

# Non-Performing Assets In Indian Banking Sector: An Analysis Of Magnitude, Trend And Recovery

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**Abstract** — Non-performing asset is a serious problem faced by the banking sector in India. Both the public sector and private sector banks in India are suffering from this problem. The amounts of gross and net non-performing asset of the banks (both public sector and private sector) are mounting in recent times in India. In spite of adopting various efforts by Government of India and Reserve Bank of India for reducing and recovering of loans of the banks, the results are not satisfactory at all. This paper is an attempt to analyze the magnitude, trend and recovery of non-performing assets of the scheduled commercial banks and private sector banks in India.

**Index-terms** — NPA, Gross NPA, Net NPA, Banking sector, Loans, RBI, Advances.

## 1 INTRODUCTION

BANKING sector is said to be the backbone of an economy. The stability and efficiency of this sector highly influences the growth of an economy. On the other hand, the most important factor that directly affect on performance and efficiency of banking sector is the non-performing assets. Receiving deposit and lending money is the main business of a commercial bank. Receiving of deposit from the customer does not involve any risk. But lending of fund to the customers always involves risk. This is because there is no certainty regarding the repayment of the fund at the specific time period. Money or assets landed by the banks to the customers as loans remain sometime unpaid. If a landed amount is not repaid, then the bank is said to be facing loss of asset or it is failed to generate income. These assets which do not generate income are termed as non-performing asset or bad asset. In other words non-performing assets are those which are not meeting its state principle and interest payment. Usually, banks classify any commercial loans and consumer loans as non-performing asset which are more than 90 days and 180 days overdue respectively. At present most of the banks in India are facing the problem of non-performing asset. These non-performing assets negatively affect the banking sector in many ways, such as it reduces profitability of banks; it reduces deposit status of the banks etc. These further negatively effect the economy as a whole and the banking sector in particular.

## 2 Definition of non-performing asset in India

For the first time in 1991, The Narashimham Committee (Committee on financial system reforms, 1991) introduced the concept of non-performing asset. A non-performing asset is a loan or advances for which the principal or interest payment remains overdue for a period of 90 days. In broad sense non-performing asset refers a loan or an account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset in accordance with the directions or guidelines relating to

asset classification issued by Reserve Bank of India. Thus, according to Reserve Bank of India, non-performing asset is an asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. In India, on the basis of repayment status, assets of a bank are classified into four categories. These are standard asset, substandard asset, doubtful asset and loss asset.

**Standard Asset:** The assets which do not disclose any problem and do not carry more than normal risk attached to the business. This type of asset is not included in non-performing asset.

**Sub-standard Asset:** Sub-standard are those which has remained non-performing asset for a period less than or equal to 12 months.

**Doubtful asset:** Doubtful assets are those which are remained in the sub-standard category for a period of more than 12 months.

**Loss Asset:** The asset which is an NPA for a period of 36 months is termed as a loss asset. Loss assets have been identified by the bank or internal or external auditors or by the RBI inspection, but the amount has not been written off wholly. Simply, these are considered as uncollectible.

## 3 OBJECTIVES OF THE STUDY

The objectives of the study are as follows-

- To analyze the trend and magnitude of non-performing asset of Indian banking sector.
- To analyze about the recovery of non-performing assets through various recovery channels.

## 4 Methodology

The paper is of descriptive type and based only on secondary data.

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## 5 RESULTS AND DISCUSSION

### 5.1 TREND AND MAGNITUDE OF NON-PERFORMING ASSET IN INDIA

Non-performing asset is a major problem faced by banking sector in India. Both private and public sector banks are facing this problem in recent times in India. In India to calculate about NPAs or bad loans two concepts are generally used- gross NPA and net NPA. Gross NPA is the total amount of NPAs of the bank simply added. The total amount of sub-standard assets, doubtful assets and loss assets along with loss of interest are termed as gross NPA,

while total bad asset minus the provision left aside is termed as net NPA. As per the data of 2016, the total amount of gross non-performing asset for both public and private sector banks were more than six lakh crore. During that period regarding ratio of NPA to total advances Indian Overseas Bank was in the worst position, followed by UCO bank and Bank of India. On the other, regarding value of gross NPA, State Bank of India was in the worst position (with 93,000 crore gross NPA), followed by Punjab National Bank and Bank of India

The magnitude of these gross NPA and net NPA during the last decade are shown in the following table-

**Table 1: The gross NPA and net NPA of scheduled commercial banks in India (in crore) (During the last decade)**

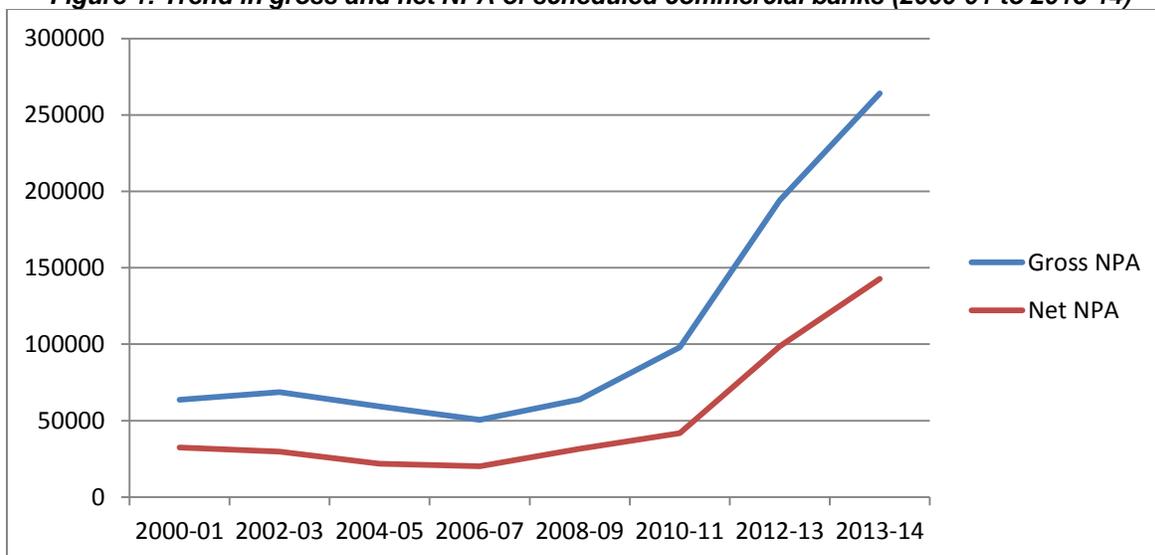
Year	Advances		Non-performing asset			
	Gross	Net	Gross NPA		Net NPA	
			Amount	As % of Gross advances	Amount	As % of net advances
2013-14	6875748	6735232	264195	3.8	142657	2.1
2012-13	5988279	5879773	194074	3.2	98710	1.7
2010-11	4012079	4298704	97900	2.5	41700	1.1
2008-09	3038254	2999924	63828	2.3	31564	1.1
2006-07	2012510	1981237	50486	2.5	20101	1.0
2004-05	1152682	1115663	59373	5.2	21754	2.0
2002-03	778043	740473	68717	8.8	29692	4.0
2000-01	558766	526328	63741	11.4	32461	6.2

Source: RBI

Table 1 shows the gross and net advances of scheduled commercial banks of India along with gross and net NPA. Table reflects that with the increase in gross and net advances of the scheduled commercial banks, NPA also increasing. In the year 2000-01, the gross and net advances of the scheduled commercial banks were Rs. 558766 crore and Rs. 526328 crore respectively. During the year 2013-14, it increases to Rs. 6875748 Crore and Rs. 6735232 Crore respectively. On the other hand, during 2000-01, gross NPA and net NPA were Rs. 63741 crore and

Rs. 32461 crore respectively. It further increases to Rs. 264195 crore and Rs. 142657 crore, during the year 2013-14. Thus, table shows an increasing trend of both gross and net NPAs of scheduled commercial banks in India during the last decade. But, fact is that the amount of gross and net NPAs as percentage of gross advances and net advances witness a declining trend. Both the trend of gross and net NPA and the amount of gross and net NPAs as a percentage of gross advances and net advances are shown in the following figure-

**Figure 1: Trend in gross and net NPA of scheduled commercial banks (2000-01 to 2013-14)**

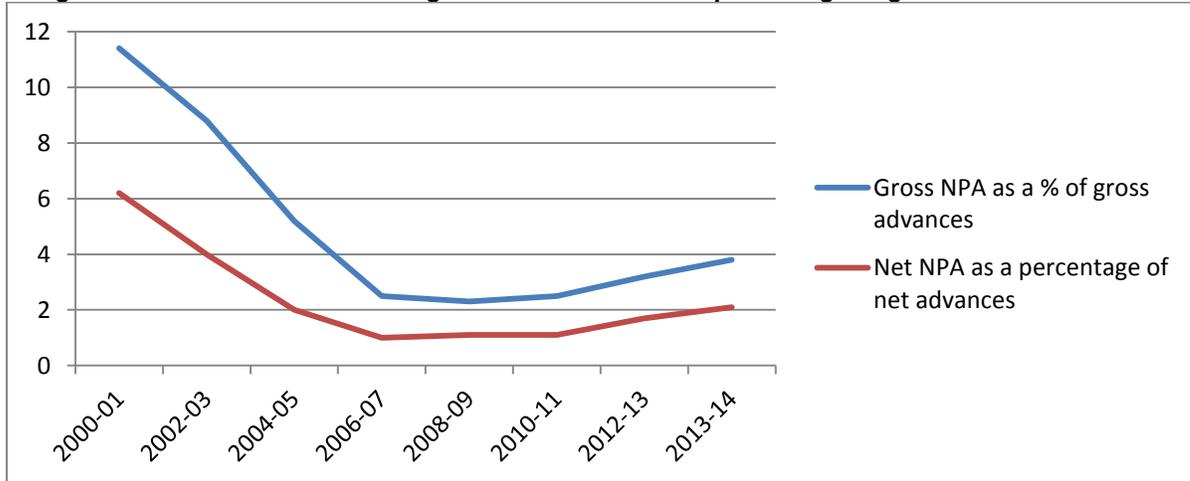


Source: RBI

Figure 1 represents the trend of gross NPA and net NPA in India. It is seen from the figure that from the period 2000-01 to 2006-07, both the gross NPA and net NPA witness a slightly declining trend. But after the period 2006-07, both represents an increasing trend. But, if we observe the amount of gross NPA and net NPA as a percentage of gross advance and net advance respectively, it shows a declining trend from the period 2000-01 to 2013-14. During the period 2000-01, amount of gross NPA was Rs. 63741 crore, which was about 11.4% of the gross advances of the scheduled commercial banks. On the other hand, during 2013-14, the amount of gross NPA was Rs. 264195 crore,

which was about 3.8% of the gross advances. Similar declining trend is observed regarding the amount of net NPA as percentage of net advances. During the period 2000-01, the amount of net NPA was Rs. 32461 crore, which was about 6.2% of net advances. On the other hand, during the period 2013-14, the amount of net NPA was Rs. 142657 crore, which was about 2.1% of the net advances. Thus, both the amount of gross and net NPA as a percentage of gross and net advances respectively, represent a declining trend. It is shown in the following figure-

**Figure 2: Trend in the amount of gross and net NPA as a percentage of gross and net advances**



Source: RBI

Thus, from the above discussion it is clear that scheduled commercial banks of India are suffering from the problem of non-performing asset at large scale. Like the scheduled commercial banks, private sector banks of India are also

suffering from the problem of non-performing asset. A scenario of non-performing asset faced by the private sector banks in India during the last decade is shown in the following table-

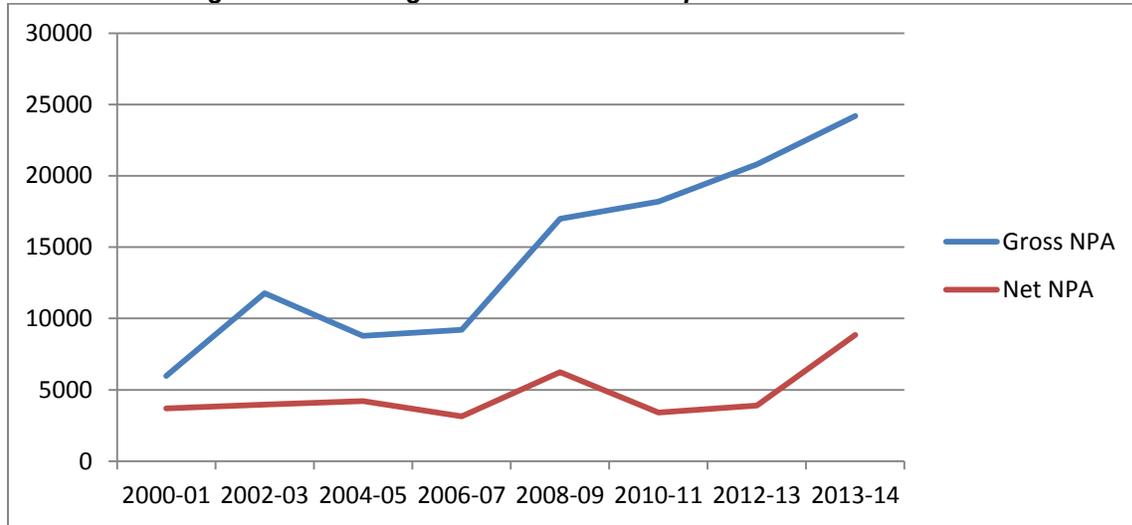
**Table 2: Gross NPAs and Net NPAs of private sector banks in India (in crore) (During last decade)**

Year	Advances		Non-performing asset			
	Gross	Net	Gross NPA		Net NPA	
			Amount	As a % of gross advance	Amount	As a % of net advance
2013-14	1361300	1342935	24200	1.8	8861	0.7
2012-13	1159200	873311	20800	1.8	3900	0.4
2010-11	811800	612886	18200	2.2	3400	0.6
2008-09	585000	446824	17000	2.9	6252	1.4
2006-07	420100	321865	9200	2.2	3137	1.0
2004-05	197832	191397	8782	4.4	4212	2.2
2002-03	146047	138951	11782	8.1	3963	2.8
2000-01	71237	68059	5963	8.4	3700	5.4

Source: RBI

Table 2 represents the gross and net advances of private sector banks along with their net and gross NPAs. Table reflects that both the gross and net NPAs of private sector banks in India are increasing during the period 2000-01 to 2013-14. During the year 2000-01, the gross and net

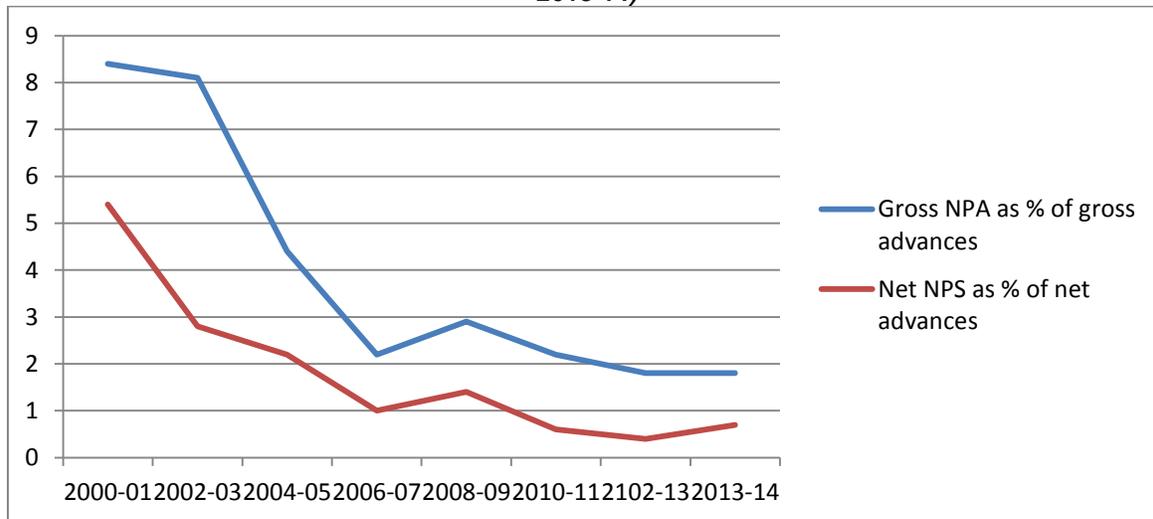
advances of the private sector banks was Rs. 5963 crore and Rs. 3700 crore respectively. It increase to Rs. 24200 crore and Rs. 8861 crore respectively, during the year 2013-14. The trend of gross and net NPA of private sector banks in India is shown in the following figure-

**Figure 3: Trend of gross and net NPAs of private sector banks in India**

Source: RBI

Figure 3 reflects a fluctuating trend of gross and net NPAs of private sector banks in India, during the period 2000-01 to 2013-14. It shows that after the period 2006-07 gross NPA of private sector banks are goes on increasing continuously. From the table 2 it is clear that though the amount of both gross NPAs and net NPAs are increasing during the period 2000-01 to 2013-14, The amount of both gross and net NPA as a percentage of advances are

decreasing. It is seen that, in the period 2000-01, the gross NPA as a percentage of gross advance was 8.4%. It decline to 1.8% during the year 2013-14. Similarly, the net NPA as a percentage of net advance was 5.4% during the year 2000-01, which decline to 0.7% in the year 2013-14. This trend of gross and net NPAs as percentage of advances are shown in the following figure-

**Figure 4: Gross and Net NPAs as a percentage of gross and net advances of Public sector banks in India (2000-01 – 2013-14)**

Source: RBI

Thus, from the above discussion it is clear that in India, both the private and public sector banks are suffering from the problem of non-performing Asset. Various causes are responsible for prevalence of non-performing asset in India. These include external and internal factors. External factor mainly includes natural calamities, willful defaulters, industrial sickness, ineffective recovery tribunals, unfavorable market condition, changing government policies etc. On the other hand, internal factor includes defective lending process, poor credit appraisal systems,

managerial deficiencies, inappropriate technology, improper SWOT analysis etc.

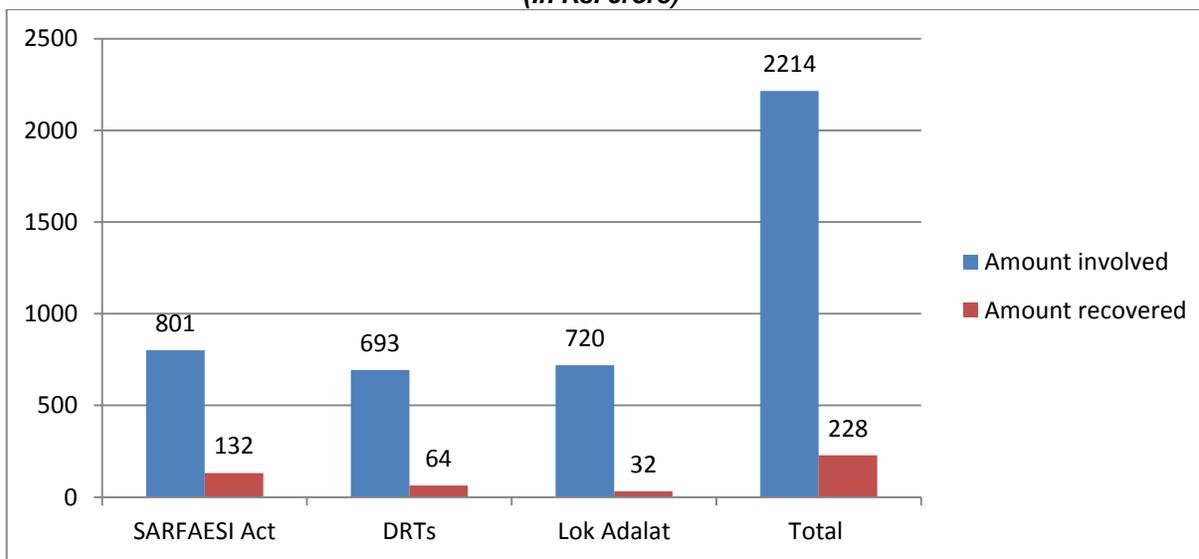
## 5. II RECOVERY OF NPA

Reserve bank of India and government of India have been adopting various methods to reduce and recover these NPAs in different times. Out of these most common are the Lok Adalat, Securitization and Reconstruction of Financial Assets and Enforcement of Security interest Act, 2002 (SARFAESI act) and Debt Recovery Tribunals. Lok Adalat

is a forum for setting banking disputes involving smaller amounts. Lok Adalat scheme includes all sticky accounts, both suit field and not suit field accounts, which are in the 'doubtful' and 'loss' category, with an outstanding balance of Rs 20 lakhs. SARFAESI act, introduced in 2002, lets the banks and other financial institutions of India to auction commercial or residential properties for the purpose of loan recovery. The debt recovery tribunals have been established by the government of India under Act of

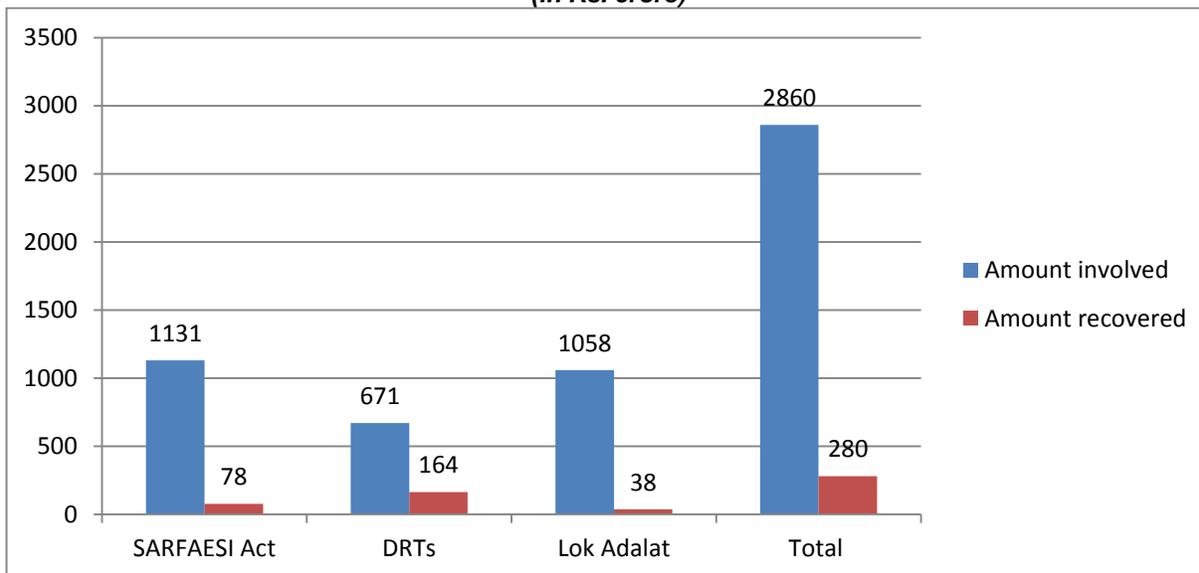
Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. But in spite of having the various effort made by government and reserve bank of India, the success rate regarding reduction or recover of NPAs of the banks are not satisfactory. A glance of recovery of loans by the banks through various channels during the last two years are shown in the following figures-

**Figure 5: Recovery of loans by the banks through various channels during the year 2015-16 (In Rs. crore)**



Source: RBI.

**Figure 6: Recovery of loans by the banks through various channels during the year 2016-17 (In Rs. crore)**



Source: RBI

From the figure 5 & 6, it is clear that loan recovery amount by the banks through various recovery channels during last two years are not satisfactory. During the year 2015-16, the total loan amount that tried to recover through various channels were Rs. 2214 crore. Out of this the recovered amount was only Rs. 228 crore, which is only 10.29 % of

the total amount that tried to recover. Similarly, during the year 2016-17, the total loan amount that tried to recover through various channels were Rs. 2860 crore. Out of this, the recovered amount was only Rs. 280 crore, which was only 9.79% of the total amount that tried to recover. Thus, it reflects a decreasing trend of recovery amount.

## 6 CONCLUSION

The mounting NPA of banking sector of India become a serious problem for the economy. Though, the concept of non-performing asset is associated only with the banking sector, the negative effects of its spread out to the whole economy in the long run. Non-performing asset results decrease in profitability and liquidity position of banks and thus worsen the banking environment of the country. It further negatively affects the economy. Therefore, to smooth functioning of the banking sector government and reserve bank should take adequate policy measures that reduce and recover the non-performing asset. It will increase the effectiveness of banking sector, which is most important for smooth functioning of the economy.

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