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MOVEMENT OF NON-PERFORMING ASSETS (NPAS) OF SCHEDULED COMMERCIAL BANKS

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Movement of Non-Performing Assets (NPAS) Of Scheduled Commercial Banks

Senthilrajaprabha R.

PhD. Research Scholar, Madurai Kamaraj University, Tamilnadu

Abstract – The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. NPAs have been fighting cyclical movement or dieses on week patient and it is an underdevelopment feature like chronic poverty. This paper deals with understanding the concept of NPAs, its magnitude and major causes for an account becoming non-performing and strategies for managing NPA in Indian banks. The best indicator for the health of the banking industry in a country is its level of Non-performing assets (NPAs). NPAs are one of the major concerns for banks in India. It reflects the performance of banks. Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overalls profitability of banks.

Keywords: Indian Banking, PSBs, SCBs, cyclical, NPAs etc.

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1. INTRODUCTION

It has been argued by a number of economists that a well-developed financial system enables smooth movement of savings and investments and hence, supports financial growth [1]. A healthy financial system can help complete efficient distribution of resources across time and space by reducing inefficiencies arising out of market frictions and other socio-economic factors. Amongst the various desirable characteristics of a well-functioning financial system, the maintenance of a few non-performing assets (NPA) is an important one [2]. NPAs outside a certain level are indeed cause for concern for everyone complicated because credit is essential for economic development and NPAs affect the smooth flow of credit. Banks increase resources not just on fresh deposits, but also by recycling the funds received from the borrowers. Thus, when a loan becomes non-performing, it affects recycling of credit and credit creation. Apart from this, NPAs affect effectiveness as well, since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as delivery against bad loans [3]. Therefore, the problematic of NPAs is not the concern of the lenders alone but is, indeed, a concern for policy creators as well who are involved in putting economic development on the fast track.

Non-Performing Assets NPAs remained a compression point for the banking sector 4.19 the gross NPA ratio at the collective level stood at 3.6 per cent at end-March 2013 up from 3.1 per cent at end-March 2012. The deterioration in asset excellence was most perceptible for the SBI Group with its NPA ratio reaching a high of 5 per cent at end-March 2013. With the gross NPA ratio reaching about 3.6 per cent by end-March 2013, the nationalized banks were positioned next to the SBI Group.

2. REVIEW OF LITERATURE:

Non-performing assets are one of the problem areas which need attention for development in the management of PSBs and their effectiveness the present scenario shows that the NPAs of PSBs are increasing very speedily [4]. These NPAs cost the economy in several ways. First, the government has to bail out banks with financial provisions periodically and ultimately taxpayers bear the cost. Secondly, money borrowed for investment, if not utilized correctly, affects the formation of assets and the development of economy is endangered [5]. The author has suggested several strategic measures to control NPAs of PSBs. [6]. analyzed that redeeming features of banking sector improvements is the continuing fall in gross and net NPAs as a proportion of total assets for all bank groups except private sector banks. Huge backlog of NPAs needs determination of the earthiest as otherwise it can weaken the foundation of entire financial system [7].

Jatna, (2009) [5]. Reviewed that the root reason of increasing NPAs in public sector banks is malfunctioning of the banks this malfunctioning led to the setting up of Narasimham Commission which, in fact, identified the NPA as one of the possible effects of the malfunctioning of PSBs. According to RBI report, 1999 it was stated that the reduction in NPA should be treated as a „national importance.

Krishnamurthi (2000) [6]. States that the mounting NPAs are harmful for the public sector banks it is seen that the gross NPAs of PSBs are raising very heavily. In banks the NPA curves vary between a gross of Rs.39, 253 cores in 1992-93 to Rs.45, 653 cores in 1997-98.

3. TRENDS IN NPA LEVEL:

With effect from financial year 1992-93, as per the recommendations of the Narasimham Commission and the prudential procedures issued by the Reserve Bank of India, banks were required to classify their loans and advances based on recovery into four categories -Standard, Sub-standard, Doubtful and Loss and make requirements at prearranged rate on the Non-Performing Assets [8]. Table I shows classification of properties as percentage of advances of public sector banks. Standard assets showed continuous growing trend and NPA (sub-standard, doubtful, loss) showed deteriorating trend [9].The implementation of the Narasimham Commission recommendations produced great strain on the competence, productivity and profitability of the public sector banks and even some of them showed loss in the initial years. However, by implementing these guidelines Banks have been profited indirectly and have emerged stronger with inbuilt reserves representing requirements for NPA.

	Category	2003	2004	2005	2006	2007	2008	2009
1	Standard Assets	90.6	92.2	94.6	96.1	97.2	97.7	97.9
2	Sub-standard Assets	2.6	2.6	1.2	1.1	1.0	1.0	0.9
3	DoubtfulAssets	5.6	4.3	3.4	2.3	1.5	1.1	1.0
4	LossAssets	1.2	0.9	O.Y	0.5	0.3	0.2	0.2
5	TotalNPAtoTotal	9.4	7.8	5.4	3.9	2.8	2.3	2.1
	Advances							

Table 1: Assets (loans & advances) quality of public sector banks

- ### Scope of NPAS:

A Non-Performing Asset (NPA) is an advance where.Interest and/or instalment of principal remains overdue for a period of more than 180 days in respect of a term loan,The account remains out of order for a period of more than 180 days in respect of an overdraft/cash credit(OD/CC),The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted, Interest and/or installment of primary remains overdue for two harvest seasons or for a period not exceeding two half years in the case of an advance granted for agricultural resolutions [10-13].Any amount to be received remains overdue for a period of more than 180 days in respect of any other accounts. The mid-term review of the Financial and Credit Policy of the Reserve Bank of India for the year2002-03 announced a 90-day-norm for the recognition for loan impairment which has been protracted to the StCBs/DCCBs from the year ending 31.03.2006. With effect from March 31, 2006, NPAs include amounts. Interest and/or installment of principal outstanding overdue for a period of more than 90 days in respect of a term loan the amount remains out of order for a period of more than 90 days in respect of an Overdraft/Cash Credit(OD/CC).The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted [14-16].In respect of direct agricultural loans the existing norms of classification of NPA will continue. (All direct agricultural advances will be classified as NPA of the interest and/or installments of principal remains overdue for two harvest seasons but for a period not exceeding two half years). But, in respect of other agricultural loans for associated agricultural activities, 90 days norms will apply. Any amount to be received remains overdue for a period of more than 90 days in respect of all other accounts [17].

CONCLUSION:

Non-Performing Assets is a chronic melody of banking sector as a results of this study got an idea regarding NPAs. It had been cyclical condition while banks are providing loan and advances to customer. Huge backlog of NPAs needs resolution of the earthiest as otherwise it can weaken the foundation of entire financial system. To create more conducive recovery climate among the borrowers and profitability of banks through improved recoveries, the RBI and the Central Government have initiated several institutional measures, which include Debt Recovery Tribunals (DRTs), Lok Adulates, Asset Reconstruction Companies (ARCs), Corporate Debt Restructuring (CDR) Mechanism, Settlement Advisory Committees (SACs) have also been formed at the provincial and head office levels of commercial banks. Furthermore, the banks can also issue notices under SARFARESI Act, 2002 for implementation of security interest without intervention of the courts.

It is right time to take appropriate and stringent measures to get rid of this problem. An efficient management information system should be developed. The bank staff complicated in sanctioning the advances should be qualified about the proper documentation and charge of safeties and motivated to take measures in preventing advances turning into NPA and constant following up and monitoring of loans after disbursement. They should be well experienced in proper selection of borrower/project and in analyzing the financial statement received from the borrower, so that the advances portfolios of banks may not be contaminated by bad and doubtful debts.

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