

Non-performing Assets of Commercial Banks and its Recovery in India

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ABSTRACT

A nourishing banking system is necessary for an economy trying to achieve growth and remain steady in a competitive global business atmosphere. The best measurement to check the well-being of the banking industry is its amount of Non-performing assets (NPAs). Various steps have been taken by the government of India and RBI to resolve the problem of NPAs in the balance sheets of the banks but as we can see the current status of NPA, it is clearly visible that these steps are not sufficient. NPA indicates the stagnation of banks. Low amount of NPAs shows that banks work really hard towards strengthening their credit appraisal processes over the years and high volume of NPAs involves the need of provisions, which bring down the overall profitability of banks. This Study covers the NPA Management Strategies in commercial Banks and also to know the recovery mechanism adopted by banks for recovery of NPAs.

INTRODUCTION

Commercial Banks play a very important and dynamic role in the development of any country. The functions of commercial banks record the economic pulse of the economy of almost all countries, no matter whether it is big or small, rich or poor, socialist or capitalist. The failure of the banking industry can critically disrupt the development process in the developing country, that is the reason the well-being of the banking sector is the matter of concern. Money and credit is the central point around which all our economic activities assemble. Banks are the center of modern commerce; innovations and expansions of business become possible through finance given by banks. Finance is the lifeblood of every country. It helps in capital formation and capital accumulation, which is very much necessary for building infrastructure and setting up of basic and key industries, which are essential for long-term development. In human life, sickness, bankruptcy and death are not welcome, but they do occur, so is the case with industrial or agricultural units, which fall sick, go into liquidation

and die much against the wishes of all concerned. Realities cannot be escaped; it is forced to face them. The situation is no different in the context of NPA. Health of the economy is basically connected with commercial banks and financial institutions and become the most necessary part of the economic development because of their work of credit creation.

The primary function of banks is to provide loans to various sectors. Lending always carries a risk, usually known as credit risk, arises out of the inability of the borrower to satisfy their obligations to the financial institutions and this how NPA generated.

Strategies for overcoming NPAs

Various steps have been taken by the government and RBI to recover and reduce NPAs. These strategies are necessary to control NPAs:

- A. Preventive management and
- B. Curative management

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A. Preventive Management:

Preventive measures are to stop the assets from becoming a Non- Performing Asset. Banks have to focus on the following for the early identification of stress assets.

1. Early Warning Signals

Banks should continuously monitor loans to identify accounts that have the potential to become non-performing. It is necessary in an early warning system, to be quick to sense the accounts which have the possibility of turning into NPA.

2. Know your customer' profile (KYC)

Most banks in India have a structure of maintaining 'know your customer' (KYC) profile/credit report. It is a part of KYC that bank official needs to visit workplace and business units of borrower at frequent intervals. The number of such visits is based on the nature and requirement of relationship.

4. Reduce Dependence on Interest

A primary function of Indian banks is accepting deposits and lending money through which they earn interest which is the main source of income of Indian banks. 86% of the income of Indian banks is based on interest income and rest is fee-based income. The banker can earn enough net margin by investing in safer securities though not at a high rate of interest.

5. Watch-list/Special Mention Category

As per the new guidelines of RBI, a bank needs to keep all the accounts in Special Mention Accounts which have the possibility of turning into NPA so that, immediately after the occurrence of a default, resolution process should start by banks. Banks have to appear with proper resolution process if they fail, cases will transfer to Banking and Insolvency code.

6. Willful Defaulters

RBI has issued revised guidelines in respect of detection of willful default and deviation and siphoning of money. As per the new guidelines of RBI, banks need to submit the report of accounts which have a possibility of default weekly, so that after default occurs immediate action for resolution should be taken. The record of willful defaulters is needed to be submitted to SEBI and RBI to prevent their access to the capital market.

B. Curative Management**1. One Time Settlement Schemes**

The government of India along with the RBI issued scheme of one-time settlement for the past few years to minimize the amount of NPA. This scheme covers all type of assets such as standard assets, doubtful assets and loss assets.

2. Lok-Adalats

Lok- Adalat is the institution which helps banks to resolve disputes involving outstanding amount Rs 5 crores in "doubtful" and "loss" category, for compromise settlement under Lok Adalat. If the amount is more 10 lakh or more DRT take the responsibility for organizing Lok-Adalat on such cases. This tool has appeared to be very efficient for speedy justice and recovery of small amount of loans.

3. Debt Recovery Tribunals (DRTs)

The debt recovery tribunal was set by Indian Parliament in 1993 with the motive of providing speedy recovery to banking and financial institutions where the loan is 10 lakh and more.

4. Securitization and SARFAESI Act-2002

The SARFAESI Act-2002 is seen as a booster, initially, for banks in tackling the menace of NPAs without having to approach the courts. With certain loopholes still remaining in the act, the experiences of banks were that the Act in its present form would not serve the envisaged objective of optimum recovery of NPAs, particularly with the hard-core NPA borrowers dragging the banks into endless litigation to delay the recovery process. The Supreme Court decision in regard to certain provision of the SARFAESI Act also indicated this view.

LITERATURE REVIEW

Bhavani Prasad, D.Veena (2011) In this paper, the author tries to state that for achieving growth and stability in the competitive global market a healthy banking system is essential and NPA is the best indicator of the health of banking industry. This paper deals with the theoretical concept, its magnitude and major causes for an account turning from a healthy to NPA account. The study shows that the problem of NPA can only be tackled with proper credit assessment and risk management

mechanism. There is a need to equip the banking system with better recovery mechanism and prudential norms to at least minimize the amount of NPA If not completely avoided.

Ankur Bhushan and Dr. Giriraj Singh Ahirwar (2016) this study covers the working of NPA in Private sector banks and how to minimize it. The author tries to compare the NPA of HDFC and OBC bank. An objective of the study was to know the operation of banks it's loaning and credit approach and what steps to be taken by banks to reduce NPA. A study concluded that it is not possible to take out NPA completely but major steps can be taken by banks to reduce the amount of NPA. It is constantly astute it take after the best possible strategy examination, supervision and follow-up of advances to stay away from NPAs.

Dr. Biswanath Sukul (2017) this paper states that the banking sector plays a crucial role in the development of the economy. Mounting amount of NPA is a prime concern for the banking industry nowadays. The author tries to establish the correlation between Net profit and Net NPA. The author suggests measures for the management of the NPA. Paper concluded that there is a requirement of Preventive measures as well as Curative measures i.e. banks should not only take steps to reduce the present NPAs but also take precaution to avoid future NPAs.

Dr. Sushama Yadav (2014) evaluated the rising trend of NPA in Indian banking industry. This paper also explains the Impact of NPA on bank performance such as an impact on profitability, liquidity, credit loss and also examines the factors responsible for mounting NPAs. This study suggests preventive measures to control NPCs. Finally, Author concluded that to avoid NPAs t the budding stage of credit consideration by putting in place of precise and proper credit appraisal mechanisms. NPA is one kind of barrier in the progress of banks because it affects their performance negatively, so banks should try to keep it as low as possible.

Mahabub Basha S and M.S. Ramaratnam (2016) observed that the banking sector plays an important role in the development of an economy. The problem of NPA doesn't affect only the banking industry but the whole economy. This paper studies the trend of NPAs of leading private sector banks and suggests

measures to minimize it. Paper also emphasized on the conceptual framework of the NPA. The objective of the study is to study the relationship between net profit and net NPA. In this paper authors also suggest measures for efficient management of NPA. The result of the study of NPA of selected banks has positive correlation coefficient.

N.Tejamani Singh & Th. Jitendra Singh (2009) In their research paper " Recovery Performance of RRB: An Analysis (A case study of Manipur Rural Bank)" concluded that the main factor contributing to the unsound situation of MRB is that the credit delivery system has not produced desired results in terms of quantity and quality for the end use of the credit. In its case, the recovery performance in the non-firm sector is better than that of the firm sector, but the total recovery performance is not satisfactory during the period of study. Over dues have been identified as a major hurdle in the creation of an efficient and viable credit system at MRB. Poor recovery implies distorted recycling of funds. To overcome these problems, the credit management of MRB is required to develop mechanism for the proper selection of appropriate borrowers, constant monitoring for proper utilization of the loan amount, time-bound repayment, cost-effectiveness, reduction of overdue and non-performing assets, increase in staff productivity, maintaining a circular flow of credit, accountability, responsibility and motivational improvement. MRB has to be very careful while disbursing credit and take every precaution to ensure timely recovery of the loans. To ensure an easy and smooth recycling of funds, it is necessary that MRB improves its recovery position.

OBJECTIVES OF THE STUDY

1. To study the quantum of NPAs in Commercial Banks
2. To know the preventive and corrective strategies of NPAs on Banks
3. To know the recovery of NPAs through various channels

LIMITATION OF THE STUDY

- The study of non-performing assets of SCBs is limited to the Indian Bank and till the end of the year 2015-2016.

- NPAs are changing with the time. The study is done in the present environment without foreseeing future developments.

SOURCES OF THE DATA

In this paper secondary data has been collected for the purpose of the study. Data has been gathered through literature published by, magazines, Journals, Books, Indian Banks and the Reserve Bank of India dealing with the current banking situation and research papers.

METHODOLOGY

In this study, we have considered Non-Performing Assets in Scheduled Commercial Banks which include public sector banks, private sector banks and foreign banks. The paper discusses the theoretical structure of NPA and it also focuses on the trends, status of NPA on scheduled commercial banks during the period of 14 years i.e. from 2006-2007 to 2015-2016. Several reputed research journals including research papers and articles have been used by the researchers.

POPULATION

The banking sector of India is supposed to be one of the fastest developing financial institutions in the world. The study is based on the banking industry, data is collected from Public, Private and foreign banks.

PERIOD OF THE STUDY

The present study has covered a period of nine financial years from 2007-2008 to 2015-2016.

GROSS NPA ADVANCES, GROSS NPA, GROSS NPA RATIO OF COMMERCIAL BANKS

The data related to Gross NPA Advances, Gross NPA and Gross NPA ratio of commercial Banks have been collected and interpreted with the help of the following tables

Table 1
(Amount in Rupees Billion)

Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (Percentage)
2006-2007	20125.10	504.86	2.5
2007-2008	25078.85	563.09	2.3
2008-2009	30382.54	683.28	2.3
2009-2010	35449.65	846.98	2.4
2010-2011	40120.79	979.00	2.5
2011-2012	46488.08	1369.69	2.95
2012-2013	59718.20	1927.69	3.2
2013-2014	68757.48	2630.15	3.8
2014-2015	75606.66	3229.16	4.3
2015-2016	81673.45	6116.07	7.5

Table 1 depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 2006-07 to 2015-16. The amount of advances has increased from Rs. 20125.10 Billion in 2006-07 to Rs. 75606.66 Billion in 2014-15. The amount of gross NPA has increased from Rs. 504.86 billion in 2006-07 to Rs. 3229.16 billion in 2014-15. Similarly, NPA percentage is also showing the rising trend from 2.5 in 2006-2007 to 4.3 in 2014-2015.

NET ADVANCES, NET NPAs AND NET NPA RATIO OF COMMERCIAL BANKS

The data related to Net Advances, Net NPA, Net NPA have been collected and interpreted with the help of the following tables.

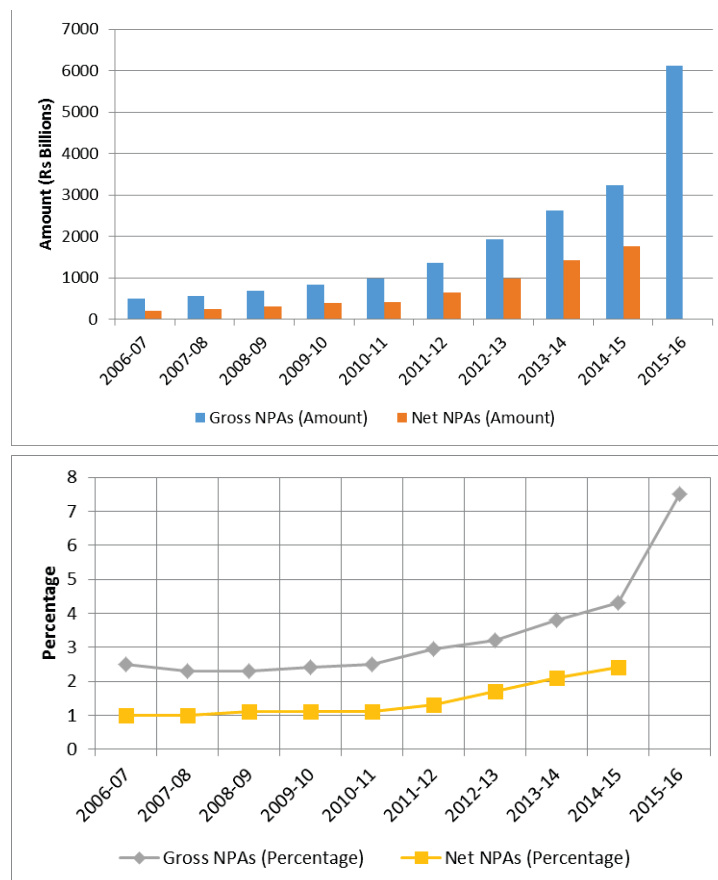
Table 2
(Amount in Rupees Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs (Percentage)
2006-2007	19812.37	201.01	1.0
2007-2008	24769.36	247.30	1.0
2008-2009	29999.24	315.64	1.1
2009-2010	34970.92	387.23	1.1
2010-2011	42987.04	417.00	1.1
2011-2012	50735.59	652.00	1.3
2012-2013	58797.03	986.00	1.7
2013-2014	67352.32	1426.57	2.1
2014-2015	73881.79	1760.93	2.4
2015-2016	78964.67	3498.20	4.4

Source: dbie.rbi.org.in

Table 2 shows the amount of Net Advances, Net NPA and the percentage of Net NPA during the period of 2006-07 to 2014-15. The amount of advances has increased from Rs. 19812.37 billion in 2006-07 to 73881.79 billion in 2014-15. Further, the

amount of NPA has also increased from Rs. 201.01 billion to Rs 1760.93 billion during the period (2006-07 to 2014-15). The percentage of Net NPA has increased from 1.0 in 2006-07 to 2.4 in 2014-15.



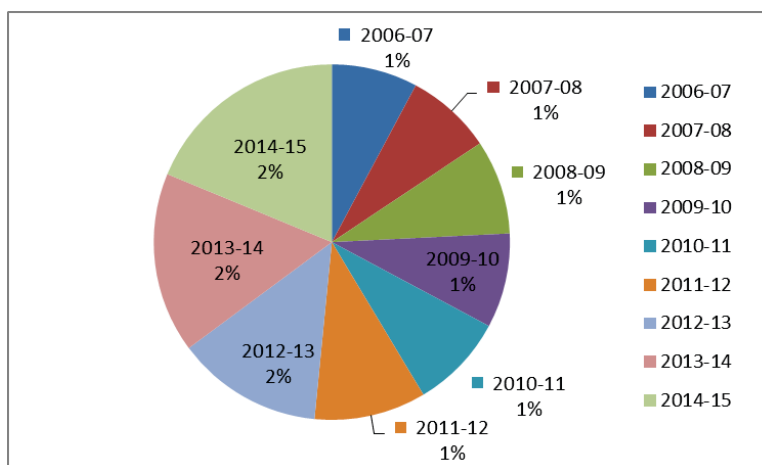


Table 4 is showing NPAs of commercial banks recovered through DRTs during the study period of 2006-2007 to 2015-2016. From the analysis of the table, it is clear that the number of cases for the recovery of NPAs referred to DRTs is increasing through the study period and also the amount involved in these cases and the amount recovered through DRTs has increased. DRTs shows their efficiency in 2008-09 where it recovers 81.1% of the total amount involved in NPA. It shows a decline

from 2008-2009 and recovered percentage is only 9.2% in 2015-2016. Though we can say that, there is a slight decrease in the percentage of amount recovered by DRTs of the NPAs of commercial banks, though these are a significant recovery channel for the commercial banks.

NPAs recovered by SCBs through SARFAESI Act

This table shows the data of NPA of Commercial Banks recovered through SARFAESI Act.

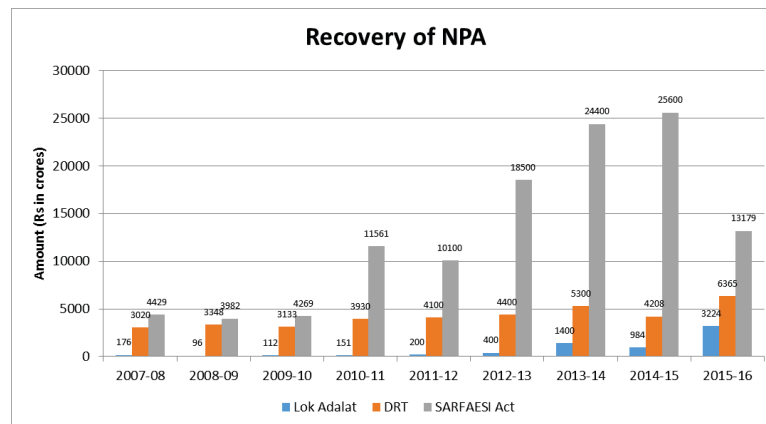
Table 5

Item	2007- 2008	2008- 2009	2009- 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016
Number of Cases Referred	83,942	61,760	78,366	1,18,642	1,40,991	1,90,537	1,94,707	1,75,355	1,73,582
Amount Involved	7263	12067	14249	30604	35300	68100	94600	1,56778	80100
Amount Recovered	4429	3982	4269	11561	10100	18500	24400	25600	13179
% of Amount recovered to Total Amount	61.0	33.0	30.00	37.78	28.6	27.1	25.8	16.3	16.5

Sources: Report on Trend and progress of banking in India

Table 5 is showing NPAs of commercial banks recovered through SARFAESI Act during the study period of 2006-2007 to 2015-2016. From the analysis of the table, it is clear that the number of cases referred to SARFAESI Act and the amount of NPAs involved is increased largely during the study period. This is done because of the efficiency of SARFAESI Act in recovering these NPAs of

commercial banks. From Table 5 it is clear that the SARFAESI Act is able to recover 25.8% of the amount of NPAs of the cases referred to it in the year 2014. In 2008 recovery percentage was quite higher 61.0% this act has emerged as a blessing in disguise for the commercial banks as now they are using this act largely in recovering their NPAs in order to increase their profitability.



MAJOR FINDINGS

1. The amount of Gross advances has increased from Rs. 20125.10 Billion in 2006-07 to Rs. 75606.66 Billion in 2014-15.
2. The amount of gross NPA has increased from Rs. 504.86 billion in 2006-07 to Rs. 3229.16 billion in 2014-15.
3. NPA percentage is also showing the rising trend from 2.5 in 2006-2007 to 4.3 in 2014-2015.
4. The amount of Net advances has increased from Rs. 19812.37 billion in 2006-07 to 73881.79 billion in 2014-15.
5. The amount of NPA has also increased from Rs. 201.01 billion to Rs 1760.93 billion during the period (2006-07 to 2014-15).
6. The percentage of Net NPA has increased from 1.0 in 2006-07 to 2.4 in 2014-15.
7. It is clear that the number of cases referred to Lok Adalats for the recovery of NPAs of commercial banks has increased largely in 2015-2016 as compared to 2006-2007.
8. DRTs show their efficiency in 2008-09 where it recovers 81.1pc of the total amount involved in NPA. It shows a decline from 2008-2009 and recovered percentage is only 9.2 in 2015-2016.
9. It is clear that the SARFAESI Act is able to recover 25.8% of the amount of NPAs of the

cases referred to it in the year 2014. In 2008 recovery percentage was quite higher 61.0% this act has emerged as a blessing in disguise for the commercial banks as now they are using this act largely in recovering their NPAs in order to increase their profitability.

CONCLUSION

As per the new guidelines of RBI all previous schemes such as corporate debt restructuring (CDR), sustainable structuring of stressed assets (S4A), strategic debt restructuring (SDR) of recovery has been abolished by the RBI. Now, banks have to keep the record of all the accounts having aggregate exposure of 5 crore which have chances to turn into NPA in Special Mention Accounts and report these accounts to the Central Repository of Information on Large Credits (CRILC) so that immediately after the occurrence of default, banks can take necessary steps for resolution within the strict timeline of 180 days, within this time period banks have to appear with fine resolution plan. If they fail, cases will transfer to Bankruptcy and insolvency Code. The amount recovered by all SCBs during 2015-16 reduced to ₹227.68 billion as against ₹307.92 billion during the previous year. PSBs, which are burdened with a high

proportion of the banking sector's NPAs, could recover only `197.57 billion as against `278.49 billion during the previous year. The deceleration in recovery was mainly due to a reduction in recovery through the SARFAESI channel by 52 percent from `256 billion in 2014-15 to `131.79 billion in 2015-16. On the other hand, recovery through Lok Adalats and DRTs increased.

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