

RECENT TRENDS OF NPA IN INDIAN BANKS

¹ Chinmaya Mishra,

¹Lecturer,
¹Commerce,

¹Utkal University, Bhubaneswar, Odisha.

Abstract: In this modest environs, a strong and a sound banking system are very important for an economy so as to grow and persist. Numerous policies have taken by RBI and other regulatory bodies to focus on developing the processing of banking sector. The major part in economic progress is financial sector. For sustainable economic growth, a strong and well healthy banking system is essential. In this active environs, major challenges have been experienced by banks in India. Level of Non-performing assets (NPAs) is the best sign for the strength of banking industry in a country. The performance of bank is reflected by it. The main concern for Indian economy is NPAs in the Indian banking sector. The goal of this review paper is to study the trend of NPAs in Indian banks. For well economic and future of the nation, it is essential to tackle NPAs. Therefore it became significant to create complete banking sector. So this paper consist of the facts associated to the NPA of numerous public and private sector banks.

IndexTerms - Public Sector Banks, Private Sector Banks, Nonperforming Assets (NPAs)

I. INTRODUCTION

For the complete growth of economy, a well, strong, viable and sustainable banking system is very essential, the failure of which may cause adverse effect on numerous segment and scopes of budget. In India, nearly all the fields like agriculture, growth of trade and commerce, small scale industries, generation of employment opportunities, development of infrastructure, The Public Sector Banks (PSBs) and private sector banks (after liberalization) have done important contributions (Chandrashekhar, 2009). In 1991, Narasimham Committee was constituted to make stronger banking system in our country. The chief goal of committee is to examine the complete banking system in a changing scenario and to submit its recommendations for reforms in financial sector. To tackle the tasks of rising expectations, the committee has suggested many reforms. Improving functioning effectiveness, productivity and profitability using functional autonomy, flexibility and accountability are the main objectives of banking reforms. Asset classification, revenue recognition & provisioning and capital adequacy norms are some of the major recommendations of Narasimham Committee.

The quantity of non-performing assets in its balance sheet is significantly influence a bank's cost-effectiveness. Actually, if the loan account becomes overdue and banks are neither able to recover capital nor earn interest income, then they become non-performing. As it remains unregulated or out of order for a quarter or 90 days period, as per non-performing asset (NPA) as directed by RBI an asset account (term loan / cash loan / overdraft / bill purchase or rebate) is categorized. NPA is one of the major concerns for banking system anywhere in the world and Indian banking system is no exception to this universal phenomenon. As regards this red-hot issue, Narasimham Committee Report I and II, Varma Committee Report, Basel I, II and III have been continuously offering guidelines and directions. Currently NPA management is synonymous with functional efficiency of banking system.

Currently, banking in India is heavily dominated by public (nationalized and SBI and its affiliates) and private (old and new) sector banks. Due to cut throat competition and technology, PSBs are thinking to improve productivity and profitability which is necessary to survive in a global economy. The future of PSBs will be based on their ability to create good quality assets and maintain capital adequacy and stringent prudential norms (Malyadri and Sirisha, 2011) in a continuous competitive environment. Consolidation and competition can be major factors affecting public and private sector banks in future. Due to the reforms, it has been realized that not only the increase in profits is required, but also the decrease in non-assets (NPAs) of banks (Rao, 2001). It is in this context that the current study has been carried out to evaluate the non-performing assets of public sector banks and private sector banks.

The aim of this paper is

1. To analyze the trend of the NPA in Public Sector Banks in India
2. To analyze the major causes of NPA and their significance on the generation of NPA.
3. To study the impact of NPA on banks and other stakeholders.
4. To suggest for the efficient and effective management of NPA.

II. TRENDS IN NPA

NPA is a burning subject for the banking sector and many authors tried to study the causes of NPAs, problems created by NPAs and the impact of NPAs on the banking sector, and in addition solutions to the growing problem of NPAs. Several papers have been written and this part of this paper is attempting to present a review of all those available in the same sector as non-performing assets of public sector banks, private sector banks and other banks. The survey has carried out a study on existing papers, articles, journals and reports provided by various authors, groups and committees from time to time.

CP Chandrasekhar and Jayati Ghosh (2016) highlighted that as stated by RBI's Financial Stability Report, problems in the banking sector were increasing significantly in June 2016 due to declining asset quality and lower profitability, as in nature there was systemic risk due to change. This study have shown that the restructuring and recapitalization process that followed the reforms post-1991, resulted in a sharp decline in the ratio of gross NPAs in the year 1996-97 from 15.7% to 2.3% in the year 2008- 09 (the year of the global financial crisis). On the other hand, reversal in trend has been noticed through NPA ratio increasing to 3.4% in 2012-13, 4.6% in 2014-15 and 7.6% in 2015-16.

Reserve Bank of India (2016): According to the baseline scenario project by the Reserve Bank of India in its Financial Stability Report, the gross bad loans of commercial banks by March 2017 can be 8.5 percent of total advances as of March 2017, "The macro

stress test that under the baseline scenario, the gross NPA may rise to 8.5 per cent by March 2017,” It stated that if the macro situation would deteriorate further, then the gross NPA ratio may increase to 9.3 per cent by March 2017.

Dutta A (2014): This paper studied the growth of NPAs in public and private sector banks in India, and analyzed the sector-wise non-performing assets of commercial banks. For the purpose of the study, data has been collected from secondary sources such as report on the trend and progress of banking in India, Reserve Bank of India, Report on Currency and Finance, Economic Survey of Reserve Bank of India.

Narula and Singla (2014) attempted to explore Punjab National Bank's NPA and its impact on its profitability and evaluate the relationship between total advances, net profit, gross NPA and net NPA. The study was based on secondary data that was collected from Punjab National Bank annual reports for a period of six years (2007–2012). This paper concluded that there was a positive relationship between Punjab National Bank's net profit and NPA. This was due to mismanagement in the operation of the banking system.

Das, s. (2010): In this paper the author has tried to analyze the parameters which are actually due to NPAs, and they are, market failure, willful default, poor follow-up and supervision, non-cooperation from banks, bad legal Structure, lack of entrepreneurial skills, and diversion of funds

Ahmed, Z., Jegadeswaran, M. (2013): The present paper is written on NPAs, and causes for NPAs. Secondary data were collected for a period of five years and analyzed by mean, CAGR, ANOVA and ranking banks. Banks were ranked according to their performance in managing NPAs. Efficiency in managing NPAs was tested by nationalized banks.

Ranjan, R., Dhal, S. C. (2013): This paper explores an empirical approach to the analysis of non-negative loans of Indian commercial banks by regression analysis. Empirical analysis evaluates how NPLs are affected by three major sets of economic and financial factors, namely, credit terms, bank size-induced risk preferences and macroeconomic shocks.

The relationship which moderates or mediates in nature is not stated in the literature. Detailed discussion on NPAs during the financial crisis and comparison between pre-crisis and post-crisis periods is not done. In addition, expert feedback on the occurrence of NPA and its management have been discussed in some studies. The current research addresses suggestions from previous research and discusses NPAs in detail.

III. CONCLUSION

The non-performing assets have a direct impact on the profitability, productivity, liquidity and equity of banks and finally influence the outlook of the banks towards credit delivery and credit expansion. Many factors contributed to increase in NPA. NPA being an important parameter for assessing financial performance of banks, should be managed in order to improve the quality of the asset portfolio of banks. The financial crisis that erupted worldwide have impacted the quality of asset portfolio and resulted higher NPA. The results of the study shall be used by banks and regulatory authorities to appraise the existing tools to assess the quality of assets. Overall, this research might help banks to develop indicators that better appraise the quality of credit portfolio and monitor the effect of change in various bank specific and economy specific indicators.

REFERENCES

- [1] Chandrashekhar, C. P. (2009). How Sound is Indian Banking. *The Economic & Political Weekly* (9-15 May), 8-9.
- [2] Malyadri, P., & Sirisha, S. (2011). A Comparative Study of Non Performing Assets in Indian Banking Industry. *International Journal of Economic Practices and Theories*, Vol. 1, No. 2, 2011 , 1 (2), 77-87.
- [3] Rao, M. S. (2001). A better Future for Banks. *Indian Management* (July), 14-16.
- [4] CP CHANDRASHEKHAR AND JAYATI GHOSH(2016): “ Why we need to worry about Indian banking”, business line, the Hindu group of publications, july 4 2016
- [5] RBI(2016): headline, “Bank NPA may hit 8.5 % by March” , *The Hindu* ,Mumbai, June 28,2016.
- [6] Dutta, A (2014) Empirical Study on Non-Performing Assets Management Of Indian Commercial Sector Banks. Retrieved from, *Perspective*, Vol 6, no. 2. Pp. 18-22
- [7] Narula, S, & Singla, M(2014)., “ Empirical Study on Non Performing Assets of Bank”. *International Journal of Advance Research in Computer Science and Management Studies*,year 2014, vol 2 , issue1, pp 194-199,
- [8] Das, S (2010) Management of Non-Performing Assets In Indian Public Sector Banks With Special Reference To Jharkhand. Retrieved from http://www.igidr.ac.in/newspdf/money/mfc_10/Santanu%20Das_submission_45.pdf
- [9] Ahmad, Z., Jegadeeshwaran, M. (2013) Comparative Study On NPA Management Of Nationalised Banks. Retrieved from *International Journal of Marketing, Financial Services and Management Research*, ISSN 2277- 3622, Vol.2, No. 8, August (2013)
- [10] Ranjan, R, Dhal, S.C. (2003) Non-Performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment. Retrieved from Reserve Bank of India Occasional Papers, Vol. 24, No. 3, Winter 2003