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CONTENTS

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OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
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A STUDY OF NON PERFORMING ASSETS IN INDIAN PUBLIC SECTOR BANKS

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ABSTRACT

Banking sector plays a vital role in the economic development of a nation. The Indian banking sector has played a significant role in achieving the socio-economic objectives through deposit mobilization, mass branch networking, priority sector lending etc. But in the post liberalization era the Indian banking sector has been facing the reduced productivity, deteriorated asset quality and efficiency and increased cost structure. Among these short comings, the erosion of asset quality is considered as the biggest threat for the development of a sound and efficient banking sector. The deteriorated asset quality affects the profitability, intermediation costs, liquidity, income generating capacity and overall functioning of banks. The reduction in asset quality results in accumulation of nonperforming assets (NPAs). Today the Indian banking sector is facing a serious problem of NPAs. The NPAs in public sector banks have been growing constantly year by year. To improve the efficiency and profitability of banks the NPAs need to be reduced and controlled. This paper highlights the causes for increasing NPAs, impact of NPAs on banks and the magnitude of NPAs in the Indian public sector banks.

KEYWORDS

public sector banks, NPAs, Gross NPAs and Net NPAs.

INTRODUCTION

A well developed financial system enables the efficient allocation of resources to various priority sectors like agriculture, SSIs, infrastructure development, micro credit, venture capital, housing loan etc. The banking sector being the part of the financial system plays a vital role in the economic development of a nation. The Indian banking sector has played a commendable role in achieving the socio-economic objectives. But in recent years, the rising level of NPAs is causing sleepless nights to the government and the banks. NPAs beyond a certain level are a cause of concern.

Lending is one of the primary functions of banks. Granting of credit especially to priority sector is generally encouraged because it results in the economic growth. However, lending is always associated with the credit risk which arises from the failure of borrowers. The non recovery of loans along with the interest results in creating bad loans which affects the profitability of banks.

CONCEPT OF NON PERFORMING ASSET

NPA refers to non-performing assets and the lenders consider it as those assets that are not fetching benefits to them. The word is not new to the bankers. It is regular but disguised loan asset. An asset becomes nonperforming when it ceases to generate income for the bank. Prior to 31st March, 2004 a nonperforming asset was defined as a credit facility in respect of which the interest or installment of principal has remained past due for a specified period of time which was four quarters. Due to the improvements in payment and settlement system, recovery climate, up gradation of technology in the banking system, etc., it has been decided to dispense with past due concept, with effect from March 31st 2004.

Accordingly, as from the date, a non-performing asset is an advance where:

- Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of term loans,
- The account remains out of order for a period or more than 90 days, in respect of an overdraft or cash credit,
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and /or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose,
- Any amount to be received remains overdue for a period of more than 90 days.

NPA CLASSIFICATION

NPA have been classified into following four types:

1. **Standard Assets**: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense.
2. **Sub-Standard Assets**: All those assets (loans and advances) which are considered as non-performing for a period of 12 months
3. **Doubtful Assets**: All those assets which are considered as non-performing for period of more than 12 months
4. **Loss Assets**: All those assets which cannot be recovered. These assets are identified by the Central Bank or by the Auditors.

TYPES OF NPA

GROSS NPA

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

NET NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision. Net NPA shows the actual burden of banks**.** Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to make certain provisions against the NPAs according to the central bank guidelines.

It can be calculated by following:

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

NEED FOR THE STUDY

A well built and functioning banking sector is significant for economy. The failure of the banking sector may have an unfavourable effect on other related sectors. A banker shall be very cautious in lending because banker is not lending money out of his own capital. A major portion of the money lent comes from the deposits accepted from the public and government share. At present the rising level of NPAs in the public sector banks is a matter of serious economic concern. Hence, there is a need for the study of NPAs in public sector banks.

OBJECTIVES OF THE STUDY

The objectives of this study are:

1. To study the concept of NPAs.
2. To examine the causes and impact of NPAs on banks.
3. To highlight the NPA status of public sector banks during the last decade and
4. To suggest measures to avoid the future NPAs

RESEARCH METHODOLOGY

RESEARCH DESIGN

The research design used to carry out this study is descriptive research because it deals with statistical data and the main aim of the study is to describe the causes for the growing NPAs and its impact on the banking sector.

SOURCES OF DATA

The data collected is secondary in nature. The sources of data for the study include the newspapers, journals, magazines, published and unpublished research papers, reports of RBI and related web sites.

STATUS OF NPAS OF PUBLIC SECTOR BANKS

The status of NPAs of public sector banks in India in the last decade as on 31st March is as follows:

TABLE 1

Years	Total amount of NPAs (Amount in Rs billion)	Percentage change in NPAs
2007	383.05	-----
2008	396.00	3.38
2009	440.32	11.19
2010	572.93	30.12
2011	710.80	24.06
2012	1124.89	58.26
2013	1558.90	38.58
2014	2184.33	40.12
2015	2670.00	22.23
2016	4760.00	70.25

Source: RBI Report on "Trend and progress of Banking in India"

CAUSES OF NPA

The various causes of NPAs are:

1. The target oriented approach of the banks in lending is deteriorating the qualitative aspect of lending and wilful defaults.
2. Ineffective supervision of loan accounts.
3. Lack of technical and managerial expertise on the part of borrowers.
4. Directed loan system under which banks are required to supply 40 percent of their credit to priority sectors.
5. Lack of strict prudential norms.
6. The legal impediments and time consuming nature of asset disposal proposal.
7. Manipulation of debtors using political influence.
8. Postponement of problem in order to show higher earnings.
9. Inability of the corporate sector to raise capital through the issue of equity or other debt instruments from the capital market.
10. Limited liability provisions come in the way of recovery of loans by auctioning personal property.
11. Recession world over has been impacting consumer and business demand and this has been causing losses to the industry. Due to the recession, repayment of some loans has become uncertain.

IMPACT OF NPA ON THE BANKS

The NPAs causes the following impact on the banks:

1. The NPAs reduces the profitability of the banks.
2. It affects the capital adequacy ratio of the banks.
3. It affects the return on assets.
4. Decreased profit leads to lack of adequate cash in hand requiring banks to borrow money even for a shortest period of time. This not only affects the liquidity position of the bank but also results in additional cost to the bank.
5. Now a days, banks are employing special persons to deal with the recovery of loans and handle NPAs. This results in additional cost to the bank.
6. The NPAs of a bank creates a negative impact in the minds of the people resulting in the loss of goodwill and brand image.

SUGGESTIONS

The following suggestions are offered to reduce and avoid future NPAs:

1. The first and the foremost measure to be taken by the bank is to study the credibility of the customers before granting credit.
2. The banks should prepare a loan recovery policy, create special recovery cells and fix targets of recovery in a time bound manner.
3. The banks must make special efforts to recover the written off accounts as these are impacting the income of the banks.
4. The government should quickly implement the bankruptcy law and initiate action for recovery of bad loans.
5. The individuals, partnership firms and companies which have failed to repay the loans should be declared bankrupt and their assets must be attached and auctioned to recover loans.
6. The government should stipulate a condition that public sector banks in order to be eligible to get the support from bank recapitalization fund should first initiate action to recover bad loans.
7. The RBI should allow the declaration of the names of the big the willful defaulters.
8. Lastly, the banks, centre and enforcement agencies should take stern action regarding the recovery of loans.

CONCLUSION

In view of the rising NPAs in the public sector banks and the RBIs financial stability report which states that under the baseline scenario, the GNPA ratio for public sector banks may go up to 10.1 per cent by march 2017, it is very much essential to bring these banks out of the crisis and to take economy forward on the path of faster economic growth. The centre, courts and enforcement agencies should take stern action regarding the recovery of loans. A promising step has been taken recently by the RBI which has submitted the list of defaulters of above Rs. 500 crore to the Supreme Court in a sealed cover.

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Thanking you profoundly

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