

# Trends and recovery of NPAs in Scheduled Commercial Banks of India

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## 1. Introduction

Banking system is an important sector of an economic system. It reflects the health and soundness of an economy. Any economy can grow with better allocation of its resources and proper investment, which is possible with the help of strong banking sector. With the changing environment banking system and the role of banks has become dynamic in nature.

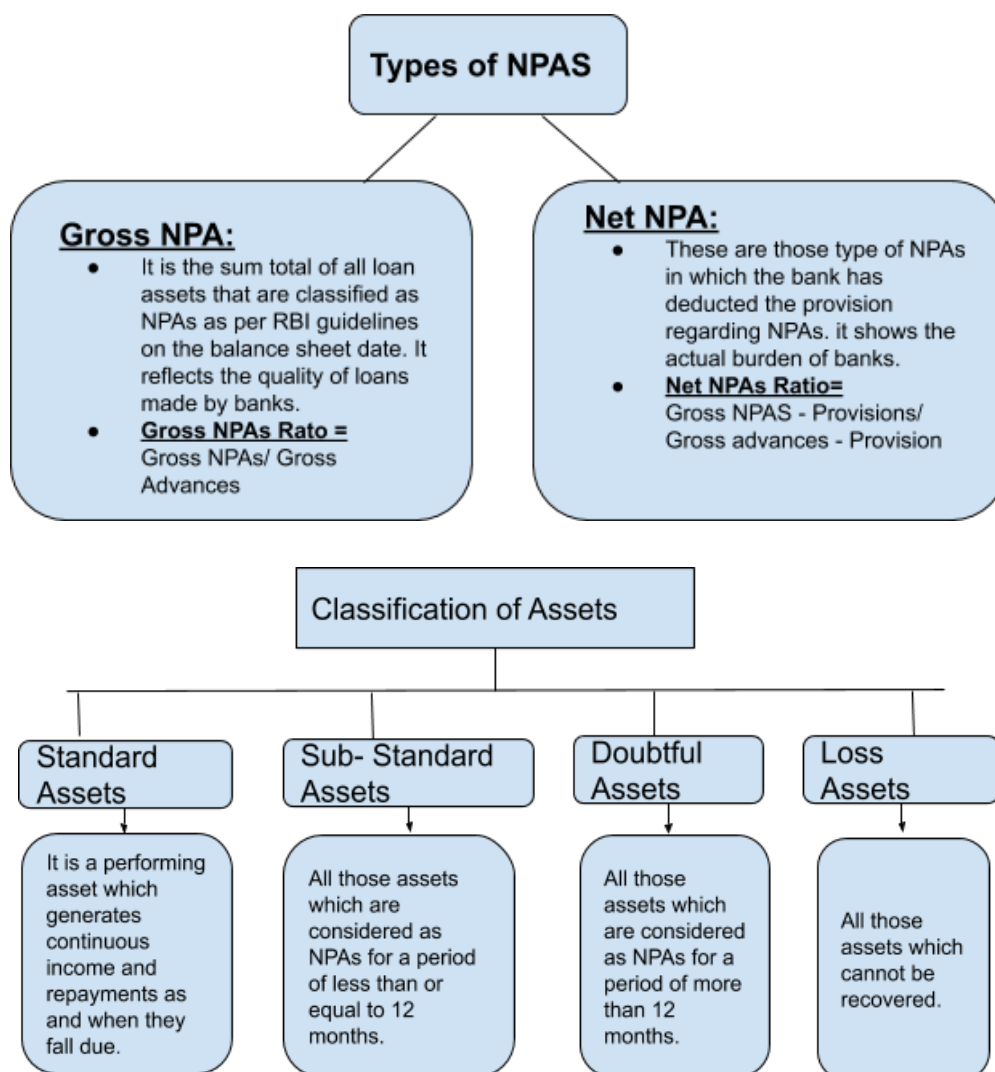
## 2. Indian banking sector

The Indian banking is the key indicator of development and financial stability of Indian economy. Therefore health of the banking sector is judged on the basis of NPAs and their recovery. NPAs represent the efficiency in resource allocation and credit risk management. NPAs affect the profitability of the banks and therefore Indian central bank and other regulators have adopted many policies to regulate NPAs . In current

scenario it's very important for the banking sector to regulate its NPAs but also ensure there Recovery. For this RBI had issued many policies to help Banks in recovering loans and in monitoring standards Assets. As proper management of NPAs leads to success of Banks. But nowadays the amount of NPAs is increasing whereas loan recovery is low which resulted in low profitability of Banks and low economic growth of the Indian economy. Therefore, the present study is an attempt to measure the trends of NPAs and loan recovery through various channels in a decade.

## 3. Definition of NPAs

NPAs stand for non-performing assets was defined as a credit facility in respect of which the interest and instalment of principal has remained 'past due' for a specified period of time.



#### 4. Literature review

**Rajeev and Mahesh (2010)**, has examined through various dimensions the trends of NPAs and explained the ways of reducing NPAs and for improving loan recovery rate, the role of joint liability groups and self help groups and concluded that public sector banks in India have reduced NPAs higher than private sector banks in India.

**Malyadadri and Sirisha (2011)**, has analyzed the NPA of Public Sector Banks and Private Sector Banks related to weaker sections for seven years from (2004-2010) and concluded that there is high penetration in Public Sector Bank than Private Sector Banks in the weaker sections.

**Balasubramaniam (2012)**, has studied the NPAs identification and control procedures. Analysed the trends of NPAs and impacts of NPAs on the basis of asset classification and concluded the issues and challenges on performance and financial stability of the economy.

**Gupta (2012)**, has compared the management of NPA by SBI Bank and its Associates and other Public sector Banks in India for this difference in Gross NPA to Gross advances and Net NPA to Net advances was compared and concluded using ANOVA that there is no significant difference between banks.

**Samir and Kamra (2013)**, has analyzed the status of NPAs in selected banks- State Bank of India, Punjab National Bank, Central Bank of India and highlighted the policies of banks to manage NPAs and suggested a multi-pronged strategy for NPAs recovery in banking sector.

**Rajbahadur Singh (2016)**, has measured the NPA in Indian Scheduled Commercial Banks to see the trends of NPA in Scheduled Commercial Banks through Gross Advances and Gross NPAs, Net Advances and Net NPAs of Scheduled Commercial Banks and NPAs recovered by the Banks through various channels.

**Bhardwaj and Chaudhary (2018)**, has studied the status and trends of NPAs in Indian Scheduled Commercial banks and NPAs recovery through various channels and concluded

that Gross and Net NPAs increased from 2000-01 to 2012-13 and recovery of NPAs amount was highest through channel of SARFAESI Act in 2008-2014 period.

**Jha (2018)**, has compared between SBI Bank and ICICI Bank using seven years data (2011-2018) and concluded that there is no significant difference in Gross NPA to Gross advance ratio, Net NPA to total Asset ratio between the selected Banks whereas there is negative correlation between Gross NPA and Net Profit and between Net NPA and Net profit of both the selected banks and the magnitude of NPA is increasing in SBI bank as compared to ICICI bank.

#### 5. Objectives of the study

- To study the trends of Non Performing Assets of Indian Scheduled Commercial Banks in India.
- To know the trends of recovery through various channels in Indian Scheduled Commercial Banks in India.
- To make suggestions to avoid future NPAs and manage existing NPAs.

#### 6. Research methodology

In this research Scheduled Commercial Banks of India were analyzed which includes public banks, private banks and foreign banks as listed in the second schedule of the RBI.

#### 7. Methods of data collection

The study is a descriptive study and data collected is secondary data from published literature by RBI and Indian Banks, various articles, journals and research papers and RBI reports for the period of ten years (2008-2017).

#### 8. Data interpretation and analysis

- **Trends of NPAs in Indian Scheduled Commercial Banks of India.**

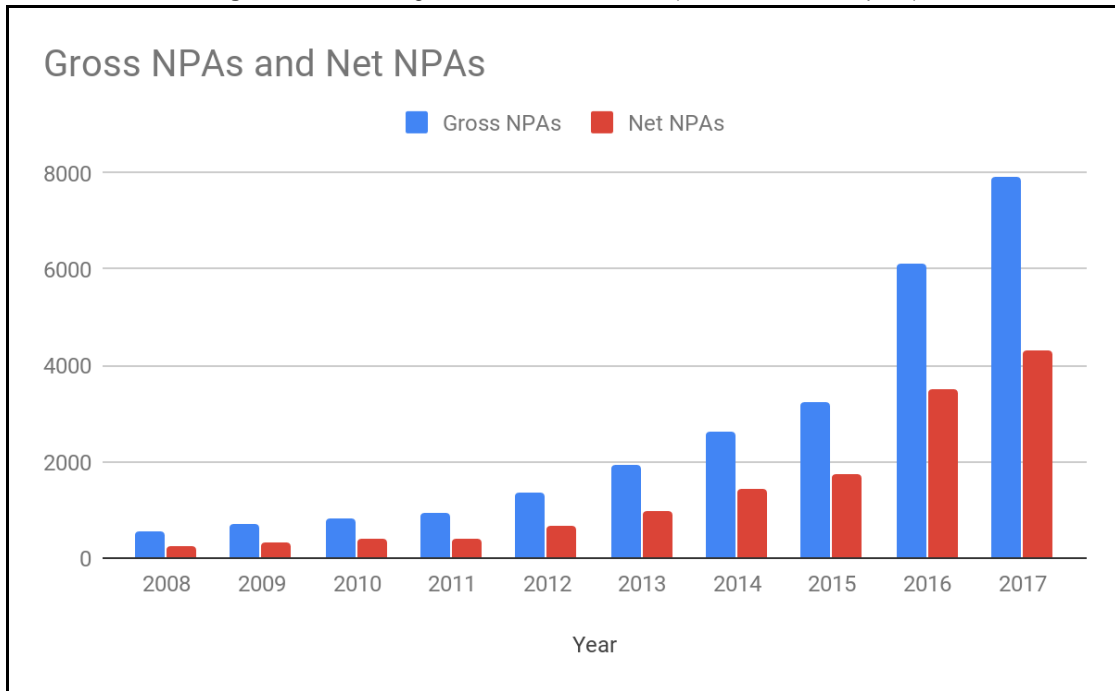
**Table 1 Gross and Net NPAs (Amount in Rupees billion) as on March**

Year	Gross NPAs (amount)	Gross Advances	Gross NPAs (percentage)	Net NPAs (amount)	Net Advances	Net NPAs (percentage)
2008	566.06	25034.31	2.3	247.3	24769.36	1
2009	699.54	30246.52	2.3	315.64	29999.24	1.1
2010	817.18	32620.79	2.5	391.27	34967.2	1.1
2011	939.97	39959.82	2.4	417.99	42974.87	1
2012	1369.68	46488.08	2.9	652.05	50735.59	1.3
2013	1927.69	59718.2	3.2	986.93	58797.73	1.7
2014	2630.15	68757.48	3.8	1426.56	67352.13	2.1
2015	3229.16	75606.66	4.3	1758.41	73881.6	2.4
2016	6116.07	81711.14	7.5	3498.14	78964.67	4.4
2017	7902.68	84767.05	2.3	4330.1	81161.97	5.3

**Table 1** depicts the trends of Gross NPAs and Net NPAs in absolute amount and in percentage to gross and net advances of a decade from 2008 to 2017 year ending March. The table depicts that as there is a rise in gross and net

advances from 2008 to 2017, the gross and net NPAs also raised but NPAs rise in increasing order than advances. And in 2016 the ratio of gross NPAs to gross advances was higher in the decade (7.5) but net NPAs was highest in 2017 (5.3).

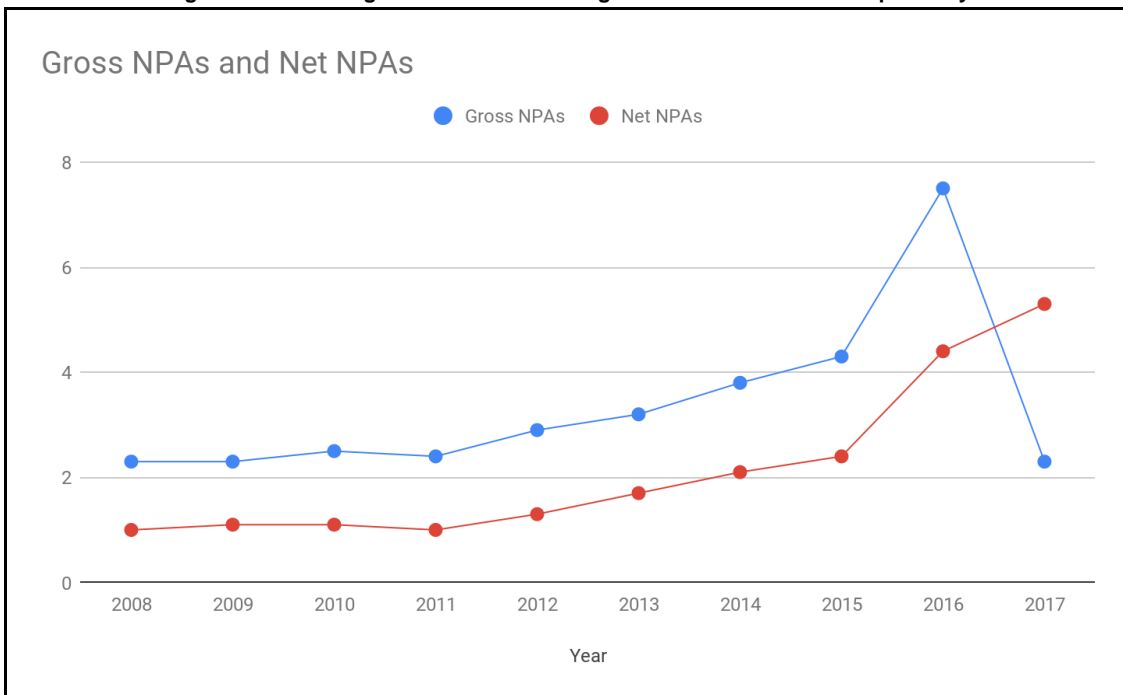
**Figure 1.1** Trends of gross NPAs and Net NPAs (amount in billion Rupees)



**Figure 1.1** depicts the trend of gross and net NPAs in absolute amount. X-axis represents year from 2008 to 2017 and Y-axis represents amount in billion rupees. The gross and

net NPAs start rising from 2011 and gross NPAs was higher than net NPAs.

**Figure 1.2** Trend of gross and net NPAs to gross and net advances respectively



**Figure 1.2** depicts the ratio of gross NPAs to gross advances and net NPAs to net advances. X-axis represents year and Y-axis represents ratio or percentage. The ratio of

gross NPAs to gross advances was highest in 2016 and then declined to the level of 2008 and 2009 year whereas as net NPAs was highest in 2017 with an increasing trend.

• Trends of recovery through various channels in Indian Scheduled Commercial banks.

Table 2 Showing NPAs recovered through Lok Adalats ( amount in crore)

Item	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. Of cases Referred	186535	548308	778833	616018	476073	840691	1636957	2958313	4456634	2152895
Amount Involved	2142	4023	7235	5254	1700	6600	23200	31000	72000	105800
Amount Recovered	176	96	112	151	200	400	1400	1000	3200	3800
% of Amount Recovered	8.2	5.4	1.55	2.87	11.8	6.1	6.03	3.22	4.44	3.59

Figure 2 Trends of NPA amount involved and recovered through Lok Adalats

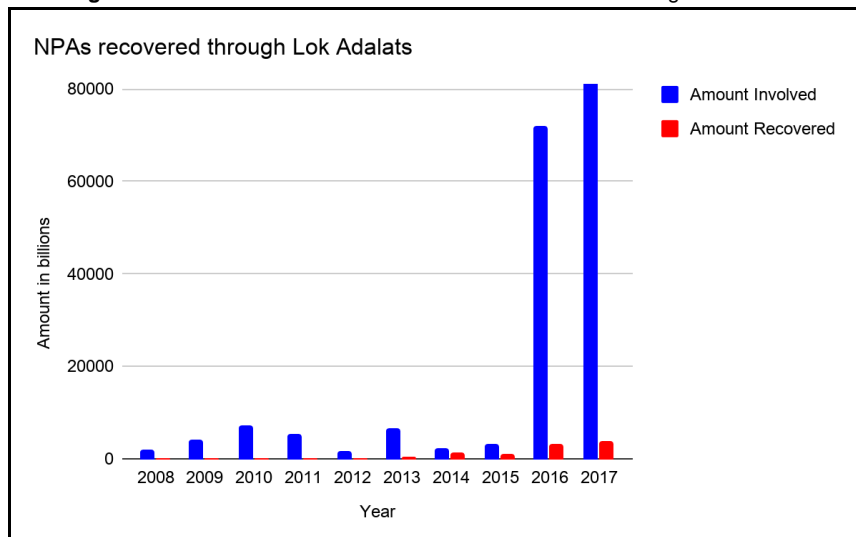


Table 2 and figure 2 depicts the NPAs amount recovered through the channel of lok adalats . Though there was decreased in the number of cases referred to lok adalats but

the amount involved and amount recovered was highest in the year 2017. The percentage of amount recovered to amount involved was highest in 2012 (11.8) and lowest in 2010 (1.55).

Table 3 NPAs of SCBs recovered through Debt Recovery Tribunals (DRTs) (amount in billion)

Item	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. Of cases referred	3728	2004	6019	12872	13365	13408	28258	22004	24537	28902
Amount involved	5819	4130	9797	14092	24100	31000	55300	60400	69300	67100
Amount recovered	3020	3348	3133	3930	4100	4400	5300	4200	6400	16400
% of amount recovered	51.9	81.1	32	27.89	17	14.1	9.5	6.95	9.23	24.44

Figure 3: Trends of NPA amount involved and recovered through DRTs

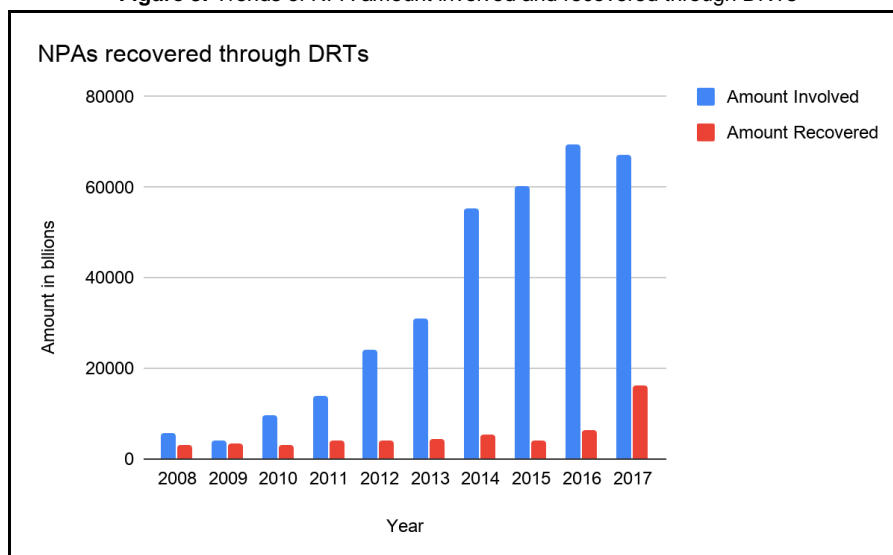


Table 3 and figure 3 depicts the NPAs amount recovered through the channel of Debt Recovery Tribunals ( DRTs). The amount recovered was highest in 2017 but the % of the amount

recovered to the amount involved was highest in the year 2009 whereas was lowest in 2015 though the amount recovered in 2015 was higher than 2009.

**Table 4 NPAs of SCBs recovered through SARFAESI Act ( amount in billion)**

Item	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. Of cases referred	83942	61760	78366	118642	140991	190537	194707	173582	173582	80076
Amount involved	7263	12067	14249	30604	35300	68100	94600	156800	80100	113100
Amount recovered	4429	3982	4269	11561	10100	18500	25300	25700	13200	7800
% of amount recovered	61	33	30	37.78	28.6	27.1	25.8	17.53	16.47	6.89

**Figure 4: Trends of NPAs amount involved and recovered through SARFAESI Act**

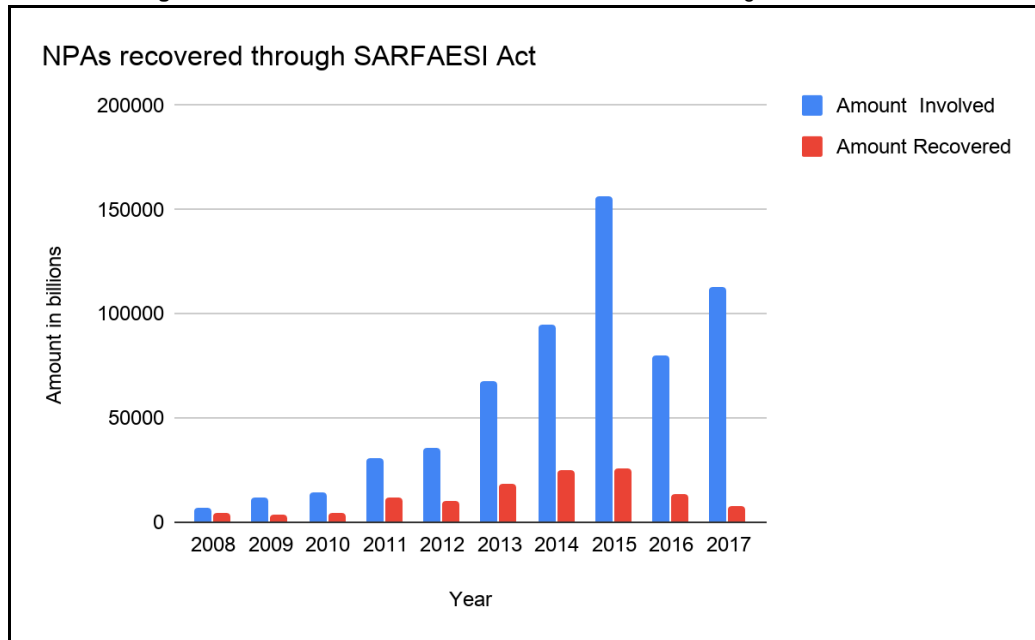


Table 4 and Figure 4 shows the NPAs amount recovered through the channel of SARFAESI Act. The amount recovered was highest in 2015 but the % of the amount recovered to the

amount involved was highest in 2008 and lowest in 2017 though amount recovered and amount involved is lowest in 2008 as compared to 2017.

**Figure 5 NPAs recovered through various channels. (amount in Rupees crore)**

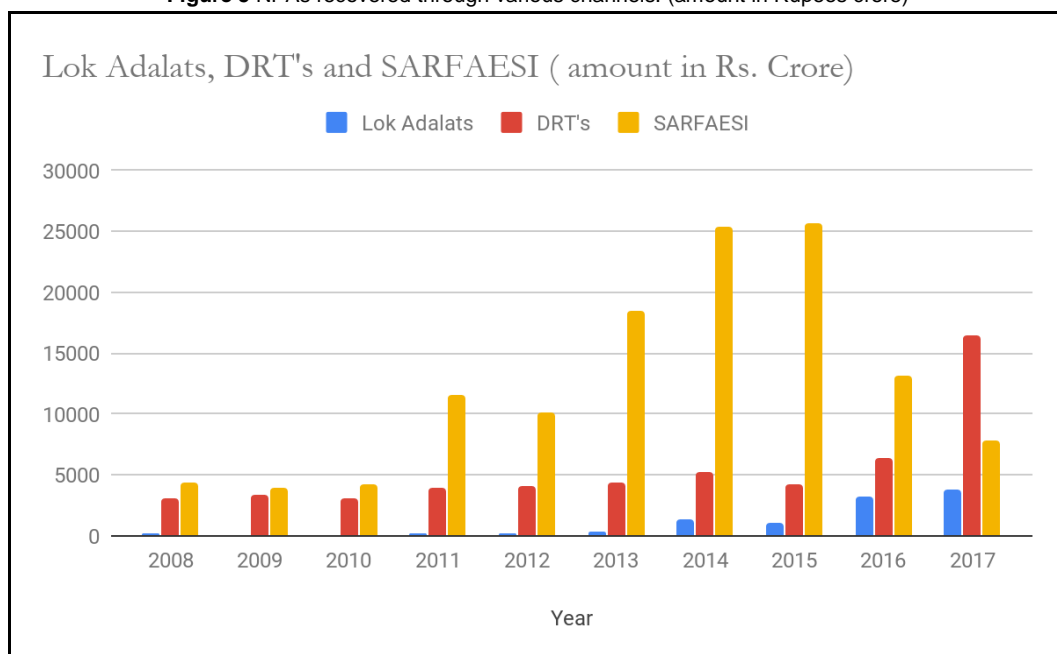


Figure 5 depicts the trend of recovery channels of NPAs. X-axis represents year from 2008 to 2017 and Y-axis represents amount in Rupees crore. From the figure it can be depicted that the NPAs amount recovered through the channel of SARFAESI Act was higher though it shows declined from 2016 and was lower than DRTs in 2017.

**9. Impact of NPAs**

- The banking sectors ability to boost credit growth is limited by NPA.
- It impacts the profitability of the banks.

**10. Causes of NPAs**

Internal factors	External factors	Other factors
• inappropriate lending practices	• change in government policies	• willful defaults
✓ deficiencies in management	• political interference	• improper credit assessment
✓ absence of regular monitoring	• environment imbalance	• incapability of staff
✓ lack of technology	• weak recovery tribunals	• lack of infrastructure
✓ corruption practices	• fraud by customers	• lack of government support

**11. Findings**

- Gross NPAs of scheduled commercial banks which was 566.06 billion in the year 2008 increased to 7902.68 billion in the year 2017.
- Net NPAs of scheduled commercial banks which was 247.30 billion in the year 2008 increased to 4330.10 billion in the year 2017.
- The percentage of gross NPAs to gross advances was 2.3% in 2008 and 2017 and was highest 7.5% in 2016.
- The percentage of Net NPAs to net advances was lowest 1.0% in 2008 and 2011 but shows increase from 2015 and was highest at 5.3% in 2017.
- The number of cases referred in Lok Adalats in 2008 was 186535 whereas in 2017 was 2152895 and amount recovered in 2008 was 176 crore whereas in 2017 was 3800 crore.
- The percentage of amount recovered to amount involved was highest in 2012 (11.8%) and lowest in 2010 was 1.55%.
- The number of cases referred in DRTs. in 2008 was 3728 whereas in 2017 was 28902 and amount recovered in 2008 was 3020 crore whereas in 2017 was 16400 crore.
- The percentage of amount recovered to amount involved was highest in 2009 (81.1%) and lowest in 2015 was 6.95%.
- The number of cases referred in SARFAESI Act in 2008 was 83942 whereas in 2017 was 80076 and amount recovered in 2008 was 4429 crore whereas in 2017 was 7800 crore.
- The percentage of amount recovered to amount involved was highest 61.0% in the year 2008 and was lowest 6.89% in 2017.

- It will badly affect the equity value and goodwill of banks.
- NPAs block the capital of bank for maintaining capital adequacy.
- Banks have to incur additional cost for recovery NPAs.
- It affects the return on investment of banks by reducing earning capacity of assets.

- The major impact of NPAs is on banks lending capacity and profitability.

**12. Suggestions**

- Banks should improve credit collection mechanism.
- With the help of proper and effective quality management banks can reduce NPAs.
- Need for proper check and record on borrowers.
- Emphasize on training to the staff.
- Adoption of preventive and curative measures.
- Banks must establish efficient recovery channels and there should be a commitment to recovery.
- Proper planning and technical support will be a great approach.
- Government and the Reserve Bank of India should issue new policies and guidelines.
- Adequate networking and linkages between banks will help in identifying the frauds.
- By improving the process of project evaluation can also helps in identifying losses.

**13. Limitation of the study**

- The main limitation is that the study is based only on Scheduled Commercial Banks.
- The study is based on available data on RBI upto 2017 no present change in NPAs are considered.
- The time period taken is only a decade between 2008 to 2017 only.
- The reason why the percentage of gross NPAs to gross advances or Net NPAs to Net advances and high or low recovery in one or other years is not identified, hence it can be used for further research.

## 14. Conclusion

Non performing assets curb the profitability and lending of banks and affect the health of the economy. many measures are taken by the finance ministry and guidelines are issued by the Reserve Bank of India from time to time. NPAs creates a vicious cycle which affects the banking sector therefore needs

to be managed strategically to overcome the negative effects of NPAs on the banking sector and on the economy because of the failure of which may lead to the global crisis. The banks in India have experienced a change in borrowers which also give importance to the management of NPAs for good asset quality.

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