



## RESEARCH ARTICLE

### A STUDY ON NON PERFORMING ASSETS OF THE INDIAN BANKS.

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#### Abstract

There has been an increase in the Credit flow to various sectors of the economy such as infrastructure, industry, services and agriculture. But simultaneously there has also been an increase in the Non-Performing Assets (NPAs) in the Indian banking sector. NPAs have direct impact on the profitability and the net-worth of the banks. The banks have to take initiatives to bring down the Non-Performing Assets. Gross NPA reflects the quality of the bank loans and the Net NPA reflect the actual burden of the banks. This paper makes an attempt to study the trends of Gross NPA, Net NPA, the impact of NPAs and the recent measures taken by the government to decrease the NPAs.

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#### Introduction:-

In 1993, RBI issued guidelines based on the recommendations of the Narasimham Committee that mandated identification and reduction of NPA to be treated as 'National Priority'. Risk is inherent in banking as intermediation process involves counterparty risk. All the loan portfolios of a bank will not fetch earnings in the normal course. The loans/advances is an important source of income for the banks. The financial strength and soundness of the banking system depends mostly on the quality and performance of the loan portfolios (Siti Nurain Muhmad, 2015). The asset quality is a prime concern. It has an impact on profitability, liquidity, intermediation costs, credibility, income generating capacity and overall performance of the banks (Asha Singh, 2013). The reduction in asset quality results in accumulation of Non-Performing Assets (NPAs). The level of the NPA indicates the efficiency of a bank's credit risk management and allocation of resources. The measures incorporated to manage NPA can be classified into precautionary measures and curative measures. Precautionary measures focus on strengthening credit risk management system and continuous risk assessment systems of the bank. This will reduce the level of NPAs that have been generated. The curative measures are reactionary and focused on recovering from NPA accounts (Pragya Prashant Gupta, 2016). It includes measures taken by RBI such as setting up Asset Reconstruction Companies (ARCs), Debt Recovery Tribunals (DRTs), Securitization Act and Compromise Settlement Schemes.

#### Objectives of the study:-

1. to study the trend in the NPAs
2. to understand the impact of NPAs
3. to know the steps taken by the government to reduce the level of NPAs

**Table 1:- Public Sector Banks**

Year	Gross Advances	Gross NPA	Gross NPA %
2003-04	6619.75	515.37	7.8
2004-05	8778.25	483.99	5.5
2005-06	11347.24	413.58	3.6
2006-07	14644.93	389.68	2.7
2007-08	18190.74	404.52	2.2
2008-09	22834.73	449.57	2.0
2009-10	27334.58	599.26	2.2
2010-11	30798.04	746	2.4
2011-12	35503.89	1178.39	3.3
2012-13	45601.69	1656.06	3.6
2013-14	52159.20	2272.64	4.4
2014-15	56167.18	2784.68	5

Source: dbie.rbi.org.in

The above diagram shows that the Gross Advances of Public Sector Banks has increased from 6619.75 in 2003-04 to 56167.18 in 2014-15 and the Gross NPA has increased from 515.37 in 2003-04 to 2784.68 in 2014-15. The above diagram shows that there has been a steady decrease in the percentage of Gross NPA from 7.8% in 2003-04 to 2.0 in 2008-09 but there has been a steady increase in the percentage of Gross NPA from 2.2% in 2009-10 till 5 % in 2014-15.

**Table 2:- Public Sector Banks**

Year	Net Advances	Net NPA	Net NPA %
2003-04	6313.083	193.35	3.1
2004-05	8489.12	169.04	2.1
2005-06	11062.88	145.66	1.3
2006-07	14401.46	151.45	1.1
2007-08	17974.01	178.36	1
2008-09	22592.12	211.55	0.9
2009-10	27013	293.75	1.1
2010-11	33056.32	360	1.2
2011-12	38773.08	593.91	1.5
2012-13	44728.45	900.37	2
2013-14	51011.37	1306.35	2.6
2014-15	54762.5	1602.08	2.9

Source: dbie.rbi.org.in

The above diagram shows that the Net Advances of Public Sector Banks has increased from 6313.83 in 2003-04 to 54762.5 in 2014-15 and the Net NPA has decreased from 193.35 in 2003-04 to 1602.08 in 2014-15. The above diagram shows that there has been a steady decrease in the percentage of Net NPA from 3.1% in 2003-04 to 0.9 in 2008-09 but there has been a steady increase in the percentage of Net NPA from 1.1% in 2009-10 till 2.9 % in 2014-15.

**Table 3:- Old Private Sector Banks**

Year	Gross Advances	Gross NPA	Gross NPA %
2003-04	579.08	43.98	7.6
2004-05	704.12	42	6
2005-06	851.54	37.59	4.4
2006-07	948.72	29.69	3.1
2007-08	1134.04	25.57	2.3
2008-09	1303.52	30.72	2.4
2009-10	1563.57	36.22	2.3
2010-11	1872.96	36	1.9
2011-12	2329.18	42	1.8
2012-13	2731.2	52.1	1.9

Source: dbie.rbi.org.in

The above diagram shows that the Gross Advances of Old Private Sector Banks has increased from 579.08 in 2003-04 to 2731.2 in 2012-13 and the Gross NPA has decreased from 43.98 in 2003-04 to 52.1 in 2012-13. The above diagram shows that there has been a steady decrease in the percentage of Gross NPA from 7.6% in 2003-04 to 1.9% in 2012-13.

**Table 4:- Old Private Sector Banks**

Year	Net Advances	Net NPA	Net NPA %
2003-04	556.48	21.42	3.8
2004-05	677.42	18.59	2.7
2005-06	829.57	13.75	1.7
2006-07	928.87	8.91	1
2007-08	1116.70	7.4	0.7
2008-09	1285.04	11.59	0.9
2009-10	1541.36	12.71	0.8
2010-11	1846.47	9.0	0.5
2011-12	2300.79	13.35	0.6
2012-13	2699.37	20.06	0.7

Source: dbie.rbi.org.in

The above diagram shows that the Net Advances of Old Private Sector Banks has increased from 556.48 in 2003-04 to 2699.37 in 2012-13 and the Net NPA has decreased from 21.42 in 2003-04 to 20.06 in 2012-13. The above diagram shows that there has been a steady decrease in the percentage of Net NPA from 3.8% in 2003-04 to 0.7% in 2012-13.

**Table 5:- New Private Sector Banks**

Year	Gross Advances	Gross NPA	Gross NPA %
2003-04	1195.11	59.83	5
2004-05	1274.2	45.82	3.6
2005-06	2325.36	40.52	1.7
2006-07	3252.73	62.87	1.9
2007-08	4124.41	104.4	2.5
2008-09	4547.13	138.54	3.1
2009-10	4877.13	140.17	2.9
2010-11	5450.14	145	2.7
2011-12	6475.28	145.68	2.2
2012-13	8860.23	158.61	1.8
2013-14	13602.53	245.42	1.8
2014-15	16073.39	341.06	2.1

Source: dbie.rbi.org.in

The above diagram shows that the Gross Advances of New Private Sector Banks has increased from 1195.11 in 2003-04 to 16073.39 in 2014-15 and the Gross NPA has increased from 59.83 in 2003-04 to 341.06 in 2014-15. The above diagram shows that the new private sector banks have been able to maintain the Gross NPA % at around 2% to 2.5% for the past five years.

**Table 6:-** New Private Sector Banks

Year	Net Advances	Net NPA	Net NPA %
2003-04	1151.06	19.86	1.7
2004-05	1236.55	23.53	1.9
2005-06	2300.05	17.96	0.8
2006-07	3218.65	31.37	1
2007-08	4067.33	49.07	1.2
2008-09	4468.24	62.52	1.4
2009-10	4783.58	52.34	1.1
2010-11	6128.86	34	0.6
2011-12	7363.23	30.65	0.4
2012-13	8733.11	39	0.4
2013-14	13429.35	88.62	0.7
2014-15	15843.14	141.28	0.9

Source: dbie.rbi.org.in

The above diagram shows that the Net Advances of New Private Sector Banks has increased from 1151.06 in 2003-04 to 15843.14 in 2014-15 and the Net NPA has increased from 19.86 in 2003-04 to 141.28 in 2014-15. The above diagram shows that the new private sector banks have been able to maintain the Net NPA % at around 1% for the past ten years.

#### **Impact of NPA on performance of the banks:-**

Non Performing Assets have an impact on the performance of a bank in the following ways:-

- ❖ They reduce the income from net interest earned as the interest is not charged to NPAs.
- ❖ NPAs need to be prudentially provided for, which will again reduce profitability of the banks.
- ❖ Servicing NPAs becomes costly, which reduces employee productivity and profitability.
- ❖ NPAs affect recycling of bank credit and adversely impact profitability. Higher time value of money can be ensured only by faster recycling of money lent.
- ❖ They affect the liquidity position, create assets and liability mismatch and compel the bank to raise resources at higher cost.
- ❖ They affect the service being rendered to the customers as their needs may not be met. This leads to loss of business and reduction in profit.
- ❖ Banks face difficulties in their expansion/diversification plans.
- ❖ NPAs affect the image of the banks.
- ❖ NPAs lead to adverse selection because in their efforts to increase their income from lending, such banks lend at higher interest rates to low rated borrowers

#### **Recent Steps taken by government to deal with NPAs in Banking Sector:-**

There are two categories of defaulters of loan, viz. willful defaulters and those who are unable to pay back the loan due to economic slowdown and other uncontrollable factors including loans sanctioned without due diligence by the banks (Mahesh.U. Daru, 2016). The Government has taken various measures to deal with both these categories of defaulters. The Government has taken various measures to revive the stressed sectors which mainly include steel, textiles, power and roads among others. The Government has also done recapitalization of banks by providing Rs. 25,000 crores in the last year Union Budget 2015-16 as well as in this year's budget 2016-17. Transparency and professionalism has been brought in appointment process for top management positions in the Public Sector Banks including Chairmen and Managing Directors. The Government has given full autonomy to the banks in taking commercial decisions without any interference from the Government (Press Information Bureau, 2016). SARFAESI Act and DRT Act have been amended to make the recovery process more efficient and expedient. Wherever it was observed that number of cases in which action taken by the banks against guarantors for recovery of defaulted loans is insufficient, the Government has advised the banks to take action against guarantors in the event of default by borrowers under relevant Sections of SARFAESI Act, Indian Contract Act and RDDB & FI Act. The Swachta Mission of banking balance sheets is expected to continue for some more time, which means the banks have to lose more profits in the coming quarters.

**Conclusion:-**

There is a need to bring more transparency in the system and list of all the defaulters whose loans have been written off by the banks should be made public. There should be exemplary action against the willful defaulters so that others do not indulge in similar activities. There is a need for restructuring of agricultural loans in order to help the farmers. Government should ensure level playing field to all Indian entrepreneurs. A committee has to be constituted to finalise recovery process in case of loans given to big corporate houses by various Banks. Banks need to recognize stress in their portfolio early and classify them into special mention accounts (SMAs) depending on the period of repayment delay. Banks need to form Joint Lenders' Forum and address the problem as a group. Banks need to have a clear roadmap to clean up their balance sheets. A better institutional and legal environment as well as micro-level prudence and control can help banks extend loans with lesser worries about accumulating NPAs. While we can expect that the growth in the economy expected in coming years will help reduce level of NPA, nevertheless it is important for the banks to implement the micro-prudential measures and for the regulatory authorities to implement macro prudential measures to keep the NPAs in check.

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