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A Descriptive Study on Non- Performing Assets and its recovery mechanisms in Public and Private Sector Banks of India

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Abstract: **Indian Banking Sector has been facing several issues regarding the increasing level of Non-performing assets (NPA). Non- performing assets is one of the major concerns for commercial banks in India. It is a serious concern for the liquidity of the banks. It can destroy the financial positions of the banks and it has the potential to harm the investor also. In India, public sector banks and private sector banks, both are facing this serious problem of NPA. The objective of our study is to find out the causes and impact of NPAs in Indian Banking Sector. This paper focuses on secondary based data of NPA where Gross NPA of Public and Private Sector has been compared during 2009-10 to 2018-19. Besides these objectives, it also focuses on the performance of recovery mechanism of NPA in Indian Banking Sector during 2007-08 to 2018-19.**

Keywords: **Non-performing assets, NPA, Public Sector Banks, Private Sector Banks, GNPA, Recovery Mechanism.**

1. INTRODUCTION

After the introduction of financial sector reforms in 1991, the banking sector of India has been changed rapidly. Many problems arising in the banking sector will affect the economy of India. The function of bank as an intermediary is not running properly. Banking Sector plays a very important role in the recovery process of the country's economy. The banking sector has changed from synchronized environment to a decontrolled market based economy. In 1991-1992 India was adopted the open economy. The adoption of liberalization and globalization policy has made tremendous change in the role of banks in India. After the adoption of liberalization and globalization policy, the problem of non- performing asset is catching attention and huge investment has been assumed as NPA in terms of risk management. Non Performing Asset (NPA) now affecting the financial performance of the credit institutions very badly. Non Performing Assets (NPA) resulting in non-recovery or performance of loan portfolio leading to no recovery or less recovery income to the lender. Non Performing Assets (NPA) represent the quantify "Credit Risk". Bankers have realized to have effective NPA management on their priority list. NPA broadly defined as non-repayment of interest and instalment of principal amount (Das & Ghosh, 2006). According to the "Narasimham Committee Report (1991), those assets (overdraft/ cash credit) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs". After, this period had reduced and from March 1995 onwards assets for which interest and principle remains unpaid for a period of 90 days were considered as NPAs. Thus, NPA constitutes an important factor in the banking system as it seriously affects the profitability of the banks. The NPA can broadly be classified into Gross NPA and Net NPA. Gross NPA reflects the quality of the loans made by banks whereas Net NPA shows the actual burden of banks.

With effect from March 31, 2005, a non-performing asset (NPA) shall be a loan or an advance where-

- Interest and/*or* instalments of principal remain overdue for a period of more than 90 days in respect of a *Term Loan*;
- The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (ODICC);
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;

- An advance granted for agricultural purpose remain overdue for a period not exceeding two and a half year
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts

2. TYPES OF NPA

Gross NPA

Gross NPA is an advance which is considered written off, for bank has made provisions, and which is still held in banks' books of account. Gross NPA (non-performing asset) refers to overall quantity of loans that have gone bad debts. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss asset. "Gross NPAs Ratio = Gross NPAs / Gross Advances"

Net NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. "Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions"

ASSETS CLASSIFICATION

(i) **Loss Assets**: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. If the loan is not repaid even after it remains sub-standard asset for more than 3 years, it may be identified as unrecoverable by internal / external audit and it would be called loss asset

(a) The entire assets should be written off after obtaining necessary approval from the competent authority or as per the provisions of the Co-operative Societies Act / Rules. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.

(b) In respect of an asset identified as a loss asset, full provision at 100 per cent should be made if the expected salvage value of the security is negligible.

(ii) **Doubtful Assets**: If an account remains in substandard category for a period of 12 months, the account will be classified as 'Doubtful Asset.' A loan classified as doubtful.

In this case of doubtful assets, the bank need to make provisioning as follows:

(a) Up to one year: 25% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans.

(b) Above One year up to three years: 40% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of unsecured loans.

(c) If the loan is not repaid even after it remains sub-standard asset for more than 3 years: the bank need provisioning of 100% of the outstanding amount in case of Secured loans; as well as 100% of the outstanding amount in case of unsecured loans.

(iii) **Sub-standard Assets**: If interest and or instalment of principal amount of loan remain overdue for a period of more than 90 days, of term loan or the account remain 'out of order' in case of overdraft/Cash Credit account or the bills purchased /discounted remain overdue for a period of more than 90 days the account. If the borrower does not pay dues for 90 days after end of a quarter; the loan becomes an NPA- substandard asset and it is termed as ―Special Mention Account (SMA).

In case of agricultural advance, the account is classified as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops. If the loan is for long duration crop, the account is classified as NPA if the outstanding for one crop season such accounts also classified as NPA –Sub standard account. If an account remains in substandard category for a period of 12 months, then the account will be classified as 'Doubtful Asset.'

In this case of sub-standard accounts, a bank has to make provisioning as follows:-

15% of outstanding amount in case of Secured loans

25% of outstanding amount in case of unsecured loans

The restructured loans classified under the standard category would also need a provision of two per cent in the first two years from the date of restructuring.

(iv) **Standard Assets**: If the loan accounts or the bills purchased /discounted which do not fall under NPA classification are called standard account. As per the norms, banks have to make a general provision of 0.40% for all standard assets (loans and advances) except that given towards agriculture and small and medium enterprise (SME) sector.

3. LITERATURE REVIEW

Prashanth K. Reddy (2002) in his works, "A Comparative Study of NPA in India in the Global context "highlighted and examined the similarities and dissimilarities and remedial measures. Financial Sector reform in India has progressed immensely on aspects like interest rate deregulation, reduction in reserve 78 requirements, barriers to entry, prudential norms and risk – based supervision. The paper deals with the experiences of the policies on the level of NPA and suggests mechanisms to handle the problem by drawing on experiences and recommendations from other countries.

D.JAYAKKODI in her research paper titled- A STUDY ON NON PERFORMING ASSETS OF SELECT PUBLIC AND PRIVATE SECTOR BANKS IN INDIA aimed to examine and compare the Gross NPAs and Net NPAs of select Public and Private Sector Banks.

Vaibhavi Shah and Sunil Sharma in their research paper titles as A COMPARATIVE STUDY OF NPA IN ICICI BANK AND HDFC BANK have made an attempt to study the non-performing assets of ICICI and HDFC bank. Since, both the banks belong to the private sector of the Indian Banking industry, they aimed at comparing the NPAs and hence the overall growth of the selected banks.

V.R SINGH in his paper titled A Study of Non-Performing Assets of Commercial Banks and its Recovery in India has aimed to study the status of Non-Performing Assets of Indian Scheduled Commercial Banks in India and their impact on the banks. He also tried to uncover the channels through which recovery of NPA can be done. He provided the readers with some suggestions to manage NPA in near future effectively.

Dr. Ganesan & R. Santhanakrishnan in their research paper "NON-PERFORMING ASSETS: A STUDY OF STATE BANK OF INDIA" have made an attempt to examine the non-performing assets of State Bank of India over the past 10 years beginning from financial year 2002 to the financial year 2012. The researchers in this paper aimed to study the sources of deployment of funds for the chosen bank. They examined the gross and the net NPA of the bank and investigated the impact of NPA on the profitability of the bank. They've also suggested measures to improve NPA effectively in SBI.

In an analytical study on NPA with special reference to State Bank of Hyderabad, Rajendar, K. and Suresh, S. (2007) evaluated the effectiveness of the reform process on the basis of the recommendations of the Narasimham Committee, using statistical data on banks' for the period 2000-01 to 2005-06.

OBJECTIVES OF THE STUDY

The study is based on the following objectives:-

1. To understand the concept of NPA.
2. To study the causes of NPA in Indian Banking Sector.
3. To study the impact of NPA in banking sector
4. To analyse and compare the Gross NPA of Public and Private Sector Banks
5. To analyse the recovery of NPAs through different recovery mechanisms.

4. RESEARCH METHODOLOGY

The study is based on published sources of data collected from various sources. The data were gathered from the secondary sources such as Annual Reports of the Banks, RBI Report of Trends and Progress of Banking in India, Manuals of instructions on loans and advances, journals, research paper and articles published online and offline on various newspapers and websites.

FACTORS RESPONSIBLE FOR RISE IN NPA

The banking sector has been facing the serious problems of the rising NPAs. The NPAs in banks are growing due many factors:-

- Industrial Sickness
- Natural Calamities
- Lack of Demand
- Not effective recovery
- Change in Govt. policies
- Wilful negligence
- Mal Intentions
- Misconduct by Borrowers
- Attitudinal factors
- Governance Issues
- Politically Liberal Environment
- Lack of skilled professionals
- Selecting projects by banks for funding without proper scrutiny
- Lack of proper follow-up by Banks
- Lack of proper policies
- Delay in getting proper assistance to carry out legal proceedings
- Other factors

IMPACT OF RISING NPA

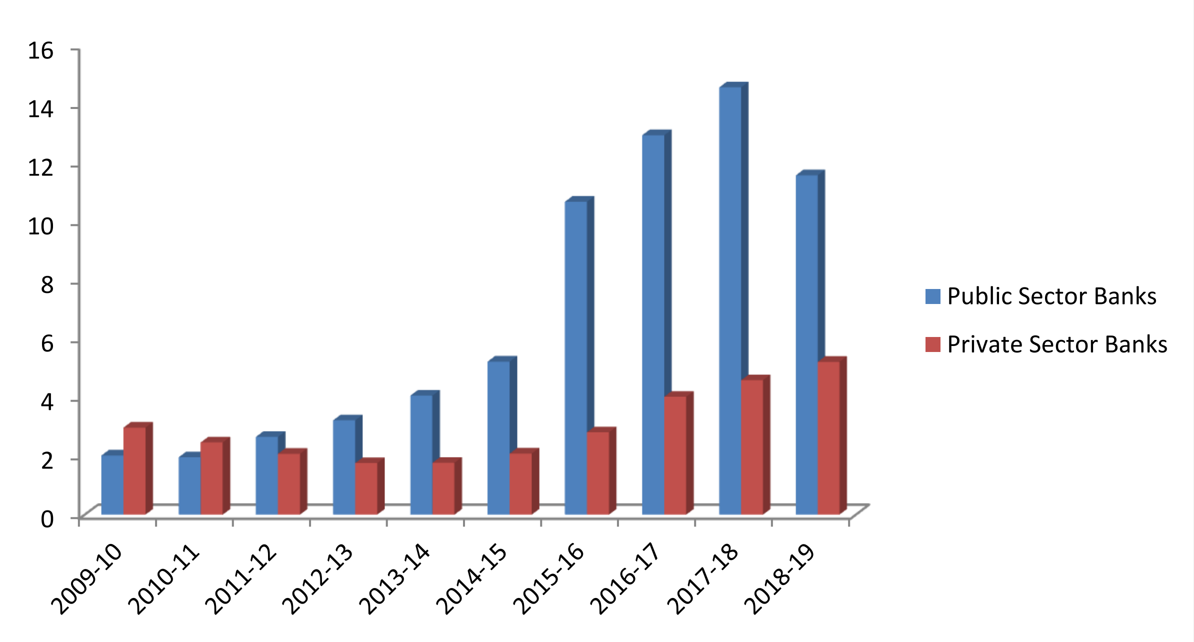
The banking sector has been facing the serious problems of the rising NPAs. There is a lot of impact of rising NPA on banks and Indian economy which are as follows:-

- NPA reduce the profitability of the Banks
- Non- availability of funds for future prospects
- Return provided to shareholders will be go down
- Lack of balance in the financial position of the country
- Interest rate become higher due to non-availability of funds and non-recovery of loans
- Pressure to resolve the NPA cases immediately by Judiciary
- Increase in Current Account deficit
- Fall in Public Confidence
- Liability Management
- Reduce the confidence level of investor

Table 1: Gross NPA Ratio of Public and Private Sector Banks (in Billions)

Year	Public Sector Banks			Private Sector Banks		
	Gross NPAs	Gross Advances	GNP Ratio	Gross NPAs	Gross Advances	GNP Ratio
2018-19	739541	6382460.85	11.59	180872.43	3442346.66	5.25
2017-18	895601.3	6141698.16	14.58	125862.89	2725890.72	4.62
2016-17	506921.68	3914442.25	12.95	91914.65	2266720.69	4.05

2015-16	417987.78	3911175.56	10.69	55853.12	1972658.82	2.83
2014-15	204959.54	3897549	5.26	33690.35	1607339.36	2.1
2013-14	147447.43	3607182.1	4.09	24183.5	1360252.77	1.78
2012-13	101683.11	3141285.89	3.24	20381.67	1151246.34	1.77
2011-12	66795.1	2503374.1	2.67	18210.2	871641.3	2.09
2010-11	42907.39	2176966.71	1.97	17904.93	723205.44	2.48
2009-10	35470.31	1746400.25	2.03	17306.71	579534.91	2.99



Source: RBI Bulletin 2019

Interpretation: - Table 1 depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 2009-10 to 2018-19. The amount of advances of public sector banks has increased from Rs. 1746400.25 Billion in 2009-10 to Rs. 6382460.85 Billion in 2018-19. On the other hand, the amount of advances of private sector banks has increased from Rs. 579534.91 billion in 2009-10 to Rs. 3442346.66 billion. From this data, we can interpret that the advances of public sector banks has increased rapidly in comparison with private sector banks.

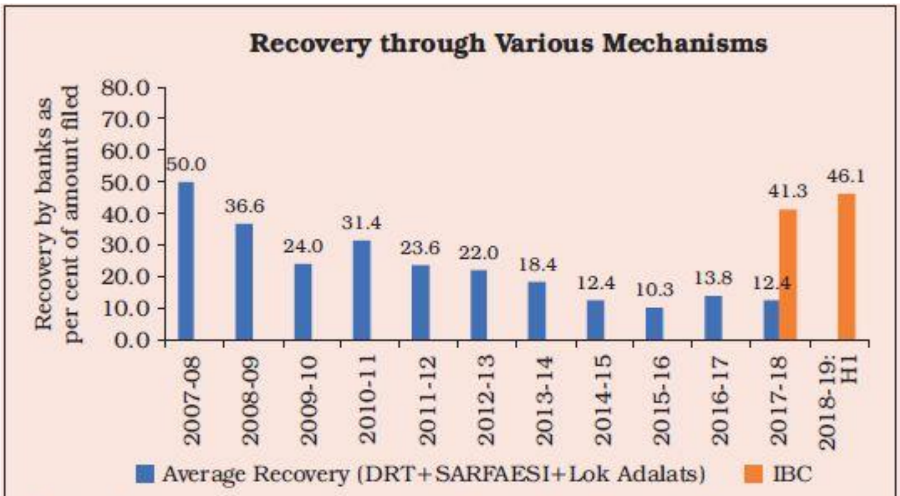
The amount of Gross NPA of public sector banks has increased from Rs 35470.31billion in 2009-10 to Rs. 739541 billion in 2018-19. On the other hand, Gross NPA of private sector has increased from Rs. 17306.71 billion in 2009-10 to Rs. 180872.43 billion in 2018-19. During 2009-10 to 2018-19, Gross NPA of public sector banks has gone up by 20 times and Gross NPA of private sector banks has gone up by 10 times. From this data, we can interpret that the Gross NPA of public sector banks has increased rapidly in comparison with private sector banks.

GNP ratio of public sector banks has increased from 2.03 percent in 2009-10 to 11.59 percent in 2018-19. On the other hand, GNP ratio of public sector banks has increased from 2.99 percent in 2009-10 to 5.25 percent in 2018-19. During 2009-10 to 2018-19, GNP ratio of public sector banks has gone up by 6 times , where as the GNP ratio of private sector banks has gone up by 1.75 times only. From this data, we can interpret that the GNP ratio of public sector banks has been grow up very rapidly in comparison with private sector banks.

Table 2: Recovery through Various Mechanisms

Year	Average Recovery (DRT+ Lok Adalat+ SARAFASI) (in Percentage)
2007-08	50.00
2008-09	36.60
2009-10	24.00
2010-11	31.40
2011-12	23.60

2012-13	22.00
2013-14	18.40
2014-15	12.40
2015-16	10.30
2016-17	13.80
2017-18	41.30
2018-19	46.10



Note: Data on average recovery (DRT+SARFAESI+Lok Adalats) is not available for 2018-19: H1

Source: RBI and IBBI.

Interpretation:- Table 2 is showing NPAs of Commercial Banks covered through various mechanism during the period 2007-08 to 2018-19. From the analysis of the table, it is clear that average recovery of NPA through various mechanisms has been declined from 2007-08 to 2009-10 continuously for three years. After that there was some improvement in the percent of recovery of NPA through various mechanisms in2010-11. After that, there was a continuously decline in the average rate of recovery through various mechanism till 2015-16. After that there were ups and down in the average recovery of NPA through various mechanism. In last two years, 2017-18 and 2018-19, the rate of recovery of NPA was far better than previous years. The main reason for the lower recovery rate of NPA was that the large no. of cases has been pending in Lok Adalats.

5. CONCLUSION

NPAs are one of the most important threatening issues faced by banking sector in the current scenario. Through an efficient monetary mechanism and controlling measures we can reduce the level of NPAs. In this paper, we conclude that the Gross NPA of Public Sector Banks is more than Private Sector Banks during the year 2009-10 to 2018-19. However the Gross NPA ratio of Public Sector Banks was also greater than Private Sector Banks during the period 2009-10 to 2018-19. It is a not a good sign for the Public Sector Banks. They have to control on the NPAs and takes necessary action and preventive measures to control the level of NPA. From NPA recovery point of view, average recovery of NPA from different recovery mechanism has been continuously declined during some years. In 2017-18 and 2018-19 has shown some recovery in the collection of NPA of various banks. Most cases of recovery of NPAs were pending due to increase in large no. cases in Lok Adalats and other mechanism of recovery of NPA. So we can say that banks have to take necessary action against defaulters to control NPA in near future and also take preventive mechanism in distributing the different loans.

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