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## **A Study on Non-Performing Assets of Indian Commercial Banks**

### **Abstract**

The Indian banking sector has been facing serious issues of raising Non-performing assets (NPAs). The NPAs growth includes a direct impact on profit of banks. Non-performing assets square measure one among the foremost issues for scheduled commercial banks in India. The recommendations of Narasimham committee and Verma committee, some steps have been taken to unravel the matter of recent NPAs within the balance sheets of the banks. It continues to be expressed from each corner that there has seldom been any systematic analysis of the most effective way of tackling the problem. There appears to be no agreement within the correct policies to be followed in resolving this problem. NPAs reflect the performance of banks. A high level of NPAs suggests high likelihood of an oversized range of credit defaults that have an effect on the profit and net-worth of banks and conjointly erodes the worth of the quality. NPAs have an effect on the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs isn't solely moving the banks however conjointly the total economy. In fact high level of NPAs in Indian banks is nothing however a mirrored image of the state of health of the trade and industry. It is necessary to minimize NPAs to boost the financial stability within the industry. 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 numerous channels.

**Keywords:** Non- Performing Assets, NPA, Scheduled Commercial banks.

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## **Introduction**

The banking system in India includes commercial and cooperative banks, of that the former accounts for more than 90 per cent of banking system's assets. Besides a number of foreign and Indian private banks, the commercial banks comprise nationalized banks (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the depository financial institution of India) and therefore the associate banks of SBI (majority holding being with State Bank of India). These banks, along with regional rural banks, constitute the public sector (state owned) banking system in India. The banking industry has undergone a transmutation once the first part of economic relaxation in 1991 and thus credit management.

Asset quality wasn't prime concern in Indian banking sector until 1991, however was principally targeted on performance objectives like gap wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. While the first operate of banks is to lend funds as loans to varied sectors like agriculture, industry, personal loans, housing loans etc., however in recent times the banks became terribly cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India.

Bankers are the custodians and distributors of the liquid capital of the country. Therefore most important function of the banking system is to mobilize the savings of the people by accepting deposits from the public. The banker becomes the trustee of the surplus balances of the public. Deposit mobilization promotes the economic prosperity by controlling the money circulation and canalizing for development and productive purposes. In order to mobilize deposits, the commercial banks undertake deposit mobilization through varied deposit schemes suited to the various sections of the individuals. The deposits along with other sources of funds namely capital, reserves and borrowings, form the sources of funds for the banks. The activities of the lending and investment bank are based on the sources of funds.

The banks, in their books, have distinctive kind of assets, for example, cash in hand, balances with different banks, speculation, credits and advances, fixed assets and different assets. The Non-Performing Asset (NPA) idea is limited to advances, advances and ventures. For whatever length of time that an advantage produces the pay anticipated from it and does not uncover any strange hazard other than typical business chance, it is treated as performing asset, and when it neglects to create the expected income it turns into a "Non-Performing Asset".

As such, a loan asset turns into a Non Performing Asset (NPA) when it stops to produce income, for example interest, expenses, commission or some other contribution for the bank for more than 90 days. A NPA is a development where instalment of interest or

reimbursement of portion on principal or on the other hand both stays unpaid for a time of two quarters or more and on the off chance that they have progressed toward becoming 'past due'. A sum under any of the credit offices is to be treated as past due when it remain unpaid for 30 days past due date.

Non-Performing Assets are likewise called as Non-Performing Loans. It is made by a bank or money organization on which reimbursements or interest payments are not being made on time. A loan is a benefit for a bank as the payment of interest and the paying back of the capital sum make a stream of money flows. It is from the interest payments that a bank makes its benefits. Banks normally treat assets as non-performing in the event that they are not adjusted for quite a while. In the event that instalments are late for a brief time frame, a loan is named past due and once an instalment turns out to be actually late (typically 90 days), the loan is delegated non-performing. An abnormal state of nonperforming resources, contrasted with comparable loan specialists, might be an indication of issues.

### **Gross NPA and Net NPA**

The NPA is also Gross NPA or web NPA. In straightforward words, Gross NPA is that the quantity that is outstanding within the books, in spite of any interest recorded and debited. However, Net NPA is Gross NPA less interest debited to borrowal account and not recovered or recognized as income. RBI has prescribed a formula for deciding the Gross NPA and web NPA.

### **NPA and SARFAESI Act**

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act has provisions for the banks to require legal recourse to recover their dues. When a recipient makes any default in compensation and his account is assessed as NPA; the secured individual must issue notice to the recipient giving him sixty days to pay his dues. If the dues don't seem to be paid, the bank will take possession of the assets and might additionally provide it on lease or sell it; as per provisions of the SARFAESI Act.

### **Research and Time gap in Literature**

The different aspects of literature related to Non-Performing Assets of researchers over the years have been collected and used for this study, but there is a huge time gap existing for the comprehensive research on quality aspects of Non-Performing Assets. Most of the research and studies are being done on causes, impact and management aspects of NPAs.

### **Objectives of the Study**

- To consider the status of Non Performing Assets of Indian Scheduled Commercial Banks in India.
- To think about the effect of NPAs on Banks.

- To know the recuperation of NPAS through different channels.
- To make suitable recommendations to keep away from future NPAs and to oversee existing NPAs in Banks

### **Limitation of the Study**

The important limitations are as follows;

- The study of non-performing assets of SCBs is limited to the Indian Bank and till the end of the year 2014.
- The reason for recognizing non-performing resources is taken from the Reserve Bank of India Publications.
- NPAs are changing with the time. The study is done in the present condition without predicting future advancements.

### **Scope of the Study**

The study has the following scope:

- The study could recommend measures for the banks to stay away from future NPAs and to decrease existing NPAs.
- The study may help the government in making and executing new techniques to control NPAs.
- The study will choose fitting strategies fit to deal with the NPAs and build up a period bound activity intend to check the development of NPAs.

### **Sources of Data**

The data collected is mainly secondary in nature. For this study the data sources include literature published by Indian Bank and the Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

### **Methodology of Study**

For our study, we have considered Non Performing Assets in Scheduled Commercial Banks which incorporates public sector, private and foreign banks which are listed in the Schedule II of the RBI Act, 1934. The study is based on secondary data. The paper discusses the conceptual framework of NPA and it also highlights the trends, status and impact of NPA on scheduled commercial banks during the period of 10 years i.e. from 2007 to 2017. Various reputed research journal including articles and research paper have been used by the researchers. Additionally, RBI Report on Trend and Progress of Banking in India for various years, websites and a book on banking has been referred during the study.

### **Population**

Banking industry is taken for the study, where aggregate data related to NPA for Public sector Banks, Private Sector Banks and Foreign Banks is used.

**Time- Period of the Paper**

10 year's Aggregate data from 2007 to 2017 is used for the study.

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

<b>Year</b>	<b>Gross Advances</b>	<b>Gross NPAs (Amount)</b>	<b>Gross NPAs (Percentage)</b>
2007-08	25034.31	566.06	2.3
2008-09	30246.52	699.54	2.3
2009-10	32620.79	817.18	2.4
2010-11	39959.82	939.97	2.5
2011-12	46488.08	1369.80	2.9
2012-13	59718.20	1927.69	3.2
2013-14	68757.48	2630.15	3.8
2014-15	75606.65	3229.16	4.27
2015-16	81711.14	6116.07	7.48
2016-17	84767.05	7902.68	9.32

Source: [dbie.rbi.org.in](http://dbie.rbi.org.in)

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 200-08 to 2016-17. The amount of advances of has increased from Rs. 25034Billion in 2007-08 to Rs. 84767Billion in 2016-17. The amount of gross NPA has increased from Rs. 566.06 billion in 2007-08 to Rs. 7902.68 billion in 2016-17. Similarly, NPA percentage is also showing the rising trend from 2.4 in 2009 to 9.32 in 2017.

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

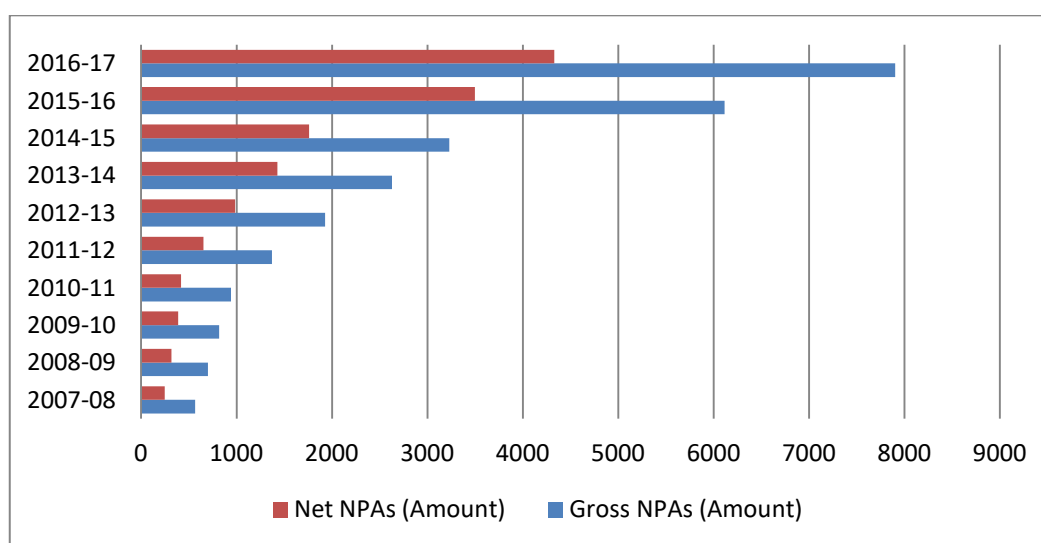
<b>Year</b>	<b>Net Advances</b>	<b>Net NPAs (Amount)</b>	<b>Net NPAs (Percentage)</b>
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2007-08	24769.36	247.30	1.0
2008-09	29999.24	315.64	1.1
2009-10	34970.92	387.23	1.1
2010-11	42987.04	417.00	1.0
2011-12	50735.59	652.00	1.3
2012-13	58797.03	986.00	1.7
2013-14	67352.32	1426.57	2.1
2014-15	73881.60	1758.41	2.4
2015-16	78964.67	3498.14	4.4
2016-17	81161.97	4330.10	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 81161.97 billion in 2016-17. Further, the amount of NPA has also increased from Rs. 247.30 billion to Rs4330.10 billion during the period (2007-08 to 2016-17).

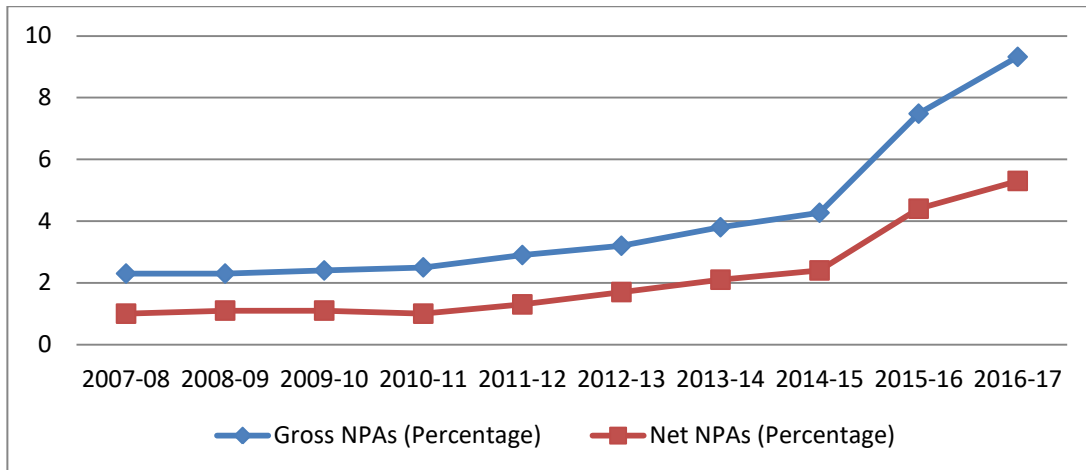
The percentage of Net NPA has first maintained a constant value i.e., 1.0 from 2007-08 to 2010-11. Then it has been increasing from 1.3 in 2011-12 to 5.3 in 2016-17.

**Figure 1 – Scheduled Commercial Banks (Gross and Net NPAs)**



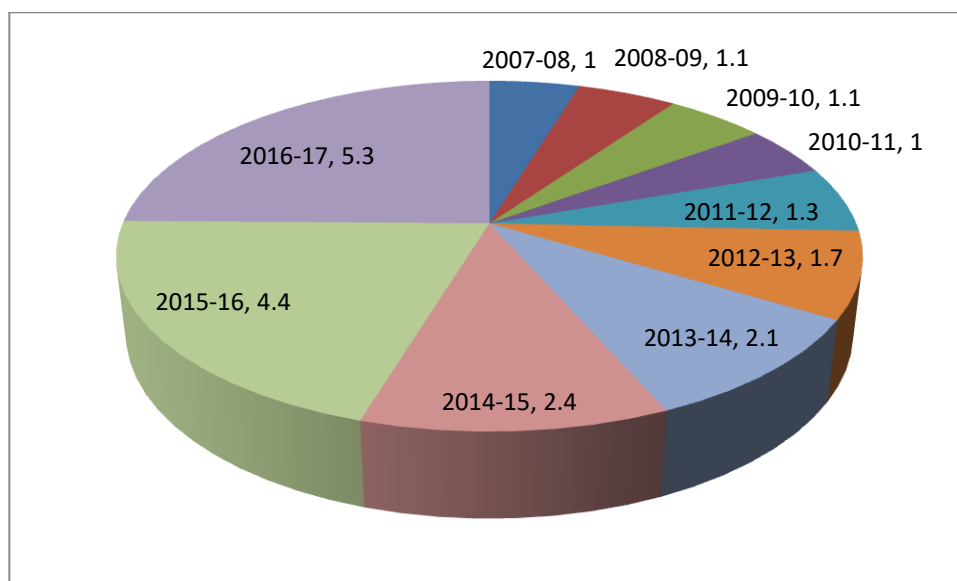
The above figure shows the trend of Gross NPA and Net NPA in billion for the period of 13 years starting from 2001-02 till 2013-14. The x-axis represent the years i.e. as the period of (2001-02 – 2013-14) whereas y-axis represent the amount of NPA. We can observe here that the Gross and Net amount of NPA has been showing an upward trend beginning from 2006-07 to 2013-14.

**Figure 2 – Gross and Net NPA (in Percentage)**



The above figure portrays the trend of Gross NPA and Net NPA in percentages for the period of 1 years i.e. from 2007-08 till 2016-17. The x-axis represents the years whereas y-axis represents the percentage of NPA. We can observe here that the Gross and Net percentage of NPA has been showing an upward trend beginning from 2007-08 to 2016-17.

**Figure 3 – Net NPAs as a Percentage of Net Advances (SCBs)**



The above figure shows NPAs as a Percentage of Net Advances which was lowest 1.0 % in 2007-08 & 2010-11 and highest 5.3 % in 2016-17. It was 4.4 % in 2015-16.

**Table 3 – Showing NPAs recovered by SCBs through LokAdalats(Amount in Billion)**

<b>Item</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Number of Cases Referred</b>	840691	16,36,957	2958313	4456634	2152895
<b>Amount Involved</b>	66	232	310	720	1058
<b>Amount Recovered</b>	4	14	10	32	38
<b>% of Amount recovered</b>	6	6	3.2	4.4	4

Sources: R.B.I

Table 3 is showing NPAs of commercial banks recovered through LokAdalats during the study period of 2013 to 2017. From the analysis of the table, it is clear that the number of cases referred to LokAdalats for the recovery of NPAs of commercial banks has increased largely in 2016 as compared to 2013. However, if we look at the amount recovered by LokAdalats during the study period, it shows a continuous increase from 2013 to 2017 and then it shows improvement from 2015 to 2017. Due to 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)**

<b>Item</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Number of Cases Referred</b>	13408	28258	22004	24537	28902
<b>Amount Involved</b>	310	553	604	693	671
<b>Amount Recovered</b>	44	53	42	64	164
<b>% of Amount recovered</b>	14	10	7	9	24

Table 4 is showing NPAs of commercial banks recovered through DRTs during the study period of 2008 to 2014. From the analysis of the table, it is clear that the number of cases for the recovery of NPAs referred to DRTs is increasing through 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 81.1pc 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 LokAdalats in which the percentage of recovered amount of NPAs is very low. Though we can say that there is a slight decrease in the percentage of amount recovered by DRTs of the NPAs of commercial banks, though these are a significant recovery channel for the commercialbanks.

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

Item	2013	2014	2015	2016	2017
<b>Number of Cases Referred</b>	190537	194707	175355	173582	80076
<b>Amount Involved</b>	681	953	1568	801	1131
<b>Amount Recovered</b>	185	253	256	132	78
<b>% of Amount recovered</b>	27	27	16	17	7

**Figure 4 – Recovery of NPAs of SCBs through various Channels (Amount in Rs. Crore)**

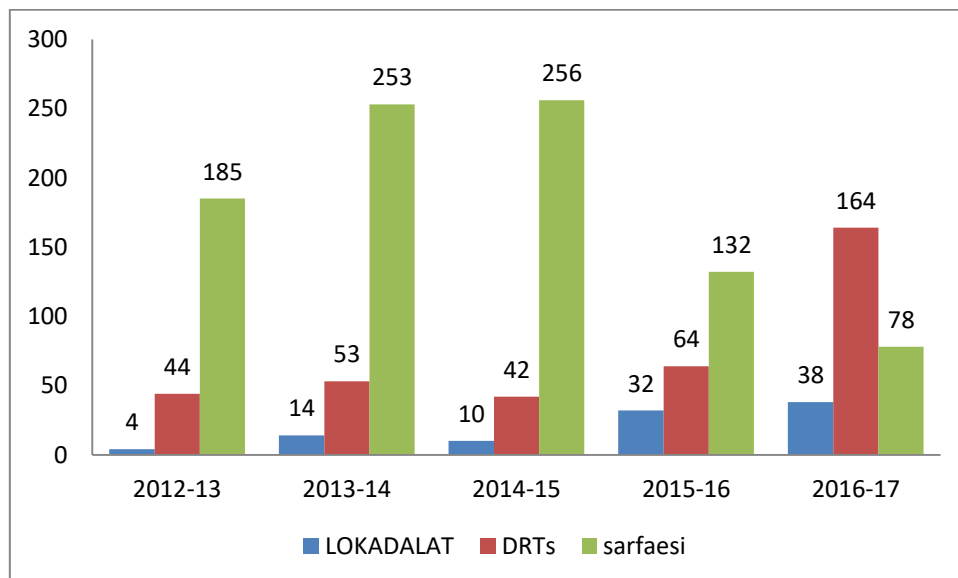


Figure 4 clearly showing NPAs of scheduled commercial banks recovered through various channels SARFAESI Act during the study period of 2012-13 to 2016-17. SARFAESI Act

is the most effective channel of NPA recovery. Rs. 25,600 Crores were recovered through this channel in 2014-15.

## **Impact of NPA**

The potency of a bank isn't mirrored solely by the dimensions of its balance sheet however conjointly the level of return on its assets.. The NPAs do not generate interest financial gain for banks however at an equivalent time banks are needed to provide provisions for NPAs from their current profits. The NPAs have deleterious impact on the return on assets in the following ways:

- Diminish the gaining limit of benefits and severely influence the ROI.
- The expense of capital will go up.
- The asset and liability bungle will enlarge.
- Higher provisioning prerequisite on mounting NPAs unfavourably influence capital adequacy ratio and banks gainfulness.
- The economic value addition (EVA) by banks gets annoyed in light of the fact that EVA is equivalent to the net working benefit less expense of capital.
- NPAs causes to diminish the estimation of share now and then even underneath their book value in the capital market.

## **Findings**

- Gross NPAs of scheduled commercial banks have increased from Rs. 566.06 Billion in 2007-08 to Rs 7902.68 Billion in 2016-17.
- Net NPAs of scheduled commercial banks have increased from Rs. 247.3 Billion in 2007-08 to Rs. 4330.10 Billion in 2016-17.
- NPAs as a Percentage of Net Advances which was lowest 1.0 % in 2007-08 & 2010-11 and highest 5.3 % in 2016-17.
- The average Percentage of Net NPAs during 2007-08 to 2016-17 was around 2.14%
- Number of Cases Referred to LokAdalat was 8,40,691 in 2013 and reached to 21,52,895 in 2017
- Rs. 9800crores of NPAs of SCBs recovered through LokAdalat during 2013 to 2017
- Rs. 36700crores of NPAs of SCBs recovered through DRTs during 2013 to 2017
- Rs90400crores of NPAs of SCBs recovered through SARFAESI Act during 2013 to 2017

- Ineffective recovery, wilful defaults and Defective lending process are the important factors which are responsible for the rise of NPAs in banks.
- NPAs reduce the earning capacity banks and badly affect the ROI.

## **CONCLUSION**

The Non-Performing Assets have always created a big problem for the banks in India. It is just not solely drawback for the banks except for the economy too. The money locked up in NPAs has a direct impact on profit of the bank as Indian banks are extremely addicted to financial gain from interest on funds lent. This study shows that extent of NPA is comparatively very high in public sectors banks. Although varied steps are taken by government to cut back the NPAs however still tons must be done to curb this drawback. The NPAs level of our banks is still high as compared to the foreign banks. It is not in any respect potential to own zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers however with massive borrowers and a strict policy ought to be followed for finding this problem. The govt ought to conjointly build additional provisions for quicker settlement of unfinished cases and conjointly it ought to cut back the necessary disposal to priority sector as this is often the foremost problem creating area. So the problem of NPA needs serious efforts otherwise NPAs will keep killing the profit of banks that isn't sensible for the growing Indian economy at all.

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