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NPAs: Rising Trends and Preventive Measures in Indian Banking Sectors

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Abstract: *NPAs has emerged since over a decade as an upsetting intimidation to the banking sector in our country sending disappointing signals on the sustainability and insurability of the affected banks. NPAs point out the credit risk of the banks. Operational effectiveness of the banks is affected by the quality of advances which in turn has an impact on the profitability, liquidity and solvency position of the banks. In this paper the author has tried to show the recent trends and its preventive measures to control NPAs in Indian banking sectors in present scenario on the basis of secondary data sources.*

Key words: *NPAs, Public Sector, Private Sector, Gross NPA, Net NPA*

I. INTRODUCTION

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management (Poongavanam, 2011). A healthy banking system is essential for any economy striving to achieve growth and remain stable in competitive global business environment (Prasad and Veena, 2011). A strong financial system can help achieve efficient allocation of resources across time and space by reducing inefficiencies arising out of market frictions and other socio-economic factors. Amongst the various desirable characteristics of a well-functioning financial system, the maintenance of a few non-performing assets (NPA) is an important one (Rao, 2013).

NPA usually refers to non-performing assets and the lenders consider it as those assets that are not fetching benefits to them. The word is not new to the bankers. It is regular but disguised loan asset (Tiwari and Sontakke, 2013). The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the banks have become very cautious in extending loans, the reasons being mounting NPAs. NPAs beyond a certain level are indeed cause for concern for everyone involved because credit is essential for economic growth and NPAs affect the smooth flow of credit (Rajeev and Mahesh, 2010). The Reserve Bank of India states that, compared to other Asian countries and the US, the gross NPAs figures in India seem more alarming than the net NPA figure (Prasad and Veena, 2011). The accumulation of huge NPAs in banks has assumed great importance. The depth of the problem of bad debts was first realized only in early 1990s.

II. MEANING OF NPAS

As long as an asset generates income expected from it, it is treated as “performing asset” and when it fails to generate income, a loan asset become “NPAs. As per RBI guidelines, NPA is defined as under (www.rbi.org.in):

NPA is a loan or an advance where:

- 1) interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

- 2) the account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC),
- 3) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- 4) the installment of principal or interest there on remains overdue for two crop seasons for short duration crops,
- 5) the installment of principal or interest there on remains overdue for one crop season for long duration crops,
- 6) the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- 7) in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

III. ASSET CLASSIFICATION

NPA, it is called such as while it is an "Asset", it does not bring substantial income to its Owner or is just dormant. Call it a white elephant if you wish. Basically, it is having something that should work but does not (Chaudhary and Sharma, 2011). It is supposed to make NPAs work. The RBI has issued guidelines to banks for classification of assets into four categories:

A. Standard (Assets)

Standard asset are not consider as a NPAs but does not carry more than normal risk attached to business. Thus in general all the current loans, agricultural and non-agricultural loans may be treated as standard assets (Srivastava and Bansal, 2013). It requires a minimum of 25% provision on global portfolio but not on domestic portfolio. These are loans which do not have any problem are less risk.

B. Substandard (Assets)

These are assets which come under the category of NPA for a period of less than 12 months (Rajput, Gupta and Chauhan, 2012). Sub-Standard Assets have been classified as NPAs for a period less than or equal to 18 months. The general provision of 10% of total outstanding principal plus entire outstanding interest should be made on sub - standard assets. A NPA may be classified as sub-standard on the basis of the following criteria.

- An asset which has remained overdue for a period not exceeding three years in respect of both agricultural and non-agricultural loans should be treated as sub-standard.
- In the case of all types of term loans, where installments are overdue for a period not exceeding three years, the entire outstanding in term loan should be treated as sub-standard.
- An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be called as sub-standard and should remain at least two years of satisfactory performance under the renegotiated terms. It means the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance with the conditions.

C. Doubtful (Assets)

These are NPA exceeding 12 months. Doubtful assets have remained as NPAs for a period exceeding 18 months (Murali and Ramakrishnaiah, 2013). On these assets the banks are required to provide 100% for the unsecured portion and additional provision of 20% to 50% advances, if doubtful for 3 and above 3 years in respect of both agricultural and non-agricultural loans. Rescheduling does not entitle a bank to upgrade the quality of advance automatically in the substandard assets. A loan classified as doubtful has all the weakness inherent as that of a sub-standard account. There is also a problem of weakness in the collection or liquidation of the outstanding dues in such an account in full.

D. Loss (Assets)

Where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly (Ahmad, 2013). Loss assets are those where loss is identified by the bank but the amount has not been written off wholly or partly. Such loss assets will include overdue loans in cases

- where decrees or execution petitions have been time barred or documents are lost which are legal proof to claim the debt,
- where the members and their sureties are declared insolvent or have died leaving no tangible assets,
- where the members have left the area of operation of the society leaving no property and their sureties have also no means to pay the dues
- Amounts which cannot be recovered in case of liquidated societies.

IV. TYPES OF NPA**A. Gross NPA**

Gross NPA is an advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. 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 (Ramesh and Sudhakar, 2012). It can be calculated with the help of following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

B. Net NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows 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 banks have to make certain provisions against the NPAs according to the central bank guidelines. It can be calculated by following (Balasubramaniam, 2012):

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

V. Factors Responsible for Mounting NPAs

The banking sector has been facing the serious problems of the rising NPAs. In fact public sector banks are facing more problems than the private sector banks. The NPAs in public sector banks are growing due to external as well as internal factors (Kaur and Singh, 2011). One of the main causes of NPAs in the banking sector is the directed loans system under which commercial banks are required to supply 40% of their credit to priority sectors. Most significant sources of NPAs are directed loans supplied to the "micro sector" are problematic of recoveries especially when some of its units become sick or weak. Public sector banks 7 percent of net advances were directed to these units. Poverty elevation programs like IRDP, RREP, SUME, SEPUP, JRY, PMRY etc., failed on various grounds in meeting their objectives. The huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections. Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating. In India the scope for branch expansion in rural and semi urban areas is vast and also necessary. Increasingly, NBFCs operating at such places are coming under regulatory pressure and are likely to abandon their intermediation role. These branches find priority sector financing as the main business available especially in rural/semi-urban centers. Operational restructuring of banks should ensure that NPAs in the priority sectors are reduced, but not priority sector lending. This will remain a priority for the survival of banks. Any decisions about insulating Indian banks from

priority sector financing should not be reached until full-scale research is undertaken, taking into account several sources including records of credit guarantee schemes (Prasad and Veena, 2011).

VI. TRENDS OF NPA

The detailed information regarding recent trends of NPAs of Indian banking sectors has been summarized from Table-1 to Table-6.

Table-1: Shows the Detailed Summary of Gross and Net NPAs Percentage in Public and Private Sector Banks

Years	Public Sector Bank		Private Sector Bank	
	Gross NPAs (%)	Net NPAs (%)	Gross NPAs (%)	Net NPAs (%)
2001-02	11.09	5.82	9.64	5.73
2002-03	9.36	4.54	8.08	4.95
2003-04	7.80	3.00	5.85	2.80
2004-05	5.50	2.00	6.00	2.70
2005-06	3.60	1.30	4.40	1.70
2006-07	2.70	1.10	3.10	1.00
2007-08	2.20	1.00	2.30	0.70
2008-09	2.00	0.94	2.36	0.90
2009-10	2.20	1.09	2.32	0.82
2010-11	2.40	1.20	1.97	0.53
2011-12	3.30	1.70	1.80	0.60

Source: RBI Reports

It has been found that Gross NPAs percentage showing decreasing pattern till year 2006. Then after it was more or less remain constant from year 2007 to 2012 in both Public as well as Private Banking Sector respectively, whereas the Net NPAs percentage in Public and Private Sector Banks showing more or less decreasing pattern through out a decade i.e. from 2001 to 2012.

NPAs have been emerged as one of the biggest ever challenges facing the banks, increase NPAs affect the profitability, liquidity, and equity of the banks and lead the accumulation of losses in the succeeding years. The evolutionary trends of NPAs in last seven years period have been shown in Table-2.

Table-2: The Trends of NPAs

Year	Gross NPA (%)	Net NPA (%)
2006-07	2.5	1.0
2007-08	2.3	1.0
2008-09	2.3	1.1
2009-10	2.4	1.1
2010-11	2.4	1.0

2011-12	2.9	1.3
2012-13	3.4	1.4

Source: RBI

As per the Reserve Bank of India 'Report on Trend and Progress of Banking in India: 2011-12', the Gross NPAs of the Scheduled Commercial Banks increased in absolute terms from INR 97900 Crores as on March 31, 2011 to INR 142300 Crores as on March 31, 2012. The banks, collectively, added fresh NPAs of INR 107100 Crores as against recovery, including amount written-off, of INR 62800 Crores, thus adding INR 44300 Crores to the Gross NPAs of the banking system. NPA of all scheduled commercial banks increased to 1.68 per cent of the total loan at the end of 2012-13, according to the Reserve Bank of India. The net NPA of all banks was 1.28 per cent at the end of 2011-12, RBI said in report titled 'A Profile of Banks: 2012-13'.

Net NPA of the 26 public sector banks, including State Bank of India (SBI), rose to 2.02 during the year as compared to 1.53 in the previous fiscal. SBI and its five associates recorded a net NPA of 2.04 per cent against 1.76 per cent in the comparable period. Net NPA of new private sector bank rose marginally to 0.45 per cent as compared to 0.42 per cent. Net NPA of the nationalized banks, including IDBI Bank, rose to 2 per cent during the year as compared to 1.44 per cent in the previous fiscal. Net NPA of the foreign banks rose to 1.01 per cent during the year as compared to 0.61 per cent in the previous fiscal. The RBI report provides bank-wise and bank group-wise information on important performance indicators of all scheduled commercial banks excluding regional rural banks, for the period 2008-09 to 2012-13. The publication covers 21 important indicators, including return on assets, net interest margin, capital to risk weighted assets ratio (CRAR), business per employee, and profit per employee.

Table-3: Bank-Wise and Bank Group-Wise Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Indian Public Sector Banks 2013 (Amount in Million)

Banks / Bank Groups	As on March 31, 2013		
	Gross NPAs	Gross Advances	Gross NPAs to Gross Advances Ratio (%) [*]
Public Sector Banks			
State Bank of India	511894	10785571	4.75
State Bank of Bikaner & Jaipur	21195	584737	3.62
State Bank of Hyderabad	31860	920231	3.46
State Bank of Mysore	20806	459805	4.53
State Bank of Patiala	24530	754598	3.25
State Bank of Travancore	17499	683885	2.56
State Bank of India & its Associates	627784	14188827	4.42
Allahabad Bank	51370	1309363	3.92
Andhra Bank	37145	1001378	3.71
Bank of Baroda	79826	3328113	2.40
Bank of India	87653	2929679	2.99
Bank of Maharashtra	11376	763972	1.49

Canara Bank	62602	2439358	2.57
Central Bank of India	84562	1762337	4.80
Corporation Bank	20482	1193540	1.72
Dena Bank	14525	664569	2.19
Indian Bank	35655	1071559	3.33
Indian Overseas Bank	66080	1643665	4.02
Oriental Bank of Commerce	41840	1301862	3.21
Punjab & Sind Bank	15369	518434	2.96
Punjab National Bank	134658	3152440	4.27
Syndicate Bank	29785	1494227	1.99
UCO Bank	71301	1315691	5.42
Union Bank of India	63138	2119111	2.98
United Bank of India	29638	697081	4.25
Vijaya Bank	15329	705135	2.17
IDBI Bank Limited	64500	2001347	3.22
Nationalised Banks \$	1016834	31412861	3.24
Public Sector Banks	1644618	45601688	3.61
Notes: \$ Includes IDBI Bank Ltd., * Gross NPAs Ratio to Gross Advance Ratio (%) = Gross NPA X 100/ Gross Advances, Source: Department of Banking Supervision, RBI			

Table-4: Bank-Wise and Bank Group-Wise Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Indian Private Sector Banks 2013 (Amount in Million)

Banks / Bank Groups	As on March 31, 2013		
	Gross NPAs	Gross Advances	Gross NPAs to Gross Advances Ratio (%)
	(1)	(2)	(3)
Private Sector Banks			
Catholic Syrian Bank Ltd.	2109	89760	2.35
City Union Bank Ltd.	1731	153429	1.13
Dhanlaxmi Bank Ltd.	3803	78963	4.82
Federal Bank Ltd.	15540	451946	3.44
ING Vysya Bank Ltd.	1214	318916	0.38

Jammu & Kashmir Bank Ltd.	6438	398537	1.62
Karnataka Bank Ltd.	6389	254165	2.51
Karur Vysya Bank Ltd.	2859	297059	0.96
Lakshmi Vilas Bank Ltd.	4599	118923	3.87
Nainital Bank Ltd.	673	21746	3.09
Ratnakar Bank Ltd.	259	63952	0.40
South Indian Bank Ltd.	4339	320140	1.36
Tamilnad Mercantile Bank Ltd.	2145	163661	1.31
Old Private Sector Banks	52098	2731197	1.91
Axis Bank Ltd.	23714	1989007	1.19
Development Credit Bank Ltd	2150	67530	3.18
HDFC Bank Ltd.	20481	2413061	0.85
ICICI Bank Ltd.	96078	2984164	3.22
IndusInd Bank Ltd.	4578	446416	1.03
Kotak Mahindra Bank Ltd.	7581	489186	1.55
Yes Bank Ltd	943	470869	0.20
New Private Sector Banks	155525	8860233	1.76
Private Sector Banks	207623	11591430	1.79

Source: Department of Banking Supervision, RBI.

Table-5: Bank Group-Wise Classification of Loan Assets of Schedule Public and Private Sector Banks from 2008 to 2013 (Rs.Billion) As on March 31

Bank Name	Year	Standard Advances	Percent Share	Sub-Standard Advances	Percent Share	Doubtful Advances	Percent Share	Loss Advances	Percent Share	Gross NPAs	Percent Share	Total Gross Advances
Public Sector Banks	2008	16,564.51	97.67	168.46	0.99	190.83	1.13	36.72	0.22	396.00	2.33	16,960.51
	2009	20,546.01	97.90	195.21	0.93	207.08	0.99	38.03	0.18	440.32	2.10	20,986.33
	2010	24,551.47	97.72	276.85	1.10	246.79	0.98	49.28	0.20	572.93	2.28	25,124.39
	2011	29,888.72	97.68	336.12	1.10	319.55	1.04	55.14	0.18	710.80	2.32	30,599.53
	2012	34,379.00	96.83	603.76	1.70	470.75	1.33	50.37	0.14	1,124.89	3.17	35,503.89
	2013	38,999.85	96.16	765.89	1.89	734.85	1.81	58.15	0.14	1,558.90	3.84	40,558.74
Private Sector Banks	2008	4,597.22	97.25	72.81	1.54	44.53	0.94	12.44	0.26	129.78	2.75	4,727.00
	2009	5,031.87	96.75	105.27	2.02	50.18	0.96	13.45	0.26	168.90	3.25	5,200.77
	2010	5,677.23	97.03	86.78	1.48	65.43	1.12	21.66	0.37	173.87	2.97	5,851.10
	2011	7,149.78	97.55	44.00	0.60	107.36	1.46	28.39	0.39	179.75	2.45	7,329.53
	2012	8,628.96	97.92	51.33	0.58	103.16	1.17	28.72	0.33	183.21	2.08	8,812.16
	2013	10,266.73	98.09	58.54	0.56	110.69	1.06	30.69	0.29	199.92	1.91	10,466.65

Source: Department of Banking Supervision, RBI

Table-6: Composition of NPAs OF Public Sector Banks During 2004 to 2013 (Rs.Billion) As on March 31

Bank Name	Year	Priority Sector		Non Priority Sector		Public Sector		Gross NPAs
		Amount	Percent Share	Amount	Percent Share	Amount	Percent Share	
Nationalised Banks	2004	167.05	47.74	178.95	51.14	3.90	1.11	349.90
	2005	163.81	51.17	153.46	47.94	2.83	0.88	320.09
	2006	151.24	53.66	122.53	43.48	8.08	2.87	281.85
	2007	157.79	61.28	96.68	37.55	3.02	1.17	257.49
	2008	163.85	67.21	77.93	31.96	2.02	0.83	243.80
	2009	157.21	60.10	101.40	38.76	2.97	1.13	261.58
	2010	199.06	56.13	152.77	43.08	2.80	0.79	354.62
	2011	257.21	59.90	169.47	39.47	2.73	0.64	429.40
	2012	322.90	48.34	343.13	51.37	1.92	0.29	667.95
	2013	404.86	42.21	553.59	57.71	0.78	0.08	959.22
SBI Group	2004	71.36	47.07	78.03	51.48	2.20	1.45	151.59
	2005	70.17	47.39	76.24	51.48	1.68	1.13	148.08
	2006	72.50	54.95	58.19	44.10	1.25	0.95	131.93
	2007	71.75	57.15	51.93	41.36	1.88	1.50	125.56
	2008	89.02	58.49	62.22	40.88	0.97	0.63	152.20

	2009	84.47	47.26	92.50	51.75	1.77	0.99	178.74
	2010	109.40	50.11	106.46	48.77	2.44	1.12	218.31
	2011	155.67	55.32	125.67	44.66	0.06	0.02	281.40
	2012	239.11	52.33	217.59	47.62	0.25	0.05	456.94
	2013	264.42	44.09	334.94	55.85	0.31	0.05	599.67
Public Sector Banks	2004	238.40	47.54	256.98	51.24	6.10	1.22	501.48
	2005	233.97	49.98	229.69	49.06	4.50	0.96	468.17
	2006	223.74	54.07	180.72	43.68	9.32	2.25	413.78
	2007	229.54	59.92	148.61	38.80	4.90	1.28	383.05
	2008	252.87	63.85	140.15	35.39	2.99	0.75	396.00
	2009	241.68	54.89	193.90	44.04	4.74	1.08	440.32
	2010	308.46	53.84	259.23	45.25	5.24	0.91	572.93
	2011	412.87	58.09	295.15	41.52	2.78	0.39	710.80
	2012	562.01	49.96	560.71	49.85	2.17	0.19	1,124.89
	2013	669.28	42.93	888.53	57.00	1.08	0.07	1,558.90

Source: Department of Banking Supervision, RBI

VII. Impact of NPAS on Bank Performance

The effectiveness of a bank is not reflected only by the size of its balance sheet but also the level of return on its assets. The NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits (Zafar, Adeel and Khalid, 2013). The public sector banks are faced with bulging NPAs which results in lower income and higher provisioning for doubtful debts and it will make a dent in their profit margin. In this context of crippling effect on banks operation the slew asset quality is placed as one of the most important parameters (Vijayakumar, 2012) in the measurement of banks performance under the Camel's supervisory rating system of RBI:

A. Profitability

NPA means booking of money in terms of bad asset, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA 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 ROI (return on investment), which adversely affect current earning of bank.

B. 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 NPA due to lack of money.

C. Involvement of Management

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

D. Credit Loss

Bank is facing problem of NPA 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.

VIII. Measures to Control NPAs

It is proved beyond doubt that NPAs in bank ought to be kept at the lowest level. Two pronged approaches viz., (i) Preventive management and (ii) Curative management would be necessary for controlling NPAs.

A. Preventive Management

1) Credit Appraisal and Risk Management Mechanism

A lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism (Chakraborty, 2012). The documentation of credit policy and credit audit immediately after the sanction is necessary to upgrade the quality of credit appraisal in banks. In a situation of liquidity overhang the enthusiasm of the banking system is to increase lending with compromise on asset quality, raising concern about adverse selection and potential danger of addition to the NPAs stock. It is necessary that the banking system is equipped with prudential norms to minimize if not completely avoid the problem of credit risk.

2) Organizational Reformation

With regard to internal factors leading to NPAs the onus for containing the same rest with the bank themselves. These will necessities organizational restructuring improvement in the managerial efficiency, skill up gradation for proper assessment of credit worthiness and a change in the attitude of the banks towards legal action, which is traditionally viewed as a measure of the last resort.

3) Reduce Dependence on Interest

The Indian banks are largely depending upon lending and investments. The banks in the developed countries do not depend upon this income whereas 86 percent of income of Indian banks is accounted from interest and the rest of the income is fee based (Balasubramaniam, 2012). The banker can earn sufficient net margin by investing in safer securities though not at high rate of interest. It facilitates for limiting of high level of NPAs gradually. It is possible that average yield on loans and advances net default provisions and services costs do not exceed the average yield on safety securities because of the absence of risk and service cost.

4) Potential and Borderline NPA's under Check

The potential and borderline accounts require quick diagnosis and remedial measures so that they do not step into NPAs categories. The auditors of the banking companies must monitor all outstanding accounts in respect of accounts enjoying credit limits beyond cut – off points, so that new sub-standard assets can be kept under check.

B. Restorative Management

The curative measures are designed to maximize recoveries so that banks funds locked up in NPAs are released for recycling. The Central government and RBI have taken steps for arresting incidence of fresh NPAs and creating legal and regulatory environment to facilitate the recovery of existing NPAs of banks. They are: Debt Recovery Tribunals (DRT): In

order to expedite speedy disposal of high value claims of banks Debt Recovery Tribunals were setup. The Central Government has amended the recovery of debts due to banks and financial institutions Act in January 2000 for enhancing the effectiveness of DRTs. The provisions for placement of more than one recovery officer, power to attach dependents property before judgment, penal provision for disobedience of Tribunals order and appointment of receiver with powers of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in times to come.

1) Lok Adalats

The Lok adalats institutions help banks to settle disputes involving accounts in doubtful and loss categories. These are proved to be an effective institution for settlement of dues in respect of smaller loans. The Lok adalats and Debt Recovery Tribunals have been empowered to organize Lok adalats to decide for NPAs of Rs. 10 lakhs and above.

2) Asset Reconstruction Company (ARC)

The Narasimham Committee on financial system (1991) has recommended for setting up of Asset Reconstruction Funds (ARF). The following concerns were expressed by the committee:

- It was felt that centralized all India fund will severely handicap in its recovery efforts by lack of widespread geographical reach which individual bank posses and.
- Given the large fiscal deficits, there will be a problem of financing the ARF. Subsequently, the Narasimham committee on banking sector reforms has recommended for transfer of sticky assets of banks to the ARC. Thereafter the Varma committee on restructuring weak public sector banks has also viewed the separation of NPAs and its transfer thereafter to the ARF is an important element in a comprehensive restructuring strategy for weak banks. In recognition of the same ARC Bill was passed to regulate Securitization and Reconstruction of financial assets and enforcement of security interest. The ICICI BANK has promoted the country's first Asset Reconstruction Company. The company is specialized in recovery and liquidation of assets. The NPAs can be assigned to ARC by banks at a discounted price. The objective of ARC is floating of bonds and making necessary steps for recovery of NPAs from the borrowers directly. This enables a onetime clearing of balance sheet of banks by sticky loans.

3) Corporate Debt Restructuring (CDR)

The corporate debt restructuring is one of the methods suggested for the reduction of NPAs. Its objective is to ensure a timely and transparent mechanism for restructure of corporate debts of viable corporate entities affected by the contributing factors outside the purview of BIFR, DRT and other legal proceedings for the benefit of concerned. The CDR has three tier structure viz., a. CDR standing forum b. CDR empowered group and c. CDR cell. The Mechanism of the CDR: It is a voluntary system based on debtors and creditors agreement. It will not apply to accounts involving one financial institution or one bank instead it covers multiple banking accounts, syndication, consortium accounts with outstanding exposure of Rs. 20 crores and above by banks and institutions. The CDR system is applicable to standard and sub – standard accounts with potential cases of NPAs getting a priority. In addition to the steps taken by the RBI and Government of India for arresting the incidence of new NPAs and creating legal and regulatory environment to facilitate for the recovery of existing NPAs of banks, the following measures were initiated for reduction of NPAs. Circulation of Information of Defaulters: The RBI has put in place a system for periodical circulation of details of willful defaulters of banks and financial institutions. The RBI also publishes a list of borrowers (with outstanding aggregate rupees one crore and above) against whom banks and financial institutions in recovery of funds have filed suits as on 31st March every year. It will serve as a caution list while considering a request for new or additional credit limits from defaulting borrowing units and also from the directors, proprietors and partners of these entities.

4) Recovery Action against Large NPAs

The RBI has directed the PSBs to examine all cases of willful default of Rs. One crore and above and file criminal cases against willful defaulters. The board of directors are requested to review NPAs accounts of one crore and above with special reference to fix staff accountability in individually.

5) Credit Information Bureau

The institutionalization of information sharing arrangement is now possible through the newly formed Credit Information Bureau of India Limited (CIBIL) It was set up in January 2001, by SBI, HDFC, and two foreign technology partners. This will prevent those who take advantage of lack of system of information sharing amongst leading institutions to borrow large amount against same assets and property, which has in no measures contributed to the incremental of NPAs of banks.

IX. CONCLUSION

Banking system plays a very significant role in the financial existence of the nation. The strength of the economy is closely related to the reliability of its banking system. The problem of NPAs can be achieved only with appropriate credit appraisal and risk management mechanism. It is required that the banking system is to be equipped with prudential norms to reduce if not completely to keep away from the problem of NPAs. It is better to avoid NPAs at the budding stage of credit consideration by putting in place of precise and proper credit appraisal mechanisms. So, it is very necessary for bank to keep the level of NPA as low as possible. Because NPA is one kind of barrier in the success of bank and affects the performance of banks negatively so, for that the management of NPA in bank is necessary. And this management can be done by following way:

- Credit assessment and monitoring
- Timely sanction and or release of loans by the bank are to evade time and cost overruns.
- Working personnel should inspect the level of inventories/receivables at the time of evaluation of working capital.
- Identifying reasons for rotating of each account of a branch into NPA is the most significant factor for advancement of the asset quality, as that would help begin suitable steps to raise the accounts.
- The recovery machinery of the bank has to be modernized; targets should be set for field officers / supervisors not only for recovery in general but also in terms of upgrading number of existing NPAs.
- Due to lower credit risk and consequent higher profitability, greater encouragement should be given to small borrowers

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