CHAPTER - 1
INTRODUCTION

"A Banker is a Person who is willing to make a loan if you present sufficient evidence to show you don't need it" – Herbert V. Prochnow

1.1 INTRODUCTION TO BANKING IN INDIA

India is the 12th largest and 2nd fastest growing economy. The Centre for Monitoring Indian Economy (CMIE) has estimated India's gross domestic product to expand 7.5 percent in 2016-17 as compared to 7.3 percent in 2015-16. As a result of the rise in wages and salaries in the corporate sector and the impressive growth in services, the consumer spending increased in the years 2016. India's capital formation increased due to the robust capital inflows and domestic project investment. According to the World Investment Prospects survey conducted by UNCTAD in 2013-15, India is the second most attractive destination for FDI (after China) in the world (IBEF, 2016)[1]

The Indian banking is one of the most robust and well-oiled systems in the world. In the annual international ranking conducted by the UK-based Brand Finance Plc in 2015, 18 Indian banks have been included in the list of Brand Finance Global Banking 500. According to the study conducted by Indian Brand Equity Foundation, total Indian banking sector assets has reached USD 1.96 trillion in FY 2015 from USD 1.3 trillion in FY 2010, with over 70 percent accounted by the public sector banks. Total lending and deposits have increased at a CAGR of 6 percent during FY 11-15 and 12.9 percent respectively during FY 2006-15 and are further poised for growth, backed by demand for housing, industry and personal finance(IBEF, 2016)[2].

Banking structure is one of the strong pillars of the Indian economic system with stability, solidarity and diversity with which it could withstand many challenging environments including the worldwide recession of 2008. Inspite of these advantages, it is now facing a widespread criticism that it is vitiated by alarmingly a huge percentage of non-performing assets to total advances.

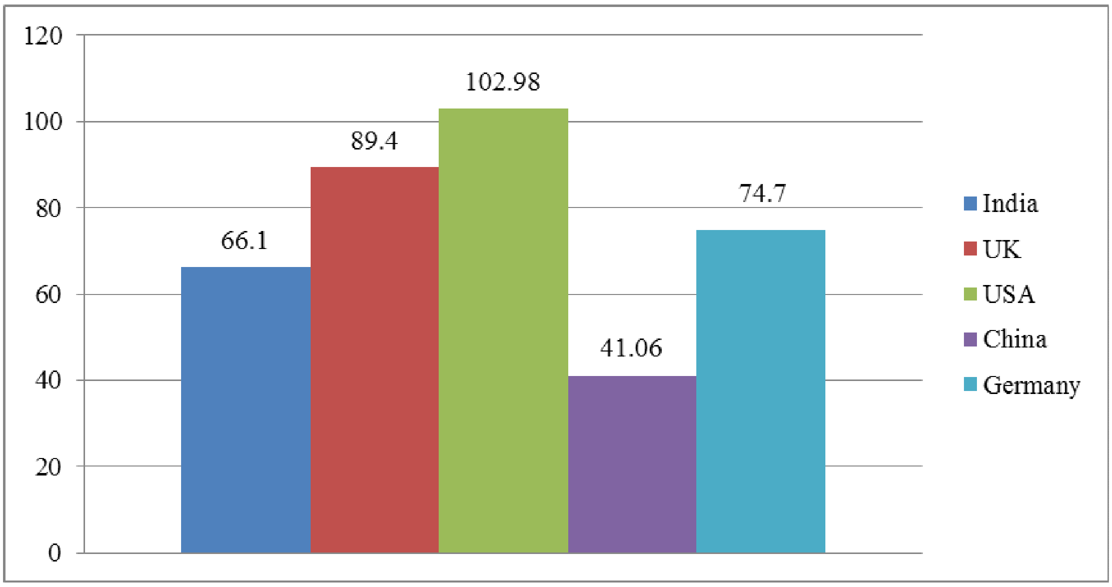
In the past 63 years, Indian banking scenario has radically changed. The Banking Regulation Act of 1949 and the succeeding amendments paved the way for stabilization of the entire banking system, despite, its inability to give birth to mass banking system even after the initiation of economic planning in 1951. Apart from the SBI, as many as 20 Indian commercial banks came under the control of the government in two phases on July 1969 and again on April 1980.

Nationalization of major commercial banks was also a step towards developing good and strong banks which could acquire social purpose to sub serve national priorities and objectives in the interest of the weaker sections of the society. Notwithstanding the criticisms against the nationalized banks on the grounds of operational efficiency, these banks played a useful role in monetizing a vast part of rural India and also in mobilising the savings of the common people (Thingalaya, 1987)[3]. Mass banking which took shape after 1969 was a major revolution in the banking industry which cannot ignore socially deprived sections of the people in India.

The recent financial crisis experience has raised many questions on the origin of the relentless and increasing susceptibility of the financial institutions not only in the US, but also all around the world. The banks are often at the centre of a financial crisis due to its delicate capital structure to provide liquidity to both borrowers and lenders (Diamond and Rajan, 2001)[4]. The recent global crisis has witnessed the importance of banks both at national and international levels. In the developing economies, the substance of banks is increasing unceasingly as banks are the foremost source of finance for a majority of firms and the main reservoir to encourage people for saving in these nations.

Commercial banks in India have witnessed unprecedented growth in terms of deposit mobilization and disbursement of credit. Loans and advances reveal existence of continuous upward trends over the last two decades, which indicates increasing credit appetite in the various segments of the society. Along with spectacular rise in total advances, non-performing asset figures exhibited upward trends in the last five years. (Twenty seventh Report, Standard Committee on Finance, RBI, Feb 2016)[5]. Despite healthy growth over the previous few years, the Indian banking sector is relatively underpenetrated. Government Debt to GDP ratio is low (66.1 percent) relative to many of its emerging markets peers as well as developed economies such as US and UK.

CHART 1.1: GOVERNMENT DEBT AS % OF GDP (AS ON MARCH, 2015)



Source :IBEF,2015

1.2 NON-PERFORMING ASSETS- AN OVERVIEW

According to RBI guidelines, an asset, which includes a leased asset, becomes non-performing when it ceases to generate income for the bank. This is termed as gross NPA. Net NPA is obtained by deducting balance in interest suspense account, amount of provisions held in respect of NPAs and amount of provisions held in respect of NPAs and amount of claim received and not appropriated. These assets have well-defined credit flow that jeopardize the liquidation of debts and may be characterized by distinct possibilities that bank will sustain losses. NPAs have dampening effect on banking system, though they were not in the public domain till early 1990s (Khasnobis, 2006)[6]. Huge amount of advances involving uncertainty regarding repayment have piled up, resulting in question about the health of Indian banking system and their ability to honour their deposit commitments (Banerjee, Cole and Duflo, 2004)[7].

One of the major challenges that banking industry is facing today is the credit risks, exposing this fast growing industry to mounting NPAs. Though macro environmental factors including global recession, economic slowdown, rising inflation and adequate legal framework contributed heavily towards growth of distress asset in the banking sector, micro banking factors, including poor appraisal and follow-up, defect in the mind-set of the borrower and lender are no less important. To assess the progress made on NPA level, banks should look at recovery process which would enable them to release the blocked capital (Coop, 2005)[8]

In line with the international practices and as per the recommendations and approvals made by the Committee formed on the Financial system (Chairman Shri.M.Narasimham), the Reserve Bank of India has introduced, in a phased mode, prudential standards for income recognition, asset classification and provisioning for the portfolio of banks advances so as to move in the direction of better consistency and transparency in the published accounts.

The policy of income recognition should be objective and must be based on the record of recovery rather on any subjective reflections. Likewise, the classification of banks assets has to be made on the basis of objective mechanisms, which would ensure a uniform and consistent application of the procedures. Also, the provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof[9].

Banks are urged to ensure that while granting loans and advances, realistic repayment schedules may be fixed on the origin of cash flows with borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus the record of recovery in advances can be improved .

1.3 RBI GUIDELINES

Definition

According to RBI, an asset becomes non-performing asset when it ceases to generate income for a bank. It is also defined as credit facility in respect of which the interest and/or instalments of principal has remained 'past due' for a definite period of time. This definite period of time is 'two quarters'.

Past due:

An amount due under any credit facility is treated as 'past due' when it has not been paid within 30 days from the due date. With the advancement in technology and improvement in payment and settlement system, the past due concept has been dispensed off with effect from **31st March, 2002** accordingly non-performing asset shall be treated as an advance where:

- Interest and/or instalments of principal remain overdue for a period of more than 180 days in respect of a term loan i.e two quarters.

- The account remains 'out of order' for a period of more than 180 days, in respect of an overdraft/cash credit.
- The bill remains overdraft for a period of more than 180 days, in respect of an overdraft/cash credit.
- The bill remains overdraft for a period of more than 180 days in the case of bills purchased and discounted.
- Interest and/or instalments of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.
- Any amount to be received overdue for a period of more than 180 days in respect of other accounts.

As a step forward towards international best practices and to ensure greater transparency, it has been decided to adopt the 90 days overdue norm for identification of NPAs from the year ending **31st March, 2004** accordingly a NPA shall be a loan or an advance where:

- Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- The account remains 'out of order' for a period of more than 90 days in the respect of an overdraft/cash credit.
- The bill remains overdue for a period of more than 90 days in the case of bills purchased or discounted.
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1st, 2006.
- In case of interest payments, banks should classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Reporting of NPAs

It is mandatory for all banks to furnish a report on NPAs as on 31st March of every year after completion of audit. The NPAs would relate to the bank's global portfolio, including the advances at the foreign branches. While reporting NPA figures to RBI, the amount held in interest suspense account, should be shown as a deduction from gross advances while arriving at the net NPAs (Shekhar, 2007)[10].

'Out of order' status

An account should be treated as 'out of order' if the outstanding balance remains constantly in excess of the sanctioned limit/drawing power. In situations where the outstanding balance in the principal operating account is lesser than the sanctioned limit/drawing power, but there are no credits continuously for period 90 days as on the date of balance sheet or the credits are not adequate to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Overdue

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

Income recognition policy

The procedure of income recognition has to be objective and must be based on the record of recovery. Globally income from non-performing assets is not recovered on accrual basis, but it is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any basis with regards to NPA. This will apply to all government guaranteed accounts also.

However, interest on banks' advances against term deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas patras(KVPs) and other Life policies may be treated as income account on the due date, provided, sufficient margin is available in the books of accounts. Fees and other commissions earned by the banks as a result of rescheduling of outstanding debts should be recognised on an accrual basis over the time period covered by the rescheduled extension of credit.

Reversal of income

When advances, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past, should be reversed if it is not realised. This will also apply to all Government guaranteed accounts. Fees, commission and related income that have accrued should cease to accrue in the current period and it should be reversed with respect to past periods, if it remains uncollected.

Leased assets

The finance charge component of income on the leased asset which was accrued and credited to income account before the assets became non-performing, must be reversed in the current accounting period.

Appropriation of recovery in NPAs

Interest realised on NPAs must be taken to income account provided the credits in the accounts towards interest are not out of additional credit facilities sanctioned to the concerned borrower. In the absence of a perfect agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs, banks must adopt an accounting principle and exercise the right of appropriation of recoveries in an unvarying and consistent mode.

Interest application

With regards to any NPA account, banks should reverse the interest that has been already charged and not collected by debiting profit and loss account. However, banks might continue to record such accrued interest in a memorandum account in their books of accounts. For the purpose of figuring gross advances, interest documented in the memorandum account should not be considered into account.

1.4 CLASSIFICATION OF ASSETS

Banks classify non-performing assets into the following three classifications based on the period for which the asset has remained non-performing and the reliability of the dues:

Substandard assets

With effect from 31st March 2005, an asset is called a substandard asset, if it has been remained as NPA for a period less than or equal to 12 months. Such an asset will have well-defined credit weaknesses that jeopardise the liquidation of the debt and is categorised by the distinctive possibility that the banks will sustain loss if the deficiencies are not rectified.

Doubtful Assets

With effect from 31st March 2005, an asset is called a doubtful asset if it has remained in the substandard category for 12 months period of time. A loan classified as doubtful has all the weakness, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently known particulars, conditions and values that are highly questionable and improbable.

Loss Assets

A loss asset is one where loss has been identified by the bank or the internal/external auditors or the RBI inspection committee but the amount has not been written off absolutely. In other words, such an asset is considered as unrecoverable and of such little value that in continuance as a bankable asset is not warranted, although there might be some salvage or recovery value.

Guidelines for classification of Assets

- Assets are classified considering the degree of well-defined credit weaknesses and the magnitude of dependencies on collateral security for realisation of dues.
- Appropriate internal mechanisms are established by banks to eliminate the NPAs, particularly in respect of high value of accounts.
- NPA should be based on the record of recovery with regard to the accounts with short-term deficiencies. Banks are not permitted to classify an advance account as NPA merely due to the existence of short-term deficiencies, which are temporary in nature as such as non-availability of adequate drawing power based on latest stock.
- Facilities approved to a borrower by a bank will have to be treated as NPA and not the particular facility or a portion thereof, which has become irregular.
- Erosion in the value of security can be estimated as noteworthy when the realisable value of the security is less than 50 percent of the value evaluated by the bank or accepted by RBI at the time of latest inspection. Such NPAs must be classified under doubtful category and provisioning should be made as applicable to doubtful assets.
- Agricultural advances- With regard to advances granted for agricultural purpose where interest and/or instalment remains unpaid after it has become past due for two continuous harvest seasons but for a period not exceeding two and a half years, such an advance must be treated as NPA. In situation where the natural calamities deteriorate the repaying capacity of agricultural borrowers, banks may adopt a relief measure-conversion of the short term production loan into a term or re-schedulement of the repayment period. In such situations, loans should be treated as current dues and need not be classified as NPA.

Exceptions:

- As trading comprises of only buying and selling of commodities and the difficulties associated with manufacturing units such as bottleneck in commercial production, time and cost escalation, etc. are not applicable, these guidelines mentioned by RBI will not be pragmatic to restructuring/ rescheduling of credit facilities extended to traders.

1.5 SARFAESI Act, 2002:

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act came into existence in the year 2002. This act is used as an effective tool for treating bad loans (NPA) recovery. It provides the power of "size and desist" to all Indian commercial banks. According to this act, Banks can provide a notice to the defaulting borrower required to discharge its liabilities within 60 days period of time. Once the borrower fails to comply with the notice, the banks can take recourse to one or more of the following measures under this act.

- Banks can take possession of the security for the loan.
- Assets can be Sold or assigned the right over the security.
- Banks can manage the same or appoint any person to manage the same.

The SARFAESI Act also provides the establishment of Assets Reconstruction Company (ARC) regulated by RBI to acquire assets from banks and other financial institutions.

1.6 BASEL NORMS:

Basel is a city located in north-western Switzerland. It is the headquarters of Bureau of International Settlement (BIS), which promotes co-operation among central banks with a common goal of financial stability and standards of banking regulation. Every two months BIS host a meeting with the governor and senior executives of central banks of member countries. By 2015, there are 27 member nations in the committee. Basel guidelines refer to extensive managerial standards formulated by this group of central banks called the Basel Committee on Banking Supervision (BCBS). The set of agreement by the BSBS focuses mainly on risks parameters of banking and financial system that are called as Basel accords.

The purpose of the Basel accords is to ensure that all financial institutions must have adequate capital on account to fulfil obligations and engage unexpected losses. India has accepted Basel accords for the banking system. In fact, on a few parameters the RBI has prescribed stringent measure as compared to the norms suggested by Basel Committee.

- **Basel - I**

In 1988 BCBS introduced Basel-I. It focused almost entirely on credit risk. It defined capital and structure of risk weights for banks.

- **Basel – II**

In June 04 Basel – II guidelines were published by BCBS. The guidelines were based on 3 parameters, which the committee mentions it as pillars of banking system.

- Capital Adequacy Requirements
- Supervisory Review
- Market Discipline
- **Basel – III**

In 2010, Basel – III guidelines were announced. Basel – III Norms aims at making most banking activities more capital- intensive oriented. The guideline aims to promote a most resilient banking system by focusing on four dynamic banking parameters viz. Capital, Leverage, Funding and Liquidity.

Issuing of new licenses and Basel III will increase capital needs:

In September 2015, RBI approved 10 applicants to set up small finance banks. This approval will be valid for 18 months to comply with the guidelines and conditions stipulated by RBI. After fulfilment of requirements, RBI would grant banking license to the selected participants. By February 2015, RBI has received 72 applications for starting small finance banks and 41 applications for payment banks. Some of the major applicants for small finance banks are: IIFL holdings limited, Indigo Fincap limited, Sahara Utsarga Welfare Society, etc., while for payments banks major players are: Reliance Industries Limited, Tech Mahindra Limited, etc.

1.7 ASSETS RECONSTRUCTION COMPANY (SECURITIZATION COMPANY)

This company is registered under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, a non-banking financial company of RBI act 1934. The government has proposed an initial paid-up capital sum of Rs. 1,400 crore and an authorised capital of Rs. 2,000 crore for the Asset Reconstruction Company. In view of the large equity base, the Government was keen to ensure the participation of the maximum number of institutional stakeholders to cobble up the amount.

The task of the Asset Reconstruction Company is to buy out the bad assets of banks and FIs and make efforts for their recovery while compensating the lenders at a negotiated price for the assets taken over. The government has been catalysing the setting up of the Asset Reconstruction Company within the existing legal framework. The Ministry of Finance is simultaneously processing a legislative bill to provide the required legal backing to the entity in future to ensure its smooth functioning.

Assets Reconstruction Company performs the following function

- Acquisitions of financial assets of SARFAESI act 2002.
- Change or takeover of Management/ Sales or Lease of business of the borrower.
- Rescheduling of Debts
- Enforcement of security interest.
- Settlement of dues payable by the borrower.

1.8 REASONS FOR OCCURRENCE OF NPAS

NPAs are the resultant of “Bad Loans” or defaults. Default, in the financial parlance, is the failure to meet financial obligations, say non-payment of a loan instalment. Main reason for increase in NPA of banks, inter-alia, are sluggishness in the domestic growth during the recent past, slowdown in recovery in the global economy and continuing uncertainty in the universal markets conditions leading to lower exports of various products like textiles, engineering goods, leather, gems, etc. External factors include the ban on mining projects, delay in clearances affecting power, iron and steel sector, volatility in prices of raw materials and the shortage in the availability of power, delay in collection of receivables creating a strain on several infrastructure projects and most importantly aggressive lending by banks in past. In general, these loans can occur due to the following reasons:

- Usual banking operations /Bad lending practices
- A banking crisis (as happened in South Asia, Japan in recent past)
- Overhang component (due to environmental reasons, natural calamities, business factors, Occurrence of diseases, etc...)
- Incremental component (due to internal bank management, like credit policy, terms of credit, etc...)

Dwelling on the issue of causes leading to rise in the level of NPAs and as to why there are more NPAs in public sector banks, Dr.Raghuram Rajan, former Governor, RBI, deposed before the committee, on 30.10.2014, as follows:

"NPA are more focused in the public sector banking. That is not necessarily because that only the public sector banking system has made mistakes than the private sector system. The private sector system did not finance some of the large projects like infrastructure to the same extent as the public sector system. Moreover the private sector banking system also knows how to move out before the public sector system. Many people believe that the level of NPAs reproduces a level of malfeasance in the public sector banking system. Malfeasance exists, I will not deny that. But I will not single that out as the principal reason. If you remember, many of the projects, which are in trouble today, were started in 2007-2008 after four or five years of very, very strong growth. The belief then was that, the growth would continue growing and some of these were funding exports. The world was also growing very fast at that time. But then, we had the financial crisis. We had a slowdown in Indian economy. All the optimistic projections about growth, etc came down extensively after that, both globally and domestically. So, that was one reason we have problems" (RBI Bulletin, 2015)[11].

1.9 IMPACT OF NON-PERFORMING ASSETS ON THE OPERATIONS OF BANKS

The impacts of Non-Performing Assets on the operations of banks are:

I. Profitability

Non-Performing Asset means booking of money in terms of bad asset that occurred due to incorrect choice of client. Because of the money getting unnavigable, the prodigality of bank decreases not only by the amount of Non-Performing Assets but also leads to opportunity cost. So, Non-Performing Assets does not affect current profit but also it affects the future stream of profit, which may lead to loss of long-term beneficial opportunity (Sushama Yadav, 2014)[12]. Another impact of decrease in profitability is low ROI (Return on Investment), which badly affects the current earning of bank.

II. Liquidity

Money is getting blocked and, reduced return leads to lack of cash at hand which leads to borrowing money for short periods of time and that in turn creates additional cost to the company. Difficulty in operating the functions of bank is another reason of NPA due to lack of liquid cash.

III. Involvement of Management

Time and efforts of management is another indirect cost that bank has to bear due to NPA. Efforts taken to handle and managing NPA would have diverted to some productive activities, which would have given good returns. (Ravindra Sontakke, 2013)[1]. Nowadays, banks have distinct employees to manage NPAs, which is additional cost to the bank.

IV. Credit Loss

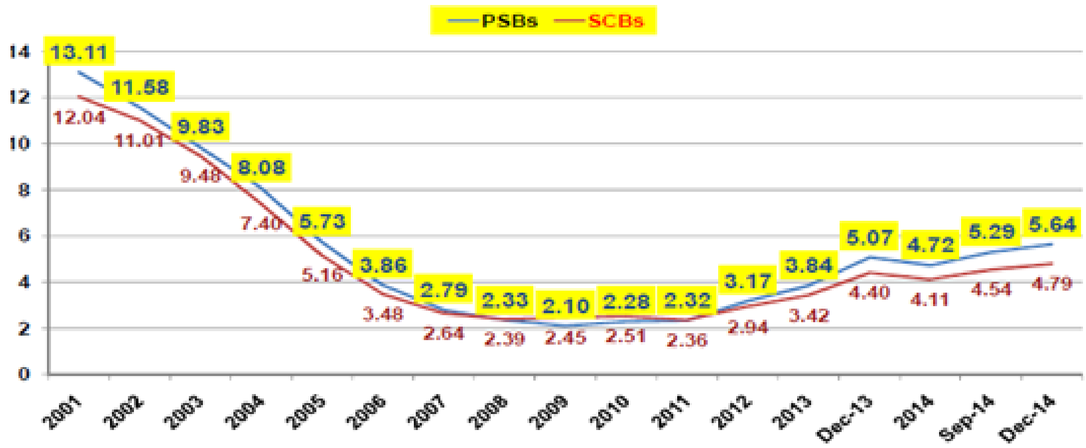
If a bank is facing problems of Non-Performing Assets, then it poorly affects the value of the bank in terms of market for credit. Banks might lose its goodwill, brand image and credit worthiness which have negative impact on the people who are investing their money in the banks as deposits (Asha Singh, 2013)[14].

1.10 CURRENT STATUS OF NPAS IN BANKING SECTOR:

The mounting of NPAs are primarily due to two reasons, the first being the attitude of banks qualitatively and approach towards financing and recovery of NPAs predominantly in SMEs and secondly, the lack of complete knowledge about the law and practice of banking. RBI directives and their circulars must be mandatory to be followed by the banks and the other financial institutions.

Non-performing Assets (NPAs) of banks have been going up for the last two years due to economic slowdown. The level of gross NPAs of few public sector banks, including State Bank of India and Punjab National Bank have crossed 4 per cent of their total assets at the end of March, 2013. Pulled down by poor performance of industry, manufacturing and mining sectors, Indian economy decelerated to 4.8 per cent growth rate in the January-March quarter of fiscal year 2012 and fell to a decade's low of 5 per cent for the entire 2012-13 fiscal.

CHART 1.2: TREND OF GROSS NPA's SCHEDULED COMMERCIAL BANKS VS PUBLIC SECTOR BANKS



Source: RBI Database, 2015

On account of good economic conditions, established DRTs and enactment of SARFAESI Act, the GNPAs of ratio of public sector banks steadily declined from 13.11 percent in 2001-01 to 2.10 percent in 2008-09 and GNPA ratio of scheduled commercial banks steadily declined from 12.04 percent to 2.45 percent. But after 2008-09 NPAs of Indian commercial banks witnessed increasing trend. As per the data made available by the Reserve Bank of India, Gross NPAs of the scheduled commercial banks, especially public sector banks have shown an increase during the recent years (Report on Indian Banking, IBEF, Jan 2016)[15]

- Rs. 71,080 crore and GNPA ratio is 2.32% in March 2011
- Rs. 112,489 crore and GNPA ratio is 3.17% in March 2012
- Rs. 1,55,890 crore and GNPA ratio is 3.84% in March 2013
- Rs. 1,83,778 crore and GNPA ratio is 4.59% in June 2013
- Rs. 2,16,739 crore and GNPA ratio is 4.72% in March 2014
- Rs. 2,22,458 crore and GNPA ratio is 4.98% in June 2014
- Rs. 3,69,990 crore and GNPA ratio is 5.47% in December 2014

1.11 DISPOSITION OF THESIS

Chapter Scheme

The thesis is arranged into the following chapters:

Chapter 1: Introduction

This chapter presents Introduction to Indian banking economy, Non-performing assets – an overview, RBI guidelines, Reasons of NPA and its impact, SARFAESI Act and BASEL norms, current status of NPA and Disposition of the thesis.

Chapter 2: Review of Literature

This chapter reviews Committee reports, Research publication, Text books, Research reports, Magazines & news and Research gap & opportunity.

Chapter 3: Methodology

This chapter includes Statement of the problem, Research questions, Objectives of the study, Research approach, Research strategy, Sampling design & Data collection, Framework of Analysis, Scope of the study, Limitation of the study and Significance of the study.

Chapter 4: Banking Sector Performance in India – An overview

This chapter gives the overview of Indian banking sector.

Chapter 5: Analysis & Discussion of NPA in Indian banks

This chapter consists of Magnitude & Trend of NPA in ICB, Portfolio of NPA, Occupation wise distribution of NPA, Book value insolvency of ICB, Procyclical effect of Banks NPA and Chapter Summary.

Chapter 6: Results & Discussion

This chapter presents findings, suggestions, conclusion, contribution to the banking sector and contribution to the Government & RBI.

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CHAPTER – 2

REVIEW OF LITERATURE

It is the pre-requisite for any systematic study, to review all the available relevant literature in order to design the study in a meaningful way. It also helps in framing the research questions appropriately based on the available experiences in the study area.

In view of the importance of NPAs management in banks and in the process of reducing NPAs, large number of studies has been carried out by the researchers , on the concept, type, impact, reasons and measures for NPAs in banking industry. Several research studies have been made by academicians, research institutions, Government, working groups and committees appointed by RBI related to the commercial banks in general and also specific studies pertaining to individual. Several research studies have been made by academicians, research institutions, governments, working groups and committees appointed by RBI related to the commercial banks in general and also specific studies pertaining to individual banks focusing NPAs. Research students from various institutions and universities have also made significant contribution to this literary wealth. The available literature relating to NPAs is in the form of committee reports, text books, research publications, research reports and magazines. However, review of relevant research papers published since and a brief review of all other available committee reports, text books and research reports relevant to the study area have been presented chronologically under different categories.

2.1 COMMITTEE REPORTS

Tandon Committee Report (1975)[1] a study group headed by Shri Prakash Tandon, the chairman of Punjab National Bank, was constituted by the RBI in July 1974 with eminent personalities drawn from leading banks, financial institutions and a wide cross- section of the industries with a view to study the entire gamut of bank's finance for working capital and suggested ways for optimum utilization of bank credit. This was the first elaborate attempt by the central bank to organise the bank credit. The report of this group is widely known as Tandon Committee Report.

Pendharkar Group Report (1978)[2] recognised the need for classifying advances into different categories, to index the overall quality of the asset portfolio. This was the starting point for the introduction of the health coding system of bank loan portfolio by