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A study of non-performing assets and its impact on banking sector

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ABSTRACT:

Banks plays an important role in the economic development of a country. Banks are growth-driver and the banking business is exposed to various risk, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk. Apart from these risks the very important risk is loan recovery. The sound financial position of a bank depends upon the recovery of loans or its level of these assets. Reduced assets generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in this involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of this sector. The magnitude is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks need to be be reduced and controlled. Hence an attempt to be made to understand and analyze the guidelines given by RBI.

Keywords: Asset, Banking Sector

INTRODUCTION:

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank and is then termed as Non-Performing Asset . RBI has defined as a credit facility in respect of which the interest and / or installment of principal has remained 'past due' for a specified period of time as stipulated by RBI. It is an important parameter in the analysis of financial performance of a bank as it results in higher provisioning requirements and thus decreasing margin. It affects liquidity and profitability, in addition to posing threat on quality of asset and survival of banks.

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It points out the credit risk of the banks. It emerged about 25 years ago in our banking sector, sending disappointing signals on the sustainability of affected banks. At present, Public Sector Undertaking Banks are facing more problems than Private Sector Banks. A mounting level in the banking sector can severely affect the economy in many ways. If it is not properly managed, it can cause financial and economic degradation which in turn signals an adverse investment climate.

OBJECTIVES:

To understand the concept of this study is to understand sector wise. To understand the recovery through various channels. To know the impact on Indian Banking Sector.

RBI GUIDELINES:

The regulation act on banking amended to give RBI more powers to monitor bank accounts of big defaulters. The amendment in the banking law will enable setting up of a committee to oversee companies that have been the biggest defaulters of loans. Also, there could be changes in the laws, which will bar a bank to extend loans to a defaulting company that has failed to repay to other banks.

SCOPE:

The study could suggest measures for the banks to avoid future assets with non-performance & to reduce existing assets. The study may help the government in creating & implementing new strategies to control those assets. The study will help to select appropriate techniques suited to manage these assets and develop a time bound action plan to check the growth.

Types of NPA:

Gross NPA: It is advance which is considered irrecoverable, for which bank has made provisions, and which is still held in bank's books of accounts.

b. *Net NPA*: It is obtained by deducting items like interest due but not recovered or a part of amount received but kept in suspense account from these assets.

REVIEW OF LITERATURE:

1) Prashanth K Reddy in his research paper "A comparative Study of Non-Performing Assets in India in the Global context – similarities and dissimilarities, remedial measures" stressed the importance of a sound understanding of the macroeconomic variables and systemic issues pertaining to banks and the economy for solving the problem along with the criticality of a strong legal framework and legislative framework.

2) Dr. Sonia Ulnar & Monica Sing la (2014) in their research paper "Empirical Study on Non-Performing Assets of Bank" found that Because of mismanagement in bank there is a positive relation between Total Advances, Net Profits of bank which is not good. Bank is unable to give loans to the new customers due to lack of funds which arises due to this asset.

3) Dr.Neha Rani (2014) in her research paper "Analysis of Non-Performing assets of Public Sector banks" revealed that share of nationalized banks in priority sector was greater in 2008 but after that it is decreasing. However amount of of both banks is increasing but there percentage share in total is decreasing after 2010 continuously. A Study of Non-Performing Assets and its Impact on banking sector.

RESEARCH DESIGN:

Data Collection:

The study is based on secondary data pertaining to the period 2006-15. The data pertaining to banks was sourced from annual reports of banks. The data collected is mainly secondary in nature. The sources of data for this research include the literature published by Bank of Maharashtra and the Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

DATA SOURCES :

Data will be gathered from the secondary sources to achieve the stated objectives. It includes the annual reports of the bank. RBI Report on Trend and Progress of Banking in India. Research Papers and Published Articles .

IMPACT OF NPA :

1) **Profitability:**

Non performance asset terms that booking of money in terms of bad asset, which occurred due to wrong

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	As on March 31						
Bank Group/Years	**PRIORITY SECTOR**		**NON PRIORITY SECTOR**		**PUBLIC SECTOR**		**TOTAL**
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**
Nationalised &its associates Banks	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	
2015	709.34	34.61	1337.67	65.26	2.59	.13	2049.59
2014	537.50	36.45	935.67	63.46	1.30	0.09	1474.48
2013	408.34	40.16	599.01	58.91	9.48	0.93	1016.83
2012	324.24	46.96	355.55	51.49	10.68	1.55	690.48
2011	246.20	55.61	194.10	43.84	2.42	0.55	442.72
2010	195.67	53.76	165.23	45.40	3.05	0.84	363.95
2009	157.54	59.35	106.68	40.19	1.21	0.46	265.43
2008	159.72	63.96	85.63	34.29	4.38	1.76	249.74
2007	153.44	58.63	103.40	39.51	4.87	1.86	261.72
2006	149.22	51.78	132.27	45.90	6.68	2.32	288.17
SBI & ITS ASSOCIATES							
2015	256.76	34.93	478.32	65.07	0.00	0.00	735.08
2014	261.49	32.76	536.68	67.24	0.00	0.00	798.17
2013	264.42	42.12	361.30	57.55	2.06	0.33	627.79
2012	233.56	48.44	232.71	48.27	15.88	3.29	482.15
2011	155.67	51.22	148.26	48.78	0.00	0.00	303.93
2010	109.29	46.45	125.91	53.51	0.09	0.04	235.29
2009	84.47	45.70	98.60	53.35	1.76	0.95	184.83
2008	89.02	57.50	64.44	41.62	1.36	0.88	154.82
2007	71.75	56.57	52.63	41.49	2.45	1.93	126.83
2006	73.14	58.27	50.52	40.25	1.87	1.49	125.52

choice of client because of the money getting blocked the prodigality of bank decreases not only by the amount of those asset but it leads to opportunity cost also as that much of profit invested in some return earning project/asset. So it doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low on Return on Investment, which adversely affect current earnings of bank.

2) **Liquidity**:

Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shortest period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of this due to lack of money, routine payments and dues.

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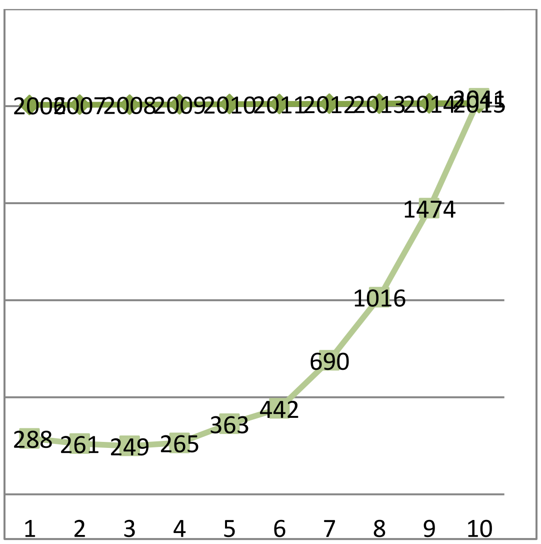
3) **Involvement of Management**:

Time and efforts of management is another indirect cost which bank has to, bear due to this asset. Time and efforts of management in handling and managing this would have diverted to some fruitful activities, which would have given return of goods. Now day s banks have special employees to deal and handle those, which is additional cost to the bank.

4) **Credit Loss**:

NPA facing problem in the bank then it adversely affect the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

Commercial bankings analysis on nationalised and its associates:



Priority sector:

In priority sector, during the period 2007-08 there is a slight changes and upto the year 2010 there is not a major changes there is a slight increase in this sector.on the year 2012-15 there is an increase in double.

Non-Priority sector:

On Non-priority sector, the amount on the year 2011-2012 is doubled and on the year 2013-14 also seems to be doubled.on the year 2014-15 rapidly increased so the interpretation of non-priority sector has been increased.

Public sector:

In the public sector ,during the year 2007-08 there is decreasing amount and towards 2009 rapidly decreased.on the year 2010 increase in amount and there is an slight increase and decrease in the period on 2012-13.

RECOVERY:

Commercial banks of those asset recovered during the study period of 2008 to 2014. From the analysis of the table, it is clear that the number of cases for the recovery referred to increasing through the study period and also the amount involved in these cases and the amount recovered has increased. It shows their efficiency in 2008-09 where it recovers of the total amount involved in later years also the amount recovered by is quite significant. This is the basic reason why the commercial banks are approaching for the recovery of their asset as compared to LokAdalats in which the percentage of recovered amount is very low. Though we can say that there is a slight decrease in the percentage of amount recovered by the commercial banks, though these are a significant recovery channel for the commercial banks.

Priority Sector:

One of the major objectives of the nationalistically of banks was to direct large volumes of credit flows on the banking sector into the priority sector comprising agriculture, small-scale industries, small traders,

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artisans, self-employed persons and similar other weaker sectors of society.

Private Sector:

Banks Indian banking under the liberalization process has recognize the significance of private sector banks in the market economy. The Banking Regulation (Amendment) Act, 1994 was passed to permit private sector to enter banking field. Accordingly, the RBI gave licensee to 9 private banks to start their operations on towards the end of April.

CONCLUSION:

The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. This study shows that extent of this comparatively very high in public sectors banks. The level of those assets in our banks is still high as compared to the foreign banks. It is not at all possible to have zero of those assets. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of this needs lots of serious efforts otherwise it will keep killing the profitability of banks which is not good for the growing Indian economy at all.

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