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TREND AND RECOVERY OF NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR

BHAGYALAKSHMI.G

Assistant professor, Department of Management
Studies, H.K.E.Society's SLN college of
Engineering, Yaramarus Camp Raichur,
Karnataka, India

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ABSTRACT

The banking system of an economy is foremost importance for its financial and economic development. It forms the core of the financial sector and plays a critical role in transmitting monetary policy impulses to entire economic system. Hence the stability of banking sector is paramount importance for the development of an economy. An important indicator today that determines the solidity of the banks are the Non Performing Asset (NPA). Many banks are facing the problem of NPAs which not limited only to the banks but it is posing a hazardous threat to the overall economy. The threat is across the various sectors, and the Indian economy is very alarming. It is necessary to trim down the NPAs to improve the financial health in banking system.

An attempt has been made in this paper to understand NPAs, factors contributing to NPA, trend & recovery of NPA through various channels

Key words- Non Performing Asset (NPA), Economic Development, Stability.

INTRODUCTION

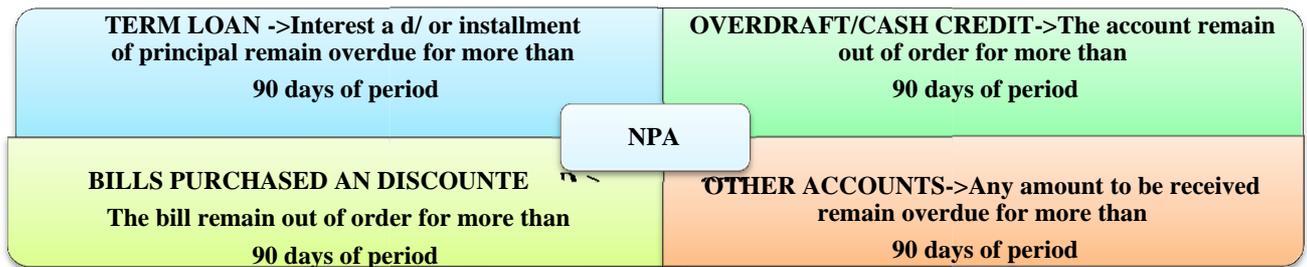
- Banking sector plays a crucial role in Indian service sector & a significant role to increase the GDP of the economy. Contribution of banking system to the service sector is 21% and to that of GDP is 7.7%.
- It has undergone remarkable transformation & adopted international best practices in regulation & supervision of money market.
- With the introduction of financial sector reforms 1991 faces of Indian industries including banking industry have extremely changed. One of the major changes is the introduction of prudential norms such as to allow entry of new private & foreign banks, access the capital market, flexibility in operational work & financial autonomy to public banks etc which created the competitive & vibrant banking system.

- While banks are profitable in terms of higher revenues, inflow of foreign capital and diversified operational work, but are also suffering from major issues such as compromised asset quality, capital inadequacy and stressed balance sheets which has affected its performance and has raised questions about its sustainability.
- Today profit is a sign of vitality and success in a competitive scenario. It ensures survival & growth and can eventually become the only parameter for performance evaluation. NPA provisions are one of the major determinants of profit. Hence, for a bank, NPA has become very significant
- NPA concept was introduced by Narasimham committee (1991) on ‘financial system reforms’ which is constituted as the best indicator to measure the health & robustness of banking industry. This concept is restricted to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a “Non-Performing Asset”
- High level of NPAs makes bank & financial institutions weak in lending ultimately it leads to their failure. This shakes confidence both of domestic & global investors in the banking system the level of NPA is one of the drivers of financial stability & growth of the banking sector.

1. NON-PERFORMING ASSETS (NPAS)

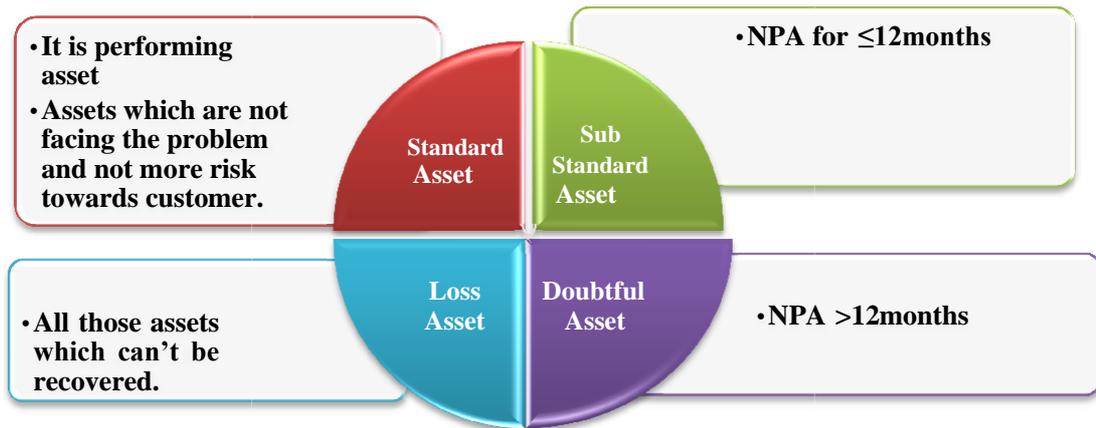
MEANING & TYPES OF NPA

- According to the RBI, an asset including a leased asset becomes non-performing when it ceases to generate income for the bank. 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’ for a specified period of time.
- **NPAs are also called as NPLs (Non Performing Loans)**
- According to Narasimham committee Report , period due of 180days was considered as NPA Later with a view to moving towards international best practices & to ensure greater transparency, from 31st march 2004 it was reduced to 90days , where NPA is more than 90days period for

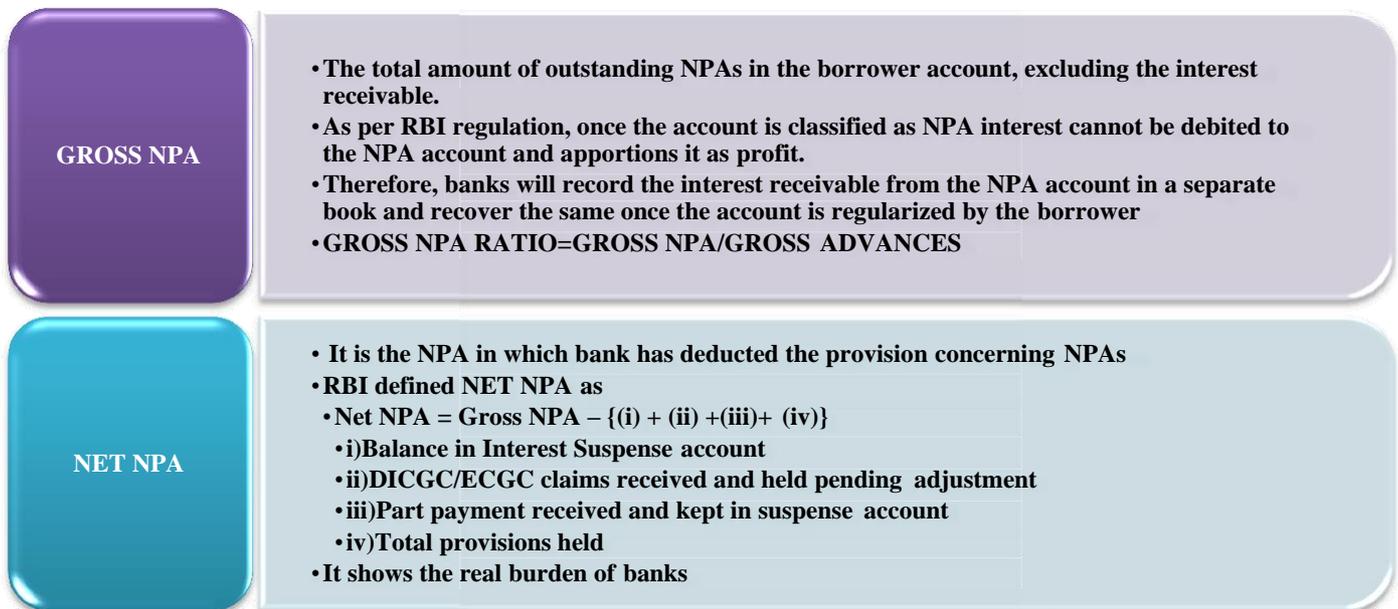


ASSETS CLASSIFICATION;

RBI classified assets into four categories.



TYPES OF NPA:



2. LITERATURE REVIEW

RBI study (1999) suggested that banks were required to closely monitor the operations of the borrower business. In respect of accounts where the classification of asset deteriorates, banks were required to take immediate steps to recover the dues & banks staff accountability was required to take immediate

steps to recover or monitoring of large NPA accounts & on reduction of NAPs, through recovery, and compromise settlements.

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

Prasad & Veena (2011) in their paper on- NPAs Reduction Strategies for Commercial Banks in India stated that NPAS have a destructive impact on the ROA as NPAs do not generate any net interest income. Consequently, the profits of the banks are reduced and limit the recycling of funds.

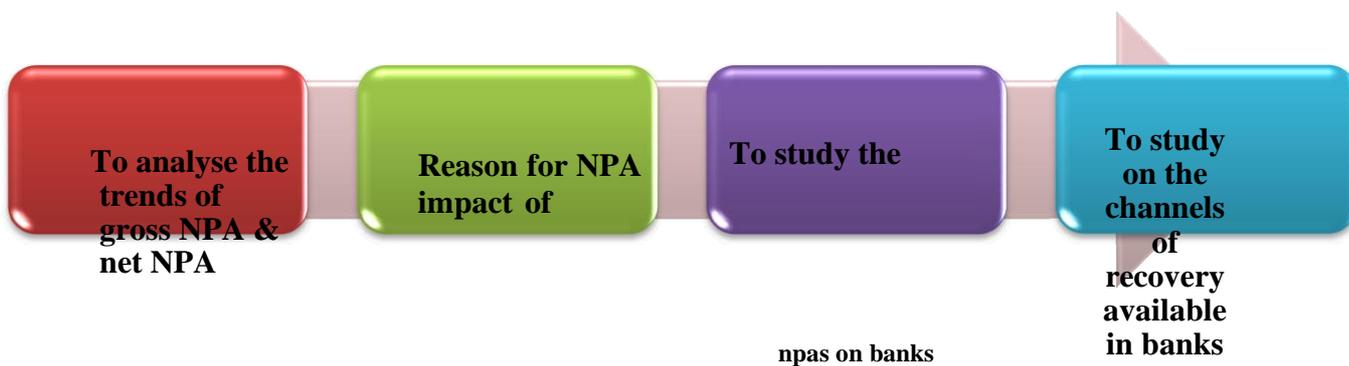
Kaitha.N (2012), emphasized on the assessment of nonperforming assets on profitability its magnitude and impact. Credit of total advances was in the form of doubtful assets in the past and has an adverse impact on profitability of all Public Sector Banks affected at very large extent when non-performing assets work with other banking and also affect productivity and efficiency of the banking groups. The study observed that there is increase in advance over the period of the study. However, the decline in ratio of Non- performing Assets indicates improvement in the assets quality of SBI groups, Nationalized Banks & private Sectors Banks.

Kumar (2013) in his study on – A comparative Study on NPA of Old Private Sector Bank & Foreign Sector Banks observed that during late 90;s a huge accumulation of NPAs were seen which affected the performance of Indian commercial banks. It also focussed on the high level of NPAs on the profitability, liquidity, solvency, capital adequacy etc., of the banks

Arora &Ostwal (2014): The present paper analyses the classification & comparison of loan assets of public & private sector banks. The study concluded that NPAs are still danger for the banks & financial institutions & in comparison to private sector banks; Public sector banks have higher level of NPAs.

Dr. Kumar M K,Reddy C M &Muktha K C (2004) in their article ‘cause of NPAs & Remedial measures’’ observed that the Bank’s bottom line improvement largely depends on reduction in NPA & preventing NPAs would also help to improve the profitability of Banks. However good the credit dispensation process may be total elimination of NPAs is not possible in banking business owing to externalities but their incidence can be minimized.

3.OBJECTIVES OF THE STUDY:-



4. RESEARCH METHODOLOGY:-

Research gap:-

There is a large amount of research is done on the said topic but most of research papers lack the important cause of higher NPAs and Recovery Channel of NPA in Indian Banking.

Data collection:-

The Present study is secondary data has been collected using annual report of “Reserve Bank of India” including Trends & progress of Banking in India” statistical tables related to bank in India & report on currency& finance. Few data are collected from Articles & paper relating to NPA published in different journals, newspapers & internet.

Analysis of Data:-

ANALYSE THE TRENDS OF GROSS NPA & NET NPA OF SCHEDULED COMMERCIAL BANKS

Table 1: Gross Advances and gross NPAs (A→ Public Sector Banks ,B→ Private Sector Banks ,

→ C
All
 Scheduled Commercial Banks(Include Foreign &Small Finance Banks Also) **(in Rs. Million).**

Year	Banks	Gross NPAs	Yearly increase (%)	Gross Advances	Yearly increase (%)	Gross NPA s to Gross Advances Ratio (%)
2019	A	739541	-17.42	6382461	3.92	11.59

	B	180872	43.70	3442347	26.28	5.25
	C	933609	-9.899	10287085	11.01	9.08
2018	A	895601	38.35	6141698	-89.53	14.58
	B	125863	-86.30	2725890	2.20	4.62
	C	1036187	-86.88	9266210	-89.06	11.18
2017	SBI& Its Associates	1778106	45.78	19519311	2.15	9.11
	Nationalized Banks	5069217	21.28	39144423	0.08	12.95
	B	919146	64.56	22667207	14.91	4.05
	C	7902680	29.21	84767053	3.74	9.32
2016	SBI& Its Associates	1219686	65.92	19107755	11.15	6.38
	Nationalized Banks	4179878	103.94	39111756	0.35	10.69
	B	558531	65.78	19726588	22.73	2.83
2016	C	6116074	89.40	81711142	8.07	7.48

Source: dbie.rbi.org.in

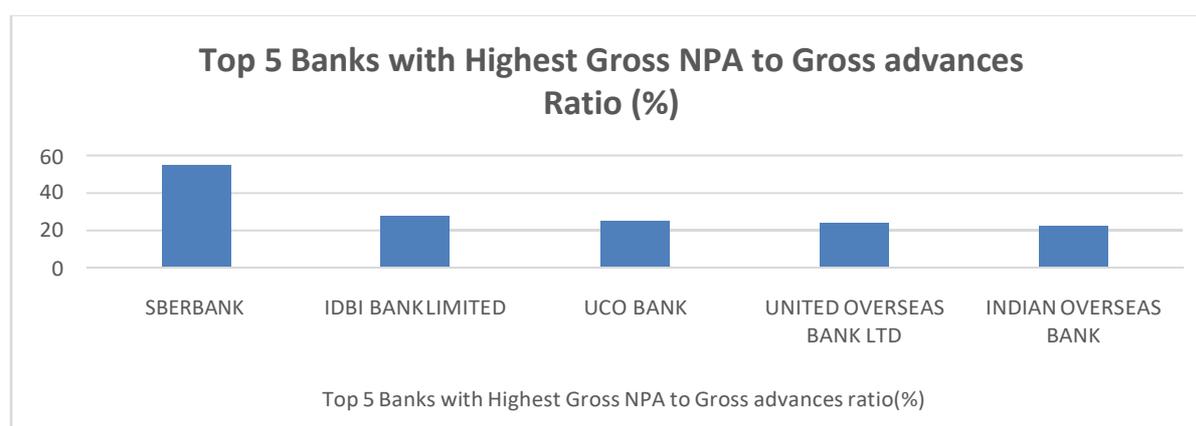


Table 2: Top 5 banks with Highest Gross NPA to gross advances ratio

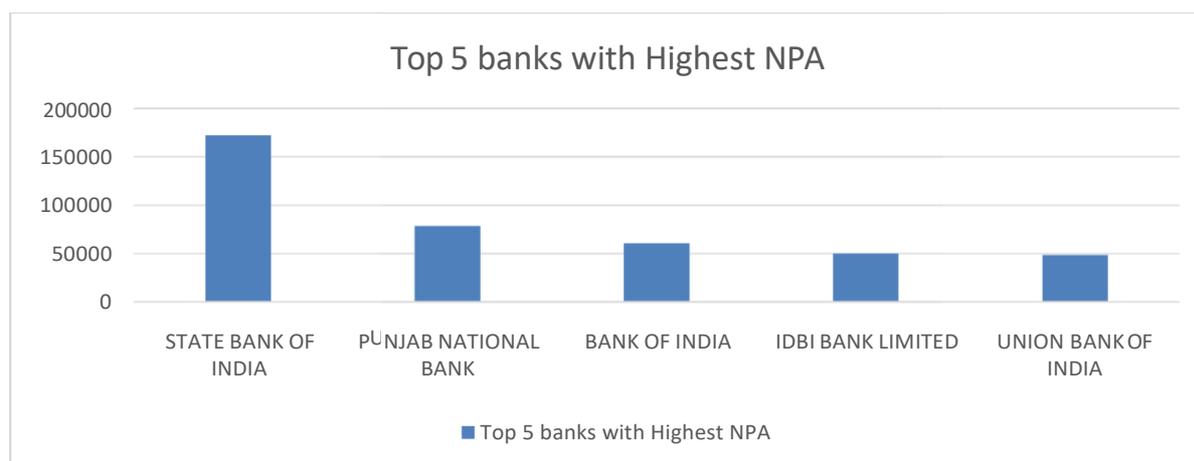
Source: dbie.rbi.org.in

The top 5 banks with highest Gross NPA to Gross Advance Ratio are: SBER Bank, IDBI Bank limited, UCO Bank, United Overseas Bank Ltd, Indian Overseas Bank

Year	Bank with Highest Gross NPA to Gross Advances Ratio
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2019	SBER Bank
2018	ROYAL BANK OF SCOTLAND PLC
2017	PUBLIC BANKS like State Bank of Mysore, State Bank of Patiala, State Bank of Hyderabad, Indian Overseas Bank

Table 3: Top 5 banks with Highest NPA



Source: dbie.rbi.org.in

4.3.2 REASON FOR NPA

The State bank of India has highest NPA with 172751 cr, where as in 2018 NPA of SBI was 223427 cr.

- i. Lack of proper pre enquiry by the bank for sanctioning a loan to customer
- ii. Non performance of the business or purpose for which customer has taken loan
- iii. Willful Defaulter
- iv. Loans sanctioned for agricultural purposes
- v. Managerial & re-loaning process deficiencies

4.3.3 IMPACT OF NPA

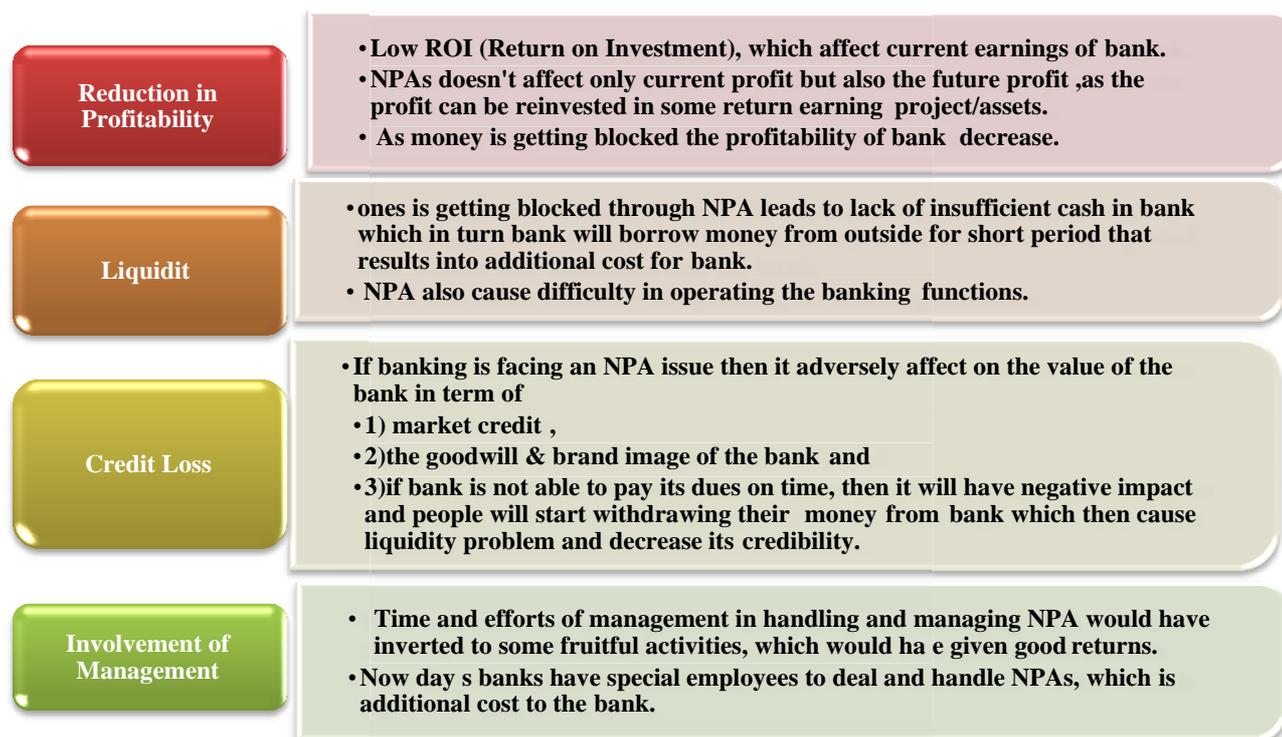
- vi. Change in government policies

The problem of NPAs is major problem which had huge impact to the entire banking system. Higher NPA ratio trembles the confidence of investors, depositors, lenders etc. It also causes poor recycling of funds, which in turn will have negative impact on the deployment of credit. The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks.

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4.3.4 RECOVERY CHANNEL OF NPA IN INDIAN BANKING

Trend of NPA in Indian Banking variation during the year 2013-2019. The higher the amount leads to slow & ineffective recovery of bank credit, lacuna in credit recovery system, inadequate legal provision etc. The government & RBI have taken many steps to reduce & recover the NPAs. The Lokadalats, compromise schemes, Debt Recovery Tribunals, SARFAESI Act are commonly used to settle the NPAs. Management of NPAs is also done through recovery Tribunals, Corporate reconstruction companies & credit information by CIBIL.

5. CONCLUSION

NPAs reflect on the overall performance of banks. It has a high level of negative impacts such on the profitability, liquidity and on the credit of the banking sector. To improve the performance & profitability, a bank has to be carefully monitored & analyze the NPA. The RBI & Government of India has to come up with risk management tools for measuring credit risk & revision of loan policies to manage NPAs. As government adopted various measures to reduce the NPAs but it would impossible to have a zero percentage of NPAs for any bank or financial institutions.

6. SUGGESTION

The Management of NPAs is a very challenging task. It has to take preventive measures not only to reduce the NPAs but also have to take precaution measure to avoid future NPAs. Preventive measures includes:-

- i. One very important reason behind the rising NPA is the relaxation given especially for corporate managers, where there financial status & credit rating are not properly analyzed.

- ii. One of the reason to increase the NPA are inappropriate project handling, lack of adequate information, ineffective management, day to day change in government policies which effect to industrial sickness. Hence, financing to such industries that ultimately give them a low recovery of their loans, and it leads to reducing in their profit & liquidity.
- iii. RBI need to look over the global to reduce the NPA, like Chinese had come up with few measure which had impact on NPA,
 - a) The first strategy was to reduce risk by strengthening banks & spearheading reform of the state-owned enterprises (SOEs) by reducing their level of debt.
 - b) The second important measure was enacting laws that allowed the creation of asset management companies, equity participation & most importantly, asset-based securitization. The “securitization” approach is being taken by the Chinese to handle even their current NPA issue & is reportedly being piloted by a handful of large bank with specific emphasis on domestic investor. According to the International Monetary Fund (IMF), this is a prudent & preferred strategy since it gets assets off the balance sheets quickly & allows banks to receive cash which could be used for lending.

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