NON-PERFORMING ASSETS (NPAS): THEIR DIAGNOSTICS AND MANAGEMENT

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ABSTRACT

Presently, India is known to be the fastest growing economy in the world. The economy of India showed 8.2 percent growth in the second quarter of 2018-19 because of an accelerating development of manufacturing and agriculture sectors of the society. Though it is good enough, but every coin has two sides. The banking sector of India is facing a daunting problem of raising Non-Performing Assets (NPA). The structural as well as institutional aspects of our economy has never been much slower and is a cause for a major concern. The negligence of weak institutions while loosening operational rules is degrading the implementation of operational changes difficult and ineffective. The objective of this paper is to Present a definitive model on NPAs, their causes and consequences, analyze the current impact of NPAs on our economy and Come up with the most plausible solutions to diagnose and manage NPAs.

Keyword: NPA, Non-Performing Assets, Debt Crisis

1. INTRODUCTION

The Non-performing assets has become an important issue in our country that needs to be properly scrutinized and discussed.

Non-performing assets (NPAs) at commercial banks are amounting to Rs10.3 trillion in March 2018. Public sector banks (PSBs) were responsible for Rs8.9 trillion, or 86%, of the total NPAs.

The ratio of gross NPA to advances in Public Sector banks was 14.6%. These are levels which signal an impending banking crisis. Source: The Hindu website.

Higher NPA means higher provisions for banks. This provisioning has risen to such an extent that banks, especially public sector banks have begun to make losses. The capital from the government takes a lot of time to reach the banks and hence an erosion of capital is taking place. The requirement for minimum regulation capital is not being met. This has caused the NPA ratio to shoot up sharply almost to a crisis level. Once there is an NPA, it needs to be resolved quickly otherwise the interest keeps on rising making the NPA more and more high.

The banking sector is the backbone of India, hence its performance is considered to be a true reform of the Indian economy. Bankers are the collectors and distributors of the liquid capital of the country. The most important and most important function of banks is to raise money deposited by people. The banker works as a trustee of the public's surplus balance. The mobilization of people's deposits brings economic prosperity through controlling the spread of wealth channeling of productive projects. Deposits serve as sources of funds for some other sources such as capital, reserves and lending as well as banks. These sources are thus the basis of the bank's lending and investment activities, which are the assets of the bank. An asset is treated as a performing asset unless it generates income from it unexpectedly and no unusual risk is disclosed in the balance sheet of a bank other than a general commercial risk. It becomes NPA (Non-Performing Assets), when the expected income i.e., interest, fees, commissions or any other arrears for the bank for more than 90 days cease to arise. The concept of NPA deals with property in the form of loans, advances and investments. Non-performing assets can also be called non-performing loans.

2. OBJECTIVE OF THE STUDY.

• Present a definitive model on NPAs, their causes and consequences.
• Analyze the current impact of NPAs on our economy.
• Come up with the most plausible solutions to diagnose and manage NPAs.

3. LITERATURE REVIEW

The Snowball Effects of NPA on Indian Economy
By Bhawna Mittal
(Research Scholar), C.C.S. University and Dr. Shubhra Garg

(Asso. Professor) Commerce Department, MMH College, GZB. They show to analyse and evaluate the adverse effect of increasing NPA. It also throws the light on the performance of the scheduled commercial banks in India with reference to the problem of non-performing assets.

A Comparative Study of Non-Performing Assets in India in The Global Context - Similarities and Dissimilarities, Remedial Measures By Prashanth K Reddy(Indian Institute of Management, Ahmedabad)This paper deals with the experiences of other Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries.

NON-PERFORMING ASSETS (NPA) DAMPENS THE FINANCIAL STABILITY OF INDIAN BANKS by Dr. G. Kavitha Assistant Professor of Economics, S.T. Hindu College. This paper deals with how the current situation of NPAs is, its causes and impacts of NPAs are discussing in this article. The measures taken by the government to recover the bad loans also analyze elaborately.

Management of NPA in the Commercial Banks in Odisha: An Empirical Analysis Dr Tanmaya Kumar Pradhan Asst. Professor, Dept. of Economics, NM Institute of Engineering and Technology. The paper was useful to study Bankers opinion on causes of NPA. To analyze the steps to be taken to control NPA. To examine the norms of the bank for loan processing. To study bankers’ views on recovery of dues.

4. METHODOLOGY.

The structure of this paper has been compiled into two main categories to address and prevent the growing NPAs problem. The first is to introduce regulatory measures to address the issue through different perspectives using relevant data. The second step is taking remedial measures for the banks that the RBI has suggested and regulated for the internal structure of assets also at the end give my inputs to curtail this growing crisis.

Steps Taken until now by the Government

In 1991, the Government of India paid a lot of attention to this alarmingly increasing issue and initiated several measures to solve the problem. The solution is very important for RBI, government and commercial banks as NPA affects the profitability of banks as well as the country's economic growth. The Narasimhan committee in this regard, recommended taking several steps to reduce NPAs.

Debt Recovery Tribunal-1993: It helps in reducing the time required and also in other ways.

Credit Information Bureau-2000: It maintains and shares personal and willful defaulters' data. Small loans that are limited to Rs 5 lakh only by RBI guidelines.

Lok Adaalats-2001: It provides a mechanism, which is helpful in recovering NPAs below Rs. 100 million. It also includes law suits with courts and debt recovery tribunals.

Enforcement of the Securitization and Reconstruction of Financial Assets and Security Interest Act, 2002 (SARFAESI): This Act allows a bank to recover its NPAs without the involvement of the courts. The Act has been amended to speed up its enforcement.

Asset Reconstruction Company (ARC): These companies are licensed under the RBI and created to unlock value from stressed loans.

Corporate Debt Restructuring-2005 It works in debt for companies. This reduces the burden of the indebted company by decreasing interest rates and increasing the time period.

5:25 Rule-2014: It is also called as flexible framework of long-term project loans for infrastructure and core industries.

Joint Lenders Forum-2014: All public sector banks, which had insisted on loans, made it jointly. They shared their data, so that the same person or company could not take loans from different banks.

Bad Banks-2017: It also takes all this stressed debt and deals with it according to flexible rules and mechanisms.
4 R’s strategy: 1) Recognising NPAs transparently 2) Resolving & Recovering value from stressed accounts. 3) Re-Capitalizing the PSBs. & 4) Reforms in Banks & Financial ecosystem.

PCA: Prompt Corrective Action.

The purpose of PCA is monitoring of certain performance indicators of the bank as an early warning exercise and restore financial health of banks.

5. DATA ANALYSIS.

Currently, rising NPAs can be considered as the biggest problem of the banking sector. It is the worst among public sector banks as compared to private sector banks. The factors behind this can be many; External as well as internal.

Non-performing assets are increasing in large volume with the growth of banking activities. The reasons may be many such as absence of correct data, method adopted for calculating NPAs, depending on the total assets or loans of the bank or the size of outstanding advances or accounts only. The bank takes credit-based income, which is done by depositing debit to the suspense account and the periodic interest for the loan of the borrower to qualify. Auditors and Income Tax officials objected to this and forced banks to change their strategy. Now banks started giving additional loans to their defaulting customers to repay their old dues. Banks in many cases postponed the due dates and even extended the entire period of the loan in some cases. Meanwhile, new recruits, relocation, unhealthy competitions, lack of staff training added more fuel to the fire. Rules and regulations were set aside to accomplish the goal. Senior management also establishes relaxation for assessment purpose. Errors in loan and mortgage mortgages and the execution of loan agreements were ignored, which was only to be done quickly to set goals and achieve goals. Maintaining records and reporting of achievements was the main goal for all banks.

Now if we change our perspective and try to look at this from the Banker’s point of view, things change. A large proportion of bankers blamed their system and also the legal system. Bankers do not usually persuade borrowers to make Regular payment. One-time loan is given then both ends are taking it easy. Neither the borrower is pressurized nor persuaded to pay Timely installments; Nor do bankers take any immediate remedy. However, bank officials strongly believe Persuasion is an important tool to improve upon repayment, and NPA deficiency.

Solutions to checking the NPA are carefully and cautiously strengthening recovery efforts during processing, supervision of performance assets, court settlement etc.

Only 21.92% of banks are stressed on technical and optimal assessment also financial viability of project before lending.

The data below indicates the management or diversion of funds granted to borrowers for specific projects. In other words, borrowers’ default on repaying debt regularly because they do not manage the money, thus demotivating their projects and thus increasing the NPA at banks at such an alarming rate. If the borrower is not ready for repayment and the bank doesn’t coerce this then the borrower feels more relaxed. Similarly, 86% of bank officials agreed that the surveillance system in banks is not up to the mark. Surprisingly 78% of respondents stated that "Risk Assessment factor is highly neglected by banks.

source: Management of NPA in the Commercial Banks in Odisha

Reasons for NPA (as per Bankers)
### The gross NPAs of all banks in the country as on 31 December 2017

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Bank</th>
<th>Gross NPA (in crore)</th>
<th>Percentage of total NPA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Bank of India (SBI)</td>
<td>201560</td>
<td>23.97</td>
</tr>
<tr>
<td>2</td>
<td>Punjab National Bank (PNB)</td>
<td>55200</td>
<td>6.56</td>
</tr>
<tr>
<td>3</td>
<td>IDBI Bank</td>
<td>44542</td>
<td>5.30</td>
</tr>
<tr>
<td>4</td>
<td>Bank of India (BOI)</td>
<td>43474</td>
<td>5.17</td>
</tr>
<tr>
<td>5</td>
<td>Bank of Baroda</td>
<td>41649</td>
<td>4.95</td>
</tr>
<tr>
<td>6</td>
<td>Union Bank of India</td>
<td>38047</td>
<td>4.52</td>
</tr>
<tr>
<td>7</td>
<td>Canara Bank</td>
<td>37794</td>
<td>4.49</td>
</tr>
<tr>
<td>8</td>
<td>ICICI Bank</td>
<td>33849</td>
<td>4.02</td>
</tr>
<tr>
<td>9</td>
<td>Indian Overseas Bank</td>
<td>31724</td>
<td>3.77</td>
</tr>
<tr>
<td>10</td>
<td>Central Bank of India</td>
<td>32491</td>
<td>3.86</td>
</tr>
<tr>
<td>11</td>
<td>UCO Bank</td>
<td>24308</td>
<td>2.90</td>
</tr>
<tr>
<td>12</td>
<td>Allahabad Bank</td>
<td>23120</td>
<td>2.75</td>
</tr>
<tr>
<td>13</td>
<td>Andra Bank</td>
<td>21599</td>
<td>2.57</td>
</tr>
<tr>
<td>14</td>
<td>Corporation Bank</td>
<td>21818</td>
<td>2.60</td>
</tr>
<tr>
<td>15</td>
<td>Others</td>
<td>189783</td>
<td>22.54</td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India*

### The sector wise distribution of NPAs as on 31 December 2017

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Sectors</th>
<th>Gross NPAs (in crore)</th>
<th>Percentage of NPA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Industry</td>
<td>609222</td>
<td>72.42</td>
</tr>
<tr>
<td>2</td>
<td>Service</td>
<td>110520</td>
<td>13.13</td>
</tr>
<tr>
<td>3</td>
<td>Agriculture</td>
<td>69600</td>
<td>8.27</td>
</tr>
<tr>
<td>4</td>
<td>Non food credit</td>
<td>14986</td>
<td>1.76</td>
</tr>
<tr>
<td>5</td>
<td>Retail loans</td>
<td>36630</td>
<td>4.35</td>
</tr>
<tr>
<td>6</td>
<td>Others</td>
<td>600</td>
<td>0.07</td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India*
6. EFFECTS OF GROWING NPA ON OUR ECONOMY

Continuous increase in NPAs of commercial banks in India became 10.1 percent by May 2018 from five banks in 2017 reported gross NPA ratios of over 15 percent. Public sector banks, gross NPAs ratio has risen to 12.5 percent in March 2017, bad debt crisis of state-owned banks rose to 56.4 percentage in the 12 months ending December 2016. After the Demonetization move of Modi government on 8 November. The Indian Express published that gross NPAs increased to Rs 6,14,872 crore. Now they constitute 11 percent Gross Advance of Public Sector Unit (PSU) Banks. In all, the total NPAs which includes both the public and Private sector banks Rs. 6,97,409 crore in December 2016. (SBI and Associates, Private Sector Banks, Nationalized Banks and Foreign Banks).

Loans have stopped generating income for the bank, which, in turn, reduces the bank's profitability and ability to grant further credit. Banks are now required to arrange higher provisions for their losses due to this increasing NPA. A bank always measures its profitability by its return on assets, which is the net profit of the net assets of the banks.

The above figures show how the percentage of NPAs in total loans has been going on a rising trend and become steeper in the recent years (2015-2017) and return on assets is decreasing in turn. Banks have been experiencing a decline in their profitability over the past few years, causing an adverse economic setback as well as putting consumers at risk.

There are many reasons and examples let us take one, suppose Consider Willful defaulting, it means that despite the borrower having capability to repay the loan, he is not interested, and proceeds to not payback then it is categorized as NPA. The recent case of Vijay Malya is considered as a willful defaulter case.

Bankers initiated action on 9025 cases of willful defaulters in PSU Banks, of which banks filed 8423 cases for recovery of Rs.95,384 crores of NPAs. The rise on NPA of the banks cause a major scarcity of funds in the Indian security market. The interest rates will rise greatly, and this will directly and adversely affect the investors who wish to take loan for setting up industries, projects, infrastructure, etc. The higher cost of capital usually leads to lower growth rates and higher inflation.

7. MEASURES THAT CAN BE TAKEN TO CURTAIL NPAS

Intense identification process for potential NPAs, i.e., during the lending process, banks needs to analyse the history of promoters beyond the traditional analysis of financial statements.

Banks should also observe that the promoter’s contribution is in the form of equity and not debt.

Regular review and report for problem loans and advances should be done. Each case should be reviewed properly. Its feasibility should be assessed. More finance should be given to reverse viable cases, and other cases should be considered accordingly.

There is a need to reach out to people in villages lacking connectivity and accessibility, since the
NPA in non-corporate sector is less than that in corporate sector.

While it is a very difficult process for the general public to ask for a loan and requires a lot of verification, when it comes down to corporate, there are many highways and shortcuts. When looking, most of the NPAs are contributed by the deterioration of corporate debt.

Banks should fix accountability of their employees. Not only the lower ring officers, but the sanctioning officers should also be held responsible for their responsibilities, as all decisions are made at a higher level.

Improving credit risk management can also help in these situations. This can be done from time to time by appraising credit, monitoring the credit, resolving accountability and tracking trends in group lending.

8. CONCLUSION

A solid Banking system is essential for strengthening the economy of a country. A Banking system is a multifaceted, very well-integrated set of sub-systems of Financial Establishments, Markets, Instruments, and Services which accommodates the transfer and distribution of funds, efficiently and effectively. As the sanctity of ethics and values are getting eroded continually in business environment. Banks have to face risks and challenges and borrowings are increasing because of dynamism taking place in business world.

The large size of the banking industry is one of the main reasons for the rapid rise in NPAs. This is a major threat to the macroeconomic stability of the Indian economy.

We must start asking fundamental questions about the ownership, performance and survival of state-owned banks. Demand for Corrective action and timely action to shut down NPAs and protect the Indian economy. But as in any case “prevention is better than cure”.

REFERENCES AND LINKS

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