# A STUDY ON NON-PERFORMING ASSETS OF SCHEDULED COMMERCIAL BANKS IN INDIA

**Tom Jacob[1] & Thomas Paul Kattookaran[2]**

[1]Assistant Professor, Dept. of Commerce, Christ College, Irinjalakuda, Kerala, India,

[2]Associate professor and H.O.D, Research Department of Commerce, St. Thomas College, Autonomous, Thrissur, Kerala, India

**ABSTRACT**

*Non-performing assets, also called non-performing loans, are loans, made by a bank or finance company, on which repayments or interest payments are not being made on time. In India Non-performing assets are one of the major concerns for banks. NPA is the best indicator for the health of the banking industry. NPAs reflect the performances of banks. NPAs are the primary indicators of credit risk. NPAs are an inevitable burden on the banking industry. Hence the success of a bank depends upon methods of managing NPAs. The main objectives of this study is to analyze the structure , composition and the trend of Total advances, Net advance, Gross NPA, Net NPA of scheduled commercial banks in India and to analyze the management techniques for reducing the non performing asset in commercial banks. The findings revealed that the public sector banks have the highest NPA contribution compared to the other sectors of the banks and agriculture sector contribute highest NPA compared to other sector. The study recommended that the bank management have to provide enough education on loan management to their clients as well as their workers. The banks also have to ensure that sufficient and quality staffs are trained. The management of the bank has to review its credit management policy in order to improve the quality of assets. the creation of manageable lending behavior should be managed properly with the regular check of the value and other legal status.*

**Keywords:** *Assets, Banking, Economy, NPA's, Loan Assets*

## INTRODUCTION

Loans and advances granted by commercial banks are highly beneficial to individuals, firms, companies, and industrial concerns. The growth and diversification of business activities are affected to a large extend through bank financing. Loans and advances granted by banks help in meeting short-term and long term financial needs of business enterprise. Granting loans and advances for economic growth is prime duty of banks. Lending by banking is generally encouraged because it has the effect of funds being transferred from the system to productive purposes. Thereby economy grows. However the process of lending also carries risk called credit risk, which arises from the failure of the borrower. Non-performing assets refers to loans that are in risk of default. Once the borrower has failed to make interest or principal payments for 90 days then the loan amount is considered to be a non-performing asset. NPAs are problematic and risk for financial institutions since they depend on interest payments for income. Banks are required to classify non-performing assets into the following three categories based on the period for which asset has remained non-performing and realisability of the dues: 1. Sub-standard assets (a sub standard asset is a one which has remained NPA for a period less than or equal to 12 months.), 2. Doubtful assets (if NPA remained for more than 12 months). 3. Loss assets.

NPA is a double edge weapon. On one hand, it does not generate income for the banks, and at the other banks are required to make provisions for such NPAs from their current profits. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Further, the recovery process adds to the woe of time for the employees and management. Apart from internal and external complexities, increases in NPAs directly affects banks' profitability sometimes even their existence.

## CONCEPTUAL FRAMEWORK OF NPA

### Non Performing Asset (NPA)

Non Performing Asset means an asset of account of borrower, which has been categorized by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions relating to asset classification issued by RBI. Prior to 31st March, 2004 an NPA was defined as a credit facility in respect of which the interest or instalment or principal has remained past due for a specified period of time which was 180 days. Due to the improvement in payment and settlement system, recovery climate, up gradation of technology and to match with international banking practices it has been decided with past due concept, with effect from March 31st 2004. In accordance with the latest asset classification norms, a non-performing asset (NPA) shall be a loan or an advance, where: Interest and /or instalment of principal remain overdue for a period of more than 90 Days in respect of a Term Loan, the account remains 'out of order' for a period of more than 90 days, in respect of an overdraft/ cash credit (OD/CC), the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, interest and/ or instalment 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, and any amount to be received remains overdue for a period of more than 90 days in respect of other accounts

**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 is calculated with the help of following ratio: Gross NPAs Ratio = Gross NPAs / Gross Advances

**Net NPA:** These are those 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, provisions the banks have to make against NPAs according to the RBI guidelines, are quite significant. As a consequence, difference between gross and net NPA is very high. These are calculated as below: Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

**STATEMENT OF PROBLEM**

.NPAs has emerged over a long period as an alarming threat to Indian banking industry. Banking reforms by government of India and RBI in terms of two Narasimhan Committee Reports have been neutralized by the ill effects of this surging threat. Despite various correctional steps administered to solve and this problem concrete results are eluding .The severity of problem is however acutely suffered by almost all the branches of commercial banks. Hence the present study has focused on the trends in various components, structure and sector wise of NPAs of

Indian commercial banks and whether if there is any relationship between total Advance and NPA portion of the bank. It also analyze the impact of NPA on the performance of banks, public, government and society and the comparative position of NPA in public, private and foreign banks in India.

**OBJECTIVES OF THE STUDY**

- To examine the trend of Gross NPA and Net NPA in Scheduled Commercial Banks in India.
- To analyze the structure, components and sector wise features of NPAs of public, private, and, foreign banks in India.
- To analyze the comparative position of NPA in public, private, and, foreign banks in India.
- To identify the causes of NPA and impact on balance sheet of scheduled commercial banks in India.
- To explore the strategies for the management of NPA in banks

**HYPOTHESIS OF THE STUDY**

To achieve the objectives of the present study, the researcher has formulated and tested the following hypothesis

**H0:** There is no significant difference between Gross as well as Net NPA of public, private and foreign banks in India.

**H1:** There is significant difference between Gross as well as Net NPA of public, private and foreign banks in India.

**H0:** There is no significant difference in loss assets among the three sectors of the banks.

**H1:** There is significant difference in the loss assets among the three sectors of banks

**RESEARCH METHODOLOGY**

**Data collection**

The study is based on secondary data. It include RBI data base, Report on Trend and Progress of Banking in India, Annual Reports of RBI, RBI supervisory return and Reports on Currency and Finance etc. are the major sources of this study. To supplement data, the researcher elicits other relevant data available from annual reports of the various public private, and foreign commercial banks, journal, websites etc. For NPA analysis commercial banks can be classified into public sector banks, old private sector banks, new private sector banks and foreign banks. Public sector banks include SBI and its associates and nationalized banks. it include 26 banks, old private sector include 13 banks, new private sector include 7 banks and foreign sector include 22 banks.

**Data Analysis**

The analysis of data is the core part of the research. To reach certain relevant results, the data collected from all resources have been tabulated, analyzed and interpreted with the help of appropriate statistical techniques like percentage analysis, correlation analysis and ratio method etc. In order to analyze the data and draw conclusions in this study, various statistical tools like descriptive statistics and ANOVA-single Factor have been done.

**RESULTS AND DISCUSSION**

**Advances and NPAs of public sector banks**

The amount of Gross advances, Net advances and the amount of Gross NPAs, Net NPAs and percentage of NPAs on advances of public sector banks for the period 2000 to 2012 are shown in Table 1.

**Table-1: Gross and Net NPAs of public sector banks** (amount in rupees billion)

| Years | Advances | | NPA | | Gross NPA as a percentage of Gross advances | Net NPA as a percentage of Net advances |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | | |
| 2000-01 | 4421.34 | 4152.07 | 546.72 | 279.77 | 12.4 | 6.7 |
| 2001-02 | 5093.68 | 4806.81 | 564.73 | 279.58 | 11.1 | 5.8 |
| 2002-03 | 5778.13 | 5493.51 | 540.90 | 248.77 | 9.4 | 4.5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2003-04 | 6619.75 | 6313.83 | 515.37 | 193.35 | 7.8 | 3.1 |
| 2004-05 | 8778.25 | 8489.12 | 483.99 | 169.04 | 5.5 | 2.1 |
| 2005-06 | 11347.24 | 11062.88 | 413.58 | 145.66 | 3.6 | 1.3 |
| 2006-07 | 14644.93 | 14401.46 | 389.68 | 151.45 | 2.7 | 1.1 |
| 2007-08 | 18190.74 | 17794.01 | 404.52 | 178.36 | 2.2 | 1.0 |
| 2008-09 | 22834.73 | 22592.12 | 449.57 | 211.55 | 2.0 | 0.9 |
| 2009-10 | 27334.58 | 27013.00 | 599.26 | 293.75 | 2.2 | 1.1 |
| 2010-11 | 30798.04 | 33056.32 | 746 | 360 | 2.4 | 1.2 |
| 2011-12 | 35003.89 | 38783.00 | 1172 | 591 | 3.3 | 1.7 |
| **Total** | **190845.3** | **193958.1** | **6826.32** | **3102.28** | | |

Source: Reports on Trend and Progress of Banking in India

**Advances and NPAs of old private sector banks**

The amount of gross advances, net advances and the amount of Gross NPAs, Net NPAs and percentage of NPAs on advances of old private sector banks for the period 2000 to 2012 are depicted in Table 2.

**Table-2: Gross and Net NPAs of old private sector banks** (amount in rupees billion)

| Years | Advances | | NPA | | Gross NPA as a percentage of Gross advances | Net NPA as a percentage of Net advances |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | | |
| 2000-01 | 397.38 | 379.73 | 43.46 | 27.71 | 10.9 | 7.3 |
| 2001-02 | 440.57 | 422.86 | 48.51 | 30.13 | 11.0 | 7.1 |
| 2002-03 | 513.29 | 494.36 | 45.50 | 25.98 | 8.9 | 5.2 |
| 2003-04 | 579.08 | 556.48 | 43.98 | 21.42 | 7.6 | 3.8 |
| 2004-05 | 704.12 | 677.42 | 42.00 | 18.59 | 6.0 | 2.7 |
| 2005-06 | 851.54 | 829.57 | 37.59 | 13.75 | 4.4 | 1.7 |
| 2006-07 | 948.72 | 928.87 | 29.69 | 8.91 | 3.1 | 1.0 |
| 2007-08 | 1134.04 | 1116.70 | 25.57 | 7.40 | 2.3 | 0.7 |
| 2008-09 | 1303.52 | 1285.04 | 30.72 | 11.59 | 2.4 | 0.9 |
| 2009-10 | 1563.57 | 1541.36 | 36.22 | 12.71 | 2.3 | 0.8 |
| 2010-11 | 1872.96 | 1846.47 | 36.00 | 9.00 | 1.9 | 0.5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2011-12 | 2329.18 | 2301.00 | 42.00 | 13.00 | 1.8 | 0.6 |
| **Total** | **12637.97** | **12379.86** | **461.24** | **200.19** | | |

Source: Reports on Trend and Progress of Banking in India

**Advances and NPAs of new private sector banks**

The amount of gross advances, net advances and the amount of Gross NPAs, Net NPAs and percentage of NPAs on advances of new private sector banks for the period 2000 to 2012 are given in Table 3.

**Table-3: Gross and Net NPAs of New Private Sector Banks (amount in rupees billion)**

| Years | Advances | | NPA | | Gross NPA as a percentage of Gross advances | Net NPA as a percentage of Net advances |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | | |
| 2000-01 | 314.99 | 300.86 | 16.17 | 9.29 | 5.1 | 3.1 |
| 2001-02 | 769.01 | 741.87 | 68.11 | 36.63 | 8.9 | 4.9 |
| 2002-03 | 947.18 | 895.15 | 72.32 | 13.65 | 7.6 | 1.5 |
| 2003-04 | 1195.11 | 1151.06 | 59.83 | 19.86 | 5.0 | 1.7 |
| 2004-05 | 1274.20 | 1236.55 | 45.82 | 23.53 | 3.6 | 1.9 |
| 2005-06 | 2325.36 | 2300.05 | 40.52 | 17.96 | 1.7 | 0.8 |
| 2006-07 | 3252.73 | 3218.65 | 62.87 | 31.37 | 1.9 | 1.0 |
| 2007-08 | 4124.41 | 4067.33 | 104.40 | 49.07 | 2.5 | 1.2 |
| 2008-09 | 4547.13 | 4468.24 | 138.54 | 62.52 | 3.1 | 1.4 |
| 2009-10 | 4877.13 | 4783.58 | 140.17 | 52.34 | 2.9 | 1.1 |
| 2010-11 | 5450.14 | 6128.86 | 145.00 | 34.00 | 2.7 | 0.6 |
| 2011-12 | 6475.28 | 7363.23 | 141.15 | 30.00 | 2.2 | 0.4 |
| **Total** | **35552.67** | **36655.43** | **1034.9** | **380.22** | | |

Source: Reports on Trend and Progress of Banking in India

**Advances and NPAs of foreign banks**

The amount of gross advances, net advances and the amount of Gross NPAs, Net NPAs and percentage of NPAs on advances of foreign banks for the period 2000 to 2012 are shown in Table 4.

**Table-4: Gross and Net NPAs of Foreign Sector Banks (amount in rupees billion)**

| Years | Advances | | NPA | | Gross NPA as a percentage of Gross advances | Net NPA as a percentage of Net advances |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | | |
| 2000-01 | 453.95 | 430.63 | 31.06 | 6.8 | 6.8 | 1.8 |
| 2001-02 | 506.31 | 487.05 | 27.26 | 9.20 | 5.4 | 1.9 |
| 2002-03 | 541.84 | 521.71 | 28.45 | 9.03 | 5.3 | 1.7 |
| 2003-04 | 626.32 | 605.06 | 28.94 | 9.33 | 4.6 | 1.5 |
| 2004-05 | 770.26 | 753.54 | 21.92 | 6.39 | 2.8 | 0.8 |
| 2005-06 | 989.65 | 975.62 | 19.28 | 8.08 | 1.9 | 0.8 |
| 2006-07 | 1278.72 | 1263.39 | 22.63 | 9.27 | 1.8 | 0.7 |
| 2007-08 | 1629.66 | 1611.33 | 28.59 | 12.47 | 1.8 | 0.8 |
| 2008-09 | 1697.16 | 1653.85 | 64.44 | 29.96 | 3.8 | 1.8 |
| 2009-10 | 1674.37 | 1632.60 | 71.33 | 29.77 | 4.3 | 1.8 |
| 2010-11 | 1993.21 | 1955.39 | 50.00 | 12.00 | 2.5 | 0.6 |
| 2011-12 | 2347.10 | 2298.49 | 62.00 | 2.6 | 2.6 | 0.6 |
| **Total** | **14508.55** | **14188.66** | **455.9** | **144.9** | | |

Source: Reports on Trend and Progress of Banking in India

**GROSS NPA AND NET NPA OF SCHEDULED COMMERCIAL BANKS IN INDIA**

**Figure-1 : Gross NPA of Scheduled Commercial Banks in India**

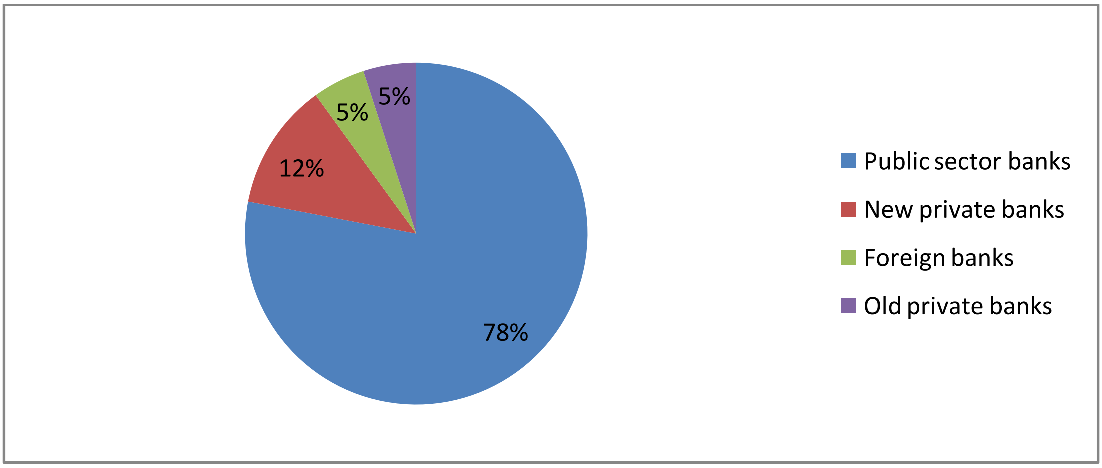


**Figure-2: Net NPA of Scheduled Commercial Banks in India**

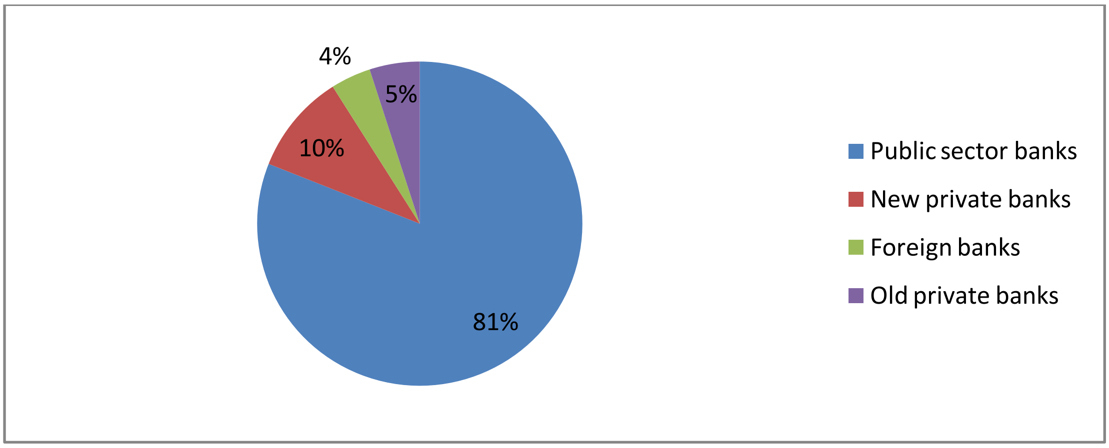



**Table-5: Causes for an Account becoming NPA**

| Those Attributable to Borrower | Causes Attributable to Banks | Other Causes |
|---|---|---|
| a) Failure to bring in Required capital<br>b) Too ambitious project<br>c) Longer gestation period<br>d) Unwanted Expenses<br>e) Over trading<br>f) Imbalances of inventories<br>g) Lack of proper planning<br>h) Dependence on single customers<br>i) Lack of expertise<br>j) Improper working Capital Mgmt.<br>k) Mismanagement<br>l) Diversion of Funds<br>m) Poor Quality Management<br>n) Heavy borrowings | a) Wrong selection of borrower<br>b) Poor Credit appraisal<br>c) Unhelpful in supervision<br>d) Tough stand on issues<br>e) Too inflexible attitude<br>f) Systems overloaded<br>g) Non inspection of Units<br>h) Lack of motivation<br>i) Delay in sanction<br>j) Lack of trained staff<br>k) Lack of delegation of work<br>l) Sudden credit squeeze by banks<br>m) Lack of commitment to recovery<br>n) Lack of technical, personnel & zeal to work. | a) Lack of Infrastructure<br>b) Fast changing technology<br>c) Un helpful attitude of Government<br>d) Changes in consumer preferences<br>e) Increase in material cost<br>f) Government policies<br>g) Credit policies<br>h) Taxation laws<br>i) Civil commotion<br>j) Political hostility<br>k) Sluggish legal system<br>l) Changes related to |

| | | |
|---|---|---|
| o) Poor Credit Collection<br>p) Lack of Quality control | | Banking amendment Act |

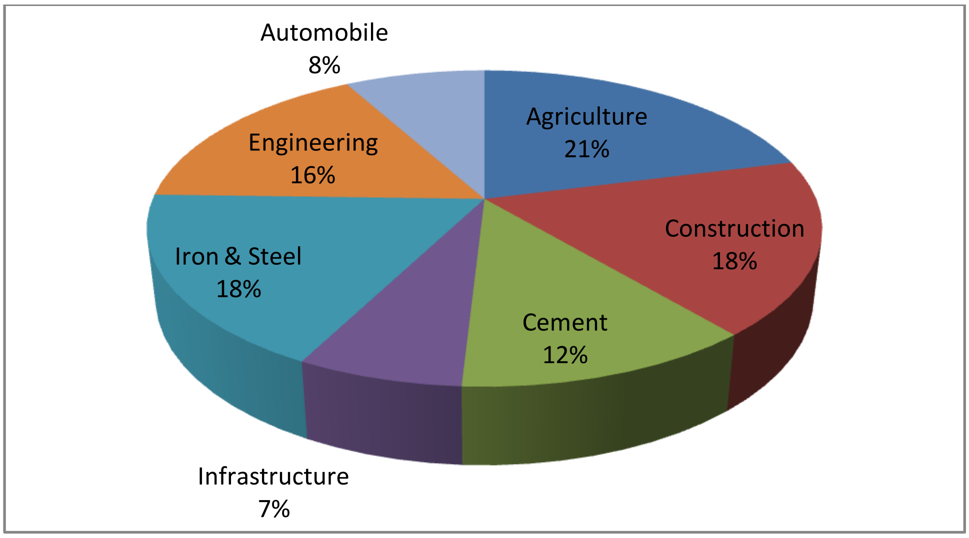
Source: Handbook on RBI's weekly statistical supplement

**Table-6: Sectoral NPA as on 31st March 2013**

| No | Sector | Percent |
|---|---|---|
| 1 | Agriculture | 4.7 |
| 2 | Construction | 4.0 |
| 3 | Cement | 2.7 |
| 4 | Infrastructure | 1.5 |
| 5 | Iron & Steel | 4.0 |
| 6 | Engineering | 3.7 |
| 7 | Automobile | 1.8 |
| Source: Financial Stability Report June`13 | | |

Among the selected seven sectors, Agriculture, Construction, Iron & Steel and Engineering sectors registered highest NPA compared to other sectors (refer Figure 5). The low level of NPA under infrastructure sector can be attributed to increased incidence of shifting of infra advances to restructured portfolio. If the present trend is not addressed, this sector is likely to witness higher slippage ratio in the ensuing years.

**Figure-3: Sectoral NPA as on 31st March 2013**



**Loan assets of public sector banks**

**Table-7: Classification of loan assets of public sector banks (Rs in Billion)**

| Year | Sub-standard assets | Doubtful assets | Loss assets |
|---|---|---|---|
| 2008 | 168.46 | 190.83 | 36.72 |
| 2009 | 195.21 | 207.08 | 38.03 |
| 2010 | 276.85 | 246.79 | 49.28 |
| 2011 | 336.12 | 319.55 | 55.14 |
| 2012 | 603.76 | 470.75 | 50.37 |
| 2013 | 765.89 | 734.85 | 58.15 |
| Total | 2346.29 | 2169.85 | 287.69 |
| **Mean** | **391.0483** | **361.641** | **47.945** |
| **S.D** | **219.738** | **191.145** | **8.037** |
| **C.V(%)** | **56.192** | **52.855** | **16.762** |

Source: Reports on Trend and Progress of Banking in India

Table 7 depicted that the amount of substandard assets have been increased over the period of the study. In the case of doubtful assets it also shows a constantly increasing trend. As far as loss assets are concerned it has been increased to 36.72 billion in 2008 to 55.14 billion in 2012.then again went up to 58.15 billion in 2013. By comparing performance on the basis of mean value of the period, it has been noted that sub-standard assets is high in the case of public sector banks, as mean value is 391.048. Next is the place of doubtful assets 361.6417 and lowest in the case of loss assets are 47.948. The degree of variation is very low in loss assets as the CV is 16.76% and variation is very high in the case of sub-standard assets as the percent of CV is 56.19.It is found to be more consistent as CV of the loss assets is less than that of other two categories of assets.

**Loan assets of private sector banks**

**Table-8: Classification of loan assets of private sector banks (Rs in Billion)**

| Year | Sub-standard assets | Doubtful assets | Loss assets |
|---|---|---|---|
| 2008 | 72.81 | 44.53 | 12.44 |

| | | | |
|---|---|---|---|
| 2009 | 105.27 | 50.18 | 13.45 |
| 2010 | 86.78 | 65.43 | 21.66 |
| 2011 | 44 | 107.36 | 28.39 |
| 2012 | 51.33 | 103.16 | 28.72 |
| 2013 | 58.54 | 110.69 | 30.69 |
| Total | 418.73 | 481.35 | 135.35 |
| **Mean** | **69.79** | **80.23** | **22.56** |
| **S.D** | **21.17** | **27.68** | **7.35** |
| **C.V(%)** | **30.34** | **34.48** | **32.59** |

Source: Reports on Trend and Progress of Banking in India

It is observed from the Table 8 that the amounts of standard assets have been increased from 72.81 billion to 105.27 billion during 2008-09. It is very encouraging that the amount of sub-standard assets has decreased to 44 billion in 2011. Then again it shows an increasing tendency. In the case of doubtful assets, it has been increased from 44.53 billion to 107.36 billion during 2008-11. Then it decreased and again increased during 2012-13. As far as loss assets are concerned, it also shows the constant increase during the period of study. By comparing performance on the basis of mean value of the period, it has been noted that doubtful assets is in high in the case of private sector banks, as mean value is 80.24. Next is the place of sub-standard assets 69.79 and lowest in the case of loss assets is 22.56 The degree of variation is comparatively low in the case of sub-standard assets, doubtful assets and loss assets have high variation rate. It is found to be not as much consistent, because CV of sub-standard assets is lesser than other two categories.

**Loan assets of foreign sector banks**

**Table-9: Classification of loan assets of foreign sector banks (Rs in Billion)**

| Year | Sub-standard assets | Doubtful assets | Loss assets |
|---|---|---|---|
| 2008 | 19.63 | 7.68 | 3.87 |
| 2009 | 58.74 | 10.04 | 4.16 |
| 2010 | 49.30 | 14.41 | 7.57 |
| 2011 | 18.65 | 21.13 | 10.87 |
| 2012 | 20.78 | 22.32 | 19.82 |

| | | | |
|---|---|---|---|
| 2013 | 28.82 | 27.51 | 23.39 |
| Total | 195.92 | 103.09 | 69.68 |
| **Mean** | **32.65** | **17.18** | **11.61** |
| **S.D** | **15.70** | **7.04** | **7.51** |
| **C.V(%)** | **48.08** | **40.98** | **64.68** |

Source: Reports on Trend and Progress of Banking in India

It is exhibited from the Table 9 that the amounts of sub-standard assets are not constantly changing. It increased from 19.63 billion to 58.74 billion during 2008-09. Then next two years which shows a decreasing tendency that is to 18.6 billion. Then again it rises. In the case of doubtful assets it has been constantly increased during these periods. As far as loss assets are concerned it also been increased from 3.87 billion to 23.39 billion during 2008-13. By comparing performance on the basis of mean value of the period, it has been noted that sub-standard assets is in high in the case of foreign sector banks, as mean value is 32.65. Next is the place of doubtful assets 17.18 and lowest in the case of loss assets is 11.61. The degree of variation is very high in case loss assets as the CV is 64.67% and variation is low in the case of doubtful assets than other categories. It is found to be moderately consistent as CV of doubtful assets is lesser than sub-standard assets.

**Table-10 : Results of ANOVA**

| **SOURCES OF VARIATION** | **SUM OF SQUARE** | **DEGREE OF FREEDOM** | **MEAN SQUARE** | **F-RATIO** | **CRITICAL VALUE** |
|---|---|---|---|---|---|
| Between Groups | 3372.14 | 2 | 1686.07 | 13.64 | 3.68 |
| Within groups | 1854.184 | 15 | 123.61 | | |
| Total | 5226.32 | 17 | | | |

Table 10 shows that F-ratio and critical value suggests that there is significant difference in the loss assets among three sectors of banks.

**NPA - Impact on Balance Sheet**

The problem of NPAs in the Indian banking system is one of the foremost and the most formidable problems that had impact the entire banking system. Higher NPA ratio trembles the confidence of investors, depositors, lenders etc. It also causes poor recycling of funds, which in turn will have deleterious effect on the deployment of credit. The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks.

**Profitability:** NPAs put detrimental impact on the profitability as banks stop to earn income on one hand and attract higher provisioning compared to standard assets on the other hand. On an average, banks are providing around 25% to 30% additional provision on incremental NPAs which has direct bearing on the profitability of the banks.

**Asset (Credit) contraction:** The increased NPAs put pressure on recycling of funds and reduces the ability of banks for lending more and thus results in lesser interest income. It contracts the money stock which may lead to economic slowdown.

**Liability Management:** In the light of high NPAs, Banks tend to lower the interest rates on deposits on one hand and likely to levy higher interest rates on advances to sustain NIM. This may become hurdle in smooth financial intermediation process and hampers banks' business as well as economic growth.

**Capital Adequacy:** As per Basel norms, banks are required to maintain adequate capital on risk-weighted assets on an ongoing basis. Every increase in NPA level adds to risk weighted assets which warrant the banks to shore up their capital base further. Capital has a price tag ranging from 12% to 18% since it is a scarce resource.

**Shareholders' confidence:** Normally, shareholders are interested to enhance value of their investments through higher dividends and market capitalization which is possible only when the bank posts significant profits through improved business. The increased NPA level is likely to have adverse impact on the bank business as well as profitability thereby the shareholders do not receive a market return on their capital and sometimes it may erode their value of investments. As per extant guidelines, banks whose Net NPA level is 5% & above are required to take prior permission from RBI to declare dividend and also stipulate cap on dividend payout.

**Public confidence:** Credibility of banking system is also affected greatly due to higher level NPAs because it shakes the confidence of general public in the soundness of the banking system. The increased NPAs may pose liquidity issues which is likely to lead run on bank by depositors. Thus, the increased incidence of NPAs not only affects the performance of the banks but also affect the economy as a whole.

**MEASURES TO SOLVE PROBLEMS OF NPA**

The problems of NPA have been receiving greater attention since 1991 in India. The Narasimham Committee recommended a number of **steps to reduce NPA**. In the 1990's the Government of India (GOI) introduced a number of reforms to deals with the problems of NPA.

**Major steps taken to solve the problems of Non-Performing Assets in India (refer Table 5):**

1. **Debt Recovery Tribunals (DRTs):** Narasimham Committee Report I (1991) recommended the setting up of Special Tribunals to reduce the time required for settling cases. Accepting the recommendations, Debt Recovery Tribunals (DRTs) were established. There are 22 DRTs and 5 Debt Recovery Appellate Tribunals. This is insufficient to solve the problem all over the country (India).
2. **Securitisation Act 2002:** Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitisation Act. This act enables the banks to issue notices to defaulters who have to pay the debts within 60 days. Once the notice is issued the borrower cannot sell or dispose the assets without the consent of the lender. The Securitisation Act further empowers the banks to take over the possession of the assets and management of the company. The lenders can recover the dues by selling the assets or changing the management of the firm. The Act also enables the establishment of Asset Reconstruction Companies for acquiring NPA. According to the provisions of the Act, Asset Reconstruction Company of India Ltd. with eight shareholders and an initial capital of Rs. 10 crores has been set up. The eight shareholders are HDFC, HDFC Bank, IDBI, IDBI Bank, SBI, ICICI, Federal Bank and South Indian Bank.
3. **Lok Adalats:** Lok Adalats have been found suitable for the recovery of small loans. According to RBI guidelines issued in 2001. They cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered. Lok Adalats avoid the legal process. The Public Sector Banks had recovered Rs. 40 Crores by September 2001.
4. **Compromise Settlement:** Compromise Settlement Scheme provides a simple mechanism for recovery of NPA. Compromise Settlement Scheme is applied to advances below Rs. 10 Crores. It covers suit filed cases and cases pending with courts and DRTs (Debt Recovery Tribunals).
5. **Credit Information Bureau:** A good information system is required to prevent loans from turning into a NPA. If a borrower is a defaulter to one bank, this information should be

available to all banks so that they may avoid lending to him. A Credit Information Bureau can help by maintaining a data bank which can be assessed by all lending institutions.

**FINDINGS**

1. The analysis of gross and net NPA of public sector banks during 2000-12 shows that, 3.58% of total gross advances and 1.6% of net advances.
2. The analysis of gross and net NPA of old private sector banks during 2000-12 shows that, 3.65% of total gross advances and 1.62% of net advances.
3. The analysis of gross and net NPA of new private sector banks during 2000-12 shows that, 2.92% of total gross advance and 1.04% of net advances.
4. The analysis of gross and net NPA of foreign banks during 2000-12 shows that, 3.14% of total gross advances and 1.01% of net advances.
5. The study observed that the public sector banks have highest NPA contribution compared to the other sectors of the banks (refer Figure 1 and 2).
6. Among the selected seven sectors, Agriculture, Construction, Iron & Steel and Engineering sectors registered highest NPA compared to other sectors (refer Figure 3).
7. Analysis of components of various NPAs in public sector banks shows that the sub-standard assets are high. And the degree of variation is very low in loss assets and the variation is very high in case of sub-standard assets. it is found to be more consistent as the CV of loss assets is lesser than other two categories.
8. Analysis of components of various NPAs in private sector banks shows that the doubtful assets are high. And the degree of variation is low in sub-standard assets and the variation is high in case of doubtful assets and loss assets. It is found to be not as much consistent, because CV of loss assets are comparatively higher.
9. Analysis of components of various NPAs in foreign banks shows that the sub-standard assets are high. And the degree of variation is very low in doubtful assets and the variation is very high in case of loss assets .it is found to be more consistent as the CV of doubtful assets are lesser than other two categories.

**SUGGETIONS**

1. Existing credit appraisals and monitoring systems are also a responsible for NPAs; RBI should revise existing credit appraisals and monitoring systems.

2. The management of banks may impart training to officials in the art of lending to the different categories and they may continue to encourage upgrading their knowledge and skills in recovering the loans and advances.
3. Bank management may possess specialized credit rating agencies to finalize the borrowing capacity of the potential borrowers before offering credit to the needy people.
4. Steps need to be taken to recover the loan in time by adopting well equipped recovery mechanism.

5. The banks should take all commercial decisions in the interest of the organisation with out fear or favour.the bank would be run professionally and there would be no interference.

## CONCLUSION

NPAs reflect the overall performance of the banks. The NPAs have always been a big worry for the banks in India. The Indian banking sector faced a serious problem of NPAs. . A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. The extent of NPAs has comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers.

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