

# A Study of Non-Performing Asset Skill Benefit in Banking Management In India

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## ABSTRACT

The present investigation is gone for understanding the idea of non-performing assets and the endeavors in the interest of the banks and monetary organizations in saddling the NPA's. The development in NPA's can be checked extensively if banks and financial institutions take reasonable internal measures. These courses of action are identified with internal systems, methodology and practices, for observing the NPA's and for recuperation of the same. In addition, the paper additionally tries to investigate measures for the control and anticipation of development of NPA's, methods and practices for checking the NPA's and its compelling recuperation. The Indian banking sector has been confronting serious problems of raising Non-Performing Assets (NPAs). The NPAs development has an immediate effect on profitability of banks. Non-performing assets are one of the real worries for scheduled commercial banks in India. The study of Non-performing Asset (NPA) can be comprehended in straightforward terms as an Asset, which stops to yield income to the Bank. At the end of the day, NPAs reflect the performance of banks. A high level of NPAs recommends high likelihood of an expansive number of credit defaults that influence the productivity and net worth of banks and furthermore disintegrates the estimation of the asset. A solid banking sector is imperative for flourishing economy. The disappointment of the banking sector may adversely affect other sectors. Non-performing assets are one of the significant worries for banks in India. A few procedures and choices have been executed to manage the issue of NPA's.

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## 1. Introduction

In India, after the nationalization of banks in 1969, the geographical presence of the banking system expanded impressively yet the profitability and economic viability of different branches were contrarily affected because of increased cost of upkeep and loaning to masses at sensible cost considering the social objective of banking sector in the development of economy. In spite of most extreme care taken by Government and banking controls, numerous advantages or advances of the bank get changed over into awful obligations and quit producing any wage for the bank. Such resources or credits are alluded to as non-performing assets (NPAs) or a nonperforming loans (NPLs). Nonperforming asset is the most generally and ordinarily utilized measure of the wellbeing and strength of banks and financial institutions. Extensively, any advantages by and large transform into NPAs when they neglect to yield salary amid certain period. NPAs shape a generous drag for individual banks and in addition the banking system of a country. "An asset which stops to generate income in terms of its chief or premium installments commitments to the bank or a financial institution is named as a Non-performing Asset (NPA)". The NPAs have direct impact on banks profitability, liquidity and value. The NPAs of Indian Banks are moderately tremendous by global standard. An asset is arranged as Non-performing Asset (NPA) if due as key and premium are not paid by the borrower for a time of 180 days. Therefore the greatest ever challenge that the banking industry currently faces is management of NPAs. In the development of economic development, the capacity of banking sector has dependably been exemplary. It is the intensity and contribution of the banking system can have extensive ramifications on the advancement of the entire economy. The connection between the financial sector and

economic growth has been the subject of a vast writing. Numerous analysts have contemplated that there is solid exact confirmation today of that powerful financial markets bolster economic growth. This is especially significant right now likewise when there is a considerable measure of worry in the financial markets internationally and thusly a log jams in the force of economic growth. Keeping in see the substance of the banking system, strategies are intended for legitimate direction of banks.

## 2. Literature Review:

There are many studies directed on the issue of Non-Performing Asset Management in Indian Banks, following is the survey of few literatures about the NPA Practices and Management led for Banks in India.

Waweru., (2015) in her research paper entitled Managing NPA in commercial banks has said that the essential capacity of banks is to loan supports as credits to various sectors, for example, agriculture, industry, personal loans, housing loans and so forth., yet as of late the banks have turned out to be extremely mindful in extending loans.

Chatterjee, Mukherjee and Das (2012) in their study on Management of non-performing assets - a present situation has closed that banks should discover the first reasons/motivations behind the loan required by the borrower. Appropriate recognizable proof of the underwriter ought to be checked by the bank including examination of his/her riches. Surrounding sensibly all around reported loan policy and guidelines.

Yadav, Sushma (2014) in her study on Study on performance of NPAs of Indian commercial banks said that till later past, corporate borrowers even subsequent to defaulting ceaselessly never had the dread of bank taking activity to recuperate their levy. This is on the grounds that there was no lawful system to shield the genuine premium of banks.

Karunakar, (2016) in their research paper on Performance of Indian Public-sector Banks and Private Sector Banks: A Comparative Study expressed that it is ideal time to take reasonable and stringent measures to dispose of NPA problem. A proficient management information system should be created. The bank staff engaged with endorsing the advances ought to be prepared about the best possible documentation and charge of securities and spurred to take measures in averting progresses transforming into NPA. Public banks must focus on their working to contend private banks. Banks should be knowledgeable in legitimate determination of borrower/venture and in breaking down the financial statement.

Murthy C.R.K (2014) in their study on NPAs Reduction Strategies for Commercial Banks in India expressed that the NPAs don't create interest income for banks yet at the same time banks are required to give arrangements to NPAs from their present benefits. The NPAs have ruinous effect on the arrival on assets in the following ways.

Rajendra Kakker (2014) this study analyze the NPA of Public-sector banks and Private sector banks of weaker segments for the period seven years in India. The secondary data aggregated from Report on Trends and Progress of Banking in India, 2004-10 which has been broke down by factual apparatus, for example, rates and compound Annual Growth rate.

Arora and Ostwal (2014) the present paper investigations the classification and correlation of loan assets of public and private sector banks. The examine presumed that NPAs are as yet a threat for the banks and financial institutions and in contrast with private sector banks; public sector banks have more elevated amount of NPAs.

Selvarajan, B. and Vadivalagan (2013) accentuation on recognize the Non-performing assets at Commercial banks in India. This paper highlights the different general reasons which change over advances assets into NPA and furthermore give appropriate recommendation on discoveries to overcome the specified issue

Singh (2013) in his paper entitled Recovery of NPAs in Indian commercial banks says that the inception of the issue of expanding NPA's lies in the arrangement of credit risk management by the banks. Banks are required to have sufficient preventive measures in settling pre-authorizing examination duty and a powerful post-dispensing supervision.

Rai, K (2012) in her study A Comparative Study of Non-Performing Assets of SBI and Associates and Other Public Sector Banks had reasoned that each bank ought to have its own particular independence credit rating organization

which ought to assess the financial capacity of the borrower before than credit office.

Bardia S.C (2014) in the research paper entitled "A Comparative Study of Non-Performing Assets of Public and Private Sector Banks" an endeavor is made to elucidate the idea of NPA, the components adding to NPAs, the extent of NPAs, explanations behind high NPAs and their effect on Indian banking operations.

Valasamma Antony (2015) study the connection between level of NPA and performance of banks and financial institutions. As per their examination, the banks and financial institutions these days are esteemed based on the level of NPAs, they are having in their balance sheets. It is in this way fundamental for them to lessen the level of NPA with the goal that they can appreciate great notoriety among speculator's locale and different members in the financial market.

### 3. Impact of npa:

NPA impact the execution and productivity of banks. The most prominent impact of NPA is change in banker's sentiments which may obstruct credit development to gainful reason. Banks may slant towards more hazard free speculations to evade and lessen danger, which isn't helpful for the growth of economy. On the off chance that the level of NPAs isn't controlled opportune they will

- Reduce the earning capacity of assets and badly affect the ROI.
- The cost of capital will go up.
- The assets and liability mismatch will widen.
- Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
- The economic value additions (EVA) by banks get upset because EVA is equal to the net operating profit minus cost of capital.
- NPAs causes to decrease the value of share sometimes even below their book value in the capital market.
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### 4. Limitation:

The important limitations are as follows;

- The study of non-performing assets of SCBs is limited to the Indian Bank and till the end of the year 2014.

- The basis for identifying non-performing assets is taken from the Reserve Bank of India Publications.
- NPAs are changing with the time. The study is done in the present environment without foreseeing future developments.

#### 5. Scope:

- The study has the following scope:
- The study could suggest measures for the banks to avoid future NPAs & to reduce existing NPAs.
- The study may help the government in creating & implementing new strategies to control NPAs.
- The study will help to select appropriate techniques suited to manage the NPAs and develop a time bound action plan to check the growth of NPAs.

#### 6. Methodology:

For our study, we have considered Non-Performing Assets in Banks management which incorporates public-sector banks, private sector banks and foreign banks which are recorded in the Second Schedule of the Reserve Bank of India Act, 1934. The study depends on secondary data. The paper talks about the theoretical system of NPA and it likewise features the patterns, status and effect of NPA on management by bank during the period of 14 years i.e. from 2000 to 2014. A few rumored research journal including research paper and articles have been utilized by the researchers. In addition, RBI Report on Trend and Progress of Banking in India for various years, sites and a book on banking has been alluded amid the study.

#### 7. Result & Discussion:

##### Non-Performing Assets in Indian Banks

**Table 1 – Gross Advances and Gross NPAs of SCBs**

Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (Percentage)
2001-02	6809.58	708.61	10.4
2002-03	7780.43	687.17	8.8
2003-04	9020.26	648.12	7.2
2004-05	11526.82	593.73	5.2
2005-06	15513.78	510.97	3.3
2006-07	20125.10	504.86	2.5
2007-08	25078.85	563.09	2.3
2008-09	30382.54	683.28	2.3
2009-10	35449.65	846.98	2.4
2010-11	40120.79	979.00	2.5
2011-12	46655.44	1370.96	2.9
2012-13	59882.79	1931.94	3.2
2013-14	68757.48	2641.95	3.8

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 2001-02 to 2013-14. The amount of advances of has increased from Rs. 6810 Billion in 2001-02 to Rs. 68757 Billion

in 2013-14. The amount of gross NPA has increased from Rs. 708.61 billion in 2001-02 to Rs. 2642 billion in 2013-14. Similarly, NPA percentage is also showing the rising trend from 2.3 in 2007 to 3.8 in 2013.

**Table 2 – Net Advances and Net NPAs of SCBs**

Year	Net Advances	Net NPAs (Amount)	Net NPAs (Percentage)
2001-02	6458.59	355.54	5.5
2002-03	7404.73	296.92	4.0
2003-04	8626.43	243.96	2.8
2004-05	11156.63	217.54	2.0
2005-06	15168.11	185.43	1.2
2006-07	19812.37	201.01	1.0
2007-08	24769.36	247.30	1.0
2008-09	29999.24	315.64	1.1
2009-10	34970.92	387.23	1.1
2010-11	42987.04	417.00	1.1
2011-12	50735.59	652.00	1.3
2012-13	58797.03	986.00	1.7
2013-14	67352.32	1426.57	2.1

The above table shows the amount of Net Advances, Net NPA and the percentage of Net NPA during the period of 2001-02 to 2013-14. The amount of advances has increased from Rs. 6458.59 billion in 2001-02 to 67352.32 billion in 2013-14. Further, the amount of NPA has also increased from Rs.

355.54 billion to Rs1426.57 billion during the period (2001-02 to 2013-14). The percentage of Net NPA has first declined from 5.5 in 2001-02 to 1.0 in 2007-08. Then it has increased to 2.10% in 2013-14.

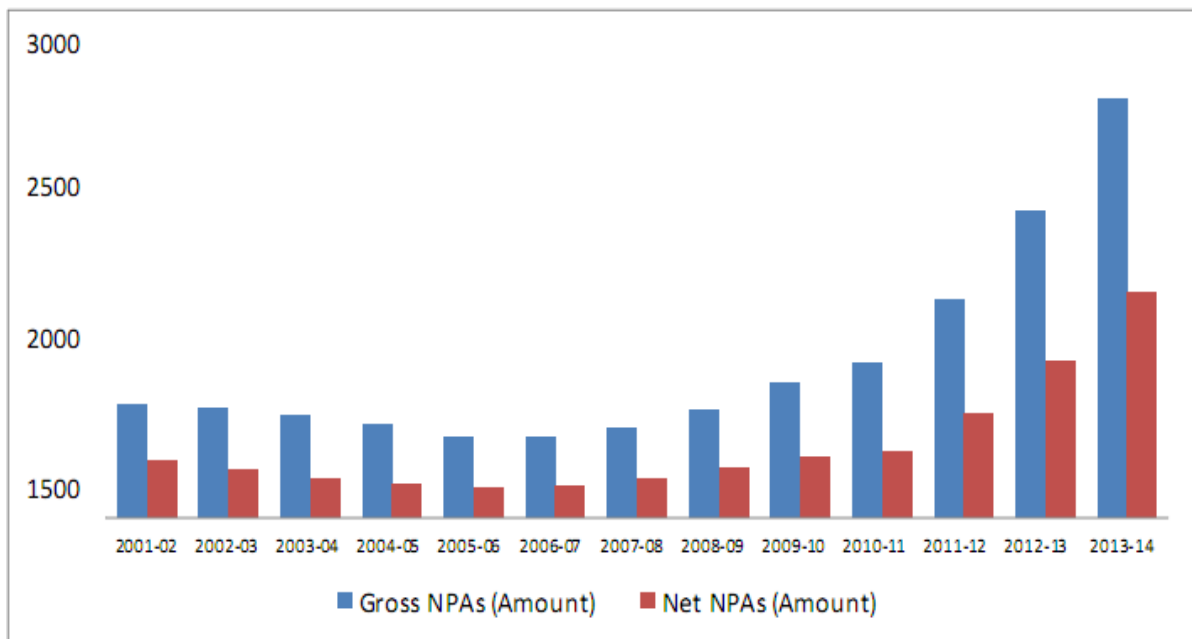


Figure 1 – Scheduled Commercial Banks(Gross and Net NPAs)

The above figure shows the trend of Gross NPA and Net NPA in billion for the period of 13years starting from 2001-02 till 2013-14. The x-axis represent the years i.e. as the period of (2001-02 – 2013-14) whereas y-axis represent the amount of

NPA. We can observe here that the Gross and Net amount of NPA has been showing an upward trend beginning from 2006-07 to 2013-14.

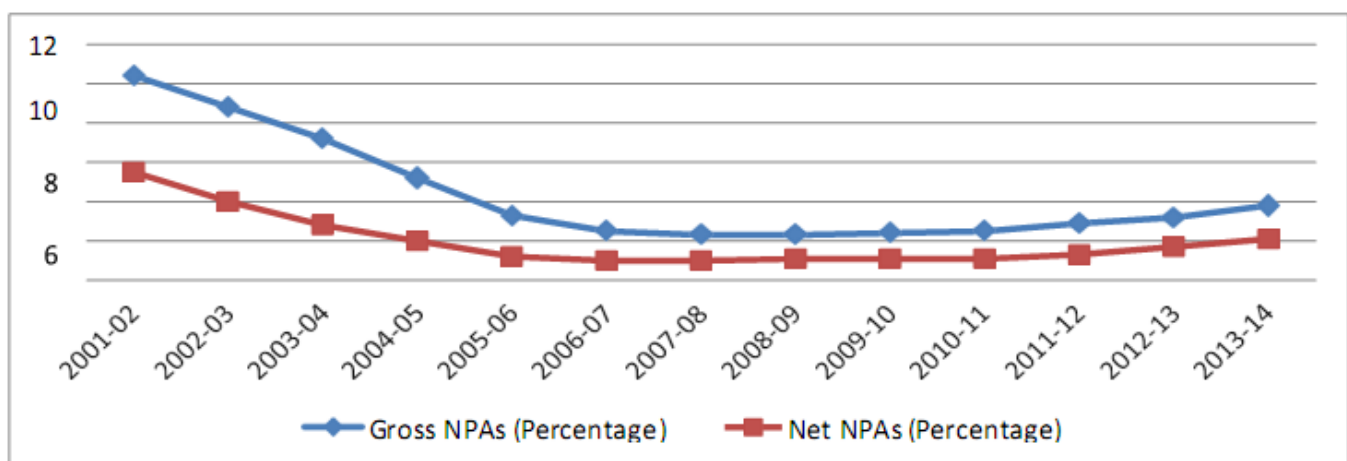


Figure 2 – Gross and Net NPA (in Percentage)

The above figure portrays the trend of Gross NPA and Net NPA in percentages for the period of 13 years i.e. from 2001-02 till 2012-14. The x-axis represents the years whereas y-axis represents the percentage of NPA. We can observe here that

the Gross and Net percentage of NPA has been showing downward trend from 2001 to 2007-08 and an upward trend beginning from 2007-08 to 2013-14.

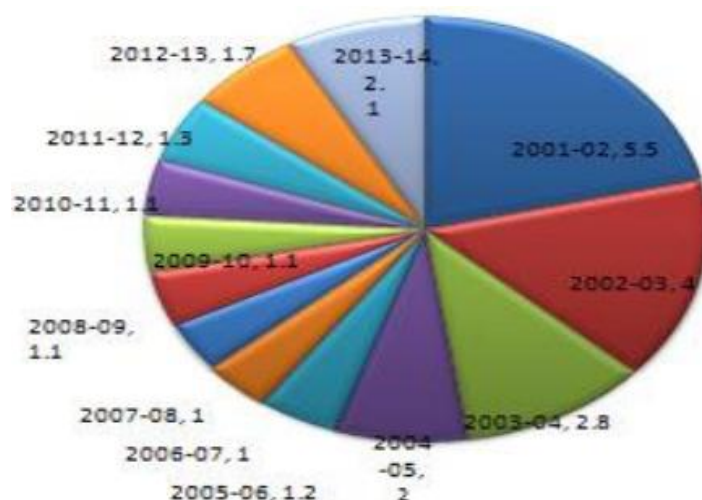


Figure 3 – Net NPAs as a Percentage of Net Advances (SCBs)

The above figure shows NPAs as a Percentage of Net Advances which was lowest 1.0 % in 2007-08 & 2008-09 and highest 5.5 % in 2001-02. It was 2.2 % in 2013-14.

### 8. Conclusions:

The current profits of the banks are disintegrated because of arrangement of dicey and bad debts. Management is to guarantee that administration level necessities are accomplished. On the off chance that recuperation is by and large legitimately made then it will create reserve and in this way the bank having adequate store, could give credits and advances to its client and produce its business. So one might

say that if recuperation is appropriately done then it will help in all round development of the bank and overall economy. Forbanks it is important to keep the level of NPA low as it endless supply of the banks and subsequently it is important to have solid recovery system that ought to be worked adequately with control and supervision of higher authorities. NPA isn't only a problem forbank, but likewise awful for the economy of the country. Themoney which is secured NPA isn't accessible for beneficial exercises in the meantime the banks are required to give arrangements to NPAs from their current profits. The interest incomeof banks is subsequently decreased.

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