RESEARCH PAPER | Commerce | Volume : 6 | Issue : 1 | JANUARY 2016 | ISSN - 2249-555X

Non Performing Assets of the Scheduled Commercial Banks in India

KEYWORDS: NPA, Economy and Banking Sector

A.R.Rihana Banu
Assistant Professor in Commerce, Avinashilingam Institute for Home Science and Higher Education for Women, Coimbatore – 641 043.

Dr.G.Santhiyavalli
Professor and Head, Department of Commerce, Avinashilingam Institute for Home Science and Higher Education for Women, Coimbatore – 641 043.

ABSTRACT *The Non – Performing Assets pose to be a biggest challenge to the banking sector, across the globe and India is of no exception. The increasing NPAs worsen the asset quality of the banks. The study attempted to examine the NPAs of the Indian Banking Sector from 2009 - 2010 to 2013 - 2014 and compared the same with its select Asian counterparts. It was observed that the NPA of the scheduled commercial banks in India shows an increasing trend and the NPA of the banks in India is more than any other select Asian country.*

Introduction
The banking sector acts as a catalyst for the economic development, worldwide. The banking sector is vital for the industries in capital formation and for their expansion. Along with which the banks are also responsible in achieving government's social schedule. The growth of the overall economy is correlated to the soundness of the banking industry.

A Non Performing Asset (NPA) is a loan provided to the customers of the banks for which the principal or interest payment remained overdue for a period of 90 days. It is one of the major concerns of the banks since it affects the quality of the assets and their profitability. The NPA also impacts the operations of the banks inversely.

The Non – Performing Assets pose to be a biggest challenge to the banking sector, across the globe and India is of no exception. The Reserve Bank of India introduced prudential norms on the recommendations of Narasimhan Committee, to ensure if the credit monitoring process is being adopted and pursued by the banks and financial institutions. In spite of the various acts promulgated by the Government of India and guidelines passed by RBI, the NPAs continue increasing in Indian Banking Sector.

The willful defaulters owe more than Rs.64, 000 crores to state-owned banks, almost one-fifth of the total bad debt of the banking system. On the other side, the banks have written off at least a trillion rupees of bad debt over the past four years. In the last monetary policy speech, Mr. Raghuram Rajan, governor of Reserve Bank of India expressed the hope that banks would clean up their balance sheets by March 2017 and suggested to sell non-performing assets (NPA) to asset reconstruction companies to clean up their balance sheets to keep moving forward.

Statement of the Problem
The growing NPAs in Indian Banking Sector affect the asset quality of the banks ruthlessly. Controlling NPAs is a biggest challenge in the competitive environment to the supervisory authorities and decision makers. The analysis of NPA would facilitate a decision support to the stakeholders of the banks.

Objective
The prime objective of the research is to examine the Non Performing Assets of the Scheduled Commercial Banks in India and to compare the NPAs of other select Asian counterparts. Further, the suggestions to shrink the NPAs are provided to the decision makers.

Literature Review
A strand of related literature was reviewed, out of which a few worthwhile reviews are presented as under:

Meenakshi Rajeev and H P Mahesh (2009) opined that the issue of Non-Performing Assets has drawn attention of the policy makers and academicians alike due to the global financial crisis in 2008. They examined the trends of NPAs in India from various dimensions and elucidated how the recognition of the problem and self-monitoring could reduce the NPA to a great extent. The results showed that the Public Sector Banks has good record compared to its counterparts in private sector. It also discussed the role of Joint liability Groups and Self Help Groups in enhancing loan recovery rate and found that the self-help group model can be applied to some of the sectors to help the poor access loans and ensure repayment for the banks. Dr. Rohit R. Manjule (2013)**,** attempted to analyze how efficiently Public Sector Banks manage their NPA. The least square method was applied to project the trend in NPA. The study showed that, for the Public Sector Banks, the NPA is a great challenge and they have sufficient capital base to deal with future contingencies and hence, the Gross NPA and net NPA as percentage of advances is better for Public Sector Banks which declined continuously. Debasish Biswas (2014), considered the loan recovery risk is one amongst liquidity risk, interest risk, market risk, operational risk and management risk. He analysed the NPAs of Scheduled Commercial Banks since it is an important concern for the banking sector which impacts the financial position and profitability of the banks and found that the NPA is comparatively high in the public sector and commented that it is difficult for the banking sector to stay in the market for a long time. Meenakshi Rajeev and H P Mahesh (2010) examined the trends of NPAs in India from various dimensions and explained how mere recognition of the problem and self-monitoring has been able to reduce the NPAs to a great extent. Further, it was also observed that that public sector banks in India, which function to some extent with welfare motives, have as good a record

Volume : 6 | Issue : 1 | JANUARY 2016 | ISSN - 2249-555X

in reducing NPAs as their counterparts in the private sector. The paper also explained the role of joint liability groups (JLGs) or self help groups (SHGs) in enhancing the loan recovery rate.

Results

The results of the analysis made on the Non Performing Assets of the Indian Banking Sector for the study period from 2010 to 2014 has been presented as under

Table 1

Bank Group	Net NPAs to Net Advances Ratio (%)				
	2010	2011	2012	2013	2014
Public Sector Banks	1.1	1.2	1.5	2.0	2.6
Old Private Sector Banks	0.9	0.8	0.5	0.6	0.7
New Private Sector Banks	1.1	0.6	0.4	0.4	0.7
Foreign Banks	1.8	0.6	0.6	1.0	1.1
All Scheduled Commercial Banks	1.1	1.1	1.3	1.7	2.1

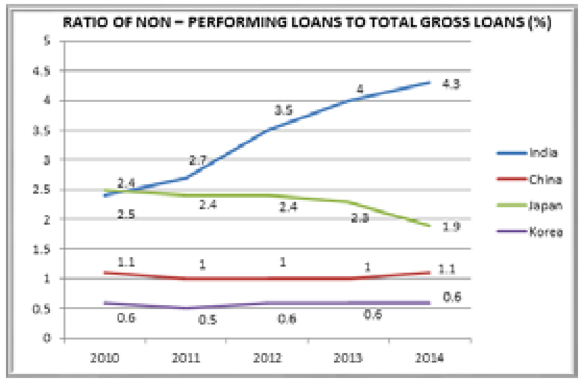
Source: Data compiled from Statistical Tables relating to Banks in India, RBI Mumbai,

Issues of relevant years.

Non-performing assets (NPA) challenge the banks stability and profitability by way of loss of interest income, waving off the principal and so on. The measure of Nonperforming assets explains the efficiency in allocation of resources by the banks to productive sectors. The problem of NPAs arises either due to bad management by banks or due to change in business cycle. Hence, the lower the NPA level, the better is the quality of the assets of the bank.

Table 1 shows the Net NPA to Net Advances ratio of the schedule commercial banks. The overall scheduled commercial banks show an increasing trend of Net NPA to Net Advances from 2010 to 2014. The share of the public sector banks is more amidst the bank groups signifying high risk on its assets and shows an increasing trend from 2009-2010 to 2013-2014. The next bank group with high risk is foreign banks group. The ratio was reduced drastically to 0.6 per cent in 2010-2011 while it rose up to 1 per cent in 2012-2013 and shows an increasing trend there after indicating insufficient provisions by the foreign banks. Subsequently, old private sector banks witnesses a fluctuating trend during the period followed by new private sector banks manages its assets effectively by maintaining the ratio at 4 per cent in 2012 and 2013. However, the new private sector banks have started to show an increase in the ratio in the year 2014.

Figure 1



Source: Compiled from World Bank Data

The Ratio of Non – Performing Loans to Total Gross Loans indicates the asset quality of the banks and is proposed to identify problems with asset quality in the loan portfolio. Figure 1 show that NPA of the Indian Banking Sector is increasing every year when compared to the other Asian counterparts like China, Japan and Korea. Out of the four countries Korea maintains lower NPA at 0.6 percent throughout the period and gone down to 0.5 in the year 2011 followed by China with an average of 1%. The Banking Sector in Japan is very particular about decreasing their NPAs and the figure shows a decreasing trend in the Non – Performing Loans to Total Gross Loans.

Conclusion

The Non-performing assets of the scheduled commercial banks with an increasing trend indicate a high risk on the assets of the banks. The Old and New Private sector groups and foreign group show a fluctuating trend while the public sector banks show an increasing trend in managing their NPAs. The banks in India have taken a back seat in managing its NPAs in the global scene. Hence, it is high time for the banking sector in India to deploy its resources effectively without affecting the quality of its assets.

Suggestions

The following are the immediate solutions to reduce the NPAs of the scheduled commercial banks in India.

- ***The banks should effectively track the records of the loanee.***
- ***Banks should allot Unique Customer Identification Code for customers which will help the banks to identify a customer, trac***k the facilities availed, monitor financial transactions in various accounts, improve risk profiling as soon as possible.
- Bank should get timely updation about good will of the loanee firms and timely remind them about payment of the loan.
- The banks must be given powers for the recovery of NPAs where they have to depend on the external bodies like DRTs, SARFAESI and Court etc for settling case. The time taken by theses external bodies is higher, which ultimately results in loss of the banks. Hence, the banks should be given enough powers for starting the recovery procedure as and when required.
- Efficient recovery mechanism can be established for the recovery of risk loans.
- Political interference in loan-making is a pernicious and

difficult problem which should be avoided.

REFERENCE

1. Meenakshi Rajeev and H P Mahesh (2009). "Banking Sector Reforms and Npa: A study of Indian Commercial Banks". Working Paper 252. The Institute for Social and Economic Change, Bangalore. 2. Dr. Rohit R. Manjule (2013). "Non Performing Assets (NPA) - A Challenge for Indian Public Sector Banks". Researchjournali's Journal of Finance. Vol. 1 | No. 2 3. Debasish Biswas (2014)." Non Performing Assets of Schedule Commercial Banks in India: A study". Abhinav National Monthly Refereed Journal of Research in Commerce & Management. 3.12:16-20 4. Dr. Ravindra N. Sontakke and Mr. Chandan Tiwari (2013). "Trend Analysis of Non Performing Asset in Scheduled Commercial Banks in India". International Journal of Application or Innovation in Engineering & Management (IJAIEM). Special Issue for National Conference On Recent Advances in Technology and Management for Integrated Growth 2013 (RATMIG 2013). 5. http://www.financialexpress.com/article/fe-columnist/column-the-non performing-asset-problem/172494 6. http://www.knnindia.co.in/economy/banking-and-finance/rbi-guv-indicates-that-banks-need-to-clean-up-their-non-performing-assets/2-12846.go 7. http://www.livemint.com/Money/YujH28QQnMaARgHAsHYIMP/Bad-loan-problem-More-skeletons-in-the-closet.html