

## A STUDY OF NON-PERFORMING ASSETS OF INDIAN BANKING SECTOR

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### ABSTRACT

*Problems related to NPAs are growing rapidly in the commercial banks. NPAs adversely affect the profitability, liquidity and solvency of the banks. Therefore, it is required to pay more attention towards NPAs especially for the banks. The main purpose of this research paper is to study the trend of NPAs of scheduled commercial banks in India for twelve years 2005-06 to 2017-18. This paper further examines the causes for rising NPAs and its impact on Indian banking sector. The secondary data is used for study in order to keep the research findings reliable. The secondary data for the research is collected from Reserve Bank of India (RBI) bulletins, statistical tables relating to banks in India, Report on trend and progress of banking in India, issued by the RBI.*

**KEYWORDS:** Non- Performing Assets, Scheduled Commercial Banks, Gross NPA, Net NPA.

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### Introduction

Banking industry is a significant segment of the economy that has attained a revived emphasis after financial reforms and the participation of private banks in this sector. This field is the foundation block of modern economic growth. For the banking sector, efficient management of its assets is of principal importance because banks are the custodians of public funds and they lend other people money. To protect the interest of the public as well as the banks itself, deliberate efforts are needed for efficient asset management. If the assets and liabilities of the banks are not managed in well manner, it can cause a serious problem for bank as well as for the economy as a whole. In order to increase profitability of the banks, serious efforts are required for managing the assets and liabilities of the banks. If the assets are not managed in an appropriate manner, they turned to non-performing state. Such assets are generally termed as "Non-Performing Assets." In the field of bank, non-performing assets include non-performing cash and bank balances, non-performing loans and advances, interest on which is not realisable.

**Non-Performing Asset (NPA)** is described as a credit facility in respect of which the interest and/or the principal's installment remained past due for a stated time. In India, with time, the concept of NPAs has evolved. According to the Narasimham Committee report (1991), those assets for which the principal interest and/or repayment remains due for a term of four quarters (180 days) should be regarded as NPA. In order to step towards universal best practices and guarantee greater accountability, It was determined that the '90-days overdue' norms for NPA recognition would be implemented from the year ended 31 March 2004.

### Classification of Non-Performing Asset

The Reserve Bank of India classifies NPAs into 3 categories depending on the time the asset remains nonperforming for.

- **Sub-standard Assets:** If the creditor refuses to pay loan for 90 days after a quarter's end; the loan becomes an NPA and is considered a "special mention Account." If this loan stays SMA over a duration of less than or equivalent to 12 months; it is referred to as **Sub-standard Asset**.

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- **Doubtful Assets:** When sub-standard assets stay this way for a further 12 months; they will be labeled "Doubtful assets."
- **Loss Assets:** If the loan is not repaid even after it has stayed sub-standard asset for more than 3 years, internal / external audit can mark it as unrecoverable, and it will be considered loss asset. An NPA may report failure only if internal or external auditors have found it to be so.

### Review of Literature

**Baiju S. And Garbriel Thattil (2000)** the research on NPAs in the banking sector focused on the existing status of the SCBs. We categorized all four categories - SBI Group, Nationalized Banks, Scheduled Commercial Banks, and Foreign Banks - in really decent, decent, poor, and worst category dependent on capital adequacy and unsustainable properties.

**Sharma and Bardia (2003)** Suggested that the NPAs should be held inside the bank's tolerance range, since it is the inherent responsibility of every business. The banks can only issue loans after assessing their clients' credit worthiness. To achieve this aim the banks will use the advanced credit risk control approaches.

**Vallabh, G., Mishra, S. and Bhatia, A. (2007)** An overview review of NPAs of public, private and foreign sector banks in India was carried out. The aim of this analysis was to find the fundamental factors that impact bank NPAs. This research presents an analytical approach to evaluating the non-performing assets (NPAs) of Indian banks in the public, private, and foreign sector banks. The NPAs are seen as a significant criterion for assessing banks' efficiency and financial stability.

**G.V.Bhavani Prasad, D.Veena(2011)** In their report on NPAs Reduction Strategies for Commercial Banks in India, it was reported that the problem of NPAs does not produce interest income for banks, but at the same time that banks are expected to make allowances for NPAs on their current earnings, with the consequence that NPAs have disruptive effects on asset returns as follows.

**Chandan Chatterjee, Jeet Mukherjee, DR.Ratan Das (2012)**, The "Operation of Non-performing Assets - A Present Scenario" report stated that NPAs have a detrimental effect on the achievement of capital adequacy, allocation of funds and implementation strategies, integrity of the financial sector and the economy as a whole.

**Narula and Singla (2014)** Consider Punjab National Bank's non-performing assets and their effect on productivity & see the connection between Overall Advances, Net Income, Gross & Negative NPA. The analysis uses Punjab National Bank's annual reports from 2006-07 to 2011-12 for the six year duration. Such papers agree that the partnership between PNB's Net Profits and NPA remains favorable. This is because of bank side mismanagement.

**Vivek Rajbahadur Singh (2016)** The research on Non-Performing Assets of Commercial Banks and its recovery in India was carried out. This research indicates the level of NPA in public sector banks is comparatively quite small. The capital that is locked up in NPAs has a strong effect on the bank's performance as Indian banks are heavily reliant on interest received from funds borrowed.

### Objectives of the Study

- To study the concept of Non-performing assets (NPA).
- To identify and analyze the Non-performing assets of scheduled Commercial banks.
- To study and examines and the causes for rising NPAs.
- To study the impact of rising NPA on banks.

### Methodology of the Study

The present study is descriptive in nature with appropriate analytical discussions presented in tune with the proposed objectives. The primary objective of this paper is to study the trend of NPAs of scheduled commercial banks in India for twelve years 2005-06 to 2017-18. This paper further examines the causes for rising NPAs and its impact on Indian banking sector. The secondary data is used for study in order to keep the research findings reliable. The secondary data for the research is collected from Reserve Bank of India (RBI) bulletins, statistical tables relating to banks in India, Report on trend and progress of banking in India, issued by the RBI.

### Data Analysis and Interpretation

- **Gross NPA Ratio:** Gross NPA is the cumulative total of all debt reserves listed as NPAs according to the RBI guidelines as on the date of the balance sheet. Gross NPA represents the price of Bank loans. It consists of all the non-standard properties, such as under-standard, suspicious and failure items.  $\text{Gross NPA ratio} = \frac{\text{Gross NPA}}{\text{Gross Advances}} \times 100$

**Table 1: Gross NPA Ratio of Scheduled Commercial Banks**

Year	Gross NPA (Rs. In crore)	Gross Advances (Rs. In crore )	Gross NPA Ratio (%)
2017-18	1039679	9266210	11.22
2016-17	791791	8476705	9.34
2015-16	611607	8171114	7.48
2014-15	322916	7560666	4.27
2013-14	263015	6875748	3.83
2012-13	192769	5971820	3.23
2011-12	136968	4648808	2.95
2010-11	93997	3995982	2.35
2009-10	81718	3262079	2.51
2008-09	69954	3024652	2.31
2007-08	56606	2503431	2.26
2006-07	50517	2007413	2.52
2005-06	51753	1545730	3.35

Source: RBI reports

**Interpretation**

It is apparent from table 1 that gross advances of scheduled commercial banks have increased from 1545730 crores in 2005-06 to 9266210 corers in 2017-18. Gross NPA of scheduled commercial banks have also increased from 51753 corers in 2005-06 to 1039679 corers in 2017-18. There is a mix trend in gross NPA. Gross NPA ratio for the year 2005- 06 is 4.43% and in year 2017-18 it is 11.22%.

- **Net NPA Ratio**

Net NPA are those type of NPA in which the bank has deducted the provision regarding NPA. Net NPA shows the actual burden of banks.

$$\text{Net NPA Ratio} = \frac{\text{Gross NPA} - \text{Provisions}}{\text{Gross advances} - \text{Provision}} \times 100$$

**Table 2: Net NPA Ratio of Scheduled Commercial Banks**

Year	Net NPA (Rs. In crore)	Net Advances (Rs. In crore )	Net NPA Ratio (%)
2017-18	520679	8745978	5.95
2016-17	433121	8116109	5.34
2015-16	349814	7896467	4.43
2014-15	175841	7388160	2.38
2013-14	142656	6735213	2.12
2012-13	98693	5879773	1.68
2011-12	65205	5073559	1.29
2010-11	41799	4297487	0.97
2009-10	39127	3496720	1.12
2008-09	31564	2999924	1.05
2007-08	24730	2476936	1.00
2006-07	20280	1981237	1.02
2005-06	18543	1516811	1.22

Source: RBI reports

**Interpretation**

Net advances of scheduled commercial banks increases in absolute terms from amount 1516811 crores in 2005-06 to amt. 87459778 crores in 2017-18. A drastic raise of 476.6 percent between 2005-06 to 2017-18. Increase trend was noticed from 2005-06 to 2017-18. Net NPA Ratio of scheduled commercial banks increases in absolute terms from 1.22% in 2005-06 to amt. 5.95% in 2017-18.

- **Gross NPA to Total Assets Ratio**

$$\text{Gross NPA Ratio to total assets ratio} = \left( \frac{\text{Gross NPA}}{\text{Total Assets}} \right) \times 100$$

**Table 3: Gross NPA to Total Asset Ratio of Scheduled Commercial Banks**

Year	Gross NPA (Rs. In crore)	Total Assets (Rs. In crore )	Gross NPA to Total Asset Ratio (%)
2017-18	1039679	15253292	6.816
2016-17	791791	14174606	5.586
2015-16	611607	13129288	4.658
2014-15	322916	12036992	2.683
2013-14	263015	10975929	2.396
2012-13	192769	9589952	2.010
2011-12	136968	8320890	1.646
2010-11	93997	7183398	1.309
2009-10	81718	6026925	1.356
2008-09	69954	5238642	1.335
2007-08	56606	4326166	1.308
2006-07	50517	3459962	1.460
2005-06	51753	27855863	0.186

Source: RBI reports

**Interpretation**

Gross NPA of scheduled commercial banks increases in absolute terms from amount 51753 crores in 2005-06 to amt. 1039679 crores in 2017-18. A drastic raise of 1908 percent between 2005-06 to 2017-18 was observed. Increase trend was noticed from 2005-06 to 2017-18. Gross NPA to Total Asset Ratio of scheduled commercial banks increases in absolute terms from 0.186% in 2005-06 to amt. 6.816% in 2017-18.

- **Net NPA to Total Asset Ratio**

Net NPA to Total Asset Ratio:  $(\text{Net NPA} / \text{Total Assets}) * 100$

**Table 4: Net NPA to Total Asset Ratio of Scheduled Commercial Banks**

Year	Net NPA (Rs. In Crore)	Total Assets (Rs. In Crore )	Net NPA to Total Asset Ratio (%)
2017-18	520679	15253292	3.41
2016-17	433121	14174606	3.06
2015-16	349814	13129288	2.66
2014-15	175841	12036992	1.46
2013-14	142656	10975929	1.30
2012-13	98693	9589952	1.03
2011-12	65205	8320890	0.78
2010-11	41799	7183398	0.58
2009-10	39127	6026925	0.65
2008-09	31564	5238642	0.60
2007-08	24730	4326166	0.57
2006-07	20280	3459962	0.59
2005-06	18543	27855863	0.07

Source: RBI report

**Interpretation**

Net NPA of scheduled commercial banks increases in absolute terms from amount 18543 crores in 2005-06 to amt. 520679 crores in 2017-18. A drastic raise of 2707 percent between 2005-06 to 2017-18 was observed. Increase trend was noticed from 2005-06 to 2017-18. Net NPA to Total Asset Ratio of scheduled commercial banks increases in absolute terms from 0.07% in 2005-06 to amt. 3.41% in 2017-18.

**Causes for rising Non-Performing Assets**

Currently the banking sector is experiencing the issue of rising NPAs. Following are some of the internal and external causes for rising Non-Performing assets-

**Internal Causes**

- Poor credit appraisal system.
- Defective lending process.
- Improper selection of borrower.
- Selection of borrower under influence.
- Lack of post sanctions monitoring.
- Inadequate/excess sanction of loan.
- Inappropriate technology.
- Improper SWOT analysis.
- Absence of regular industrial visit.

**External Causes**

- Natural calamities.
- Willful defaulters.
- Changes in economic conditions.
- Changes in government policies.
- Lack of infrastructure.
- Industrial sickness.
- Banking amendments.
- Unhealthy competition.
- Ineffective recovery tribunals.

**Impact of Rising NPAs**

The Indian financial sector's dilemma of NPAs is one of the biggest and most daunting problems that have an influence on the whole banking industry. Higher NPA ratio trembles creditors, depositors, borrowers and so on confidence. It also triggers low recovery of funds, which would in turn have deleterious impact on credit deployment. The non-recovery of loans not only affects the banks' future credit access but also financial soundness. Following are some effects-

- **Profitability:** NPAs have a negative effect on productivity as banks, on the one side, avoid earning profits and, on the other, incur higher provisioning compared with normal funds.
- **Changes in Interest Rates:** Higher NPA represents a reduction in the interest rate on the bank loan, however bad public explicitly affect the bank's Lower NPA's implications.
- **Levies of Charges for Every Operation:** Banks recover their profits by levies charges on certain transactions that were cost-free, such as – ATM withdrawal cap, withdrawal amount of days, cash deposits in certain subsidiaries, Internet transaction costs, etc.
- **Increase in Current Account Deficit:** NPA plays an significant position in any economic scenario and is also the key source of the current account deficit rise. Interest rates, deposit, mortgage loans, CRR, and SLR are also impacted explicitly by the scheme.
- **Confidence in Share Holders:** Higher NPA's in the banking sector lose shareholders' and depositors' interest, they turn segments and lose network faith.
- **Public Confidence:** The reputation of the financial industry is also adversely influenced by higher NPAs, as it undermines the general public's trust in the soundness of the banking sector
- **Effect on the Serious Borrower:** Boost in NPA impacts not just the economy but also the extreme trustworthy creditor with strong records and reputation ratings. We have to struggle and the world, on the other side, is losing optimism for change.

**Conclusion**

The increasing trend in NPAs not only affects the performance of the banks but also affect the economy as a whole. The primary objective of this paper is to study the trend of NPAs of scheduled commercial banks in India for twelve years 2005-06 to 2017-18. we extract data regarding Gross Advances, Gross NPAs, Net Advances, Net NPAs and Total Assets of SCBs for these years. Increase trend was noticed from 2005-06 to 2017-18. in Gross NPA and Net NPAratios of SCBs. Gross NPA of scheduled commercial banks increased from 51753 corers in 2005-06 to 1039679 corers in 2017-18. Net NPA of scheduled commercial banks increases in absolute terms from amount 18543 crores in 2005-06

to amt. 520679 crores in 2017-18. Increase trend was noticed from 2005-06 to 2017-18.in SCBs Gross NPA and Net NPA ratios Higher NPA ratio affects borrower, depositor, lender trust, etc. It also triggers low recovery of money, which would in turn have deleterious impact on credit deployment. The non-recovery of loans not only affects the banks' future credit access but also financial soundness

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