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NPAs IN COMMERCIAL BANKS IN INDIA

Ram Kumar,
PGT, Wisdom World School, Kurukshetra
Singal.ram@gmail.com

Abstract: Banking and financial institutions play a pivotal role in the development of an economy especially in the mobilization and allocation of resources. The banks are lending funds as loans and advances to various sectors such as agriculture, industry, personal and housing and other to meet the productive use of these funds. In recent situations, the banks are facing the problems of Non-Performing Assets (NPAs) and the banks need to be very cautious in extending loans to the needy people, the present study compared the NPAs of commercial banks in India for the period 2000-2017. As both the sectors were experiencing high NPAs in the year 2000 which started falling with the coming years and continued to slope down for a decade. In case of the public sector banks, it again started to rise and that too the rise has been swift. In the private sector though the rise came in late and moreover it wasn't sharp at all. Foreign banks on the contrary are showing no pattern the foreign banks have highly unstable structure of NPAs.
Key words: NPAs, RBI

1.0 Introduction:

Any Country's development depends on its economic growth and economic growth depends on the financial system. Financial Institutions are the intermediaries which mobilize saving and facilitate allocation of funds from surplus units to deficit units in an effective and efficient manner. Banks play the role of financial intermediaries that transfers the fund from surplus to deficit units. Banks are considered as the backbone of country's economy. Banks play a very useful and dynamic role in the economic life of every state. Banks improve economic efficiency, banks are the source of financing for every business units, and banks provide employment and make the country economy sound. The two basic functions of commercial banks are: mobilization of the savings of the people and disbursement of credit according to direction. The world over, banking system is the focal point in the financial setup of any developing country. In India too economic development has evolved around the banking system.

The Indian banking system is broadly divided into scheduled and non-scheduled banks. The scheduled banks are the banks which are defined under II$_{nd}$ schedule of the RBI Act, 1934. The scheduled banks are more classified into nationalized banks, State Bank of India and its associates, Regional Rural Banks, foreign banks and other Indian private sector Banks. The commercial banks refer to scheduled and non –scheduled commercial banks which are regulated under Banking Regulation Act, 1949. All banks which are included in the second schedule to Reserve Bank of India Act, 1934 are scheduled Banks. These banks comprise Scheduled commercial banks and scheduled Co-operative banks. Scheduled Commercial banks are classified as follows:

1. State Bank of India and its Associates
2. Other Nationalized Banks
3. Private Sector Banks
4. Foreign Banks
5. Regional Rural Banks

Banks have to face various risk, as credit risk, interest risk, market risk, management risk, and recovery of loan The soundness of the banks depends upon the NPAs level how fast the banks recover their loans. The Indian banking sector is facing a serious problem of NPAs. The incidence of non-performing assets affects the performance of credit institutions both financially and psychologically. The quantum of bad loans is called non-performing assets (NPAs). First time NPAs was detected in 1992-93 and it was 39,250 crore. Since 2000-01 there was a decreasing trend in NPA in Indian Commercial banks, but from 2010-11 there is an increasing trend in NPAs of commercial banks.

2.0 Objectives of Study:

1. Comparative analysis of the trends of NPAs of Public Sector, Private Sector and Foreign Banks in India.
2. To provide suggestions for better recovery of NPAs.

3.0 Literature Review:

Reddy, PK. (2002), in his comparative and descriptive research work reviewed measures opted for NPA management by selected Asian countries and highlighted legal obstructions, rescheduling of issues to demonstrate higher returns and exploitation from debtors by using political power as root cause for increasing value of NPA in Indian banks. Author also revealed that Asian countries had not strong asset disposal system which could help them to avoid this issue in early stages and also recommended that a strong need is there to develop a systematic legal structure or legislative framework to deal with this problem.

Ranjan and Dhal (2003), conducted research study on Indian Public sector banks on NPA and terms of credit. Author analyzed impact of provisions of credit, bank size; persuade risk inclination and overall monetary fright on NPA of banks and revealed that all put considerable impact on banks NPA Provisions related to credit, changes in cost of credit for higher rate of interest inculcate rise in NPA. The current study also highlighted that the good credit culture, positive overall financial and business provisions also helps to reduce the level of NPAs in banks

Biswas and Deb (2005), in their study analyzed the determinants of the NPA in Indian PSBs, by examining the arbitrary and non-irregular explanations behind NPA in PSBs during 1995-2004. Author emphasized the setbacks of existing framework and presence of huge level of mediation in characterizing NPA. A major finding related to research is its conceptualization of irregular basis for evasion in a basic system of a Poisson procedure. Examination brought up that one lot of arrangements conceding more prominent self-governance to the PSB are demonstrated relatively valuable in limiting development new NPA while other arrangement of strategies structured to regain advances, after default, has neglected to convey products. At last, study emphasized on occurrence of NPA is high because of breaking down of financial establishments because of outside organizational conditions.

regards to stiffed regulatory standards which implemented after 1999. Authors revealed that after 1999 time period, banks with low profitability and capital ratio kept secret level of gross NPAs. It was also presented that biggest problem of India's bad loan is much serious than problems discussed prior to this study.

Chipalkatti and Rishi (2007), in his study titled "Do Indian Banks understate their bad loans" analyzed behavior of 78 Indian banks with the help of econometric tool from 1996-2002. Author verified his assumption that weak banks with low capital adequacy ratios and low profitability reduce their gross NPA and loan loss provisions while evaluating with the former period due to tapering of CAR standard and stipulated rules. Conclusion drawn from the findings examined that weak banks hidden away the extent of gross NPA in post 1999. Author highlighted that the basic issue of Bad loan problem is more severe than any other included in research.

Jain Vibha. (2007), also conducted research on NPA in Indian Commercial Banks and in methodical part presented the diagnostic movement of NPA from 1997-2003 and highlighted that major cause for NPA is incompetent credit risk management system and also revealed that the major contribution for NPA is Directed lending and Government Interference.

Ramu, N. (2008) evaluated NPA management in 5 Urban Co-operative banks of Tamil Nadu. In consumption of credit banks play a very crucial role but still the position of NPA remain unchanged and as alarming ar it was earlier which is visible from their gross NPA and net NPA ratios at 23.4% and 12.5% respectively in 2005. Author recommended after analyzing the facts that there is a need to improve the credit appraisal, monitoring and overall leading policies for credit management.

Chaudhary, K. also, Sharma, M. (2011) analyzed the loan portfolios of Indian PSBs and private segment saves money with emphasize on the categorization of advances, priority sector and non- priority segment propels, and so forth. The study was fundamentally focused on the basic contrasts among PSBs and private area banks, Based on the evaluation, authors prescribed incorporation of present day measurable devices like Value at risk analysis and Markov Chain analysis to develop the nature of risk appraisal rehearses. Authors likewise prescribed to consolidate data sharing among the bankers about the record of loan repayment of the borrower.

Narula and Singla (2014) done a study to access the non-performing assets of Punjab National Bank and its impact on the profitability. The period of the study was 2006-07 to 2011-12. The collected data is analysed with the help of tables and coefficient of correlation. They concluded that decline of NPA is important to improve the profitability of bank in India.

Singh and Prasad(2020), Non-Performing Assets (NPAs) are one of the indicators indicating the performance of banks in India. As Indian Financial system is banking dominated, its health reflects the health of the economy. This paper discusses the Gross NPA, Gross Advances and thus the Asset Quality of Public Sector banks, Private Sector banks and Foreign banks from 2008-2018. The objectives of the paper are to analyse the trends in banking sector, highlight individual banks and understand few dynamics. The data is mainly secondary in nature collected from the RBI website. The study finds that Public Sector banks have deteriorating performance than other banks in the period. The asset quality deteriorated to 11.2% in 2018 as highest peak.

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4.0 Research Methodology:

The secondary data for the present study will be for the period 2000-2017 and will be collected from the various resources as annual reports and accounts of various banks, RBI bulletins, RBI Reports on Trend and Progress of Banking in India, Statistical Tables of banks in India, RBI report on hand book of Statistics on Indian Economy, RBI annual reports, monthly bulletins of RBI, RBI report on hand book of monetary statistics of India, IBA bulletins, websites of various banks , various articles and research papers published in the journals of Indian Bank Association, Indian Institute of Bankers , Institute of Chartered Accountants, and other related journals ,books, magazines and internet ,etc. Data will be analyzed with the help of various diagrams, charts, % table, ratio analysis, regression analysis and other suitable statistical tools and techniques.

5.0 Data Analysis & Interpretation: The study reveals the following analysis:

Table 1 – NPA to Total Advances Public Sector

Year	NPA Public Sector (%)
2000	5.8431
2001	5.8553
2002	5.332
2003	4.339
2004	2.891
2005	1.964
2006	1.232
2007	0.99
2008	0.874
2009	0.84
2010	1.107
2011	1.013
2012	1.552
2013	1.932
2014	2.424
2015	3.086
2016	6.745
2017	7.865

Source: rbi.org.in

Table 1 shows the data of NPA to Total Advances of the banks in terms of percentage. The above mentioned data is for 18 years from the period of 2000 to 2017. This data will be used to analyse the trend analysis in the sector. The pattern of the trend that this data will show in the line will be compared with the other two sectors also. The other sector is the private sector and the foreign bank sector.

Table 2 – NPA to Total Advances Private Sector

Year	NPA Private Sector (%)
2000	12.338
2001	13.721

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2002	4.8226
2003	4.499
2004	2.76
2005	2.032
2006	1.212
2007	0.962
2008	0.788
2009	0.864
2010	0.626
2011	0.492
2012	0.53
2013	0.608
2014	0.729
2015	1.052
2016	1.699
2017	2.293

Source: rbi.org.in

Table 2 shows the above mentioned data is for 18 years from the period of 2000 to 2017. This data will be used to analyse the trend analysis in the private sector. The pattern of the trend that this data will show in the line will be compared with the other two sectors, one of which is public sector and the second one is foreign banks operating in India

Table 3 – NPA to Total Advances Foreign Banks

Year	NPA Foreign Banks (%)
2000	0.9665
2001	0.595
2002	4.936667
2003	5.376
2004	1.179
2005	1.142
2006	1.025
2007	0.7225
2008	0.59
2009	1.757143
2010	2.131667
2011	0.731667
2012	0.632857
2013	1.16
2014	2.257143

2015	0.774444
2016	1.656667
2017	0.66625

Source: rbi.org.in

Table 3 shows the data of 10 banks which belongs to the home management of country other than India and is currently operating in India. The data is NPA to Total Advances of the banks in terms of percentage. The above mentioned data is for 18 years from the period of 2000 to 2017. This data will be used to analyse the trend analysis in the sector. The pattern of the trend that this data will show in the line will be compared with the other two sectors one of which is the public sector banks operated by the government of India and e other is the private sector banks that are having their home base in India.

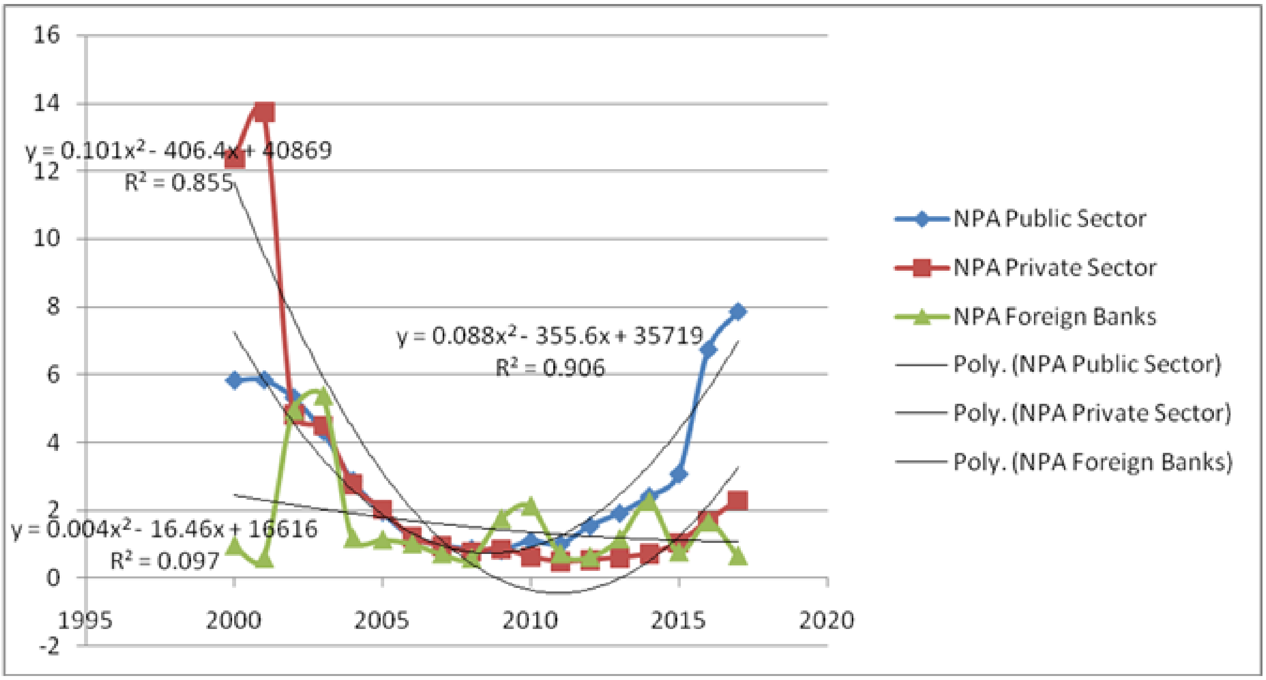

Fig 1 – Trend analysis of the NPAs of Commercial banks

Findings & Suggestions:

As both the sectors were experiencing high NPAs in the year 2000 which started falling with the coming years and continued to slope down for a decade. In case of the public sector banks, it again started to rise and that too the rise has been swift. In the private sector though the rise came in late and moreover it wasn't sharp at all. The foreign banks have highly unstable structure of NPAs.

Lok Adalat, Debt Recovery Tribunals, Sarafaesi Act, 2002 , etc can be the best tool to overcome the NPAs in commercial banks in India.

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