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NON PERFORMING ASSETS: ANNOYANCE FOR THE ECONOMIC DEVELOPMENT

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Introduction

The success or failure of any organisation depends upon efficient management of finance. The finance plays crucial role in the survival of any company; it may be the organisation which borrows loan or a financial institution which lends the loan. If a company fails due to mismanagement of finance only the stake holders will be affected where as if a financial institution fails the scenario will be terrible as these financial institutions are considered as the link between the source of capital and requirements of funds. If every financial institution in a country starts creating more and more amount of bad loans then the impact on the economy will be terrible and may be beyond control.

The present paper tries to study the amount of bad loans of financial institutions as Non Performing Assets. As far as Indian banking sector is been considered the phantom of NPA is growing like Everest. This problem has to curtail as early as possible or otherwise it will blemish the economy as a whole.

Normally, in any country the financial institutions before lending to any company or organisation asks for Credit Rating to check the credit worthiness of the prospective borrower in spite of these precautionary measure the NPA's in India are increasing. The recent of Mr. Vijay Mallya episode is the best example. As far India is been considered the corporate NPAs are more than the individual or household NPAs. Most of the big industrialist and companies in India are major culprits in this regard. Because of these ever increasing debts of NPAs the '*Principles of Good Lending'* are under question, why none of the banks are not considering before lending to any borrower. One of the main principle of sound lending is that the security given by the borrower. Any bank normally before lending asks and insists for a Security whose market value will be more than the amount of loan to be lent. Somewhere this principle is not followed either calculatedly or without due care and attention.

Review of Literature

The term Non Performing Asset in India can be defined as if any interest or instalment of principal due remains unpaid for more than 90 days or three months. According to SBI's Bhattacharya the rise in bad loans would make it difficult for the bank to meet its earlier stated loan growth target of 13-14%.

Prashanth K Reddy (2002) believes that clear understanding of macroeconomic variables related to banks as well as economy to overcome the menace of NPA supported by a strong legal support and legislative framework, along with the foreign experience.

Vivek Rajbahadur Singh (2016) in his research paper found that the amount of NPA is highest among Public sector Banks when compared to private sector banks in spite of numerous steps taken by the governments. The NPAs level of our banks is tranquil high when compared to the foreign banks. His study also found the problem of recovery of loans not from small borrowers rather from the largest business.

M. Karunakar et.al (2008) studies that the problem of NPA can only be solved with proper credit assessment and risk management mechanism. Overwhelming interest of the banks in lending may put them in a situation of compromising on quality of the asset.

O. S. Aremu et.al (2010) in their paper founds that major threat of NPAs to profitability of Nigerian banks. They argue that the banks should depend upon new and effective methods credit rating in order to improve the credit administration and management. They believe that effective loan processing, good credit scoring, belligerent recovery is can be the foundation in assessing the risk profile of the borrowers.

Dr. Sonia Narula & Monika Singla (2014) in their empirical study related the NPA of Punjab National Bank found that there is direct relationship between the profitability and NPA due to erroneous choice of selection of clients and this problem led to the shortage of fund for new lending as the already lent loans have struck as NPAs.

Sometimes the bank employees including the management under the pressure of meeting the targets of lending may be in hurry and advances the loan to those customers who may become unproductive without thinking about the future consequences.

Chandan Chatterjee et.al (2012) observed that NPAs will be having a negative impact on capital adequacy level, funds mobilization and deployment policy, banking system credibility, productivity and overall economy. They also found that the public sector banks with the social welfare objectives are compromising with their profitability.

Parul Khanna (2012) finds that appropriate attentiveness and utmost care must be taken by the people who sanction the loans to clients that lending to priority sector. Selection of right borrowers, viable economic activity, adequate finance and timely disbursement, correct end use of funds and timely recovery of loans are absolutely necessary pre conditions for preventing or minimizing the incidence of new NPAs which will enhance the creditability of the banks and in turn make the foundation of our country strong.

C.S.Balasubramaniam observed that intensity of NPAs is high with all banks currently and the banks would be expected to bring down their NPA that can only be achieved by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets.

Rajiv Ranjan and Sarat Chandra Dhal (2003) in the RBI Occasional Papers published during the year 2003 identified that the conditions of credit variables have considerable consequence on the banks' non-performing loans in the presence of bank size and macroeconomic shocks. Moreover, substitute course of bank size could give rise to differential blow on bank's non-performing loans.

Hippolyte Fofack (2005) by using Granger-Causality analysis identifies that leading causes of banking crises in Sub-Saharan Africa are inflation, real interest rate, growth rate of GDP per capita, net interest margins, return on assets, inter-bank loans as other possible determinants.

Discussions

The ever increasing NPAs do affects the credit market in the country. Which means it will have impact on cash flow of banking forcing the banks on further advancing of because of non availability money.

Bank Group-Wise Classification of Loan Assets of Scheduled Commercial Banks

(Amount in Rs. Billion)

Year	Public sector	Private sector	Foreign banks
2005	476	88	23
2006	414	78	21
2007	389	92	24
2008	405	130	31
2009	450	170	73
2010	599	176	71
2011	747	182	51
2012	1173	185	63
2013	1645	208	80
2014	2272	241	115
2015	2784	337	107

Source: RBI

The above table briefs that the amount of NPA of all the three types of bank is in increasing trend, the amount of NPA is more in case of public sector banks than the private sector as public sector banks have larger geographical presentation.

Composition of NPA (Amount in Rs. Billion)

Nationalised banks	Priority sector		Non priority sector		Public sector		
Year	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**TOTAL**
2005	153.36	46.75	170.62	*52.01*	4.06	1.24	328.04
2006	149.22	*51.78*	132.27	45.90	6.68	2.32	288.17
2007	153.44	*58.63*	103.40	39.51	4.87	1.86	261.72
2008	159.72	*63.96*	85.63	34.29	4.38	1.76	249.74
2009	157.54	*59.35*	106.68	40.19	1.21	0.46	265.43
2010	195.67	*53.76*	165.23	45.40	3.05	0.84	363.95
2011	246.20	*55.61*	194.10	43.84	2.42	0.55	442.72
2012	324.24	46.96	355.55	*51.49*	10.68	1.55	690.48
2013	408.34	40.16	599.01	*58.91*	9.48	0.93	1016.83
2014	537.50	36.45	935.67	*63.46*	1.30	0.09	1474.48
2015	709.34	34.61	1337.67	*65.26*	2.59	0.13	2049.59
Total	**3194.57**	**42.98**	**4185.84**	**56.32**	**50.74**	**0.70**	**7431.14**

Source: Department of Banking Supervision, RBI.

Sector wise Composition of NPA (Amount in Rs. Billion)

	Priority sector		Non priority sector		Public sector		TOTAL
SBI & Its Associates	Amount	Percentage	Amount	Percentage	Amount	Percentage	
2005	62.00	41.84	84.31	56.90	1.86	1.26	148.18
2006	71.75	56.57	52.63	41.49	2.45	1.93	126.83
2007	73.14	58.27	50.52	40.25	1.87	1.49	125.52
2008	84.47	45.70	98.60	53.35	1.76	0.95	184.83
2009	89.02	57.50	64.44	41.62	1.36	0.88	154.82
2010	109.29	46.45	125.91	53.51	0.09	0.04	235.29
2011	155.67	51.22	148.26	48.78	0.00	0.00	303.93
2012	233.56	48.44	232.71	48.27	15.88	3.29	482.15
2013	256.76	34.93	478.32	65.07	0.00	0.00	735.08
2014	261.49	32.76	536.68	67.24	0.00	0.00	798.17
2015	264.42	42.12	361.30	57.55	2.06	0.33	627.79
Total	**1661.57**	**42.35**	**2233.66**	**56.94**	**27.33**	**0.69**	**3922.57**

It is said that the priority sector is the responsible for more NPA, whereas statistics proves it wrong as the amount of NPA is more than of half of the total for both nationalised banks & SBI and its associates. The total amount of NPA of Nationalised banks for both propriety and non priority sector stood at Rs.7431.14 billion from 2005-2015 out of which, the priority sectors contribution is Rs3194.57 billion (42.98%) where as for the same period the amount of NPA for non priority sector including public sector is Rs.4236.54 billion (57.02%), which clearly shows that non priority sector major culprit for NPA.

As far as NPA of SBI and its associates is concerned, the NPA for the period 2005-15 is Rs.3922.57 billion out of which priority sectors contribution is 1661.57 billion (42.35%), and that of non priority sector and public sector is Rs. 2260.99 billions (57.65%).

Conclusion

According the Comptroller and Auditor General (CAG) of India Shashi Kant Sharma ‘A "significant" part of the banks' non-performing assets (NPAs) were a result of loans obtained by fraudulent methods’. This observation is not without base, something must be happening with the lending policies of banks. This has to curtail or otherwise it will ruin the banking mechanism in India. Something has to be done before it goes beyond the control.

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