A Study of Non-Performing Assets of Commercial Banks in India

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Abstract – Banks play an important role in the economic development of a country. The Indian banking sector has been facing serious problem of growing Non-performing assets(NPA's). The NPA growth has a direct impact on the profitability of the banks. Banks are growth driver and the banking business is exposed to many risks, such as credit risk, liquidity risk, interest rate risk, market risk, operational risk and management risk. But the major risk faced by banks these days is high level of NPA's. The financial position of the banks is based on the level of recovery of loans and its level of Non-Performing Assets. Reduced NPA's leads to impression that banks have strengthened their credit appraisal processes and increased NPA's leads to creation of more provisions which will reduce profitability of the banks. This paper makes an attempt to study the level of Non-Performing assets of the commercial banks in India. To improve the profitability and efficiency of the banks it is the need of the hour to reduce and control the level of NPA's, so that negative impact on the economy is minimal.

Keywords: Non-Performing Assets, NPA's, Commercial Banks

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INTRODUCTION

In the growth of economic development, the function of banking sector has always been commendable. It is the potency and input of the banking system can have far-reaching implications on the development of the whole economy. Many researchers have studied that there is strong empirical evidence today of that robust financial markets support economic growth. This is particularly relevant at the present time also when there is lot of stress in the financial markets globally and consequently a slowdown in the momentum of economic growth. In India, after the nationalization of banks in 1969, the geographical presence of the banking system increased considerably. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans, etc., but in recent times the banks become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India. The Non-Performing Asset (NPA) concept is restricted to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a "Non-Performing Asset".

In other words, a loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e., interest, fees, commission or any other dues for the bank for more than 90 days. Non-performing Assets (NPAs) are problematic and risk for financial institutions since they depend on interest payments for income. Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

1. Sub-standard Assets- A sub-standard asset is one which has remained NPA for a period of less than or equal to 12 months.

2. Doubtful Assets- An asset is required to be classified as doubtful, if it has remained NPA for more than 12 months.

3. Loss Assets- Are those assets which are considered un-collectable.

REVIEW OF LITERATURE

There are many studies conducted on the issue of Non-Performing Asset Management in Indian banks, following is the review of few literatures about the NPA practices and management conducted for banks in India.

Arora and Ostwal (2014), the present paper analyses the classification and comparison of loan assets of public and private sector banks. The study concluded that NPAs are still a danger for the banks and financial institutions and in comparison to private sector banks; public sector banks have higher level of NPAs.

Srinivas K T (2013), emphasis on identify the Non-performing assets at Commercial banks in India. This paper highlights the various general reasons which convert advances/assets into NPA and also give suitable suggestion on findings to overcome the mentioned problem.

Gupta (2012), in her study A Comparative Study of Non-Performing Assets of SBI & Associates & other public sector banks had concluded that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before exteding credit facility.

Khanna (2012), in her research paper entitled Managing NPA in commercial banks has said that the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans, etc., but in recent times the banks have become very cautious in extending loans.

Prasad and Veena (2011), in their study on NPAs Reduction Strategies for Commercial Banks in India stated that the NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits. The NPAs have destructive impact on the return on assets.

Kaur and Singh (2011), in their research paper entitled "A comparative study of Non-performing Assets of Public and Private sector banks", an attempt is made to clarify the concept of NPA, the factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations.

Bhatia (2007), studied the factors causing NPA in banks and the extent to which it can raise the level of NPAs in banks. The factors were categorized into bank related internal factors and external factors such as macro-economic variables. Their effect on NPA was examined by the researcher.

OBJECTIVES OF THE STUDY

1. To review the trend of gross NPA of commercial banks in India

2. To review the trend of net NPA of commercial banks in India.

3. To suggest measures to control the menace of NPAs.

SCOPE OF THE STUDY

The study covers the composition of non-performing assets of commercial banks in India. The period of the study is ten years spanning from 2007-2018.

SOURCES OF DATA COLLECTION

The data collected is mainly secondary in nature. The sources of data include Report on Trend and progress of banking in India, Annual reports of RBI, various magazines, journals and books.

NPA IN SCHEDULED COMMERCIAL BANKS

Table 1- Gross Advances and Gross NPAs of SCBs (Amount in Rupees Billion)

| Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (%age)
2007-08	20125.10	504.86	2.5
2008-09	25078.85	563.09	2.3
2009-10	30382.54	683.28	2.3
2010-11	35449.65	846.98	2.4
2011-12	40120.79	979.00	2.5
2012-13	46655.44	1370.96	2.9
2013-14	59882.79	1931.94	3.2
2014-15	68757.48	2641.95	3.8
2015-16	81586.67	6119.00	7.5
2016-17	85139.78	7918.00	9.3
2017-18	92662.10	10361.87	11.18

Source: dbie.rbi.org.in

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 2007-08 to 2017-18. The amount of advances has increased from 20125 Billion in 2007-08 to 92662 Billion in 2017-18. The amount of gross NPA has increased from 505 Billion in 2007-08 to 10362 Billion in 2017-18. Similarly, NPA percentage is also showing the rising trend from 2.5% in 2007 to 11.18 % in 2017.

### Table 2: Net Advances and Net NPAs of SCBs (Amount in Rupees Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs (%age)
2007-08	19812.37	201.01	1.0
2008-09	24769.36	247.30	1.0
2009-10	29999.24	315.64	1.1
2010-11	34970.92	387.23	1.1
2011-12	42987.04	417.00	1.1
2012-13	50735.59	652.00	1.3
2013-14	58797.03	986.00	1.7
2014-15	67352.32	1426.57	2.1
2015-16	79500.00	3498	4.4
2016-17	81716.98	4331	5.3
2017-18	86783.33	5207	6.0

Source: dbie.rbi.org.in

Dr. Preeti Arora*

The above table shows the amount of Net Advance, Net NPA and the percentage of Net NPA during the period of 2007-08 to 2017-18. The amount of net advances has increased from 19812 billion in 2007-08 to 86783 billion in 2017-18. Further, the amount of Net NPA has also increased from 201 billion in 2007-08 to 5207 billion in 2017-18. The percentage of Net NPA has increased over the period from 1% in 2007-08 to 6.0% in 2017-18.

Figure 1- Scheduled Commercial Banks (Gross and Net NPAs)
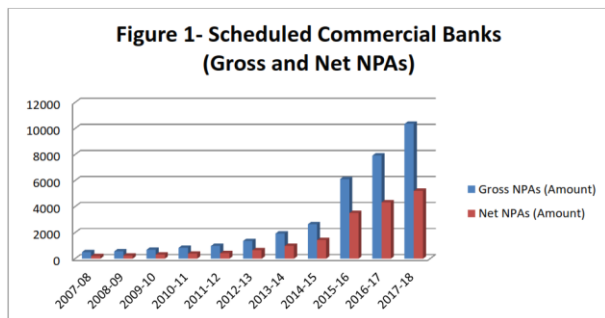
The above figure shows the trend of Gross NPA and Net NPA in billion for the period of 11 years starting from 2007-08 to 2017-18. The x-axis represent the years i.e. the period of study (2007-08 to 2017-18) whereas, the y-axis represent the amount of NPA. It can be observed here that the Gross and Net NPA has been showing an upward trend over the period of time.

Figure 2: Gross and Net NPA (in Percentages)
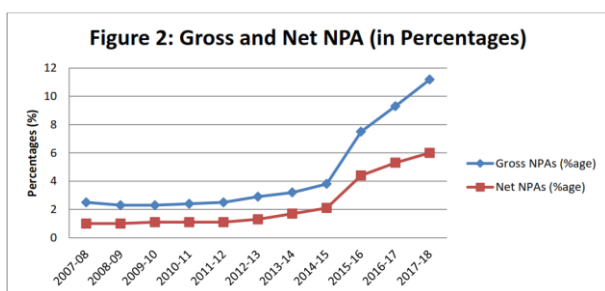
The above figure portrays the trend of Gross NPA and Net NPA in percentages for the period of 11 years i.e. 2007-08 to 2017-18. The x-axis represent years covered under study and the y-axis represent the percentage Of Gross and Net NPA. It can be inferred from the figure that after 2014-15, the Gross and Net NPA has taken momentum.

Table 3: Amount of NPA recovered by SCBs through Lok Adalats (Amount in Crore)

Year	Number of Cases Referred	Amount involved	Amount recovered	% of Amount recovered
2008	186535	2142	176	8.2
2009	548308	4023	96	2.4
2010	778833	7235	112	1.55
2011	616018	5254	151	2.87
2012	476073	1700	200	11.8
2013	840691	6600	400	6.1
2014	1636957	23200	1400	6.2
2015	4456634	7200	320	4.4
2016	2152895	10580	380	3.6
2017	3555678	361	23	6.3
2018	3317897	457	18	4

Source: www.rbi.org.in

The above table shows NPAs of commercial banks recovered through Lok Adalats during the study period of 2008-2017. It can be inferred from the table that number of cases referred to Lok Adalats has increased considerably largely in 2015 and the amount involved in these cases were high in the year 2014 out of which only 6.2% has been recovered. Due to which commercial banks has to resort to other channels for the recovery of NPAs.

Table 4: Amount of NPA recovered by SCBs through DRTs (Amount in Crore)

Year	Number of Cases Referred	Amount involved	Amount recovered	% of Amount recovered
2008	3728	5819	3020	51.90
2009	2004	4130	3348	81.10
2010	6019	9797	3133	32.00
2011	12872	14092	3930	27.89
2012	13365	24100	4100	17.00
2013	13408	31000	4400	14.10
2014	28258	55300	5300	9.50
2015	24537	6930	640	9.20
2016	28902	6710	1640	24.40
2017	32418	1008	103	10.2
2018	29551	1333	72	5.4

Source: www.rbi.org.in

The above table 4 is showing NPAs of commercial banks recovered through DRTs during the period of study. From the analysis, it is clear that the number of cases for the recovery of NPAs referred to DRTs is increasing and the amount recovered through DRTs has increased, which shows their efficiency in 2009 where it recovers 81% of the total amount involved in NPAs and in the later years also the amount recovered by DRT is quite significant as compared to Lok Adalats.

Table 5: Amount of NPA recovered by SCBs through SARFAESI Act (Amount in Crore)

Year	Number of Cases Referred	Amount involved	Amount recovered	% of Amount recovered
2008	83942	7263	4429	61.00
2009	61760	12067	3982	33.00
2010	78366	14249	4269	30.00
2011	118642	30604	11561	37.78
2012	140991	35300	10100	28.60
2013	190537	68100	18500	27.10
2014	194707	94600	24400	25.80
2015	173582	8010	1320	16.50
2016	80076	11310	780	6.90
2017	199352	1414	259	18.3
2018	91330	1067	265	24.8

Source: www.rbi.org.in

Table 5 is showing NPAs of commercial banks recovered through SARFESI Act during the study period. It can be analysed from the above table that SARFESI Act is able to recover NPAs and the highest recovery was of 61% in the year 2008, but after 2011 the recovery rate has been declining.

Dr. Preeti Arora*

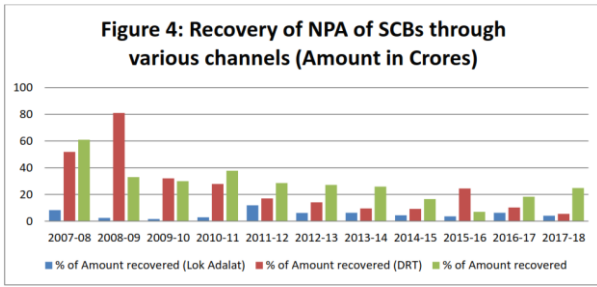Figure 4: Recovery of NPA of SCBs through various channels (Amount in Crores)

Figure 4 clearly showing NPAs of SCBs recovered through various channels, indicating that SARFESI Act has played an important role in recovery of NPAs as compared to other channels and has emerged as a blessing in disguise for the commercial banks.

IMPACT OF NPA

NPA impact the performance and profitability position of banks. The most important hindrance due to rising NPA's is credit expansion for productive purposes. If the level of NPAs is not controlled timely this will leads to many problems:

- Reduction in ROI of banks.

- The cost of capital will go up.

- Provisioning requirement will increase adversely affecting capital adequacy and profitability of banks

- NPAs affect the risk facing ability of banks.

FINDINGS

- The amount of gross NPA has increased from 505 Billion in 2007-08 to 10362 Billion in 2017-18. Similarly, NPA percentage is also showing the rising trend from 2.5% in 2007 to 11.18% in 2016.

- The amount of Net NPA has also increased from 201 billion in 2007-08 to 5207 billion in 2017-18. The percentage of Net NPA has increased over the period from 1% in 2007-08 to 6.0% in 2017-18.

- It can be inferred that the Gross and Net NPA has been showing an upward trend over the period of time.

- The number of cases referred to Lok Adalats has increased considerably largely in 2015 and the amount involved in these cases were high in the year 2013 out of which only 6.2% has been recovered. Due to which commercial banks has to resort to other channels for the recovery of NPAs.

- It is clear that the number of cases for the recovery of NPAs referred to DRTs is increasing and the amount recovered through

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- SARFESI Act is able to recover NPAs and the highest recovery was of 61% in the year 2008, but after 2011, the recovery rate has been declining.

RECOMMENDATIONS

- Developing a reliable and up to date information system.

- Establishing a sound control and feedback mechanism.

- Rigorous screening process should be followed before sanctioning loans.

- Monitoring of project during construction and operations.

- Regular follow up with the customers should be there to ensure proper utilization of funds.

- As a curative measures, bankers should resort to official agencies.

- Restructuring of loans should be done in case of genuine borrowers.

LIMITATIONS OF THE STUDY

- The study is limited to scheduled commercial banks only.

- The period covered under study is 11 years only.

- The study does not concentrate on future consequences of NPAs.

CONCLUSION

The NPAs are the most important danger in banking sector now a days. If NPAs are properly managed by banks, it will affect their profitability. Government has taken strict steps to manage this problem but still a lot needs to be done to curb this problem. It is not at all possible to have zero rate of NPA's but the management should speed up their recovery process. The government should also make more provisions for faster settlement of pending cases.. So, it's the need of the hour to manage NPA level in banking sector else our economy will have to bear its negative consequences.

Dr. Preeti Arora*

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