

A STUDY ON MANAGEMENT OF NON PERFORMING ASSETS OF COMMERCIAL BANKS IN INDIA

Dr. Visalakshi.C.A
Associate Professor of Commerce
Govt. victoria college, Palakkad.
krsnadivya@gmail.com

Abstract

Banks play an important role in the economic development of a country. Banks are growth-drivers and the banking business is exposed to various risk, such as credit risk, liquidity risk, interest risk, market risk etc. Apart from these risks the very important risk is loan recovery. NPAs in loan portfolio affect operational efficiency which in turn affects profitability, liquidity and solvency position of banks. High level of NPAs in Indian banks is a reflection of the state of health of the banking industry and trade. It is necessary to trim down NPAs to improve the financial health in the banking system. An attempt is made in this paper to understand NPA, the status and trend of NPAs in Indian Scheduled commercial banks, the factors contributing to NPAs, reasons for high impact of NPAs on Scheduled commercial banks in India and recovery of NPAs through various channels

Key words Non Performing assets, Scheduled commercial banks, recovery channels

I. INTRODUCTION

Banks plays an important role in the economic development of a country..A major threat to banking sector is prevalence of NPAs. An asset which ceases to generate income for the bank is called Non-Performing Asset. NPAs in loan portfolio affect operational efficiency which in turn affects profitability, liquidity and solvency position of banksThe importance of bank's stability in a developing economy is significant as any distress affects the development plans thereby the economic progress. The stability of banking sector plays a pivotal role in the economic development of a country as well as it provides resilience against financial crisis

Asset quality was not prime concern in Indian banking sector till 1991.The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., But in recent times the banks have become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India. Narasimham Committee that mandated identification and reduction of NPAs to be treated as a national priority because NPA direct toward credit risk that bank faces and its efficiency in allocating resources. Profitability and earnings of banks are affected due to NPA numbers.

1.1 Statement of the problem

The Indian banking sector is dominated by public sector banks (PSBs) that include SBI & associates and nationalized banks. RBI issued guidelines in 1993 based on the recommendations of the Narasimham Committee that mandated identification and reduction of NPA to be treated as 'National Priority'. The level of the NPA indicates the efficiency of banker's credit risk management and allocation of resource which include precautionary measures and curative measures. Precautionary measures focus strengthening credit risk management system and continuous risk assessment systems of the bank. The curative measures includes measures initiated by RBI such as setting up Asset Reconstruction Companies (ARCs), Debt Recovery Tribunals (DRTs), Securitization Act, Compromise Settlement Schemes, etc. Despite the various

prudential measures taken from the post - liberalization period, the non-performing assets still pose an important threat to the very existence of banking.

1.2 Scope of the study

In this paper an attempt is made to analyse the management of NPA by scheduled commercial banks and the effective channels of recovery adopted by the banking industry.

II Literature Review

Dr. Sonia Narula & Monika Singla (2014) in their research paper “Empirical Study on Non-Performing Assets of Bank” found that Because of mismanagement in bank there is a positive relation between Total Advances, Net Profits and NPA.

Singh (2013) in his paper entitled Recovery of NPAs in Indian commercial banks says that the origin of the problem of burgeoning NPA’s lies in the system of credit risk management by the banks

Rai (2012) in her study on Study on performance of NPAs of Indian commercial banks find out that corporate borrowers even after defaulting continuously never had the fear of bank taking action to recover their dues. This is because there was no legal framework to safeguard the real interest of banks.

II.1 Research gap

Many of the measures stated in the literature were implemented in the Indian banking sector. Still the level of NPA is alarming and its fluctuations during financial crisis are really a reason to worry about. Hence a further research on NPA in banking is required.

II.2 Objectives of the Study

1. To study the status of Non Performing Assets of Indian Scheduled Commercial Banks in India
2. To study the impact of NPAs on Banks.
3. To know the recovery of NPAS through various channels.
4. To make appropriate suggestions to avoid future NPAs and to manage existing NPAs in Banks

III. DATA AND METHODOLOGY

3.1 Data source

Data for the study has been collected from secondary sources The secondary data was collected from the annual financial statements of banks, Websites of banks, National Institute of Bank Management (NIBM), Indian Banks Association (IBA), Reserve Bank of India (RBI) etc., books, journals and publications of RBI, newspapers etc.,

3.2 Research design

The research methodology employed is the descriptive research design in order to explain the extent of NPAs in scheduled commercial banks, the various channels adopted by them for recovery and to what extent they have succeeded. The population under study consist of all the banks in India. There are 152 Commercial Banks in India of which 22 are in public sector, 21 in private sector and 64 RRBs.

3.3 Methodology

The research methodology employed is the descriptive research design. The type of data used in this study are only secondary sources obtained from financial reports of the banks in India. The data used for analysis

include percentage of Gross NPA to Gross advances, percentage of net NPA to advances, percentage of recovery of amount through various recovery channels over the amount involved in the referred cases.

3.4. Time- Period of the Paper

The paper discusses the trends, status and impact of NPA on scheduled commercial banks for a period of 10 years from 2007-08 to 2016-17.

4. Analysis and interpretation

4.1 Non-Performing Assets in Indian Scheduled Commercial Banks

Table 1 – Gross Advances and Gross NPAs of SCBs (Amount in Rupees Billion)

Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (Percentage)
2007-08	25078.85	563.09	2.3
2008-09	30382.54	683.28	2.3
2009-10	35449.65	846.98	2.4
2010-11	40120.79	979.00	2.5
2011-12	46655.44	1370.96	2.9
2012-13	59882.79	1931.94	3.2
2013-14	68757.48	2641.95	3.8
2014-15	75606.66	3229.16	4.27
2015-16	81711.14	6116.08	7.48
2016-17	84767.05	7902.68	9.32

The amount of advances of has increased from Rs.25078.85 Billion in 2007-08 to Rs. 84767.05 Billion in 2016-17. The amount of gross NPA has increased from Rs563.09 billion in 2007-08 to7902.68 billion in 2016-17. Similarly, NPA percentage is also showing the rising trend from 2.5 in 2007-08 to 9.32 in 2016-2017

Table 2 – Net Advances and Net NPAs of SCBs (Amount in Rupees Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs (Percentage)
2007=08	24769.36	247.30	1.0
2008-09	29999.24	315.64	1.1
2009-10	34970.92	387.23	1.1
2010-11	42987.04	417.00	1.1
2011-12	50735.59	652.00	1.3
2012-13	58797.03	986.00	1.7
2013-14	67352.32	1426.57	2.1
2014-15	73142.13	2340.55	3.2
2015-16	79500.42	3498.23	4.4
2016-17	98431.82	4331.14	5.3

The above table shows the amount of Net Advances, Net NPA and the percentage of Net NPA during the period of 2007-08 to 2016-17. The amount of advances has increased from Rs. 24769.36 billion in 2007-08 to 98431.82 billion in 2016-17. Further, the amount of NPA has also increased from Rs.247.30 billion to Rs.4331.14 billion during the study period.The percentage of Net NPA has increased from 1% in 2006-07 to 5.3in 2016-17.

Table 3 – Showing NPAs recovered by SCBs through Lok Adalats (Amount in Crore)

year	Number of Cases referred	Amount involved	Amount Recovered	% of Amount recovered
2008	1,86,535	2142	176	8.2
2009	5,48,308	4023	96	2.4
2010	7,78,833	7235	112	1.55
2011	6,16,018	5254	151	2.87
2012	4,76,073	1700	200	11.8
2013	8,40,691	6600	400	6.1
2014	16,36,957	23200	1400	6.2
2015	29,58,313	31000	1000	3.1
2016	44,56,634	72000	3200	4.4
2017	21,52,895	105787	3803	3.6

Table 3 is showing NPAs of commercial banks recovered through Lok Adalats during the study period of 2008 to 2017. From the analysis of the table, it is clear that the number of cases referred to Lok Adalats for the recovery of NPAs of commercial banks has increased largely in 2017 as compared to 2008. However, if we look at the amount recovered by Lok Adalats during the study period, it shows a decline of 8.2% from 2008 to 3.6% in 2017. These Lok Adalats are only successful in recovering 3803 crore out of 105787 crore means only 3.6% of the total amount involved in NPAs of the commercial banks. Due to its inefficiency in recovering, the amount involved in NPAs, the commercial banks resorting to others means of recovery

Table 4. Showing NPAs recovered by SCBs through DRTs (Amount in Crore)

item	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Cases Referred	3728	2004	6019	12872	13365	13408	28258	22004	24537	28902
Amount Involved	5819	4130	9797	14092	24100	31000	55300	60400	69300	67089
Amount Recovered	3020	3348	3133	3930	4100	4400	5300	4200	6400	16393
% of Amount recovered	51.9	81.1	32	27.89	17.00	14.1	9.5	6.9	9.2	24.4

Table 4 is showing NPAs of commercial banks recovered through DRTs during the study period of 2008 to 2017. From the analysis of the table, it is clear that the number of cases for the recovery of NPAs referred to DRTs is increasing throughout the study period and also the amount involved in these cases and the amount recovered through DRTs has increased. DRTs shows their efficiency in 2008-09 where it recovers 81.1% of the total amount involved in NPAs and in later years also the amount recovered by DRTs is quite significant. This is the basic reason why the commercial banks are approaching DRTs for the recovery of their NPAs as compared to Lok Adalats in which the percentage of recovered amount is very low.

Table 5. Showing NPAs recovered by SCBs through SARFAESI Act (Amount in Crore)

item	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Cases Referred	83,942	61760	78366	118642	140991	190537	194707	175355	173582	80076
Amount Involved	7263	12067	14249	30604	35300	68100	94600	156800	80100	113100
Amount recovered	4429	3982	4269	11561	10100	18500	24400	25600	13200	7758
% of Amount recovered	61.0	33.0	30.0	37.78	28.6	27.1	25.8	16.32	16.47	6.9

Table 5 is showing NPAs of commercial banks recovered through SARFAESI Act during the study period of 2008 to 2017. From the analysis of the table, it is clear that the number of cases referred to SARFAESI Act and the amount of NPAs involved is increased largely during the study period. This is done because of the efficiency of SARFAESI Act in recovering these NPAs of commercial banks. From the table it is clear that the SARFAESI Act is able to recover 25.8% of the amount of NPAs of the cases referred to it in the year 2014. In 2008 recovery percentage was quite higher 61.0% this act has emerged as a blessing in disguise for the commercial banks as now they are using this act largely in recovering their NPAs in order to increase their profitability. But in 2017 it is very low as 6.9%.

4.2. Major findings

1. The amount of gross NPA has increased from Rs 563.09 billion in 2007-08 to 7902.68 billion in 2016-17.
2. The amount of net NPA has also increased from Rs.247.30 billion to Rs.4331.14 billion during the study period
3. Net NPA as a percentage of net advance was steadily increasing from the year 2011 onwards. In 2011 it was 1.1 and in 2017 it was 5.3.
4. No. of cases referred in Lok Adalats, DRTS and SARFAESI Act is increasing over the study period.
5. SARFAESI Act Effective channel of recovery of NPA followed by DRTs and Lok Adalats.

4.3. Causes and impact of NPA

Some of the important reasons for NPA, mentioned in various literatures are summarized below;

1. Wilful defaults and Defective lending process such as Improper selection of borrowers/activities, Lack of proper pre-appraisal and follow up, Non-compliance of sanction terms and conditions. are the important factors which are responsible for the rise of NPAs in banks.
2. Ineffective recovery and the time involved in the legal process and realization of securities also causes rise in NPA.
3. NPAs reduce the earning capacity banks and badly affect the ROI.
4. Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
5. NPAs causes to decrease the value of share and affect the risk facing ability of banks.

5 Suggestions and Conclusion

5.1 Suggestions

1. Credit appraisal and post –loan monitoring are crucial steps which need to concentrate by all commercial banks.
2. There must be regular follow-up with the customers and Personal visits should be made after sanction and disbursal of credit.
3. Bankers may resort to Compromise Settlement or One Time Settlement. It has been observed that Banks these days are highly resorting to SARFAESI Act for the management of NPA.
4. If the default is due to reasons beyond the control of borrower which are namely draughts, floods, or other natural calamities, the banker should restructure the loans taking into account the genuinely of the case

5.2 Limitations of the study

- 1.This study takes into account all the scheduled commercial banks in india,it does not consider foreign banks functioning in India
- 2.The study is not made NPA among bank groups such as public sector and private sector
- 3.The study has not made NPA from different sectors such as priority sector and other categories of loans

5.3 Further research scope

There exists a significant difference in NPA trends among PSBs, private sector banks and foreign banks. Studies on NPA based on bank groups may be further explored by the new researchers.

5.4 Conclusion

The Non-Performing Assets have always created a big problem for the banking industry. Since the post - liberalization period, RBI has initiated several measures to reduce NPA and improve profitability and productivity of the banking sector. Even though the Indian banking sector remained competitive and productive and to a greater extent resilient to the recessionary pressures, the current NPA trends is not satisfactory for the wellbeing of Indian SCBs. The bank management should speed up the recovery process and a strict policy should be followed for solving this problem.

6 References

- 1 Rai, K., “Study on performance of NPAs of Indian commercial banks”, Asian Journal Of Research in Banking and finance, Vol. 2, Issue 12, 2012.
- 2 Chatterjee, C. and Mukherjee, J. and Das, R., “Management of nonperforming assets - a current scenario”, International Journal of Social Science & Interdisciplinary Research, Vol.1 Issue 11, 2012.
- 3 . Basu, P (2005), How distress is India’s Banking System?, (2005), India’s Financial Sector- Recent Reforms, Future Challenges, First Edition (Reprint), McMillan India Limited Publication.
- 4 Yadav, Sushma, “NPAs: Rising Trends and Preventive Measures in Indian Banking Sectors.”, International journal of advance research in computer science and management studies, Vol. 2, Issue 1, 2014. www.rbi.org.in