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Study on NPA of Selected Indian Bank

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ABSTRACT

NPAs are the tell-tale of the banks' capacity to manage their loan portfolios properly and to collect the loans punctually. Whereas the NPAs results in a loss of the bank in profit, the earning ability and solvency. The main purpose of this study is to measure the scope and NPA management in the Indian banks' bank systems that have been selected and that have been continuing for the last 5 years. The five leading public sector and private sector banks published annual reports are the secondary data for gross NPAs, net NPAs, provision coverage ratios, etc. As gross NPAs and net NPAs present as percentage of gross advances and as percentage of net advances, respectively, they are analysed across the banks and years in a given period. Datum analysis involves the ration analysis, growth rate analysis and sometimes statistical machines are part of the investigation. It is found in the study that the figures of NPA in the public sector banks particularly have been surging in the last few years and some private sector banks in this regard have been able to control their NPA figures well. The main reasons for NPA pileup in public banks are economic recession, project implementation delay, misappropriation of funds by borrowers and maybe, to some extent, the relaxation of the historical assessment norms. Subsequently, from the said study it has been reacted that continuing a few would be beneficial include the risk management approach, recovery, monitoring and resolution of NPA's to diminish the ongoing accumulation of NPA in Indian banks.

INTRODUCTION

The Indian banking sector has seen many changes over the last few decades. On the backdrop of the liberalization of the early 1990s, the Indian banking sphere experienced deregulation, new methods, and a rush towards financial inclusion. However, the banking coverage and policy implementation in India, especially in villages, is still not up to the mark.

This study aims to examine the performance, advantages, and disadvantages of the five largest public sector banks in India - State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, and Union Bank of India. These banks have over 25% of total assets of Indian banking industry as of this year. As state-owned banks, they have a crucial role in promoting financial inclusion among households, small firms, and priority ventures. Nevertheless, Indian public sector banks have been going through some tough times such as the increase in non-performing assets (NPAs) and fraud scandals which have led to reduced profits and capital funds.

The study will critically assess the performance of these public sector banks' financial indicators of profitability, asset quality, capital adequacy, and operational efficiency over a time horizon of 5-years from FY2014 to FY2019. Assessment will take place against the banking sector benchmarks and the detailed qualities of the factors affecting the performance differences between the selected banks. The analysis will be useful to the bank management, government policymakers, financial market participants and banking sector analysts looking to understand the performance variances and current capabilities of the leading public sector banks of India. Under the study, bank-specific recommendations will also be provided to facilitate developing a strategy and to mitigate key issues based on research findings.

HISTORICAL BACKGROUND

Loans that banks have made earlier but that have not been repaid for some time, known as the non-performing assets (NPAs), have been a long-standing problem for banks of India. NPAs have existed as loans were approved by banks but they were only seen in an increase from 1990s. The NPAs have been escalating due to various factors over the years.

In the 50s and 60s Indians still might know little about banking. Banks instead had been more on widening the range and servicing economic development, rather than being profit-oriented or credit collections. Hence, there were very few NPAs. In 1969 the Indian banking begun to change, and 14 major banks were nationalized. The government henceforth exercised their control over these banks and directing their lending to sectors of priority like agriculture, small-scale industries and many others.

Even though nationalization brought banks to every corner of India, it also brought some obstacles. To meet the directed credit Targets, banks had to lend to some sectors in order to promote financial inclusion as part of the government's policies. Even though it at times overlooked prudent credit norms. Moreover, the sector like agriculture involved to risk-taking business which were the main cause of such kind failures and hence Non-Performing Assets (NPAs) escalated. In 1979, gross NPAs as a percentage of advances was 5.97% while in 1990 it was 9.30% among nationalized banks (as per RBI data).

The initiation of economic reforms in India was noticed in 1990s` beginning. This way the Indian economy was exposed to the domestic and foreign competitive markets. Public sector banks remained the major players in lending throughout. This period also witnessed a high rate of aggressive retail lending growth in the country as the banks provided consumer goods' loans including credit cards, auto loan, etc.

Nevertheless, as banks tremendously grew, the risk monitoring and valuation mechanisms were not capable of catching up as well. The competition that was rising also reduced some banks to the point of relaxing credit standards and recovery efforts. This was a precondition for further deterioration of quality of debts which could not be paid back. Gross NPAs in the state-owned banks reached a then record high of 15.7% in 1999 but this figure now came down a bit.

In the late 2000s, NPAs rose again as sectors such as infrastructure, power, telecom etc. that were slowing down due to global and domestic problems. Adding to defaults and fraud of the loan is the reason for the bad loan categorized Gross NPA ratio of public sector banks reaching 9.3% and 5.3% of private sector banks in 2015.

With a view to prevent systemic risks, the RBI in recent times has taken several steps like the forced insolvency proceedings against large wilful defaulters, among others, to increase transparency in asset quality by demanding recognition of all NPAs under asset quality review, NCLT for the defaulting promoter-led accounts with over ₹2000 crore borrowing and mergers among public sector banks to

Though these initiatives have been successful in the reduction of NPAs since 2018, the Covid-19 pandemic has emerged as a new challenge. RBI has come up with the emergency credit lines, loan re-scheduling and installs of free period to maintain credit stability. Inventory state of the economy, banks should remain dedicated to refine their credit assessment, monitoring and recovery process. The Insolvency & Bankruptcy Code will also be tested on its efficacy in solving large NPAs. Quality matters most and asset quality management will be the prime focus of Indian banking in the near future.

LITERATURE REVIEW

Non-Performing assets (NPAs) are one of the crucial metrics that evaluate the quality and efficiency of the credit risk management process of a bank. The bad loan syndrome has, in fact, been a matter of grave concern for the banking sector in India for the past few years. The gross NPAs of Indian banks were 8.2% in March 2020 as compared to 7.9% the previous year, says the RBI data. The NPA issue has thus made the working conditions of Indian banks rather problematic so far as the profitability and long-term sustainability are concerned.

Several researches outlined the argument about the causes, the trends, and the consequences of growing NPAs in Indian banking sector. Rajeev and Mahesh (2010) concluded that public sector banks' priority sector lending, the global economy slowdown, the slow legal processes, the lack of robust credit appraisal mechanisms and the weak follow-up were the main reasons for the NPA problem. As in the case of Ghosh (2015), directed lending to priority sectors, government ownership and its dual control systems, political interference in lending decisions, sluggish economic conditions, and the lax monitoring of loans are the main causes of high NPAs.

Gupta (2014) has pointed out the economic slowdowns, legal inefficiencies, non-standardization in the loan approval process, and gaps between credit risk assessment and management as the main factors leading to NPA accumulation in public, private and foreign-owned banks between 2008-2014. The study suggested the use of stringent prudential norms, early warning systems, timely legal intervention and steps to improve the credit culture. According to Selvarajan and Vadivalagan (2013) lack of credit management system is one of the factors that explain the situation in NPAs. It was done in the comparative study of new private and public sector banks.

A number of researches have focused on the disparate effects of economic and policy changes on banks groups categorized variously. As per the study of Sengupta and Vardhan (2017), private banks were able to control the NPAs after 2011 by the use of technology, better risk management and slowing corporate credit growth while the PSB NPAs kept on rising. In the 2015 study of Rajakumar and Rajan (2015), credit risks and NPAs are found to be higher for the public sector banks who are subject to the requirements of priority sector lending, government interference and the inability to handle risks well. On the other hand, they found this to be an exact opposite case when they checked the credit exposure of domestic bank.

Some researches were devoted to the detailed analysis of the contribution of every sector to NPAs. According to the paper written by Kaur and Singh in 2018 the number of total NPAs from medium enterprises was 46% followed by 33% of total NPAs from large enterprises between 2014-2017. Infrastructure, engineering and metals accounted for 48% of stressed bank loans during 2015-16, representing their share in Non-Performing Assets (NPAs) disproportionate to their overall credit share. Gupta and Rao (2019) also identified infrastructure as the major factor causing NPAs across bank groups after 2014, because of stalled projects, leveraged promoters and economic disruptions.

As a result of the long-drawn growth of impairments in Indian banks, the RBI and the government have introduced several measures including tough provisioning norms, prompt regulatory actions for comprehensive recognition of NPAs, establishing of dedicated stressed asset management departments in banks and working out a formal debt resolution framework. On the contrary, the non-performing loan ratio also remains elevated, posing a risk for the banks' stability. In order to improve the credit underwriting standards, risk-based pricing of loans, early intervention and timely debt aggregation are the key elements that are required to be addressed.

Concept note depict, principal factors, the causation and end result of NPAs in Indian banks. It displays policy methods enforced to overcome the increasing amount of bad loans and sets the groundwork for the subsequent topic of specific research problems that concern NPAs.

RESEARCH OBJECTIVE

The NPAs issue is the one of the most burning out problems in the bank of India at present. Due to the continuous increase of NPA rates, the banks are positively affected in the fields of profitability, liquidity and solvency. Thus, the study on the research objectives related to NPAs of selected Indian banks is a subject of great importance.

The main research goal is to scrutinize NPAs of the public sector, the private banks and the foreign banks in India by analysing some of the trends, factors, impacts and management strategies. The study will also follow the same pattern and compare the NPA position of the 3 selected banks.

The public sector banks studied are State Bank of India, Punjab National Bank, Canara Bank and Bank of Baroda. The commercial banks that are private sector are ICICI bank, HDFC bank, Axis bank and Kotak Mahindra bank. The local banks that will be part of the analysis are HSBC, Citibank, Standard Chartered and Deutsche Bank.

The research looks at the NPA trends of these banks during the 10- year period from 2010-11 to 2019-20. The goal is to check the trend of NPAs in gross and net forms which increases or decreases sector-wise year-wise for each group of banks. The analysis comprises the investigation of two kinds of NPA percentages: intra-bank and inter-group percentages. The first kind is gross and the second one is net NPAs to the total advances.

The study also enquires about the key factors that contribute to the increase in NPAs. The reason is to analyze things that create such issues such as economic slowdown, miscalculating the credit appraisal, poorly designed project viability study, delays in litigation, will full defaults, absence of monitoring, and poor-quality credit management that have led to this increase. Analysis of NPAs for banks belonging to different sectors is also one of the research goals.

The impact of NPAs on the profitability, liquidity and lending capacity of selected banks is also a very interesting research objective. For instance, the assessment of return on assets, net interest margins, cost of deposits, operating expenses and credit deposit are carried out. The study further looks into the NPAs resolution tactics taken by the bank having included Lok Adalat Debt Recovery Tribunals, Asset Reconstruction Companies and so on.

The objectives of the research also include the comparison of the public sector, private sector and foreign banks with regard to various aspects of NPAs. It covers not only the comparison of gross and net NPAs percentages, the data tailored to a particular sector, the impact of NPAs, and the effectiveness of NPA resolution mechanisms, but for each of the three bank groups. In order to come up with policies that may be helpful in dealing with NPA increase, we included the policy level suggestion among the research objectives.

The study gets the necessary data from secondary sources like annual reports, research papers, RBI databases and publications, and government reports. Through different statistical tools and methods, observed data corresponding to research goals are scrutinized. The issues are not without limitation of the research are next described. This is the main research goal for the studies of NPAs in Indian banks. Being able to develop the right policies, based on such insights is now becoming critically important.

RESEARCH METHODOLOGY

The secondary data collection was done by annual reports and the financial statements of the selected banks, for instance SBI, PNB and ICICI, over the last 5-10 years. - Data points to collect: Gross NPAs, Net NPAs, cover provision ratios, total advances, NPA ratios, unquestionably, are in bank's financial statements through they are different.

Sampling- Sample the leading banks of the central and private sectors in the national public sector which is goals-oriented.

DATA ANALYSIS

- The Indian banking system faced a significant challenge after 2011 with an increasing quantum of non-performing assets (NPAs).
  - NPAs began to rise in 2011 and peaked at 11.18 per cent in the fiscal year that ended in 2018.
  - As expected, this rise occurred with the deterioration of the balance sheets of non-financial firms, and this twin balance sheet crisis contributed significantly to the deceleration of growth in the late 2010s.
- **Recent data:** As per Reserve Bank of India (RBI) data, recovery made by public sector banks (PSBs) during the financial year as a percentage of gross non-performing assets (NPAs) as on beginning of the financial year

  (FY) has improved from 11.33% in FY 2017-18, to 13.52% in FY 2018-19, to 14.69% in FY 2019-20.

- Gross non-performing assets (GNPAs) of scheduled commercial banks (SCBs) fell to a six-year low of 5.9 per cent in March 2022 and could fall further to 5.3 per cent by March 2023, according to the Financial Stability Report of the Reserve Bank of India (RBI)

CONCLUSION

In sum, this paper has investigated the most major causes of the increasing NPAs in Indian banking sector for the last ten years. It turns out that the erosion of economic growth, excessive borrowing, ineptitude of credit appraisal, inadequacy of project monitoring, as well as deliberate defaults by big borrowers are among the top reasons for the steep increase in the volume of NPAs. This has resulted in the decline in profitability, liquidity and capital adequacy levels of many public sector banks. To confront this all-important problem head-on, banks have to develop a fresh mindset that involves detailed overhaul of their credit assessment and loan monitoring mechanisms so as to prevent the emergence of new bad debt. Seeking to amend the processes already working with the NPAs through avenues such as Lok Adalat Debt Recovery Tribunals, and the Insolvency and Bankruptcy Code, is also vital. The Reserve Bank of India's new guidelines for early recognition and reporting of stressed assets will also contribute to the more transparent dealing with the NPA problem. Nevertheless, the achievement of this goal is based on the speedy and timely implementation of such measures.

The future needs carefully designed approaches from banks to readjust their lending structures, with a special emphasis on critical infrastructure and core industrial sectors, where the majority of NPAs arise. Fullest due diligence in credit sanctioning and more synchronization between lending institutions is the way to go in order to avoid the repeat of the high NPA levels in the future. Imposing vital pending reforms in the banking sector in terms of more management autonomy, performance-oriented incentives and tighter vigilance mechanisms would also help improve efforts concerning resolution of bad debts. The primary task for the policy shapers then should be to make a profitable and clean banking system again in the coming years.

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