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# "A STUDY OF NON-PERFORMING ASSETS OF COMMERCIAL BANKS IN INDIA"

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**ABSTRACT**

Bank plays a vital role in the economic development and growth of a country. In a developing country like India, there is a need of efficient and healthy banking system. Growing non-performing assets is a persistent problem in the Indian banking sector. The banking sector has been facing serious problems of raising Non- Performing Assets. The Non- Performing Assets growth has a direct impact on profitability of banks. From past few decades NPA has become a big threat for the growth of banking sector. In the present scenario, the core financial problem for banks is NPA. Non-performing assets reflect the performance of banks. In addition it poses threat on quality of assets and survival of banks. The recommendations of Narsimham committee and Verma Committee, some steps have been taken to solve the problem of old NPAs. There seems to be no unity in the suitable policies to be followed in resolving this problem. The issue of NPAs is not only affecting the banks but also the whole economy. It is essential to trim down Non- Performing Assets to boost the financial health in the banking system.

In this paper an attempt is made to understand NPA factors contributing to NPAs, reasons for high impact of NPAs on commercial bank in India, the status and trend of NPAs in Indian Scheduled commercial banks, the factors contributing to NPAs. Proper recovery of loans can boost the performance of banks. Therefore, an attempt is made in this paper towards examining the effectiveness of NPA recovery measures. One of the reason for the poor recovery from NPAs is that, the mechanism created for this purpose are not effective that's why banks are not able to derive full benefits from these.

**Keywords:** Economic development, Non- Performing Assets, NPA, Scheduled Commercial banks, Narasimham committee, Public-sector banks.

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## INTRODUCTION

### Non Performing assets of commercial banks

In a developing country like India, there is a need of efficient and healthy banking system. Economic development of a country depends upon an efficient financial system. The efficiency of a bank is determined by its profitability and the quality of asset it possesses. The function of a commercial bank is to channelize the surplus savings of the people to the deficit sector in the form of credit for their growth and development.

The primary function of banks is to lend funds as loans to various sectors such as personal loans, housing loans, industry, agriculture etc., but in recent times the banks have become very vigilant in extending loans. The reason being mounting **nonperforming assets** (NPAs) and nowadays these are one of the major concerns for banks in India.

A non-performing asset (NPA) is defined as an asset becomes non-performing when the borrower is not able to pay either interest or principal or both for a period of 90 days.

A non-performing asset is used by financial institutions that refer to loans that are in risk of default the so called Non Performing Loan. Once the borrower has unable to make interest or principal payments for 90 days the loan is considered to be a non-performing asset. Once the assets cease contributing to the income, they are termed as Non Performing Assets.

## REVIEW OF LITERATURE

The available literature relating to NPAs in banking industry is in the form of committee reports, research publications, research reports and text books. In view of the importance of NPAs management in banks, large number of studies has been carried out by researchers, on the concept and measures for NPAs in banking industry. Several research studies have been made by academicians, research institutions, Government and committees appointed by the RBI related to the commercial banks focusing on NPAs.

An article was published in Economic & Political Weekly[4] (Vol. 53, Issue No. 34, 25 Aug, 2018), according to Sh. K.G.K. Subba Rao (former adviser, Reserve Bank of India), the restructuring of loans of commercial banks permitted by the Reserve Bank of India under the corporate debt restructuring scheme enabled the banks to upgrade the loans of some of the potentially viable units from the substandard to the standard category. In observation of the current directives of the RBI—realistic assessment of the restructured assets and standardization of the asset classification—there is a reversal of entries in several cases, which attracted higher provisioning, resulting in losses / a dip in profits of the commercial banks. In this article, The trends in gross NPAs to gross advances of commercial banks was described for three time periods: (i) 1996–97 to 2000–01; (ii) 2001–02 to 2007–08; and (iii) 2008–09 to 2017–18. **Table-1** provides these details.

**Table 1: Average NPAs to Gross Advances (%)**

| S.No. | Period | NPAs as % GA |
|---|---|---|
| 01 | 1996–97 to 2000–01 | 12.8 |
| 02 | 2001–02 to 2007–08 | 5.7 |
| 03 | 2008–09 to 2017–18 | 5.1 |

***Source:*** *For the first period, data are taken from RBI Bulletin (2013). For the second and third periods, data are culled out from RBI publications (Namely, Handbook of Statistics on Indian Economy and Financial Stability Reports). Data on restructured advances are not included in the table.*

It may be observed from **Table-1** that the share of NPAs to total advances was relatively high in the 1990s. The second phase was characterised by the setting up of Debt Recovery Tribunals, enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, and the establishment of Asset Reconstruction Companies (ARC) to offload bad loans at a discount. In the third phase, the strategy for restructuring of corporate debt was undertaken. Thus, it is interesting to note that the share of NPAs in gross advances declined over different time periods.

## RESEARCH METHODOLOGY

**Sources of data: -** This research study is based on secondary data. These include data from RBI report trends and progress of banking in India, various published articles, journals, research papers, websites and books on banking has been referred.

**Study period: -** Present study covers 06 years, from 2013 to March 2019 to analyze the trends of NPA recovery in Scheduled Commercial Banks in India.

**Tools and techniques used: -** Data are analyzed and presented by the help different statistical tools like percentages, tables, graphs, etc.

### Objectives of the Study

1. To study the status of Non Performing Assets of Indian Scheduled Commercial Banks in India
2. To study the impact of NPAs on Banks.
3. To manage existing NPAs in Banks.
4. To make appropriate suggestions to avoid future NPAs.

### Limitation of the Study

The study of non-performing assets of SCBs is limited to the Indian Banks and till the end of the year 2018.

## ANALYSIS AND INTERPRETATION

### Reasons for NPAs in Banks

NPAs result from "Bad Loans" or NPL. An account does not become an NPA immediately. It gives signals sufficiently in advance that steps can be taken to avoid the slippage of the account into non-performing asset category. As per the study conducted by the RBI, the following factors contribute to NPAs.

### Internal Factors

- Diversion of funds for Expansion / modernization.
- Diversion of funds for diversification

- Taking up new projects.
- Inefficient management.
- Helping / promoting associate concerns.
- Time or cost overrun during the project implementation.
- Poor credit Appraisals, monitoring and follow up improper SWOT analysis on the part of banks.
- Banking operations or Bad lending practices
- Because of internal bank management, like credit policy, terms of credit, etc.
- Product obsolescence etc.

**External Factors**

- Changes in government policy
- Recession
- Exchange rate fluctuation
- Input shortage
- Power shortage
- Price escalation
- Banking crisis
- Management tardiness in recovering loan extended to big corporate house as many as willful defaulters,
- Absence of regular industrial visits also leads to gradual erosion of liquidity and units start failing its obligations for the loan payments.
- Due to natural calamities, environmental reasons, Disease Occurrence, business cycle, etc.
- Political causes of governments– transfer credit to SSI and Rural sector.
- Manipulation by the debtors using political influence - a cause for high industrial bad debts.

**Repercussions / Problems caused by NPAs**

NPAs do not just reflect bad debts in a bank's account books; they badly impact the national economy. Following are some of the repercussions of NPAs:

- Non-performing asset represent the quantified "Credit Risk". NPAs beyond a certain level are cause for concern for all stakeholders involved, because credit is necessary for economic growth and NPAs affect the smooth flow of credit.
- When bank do not get loan repayment or interest payments, liquidity problems may arise.
- Banks raise resources not just on fresh deposit, but also by recycling the funds received from the existing borrowers.
- Bad loans mean redirecting of funds from good projects to bad ones.
- The economy suffers due to loss of good quality projects and failure of bad investments.
- Depositors do not get fair returns and several times may lose uninsured deposits.
- Banks may begin charging higher interest rates on some products and services to compensate NPL losses.
- NPAs affect profitability as well, as higher NPAs require higher provision against bad loans.
- NPAs also plays confusion on the mental make-up of the banker where in the banker tries to go slow on lending, fearing future NPAs, it may lead to denial of credit or take of lendable funds.

Therefore, the problem of NPAs is not concern of the lenders alone, but a concern for policy makers. NPAs are an unavoidable burden on the banking industry.

**Profit, losses, GNPAs of Public Sector Banks[5]**

As per the report of **Ministry of Finance and RBI inputs**, the gross NPA ratio for Public Sector Banks (PSBs) as a category is 14.6% in the financial year (FY) 2017-18, as per Reserve Bank of India (RBI) data. In the last 25 financial years, the gross NPA ratio for PSBs was highest in FY 1993-94 at 24.8% and was also higher in six other financial years. Bank-wise details of gross NPAs as of March 2018, and operating profit, provision done and net profit/loss in FY 2017-18, are given below.

Bank-wise details of gross NPAs as of March 2018, and operating profit, provision done and net profit/loss in FY 2017-18, are given below:

| | | | | Amounts in Crore Rs. | |
|---|---|---|---|---|---|
| **S. No.** | **Bank** | **As on 31.3.2018 *** | **FY 2017-18 **** | | |
| | | **Gross NPA ratio (%)** | **Operating profit** | **Provisioning done** | **Net profit (amounts with a minus sign are losses)***** |
| 1 | Allahabad Bank | 16.0 | 3,438 | 8,113 | -4,674 |
| 2 | Andhra Bank | 17.1 | 5,361 | 8,774 | -3,413 |
| 3 | Bank of Baroda | 12.3 | 12,006 | 14,437 | -2,432 |
| 4 | Bank of India | 16.6 | 7,139 | 13,183 | -6,044 |
| 5 | Bank of Maharashtra | 19.5 | 2,191 | 3,337 | -1,146 |
| 6 | Canara Bank | 11.8 | 9,548 | 13,770 | -4,222 |
| 7 | Central Bank of India | 21.5 | 2,733 | 7,838 | -5,105 |
| 8 | Corporation Bank | 17.4 | 3,950 | 8,004 | -4,054 |
| 9 | Dena Bank | 22.0 | 1,171 | 3,094 | -1,923 |
| 10 | IDBI Bank Limited | 28.0 | 7,905 | 16,142 | -8,238 |
| 11 | Indian Bank | 7.4 | 5,001 | 3,742 | 1,259 |
| 12 | Indian Overseas Bank | 25.3 | 3,629 | 9,929 | -6,299 |
| 13 | Oriental Bank of Commerce | 17.6 | 3,703 | 9,575 | -5,872 |
| 14 | Punjab & Sind Bank | 11.2 | 1,145 | 1,889 | -744 |
| 15 | Punjab National Bank | 18.4 | 10,294 | 22,577 | -12,283 |
| 16 | State Bank of India | 10.9 | 59,511 | 66,058 | -6,547 |
| 17 | Syndicate Bank | 11.5 | 3,864 | 7,087 | -3,223 |
| 18 | UCO Bank | 24.6 | 1,334 | 5,771 | -4,436 |
| 19 | Union Bank of India | 15.7 | 7,540 | 12,787 | -5,247 |
| 20 | United Bank of India | 24.1 | 1,025 | 2,479 | -1,454 |
| 21 | Vijaya Bank | 6.3 | 3,098 | 2,371 | 727 |

***Sources: * RBI** (global operations, provisional data for Mar-2018).*

***** Banks***

*******While banks have posted operating profits, their net losses are primarily on account of continuing ageing provision for NPAs recognised as a result of AQR initiated in 2015 and subsequent transparent recognition by banks.

This was stated by Shri Shiv Pratap Shukla, Minister of State for Finance in written reply to a question in Rajya Sabha. (PIB).

**Non-Performing Assets (NPA) in Indian Banks**

As per the **report**[6] published in "The Hindu Business Line" on December 28, 2018, and according to the **Reserve Bank of India** data released on December 21, 2018, system-wide gross non-performing assets of banks rose to 11.2 percent or at Rs 10.39 trillion in FY18 from 9.3 percent a year ago, and the share of public sector banks stood at Rs 8.95 trillion, or at 14.6 percent. In Financial Year 2017, system-wide gross NPAs stood at 9.3 percent and that of state-run lenders stood at 11.7 per cent.

"During Financial Year 2018, the GNPA ratio reached 14.6 percent for state-run banks due to restructured advances slipping into NPAs and better NPA recognition," RBI said in its report on 'Trends & Progress of Banking in 2017-18'.

In provisions of the net NPA ratio, state-run banks saw considerable deterioration at 8 percent in FY18 from 6.9 percent year-ago. Private sector peers banks' GNPA ratio stood at a much lower level of 4.7 percent as compare to 4.1 percent in Financial Year 2017.

"Resolute efforts on the part of private sector banks to clean up their balance sheets through higher write-offs and better recoveries also contributed to their lower GNPA ratios," the report said. Asset quality of foreign banks improved marginally to 3.8 percent in FY18 from 4 percent in FY17.

In FY18, the share of doubtful advances in total gross NPAs increased size-ably to Rs 5.11 trillion or 6.7 per cent of the system, driven up by state-run banks whose ratio stood at 9 percent.

In fiscal 2018, share of sub-standard and loss assets in GNPAs of private banks declined to 1.1 percent and 0.2 percent, respectively due to aggressive write-offs.

During the year under review, the fresh slippages rose for state-run lenders on account of restructured advances slipping into NPAs and a decline in standard advances.

In the previous fiscal, the GNPA ratio of public sector banks arising from larger borrower accounts (exposure of Rs 5 crore and above) increased to 23.1 per cent from 18.1 per cent in the FY17. But this saw an improvement in FY18. “In the first half of Financial Year 2018, NPAs in large borrower accounts of state-run banks and private sector banks declined to 21.6 percent and 7 percent, respectively,” the report said.

The gems & jewellery sector saw a significant increase in GNPAs during FY18 with unearthing of frauds at **PNB**, which bore the brunt of the **Rs 14,000 crore scam by Nirva Modi** and **Mr. Mehul Choksi**. “Frauds have emerged as the most serious concern in the management of operational risks, with 90 percent of them located in the credit portfolio of banks,” as per the report.

A large value frauds involving Rs 50 crore and above constituted about 80 percent of all the frauds during 2017-18. Approximately 93 percent of the frauds worth Rs 10 lakh or more occurred in state-run lenders while private banks accounted for just 6 percent. “We will continue to monitor asset quality as well as resolution of stressed assets with a focus on implementation of the new resolution framework,” the RBI said in the report. The RBI also intends to issue revised prudential regulations including guidelines on exposure, investment norms, risk management framework and select elements of Basel III capital framework, it said.

A **report**[7] published in “Livemint” on January 01, 2019, the gross non-performing asset (NPA) ratio may decline from 10.8% in September 2018 to 10.3% in March 2019 and 10.2% in the Sept. 2019, according to **RBI’s financial stability report** (FSR).

The asset quality of banks showed an improvement, with the gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) declining from 11.5% in March 2018 to 10.8% in September 2018.

As per the report, the credit growth of banks improved in September 2018, determined mainly by private sector banks. Though, the performance of public sector banks witnessed an overall improvement, with credit growth increasing from 5.9% in March 2018 to 9.1% in September 2018 and set growth increasing from 3.2% to 5% during the same period.

According to RBI report, non-PCA PSBs' credit growth improved from 9.1% in March 2018 to 13.6% in September 2018 and deposit growth rose from 6.1% to 7.9% during the same period; however the PSBs under PCA registered a decline in both credit and deposits.

Another **report**[8] published in "Economics Times" on December 27, 2018, stated that according to **RBI's financial stability report**, banks' non-performing assets may rise to **12.2 per** cent by March 2019.

The **Reserve Bank of India** released the eighteenth issue of the **Financial Stability Report**[9] (FSR) on **December 31, 2018**. The FSR reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on risks to financial stability, as also the resilience of the financial system. The Report also discusses issues relating to development and regulation of the financial sector.

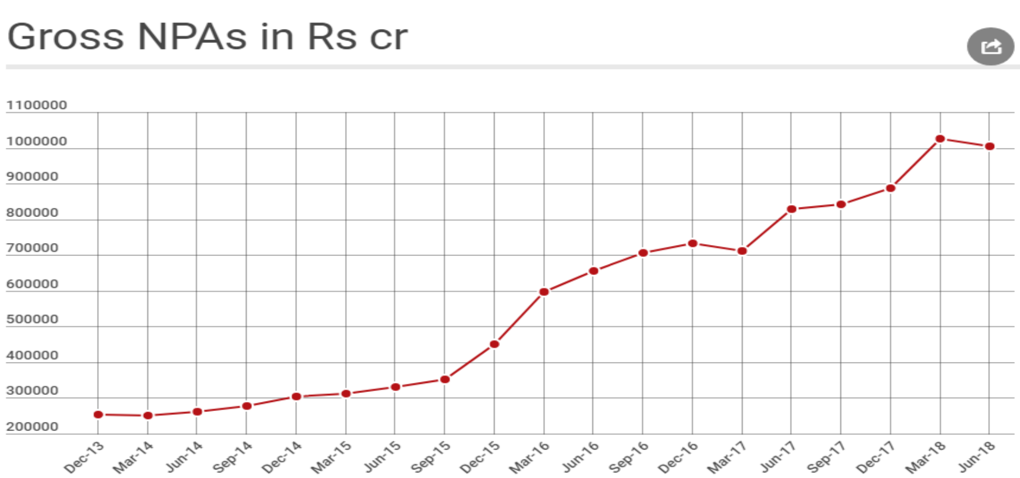
As per the **report**[10] published in "Firstpost" (Jun 05, 2018) (by Kishor Kadam) and the report of **CapitalinePlus (**June 30, 2018), Bank-wise details of gross NPAs are given below.

Gross non-performing assets (NPAs) of Indian banks or bad loans, stood at Rs 10.25 lakh crore as on 31 March 2018. On quarter, this has grown by Rs 1.39 lakh crore or 16 percent from Rs 8.86 lakh crore as on 31 December 2017. This portion now accounts for 11.8 percent of the total loans given by the banking industry. For financial year 2018, the total bad loans of these banks rose by a huge Rs 3.13 lakh crore.

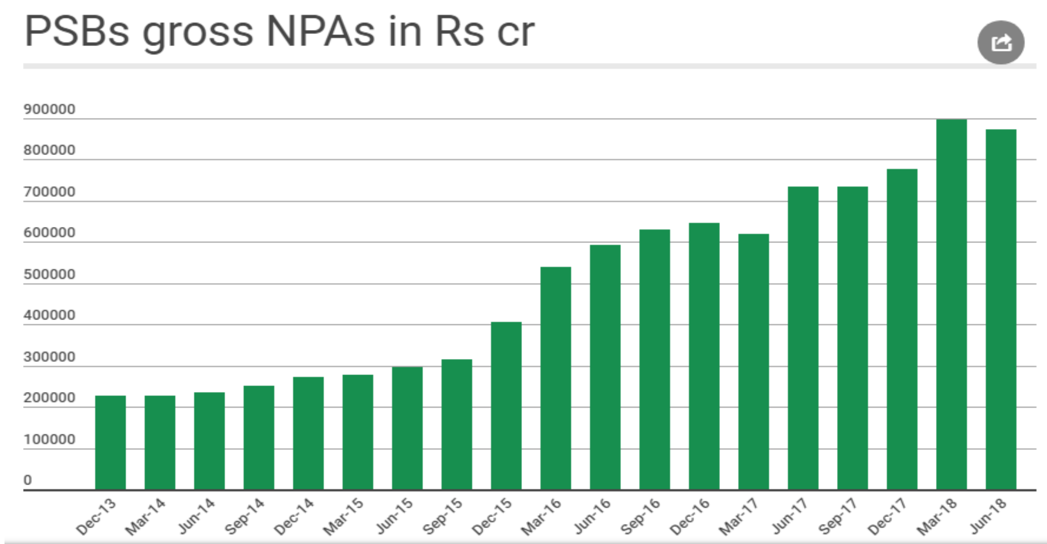
Industry leader, SBI, which tops the NPA chart, has logged an increase of Rs 24,286 crore in bad loans in the March quarter to Rs 2.23 lakh crore. The Nirav Modi scam-hit
Punjab National Bank (PNB) has reported the maximum i.e. rise of Rs 29,100 crore in gross NPAs to Rs 86,620 crore in the March 2018. Except the Bank of India (BoI) and Oriental Bank of Commerce (OBC), most other PSBs' also recorded a rise in bad loans during this period. At the same time, Bank of India's gross bad loans declined by Rs 1,920 crore in the March 2018 that of OBC was down by Rs 1,417 crore.

In private banks, the gross NPAs of Axis Bank and ICICI Bank have risen significantly. ICICI Bank's bad loans grew by Rs 8,024 crore or 17.4 percent in the March 2018 quarter to Rs 54,063 crore; Axis Bank's widened by Rs 9,248 crore or 37 percent to Rs 34,249 crore in the March 2018 quarter from Rs 25,001 crore during the quarter December 2017.

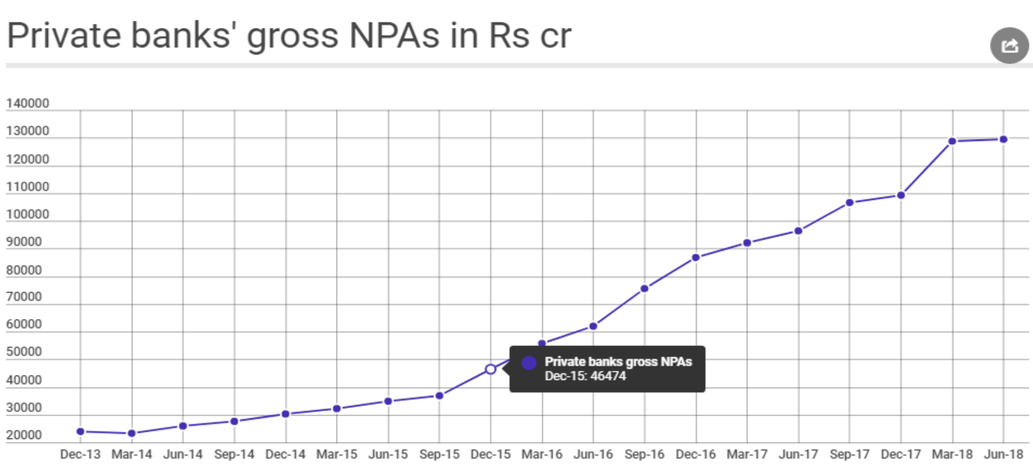
These charts throw more light on the bad loans crisis that has engulfed the nation's banking sector:




**Combined figures for public and private banks; Data Source: Capitaline Plus**




**Data Source: Capitaline Plus**

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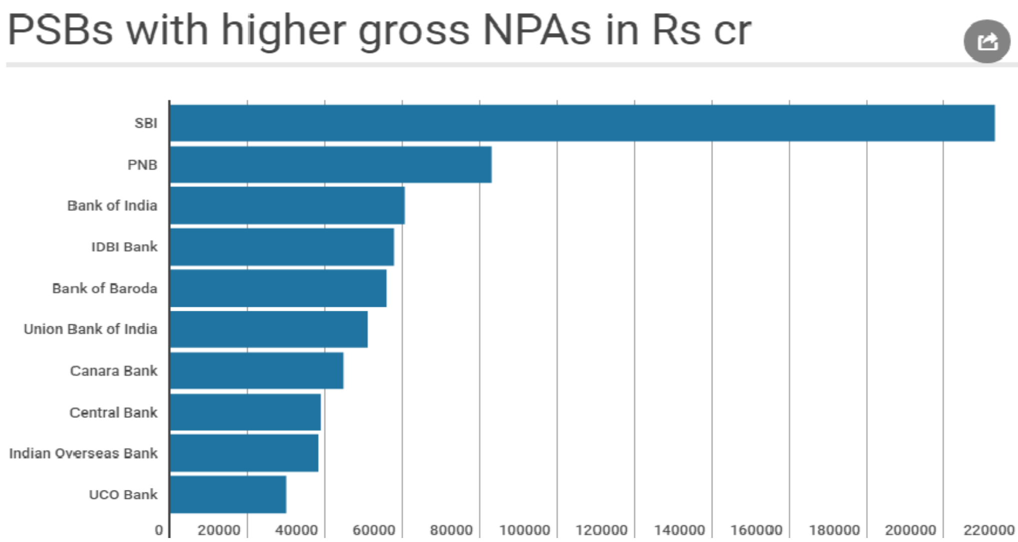


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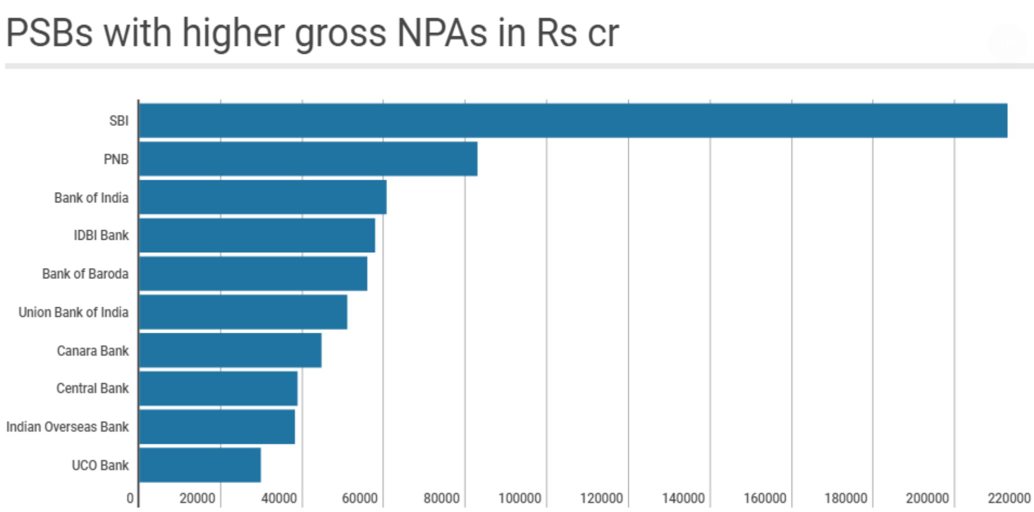
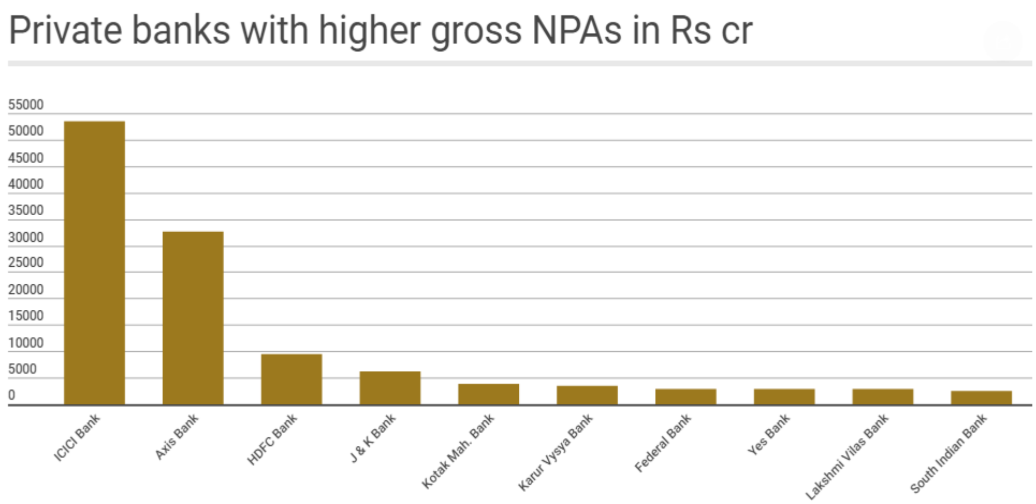



**As on 30 June 2018; Data source: CapitalinePlus**

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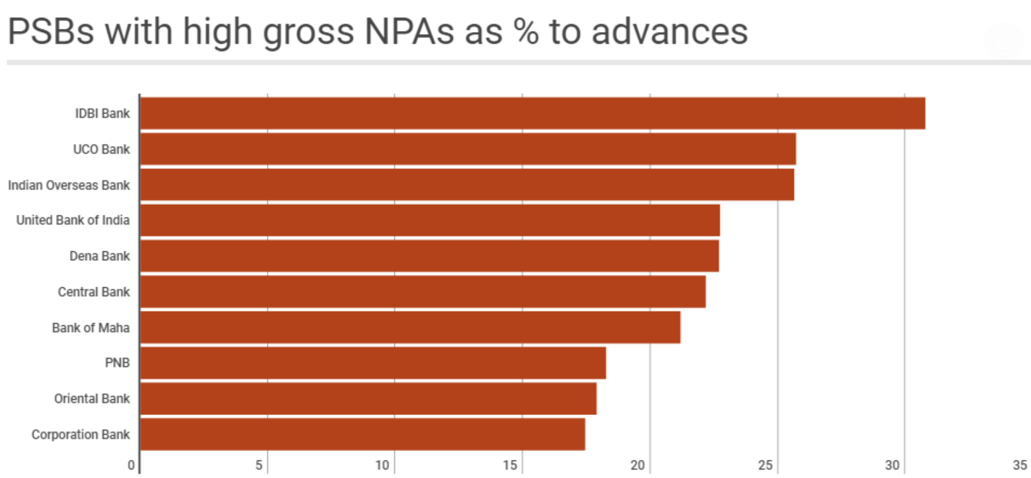


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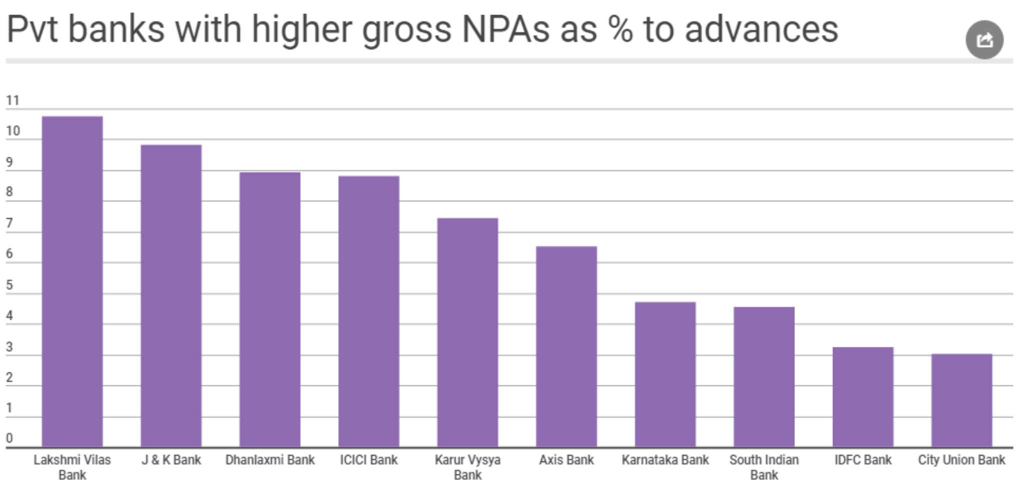
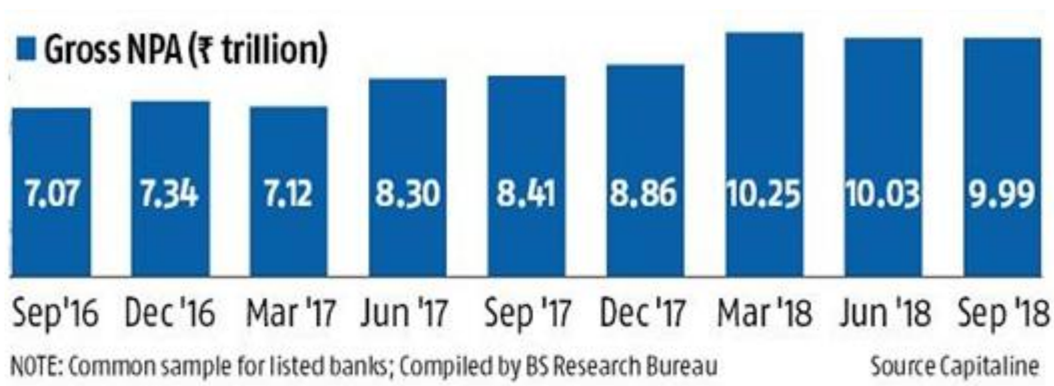



**As on 30 June 2018; Data source: CapitalinePlus**




**Overall assessment of systemic risks**

The financial system of India remains stable, and the banking sector shows signs of significant improvement, even though the global economic emerging environment trends in financial sector pose challenges.

**Global and domestic macro-financial risks**

- The global growth position for 2018 and 2019 remains steady although the underlying downside risks have risen.
- Spill-over risk to emerging economies engendered by tightening of financial conditions in Advanced Economies, protectionist trade policies and global geopolitical tension has significantly increased.

- The ongoing monetary policy normalisation in advanced economies as also the uncertainty in global trade system may adversely affect capital flows to emerging markets and apply upward pressure on emerging markets interest rates and corporate spreads.
- The growth of gross domestic product (GDP) showed slight moderation in second quarter: 2018-19 while inflation remains contained.
- In the Indian financial markets, structural changes in credit inter-mediation and the developing inter-connectivity between banks and the non-banks classify for greater attention.

**Financial Institutions: Performance and risks**

- Credit growth of scheduled commercial banks (SCBs)has improved between March 2018 and September 2018, mainly by private sector banks (PVBs).
- The asset quality of banks showed an improvement with the gross non-performing assets (GNPA) ratio of SCBs declining from 11.5 per cent in March 2018 to 10.8 per cent in September 2018.
- Under the baseline scenario, GNPA ratio may decline from 10.8 per cent in September 2018 to 10.3 per cent in March 2019.
- Analysis for the period September 2017 - September 2018 shows a shrinking inter-bank market and increasing bank linkages with asset management companies-mutual funds (AMC-MFs) for raising funds and with NBFCs/Housing Finance Companies for lending.

**Recommendations for managements of NPAs**

The success of a bank depends upon the method of managing NPA and keeping them within tolerance level. The profitability of the financial institution largely depends upon the level of income generated through optimum use of the assets after paying the cost of funds for acquiring them and other administrative cost involved therein. The growth in NPAs can be checked considerably if bank and financial institutions have suitable internal arrangements.

- Regular discussions with the staff in the branch and taking their suggestions for recovery of due make them more involved to reduce the ill effects of NPA.
- Personal visits should be made after sanction and disbursal of credit.
- There must regular follow-up with the customers.

- The close monitoring of operations of the accounts of borrowed units should be done periodically.
- Improving the recovery management of banks depends on timely recovery of credit.
- Banks should develop suitable recovery programs for assessing and classifying the over-dues.
- Monitoring accounts of borrowers, keeping regular contact with borrowers, fixing recovery targets.
- Branch may to take actions against defaulters like, publishing name of defaulters in news papers, media which is helpful to other banks and financial institutions.
- As per of remedial measures, bankers may way out to compromise settlement, Lok Adalats, etc. are other ways for the recovery of dues.
- Effective legal system of RBI had initiated many legal measures to bring down NPA in Banks. But, there are some flaws in each legal measure which need improvement in order to bring down NPA in banks.

**CONCLUSION**

Bank plays a vital role in the economic development and growth of a country. Growing non-performing assets is a persistent problem in the Indian banking sector. The Indian banking sector has been facing severe complexity of raising Non- Performing Assets. The NPAs growth has a direct impact on profitability of banks and economic system. Non- performing assets reflect the performance of banks. In addition it poses threat on quality of assets and survival of banks. The government has been taken diverse steps to minimize the NPAs level but still a lot of efforts are to be executed to curb this problem. The problem of Non- Performing Assets is not only affecting the banks but also the total economy. It is essential to trim down NPAs to improve the financial health in the banking system.

Proper recovery of loans can boost the performance of banks. One of the reason for the poor recovery from NPAs is that, the mechanism created for this purpose are not effective that's why banks are not able to derive full benefits from these. Our studies on NPA in banking system suggest that the problem of NPAs has a sizeable projection component arising from inadequacies in the exciting process of debt recovery. Inadequate legal provision on bankruptcy and difficulties in the execution of court decrees. The studies also reveal that there are several internal factors such as weak credit appraisals non-compliance to the leading norms and willful default that contribute to high NPA.

The problem of NPA should be addressed by strict enforcement of prudential norms and requirement of transparency. RBI has provided in directive guidelines for reconciliation settlement of chronic NPAs. In this area is the need for legislation, which will make recovery process smoother and legal action quicker. Effective legal system of RBI had initiated many legal measures to bring down NPA in Banks. But, there are some flaws in each legal measure which need improvement in order to bring down NPA in banks.

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