

Causes for Non-Performing Assets in Public Sector Banks

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Abstract – Non-Performing Asset implies an asset or record of borrower, which has been arranged by a bank or financial establishment as unacceptable, suspicious or misfortune asset, as per the headings or rules issued by RBI. The variables that are adding to NPA are poor advance administration approach, ill-advised credit examination, business failures, poor recovery of receivables, sluggish legitimate framework, mechanical retreat, and adverse trade rates etc. A solid financial area is significant for sound economy. The failure of the financial part may adverse affect different divisions. Throughout the years, much has been discussed NPAs and the emphasis so far has been distinctly on identification and quantification of NPAs as opposed to on approaches to diminish and redesign them. Non-performing assets are one of the major worries for banks in India. An abnormal state of NPAs recommends high likelihood of an enormous number of credit defaults that influence the gainfulness and total assets of banks. The NPA development includes the need of arrangements, which lessens the general benefits and investors esteem. The issue of NPAs isn't just affecting the banks yet in addition the entire economy of the nation. Truth be told abnormal state of NPAs in Indian banks is only a reflection of the condition of wellbeing of the trade and industry. The principle objective of the examination is to see whether there are any significant contrasts in the mean variation of the concerned banks. This paper additionally centers around the explanation for the NPA and its impact on banking tasks.

Keywords: Non-Performing, Asset, Profitability, Shareholders, Trade, Banking

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INTRODUCTION

NPA is characterized as a development where payment of interest or repayment of portion of head (if there should arise an occurrence of term advances) or both stays unpaid for a specific period. In India, the meaning of NPAs has changed after some time. As per the Narasimham Committee Report (1991), those assets (propels, bills limited, overdrafts, money credit and so forth.) for which the interest stays due for a time of four quarters (180 days) ought to be considered as NPAs. Along these lines, this period was reduced, and from March 1995 onwards the assets for which the interest has stayed unpaid for 90 days were considered as NPAs. A NPA is characterized as an advance asset, which has stopped to produce any income for a bank whether as interest or head repayment. Non-performing Asset (NPA) has risen since over 10 years as a disturbing danger to the financial business in our nation sending distressing sign on the sustainability and strength of the influenced banks. In spite of different measures directed to take care of and end this issue, solid outcomes are escaping. It is a broad and all inescapable infection stood up to all around on banking and financial establishments. The seriousness of the issue is anyway intensely endured by Nationalized Banks, trailed by the SBI gathering

including country banks and the all India Financial Institutions.

An asset is classified as Non-performing Asset (NPA) if due as head and interest are not paid by the borrower for a time of 180 days. Anyway with impact from March 2004, default status would be given to a borrower if duty is not paid for 90 days. On the off chance that any advances or credit offices conceded by banks to the borrower progresses toward becoming non-performing, at that point the bank should treat every one of the advances/credit offices allowed to that borrower as non-performing without having any respect to the way that there may even now exist certain advances/credit offices having performing status. The term NPA shows financial assets of the commercial bank, which has quit earning a normal sensible return. It is additionally a reflection of the efficiency of the unit, firm, concern, industry and country where that asset is sitting. The NPA is a consequence of a situation that prevents it from performing up to anticipated levels.

In India, the NPAs that are viewed as at higher levels than those in different nations have recently, pulled in the consideration of public. The Indian financial framework had obtained a huge quantum

of NPAs and is by all accounts developing in public segment banks throughout the years. A differentiation is frequently made between Gross NPA and Net NPA. Net NPA is gotten by deducting things like interest due yet not recouped, part payment got and kept in tension record and so on., from Gross NPA.

CAUSES FOR NON-PERFORMING ASSETS

A solid financial sector is significant for a prospering economy. The failure of the financial sector may adversely affect different sectors. The Indian financial framework, which was working in a shut economy, presently faces the difficulties of an open economy. On one hand a secured situation guaranteed that banks never expected to create complex treasury activities and Asset Liability Management skills. Then again a blend of coordinated lending and social banking consigned benefit and intensity to the foundation. The net outcome was unsustainable NPAs and thus a higher effective cost of banking services. One of the fundamental driver of NPAs into banking sector is the coordinated advances framework under which Indian banks are required an endorsed level of their credit (40%) to priority sectors.

In the past articles, numerous writers have discovered numerous explanations behind NPA. Maybe a couple are: Market Failure, Wilful Defaults, Poor development and Supervision, Non-collaboration from Banks, Poor Legal system, Lack of Entrepreneurial Skills, Diversion of assets (Santanu Das, 2010) Zahoor Ahmad, Dr. M. Jegadeeshwaran (2013) in their paper „Comparative Study On NPA Management of Nationalized Banks” has broke down, inappropriate choice of borrower’s exercises, feeble credit appraisal framework Industrial issue, inefficiency in the board of borrower, slackness in credit the board and monitoring, lack of legitimate follow up by bank, recession in the market, and characteristic calamities and different uncertainties, as the purposes behind the NPA. Then again (Ashly Lynn Joseph, 2014) in his paper “A Study on Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks “has identified couple of external, interior and different factors that are engaged with the development of NPA and those are : diversion of reserve for extension, expansion, modernization or for taking up new projects, diversion of store for helping or advancing partner concerns, time or cost invade during the task execution organize, business failure because of item failure, failure in showcasing etc, inefficiency in bank the board, slackness in credit the board and monitoring, and inappropriate technology or issues identified with present day technology. The external factors incorporate recession in the economy in general, info or power lack, value acceleration of information sources, conversion standard vacillations, and change in government strategies. Different factors incorporate progression

of the economy and the ensuing weights from advancement like a few rivalries, decrease of duties and so on, poor monitoring of credits and failure to perceive early cautioning sign appeared by standard assets, abrupt slamming of capital market and powerlessness to raise sufficient funds, mismatching of assets for example utilizing advance allowed for present moment for long haul exchanges, granting of advances to specific sectors of the economy based on government mandates instead of commercial objectives. (Namita Rajput, et.al., 2012) likewise examined a few purposes for the arrangement of NPA, and furthermore found the impact of the NPA on banking activities and (Satpal, 2014) additionally attempted to discover some external factors and some inward factors which affects the NPA like (Ashly Lynn Joseph, 2014), and furthermore found the impacts of NPA.

Classification of Assets:

Inadequate Assets: With impact from March 31, 2005, an unacceptable asset would be the one, which has stayed as a nonperforming asset for a time of not exactly or equivalent to a year. Inadequate assets have credit shortcomings that imperil the liquidation of the obligation and there are likewise probability of causing and supporting a few misfortunes if the insufficiencies are not amended.

Farfetched Assets: With impact from March 31, 2005, an asset is classified as dubious on the off chance that it has stayed as an unsatisfactory asset for a time of a year. An advance classified under the farfetched classification has all the shortcoming qualities as characterized for the unsatisfactory assets; likewise it has included attributes that the shortcoming makes full liquidation or accumulation, based on the right now known conditions, realities, and qualities that are profoundly farfetched and faulty.

Misfortune Assets: A misfortune asset is one where misfortune has been identified by the bank’s inward evaluators and RBI’s external inspectors, however the sum has not been discounted completely. These sorts of assets are likewise considered as uncollectible, and of little worth that its duration or upkeep as a bankable asset isn’t justified or worthy however there might be some rescue or recovery esteem.

LITERATURE REVIEW

Paul Purnendu, Bose, Swapan and Dhalla, Rizwan S.(2011) endeavored to gauge the general effectiveness of Indian PSU counts on by and large financial exhibitions. Since, the financial business in a creating nation like India is experiencing through a dynamic pace of rebuilding, it is basic for a bank to consistently screen their proficiency on Non-Performing Assets, Capital Risk-Weighted

Asset Ratio, and Business per Employee, Return on Assets and Profit per Employee. Here, Non-Performing Assets is a negative financial marker. To demonstrate experimentally, we propose a system to gauge productivity of Indian public sector banks.

Khedekar Pooja S. (2012) prescribes that a solid financial sector is fundamental for a prospering economy. Indian financial sector rose more grounded during 2010-11 in the fallout of worldwide financial emergency of 2008-10 under the careful gaze of its controller. The degree of NPAs goes about as a marker demonstrating the credit dangers and proficiency of allocation of asset. NPA includes the necessity of arrangements, any expansion wherein cut down the general benefit of banks. An exorbitant ascent in interest rates in the course of recent months has prompted a sharp increment in nonperforming assets. This affects the banks as well as the economy in general. Pooja likewise manages understanding the idea of NPA, the causes and diagram of various sectors in India.

Veerakumar, K. (2012) makes reference to that the Indian financial sector has been confronting serious issues of raising Non-Performing Assets (NPAs). Like an infection worm, NPAs have been eating the financial businesses from inside, since nationalization of banks in 1969. NPAs have interfered with quantum of credit, limitation the recycling of assets and prompts asset-liability crisscrosses. It additionally influenced productivity, liquidity and dissolvability position of the Indian financial sector. One of the major purposes behind NPAs in the financial sector is the 'Immediate Lending System' by the RBI under social financial witticism of the Government, under which booked commercial banks are required to lend 40% of their all out credit to priority sector. The banks that have progressed to the priority sector and arrived at the objective choked by virtue of raising NPAs, since long. The priority sector NPAs have enlisted higher growth both in rate and in supreme terms a seemingly endless amount of time after year. The present paper is an endeavor to examine the priority sector progresses by the public, private and remote bank bunch savvy, target accomplished by them and a relative report on priority and non-priority sector NPAs over the time of 10 years between 2001-02 and 2010-11. The creator additionally expects to discover the classes of priority sector propels which add to the growth of absolute priority sector NPAs during the period under investigation

Dutta. A (2014): This paper examined the growth of NPA in the public and private sector banks in India, and broke down sector shrewd non-performing assets of the commercial banks. With the end goal of the investigation information has been gathered from optional sources; for example, report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance, RBI Economic Surveys of India.

Ranjan, R., Dhal, S.C. (2013): This paper investigates an observational way to deal with the examination of the Indian commercial banks' nonperforming credits by regression investigation. The exact investigation assesses with respect to how the NPLs are influenced by three major arrangements of economic and financial factors, i.e., terms of credit, bank size prompted chance inclinations and macroeconomic stuns.

Bhatia, B.S., Waraich, S., Gautam, V. (2013): This investigation was made on District Central Cooperative Bank of Punjab, the examination attempted to break down the impact of some new product offerings on non performing propels in helpful banks and patterns in NPA against credit plans. Finally a similar examination was made between bank savvy and component insightful to discover the lacunas and recommend measures for improvement in overseeing NPA.

Rajeev, M., Mahesh, H.P., (2010): This exploratory paper analyzes the Indian patterns of NPAs from various measurements and clarifies how acknowledgment of the issue consistent monitoring, can diminish it to a more prominent degree. The paper likewise examines the elements of the joint liability gatherings or self improvement gatherings in upgrading the advance recovery rate

STATEMENT OF THE PROBLEM

The examination attempts to talk about the reasons of the NPA in public sector banks and furthermore investigations the issues, with an appropriate arrangement. The primary topic of this paper is to comprehend the significant distinction of the NPA event, and management of NPA in various nationalized banks of India in regard to priority and non-priority sector lending.

OBJECTIVES

1. To examination the concept on Non-Performing Assets and its pertinence in the financial sector
2. To recognize the factors affecting NPA in public sector banks
3. To investigation the impact of NPA on asset quality
4. To look at the foundations for NPAs in public sector banks
5. To make fitting recommendations to avoid future NPAs and to manage existing NPAs in Banks

RESEARCH METHODOLOGY

Descriptive examination is an investigation intended to delineate the members in an exact manner. It's utilized to depict qualities of a populace or phenomenon being examined. It gives a precise depiction of attributes of a specific individual, circumstance or gathering an examination instrument is "a device used to gather information" which measure learning, attitude and skill of the respondents. The scientist arranged an organized poll as an instrument to gather the information.

So as to extend the NPAs in public sector banks over next three years, the strategy for Moving Average has been utilized, from which Trend Analysis is touched base at. The important secondary information was gathered for the time of ten years from 2003-04 to 2015-16 from the site of RBI. The applicable financial and statistical information were gathered from the RBI and IBA sites. The moving average apparatus has been utilized for analysis. This is one of the adaptable techniques for measuring the trend. While applying this technique, it is important to choose a period for moving average suitably relying on the accessibility of the information. For this situation the information available is sufficient and consequently the three-year moving average observed to be appropriate for projecting the future trend.

DATA ANALYSIS

Table 1: Mean and SD of Bank based internal components that Contribute to NPA

Sl. No.	Importance to the Bank based internal components that contribute to NPA	Mean	Std. Deviation
1	Improper selection of borrowers	2.18	0.872
2	Deficiency in processing	2.00	0.886
3	Improper appraisal of assets	2.10	0.834
4	Lack of monitoring pre and post sanction of loan	2.57	0.680
5	Terms and conditions of credit	1.59	0.494
6	Unsecured loans	2.42	0.665

From the above table, Lack of monitoring pre and post sanction of advance has the most astounding mean pursued by Unsecured advances, Improper choice of borrowers, Improper appraisal of assets, Deficiency in processing and Terms and states of credit. Most elevated standard deviation of Deficiency in processing shows low spotlight on the specific inside components that add to NPA.

Table 2: Mean and SD of bank based external components that contribute to NPA

Sl. No.	Importance to the bank based external components that contribute to NPA	Mean	Std. Deviation
1	Selection of unsuitable and Unviable scheme	2.12	0.832
2	Mis-utilization of fund	2.59	0.678
3	Insolvency or death of borrower	1.32	0.645
4	Low income from project	2.01	0.649
5	Lack of infrastructure, Modern Technology and marketing facilities	1.33	0.493
6	Political interference and labor unrest	2.40	0.662
7	Willful default due to liberal government policy and	2.42	0.799
8	Sluggish legal system	1.62	0.673
9	Price escalation of inputs	1.81	0.755
10	Power failures	1.99	0.891

From the above table, mis-use of store has the most elevated mean pursued by Willful default because of liberal government policy, Political impedance and work unrest, Selection of inadmissible and Unviable scheme, Low income from project, Power failures, Price escalation of inputs, Sluggish lawful system, Lack of infrastructure, Modern Technology and promoting facilities, Insolvency or death of borrower . Most noteworthy standard deviation of Power failures shows low focus on the specific external components that contribute to NPA.

To the extent old NPAs are concerned, a bank can expel it all alone or offer the assets to AMCs to tidy up its accounting report. For preventing crisp NPAs, the bank itself ought to adopt legitimate policies.

Table 3: Gross NPAS Sector-Wise As On March 2016

Borrowing Sector-Wise Distribution of NPAS	Amount (Rs in crores)	Percentage of Total NPAs
Public Sector Units	1334.05	2.40
Large Industries	11498.70	20.58
Medium Industries	8658.69	15.81
Other non-priority sectors	9516.62	17.37
Agriculture	7311.40	13.34
Small Scale Industries	10284.98	18.78
Other Priority Sectors	6169.30	11.72

During the year 2003-04 to 2015-16, there has been a sharp decline in Gross NPAs to Gross Advances. The Trend Line additionally shows keeps diminishing trend. From this, it very well may be reasoned that throughout the following three years, Gross NPAs to Gross Advances of public sector banks would diminish significantly.

CONCLUSION

As the Trend Line recommends that the NPAs of public sector banks will decline hardly both as far as Gross and Net figures over next three years. A solid financial sector is significant for a flourishing economy. The failure of the financial sector may adversely affect different sectors. There is additionally a general observation that the remedy of 40% of net bank credit to priority sectors has