Financial Stability Report of Indian Economy with reference to Indian Banks

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Abstract
The Indian banking sector has been facing serious problems of raising Non- Performing Assets (NPAs). The NPAs growth has a direct impact on profitability of banks. Non- performing assets are one of the major concerns for scheduled commercial banks in India. The recommendations of Narasimham committee and Verma committee, some steps have been taken to solve the problem of old NPAs in the balance sheets of the banks. It continues to be expressed from every corner that there has rarely been any systematic evaluation of the best way of tackling the problem. There seems to be no unanimity in the proper policies to be followed in resolving this problem. NPAs reflect the performance of banks.
A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. It is necessary to trim down NPAs to improve the financial health in the banking system. An attempt is made in this paper to understand NPA, the status and trend of NPAs in Indian Scheduled commercial banks, The factors contributing to NPAs, reasons for high impact of NPAs on Scheduled commercial banks in India and recovery of NPAS through variouschannels.
Keywords: Non- Performing Assets, NPA, Scheduled Commercial banks, Narasimham committee
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I.   Introduction:

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.

Non-performing Asset is a vital factor in the examination of financial performance of a bank. Non-Performing Asset is the key term for the banking corporations. Non-Performing Assets show the competence of the performance of the banks. Non-Performing Assets means which amount is not received by the bank in return of loans disbursed. Non-Performing Assets affect not only the finance institution but the total financial system. Thus a selective study has been done on public sector banks in India to evaluate the effect of Non-Performing Assets on the profitability of banks. Banks today are not judged only on the basis of number of branches and volume of deposits but also on the basis of standard of assets. NPAs negatively effect on the profitability, liquidity and solvency of the banks.
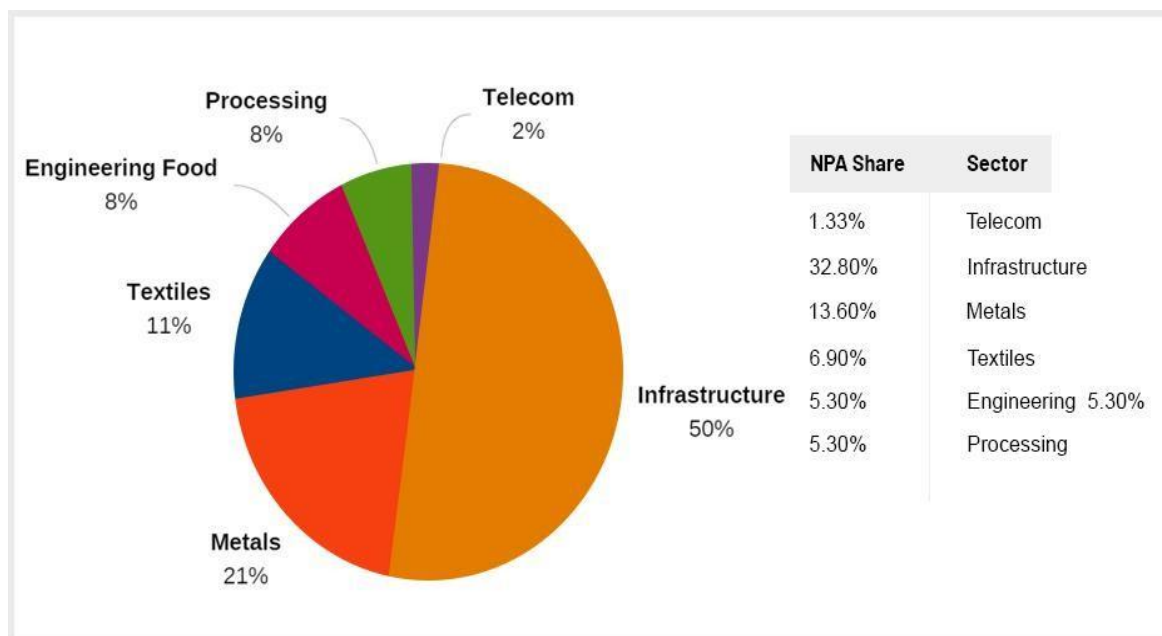
Figure1.1 showing sector wise NPA in India

II.   Literature Review:

➢   Kumar (2013) in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs).

➢   Selvarajan &Vadivalagan (2013) in A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs) find that the growth of Indian Bank's lending to Priority sector is more than that of the Public Sector Banks as a whole. Indian Bank has slippages in controlling of NPAsin the early years of the decade.

➢   Singh(2013) in his paper entitled Recovery of NPAs in Indian commercial banks says that the origin of the problem of burgeoning NPA's lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre- sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non- performing

➢   Debarsh and sukanya goyal (2012) emphasized "on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform based on core banking solution, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the RBI".

➢   Gupta(2012) in her study A Comparative Study of Non-Performing Assets of SBI & Associates &Other Public Sector Banks had concluded that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before credit facility and credit rating agencies should regularly evaluate the financial condition of the clients.

➢   Rai (2012) in her study on Study on performance of NPAs of Indian commercial banks find out that corporate borrowers even after defaulting continuously never had the fear of bank taking action to recover their dues. This is because there was no legalframework to safeguard the real interest of banks.

➢   Chatterjee C., Mukherjee J. and Das (2012) in their study on Management of non- performing assets - a current scenario has concluded that banks should find out the original reasons/purposes of the loan required by the borrower. Proper identification of the guarantor should be checked by the bank including scrutiny of his/her wealth.

➢   Kaur K. and Singh B. (2011) in their study on Non-performing assets of public and private sector banks (a comparative study) studied that NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector.

➢   Prasad G.V.B. and Veena(2011) in their study on NPAs Reduction Strategies for Commercial Banks in

India stated that the NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits, thus NPAs have destructive impact on the return on assets in the following ways.

➢ Chaudhary K. and Sharma M. (2011) in their research stated that An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advance sturning into NPA.

➢ Karunakar (2008), in his study *Are non - Performing Assets Gloomy or Greedy from Indian Perspective,* has highlighted problem of losses and lower profitability of Non- Performing Assets (NPA) and liability mismatch in Banks and financial sector depend on how various risks are managed in their business. The lasting solution to the problem of NPA scan be achieved only with proper credit assessment and risk management mechanism.

➢ Bhatia(2007) in his research paper explores that NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector.

➢ Kaur (2006) in her thesis titled Credit management and problem of NPAs in Public Sector Banks, suggested that for effective handling of NPAs, there is an urgent need for creating proper awareness about the adverse impact of NPAs on profitability amongst bank staff, particularly the field functionaries. Bankers should have frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

➢ Balasubramaniam C.S. (2001) highlighted the level of NPAs is high with all banks currently and the banks would be expected to bring down their NPA. This can be achieved by good credit appraisal procedures, effective internal control systems alongwith their efforts to improve asset quality in their balance sheets.

III. Objectives of the Study
1) To study the status of Non-Performing Assets of Indian Scheduled CommercialBanks in India
2) To study the impact of NPAs on Banks.
3) To make appropriate suggestions to avoid future NPAs and to manage existingNPAs in Banks.

IV. Research Methodology
Study is done on the basis of secondary data.

V. Limitation of the Study
➢ The study of non-performing assets limited to the Indian Banks and till the end ofthe year 2020
➢ The basis for identifying non-performing assets is taken from the Reserve Bank ofIndia Publications.
➢ NPAs are changing with the time. The study is done in the present environment without foreseeing future developments.

VI. Scope of the Study
➢ The study could suggest measures for the banks to avoid future NPAs & toreduceexistingNPAs.
➢ The study may help the government in creating & implementing new strategiestocontrolNPAs.
➢ The study will help to select appropriate techniques suited to manage the NPAsanddevelop a time bound action plan to check the growth ofNPAs.

VII. Analysis and Interpretation
Table No. 7.1 shows Indian banks and their NPA

Bank	NPA
PNB	5300 CR
UCO	1497CR
INDIAN OVERSEAS BANK	1425 CR
CENTRAL BANK OF INDIA	837CR
DENA BANK	663CR
14 OTHER BANK	8883CR
IDBI	1609CR

Table No.7.2 showing Net NPA &Gross NPA

NPA	Net NPA%	Gross NPA%
Mar-13		3.4
Sep-13	2.3	4.2
Mar-14	2.2	4.1
Sep-14	2.5	4.5
Mar-15	2.5	4.6
Sep-16	2.8	5.6
Mar-17	4.6	7.6
Mar-18	8.5	9.3

The above table depicts the % of Net,Gross NPA and Stress assets during the period 2015 to 2020 the % increase continuously. It forecast that in 2020 it will reach at 8.5and 9.3 and it will be critical for banking system.
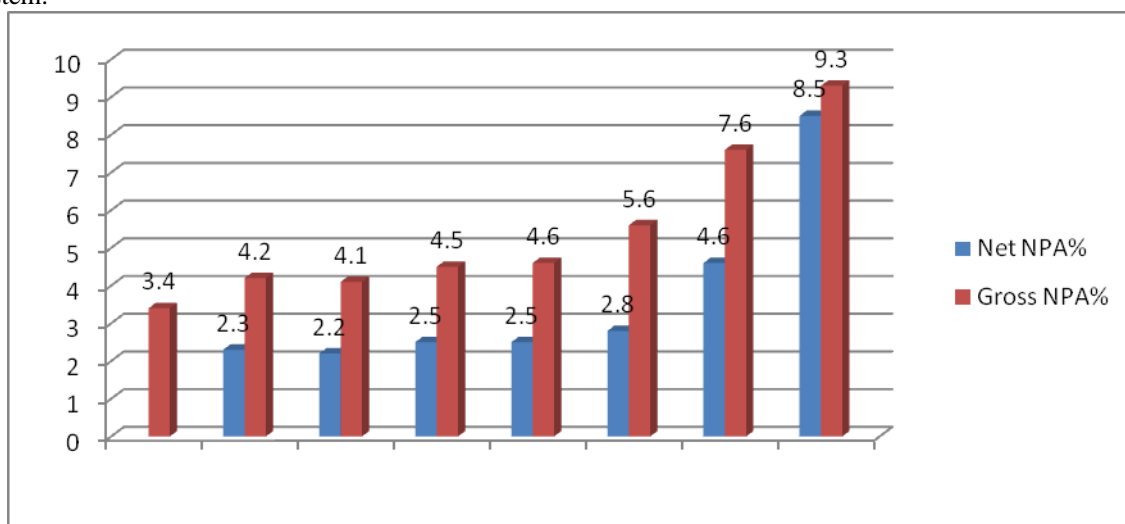
Figure;7.1 NPA, Gross NPA

Table No.7.3 showing Net Profit of banks.

|				Net Profit (Rupees in corer)			
Year	State Bank of India	Bank of India	United Bank of India	Bank of Baroda	Indian Overseas Bank	Panjab National Bank	Central Bank India
2011	4541.31	1125.95	267.28	1026.46	1008.43	1540.08	498.01
2012	6729.12	1960.28	318.95	1435.52	1202.34	2048.76	550.16
2013	9121.23	3009.41	184.71	2227.20	1325.79	3090.88	571.24
2014	9166.05	1738.56	322.96	3058.33	706.96	3905.36	1058.23
2015	7370.35	2488.71	523.97	4241.68	1072.54	4433.50	1252.41
2016	11707.29	2674.62	632.53	5006.96	1050.13	4884.20	533.04
2017	14104.98	2741.91	391.90	4480.72	567.23	4747.67	1014.96
2018	10891.17	2732.65	-1213.44	4541.08	601.74	3342.58	-1262.84
2019	13101.57	1748.32	255.99	3398.44	-454.33	3061.58	606.45
2020	9950.65	-6334.98	-281.96	-5395.54	-2897.33	3944.40	-1117.67
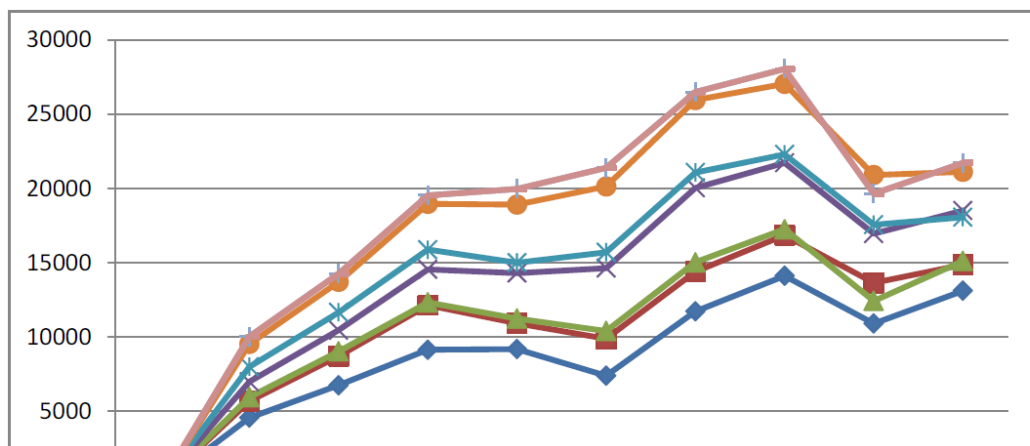
Figure 7.2 showing Net profit of Seven Banks for Ten year

This is the trend of Net Profit for the different banks for the years 2011 –2020. Almost all the banks have experienced a negative growth in the year 2018. It is not good indication for growth of any country. This is because of growing NPA in the banking sector.

Table No.7.3 showing Gross NPA of banks.

|	Gross NPA (Rupees in corer)						
Year	State Bank of India	Bank of India	United Bank of India	Bank of Baroda	Indian Overseas Bank	Panjab National Bank	Central Bank India
2009	9998.00	0.00	744.30	0.00	1120.00	3390.72	2572.00
2010	12837.34	0.00	817.00	2400.69	997.00	3319.30	2350.00
2011	15588.6	0.00	761.00	1842.92	1923.40	2767.46	2316.50
2012	19534.89	0.00	1019.60	1981.38	3611.00	3214.41	2457.90
2013	25326.29	4811.55	1355.78	3152.50	3089.00	4379.39	2394.53
2014	39676.46	5893.97	2176.42	4464.75	3920.00	8719.62	7273.46
2015	51189.39	8765.25	2963.83	7982.58	6607.00	13465.79	8456.18
2016	61605.35	11868.80	7118.01	11875.90	9020.00	18880.06	11500.01
2017	56725.34	22193.24	6552.91	16261.45	14922.00	25694.86	11873.06
2018	98172.80	49879.12	9471.01	40521.04	30048.00	55818.33	22720.88
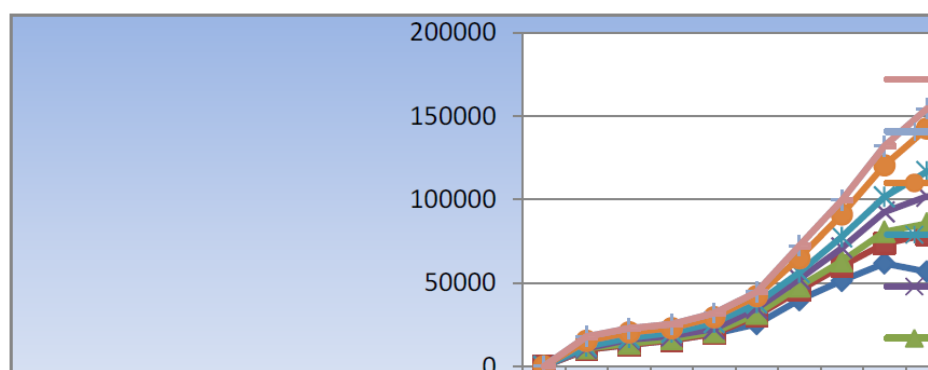
Figure 7.2 showing Gross NPA of Seven Banks for Ten year

NPA of the banks went on increasing in all the years but a drastic raise was observed in the year 2020. The percentage raise of NPA of the banks in the year 2018 as compared to 2017 were SBI – 73.07, BOI- 124.75, UBI- 44.53, BOB- 149.18, IOB-101.37, PNB- 117 and CBI-91.36

VIII.   Findings:

1)   Because of mismanagement in banks there is a positive relation between Total Advances, Net Profits and NPA of bank which is not good.

2)   Positive relation between NPA & profits are due to wrong choice of clients by Banks.

3)   There is an adverse effect on the Liquidity of Bank.

4)   Bank is unable to give loans to the new customers due to lack of funds which arises due to NPA as per the government.

5)   The main reasons for rise in NPAs are sluggishness in the domestic growth in the recent past, slow recovery in the global economy and continuing uncertainty in global markets leading to lower exports of various products such as textiles and leather.

IX.   Suggestions

1)   Advances provided by banks need to be done pre-sanctioning evaluation and post disbursement control so that NPA can decrease.

2)   Good management needed on the side of banks to decrease the level of NPA.

3)   Proper selection of borrowers & follow ups required to get timely payment.

4)   Non-performing assets are a drain to the banks. The banks in India are adopting various strategies to reduce the non-performing assets in their banks i.e.

- ✓   Recovery camps
- ✓   Preference of claims
- ✓   Compromise proposals
- ✓   Technical write off
- ✓   One time settlement scheme
- ✓   Suit filing
- ✓   Debt recovery tribunals

5)   Banks should reduce dependence on interest income- Indian banks are largely dependent on the lending and investment as in comparison to developed countries. Indian banks should look for sources (income) from fee based services and products.

X.   Conclusion

NPAs affect the financial performance of Indian banks as well financial growth of economy. Indian banking system is facing the NPAs problem. Every country's economic growth depends upon their financial system. The financial system mainly comprises banking sector. Especially public sector banks should focus on their NPA Management to grow their profitability. The financial institutions should develop new strategies planning to improve the recovery of loan. Non-performing assets (NPAs) is affecting the performance of financial institutions both financially and psychologically.

The non-performing assets have become a major cause of concern. Absorbing the credit management skills has become all the more important for improving the bottom-line of the banking sector. The current NPAs status continues to disturb Indian banking Sector. Several experiments have been tried to reduce NPAs but nothing has hit the mark in tackling NPAs. The Indian banking sector faced a serious problem of NPAs. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. Most of the problem related to NPA is faced by public sector banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Strict measures are needed to be taken up to combat these NPAs crises. It is highly impossible to have zero percentage NPAs.

Improvement in recovery management properly functioning of banks depends on time recovery of loan. Banks should develop a new recovery programs for over dues, monitoring accounts, keeping regular contact with borrowers. However, many borrowers are defaulters not because of low income but due to lack of ethics.

Improving the credit Management- Management of credit is essential for proper functioning of banks. Preparation of credit planning, proper credit appraisals, disbursements, post sanction follow-up and need based credit are the some areas of credit management that needs improvement in order to reduce the NPAs.

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