P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-5* ISSUE-2* May - 2020
E: ISSN NO.: 2455-0817 *Remarking An Analisation*

Situation of Non-Performing Assets (NPAs) in India

Paper Submission: 05/05/2020, Date of Acceptance: 29/05/2020, Date of Publication: 30/05/2020

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Abstract

The Indian Banking Sector has been facing a serious problem of rising NPAs. The NPAs growth has a direct impact on the profitability of the banks. Moreover, the non-performance or non receipt of interest and principal block the banks' money & is not available for further use of banking business & thus the profit margin of the banks goes down.

Banks have taken many steps to resolve the problem of old NPAs as suggested by Narsimhan Committee and Verma Committee. A high level of NPAs affect Credit Management, Net Interest Margin, Capital Adequacy, Dividend Payout, Profitability of banks & it harms the credibility of banking system in the economy. So, it is very necessary to trim down the level of NPAs but it is felt that no systematic evaluation of the best way of tackling the problem has been taken. Still we can find the cases of many major credit defaults in the banks which need to be dealt with strictly. Now RBI has taken many stringent measures to deal with such situation.

In this paper, an attempt is made to highlight the extent of NPAs in the Scheduled Commercial Banks (SCBs) in few past years, their impact on the economy and banks & extent of recovery of NPAs through various mechanisms. The paper also suggests some measures to be adopted by the banks to reduce the level of NPAs.

Keywords: Banking system, Non Performing Assets, Scheduled Commercial Banks, Recovery, Suggestions.

Introduction

Banking is considered as the life blood of every country's economy. The Indian banking system consists of commercial and cooperative banks account for almost 90% of the total banking system's assets. Commercial banks play a very important role in banking sector in any country. A commercial bank is the one which has the main objective of profit-making by lending loans with the deposits made by the public. Deposits with the bank are considered as Liabilities by bank as they have to be paid back to the public whenever they demand while loans and advances made by bank are considered as assets of bank. Till 1991, there was no concern for asset quality in Indian Banking System; the whole attention was on wide number of branches and to increase the employment generation. In 1991, the former RBI governor Mr. M. Narasimhan was appointed to review banking system and unleash the potential of Indian banks so that economy could be benefitted the highest. But in recent years, the increasing non-performing assets have been a very major issue for Indian banking sector due to which banks have become more vigilant about extending the loans. Any issue relating to the banking sector will adversely affect the economy. A bank's profitability is also greatly affected by the amount of non performing asset in its balance sheet. When loan-account becomes overdue and banks are neither able to recover the capital nor earn interest income, then in real terms they become non-performing asset. As per RBI Directives, an asset account (term loan/cash credit/overdraft/bills purchase or discount) is classified as Non-Performing Asset (NPA) if it remains irregular or out of order for a period of one-quarter or 90 days. NPA is one of the major concerns for banking system anywhere around the globe and Indian Banking System is not an exception to this universal phenomenon. Narsimhan Committee reports I and II, Verma Committee report, Basel I, II and III have continuously been providing guidelines and directives regarding this burning issue. Now a days NPA management has become synonymous to functional efficiency of banking System. Due to the cut throat competition in banking sector all the banks need not only to increase their profits but also reduction in size of Non-performing Assets (NPAs).

Review of literature:

Arasu, Sridevi P., Nageswari & R. Ramya (2019) in their study analyzed the level of NPAs in Public Sector Banks & Private Banks, identified the impact of NPA on profitability & also offered the suggestions to the regulators & policymakers. They found that level of Gross NPA & Net NPA of Public & Private Sector Banks increased gradually year on year. It also found a significant positive relationship between Gross & Net NPA of public & private sector Banks & negative relationship between Gross & Net NPA with Return on Assets (RoA) of banks.

Shanabhogara Raghvendra (2018) analyzed the impact of NPAs, causes of NPA & consequences of NPA in a commercial bank. This study recognized that restructuring of the bank or financial organization, improvement in financial planning & modernization of appropriate skills for up gradation of credit worthiness & one more thing is staff efficiency.

Suvitha K. Vikram & Gayathri G.(2018) in their study focused on the causes & control measures for rising NPAs in Public and Private sector banks. It also found out that level of NPAs is higher in public sector banks compared with private sector banks. It analyzed that the root of issue of rising NPAs is the nature of overseeing credit chance by banks & willful defaulters.

Raj Kumar Mittal & Deepika Suneja (2017) in their study revealed that the extent of NPA is more in PSBs as compared to Private Banks. This study also suggested for banks to adopt a structured NPA policy to prevent NPAS & should follow stringent measures for the recovery.

Chetan Dudhe(2017) in his study showed that NPAs affect the financial performance of a country. He concluded that absorbing the credit management skills have become more important for improving the bottom line of the banking sector. He also suggested for banks to develop new recovery programs for over dues, monitoring accounts, keeping regular contact wit borrowers.

Ombir & Sanjeev Bansal(2016) analyzed the recent trends in NPAs of different categories of Indian Banks. It investigated that PSBs has relatively a larger share in NPAs as compared to private banks. But no strong empirical evidence is there in support of this view. Findings also suggested that profitability of Foreign Banks is higher relative to that of PSBs & PVBs. It is also found that profitability of a bank is highly affected by the level of NPAs in banks.

Siraj & Sudarshan Pillai(2014) found in their study that NPA is Virus affecting banking sector & concluded that NPA still remains as a major threat & the incremental component explained through additions to NPA poses a great question mark on the efficiency of credit risk management of banks in India.

Debarsh & Sukanya Goel(2012) in their study emphasized on the management of NPAs in the perspective of the Public Sector Banks in India under strict asset classification norms, use of latest technological platform based on core banking solution, recovery procedures & other bank specific indicators in the context of stringent regulatory framework of RBI.

Gurumoorthy & Sudha(2012) in their paper analyzed the classification of loan assets in PSBs, components of NPAs in different sectors & position of NPA in Public Sector Banks. He also showed that loan portfolio of PSBs is performing productively & lending is recovered & revenue is generated. He also suggested 5-C policy to review a loan application before lending.

Objectives of the Study

1. To study the extent of Non Performing assets in all the Scheduled Commercial Banks in the few past years
2. To study the impact of NPAs on the banks and the economy
3. To know the extent of classification of assets in the banks
4. To know about the recovery of NPAs through various channels in the banks
5. To make the recommendations to reduce the extent of NPAs.

Sources of Data

The data presented in the study is mainly secondary in the nature as it is taken from annual reports on the trend and progress of banking in India published by RBI, various journals, newspapers and research papers.

Non Performing Assets (NPAs)

When the interest on a loan or principal amount or both becomes overdue for more than 90 days, it is considered as a Non Performing Asset. Normally a loan advanced by the bank is considered as an asset & it is expected to generate income but if it is unable to do that then it is put into the category of NPA. Not only loans but overdraft and cash credit can also be considered as NPA if they are not repaid after 90 days from due date.

Types of NPA

Gross NPA

Gross NPA is an advance which is considered written off, for bank has made provisions and which is still held in banks' books of accounts. Gross NPA refers to overall quantity of loans that have gone bad debts. It consists of all the non-standard assets like as sub-standard, doubtful and loss asset.

Gross NPAs Ratio=Gross NPAs/Gross Advances

Net NPA

Net NPAs ca be termed as the difference between Gross NPAs and Provisions made by the banks for the various categories of NPAs as directed by RBI.

Net NPA=Gross NPAs-Provisions

Asset Classification

Standard Assets

Standard assets means which assets are not facing the problem and not more risk towards customer. Such assets are assumed to be performing assets. A general provision of 0.25% has to be provided on global loan portfolio basis.

Sub-standard Asset

An Asset which remains as NPA for less than or equal to 12 months. Accordingly a general provision of 10% on outstanding has to be provided on substandard assets.

Doubtful Assets

An asset which remains NPAs for a period exceeding 12 months are considered as doubtful assets.

Loss Assets

Asset where loss has been identified by the bank or RBI, however, there may be some value remaining in it. Therefore loan has not been completely written off.

Implications of NPA

For Economy

A sound Banking system is a basic prerequisite for building a strong economy as well as maintaining overall stability of the financial system of the country as it channelizes the savings into various investment projects. Today, Indian banking is facing with a major issue of high NPAs which is the fifth largest in the world. Most of the NPAs is with infrastructure sector. So banks are now reluctant to fund the further projects in this sector thus choking the system. The growth of other industries is largely influenced by the infrastructure. There are many examples of such countries which become fastest growing economies because they invested huge in the infrastructure. But if the loans are not repaid back then funds will get out of financial system, banks will get short of funds to lend to other sectors. Thus, banks have to borrow more & more because on one hand banks have to pay their liabilities & on the other hand they are not able to recover their funds. The whole system of lending-repaying- borrowing is broken & it can have many adverse repercussions on the economy. The whole cycle of economic transactions depend on circulation of money & credit and smooth flow of credit is catalyst for the economic growth. Only banks & financial institutions can perform this function. If this cycle ruptures then the sustainability & growth of an economy could hamper to a large extent.

For Banking

High NPAs is one of the main problems for any bank of an economy. Due to this whole banking system weakens. NPAs not only reduce profitability but also increase losses. Declining profitability is a big concern for the shareholders of the banks because their returns get declined which shaken their confidence in banking business. Not only investors but general public also lose confidence because banks are forced to lower the interest rates on deposits, in turn people start withdrawing their deposits. Thus it becomes hard to survive for the banks and it can lead to collapse of banking system. Whole machinery of bank gets involved to deal with this issue and shift its concentration from the core banking operations. Banks have to incur high carrying costs for non-yielding assets. Other effects of NPAs on banks consist of high provisioning, high losses, less dividend payout, pressure on net interest margin, reduced interest income and increased difficulty in generating further funds. Thus, NPAs affects sustainability and growth of banking.

Banking System in India

The baking system in India consists of Commercial banks & Co-operative Banks of which the commercial banks account for more than 90 percent of the banking system's assets. Based on the ownership pattern, the commercial banks can be grouped into three types i.e. **(1)** Public Sector Banks- that is the State Bank of India and its subsidiaries & the nationalized banks; **(2)** Private Banks under Indian Ownership; and **(3)** Foreign Banks in India.

The PSBs dominated the banking business in the country. In 1990-91, they accounted for as much as 91 percent of total assets with Private Indian Banks with 3 percent & foreign banks with 6 percent. After the entry of new Private Indian Banks in the mid 1990s, the Indian Banking Industry continued to be dominated by the PSBs.

NPA in India:

The classification of advances as per the newly introduced prudential norms enabled a proper assessment of the extent level of NPAs in the Indian Banking System for the first time. In the last few years, NPAs are continuously increasing & asset quality in the banking system has deteriorated to a great extent.

Table 1- Gross Advances and Gross NPA of SCBs (Amount in Rupees Billion)

Year	Gross Advances	Gross NPA (Amount)	Gross NPA (Percent)
2010-11	39959.82	939.97	2.4
2011-12	46488.08	1309.08	2.9
2012-13	59718.20	1927.09	3.2
2013-14	68757.20	2630.15	3.8
2014-15	75605.65	3229.16	4.3
2015-16	81711.14	5116.07	7.5
2016-17	84767.05	7902.08	9.3
2017-18	92830.36	10397	11.2
2018-19	102909.23	9364.74	9.1

(Source- Annual Banking Reports of RBI)

Considering the situation of NPAs in India, data in table 1 reveals that the total volume of gross NPAs in the economy in 2010-11 was Rs. 939.97 billion which increased to Rs.10397 billion in 2017-18 but next year it declined to Rs. 9364.74 billion. It is analyzed that GNPAs of all Scheduled Commercial Banks declined in 2018-19 after rising for seven consecutive years.

In the last few years, gross NPAs of banks (as % of total advances) have increased from 2.4% of total advances in 2010-11 to 11.2% in 2017-18. This indicates that an increasing proportion of a bank's assets have ceased to generate income for the bank, lowering the bank's profitability & its ability to grant further credit. but in 2018-19 this proportion declined to 9.1%.

Rising NPAs, as clear from the above table, highly affects a bank's profitability. Profitability is measured by its Return on Assets (ROA) which is the ratio of net profits to net assets. Because of rising NPAs banks are left with lower profits as they have to keep a large share of funds aside to pay for anticipated losses in future. Thus, return on Assets reduces and so profitability which has been witnessed by the banks in last few years which is making the banking system fragile.

Table 2- Net Advances and Net NPAs of SCBs (Amount in Rupees Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs (Percent)
2010-11	42974.87	417.99	1.0
2011-12	50735.59	652.05	1.3
2012-13	58797.73	986.93	1.7
2013-14	67352.13	1426.55	2.1
2014-15	73881.60	1758.41	2.4
2015-16	78964.67	3498.14	4.4
2016-17	81161.97	4330.10	5.3
2017-18	86783.33	5207	6.0

(Source- Annual Banking Reports of RBI)

Table 2 depicts amount of Net Advances & Net NPAs during last 8 years & Net NPA is also shown as percentage of Net advances. In 2010-11, amount of net NPA was only Rs. 417.99 billion which was just 1% of net advances but it increased considerably to Rs. 5207 billion in 2017-18 which became 6% of net advances.

Table 3 – Bank (Group) Wise Classification of Gross NPAs (as % of Gross advances)

Year	PSBs	PVBs	FBs
2010-11	2.3	2.5	2.6
2011-12	3.2	2.1	2.8
2012-13	3.6	1.8	3.1
2013-14	4.4	1.8	3.9
2014-15	5.0	2.1	3.2
2015-16	9.3	2.8	4.2
2016-17	11.7	4.1	4.0
2017-18	14.6	4.7	3.8
2018-19	11.6	5.3	3.4

*PSBs- Public Sector Banks, PVBs- Private Banks, FBs- Foreign banks

Table 3 reveals that during 2017-18, the GNPA Ratio reached 14.6% for PSBs due to restructured advances slipping into NPAs & better NPA recognition but it declined to 11.6% in the next year. For PVBs, it remained at a much lower level of 4.7% but rose during the year and stood at 5.3 in 2018-19. Resolute efforts on the part of PVBs to clean up their balance sheets through higher write-offs & better recoveries also contributed to low GNPA ratio. For foreign banks this proportion is also at a low level through out the last nine years.

Situation of NPA in Different Banks

Until the mid eighties, the management of NPA was left to the banks & the auditors. In 1985, the first ever system of classification of assets for Indian Banking system was introduced on the recommendations of A. Ghosh Committee on Final Accounts. This system called the 'Health Code system' which involved the classification of banking assets into eight categories but in 1991, Narsimhan committee recommended to classify it in four categories:- standard assets, sub-standard assets, doubtful assets and loss assets. Following this, norms were revised in 1992, then in 1998 to bring tightening in prudential standards. With the introduction of 90 days norms for classification of NPAs in 2001, the NPA guidelines were brought at par with international standards.

Table 4- Classification of Loan Assets- Bank Group Wise (as % of gross Advances)

Bank Group	Year	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets
PSBs	2017	87.5	3.2	9.0	0.3
	2018	84.5	3.8	10.9	0.9
PVBs	2017	96.5	1.2	2.0	0.3
	2018	96	1.1	2.7	0.2
FBs	2017	96	1.2	2.4	0.4
	2018	96.2	1.1	2.3	0.4
ALL SCBs	2017	90.4	2.5	6.7	0.3
	2018	88.5	2.8	8.0	0.6

(Source:-Annual Banking Reports of RBI)

Table 4 states that PSBs have the largest percentage of NPAs as compared to other categories of banks. In 2018, PSBs had 84.5% share in standard assets while other banks whether PVBs or FBs, have 96% share in standard assets. It clearly conveys that around 16% of total advances of PSBs fall in sub-standard assets, doubtful assets & loan assets. And one more thing to note is that for PSBs the largest share is in doubtful assets which are around 10.9%. But PVBs & FBs have just around 3% of total advances in doubtful assets. The data indicates that most of the NPAs are in the case of Public Sector Banks.

Steps taken for the Recoveries of Stressed Assets:

1. The Insolvency and Bankruptcy Code, 2016 (IBC) has been enacted, which has provided for taking over management of the affairs of the corporate debtor at the outset of the corporate insolvency resolution process. Couple with debarment of willful defaulters and persons associated with NPA accounts from the resolution process, this has effected a fundamental change in the creditor-debtor relationship. Further, the banking Regulation act, 1949 has been amended to provide for authorization to RBI to issue directions to banks to initiate the insolvency resolution process under IBC. As a result banks have been filed cases under IBC before the National Company Law Tribunal in respect of RBI-specified borrowers.
2. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) has been amended to make it more effective with the provision of three months' imprisonment in case the borrower does not provide asset details for the lender to get the possession of mortgaged property within 30 days. Also six new debts recovery tribunals have been established to expediate recovery.
3. Under the PSB Reforms Agenda, PSBs have created Stressed Asset Management verticals to focus attention on recovery, segregated monitoring from sanctioning roles in high value loans and entrusted monitoring of loan accounts of above Rs. 250 Crore to specialized monitoring agencies for clean an defective monitoring and

created online end-to-end one time Settlement platforms for timely and better realizations.

Enabled by the above steps, as per the RBI Recent report, gross NPAs of PSBs have declined from the peak of Rs. 8956 billion in March 2018 to Rs. 8064.12 billion in March 2019. PSBs have recovered RS. 3594.96 billion over the last four financial years, including record recovery of Rs. 1231.56 billion during 2018-19.

Table 5- NPAs of SCBs Recovered through Various Channels (as % of Money Involved in the Cases Referred for the Recovery)

Recovery Channel	2015-16	2016-17	2017-18	2018-19
Lok Adalat	4.4	6.3	4	5.3
DRT	9.2	10.2	5.4	3.5
SARFAESI Act	16.5	18.3	24.8	14.5
IBC Act	--	--	49.6	42.5

The table depicts the recovery of NPAs as % of money involved cases referred for recoveries through different mechanisms. In 2015-16 & 2016-17, most of the recovery was done through SARFAESI Act but after the enactment of IBC act, it performs the main role in the recovery. IBC act helped the banks considerably to make recoveries which 49.6% of money involved in 2017-18 & 42.5% in 2018-19. The role of DRT has been declined in this regard while role of Lok Adalat has improved.

Various recommendations for the management of NPAs

1. RBI should revise existing monitoring systems
2. Banks should improve upon and strengthen the loan recovery methods
3. Credit appraisal and post-loan monitoring are crucial steps to concentrate by all the banks especially public Sector banks
4. A regular follow-up with the customers to ensure that borrowed funds are not used for any other purpose
5. Personal visits should be made after sanction and disbursal of credit and further close monitoring of the operations of the accounts of borrowed units should be done periodically
6. Mangers under credit monitoring and recovery department should have dynamism in their work
7. Frequent discussions with the staff in the branch to get heir suggestions to speed up the recovery.
8. RBI may initiate the action against defaulters like publishing their name in newspapers, broadcasting media which will be useful to other financial institutions also.
9. If the delinquencies are due to the reasons beyond the control of borrowers, the banker should suitably restructure the loans taking into account the genuine difficulty of the borrowers.

Conclusion

Banking system plays a very important role in economic cycle of a nation. The health of a country is closely related to soundness of its banking system. Complete elimination of NPA in PVBs & FBs may be possible but not in PSBs as government business & development schemes are mostly routed through PSBs but banks can always aim to keep the losses at a low level. NPAs may not turn banks into Non Performing Banks; instead steps should be taken to convert Non- Performing Assets. As far as old NPAs are concerned, a bank can remove it by writing it off & selling the assets to Asset Management Companies (AMCs) to clean up its balance sheet. For preventing fresh NPAs, the bank itself should adopt proper policies. Banks should be well versed in proper selection of borrower or project & in analyzing the financial statement.

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