244.47	239	237.67	239	194.81	262	234.31

Source: Primary data

TABLE- 6: CREDIT- DEPOSIT RATIO

Column1	Column2	Column3	Column4
	CREDIT- DEPOSIT RATIO.		
%	All India	Eastern Region	Nagpur
2002	58	38	25
2003	59	40	25
2004	58	42	26
2005	65	46	30
2006	72	50	33
2007	75	51	35

CHART- 5: CREDIT- DEPOSIT RATIO
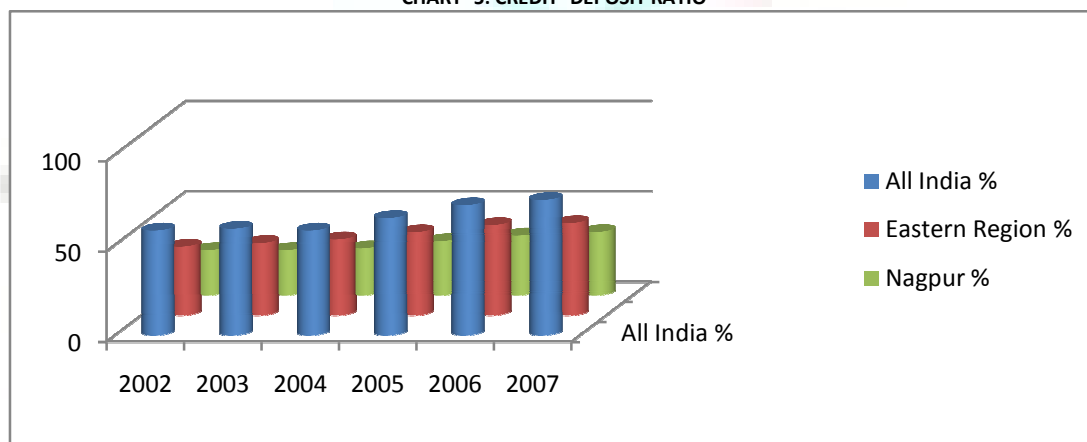
TABLE-7: SPURT IN NPAs DURING MARCH 2008 COMPARISON OVER FEBRUARY'08 LEVEL

REG	SME			AGR			PER			MIS			TOTAL		
	FEB 2008	MAR 2008	INCR	FEB 2008	MAR 2008	INCR	FEB 2008	MAR 2008	INCR	FEB 2008	MAR 2008	INCR	FEB 2008	MAR 2008	INCR
1	9.53	13.38	3.85	2.47	3.71	1.24	20.38	26.56	6.18	2.22	2.61	0.39	46.26	34.60	11.66
2	5.92	9.31	3.39	3.96	4.09	0.13	8.29	13.80	5.51	0.86	0.28	1.14	27.48	17.31	10.17
3	5.91	9.03	3.12	1.45	2.79	1.34	5.20	11.73	6.53	0.60	0.11	0.49	23.67	13.16	10.51
4	11.31	11.31	0.00	0.68	0.48	0.20	10.87	15.09	4.22	2.39	0.35	2.05	27.23	25.25	1.98
5	5.67	9.99	4.32	2.35	4.48	2.13	11.52	24.60	13.08	0.22	0.06	0.16	39.13	19.76	19.37
6	14.07	14.58	0.51	5.87	9.17	3.30	16.48	22.45	5.97	1.18	0.21	0.97	46.41	37.60	8.81
9	23.68	22.92	0.76	0.00	0.00	0.00	1.15	1.10	0.05	1.37	0.12	1.25	24.14	26.20	2.06

Source: Primary data

TABLE-8 : FARMER'S DEBT WAIVER SCHEME DATA

STATE BANK OF INDIA, ADMINISTRATIVE OFFICE, NAGPUR		
Position Of Debits raised as on 31.8.08		
Region/ District	**Waiver**	**OTS**
Nagpur City	637617.05	
Bhandara	27463211.00	1103507.12
Gondia	14904630.44	180766.39
Region-1	**43005458.49**	**1284273.51**
Nagpur Rural	25303393.24	2130565.54
Chandrapur	16144519.33	4327353.68
Gadchiroli	10138982.34	1199657.45
Region-2	**51586894.91**	**7657576.67**
Buldana	167157295.05	27162625.79
Region-3	**167157295.05**	**27162625.79**
Akola	78363748.34	6470052.49
Washim	100092055.53	6007984.21
Region-4	**178455803.87**	**12478036.70**
Amravati	146914119.43	15051024.97
Region-5	**146914119.43**	**15051024.97**
Yavatmal	153206111.63	26448661.47
Wardha	140601374.52	12422996.39
Region-6	**293807486.15**	**38871657.86**
Module	**880927057.90**	**102505195.50**

TABLE – 9: SHARE HOLDING PATTERN OF STATE BANK OF INDIA

S.No.	Name of the Holder	Equity held (%)
1.	The President of India	59.73
2.	The Bank of New York (GDRs)	6.68
3.	Life Insurance Corp. of India	4.21
4.	CLSA Merchant Bankers Ltd. A/c CLCA Mauritius	2.65
5	Euro pacific Growth Fund	1.31
6.	Orient Global Tamarind (Mauritius)	0.97
7.	CITI Group Global Markets Mauritius (P) Ltd.	0.91
8	Fidelity Management& Research Co. A/c DID Investment Trust Fidelity diversified Intl. Fund	0.76
9.	ICICI Prudential Life Insurance Co.	0.73
10.	LIC of India Money Plus	0.73

TABLE – 10: REPORT ON BANK ADALATS HELD TILL MAR 2008 MODULE SUMMARY

Particulars (*Rs in lacs*)	R-1	R-2	R-3	R-4	R-5	R-6	SARC	TOTAL
Adalats held	07	17	02	06	04	04	25	65
Cases settled	28	711	38	68	32	02	256	1135
Total Dues		11.36	377.62	16.74	47.88	31.65	1.39	494.96	981.60
Compromise approved	7.86	247.00	11.02	38.14	24.79	0.50	356.65	685.96
Waiver approved	3.50	130.62	5.72	9.74	6.86	0.89	138.31	295.64
Cash Recovery	1.66	30.25	7.40	27.86	0.00	0.41	31.86	99.44

CHART-6: BANK ADALATS HELD TILL MARCH 2008 MODULE SUMMERY (*Rs in lacs*)
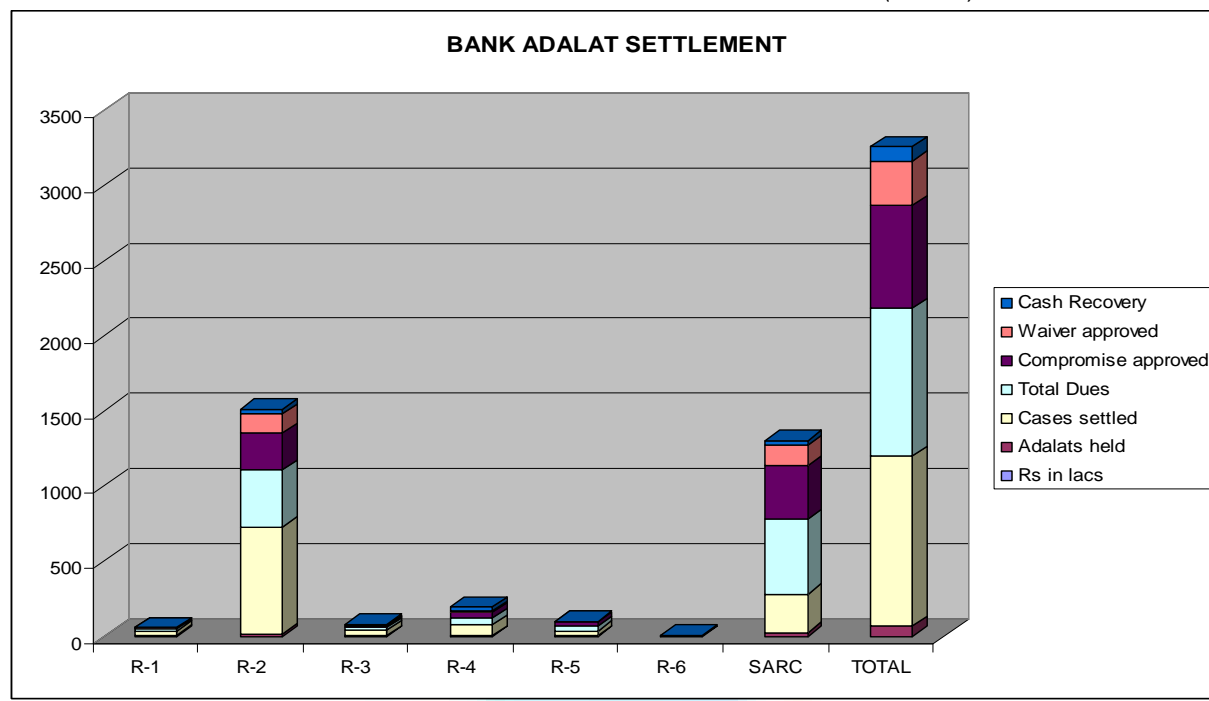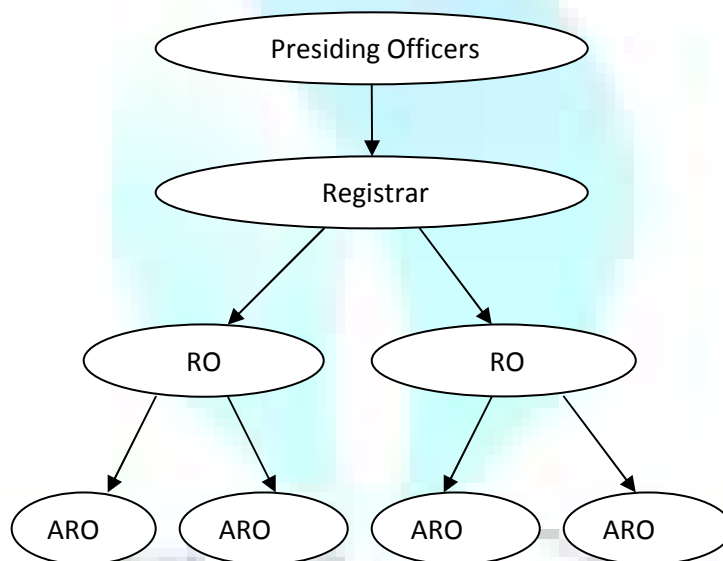
BANK ADALAT SETTLEMENT

FIGURE- 2: HIREARCHY OF DEBT RECOVERY TRIBUNAL- NAGPUR

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