

## **Impact of Non Performing Assets (NPA) in Indian Banking System- A Literature Review**

\*Ms. Neha Gupta

### **\*Abstract**

*Role of banking sector is very essential in the development of a country's economy. A robust financial industry is essential for the expansion of the economy. Banks provide loan to various sectors such as industry, housing, agriculture, education, personal and many others to meet the productive use of these funds. But now banks become very cautious in providing the funds due to increase in non performing assets. NPA has emerged as one of the biggest challenge facing by Indian banks. The amount of non-performing assets (NPAs) reflects a country's financial system's stability the best. In this manuscript, a study has been made of different papers and websites to know the Impact of Non Performing Assets (NPA) in Indian Banking System.*

**\*Keyword-** NPA, Economy, Loan, Banking

## **Introduction**

**NPAs** are loans and advances where the borrower has stopped making interest or principal repayments for over 90 days. As per Basu et al. (2019) 85% of these **NPAs** are from loans and advances of public sector **banks**. For instance, **NPAs** in the State **Bank of India** are worth Rs 2.23 lakh crore.

## **Classification of NPAs**

The non-performing assets are broadly classified into three categories namely:

1. **Sub-standard Assets-** when a loan continues to be unpaid and remains an NPA for a period of up to 12 months.
2. **Doubtful Assets-** when an asset has remained in the sub-standard category and remains an NPA for more than 12 months.
3. **Loss Assets-** when the loss has been incurred and the amount has not been written off in half or full.

## **Why NPAs occur?**

Non-performing Assets (NPAs) are widely known as defaults or bad loans. Behind these defaults are causes that result in their increase in the numbers.

### **i. Bad Lending Practices**

When loans are given away by banks without doing a thorough background check of borrowers for their repaying capacity, financial health and intent to repay etc.

### **ii. Competition**

When banks compete among themselves and as a result disburse unsecured loans.

### **iii. Incremental Component**

When the internal bank management is affected such as the terms of credit, credit policy etc.

### **iv. Crisis:**

When the revenues and profits are observed lower than the average rate.

### **v. Overhang Components**

When NPAs are an outcome of environmental factors like when the agricultural loans are not repaid due to the slow crop yield or lack of natural facts like rain, water, sunlight etc.

## **Objective**

To know the Impact of Non Performing Assets (NPA) in Indian Banking System

## **Research Methodology**

This study is descriptive in nature. The required secondary data was gathered from a number of websites, including those run by the Indian government, magazines, journals, and other publications.

## **Literature review**

**Gopakumar (2019)** Jet Airways classified as NPA in Q4, Gopika Gopakumar. This article is about declaring Jet Airways as NPA in Q4 by ICICI Bank Ltd, which also led to decline in the share of ICICI Bank. According to this article, bank has made sufficient provisions against the debt of Jet Airways. Bank have classified the fund based exposure of Rs.276Crore towards IL&FS as NPA and made a provision of Rs.146 Crore.

**Sachin Dave** ICICI Bank to ire forensic auditor to probe into NPA irregularities, in this article, ICICI Bank has decided to appoint a forensic auditor to probe allegations against bank for irregularities in 31 loan accounts. Such appointment is due to the pressure from SEC (US Securities and Exchange Commission) on bank. An anonymous ICICI Bank employee reported such irregularities in the operations of bank.

**PTA (2019)** PNB says fresh NPAs are coming down; bank strengthening internal mechanism, In this article Punjab national Bank have given an statement stating that their NPAs have come down. It is also disclosed in this article that Nirav Modi's fraud has been provisioned close toRs.14,000 Crore. It is also said that all the recoveries will be considered and added to profit of the bank. PNB's gross non-performing asset was around Rs.80,000 Crore during September 2018.

**Aparna Iyer** Axis Bank has fixed its big bad loans, but small loan risks are rising, According to this article Axis Bank have managed its big size loans, but the risk of small loans are rising. It is said that due to the new leadership, an unshackled balance sheet and ready to grow. The gross bad loan ratio has dropped to 5.26% in March quarter from 6.77%in a year. It is

considered that stress among small borrowers have risen by the regulator year ago. The share of risky unsecured loans in the retail books is growing rapidly.

**Sangita Mehta** Axis to sell 12 NPA accounts to ARCs, in this article, it is disclosed that Axis Bank is looking to sell a dozen distressed accounts to asset reconstruction companies. According to this article total loans on block is about Rs.1,000 crore and it includes large borrowers. Bad loans in the books of Axis Bank as on 17th August, 2018 is Rs.32,662 crore which is 6.5% of total loan bank and bank is not earning anything on this money.

**Nikhant Hetavkar** HDFC Bank net up 20.6% to Rs.50 bn in Sep Quarter; gross NPAs rise 1.33%, According to this article, gross NPAs of HDFC Bank as on September 2018 is Rs.100.98 Billion and net NPAs of bank was Rs.30.28 Billion. The net NPAs of bank were at 0.4% down from 0.43% of net advances as on June 30, 2018. The asset quality for Bank was steady.

**Dutta (2014)** This paper includes the growth of NPA in the public and private sector banks in India, and analyses sector wise performance of private and public sector banks. There is need of further up gradation in upcoming research i.e. which tool has been used to analyze the NPA growth and how much population size has been considered.

**Das (2010)** In this paper, the author has discussed NPAs and has analyzed the parameters which are actually the reasons of NPAs, and have concluded that market failure, willful faults, poor follow-up and supervision, non-cooperation from banks, poor legal framework, lack of entrepreneurial skills, and diversion of funds are the main reasons of the never ending growth of these non-performing assets in banks in India. Limited parameters and lack of sector wise classification is the major limitation of research. The research should be capable to answer what is the major responsible sector for growing NPA and what are the parameters considered for tracing actual reason.

**Ahmad and Jegadeeshwaran (2013)** The present study is done on the NPA, and to find the main causes for NPA. Secondary data was used and analyzed for a period of 5 years unanalyzed by mean, CAGR, ANOVA and ranking banks. The banks were ranked according to their performance in the effective management of the NPAs. Research has ignored the parameters and

sectors for appropriate work i.e. what are the parameters and responsible sectors in case of different banking sectors.

**Ranjan and Dhal (2013)** This paper used an empirical approach to analyze the non-performing loan assets of the Indian commercial banks' nonperforming loans by using regression analysis. This empirical analysis reaches to conclusion as to how the non-performing loan assets are influenced by three main bases of economic factors and financial factors, which are terms of credit, bank size and macroeconomic shocks. Research is limited to economical and financial factor. But it has been noticed that political factors are also playing significant role in increasing NPAs. There is need to answer the question what political reasons have influenced the paying capacity of customer.

**Reddy, P.K. (2002)** This paper deals with the experiences of other Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries. However the research is wide but there is need to focus on issues of Indian banks considering parameters such as economical, financial, political factors in case of public and private Indian banks considering various sectors. Research is supposed to answer which sector in India could be held major reason of growing NPA.

**Joseph, A. Joseph, A.L. (2014)** This study basically studies the trends of NPAs in the banking sector, and the internal factors, external factors and the other factors which mainly contributes to the NPAs rising in the banking sector and also provides suggestions to overcoming the burden of increasing NPAs. However research has considered internal as well as external factors but still there is need to consider the appropriate solution for NPA. The upcoming research is supposed to resolve the issue of NPA by answer what are major solution for recovering the NPA in public and private bank and how the solutions are feasible?

**Kamra, S. D. (2013)** This study was done to analyze the position of NPAs in few selected public sector banks namely State Bank of India, Punjab National Bank and Central Bank of India (CBI). It mostly focuses on the measures and the policies pursued by the banks to effectively manage their NPAs and finally it suggests a robust strategy for the speedy and effective recovery of the

NPAs. However research has provided limited solution but it is considered i.e what could be solution for fast and effective recovery of the NPAs?

**Patnaik, B.C.M., Satpathy, I. (2012)** This research study has made a move to analyze the main reasons behind the increasing NPAs in the capital loans of the co-operative banks. For the purpose of this study, various borrowers were surveyed to find out the causes behind these NPAs. However the methodology used is not appropriate to find the reasons behind increasing NPA. We derive the research gap from this paper i.e What would be major factors that are responsible for increasing NPA?

**Patnaik, B.C.M., Satpathy, I. (2011)** This research paper has made an attempt to find out the growing trends and patterns in growth of non-performing assets with special emphasis on the education loan scheme in Orissa. This paper tries to find the causes behind the NPAs and tries to suggest the various possible steps to overcome the NPAs. However the mechanism described in this paper are not enough to provide suitable solution to reduce the NPA. But the research has been considered i.e What would be proper population size for appropriate solution to overcome the NPAs.

**B.S., Waraich, S., Gautam, V. (2013)** This study was focused on Cooperative Bank of Punjab, which tried to study the impact of new loan products on NPAs in co-operative banks and its growing trends in NPA against the various loan schemes, and a comparative analysis was made between banks to find out the current situation of the NPAs. However the research is not sufficient to resolve issue of NPA. But the research is taken in account i.e What is impact of recent loan product on NPA in different banks.

**A.K. (2012)** This present research paper uses an empirical approach to analyze the profitability indicators of NPA, and also discusses those major factors due to which there in an increasingly high growth in NPAs. Statistical tools like correlation and regression were used for this empirical research. However the work is not enough to manage NPA. But the research is considered i.e what are the actual factors from the perspective of governing bodies that are responsible for growing NPA.

**Stuti, Bansal, S. (2013)** In this study, an effort was made to evaluate the operational performance of the Public Sector Banks and Private sector bank in India with the help of data

available between the period of 2003-04 and 2007-09, on trends and issues of NPAs. This study also tries to analyze as to how efficiently private and public sector banks have been managing the issue of NPAs. The research work is limited to particular time slot and there is need to consider the query, how many further NPA could be faced by Indian banks in upcoming years and what would be remedies that must be followed by banks to reduce the loss.

**Pradhan, T.K. (2012)** The present research takes the help of secondary data for a period of 6 years and analyses the reform measures that can help in minimizing the NPA in public sector banks, and the data was analyzed by percentage method. This research is also considering only 6 year secondary data but this is limited consideration that is not enough to trace actual issues and resolve NPA issues. The research work should be made to trace reason of NPA in different sectors and minimize the risk of new losses.

**Selvarajana, B.,Vadivalagan, G. (2013)** This research was done to show the necessity and the status of the non-performing assets in Indian Banks. The study was done with the focus on the priority sector loans. Limited sectors have been considered in this research. The new research is suppose to answer the what would be impact of different sectors on banking NPA in upcoming years and what are probability of recovery in case of various sectors.

**Jajashree, Kotnal, R., Ahmed, I.,Naikwadi, M (2019)** This research includes the explanation of the basic concepts of non-performing assets. It also deals with finding the magnitude of the NPAs and the main reasons behind the increasing NPAs in the banking sector. This study was done with special emphasis on Corporation Bank. However research has ignored the commercial banks. There is need of research to answer, what should be done to recover the loss of commercial banks due to unfair activities of various sectors?

### **Research Gap**

NPAs are not just influencing the account books of individual bank but it is also influencing the overall system. Impact of NPAs could be checked out in detail that is influencing the financial institutions. Depositors get lower returns on their investments and may also lose any uninsured deposits. Borrowers have to pay a higher rate of interests on the loans to compensate bad loans.

Reputation of the bank's shareholders is negatively affected. Failure due to bad investments and redirection of funds from good to bad projects may increase. Liquidity of banks is influenced.

### **Ways to Reduce NPAs**

It is high time financial institutions must take some serious steps to control the unstoppable rise in the number of NPAs. Unless strict ways to reduce NPA are introduced, they will keep piling up and will be an alarming economic concern.

#### **1. SARFAESI ACT, 2002**

The SARFAESI empowers banks to deal with NPAs, without the involvement of court, through three alternatives:

- Asset Reconstruction
- Enforcement of Security
- Securitization

Any outstanding amount of more than 1 lakh can be dealt under SARFAESI. However, an amount that is less than 20% or principal and the interest amount is not considered under the Act.

The Act also allows banks to:

- To release a notice to borrower (and their guarantor) asking them to release the payment within 60 days from the receipt of notice.
- To release notice to anyone who acquires the borrower's secured assets to produce the same to the bank.
- To advice any of the borrower's debtors to pay off the loan due with the bank.

In case of failure from the borrower's end with respect to the issue notice, the bank may:

- Take possession of the secured assets of the borrower
- Sell or lease the security
- Manage the borrower's security or appoint someone to manage the same.



## **2. Debt Recovery Tribunals**

Brought into being existence in year 1993 by the Indian Parliament, the Act allows financial institutions to speedily recover dues of 10 lakhs and above. DRTs are capable of handling larger number of cases as compared to regular courts by cutting down delays in the initial proceedings.

## **3. Lok Adalats**

Small loans of 5 lakhs and less can be recovered through the Lok Adalats as per the guidelines issued by RBI in year 2001. This alternative for dispute redressal mechanism covers both suit and non-suit filed cases.

## **4. Compromise Settlement**

This scheme helps in recovery of NPAs up to 10 crores through a simplified non-discretionary mechanism.

## **5. Credit Information Bureau**

Third party agencies such as CIBIL helps banks with data on the financial health of the borrower. The Credit Information Bureau maintains records of individual defaulters and shares it with the respective banks to aid them in making effective lending decisions. For this, banks may be charged a fee.

## **Conclusion**

Government of India is trying hard to rescue the banks, particularly looking at the downfall of PSBs in the country. Recently, the centre had announced recapitalization of PSBs with 2.11 lakh crores. However, there is still a strong need felt for stricter laws in NPA management. Willful defaulters particularly must be treated under a separate, dedicated Act. Moreover, there must be rigorous practices adopted to take correct decisions for granting loans to individual borrowers or companies.

## References

1. Jaslene Kaur Bawa, Vinay Goyal, S.K. Mitra, Sankarshan Basu, An analysis of NPAs of Indian banks: Using a comprehensive framework of 31 financial ratios, IIMB Management Review, Volume 31, Issue 1, 2019, Pages 51-62.
2. <https://www.livemint.com/companies/company-results/jet-airways-classified-as-npa-in-q4-icici-bank-1557214284262.html>
3. <https://www.businessstandard.com/article/companies/pnb-says-fresh-npas-are-coming-down-bank-strengthening-internal-mechanism/story/313793.html>
4. <https://economictimes.indiatimes.com/industry/banking/finance/banking/icici-bank-to-hire-forensic-auditor-to-probe-into-npa-irregularities/articleshow/67069212.cms?from=mdr>
5. <https://www.livemint.com/market/mark-to-market/axis-bank-has-fixed-its-big-bad-loans-but-small-loan-risks-are-rising-1556204600966.html>
6. <https://economictimes.indiatimes.com/markets/stocks/news/axis-to-sell-12-npa-accounts-to-arcs/articleshow/65433481.cms>
7. [https://www.business-standard.com/article/companies/hdfc-bank-net-up-20-6-to-rs-50-bn-in-sep-quarter-gross-npas-rise-1-33-118102000524\\_1.html](https://www.business-standard.com/article/companies/hdfc-bank-net-up-20-6-to-rs-50-bn-in-sep-quarter-gross-npas-rise-1-33-118102000524_1.html)
8. Dutta, A (2014) Empirical Study on Non-Performing Assets Management Of Indian Commercial Sector Banks. Retrieved from, Perspective, Vol 6, no. 2. Pp. 18-22.
9. Das, S (2010) Management of Non-Performing Assets In Indian Public Sector Banks With Special Reference To Jharkhand. Retrieved from:[http://www.igidr.ac.in/newspdf/money/mfc\\_10/Santanu%20Das\\_submission\\_45.pdf](http://www.igidr.ac.in/newspdf/money/mfc_10/Santanu%20Das_submission_45.pdf)
10. Ahmad, Z., Jegadeeshwaran, M. (2013) Comparative Study On NPA Management Of Nationalised Banks. Retrieved from International Journal of Marketing, Financial Services and Management Research, ISSN 2277- 3622, Vol.2, No. 8, August (2013).

11. Ranjan, R, Dhal, S.C. (2003) Non-Performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment. Retrieved from Reserve Bank of India Occasional Papers, Vol. 24, No. 3, Winter 2003.
12. Reddy, P. K. (2002) A comparative study of Non-Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures. Retrieved from [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=361322](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=361322).
13. Joseph, A.L., Prakash, M (2014) A Study on Analysing the Trend of NPA Level in Private Sector Banks and Public Sector Banks. Retrieved from International Journal of Scientific and Research Publications, Volume 4, Issue 7, July 2014 1 ISSN 2250- 3153.
14. Samir, Kamra, D., (2013) A Comparative Analysis of Non- Performing Assets (NPAs) of Selected Commercial Banks in India Opinion: Retrieved from International Journal of Management, Vol. 3, No. 1, June 2013, ISSN: 2277-4637 (Online) | ISSN: 2231- 5470(Print).
15. Patnaik, B.C.M., Satpathy, I, Patnaik, N (2012) Decoding The Npas In Working Capital Loan: A Survey (With Special Reference To Urban Co-Operative Banking Organizations In Selected Districts Of Odisha) Retrieved from IJRFM Volume 2, Issue 5 (May 2012)(ISSN 2231-5985).
16. Patnaik, B.C.M, Satpathy, I, Mohapatra, A.K.(2011) Demystifying Npas On Education Loan: A Survey (With Special Reference To Selected Urban, Rural Areas And Bank Officials Of Odisha). Retrieved from JBFSIR Volume 1, Issue 4 (July, 2011) ISSN 2231-4288.
17. Bhatia, B.S., Waraich, S, Gautam, V (2013) Critical Evaluation Of Non-Performing Advances In Dccbs Of Punjab. Retrieved from Abhinav International Monthly Refereed Journal of Research In Management and Technology, ISSN – 2320-0073 Volume II, July 13.
18. Rajput, N., Gupta, M., Chauhan, A.K. (2012) Profitability And Credit Culture Of NPAs: An Empirical Analysis Of Psbs . Retrieved from International Journal

of Marketing, Financial Services and Management Research, Vol.1 Issue 9, September 2012.

19. Stuti, Bansal, S., (2013) An Analysis Of Non- Performing Assets In Indian Banking Sector. Retrieved from Vignettes of Research, Volume - I, Issue - IV ISSN : 2320 – 1797 October – 2013.
20. Pradhan, T.K. (2012). Non-Performing Assets (NPA) – A major source of weakness of Public Sector Banks. Retrieved from RJCBS: Volume: 01, Number: 12, October-2012.
21. Selvarajana, B., Vadivalagan, G., (2013) A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs). Retrieved from International Journal of Finance and Banking Studies IJFBS, Vol.2 No.1, 2013 ISSN: 2147-4486.
22. Jaslene Kaur Bawa, Vinay Goyal, S.K. Mitra, Sankarshan Basu, An analysis of NPAs of Indian banks: Using a comprehensive framework of 31 financial ratios, IIMB Management Review, Volume 31, Issue 1, 2019, Pages 51-62.