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NON-PERFORMING ASSETS: A STUDY ON NPA IN INDIAN BANKS AND ISSUES AND CHALLENGES

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Abstract: Non-performing assets are a key source of worry for Indian banks. NPAs are a reflection of a bank's performance. A high level of Non-Performing Assets (NPAs) indicates a significant likelihood of a big number of credit defaults, which affects bank profitability and net worth. The increase in Non-Performing Assets necessitates the use of provisions, which affects total earnings and shareholder value. The topic of non-performing assets has been extensively explored in India's financial sector. The problem of Non-Performing Assets (NPAs) affects not only banks but the entire economy. In truth, the high level of Non-Performing Assets (NPAs) in Indian banks is merely a reflection of the industry's and trade's state of health. In public sector banks, the number of Non-Performing Assets (NPAs) is larger. NPAs must be scheduled in order to increase efficiency and profitability. The government has taken a number of efforts to minimize Non-Performing Assets (NPAs). It is difficult to have no Non-Performing Assets (NPAs). However, Indian banks can attempt to compete with foreign banks in order to preserve international standards. The problem of Non-Performing Assets (NPAs) losses and poorer profitability, as well as liability mismatch in banks and the financial sector, is dependent on how various risks are managed in their businesses. In this study an attempt is made to identify the challenges faced by Indian banks in COVID-19 era. The Secondary data has been taken from various sources to identify such issues and challenges further suggestions have been made to overcome through these challenges.

***Index Terms* – NPA, economy, COVID-19, financial Sector, banks**

I. Introduction

The Indian banking sector is the country's backbone. It indicates the country's financial health and economic situation. The basic job of a bank is to lend money to diverse sectors such as agriculture, industry, personal finance, and housing, as well as to take deposits from individual, industrial, and institutional customers. Receiving a deposit normally entails minimal risk because the banker is responsible for repaying the deposit whenever it is needed. On the other hand, lending funds always carries a high level of risk because there is no guarantee that the loan will be repaid. Because of the increased number of non-performing assets, banks have become more cautious about providing loans in recent years. If the borrower is unable to pay the principal and interest amount within 90 days, the borrower's mortgage asset will be NPA. Such assets do not generate revenue or revenue for the bank. (Naha, 2023)

II. Objective of the Study

1. The foremost objective of this research is to study the current state of NPA's in Indian Banks.

2. To study the current challenges and issues have been faced by the Indian banks.

III. Methodology

In this research paper, the data is collected mainly through secondary research. The source of this study or research has been present in the various websites, magazines, research papers, journals and articles.

IV. Types of NPA

Gross NPA

The gross NPA is the total of the principal principal and interest that must be paid. It demonstrates that the landed amount is at risk of not being paid. To put it another way, Gross NPA is the total value of all NPA assets. The institution gives the person a 90-day grace period after which the loan must be repaid or the asset will become Gross NPA. Gross NPA, on the other hand, is the loss of both principal and interest to the lending institution, rather than the actual loss.

Net NPA

It is the amount left over after the principal is subtracted from the installments made by the person who lent the money. There is no grace period for the Net NPA loans they become NPA immediately. The actual loss suffered by the lending institution is referred to as Net NPA. The credit institution covers the outstanding debt and the amount paid is reduced from the initial amount resulting in company's actual loss

V. Classification of NPA

Here are the few xlassification of NPA's are listed below:

i) Standard assets: - These are assets that pay interest/installments on time and run smoothly.

ii) Sub-standard assets: - If the loan is NPA upto 12 months the same is called Sub Standard Assets.

iii) Doubtful assets: - If an asset is sub-standard for more than a year, it should be regarded as a Doubtful asset. The aforementioned doubtful assets are further divided into three categories based on their age: up to one year, one to three years, and more than three years.

Doubtful Assets upto	NPA
1 year	Of 24 months
1-3 years	Over 24 month & up to 48 month
3 years & above	Above 48 months.

iv) Loss Assets: - An asset identified by Bank or by internal/external auditor/RBI as loss assets with a little salvage value.

VI. FACTORS FOR RISE IN NPA's

The banking industry has been challenged by rising nonperforming assets (NPAs). However, when compared to private sector and international banks, public sector banks have a greater difficulty with nonperforming assets (NPAs). PSB's NPAs are increasing as a result of both external and internal sources. (Tripathi & Mewada, 2016)

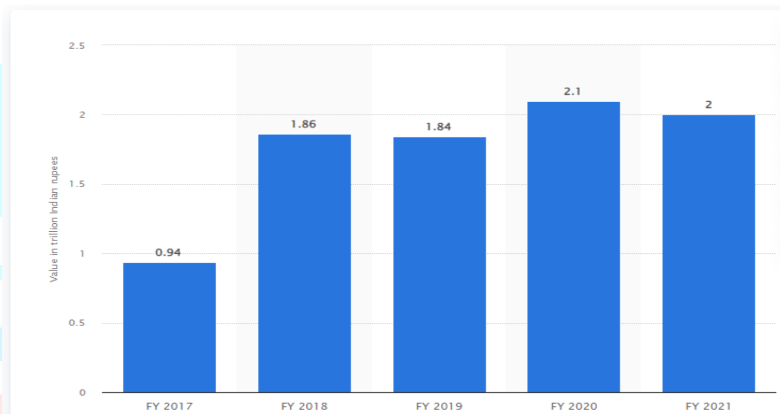
EXTERNAL FACTORS –

1. Ineffective Recovery
2. Willful Defaults
3. Natural Calamities
4. Industrial Sickness
5. Lack of Demand
6. Change on Govt.

INTERNAL FACTORS—

1. Defective Lending Process
2. Inappropriate Technology
3. Improper SWOT Analysis
4. Poor Credit Appraisal System

VII. The current states of NPA's in Indian Banks



Source: https://www.statista.com/statistics/1063340/india-gross-npa-value-private-banks/

The above data collected from the Statista that depicts that over two trillion Indian rupees were held in gross non-performing assets by private banks in India during the fiscal year 2021. The value of gross non-performing assets (NPA) surpassed two trillion Indian rupees for the first time in fiscal year 2020. For banks in India, non-performing assets have been a significant issue, and experts note that this crisis has been brewing for a while. The profitability and solvency of banks have decreased as a result of the increase in the number of institutions dealing with risky or non-performing assets. (Rathore, *India: Gross NPA of private banks 2021* 2022)

VIII. Current issues and challenges- impacts on Indian banks/Economy

1. Considering fewer banks will be ready to provide credit if they are unsure of recovering their outstanding balances due to the growing NPA, or there will be a bottleneck of liquidity in the Indian securities markets.

2. If the anticipated amount of NPA is recovered, it will have a significant positive impact on the expansion of the Indian economy; however, the anticipated amount of NPA is similar to the size of the UP budget.

3. Due to inadequate take-off funds, non-performing assets will result in a greater cost of capital, higher inflation, and thus weaker growth. This would have a direct impact on the Indian banks and economy.

4. The retail clients will not able to pay the higher rate of return for the loan.

5. Due to the decrease in trust in the financial services sector, rates of interest will rise, which is going to have an impact on investors, businessman and Industrialist who are ready to take out loans for their projects.

IX. Conclusion:

It is anticipated that effectiveness would go up substantially with the government's efforts to establish a robust bankruptcy framework and the Reserve Bank of India's numerous regulatory activities. Furthermore, market participants resolve issues that could be better resolved constructively rather than seeking regulatory remedies.

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