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Analysis of Non-Performing Assets (NPAs) In Commercial Banks

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ABSTRACT

Developing of sound and healthy financial institutions (especially banks) is an essential criterion for over all stability and growth of the financial system of the country. The high level of NPAs in banks and financial institutions has been a matter of concern to the government as bank credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit, one cause for which is the mounting NPAs, is creating adverse repercussions on the financial system of the country which in turn affects the economy. When the loans taken are not repaid and cross the pre-determined period, much of the funds go out of financial system and the cycle of lending- repaying-borrowing is broken. The banks have also to repay their depositors and others from whom the money had been borrowed. If the borrowers do not repay the loan, it affects the financial performance of banks A nonperforming loan (NPL) is the sum of borrowed money upon which the debtor has not made his scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default. Once a loan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower.

Keywords: Non-Performing Assets (NPAs), Gross NPA, Net NPA, Overdraft

INTRODUCTION

In the economic system, banks play a very important role as they have the power of creating credit for the businessmen and general public for various purposes. The Banking Industry was once upon a time was simple and reliable business that took deposits from investors at a lower interest rate and loaned it out to borrowers at a higher rate. However, deregulation and information-technology led to a revolution in the banking industry that saw it transformed. Today when banks offer loans & related products at a lower interest rate, it enhances the growth prospects of the economy and vice-versa. This has now become instrumental in the development of World Economy including Indian economy. Banks have become global powerhouses that have created even more complex products that involve risk. Through technological development, banking services have become available 24 hours a day, 7 days a week through ATMs, online banking and electronically enabled exchanges where everything from stocks to currency can be traded.

Banking system plays important role in the development of any country; same is equally true for India also. In the context of economic environment banking sector plays significant role in the development of the economy. Scenario started to change when financial sector reforms was started in 1990s and also financial sector reforms as laid out by Shri M. Narasimham Committee in 1991. Entry of private sector banks in banking sector lead to competition to the public-sector banks in India. Despite their existence for more than three decades, more than 50% of the total advances are rendered by public sector banks in India. Though the private sector banks exist but still in many cases it has been seen public sector banks enjoy more confidence among business community.

CONCEPT OF NPA:

In very simple words, one can define NPA to be a non-performing loan or a loan in which interest and principal is not being repaid and instead getting overdue for several months in a row. Hence, the non-repayment of interest leads to a fall in the performance and the credit worthiness of the banks. NPA is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the definition of NPAs has changed over time. According to the Narasimham Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs.

Subsequently, this period was reduced, and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days were considered as NPAs

It is true that Non- Performing Assets (NPAs) have been creating lots of buzz in the banking sectors throughout their business operation over the years. NPAs are the loans and advances which discontinue fetching the income to the banks i.e. when loan and advances ceases to generate income for the banks and financial institutions are termed as Non-Performing Assets. These assets not only become problem for the banks but also bad for the economy. NPAs lead to affect bank's profitability as well as it increases additional capital needs for recycling of asset and thus deteriorates the quality of assets. NPAs are the loan and advances, where

- Interest and/or installment of principal remain overdue for more than 90 days in respect of a term loan,
- The account remains out of order for more than 90 days in respect of an overdraft/cash credit,
- The bills remain overdue for more than 90 days in respect of bills purchased and discounted,
- The installment of principal or interest remains overdue for two crop seasons for short duration crops and one crop season for long duration crops,
- The amount of liquidity facility remains outstanding for more than 90 days in respect securitization transaction as per guidelines on securitization dated Feb. 01, 2006,
- The overdue receivables representing positive mark-to-market value of derivative contract, remain unpaid for a period of 90 days from the specified due date for payment in respect of derivative transaction.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue' norm for identification of NPA, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) is a loan or an advance where;

- Interest and/or installment of principal remain overdue for a period of more than 91 days in respect of a term loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
- Non-submission of Stock Statements for 3 Continuous Quarters in case of Cash Credit Facility.
- No active transactions in the account (Cash Credit/Over Draft/EPC/PCFC) for more than 91days [1]

TYPES OF NPA

GROSS NPA:

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated:

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 NPA reflects the actual burden of banks**.** Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are very much significant in the context of banking scenario in India. That is why the difference between gross and net NPA is quite high. It can be calculated as:

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

Banks are required to classify nonperforming assets further into three main categories (Sub-standard, doubtful and loss) based on the period for which the asset has remained non-performing. This is as per transition of a loan from standard loan to loss asset as follows: If the borrower does not pay dues for 90 days after end of a quarter; the loan becomes an NPA and it is termed as "Special Mention Account". If this loan remains SMA for a period less than or equal to 12 months; it is termed as Sub-standard Asset. In this case, bank has to make provisioning as follows:

15% of outstanding amount in case of Secured loans
25% of outstanding amount in case of Unsecured loans

If sub-standard asset remains so for a period of 12 more months; it would be termed as "Doubtful asset". This remains so till end of 3rd year. In this case, the bank need to make provisioning as follows: Up to one year: 25% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans 1-3 years: 40% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans more than 3 years: 100% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans If the loan is not repaid even after it remains sub-standard asset for more than 3 years, it may be identified as unrecoverable by internal / external audit and it would be called loss asset. An NPA can declared loss only if it has been identified to be so by internal or external auditors. Example of NPA We suppose that a party was disbursed a loan on January 1, 2010. Its due date is June 1, 2010. But the party does not make a payment. So It will be an Standard Asset from January 1, 2010 till June 1, 2010 (Due Date) It will be a Special Mention Account From June 2, 2010 till August 29, 2010 (90 days) It will be Sub-standard from August 30, 2010 till August 29, 2011 It will be doubtful from August 30, 2011 till August 29, 2012 It may remain doubtful Asset for a period of 3 years, beginning from 12 months of being an NPA, but once the auditors identify it as a loss, it will be assigned a loss asset; however, the period may be anything above 3 years.[2]

NPA IN PUBLIC AND PRIVATE SECTOR BANKS

The amount of top twenty NPA accounts of Public Sector Banks stands at Rs. 1.54 lakh crores. As of June 2016, the total amount of Gross Non-Performing Assets (NPAs) for public and private sector banks is around Rs. 6 lakh crore. The NPA figures along with total debt for each of the 49 public and private sector banks were shared by the Ministry of Finance, Government of India. The amount of top twenty Non-Performing Assets (NPA) accounts of Public Sector Banks stands at Rs. 1.54 lakh crores.

The ratio of NPAs to total advances given by a bank is a commonly used indicator reflecting the health of the banking system in India.

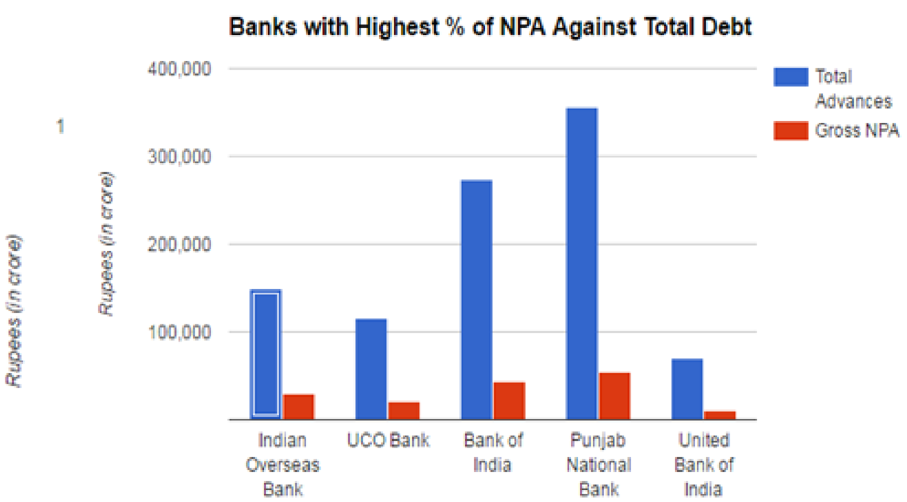
Table 1: Gross NPAs OF Public and Private Sector Banks During June 30, 2016.

SL. No.	Bank	Total Advances (Rs. in crore)	Gross NPA (Rs. in crore)	NPA Ratio (%)
1	Allahabad Bank	1,45,328	18,769	12.92
2	Andhra Bank	1,37,228	14,137	10.3
3	Bank of Baroda	2,69,115	35,604	13.23
4	Bank of India	2,74,391	43,935	16.01
5	Bank of Maharashtra	1,03,148	13,040	12.64
6	Bharatiya Mahila Bank Ltd.	627	3	0.4
7	Canara Bank	3,11,615	30,480	9.78
8	Central Bank of India	1,85,719	25,107	13.52
9	Corporation Bank	1,42,787	15,726	11.01
10	Dena Bank	81,114	9,636	11.88
11	IDBI Bank Limited	2,02,304	21,724	10.74
12	Indian Bank	1,22,173	8,690	7.11
13	Indian Overseas Bank	1,49,217	30,239	20.26
14	Oriental Bank of Commerce	1,50,301	17,209	11.45
15	Punjab & Sind Bank	63,134	4,566	7.23
16	Punjab National Bank	3,56,958	55,003	15.41
17	Syndicate Bank	1,67,759	13,475	8.03
18	UCO Bank	1,15,166	21,495	18.66
19	Union Bank of India	2,42,935	25,560	10.52
20	United Bank of India	70,781	10,104	14.28
21	Vijaya Bank	90,199	6,589	7.31

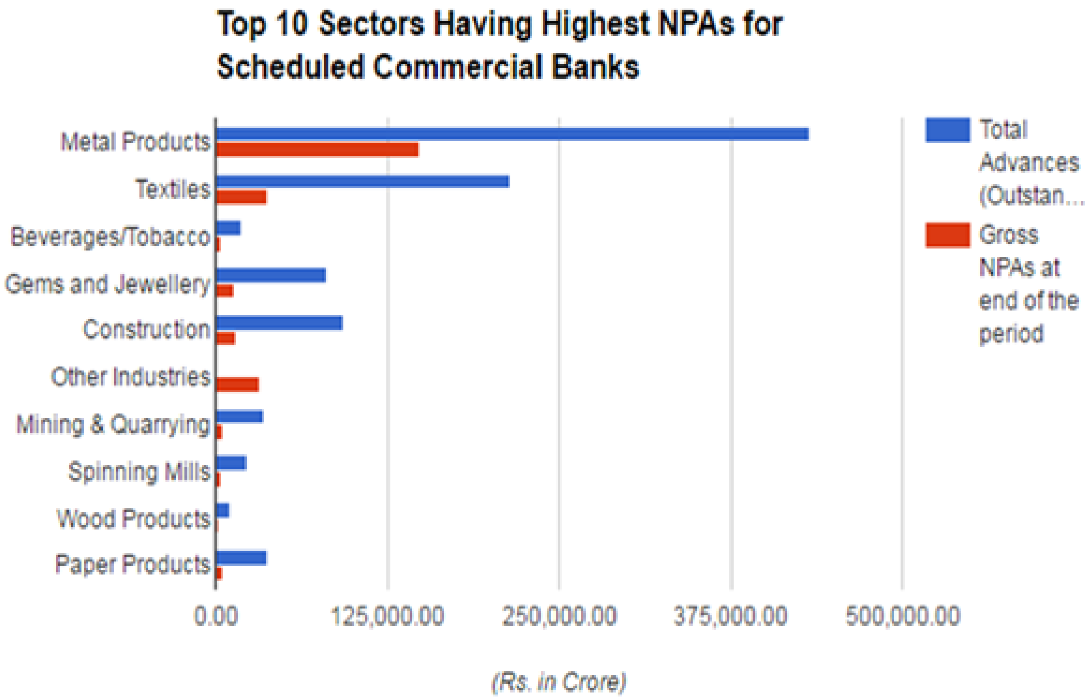
22	State Bank of Bikaner & Jaipur	74,033	4,593	6.2
23	State Bank of Hyderabad	1,12,420	9,436	8.39
24	State Bank of India	11,93,325	93,137	7.8
25	State Bank of Mysore	55,228	4,323	7.83
26	State Bank of Patiala	85,239	11,365	13.33
27	State Bank of Travancore	68,276	6,401	9.38
28	Catholic Syrian Bank Ltd.	7,859	455	5.79
29	City Union Bank Ltd.	21,216	555	2.62
30	Dhanlaxmi Bank Limited	6,771	475	7.02
31	Federal Bank Ltd.	59,408	1,747	2.94
32	ING Vysya Bank Ltd.	-	-	-
33	Jammu & Kashmir Bank Ltd.	50,640	4,715	9.31
34	Karnataka Bank Ltd.	35,412	1,389	3.92
35	Karur Vysya Bank Ltd.	39,382	702	1.78
36	Lakshmi Vilas Bank Ltd.	20,183	432	2.14
37	Nainital Bank Ltd.	2,776	145	5.21
38	Ratnakar Bank Ltd.	22,373	253	1.13
39	South Indian Bank Ltd.	41,705	1,652	3.96
40	Tamilnad Mercantile Bank Ltd.	22,329	489	2.19
41	Axis Bank Ltd.	3,00,173	7,909	2.63
42	Bandhan Bank Ltd.	13,358	29	0.22
43	DCB Bank Ltd	13,464	231	1.72
44	HDFC Bank Ltd.	4,40,955	4,724	1.07
45	ICICI Bank Ltd.	3,64,429	17,208	4.72
46	IndusInd Bank Ltd.	93,667	861	0.92
47	Kotak Mahindra Bank Ltd.	1,22,384	3,059	2.5
48	Yes Bank Ltd	1,03,411	845	0.82
49	IDFC Bank Limited	49,714	3,030	6.09

Indian Overseas Bank fares worst, having the highest ratio of NPA to total advances — 20.26 per cent. UCO Bank (18.66 per cent) and Bank of India (16.01 per cent) follow.

In absolute terms, State Bank of India has the highest value of Gross NPA around Rs. 93,000 crores. Punjab National Bank (Rs. 55,000 crores) and Bank of India (Rs. 44,000 crores) come next.[3]



Basic Metal and Metal Products sector is the worst performing in terms of NPA ratio. As of June 2016, govt data show that a third of all outstanding advances (Rs. 4.33 lakh crore) given to the sector turned to NPA (Rs. 1.49 lakh crore).[3]



Textiles sectors, Beverages (excluding Tea and Coffee) and Tobacco sectors follow, having NPA ratio at around 17 per cent.

Specific measures have been taken for sectors where the incidence of NPA is high. To improve the resolution or recovery of bank loans, IBC (Insolvency and Bankruptcy Code) has been enacted and SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act and RDDBFI (Recovery of Debts due to Banks and Financial Institutions) have been amended. Further, six new Debt Recovery Tribunals (DRTs) have been established for improving recovery of loans.[3]

Many big borrowers defaulted only due to the recession in the economy. The absence of proper bankruptcy laws and the dilatory legal procedures in enforcing security rights are the root cause of bad debts in banks.

CONCLUSION

Finally, it is evident that the banks can avoid sanctioning loans to the borrowers those who are non-creditworthy by implementing certain measures. Also, bankers can constantly monitor the borrower, to ensure that the sanctioned amount is utilized properly (for which the loan is sanctioned). To overcome this problem in near future banks should also collect confidential information regarding goodwill and solvency of the customer. If it is proved that the customer is defaulter then there is no question of approving loan to that customer. Parallelly it is also responsibility of banker to educate customers about the consequences, if the customer becomes defaulter. These preventive measures can help bankers to reduce the level of Non-Performing assets (NPAs). Use of latest technology like Core banking solutions can help to reach to the borrowers. To minimize the level of NPAs of all banks which is the major concern now days, RBI has given guidelines and norms for controlling the incident of defaulters.

NOTES:

1. https://en.wikipedia.org/wiki/Non-performing_asset,p-1,<DOA 14.07.2016>
2. http://www.gktoday.in/non-performing-assets-npa/,p-1, <DOA 14.07.2016>
3. http://www.thehindu.com/data/Details-of-NPA-figures-of-public-private-sector-banks/article16670548.ece,p-1,<DOA 15.07.16>

[The abbreviation DOA within < > means ‘date if accessing the related website]

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