

Impact on Performance of Non-Performing Assets in Indian Scheduled Commercial Banks

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ABSTRACT

Banks are the important financial intermediaries .They perform their intermediation role by matching assets and liabilities, pooling small deposits and lending for various tenures and managing risks. The bank lending is encouraged because it has the effect of funds being transferred from the system to the productive purposes, which results in economic growth. So the bank lending is critical for lubricating the wheels of the economy .But lending also involves risk. The banking system in India comprises Commercial and Co-Operative banks for which the former accounts for more than 90% of the banking system's assets .Asset quality was not prime concern in Indian banking sector till 1991 , but was mainly focused on performance objectives such as opening wide network /branches , development of rural areas priority sector lending .higher employment generation etc..While the primary function of banks is to lend funds as loans to various sectors such as agriculture ,industry , personal loans etc... Bankers are the custodians and distributor of the liquid capital of the country. Therefore most important function of the banking system is to mobilize the savings of the people by accepting deposits from the public, The banker becomes the trustee of the surplus balance of the bank. Deposit mobilization promotes the economic prosperity by controlling the money circulation and channalizing for the development and productive purposes .In order to mobilize deposits , the commercial banks undertake deposit mobilization through various deposit schemes suited to different sections of the people . The lending and investment activities of the bank are based on the sources of the funds. The banks in their books have different kinds of assets such as cash in hand , balances with other banks , investment loans and advances , fixed assets and other assets . Non –Performing assets (NPA) concept is restricted to loans , advances and investments . As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risks , it is treated as performing assets and when it fails to generate the expected income it becomes Non-Performing assets . Non-Performing assets are also called Non-Performing loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time .A loan is an asset for a bank as the interest payments and the repayment of the principal creates a stream of cash flows . It is from the interest payment that the bank makes its profit . Banks usually treat assets as Non-Performing if they are not serviced for some time . If payments are late for a short time , a loan is classified as past due and once a payment becomes really late are (usually 90 days) , a loan is classified as non -performing assets compared to similar lenders may be a sign of problems . Narasimham Committee that mandated identification and reduction of NPA to be treated as a National priority because NPA direct towards credit risk that bank faces and its efficiency in allocating resources . Therefore , this study concentrates on analysing the trend of NPA values of scheduled commercial banks in India .

1. INTRODUCTION

There is no unanimous opinion among writers on banking regarding the origin of the term “ bank ” . To some authors ,the word bank seems to have been derived from the Italian word “ banco ” , the Latin word “ bancus ” and the French word “ banque ” all of these means a bench. But some authors .the term bank is derived from the German word “ bank ” which means heap of money (accumulation of money) collected from a large number of members of the public .

MEANING AND DEFINITION OF BANKS

A bank is an institution which accepts deposits from public and makes it available for those who need it .A bank helps in the remittance of money from one place to another . It is very difficult to give a precise definition of the term bank because of multifarious functions performed by a modern bank .

The Banking Regulation Act 1949 defines the term banking as “ accepting for the purpose of lending or investment , of deposits of money from the public repayable on demand or otherwise , and withdrawable by cheque .draft and order or otherwise ”.

NON-PERFORMING ASSETS

Non-performing assets had been the single largest cause of irritation of the Banking sector in India .The Narasimham Committee had highlighted that priority sector lending was leading to the build-up of Non-performing assets of the banks and thus it recommended to be phased out .Subsequently ,the Narasimham committee 11 also highlighted the need for zero Non-performing assets for all Indian banks with International presence .The Committee recommended creation of Asset Reconstruction Funds or Asset Reconstruction Companies to take over the bad debts of banks , allowing them to start on a clean slate .The option of recapitalization through budgetary provisions was ruled out . Overall the Committee wanted a proper system to identify and classify the NPAs . The Committees recommendations led to introduction of a new legislation which was subsequently implemented as the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 and came into force with effect from 21st june 2002 .

MEANING

Non-Performing assets (NPA) is an asset of a bank that has failed to produce any income to the bank .Loans and advances granted to borrowers is the most important asset of a bank . A Non-Performing asset can be defined as a credit facility in respect of which the interest and or instalment of principal has remained past due for a specified period of time . RBI has reduced the specified period of time in a phased manner . An asset becomes NPA if the borrower does not pay the dues for a period of 180 days . However , with effect from March 2004 , an asset becomes NPA if the dues are not paid for 90 days . Further . if any advance granted to a borrower becomes NPA , the bank will have to treat even they have performing status .

All the Commercial banks are subject to regulatory and supervisory framework by RBI in accordance with switch over to risk based supervision (RBS).In 2003-2004 which has concurrently ushered CAMELS (Capital adequacy , Asset quality ,Management ,Earnings , Liquidity , System and Controls) approach and Base 11 norms . In accordance with asset NPA shall be a loan or an advance , where

- Interest and / or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan .
- The account remains out of order for a period of more than 90 days , in respect of an overdraft /cash credit (OD /CC) .
- The bill remains overdue for a [period of more than 90 days in case of bills purchased or discounted .
- Any amount to be received remains overdue for a period of more than 90 days in respect of other account

2. STATEMENT OF THE PROBLEM

The NPA are considered to be an important parameter to judge the performance and financial health of banks .The level of NPA is one of the drivers of financial stability and growth of the banking sector . This study aims to study the performance of NPA in Scheduled Commercial banks in India .This study evaluates and compares value of NPAs after the Banking sector reforms after 1998 .

3. SCOPE OF THE STUDY

The present study covers the performance appraisal of NPA values after banking sector reforms .The study makes an attempt to explore the performance appraisal of gross and net NPA values of Public , Private and Foreign banks . Therefore , this study is confined to NPA values of Scheduled commercial banks in India only .

4. OBJECTIVES

- To analyse the trend in NPAs in terms of values .
- To examine the values of Gross NPAs and Net NPAs of Public sector , Private sector , and Foreign banks in total scheduled Commercial banks .

HYPOTHESIS FORMULATION

H0 : There exists no relationship between Gross NPAs and Net NPAs of Scheduled Commercial banks .

SIGNIFICANCE OF THE STUDY

NPA means an asset / account of the borrower which has been classified by the bank or financial institution as substandard or doubtful or loss asset. The Government of India has taken various steps to reduce the NPAs but steps should also be taken to prevent fresh NPAs . In order to reduce the amount of NPA , it is necessary to make a performance appraisal of present NPA position .

It is expected that the result of the study will improve the understanding of the policy makers , planners and researcher's contribution of government schemes in what level helps to achieve economic stability .

This research is essential as it contributes to the efforts of the government in improving their policy and plans for the development and growth of Nation .

RESEARCH METHODOLOGY

Descriptive study has been used in this research with the objective of fact finding such as performance appraisal of NPA values after Banking Sector Reforms in 1998 . Secondary data has been used for the study .Secondary data were collected from various publications of Reserve Bank Of India , journals , newspapers ,internet ,yearbooks etc...

TOOLS FOR ANALYSIS

All the data collected have been classified , sorted and tabulated .Statistical tools such as percentage , average , graphs and least squares method are used for the purpose of analysis of data .

REVIEW OF LITERATURE

Vivek Rajbahadur Singh (2016) : This study is attempts to understand NPA , the status and trend of NPAs reasons for higher impact of NPAs on scheduled commercial banks in India and recovery of NPAs through various channels. The data collected is mainly secondary in nature. The sources of data for this study include the literature published by Indian Bank and the Reserve Bank of India , various magazines ,journals , books dealing with current banking scenario and research papers .

Vaibhavi Shah & Sunil Sharma : (2016)

The purpose of the study is to understand the working of NPA in private sector bank and how to reduce NPA .For this , ratio analysis and correlation is used . Gross NPA is used to check whether the bank's gross NPA are increasing . Net NPA reflects the performance of banks .

Sulagna das and Abhijith Dutt : The current paper deals with secondary data from RBI Website , tried to analyse the 6 years net performing assets data of 26 public sector banks , by using ANOVA and with the help of SPSS software .

Mohammed Arif Pasha & Srivenkataramana (2014) : In this study the issue of Non – performing assets in the are discussed . The magnitude and trend in NPA are studied for 5 years period , a suitable classification of banks . This study is aimed at studying the performance of commercial banks in India .It also examines the asset quality for commercial banks in India . The NPA of Public sector banks shows a marked rising trend during 5 year period .

Shikha Modi ,Priyanka Prajapathi Shah , Vishesh Shah and Parth Upadhyay (2014) : The objective of this study is to understand the concept of Non-performing assets of public sector and private sector banks . Also studies the impact of Non –performing assets on profitability of public sector and private sector banks .

Dr.Selvarajan & Vadivalagan (2013) : The present study has been designed to achieve a number of objectives .It aims to know and study about Non-performing assets in Indian bank , Tamil Nadu. It also stands to find out Non-performing assets under the priority sector lending in Indian Bank and compare with Public sector banks .

Samir & Deepa Kamra (2013) : This study analyses the position of NPAs in selected banks namely State Bank of India (SBI) , Punjab National Bank (PNB) , and Central Bank Of India .It also highlights the policies pursued by the banks to tackle the NPAs and suggest a multi prolonged strategy for speedy recovery of NPAs in banking sector .

**DATA ANALYSIS AND INTERPRETATION
ANALYSIS OF GROSS NPA AND NET NPA VALUES**

GROSS NPA amount and Gross NPA as percentage of Gross Advances
(Amount in Rupee Billions)

YEAR	Gross NPAs amount	GrossNPAs as percentage of Gross advances
2000-2001	530.33	14
2001-2002	708.61	10.4
2002-2003	687.17	8.8
2003-2004	648.12	7.2
2004-2005	593.73	5.2
2005-2006	510.97	3.3
2006-2007	504.86	2.5
2007-2008	563.09	2.3
2008-2009	683.28	2.3
2009-2010	846.98	2.4
2010-2011	979	2.5
2011-2012	1370.96	2.9
2012-2013	1931.94	3.2
2013-2014	2641.95	3.8
2014-2015	3276.80	4.4
2015-2016	3911.60	5.0

TABLE NO 1

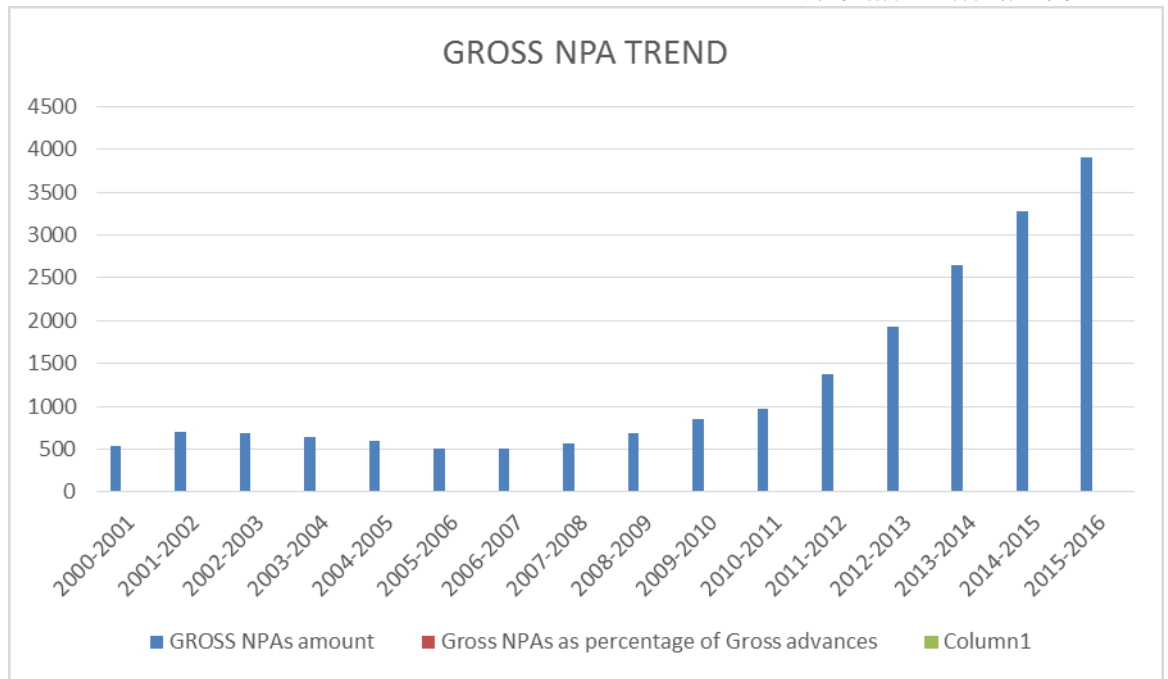
(Source : Secondary data)

Chart 1

Gross NPA Amount and Gross NPA as percentage of Gross Advances

(Amount in Rupee Billions)

GROSS NPA TREND



Source : (Secondary Data)

NET NPA AMOUNT AND NET NPA AS PERCENTAGE OF NET ADVANCES

(Amount in Rupee Billions)

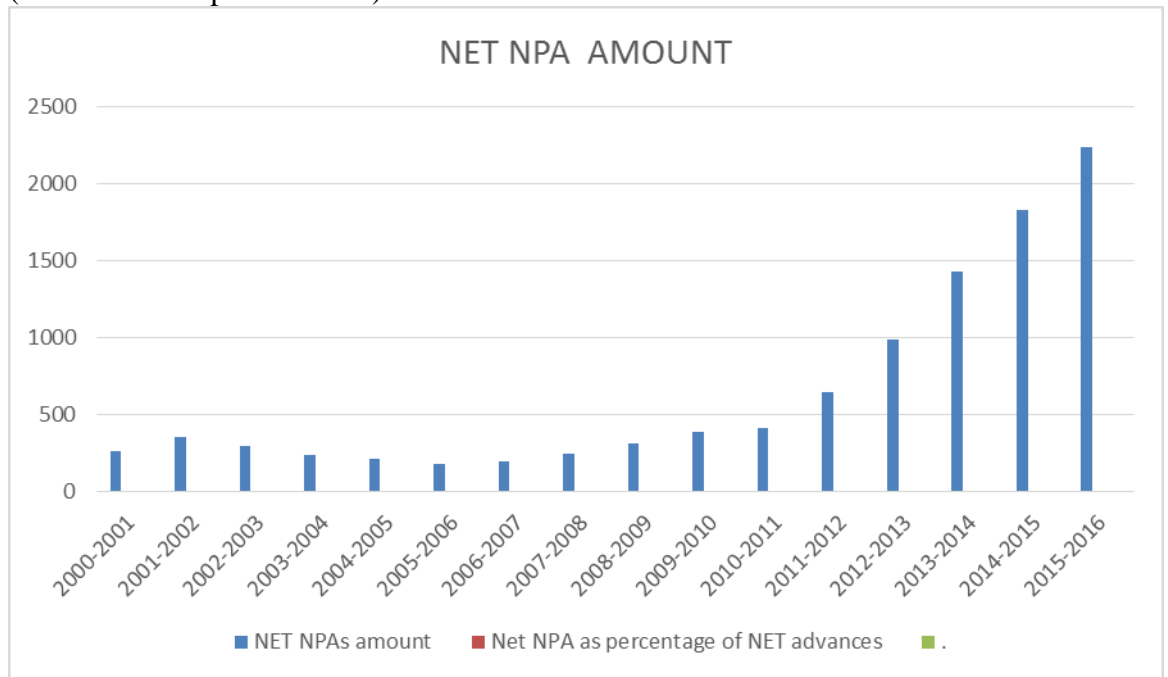
YEAR	NET NPA as amount	Net NPA as percentage of Net advances
2000-2001	261.87	7.4
2001-2002	355.54	5.5
2002-2003	296.92	4.0
2003-2004	243.96	2.8
2004-2005	217.54	2.0
2005-2006	185.43	1.2
2006-2007	201.01	1.0
2007-2008	247.30	1.0
2008-2009	315.64	1.1
2009-2010	387.23	1.1
2010-2011	417.0	1.1
2011-2012	652.0	1.3
2012-2013	986.0	1.7
2013-2014	1426.57	2.1
2014-2015	1832.0	2.4
2015-2016	2237.43	2.7

TABLE NO 2

(Source : Secondary Data)

CHART : 2

Net NPA Amount and Net NPA as percentage of Net advances
(Amount in Rupee Billions)



Source : Secondary Data

TESTING OF HYPOTHESIS

H0 : There exists relationship between Gross NPAs and Net NPAs of Scheduled Commercial Banks .

H1: There exists relationship between Gross NPAs and Net NPAs Scheduled Commercial Banks .
Amount of Gross NPAs and Net NPAs

YEAR	GROSS NPA	NET NPA
2000	14.0	7.4
2001	10.4	5.5
2002	8.8	4.0
2003	7.2	2.8
2004	5.2	2.0
2005	3.3	1.2
2006	2.5	1.0
2007	2.3	1.0
2008	2.3	1.1
2009	2.4	1.1
2010	2.5	1.1
2011	2.9	1.3
2012	3.2	1.7
2013	3.8	2.1
2014	4.4	2.4

TABLE NO 3

(Source : Secondary Data)

Calculation of Table Value

O	E	O-E	(O-E) 2	(O-E)2/E
15.9	8.1	7.8	60.84	7.51
14.0	7.4	6.6	43.56	5.88
10.4	5.5	4.9	24.01	4.36
8.8	4.0	4.8	23.04	5.76
7.2	2.8	4.4	19.36	6.91
5.2	2.0	3.2	10.24	5.12
3.3	1.2	2.1	4.41	3.67
2.3	1.1	1.2	1.44	1.30
2.4	1.1	1.3	1.69	1.53
2.5	1.1	1.4	1.96	1.78
2.9	1.3	1.6	2.56	1.96
3.2	1.7	1.5	2.25	1.32
3.8	2.1	1.7	2.89	1.37
4.4	2.4	2	4	1.66
				54.07

TABLE NO 4

$$\chi^2 = \sum (O-E)^2/E = 54.07$$

$$\text{Degree of freedom} = n-r-1$$

$$= 16-0-1$$

$$= 15$$

Level of Significance = 0.05 (assumed)

Table Value = 24.996

As the calculated value is 54.07 is greater than the table value (24.996), so we reject the hypothesis. Therefore, there exists a relationship between Gross NPA and Net NPA of Scheduled Commercial Banks. Therefore, there is goodness of fit between observed and expected frequencies.

FINDINGS

- It is found that the values of Gross NPA and Net NPA of Scheduled Commercial banks are going to be reduced in the near future.
- Ineffective recovery, wilful defaults and defective lending process are the important factors which are responsible for the rise of NPAs in Banks.
- NPAs reduce the earning capacity of banks and badly affect the ROI.
- The hypothesis test shows that there exists a relationship between Gross NPA and Net NPA values of Scheduled Commercial Banks.

SUGGESTIONS

- Advances provided by Banks need to be done pre-sanctioning evaluation and post disbursement control so that NPA can decrease.
- Good Management needed on the part of banks to decrease the level of NPA.
- Proper selection of borrowers and follow ups required to get timely payment.
- Banks should improve upon and strengthen the loan recovery methods. There must be regular follow-ups with the customers and it is the duty of banker to ensure that there is no diversion of funds. This process can be taken up at regular intervals.

5. CONCLUSION

The Non-performing assets have always created a big problem for the banks in India .It is just not only problem for banks but for the economy too . The money locked up in NPAs has a direct impact on profitability of the banks in India .This study shows that extent of NPA is comparatively very high in public sector banks. Although various steps have been taken by the government to reduce the NPA but still a lot needs to be done to curb this problem . The NPA level of our bank is still high as compared to the foreign banks .The bank management should speed up the recovery process .

6. REFERENCES

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