



A study of non: Performing assets of commercial banks in India

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Abstract

The Indian banking sector has been facing serious problems of non -performing assets. The NPAs growth has a direct impact on profitability of banks. The incidence of Non- performing assets affects the performance of the credit institutions both financially and psychologically. Non -performing assets are one of the major concerns for commercial banks in India. Non- performing assets reflect the performance of banks. A high level of NPAs reflect large number of defaults that affect the profitability and net worth of banks. In addition it poses threat on quality of assets and survival of banks. NPAs are an inevitable burden on the banking industry, hence the success of a bank depends upon the method of managing NPA and keeping them within tolerance level. The recommendations of Narsimham committee and Verma Committee, some steps have been taken to solve the problem of old NPAs. 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.

Keywords: non-performing assets, commercial banks, loan, assets

Introduction

The banking system in India comprises commercial and cooperative banks of which the former accounts for more than 90% of banking systems assets. Besides a few foreign and Indian private banks, commercial banks comprise nationalized banks, the State Bank of India. These banks, along with regional rural banks, constitute the public sectors banking system in India. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, education loans, housing loans etc, but in recent times the banks have become very cautious in extending loans. The reason is non performing assets and nowadays these are one of the major concerns for banks in India. NPA is a disorder resulting in non performance of a portion of loan portfolio leading to no recovery or less recovery/ income to lenders. In other words, NPA is any asset of a bank which is not producing any income. On a bank's balance sheet, loans made to customers are listed as assets. A loan asset becomes a non performing asset when it ceases to generate income i.e. interest, fees, commission or any other dues for the bank for more than 90 days. A high level of non -performing assets may be a sign of problems. Narsimham committee that mandated identification and reduction of NPAs to be national priority because NPA direct toward credit risk that bank faces and its efficiency in allocating resources.

Criteria

Loans don't go bad right away. Most allow customers a certain grace period. Then they are marked overdue. After a certain number of days, the loan is classified as a non-performing loan.

- **Sub –Standard Assets:** An asset which is overdue for a period of more than 90 days but less than 12 months.

- **Doubtful Assets:** An asset which is overdue for a period of more than 12 months.
- **Loss Assets:** Assets which are doubtful and considered as non-recoverable by bank, internal or external auditor or central bank inspector.

Review of Literature

Many published articles are available in the area of non -performing assets and a large number of researchers have studied the issue of NPA in banking industry. Bloem and Gorter (2001) suggested that a more or less predictable level of non- performing loans, though it may vary slightly from to year, is caused by an inevitable numbers of wrong economic decisions to individuals. Rajeshwari Krishan (2002) focused on the problem of swelling non -performing assets in banks and financial institution of the country becomes more and unmanageable and created threats for the financial sector. She found the securitization can be used for the liquidating the illiquid and long term debt like loan receivable of the financial institutions or bank by issuing marketable securities against them. She concluded that the SAREFAESI act is defiantly and big leap forward not only in the field of NPA management but also promoting the securitizing market in India. U.N Lakshman (2003) in his study pointed out the reasons for NPAs in Indian bank. He started the reasons could be, diversion of the bank fund, time/cost overrun while implementing the project, business failures like product failing to capture market, inefficient management, strained labor relations, old technology and product obsolescence, recession in some foreign countries and adverse exchange rate government policies toward excise, imports and exports, willful default frauds, misappropriations, deficiencies in the system of credit appraisal monitoring and

follow up, delay in settlement. He further mentions some of the method to recover NPA.

Objectives of the Study

1. To study the impact of NPAs on commercial banks in India.
2. To Know the recovery of NPAs through various channels
3. To examine the nature and the problem of NPA and effect on the performance of commercial banks in India.

Methodology

The study is based on secondary data. Several reputed research journal including research paper and articles have been used. Moreover, RBI Report on Trend and Progress of Banking in India for various years, websites and books banking has been referred. The problem of NPAs in India banking system is very high because our credit policies are weak which has made the banking system weak and unsound. The ripple effect of NPAs as in the case of cancer is gradually felt in all parts of the economy i.e. saving, investment, production, employment, and services which affected capital, economic growth.

Table 1

| | Bank | Willful Defaulter Accounts |
|---|---------------------------|----------------------------|
| 1 | State Bank Of India | 1628 |
| 2 | Bank of India | 643 |
| 3 | Canara Bank | 612 |
| 4 | Punjab National Bank | 410 |
| 5 | Oriental Bank Of Commerce | 382 |
| 6 | UCO Bank | 594 |

Table 2: The Gross NPAs outstanding as percentage to Gross Advances

| Year | Gross Advances | Gross NPA | Gross NPA Percentage |
|------|----------------|-----------|----------------------|
| 2010 | 35449 | 846 | 2.4 |
| 2011 | 43511 | 979 | 2.25 |
| 2012 | 51589 | 1423 | 2.75 |
| 2013 | 59882 | 1931 | 3.22 |
| 2014 | 68757 | 2641 | 3.84 |

The above table no 2 shows gross NPAs outstanding as percentage to gross Advance. During the period of 2010 to 2014 amount of gross advances has increased from Rs 35449/ Cr in 2010 to Rs 68757/ Cr in 2014. Similarly gross NPAs percentage is showing the rising trends from 2.4 in 2010 to 3.84 in 2014.

Impact of NPAs

- As the NPA of the banks will rise, it will bring a scarcity of funds in the Indian security markets. Few banks will be willing to lend if they are not sure of the recovery of their money.
- The Shareholders of the banks will lose a lot of money as banks themselves will find it tough to survive in the market.
- This will lead to a crisis of confidence in the market. The internet rates will shoot up badly. NPAs will affect the risk of facing ability of banks.

The assets and liability mismatch will widen.

Recommendation for management of NPAs

The issue of NPAs needs to be tackled at the level of prevention rather than cure. Therefore, the steps that can prevent the piling up of NPAs are follows:

- Banks need to be more conservative in granting loans to sectors that have traditionally found to be contributors in NPAs. Infrastructure is one such example. NPAs rise because of long gestation period of the projects.
- Improving the recovery management sound functioning of banks depends on timely recovery of credit, hence, banks should develop suitable recovery programs for assessing and classifying the overdues, monitoring accounts, keeping regular contact with borrower, fixing recovery targets, personal training of recovery.
- In a recent circular, RBI has suggested to the banks to have a new asset category-‘special mention accounts’ for early identification of bad debts. This would be strictly for internal monitoring. Loans and advances overdue for less than one quarter and two quarter would come under this category. Data regarding such accounts will have to be submitted by banks to RBI. However, special mention assets would not require provisioning, as they are not classified as NPAs. The step is mainly with a view to alerting management to the prospects of such an account turning bad and thus taking preventive action well in time.
- Personal visits should be made after sanction and disbursal of credit and further close monitoring of operations of the accounts of borrowed units should be done periodically.
- Every month/week discussion with the staff in the branch and taking their suggestions for recovery of due make them more involved to reduce the ill effect of NPA.
- Branch may to take actions against defaulters like publishing name of defaulters in news papers, broadcasting media which is helpful to other banks and financial institutions, such action take to borrowers with RBI rules and regulations.

Conclusion

Looking at the giant size of the banking industry, there can be hardly any doubt that the menace of NPAs needs to be curbed. The Non performing assets have always created a big problem for the banks in India. It is not only problem for the banks but for the economy also. The money tied up in NPAs has a direct on the profitability of the banks. Various steps have been taken by the government to reduce the NPAs but still a lot needs to be done to curb this problem. The bank management should speed up the recovery process and a strict policy should be followed to for solving this problem. So the problem of NPAs needs lot of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the Indian economy. Finally, it can be concluded that the banks should avoid sanctioning loans to the non credit worthy borrowers by adopting certain measures. Bankers should constantly monitor the borrower in order to ensure that the amount sanction is utilized properly for the purpose to which it has been sanctioned. The banker should get both the formal and informal reports about the good will of customers. If he had already proven as a defaulter then there is no question of sanctioning loan to him. By considering all the above factors the banker can reduce the non performing assets in a bank.

Reduction of NPAs in banking sector should be treated as national priority to make the Indian banking system more strong and vibrant to meet the challenges of globalisation.

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