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Research Article

TREND ANALYSIS OF NON-PERFORMING ASSETS OF INDIAN BANKS

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ABSTRACT

Non-Performing Assets are a serious challenge faced by the banking sector and they pose a serious threat to the development of the economy of a country. Non-Performing Assets are the loans/advances that have been defaulted or are overdue. NPA is considered to be a crucial factor while assessing the financial performance of a bank. A low NPA rate depicts high competence of performance of a bank. The objective of the study is to analyze the trend of NPA in Indian Banks, factors responsible for the creation of NPA, and its impacts. In the present study, three Public Sector Banks (SBI, PNB & Canara Bank) and three Private Sector Banks (HDFC Bank, ICICI Bank & Axis Bank) have been selected to analyze the trend of NPAs in Indian Banks. There are several internal as well as external factors that result in the creation of NPA in Banks, and those factors have been identified in this study. The impact of NPA on the profitability of banks has been analyzed with the help of tables and graphs. In the event when borrowers fail/deny to pay back loans and advances, banks can recover such loans or advances through recovery mechanisms. Some of the recovery mechanisms available for Indian banks to recover defaulted loans or advances have been discussed in the present study. This study shows that in India, Net NPA % of Public Sector Banks is higher than net NPA % of Private Sector Banks.

INTRODUCTION

Banking sector is a vital and dominant part of the financial system, as it plays a crucial role in economic development of a country. Banks are the ‘Backbone’ of a country’s economy. Banks acts as a link between people with surplus money and people who are in need of money. People deposit their surplus money in the bank, and bank provides loans with that surplus money to people who approach the banks in need of money (Kumari, 2017). In certain cases, customers fail or intentionally default paying back loans to the bank, which results in formation of non-performing assets.

Non-Performing Assets are the loans that are not paid back by the customers to the bank within the scheduled time period. If the principal amount/interest is not paid by the customers within the time period, then they become bad loans. Loans and assets which yield expected income from it and does not reflect unusual risks beyond standard commercial-risk, then such assets are called performing assets and the defaulted loans/ advances which fail to yield the expected income become non-performing assets (Chary, Fasi, 2019). Reserve Bank of India defines non performing assets as “*a loan or an advance where interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan*” (Mahapatra, 2009).

RBI directs the banks to categorize the non-performing assets into 3 categories. The NPAs are categorized on the basis of realizability of dues and the time-period the asset has been non performing. The 3 categories of NPAs are:

- Substandard Assets: All the assets (loans & advances) which have been non performing for twelve months or less are considered substandard assets.
- Doubtful Assets: Doubtful assets are those assets which have been substandard assets for twelve months
- Loss Assets: Assets which have been recognized by the bank, auditors or RBI as loss, but not written-off completely or partly are loss assets. These assets are almost uncollectible & have very low recovery value (Manek, 2015).

Types of NPA

There are two types of NPA: i) Gross NPA ii) Net NPA

- Gross NPA: Gross NPA is sum of all unpaid loans that are not recoverable, for which provisions has been made by the bank & which are still in the bank’s balance sheet. This type of NPA includes loss, doubtful & sub-standard assets. However, this type of NPA does not indicate actual loss of the bank. Gross NPA indicates that the asset quality of the bank is poor. GNPA negatively impacts the reputation and credit value of the bank.
- Net NPA: Net NPA is obtained after bank deducts the provisions for NPA. Net NPA depicts the actual burden and loss of the bank. It is also a strong indicator of the

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financial health of a bank. NNPA has a significant negative impact on the liquidity & profitability of the bank (Bhasker, Gombi, 2021).

LITERATURE REVIEW

- Ambuj Tiwari & Vipul Garg, in their article "A Study of Non Performing Assets of Indian Banking System and Its Impact on Economy" (2018) studied the present trends of NPA in the Indian Banking System. The rising rate of NPA in the developing countries is a real threat to the profitability of the banks and the country's economy. Management of bad loans & keeping them undercontrol is extremely crucial for the Indian Banking System.
- Nitin Bhasker & Palaksha Gombi have discussed the role played by banking sector and the rising NPA in a country's economy in their article "An Empirical Study on Non-Performing Assets with Special Reference to HDFC Bank Ltd." (2021). The authors have found that even with specific policies and procedures to control NPA, high NPA rate has been noticed in HDFC Bank. After the application of reform policies, there is no instant solution that helps in controlling the rising NPA; Securitization Act plays a crucial role in bringing the NPA in control. An effective way to prevent NPA is for the banks to share/exchange information of defaulters.
- Asha Singhin the year 2013, has done a comparative study of NPA in Public sector banks and Private sector banks in her article "Performance of Non-Performing Assets (NPAS) in Indian Commercial Banks". The author is of the opinion that it is almost impossible to completely get rid of NPAs, but measures need to be taken by banks as well as government to bring NPA under control.
- Anjali Prava Mishra, Muna Sahoo and Rabindra Kumar Swain have examined the efficacy of NPA recovery-mechanisms in their article "Non-Performing Assets of Scheduled Commercial Banks in India: Its Regulatory Frame Work" (2017). Out of all the measures taken by the government to control & recover NPA, SARFAESI Act-2002 has been proven to be the most effective one. However, the money recovered is insignificant when compared to the money that was defaulted. The recovery schemes need to be upgraded so as to get the most out of them.
- Inchara Gowda in the year 2019 conducted a study to examine the trend of NPAs, its impact on Public, Private & Foreign Banks in her article "Implications of NPAs on the Profitability of SCBs – A Comparative Study of Public, Private and Foreign Banks". It is noted that NPA has a severe negative impact on public & private sector banks & their profitability, however in the case of foreign banks, the reasons were not explained. To get a high profit level, banks need to assess the collaterals kept for loans.
- Vrinda Batra & Neetika Batra has examined the trend of NPA from 2005 to 2014 in the article "Trends and Differences in NPAs across Bank Groups in India" (2020). After interpreting the data, the authors have noted that the NPA has started rising since 2011, and the rise in NPA is higher in public sector banks and considerably low in private banks. The private banks have been comparatively better in handling NPA, and the reason behind it maybe because of the business strategy/model opted by the banks.
- Sajijul Islam and Sudin Bag in 2017, have discussed how NPA is a deadly virus that is resulting in the deterioration of banking sector's health in their article "Non-Performing Assets a Biggest Challenge in Banking Sector – A Comparative Study between India and Bangladesh Banking Sector". During the study, the authors have noticed that in both the countries, NPA trends in study-period were more stable in the Private banks. NPA has a negative correlation with the Profitability of a bank. Banks should focus more on credibility of clients and assessing if they are capable of returning the loan or if there is a possibility of them defaulting.
- Sarat Chandra Dhal & Rajiv Ranjan have evaluated how financial & economic factors affect the non-performing loans of banks in their article "Non-Performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment" (2003). Animportant finding of the research was that one of the main reasons that results in high NPA is expecting a high rate of interest. The authors suggest that asset valuation helps in analyzing the client's probability of defaulting and helps in prioritization of valuable & credible clients.
- Kulbir Singh Guleria in his article "A Study of Non Performing Assets of Public Sector Banks in India" (2016) has discussed the magnitude of issue of NPA. He is of the opinion that, compared to the international standards, Indian banking sector's NPA is very high. He suggests that bank officials need to be trained better in filtering out the borrowers by their credit-worthiness.
- Nidhi Agarwala & Varuna Agarwala have studied the growth pattern of NPA of different banks in their article "A Critical Review of Non-Performing Assets in the Indian Banking Industry" (2019). They have observed that not only big-sized banks contribute to the rise of NPA in the banking sector, the small-sized banks also have a part in the rising NPA. Rise of NPA not only impacts the profitability of the bank, it also affects the wealth of shareholders. It is the need of the hour for RBI to provide stringent norms to bring NPA under control.

Objectives of the Study

- To study the trend of NPA in Public Sector & Private Sector Banks of India.
- To understand the factors behind NPA in Indian Banks.
- To interpret the impact of NPA.
- To study the ways to recover NPAs.

RESEARCH METHODOLOGY

The research methodology employed in this research is descriptive and analytical. Analytical approach is used to analyze the trends of NPA in public & private sector banks of India. Descriptive research is used in describing the causes and impacts behind the trends of NPA.

Scope of the Study

The scope of the present study extends to analyzing the trends of NPA in 3 Public sector banks (SBI, PNB & Canara Bank) and 3 Private sector banks (HDFC Bank, ICICI Bank & Axis Bank) of India from annual year 2016-17 to 2020-21.

Data Collection Sources

For the present study, the data has been gathered from several secondary sources such as Bank circulars, journals, articles, annual reports & online sources.

Method of Analysis

The method of analysis opted in the present study is secondary data analysis. In this method of analysis, the secondary data gathered from several sources (as mentioned above) is examined & analyzed.

Limitations

- The data collected for the present study is only from secondary data, no primary data has been collected.
- The present study is limited to the issue of NPA.
- This study focuses only on the Indian Banks, it does not cover any foreign banks.
- The study period for this research is only five years.

Data Analysis and Interpretation

Public sector banks selected for the study are:

- State Bank of India (SBI)
- Punjab National Bank (PNB)
- Canara Bank

Private sector banks selected for the study are:

- HDFC Bank
- ICICI Bank
- Axis Bank

Net NPA% of the Selected 6 Banks

Table 1

	Public Sector Banks			Public Sector Banks		
Year	**SBI**	**PNB**	**Canara**	**HDFC**	**ICICI**	**Axis**
2016-17	5.19%	7.81%	6.33%	0.33%	4.89%	2.11%
2017-18	5.73%	11.24%	7.48%	0.40%	4.77%	3.40%
2018-19	3.01%	6.56%	5.37%	0.39%	2.06%	2.06%
2019-20	2.23%	5.78%	4.22%	0.36%	1.41%	1.56%
2020-21	1.50%	5.73%	3.82%	0.40%	1.14%	1.05%

Source: Annual reports from official websites of the bank.

From the above table, it can be observed that the overall trend of net NPA % of the banks has declined in the study period i.e., 2016-17 to 2020-21. Among the 3 public sector banks, State Bank of India has recorded the lowest net NPA % of 1.50% and Punjab National Bank has recorded the highest net NPA % of 5.73%. Among the 3 private sector banks, HDFC Bank has recorded the lowest net NPA % of 0.40% and ICICI Bank has recorded the highest net NPA % of 1.14%. Out of the 6 banks, State Bank of India & ICICI Bank has a steady decline of net NPA %, whereas the other banks have had a bumpy decline with some spikes in the net NPA %. Rise in the trend of NPA in five banks can be noted in the year 2017-18, except ICICI bank. But the banks have managed to bring the NPA in control in the year 2018-19.When the trends of net NPA % of public sector banks & private sector banks are compared, public sector banks have a higher net NPA %.

Factors Responsible for Formation of Non-Performing Assets

Non-Performing Assets are not formed because of any single particular reason. There are several factors that result into creation of non-performing assets. These factors can be divided into internal and external factors.

Some of the internal factors responsible for non-performing assets are:

- Using loan for a different purpose–In several instances, borrowers state a different reason to procure loan and mislead the bank into believing that the purpose for which the loan is being taken will yield the expected income. However, the actual purpose for which the loan is being taken might not be very fruitful and fail to yield the expected income, because of which the borrower will fail to pay back the loan.
- Faulty lending-process–The most important principle that needs to be followed during the lending process is the Principle of Safety. This principle is important because it focuses on ensuring that the borrower is capable to repay the loan with interest in regular time-intervals; this mainly depends on if the borrower is competent enough, his financial position, his character and nature of security.
- Granting loans to defaulters: Banks sometimes knowingly or unknowingly grant loans to borrowers who had previously defaulted their loans, which increases the risk of them defaulting their loans again.
- Incorrect/Incomplete Documentation –In several cases, borrowers submit incorrect or forged documents, or keep on delaying submitting certain documents so as to avoid disclosing their financial capability. If the bank fails to properly verify the documents and the financial capability of the borrower, they end up granting loan to someone who will not be able to repay it.
- Management Deficiency –Banks should be very cautious while granting loans & should secure the loans by keeping tangible assets of borrower as security. Banks should not provide loans/advances to only big firms or just one industry, it should diversify the risk by granting loans to different industries; so that if one industry is in loss or is affected badly, the bank will not suffer.
- Defective credit appraisal procedure –Credit appraisal means examining the loan application thoroughly and to assess the capability of the borrower to repay the loan. If the bank fails to perform the credit appraisal properly, it will result into granting loans to borrower's who are not capable of repaying the loan.
- Neglecting regular follow-up – If the banks fail to regularly check-in with the borrowers by "in-spot visit" through their bank officials in regular intervals, it increases the possibility of borrowers to default on paying back the loan (Syamalarao, Premchand, Purushotham, 2018).

Some of the external factors responsible for non-performing assets are

- Willful-defaults – In willful defaults, borrowers willfully/ deliberately do not pay back loans. Willful defaulters are those borrowers who are capable to pay back loans but choose not to. These kinds of defaults result in heavy loss to the banks and result in rising its NPA. Some of the infamous willful defaulters are Nirav Modi, Mehul Choksi, Vijay Mallya, etc.
- Natural Calamity –India is often hit by several natural calamities which cause wide range of loss of life, property, financial resources, etc. As a result, several borrowers are rendered incapable to pay back loans. Farmers heavily depend on rainfall to produce their

crops, due to irregular rainfall, farmers suffer huge loss and are unable to pay back loan.

- Inefficient recovery tribunals –For the purpose of recovering debts and advances, government has set several recovery tribunals. But in several cases, due to the negligence and carelessness of these tribunals to deal and adjudicate cases on time, banks fail to recover loans from their customers, which results in the rise of NPA.
- Incapability to predict demand: Entrepreneurs often fail to estimate the demand for their product and take huge loan to manufacture their products in a large number; due to lack of demand, huge number of products remain unsold, and it fails to produce the expected income because of which they fail to pay back loan to the bank (Debbarma, Das, Laskar, 2021).

Impact of Non-Performing Assets

Profitability

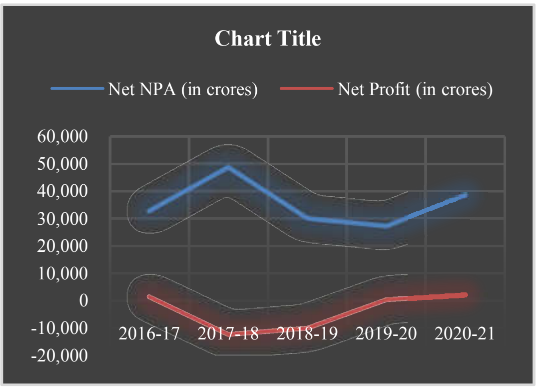
The main impact of increased NPA can be seen in the profitability of the banks.

To analyze the impact of net NPA on the profitability of banks, relation between net NPA and net profit of Punjab National Bank (Public Sector Bank) and Axis Bank (Private Sector Bank) is shown with the help of graphical representation.

Punjab National Bank

Table A

Year	Net NPA (in crores)	Net Profit (in crores)
2016-17	32,702	1,382
2017-18	48,684	-12,282
2018-19	30,037	-9,975
2019-20	27,218	336
2020-21	38,575	2,021



Graph A

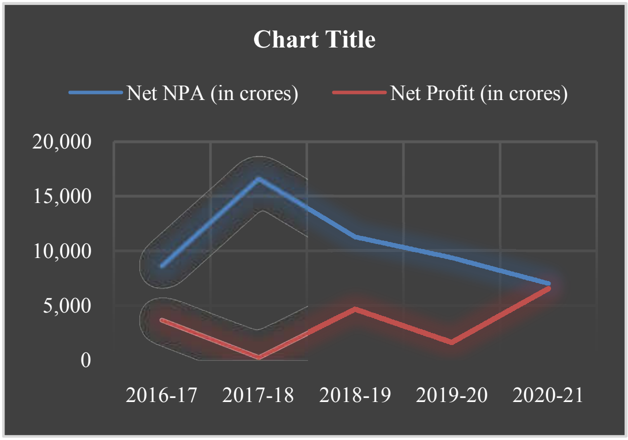
Source: Annual report 2020-21 of Punjab National Bank

In the above graph, it can be observed that in 2017-18, there was rise in the net NPA and in the same year, decline of net Profit can be noted. In the year 2019-20, a significant decline in the net NPA and increase in the net profit of the bank can be seen.

Axis Bank

Table B

Year	Net NPA (in crores)	Net Profit (in crores)
2016-17	8,626	3,679
2017-18	16,591	275
2018-19	11,275	4,676
2019-20	9,360	1,627
2020-21	6,993	6,558



Graph B

Source: Annual report 2020-21 of Axis Bank

In graph 2, it can be seen that in the year 2017-18 when there was rise in the net NPA, there was significant decline in the net profit of the bank. In 2018-19 and 2020-21, it can be observed that when there is decline in the net NPA, there is rise in the net profit of the bank.

From graph A and graph B, it can be interpreted that whenever there is increase in the net NPA of the bank, there is decline in the net profit of the bank, and similarly, when there decline in the net NPA, considerable increase in the net profit can be seen. This suggests that net NPA has an inverse relation with net profit (profitability) of banks.

Liquidity

Non-Performing Assets negatively impact the liquidity of banks. Rise in NPAs results in non-availability of funds; decline in profitability leads to scarcity of cash, and banks are left with no option than to borrow money which will become additional expenses for the bank. Because of shortage of money, it will be cumbersome to carry out the activities of bank.

Burden on the Government

Government holds the majority shares in the Public sector banks; so when the PSBs are struggling, government will have to provide equity-capital to the banks. Due to the rise in NPAs, PSBs are facing difficulties, hence, government will need to step in and support the banks by providing capital.

Brand-image of Banks

Bank with a high NPA will face decline in its credit value in the market. This affects the image and good-will of the bank, which will result in customers and investors losing their trust in the bank and will think twice before investing or keeping their money in the bank. To retain customers, banks will grant loans to borrowers from whom recovery of loan is doubtful (Singh, 2013).

Recovery of NPAs

Recovery mechanisms play a crucial role in recovering loans/advances/assets that a borrower has failed to pay back to the bank. If these mechanisms fail to recover the assets, those assets will become non-performing assets, which will affect the financial health of the bank. Recovery of loans/advances/assets is mainly done with the help of:

- Lok Adalat – Lok Adalats are the dispute redressal mechanism set up by the government to settle disputes/cases pending in court or before filing a lawsuit mutually between the parties and the bank. Lok Adalats have the jurisdiction of cases with monetary value less than ten lakh rupees. This recovery mechanism is considered to be one of the simplest & cheapest way to recover loans (which are less than 10 lakh rupees).
- Debt-Recovery Tribunal –RDBFI Act (Recovery of Debts due to Banks & Financial Institutions Act, 1993) made provision for speedy recovery of loans from the borrowers by the banks/financial institutions by filing Original Application in Debt-Recovery Tribunals (DRTs) and appeal in Debt-Recovery Appellate Tribunals (DRATs). The purpose of setting up of these tribunals is to provide speedy redressal to banks against NPA.
- SARFAESI Act –The primary objective of SARFAESI Act (Securitization and Reconstruction of monetary Assets and Enforcement of interest Act, 2002) is to accelerate the recovery process of defaulted-loans & to mitigate the stress of banks which is caused due to rising NPA. Because of this act, banks can recover the defaulted loans without the intervention of court. This act empowers the banks & financial institutions to take the securities of borrowers in possession and sell them to make up for the defaulted loan.
- Insolvency & Bankruptcy Code –IBC provides speedy remedy to banks against NPA. IBC provides rules for initiating Insolvency Resolution Process (IRP). This process can be put into motion by creditors or by company-debtor. Once the IRP is put into motion, the claim of creditors should be dealt in 180 days. Before the time period of 180 days elapses, the economic creditors should conform with a revival-plan. If this minimum criterion is not met, the company will be forced to liquidate. IBC plays a crucial role in aiding the banks to recover debts and helps the banks to reduce the burden of NPA (Meena, 2020).

Findings/ Results of the Study

- The trend of NPA in Public & Private Sector Banks has declined in the study period.
- Net NPA %of Public Sector Banks is higher than net NPA %of Private Sector Banks.
- There is frequent rise and fall of NPA in both public & private sector banks in the study period.
- In the year 2017-18, rise in net NPA %in five of the banks was noted.
- There is an inverse relation between NPA & Profitability of banks.

Suggestions

- Banks should take extreme precaution during credit assessment of borrowers.
- Banks should thoroughly verify and cross check the documents submitted by the borrowers.
- Quality of assets kept as collateral should be examined thoroughly to assess their worth.
- One of the main responsibilities of banks is to carefully choose the borrowers so as to prevent loans from becoming NPAs.
- Banks should prioritize loan recovery from borrowers who are capable of paying back the loan but are not willing to.
- Banks should regularly ensure that the borrower is utilizing the loan for the purpose for which it was granted.
- Banks should send the names of the willful defaulters across other banks to warn them against falling in trap of willful defaulters.

CONCLUSION

NPA poses a threat not only to a particular bank suffering with high NPA or the banking sector, it affects the economy of a country as a whole. The Public sector banks need to pay more attention to the issue of NPA and implement proper mechanism and governance to bring this issue under control. Eliminating NPAs completely may never be possible, but steps need to be taken to prevent it. Indian banking sector should focus on ways to prevent loans from becoming NPAs, because "*prevention is better than cure*". Analyzing credit-worthiness of borrowers plays a key role in prevention of loans from becoming NPAs.

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