ISSN 2279-0489

AN INTERNATIONAL MULTIDISCIPLINARY
HALF YEARLY RESEARCH JOURNAL

GENIUS

Volume -VI Issue - I Part - V August-2017 to January-2018

Peer Reviewed and Referred
UGC Listed Journal
(Journal No. 47100)

ज्ञान-विज्ञान विमुक्तये

IMPACT FACTOR / INDEXING
2016 - 4.248
www.sjifactor.com

❖ EDITOR ❖

Assit. Prof. Vinay Shankarrao Hatole
M.Sc (Math's), M.B.A. (Mkt), M.B.A (H.R),
M.Drama (Acting), M.Drama (Prod & Dirt), M.Ed.

❖ PUBLISHED BY ❖

Ajanta Prakashan
Aurangabad. (M.S.)

Owner, printer & publisher Vinay S. Hatole has printed this journal at Ajanta Computer and Printers, Jaisingpura, University Gate Aurangabad, also Published the same at Aurangabad.

Printed by

Ajanta Computer, Near University Gate, Jaisingpura, Aurangabad. (M.S.)

Published by :

Ajanta Prakashan, Near University Gate, Jaisingpura, Aurangabad. (M.S.)
Cell No. : 9579260877, 9822620877, Ph.No. : (0240) 2400877, 6969427.
E-mail : ajanta1977@gmail.com, www.ajantaprakashan.com

GENIUS - ISSN - 2279-0489 - IMPACT FACTOR - 4.248 (www.sjifactor.com)

CONTENTS OF PART - V

CONTENTS OF PART - V

VOLUME - VI - ISSUE - I - AUGUST 2017 to JANUARY - 2018
GENIUS - ISSN - 2279-0489 - IMPACT FACTOR - 4.248 (www.sjifactor.com) PART - V

16

A Study of Non-Performing Assets in Indian Banking Sector

Laila Ahmed Patel
Assistant Professor, L. S. Raheja College of Arts and Commerce, Santacruz (West), Mumbai.

Abstract

A robust banking sector is a pre-requisite for economy to boom. Failure of banking sector leads to adverse ripple effects on other main sectors of the economy such as realty, manufacturing, steel, telecom etc.

Non-performing assets have always been one of the major concerns in India banking sector. The financial health of a bank is reflected by the level of non-performing assets (NPA) reflected in its balance sheet. Large amount of NPA reduces the overall goodwill of the bank. The growth in NPA level decreases the shareholders' value and adversely affects its profits also as the bank needs to follow RBI guidelines in writing off the NPA against its profits.

This paper attempts to study the main causes behind the ever increasing NPA's in public and private Indian banking sector. It analyse the trend of NPA, factors mainly contribute to rising NPA and also provides some suitable solutions for overcoming the burden of NPA.

Keywords: Non-performing assets, public and private banking sector, causes, factors and financial health of a bank.

Introduction

Reserve Bank of India (RBI) defines NPA as an asset when it ceases to generate income for the bank. Banks classify an account as NPA if the interest due and charged on that account during a quarter is not serviced fully within 90 days from the end of the quarter. However in terms of Agriculture / Farm Loans the NPS is defined as : For short duration crop agriculture loans such as paddy, Jowar, Bajra etc if the loan(instalment / interest) is not paid for two crop seasons, it would be termed as an NPA. For long duration crops, the above would be one crop season from the due date.

Introduction

Banking sector acts as a growth engine for the entire economy of the country. Providing loans to carry our economic activities is the main function of banks. Banks receive fresh deposits from customers and provide advances to the customers for various business and personal requirements. This forms major part of banking activity. Providing fresh loans to all sectors of economy is most important as it has a rolling effect as idle funds are transferred for use for economic activity thereby resulting in economic growth of a nation. However, providing loans carries a risk of default generally known as credit risk, which arises from the failure of borrower to repay the loan and interest. Non-recovery of loans along with interest forms a major hurdle in the process of credit cycle. These non-performing assets adversely affect the banks' profits. Though complete elimination of such losses is not possible, but banks can always aim to keep the losses at a low level.

Bad loans have resulted in higher provisions, deterioration in asset quality, higher slippages and thus lower earnings for banks— not to forget their future lending is at stake. The entire confidence in banking sector gets shaken if the non-performing assets (NPA) are not controlled in a systematic manner. Since last decade bad loans have risen at disturbing level posing grave warning on the sustenance and endurance of the banking sector. Measures have been taken by the government and RBI to curb the growth of bad loans, but concrete results are still to be seen. Public Sector Banks are the prime victims of bad loans although this problem has also affected the private sector banks. This paper aims to study the main causes of rising NPA in public as well as private sector banks, to study the impact of NPA on Indian economy and to suggest measures to curb the rising menace of NPA.

Scope: The scope of the study is restricted to five public sector banks and five private sector banks of India. The study is limited to five years i.e. from 2012-2016.

Objectives of Study

1) To study NPA of public and private sector banks
2) To study the main causes of rising NPA
3) To study the impact of NPA on Indian economy
4) To suggest the measures to reduce the level of NPA

Research Methodology

Sources of data: The study is based on secondary data collected from the select bank records and other secondary sources like research papers, review papers, published papers of related Banks, Banks' websites, periodicals, Bank's publications, newspapers etc. A list of the related articles from various journals is also used to develop the basic idea about the particular topic.

Scope of the study

The study is restricted to five public and private sector banks for the period 2012-16

Review of Literature

Ranjan, R., Dhal, S.C. (2013): This paper explores an empirical approach to the analysis of Indian commercial banks' nonperforming loans by regression analysis. The empirical analysis evaluates how the NPLs are influenced by three major sets of economic and financial factors, i.e. terms of credit, bank size induced risk preferences and macroeconomic shocks.

Joseph, A. L. (2014): This paper basically deals with the trends of NPA in banking industry, the internal, external and other factors that mainly contribute to NPA rising in the banking industry and also provides some suggestions for overcoming the burden of NPA

Ibrahim, M.S., and Thangavelu, R. (2014): In this paper, the author has analysed the concept of NPAs, components of loan assets in public sector, private sector and other foreign banks, by an exploratory and diagnostic approach with the help of secondary data.

Data analysis and interpretation

Table 1.1 - NPA of Public Sector Banks from 2012-2016

Year	Assets	SBI	% of Advances	PNB	% of Advances	Bank of Baroda	% of Advances
2016	Advances	1,463,700.42		412325.8		383770.18	
	Gross NPA	98,172.80	7%	55818.33	14%	40521.04	11%
2015	Advances	1,300,026.39		380534.4		428065.14	
	Gross NPA	56,725.00	4%	25694.86	7%	16261.44	4%
2014	Advances	1,209,828.72		349269.13		397005.81	
	Gross NPA	61,605.00	5%	18880.06	5%	11875.9	3%
2013	Advances	1,045,616.55		308725.21		328185.76	
	Gross NPA	51,189.39	5%	13465.79	4%	7982.58	2%
2012	Advances	867,578.89		293774.76		287377.29	
	Gross NPA	39,676.46	5%	8719.62	3%	4464.75	2%
2016	Advances	148879.99		324714.82		2,733,391.21	
	Gross NPA	14701.78	10%	31637.83	10%	240,851.78	9%
2015	Advances	145261.3		330035.51		2,583,922.74	
	Gross NPA	7666.22	5%	13039.96	4%	119,387.48	5%
2014	Advances	139079.84		301067.48		2,396,250.98	
	Gross NPA	5617.86	4%	7570.21	3%	105,549.03	4%
2013	Advances	128955.06		242176.62		2,053,659.20	
	Gross NPA	4183.96	3%	6260.16	3%	83,081.88	4%
2012	Advances	111977.69		232489.82		1,793,198.45	
	Gross NPA	3580.49	3%	4031.75	2%	60,473.07	3%

Interpretation

- NPA's of public sector banks as percentage of gross advances have increased from 3% in 2012 to 9% in 2016.
- There is an increasing trend of NPA from 2012 to 2016
- Due to rising trend of NPA, there is reduction in lending of loans. In 2013, the total advances were Rs. 260460.75 crs more than 2012. However, in 2016, the increase was only Rs.149468.47 crs.

- PNB is worst affected bank with almost 14% of its loans turning bad in 2016 followed by BOB – 11%, OBC & Canara Bank – 10% and SBI – 9%

Table 1.2 - NPA of Private Sector Banks from 2012-2016

Figures In Crs

Year	Assets	HDFC	% of Advances	AXIS	% of Advances	ICICI	% of Advances
2016	Advances	464593.96		338773.72		435263.94	
	Gross NPA	4392.83	1%	6087.51	2%	26221.25	6%
2015	Advances	365495.03		281083.03		387522.07	
	Gross NPA	3438.38	1%	4110.19	1%	15094.69	4%
2014	Advances	303000.03		230066.76		338702.65	
	Gross NPA	2989.28	1%	3146.41	1%	10505.84	3%
2013	Advances	239720		196965.96		290249.44	
	Gross NPA	2334.64	1%	2393.42	1%	9607.75	3%
2012	Advances	195420		169759.54		253727.66	
	Gross NPA	1999.39	1%	1806.3	1%	9475.33	4%
2016	Advances	98209.93		118665.3		1455506.9	
	Gross NPA	748.96	1%	2838.11	2%	40288.66	3%
2015	Advances	75549.82		66160.71		1175810.7	
	Gross NPA	313.4	0%	1237.23	2%	24193.89	2%
2014	Advances	55632.96		53027.63		980430.03	
	Gross NPA	174.93	0%	1059.44	2%	17875.9	2%
2013	Advances	46999.57		48468.98		822403.95	
	Gross NPA	94.32	0%	758.11	2%	15188.24	2%
2012	Advances	37988.64		39079.23		695975.07	
	Gross NPA	83.86	0%	614.19	2%	13979.07	2%

Interpretation

- NPA's of private sector banks as percentage of gross advances have increased modestly from 2% in 2012 to 3% in 2016.
- There trend of NPA from 2012 to 2016 in private sector banks has remain more or less stable.
- Due to modest trend of rise in NPA, there is increase in lending of loans. In 2013, there was increase of Rs. 126428.88 crs over 2012. However, in 2016, the increase was Rs.279696.19 crs over 2015.
- ICICI is worst affected bank with almost 6% of its loans turning bad in 2016 followed by Axis & Kotak – 2%, HDFC & Yes Bank – 1% each.

Causes of NPA

1) Faulty Loan Approval Process

While approving the loan the banks may not or ignore factors such as safety, liquidity and profitability of the company. The borrower should have the capacity and willingness to repay the loan. It is important that the banks follow due process of properly valuing the company's assets and also the character, and reputation of the borrower in the market. This process should be carried out by professional agency and there should be no conflict of interest with borrower.

2) Weak economic environment

After the recession of 2008, many public sector banks provided lending to projects that were not capable of revival. Huge capital projects involving mining, airports, roads, highways and construction received loans without any due diligence. This led to accumulation of huge stressed assets in public sector banks which percolated in all sectors of the economy leading to weak economic environment and policy paralysis.

3) Consortium based lending

Sometimes enormous loans are granted by a consortium of banks. IN such a case large banks lead the consortium and small banks are part of it. They rely on the large banks assuming they would have followed proper process in approval. In case the large banks take faulty decisions, small banks are undue victims of such decisions leading to stressed assets in their books

4) Lack of follow-up after loan approval

Once the loan is approved banks do not follow up on how the loans are spent. Some defaulters wilfully utilise the loans in an unproductive manner or for personal requirement of the promoter. This leads to further aggravation of NPA.

5) Absence of correct calculation Method

The quantum of NPAs has been calculated and put at different figures mainly due to absence of correct statistics and the method on the basis adopted for calculating the percentage of NPAs in relation to either the total assets of the bank or the quantity of loan portfolio or on the basis of the number of the accounts or the size of the outstanding advances. In order to increase profitability, banks sometimes hide the NPA from the general public and shareholders.

Measures to reduce NPA

1) Strict Recovery Rules

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

2) RBI's loan restructuring schemes

RBI has over the past few decades come up with a number of schemes such as corporate debt restructuring (CDR), formation of joint lenders' forum (JLF), flexible structuring for long-term project loans to infrastructure (or 5/25 Scheme), strategic debt restructuring (SDR) scheme and sustainable structuring of stressed assets (S4A) to check the menace of NPAs.

In many cases, the companies have failed to make profits and defaulted even after their loans were restructured.

3) Hair Cut

Banks also need to objectively assess their NPA problem. They should enter into negotiations with the defaulters and if the problem of defaulters is genuine, should be willing to take a hair cut on the amount of loan outstanding. The government and RBI may also come up with a one-time settlement scheme for top defaulters before initiating stringent steps against them.

4) Name And Shame

The government should publish the name of wilful defaulters in newspapers and media so that these wilful defaulters are noted in the eyes of general public. This will act as hindrance to any future wilful defaulter.

Conclusion

In order to solve any problem, it is important to recognise the extent of it. The RBI and the government has recognised the seriousness of the NPA problem. RBI has introduced a slew of instruments to tackle the NPA menace, which had crossed 9.5 per cent of the system or Rs 14 lakh crore as of December 2016, including strategic debt restructuring, 5/25 restructuring, joint lenders' forum and Prompt Corrective Action (PCA), which will be out by end-April. These measures by the RBI will certainly help Indian Banking Sector to tide over the serious problem of NPA's. The banks should learn from their past mistakes and follow due diligence while granting approval to fresh loans. This mutual partnership of the regulator, government and the banks will have a positive effect in solving the NPA problem in India.

References

1) Alok Majumdar, NPAs : Recovery Blues, Treasury Management (Dec.2000) pp. 46-49.
2) Special Report: NPAs Grossly Mis-understood, Business India (Feb. 1999) pp. 60-62.
3) M.S.A. Rao, A Better Future for Banks, Indian Management (july 2001) pp. 4-16
4) Vasanth C. Joshi & Vinay V. Joshi, Managing Indian Banks – Challenges ahead.
5) M.Y. Khan, How to Tackle Credit Defaults, Business Line (Feb. 2000) pp.

6) K. Kannan, CMD, Bank of Baroda, Whose NPAs is it anyway, The Agenda, Economic Times & presentation copy (Dec. 2000) pp. 45-46

7) George Cherian & Mayur Shetty, As Good As it Gets, Money & Banking, The Economic Times (Sept. 2000), pp.7

8) Some Aspects & Issues relating to NPAs in Commercial Banks, RBI : Study, RBI Publications (July 1999).

9) Banking Annual-1998-99, Business Standard (Nov.1998).

10) Pramita Mukherjee, Dealing with NPAs: Lessons from International Experiences, ICRA bulletin – Money & Finance, (Jan-Mar. 2003), pp. 64 – 69.

11) G.P. Muniappan, Deputy Governor of RBI, The NPA overhang – Magnitude, solution, Legal Reforms, Text of address at CII – Banking Summit 2002, Mumbai.

12) Nacheket Mor & Bhavana Sharma, Rooting out NPAs, sept. 2002, ICICI researchcenter.org.