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The concept of Non-Performing Assets at public and private sector banks in India

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Abstract - A strong banking sector is important for growth of the economy. The failure of the banking sector may have an adverse impact on other sectors. Non-performing assets (NPA) is one of the major concerns for banks in India. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders value. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. This research paper deals with the concept of NPAs, its causes for an account becoming non-performing, impact and measures to overcome the problem of NPA.

Keywords: financial system, Indian banks, net worth, non-performing asset.

I. INTRODUCTION

NPA is a term related to Banking Sector. The full form of NPA is Non-Performing Assets. The assets of the banks which don't perform (that is – don't bring any return) are called Non Performing Assets (NPA) or bad loans. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan.

According to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset.

The R B I. introduced the NPA norms relying on the Narsimham Committee recommendations & prudential norms for Income Recognition, Asset Classification and provisioning for the advance portfolio of the banks with the intention for proper disclosure of profit & loss and reflect the financial health of bank. The classification of assets has to be done on the basis of objective NPA – Asset Classification & Income Recognition Asset Classification & Income Recognition. The classification of assets has to be done on the basis of objective criteria and based on record of recovery rather than on any subjective considerations. The provisioning should be made on the basis of classification of assets based on the period for which the assets has remained non performing and the availability of security and the realizable value thereof.

DEFINITION

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time.

II. CATEGORIES OF ASSETS

1. Standard Asset: The assets which generate regular income are called standard assets.
2. Sub-standard Asset: The asset which is overdue for a period of more than 90 days but less than 12 months.
3. Doubtful Asset: The asset which is overdue for a period of more than 12 months.
4. Loss Assets: The assets which are doubtful and are considered as non-recoverable by banks.

Out of these types Sub-standard, Doubtful and Loss Assets are included under NPAs.

III. TYPES OF NPA

* Gross NPA

* Net NPA

a) Gross NPA: are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

$$\text{Gross NPAs Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}$$

b) Net NPA: are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows

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the actual burden of banks. In India, bank's balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following:

$$\text{Net NPAs} = \frac{\text{Gross NPAs} - \text{Provisions}}{\text{Gross Advances} - \text{Provisions}}$$

CAUSES OF NPAs

1. Willful Defaults: The Indian Public Sector Banks are worst hit by these defaults. It is a default in repayment obligation.

Kingfisher Airlines Ltd. Is one among many of those willful defaulters.

2. Industrial Crisis: Industries depend on banks to fulfill their projects. If industry is in crisis, it is bound to hit the banking sector and their NPA will rise.

3. Credit distribution mis-management: Often ill-minded borrowers bribe bank officials to get loans with an intention of default.

4. Lenient Lending Norms: One of the main reasons of rising NPAs is the lenient Lending Norms especially for corporate honchos where their financial status and credit rating is not analyzed properly.

Some of the other internal and external causes of NPA are:

- ✓ Fraud
- ✓ Business failures
- ✓ Disputes
- ✓ Nonpayment over dues in other countries
- ✓ Recession in other countries
- ✓ Sluggish Legal System

IV. IMPACT OF NPA

1. Bank's profit will come down which they earn in the form of interest.

2. Banks will become reluctant to lend thus affecting their borrowers and also affects the liquidity position of banks.

3. Service to good customers may get affected very badly.

4. Adversely affect the bank balance sheet.

5. It creates negative impact on banking system.

6. Another impact of reduction in profitability is low ROI (Return on Investment), which adversely affect current earnings of bank.

SOLUTION TO NPA

1. SARFAESI Act: The act improves the banks/Financial Institutions (FIs) to recover their NPA through acquiring and disposing of the secured assets in NPA account with outstanding amount of Rs. 1 Lakh and above.

2. DRT Act: The act provides setting up of Debt Recovery Tribunals and Debt Recovery Appellate Tribunals for expedition and exclusive disposal of suits filed by banks/FIs for recovery of their dues in NPA account with outstanding amount of Rs. 10 Lakh and above.

3. Lok Adalat: Lok Adalat mechanism offers mutually acceptable way of settlement of disputes. Government has advised PSBs to utilize this mechanism to its fullest potential for recovery in NPA cases.

From time to time many Norms have been framed to get a hold over rising NPA. And these Norms have been proved to be beneficial. But out of all these, SARFESI Act, 2002 and DRT Act proved to be most beneficial among all.

V. PROVISIONING NORMS

The provisions should be made on the basis of classification of assets into four different categories as stated above i.e. standard, substandard, doubtful & loss assets.

	Category	Period	NPA	Provisioning
A.	Standard	-	Non NPA	0.25%,1%, 2% & 0.40% on gross amount in phased manner
B	Sub-standard	-	NPA upto 12 months	Secured Exposure - 15 % Unsecured Exposure – 25% Unsecured exposure in respect of Infrastructure loan - 20%
C	Doubtful	Upto One year	NPA upto 24 months	100% on unsecured portion & 25% on realizable value of Assets.
		One to Three years	NPA upto 48 months	100% on unsecured portion & 40% on realizable value of assets.
		Over three years	NPA above 48 months	100 %
D	Loss	-	-	100 %

NPA's in Indian public and private sector banks (2017)

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Bad loans of Public sector banks (PSBs) stood at Rs 7.34 lakh crore by the end of second quarter this fiscal, a bulk of which came from corporate defaulters, according to Reserve Bank data.

However, on the other hand private sector banks' non-performing assets (NPAs) were considerably low at Rs 1.03 lakh crore by September 30.

"The gross non-performing assets of public sector and private sector banks as on September 30, 2017 were Rs 7,33,974 crore, Rs 1,02,808 crore, respectively," the finance ministry said citing RBI data.

The government said leading corporate houses and companies accounted for approximately 77 per cent of the total gross NPAs from domestic operations for the banks.

Among the major public sector banks, State Bank of India (SBI) had the highest amount of NPAs at over Rs 1.86 lakh crore followed by Punjab National Bank (Rs 57,630 crore), Bank of India (Rs 49,307 crore), Bank of Baroda (Rs 46,307 crore), Canara Bank (Rs 39,164 crore) and Union Bank of India (Rs 38,286 crore).

Among private sector lenders, ICICI Bank had the highest amount of NPAs on its books at Rs 44,237 crore by the end of September, followed by Axis Bank (Rs 22,136 crore), HDFC Bank (Rs 7,644 crore) and Jammu and Kashmir Bank (Rs 5,983 crore).

Host of provisions have been restored for the recovery of the bad loans, the ministry said, adding that the network of Debt Recovery Tribunals (DRTs) have been expanded. There are 39 DRTs now as compared to 33 in 2016-17 that will help reduce the pending cases as well as expedite disposal of cases.

VI. CONCLUSION

The Indian banking sector is facing serious problem of Non-Performing Assets. To improve the efficiency and profitability, the Non-Performing Assets has to be scheduled. Various steps have been taken by government to reduce NPA. It is highly impossible to have zero percentage Non-Performing Assets but at least Indian banks can try competing with foreign banks to maintain international standard. Therefore proper care must be taken to minimize NPA because it affects banks and the whole economy.

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