Inspira-Journal of Commerce, Economics & Computer Science (JCECS)
ISSN : 2395-7069 General Impact Factor : 2.4668, Volume 04, No. 01, January-March., 2018, pp. 83-86

NON PERFORMING ASSETS IN BANKING INDUSTRY (A PERFORMANCE ANALYSIS OF BANKING INDUSTRY IN INDIA)

Dr. Hari Narayan Gupta*

ABSTRACT

A non-performing asset is refer to the assets when payment of loan principal or interest are in arrear more than 90 days or any standard time may be shorter or longer fixed by the policy decisions. There are certain reasons for rising NPA's such as mismanagement and misappropriation of funds, lack of proper pre-appraisal and follow up, under financing, delay in completing the project, deficiencies in credit appraisal etc. Banks should establish effective credit monitoring strategy, proper evaluation of credit proposals, exercise on client, industry and management history, centralized system of loan sanctioning and recovery, require proper training to the staff in credit risk management, continuous performance evaluation of borrowers, effective management of priority lending to control problem of NPA.

KEYWORDS: *Social Security, Global Slowdown, Lending Norms, Priority Lending, Risk Management.*

Introduction

The economic progress of the nation is depending on the development of banking sector. The banking sector is the back bone of the development because it is helpful to implement five year plans, execute social security schemes, provide finance for industrial development, utilize small savings of the public, supporting financial and economic policies. Banks serve social objectives through priority sector lending, mass branch networks and employment generation. Maintaining asset quality and profitability are critical for banks survival and growth. In the process of achieving such objectives, a major roadblock to banking sector is prevalence of Non-Performing Assets (NPA). In India, the problem of bad debts was not taken seriously until it was mandated by the Narasimham and Verma committee. The committee mandated the curbing of the particular issue because NPA direct towards credit risk that bank faces and its efficiency in allocating resources.

A Non Performing Asset (NPA) is a debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The nonperforming asset is therefore not yielding any income to the lender in the form of principal and interest payments. A non-performing asset is refer to the assets when payment of loan principal or interest are in arrear more than 90 days or any standard time may be shorter or longer fixed by the policy decisions. The non-payment of interest or principal reduces cash flow for the lender, which can disrupt budgets and decrease earnings, reduce the capital available to provide subsequent loans. Banks classify the NPA in three categories-Substandard, Doubtful and Loss assets. NPA is called substandard assets when it is due less than or equal to 12 months. When NPA is due for the period of more than 12 months, it is called doubtful assets. AS per RBI, the assets which is uncollectable and no realizable value, is called loss assets. Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for. This means that full amount of the loss assets should be kept from some other sources like profit of the bank to meet the loss.

---

* Associate Professor, Department of ABST, Pandit Naval Kishor Sharma Government PG College, Dausa, Rajasthan, India.

Impact of NPA on Banking Sector and Indian Economy

Banks play important role in the development of the country. Banks act as agents of financial sector and play major role in the social change. However, a steady rise in the NPA's of banks affects not only the banking sector but the country's economy as a whole. Firstly, NPAs leads to asset contraction for banks. Due to the presence of NPAs, the banks follow low interest policy on deposits and high interest policy on advances provided. Thus, this act puts a pressure on recycling of funds and further creates a problem in getting new buyers. Secondly, as per the Basel norms all banks are required to maintain capital on risk weighted assets. A rise in NPAs pressurizes the banks to increase their capital base further. Lastly, rise in NPAs reduces the customer's confidence on the banks. Rise in the NPAs affects the profitability of the bank which further hinders the returns to be received by the customers. Decrease in profits leads to a lower dividend pay-out by the banks and affects the ROI expectations of the customers. Thus, a rise in NPAs not only affects the performance of the banks but also affects the economy as a whole.

Objectives of the Study

Banking sector is the important sector which effect economy of the country. Main objectives of the study are to discuss NPA data of public and private sector banks in India. The study will also discuss reasons for raising NPA's in Indian banks. The main objectives of the study are to find ways and means to reduce NPA in Indian banking industry.

Review of Literature

The book ***Banking Industry and Non-Performing Assets (****2018)* is written by Arun Kumar, Anoop Kumar Sharma and Ganesh Komma. The book discuss growth rate of Indian economy after 1991.The book analyse challenges of Indian economy after globalisation. The book also discusses value added services, changes due to technology, changes in financial system. The book analyse effect of NPA's on the stability of Indian banking system. It analyse various aspects of problem of NPA and analyse the data.

The book ***Non-Performing Assets in Indian Banks*** *(2012)* is written by Md. Faizanuddin and R K Mishra. The book is related with reforms in Indian banking sector and inpact of NPA's. The book analyse aspects of capital adequacy, profitability, assets quality and operating efficiency.The book analyse different aspects of NPA such as poor debt recovery mechanism, poor credit rating system and security system.

The book ***Non Performing Assets in Co-Operative Banks*** *(2011)* is written by Dr. Justin Nelson Michael. The book discuss about priority sector lending and role of co-operative banks. The book analyse credit management system and NPA's in co-operative banks in India. It also explain effect of NPA's on the economic health of co-operative banks through liquidity, solvency and profitability ratios and suggests better NPA management.

The book ***Managing Non Performing Assets in Banks*** *(2005)* is written by S N Bidani. It explain the guidelines of Narasimham Committee which is mandated identification and reduction of NPA's.It highlighted role of RBI in the reduction of NPA's as national priority. It highlights how to identify NPA's, their classification, pre sanction appraisal, post sanction appraisal and follow up monitoring system.

The book **Management of Non Performing Assets in Indian Public Sector Banks: Concepts, Methods, Implementations and Progress** is written by Goutam Bhowmik. The book discuss about various aspects of NPA in Indian Public Sector Banks. It evaluates critically role of RBI and Govt. of India in reducing NPA of public sector banks. It also cover NPA management and NPA in priority sector.

Hypothesis

The study is based on the hypothesis that:

- Position of Non Performing Assets in public and private sector banks in India are not good.
- Role of RBI and Govt. of India is not required in reducing NPA in Indian Banking Industry.

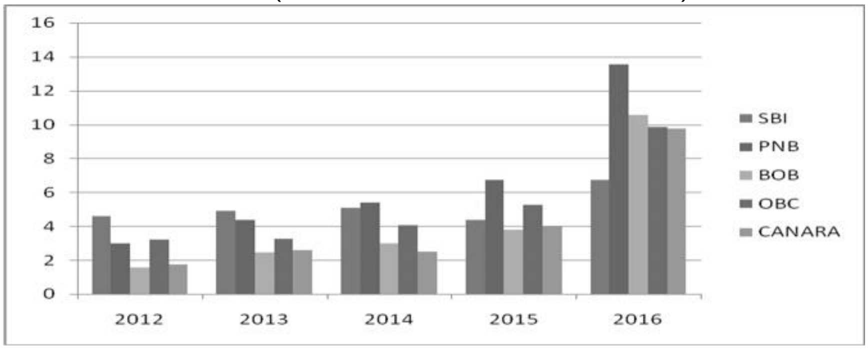
Research Design

The study is based on secondary data collected from Indian online available data. Data related with advances and NPA's of leading public sector bank SBI, PNB, BOB, OBC & Canara bank and leading private sector banks HDFC, AXIS, ICICI, YES & Kotak Mahendra Bank are collected. These data are analyzed with the help of average percentage of NPA's (Percentage of Gross NPA to Advances, Graphs and Trend Analysis. Suggestions are given after concluding data.

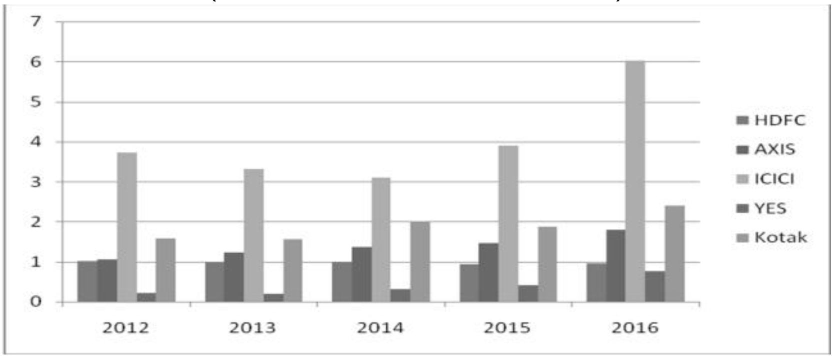
Data Analysis, Findings and Discussion

Gross Non Performing Assets and Advances are collected from various resources and ratio of Gross NPA to Advances is calculated as below:

NPA of Public Sector Banks in India
(in Percent of Gross NPA to Advances)



NPA of Private Sector Banks in India
(in Percent of Gross NPA to Advances)



NPA ratio's of public sector banks shows increasing trend. NPA ratio of SBI in 2012 is 4.58% which is increased to 6.71% in 2016. There is 46% growth in NPA of SBI from 2012 to 2016. Similarly NPA ratio of PNB is 2.97% which is increased to 13.54% in the year 2016. There is 355.89% growth in NPA of PNB from 2012 to 2016. NPA of BOB, OBC and Canara Bank also indicates increasing trend. NPA of BOB, OBC and Canara bank are 1.55%, 3.2% and 1.73% respectively in the year 2012 which is increased to 10.56%, 9.87% and 9.74% respectively in the year 2016. Ratio of NPA to Advances of leading private banks in India also shows increasing trend except HDFC. NPA of HDFC bank is 1.02% in 2012 which is decreased to 0.95% in the year 2016. This decreasing trend indicates better credit management, good performance of staff and quality of loaners. NPA ratio of Axis bank is 1.06% in 2012 which is increased to 1.80% in the year 2016. Similarly NPA ratio of Yes bank and Kotak Mahendra bank shows slightly increasing trend. NPA ratio of ICICI bank is 3.73% in 2012 which is increased to 6.02 % in 2016. NPA of private sector banks are under control except ICICI bank. Ratio of total NPA to total advances in public sector banks in India is not satisfactory. It is 3.37% in 2012 which is increased to 8.81% in 2016. Average NPA ratio is 5.27% which is much high in comparison to private sector banks in India and international standards. Trend values show continuous increasing trend in NPA's of public sector banks. Ratio of total NPA to total advances in private sector banks is satisfactory. The ratio is 2.01% in 2012 which is increased to 2.77% in 2016. Average NPA ratio is 2.17% which is within limit.

NPA of Leading Public Sector Banks in India

Year	Total Advances (Rs. in Crores)	Total NPA (Rs. in Crores)	Ratio of Total NPA to Total Advances (%)	Trend Values
2012	1793198	60473	3.37	100
2013	2053659	83082	4.05	119.96
2014	2396251	105549	4.40	130.61
2015	2583922	119387	4.62	137.01
2016	2733391	240852	8.81	261.29
Total	**11560421**	**609343**	**5.27**	

NPA of Leading Private Sector Banks in India

Year	Total Advances (Rs. in Crores)	Total NPA (Rs. in Crores)	Ratio of Total NPA to Total Advances (%)	Trend Values
2012	695975	13979	2.01	100
2013	822404	15188	1.85	91.95
2014	980430	17876	1.82	90.78
2015	1175811	24194	2.06	102.44
2016	1455506	40289	2.77	137.81
Total	**5130126**	**111526**	**2.17**	

Trend values shows that it is decreasing in 2013 and 2014 but it is slightly increased in 2016. It is concluded from the above discussion that position of Non Performing Assets in public sector banks in India are not good. NPA in private sector banks are within limit. Null hypothesis has been rejected in the case of public sector banks. It is further concluded that there are important role of RBI and Govt. of India in reduction of NPA's of banking industry in India.

Reasons for Rising NPA's in Indian Banks

There are many reasons for rising banking industry in India. There are certain reasons for rising NPA's such as mismanagement and misappropriation of funds, lack of proper pre-appraisal and follow up, under financing, delay in completing the project, deficiencies in credit appraisal, relaxing lending norms, monitoring and follow ups, global slowdown, economic crises, fall in domestic demand, natural calamities, industrial sickness, ineffective recovery courts, Govt. policies, technological backwardness, long and defective lending process, poor credit appraisal, improper SWOT analysis etc. 5 sectors Textile, aviation, mining, Infrastructure contributes to most of the NPA, since most of the loan given in these sector are by Public Sector banks. They provide around 80% of the credit to industries and it is this part of the credit distribution that forms a great chunk of NPA. Private sector lending and co-operate sector lending is the main part of NPA's. Banks did not conducted adequate contingency planning, especially for mitigating project risk. They did not factor eventualities like failure of gas projects to ensure supply of gas or failure of land acquisition process for highways. Restructuring of loan facility was extended to companies that were facing larger problems of over-leverage& inadequate profitability. This problem was more in the Public sector banks.

Conclusion

Banks should establish effective credit monitoring strategy, proper evaluation of credit proposals, exercise on client, industry and management history, centralized system of loan sanctioning and recovery, require proper training to the staff in credit risk management, continuous performance evaluation of borrowers, effective management of priority lending to control problem of NPA. Banks should conduct necessary sensitivity analysis and contingency planning while appraising the projects and it should built adequate safeguards against such external factors. Continuous Management Information System should develop to monitor loan projects. Accountability should be enforced and sanction authorities should share the responsibility. Banks should adopt responsibility accounting and responsibility should be fixed on case to case basis. Steps should be taken by RBI and Government to speed up recovery process of loans, reduce mandatory priority lending, update fiscal and monetary policy as per requirement of the country. RBI should develop strict supervision system because NPA's are not the problem only for banks but it affects the whole economy.

References

~ Bhowmik, Goutam, Management of Non Performing Assets in Indian Public Sector Banks : Concepts, Methods, Implementations and Progress, LAP Lambert Academic Publishing, Saarbrucken, Germany, 2010.

~ Bidani S N, Managing Non Performing Assets in Banks, Vision Books, New Delhi, 2005.

~ Kumar Arun, Anoop Kumar Sharma and Ganesh Komma, Banking Industry and Non-Performing Assets, New Century Publications, New Delhi, 2018.

~ Md. Faizanuddin and R K Mishra, Non-Performing Assets in Indian Banks, APH Publishing Corporation, New Delhi, 2012.

~ Michael, Dr. Justin Nelson, Performing Assets in Co-Operative Banks, LAP Lambert Academic Publishing, Saarbrucken, Germany, 2011.

❑❑❑