MANAGEMENT OF NON PERFORMING ASSETS IN INDIAN BANKS – A CONCEPT AND DIGANOSTIC APPROACH

Ronil K.Manohar, Research Scholar
Dept. of Commerce
Karnataka University Dharwad

Introduction:

Economic reforms in India have brought about sweeping changes in the banking sector. It is imperative that banks adopt a judicious policy of investment and distribution of its assets so as to satisfy the requirements of both liquidity and profitability. The alarming proportion of Non-performing assets in the banking industry is a challenging problem in terms of sheer magnitude. Profitability and viability of banks are directly affected by the quality of the performance of their advances. A sound NPA management system involves quick identification of non performing advances, their containment and ensuring about their management on the financial levels NPA management should be multi pronged one calling for different strategies at different one calling for different strategies at different stages while providing credit facilities to different borrowers.

Objectives of the study:

Following are the objectives of the present study

1. To study the conceptual aspects of NPAs and their implications.
2. To analyse the growth dimensions of NPAs in the Indian banking system.
3. To identify the factors causing NPAs and measures needed for managing them in the Indian context.

Concept of Non- performing Assets:

The concept of Non-performing Assets is related to loans, advances and investments. An asset becomes “Non performing Asset (NPA) when it ceases to generate income i.e. interest, fees, commission or any other dues for the bank for more than 90 days. An NPA is an advance where payment of interest or repayment of installment on principal or both remains unpaid for the period of 90 days.

Types of Non-performing Assets:

In the light of Narshimhan committee recommendations Reserve Bank of India has redefined the NPAs and advised the banks to reclassify their advances into the following

1. Standard Assets: A Standard Assets is a performing asset which generates continuous income and repayments as and when they fall due. The assets carry a normal risk and hence they are not NPAs in the real sense.

2. Sub-standards Assets: all those assets relating to loans and advances which are considered as non-performing for a period of 12 months are sub- standard assets.

3. Doubtful Assets: all those assets which are considered as non performing for period more than 12 months are doubtful assets.

4. Loss Assets: all those assets which can not be recovered are identified as loss assets are identified by bank auditors and the RBI inspectors.

Magnitude of NPAs in Indian Banks: The Indian banking sector is facing a serious situation in view of the mounting NPAs. The earning capacity and profitability of many banks and financial institutions has been adversely affected by the high level of NPAs.

Public sector bank holds 95 percent of the defaulting loan accounts. Net NPAs of the 23 public sector banks rose3 to 2.02 percent in 2012-13; it was 1.53 percent in the previous fiscal. Loans worth ₹229007 crore are at stake. CIBIL's lists of willful defaulters include companies such as Bartronils India Ltd, Sterling Biotech, Usha Industries and Koutons Retail. As of September 2013 there were 431 cases with loans worth ₹ 2722.86 crore in the corporate Debt Restructuring cell. A majority of the restructuring requests are from the infrastructure sector. A credit Suisse report says many of India's top infrastructure firms such as Essar projects GMR, GVK and Lanco Infratech; do not even earn enough profits to pay annual interest charges.

Non-performing Assets of public and private sector banks

Public sector Bank			Private sector Bank	
years	Gross NPAs (%)	Net NPAs (%)	Gross NPAs (%)	Net NPAs (%)
2001-02	11.09	5.82	9.64	5.73
2002-03	9.36	4.54	8.08	4.95
2003-04	7.80	3.00	5.85	2.80
2004-05	5.50	2.00	6.00	2.70
2005-06	3.60	1.30	4.40	1.70
2006-07	2.70	1.10	3.10	1.00
2007-08	2.20	1.00	2.30	0.70
2008-09	2.00	0.94	2.36	0.90
2009-10	2.20	1.09	2.32	0.82
2010-11	2.40	1.20	1.97	0.53
2011-12	3.40	1.70	1.80	0.60

Source: RBI Annual Financial Reports NPA of public and private sector Banks

It is clear from the details in the above table that gross NPAs as absolute and percentage terms with gross advances of public sector banks have declined from 9.64% in 2001-02 to 2.30% in 2007-08. On the other hand net NPAs of public sector banks come down from 5.73% in 2001-02 to 0.70%in 2007-08. Again gross NPAs of public sector banks have started increasing from 2.00% in 2008-09 to 3.30% in 2011-12 whereas gross NPAs of private sector banks declined from 2.30% in 2007-08 to 1.08% in 2007-08 to 0.60% in 2011-12. Thus even after implementation of prudential norms in the early nineties and serious concern raised by the government about the size of NPAs public sector banks have paid least attention to these warnings. It led to turning fresh loans into non- performing category.

Reasons for Rising NPAs in Banks:

Directed lending is mentioned as an important attribute contributing to the buildup of NPAs of Banks in India. The lendings to priority sector has been considered as a factor contributing to the growth of NPAs of banks in India. However in a report the standing committee on finance headed by BJP leader Yashwant Sinha was particularly concerned above the mountings NPAs in the corporate lending segment "…..among sectoral NPAs of public sector banks, compared to NPA- priority sector and NPA – agriculture, both NPA- corporate and NPAs other than priority sector during the period between march 2011 and December 2012 went up by whopping 190percent'"Said the report (vandana 2014). The report attributed to "the managerial failures of PSBs in their ability to arrest NPAs". Non – performing Assets of PSBs are growing not only due to external factors like details of borrowing experiences of bankers in suits filed borrowers accounts, ineffective recovery tribunals, willful defaults, natural calamities etc, but also due to internal factors like managerial deficiencies, inappropriate technologies etc. Diversion of funds and willful default have been found to be major contributing factors for NPAs in public and private sector banks according to a study published in the Reserve Bank of India.

Impact of NPAs on the operation of Banks:

NPAs affect profitability, liquidity and competitive functioning of banks, then create psychological uncertainty in the minds of the bankers in respect of their disposition towards credit delivery and credit expansion. NPAs fail to generate adverse effects of NPAs on return on assets are mentioned.

- They erode current profits through provisioning requirements
- They result in reduced interest income
- They require higher provisioning requirements affecting profits and accretion to capital funds and capacity risk assets in future and
- They limit the recycling of funds set NPAs lead to credit- risk management assuming priority over other aspects of would be preoccupied with recovery procedures (muniyappan-2002)

Management of NPAs:

Banking is the key sector of the economy. The quality and performance of advances have a direct bearing on the profitability and viability of banks. "The essential component of a sound NPA management system is quick identification of non-performing advances, their containment and ensuring about impingement on the financial levels. The approach to NPA management has to be multi pronged, calling for different strategies at different stages while providing credit facilities to different borrowers. (K Shankar)

Banks should ensure that sanctioning of further credit facilities are done at higher levels. There should be exchange of credit information among banks should review the liquidity of the borrowers at the time of granting advances. Banks should review the liquidity of the borrowers at the time of lending and the risk taking process should be exercised at regular intervals. Banks have been taking measures for effective control of NPAs with the help of Reserve Bank of India viz one time settlements Lokadalats, implementation of securitization Act and promotion of Asset Management Companies.

Conclusion:

Banks in general and public sector banks in particular are facing the problem of mounting non- performing assets. They are holding 95 percent of the defaulting loan accounts. NPAs reflect the overall performance of the banks. There is a need for improving the efficiency and profitability of banks by required efforts to stop the fresh addition of NPAs and to take steps to recover the amounts from the non-performing assets.

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