A NOVEL INVESTIGATION OF REASON BEHIND THE NON-PERFORMING ASSET (NPA): A SPECIAL ATTENTION ON BANK OF BARODA

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Abstract: Poor asset quality leads to a decrease in interest income and an increase in loan loss reserves, which ultimately reduces the Bank's profitability and regulatory capital. Over time, the rise in NPA may lead to bank failures and ultimately threaten financial stability. This has a negative impact on the ability of the banking system to finance the real economy. The accounting standards for impairment of loans and regulatory guidelines for the inconsistent entry and exit criteria of the NAP set a broader context for the NPA process. Despite differences in accounting and regulatory frameworks, it is not always clear whether the risk is "short," a quantitative and qualitative factor that is a common feature of banks and regulators. In conjunction with the creation of NPA, it is necessary to judge the specified system.

Keywords: NPA, Financial Stability, Insolvency, Bankruptcy Code, Bank of Baroda

1. Introduction

NPA-A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days. While 90 days of nonpayment is the standard, the amount of elapsed time may be shorter or longer depending on the terms and conditions of each loan.

1.1 Introduction of Non-Performing Assets (NPA)

Money or Assets provided by banks to companies as loans sometimes remain unpaid by borrowers. This late or non-payment of loans is defined as Non-Performing Assets (NPA). They are also termed as bad assets. In India, the RBI monitors the entire banking system and, as defined by the country's central bank, if for a period of more than 90 days, the interest or installment amount is overdue then that loan account can be termed as a Non-Performing Asset. The increase in non-performing assets in Indian banks follows the recognition standards being pursued by the banks after the RBI highlighted it in the Asset Quality Review (AQR) of course the main reason is inadequate progress in the financial health of the companies.

1.2 Reasons for the Rise in NPA levels

From 2000-2008, the Indian economy was in a boom phase and banks, especially public sector banks, started lending extensively to companies. However, with the financial crisis in 2008-09, corporate profits decreased and the Government banned mining projects. The situation became serious with the substantial delay in environmental permits, affecting the infrastructure sector power, iron, and steel and resulting in volatility in prices of raw materials and a shortage of supply. Another reason is the relaxed lending norms adopted by banks, especially to the big corporate houses, foregoing analysis of their financials and their credit ratings.

1.3 Breaking down Non-Performing Asset (NPA)

Nonperforming assets are typically listed on the balance sheets of banks. Banks usually categorize loans as nonperforming after 90 days of nonpayment of interest or principal, which can occur during the term of the loan or at maturity. For example, if a company with a $10 million loan with interest-only payments of $50,000 per month fails to make a payment for three consecutive months, the lender may be required to categorize the loan as nonperforming to meet regulatory requirements. A loan can also be categorized as nonperforming if a company makes all interest payments but cannot repay the principal at maturity.

2. Background

Yadav, P., & Sharma, M. (Dec 2018) present the study that aimed to analyze the correlation between customer retention strategies and customer loyalty in PSBs and to find the impact of customer retention strategies (perceived service quality, customer satisfaction, customer trust, commitment and bank's image on customer loyalty in PSBs. Total 383 customers from one branch each of PNB, BoB and UCO bank were selected through purposive sampling technique. A self-structured 'customer retention and loyalty scale' was used to collect data. Data were analyzed through correlation coefficient and multiple regression statistics. Results revealed that customer retention strategies have significant positive correlation with customer loyalty. A significant positive impact of perceived service quality, customer trust, commitment and image of the bank was seen on customer loyalty. A positive but not significant impact of customer satisfaction was found on customer loyalty in PSBs. Khosla, R., & Kumar, M. V. (2018) suggest that the banks are the foundation of any nation as they are inescapable for the monetary advancement of a nation. Investors are the absolute entirety of any business. Banks are delegates between the investors and borrowers. This connection separates when the borrower neglect to reimburse the vital and premium sum; subsequently the banking segment concentrate on the issue of Non-Performing Assets. So far as India is worried, before 2002 banks have no alternative other than implementing the security through a court/tribunal, to recoup its duty. On the suggestion of Narasimham Committee –II SARFAESI Act

2002 came as a sigh of relief for the banking sector. This demonstration enabled the banks and budgetary organizations for the procurement of the secured resources of the borrowers held with the bankers at the time of availing loans. This paper endeavors to concentrate the execution and effect of SARFAESI Act 2002 for the administration of NPA in Indian Banking. The articles and papers published in different business journals, magazines, newspapers, periodicals were studied and data available on NPAs recovery have been used for analysis. Statistical tools like percentages used for analysis. At first DRTs performed well, however their advance was endured when they get overburdened with the vast number of cases alluded to them. Bajaj, R. V. (2018) suggest that an attempt is made to estimate credit risk capital charge for public sector and private sector banks in India for the period from 2007–2008 to 2013– 2014 under advanced internal rating based (AIRB) approach using Basel risk weight formula. The analysis brings out that credit risk capital charges would be higher for the banks with high default risk and recovery risk and vice-versa. The inter-sector comparison indicates that a substantial proportion of the overall additional capital requirement for credit risk would falls on the public sector banks. Hence, banks in this sector requires improvement in appraisal system and loan recovery mechanism to reduce burden of additional credit risk capital charges and for better-quality performance on risk adjusted basis. Lahaa, S., & Biswasb, S. (2018) suggest that the efficient and stable performance of the banking system underpins sustainable growth of any economy. Of late, several economic reforms have been initiated in India for facilitating growth and withstanding dynamics of global economy. In this context, the current study compares the performance of the selected private and public sector banks in India on a five year time horizon in order to discern any changes in the performance over a period of time. First, the performance of the selected banks are examined in terms of management efficiency perspective using a Multi-Criteria Decision Making (MCDM) technique such as Combinative Distance-based Assessment (CODAS) when an Entropy method is also employed for determining criteria weight. The study also applies k-Means Clustering for checking consistency of performance based ranking with asset management efficiency. Finally, the paper delves into the relationship between financial and market performance. The study has found consistent results and observed private sector banks perform better than the public sector.

3. General NPA

Non-Performing Assets refers to that classification of loans and advances in the books of a lender in which the there is no payment of interest and principal have been received and are "past due". In most of the cases debt has been classified as Non-Performing Assets where the loan payments have been outstanding for more than 90 days. In the term sheet sanction letter of every loan, the period of default under which the loan will be classified as non-performing assets are generally mentioned.

- A Non-Performing Assets (NPA) is generally classified on the bank's balance sheet and the % of NPA out of the total advances has become a vital ratio for the banks to keep a check on before making the results public.
- More than 90 days where payment is due on the banks' loans and advances move to non-performing assets (NPA).
- As we note from above, Bank of America has an NPA of around $4,170 million that has accrued for 90 days or more.

4. Types of Non-Performing Assets (NPA)

Term Loans

A term loan i.e. plain vanilla debt facility will be treated as an NPA when the principal or the interest installment of the loan has been due for more than 90 days.

Cash Credit and Overdraft

A cash credit or an overdraft when remaining past due for more than 90 days it can be treated as an NPA.

Agricultural Advances

Agricultural advances that have been past due for more than two crop seasons for short crop duration or one crop duration for long duration crops.

There could be various other types of NPAs including residential mortgage, home equity loans, credit card loans and non-credit card outstanding, direct and indirect consumer loans.

5. Classification of NPA for Banks

Banks are required to make sub standardization of the non-performing assets (NPA) into the following type of four broad groups

Standard Assets

Standard assets are those assets which have remained non-performing assets for a period of 12 months or less than 12 months and the risk of the asset is normal

Sub- Standard Assets

For a period of more than 12 months, non-performing assets are classified under sub-standard assets. Such kind of advances possess more than normal risk and the creditworthiness of the borrower is quite weak. Banks are generally ready to take some haircut on the loan amounts which are categorized under this asset class

Doubtful Debts

For a period which is exceeding 18 months, non-performing assets come under the category of Doubtful Debts. Doubtful debts itself means that the bank is highly doubtful of the recovery of its advances. The collection of such kind of advances is highly questionable and there is the least probability that the loan amount can be recovered from the party. Such kind of advances put the bank liquidity and reputation at jeopardy.

Loss Assets

The final classification of non-performing assets is loss assets were the loan has been identified either by the bank itself or an external auditor or internal auditor that the loan amount collection is not possible, and a bank has to take a dent in its balance sheet. The Bank, in this case, has to write off the entire loan amount outstanding or need to make a provision for full amount which needs to write off in future

Things Banks need to bear in Mind before Making Loan Advances

Following are the things banks need to bear in mind before making loan advances: –

Character
The character of the borrower needs to judge and the willingness of the company to repay debt needs to ponder upon. The management, history, revenue pipelines, stock performance and media coverage of the company should be taken into consideration to rightly make an opinion about the company.

Collateral
The value of the collateral which has been pledged needs to be assessed and proper valuation of the property/asset should be done keeping the loan to value ratio in mind

Capacity
The capacity that the company's financials and the future revenue projections of the company should be analyzed by the banker. Also, existing lenders which are already on the company's balance sheet needs to be studied properly in order to get the right collateral before providing advances.

Condition
At last the overall environment and the market and industry condition should be kept in mind. External and internal factors that can affect the business in future should be considered and needs to be analyzed in detail.

6. NPA in BOB

Table 1: NPA in BOB year wise analysis and understanding

Year	Gross NPA-BOB
2007-08	1981.38
2008-09	1842.92
2009-10	2400.69
2010-11	3152.5
2011-12	4464.75
2012-13	7982.58
2013-14	11875.9
2014-15	16261.44
2015-16	40521.04
2016-17	42719
2017-18	56480
Maximum	56480
Minimum	1842.92
Average	17243.83

Source: RBI Data Sheet

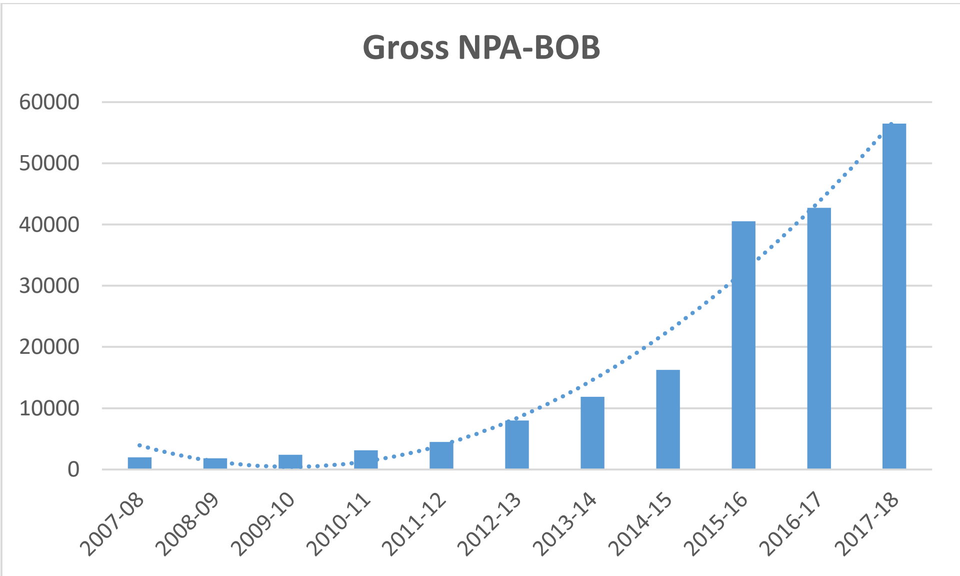

Fig 1: Gross NPA

From the about comparative table found that the average of **GROSS-NPA** in Bank of Baroda having average value 17243.83.

Table2: Asset Quality: Gross NPAs -Segment wise (1/3)

Sector	Sep-17	
	NPA	Ratio %

Agri	18982	9.93.
Per Segment	7096	1.41.
SME	27540	10.91.
Large Corporate	49533	13.63.
Mid Corporate	75478	26.14.
Total Corporate	125011	19.17.
International	7486	2.56.
Total	186115	9.83.

This data define the asset quality gross NPA Segment Wise Details in Different Sector like Agriculture per Segment SME Large Corporate Mid Corporate Total Corporate International Total. This Table shows the total Of NPA and ratio in Sep 17.

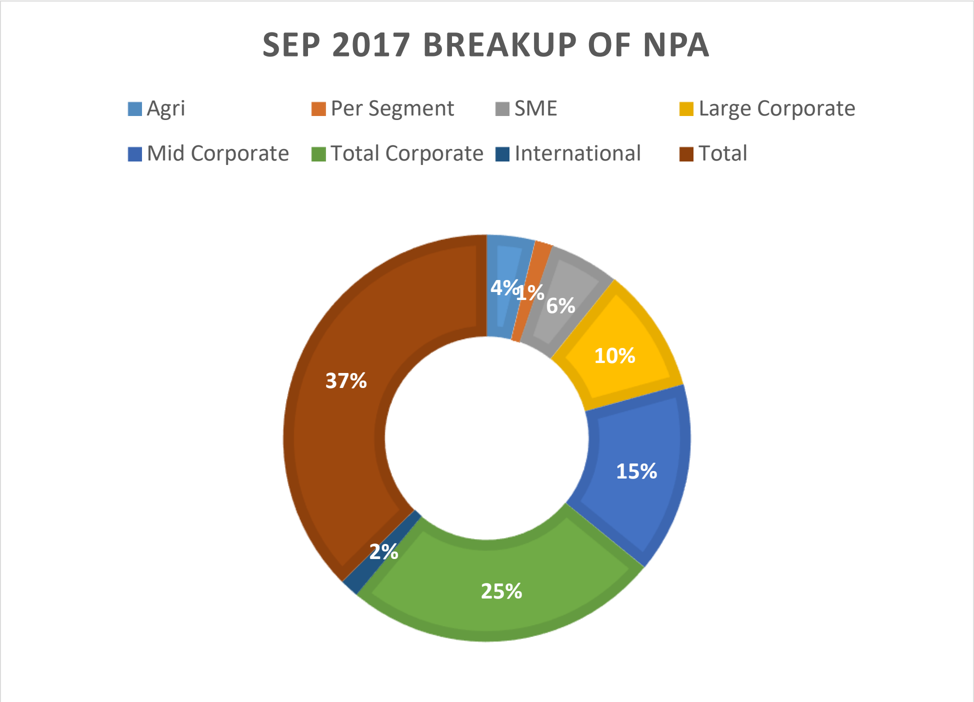

Fig 2: Breakup of NPA

This Pie Chart Shows The Breakup Of NPA In Sep 2017. There Is Different Sector Details Like Agri Per Segment SME Large Corporate Mid Corporate Total Corporate International and Total.

7. Recent Developments and Ways to Tackle NPA

- **Insolvency and Bankruptcy Code (IBC):** With the RBI's push for the IBC, the resolution process is expected to quicken while continuing to exercise control over the quality of the assets. There will be changes in the provision requirement, with the requirement for the higher proportion for provisions going to make the books better.
- **Credit Risk Management:** This involves credit appraisal and monitoring accountability and credit by performing various analysis on profit and loss accounts. While conducting these analyses, banks should also do a sensitivity analysis and should build safeguards against external factors.
- **Tightening Credit Monitoring:** A proper and effective Management Information System (MIS) needs to be implemented to monitor warnings. The MIS should ideally detect issues and set off timely alerts to management so that necessary actions can be taken.
- **Amendments to Banking Law to give RBI more power:** The present scenario allows the RBI just to conduct an inspection of a lender but doesn't give them the power to set up an oversight committee. With the amendment to the law, the RBI will be able to monitor large big accounts and create oversight committees.
- **More "Hair-cut" for Banks:** For quite some time, PSU lenders have started putting aside a large portion of their profits for provisions and losses because of NPA. The situation is so serious that the RBI may ask them to create a bigger reserve and thus, report lower profits.
- **Stricter NPA recovery:** It is also discussed that the Government needs to amend the laws and give more power to banks to recover NPA rather than play the game of "wait-and-watch."
- **Corporate Governance Issues**: Banks, especially the public sector ones, need to come up with proper guidance and framework for appointments to senior level positions.
- **Accountability:** Lower level executives are often made accountable today; however, major decisions are made by senior level executives. Hence, it becomes very important to make senior executives accountable if Indian banks are to tackle the problem of NPAs.

8. Conclusion: The incidence of non-performing assets (NPA) affects financial institutions and psychologically the performance of credit institutions. Bad assets are the main cause of concern. Developing credit management skills is becoming increasingly important to improve banking sector revenues. It is essential to acquire expertise to monitor exposure levels, industry scenarios, and timely behavior with problematic industries. NPA management skills include negotiated solutions, compromises that make up active solutions, advisory committees, restructuring and rehabilitation, effective solicitation for appropriate legal remedies, and dues within appropriate timeframes. To recover the soundness of the banking sector is not affected. Internationally, while various global risks related to the banking industry expose credit assets to greater risks, banks need to make serious efforts to recover and banks minimize credit default in this thesis need to have a risk assessment system that you need to control. The NPA position continues to plague the banking sector in India. Several experiments have been attempted to suppress NPA (i.e., BIFR / SICA, Low Adalat, DRT, OTS, SARFAESI, etc.), but nothing has been done to mark NPA. There is an objection to the effectiveness of both DRT and securitization activities, which still falls into a dilemma, which weakens the spirit of the banker. While developing strategies to address genuine and intentional delinquents, clear discrimination is guaranteed. Irrespective of whether a bank is charged, intentional defaulters and substantive crackdowns on their assets should be declared as national assets and disposed of in a transparent manner, without major legal obstacles.

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