

**An Empirical Study on Non- Performing Assets of
Commercial Banks in India**

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Abstract

A well-established banking zone is more vital for a rich economy. The downfall of the banking zone may keep an adverse impact on other sectors. A banker shall be very watchful in advancing, because banker is not lending money out of his own capital. A major portion of the money lent comes from the deposits received from the public and government portion. At present NPA in the banking sector is discussion issue because NPA is growing year by year mainly in nationalized banks The Gross Non-Performing Assets (GNPAs) of Nationalized Banks as on December 2018 were Rs.6,97,409 crore which amount to 9.3% of Gross Advances. That is why this paper is undertaken to study the causes for advances converting into NPA in Commercial banking zone in India and did efforts to render valuable suggestion to overcome the stated problem.

Keywords: Commercial Banks, Deposits, Gross NPA, NPA, Loans

Introduction

Non-Performing Assets is sated as an advance where payment of principal and interest or instalment repayment of principal (where the term loans applied) or both remains overdue for a period of 90 days in India (Narasimha Committee Report (1991). In India, the meaning of NPAs has become different over time. As per the report of Narasimha Committee (1991), those assets (loans & advances, bills discounted, bank overdrafts, cash credit etc.) where the interest remains due for the time-period of four quarters (180 days) is considered as NPAs. Later on, the period of NPA has been reduced from March 1995 onwards and the interest on assets has remained unpaid for 90 days, treated as NPAs.

An NPA is treated as blocked assets of loan, which has stopped to render any income for bank nor interest neither principal instalment

Reasons, which are increasing the Non-Performing Assets in banks

Internal causes:

1. Funds received for a specific purpose but use in another purpose
2. Internal setting with banks' staff
3. Sanction process fee so high with taking more time
4. Inadequate recovery of receivables
5. Business failures due to insufficient funds
6. Wilful defaults, fraud, management disputes
7. Taking more time to sanction

8. Deficiencies on the part of the banks- in credit appraisal and delay in settlement of payment
9. Political pressure

External causes:

1. Industrial recession
2. Lack of sincere effort, long legal tangles
3. Scarcity of required material, power and other resources
4. Huge changes in Government's policies like changes in rate of taxes etc.
5. Natural calamities, such as floods, accidents
6. Failure or over dues in other countries
7. Lack of infrastructures
8. Fast changing in technology

Various Steps for Reducing NPAs

The Union Finance Minister, Mr. Arun Jaitley has said that the Government has taken various measures to deal with the issue of NPA in banking sector, especially in case of public sector banks. He also said that Government has divided defaulters in two categories:

- (1) Those who are not able to pay due to economic slowdown both in domestic and global market and
- (2) Wilful defaulters including loans sanctioned without due diligence by the banks

On his open discussion that Government has made various measures to deal with both these categories defaulters. And Government has decided to re-capitalized the banks with Rs. 25,000/- crore in 2016-17 as well as in 2017-18 to overcome this problem.

Apart from these the various suggestions have put here to diminish NPA to maximum extent.

1. Making a loan recapture policy and schemes for diminishing NPAs.
2. Produce separate recovery forms as head office/Zonal office/ regional office levels identify critical branches for recovery
3. Make a fix targets of recovery and determine time bound action plan
4. Select proper techniques for solving the problem of each NPA
5. Take corrective stages when ever found necessary while monitoring the action plan and make changes in the original plan if it is necessary

Tools for recovering NPA-Specifically for credit officers

1. LOK ADALATS
2. DEBT RECOVERY TRIBUNALS (DRT)
3. SARFAESI ACT, 2002
4. ASSETS RECOVERY CONSTRUCTION INDUSTRY LIMITED (ARCIL)

5. CORPORATE DEBT RESTRUCTURING (CDR)
6. ASSET MANAGEMENT COMPANY(AMC)

The impact of NPAs on the profitability of the banks is summarized below:

1. Minimises earning capacity of the assets of banks: NPA is minimising the profit volume of the assets of banks and as a result of this return is negative.
2. Blocks capital: As blocked capital keeps 100% risk in case of recovery and profitability.(To the extent of 100% unrecovered)
3. Minimises EVA: While calculating Economic Value Added (EVA =Net operating profit after tax-cost of capital) for measuring performance towards the shareholders wealth, cumulative loan loss provisions on NPAs is considered as blocked capital. Hence, it maximises cost of capital and minimises EVA.
4. Low gain on advances: Due to NPAs, gain on advances displays a lesser figure of gain than actual gain on “standard Advances”. The reasons that gains are calculated on weekly average total advances including NPAs.
5. Impact on Return on Assets: NPA reduces return on assets as a result get negative impact.

Review of Literature

Toor N.S. (1994) is of the opinion that it is better to make compromise and direct discussion with customers to recover loan amount and interest, rather than long and costly procedure of litigation. He has advised that by constant monitoring directly will be assist full to recover and stop to be convert into NPA.

S.N. Bidani (2002) Non-performing Assets are like earthquake which disturb the profitability of Indian banks through the losses of interest as well as principle debt

This is definitive book which tackles the subject of managing bank NPAs in it's entirety, starting right from the stage of their identification till the recovery of dues in such ac-counts.

Debarsh and Sukanya Goyal (2012) emphasized on management of non-performing assets 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 and other bank specific indicators in the context of stringent regulatory framework of the RBI. Non-performing Asset is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. The reduction of non-per-forming asset is necessary to improve profitability of banks and comply with the capital adequacy norms as per the Basel Accord.3

(Sources: International Monthly Refereed Journal of Research In Management & Technology, 61 Volume II, December' 13)

Singh (2006) has suggested the substitute measures for improvement in the banking industry. His study evaluated the performance of banks against benchmark and ratio analysis was employed as the tools. The analysis of the NPA observed the decline in post liberalization period. The study insisted that the ideal level benchmark is less than 1 per cent; the segments curtail the growth rate of NPAs and followed certain policy like counterparts who had not only arrested the NPA but reduced them.

Vohra and Dhamu (2012) express that NPAs has an impact on the efficiency, profitability of the banks. Here the authors depict the real picture of very high degree of NPA. They suggest limiting of lending money to secured advances with ample security. They have discussed about the main causes for assets converting into NPA, which influence to economy, industry growth, lenders and borrowers individually.

Kavitha. N (2012), highlighted on the assessment of NPA on profitability its degree and influence. Total credit advances was treated as doubtful assets in the past and keep an adverse impression on profitability of Public Sector Banks affected at very large magnitude

So NPAs acts with banking financial institutions and it impact efficiency and productivity of the concern. This study gets conclusion of increasing in advances over the study period.

Thomas P. Ferguson (2007) conducted a research on “Observations on the securitization of Non – performing loans in Russia.” Asset securitization is a burgeoning trend in Russia as companies burdened by poor credit ratings seek access to capital at lower costs than they would be allowed in traditional equity or debt markets. Study indicates that securitization of these bad loans has not occurred in Russia at the levels one might expect. This has been due to both a relatively small amount of loans that under perform as well as legal and regulatory impediments that have discouraged investors and lenders alike. This article anticipates a significant rise in the level of non-performing loans which will be logically paired with an increased interest of Russian lenders in Securitizing these assets.

Statement of the problem

N P A s reflect the performance of commercial banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of commercial banks and also erodes the value of the asset. The NPA growth involves the necessities of provisions, which reduces the overall profits and weaken structure. The issue of Non-Performing Assets of commercial banks has been discussed at length for financial system of India. The problem of NPAs is not only affecting the specific banks but also the whole Indian economy. In fact high level of NPAs in commercial banks is nothing but a reflection of the state of commercial structure. The study deals with understanding the magnitude of NPAs in commercial bank and major causes for an account becoming non-performing in commercial banks and concluding remarks.

Objectives of the study

- To understand the concept of Non-performing assets.
- To find out the Non-performing assets at Commercial banks.
- To study the common causes for assets to become Non-performing assets.
- To give suggestions based on findings of the study.
- To present the controlling measures of NPAs

Tools of Data Analysis

- The data has been analysed and shown in appropriate tables which is collected from secondary sources. Which is mentioned below?

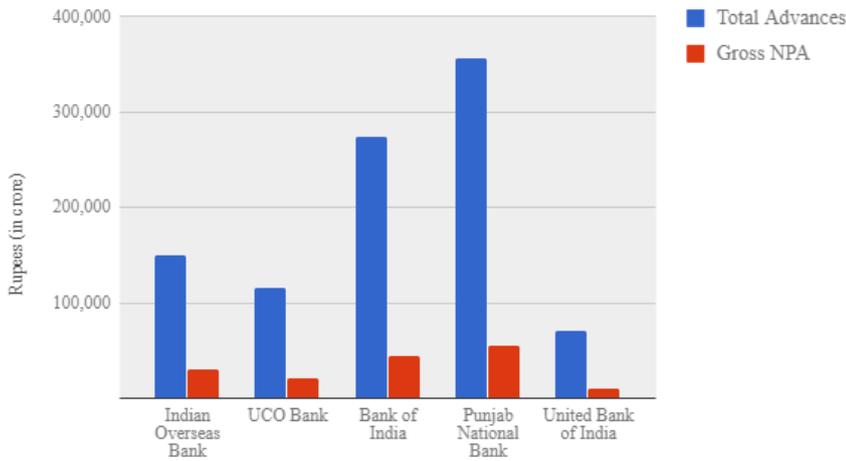
Gross NPAs OF Public and Private Sector Banks During June 30, 2018

S.NO.	Banks	Total Advances (Rs.in crore)	Gross NPA (Rs.in crore)	NPA Ratio (%)
1	Allahabad Bank	145,328	18,769	12.92
2	Andhra Bank	137,228	14,137	10.3
3	Bank of Baroda	269,115	35,604	13.23
4	Bank of India	274,391	43,935	16.01
5	Bank of Maharashtra	103,148	13,040	12.64
6	Bhartiya Mahila Bank Ltd.	627	3	0.4
7	Canara Bank	311,615	30,480	9.78
8	Central Bank of India	185,719	25,107	13.52
9	Corporation Bank	142,787	15,726	11.01
10	Dena Bank	81,114	9,636	11.88

Source: RBI Bulletin

Indian Overseas Bank fares worst, having the highest ratio of NPA to total advances — 20.26 per cent. UCO Bank (18.66 per cent) and Bank of India (16.01 per cent) follow.

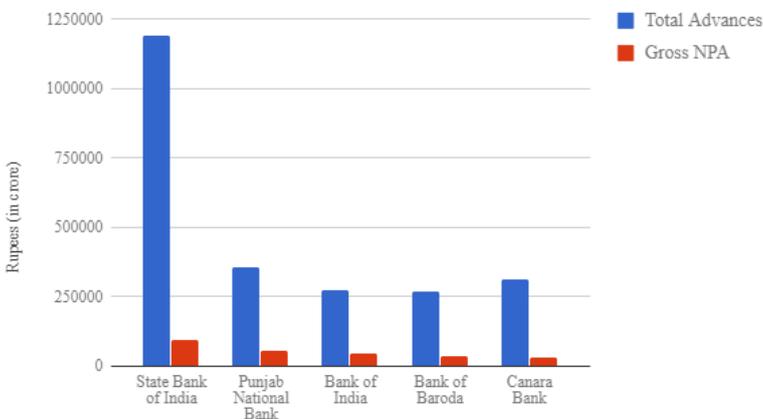
Banks with Highest % of NPA Against Total Debt



In absolute terms, State Bank of India has the highest value of Gross NPA around Rs. 93,000 crores. Punjab National Bank (Rs. 55,000 crores) and Bank of India (Rs. 44,000 crores) come next.

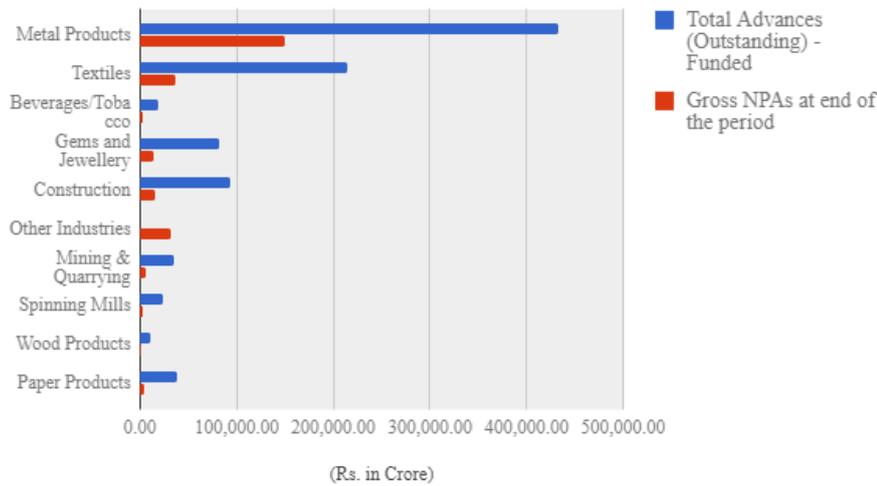
Basic Metal and Metal Products sector is the worst performing in terms of NPA ratio. As of June 2018, govt data show that a third of all outstanding advances (Rs. 4.33 lakh crore) given to the sector turned to NPA (Rs. 1.49 lakh crore).

Banks Having Highest Amount of Gross NPA



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Top 10 Sectors Having Highest NPAs for Scheduled Commercial Banks



Interpretation: the above table depicts the gross and net NPAs of Public sector Banks in India which was incurred due above mentioned industrial sector during the period 2017-18.

Conclusion

As a conclusion the banks can ignore the sanctioning loan without measuring the parameter of customers. Banks should strictly monitor the sanctioned loan amount that it is being properly utilized as said purpose or not. There is necessary point that banks can get the goodwill report about the customers. If report shows that he is wilful defaulter that no needs to sanction the loan. But at the time of process of sanctioning loan, the proper informations/suggestions about the cons of defaulting condition must be delivered. Really if banks follow or consider the aforesaid factors then NPA can be reduce at a maximum level. And without PAN number no loan should be sanctioned so that with the help of PAN number, banks can get CIBIL report of customers.

Finally, NPA has become a great challenge for banking sector. Because NPA direct hits the profit of banks. The apex banking body-RBI provides the guidelines or norms which are applicable by banks to control NPA and incidents of default. It should be taken as national priority so that banking industry can get strength in the country and able to meet the challenges of globally.

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