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NPAs in Indian Banking Sector: An overview

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Abstract: The incidence of NPAs is a serious danger to the banking industry. Non-Performing Assets are assets that stop bringing in money for the bank. The operational effectiveness of a bank's loan portfolio is impacted by NPAs, which in turn impacts the bank's profitability, liquidity, and solvency situation. Particularly in recent years, the NPAs have turned into a hassle and burden for the Indian banking industry. The current study, "Non-Performing Assets in Indian Banking Industry: A Descriptive Study," was undertaken in light of the aforementioned context in order to describe the scope and trends of non-performing assets in India's banking industry. The study looked at Scheduled Commercial Banks' Non-Performing Assets between 2013 and 2021 in India. The study covers the conceptual underpinnings of non-performing assets (NPAs) and also explores the trends, state, and avenues for NPA recovery in the context of scheduled commercial banks. The majority of the data used in this study are secondary in nature. The Reserve Bank of India's website has been the primary source of statistics.

Keywords: Non-Performing Assets (NPAs), Commercial Banks.

I. INTRODUCTION

One of the biggest problems facing the Indian banking industry has been the growth of non-performing assets (NPAs). It has a direct impact on banks' ability to make money. Non-performing assets are the biggest problem the banking industry is dealing with. These harm banks' performance by lowering earnings, lowering investable funds, and lowering other financial indicators. NPAs are one of the most important criteria used to assess how well banks are performing on the stock market. Willful default, inappropriate use of borrowed funds, and a deficiency in pre-loan research are the three primary causes of NPAs.

The strongest indicator of a nation's banking system's health is the percentage of non-performing assets in that nation (NPAs). NPAs have an effect on liquidity and profitability in addition to jeopardising asset quality and bank sustainability. The growing percentage of non-performing assets has become a serious and pervasive threat in the majority of the countries in the world. NPAs are the primary markers of a bank's credit risk. When NPAs rise, the bank's performance suffers, and vice versa. In India, NPAs are rising as a result of bad lending practises and banks' mandated lending to priority and public sectors. One of the main causes of non-performing assets (NPA) in the banking industry is the directed credit system (DCS), which mandates that commercial banks allocate at least 40% of their annual advances quota to priority sectors like agriculture, small-scale industries, and other segments like small business, retail trade, small: road and water transport operators, professional and self-employed persons, housing, and education loans. Despite strict regulatory measures, the efforts of bankers generally, and lending activity in particular, the NPA problem persisted in the Indian context. The emphasis, however, was only on making additional recommendations in the form of specific micro level actions that have to be taken for a small number of organisations. The Reserve Bank of India, governments, and commercial banks are all advised to work hard and quickly to assess the current framework and reduce the probability of NPAs in order to lower the growing NPA issue. The current study is anticipated to focus on and endeavour to get insights into a particularly crucial section of the banking industry in order to do a full examination of the NPA framework used by banks.

As a result, the aforementioned discussion on NPAs and the literature review conducted in the following section show that NPAs account for both an increase in carrying costs and an excess & unnecessary level of management attention. NPAs account for a reduction in bank profitability through provisioning in the profit and loss account. In addition, banks are under pressure to maintain a target level of Capital Adequacy, which puts strain on a bank's net worth when NPAs are high. Actually, especially in recent years, the NPAs have turned into a hassle and pain for the Indian banking industry. The current study, "NPAs in Indian Banking Sector: An Overview," was undertaken to illustrate the scope and trends of non-performing assets in context of the above background.

II. Literature Review

Expanding the financial sector, in accordance with (Beck, T., 2005), fosters economic growth and reduces poverty by improving credit availability and more efficiently using society's savings. The literature has shown how closely financial development and economic growth are related (King & Levine, 1993; Beck et al., 2000; Kunt & Maksimovic, 1998; Beck et al., 2004; Klapper et al., 2006; Levine, 2005; Kunt et al., 2008). Additionally, Honohan (2004) devised an index to measure a country's access to finance, and the results revealed that economies with higher indices were advanced or developed economies. He also showed that absolute poverty rates are lower in societies with better financial institutions. It has been discovered that lessening inequality among the population's most disadvantaged sections depends significantly on financial stability (Li et al, 1997). According to several studies,"a well-developed banking system promotes seamless flow of savings and investments thereby assist economic growth" (King and Levine, 1993). India's banking system has seen significant transformation as a result of the financial sector reforms since 1992. The entry of new private and international institutions has increased competition within the Indian banking sector and given it greater energy. However, one of the biggest problems that Indian banks and financial institutions are now facing is bad loans, sometimes referred to as "Non Performing Assets." Singh (2016) asserts that the NPA issue is more severe in public sector banks than in private sector banks. The research that is now available indicates that the banking sector is seeing an increase in non-performing assets, which is a serious economic risk. NPAs are a problem that not only affects banks but the whole economy. Large NPA levels in bank books are a major danger to the institution's health, stability, viability, and soundness, according to Gopalakrishnan (2004). The balance sheets and profitability of banks are significantly harmed by NPAs. Barge (2012) emphasised the need of timely monitoring and administration of lent monies. According to Sahni & Seth (2017), a thorough evaluation of the borrower's creditworthiness is necessary to ensure prompt loan repayment.

III. Research Methodology

Examining the situation of non-performing assets held by scheduled commercial banks in India between 2013 and 2022 was the goal of this study. In addition to highlighting trends and the current situation of NPAs in the case of scheduled commercial banks, the article explores the conceptual underpinnings of NPAs. The majority of the data used in this study are secondary in nature. The Reserve Bank of India's website has been the primary source of statistics. For this study, a number of reputable banking research papers and publications have been cited. The research also made use of references from books, websites, and the RBI Report on Trend and Progress of Banking in India for various years.

IV. Results and Interpretations of Data

In accordance with the asset categorization of substandard, doubtful, and lost assets, the RBI has instructed banks to make provisions for NPA accounts. The time lapse between an accounts being unlikely to be recovered, realising the security and the gradual decline in the value of the security charged to the bank over time should be taken into account while making provisions, according to the RBI.

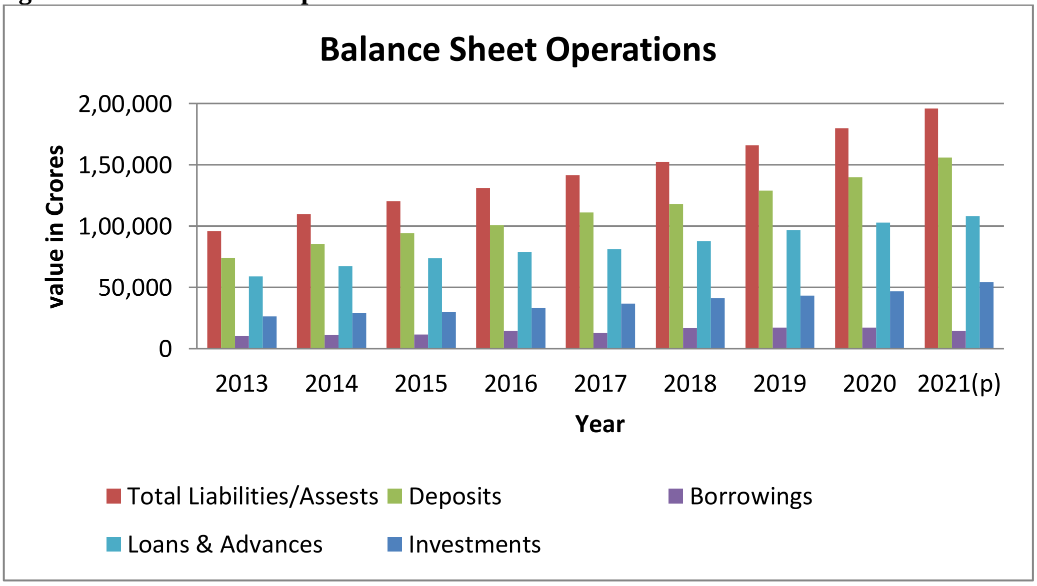
4.1 NPAs in Commercial Banks of India

Table 1.1: Balance sheet operation of schedule commercial bank of India from 2013 – 2021. (Amount in Crore)

Balance Sheet Operations	Total Liabilities/ Assests	Deposits	Borrowings	Loans & Advances	Investments
2013	95899.52	74296.77	10103.85	58797.73	26130.51
2014	109759.30	85331.70	11013.00	67352.30	28832.60
2015	120369.92	94338.38	11499.00	73881.79	29775.92
2016	1,31,293.00	1,00,927.00	14,488.00	78,965.00	33,278.00
2017	1,41,746.00	1,11,114.00	12,807.00	81,161.00	36,523.00
2018	1,52,550.33	1,17,940.05	16,823.09	87,459.97	41,262.37
2019	1,66,010.45	1,28,866.43	17,096.70	96,761.83	43,224.64
2020	1,80,144.25	1,39,750.45	16,961.20	1,03,018.97	46,898.42
2021(p)	1,95,946.17	1,55,906.00	14,748.90	1,08,202.08	54,198.66

Source: Report on Trend and Progress of Banking in India, Reserve bank of India. https://www..rbi.org.in

Figure 1.1: Balance sheet operation of schedule commercial bank of India from 2013 – 2021.



The Graph above shows the Balance Sheet Operations of Commercial Banks in India. The total Assets have been steadily rising from 2013 to 2021. Deposits have almost doubled from 2013 to 2021. Loans have also been almost doubled from 2013 to 2021.

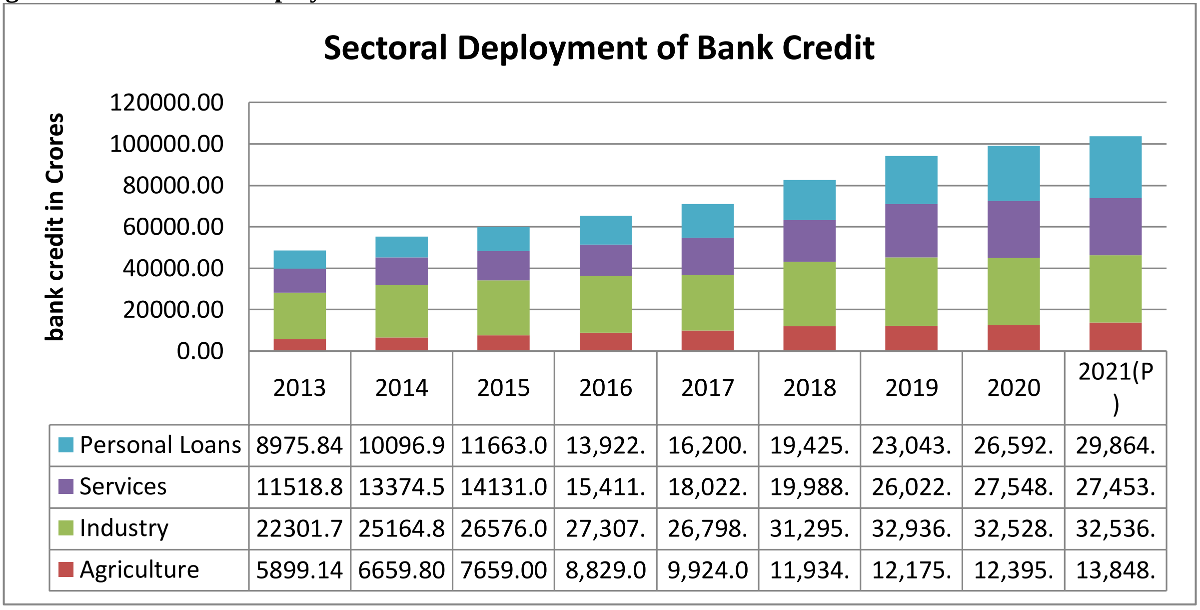
Table 1.2: Sector wise deployment of bank credit of schedule commercial banks of Indian from 2013 – 2021. (Amount in Crore)

Sectoral Deployment of Bank Credit	Agriculture	Industry	Services	Personal Loans	Gross Bank Credit	Credit deposit Ratio
2013	5899.14	22301.79	11518.86	8975.84	49641.77	79.1
2014	6659.80	25164.80	13374.50	10096.90	56208.20	78.9
2015	7659.00	26576.00	14131.00	11663.00	61023.00	78.3
2016	8,829.00	27,307.00	15,411.00	13,922.00	66,500.00	78.20
2017	9,924.00	26,798.00	18,022.00	16,200.00	71,455.00	73.00
2018	11,934.00	31,295.12	19,988.17	19,425.01	83,991.96	74.20
2019	12,175.94	32,936.38	26,022.87	23,043.13	95,269.32	75.10
2020	12,395.75	32,528.01	27,548.23	26,592.49	1,00,984.20	73.70

2021(P)	13,848.15	32,536.36	27,453.24	29,864.61	1,06,408.11	69.40

Source: Report on Trend and Progress of Banking in India, Reserve bank of India. https://www..rbi.org.in

Figure 1.2: Sector wise deployment of bank credit of schedule commercial banks of Indian from 2013 – 2021.



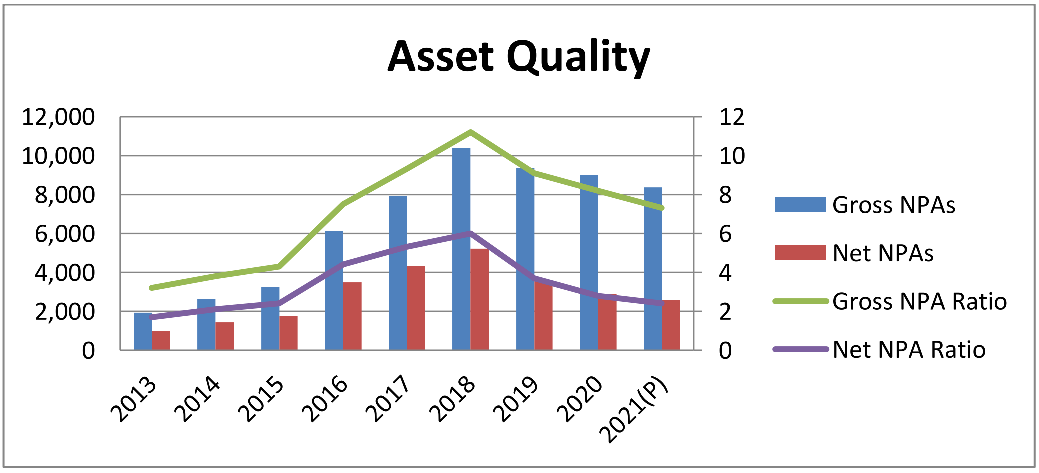
As can be viewed from the graph above the Credit Extended by the banks has been continuously rising from 2013 to 2021, the Maximum Growth in the Credit Received has been Personal Loans and Services sector and Industrial Sector and Agriculture has been almost neglected.

Table 1.3: Gross NPA, Net NPA, Gross NPA Ratio and Net NPA Ratio of schedule commercial banks of Indian from 2013 – 2021. (Amount in crore)

Asset Quality	Gross NPAs	Net NPAs	Gross NPA Ratio	Net NPA Ratio	Provision Coverage Ratio
2013	1941.00	987.00	3.2	1.7	47.6
2014	2644.00	1426.00	3.8	2.1	44.7
2015	3233.00	1754.00	4.3	2.4	44
2016	6,119.00	3,498.00	7.50	4.40	41.90
2017	7,918.00	4,331.00	9.30	5.30	43.50
2018	10,396.79	5,208.38	11.20	6.00	48.30
2019	9,364.74	3,550.68	9.10	3.70	60.50
2020	8,998.03	2,893.70	8.20	2.80	66.20
2021(Provisional)	8,377.71	2,582.28	7.30	2.40	67.40

Source: Report on Trend and Progress of Banking in India, Reserve bank of India. https://www..rbi.org.in

Figure 1.3: Gross NPA, Net NPA, Gross NPA Ratio and Net NPA Ratio of schedule commercial banks of Indian from 2013 – 2021.



As can be clearly interpreted from the chart above, the NPAs were rising slowly from 2013 to 2015 but a sudden rise was observed from 2015 to 2018 in both Gross & Net NPA. After 2018 due to measure taken by RBI like Asset Quality review and Insolvency & Bankruptcy Code, the Gross NPAs were reduced from more than 10 trillion to less than 8 trillion and Net NPAs were reduced from 6 trillion to just above 2 Trillion in 2021. The Gross NPA Ratio was reduced from 11 % to less than 8% and Net NPA reduced from 6 % to just over 2 %.

V. Conclusion

In essence, it comes to the conclusion that the problem of NPAs for banks in India is still on the agenda for all banks, but especially for PSBs. Countries like Singapore, the US, and Malaysia have declining NPA levels on an annual basis. Given the weak solvency position of many PSBs in India, it will be difficult for them to raise capital from the market, and the government will need to provide them with capital support to prevent the risk of a downgrade in their credit profiles. In order to survive and thrive in a cutthroat market, banks must also objectively assess credit risks and judiciously and methodically keep track of unpaid debts.

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