

**NPA Management
Sale of Stressed Assets to Asset Reconstruction
Companies (ARCs)
- CA Dipen Mehta**

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Non-Performing Assets (NPAs)

What is NPA ?

A 'Non-Performing Asset' (NPA) was defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due/unpaid' for more than 90 days.



NPAs in India



Reasons for NPAs

1. Economic Slowdown.
2. Poor Credit Appraisal System.
3. Project not completed on time.
4. Failure of Business.
5. Defective Lending Process.
6. Wilful Default / Loan Frauds
7. Corruption
8. Industrial Sickness
9. Inefficiency in Management



Impact of NPAs in Banks

1. Reduced Profitability
2. Shareholders Confidence
3. Public Confidence
4. Liquidity & Opportunity Cost
5. Changes in Interest Rates
6. Liability Management



Tools of NPAs Recovery



Tools of NPAs Recovery



Lok Adalats

It is a mechanism to settle matters relating to recovery of dues out of Court. It is a Mutual forum and settlement is done mutually.

Debt Recovery Tribunals (DRT)

The DRT enforces provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 and also Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.



SARFAESI Act, 2002

It is possible where Non-performing assets are backed by securities charged to the Bank by way of Hypothecation, Mortgage or Assignment.

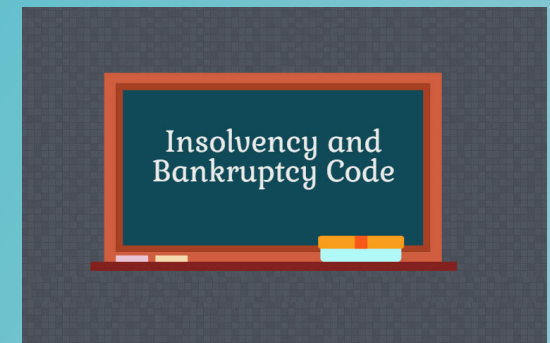


Sale of NPAs to ARCs

Bank assigns right of recovery to ARCs by executing assignment agreement under SARFAESI Act, 2002

Insolvency and Bankruptcy Code, 2016

The bankruptcy code is a one stop solution for resolving insolvencies which previously was a long process that did not offer an economically viable arrangement. The code aims to protect the interests of small investors and make the process of doing business less cumbersome.



Sale of NPAs to ARCs



What is ARC?

An Asset Reconstruction Company is a special type of financial institution that buys the Non-performing Loans of the bank at a mutually agreed value and attempts to recover the debts or associated securities by itself.

Thus ARCs are engaged in the business of asset reconstruction or securitisation or both. All the rights that were held by the lender (the bank) in respect of the debt would be transferred to the ARC. The required funds to purchase such debts can be raised from Qualified Buyers.

There are 28 ARCs presently operating in India.

The first ARC registered under SARFAESI Act is ARCIL



ARCs in India

Asset Reconstruction Company (India) Limited

Assets Care & Reconstruction Enterprise Ltd.

ASREC (India) Limited

Alchemist Asset Reconstruction Company Limited

International Asset Reconstruction Company Pvt. Ltd.

Reliance Asset Reconstruction Company Limited

Pridhvi Asset Reconstruction and Securitisation Company Ltd.

Phoenix ARC Private Limited

Invent Assets Securitisation & Reconstruction Pvt. Ltd.

JM Financial Asset Reconstruction Company Limited

India SME Asset Reconstruction Company Limited

Edelweiss Asset Reconstruction Company Limited

UV Asset Reconstruction Company Limited

Pegasus Assets Reconstruction Pvt. Ltd.

Omkara Assets Reconstruction Private Limited

Prudent ARC Limited

MAXIMUS ARC Limited

CFM Asset Reconstruction Private Limited

Encore Assets Reconstruction Company Private Limited

Rare Asset Reconstruction Limited

Suraksha Asset Reconstruction Private Limited

Ambit Flowers Asset Reconstruction Private Limited

Indiabulls Asset Reconstruction Private Limited

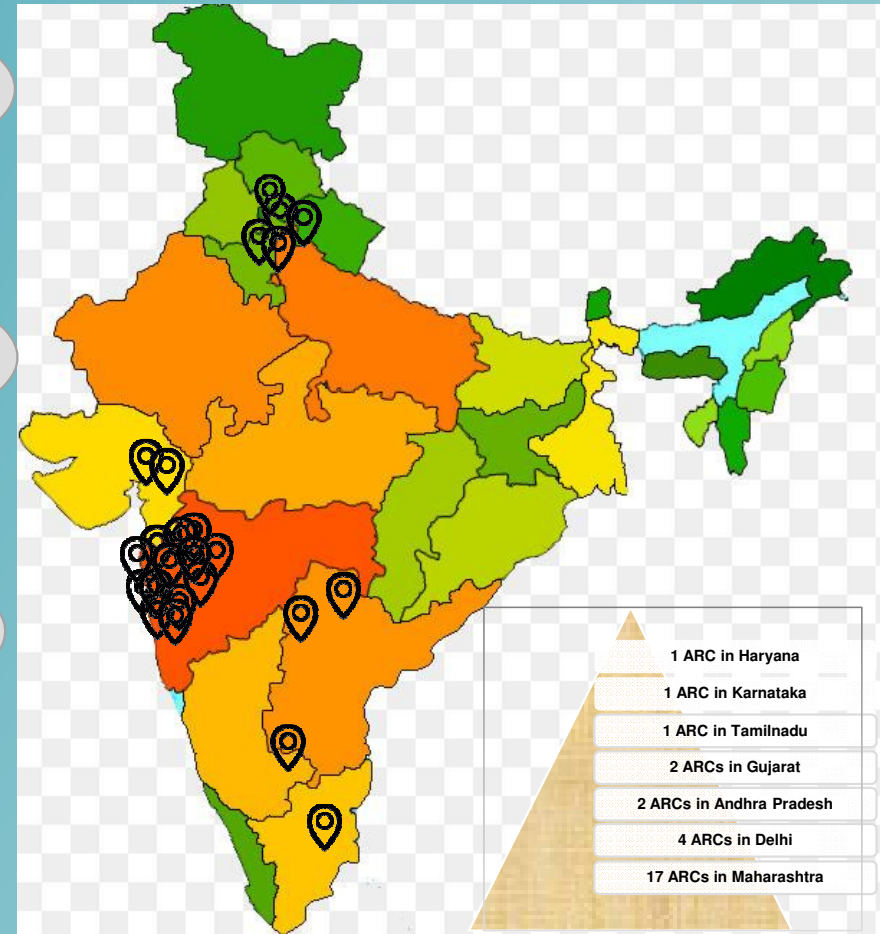
Aditya Birla ARC Limited

ANA ARC Private Limited

Lone Star India Asset Reconstruction Private Limited

ARCION Revitalization Private Limited

India Resurgence ARC Private Limited



Advantages or Benefits to Bank or Borrower

Benefit to Bank :

- Concentrate on Core Business
- Improve the Balance Sheet
- Achieve better profitability
- Better Utilization of Manpower
- Achieve FSWMB

Benefit to Borrower

- Get a Breathing Period
- Chance to Re-establish the Business



Prudential norms for Banks for the Sale Transactions

- (i) When a bank sells its financial assets to SC/RC, on transfer the same will be removed from its books.
- (ii) If the sale to SC/RC is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year.
- (iii) If the sale is for a value higher than the NBV, the excess provision will not be reversed but will be utilized to meet the shortfall / loss on account of sale of other financial assets to SC/RC.
- (iv) When banks invest in the security receipts issued by SC/RC in respect of the financial assets sold by them to the SC/RC, the sale shall be recognised in books of the banks at the lower of:
 - the redemption value of the security receipts, and
 - the NBV of the financial asset.



How ARC's Work

- › ARC's Purchase Bad Loans from the Banks.
- › Separate Trust is created under section 7 of the SARFAESI Act 2002.
- › Deals are executed at discount.
- › ARC's pay an Payment of Cash in minimum of 15%.
- › The rest of 85% amount in Securitization Receipts
- › Usually repayable in a period of 5 years.
- › ARC's often undertake Detailed Due Diligence.



Procedure for Sale of NPAs to ARCs

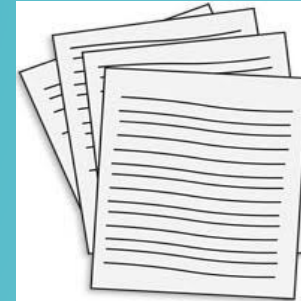
1. Pre-Announcement Preparation

Preparation of PIMs

Recent Valuations

Legal Updates

Invitation for EOI including finalisation of terms of sale.



2. Fixation of Reserve Price

Reserve Price fixation & approval from Committee / Board.



3. Data Room Preparation

Obtaining Case files in data centres

Making sets of case files

Copies of Valuation Reports



4. Announcement of Sale

Issue of Invitation for EOI

Execution of NDA

Scheduling Data Room Visits

5. Due Diligence by ARCs / Investors & Query resolution

Data Room visit – 15 Days Time

Query resolution

Interacting / Discussions with Branch Manager

6. Submission / Opening of Bids

Submission & opening of bids

Comparative Analysis of Bids

Analysis of bids

Short listing of Bidders for further negotiations

7. Selection of Bidders

Negotiations / Clarifications with shortlisted Bidders

Submission of revised bids.

Bids to be selected for the respective portfolio / accounts

Preparation of Internal Notes for the approval by Committee .

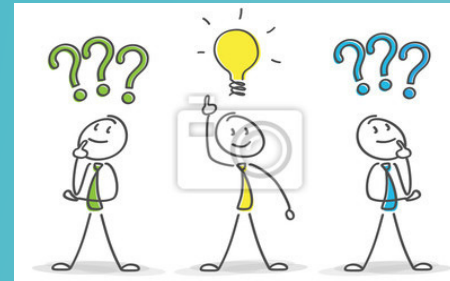
8. Announcement of successful bidder & confirmation of sales

Board Approval

Confirmation of Sale

Finalisation & execution of the Transaction Documents

Receipt of sale consideration (Cash/ SRs)

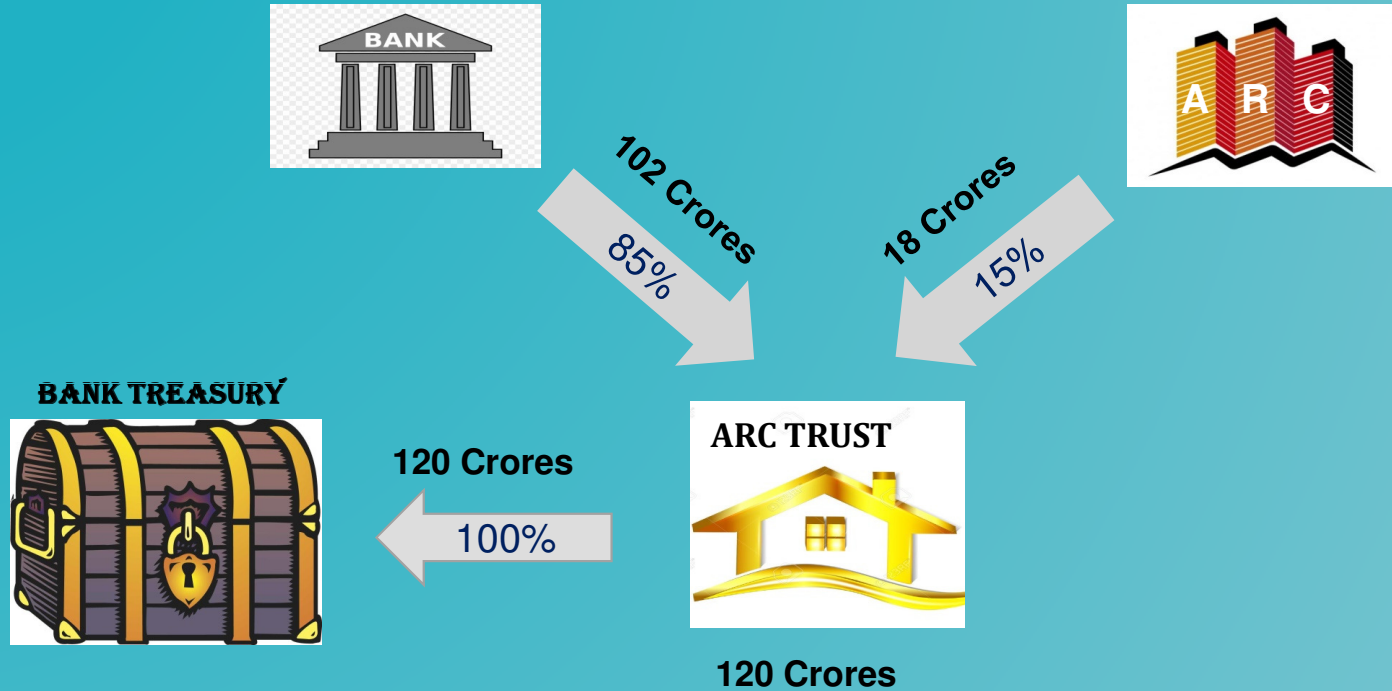


RBI Policy for Sale of NPAs to ARCs



Case Study:

ABC Bank has sold its 15 NPA Accounts 120 Crores to XYZ ARC.



All the Loan Accounts will be closed.

About us:-

DPM Corporate Advisors Private Limited (“**DPM**”) is a specialized distressed debt advisory firm offering end to end NPA management solutions to banks, financial institutions and asset reconstruction companies. The firm is managed by professionals having in-depth experience of over a decade in distressed debt management. The team members have been in the asset reconstruction space since its very start and have a finer understanding of the complex transaction dynamics as a result of hands-on experience and expertise in originating, structuring and executing transactions. The professionals at **DPM** are well versed with the regulatory framework applicable to Banks and ARCs.

Our Clients....

SR. No.	Name of the Bank
1.	Rajkot Nagarik Sahakari Bank Limited
2.	Kallappa Anna Awade IJS Bank Limited
3.	Sanmati Sahakari Bank Limited
4.	City Union Bank Limited
5.	Dombivli Nagarik Sahakari Bank Limited
6.	Bharat Co-operative Bank Limited
7.	Abhyudaya Co-operative Bank Limited
8.	Punjab and Maharashtra Bank Limited
9.	NKGSB Co-operative Bank Limited
10.	Dena Bank Limited
11.	SVC Co-op Bank Limited
12.	Cosmos Co-Operative Bank Limited
13.	Apna Sahakari Bank Limited
14.	Janata Sahakari Bank Limited, Pune
15.	New India Co-Operative Bank Limited
16.	State Bank of Bikaner & Jaipur Limited
17.	Union Bank of India

ANY QUERY?