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NPAs in Indian Banks

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Abstract:
This research paper encompasses the magnitude of NPAs and their major causes, in Public Sector Banks in India. The objective of this research paper is to study the trends of NPA, and the loss caused by NPAs to the banking sector, as a whole.
Methodology:
The methodology applied for analysis of data is, Percentage method, as the paper relies on secondary data.
Findings:
The findings of the study reveals that the alternative hypothesis is accepted. That is, social factors have significant impact on repayment of loans, by borrowers.
Keywords: *NPAs, trends of NPA, social factors, Public Sector Banks*

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I. Introduction

Banking system has shown remarkable dynamism and flexibility for adaptation towards adjusting itself to the changes in the economic system. Banking sector in India is no exception to the above phenomena and has undergone major transformation twice, over the last five decades. Firstly, the nationalization of State Bank of India in 1955 followed by the nationalization of 20 leading commercial banks in 2 phases in 1969 and 1984 has brought about a dimensional and directional change in the philosophy and functioning of banking from conventional banking to banking that addresses the needs of the masses. Post nationalisation, the accent was on taking banking extensively to the countryside. As a result, banking in India witnessed an extension of services to rural India as well as to the urban side and also increased disbursement of credit, particularly in priority and preferred sector of the economy and also in the mobilization of deposit.

Secondly, the reform initiative started in 1992-93 in the banking industry with the primary motive of making the Indian banking system stable, competitive, transparent, and vibrant which brought a total shift in the mindset of bankers in India from mass banking to prudent banking. In this direction, a series of policy initiatives were introduced as per the recommendations of the Narasimham committee in two phases. Firstly during 1992-93 to 1997-98 (first phase of reforms), the primary objective was to stop erosion in the health of banking, bring uniformity in banking practices, and transparency in the balance sheet of banking companies in India. Until 1992-93, the banks which were a part of a highly regulated system were functionaries in a restricted competitive economy. Both the financial institutions and their products were regulated by the strict legal framework in all aspects including rates of interest. During these days commercial banks in India were under Government-arranged arrangements with a high segmented market with imperfect antagonism and a few substitute products. The banking industry moved step by step from a regulated frame-work to a deregulated fiscal system. The developments were augmented by liberalization and globalization, which resulted in changes in the intermediation function of Indian Banks. The swiftness of conversion was further considerable with suitable support of technical changes. Finally with the second phase of reform, from 1998-99 onwards, the main focus was shifted towards raising Indian banking to international standards. Accordingly, the financial sector was thrown open for superior global competition under WTO. Banks had to get ready to meet rigorous prudential norms of capital adequacy of BASEL II and also had to deal with challenges thrown up by technical innovations in banking arena. Commercial banks in India accepted the challenges in a befitting manner to suitably adapt to such changes.

HYPOTHESES OF THE STUDY

The hypothesis of this study is as follows:
(i) Socio-economic factors impacting the loan repayments by loanees.

OBJECTIVES OF THE STUDY

1. Analysis of the defaulting borrower perceptions that are responsible for NPAs in the target Bank in the target area;
2. To evolve suggestive measures to minimise NPA incidence.

Trends in NPAs of Total Scheduled Commercial Banks (SCBs):

Non-performing Assets (%) in India from 2011 to 2019 is as follows:

Years	2011	2012	2013	2014	2015	2016	2017	2018	2019: Q1	2019: Q2
India	2.7	3.4	4	4.3	5.9	9.2	10	9.5	8.9	9.2

Source: Report on Trends and Progress of Banking in India, 2018-19

TABLE 3.1: Net NPA to Net Advances of Scheduled Commercial Banks in India

Rs. in crores

Years	Net Advances	Net NPA Amount
2013	75000	750000
2014	100000	1000000
2015	125000	1250000
2016	150000	1500000
2017	175000	1750000
2018	200000	2000000
2019	225000	2250000

Trends in NPAs of Public Sector Banks:

Indian Public Sector Banks have been perceived as the vehicles of social change and also played a pivotal role in stepping up credit for agricultural and rural development. Banks have also been shouldering the responsibility of social banking for a variety of poverty alleviation or self-employment programmes. This has to be kept in view while analysing the level of Non-Performing Assets in banks.

The gross and net NPAs of Public Sector Banks vis-à-vis the gross and net advances of the Banks in general and the growth scenario have been presented in TableIII.2. It can be viewed from the table that the gross advances of Rs.2,84,971 Crores in1998 have increased to Rs.14,64,493 Crores by the year 2002 with a growth rate of 19.9 percent. Contrarily the amount of gross NPAs of the order of Rs.45,653 Crores in 1998declined to stand at Rs.38,968 Crores registering a negative growth rate of 1.7 percent.

The decline in the absolute amount of gross NPAs of the Public Sector Banks is evident since 2002 where it is Rs.56,473 Crores. A further analysis reveals that, over the years under review, the annual rate of growth in gross NPAs experienced a marked decline from 13.2 per cent to stand at –14.80 per cent in 2006 and –5.77 per cent in 2007.

It can also be visualised from the data that the net advances of public sector banks recorded a growth rate of 24.1 per cent increasing from Rs.2,06,459 Crores in 1998 toRs.14,40,123 Crores in 2007. As against this, the net NPAs which were Rs.21,232 Crores in 1998, though went upto Rs.27,969 Crores (2001) however consistently declined toRs.15,145 Crores with a growth rate of –3.7 per cent. It is also clear from the fact that the annual rate of growth in net NPAs of public sector banks which was 14.03 per cent in1999 gradually have come down registering a negative growth rate of –16.72 per cent in2006 and only 3.95 per cent in 2007.The analysis helps to observe that in the case of public sector banks, the NPAs have remarkably come down in spite of the impressive growth in advances.

Public Sector Banks – Loan Asset Classification:

The loan asset classification of Public Sector Banks during 1993-2007 is presented in Table III.4 to focus on the anatomy of NPAs. As evident from the table, which also reflects the proportion of NPAs to total advances over the years, the proportion of total NPAs to total advances in PSBs was 23.2 per cent in 1993 and marginally increased to 24.8 per cent in 1994, wherein an incessant decline had been experienced to stand at 2.7 per cent by 2007. Moreover, out of the total advances of the PSBs, the component of Standard Assets which was 76.5 per cent in 1993, though dropped down marginally to 75.02 per cent in 1994, continuously looked up to record appreciably at 97.3 per cent by 2007. On the other hand, the proportion of loss assets to total advances which was 2.3 per cent and 2.4 per cent respectively in 1993 and 1994dived to the ground to stand at 0.3 per cent in 2007. Most positively the sub-standard assets and also the doubtful assets followed suit. In addition, it could be further noted that the total advances and standard assets of the PSBs registered an appreciable growth rate of 27.1 per cent and 30.5 per cent respectively over the years. But the total NPAs, doubtful assets, loss assets and substandard assets registered a negative or negligible growth during the period under review. The analysis thus reveals that, though the Net advances of the Public Sector Banks experienced a galloping increase over the years, the loss assets, the total NPAs have been well bridled and the standard assets well improved.

The GNPA ratio of all SCBs declined in 2018-19 after rising for seven consecutive years, as recognition of bad loans neared completion. Decline in the slippage ratio10 as well as a reduction in outstanding GNPAs helped in improving the GNPA ratio. While a part of the write-offs was due to ageing of the loans, recovery efforts received a boost from the IBC. The restructured standard advances to gross advances ratio began declining after the asset quality review (AQR) in 2015 and reached 0.55 per cent at end-March 2019 (Chart IV.14 b). IV.30 All bank groups recorded an improvement in asset quality, with PSBs experiencing a drop both in the GNPA and in the net NPA ratios (Table IV.8). The deteriorating asset quality of PVBs in terms of the GNPA ratio is due to the reclassification of IDBI Bank Ltd as a private bank effective January 21, 2019; however, after excluding IDBI Bank Ltd, PVBs' GNPA ratio declined. Supervisory data suggest that the GNPA ratio of SCBs remained stable at 9.1 per cent at end-September 2019. IV.31 Consistent with these developments, the proportion of standard assets in total advances of SCBs increased in 2018-19, largely because of the improved performance of PSBs. The corresponding improvement in sub-standard and doubtful assets was partly reversed by an increase in the loss account (Table IV.9). Chart IV.14: Asset Quality of Banks Note: GNPA ratio is calculated using annual accounts of banks and off-site returns (global operations). Source: Annual accounts of banks and Off-site returns. a. GNPA Ratio Per cent b. Restructured Standard Advances to Gross Advances Per cent c. GNPA Write-offs GNPA write-offs at the end of the year as per cent of GNPAs at the beginning of the Year Reduction in GNPAs at the end of the year as per cent of GNPAs at the beginning of the Year d. Reduction in GNPAs All SCBs PSBs PVBs FBs All SCBs PSBs PVBs FBs PSBs PVBs FBs All SCBs PSBs PVBs FBs All SCBs

Time gap between applying and sanctioning of loan:

Time lag is a factor, which plays a crucial role with respect to the respondent's interest, miscellaneous expenditure, business activities and above all, the customer service. The main reason of the lag in sanctioning loan is security problem. If the gap is more, it creates more financial problems to the borrowers.

An analysis of the Table-VI.2 shows the time gap between applying for loan and sanctioning of the loan. Out of 223 respondents, a majority of 114 (51.1%) revealed that there is a gap of 2 months and another 53 (23.8%) felt that there is one month gap, whereas. About 23 (10.3%) respondents expressed in anguish that there is a gap of 6months. In addition to 0.4 per cent of the respondents reported that the time gap is surprisingly 12 months. Thus it comes to light that the average time gap between applying for loan and sanctioning of loan is two and half months. It is further observed that 80.3 per cent of the loans were sanctioned within 2 months from the time of applying or even less than that.

Table-3: TIME GAP BETWEEN APPLYING FOR THE LOAN AND SANCTIONOF THE LOAN

S.No.	Gap in months	Number	Percent	Valid Percent	Cumulative Percent
1	1	53	23.8	23.8	23.8
2	2	114	51.1	51.1	74.9
3	3	12	5.4	5.4	80.3
4	4	12	5.4	5.4	85.7
5	5	3.1	3.1	3.1	88.8
6	6	23	10.3	10.3	99.1
TOTAL		223	100	100	

Source: Survey.

Time gap between sanction and disbursement of the Loan:

An attempt is also made to know the gap between sanctioning of loan and receiving loan. As presented in Table-VI.3, out of the 223 respondents, a majority of 174(78.0%) expressed that the time gap between sanctioning of loan and receipt of loan is one month and another 48 (21.5%) felt that they received the loan 2 months after sanctioning. Thus the average time gap between sanctioning of the loan and receiving loan is 1.2 months.

Table-4: GAP BETWEEN SANCTION AND DISBURSEMENT OF THE LOAN

S.No.	Gap in Months	Number	Percent	Cumulative Percent
1.	1	174	78	78
2.	1.5	1	0.5	78.5
3.	2	48	21.5	100.0

Total		223	100	

Source: Survey.

Time gap between receiving and utilisation of loan by the unit

Table 4 presents the revelation of the respondents regarding the time gap between receiving and utilisation of loan by the unit. An analysis of data shows that out of 223 respondents, a majority of 123 (55.2%) stated that they utilised the received loan within one month followed by 35.9 per cent who revealed that they utilised the loan amount after 3 months. On the whole, 91.5 per cent of the respondents are observed to have utilised the loan amount for the unit within 2 months or less than 2 months. The average time gap between receiving the loan and utilisation of loan by the unit is observed to be 1.54 months.

II. Findings

The analysis brings forth that the gross NPAs of Public Sector Banks declined at a compound rate of –0.5 per cent. The rate of decline is comparatively sharper in the case of net NPAs which declined from Rs.17,567 Crores in 1995 to Rs.15,145 Crores in 2007 registering a rate of decline at 1.13 per cent. The gross NPAs as a ratio of gross advances and total assets which were 23.2 per cent and 11.8 per cent in 1999 respectively, remarkably dropped down to 2.7 per cent and 1.6 per cent respectively in the year 2007. The scenario is similar in the case of net NPAs as a percentage of net advances and also to total assets. These two ratios which were respectively at 10.7 per cent and 4 per cent in 1995 experienced a marked decline to 1.1 per cent and 0.6 per cent respectively in the year 2007. Thus, it can be concluded that the incidence and intensity of the gross and net NPAs of public sector banks in the post reform period ending with 2007 has diluted over the years as can be observed from the rolling down ratios of gross NPAs and Net NPAs to advances and total assets.

7. It can be observed from the analysis that among the various parameters and reflections from bankers and borrowers there are quite contradictory views among all the respondents. This is not unusual because the bankers and borrowers cannot have the same opinion about the reasons. What is true for the bankers may not hold true with the borrower.

8. It is inferred from the analysis that compared to the private sector banks and foreign banks in India, the public sector banks and State Bank group could well contain the proportion of gross NPAs to gross advances.

10. It can be observed that in the case of Nationalised banks the ratio witnessed a declined to 0.9 per cent during 2018-19. Thus in the case of all the bank groups especially with respect to the public sector banks the net NPAs as a percentage of Net advances remarkably came down. This indicates the improved recovery performance and a sensibly cautious management of NPAs.

11. It can be noted that the public sector banks including the nationalised banks Andhra Bank experienced a consistent decline in the ratio of gross NPAs to total assets. The public sector banks which stood with only 1.6 per cent in 2018-19. Andhra Bank's ratio came down to 1.92 per cent during 2018-19.

12. It is inferred from the analysis that the public sector banks experienced a glaring decline in their ratio of net NPAs to total assets from 3.27 per cent during 2013-14 to only 0.6 per cent during 2018 -19. The public sector banks including the nationalised banks and State Bank group experienced containment in the problem and incidence of NPAs and stood relatively ahead of the private sector banks and foreign banks in India in controlling the non-performing assets.

13. The analysis reveals that the total advances of AB in the district was Rs.25,578.36 lakhs in 2013 and it increased to Rs.1,76,182.92 lakhs by the year 2018 registering a growth rate of 23.9 per cent. The gross NPAs and net NPAs respectively stood at Rs.3,527.25 lakhs and Rs.1,729.09 lakhs in 2013 constituting 13.79 per cent and 6.79 per cent respectively of the total advances. By the year 2016, the gross NPAs and Net NPAs of the AB in the district respectively went-up to stand at Rs.6,712.56 lakhs and Rs.3,413.94 lakhs. Thus AB in the district experienced an increase in the magnitude of NPAs, but the rate of growth is relatively low compared to the total advances during the period 1978 and 2007.

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