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A Study on Analysis of Non-Performing Assets and Its Impact on Public Sector Banks in India

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Abstract – In an Indian Economy, Banking and Financial Sector get high priority. The banks in India are facing the problem of Non-Performing Assets (NPAs). The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. Moreover, the non-performance as no-receipt of interest and principal blocked banks money in the form of funds and is not available for further use of banking business and thus the profit margin of the banks goes down. In this connection bank must aware of the problems and recovery legislations of NPAs. A non-performing asset is defined as an asset that ceases to generate incomes to the banks for more than 90 days. This paper deals with the problems of non-performing assets of the public sector banks tries to find the suggestive measures to keep a control on the increasing NPA in the banking sector in India.

Keywords: Accounting Ratios, Non-Performing Asset, Loan Intermediation, Asset Quality, Cost Efficiency, Capital Adequacy, GMM, Generalised Method of Moments

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INTRODUCTION

NPAs mean higher provisioning which reduces the profit. These are loans and advances whose time period for payment of interest and principle has exceeded 90 days. In this case, the account of person is marked as out of order. If a loan is granted to a person for agricultural purpose the installment period for interest might remain due for two harvest seasons.

Banking in India originated in the last decade of the 18th century. Commercial banks occupy a major part of the banking in India. They are having very god network of branches even having very good network of branches even in rural and semi-urban areas. Now, they are not only engaged in their traditional business of the accepting and leading money but have diversified their activities into new fields of operations like merchant banking, leasing, housing finance, mutual funds and venture capital. Non-performing assets (NPA) are assets that cease to generate income through interest earned on the principal loan amount and the repayment of the principal loan amount. Non-Performing assets are an outcome when the borrower intentionally defaults on the loan payment or is unable to repay the loan due to poor economic conditions affecting his business. In either case, for a bank it means that the loan asset may not be fully recovered or may be only partly recovered. Non-performing assets are a reflection of the bank's overall efficiency while performing its business of converting deposits into loans and recovering these loans. Non-recovery or partial recovery of loans has an impact on the bank's balance sheet and income statement items in the form of reduction in interest earned on loan assets, increase in provision on NPAs, increase in capital requirement and lower profits. Hence, rising NPAs are a concern for a bank and determinants of NPAs should be identified prior to loans turning into NPAs.

NPAs reflect the performance of banks. A high level of NPAs suggests high profitability of a large number of credit defaults that affect the profitability and net-worth of banks. The NPA growth involves the necessity of provisions, which reduces the overall profits and Shareholder's value.

OBJECTIVES OF THE STUDY:

The specific objectives of the study are as follows:

- ❖ To study the impact of Non-Performing Assets (NPAs) on Public Sector Banks in India.
- ❖ To analyse the classification of loan assets in Public Sector Banks.
- ❖ To analyse the composition of NPAs in different sectors.

RESEARCH METHODOLOGY:

The present study concentrated on Public Sector Banks only. For this, secondary data have been collected. The data are collected from annual report of RBI publications, Articles and papers related to NPAs published in different journals and magazines were studied and data available on interest and other sources have also been used.

Non-Performing Assets (NPAs) -Meaning:

Assets which generate periodical income are called as performing assets. Assets which do not generate periodical income are called as non-performing assets.

Classification of NPAs:

NPAs are classified into three categories:

1. Substandard Assets:-

Assets which has remained NPA for a period less than or equal to 12 months.

2. Doubtful Assets:-

An Asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. 3. Loss Assets:-

As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.

Causes of NPA:

These are the few reasons as to how the account may become NPA:

- Internal Factors
- External Factors

Internal Factors

- If funds are borrowed for a different purpose but used for different purpose.
- Recovery of receivables has not been appropriate and up to mark.
- Business failures.
- If non-economic cost create excess opportunities.
- Some people do wilful defaults, fraud, delay in settling payments etc.
- There can be deficiencies by part of banks too like in credit appraisal, wrong follow ups, payments delayed.

External Factors

- Sluggish legal system.
- Labour laws changes that may have happened.
- Industrial recession.
- Sometimes efforts are not sincere.
- There can be natural calamities like floods or earthquakes, recession in industries, raw material shortage.
- Import duties in countries or rise in excise duties imposed by Government.

Impact of NPA on Public Sector Banks:

The increased NPAs put pressure on recycling of funds and reduces the ability of banks for lending more and thus results in lesser interest income. Thus the increased incidence of NPAs not only affects the performance of the banks but also affect the economy as a whole.

- NPAs affect the liquidity position of the banks.
- NPAs lead to the bad image to banks.
- Increase in NPAs leads to scarcity in funding to other borrowers. · It results higher cost of Capital.
- High NPAs results high risk in business and work against the banks.

SUGGESTIONS TO REDUCE NPA:

SARFAESI Act 2002, the Securitization and reconstruction of financial assets and enforcements of security interest act 2002 empowers the banks and other financial institutions to recover the non-performing assets without court's intervention. NPAs can be recovered by 3 methods:

1. Securitization
2. Asset Reconstruction
3. Enforcement of security without intervention of court.

In case borrower fails to comply and return what he borrowed bank can use following measures:

1. Appoint any person to manage the same.
2. Take possession of security.

3. Sale or lease the right over the security.

LOK ADALATS:

These can be used for recovery of small loans like 5 lakh or less.

CREDIT INFORMATION BUREAU:

This helps the banks by maintaining data of an individual and provides the information to all banks.

COMPRISE SETTLEMENT:

This scheme helps to provide simple mechanism for recovery of NPA.

CONCLUSION:

Banking system plays a very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Complete elimination of NPA in PSBs is not possible because government business and development schemes are mostly routed through the PSBs, but banks can always aim to keep the losses at a low level.

For preventing NPAs, the bank itself should adopt proper policies. It is better to avoid NPA's at the growing stage of credit consideration by putting in place of rigorous and appropriate credit appraisal mechanisms. Banks should also assess the companies thoroughly before granting loans and should act strictly towards wilful defaulters.

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