

Analysis of NPA in Banking Industry and Its Impact

Kiran Jain^{1*}, Dr. A. K. Jha²

¹ Research Scholar, Department of Economics, Mewar University, Chittorgarh, Rajasthan

² Supervisor, Department of Economics, Mewar University, Chittorgarh, Rajasthan

Abstract – Non-performing Asset is a crucial factor in the examination of financial performance of a bank. Non-Performing Asset is the key term for the banking corporations. Non-Performing Assets demonstrate the capability of the execution of the banks. Non-performing Assets implies which sum isn't gotten by the bank consequently of loans dispensed. Non-performing Assets influence the finance establishment as well as the aggregate financial system. Along these lines a particular report has been done on public sector banks in India to assess the impact of Non-performing Assets on the gainfulness of banks. Banks today are not judged just based on number of branches and volume of stores yet additionally based on standard of benefits. NPAs contrarily impact on the gainfulness, liquidity and dissolvability of the banks. This paper analyses the conditions of NPAs in selected banks to be specific State Bank of India (SBI), Bank of India, and United Bank of India, Bank of Baroda, Indian Overseas Bank, Punjab National Bank and Central Bank India. It additionally a feature the approaches took after by the banks to handle the NPAs and recommends a multi-pronged methodology for rapid recuperation of NPAs in banking sector. Seven Public-sector Banks has been chosen for the examination the connection between Gross NPA and Net Profit of seven banks. In this paper is applying the board relapse. The result shows that aside from SBI and PNB all the other banks display a negative relationship between's their gross Nonperforming Assets and net profits. Be that as it may, SBI and PNB is expanded the net profit consistently not influenced by Gross Non-performing Assets. Both banks are focusing towards their NPA to recuperate their pending loans. The investigation depends on secondary data recouped from Report of Progress of banking in India, Websites, Journals and Articles. The scope of the study is restricted to investigation of nonperforming assets of public sector banks covering the time of 2007-2016.

Keywords: Non-performing Asset, financial performance, bank, financial system, etc.

----- X -----

INTRODUCTION

The problem of non-performing asset (NPA) has pulled in the consideration of market analyst, Banker and financial administrator in India. Each advantage which are not ready to perform or creating wage ends up known as nonperforming asset. In the banking industry NPA is characterized as a loan asset, which has stopped to produce any income for a bank whether as premium or principal repayment. NPA implies booking of money in terms of awful resources, which happened because of wrong decision of customer. In view of the money getting hindered the extravagance of bank decreases by the measure of NPA as well as NPA prompt open door cost additionally as that quite a bit of profit invested in some arrival earning project. So NPA doesn't influence current profit yet additionally future stream of profit, which may prompt loss of some long haul beneficial opportunity. Another effect of lessening in gainfulness is low ROI (Return on Investment),

which antagonistically influence current winning of bank.

Not long after autonomy, as India left upon arranged economic growth, similar to any other country, it required a solid and productive financial system to meet the diverse prerequisites of credit and development. To accomplish this target it embraced a blended example of economic development and conceived a financial system to help such development. The achievement it accomplished, especially in taking banking to the majority and making the banking system a powerful vehicle for advancing public policy has few parallels in the world.

At the time of independence major banking system has a place with the private sector. According to the mandate essential Indian constitution, the government of India needs to work for the

improvement of country on the way of communist example of the general public. In this worry it was felt by the policymaker that control and nationalisation of private bank was important to build up the uniformity based society in India. In this way the nationalization of bank has been finished by the legislature of India in 1969 and these nationalised banks were utilized as apparatuses of economic growth with social equity by the government. Therefore Government pressurized nationalised banks to convey advances in agriculture, priority segment loaning and small scale industry. All these loan and advances was given without any security. At the time passes the unsecured loans turn a noteworthy purpose behind the formation of NPA in Indian banking industry.

The rapid growth of the banking system as far as nearness and infiltration over the two decades promptly following nationalization of banks in 1969 was great. Indeed, even as the banking system; branch network was developing at a quick pace, by the start of 1990s, it was understood that the effectiveness of the financial system was not to be estimated just by quantitative development as far as branch expansion and development in stores/propels or only by satisfaction of social obligations of improvement. The Banking Industry has experienced an ocean change after the principal period of economic liberalization in 1991 and subsequently credit management. While the essential capacity of banks is to loan finances as advances to different parts, for example, agriculture, industry, personal loans, housing loans and so on.

The financial health of banks is reflected by their operational proficiency. Among different elements, Non-performing Assets (NPA) in the credit portfolio influences the operational efficiency which thusly impacts gainfulness, liquidity and dissolvability position of banks. They need to keep up and increment feasibility by age of more products so as to meet capital sufficiency standards and make arrangement against NPA. An emergency in liquidity happens when the assets conveyed by the banks get bolted up as NPAs, which diminish the productivity and liquidity, in a roundabout way influence the solvency position of the banks. Presently the opportunity has already come and gone for banks to screen NPAs to fortify their operational efficiency.

REVIEW OF LITERATURE:

Shawn Thomas (1999) in their study titled 'Bank loan loss provisions' depicts that the 1990 change in capital sufficiency directions to develop all the more intense trial of Capital and income administration impacts on bank loan loss provisions. We find solid help for the speculation that advance misfortune arrangements are utilized for capital administration. We likewise archive the purposes behind the clashing outcomes on these impacts saw in prior studies.

Vincent Bouvatier (2002) in their study titled 'Provisioning Rules and Bank Lending: A Theoretical Model' depicts that this paper develops a fractional harmony model of a bankingfirm to break down how provisioning rules impact loan market vacillations. We demonstrate that a retrogressive looking provisioning system enhances the ace cyclicity of loan market vacillations. We show that, in a forward-looking provisioning system where factual arrangements are utilized to smooth the development of total loan loss provisions, the issue of genius cyclicity of loan market changes does not exist.

Larry G. Meeker and Laura Gray (2002) in their study titled 'A note on nonperforming loans as an indicator of asset quality' utilized the device of relapse examination and depicted that, the public was given its first opportunity to audit bank asset quality as non-performing asset data. The reason for this study is to assess that data. A relapse examination contrasting the non-performing asset insights and inspector groupings of benefits proposes that the non-performing asset data can be valuable guide in investigating the advantage nature of banks, particularly when the information is convenient.

Prashanth K. Reddy (2002) in their study titled 'A comparative study of Non-Performing Assets in India in the Global context – similarities and dissimilarities, therapeutic measures' broke down that Financial sector change in India has advanced quickly on perspectives like interest rate deregulation, diminishment available for later necessities, hindrances to passage, prudential standards and hazard based supervision. Be that as it may, advance on the auxiliary institutional aspects has been much slower and is a reason for concern. The shielding of powerless establishments while liberalizing operational standards of the game is rolling out execution of operational improvements troublesome and incapable. Changes required to handle the NPA problem would need to traverse the whole extent of legal, nation and the organization to be truly effective.

Milind Sathye (2003) in their study titled 'Effectiveness of banks in a developing economy: The case of India', says that the target of this paper is to quantify the profitable proficiency of banks in a developing country, that is, India. The estimation of effectiveness is finished utilizing data envelopment analysis. Two models have been developed to indicate how proficiency scores differ with change in information sources and yields. The productivity scores, for three groups of banks, that are, openly possessed, privately-owned and foreign owned, are estimated. The examination demonstrates that the mean effectiveness score of Indian banks compares well with the world mean proficiency score and the productivity of private sector commercial banks as a gathering seems to be, incomprehensibly lower than

that of public-sector banks and foreign banks in India.

Harpreet Kaur and J. S. Pasricha,(2004) concluded research on management of NPAs in Public-sector banks over a 8 years period finishing 2002 and demonstrate that gross NPA has enlisted a constant increase from 1995-2002. This study brings up the sector wise and bank wise position of NPA in PSBs. It was recommended that take after proper policy of examination, supervision and follow up of advances be taken up to controlling the NPAs.

Peng Hui Li Yong (2004) in their study titled „An Analysis on the Return and Risk Management during Securitization of Non-Performing Assets-the Effect of Securitization on Originator' and his paper clarified the computation strategy for pick up on special and income on held enthusiasm amid nonperforming assets securitization, dissect the connection between return of securitization and expected income of benefit pool, flow volume of advantage backed security, financing cost, forthright cost. Out of the blue, this paper demonstrated that the aggregate benefit of resource securitization could be partitioned into three parts: excess spread, excess loss provision and value-added capital.

John Wiley (2005) in their study titled 'Banking reform in India' depicts that the essential procedure about financial reform in the territory of bank illiquidity in low-pay developing markets. This process is occurring inside the setting of a level headed discussion with respect to whether or not governments should endeavour to restore existing state-possessed banks or permit another or parallel banking system to rise keeping in mind the end goal to diminish nonperforming assets from state-claimed commercial banks. A correlation of institutional development in China and India proposes that new passage as opposed to the rehabilitation approach may work all the more positively to lessen non-performing assets. The paper offers a clarification with respect to why governments pick recovery over new entry.

Jean Dermine (2005) in their study titled' Provisioning practices' portrays that A reasonable level of arrangements on awful and dubious loans is a basic contribution to check to-market accounting, and in the count of bank capital and dissolvability. Access to data on recuperation after some time on awful and suspicious bank loans allows creating and applying two methodologies to calculate a reasonable level of loan-loss provisions. Exact assessments are then contrasted with an administrative provisioning schedule forced by a central bank.

LI Peng-yan (2007) in their study titled 'A risk evaluation of nonperforming assets securitization on the premise of analytic hierarchy process 'says that

going for the securitization danger of non-performing assets in commercial banks in China, a logical chain of command process was utilized to assess the problem. The examination result demonstrated that while securitizing non-performing assets, credit risk turned into the most important risk that business banks faced.

Prof. G. V. Bhavani Prasad; D. Veena (2011) studied NPAs in Indian Banking Sector – Trends and Issues and inferred that PSBs, which presently represent more than 78 percent of add up to banking industry resources are saddled with NPAs, falling incomes from customary sources, absence of modern technology and a monstrous workforce while the new private sector banks are forging ahead and revamping the conventional banking business demonstrate by method for their sheer advancement and administration and selection of modern technology.

Shalu Rani (2011) examined the existing position of banks in SCBs of India in regard of NPAs, the causes and medicinal measures thereof and inferred that the level of NPA has expanded, disintegrating whatever diminishment was made with the consistently expanding level of crisp NPAs and fixing of standards by RBI time to time. Total elimination isn't conceivable in banking business so it is savvy to take after the proper policy for examination, supervision and follow up of advances to stay away from NPAs.

Aggarwal and Mittal (2012) called attention to that the significant purposes behind NPA incorporates ill-advised choice of borrowers exercises, feeble credit appraisal system, industrial problems, inefficient administration, slackness in credit management and observing, absence of appropriate development, retreats and regular disasters and other uncertainties.

Types of NPA

1. **Gross NPA:** Gross NPA is a propel which is viewed as discounted, for bank has made arrangements, and which is as yet held in banks 'books of account. Net NPA (nonperforming asset) alludes to general amount of advances that have gone bad debts. It comprises of all the nonstandard resources like as sub-standard, dubious, and loss asset. "Gross NPAs Ratio = Gross NPAs / Gross Advances"
2. **Net NPA:** Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. "Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions"

Assets Classification

1. **Standard Assets:** Standard Asset means which assets are not facing the problem and not more risk towards customer. Such assets are assumed to be performing asset. A general provision of 0.25% has to be provided on global loan portfolio basis.
2. **Sub-standard Assets:** An asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. Accordingly a general provision of 10% on outstanding has to be provided on substandard assets.
3. **Doubtful Assets:** These are the assets which have remained NPAs for a period exceeding 12 months and which are not considered as a loss advance. As per RBI instruction banks have to facilitate 100% of unsecured amount of the outstanding loan.

Causes of NPA

1. **Lending Practices of Banks:** In 2008 the financial crisis has been happened because of bad lending practices of banks. The banks should strictly follow rules and regulations while lending loans. They should properly follow the credit policy of banks.
2. **Business Risk:** The organization may sometimes face problems with its own operational environment which may result in losses for the company.
3. **Environmental Risk:** Sometimes there may be environmental problems like cyclones, drought which does not give the required output to the farmers and Agri based businesses.

Impact of NPA

1. **Liquidity:** The Banks are facing the problem of NPAs. They are not recovering which lending money to borrower. Those times money will be blocked. Banks don't have enough cash in hand for short period of time.
2. **Credit loss:** Banks lose their goodwill and brand equity in market when there is problem with their NPA that further affect the value of the banks in terms of market credit.
3. **Profitability:** NPA not only effect on current profits but also profit of entire financial year.

CONCLUSIONS:

NPA affect the financial performance of Indian banks too financial growth of economy. Indian banking system is confronting the NPAs problem. Every country's economic development relies on their financial system. The financial system basically contains banking sector. Particularly public sector banks should center on their NPA Management to develop their productivity. The financial foundations ought to grow new procedures intending to enhance the recuperation of credit. Nonperforming assets (NPAs) is influencing the execution of financial establishments both financially and mentally. The non-performing assets have turned into a noteworthy reason for concern. Engrossing the credit management aptitudes has turned into all the more important for improving the primary concern of the banking sector. The present NPAs status keeps on exasperating Indian banking Sector. A few examinations have been endeavored to decrease NPAs yet nothing has hit the stamp in handling NPAs. The Indian banking sector confronted a major issue of NPAs. An abnormal state of NPAs proposes high likelihood of an expansive number of credit defaults that influence the benefit and liquidity of banks. The greater part of the problem identified with NPA is looked by public sector banks. To enhance the productivity and benefit, the NPAs must be booked. Strict measures are should have been taken up to battle these NPAs emergencies. It is very difficult to have zero percentage NPAs.

REFERENCES:

- Harpreet Kaur J. S. Pasricha (2004). "Management of NPAs in PSBs", the Indian journal of commerce, April-June, Vol. 57, no. 2, pp. 14.
- Jean Dermine (2005). "Provisioning practices" economic & Political Weekly, Vol. XLII
- Larry Meeker, (2002). "Predicting Corporate Sickness in India", A note on Non-performing loans as an indicator of asset quality"
- LI Peng-yan, (2007). "A risk evaluation of non-performing assets securitization on the basis of analytic hierarchy process", Oxford University Press, New Delhi.
- Milind Sathye, (2003). "Efficiency of banks in a developing economy: The case of India", Paper presented at the Conference on Money, Risk and Investment held at Nottingham Trent University, November 2003.
- Peng Yong (2004). "An Analysis on the Return and Risk Management during
- Prashanth K. Reddy (2002). "A comparative study of Non-Performing Assets in India in the Global context - similarities and dissimilarities,

remedial measures,” Oct, IIM Ahmadabad, India.

Prof. G. V. Bhavani Prasad, D. Veena (2011). “NPAS in Indian banking sector- trends and issues,” Volume 1, Issue 9.

S. Aggarwal & P. Mittal (2012). Non-Performing Asset: Comparative Position of Public and Private Sector Banks in India, International Journal of Business and Management Tomorrow, Vol. 2(1).

Securitization of Non-Performing Assets-the Effect of Securitization on Originator Oxford University Press, New Delhi.

Shalurani (2011). “A study on NPAs with Special reference to SCBs of India, RMS journal of management & IT, Vol. 5, June, pp. 60-68.

Shawn Thomas, (1999). “Bank loan loss provisions “–An Economics Approach”, AITBS Publishers and Distributors, New Delhi.

Vincent Bouvatier, (2002). “Provisioning Rules and Bank Lending: A Theoretical Model” Studies in Banking & Finance

Corresponding Author

Kiran Jain*

Research Scholar, Department of Economics, Mewar University, Chittorgarh, Rajasthan

E-Mail – kiranvjain@yahoo.co.in