

NPA Management in Banks: An Indian Perspective

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OPEN ACCESS

Volume: 6

Issue: 2

Month: October

Year: 2018

ISSN: 2321-4643

Received: 28.08.2018

Accepted: 29.10.2018

Published: 30.10.2018

Citation:

Perumal, R & Anilkumar, P.
“NPA Management in Banks:
An Indian Perspective.”
*Shanlax International Journal
of Management*, vol. 6, no. 2,
2018, pp. 7–10.

DOI:

<https://doi.org/10.5281/zenodo.1473306>

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Abstract

Non-performing Asset (NPA) has risen since over ten years as a disturbing risk to the managing an accounting industry in our Nation sending troubling signs on the supportability and bearableness of the influenced banks. An abnormal state of NPAs proposes a high likelihood of an expansive number of credit defaults that influence the gainfulness and total assets of banks and furthermore dissolves the estimation of the benefit. The issue of NPAs isn't just influencing the banks yet additionally the entire economy. The paper manages understanding the idea of NPAs, its extent and real reasons for a record getting to be non-performing and furthermore techniques for diminishing NPAs.

Keywords: NPA, credit defaults, net-worth, Gross NPA, Net NPA

Introduction

Generally speaking, NPA is any asset of a bank which is not producing any income. In other words, a loan or rent that is not meeting its declared principal and interest payments. On a bank's balance sheet, loans prepared to customers are listed as assets. The biggest risk to a bank is when customers who take out loans stop making their payments, causing the value of the loan assets to decline. Loans don't go bad right away. Most loans allow customers a certain grace period. Then they are marked overdue. After a certain number of days, the loan classified nonperforming loan. Banks usually classify as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. For agricultural loans, if the interest and the installment or principal remains overdue for two harvest seasons; it is declared as NPAs. But, this period should not exceed two years. After two years any unpaid loan/installment will be classified as NPA.

Types of NPA Gross NPA

Gross NPA is an advance which is considered written off, the bank has made provisions, and which is still held in banks' books of account. Gross NPA (non-performing asset) refers to an overall quantity of loans that have gone bad debts. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss asset. “Gross NPAs Ratio = Gross NPAs / Gross Advances”

Net NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. "Net NPAs = Gross NPAs – provisions / Gross Advances – provision."

Categories

1. **Sub-standard:** When the NPAs have aged ≤ 12 months.
2. **Doubtful:** When the NPAs have aged > 12 months.
3. **Loss assets:** When the bank or its auditors have identified the loss, but it has not been written off.

After a certain amount of time, a bank will try to recoup its money by foreclosing on the property that secures the loan. The way money recouped is a highly contentious issue not just with banks but also with Micro-Finance Institutions (MFIs). All of this can be explained in a much more technical manner, but that is not required here. For example, we do not need to list all the conditions that make the banks declare an asset as NPAs like "In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract if these continue unpaid for 90 days from the specified due date for compensation."

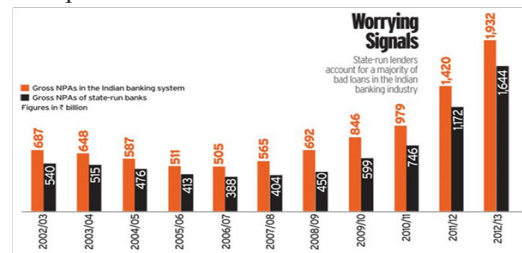
Causes of NPA

1. **Lending Practices of Banks:** In 2008 the financial crisis was happened because of bad lending practices of banks. The banks should strictly follow the rules and regulations while lending loans. They should properly follow the credit policy of banks.
2. **Business Risk:** The organization may sometimes face problems with its operational environment which may result in losses for the company.
3. **Environmental Risk:** Sometimes there may be environmental problems like cyclones, a drought which does not give the required output to the farmers and Agri based businesses.

Extent of NPAs

Gross NPAs of domestic banks jumped to 4.2 % of total lending by the end of September 2013 from 3.6 % six months before, according to the Reserve

Bank of India (RBI). As per a recent warning by the RBI, bad loans (NPAs) could climb to 7% of total advances by 2015. In absolute terms, gross NPAs are estimated to touch Rs 2.50 lakh crores by the end of March this year. This is equal to the size of the budget of Uttar Pradesh. The biggest chunk of the soured debts is with state-run banks (Public sector banks or PSBs), which account for two-thirds of loans but 80 % of the bad assets. This is how the NPA curve has been moving in recent years, as per a news report in the Business Standard.



Private-sector and foreign lenders are better placed. Their NPAs in a proportion of their lending is lesser than that of the PSBs.

Impact of NPA

Liquidity

The Banks are facing the problem of NPAs. They are not recovering which lending money the borrower. Those times money will be blocked. Banks don't have enough cash in hand for a short period.

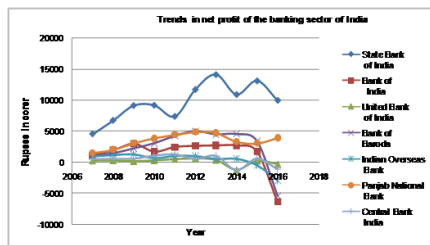
Credit loss

Banks lose their goodwill and brand equity in a market when there is a problem with their NPA that further affect the value of the banks regarding market credit.

Profitability

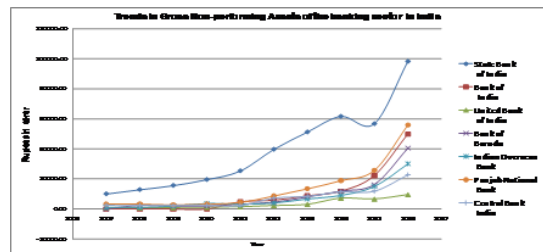
NPA not only affect current profits but also profit of the entire financial year.

Table 1 Trends in Net Profit of the Banking Sector of India



This is the trend of Net Profit for the different banks for the years 2007–2016. Almost all the banks have experienced negative growth in the year 2016.

Table 2 Trends in Gross Nonperforming Assets of the Banking Sector in India



The gross NPA has been continuously increasing for all the banks for the specified period. As the business operations of the bank are increasing the amount of NPAs have also increased.

Table 3 Financial results of Net profit in different banks of India
Net Profit (Rupees in corer)

Year	State Bank of India	Bank of India	United Bank of India	Bank of Baroda	Indian Overseas Bank	Punjab National Bank	Central Bank India
2007	4541.31	1125.95	267.28	1026.46	1008.43	1540.08	498.01
2008	6729.12	1960.28	318.95	1435.52	1202.34	2048.76	550.16
2009	9121.23	3009.41	184.71	2227.20	1325.79	3090.88	571.24
2010	9166.05	1738.56	322.96	3058.33	706.96	3905.36	1058.23
2011	7370.35	2488.71	523.97	4241.68	1072.54	4433.50	1252.41
2012	11707.29	2674.62	632.53	5006.96	1050.13	4884.20	533.04
2013	14104.98	2741.91	391.90	4480.72	567.23	4747.67	1014.96
2014	10891.17	2732.65	-1213.44	4541.08	601.74	3342.58	-1262.84
2015	13101.57	1748.32	255.99	3398.44	-454.33	3061.58	606.45
2016	9950.65	-6334.98	-281.96	-5395.54	-2897.33	3944.40	-1117.67

Source: Financial results of different seven banks of ten years

A remarkable difference in the financial status of the banks was observed in the year 2016. All the banks except SBI and PNB went through a severe loss in the year. The loss percents of the banks-BOI, BOB, IOB, CBI and UBI in the year 2016 as

compared to 2015 were 462.32, 258.77, 537.71, 284.30, and 210.14 respectively (Table-). Among the banks, only SBI and PNB could achieve profit consistently in all the years.

Table 4 Financial Results of Gross NPA in Different Banks of India
Gross NPA (Rupees in corer)

Year	State Bank of India	Bank of India	United Bank of India	Bank of Baroda	Indian Overseas Bank	Punjab National Bank	Central Bank India
2007	9998.00	0.00	744.30	0.00	1120.00	3390.72	2572.00
2008	12837.34	0.00	817.00	2400.69	997.00	3319.30	2350.00

2009	15588.6	0.00	761.00	1842.92	1923.40	2767.46	2316.50
2010	19534.89	0.00	1019.60	1981.38	3611.00	3214.41	2457.90
2011	25326.29	4811.55	1355.78	3152.50	3089.00	4379.39	2394.53
2012	39676.46	5893.97	2176.42	4464.75	3920.00	8719.62	7273.46
2013	51189.39	8765.25	2963.83	7982.58	6607.00	13465.79	8456.18
2014	61605.35	11868.80	7118.01	11875.90	9020.00	18880.06	11500.01
2015	56725.34	22193.24	6552.91	16261.45	14922.00	25694.86	11873.06
2016	98172.80	49879.12	9471.01	40521.04	30048.00	55818.33	22720.88

Source: financial results of different seven banks of ten years

NPA of the banks went on increasing in all the years, but a drastic raise was observed in the year 2016 as compared to 2015 were SBI – 73.07, BOI- 124.75, UBI- 44.53, BOB- 149.18, IOB- 101.37, PNB- 117 and CBI- 91.36

Table 5 Correlation between NPA and Net Profit of the Selected Banks

Bank	Correlation
State Bank of India	0.591125611
Bank of India	-0.863792026
United Bank of India	-0.654074198
Bank of Baroda	-0.720973007
Indian Overseas Bank	-0.985503809
Panjab National Bank	0.194168193
Central Bank India	-0.73857971

In Table no five is showing that correlation for SBI and PNB are equal to 0.591 and 0.194 respectively. It means that there is a positive relative between Net Profits and NPA. It means that as profits increase NPA also increase. NPA is directly related to Total Advances given by bank and banks main source of income is interest earned by a bank. But other banks are a negative correlation. NPAs are increasing in every year but net profit decrease.

Conclusion

Management of NPAs requires the hour. To be successful, NPA management has to be an exercise pervading the entire bank from the panel down the last level. Time is the prime soul in NPA management. The route open to the banker is to make sure that an asset does not develop into NPA. If it does, he should take steps for early recovery failing which the prosperity of the bank will be wrinkled. That can activate other problems to challenge the bank's financial situation.

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