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A STUDY ON IMPACT OF NON-PERFORMING ASSETS(NPAs) IN BANKING SECTOR AND ITS RECOVERY IN INDIA

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ABSTACT

NPA plays a major role in banking system around the globe and the Indian banking system. The sound financial position of a bank depends upon the recovery of loan and its level of Non-Performing Assets (NPAs). Now problem come forward which was earlier hidden in recent years. **According to a report by Care Ratings** India's rank fifth out of 39 major world economies epidemic by bad loans, Rise of NPA brings down the overall probability of bank and reduction of NPA gives impression that the bank have strengthened their credit appraisal. To improve the efficiency and profitability of bank the NPA need to reduced and controlled. The gross non-performing asset ratio of banks may increase to 9.9 per cent by September 2020 from 9.3 per cent in September 2019, according to an RBI report. The main cause of the increase in the current account deficit is based on higher NPA. The factors which was directly affect the systems i.e. Interest rates, Loan, Housing Loans, CRR, SLR. So, the study recommends to the regulators and respective bank to take the essential steps to improve the NPA by using recovery measures.

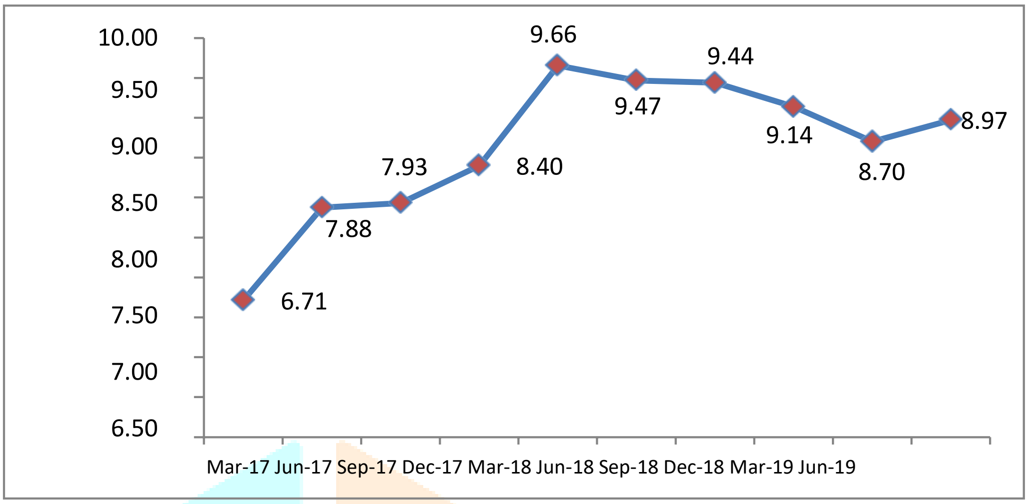
Keywords:- NPA, plagued, banking system, RBI, CRR, SLR

INTRODUCTION

The rise in Non-Performing Assets (NPAs) of the Indian banking sector is a cause of concern for the economy. The Economic Survey also devoted considerable attention to India's Twin Balance Sheet problem i.e., distressed companies and the rising NPAs in Indian Public Sector Banks (PSBs). The banking system plays an important role in modern economic world. Banks collect the savings of the individuals and lend them out to business-people. Banks promoting savings, directing funds to needy sectors, controlling fund flows in the economy and balanced growth of economy through various activities and measures. Banking sector is a support of a country, its power should be regularly reinforced and evaluated. Today, Non-Performing Assets is becoming an important challenge for the extension of banking sector. NPA is the assets which is ceased to generate income for bank. It is a loan and advances in the books of lender in which there is no payment of interest and principal have been received and are "past due". The assets are mostly have credit facility extended by the bank for which the interest amount as well as the principal amount remaining due for more than 90 days from due date are called Non-Performing Assets. These Non-Performing Assets are divided into Sub-Standard assets, Doubtful assets and Loss Assets. A Sub-Standard assets are those credits which are under NPA list for less than 12 months. Doubtful assets are an asset that have been non-performing for more than 12 months. The bank, auditor, or inspector that need to be fully written off by loss assets.

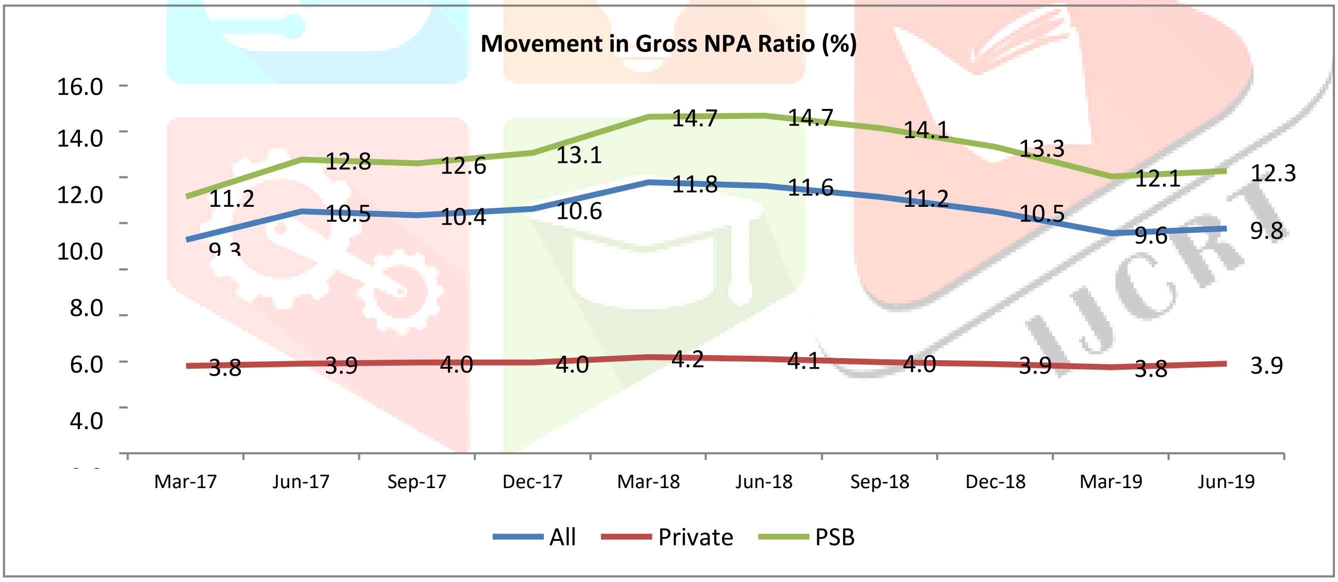
1.1 Ranking of banks on the basis of NPA

NPAs have been upheaving subsequently as banks progressively recognized their loss assets. It is believed that this process has been more or less completed for most banks and that the NPA levels have stabilized in the last couple of quarters. The foregoing analysis looks at some of these trends across banks – both PSBs and private banks as per **CARE RATING REPORT**.



Gross NPAs of a set of 36 banks increased continuously from march 2017 to march 2018 and then declined from June 2018 to march 2019 and it increase in June 2019.

-The overall Gross NPA ratio has decline March 2018 from 11.8% to 9.6% in March 2019 before rising in June 2018.



-For PSBs the level has been increased 10% for the 10 quarter's period. At 12.3% in June 2019 it is still more than that in March 2017.

-Private Banks have been relatively more consistent in this ratio which has ranged between 3.8-4.2%. In the last three quarters it has been less than 4%.

1.2 Ranking of India on the basis of NPAs

As bad loan recognition process nears completion, gross non-performing loans of banks improved to 9.1 per cent as of end-September 2019, compared to 11.2 per cent in FY18, says an RBI report.

OBJECTIVES OF THE STUDY

1. To analysis the impact of NPA in banking sector.
2. To study the causes of NPA in Indian economy.
3. To study the recovery of NPA in banks in India.
4. To study the necessary measures to reduce the NPA in India.
5. To study recent steps taken by government on NPA.

REVIEW OF LITERATURE

The following are important reviews related to the present study. Shanabhogara Raghavendra (2018), this paper analyzed the impact of the NPA, causes of NPA, and consequences of NPA in a commercial bank. This study suggested that restructuring of the bank or financial organization, improvement in financial deepening and modernization of appropriate skills for up gradation of credit wordiness and one more thing is staff efficiency, these are a most important thing to solve the present willful defaulter's system in India and world too.

Sharma (2018) emphasises the role of the banking sector as an instrument of economic growth and development. The paper discusses how banks are burdened due to growing NPAs especially in case of public sector banks. The author states a number of preventive measures that would curtail the level of NPAs. Viable regulatory standards and timely implementation of them could pave the way for a strong financial sector in India.

Dey (2018) in a very recent research paper looks at the recovery aspect of recovery of poor loans of the Indian commercial banks. The author finds the role of DRTs to be much better compared to the recovery through Lok Adalats and SARFASEI Act.

Kumar et al. (2018) make an interesting study to find out the main reasons behind accumulating NPAs. They find the main reasons to be industrial sickness, change in government policies, poor credit appraisal system, wilful defaults and defect in the lending process.

Joseph, A. L. (2014): This paper basically deals with the trends of NPA in banking industry, the internal, external and other factors that mainly contribute to NPA rising in the banking industry and also provides some suggestions for overcoming the burden of NPA.

Kamra, S. D. (2013): This paper analyses the position of NPAs in the selected nationalised banks namely State Bank of India (SBI), Punjab National Bank (PNB) and Central Bank of India (CBI). It also focuses on the policies pursued by the banks to manage the NPAs and suggests a strategy for the speedy recovery of NPAs.

Patidar, S.,Kataria, A. (2012): The study analyzed the percentage share of NPA as components of priority sector lending, the comparative study was conducted between SBI and Associates, Old Private Banks and New Private Banks and Nationalized Banks of the benchmark category, to find out the significant difference of the NPA and also find out the significant impact of Priority Sector Lending on the Total NPA of Banks using statistical tools like regression analysis and ratio analysis.

Dr. Sonia Narula & Monika Singla (2014) in their research paper “Empirical Study on Non-Performing Assets of Bank” found that Because of mismanagement in bank there is a positive relation between Total Advances, Net Profits and NPA of bank which is not good. Bank is unable to give loans to the new customers due to lack of funds which arises due to NPA.

Neha Rani (2014) in her research paper “Analysis of Non-Performing assets of Public Sector banks” revealed that share of nationalized banks in priority sector NPA was greater in 2008 but after that it is decreasing. However amount of NPA of both banks is increasing but there percentage share in total NPA is decreasing after 2010 continuously.

RESEARCH METHODOLODY

The research paper on the title "A STUDY ON IMPACT OF NON-PERFORMING ASSETS(NPAs) IN BANKING SECTOR AND ITS RECOVERY IN INDIA" is based on secondary sources and descriptive method which describe the situation of rising NPAs of the Indian banking sector. For this study, various articles and research papers are studied. Since it is a current issue of the Indian economy, more emphasis is given on Articles published in Newspaper, Editorials, online learning sources, debate and discussions conducted in news channels. These sources have helped the author in bringing the latest data based on this study.

CAUSES OF NPAs

a. **Willful defaults:** There are borrowers who are competent to pay back loans but are intentionally or unintentionally burden for repayment.

"We do not punish the defaulters and wrong- doers unless he is small and weak.. No one wants to go after the rich and well-connected wrong-doer, which means they get away with even more." -Raghuram Rajan, Former RBI Governor and Indian Economist.

b. **Bad lending practices:** A nontransparent way of providing loans has led to increase in NPAs of the banks. The poor credit valuation system, diversification of funds to business frauds, the advances given to those who are not able to repay it back. Thus, unplanned extension of credit during the boom period led to huge rise in NPAs.

c. **Financial Burden:** The execution of any government's scheme fall over public sector banks. Banks becomes the primary source for long-term investment projects in India, from roads and ports to power and steel. This raise the financial burden on banks.

d. **Lack of Management information system:** The proper of MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection and allocation.

e. **Over-expectation of economic growth:** Due to over-expectation make the Indian banking sector to come across to get more credit during the boom period of the business cycle. But the economy is unable to achieve its specified targets because of demonetization and GST. The high expectation of growth does not appear and bad loans increase the borrowers who are unable to repay.

f. **Natural hazards:** Every year India is hit by major natural calamities in one or other part of the country. Thus, making the borrowers unable to pay back there loans.

g. **Ineffective recovery tribunal:** Due to their carelessness and ineffectiveness of tribunals which was set by Govt. in their work and the perception of "wait and watch" makes the bank suffers the consequence of non-recovery, their by reducing profitability.

IMPACT OF NPAs

1. **UNDERMINE BANK'S IMAGE** :- Increase in non-performing assets which cover the domestic markets and global level markets, on that situation the bank profitability decline and lead to the undermine image to banks.

2. **EFFECT ON FUNDING** :- Increase in non-performing assets will result in lack of funding for other borrowers. It will affect the Indian capital market also. So there will be only a few banking institutions lend money.

3. **HIGH RISK :-** Increasing of non-performing assets, low profitability, high risk in business and work against the bank. It will affects the risk-bearing capacity of the bank.

4. **HIGHER COST OF CAPITAL:-** Bank may keep their funds for smooth operations. It will result in increasing the cost of capital.

5. **LIQUIDITY POSITION**:- If the bank have less capital for future business concern, that affects the position of banks and create a inequality between the assets and liability and that focus on the bank to raise the resources at a high rate. And it will impact on the profitability of banks, were they not able to recover the amount from the borrower and bring the profits level down.

6. **WEAKER REVENUE STREAM**:- Increasing in the amount of non-performing assets (NPA) the weaker will be the bank's revenue stream.

7. **CAPITAL ADEQUACY**: As per Basel Norms, bank have to maintain adequate capital on risk weighted assets. Every increase in NPA adds to risk weighted assets which warrant the bank to strenghted up their capital base further.

RECOVERY OF NPAs

1. **Debt recovery tribunals:** According to Narasimhan committee report (1991), suggested setting up tribunals to reduce set up for cases. In India, only 22 debt recovery tribunals and debt recovery appellate tribunals not enough to solve problems. So, setting up more tribunals will the solution to reduce the problems of NPA to banks.

2. **Securitization Act 2002:** Securitization and reconstruction Act 2002. In this act the defaulters get the notice for the recovery of money within 60 days which is issued by bank. In this notice the property will not sell or dispose which assent of lender. The securitization Act entitled great ability to the bank to take over the ownership of the assets of the management of the company. The lenders can recover the property after the debt amount is recovered by the bank and the property can be discharged by the lender. And enables to acquire the non-performing According to the provisions of the Act, Asset Reconstruction Company of India Ltd. with eight shareholders and an initial capital of Rs. 10 crores have been set up. The eight shareholders are HDFC, HDFC Bank, IDBI, IDBI Bank, SBI, ICICI, Federal Bank and South Indian Bank.

3. **Lok Adalats**: lok Adalats is the best way to recover the loans. In 2001, the RBI issued guidelines were they cover up NPA about 5laks rupees, the suit filed and non-filed will be covered.

4. **Compromise settlements**: It is the simplest way to recover non-performing assets. The compromise settlements scheme will applicable advances under 10crore rupees. It covers the cases which are filed and pending in debt tribunals and debt recovery appellate tribunal. Fraudulent and unlawful cases have been excluded.

5. **Credit information bureau**: the information is necessary to prevent turning from loans to non-performing assets. If there is a defaulter in one bank and the information about the defaulter should be delivered to all banks. The bad loan now to one side. The credit information bureau can keeps the record which can be assessed by other financial institutions.

6. **Corporate governance**: A consultative group has been set up by Dr. A.S. Ganguly and by the reserve bank to finalizing the guidelines and control the boards over NPAs. The board of directors minimizing the risks of banks and financial institution and obtain compliance, transparency, and records and making regarding recommendations. The group is now finalizing the guidelines and supervise the effective control on boards over non-performing assets.

RECENT STEPS TAKEN BY GOVERNMENT OF INDIA

Various types of steps taken by the Central Government under 4R's strategy

As per Reserve Bank of India (RBI)'s data on global operations, aggregate gross advances of Public Sector Banks (PSBs) increased from Rs. 18,19,074 crore as on 31.3.2008 to Rs. 52,15,920 crore as on 31.3.2014. As per RBI inputs, the primary reasons for spurt in stressed assets have been observed to be, *inter-alia*, aggressive lending practices, wilful default / loan frauds / corruption in some cases, and economic slowdown. In 2015, Asset Quality Review (AQR) initiated for support bank balance-sheets acknowledged high incidence of Non-Performing Assets (NPAs). The result of AQR reclassified the stressed account, subsequent transparent recognition by bank as NPAs, the losses on stressed accounts, not provided for flexibility and restructured loans. After that, all schemes for restructuring stressed loans were withdrawn. As a result of transparent recognition of stressed assets as NPAs, gross NPAs of PSBs, as per RBI data on global operations, rose from Rs. 2,79,016 crore as on 31.3.2015, to Rs. 6,84,732 crore as on 31.3.2017, to Rs. 8,95,601 crore as on 31.3.2018, and as a result of Government's 4R's strategy of recognition, resolution, recapitalisation and reforms, have since declined by Rs. 1,06,032 crore to Rs. 7,89,569 crore as on 31.3.2019 (provisional data reported by RBI on 2.7.2019).

The Government has made 4R's strategy, which includes recovery and resolution of value from debt accounts, recognition of NPAs apparently, refunding of PSBs, and lager financial ecosystem for a responsible and clean system. These are the following steps that have been taken under 4R's strategy to reduce NPAs of PSBs, including, inter-alia, the following:

1. Change in credit culture has been effected, with the Insolvency and Bankruptcy Code (IBC) fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarring deliberate defaulters from raising funds from market and from the undertaking process.
2. Over the last four financial years, PSBs have been recapitalised to the extent of Rs. 3.12 lakh crore, with infusion of Rs. 2.46 lakh crore by the Government and gathering over Rs. 0.66 lakh crore by PSBs themselves, PSBs look after timely resolution of NPAs.
3. Key reforms have been instituted in PSBs as part of the PSBs Reforms Agenda, including the following:

a. Board-approved Loan Policies of PSBs now mandate tying up necessary clearances/approvals and linkages before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, non-fund and tail risk appraisal in project financing.
b. Use of third-party data sources for comprehensive due diligence across data sources has been instituted, thus mitigating risk on account of misrepresentation and fraud.
c. Monitoring has been strictly segregated from sanctioning roles in high-value loans, and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs.250 crore.

d. To ensure timely and better realisation in one-time settlements (OTSs), online end-to-end OTS platforms have been set up.

Enabled by the above steps, as per RBI data on global operations, the NPAs of PSBs, after reaching a peak of Rs. 8,95,601 crore as on 31.3.2018, have declined by Rs. 1,06,032 crore to Rs. 7,89,569 crore as on 31.3.2019, (provisional data for the financial year ending March 2019), and PSBs have effected record recovery of Rs. 3,16,479 crore over the last four financial years, including record recovery of Rs. 1,27,987 crore during 2018-19 (provisional data for the financial year ending March 2019, as reported by RBI on 9.7.2019).

CONCLUSION

In today's era of globalization, the bank plays a major role it not only provide financial support to the needy sector but also helps in the fulfilment of social agendas of the Government. However, a stabile rise in the NPA's of banks affects not only the banking sector but the country's economy as well. Some experts have suggested creating a single "bad loan" bank, under which all bad loans will be bunch up, so that they can be resolved with simpler and faster decision-making while keeping in mind sectoral complexities and multiplicity of lenders. However, maintaining a bad bank makes a politically volatile idea and is hard to implement. Privatization of PSBs is not the solution. In the recent past we have seen many private banks such as Global Trust Bank and other private banks run in the co-operative sector going bust and thereafter either being wound up or merged with some other bank.

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