Trend Analysis of Non-Performing Assets in Banking Sector in India

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Abstract: *Banking sector plays very important role in any economy. A healthy and a sound banking system is very essential for growth and development of the economy. Non-Performing Assets (NPAs) are one of the best indicators for the health of the banking industry. It reflects the performance of banks. NPA has a direct impact on the profitability, liquidity and solvency position of the bank. The rising level of NPAs in Banks is the major concern today for the Indian economy. To improve the efficiency and profitability of banks the NPAs need to be reduced and controlled. The objective of this paper is to analyse the Movement and Trend of NPAs in Scheduled Commercial Banks in India over last five years i.e. 2013-2017. The paper also critically examines the impact of NPAs on performance of Banks and the effectiveness of measures taken by the Government and RBI to control and reduce NPAs in Banks.*

Key Words: *Non-Performing Assets, Schedule Commercial Banks, India, Reserve Bank of India.*

1. INTRODUCTION:

A healthy and sound banking system is very essential for growth and development of any economy. 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. The asset quality has an impact on profitability, liquidity, intermediation costs, credibility, income generating capacity and overall performance of the banks (Asha Singh, 2013). One of the important parameters for judging the performance of the banking system is the level of Non-Performing Assets (NPAs). NPAs are generally termed as dormant assets means these assets does not bring any substantial income to its owners. The assets of the banks which don't perform (i.e. don't bring any return) are called Non Performing Assets or bad loans.

According to RBI, a Non-Performing Asset (NPA) is a loan or an advance where;

i) Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
ii) The account remains 'out of order' in respect of an Overdraft /Cash Credit (OD/CC),
iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
iv) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops and one crop season for long duration crops,
v) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation
vi) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

2. OBJECTIVES OF STUDY:

- To expand the theoretical understanding of the concept of NPAs.
- To analyse the impact of NPAs on Performance of Banks.
- To study and analyse the Trends of NPAs in Scheduled Commercial Banks in India over last five years i.e. 2013-2017.
- To examine the effectiveness of measures taken by the Government and RBI to control and reduce NPAs in Banks.

3. RESEARCH METHODOLOGY:

The present study is an exploratory research undertaken to analyse the Movement and Trend of NPAs in Scheduled Commercial Banks in India over last five years i.e. 2013 - 2017. The study is based on secondary data collected mainly from the website of Reserve Bank of India, research papers published in various Journals and Articles published in various newsletters.

4. CLASSIFICATION OF NPAs:

Non-Performing Assets are further classified into three categories based on the span for which the asset has remained non-performing and the recovery of the dues:

4.1 Substandard Assets

A substandard asset would be the one, which has remained as a non-performing asset for a period of less than or equal to 12 months.

Substandard assets have credit weaknesses that jeopardise the liquidation of the debt and there are also possibility of incurring and sustaining some losses if the deficiencies are not corrected.

4.2 Doubtful Assets

An asset is classified as doubtful if it has remained as a sub-standard asset for a period of 12 months. A loan classified under the doubtful category has all the weakness characteristics as defined for the sub-standard assets; also it has added characteristics on the basis of the currently known conditions and facts that makes full liquidation or collection highly doubtful and questionable.

4.3 Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible.

5. TYPES OF NPAs:

5.1 Gross NPAs:

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets.
It can be calculated with the help of following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

5.2 Net NPAs:

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks**.** Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to make certain provisions against the NPAs according to the central bank guidelines.
It can be calculated by following:

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

6. IMPACT OF NPAs ON PERFORMANCE OF BANKS:

The problem of NPAs in the Indian banking system is one of the foremost and the most formidable problems that had impact the entire banking system. Higher NPA ratio trembles the confidence of investors, depositors, lenders etc. It also causes poor recycling of funds, which in turn will have deleterious effect on the deployment of credit. The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks. The high level of NPAs adversely affects performance of banks and thereby the economy as a whole as under:

6.1 Profitability:

NPAs put detrimental impact on the profitability as banks stop to earn income on one hand and attract higher provisioning compared to standard assets on the other hand. On an average, banks are providing around 25% to 30% additional provision on incremental NPAs which has direct bearing on the profitability of the banks.

6.2 Liquidity:

Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shortest period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money.

6.3 Return on Assets:

The efficiency of a bank is not reflected only by the size of its balance sheet but also the level of return on its assets. 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 deleterious impact on the return on assets.

6.4 Capital Adequacy:

As per Basel norms, banks are required to maintain adequate capital on risk-weighted assets on an ongoing basis. Every increase in NPA level adds to risk weighted assets which warrant the banks to shore up their capital base further.

6.5 Management Cost:

Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Nowadays banks have special employees to deal and handle NPAs, which is additional cost to the bank.

6.6 Credit Loss:

High amount of NPA adversely affect the value of bank in terms of market credit. It will lose its goodwill, brand image and credit which have negative impact to the people who are putting their money in the banks. Credibility of banking system is also affected greatly due to higher level NPAs because it shakes the confidence of general public in the soundness of the banking system. Thus, the increased incidence of NPAs not only affects the performance of the banks but also affect the economy as a whole.

6.7 Loss of Shareholders' Confidence:

Normally, shareholders are interested to enhance value of their investments through higher dividends and market capitalization which is possible only when the bank posts significant profits through improved business. The increased NPA level is likely to have adverse impact on the bank business as well as profitability thereby the shareholders do not receive a market return on their capital and sometimes it may erode their value of investments. As per extant guidelines, banks whose Net NPA level is 5% & above are required to take prior permission from RBI to declare dividend and also stipulate cap on dividend pay out.

7. TRENDS NPAs IN SCHEDULE COMMERCIAL BANKS IN INDIA:

7.1 GROSS NPAs OF SCHEDULE COMMERCIAL BANKS (2013-17)

(Amount Rs. in Million)

Bank	Gross NPAs on				
	March 31 2013	March 31 2014	March 31 2015	March 31 2016	March 31 2017
State Bank of India and its Associates	627785	798165	735085	1219686	1778106
Nationalised Banks	1022272	1484572	2049595	4179879	5069213
Private Sector Banks	210705	245424	333610	561874	932092
Foreign Banks	79649	115650	107610	158052	136291

(Source: RBI Report on NPAs)

7.2 NET NPAs OF SCHEDULE COMMERCIAL BANKS (2013-17)

(Amount Rs. in Million)

Bank	Net NPAs on				
	March 31 2013	March 31 2014	March 31 2015	March 31 2016	March 31 2017
State Bank of India and its Associates	281000	418151	372777	688944	969322
Nationalised Banks	619362	888197	1227226	2515681	2861567
Private Sector Banks	59944	88615	136793	266774	477802
Foreign Banks	26626	31596	17577	27619	21406

(Source: RBI Report on NPAs)

As per RBI's latest Report, the Gross NPAs of public sector and private sector banks as on September 30, 2017 were Rs.7,33,974 crore and Rs.1,02,808 crore respectively. The leading corporate houses and companies accounted for approximately 77 per cent of the total gross NPAs from domestic operations for the banks. Among the major public sector banks, State Bank of India (SBI) had the highest amount of NPAs at over Rs.1.86 lakh crore followed by Punjab National Bank (Rs.57,630 crore), Bank of India (Rs.49,307 crore), Bank of Baroda (Rs.46,307 crore), Canara Bank (Rs.39,164 crore) and Union Bank of India (Rs.38,286 crore). Among private sector lenders, ICICI Bank had the highest amount of NPAs on its books at Rs.44,237 crore by the end of September, followed by Axis Bank (Rs.22,136 crore), HDFC Bank (Rs.7,644 crore) and Jammu and Kashmir Bank (Rs.5,983 crore).

7.3 GROSS NPA TO GROSS ADVANCES RATIO OF SCHEDULE COMMERCIAL BANKS (2013-1017)

(Amount Rs. in Million)

As on	Gross NPAs	Gross Advances	Gross NPAs to Gross Advances Ratio (%)
March 31, 2013	1927688	59718199	3.23
March 31, 2014	2630152	68757479	3.83
March 31, 2015	3229161	75606658	4.27
March 31, 2016	6116074	81711142	7.48
March 31, 2017	7902680	84767053	9.32

(Source: RBI Report on NPAs)

8. MEASURES TO CONTROL NPAs:

In present scenario NPAs are at the core of financial problem of the banks. Banks should make efforts firstly to avoid fresh addition on NPAs and secondly to recover the amount from accounts which have already turned bad. The Central government and RBI have taken large no. of steps for arresting incidence of fresh NPAs and creating legal and regulatory environment to facilitate the recovery of existing NPAs of banks. Some of them are as under:

8.1 Mission Indradhanush:

Government has launched 'Mission Indradhanush' to make the working of public sector bank more transparent and professional in order to curb the menace of NPA in future.

8.2 Debt Recovery Tribunals (DRT):

In order to expedite speedy disposal of high value claims of banks Debt Recovery Tribunals were setup. The Central Government has amended the recovery of debts due to banks and financial institutions Act in January 2000 for enhancing the effectiveness of DRTs. The network of Debt Recovery Tribunals (DRTs) have been expanded. There are 39 DRTs now as compared to 33 in 2016-17 that will help reduce the pending cases as well as expedite disposal of cases.

8.3 Lok Adalats:

The Lok Adalats institutions help banks to settle disputes involving accounts in doubtful and loss categories. These are proved to be an effective institution for settlement of dues in respect of smaller loans. The Lok Adalats and Debt Recovery Tribunals have been empowered to organize Lok Adalats to decide for NPAs of Rs.10 lakhs and above.

8.4 SARFAESI Act:

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) aims to empower banks as secured creditors to take possession, manage and sell the securities without the intervention of court/tribunal. It also aims at Asset Reconstruction by securitization or Reconstruction Company. However, loan with balance below Rs.1 lakh, unsecured loans and loans against collateral of agricultural land are exempted from the purview of this act. SARFAESI Act was revised in 2016 to enable banks for early recovery of assets.

8.5 Asset Reconstruction Company (ARC):

The Narasimham Committee on banking sector reforms has recommended for transfer of sticky assets of banks to the Asset Reconstruction Company (ARC). ARC is an important element in a comprehensive restructuring strategy for weak banks. The ICICI BANK has promoted the country's first Asset Reconstruction Company. The company is specialized in recovery and liquidation of assets. The NPAs can be assigned to ARC by banks at a discounted price. The objective of ARC is floating of bonds and making necessary steps for recovery of NPAs from the borrowers directly. This enables a onetime clearing of balance sheet of banks by sticky loans.

8.6 Corporate Debt Restructuring (CDR):

The corporate debt restructuring is one of the methods suggested for the reduction of NPAs. Its objective is to ensure a timely and transparent mechanism for restructure of corporate debts of viable corporate entities affected by the contributing factors outside the purview of BIFR, DRT and other legal proceedings for the benefit of concerned. The CDR has three tier structures viz., (a) CDR standing forum, (b) CDR empowered group and (c) CDR cell.

CDR is a voluntary system based on debtors and creditors agreement. It will not apply to accounts involving one financial institution or one bank instead it covers multiple banking accounts, syndication, consortium accounts with outstanding exposure of Rs.20 crores and above by banks and institutions. The CDR system is applicable to standard and sub - standard accounts with potential cases of NPAs getting a priority.

8.7 Recovery Action against Large NPAs:

The RBI has directed the PSBs to examine all cases of wilful default of Rs.1 crore and above and file criminal cases against wilful defaulters. The board of directors are requested to review NPAs accounts of one crore and above with special reference to fix staff accountability in individually.

8.8 Credit Information Bureau:

The institutionalization of information sharing arrangement is now possible through the newly formed Credit Information Bureau of India Limited (CIBIL). This will prevent those who take advantage of lack of system of information sharing amongst leading institutions to borrow large amount against same assets and property, which has in no measures contributed to the incremental of NPAs of banks.

NPAs OF SCHEDULED COMMERCIAL BANKS RECOVERED THROUGH VARIOUS CHANNELS (2013-2017)

(Amount Rs. in Million)

Year	Sr. No.	Particulars	Recovery Channel			Total
			Lok Adalats	DRTs	SARFAESI Act	
2012-13	1	No. of cases referred	840691	13408	190537	1044636
	2	Amount involved	66	310	681	1057
	3	Amount recovered	4	44	185	233
	4	% of Amount recovered	6%	14%	27%	22%
2013-14	1	No. of cases referred	1636957	28258	194707	1859922
	2	Amount involved	232	553	953	1738
	3	Amount recovered	14	53	253	320
	4	% of Amount recovered	6%	10%	27%	18%
2014-15	1	No. of cases referred	2958313	22004	175355	3155672
	2	Amount involved	310	604	1568	2482
	3	Amount recovered	10	42	256	308
	4	% of Amount recovered	3%	7%	16%	12%
2015-16	1	No. of cases referred	4456634	24537	173582	4654753
	2	Amount involved	720	693	801	2214
	3	Amount recovered	32	64	132	228
	4	% of Amount recovered	4%	9%	17%	10%
2016-17	1	No. of cases referred	2152895	28902	80076	2261873
	2	Amount involved	1058	671	1131	2860
	3	Amount recovered	38	164	78	280
	4	% of Amount recovered	4%	24%	7%	10%

(Source: RBI Statistical Reports)

9. FINDINGS AND CONCLUSION:

The analysis of movement of NPAs over last five years shows that the amount of both Gross NPAs and Net NPAs of all Public Sector Banks, Private Sector Banks as well as Foreign Banks have been increasing year after year at very high growth rate. The magnitude of NPA is comparatively higher in public sectors banks than private sector banks. The Gross NPA to Gross Advances ratio increased to 9.32% in 2016-17 as compared to only 3.23% in 2012-13. Thus, there is a constant alarming rise in the level of NPAs not only in absolute terms but also in relative terms.

In present scenario NPAs are at the core of financial problem of the banks and the economy. The main reasons of increasing NPAs are ineffective supervision of loan accounts and the target-oriented approach, which deteriorates the qualitative aspect of lending by banks and wilful defaults. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. The government has over the years enacted and tweaked stringent rules to recover assets of defaulters but they are not enough to curb it. There is an urgent need for accelerating working of debt recovery tribunals and asset reconstruction companies. The mandatory lending to priority sector should be reduced as it is one of the major contributor to bank's

NPAs. The right fiscal and monetary policies along with RBI's strict supervision is required to speed up the recovery process of loans. Strengthening of credit risk management system and continuous risk assessment by banks is need of the hour to eradicate the disease of NPAs from its root.

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