

# Problems associated with Non-performing Assets in Indian Commercial banks

<sup>1</sup>Mrs. Rajwinder Kaur and <sup>2</sup>Dr. Rakhee Dewan

<sup>1</sup>Research scholar PTU, Kapurthala (India)

<sup>2</sup>Assistant Professor Gian Jyoti Institute of Management and Technology, Mohali (India)

---

## ARTICLE DETAILS

### Article History

Published Online: 10 October 2018

### Keywords

Non-Performing Assets, Commercial banks.

---

## ABSTRACT

Financial division of India has been confronting significant issues of elevating non-performing assets. The degree of non-performing assets directly affects benefit of banks. It is one of the significant worries for planned business banks in India. Non-performing assets are the mirror presentation of execution of the banks. A significant level of non-performing assets proposed high likelihood of countless credit defaults that influence the productivity and total assets of banks. Non-performing assets influence the liquidity and benefit, notwithstanding presenting danger on nature of advantage and endurance of banks. The issue of non-performing assets isn't just influencing the banks yet in addition the entire economy. Truth be told elevated level of non-performing assets in Indian banks is only an impression of the condition of wellbeing of the business and exchange. It is important to trim down non-performing assets to improve the money related wellbeing in the financial framework. This study focused on the degree of non-performing assets, the status and pattern of non-performing assets of commercial banks. The elements adding to non-performing assets, explanations behind high effect of non-performing assets of banks in India and its recuperation.

---

## 1. Introduction

A significant danger that banking division is facing is the commonness of Non-Performing Assets (NPAs). The Non-Performing Assets (NPAs) issue is the most considerable issues that have shaken the whole financial industry in India like a tremor. Non-performing assets has developed like a malignant growth and has tainted each appendage of the financial framework. The entire economy is being influenced by the problem of non-performing assets of the banks. Its the prime obligation of the banks to provide credit services for monetary activities. Provisions of loans is commonly empowered as it has the impact of assets being moved from the framework to beneficial purposes, which ultimately lead to financial development of the country. Credit facilities also carries huge risk which emerges from the breakdown of the borrower. Non-recuperation of advances is a significant obstacle in the credit pattern.

In general term, a credit resource turns into a non-performing assets when it stops creating earnings like commission or premium or some other contribution for the bank for over 90 days. Non-performing assets generate when there is non reimbursement of portion of principal amount or interest on the advancement for a time of two quarters or more.

Non-performing assets are also termed as non-performing loans. This term is created by banks and financial institution, that an advances on which reimbursements or premium installments were not being made as per schedule. Advances given by the banks are termed as assets for the because the premium installments and the reimbursement of the main amount generates inflows of cash in the bank.

According to the Narasimham Committee Report (1991), " Non-performing assets are those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the

interest remains due for a period of four quarters (180 days) now it is 90 days, should be considered as NPA".

As per section 2 of the SARFAESI Act 2002, "Non-performing asset means an asset or account of a borrower which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset".

In 2017, India was at fifth position among the uppermost countries with the level of non-performing assets of 9.85 %. From the last ten years (2007-2017), there has been drastic hike in the level of non-performing assets of the banks, which is been the critical concern for the country.

## 2. Review of literature

Mohan et al (2017) examined the financial sector of India and financial patterns and structure of the non performing assets. They highlighted that the two sectors infrastructure and steel are the major areas of worry for the banking industry. They even referenced that standard loaning process and due steadiness would be major take off in the banking sector. They stated that headstrong defaulters hold the share of twenty one percent in the whole non-performing assets. They asserted that the obligation emergency and the recuperation of advance are the confronted by the major mechanical gatherings in India. They stated that the banks are under an extraordinary pressure over the recuperation of obligation from significant divisions of India.

Shardha et al (2016) examined the procedure and impact of SARFAESI act 2002. They even explored the act effect in retrieving of the non performing assets by the banks in public sector. They stated that with the alteration of the act had made the recuperations of non-performing assets simpler for the banks of public sector.

Gupta et al (2016) asserted that worldwide monetary stoppage and its effect on the economy of India was the essential explanation behind ascending of the non-performing assets in the banking sector.

**Kumar (2013)** explored the non-performing assets of banks of foreign and private sector. The researcher stated that non-performing assets has become the huge disturbance and cerebral pain for the financial system in India. The researcher also asserted that the performance of commercial banks are declining with such a fast fleet because of the level of non-performing assets elevation.

**Selvarajan et al (2013)** explored priority sector management of non-performing assets. They highlighted Indian bank and banks of public sector. They asserted that the development of banks loaning by banks of public sector is lesser to the priority sector as compare to Indian banks. They concluded that Indian bank failed more in controlling in non-performing assets as compare to public sector banks.

**Singh (2013)** focused on the retrieval of non-performing assets of commercial banks of India. The researcher asserted that the cause of the escalation of non-performing assets is the arrangement of credit hazard management of the commercial banks. The researcher also affirmed that there is a need of satisfactory preventive measures in fixing pre-endorsement evaluation duty and a viable post-payment supervision for the loan sanctioning in the banks. The researcher also suggested that banks must ceaselessly screen advances so that they can recognise the accounts that may turn to become non-performing.

**Chatterjee et al (2012)** in their research paper examined the banks strategies on the management of non-performing assets. They stated that banks need to scrutinize the purpose of advances properly before sanctioning of the credit required by the borrower. They even suggested that banks must properly check the distinguishing proof of the underwriter whether the he/she is in the position of returning the funds in case of default.

**Rai (2012)** examined the execution of non-performing assets of commercial banks of India. They asserted that especially borrowers from the corporate world in the wake of defaulting consistently never had the dread of bank making a move to recuperate their levy. They stated that the reason for poor performance of commercial banks in the retrieval of loan advances was no legitimate structure to defend the genuine enthusiasm of banks.

**Balasubramaniam (2001)** examined the degree of non-performing assets of banks. The researcher stated that the degree of non-performing assets has enhanced a lot in the last ten years. The researcher even asserted that banks are making huge efforts to reduce the degree of non-performing assets. The researcher suggested that banks accomplished the target of reducing the degree of non-performing assets by great credit examination methods, compelling interior control frameworks alongside their endeavours to improve resource quality in their monetary records.

### 3. Gap in the Literature

The various parts of research specialists work has been identified and utilized for the examination on the research topic, however enormous time hole has been existing for the thorough research on quality parts of non-performing assets. The vast majority of the exploration and studies has been done on causes, effect and the executives parts of non-performing assets.

### 4. Statement of the problem

Commercial banks performance can get judged through its degree of non-performing assets. An elevated level of non-performing assets assert countless credit defaults that influence the gainfulness and total assets of banks and furthermore dissolves the estimation of the advantage. High degree of non-performing assets stretches on the necessities of arrangements, which lessens the general benefits and debilitate structure. The issue of non-performing assets of banks has been one of the major concern for the budgetary arrangement of India. Whole economy is influenced by the issue of non-performing assets not only the banking sector. This examination is just an effort to understand the extent of non-performing assets and significant reasons for a record turning out to be non-performing in commercial banks.

### 5. Objectives of the Study

The main objective of the study is to understand the degree of non-performing assets of commercial banks of India and its effect on the image and execution of banks. The study also aims to make some proper recommendations to avoid and oversee existing non-performing assets of the commercial banks of India.

### 6. Limitation of the study

Some of the main limitations of the study are:

- The study is restricted to the non-performing assets of commercial banks of India for the period of last 10 years from 2007-2017.
- Distinguishing of non-performing assets is through Reserve Bank of India publications only.
- The examination is done on the present condition without anticipating future improvements in the non-performing assets.

### 7. Scope of the Study

The extension of the study that it may help the legislature in making and executing new systems to control non-performing assets. The study recommends measures for the banks to evade future non-performing assets and decline the existing degree of non-performing assets.

### 8. Research Methodology

The study focused on the non-performing assets of the commercial banks of India. Commercial banks include all the three main sections of banks private sector banks, public sector banks and foreign banks as per Reserve Bank of India Act, 1934 second schedule. Secondary data has been used for the study. The study focused on the understanding of non-performing assets. It also examined the patterns, status and effect of non-performing assets on the banking sector in last 10 years from 2007 to 2017. The study utilized the information from RBI yearly reports, World Bank, Magazines, Journals and other web sources.

### 9. Analysis of the data

In the financial statement of banks, advances made to clients are recorded as resources. The greatest hazard to a bank is when clients who take out credits quit making their instalments. Instead of the benefit, the non-payment halted

bank from creating extra source of earning as well as its guideline sum. The non-payment of advances is characterized as non-performing assets and even turns bad assets for the banks. A credit, where no installment is gotten considerably following 90 days, either towards head or premium is term as non-performing.

Reserve Bank of India has stated that if for a time of over 90 days, the premium or portion sum is late then that advance record can be named as a non-performing asset. Where as in case of Agriculture/Farm Loans, non-performing assets is characterized as though the advance isn't paid for two yield seasons. In India, public sector banks represent almost 66 % of the total banking assets and also in regards to awful advances public sector is highest about 82%.

Table 1: BROAD SECTOR-WISE GNPA RATIO

Sectors	2016	2017
Agricultural	6.4	6.9
Industry	19.3	23.9
Service	5.1	6.4

The above table1 depicts that gross non-performing assets ratio one the broad term as per three main sectors of the country. The table illustrate that industrial sector accounts highest non-performing assets of the commercial banks of the India. The circumstance got genuine with the significant deferral in natural licenses, instability in costs of crude materials and a lack of supply, influencing the infrastructural division in the corporate world.

As the result shows the non performing assets in the corporate division are higher as compare to the agricultural sector. It is accepted that with financial development backing off and pace of enthusiasm going up pointedly, industry have been thinking that its hard to reimburse credits, and it has indicated elevation of non-performing assets.

Table 2: Commercial banks : Gross Advances and Gross NPA

Year	Gross Advances	Gross NPA	GNPA % age
2007-08	2503431	56606	2.2
2008-09	3024652	69954	2.3
2009-10	3262079	81718	2.5
2010-11	3995982	93997	2.4
2011-12	4648808	136968	2.9
2012-13	5971820	192769	3.2
2013-14	6875748	263015	3.8

2014-15	7560666	322916	4.3
2015-16	8171114	611607	7.5
2016-17	8476705	791791	9.3

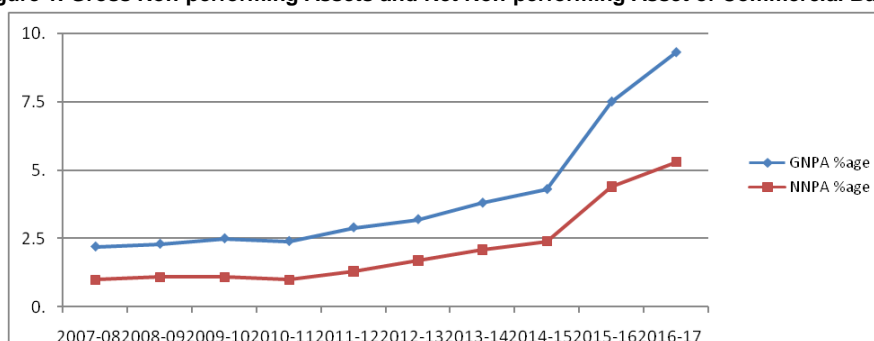
The above table portrays the last ten years 2007-08 to 2016-17 measure of gross advances, gross non-performing assets and the level of gross non-performing assets. The measure of advances in the last ten years has elevated from Rs 2503431 (2007-08) to Rs 8476705 crores (2016-17). Even the measure of gross non-performing assets has expanded from Rs 56606 crores 2007-08 to Rs. 791791 crores in 2016-17. Additionally, non-performing assets rate is likewise indicating the huge rising pattern from 2.2 in 2007 to 9.3 in 2017. But in the middle of ten years, 2010-11, there was a slight decrease in gross non-performing assets percentage as compare to 2009-10 from 2.5% to 2.4%.

Table 3 : Commercial banks : Net Advances and Net Non-Performing Assets

Year	Net Advances	NNPA	NNPA %age
2007-08	2476936	24730	1
2008-09	2999924	31564	1.1
2009-10	3496720	39127	1.1
2010-11	4297487	41799	1
2011-12	5073559	65205	1.3
2012-13	5879773	98693	1.7
2013-14	6735213	142656	2.1
2014-15	7388160	175841	2.4
2015-16	7896467	349814	4.4
2016-17	8116109	433121	5.3

The above table portrays the last ten years 2007-08 to 2016-17 measure of Net Advances, Net Non-performing Assets and the level of Net Non-performing Assets. The measure of net advances in the last ten years has elevated from Rs 2476936 crores (2007-08) to Rs 8116109 crores (2016-17). Even the measure of netnon-performing assets has expanded from Rs 24730 crores 2007-08 to Rs. 433121 crores in 2016-17. Additionally, non-performing assets rate is likewise indicating the huge rising pattern from 1 in 2007 to 5.3 in 2017. There was a slight fall in the non-performing assets rate in 2010-11, but after that year again the non-performing assets rate increases and by 2017 it reaches to 5.3%.

Figure 1. Gross Non-performing Assets and Net Non-performing Asset of Commercial Banks.



The above figure depicts the pattern of gross non-performing assets and net non-performing assets NPA rates for the last ten years from 2007-08 till 2016-17. The above figure x-axis illustrates the years and y axis illustrates the level of non-performing assets. From the result it can be portrayed that the gross non-performing assets percentage is increasing at higher rate as compare to net non-performing assets rate in the last years. From the year 2007-08 till 2013-14 the pattern of both gross non-performing assets and net non-performing assets were almost same but after 2014 the rate of gross non-performing assets is elevating more as compare to the net non-performing assets.

### 10. Effect of Non Performing Assets

Non-performing assets effects gainfulness and execution of banks. The most remarkable effect of non-performing assets is change in broker's opinions which may block credit extension to genuine reason of investment. Banks may slant towards more hazard free ventures to stay away from and diminish danger which is non-favourable for the development of economy. In case the non-performing assets were not managed than it would led to the following situations:

1. Decrease the income source and gravely influence the return on the investment.
2. The expenses regarding capital will elevate.
3. Capital Adequacy ratio and profitability of the banks will also get effected due to higher non-performing assets.
4. Higher degree of non-performing assets will diminish the share price even underneath their book an incentive in the capital market.
5. Higher degree of non-performing assets influence the hazard confronting capacity of banks.

### 11. Recommendations for management of NPAs

Reserve Bank of India should reconsider existing credit evaluations and checking frameworks. Banks should

enhanced and fortify the credit recuperation strategies. Credit evaluation and post – advance observing are urgent advances which need to focus by all the banks. There must be normal catch up with the clients and it is the obligation of investor to guarantee that there is no preoccupation of assets. This procedure can be taken up at normal interims. Individual visits ought to be made after approval and disbursal of credit and further close checking of the activities of the records of obtained units ought to be done occasionally. Administrators under credit observing and recuperation office ought to have dynamism in their work. Helping the borrowers in building up his/her pioneering expertise won't just set up a decent connection between the borrowers yet additionally help the investors to monitor their assets. RBI may start activities against defaulters like, distributing names of defaulters in News papers, broadcasting media, which is useful to different banks and budgetary establishments.

### 12. Conclusion

In India, non-performing assets have consistently been a major issue for the banks. It is not only an issue for the banks but also for the economy. The cash secured up non-performing assets directly affects productivity of the bank as banks are exceptionally dependent on the earnings from the advances. The level of non-performing assets of banks in India is still higher when contrasted with the foreign banks. It isn't at all conceivable to have zero non-performing assets. The bank the executives should accelerate the recuperation procedure. The issue of recuperation isn't with little borrowers yet with enormous borrowers and a severe arrangement ought to be pursued for taking care of this issue. The legislature ought to likewise make more arrangements for quicker settlement of pending cases and furthermore it ought to decrease the obligatory loaning to need part as this is the serious issue making zone. So the issue of non-performing assets needs genuine endeavors otherwise it will continue murdering the productivity of banks.

### References

1. Bardia S.C., "Credit Efficiency in Banks: A Comparative Study", The ICFAI University Press, August 2004, p.no – 60-67, 2004.
2. Balasubramaniam, C.S., "Non-performing assets and profitability of commercial banks in India: assessment and emerging issues." *Abhinav Journal*, Vol.1, Issue no.7, ISSN 2277-1166
3. Bhatia, "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment", *ICFAI Journal of Bank Management*, Vol. 6, No. 3, pp. 7-28, 2007.
4. Chatterjee, C. and Mukherjee, J. and Das, R., "Management of nonperforming assets - a current scenario", *International Journal of Social Science & Interdisciplinary Research*, Vol.1 Issue 11, 2012.
5. Chaudhary, K. & Sharma, M., "Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study", *International Journal of Innovation, Management and Technology*, Vol. 2, No. 3, 2011.
6. Das, S. & Bose, S.K., "Risk Modeling – A Markovian Approach", *The Alternative*, Vol. IV, No.1, PP 22-27, 2005.
7. Gupta, B., "A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks", *SIT Journal of Management*, Vol. 2, No. 3, PP. 175-189, 2012.
8. Kanika Goyal, "Empirical Study of Non-Performing Assets Management of Indian Public Sector Banks", *APJRBM Volume 1, Issue 1, October 2010*.
9. Kaur, K. & Singh, B., "Non-performing assets of public and private sector banks A comparative study", *South Asian Journal of Marketing and Management Research*, Vol. 1, Issue 3, 2011.
10. Khanna, P., "Managing nonperforming assets in commercial banks", *Gian Jyoti E-Journal*, Volume 1, Issue 3 (Apr – Jun 2012) ISSN 2250-348X.
11. Kumar, P.T., "A Comparative study of NPA of Old Private Sector Banks and Foreign Banks", *Research Journal of Management Sciences*, ISSN 2319-1171 Vol. 2(7), 38-40, 2013. Singh, J., "Recovery of NPAs in Indian commercial banks.", *International Journal Of Transformation in Business*, Vol. 2, Issue 3, 2013.
12. Murthy C.R.K., "Branch Level Management of Non Performing Assets: Part III – Effective Management of Civil

- Litigation” – Vinimaya, Vol.XXI, No.2, 2000 – 2001 p.no: 5-11.
13. Prasad, G.V.B. & Veena, D., “NPAs Reduction Strategies for Commercial Banks in India”, IJMBS Vol. 1, Issue 3, 2011.
  14. Rai, K., “Study on performance of NPAs of Indian commercial banks”, Asian Journal Of Research in Banking and finance, Vol. 2, Issue 12, 2012.
  15. Rajendra Kakker. “NPA Management – Role of Asset Reconstruction Companies” – IBA Bulletin– Volume 4 – p.no: 11- 14, 2004
  16. Rajaraman Indira, Garima Vasishtha, “Non-performing Loans of PSU Banks- Some Panel Results”, Economic and Political Weekly, Vol.27, pp.429-435, 2002.
  17. Satyanarayana, K. & Subrahmanyam, G. “Anatomy of NPAs of Commercial Banks.” Applied Finance, Volume 6, No.3, July, 2000, pp 14-26.
  18. Valasamma Antony, “Non Performing Assets – A menace to the Banking Industry.” Southern Economist, p.no. 20 – 23, January 2004.
  19. Vallabh, G., Mishra, S. and Bhatia, A., “Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment”, Icfai Journal of Bank Management, Vol. 6, No. 3, pp. 7-28, August 2007.
  20. Yadav, Sushma, “NPAs: Rising Trends and Preventive Measures in Indian Banking Sectors.”, International journal of advance research in computer science and management studies, Vol. 2, Issue 1, 2014. www.rbi.org.in