# NPA of Banks in India[*]

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***Abstract***

Banks are the instrument of growth of a country. Banks mobilize the savings of the public in the form of deposits and channelize it as advances for various activities required for development of society at large. The advance which becomes unpaid for a certain period is called Non Performing Asset of the bank. The study makes an attempt to bring out the magnitude of NPA and its impact on profit, advances. An attempt is also made to bring out the challenges NPA poses to the banks and suggestions to overcome and to manage NPA effectively.

***Key Words***: NPAs, Public banks, Private banks

## Introduction

One of the inventions of the mankind is Coins and Currency Notes named as money as a replacement for barter system. The person who had surplus money started the deployment of money as money lenders for those who needed the same for purchase of goods and services. The organized form of money lending is termed as banks. The modern commercial banking system has started in early 19th century. The modern trade and commerce is possible only because of the services of modern commercial banks. The banks collect deposits from general public which is classified as liability in the books of banks, likewise what they lend for various activities will be classified as Assets in their books. As a conservative society Indians have the habits of bank of Indians have the habit of saving a portion of their Income for their future needs. The commercial banks design various schemes to attract this savings and mobilize funds for further lending purpose. As visualized by the government the banks were directed to lend for priority sector, Industry and agriculture activities. Since the banks top management was appointed by the government, they were forced by the politicians and bureaucrats to lend as per their dictates.

## 1. Meaning of Non Performing Asset (NPA)

As per RBI Guidelines, Up to 31st March 2003, any Loan and Interest understanding for more than 91 days from the last payment made is to be classified as NPA and from 31st March 2004 if the same is due by more than 180 days it is NPA.[10]

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[10] Pandey, A. and Ghosh, S.K., 2005. NPA Management in India: In Search of a New Paradigm?. *Paradigm*, *9*(2), pp.64-76.

## Classification of NPA/Asset Classification

As per RBI Guidelines

i. Substandard Assets (Revised norms w.e.f 31.03.2005)

a. Which has remained NPA for a period less than or equal to 12 months.

ii. Doubtful Assets (Revised norms w.e.f 31.03.2005)

a. Which has remained in the sub-substandard category for a period of 12 months.

iii. Loss Assets (Revised norms w.e.f 31.3.2005)

## Stressed Assets Management

| SMA Sub-categories | Basis for classification |
|---|---|
| SMA-0 | Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress. |
| SMA-1 | Principal or interest payment overdue between 31-60 days. |

Stress Assets = Gross NPA+Restructured Loans.

## Provisioning Norms for NPAs

In terms of RBI circular No. RBI/2004/254/DBOD No. BP.BC.NO 97/ 21.04.141/2003-04 dated 17.06.2004, the Reserve Bank of India has decided that w.e.f March 31, 2005, the following norms to be applied.

| Asset Classification | Period as NPA | Current provisioning (%) | Revised accelerated provisioning (%) |
|---|---|---|---|
| Sub-standard (secured) | Upto 6 months | 15 | No change |
| | 6 months to 1 year | 15 | 25 |
| Sub-standard (unsecured abinitio) | Upto 6 months | 25 (other than infrastructure loans) | 25 |
| | | 20 (infrastructure loans) | |
| | 6 months to 1 year | 25 (other than infrastructure loans) | 40 |
| | | 20 (infrastructure loans) | |
| Doubtful I | 2nd year | 25 (secured portion) | 40 (secured portion) |
| | | 100 (unsecured portion) | 100 (unsecured portion) |
| Doubtful II | 3rd & 4th year | 40 (secured portion) | 100 for both secured and unsecured portions |
| | | 100 (unsecured portion) | |
| Doubtful III | 5th year onwards | 100 | 100 |

## 2. Data, Methodology and Analysis

### 2.1. Objectives of the Study

i. The study is basically to bring out the problem of NPA of select Public and Pvt. Sector Banks.

ii. To make appropriate suggestions to avoid future NPAs and to manage existing NPAs of select Public and Pvt. Sector Banks.

### 2.2. Scope of the Study

The study has the following scope :

i. The study makes an attempt to suggest measures to avoid future NPAs & to reduce existing NPAs.

ii. The study makes suggestions which may help RBI and management of Banks to create & implement new strategies to control NPAs.

iii. The study will help the banks to select appropriate techniques introduced by RBI to manage the NPAs and develop a time bound action plan to arrest the growth of NPAs.

### 2.3. Comparison of NPA of Public and Private Sector Banks[11]

**Public Sector Banks**

| Particular | 2013 | 2014 | 2015 |
|---|---|---|---|
| Total Assets (Rs. In Crore) | 6,961,988 | 7,968,416 | 8,678,770 |
| Gross NPA (Rs. In Crore) | 164,462 | 227,264 | 278,877 |
| Net NPA(Rs. In Crore) | 89,950 | 130,360 | 159,973 |
| Total Income (Rs. In Crore) | 611,656 | 685,358 | 751,782 |
| Operating Profit (Rs. In Crore) | 121,838 | 127,653 | 138,097 |
| Provisions and Contingencies (Rs. In Crore) | 71,256 | 90,633 | 100,277 |
| Provisions to Operating Profit (%) | 58.48 | 71.00 | 72.61 |
| Net Profit (Rs. In Crore) | 50,583 | 37,019 | 37,820 |
| Advance (Rs. In Crore) | 4,472,845 | 5,101,142 | 5,476,250 |
| Net Profit to Advances (%) | 1.13 | 0.73 | 0.69 |
| Gross NPA to Advances(%) | 3.68 | 4.46 | 5.09 |
| Net NPA to Advances (%) | 2.01 | 2.56 | 2.92 |
| Stressed Assets to Advances (%) | 10.9 | 11.04 | 12.68 |

[11] Sahoo, A., 2005. Corporate Restructuring-Principles And Practices. *Studies In Money, Finance And Banking*, p.43

**Private Sector Banks**

| Particulars | 2013 | 2014 | 2015 |
|---|---|---|---|
| Total Assets (Rs. In Crore) | 1,989,797 | 2,258,810 | 2,534,558 |
| Gross NPA (Rs. In Crore) | 21,070 | 24,542 | 33,361 |
| Net NPA (Rs. In Crore) | 5,994 | 8,862 | 13,680 |
| Total Income (Rs. In Crore) | 196,279 | 224,610 | 249,226 |
| Operating Profit (Rs. In Crore) | 48,656 | 59,257 | 68,402 |
| Provisions and Contingencies (Rs. In Crore) | 19,660 | 25,503 | 30,183 |
| Provisions to Operating Profit (%) | 40.41 | 43.04 | 44.13 |
| Net Profit (Rs. In Crore) | 28,995 | 33,754 | 38,219 |
| Advance (Rs. In Crore) | 1,143,249 | 1,342,935 | 1,543,917 |
| Net Profit to Advances (%) | 2.54 | 2.51 | 2.48 |
| Gross NPA to Advance (%) | 1.84 | 1.83 | 2.16 |
| Net NPA to Advances (%) | 0.52 | 0.66 | 0.89 |
| Stressed Assets to Advances (%) | 3.90 | 4.29 | 4.59 |

### 2.4. Research Methodology

i. The present study is descriptive in nature.

ii. The study is done on the basis of secondary data for the period of 3 years from 2013-2015 that is collected from the various sources such as RBI Website, Annual reports of Banks, Banking finance magazine and News paper.

iii. The study is conducted on the banking sector by dividing into two groups I,e Public Sector Banks and Private Sector Banks for comparison of NPA.

iv. I. Public Sector Banks (27 Banks). 1. Allahabad Bank, 2. Andhra Bank, Bank of Baroda, 4. Bank of India, 5. Bank of Maharashtra, 6. Canara Bank, 7. Central Bank of India, 8. Corporation Bank, 9. Dena Bank, 10. Indian Bank, 11. Indian Overseas Bank, 12. Oriental Bank of Commerce, 13. Punjab & Sind Bank, 14. Punjab National Bank, 15. Syndicate Bank, 16. UCO Bank, 17. Union Bank of India, 18. United Bank of India, 19. Vijaja Bank, 20. State Bank of India (SBI), 21. State Bank of Bikaner & Jaipur, 22. State Bank of Hyderabad, 23. State Bank of Mysore, 24. State Bank of Patiala, 25. State Bank of Travancore, 26. IDBI Ltd., 27. Bharatiya Mahila Bank

v. II. Private Sector Banks (20 Banks). 1. City Union Bank Ltd., 2. ING Vysya Bank Ltd., 3. Tamilnad Mercantile Bank Ltd., 4. The Catholic Syrian Bank Ltd., 5. Dhanlaxmi Bank Ltd., 6. The Federal Bank Ltd., 7. The Jammu & Kashmir Bank Ltd., 8. The Karnataka Bank Ltd., 9. The Karur Vysya Bank Ltd., 10. The Lakshmi Vilas Bank Ltd., 11. Nainital Bank Ltd., 12. RBL Bank, 13. The South Indian Bank, 14. Axis Bank, 15. Development

Credit Bank Ltd., 16. HDFC Bank Ltd., 17. ICICI Bank Ltd., 18. Indusind Bank Ltd., 19. Kotak Mahindra Bank Ltd., 20. YES Bank.

### 2.5. Analysis

i. Overall profitability of both Public and Pvt. Sector banks Net Profit was reducing year on year due to poor performance on collection resulting in NPA provision done from the operating profits. The Public sector Banks profit has come down by almost 40% in 2015 as compared to 2013. When we compare the profitability of Public Sector Banks and Pvt. Sector Banks, the Public Sector Banks are able to make only 50% of what the Pvt. Sector Banks are able to earn, i.e. Pvt. Sector Banks are making on an average of Net Profit to Assets of 2013-2.54%, 2014-2.51%, 2015-2.48% whereas Public Sector Banks earned 2013-1.13%, 2014-0.73%, 2015-0.69% only. This is due to the fact Public Sector Banks had made enormous provisions towards NPA as compared to Pvt. Sector Banks.

ii. The provisioning towards loss assets is very high in Public Sector Banks as compared to Pvt. Sector Banks. The Private Sector Banks make all out efforts to reduce NPA and provisioning towards loss assets by invoking all types of collection methods both legal and appointment of private collection agents for reducing outstanding advances. The Public Sector Banks have no system of fixing responsibility and accountability for the outstanding advances and no concrete steps are taken for collection of the same. Provisioning by Public Sector Banks is 2013-58.48%, 2014-71% & 2015-72.61% whereas Pvt. Sector Banks made provision of 2013-40.41%, 2014-43.04% & 2015-44.13%. In absolute terms the provisions of Public Sector Banks increased to Rs. 1 Lakhs crores in 2015 as compared to Rs. 70 thousand but Pvt. Sector Banks stood at Rs. 30 thousand in 2015 & Rs. 20 thousand in 2013. Because of provisioning made only the PSU banks had to suffer in terms of profitability. The Public Sector Banks had made provisions more than the operating profits made all the Pvt. Sector Banks put together.

iii. The Gross NPA of Public Sector Banks is almost twice of the Private Sector Banks when we compare the Gross NPA to Advances. The Public Sector Banks were advancing without proper due diligence and having no intelligence to find out early warning signals from the customers though they had enough knowledge about the various schemes used for diversion of funds to other speculations rather than from the purpose for which the loan was sanctioned. They merely encouraged the failed models like Multiple Banking from the west rather than following the proved Indian Model like Consortium arrangements. The Gross NPA to Advances of Public Sector Banks was 2015-5.09% compared to 2013-3.68% whereas Pvt. Sector Banks had 2015-2.16% compared to 2013-1.84%. The percentage had significantly increased on Public Sector Banks as compared to Pvt. Sector Banks.

iv. The Net NPA of Public Sector Banks is four times compared to Pvt. Sector Banks in 2013 and three times in 2015. The Net NPA to Advances of Public Sector Banks is 2013-2.01%, 2014-2.56% & 2015-2.92% whereas Pvt. Sector Banks had 2013-0.52%, 2014-0.66% & 2015-0.89%.

v. The Stressed Assets to Advances of Public Sector Banks is three times compared to Pvt. Sector Banks from 2013 to 2015. The Stressed Assets to Advances of Public Sector Banks is 2013-10.09%, 2014-11.04% & 2015-12.68% whereas Pvt. Sector Banks had 2013-3.90%, 2014-4.29% & 2015-4.59%.

vi. Both the Public Sector Banks and Pvt. Sector Banks are hiding behind the concept of Restructured Loans to avoid declaring of loss as per their books. The success rate of recovery of Restructured Loans is only around 20% as per RBI report. Even if we give consider the possibility of recovery of Restructured Loans to that extent both the Public Sector Banks and Pvt. Sector Banks should have already declared loss as per norms, but they are postponing the evil for some time but it is not possible to avoid altogether.

## 3. Limitation of the Study

The study is limited to select Public and Pvt. Sector Banks, the impact of NPA on the profitability of these banks. Thus, the important limitations are as follows :

i. The study on management of non-performing assets is limited to select Public and Pvt. Sector Banks in general.

ii. The data collected is for 3 years i.e. 2012-13, 2013-14 and 2014-2015 only.

iii. The data collected is from RBI Website and Annual Reports of the banks.

iv. Secondary data validity cannot be authenticated by the banks officials since the NPA reflects the other side of the banks.

v. The problem of NPA keeps on increasing year on year due to external factors like political changes, Industrial growth, inflation and Global factors. Hence it is highly impossible to predict when the situation will improve as far as NPA is concerned.

## 4. Challenges Posed by NPA

i. Banks are facing the problem of Stressed Assets and NPA from five major sectors i.e. infrastructure, iron and steel, textiles, mining (including coal) and aviation and these five sectors have contributed to 54% of the total stressed advances of PSBs. Hence the banks need to look into these advances and try to find solutions specific to each sector to overcome the problem of NPA.

ii. The rule of the ‘shadow banking system’ overlapping with the regular banking is also to be closely monitored by the banks to overcome the problem of NPA, since the shadow banking system as a source of systemic risk had to be recognized and well tackled by the regular banking system to avoid risk of getting sidelined due to poor performance by them.

iii. The banks should device proper systems to avoid financing of **Promoters Contribution** while financing large projects. Once 100% financing is done by the banks the promoters start diverting funds for other than the purpose for which they were sanctioned and banks have no infrastructure and managerial ability to take over the projects and run successfully to recover their dues.

iv. The banks are well experienced to find out how the private operators do the business of **Kite Flying** and they should come out systems top find out early these kinds of operations and procedure should be devised to avoid this type of accounts being sanctioned in case of large sanctions which are especially done by the Board of Banks.

v. Imposition of higher degree of penalties for borrowers/promoters that do not cooperate with lenders. The Framework proposes higher interest costs for subsequent borrowing, but this should include measures that will drive borrowers/promoters to cooperate with lenders.

## 5. Innovations & Strategies to Tackle NPA

There is a strong need for the banking system to recognize signs of non-performance early and to take prompt steps towards any one of the following actions :

**i. Restructuring through Joint Lenders Forum (JLF) :** As soon as the account is overdue between 61 to 90 days the lenders should form the JLF and formulate a joint corrective action plan (CAP) for early resolution of the stress in the account. The JLF should decide early whether it is feasible to restructure/recover to preserve the economic value of the underlying assets as well as the lenders loan.

**ii. Restructuring under Corporate Debt Restructuring (CDR) :** RBI had issued guidelines for this purpose and the banks should act promptly so that resolution can be obtained early and proper restructuring can be done at the earliest.

**iii. Recovery :** If both the above options are not feasible due recovery process is started by the lenders.

**iv. Sale of NPAs to Asset Reconstruction Companies :** RBI has permitted the Banks to sell the financial relating to NPAs to Asset Reconstruction Companies (ARC's) formed for this purpose if they are reported as SMA-2, RBI has also issued guidelines how to deal with the sale proceeds and the shortfall thereof : (a) Reversal of excess provision on sale of NPA's to R & L account if the cash received on sale of NPAs is more than the book value of NPAs. (b) Book the loss on sale of NPAs if the sale value is less than the book value. (c) Use of floating provision for meeting the shortfall on sale value of NPAs.

**i. Refinancing of Project Loans:** RBI has permitted the banks to enter into refinance agreement with other financial institutions for existing NPA infrastructure and other project loans after due diligence and the same will not be considered as restructured loans in the books of Banks.

**ii. Willful Defaulters, Accountability of Promoters/Directors/Auditors:** (a) RBI had given powers to banks to classify the unreasonable and non cooperative lenders for bonafide resolution/recovery efforts as non cooperative borrowers and furnish the list of directors and promoters of such companies to credit Information Companies for further action. (b) The Banks will have to fill complaint with ICAI for Auditors who have issued false certificate based on which the banks have extended finance. The Auditors name should also be sent other regulators/MCA/CAG for needful action. (c) The Banks are also required to inform IBA the list of Advocates who have issued wring legal clearance certificates for the title of the Security and the values who have wrongly given the valuation certificates.

**iii. Debt Recovery Tribunals (DRTs) and other Recovery Infrastructure:** The banks have obligation to fill proper cases against the NPAs as early as possible for recovery of their dues through reference to Debt Recovery Tribunal to get better sale value for the underlying assets. For speedy disposal of NPA cases the banks are advised by RBI to approach the DRTs with special benches set up for SARFAESI related cases. The banks have to request the concerned High courts to establish special benches for referring the NPA cases involving Section 138 of Negotiable Instruments Act.

**iv. Introduction of Indradhanush scheme for Capital infusion to Public Sector Banks:**

The central government has come out with capital infusion scheme for Public Sector Banks for next four years under this scheme. This is specifically to meet the capital requirements under Based III norms. The Government will invest Rs. 1.80 Lakh crores under this scheme.

## Conclusion

The blame for the problem of NPA had to be shared by all the stakeholders like the management of the Banks, Regulators, promoters and Government. Instate of blame game it is high time that all the stakeholders should act to correct the situation at the earliest so that the situation does not go out of hand and the Indian banking industry survives unlike the banks of other countries. The Banking sector should set right their acts and starts taking corrective action for not letting the situation further worsen. The normal prudent norms for any industry to survive with bad debts are around 3% and for the financial industry to survive and grow it should be well within 2%. It is right time the banking industry should act on their own and be accountable for the present situation and learn from their past mistakes and bring down the NPAs to marginal levels, and hence the Public Sector Banks needs to be more vigilant in this regard.

**Reference:**

(1) RBI Website,

(2) Annual reports of Banks,

(3) Dr. J. Vimal Priyan and Dr. V. Karthihai Selvi, Management of Non Performing Assets in India, Banking Finance May 2015 Issue.

(4) Dr. A.S. Shiralashetti, Non Performing Assets in SBI in India – A Study of Associate Banks of SBI, Banking Finance September 2015 Issue.

(5) RBI Governor's News item on Bad Loans in Banking Finance July 2015 Issue.

(6) The Hindu, News paper Reports on NPA Issue.