Original Research Paper

Volume-9 | Issue-2 | February-2019 | PRINT ISSN - 2249-555X

Economics

NON PERFORMING ASSETS (NPA) DAMPENS THE FINANCIAL STABILITY OF INDIAN BANKS

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ABSTRACT In Indian economy most of the capital flows through banking channel. To move the economy of a country need capital, land and labor. NPA is any asset of a bank which is not earning any income. Most of the investment has to be from private or corporate. The private sectors who got loans from banks are not able to repay which is the case in today's situation 'Banking sectors plays vital role in mobilizing the valuable resources of the country, and provides a bridge between depositors and investors. The banking cycle helps the country's growth, production and employment., If the banking industry in any country has bad loans within 3% it is considered manageable. Indian banks bad loans were about Rs.10.25 lakh crore as on 31 March 2018. The current situation of NPAs causes and impacts of NPAs are discussing in this article. The measure taken by the government to recover the bad loans also analyze elaborately.

KEYWORDS : Assets, bad loan, banks, defaulters, economy, NPAs, repay, sector, stability.

INTRODUCTION

Banking sector is the backbone of India and its performance is the true reflection of Indian economy[1]. Non Performing Assets (NPAs) are the asset of the banks which are not performing. In some situation the borrowers are unable to pay the principal as well as interest of the loans, banks announce that amount as non performing.

In economic transformation the role of banking sector is significant as they providing financial resources to other sectors. The customer who take loans, stop making their repayment is the biggest risk to a bank and causing the asset value decline. India has the second highest ratio of NPAs among the major economies in the world[2].

Any commercial loans which are overdue for more than 90 days and any consumer loans overdue for more than 180 days are declared as NPAs. For agriculture loans, if the interest and the principal remains overdue for two harvest seasons it is declared as NPAs[3]. NPA in non corporate sector is less than that in corporate sector.- *Reserve Bank of India.*

21 Public Sector Banks (PSBs) alone contributed more than Rs.8.97 lakh crore out of the total bad loans (NPA)[4].

92% of the total bad loans reported so far in the banking system is pertaining to Public Sector Banks (PSBs). 77% of the total NPA of PSBs pertaining to 14 banks[5].

Due to the current economic situation, banks will continue to face deterioration in their NPAs[6]. The NPAs impacts the profitability and dampens the financial stability of Indian banks. Let as discuss NPA.

Current NPA scenario of Indian Banks

The stressed assets mounting to about Rs.10 lakh crore or close to 7% of India's GDP as on December – 2017[7].

As on, 31 March-2018, the NPAs of Indian banks was Rs.8,40,958 crore, grown by 16% as on 31 December-2017. The total bad loans of the banks rose by Rs.3.13 lakh crore, only in FY-2018.-*(Reserve Bank of India)*

90% of the said loans are on the book of government banks[8]. Compared to December – 2017, loans of 21 PSBs grow by 1.19 lakh crore in March- 2018. While that of 18 private banks surged by Rs.19446 crore or 17.9% to Rs.1.28 lakh crore in March- 2018 quarter.

SBI, the industry leader which tops the NPA chart has a increase of Rs.24286 crore as bad laon in the March quarter of 2018, to Rs. 2.23 lakh crore. [Table - 1 and Figure - 1]

Panjab National Bank (PNB) which is hit by Nirav Modi's mega scam, has reported the maximum rise of Rs.29,000 crore in gross NPA to Rs.86620 crore in March-2018 quarter.

“Despite most of the PSBs also recorded a rise in bad loans during 2018 March quarter, the Bank of India (BoI) and Oriental Bank of Commerce (OBC) recorded a declining of bad loans of Rs.1920 crore and Rs.1417 crore respectively[9].

The bad loans of Schedule Commercial Banks (SCBs) as on 31 December- 2017 due to loans to industry were Rs. 6,09,222 crore followed by service and agriculture sectors [Table- 2 and Figure- 2] *–Shive Pratap Shukla, Minister of State Finance.*

At the end of 2017-18, the NPA percentage of all banks was at 14.6%. It means out of every 100 rupee lend by the banks, Rs.14.60/- was not coming back[10].

In this situation, to pull out state run banks from the mess, Prime Minister Narendra Modi announced Rs.2.11 lakh crore for bank recapitalization.

Possible Causes of NPAs

- Without analyze the assets and financial stability of the companies, banks gave loan to many companies for their popular names. A big example is ***Kingfisher Corporation***.
- The competitive attitude of different banks especially between public and private sector banks push them to this threat trap.
- When the Indian economy had a bloom period in early 2000s, banks lend largely to corporate companies. But due to global economic slowdown, the companies found heavy loss.
- To deal strictly with defaulters, India did not have bankruptcy code properly.
- Transparent recognition of stressed assets as NPAs by Public Sector Banks (PSBs)[11].
- **Bad management practices by the PSBs:** By giving additional funds for delayed projects, banks were given part ownership of the failing projects. In this case, instead walking away the banks were absorbing the losses of the failing projects.
- The ban in mining projects, delay in environmental related permits, volatility in prices of raw materials, power shortage have all impacted the performance of corporate sectors. It is believed that with economic growth slowing down and rate of interest going up sharply, corporate have been finding it difficult to repay loans and it has added up to rising NPAs.
- Lack of rigor in loan appraisal system.
- Despite found it is not viable, due to political and other influence bank officials sanctioned loan to fund projects.- *Indian Bank is a good example when P.Chidambaram was in the Finance Ministry.*
- Corruption in banks there is an understanding between bank officers and defaulting businessmen many times.
- The agriculture production is not as expected and experienced continues drought for many years, the loans availed by this sector are turned to NPAs.
- Loan waiver and government policy[12].

Rs in crore

Andra Pradesh	-	24000	- in 2014
Telungana	-	17000	
Tamil Nadu	-	6095	- in 2016
Maharashtra	-	34000	
Utter Pradesh	-	36000	- in 2017-18
Punjab	-	10000	
Karnataka	-	8000	

Impacts of NPAs

- The rise on NPA of the banks make a scarcity of funds in the Indian security market.
- The shareholders of the banks will lose lot of their money. This will lead to a crisis of confidence in the market.
- The interest rates will shoot up badly and this will directly affect the investors who wish to take loan for setting up industrial projects, infrastructure etc.
- The higher cost of capital lead lower growth rates and higher inflation.
- It affects the morale and confidence of the bank staff.
- The banks which have a high percentage of NPAs could not attract the depositors to deposit their money.
- Share price of the banks which have high NPA may fall drastically.
- Banks may not give any fresh loan to the investors.
- It severely affect the image and prestige of the bank.
- NPAs reduce the profit of the banks and it signifies the bad financial health of a bank.
- **Willful defaulting:** Despite the borrower having capability to repay the loan, he is not interested, then it is termed as NPA. *The recent case of Vijay Malya considered as willful defaulter.*
- NPAs are the foremost problem of the banking system for any economy which weaken the whole finance stability of the country.

Measure taken to recover NPAs

- For strict recovery of NPA, the Insolvency and Bankruptcy code-2016 (IBC) has been enacted to create a unified frame work for resolving insolvency and bankrupted matters.
- To give rights to RBI to issue directions to banks for initiate the insolvency resolution process under IBC, the Banking Regulation Act 1949, was amended.
- As on December 2017, cases have been filed under, IBC in the 'National Company Law Tribunal (NCLT) against 39 large defaulters amounting about Rs. 2.69 lakh core as per RBI direction.
- To create confidence among the depositors, government announced and initiated recapitalization of PSBs.
- For faster recovery, the 'Securitization and Reconstruction of Financial Assets and Enforcement of Security Interact Act 2002' (SARFAESI Act) amended in 2016, as it took banks years, to recover the assets.
- As per PSBs report as on 31.03.2018, 2323 FIRs have been registered against willful defaulters, 8835 suits have been filed for recovery from them and action has been taken under the SARFAESI Act against 7300 cases of willful defaulters.
- Securities and Exchange Board of India (SEBI) regulation have been amended to debar willful defaulters and companies from accessing capital markets to raise funds.
- Due to the strong efforts taken to recover loan amount from willful defaulters, PSBs recorded Rs.1,58,259 crore during the FY 2015-16 to 2017-18.

To tackle the NPA problem RBI had proposed various measures, some of them were,

- When the principal/interest payment not paid within 61 to 90 days, RBI has directed banks to report to Central Repository of Information on Large Credit (CRILC).
- To convert loan of defaulters in to equity, SEBI has eased norms.
- Where ever restricting has not helped, banks can convert existing loans into equity in the Strategic Debt Restructuring scheme (SDRS).
- Sale of non-core assets in case company has diversified, other than for which loan were guaranteed.
- To maintain sound financial health of banks, RBI has issued a Prompt Corrective Action (PCA)[13].

SUGGESTIONS AND CONCLUSION

- The process of loan sanctioning of banks needs to go beyond the traditional analysis of financial statements and analyzing the history of promoters.
- The banks may officially start to work to recover loans instead of sitting and waiting to make as bad loan and then restructure it.
- 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.
- Both RBI and government interfere on the problem to help banks.
- The banks should properly evaluate the proposals before approving loans.
- While asking to avail loan for general public is very tedious process and lot of verifications, it comes to corporate, there will many highways and shortcuts. While looking, most NPAs are contributed by corporate loans going bad.
- No doubt, in the giant size of the banking industry, the menace of NPA needs to be curbed. It poses a big threat to the macro-economic stability of the Indian economy. Right steps and timely actions are the lids to close NPAs and protect the Indian economy. However prevention is better than curative action.
- The basic reason behind the increasing NPAs in India is that banks are unable to identify right customers, whether they would be able to repay the loan or not. So weak management at upper most level considered the reason for NPA.

Table – 1: The gross NPAs of all banks in the country as on 31 December 2017

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

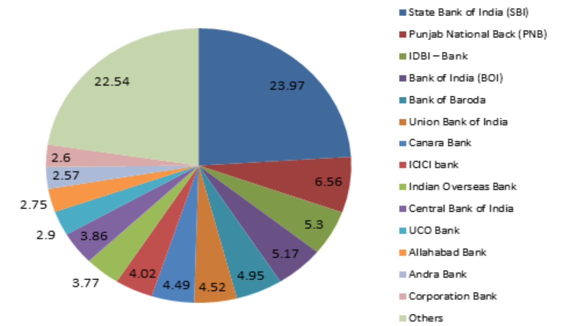

Figure – 1

Source : Reserve Bank of India

Table – 2: The sector wise distribution of NPAs as on 31 December 2017

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

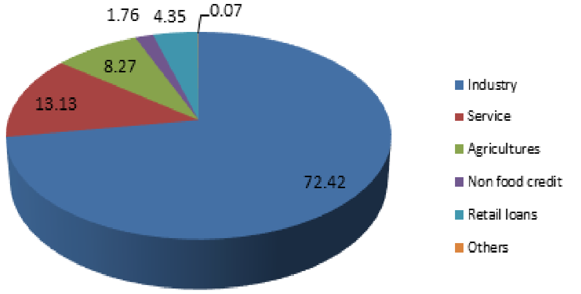

Figure – 2

Source : Reserve Bank of India

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