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OBJECTIVES
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NON PERFORMING ASSETS AND PROFITABILITY OF COMMERCIAL BANKS IN INDIA

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ABSTRACT

"Non performing Assets" and profitability of commercial banks in India. A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. According to RBI, terms loans on which interest and installment of principal remain overdue for a period of more than 90 days form the end of a particular quarter is called a non performing asset Indian banking industry is seriously affected by non-performing assets.

KEYWORDS

NPA, commercial banks in India.

INTRODUCTION

For a bank the loans given by the bank in considered as its assets. So if the principle or interest or both the components of a loan is not being serviced to the lender (bank) then it could be considered as Non Performing asset (NPA).

According to Reserve Bank of India (RBI) an asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. The assets of the banks which don't perform that is don't bring any return are called non-performing assets or bad loans.

Performance in terms of profitability is a benchmark of any business enterprise including the banking industry. Asset means asset or account of borrower, which has been classified by a bank or financial institution as

1. Substandard Asset: - Asset which has remained NPA for a period less than or equal to 12 months.
2. Doubtful Asset: - An Asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
3. Loss Asset: - As per RBI, "loss asset if considered uncollectible and of such little value that its continuance as a bank able asset is not warranted although these may be some salvage or recovery value.

OBJECTIVES OF THE STUDY

1. To study the status of Non performing Assets of Indian Scheduled Commercial Banks in India.
2. To study the impact of NPAs on Banks
3. To know the recovery of NPAs through various channels.
4. To make appropriate suggestions to avoid furture NPAs and to manage existing NPA's in Banks

RESEARCH METHODOLOGY

The different aspects of literature related to Non performing Assets of researchers over the year but there is a huge time gap existing for the comprehensive research on quality aspects of Non performing Assets. Most of the research and studies are being done causes, impact and management Aspects of NPA's.

SOURCES OF DATA

The data collected is mainly secondary in nature. The source of data for this Research Paper include the literature published by Indian Bank and The Reserve Bank of India Various magazines Journals, Books dealing with the current banking scenario and research papers.

For our study, we have considered Non Performing Assets in Scheduled Commercial Banks which includes public sector banks, Private sector banks and foreign banks which are listed in the second schedule of the Reserve Bank of India Act1934. The study is based on secondary data. The paper discusses the conceptual framework of NPA and it also highlights the trends status and Impact of NPA on scheduled commercial banks.

Banking industry is taken for the study where aggregate data related to NPA for Public sector Banks, Private Sector Banks is used.

BREAKING DOWN NON- PERFORMING ASSET- NPA

Banks usually categorize loans as Non- Performing after 90 days of nonpayment of interest or principal, which can occur during the term of the loan or for failure to pay the principal due at maturity. For example, if a company with a $10 million loan with interest-only payment of $50,000 per month fails to make payment for three consecutive months, the lender may be required to categorize the loan as Non-Performing to meet regulatory requirements. A loan can also be categorized as Non-Performing if a company makes all interest payments but cannot repay the principal at maturity.

THE EFFECTS OF NPA

Carrying Non-Performing assets, referred to as Non-Performing loans on the balance sheet places three distinct burdens on lenders.

1. The Non-Payment of interest or principal reduces cash flow for the lender, which can disrupt budgets and decrease earnings.
2. Loan loss provisions, which are set aside to cover potential losses, reduces the capital available to provide subsequent loans.
3. Once the actual losses from defaulted loans from defaulted loans are determined, they are written off against earnings.

RECOVERY LOSSES

Lenders generally have four options to recoup some or all of the losses resulting from non-performing assets. When companies are struggling to service debt, lenders can take proactive steps to restructure loans to maintain cash flow and avoid classifying loans as non-performing when defaulted loans are collateralized by assets of borrower lenders can take possession of the collateral and self it to cover losses to the extent of its market value.

Lenders also convert bad loans into equity, which may appreciate to the point of full recovery of principal lost in the default loan. When bonds are converted to new equity shares the value of the original shares is usually wiped out. As a last resort, banks can sell bad debts at steep discounts to companies that secured in loan collections. Lenders sell defaulted loans that are not reused with collateral or when the other means of recovering losses are not cost effective. New NPA norms give more power to RBI to settle bad loans.

As per the new rules, under section 35AA- The central bank is entitled to issue directions to any banking company or banking companies to initiate insolvency resolution process in respect of a default under the provision of the provisions of the insolvency and Bankruptcy code. Another reform was made in section 35AB where the central bank from time to time, issue directions to the banking companies for resolution of stressed assets.

Although Finance Minster M.R. Arun Jaitley in the month of march 15, 2017 stated that Non-Performing assets are showing a declining trend in the last few quarters of FY 17, yet it continues to be one of the major problem in India. Gross NPAs which stood at Rs 15 Lakh-Crore as on March 2012 have increased by a whopping 415.38% at Rs 67 Lakh core as an September 2016.

Five ways the government and reserve bank of India can speed up recovery of Non-Performing assets (NPAs)

1. **Amendment in banking Law to give RBI more powers**:-The banking regulation act may be amended to give RBI more powers to monitor bank accounts of big defaulters. The amendment in the banking low well enable settling up of a committee to oversee companies that have been the biggest defaulters of loans. RBI wants stricter rules for joint lender's forum (JLF) and over sight committer (OC) to curb NPAs.
2. **Stringent NPA recovery rules**:-The government has over the years enacted and tweaked stringent rules to recover assets of defaulters. The securitization and reconstruction of financial assets and enforcement of security interest act or Sarfaesi Act 2002 was amended in 2016 as it took banks years to recover the assets. Experts have pointed out that NPA problem has to be tackled before the time a company starts defaulting. This needs a risk assessment by the lenders and reflagging the early signs of a possible default.
3. **RBI's loan restructuring schemes**:- RBI has over the part few decades come up with a number of schemes such as corporate debt restructuring (CDR), for Nation of Joint Lender's form (JLF), flexible structuring for long term project loans to infrastructure (or 5/25 scheme) strategic debt restructuring (SDR) scheme and sustainable structuring of stressed assets (S4A) to check the menace of NPAs.In many cases, the companies have failed to make profits and defaulted even after their loans were restructured.
4. **Present NPA scenario**:- According to the latest information collated by the government, stressed assets which includes both Non-Performing assets as well as restructured loans of banks stood at Rs. 9.64 Lakh-Crore on 31 December, 2016. In December, RBI's financial stability report said the gross Non-Performing advances (GNPAS) ratio of all banks increased to 9.1% by September 2016 from 7.8% in March 2016. The amount of stressed loans was setup at 12.3% of total loans given out by banks by September, up from 11.5% in March 2016. PSU banks are worst hit as their GNPA may increase to 12.5% by march 2017 and them to 12.9% in March 2018 from 11.8% in September 2016.
5. **Bank may need to take a hair cut**":- In the past few quarters, most of the banks especially splendors, have reported a sharp fall in profits as they set aside hefty amounts for losses on account of NPAs.

WHICH ERODED THEIR PROJECTS?

Given the gravity of the problem, the government may ask banks to go for more 'hair cut' or write offs for NPAs. The government and RBI may also come up with a one-time settlement scheme for top defaulters before initiating stringent steps against them.

The finance Minister and RBI are also considering setting up of a 'bad bank' to deal with the problem of Non-Performing loans, as it has been suggested by chief economic adviser Arvind Subramanian in the economic survey. Reserve bank deputy governor Viral Acharya has also floated the twin concept of Private Asset Management Company (PAMC) and national asset management company (NAMC) for resolution of stressed assets. With rule, changes and strict regulation banks may be asked to restructure about 50 large NPA accounts by December 2017.

INDIA's BIG BAD LOAN PROBLEMS: BANKS WITH HIGHEST NPA's

TABLE 1

NAME OF BANK	GROSS NPA	%	LOSS IN MARCH 2017	LOSS CORRESPONDING LAST QUARTER OF 2016
1. INDIAN OVERSEAS BANK	Rs.35,098.25 Crore	22.39	RS.646.66 Crore	Rs 936.19 Crore
2. IDBI BANK	Rs.44,752.59 Crore	21.25	RS.3199.76Crore	Rs 1735.81Crore
3. CENTERAL BANK	Rs.27251.33 Crore	17.81	RS.591.77Crore	Rs 898.04Crore
4. BANK OF INDIA	Rs.52044.52 Crore	13.22	RS.10.46Crore	Rs 35.87Crore
5. PUNJAB NATIONAL BANK	Rs.55370.45 Crore	12.53	RS.22415Crore	Rs 42252Crore
6. ORIENTAL BANK	Rs.22859.27 Crore	13.73	RS.1218.01Crore	Rs 21.62Crore
7. DENA BANK	Rs.12168.73 Crore	16.27	RS.575Crore	Rs 326Crore
8. CANARA BANK	Rs.34202.04 Crore	9.63	RS.2.14 Crore Billion Profit	Rs39.05 Crore Billion loss

TABLE 2: LOANS RETURNS OF PSU BANKS (RS. CRORE)

YEAR	WRITE OFF AMOUNT	COMBINED NET PROFIT
2012-13	27,231	45849
2013-14	34,409	31513
2014-15	49,018	30868
2015-16	57,586	20,003
2016-17	81,683	474

Source Finance Ministry & RBI

The NPA Accounts in RBI's second defaulter list CLEAN-UP LIST

Companies among RBI's second list of 28 defaulters

1) Anrak Aluminum
2) Asian Colour Coated Ispat
3) Bilt Graphic Paper Products
4) Castix Technologies
5) Costal Projects
6) East Coast Energy
7) IVRCL
8) JayaswalNeco Industries
9) Orchid Pharma.
10) SEL Manufacturing
11) Soma Enterprise
12) Uttam Galva Metallic
13) Uttam Galva steel
14) Videocon Industries
15) Videocon Telecom
16) Visa steel
17) ESSAR Projects
18) Jai Balaji Industries
19) Jai Prakash Associates
20) Monnet POWER

21) Nagar Oil Rifivery
22) Ruchi Soya industries
23) Wind World Indir

INDIA's BAD LOANS PROBLEM IS GETTING WORSE

Axis bank one of the country's major Private lenders. According to its latest results released on October 17 the Bank Earnings rose 35.5% year on year, yet its gross Non-Performing assets grew to Rs 27,402 crore in July September quarter from Rs. 22031 crore in April-June 2017. Two years Ago, its NPAS were only about Rs 4451 crore. The Bank's NPA ratio rose to 5.9% in July September from 5.03% in the preceding quarter. That is 5.9% of the total money lent by the bank is now bad debt.

INDIA's BAD LOANS

According to RBI just 12 companies are estimated to account for 25% of the total NPA, and have been identified for immediate bankruptcy proceedings. While there are 488 others which have been given six months time to restructure their debt or be dragged to National Company Law Tribunal (NCLT).

The companies identified by RBI for immediate bank ruptcy proceedings are:-

(1) Bhushan steel Ltd :- Bhushan steel, the largest manufacturer of auto grade steel in India, has a loan defaulter of RS 44,478 crore. The state Bank of India (SBI), the leadban of lthe consortium of lenders had moved the NCLT for Recovery of its loan. The NCLT has reserved its order on the pler.
(2) LancoInfratech Ltd :- LancoInfratech, Once listed among fastest growing in the world, has a loan default of Rs 44,364 crore. IDBI has already initiated the process under the Insolvency and Bankruptcy code against company's loan defaults.
(3) Essar Steel Ltd :-Essar Ltd, one of the biggest in India and abroad in the steel sector, has a loan default of Rs 37284 crore.
(4) Bhushan Power & Steel Ltd :- Bhushan Power and steel, a sister company of Bushan steel, also has a loan defaults of Rs. 37,248 crore. Bushan Power and steel was dragged to the NCLT by the Punjab National Bank. The NCLT has also reserved its order on the plea.
(5) Alok Industries :- Alok industries which is a Mumbai- based textile manufacturing company, has a loan default of Rs 22,075 crore. The NCLT, in July, admitted insolvency proceeding against the company file d by State Bank of India for recovery of Rs. 3,772 crore loan. Other lenders include Punjab National Bank, Bank of Baroda, IDBI Bank, Standard chartered Bank Etc.
(6) Amtek Auto Ltd:-Amtek Auto, one of the largest integrated component manufactures in India, has a loan default of Rs 14,074 crore. SBI had moved the NCLT for bankruptcy proceedings against the bank, which was admitted by the Chandigarh bench.
(7) Monnet Ispat and Energy Ltd :- Monnet Ispat and Energy, one of India' steel producers have a loan default foRs 12115 crore. The band ruptcy proceedings against the company was approved by NCLT in July.
(8) Electro steel steels Ltd :- Electro steel steels is an Indian water infrastructure company based in Khardah near Kolkats. The loan default by the company stands at Rs 10,273 crore. Consortium leader SBI had initialed insolvency proceedings, which was admitted by NCLT.
(9) Era Infra Engineering Ltd:- Era Infra Engineering, one of India's infrastructure companies has a loan default of Rs 10.065 crore. Union Bank has moved the NCLT against the company, but the tribunal reserved its order over jurisdiction issues. There are many winding up petitions pending in Delhi High court against the company, which has superior Jurisdiction over NCLT.
(10) Jaypee Infratech Ltd.:-Jaypee Infratech is a subsidiary of conglomerate Jaypee Group founded by Jai prakash Gaur. It has a loan defaults of Rs 9635 crore. In August, NCLT had admitted insolvency petition field by IDBI Bank, but the Supreme Court stayed the order after homebuyers filed petitions against the move. The company is now seeking to sell Yamuna. Express way to Raise Rs 25000 crore to compensate homebuyers.
(11) ABG Shipyard Ltd :- ABG shipyard, an Ahmedabad. Based ship building company, has a loan default of Rs 6953 crore. The company is one of the two companies among the 12 which has agreed to loan default and bank reptcy proceeding initialed by banks.
(12) Jyoti structures Ltd:-Jyoti structures a power transmission and distribution company has a loan default of Rs 5165 crore. The company become the first among the 12 companies to face the bank ruptcy proceedings. The petition for insolvency was filed by its lead lender SBI. Like ABG shipyard, Jyoti structures did not oppose the bankruptcy proceedings against it. The amount cited in the article are loan default by the companies and not bad loans. A loan become bad when an bank declares that it cannot recover the amount lent to a company. The RBI has estimated these 12 accounts about 25% of the gross NPA's.

CONCLUSION

Based on the above discussion, reports, observations, issues and perspectives on the performance of banking sector and financial stability of the economy, RBI set to dump its soft approach, well now play hardball over bad loans. Steps like assets quality review, restructuring and RBI's direction to refer companies to NCLT well potentially ease stressed assets situation for the banking system. The question is to ask in such a scenario is how big the actual problem is and what does it entail for banks? In such a scenario the RBI direction is referring companies to the National Companies Law Tribunal (NCLT) could push the NPA cleanup process into its end game.

With the provisioning requirement almost taken care of the time is now opportune for banks to aggressively get into restructuring mode.

The economy, global as well as Indian, is also an upstick, creating amenable environment for promoters two agree reconstructing terms. This is because promoters also now see the potential of an upside in case of restructuring works out. Assuming most cases will be referred to the NCLT by October 2017, we could expect most resolutions restructuring to be in place by June 2018.

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