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RESEARCH ARTICLE

"RISING NPA's – A NIGHTMARE FOR INDIAN BANKING SECTOR".

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Abstract

In the recent scenario loan has become a willingness or ability to pay off which is a nightmare for banks. Basically NPA are default loans in the books of banks or are in arrears on scheduled payments of principal or interest has not been paid off within 90 days. We have analysis the secondary data of public and private sector bank for the year 2016 till the end of December 2017. It highlights those sway for NPA for execution for banks, prudential norms and new methodologies of government, suggestions to dispense with the terrible debts problem; bring, diminish and control NPA.

Introduction:-

The progress of the Indian economy and the development of Indian Banking System are inevitably correlated. The banking sector is an imperative financial service sector succoring growth plans by way of channelizing funds for the fruitful purpose, the intermediating flow of funds from surplus to deficit and succoring government in their financial and economic policies. Banks obey social objectives by way of priority sector lending, mass branch networks, and employment creation. Looking for the asset quality and profitability are vital for banks existence and expansion. In the process of attaining such objectives, an utmost hindrance to Indian Banking System is ubiquity of Non-Performing Assets (NPAs). A Non-Performing Asset (NPA) is an act of lending for which the principal or interest amount remained overdue for duration of 90 days. The higher amount of NPA's indicates an intense possibility of a high number of credit defaults that have an effect on profitability and value of banks and also corrodes the efficacy of the asset. The shooting up NPA call for prerequisite of provisions, which shrink the overall profits and shareholders. In the current scenario, NPAs are at number-one of financial problems of the banks. Solid efforts have to be made to ameliorate recovery execution. Some grounds of rising NPAs are the target-oriented perspectives which worsen the qualitative aspect of lending by banks and intended defaults, unproductive supervision of loan accounts, meagerness of technical and managerial prowess on the part of borrowers. The scenario isn't elementary to be generalized for the industry as intact to advise a readymade conglomeration of a common solution for all banks unsurpassed.

Review Of Literature:-

Several researchers have been studied to the issue of rising Non-Performing Assets (NPAs) in the banking sector. A review of the pertinent literature has been described. The NPAs have always been a big worry for the banks in India. The extent of NPAs has comparatively higher in public sectors banks. To revamp the efficiency and profitability, the NPAs have to be programmed. Various steps have been taken by the government to reduce the NPAs. Maintaining profitability is a challenge to commercial banks especially in a highly competitive era. (C.S.BALASUBRAMANIAM, 2012) . Timely action is essential to ensure future growth of the Bank.

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(B.SELVARAJANA & G. VADIVALAGAN, 2013) NPAs which will enhance the creditability of the banks and in turn make the foundation of our country strong. (PARUL KHANNA, 2012). It is highly impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers. (MS. ASHA SINGH, 2013). . Due to lower credit risk and consequent higher profitability, greater encouragement should be given to small borrowers. (DR. SUSHAMA YADAV, 2014).

Research Objectives:-
1. To develop the efficiency and profitability of banks.
2. To know the rising trends and preventive measures to control NPAs.
3. To determine the prudential norms to bring down NPAs.
4. To identify the bad debt problems.

Research Methodology:-
It is a descriptive research. The research sampling method is based on secondary research and quantitative data of banks. We have analyzed by using tables that are used to compare total advances, gross NPA, net NPA & profits of banks. We have gathered relevant data from the news articles and compiling data in order to critically analyze the rising trends, quality of assets, survival and bad debt problems of bank and have arrived to the solution of controlling the NPAs.

Data Analysis and Interpretation:-
Gross NPA’s Of 24 PSU Banks:-

YEAR	GROSS NPA (in crore)	GNPA RATIO
Dec ‘ 12	157,784	3.87
Dec ‘ 13	218,579	4.61
Dec ‘ 14	261,843	5.09
Dec ‘ 15	393,047	7.16
Dec ‘ 16	614,872	11

Highest GNPA Ratio:-

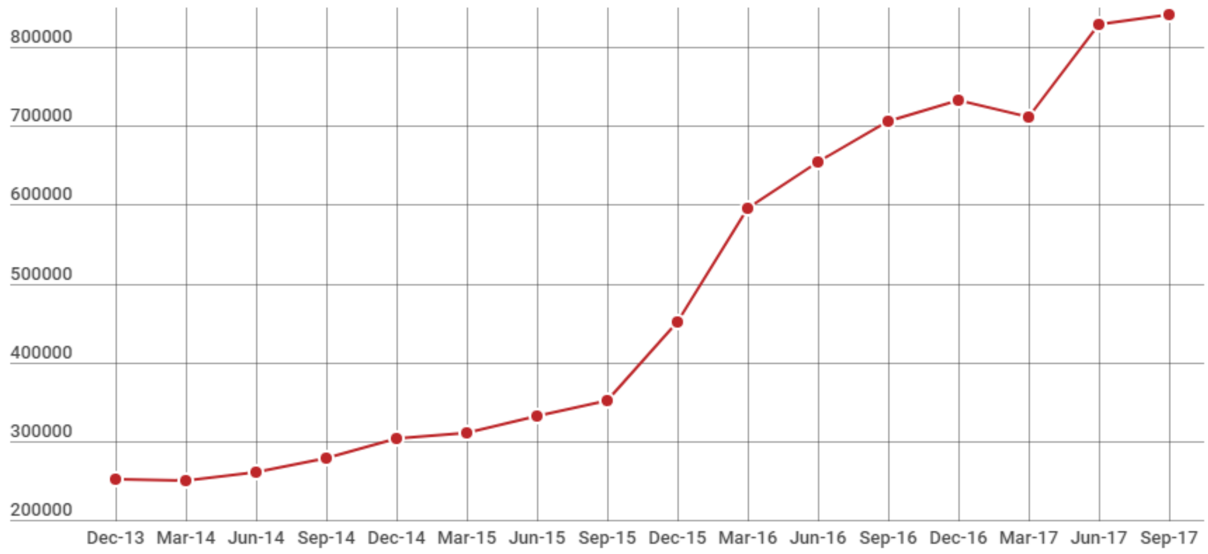
PSU BANK	GNPA Ratio
Indian Overseas Bank	22.42
UCO Bank	17.18
United Bank Of India	15.98
IDBI Bank LTD.	15.16
Bank Of Maharashtra	15.08

Gross NPA and Advances:-
(Public + Private)

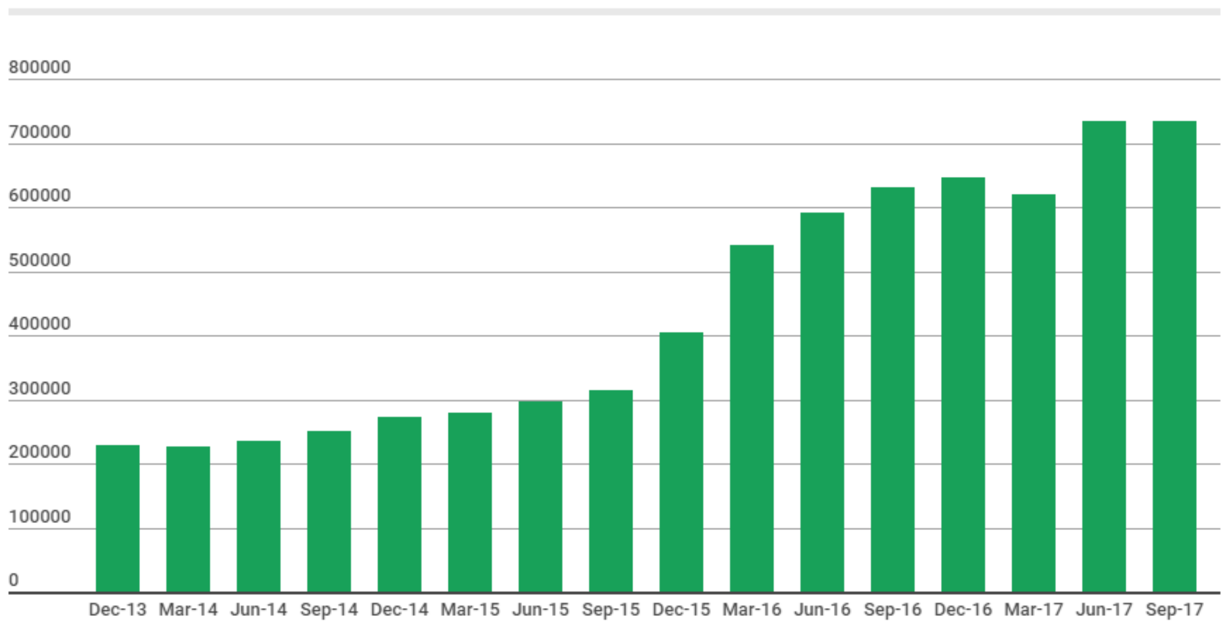
YEAR	GROSS NPA	GNPA RATIO
Dec ‘ 12	178,460	3.5
Dec ‘ 13	242,609	4.0
Dec ‘ 14	292,193	4.4
Dec ‘ 15	437,860	6.0
Dec ‘ 16	697,409	9.3

According to data the NPA is consistently increasing and it’s a bad to sign to the performance of the bank. Public bank NPA is higher than private bank. According to 2016 data, Indian Overseas Bank has the highest NPA (22.42%).

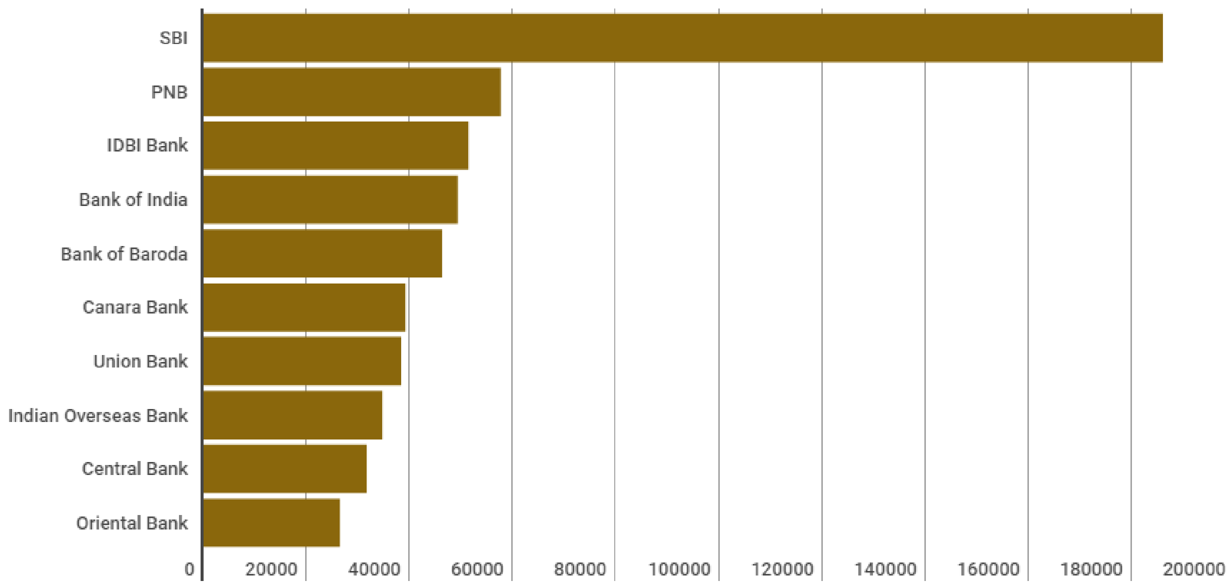
Recent Facts And Figures In Graphs:-
GROSS NPA in Rs core



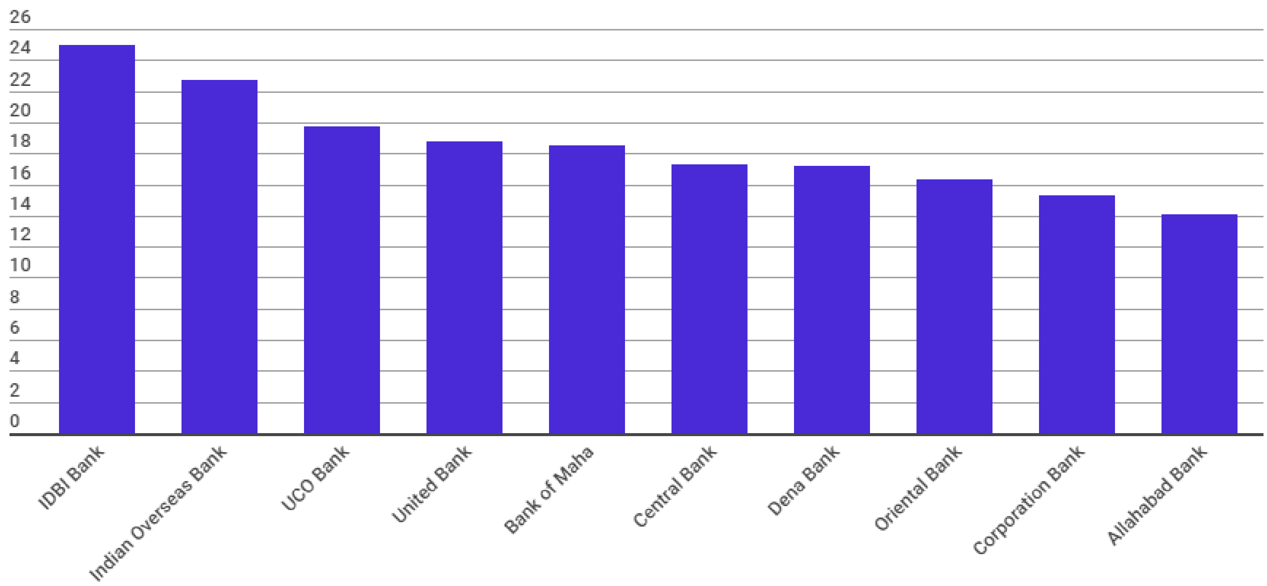
Public Sector Banks Gross Npas In Rs Cr



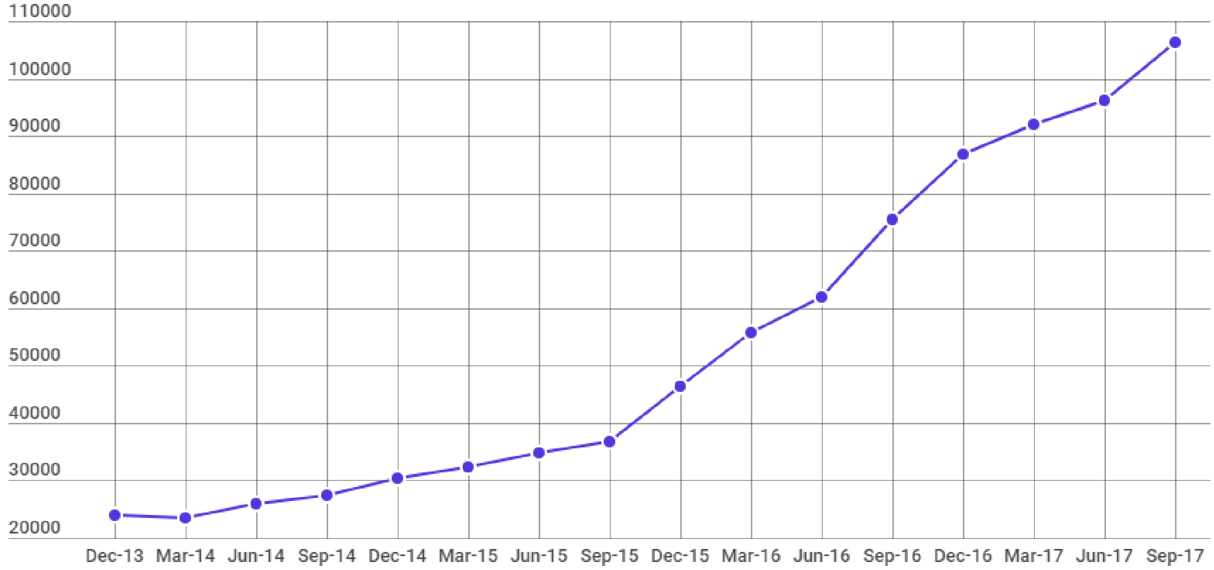
Public Sector Banks With Higher Gross Npas (Rs Cr) As On 30th September 2017



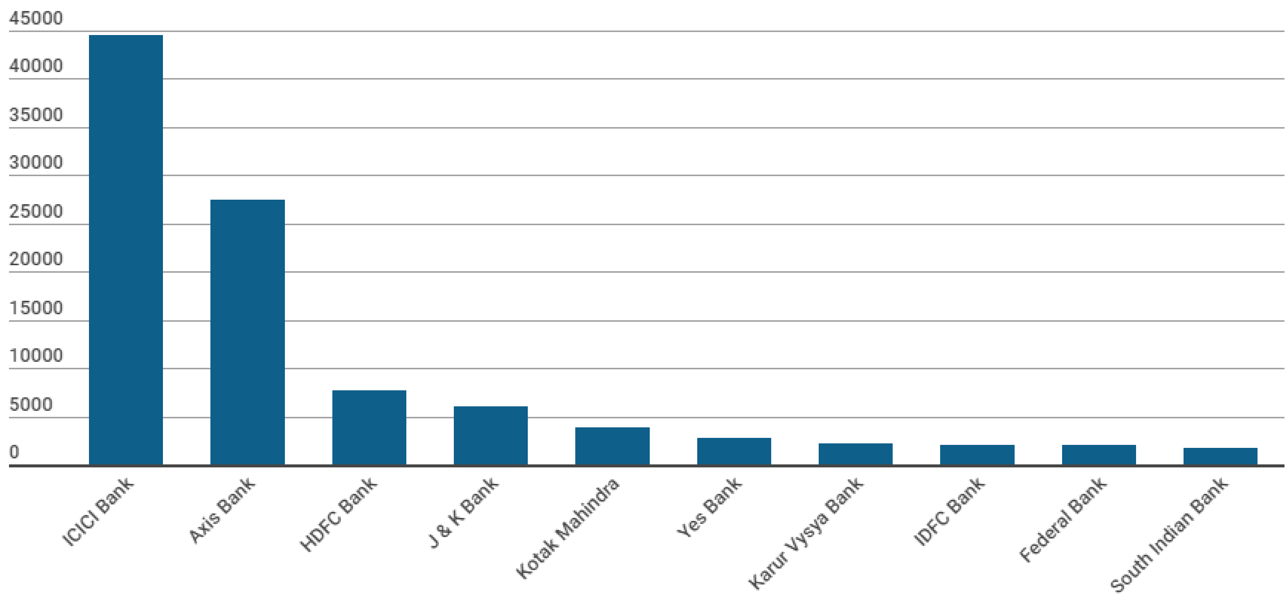
Public Sector Banks With High Gross Npas As % To Advances As On 30th September 2017



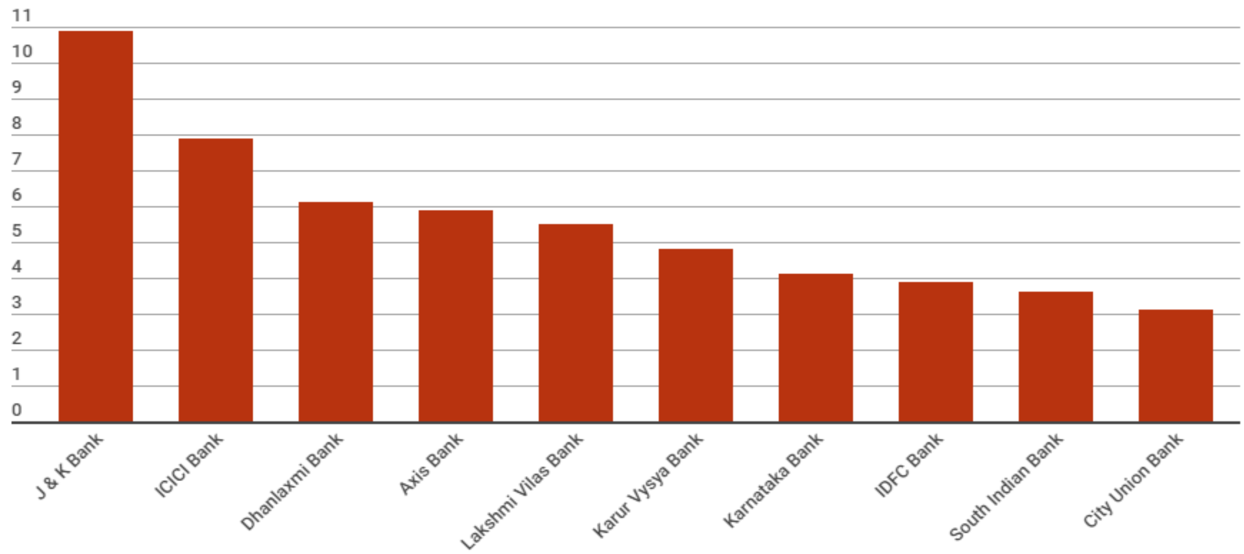
Private Banks Gross Npas In Rs (Cr)



Private Banks With Higher Gross Npas (Rs Cr) As On 30th September 2017



Private Banks With Higher Gross Npas As % To Advances As On 30th September 2017



NPA are constantly increasing quarter after quarter and hence it indicates the alarming of bad loan situation. State Bank of India tops the NPA chart and most of the other PSBs' like PNB, IDBI, BOI also managed to arrest the rise in bad loans during the quarter. However, gross NPAs of some private banks have risen significantly. ICICI bank tops the NPA chart of private sector banks followed by Axis bank, HDFC bank, etc.

NPA are loans and advances where payment of interest or principle has been due for more than 90 days or when an account remains out of order for 90 days in respect of an overdraft or cash credit, among other such similar dues. Basically, they are the loans and advances which discontinue fetching income to the banks. The priority sector refers to those sectors and segments for which it is difficult to get credit such as agriculture, education, micro and small enterprises, housing, etc. Banks are to grant a minimum of 40% of their funds to the priority sector according to the guidelines issued by the RBI.

According to the revealed data, there has been a steady increase in the amount of NPAs over the last five years. Over this period the amount of NPAs in the agriculture sector has increased to about 250% of the original from Rs 24,800 crore in 2012 to Rs 60,200 crore in 2017. This has been a result of an increasing number of loan waivers by the government and the demonetization in more recent memory. A major factor that has contributed to the amount of NPAs in the agriculture sector is the increasing frequency of farm loan waivers. This creates an atmosphere where defaulting on loan payments is acceptable. The increasing number of loan waivers has already had an impact on the balance sheets of lending institutions, the finances of states that give such waivers and on the interest rates of the loans that are granted. It also weakens a direct credit culture and impacts the credit discipline of the borrowers. Another reason for the continuous increase in bad loans in the agriculture sector is bad crops. The Kharif and the Rabi seasonal loans have resulted in really poor returns due to which farmer are not able to pay the loan amount. So weather or season also plays an important role for farmers to pay off the loan amount sanctioned.

While the agriculture sector had 6% of their total loans categorized as NPAs, the figure was up at nearly 21% for the non-priority sector which consists mainly of corporate and infrastructure borrowers. Agriculture contribution is approximately 8% of the total NPAs of the banking sector, while the other sector or the non-priority sector amounts for approximately 78% of the system NPAs. Such a high number of NPAs of the non-priority sector only lead to a mood of carelessness for the farmers who feel entitled to default on their loans too.

NPA Impact of Performance on the Bank:-

Profitability:-

Due to the obstruction of money, the prodigality of bank decreases not only the amount of NPA but also leads to opportunity cost. So NPA doesn't affect only the current profit but also the future area of profit, which may lead to loss of long-term opportunity. Accumulated bad loans severely dent a bank's interest income. As per regulatory norms, banks are expected to make provisions against bad loans. High provisioning figures further eat away from their profits and its impact on reduction of profitability i.e. low ROI (return on investment).

Liquidity:-

Due to a number of impediments, money is getting occluded .Decreasing profit leads to less cash in hand which further leads to additional borrowing of cash for short period of time at high interest rates which further add up to the additional cost of the banks. Hence, it is strenuous in operating the functions of bank as another due to deficit of money.

Involvement of time and efforts of management is indirect cost to bank. This time and efforts would have been diverted towards other productive work. Nowadays bank appoint employees to deal with NPA which adds the additional cost of appointment.

The government is the largest shareholder in public sector banks which loses out on dividends from the banks. The government in its Economic Survey 2016 has mentioned that banks would require Rs 1.8 lakh crore which will be taxpayers' money at the end of the day. Another effect is that banks, being more worried about loan recovery fail to invest in latest technologies and digitization of banking. Thus, lack of technology implementation and customer convenience is affected.

With all public sector banks being listed entities, a bad quarter result always reflects the stock market If bank is suffering from mounting NPA and do not give any positive sign for further better performances, then stock prices crash which in turn affects the bank's shareholders income.

It also impacts our accounts with banks. Banks already reeling under mounting losses will not offer any rate cut for the customers. Therefore, home loans and car loans will continue to pinch the pockets of the bank customers though the Reserve Bank of India has cut the repo rates by 125 basis points.

Suggestions to Eliminate the Bad Debts Problem; Bring, Reduce and Control NPA’s:-

1. Proper evaluation of credit proposals definitely helps the banks in detecting the unviable projects at the first instance. Full information about unit, industry, its financial stake, management etc., should be collected.
2. Lending being a focused segment, there is an urgent need to develop specialized skills in the area of appraisal, monitoring and recovery to ensure the quality of credit portfolio. The decentralized model that is being vogue in many banks need to shift towards adoption of centralized model for sanction and recovery of Retail / Corporate loans. Differentiate cell if be built at the bank level, which might need complete data something like those business, furthermore its prospects on future.
3. Managing credit risk plays an important role and its effectiveness lies in an efficient recovery and exit strategy. Banks should be equipped with new credit risk management techniques, protecting the bank funds and minimize insolvency risks. Banks should explore the possibilities to develop credit derivatives markets to avoid these risks.
4. Timely follow up is the key to keep the quality of assets intact and enables the banks to recover the interest/installments in time. To have better control on the assets created out of borrowings, banks requirement to watch those working of the units toward paying incessant visits Furthermore this is will make completed should every last one of units regardless if those account will be performing alternately non-performing one.
5. Selection of right borrowers, viable economic activity, adequate finance and timely disbursement, end use of funds and timely recovery of loans should be the focus areas for preventing or minimizing the incidence of fresh NPAs.
6. The key challenge going forward for Indian banks is to expand credit portfolio and effectively manage NPAs while maintaining profitability. Asset quality continues to be the core function and also biggest challenge for the banks in the present dynamic environment. Though administration from claiming advantage nature will be a monetary record (balance sheet) issue for individual banks, it needs wider macro-economic suggestions. In order to overcome the associated risks including externalities, there is an imminent need for the banks to have well-structured and effective credit monitoring system in place coupled with appropriate business models.

New Strategies Created and Implemented by the Government to Control NPA's:-

The Government is ready to help banks to cope with bad loans which is lessening the profit of lenders and hurting the economy.

Amendment In Banking Law To Give RBI More Powers:-

Those Banking Regulation Act one gesture might be transformed will provide for rbi additional forces will screen bank accounts of the best defaulters. The amendment in the banking law will enable setting up of a committee to oversee companies that have been the greatest defaulters for advances. RBI wants stringent rules for joint lenders' forum and oversight committee to curb NPA's. While the present law allows the government to direct RBI to carry out inspection of a lender, there is no provision for setting up oversight committees. Also, there could be changes in the laws that would bar a bank from providing money which hasn't repaid the loans of other banks.

Stringent NPA Recovery Rules:-

The government has over the years enacted and tweaked stringent rules to recover assets of defaulters.

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act or SARFAESI Act of 2002 was amended in 2016 as it took banks years to recover the assets.

Experts have pointed out that the NPA problem has to be tackled before the time a company starts defaulting. This needs a risk assessment by the lenders and red-flagging the early signs of a possible default.

RBI's Loan Restructuring Schemes:-

RBI need through the period thought of a number from claiming schemes for example, such that corporate debt restructuring, framing from claiming joint loan specialists forum, adaptable structuring for long haul one task loans will base (or 5/25 Scheme), key debt restructuring plan What's more manageable structuring from claiming pushed advantages (S4A) should check those hazard of NPAs. On large portions cases, those organizations need neglected with aggravate benefits and defaulted significantly following their advances were restructured.

Banks May Need To Take A "Hair Cut":-

In the past few quarters, most of the banks especially PSU lenders, have reported a plummet in profits as they set aside hefty amounts for losses on account of NPAs, which eroded their profits.

Given the seriousness of the problem, the government may ask banks to go for more "hair cut" or write offs for NPAs.

The government and RBI may also come up with a one-time settlement scheme for top defaulters before initiating strict steps against them.

The regulatory requirements of capital adequacy and credit growth are the two main drivers for bank capitalization. Those administrative construction modeling will be comprehensively encircled and globally framed by the Basel Committee on Banking Supervision—a committee of bank supervisors consisting of members from representative countries. Its mandatory will reinforce the regulation, supervision and practices of banks and upgrade monetary soundness.

Present Npa Scenario:-

1. According to the latest information gathered by the government, stressed assets which include both non-performing assets as well as restructured loans of banks stood at Rs 9.64 lakh crore as on December 31, 2016.
2. In December, RBI's financial stability report said the gross non-performing advances (GNPAs) ratio of all banks increased to 9.1% by September 2016 from 7.8% in March 2016. The amount of stressed loans was up at 12.3% of total loan given out by banks by September, up from 11.5% in March 2016.
3. Private sector banks non- performing assets (NPAs) were considerably low at Rs 1.06 lakh crore by 30th September 2017.
4. Till 31st December 2017 bad loans of Public sector banks (PSBs) stood at Rs 7.34 lakh crore by the end of second quarter this fiscal, a bulk of which came from corporate defaulters, according to Reserve Bank data.
5. The government said major corporate houses and companies accounted for approximately 77 per cent of the total gross NPAs from domestic operations for the banks.

6. Host of provisions have been restored for the recovery of the bad loans and the network of Debt Recovery Tribunals (DRTs) have been expanded. There are 39 DRTs now as compared to 33 in 2016-17 that will assistance lessen those pending cases as well as expedite disposal of cases.
7. The finance ministry has approved proposal for infusion of Rs 7,577 crore in 6 weak public sector banks (PSBs) as part of the recapitalization plan to bolster capital adequacy ratio.
8. The finance minister outlined in his recent 2018 Budget speech that bank recapitalization program has been launched with bonds of Rs 80,000 crore being issued this year.
9. The programmed need been incorporated for a yearning change agenda, under the rubric from claiming an improved entry Furthermore administration brilliance (EASE) programme. This recapitalization will clear the route to general society part banks should give extra credit about Rs5 lakh core.
10. The Indian government and the country's central bank have announced Rs 2.11 lakh crore recapitalization plan.

The Prudential Norms Introduced to Bring down NPA's:-

NPA's story already exists since a considerable length of time for India and there have been several steps taken by the government on legal, financial, policy level reforms. In the quite a while 1991, Narasimham council prescribed a lot of people changes with tackle NPAs. Some of them were implemented.

1. The Debt Recovery Tribunals (DRTs) – 1993
2. Credit Information Bureau – 2000
3. Lok Adalats – 2001
4. Compromise Settlement – 2001 The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002
5. ARC (Asset Reconstruction Companies)
6. Corporate Debt Restructuring – 2005
7. Joint Lenders Forum – 2014
8. Mission Indradhanush – 2015
9. Strategic debt restructuring (SDR) – 2015
10. Asset Quality Review – 2015
11. Sustainable structuring of stressed assets (S4A) – 2016
12. Insolvency and Bankruptcy code Act-2016
13. Pubic ARC vs. Private ARC – 2017
14. Bad Banks – 2017

Conclusion:-

Currently, PSBs remain the biggest contributors to the economy with 70 percent of assets in the banking sector, but at the same time, they also account for the largest stock of the sector's total NPAs at nearly 90 percent denting their capital ratios and profitability. The strength of the economy is determined by its banking system. NPA's play an important role in determining the inclusive performance of the banks A high level of NPA's advocates a high probability of a large number of credit defaults that affect the net profitability and net -worth of banks and also erodes the value of the asset. Growth from claiming NPA includes need about provisions, which thus diminishes the generally speaking benefit and the shareholder's esteem. The branch manager must work meticulously before sanctioning the loans to the clients, especially to the priority sector. So, measures like selection of right borrowers, viable economic activity, adequate finance and timely disbursement, correct end use of funds and timely recovery of loans are absolutely necessary pre conditions for preventing or minimizing the incidence of new NPA's. This will enhance the creditability of the banks and in turn make the foundation of our country strong. The problem of NPA's can be solved, if not completely, by risk management mechanisms. It is required that the banking system be equipped with prudential norms. It is better to avoid NPA's at the primary stage of credit consideration by using proper credit estimation mechanisms. A process must be followed by all the banks so that any error can be track down. Public sector bank must be provided with strict targets and continuously monitoring must be done.

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