

NPA ISSUE IN INDIA: AN ANALYSIS

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A non-performing asset (NPA) is a credit facility for which the interest and / or the installation of the bond financing capital has remained “past due” for a period of time. NPA is used by financial institutions that relate to loans threatened with failure of what is known as the NPL. If the borrower has not made any interest or principal payments for 90 days, the loan is considered a bad asset. Distressed assets are problematic for financial institutions because they depend on interest payments on income. Disruptive economic pressure can lead to a sharp increase in the NPL and often leads to massive write-offs. In order to move on to international best practices and to ensure more transparency, it was decided to adopt the overdue 90-day norm for the identification of NPA as of March 31, 2004. Accordingly, as of March 31, 2004, a Non-Performing Asset (NPA) is a loan or advance payment if;

- Interest and / or installments on principal remain overdue for a period of more than 91 days on a term loan.
- The account remains out of service for an overdraft / cash for a period of more than 90 days Credit (OD / CC),
- The invoice remains overdue for more than 90 days for purchased and discounted invoices.
- Interest and / or principal installments remain overdue for two harvest seasons, but for a maximum period of two half years in the case of an advance granted for agricultural purposes.
- Any amount received remains overdue for other accounts for a period of more than 90 days.
- No submission of inventory statements for 3 uninterrupted quarters in the case of a cash advance facility.
- No active transactions on the account (Cash Credit / Over Draft / EPC / PCFC) for more than 91 days.
- What is NPA?
- The banks' assets that are not performing (that is, generating no return) are known as Non Performing Assets (NPA) or non-performing loans. The bank's assets are loans and advances to customers. If customers don't pay interest, part of the principal, or both, the loan becomes a bad loan. According to the RBI, term loans that have interest or principal payments overdue for a period of more than 90 days from the end of a particular quarter are referred to as distressed assets.
- In relation to agriculture / agricultural loans; The NPA is defined as below average short term loan for the arable farming industry such as Paddy, Jowar, Bajra etc. If the loan (rate / interest) is not paid for two harvest seasons it is referred to as an NPA. For

long-term crops, the above would be 1 harvest season from the due date. Reasons for the rise in NPA in recent years

- Slowdown in GDP - Between the beginning of 2000 and 2008, the Indian economy was in a boom phase. During this period, banks, particularly public sector banks, have made large loans to businesses. However, most companies' profits have declined due to the slowdown in the global economy, the ban on mining projects and the delay in environmental permits affecting the power, iron and steel sectors, the volatility of commodity prices and the unavailability of raw materials. This has impacted their ability to repay loans and is the main reason behind the increase in the NPA of public sector banks.
- One of the main reasons for the rise in the NPA is the loose lending standards, especially for corporate honors when their financial status and creditworthiness are not properly analyzed. To face competition, banks are selling unsecured loans, which is due to the size of the NPA.
- 5 textile, aerospace, mining, infrastructure sectors contribute to the largest part of the NPA as most of the loans granted in this sector are provided by PSB. They make up most of the NPA.
- Public sector banks provide around 80% of industrial credit, and this part of the credit distribution makes up a large part of the NPA. Last year when the kingfisher was embroiled in a financial crisis, SBI provided it with a huge amount of credit that it cannot get back.
- There is a myth that the main reason for the rise in NPA in public sector banks was because they gave priority to lending to the sector. However, according to the findings of the Standing Finance Committee, NPAs are far higher in the corporate sector than in the priority or agricultural sector. However, the PSL sector has also made a significant contribution to the NPAs. According to the latest SBI estimates, education loans make up 20% of its NPA.
- The lack of bankruptcy law in India and the sluggish legal system make it difficult for banks to collect these loans from both corporations and non-corporations. Other factors
- The banks did not carry out adequate contingency planning, in particular to reduce the project risk. Contingencies such as the failure of gas projects to secure the gas supply or the failure of the land acquisition process for highways were not taken into account.
- The restructuring of the credit facility was extended to companies facing major problems of overfunding and poor profitability. This problem was more likely to affect public sector banks.
- Companies with dwindling repayment capacity took on more and more debt from the system. More about this source text Source text required for additional translation information Send feedback Side panels Translation types Text translation Source text 2958/5000 Translation results Further classify distressed assets into the following three categories based on the length of time the asset has remained distressed and the feasibility of fees:
- **Substandard assets:-** A substandard asset is an asset that has been classified as an NPA for a period not exceeding 12 months.

- **Doubtful Assets:-** A doubtful asset is an asset that has remained NPA for more than 12 months.
- **Loss assets:-** When the loss has been ascertained by the bank, internal or external auditor, or central bank inspectors. However, the amount has not been written off in whole or in part. Below average asset is the asset that the bank must hold 15% of its reserves on. Any asset that is considered non-performing for a period longer than 12 months is called a doubtful asset. All assets that cannot be recovered are called loss assets. Some advanced tools such as Experian India's Hunter Fraud Score have also been introduced which deal with data mining and calculate an authentic score that banks can use to detect fraud and reduce their losses. Current NPAs in India: The total number of non-performing loans from India's 38 publicly traded commercial banks exceeded Rs 8 billion at the end of June. This part now accounts for almost 11 percent of total banking sector lending. Over 90 percent of these sticky assets are on the books of state-owned banks.

These banks make up about 70 percent of the total banking sector, which means the government has to shoulder the burden of the massive capital requirements of the troubled industry. With higher non-performing loans, banks will have to put more money into provisions. The amount of the provision varies from case to case. In recent years, Non-Performing Assets (NPAs) have caused major problems for the government and the Reserve Bank of India (RBI). It is clear that both the RBI and the government woke up too late to the problem. The government has so far failed to provide the necessary capital for state banks. The actual bad credit scenario in this sector could be even worse given the amount of credit that is being restructured under various systems and technically maintained as standard on banks' books. If the business cycle does not accelerate as expected, a significant portion of these loans can go bad too. Former RBI officials have warned about this hidden problem. I'm going to put the number at Rs 20 lakh crore ... Include all troubled loans including reported bad loans, restructured assets, loans written off and bad loans that have not yet been recognized, "said the RBI's former deputy governor , KC Chakrabarty, previously said first post in an exclusive interview.

The Modi government has repeatedly blamed the previous UPA regime for the bad credit chaos, saying that NPAs are a legacy problem. It is not yet clear whether the government is gripped by the magnitude of the problem. In fact, the government has taken steps to address the bad credit problem More about this source text Source text required for additional translation information Send feedback Side panels like the NPA regulation, which gives the central bank more power to instruct banks to take action against loan defaults and the passing of the Bankruptcy and Bankruptcy Act (IBC). While these steps are welcome, they are unlikely to help overcome the bad credit problem in the near future. It will be years before banks can get rid of the NPAs that have accumulated over the years due to several factors. The following charts give us different aspects of the bad credit crisis in India:

Gross NPAs in Rs Crore

Year	NPAs
Dec 2013	252,275
Mar 2014	250,643
Spt 2014	278,458
Mar 2015	310,847
Spt 2015	351,109
Mar 2016	595,636
Spt 2016	705,812
Mar 2017	711,312
Jun 2017	829,336

Data source: rbi.org.in

The Asset Quality Review (AQR), initiated by RBI under former Governor Raghuram Rajan and conducted from the third quarter of FY16, resulted in a massive increase in gross NPAs. The number more than doubled to 8.29 billion rupees in June 2017, compared to 3.51 billion rupees in September 2015, an increase of 4.78 billion rupees in just seven quarters. In the first two quarters of the implementation of these guidelines, the sector saw its gross NPA increase by Rs.2.45 billion. While the gross NPAs rose by Rs 1 lakh crore in December 2015, this proportion rose by a further Rs 1.44 lakh crore in the March 2016 quarter. The RBI's bad credit cleanup process cannot be blamed for the escalation in NPAs as it only forced banks to report the actual NPAs that were previously hidden on their balance sheets. At some point this process had to be started.

Public Sector Banks Gross NPAs in Rs Crore

Year	NPAs
Mar 2014	234,583
Mar 2015	278,468
Mar 2016	539,955
Mar 2017	619,210

Data source: RBI Financial Report 2017

Public sector banks (PSBs), which accounted for 90 percent of the total gross NPAs of the banking sector, has seen their gross NPAs jumping past Rs 6 lakh crore in March 2017 quarter. In the past four years, it jumped by Rs 4.18 lakh crore or 133 percent to Rs 6.19lakh crore in March 2017 quarter from Rs 2.78 lakh crore in March 2015 quarter.

Private Sector Banks Gross NPAs in Rs Crore

Year	NPAs
Mar 2014	23,379
Mar 2015	32,379
Mar 2016	55,681
Mar 2017	92,102

Data source: RBI Financial Report 2017

The gross NPAs of 17 private banks rose 161 percent in March 2017 to Rs. 92,102 billion from Rs. 32,379 billion in March 2015. The bad credit scenario of private banks compared to their public sector counterparts is much better. But even there there is no immunity to the problem.

PSBs with higher gross NPAs Rs Crore

Bank	NPAs
SBI	188,068
PNB	57,721
Bank of India	51,019
IDBI	50,173
Central Bank	31,398

Data source: RBI Financial Report 2017

State Bank of India (SBI), India's largest lender by assets, tops the bad loan chart. The bank has Rs 1.88 lakh crore of gross NPAs as on 30 June 2017. The figures now includes NPAs of five of its associates after the merger. SBI's combine gross NPAs surged by 150 percent or Rs 1.13 lakh crore to Rs 1.88 lakh crore in the June quarter from Rs 75,068 crore in September 2015.

Punjab National Bank (PNB) comes second in the list with Rs 57,721 crore gross NPAs, followed by Bank of India (Rs 51,019 crore), IDBI Bank (Rs 50,173 crore)

Private Banks with higher gross NPAs Rs Crore

Bank	NPAs
ICICI	43,148
Axis	22,031
HDFC	7,243
J & K	5,641

Data source: RBI Financial Report 2017

ICICI Bank with Rs 43,148 crore gross NPAs tops the list. Axis Bank stood at second position with Rs 22,031 crore bad loans. HDFC Bank was the distant third with Rs 7,243 crore of gross NPAs.

Recommendations for managing NPAs *

The RBI should revise existing credit review and monitoring systems. * Banks should improve and strengthen loan repayment methods. * Credit screening and post-credit monitoring are critical steps that all public sector banks need to focus on. * There must be regular follow-up with customers and it is the banker's duty to ensure that funds are not diverted. The face-to-face visits should be made after the loan has been sanctioned and disbursed, and further close monitoring of the operation of the accounts of the loaned units should be carried out on a regular basis. This process can be started at regular intervals. * The RBI can take action against defaulters such as publishing the names of defaulters in newspapers and broadcast media, which is helpful for other banks and financial institutions. * As part of remedial measures, bankers can resort to compromise processing or one-off

processing. Lok Adalats and Debt Recovery Tribunals are other ways of collecting fees. It has been observed that banks today rely heavily on the SARFAESI law to manage NPA. * Frequent discussions with the branch staff and their suggestions for reimbursement of fees. * Managers in the credit monitoring and recovery department should keep their work dynamic. Many managers say, “We are not afraid to negotiate, but we are not afraid to negotiate. This fear leads to arbitrary negotiations that fail.

Conclusion :

Bad assets have always been a major problem for banks in India. This is a problem not only for banks but also for the economy. The money tied up in NPAs has a direct impact on the bank's profitability, as Indian banks are highly dependent on interest income from money lent. This study shows that the extent of NPA in public sector banks is comparatively high. While the government has taken various steps to reduce the NPA, much remains to be done to curb this problem. The NPA level of our banks is still high compared to the foreign banks. It is not possible at all not to have NPAs. Bank management should speed up the recovery process. The problem of recovery does not exist with small borrowers but with large borrowers and strict policies should be followed to resolve this problem. The government should also make more provisions for faster settlement of pending cases and reduce mandatory lending to the priority sector as this is the main area creating problems. The problem of the NPA therefore requires a lot of serious effort, otherwise the profitability of the banks will be further affected by the NPA, which is not good at all for the growing Indian economy. More about this source text Source text required for additional translation information Send feedback Side panels

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