

A REVIEW ON NON PERFORMING ASSETS OF INDIAN BANKING SYSTEM AND ITS IMPACT ON ECONOMY: SELECTED BANKS

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ABSTRACT:

In the developing economies, Banking and Financial part assumes enormous part in economic improvement. In India banks are confronting enormous issue of Non-Performing Assets (NPAs). The acquiring limit and productivity of the banks are fundamentally influenced due to the NPAs nearness. Notwithstanding that non-execution or non-receipt of premium and chief blocked banks cash as assets and is not accessible for further utilization of saving money business and in this way the net revenue of the banks goes down. In this association bank must mindful of the issues and recuperation enactments of NPAs. So it is vital to trim down NPAs to enhance the monetary wellbeing in the keeping money framework. In this paper, an endeavour has been made to discover the different elements in charge of the gigantic NPAs. Year wise comparison of the NPA s of leading banks is also done. Other than this causes and effect of NPAs are additionally distinguished and a few recommendations are given to lessen the NPAs of the selected banks. The paper further examines its impact on Indian banking sector and on Indian economy. The height of this problem is no doubt very high in the developing countries like India. The fast growing problem of NPAs is threatening banks profitability and affecting the economy in general.

Key Words: *Non Performing Assets, Economic Development, Banking & Financial*

1.0 INTRODUCTION:

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or instalment of Bond finance principal has remained 'past due' for a specified period of time. In simple terms, an asset is tagged as non performing when it ceases to generate income for the lender. Nonperforming assets, also called non-performing loans, are loans, made by a bank or finance company, on which repayments or interest payments are not being made on time. NPA is used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principle payments for 90 days the loan is considered to be a non-performing asset. Non-performing assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs.

The bank plays an important role in the economy of a country by performing it's the most important function known as credit creation. The bank creates credit in various forms such as loans and advances, cash credit; bank over draft etc. in this manner the bank creates money supply into the market. The banks give these loans and advances, cash credit, bank over draft

to the individuals, firms, companies, government, etc. in this sense the bank plays role of a lender of money and all these parties play the role of borrower. Unfortunately the credit provided by the bank doesn't come back to the bank. This creates bad debts, which is known as NonPerforming Assets (NPA) in the terminology of bank.

Criteria for NPAs: Loans don't go bad right away. Most loans allow customers a certain grace period. Then they are marked overdue. After a certain number of days, the loan is classified as a nonperforming loan. Banks usually classify as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. For agricultural loans, if the interest and/or the installment or principal remains overdue for two harvest seasons; it is declared as NPAs. But, this period should not exceed two years. After two years any unpaid loan/installment will be classified as NPA.

Causes of NPA: NPAS result from what are termed "Bad Loans" or defaults. Default, in the financial parlance, is the failure to meet financial obligations, say non-payment of a loan installment. These loans can occur due to the following reasons:

1. Default - One of the main reasons behind NPA is default by borrowers.
2. Economic conditions - Economic condition of a region affected by natural calamities or any other reason may cause NPA.
3. No more proper risk management - Speculation is one of the major reasons behind default. Sometimes banks provide loans to borrowers with bad credit history. There is high probability of default in these cases.
4. Mis-management - Often ill-minded borrowers bribe bank officials to get loans with an intention of default.
5. Diversion of funds - Many times borrowers divert the borrowed funds to purposes other than mentioned in loan documents. It is very hard to recover from these kind of borrowers.
6. Bad lending practices
7. Overhang component (due to environmental reasons, natural calamities, business cycle, Disease Occurrence, etc...)

2.0 Literature review:

Murari Premnath Sharma, (2015) A "Non-Performing Asset" (NPA) was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained „past due“ for a specified period of time. An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. The Non-Performing Assets strike terror in banking sector today. The dreaded NPA increases year by year continuously. Due to this risk performance of the banking sector has been decreasing and some of them have been liquidated. The three letter black snake (NPA) is going up. Now we should think seriously about the regulator norms of our financial sector. It may be guarantor norms, recovery rules and its implementation. All banking policy has a chance of improvement. All the recommendations work in certain limitation, condition and assumption. We cannot predict about the customers perception about the loan repayment. Out of majority and big defaulters are escape from the recovery and innocent guarantor some time trap in this incident or bank may lost its assets. Therefore now there are various techniques developed by the defaulters. At the time of application their intention may be doubtful. Sometime internal

employee also involved in this activity. This study focused on impact of NPA on national economy and recommendation of regulatory norms.

Ankit Garg, (2016) Non-performing Asset is one of the prevalent problem of Indian Banking sector. For the past three decades, the banking system has several outstanding achievements to its credit. Many banks are facing the problem of NPAs which hampers the business of the banks. Nonperforming assets are a drain to the banks. Various research studies have been conducted to analyze the root causes of NPA. The following study tries to understand the concept of NPA, its causes and impact on profitability. The problem of NPA impacts profitability, Liquidity and results in credit loss. Unless and otherwise proper remedial measures are taken the quantum of non-performing assets cannot be reduced and the bank will incur losses to a great extent.

Diksha Sahni, (2017) In India Non-performing assets are one of the major concerns for banks. NPA is the best Indicator for the health of the banking industry. NPAs reflect the performances of banks. NPAs is the primary indicators of credit risk. NPAs are an inevitable burden on the banking industry. Hence the success of a bank depends upon methods of managing NPAs. The Public Sector Banks have shown very good performance over the private sector banks as far as the financial operations are concerned. The Public Sector Banks have also shown comparatively good result. However, the only problem of the Public Sector Banks these days are the increasing level of the non performing assets. The non performing assets of the Public Sector Banks have been increasing regularly year by year. On the contrary, the non performing assets of private sector banks have been decreasing regularly year by year except some years. Generally reduction in NPAs shows that banks have strengthened their credit appraisal processes over the years and increased in NPAs shows the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks than private sector banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled.

3.0 RESEARCH METHODOLOGY:

Descriptive research approach is selected for this research and various research paper have been studied in this regard. The studied is conducted for the selected public sector bank and private sector bank. The study is based on the secondary data collected from various RBI annual reports research paper and articles.

Selected Banks for the Study:

A. Public Sector Banks

1. State Bank of India
2. Bank of India
3. IDBI Bank

B. Private Sector Banks

1. AXIS BANK
2. ICICI BANK
3. YES BANK

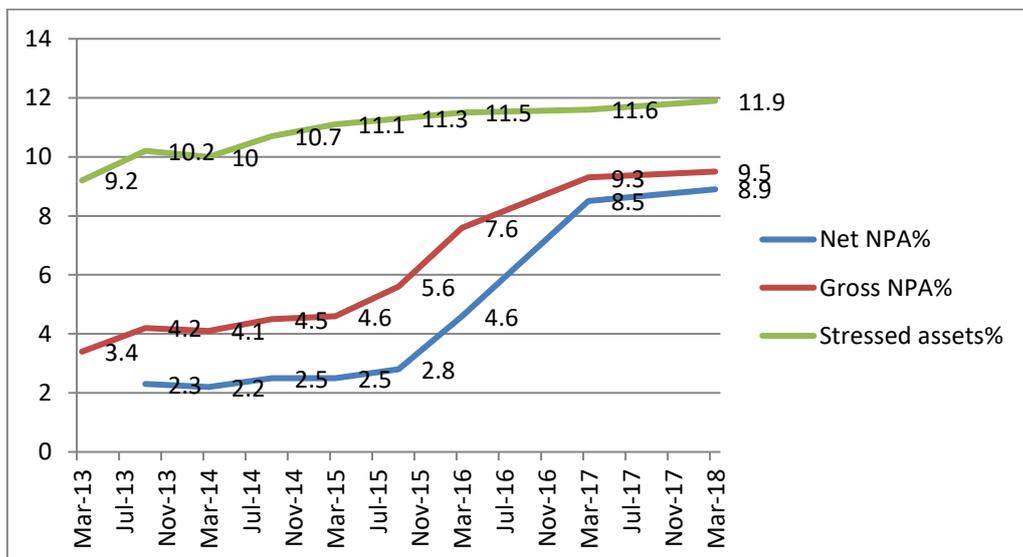
Indian Banks and their NPA and NPAs Ratios

Sr.No	Bank	NPAs	NPA Ratios
Public Sector Banks			
1	State Bank of India	1,88,068	9.97
2	Bank of India	51,019	13.05
3	IDBI Bank	50,173	24.11
Private Sectors Bank			
4	ICICI Bank	43,148	7.99
5	AXIS Bank	22,031	5.03
6	YES Bank	1,364	0.97

Data Analysis & Interpretation

Net NPA.Gross NPA and stress assets till March 2018

NPA	Net NPA%	Gross NPA%	Stressed assets%
Mar-13		3.4	9.2
Sep-13	2.3	4.2	10.2
Mar-14	2.2	4.1	10
Sep-14	2.5	4.5	10.7
Mar-15	2.5	4.6	11.1
Sep-15	2.8	5.6	11.3
Mar-16	4.6	7.6	11.5
Mar-17	8.5	9.3	11.6
Mar - 18	8.9	9.5	11.9



Graph NPA, Gross NPA and Stress Assets of C.B.

The above table depict the % of Net, Gross NPA and Stress assets during the period 2013 to 2018 the % increase continuously. It forecast that in 2017 it will reach at 8.5 and 9.3 and it will be critical for banking system.

From the above it is clear that in Public Sector Banks the State Bank of India has the highest NPA of Rs 1, 88,068cr, Followed by Bank of India which has a NPA of Rs 51,019Cr and IDBI Bank having a NPA of 50,173cr.

In Private sector bank, ICICI Bank has the highest NPA's of Rs 43,148cr, Followed by AXIS bank which has a NPA of Rs 22,031cr and YES bank having a NPA of 1,364 cr.

Impacts of NPAs on the Indian Economy:

The problem of NPAs in the Indian banking system is one of the most important and the most formidable problems that had impact on the Indian economy. higher NPA's ratio quake the confidence of investors, depositors, lenders etc. it also causes poor recycling of funds, which in turn will have harmful effect on the deployment of credit. The un- recovers debts or NPA's affects not only these banks but it is also hazardous for Indian economy.

- The higher is the amount of non-performing assets (NPA) the weaker will be the bank's revenue stream.
- Indian Banking sector has been facing the NPA issue due to the mismanagement in the loan distribution carried by the Public sector banks.
- As the NPAs of the banks will rise, it will bring a scarcity of funds in the Indian markets. Few banks will be willing to lend if they are not sure of the recovery of their money.
- The price of loans interest rates will shoot up badly. Shooting of interest rates will directly impact the investors who wish to take loans for setting up infrastructural, industrial projects etc.
- All these factors hurt the overall demand in the Indian economy.

4.0 CONCLUSION

Managing bad loans and controlling them at lowest level has become paramount important for the banking sector in recent years. It is found that the impact of NPAs on the Indian economy is because of mismanagement in banks. Certain precautions if taken from the very beginning the incidence of borrower accounts turning bad may be reduced to large extent. Such as pre - sanction formalities, promptness and follow up action. Because of mismanagement in bank there is a positive relation between Total Advances, Net Profits and NPA of bank which is not good. Positive relation between NPA & profits are due to wrong choice of clients by Banks. There is an adverse effect on the Liquidity of Bank. Bank is unable to give loans to the new customers due to lack of funds which arises due to NPA As per the government, the main reasons for rise in NPAs are sluggishness in the domestic growth in the recent past, slow recovery in the global economy and continuing uncertainty in global markets leading to lower exports of various products such as textiles and leather.

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