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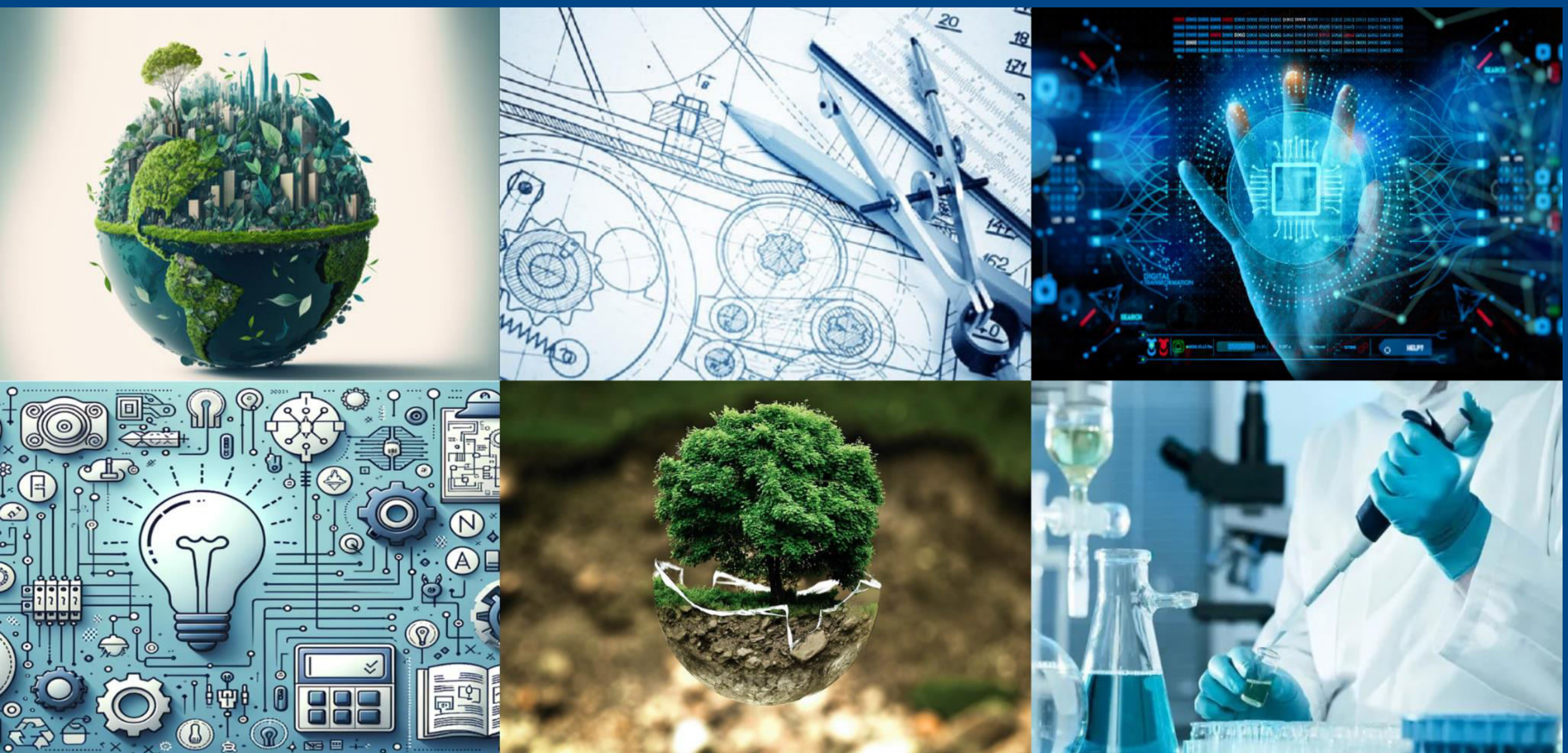

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A Study of Non-Performing Asset of Indian Commercial Banks-Problem and Solution

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ABSTRACT: The banking system in India comprises commercial and cooperative banks, of which the former accounts for more than 90 per cent of banking system's assets. Besides a few foreign and Indian private banks, the commercial banks comprise nationalized banks (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority holding being with State Bank of India). These banks, along with regional rural banks, constitute the public sector (state owned) banking system in India The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending,3

higher employment generation, etc. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India

KEYWORDS: banking, asset, non-performing, commercial, India, solution

I. INTRODUCTION

Bankers are the custodians and distributors of the liquid capital of the country. Therefore most important function of the banking system is to mobilize the savings of the people by accepting deposits from the public. The banker becomes the trustee of the surplus balances of the public. Deposit mobilization promotes the economic prosperity by controlling the money circulation and canalizing for development and productive purposes. In order to mobilize deposits,[1,2,3] the commercial banks undertake deposit mobilization through various deposit schemes suited to the different sections of the people. The deposits along with other sources of funds namely capital, reserves and borrowings, form the sources of funds for the banks. The lending and investment activities of the bank are based on the sources of funds. The banks, in their books, have different kind of assets, such as cash in hand, balances with other banks, investment, loans and advances, fixed assets and other assets. The NonPerforming Asset (NPA) concept is restricted to loans, advances and investments. An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the bank. A 'non-performing asset' (NPA) was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained 'past due' for a specified period of time. Presently it is 90 days from the date of sanctioning the loan. Non-Performing Assets (NPAs) can be defined as "A loan where the lender has some doubt of is experiencing difficulties in obtaining repayments & irrespective of time frame, the outcome could be a loss of capital'' (Sing and Modiyani 2013). Recovery4

mechanism is a process of planning, testing, implementing the recovery procedures and standards required to restore financial assets in the event of failure of the firm. We all know NPAs ceased to generate income, require provision, increase borrowing cost, affect morale of the employee, and erase capital. In this context recovery of NPAs plays a vital role to sustain the banking industry. Mainly recovery is done through three major tools as are discussed below: Lok Adalat Lok Adalat has developed in India by Legal Services Authorities Act, 1987. Otherwise it is called as "People's court", Encouraged by Justice P.N. Bhagwati, a former Chief Justice of India. Lok Adalat is a non-adversarial system, whereby mock courts (called Lok Adalats) are held by the State Authority, District Authority, Supreme Court Legal Services Committee, High Court Local Services Committee, or Taluk Legal Services Committee. The first Lok Adalat was held on March 14, 1982 in Gujarat. Lok Adalat's help banks to settle the loans by way of compromising between bankers and defaulters of the bad loans through Lok Adalat. Debt Recovery tribunals have been authorized to form the

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Lok Adalat to decide on cases of NPAs of Rs. 10 lakhs and more. The systems seemed to be more effective for recovery of loans by immediate judgement on the cases referred. Lok Adalat have been useful for mostly recovery on smaller loans. Mobile Lok Adalats are also organized in various parts of the country which travel from one location to another to resolve disputes in order to facilitate the resolution of disputes through this mechanism. As on 30.09.2015, more than 15.14 lakhs Lok Adalats have been organized in the country since its inception. More than 8.25 crore cases have been settled by this mechanism so far. [4,5,6]

II. DISCUSSION

The gross non-performing asset (GNPA) ratio for Scheduled commercial banks (SCBs) witnessed a significant decline, falling from 3.9% at the end of March 2020 to 3.2% by the end of September, 2020, as per the recent report of Reserve Bank of India (RBI).5
Contributing factors: Write-offs, Upgrades, and Recoveries. What is a Non-Performing Asset?

About:
As per RBI, an asset becomes non-performing when it ceases to generate income for the bank.
NPA is usually a loan or advance for which the principal or interest payment remained overdue for a certain period of time.
In most cases, debt is classified as non-performing, when the loan payments have not been made for a minimum period of 90 days.
For agriculture, if principle and interest is not paid for 2 cropping seasons, the loan is classified as NPA.

Types:
Banks are required to classify NPAs further into the following three categories based on the period for which the asset has remained non- performing and the realizability of the dues:
Sub-standard Assets: A substandard asset is an asset classified as an NPA for a period less than or equal to 12 months.
Doubtful Assets: A doubtful asset is an asset that has been non performing for a period exceeding 12 months.
Loss Assets: Assets that are uncollectible and where there is little, or no hope of recovery and that needs to be fully written off.[7,8,9]

Gross NPA(GNPA) and Net NPA:
GNPA: This is the total amount of NPAs without deducting the provisional amount.
Net NPA: This is the gross NPA minus the provision.6
Provision refers to funds left aside by banks to cover potential losses arising from bad loans or NPAs.

Provisions to Deal with NPAs in India:
The Recovery of Debts due to Banks and Financial Institutions Act (RDB Act), 1993: It established Debt Recovery Tribunals (DRTs) and Debts Recovery Appellate Tribunals (DRATs) to quickly adjudicate and recover debts owed to banks and financial institutions.
The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act), 2002: Empowers banks and financial institutions to take possession and sell secured assets of defaulting borrowers without court intervention.
The Insolvency and Bankruptcy Code (IBC), 2016: Provides a fast-track corporate insolvency resolution process for stressed assets, including NPAs. IBC has helped resolve Rs 3.16 lakh crore of debt stuck in 808 cases, since its inception.
Write-offs: Write-offs refer to the removal of a non-performing loan or asset from the bank's books as an acknowledgment that the debt is unlikely to be recovered.
This action does not absolve the borrower from the obligation to repay but acknowledges the unlikelihood of recovery.[10,11,12]

Upgrades: It refers to the process of reclassifying a loan account from NPA back to a "standard" asset category, if certain conditions are satisfied including: arrears of interest and principal are paid by the borrower.
Recoveries: Recoveries represent the funds or assets regained by the bank after taking actions to collect on defaulted loans or NPAs.

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These can include repayments, collateral liquidation, or settlements after pursuing recovery mechanisms.

III. RESULTS

Non-performing assets also known as Bad Loans have played havoc with financials of Scheduled Commercial Banks (SCBs) in India from 2015 to 2020. The NPAs started piling up after an abnormal growth in advances of these banks in the developmental phase unleashed by the Government of India after the 2008 Global crises. The period witnessed a rise in manufacturing and infrastructure project financing imbued with over optimism of promoters for success and profitabilty. Banks vied with one another to share a piece of pie for opportunities in sectors like Iron and Steel, Mining, Aviation and Road Construction. The spurt in advances of banks also witnessed a simultaneous rise in their bad loans. NPAs have impacted negatively the financial performance of various Indian banks over the years (Sharma & Dhiman 2020). Though Non-Performing Assets cannot be wiped off completely from the advances portfolio of the banks yet it is important to control this critical parameter of financial performance of the banking sector. Management of NPAs is significant for bank profitability and growth of the economy. Bad debts or NPAs are not always created due to the fault of a bank. Though managements of different banks try their best to reduce NPAs but due to various macroeconomic, borrower related and at times bank related specific factors it is not possible to eliminate these altogether from the banking book. However prudent board policies, proper pre-sanction appraisal of borrowers and post sanction forensic audit of disbursements to large borrowers by the banks can go a long way in curbing the menace of bad loans. [13,14,15]

IV. CONCLUSION

NPA refers to a borrower's asset or account that the bank has classified as second-rate suspicious or lost assets under the RBI's asset classification criteria. The rise in non-performing assets demonstrates the need for provisions, reducing the overall profitability of commercial banks. In addition, a high level of non-performing assets (NPAs) indicates a significant likelihood of many credit evasions, which can affect the profitability and liquidity of banks. As a result, a solid, rule-based, and long-term financial system is critical for the overall progress company. Therefore, its collapse 8 could have negative consequences across numerous segments and domains. The study investigates the current state and the stochastic pattern of non- performing assets (NPAs) and how well public and private sector commercial banks handled their NPAs.[16,17,18] Secondary data were collected from various publications of RBI. In terms of independent t-test results, public sector banks have exhibited a consistent upward trend in gross and net NPAs; however, private banks have not kept pace. Furthermore, all commercial banks took a significant step for resolving NPA most efficiently. Due to the competent regulatory guidelines and supervisory aspect, individual banks continually tried to reduce their questionable and lost assets. [19,20]

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