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NON PERFORMING ASSETS IN INDIA AN ASSESSMENT

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Abstract

Banks are one of the important segment of the financial system. The basic function of a bank is accepting deposits and providing loans and advances. It is not possible for a bank to accept deposit and sit quite. To manage their interest on deposits and other operating expense, banks need money. Borrowers should repay the loan amount (Principal) along with interest on agreed contract. This is necessary for the banks to get some profit after the deduction of above said expenses. If the loan amount is recovered on time, everything is fine, if it is not, problem arise for banks. The concept of Non-Performing Assets (NPAs) come to exist when the loan amount is not recovered according to contract. The NPAs is an asset which ceases to generate income for the banks. NPAs is not only affect the profitability of a bank but the liquidity as well.
***Keywords**: liberalisation, Non-Performing Assets, Public Sector banks, PSB, SBH, SBBJ*

Introduction

Non-Performing Assets are one of the main reason of the global financial crisis. India is not apart from it; especially the Public Sector Banks are facing more crisis than the other banks. The problem of Non-Performing Assets (NPA) has received considerable attention after the liberalisation of the financial sector in India. So many changes have been made to reduce the impact of NPAs. Indian Banks improved their business and technology to meet the requirement of the customers at ease and made the banking systems as friendly user. Though, there is a progress, bankers are struggling (particularly Public Sector banks) to reduce their NPAs level to maintain the stability and profitability in the business.

With this background the present paper seeks to address the following issues are as follows:
1. The status of Indian Banking
2. The trends of Non-Performing Assets
3. Challenges of Indian Banking

The Status of Indian Banking

The banking system in India consists of Commercial Banks and Cooperatives Banks of which the Commercial Banks account for more than 90 per cent of the banking assets. Based on the ownership pattern, the Commercial Banks can be grouped into three type i.e 1. State owned (PSBs) viz., State Bank of India and its subsidiaries and the nationalized banks (there are 27 PSBs functioning in the country as on 31.3.2014), 2. Private Banks under Indian ownership, and 3. Foreign Banks operating in India.

Nationalized banks in India are the major player in Indian banking system dominating the industry, but also play a pivotal role in the economic development of the country. The history of nationalization of Indian banks dates back to the year 1955 when the Imperial Bank of India was nationalized and re-christened as State Bank of India (under the SBI Act, 1955). Later on July 19,1960, the 7 subsidiaries of SBI viz., State of Hyderabad (SBH), State Bank of Indore, State Bank of Saurashtra (SBS), State Bank of Mysore (SBM), State Bank of Bikaner and Jaipur (SBBJ), State Bank of Patiala (SBP), and State Bank of Travancore (SBT) were also nationalized with deposits more than 200 crore.

The banking industry in India became a major tool for the development of country's economy by the 1960. The industry also became a large employer creating a number of opportunities for the job seekers. In order to spread banking infrastructure in rural areas, the then Prime Minister, Indira Gandhi took the initiative to nationalize few commercial banks. On July 19, 1969, 14 commercial banks were nationalized, which got Presidential approval on August 9, 1969. In 1980, in order to provide more power and command over credit delivery system six more commercial banks in India were nationalized.

In 1993, New Bank of India merged with Punjab National Bank (PNB), which brought the number of nationalized banks in India to 19. it is also the only merger between two Indian nationalized banks. In the following years, the nationalized banks in India saw a growth rate of around 4 per cent which was close to average growth rate of country's economy.

The banking sector has been facing the serious problems of the rising NPAs. In fact public sector banks are facing more problems than the private sector banks. The NPAs in public sector banks are growing due to external as well as internal factors. One of the main causes of NPAs in the banking sector is the Directed loans system under which commercial banks are required to supply 40% of their credit to priority sectors (G.V.Bhavani Prasad & D.Veena, 2011). Most significant sources of NPAs are directed loans supplied to the "micro sector" are problematic of recoveries especially when some of its units become sick or weak. 7 per cent of net advances Public sector banks from were directed to these units (M. Karunakar et al, 2008). Poverty elevation programs like IRDP, NREP,JRY, PMRY etc., failed on various grounds in meeting their objectives. The huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections. In India the scope for branch expansion in rural and semi urban areas is vast and also necessary. Increasingly, NBFCs operating at such places are coming under regulatory pressure and are likely to abandon their intermediation role. These branches find priority sector financing as the main business available especially in rural/semi-urban centers. Operational restructuring of banks should ensure that NPAs in the priority sector are reduced, but not priority sector lending. This will remain a priority for the survival of banks. Any decisions about insulating Indian banks from priority sector financing should not be reached until full-scale research is undertaken, taking into account several sources including records of credit guarantee schemes.

Trends of NPAs in Nationalized Banks

The rising NPAs in recent period can attributed to the effects of the global recession coupled with internal factors like the slowdown in the domestic economy which had adversely affected the performance of corporate as well as small and medium enterprises leading to a negative impact on credit quality. The asset quality of nationalized banks aggravated in comparison to private sector banks as big ticket corporate loans form a larger share of the credit portfolio for nationalized banks.

Another reason for sudden rise in gross NPAs of nationalized banks was reported to be on account of a shift to system based recognition of NPAs from a manual one. Prior to this the computation for most banks was worked out manually at branch level and was therefore subject to discretion of managers. The RBI in its Financial Stability Report, December 2013 has identified five sectors- Infrastructure, Iron and Steel, Textiles, Aviation, and Mining as the stressed sectors. Nationalized Banks have high exposures to the industry sector in general and to such stressed sectors in particular. Increase in NPAs of banks is mainly accounted for by switchover to system-based identification of NPAs by nationalized banks, slowdown of economic growth, and aggressive lending by banks in the past, especially during good times. As nationalized banks dominate the Indian Banking Sector and increase in the NPAs of nationalized banks is matter of concerns, steps are being taken to improve the situation.

Table Gross and Net of Nationalized Banks from 2008-09 to 2012-13

(Rs. In million)

Year (End March)	Advances		Non- Performing Assets			
	Gross	Net	Gross		Net	
			Amount	As % of Gross Advances	Amount	As % of Net Advances
2012-13	31412861	30935500	1016	3.24	619362	2
2011-12	25033741	27253162	667951	2.67	391546	1.44
2010-11	21769667	23102793	429074	1.97	212640	0.92
2009-10	17464003	18430819	354703	2.03	161831	0.91
2008-09	15256019	15197619	268038	1.75	102863	0.68

Sources: RBI data (www.rbi.org.in)

The table-1 shows the trends of Gross and Net NPAs of Nationalized Banks in India from 2008-09 to 2012-13. The amount of Gross advances of the same has increased from Rs. 15356019 million to 31412861 million from 2008-09 to 2012-13. Further, the amount of Gross NPA has also increased from Rs. 268038 million to Rs.10166834 million during the period. Similarly, GNP percentage is also showing the increasing trend from 1.75 to 3.24 in same period. A similar trend is also observed in the case of Net NPA (NNPA) to net advances which increase from 0.68 per cent in 2008-09 to 2 per cent in 2013-13.

Challenges to Indian Banking

Presently, Indian banking sector encompass of Public Sector Banks, both old and new generation Private sector banks, Foreign banks, Regional Rural Banks, and Co-operative banks. More than 70 per cent of the banking business is captured by Public Sector banks along with State Bank Group. Thus the major share of banking business is with public sector banks. But the share of public sector banks baring SBI on a decreasing trend from past couple of years. Many foreign banks in India are either shutting down their operations or have stopped expansion due to high competition. Thus we can say that Indian Banking Sector emerging competitive environment poses serious challenges to public sector banks some of these are as follows,

Rising NPAs:

Public sector Banks are under stress largely weighted down by high non-performing assets. PSU banks reported one of their worst quarters in the last decade. The gross NPAs of banking sector are over 7.6 percent of total loans. While overall stressed assets are at about 11.50 percent as per Economic Survey Report. But the position of Public Sector Banks regarding stressed assets is worst. Only four Public Sector Banks viz Syndicate Bank, Indian Bank, Punjab Bank and Sindh bank and Vijaya Bank have gross NPA level less than 10 percent. Thus Public Sector Banks have to face tough challenges in controlling fresh slippages and also in reducing NPA by recovery.

Reducing CASA

CASA ratio stand for Current and Savings Account ratio. CASA ratio of a bank is the ratio of current and saving account deposits to total deposits. A higher CASA ratio indicates a lower cost of funds. Because banks do not usually give any interest on current deposits and the interest on saving accounts is usually very low. If a large part of a bank's deposits is derived from these funds. It means that the bank is getting those funds at relatively lower costs. It is generally understood that a higher CASA ration leads to higher net interest margin. In india, it is used as one of the parameters to assess the profitability of a bank. Banks with high CASA percentage are considered stronger and have higher profitability.

Increasing the Profitability

The profitability of almost all Public Sector Banks has gone down significantly during the last couple of years. For the financial year ending March 2016, out of 19 Pubic Sector Banks only five public sector banks viz Andhra Bank, Vijaya Bank, Punjab & Sindh bank, Bank of Maharashtra and Union Bank India have made profits. Baring SBI, stocks of all Public Sector Banks are trading at a Price to Book Value of less than 1 and in some cases even less than 0.5 while most private sector banks are trading at a PBV of over three. Ever increasing stressed assets, declining low cost funds (CASA), and slow growth rate, low profitability has resulted in the valuation gap between the PSB and private sector banks.

Adopting New Technology Innovations in Banking

Public sector banks are relatively slow in adopting and further implementing new technology innovations. Now, as our country is moving towards cash-less economy after decentralization announced by Government of India on 08th November 2016, the role and importance of technology enabled banking products has gone up exponentially. Baring few Public Sector Banks like SBI and Vijaya Bank, remaining are not doing well in implementation of Alternate Delivery Channels like Unified Payment Interface (UPI), Bharat Bill Payment Systems (BBPS), Radio Frequency Identification Technology (RFID) for electronic tolls, Aadhar Enabled Payment System (AEPS), E Banking like internet banking and mobile banking, Mobile wallets, Point of Sale Machines etc. The cyber related crimes and frauds are increasing exponentially, thus those Public Sector Banks whose network is not stable and full proof will face severe challenges related to cyber funds. Generally Public Sector Banks have major share of illiterate and old customers and these types of customers are on higher risk regarding cyber frauds so Public Sector Banks not only have to improve their technology related infrastructure but also have to aware and teach their customers about proper use of ADC products.

Increasing Business Growth

All the major new age private sector banks are growth continuously with more than 20 percent for last more than a decade whereas the average business growth of Public Sector Banks has come down to a single digit.

Consolidation in the Banking Industry

Already consolidation has started in Indian banking industry. ICICI bank has taken over Bank of Rajasthan, Kotak Bank has taken over ING Vyasya Bank, HDFC bank has earlier taken over Centurion Bank of Punjab, State Bank of India has already taken over associate banks into its folds and has become a very large entity. Therefore, for weak Public Sector Banks surviving this phase of consolidation and then identify is very difficult and thus this phase puts enormous challenge in front of them, now the situation is either perform or perish for the survival in the market.

Conclusion

Banking sector play very important role in any economy. A healthy and sound banking system are very essential for growth and development of the economy. Non-performing assets are one of the nest indicators for the health of the banking industry. It reflects the performance of banks. NPS has a direct impact on the profitability, liquidity and solvency position of the bank. Higher NPA indicates inefficiency of the bank and lower NPA indicate better performance of funds. To improve the efficiency and profitability of banks the NPA need to reduced and controlled.

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