

Non-Performing Assets - Status And Impact

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Abstract: *In the liberalization economy, Banking and Financial sector get high priority. The Indian banks are facing very huge problems due to rising NPAs (Non Performing Assets). This straightly effect the profitability of the banks and now a days it has become the major concern for the commercial banks .The problem of NPA is not only affecting the commercial banks but also the whole economy . NPA also results in the decrease and deficit of the trade and health of the trade. In short, performance of a bank is reflected by NPAs.*

In addition to this, it also affects the liquidity and profitability and poses threat on quality of asset and survival of banks. NPAs are nothing but a reflection of state of health of the industry and trade. To improvise the financial health of the banking system, NPSs need to be trimmed down. Since nationalization of banks in 1969, to provide an opportunity to poor and underprivileged section of people in Indian society for the improvement in their living standard, Scheduled Commercial Banks have been asked to extend credit to them.

I. INTRODUCTION TO NPA

Indian Banking Sector is acknowledged as it is the main vehicle for the monetary policy signals and facilitator for payment systems. In terms of ownership, Commercial banks can be classified as nationalized banks, State bank of India and its associate banks, regional rural banks and private sector banks. Success of any bank can be accessed on the basis of profit and quality of assets it possesses.

A major threat to the banking sector is the prevalence of Non Performing Assets (NPAs). In the current scenario, for all the banking problems, NPA is the core. Main reasons of increasing NPAs are the target-oriented approach which needs to be curbed.

Non Performing Assets (NPA) is the classification of loans in the books of financial accounts of the company mainly banks. An Asset is considered as non performing assets when the income generation is not up to 90 days of standard time. Then further it is considered as Non Performing Assets.

Mostly banks considered assets as Non Performing Assets when the loan exceeds its maturity period which is basically 90 days. Basically it is the credit facility of which the interest or installment of principle amount is due for a specific period

of time. In simple words we can say that it generates income for the lender.

As once the installment is not paid and it become NPA then it become a big trouble for the banks or financial institutions as they more or less depends on the interest or installment given by the persons as their income.

II. NON PERFORMING ASSETS - THE CONCEPT

Non Performing Assets is related to banking and finance. It refers to the classification for loans that are in default or are in arrears on scheduled payments of interest or principal. When loan payments have not been made for a period of 90 days, in that case debt is classified as non-performing. 90 days of non-payment is the standard period of time for any type of debt to be categorized as non-performing. The amount of elapsed time may be shorter or longer which depends on the terms and conditions mentioned in each loan.

For example, if a company takes a loan of worth Rs.10 crores, having payments of Rs.50, 000 per month fails to make payment for four consecutive months, the bank or the lender may be required to consider that loan as nonperforming to meet all its regulatory requirements. Also if the company

makes all the interest payments but not the principal at maturity, the loan may be considered as nonperforming.

III. REVIEW OF LITERATURE

- ✓ *Rural Banking Enquiry Committee Report (Thakur Das Committee, 1949)*: This report concluded that proper investigation action was very essential. Close contact with the borrowers has to be maintained by the banks. Also they have to keep track of the end-use of funds which are lent to the borrowers.
- ✓ *Report of the Agriculture Credit Review Committee (1989)*: According to this report, over dues prevent recycling of funds, impaired refinance eligibility and productivity of co-operative banks. Resources deployed by the credit agencies for the agricultural sector which are locked up in over dues and were not available for recycling contribute to about 26 percent. The borrower is cut off from any access to credit from institutions in case it is found as a defaulter.
- ✓ *Mayilsamy, R (2007)*: Non-Performing Assets (NPAs) can be said as a co-operative credit structure. In his observation, he reported that the banks have to evolve recovery strategies and has to plan for recovery management. He also concluded that if they fail to improve the recovery, the huge burden of NPAs is really breaking the backbone of the short term co-operative credit structure in India.
- ✓ *Mayilsamy, R and Revathi Bala, M (2009)*: Management of Non Performing Assets in District Central Co-operative Banks (DCCBs) in India has been entitled by them. In regard of nation, they pointed out that real economic cause is through NPAs only. They also reflected the inefficient uses of the application of lacking capital and credit finance. It is also said that high NPAs in the banks have devastating efforts on the economy as a whole and also on the banks. It is also seen that the formation of the good policy will be no use unless it is implemented in true spirit.
- ✓ *Dr. A Ramachandran, D.Siva Shanmugam (2012)*: They analyzed that the urban cooperative banks (UCBs) exhibited a greater emphasis on diversification of product, customer orientation thrust towards retail banking, improved service in the adoption of IT, better MIS and management and strategic mergers and acquisition across bank groups. The researcher concluded that because of the competition from public sector banks and private sector banks, the future of urban cooperative banks is challenging as both banks are concentrating on their major expansion activities in all verticles. The growth of UCBs depend on the transparency in all services such as control, operation, governance, customer-centric policies, technology-up gradation and efficiency.
- ✓ *Vighneswara Swamy (2013)*: His study has established that private banks and foreign banks have more efficiency in managing the credit, which indicates that bank privatization can lead to better management of default risk. These findings infer that for bank lending, better credit risk management practices have to be taken up. For

banks with low operating efficiency and low capitalization, attention has to be taken. The state owned banks have to take adequate measures to sharpen their NPA management practices. It can be summarized that Private Banks (both Old and New) and Foreign Banks manage their NPAs efficiently.

As economy also demands the flow of money in the country as at some point NPA's occur then it also leads to big write downs. With respect from March 31, 2004 it is decided that NPA to adopt a 90 day overdue procedure to give time to the person who is paying interest or installment to the specified bank or financial institution.

According to 31 March, 2004 the NPA is loan or advance when:

- ✓ The interest or installment is of principle amount is due till 91 days.
- ✓ In case of cash credit or overdraft account if the accounts remain closed or untouchable for period of 91 days.
- ✓ If bill purchased or discounted and remains due till period of 91 days.
- ✓ In respect of other accounts if any amount remains due for 91 days.
- ✓ In case of cash credit facility the nonpayment of stock details for 3 continuous quarters.
- ✓ Not active transactions in account for 91 days. Mainly in Cash Credit, Over Draft, EPC, PCFC.

IV. CATEGORIES OF NPA

- ✓ *Sub-Standard Assets*: A Sub-Standard Asset is classified in NPA which has not exceeds period of 12 Months.
- ✓ *Doubtful Debts*: It is considered as NPA which has exceeded the period of 12 months.
- ✓ *Loss Assets*: It is classified when the loss is declared by identified bank, auditor or central bank inspectors.

V. WHY NPA OCCURS?

- ✓ Due to bad banking operations or lending practices.
- ✓ Due to crisis occurred in banks.
- ✓ Due to environmental factors.
- ✓ Due to internal banks practices or management problems.
- ✓ Due to change in Government policies.

VI. PROBLEMS CAUSED BY NPAs

Not only have they impacted the banks also they impact the national economy as:

- ✓ Depositors do not get the rightful returns and banks start charging more rate of interests from customers as to cover the cover the losses.
- ✓ Shareholders got adversely affected.
- ✓ The economy suffers due to bad investments and this leads to failure of good projects.

VII. EFFECTS OF NPAs

Nonperforming assets also termed as non performing loans as all the burden come on the lenders as the nonpayment of interest or principle amount it leads to reduction of cash flow for the lender which can affect the budget and decreases earnings and once the loans are declared as losses then they are written against earnings.

OUT OF ORDER

The out of order condition occurs in bank on that account when there is no transaction in that account for continuously a month and further then it is considered as out of order account. And it becomes NPA for the bank.

INCOME RECOGNITION

The income recognition policy says that the amount received for NPA will not be recognized on accrual basis as it is considered when the amount is actually received.

If any advance occurs which may include bill purchased or discounted becomes NPA then the interest and credited to income account must be reversed if it is not realized. This will also apply to guaranteed Government accounts.

NET NPA's

Net NPA's can be classified in which banks has deducted the provisions about NPAs. It shows the actual burden of banks. Thus in India balance sheets have very huge amounts of NPAs so to write down the process of recovery and loans it takes too much of time so banks can put all of them in NPAs as per Central Bank Guidelines. We can calculate Net NPAs by Gross NPAs-Provisions/Gross Advances-Provisions.

METHODOLOGY OF STUDY

I have taken issue of NPA in commercial banks which include Public sector as well as private banks and also the Foreign banks which have listed in the RBI act 1934. This study is all based on secondary data. This research paper discusses the framework of the NPAs and the impact of the NPAs on commercial banks.

OBJECTIVES OF THE STUDY

- ✓ To study status of NPAs in commercial banks in India.
- ✓ To study what are the impacts of NPAs on banks.
- ✓ To get to know about recovery of NPAs through different prospective.

STATUS OF NPAS IN COMMERCIAL BANKS

Gross NPAs OF Public and Private Sector Banks during June 30, 2016

S.No.	Bank Name	Total Advances (In crores)	Gross NPA (In crores)	NPA Ratio (%)
1	Allahabad Bank	145,328	18,769	12.92
2	Andhra Bank	137,228	14,137	10.3

3	Bank of Baroda	269,115	35,604	13.23
4	Bank of India	274,391	43,935	16.01
5	Bank of Maharashtra	103,148	13,040	12.64
6	Bharatiya Mahila Bank Ltd.	627	3	0.4
7	Canara Bank	311,615	30,480	9.78
8	Central Bank of India	185,719	25,107	13.52
9	Corporation Bank	142,787	15,726	11.01
10	Dena Bank	81,114	9,636	11.88
11	IDBI Bank Limited	202,304	21,724	10.74
12	Indian Bank	122,173	8,690	7.11
13	Indian Overseas Bank	149,217	30,239	20.26
14	Oriental Bank of Commerce	150,301	17,209	11.45
15	Punjab & Sind Bank	63,134	4,566	7.23
16	Punjab National Bank	356,958	55,003	15.41
17	Syndicate Bank	167,759	13,475	8.03
18	UCO Bank	115,166	21,495	18.66
19	Union Bank of India	242,935	25,560	10.52
20	United Bank of India	70,781	10,104	14.28
21	Vijaya Bank	90,199	6,589	7.31
22	State Bank of Bikaner & Jaipur	74,033	4,593	6.2
23	State Bank of Hyderabad	112,420	9,436	8.39
24	State Bank of India	1,193,325	93,137	7.8
25	State Bank of Mysore	55,228	4,323	7.83
26	State Bank of Patiala	85,239	11,365	13.33
27	State Bank of Travancore	68,276	6,401	9.38
28	Catholic Syrian Bank Ltd.	7,859	455	5.79
29	City Union Bank Ltd.	21,216	555	2.62
30	Dhanlaxmi Bank Limited	6,771	475	7.02
31	Federal Bank Ltd.	59,408	1,747	2.94
32	Jammu & Kashmir Bank Ltd.	50,640	4,715	9.31
33	Karnataka Bank Ltd.	35,412	1,389	3.92
34	Karur Vysya Bank Ltd.	39,382	702	1.78
35	Lakshmi Vilas Bank Ltd.	20,183	432	2.14
36	Nainital Bank Ltd.	2,776	145	5.21
37	Ratnakar Bank Ltd.	22,373	253	1.13
38	South Indian Bank Ltd.	41,705	1,652	3.96
39	Tamilnad Mercantile Bank Ltd.	22,329	489	2.19
40	Axis Bank Ltd.	300,173	7,909	2.63
41	Bandhan Bank Ltd.	13,358	29	0.22
42	DCB Bank Ltd	13,464	231	1.72
43	HDFC Bank Ltd.	440,955	4,724	1.07
44	ICICI Bank Ltd.	364,429	17,208	4.72
45	IndusInd Bank Ltd.	93,667	861	0.92
46	Kotak Mahindra Bank Ltd.	122,384	3,059	2.5
47	Yes Bank Ltd	103,411	845	0.82
48	IDFC Bank Limited	49,714	3,030	6.09

Table 1

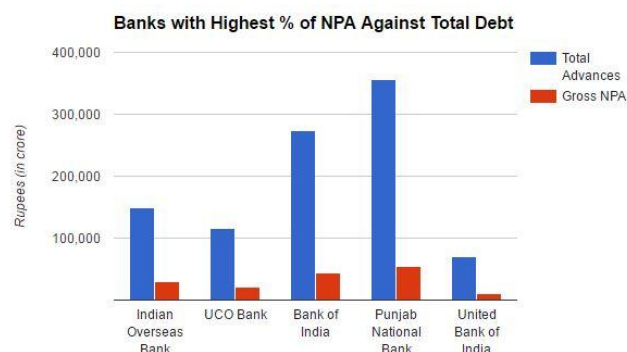


Figure 1

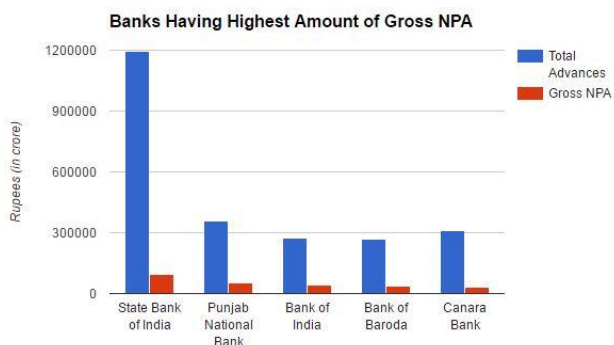


Figure 2

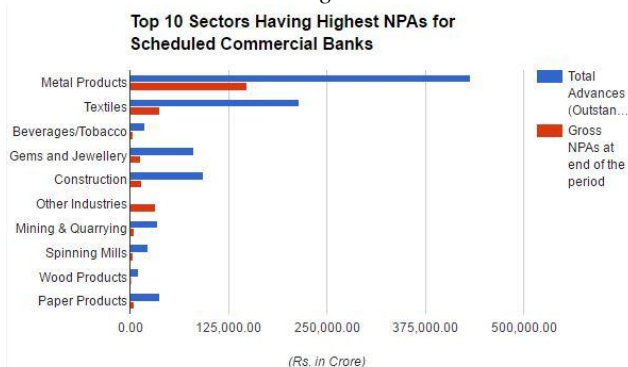


Figure 3

IMPACT OF NPAs ON BANKING OPERATIONS

PROFITABILITY

First of all NPA affects the profitability of the banks. As NPAs occur due to wrong choice of the customer. Not only have they affected the profitability also they block the return which is done on a very good project or asset. They affect the current profit and also affect the upcoming profits of the banks. And also they affect the ROI (Return on Investment) which badly affects the current earning of the banks.

LIQUIDITY

Then NPAs affect the liquidity of cash in the banks as the money is blocked and this may lead to borrow cash from some other companies and this may also increase the cost of the banks as there is no cash right now and we they also have to pay the money back which they have borrowed. So overall this will affect the operations of the banks.

MANAGEMENT INVOLVEMENT

As NPAs occur in the banks and the management have to deal with all that stuff and in return they will demand some good returns and bonus so this will again increase cost of the banks. Nowadays banks hire special team to deal with the NPAs itself.

CREDIT LOSS

If NPA occur in the bank and banks have to ask for money as their goodwill of the bank will affect and it also loses its credibility and customers also.

RECOVERY OF NPAs

The recovery of NPAs can be done through the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 also known as SARFAESI Act. This act states that in case the assets become Non Performing Asset then the banks have full authority that they can Auction the residential or commercial buildings to recover their loans. Through this procedure banks can recover its NPA very fast and recover their losses.

As this problem of Non Performing Assets started after 1991 (as mentioned in stats) as before the economy was busy with performance objectives as to open wide networks of banks, development of the rural areas and also higher employment generation. Then the main function of banks was to lend loans or funds to different sectors as agriculture, industry, housing loans etc. But as the times moves banks become cautious in extending loans.

The reason is simple because of rising NPAs day by day. As this become a major concern for banks. Banks are the main part of liquid capital of the country. Their main function is to mobilize the deposits of the people.

VIII. CONCLUSION

Banking is in the blood of Indian economy. Banking has three sectors, private sector, public sector and co-operative sector which provide finance to different sectors. In India, the co-operative banking sector plays an important role. It helps in expanding rural economy as well as banking structure. It also provides its services to the society.

The co-operative banking structure has developed very fast in India. But it still lags in so many areas like ideal liquidity position due to NPA for both customer and staff. Modernization of banking structure is also lagging.

The problem of NPAs has a critical danger to the Indian Commercial Banks as it disturbs the healthy financial conditions of them. The pressure faced by the banking sector is an important reason for the growth of NPA indicators. Measures should be taken to maintain a healthy and viable banking environment and for converting Non-Performing Assets into Now-Performing Assets.

Banks can take steps on their own such as selling the assets to Asset Management Companies (AMCs). This way they can clean up their balance sheet and curb NPAs. The bank should adopt proper policies for preventing fresh NPAs. It is better to avoid NPAs at the budding stage of credit consideration. It should put appropriate credit appraisal mechanisms.

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