

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

RAJYA SABHA
UNSTARRED QUESTION NO-249

ANSWERED ON TUESDAY, FEBRUARY 4, 2025/MAGHA 15, 1946 (SAKA)

RISE IN WILLFUL DEFAULTERS OF LOANS

249. SHRI SANJAY RAUT

Will the Minister of FINANCE be pleased to state:-

- (a) whether there is rise in willful defaulters in the country, with over 2600 companies being declared defaulters by the RBI;
- (b) the steps taken to address the growing problem of willful defaulters and prevent further defaults from corporate promoters;
- (c) how Government assesses of the risk posed by willful defaulters to the banking system, especially in terms of increasing bad loans and the financial health of banks; and
- (d) the measures taken to ensure that the financial stability of banks and financial institutions is not further jeopardized by the actions of corporate defaulters?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a) to (d): As per Reserve Bank of India (RBI) data, as on March 2024, 2,664 Unique Borrowers, excluding individuals and overseas borrowers, have been classified as wilful defaulters. However, the increase in the number of such wilful defaulters has declined from 160 in the financial year (FY) 2021-22 to 42 in FY 2023-24.

Following the Asset Quality Review initiated by RBI, banks initiated transparent recognition, reclassifying standard restructured advances as non-performing assets (NPAs) and providing for expected losses on such advances. It resulted in rise in gross NPA as well as provisioning for such NPAs in scheduled commercial banks (SCBs). Simultaneously, systematic checking of NPA accounts from the angle of wilful default and fraud resulted in increase in number of wilful defaulters. Post AQR, the government initiated 4R's strategy of recognising NPAs transparently, resolving and recovering value from stressed accounts through clean and effective laws and processes, recapitalising public sector banks, and reforms in banks and financial ecosystem to address the problem of rising NPAs and growing loan default, including instances of wilful default.

Comprehensive measures have been taken by the government and RBI to deter wilful default and to reduce and recover NPAs, including those pertaining to wilful defaulters, leading to improved financial stability and financial health of banks. Such measures include, *inter alia*, the following:

- (i) Wilful defaulters are not sanctioned any additional facilities by banks or financial institutions, and their unit is debarred from floating new ventures for five years. Further, wilful defaulters and companies with wilful defaulters as promoters/directors have been debarred from accessing capital markets to raise funds.
- (ii) As per RBI's Master Direction on Treatment of Wilful Defaulters and Large Defaulters, banks may initiate criminal proceedings against wilful defaulters in eligible cases.
- (iii) For effective action against fugitive offenders, including wilful defaulters, the Fugitive Economic Offenders Act, 2018 has been enacted which provides for attachment and confiscation of property of fugitive offenders and has disentitled them from defending any civil claim.
- (iv) Change in credit culture has been effected, with IBC fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters, and debarring wilful defaulters from the resolution process.
- (v) Under the public sector banks (PSB) Reforms Agenda, comprehensive and automated Early Warning Systems (EWS) were instituted in PSBs, with ~80 EWS triggers and use of third-party data for time-bound remedial actions in the borrowing accounts to proactively detect stress and in turn reducing slippage into NPAs.
- (vi) Prudential Framework for resolution of stressed assets was issued by RBI to provide a framework for early recognition, reporting and time bound resolution of stressed assets, with a build-in incentive to lenders for early adoption of a resolution plan.

As a result of Government's overarching policy response to recognition of stress, resolution of stressed accounts, recapitalisation and reforms in banks, the financial health and robustness of banking sector has improved significantly with —

- (i) gross NPAs of SCBs declining to Rs. 4.64 lakh crore (gross NPA ratio of 2.54%) in September 2024 (provisional data) from a peak of Rs. 10.36 lakh crore (gross NPA ratio of 11.18%) in March 2018;
- (ii) slippage ratio declining to 1.35% from 7.12% during the said period;
- (iii) Capital adequacy ratio improving to 16.77% in September 2024 (provisional data) from 13.85% in March 2018;
- (iv) Provision coverage ratio improving to 92.88% in September 2024 (provisional data) from 62.96% in March 2018; and
- (v) SCBs recording highest ever aggregate net profit of ₹3.50 lakh crore in FY 2023-24.
