

# Performance of Non-Performing Assets in India Concept, trend and Impact (2005-17)

Dr. Shrawan Kumar Mishra, Vivek Rajbahadur Singh

*H.O.D. of Economics and Ph.D. Research Guide , K.P.B. Hinduja college of Commerce Centre (University of Mumbai)*

*Ph.D. Research scholar, K.P.B. Hinduja college of Commerce Centre (University of Mumbai) and Assistant Professor, Vivek College of Commerce - Mumbai*

**Abstract** - The Indian banking sector has been facing the challenge of Non- Performing Assets. Non-Performing Assets have adversely affected the profitability of banking sector. Though many steps are being taken by the government, Reserve bank of India and banks, but all in vein. The recommendations made by the Narasimham committee and Verma committee are being taken to deal with the challenges of Non- Performing Assets. There must be periodic evaluation of the problem. This paper focuses on Concept of Non- Performing Assets, trend and growth of Non- Performing Assets and its impact on banks

**Keywords:** *Gross NPA, Net NPA, Scheduled Commercial banks, Non- Performing Assets, NPAs*

## 1. INTRODUCTION

India has a banking system public sector, private sector cooperative and foreign banks operate for the smooth development of economy. Commercial banks contribute a major share in the banking functions like deposit and lending.

The primary and most important function of banking system is to provide loans for the productive purpose. The loans are usually given to industry, farmers and for personal use. Now banks are facing problem of Non-Performing assets that's why banks have become very cautious while providing loans.

Banks are responsible for the promotion of developmental activities of the nation. In order to develop an economy, loans and advances needed for the growth of all sectors, namely primary, secondary and service sector. Banks accept deposits from the general public and institutions and provide the money to the needy as loan. Banks earn profit through the difference of rate of interest that they charge on loans given and of rate of interest on deposits that banks accept.

Banks profitability as well as growth of nation depend on commercial loans provided by the banking system. Banks fear to provide loans because of NPAs, which is increasing at an alarming rate year by year.

### **Asset classification categories of NPAs**

The NPAs have been classified under four categories:

(i) **Standard Assets:** A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such

assets are usually risk free and not considered as NPAs.

(ii) **Sub-standard Assets:** The assets which are not performing for a period of 12 months.

(iii) **Doubtful Assets:** Those assets which are considered as non-performing for period of more than 12 months.

(iv) **Loss Assets:** It includes those assets which cannot be recovered are known as loss assets.

## 2. REVIEW OF LITERATURE

Many researchers have studied Non-Performing Assets related issues over a period of time. An attempt is being made to study the relevant literature which are being described as under:

Balasubramaniam, C.S. (2001), 'Non-performing assets and profitability of commercial banks in India: assessment and emerging issues' recommended the use of good credit appraisal procedure.

Karunakar, M. (2008), Are non - Performing Assets Gloomy or Greedy from Indian Perspective found that proper credit and risk management system required to deal with NPAs.

Bhavani Prasad, G. and Veena, V.D (2011)in their paper titled "NPAs in Indian banking sector: trends and issues," found that public sector banks accounted for 78 percent of NPAs and is the main reason for their falling revenues".

Singh, J. (2013), 'Recovery of NPAs in Indian commercial banks', International Journal Of Transformation in Business concluded that The

problem of NPAs can be achieved only with proper credit assessment and risk management mechanism,

Yadav, Sushma (2014), NPAs: “Rising Trends and Preventive Measures in Indian Banking Sectors” concluded that NPAs can only be managed with appropriate credit system.

Singh, V. R., (2016) concluded that Non-Performing Assets have always created a big problem for banks’ in India and the NPAs level of our banks’ is still high as compared to the foreign banks’.

### 3. OBJECTIVES OF THE STUDY

- To study the status of Non Performing Assets of Indian Commercial Banks in India

- To study the impact of Non Performing Assets on Banks.

### 4. RESEARCH METHODOLOGY

Research is based on Non Performing Assets of commercial banks in India. The study is purely based on secondary source of data collected from Books, Journals, RBI Reports, newspapers and various informative websites. The time period covered for the study is from 2005 to 2017. The paper discusses concept of NPAs trend of NPAs and its impact on banks.

### 5. NON-PERFORMING ASSETS IN INDIAN SCHEDULED COMMERCIAL BANKS

Table 1. Gross Advances and Gross NPAs of SCBs (Rs. - Billion)

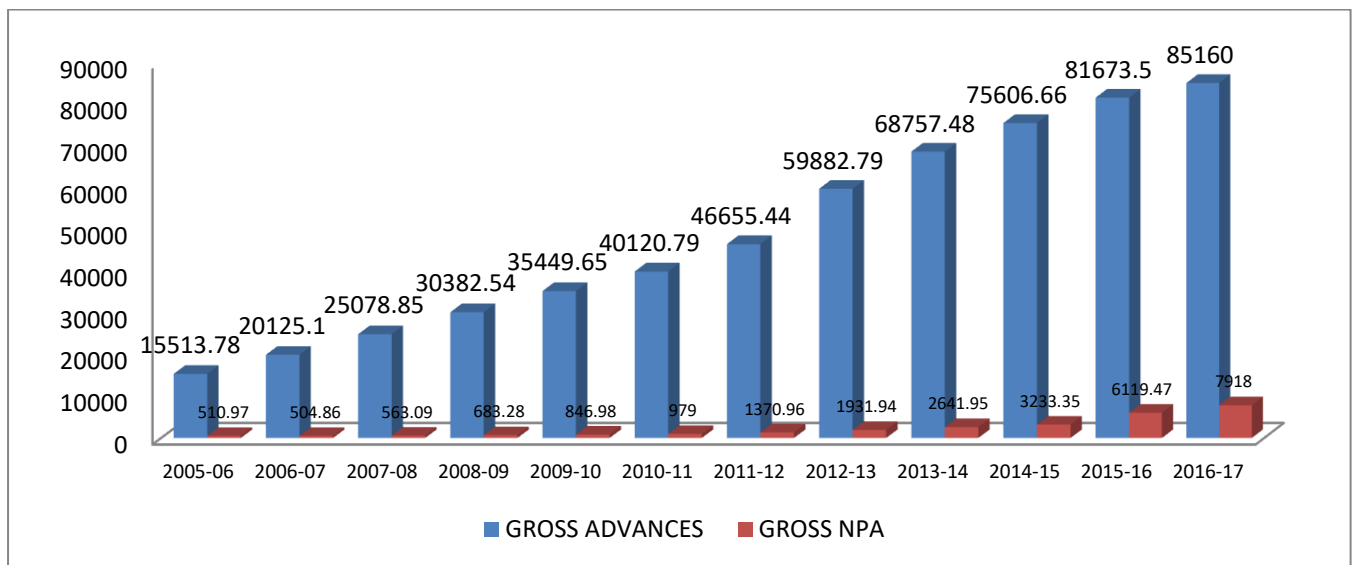
Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (Percentage)
2005-06	15513.78	510.97	3.3
2006-07	20125.10	504.86	2.5
2007-08	25078.85	563.09	2.3
2008-09	30382.54	683.28	2.3
2009-10	35449.65	846.98	2.4
2010-11	40120.79	979.00	2.5
2011-12	46655.44	1370.96	2.9
2012-13	59882.79	1931.94	3.2
2013-14	68757.48	2641.95	3.8
2014-15	75606.66	3233.35	4.3
2015-16	81673.50	6119.47	7.5
2016-17	85160.00	7918	9.3

Source: Reserve Bank of India

From the above table, it is clear that the amount of advances has increased from Rs. 15513 Billion in 2005-06 to Rs. 85160 Billion in 2016-17. The amount of gross NPA has increased from Rs. 510 billion in

2005-06 to Rs. 7918 billion in 2016-17. Similarly, NPA percentage is also showing the rising trend from 3.3% in 2005-06 to more than 09% in 2016-17 as a percentage of gross advances made by the banks.

Chart 1. Gross Advances and Gross NPAs of SCBs (Rs. - Billion)



Source: RBI

From the above chart, it can be clearly observed that trend of Gross advances and Gross NPAs are

showing upward trend from year 2005-06 to 2016-17.

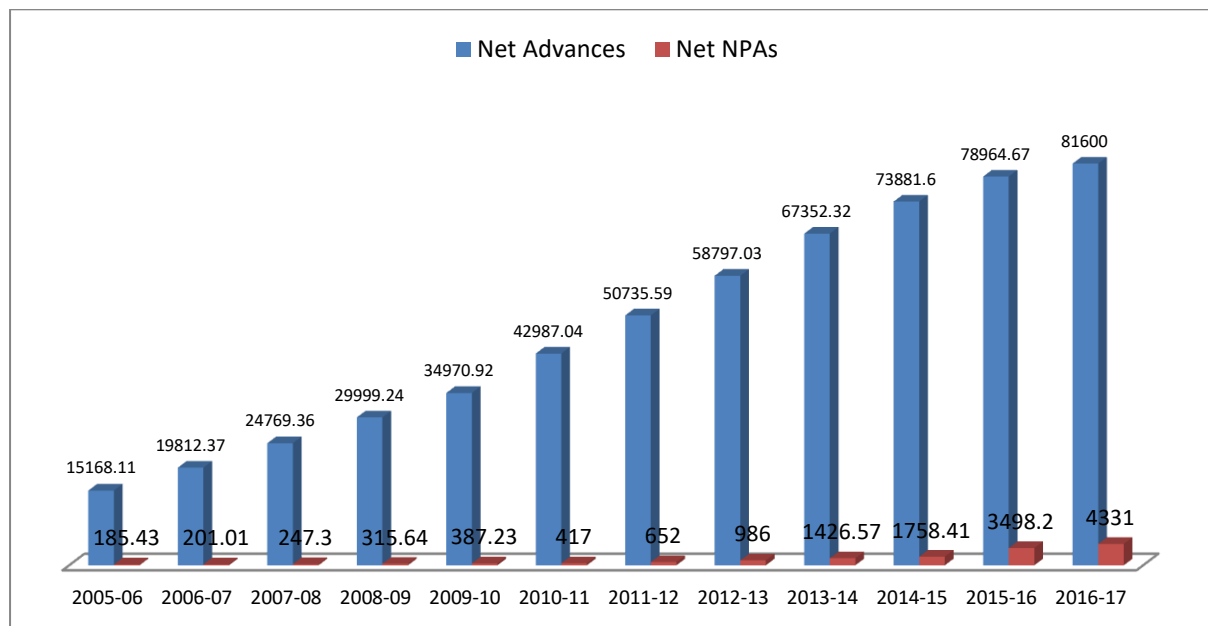
Table 2. Net Advances and Net NPAs of (Scheduled Commercial Banks-SCBs) (Rs. - Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs (Percentage)
2005-06	15168.11	185.43	1.2
2006-07	19812.37	201.01	1.0
2007-08	24769.36	247.30	1.0
2008-09	29999.24	315.64	1.1
2009-10	34970.92	387.23	1.1
2010-11	42987.04	417.00	1.1
2011-12	50735.59	652.00	1.3
2012-13	58797.03	986.00	1.7
2013-14	67352.32	1426.57	2.1
2014-15	73881.60	1758.41	2.4
2015-16	78964.67	3498.20	4.4
2016-17	81600.00	4331.00	5.3

Source: Reserve Bank of India

The table no. 2 is showing Net advances of Scheduled commercial banks and Net NPAs during the year 2005-06 to 2016-17. The amount of advances was Rs. 15186 billion in 2005-06 which increased to Rs. 81600 billion in year 2016-17. Further, the amount of Net NPA has also increased from Rs. 185 billion to Rs 4331 billion during the year 2016-17.

Chart 2 - Net Advances and Net NPAs of SCBs (Rs. in Billion)



From the above chart, it can be clearly observed that trend of Net advances and Net NPAs are showing upward trend from year 2005-06 to 2016-17.

Chart 3- Gross NPAs as percentage of Gross Advances and Net NPAs as percentage of Net Advances

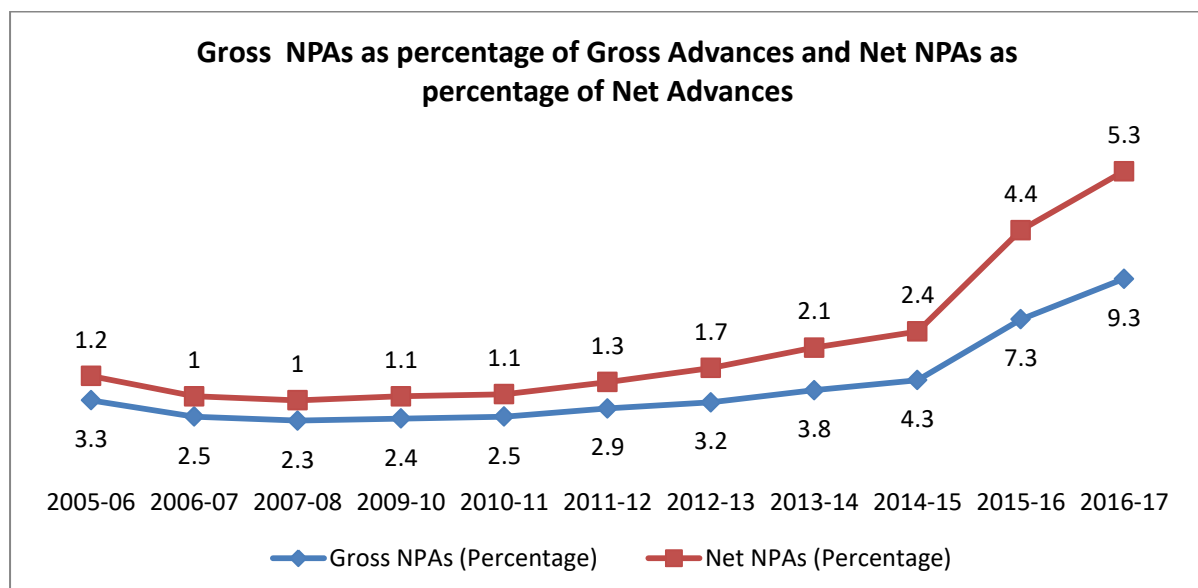


Chart 3 clearly shows that Net NPAs as a Percentage of Net Advances which was lowest 1.0 % in 2006-07 & 2007-08 and highest 5.3 % in 2016-17 with upward trend.

Gross NPAs as a Percentage of Gross Advances was lowest 2.3 % in 2007-08 and highest 9.3 % in 2016-17

**Bank-wise Gross NPAs at the end of June 2017**

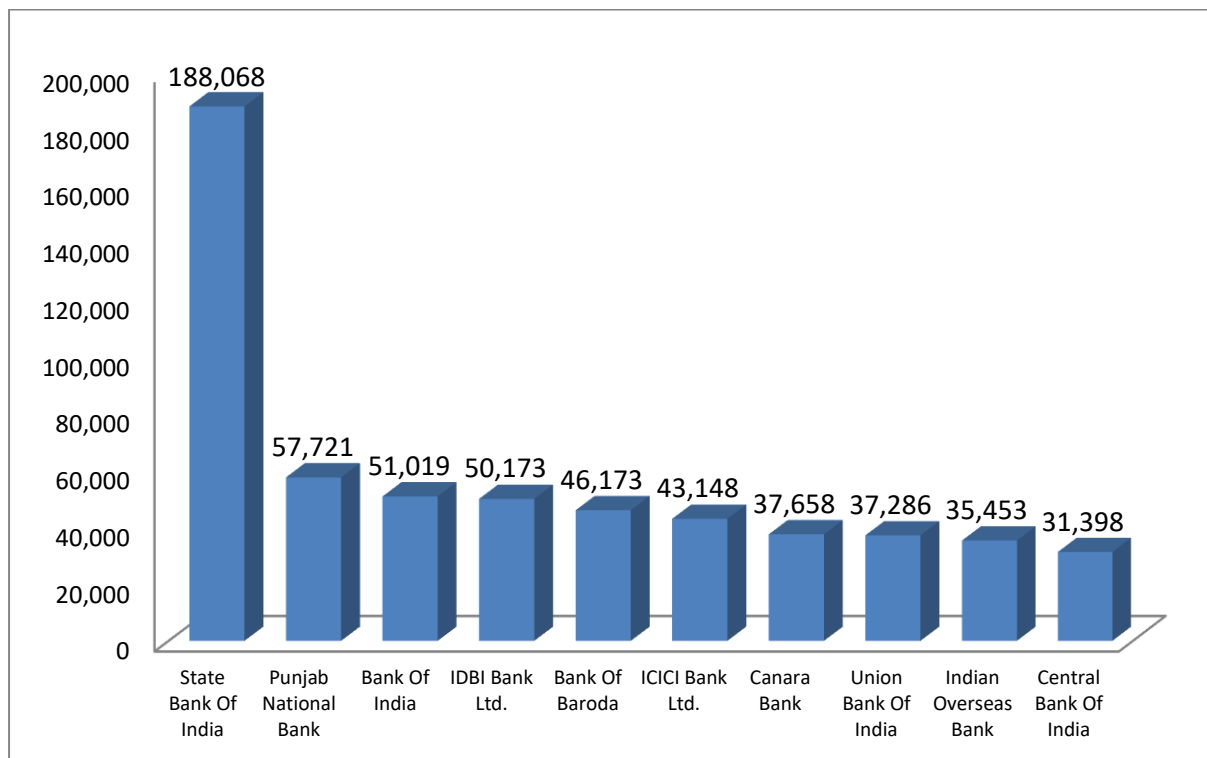
**Table 3 : Bank-wise NPAs as of June 2017 (Rs Crore)**

<b>Bank</b>	<b>NPAs</b>	<b>Bank</b>	<b>NPAs</b>
State Bank Of India	188,068	Indian Bank	9,653
Punjab National Bank	57,721	HDFC Bank Ltd.	7,243
Bank Of India	51,019	Vijaya Bank	6,812
IDBI Bank Ltd.	50,173	Punjab & Sind Bank	6,693
Bank Of Baroda	46,173	The Jammu & Kashmir Bank	5,641
ICICI Bank Ltd.	43,148	Kotak Mahindra Bank	3,727
Canara Bank	37,658	IDFC Bank	2,004
Union Bank Of India	37,286	The Federal Bank	1,868
Indian Overseas Bank	35,453	Karur Vysya Bank	1,807
Central Bank Of India	31,398	The South Indian Bank	1,696
UCO Bank	25,054	The Karnataka Bank	1,691
Oriental Bank Of Commerce	24,409	Yes Bank	1,364
Axis Bank Ltd.	22,031	IndusInd Bank	1,272
Corporation Bank	21,713	The Lakshmi Vilas Bank	878
Allahabad Bank	21,032	City Union Bank	735
Syndicate Bank	20,184	RBL Bank	458
Andhra Bank	19,428	Dhanlaxmi Bank	354
Bank Of Maharashtra	18,049	DCB Bank	285
Dena Bank	12,994		
United Bank of India	12,165		
		<b>Total</b>	<b>829,338</b>

Source: <http://www.careratings.com> AceEquity

Chart 4 – Top 10 Banks (Gross NPAs) in 2017

(Rs. In crores)



Total NPAs with banks was around Rs. 8, 29,000 crores in 2017. State bank of India was leading bank with Rs. 1,88,000 crores of NPAs. From the

chart 4, it is clearly visible that in top 10 banks, most banks are public sector commercial bank.

## 6. IMPACT OF NPA

NPAs have direct impact on the profitability and performance of banks. Banks are neither able to provide more credit nor able to earn good profit. If NPAs will increase at the same rate, banks will not be able to perform as well as compete in the market. Banks have to adopt internationally established standard in lending loans to control the NPAs.

The impact on banks of rising NPAs are –

- ❖ Reduction in profit
- ❖ Reduction in earning capacity, affecting ROI
- ❖ Increased cost of capital
- ❖ Assets and liability mismatch
- ❖ Higher provisions requirement for NPAs by banks which affect lending capacity and profitability
- ❖ Decreased price of shares of bank
- ❖ Less risk bearing capacity of bank
- ❖ Negative corporate image
- ❖ Negligible contribution in CSR by bank due to less profit

## 7. FINDINGS

- Gross advances have increased from Rs. 15513 Billion in 2005-06 to Rs. 85160 Billion in 2016-17.
- The amount of Net advances was Rs. 15186 billion in 2005-06 which increased to Rs. 81600 billion in year 2016-17.
- The amount of gross NPA has increased from Rs. 510 billion in 2005-06 to Rs. 7918 billion in 2016-17.
- The amount of Net NPA has also increased from Rs. 185 billion to Rs 4331 billion during the year 2016-17.
- Gross NPA percentage is also showing the rising trend from 3.3% in 2005-06 to more than 09% in 2016-17 as a percentage of gross advances made by the banks.
- Net NPAs as a Percentage of Net Advances which was lowest 1.0 % in 2006-07 & 2007-08 and highest 5.3 % in 2016-17 with upward trend.
- Trend of Gross advances and Gross NPAs are showing upward trend from year 2005-06 to 2016-17.

- Gross NPAs as a Percentage of Gross Advances was lowest 2.3 % in 2007-08 and highest 9.3 % in 2016-17
- Total NPAs with banks was around Rs. 8, 29,000 crores in 2017.
- State bank of India was leading bank with Rs. 1,88,000 crores of NPA.
- In top 10 banks, most banks are public sector commercial bank which have more NPAs

## **8. CONCLUSION**

There is no doubt that rising NPAs are always a big challenge for the banking sector. Economic development depends on banks and banks performance as well as profit depends on NPAs. As in the study we found that Problem of NPA is rising day by day and has reached to a alarming situation. There is need by the banks to formulate and adopt a NPA proof lending policy. Government should also intervene and come with effective guidelines with consultation to RBI to safeguard the interest of banks.

## **REFERENCES**

- [1] Karunakar, M. (2008), Non - Performing Assets Gloomy or Greedy from Indian Perspective, Research Journal of Social Sciences, 3: 4-12, 2008
- [2] Satyanarayana, K. & Subrahmanyam, G. (2000), Anatomy of NPAs of Commercial Banks, Applied Finance, Volume 6, No.3, July, 2000, pp 14-26.
- [3] Balasubramaniam, C.S. (2001), 'Non-performing assets and profitability of commercial banks in India: assessment and emerging issues', Abhinav Journal, Vol.1, Issue no.7, ISSN 2277-1166
- [4] Bhatia (2007), 'Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment', ICFAI Journal of Bank Management, Vol. 6, No. 3, pp. 7-28.
- [5] Kanika Goyal, 2010. Empirical Study of Non-Performing Assets Management of Indian Public Sector Banks, APJRBM Volume 1, Issue 1, October 2010.
- [6] Prasad, G.V.B. & Veena, D. (2011), 'NPAs Reduction Strategies for Commercial Banks in India', IJMBS Vol. 1, Issue 3
- [7] Singh, J. (2013), 'Recovery of NPAs in Indian commercial banks', International Journal Of Transformation in Business, Vol. 2, Issue 3
- [8] Yadav, Sushma (2014), NPAs: Rising Trends and Preventive Measures in Indian Banking Sectors, International journal of advance research in computer science and management studies, Vol. 2, Issue 1.
- [9] Bhavani Prasad, G. and Veena, (2011), V.D., "NPAs in Indian banking sector -trends and issues," Journal of Banking Financial Services

and Insurance Research, Volume No. 1, Issue 9, 2011, Pp 67-84, 2011

[10] Waweru, N., (2009), Global Journal of Finance and Banking Issues Volume 3, No. 3

[11] Singh, V.R. (2016). "A Study of Non-Performing Assets of Commercial Banks and it's recovery in India". Annual Research Journal of Symbiosis Centre for Management Studies, Vol. 4, pp.110-125.

[12] [www.rbi.org.in](http://www.rbi.org.in)

[13] [www.careratings.com](http://www.careratings.com) AceEquity