Non-Performing Assets: A Serious Problem among Indian Public Sector Banks (A Case Study of Patna Sadar)

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Abstract: *A healthy and sound banking system is very essential for any economy in order to grow and remain in this competitive environment. It is considered as the backbone of economic progress. Banking as an institution, deals with lending and collection of money following the basic rule of 'demand and supply'. Its lending business is associated with risk as there is always a probability of loans turning into Non-Performing Assets (NPAs). The best indicator for the health of the banking industry in a country is its level of NPAs. In present scenario, banks are incurring huge losses due to mounting pressure of NPAs with the Public Sector Banks (PSBs). NPA has a direct impact on the profitability, liquidity and solvency position of the bank. This paper basically deals with the trend of NPAs in banking industry, the factors that mainly contribute to NPA and also provides some suggestions to overcome this burden of NPA on Indian PSBs.*

Keywords: *Banking system, NPA, PSBs, profitability, liquidity.*

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Introduction :

Around the world, Finance is an important thread which brings many sectors together all over the world. It acts as a catalyst for economic development of the country. The role of banking sector in economic transformation is significant as banks play a vital role in providing the desired financial resources to the needy sectors. Thus, banking is considered as the 'backbone' of the economy. In emerging countries like India, banks were more than mere agents of financial intermediation and carry the additional responsibility of achieving the governments' social agenda also.

Banking as an institution dealing with the lending and collection of money. It follows the basic law of 'demand and supply'. People having excess money lends to those who need it, for productive purposes and

who are willing to pay a price for this transaction. The process of transferring the money from people having excess to deficit is carried through banks. But the lending business of banks is associated with risks. One of the main risks in lending is the possibility of account becoming NPAs.

Most loans allow customers a grace period, then they are marked 'over-due'. Then if the principal and interest remains unpaid for a period of 90 days, that loan is classified as NPA.

The problem of NPAs in Indian banking system is one of the most formidable issues. On the one side, banks cannot recognize interest on NPAs accounts and on the other, it is a drain of the banks' profitability due to high funding cost. Higher NPAs ratio shakes the confidence of investors, depositors, lenders, etc. which makes its prevalence a major threat to our banking sector. It has been high-time for the RBI and the government of India to take some concrete efforts towards the recovery of NPAs. Therefore recently, the cabinet approved promulgation of an ordinance to amend the banking regulation act to give the RBI more powers to deal with NPAs in the sector. The amendments in existing laws will empower the RBI to take actions against loan defaulters and defaulting companies under the bankruptcy code. The amendments also enabled RBI to set up multiple **oversight committees** to deal with NPAs.

The move is expected to speed up the NPA resolution process, as the bankruptcy code for time-bound winding up of companies and recovery of secured loans.

INSOLVENCY AND BANKRUPTCY CODE, 2016
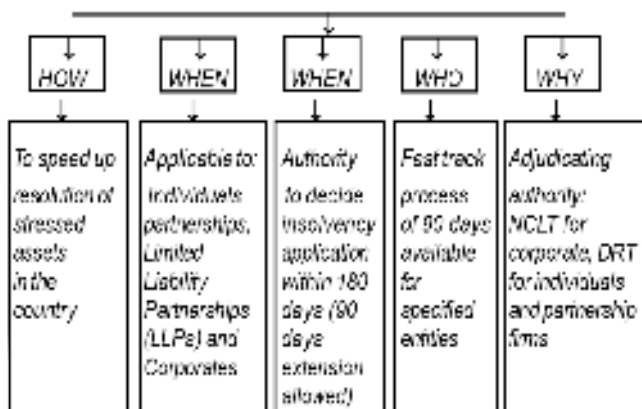
Non-Performing Assets :

The concept of non-performing assets is restricted to loans, advances and investments. As long as an asset generates income expected from it and does not disclose any unusual risk other than any commercial risk, it is treated as performing assets, and when it fails to generate the expected income is treated as non-performing assets.

According to RBI a non-performing assets is a loan or advance where interest and/ or installment of principal remains overdue for a period of more than 90 days.

Suppose SBI gives a loan of Rs.10 crores to a company (Example- Kingfisher Airlines). Consider that they agreed upon for an interest rate of say 10% per annum. Now suppose that initially everything was good and the market forces were working in support to the airline industry, therefore, Kingfisher was able to service the interest amount. Later, due to any reason suppose the company is not able to pay the interest rates for 90 days. In that case, a loan given to the Kingfisher airlines can be considered as NPA.

RBI Guidelines for NPAs Recognition:

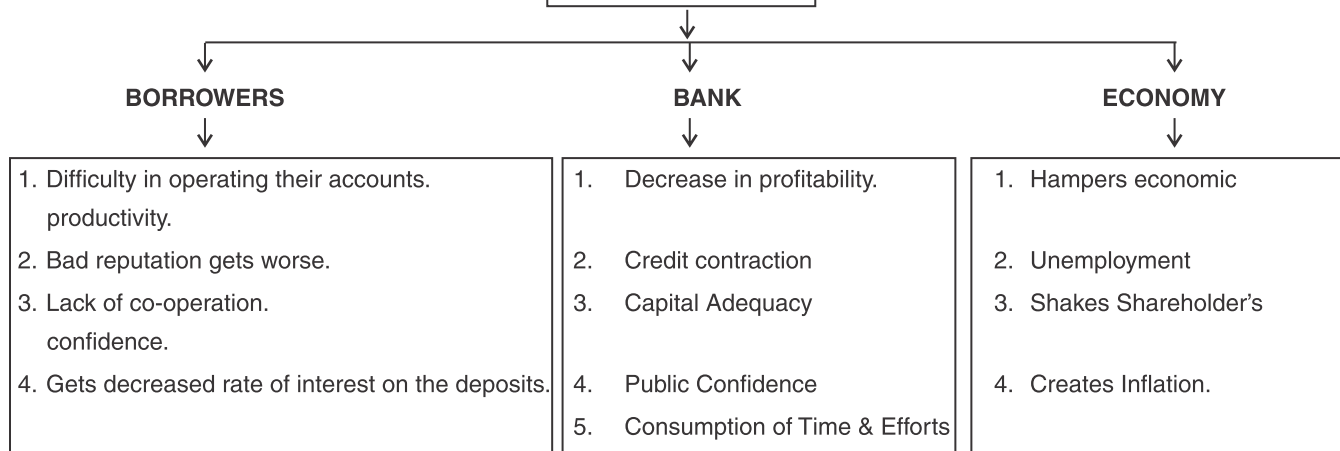| Loans and advances	Guidelines applicable from 31/3/2004
Term loan interest and/or installment over- due for more than	90 days
Overdraft/Cash Credit account	Remains out of order
Bills purchased and discounted remains overdue for more than	90 days
Agricultural loans • Short duration crops • Long duration crops	 2 crop season 1 crop season
Other accounts- any amount to be received remains overdue for more than	90 days

Classification of Advances :

- **Sub- Standard Assets**: If the NPA's have aged smaller and equal to 12 months.

- **Doubtful Assets**: If the NPA's have aged greater than 12 months.

- **Loss Assets**: If the bank or the RBI have identified the loss, but it has not been written off.

CAUSES OF NPAs :

Borrower	Bank	Other
• Too ambitious project	• Poor credit appraisal	• Lack of infrastructure
• Heavy borrowing	• Non inspection of unit	• Lack of Government support
• Poor credit collection	• Defective lending Process	• Government policies
• Poor quality management	• Lack of trained staff	• Changes related to Banking amendments
• Willful Default	• System overloaded	• Natural CalamitiesÏ
• Depend on single customer	• Lack of commitment to recovery	• Recession & variation in economic conditions
• Fail to bring required Fund	• Lack of technical support	
• Lack of proper Planning	• Inefficient recovery system	

IMPACT OF NPAs :

BORROWERS

BANK

ECONOMY

BORROWERS	BANK	ECONOMY
1. Difficulty in operating their accounts. productivity.	1. Decrease in profitability.	1. Hampers economic
2. Bad reputation gets worse.	2. Credit contraction	2. Unemployment
3. Lack of co-operation. confidence.	3. Capital Adequacy	3. Shakes Shareholder's
4. Gets decreased rate of interest on the deposits.	4. Public Confidence	4. Creates Inflation.
	5. Consumption of Time & Efforts	

Statement of the Problem :

Non-Performing Assets of banks are one of the biggest hurdles in the way of socio-economic development of India. The level of NPAs of the banking system in India is going too high. It affects the financial status of banks as there is a carrying cost or the holding cost for the non-performing assets as there is a loss of interest, provision to be made etc. There is therefore needed to make vigorous efforts to strengthen their internal control and risk management systems and to set-up early warning signals for timely direction and action. The focus of this study is on reducing the level of NPAs and further reducing the holding cost by adopting appropriate strategy for recovery, compromise and write-off with special reference to Indian Public Sector banks.

Need for the Study :

Banks have become an indispensable part of our economic system. The banking institution today forms the heart of the financial structure of the country. Indian Banking has made a significant progress after nationalization especially in three aspects i.e., branch expansion, deposit mobilization and loan maximization. Among these monitoring of loans took a back seat in an era of mass banking and social banking. The banking system in India faces many problems at present. One such problem is the vast no. of NPAs on the bank's balance sheet. To ensure proper functioning of the banking system in the economy, we need to see that the level of NPAs is kept down. Non-performing loans are an area of concern as they adversely affect the financial health of the bank. The RBI and Government of India have initiated various measures to curb NPA in the post financial sector reforms. But PSBs are still unable to solve the problem. In the liberalized scenario, the continuation of the NPAs is a menace for the survival of the banks. Over a decade of implementation of financial sector reforms and prudential norms, there is a need for a systematic analysis of NPAs. A study of this nature is essential at present when banks are facing various challenges in the phase of far reaching reforms in the changing environment. The study seeks to offer specific suggestions to resolve the problem of growing NPAs.

Objectives :

- To study the meaning and causes of NPAs.
- To find the trends of NPAs.
- To examine the impact of NPAs on funding system.
- To suggest some steps to reduce growth of NPAs.

Hypotheses :

- NPA leads to decrease in income generation of banks.
- There is increase in NPA in every accounting session.
- It decreases personal credibility (credit points).

Research Methodology :

1. **Area of Study :** Branches of State Bank of India and Punjab National Bank in Patna Sadar.

2. **Tools and Techniques :**
   - Case study of Non- Performing Assets in public sector Banks.
   - Interviews with Branch Managers, Credit Managers and bank customers.

3. **Source of Data :**

   Primary Data: For the collection of primary data we took samples of branch managers, credit managers, bank customers from three branches of two banks each. The collection was done through surveys and interviews of representatives/ respondents.

Samples	No. of representatives/ respondents	No. of Questions
Branch Manager	6	15
Credit Managers	10	15
Bank customers	105	10

   Secondary Data: Reports, literature published by Indian Banks, newspapers, articles from magazines on current banking scenario and Internet.

4. **Sample Method :**
   - Convenience Sampling Method (Non-probability sampling technique)

5. **Methods of Data Analysis :**
   - Tables
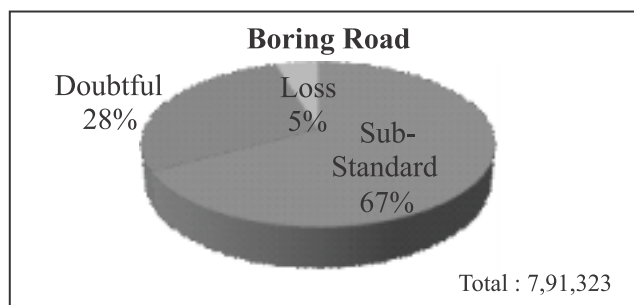   - Pie Chart
   - Graphs

Research Findings :

Analysis related to first hypothesis : Banks profit from the difference between the interest rates paid to depositors and the interest rate banks receive from loan re-payments.Once a depositor deposits money at the bank, the bank then turns around and lends the money to clients for mortgage, personal ,or business loans.The difference between the rates of lending and borrowing is known as the "spread", or the "net interest income" of banks. This process is how money is created into the banking system which expands the monetary base.But as there is always a possibillity of loans turning bad debts,i.e, NPA. RBI has designed several mechanisms for tackling NPAs among which provisioning norms is an important one.Under provisioning, banks have to set aside funds to a prescribed % of their bad assets.The amount of provisions differ in terms of quality and duration of assets.

Provisioning Norms of RBI

Assets	Provision requirement (%)
Sub-standard	15
Doubtful	25-40
Loss	100

Summary of provisions (2016-2017):

Branch : Boring road(01435)

Assets	Provisions (Rs.)
Sub- standard	3,72,457
Doubtful	1,58,606
Loss	26,060
TOTAL	7,91,323

Boring Road

Doubtful 28%
Loss 5%
Sub- Standard 67%

Total : 7,91,323

Branch : New Market (03477)	
Assets	Provisions (Rs.)
Sub-standard	64,487
Doubtful	147976
Loss	0
TOTAL	2,12,463

New Market

Loss 0%

Sub-standard 30%

Doubtful 70%

Total: 2,12,463
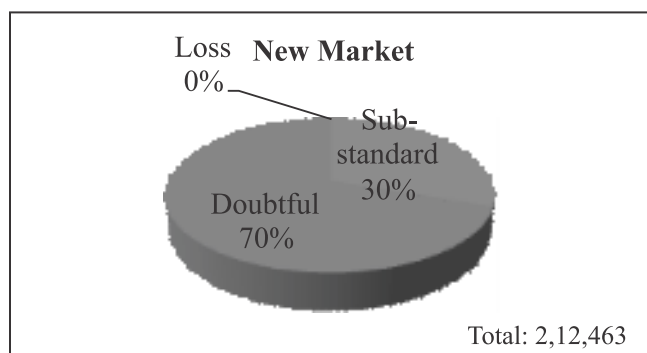
Branch : Kadamkuan (01561)	
Assets	Provisions (Rs.)
Sub-standard	4,59,676
Doubtful	6,52,617
Loss	10,064
TOTAL	11,22,357

Kadamkuan

Loss 1%

Sub-standard 41%

Doubtful 58%

Total:
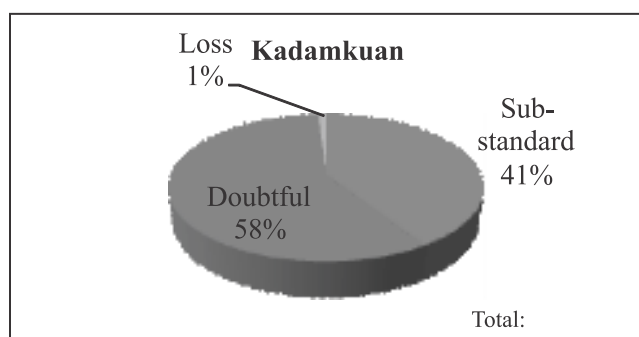
The above tables and pie charts reveal the provisions made for various types of loan assets during 2016-2017.It can be clearly interpreted that 7,91,323 and 2,12,463 and 11,22,357 amount has been kept as provisioning in the above mentioned branches which results in reduced income generating capacity of banks.

Findings :

- NPAs decreases available funds of banks because of provisioning requirements

- Due to fund blockage, banks cannot utilise that for fresh credit.

- The interest, banks were supposed to earn on that loan, was not actually realised.

Analysis related to second hypothesis:

State Bank of India
THE BANKER TO EVERY INDIAN

Branch: Boring Road		
S.No.	Quarter Date	Gross NPA (in Lacs)
1.	31 March, 2015	7781.01
2.	30 June, 2015	7591.36
3.	30 September, 2015	7620.76
4.	31 December, 2015	7309.87
5.	31 March, 2016	7366.87
6.	30 June, 2016	7643.16
7.	30 September, 2016	7664.62
8.	31 December, 2016	7746.59
9.	31 March, 2017	7828.21
10.	30 June, 2017	7327.91
11.	Total	75980.36

From the table it is clearly seen that the level of Gross NPA is 7781.01 lacs on 31 March, 15 which decreases to 7366.87 lacs on 31 March, 16. It further increases to 7828.21 lacs on 31 March, 17.

Branch: New Market		
S.No.	Quarter Date	Gross NPA (in Lacs)
1.	31 March, 2015	1277.75
2.	30 June, 2015	1218.55
3.	30 September, 2015	1234.63
4.	31 December, 2015	1238.42
5.	31 March, 2016	1351.66
6.	30 June, 2016	1284.71
7.	30 September, 2016	1353.80
8.	31 December, 2016	1375.22
9.	31 March, 2017	1411.95
10.	30 June, 2017	1425.03
11.	Total	13135.72

The table shows that in the level of Gross NPA is 1277.75 lacs on 31 March, 15 which increased to 1351.66 lacs on 31 March, 16 and further increased to 1411.95 lacs on 31 March, 17.

Branch: Kadamkuan		
S.No.	Quarter Date	Gross NPA (in Lacs)
1.	31 March, 2015	4631.21
2.	30 June, 2015	4473.31
3.	30 September, 2015	4278.47
4.	31 December, 2015	4096.53
5.	31 March, 2016	4073.12
6.	30 June, 2016	4086.12
7.	30 September, 2016	4084.57
8.	31 December, 2016	4022.25
9.	31 March, 2017	4077.12
10.	30 June, 2017	3999.01
11.	Total	41821.71

The data interpretation reveals that the level of Gross NPA is 4631.21 lacs on 31 March, 15 which decreased to 4073.12 lacs on 31 March, 16. Later it increased to 4077.12 lacs on 31 March, 17 which was lower than the reading on March, 15 but is still a huge amount.
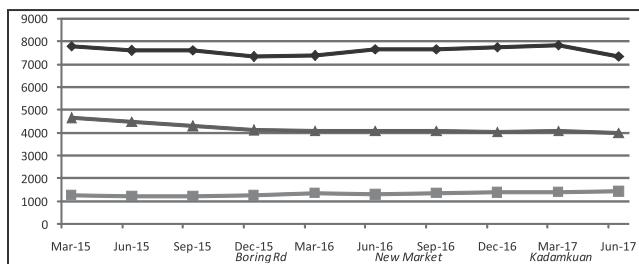

Fig. 1. Trend of Gross NPAs of three branches of SBI.

Branch: Boring Road		
S.No.	Quarter Date	Gross NPA (in Lacs)
1.	31 March, 2015	8.04
2.	30 June, 2015	–
3.	30 September, 2015	9.21
4.	31 December, 2015	9.21
5.	31 March, 2016	1979.61
6.	30 June, 2016	1218.85
7.	30 September, 2016	1259.29
8.	31 December, 2016	–
9.	31 March, 2017	1285.31
10.	Total	5769.52

From the table it is clearly seen that the level of Gross NPA is 8.04 lacs on 31 March, 15 which increases to 1979.61 lacs on 31 March, 16. After that due to some recovery practices it decreased to 1285.31 lacs on 31 March, 17 which is still a huge amount.

Branch: Buddha Colony		
S.No.	Quarter Date	Gross NPA (in Lacs)
1.	31 March, 2015	177.16
2.	30 June, 2015	–
3.	30 September, 2015	42.45
4.	31 December, 2015	170.48
5.	31 March, 2016	2934.10
6.	30 June, 2016	1125.97
7.	30 September, 2016	717.59
8.	31 December, 2016	–
9.	31 March, 2017	66.54
10.	Total	5234.29

The table reveals that the level of Gross NPA is 177.16 lacs on 31 March, 15 which increase to 2934.10 lacs on 31 March, 16. After that due to some recovery practices it decreases to 66.54 lacs on 31 March, 17 which show increased effort from the branch.

Branch: New Market		
S.No.	Quarter Date	Gross NPA (in Lacs)
1.	31 March, 2015	126.52
2.	30 June, 2015	–
3.	30 September, 2015	19.33
4.	31 December, 2015	10.35
5.	31 March, 2016	669.66
6.	30 June, 2016	2629.67
7.	30 September, 2016	2647.92
8.	31 December, 2016	–
9.	31 March, 2017	2645.39
10.	**Total**	**8748.84**

The table shows that the level of Gross NPA is 126.52 lacs on 31 March, 15 which increased to 669.66 lacs on 31 March, 16 and further increased to 2645.39 lacs on 31 March, 17.
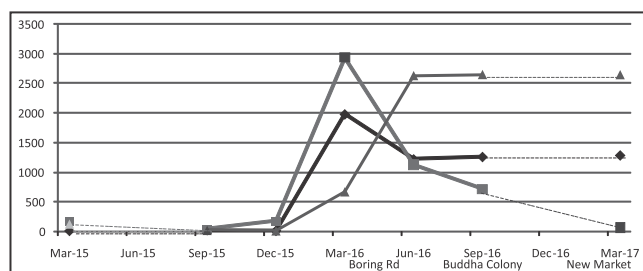
Fig. 2. Trend of Gross NPAs of three branches of PNB.

Analysis related to third hypothesis:

Credit Information Beaureu India Limited (CIBIL) : CIBIL is India's first Credit Information Company founded in August 2000. CIBIL collects & maintains records of an individuals payments pertaining to loans & credit cards. These records are submitted to CIBIL by the member of banks and credit institutions on a monthly basis. This information is then used to create Credit Information Reports (CIR). Credit scores which are provided to the credit institutions helps to evaluate and approve loan applications. It benefits both credit grantors and consumers by collecting, analyzing and delivering information on credit histories of millions of borrowers.

CIBIL Score : The CIBIL score is a 3- digit numeric summary of your credit history. The score is derived by using the details found in the "Accounts & Enquires" sections on your Credit Information Report (CIR) and ranges from 300 – 900. The closer the score is to 900, the more favorably the loan application will be viewed by a credit institution.

Parameters Considered to Calculate Credit Score for Existing Users.

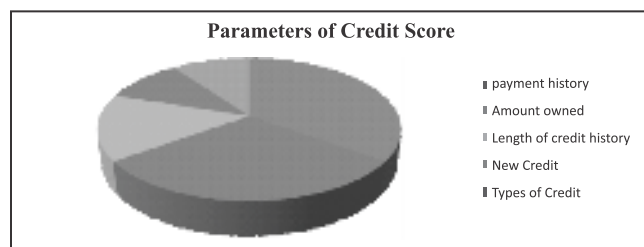| Parameters	Weighthage
1. Payments patterns of borrower	35%
2. Amount of money he owes	30%
3. Length of credit history	15%
4. Mix of credit	10%
5. New credit applications	10%

Fig. 3. Parameters of Credit Score

How Delinquencies hurt credit scores

| No. of Days Delayed	Reduction in Credit Score	
	Borrower 1 (680)	Borrower 2 (780)
After 30 days delinquency	620-640	670-690
After 90 days delinquency	595-610	645-665
For enclosure, short sale or deed- in –lieu	575-595	620-640
Bankruptcy	530-550	540-560

Methods of Improving CIBIL Score :

One can improve his/her credit score by maintaining the following points:

- Should pay all the debts on time because the late payments are frowned upon by banks.

- Try to maintain a healthy combination of secured as well as in secure loans.

- Avoid credit hungry behaviour and applying for too many loans in a short duration of time.

- Avoid the habit of providing guarantee for less creditworthy persons.

- Managing credit cards well by using only 30% - 40% of the available credit limit.

Findings :

- The major portions of loans are rejected in a bank due to low credit score which ranges from 300-900. The closer the score is to 900, the more favorably the loan application will be viewed by a credit institution of the applicants.

- It was found that among 105 customers, 75 customers i.e. 71.2% were unaware and only 30 customers i.e. 28.57% were aware of CIBIL's Credit report.

- Among 30 customers being aware about credit report, only 12 customers knew the methods to improve their Credit Score.

- It was conveyed by all Branch managers that late payment is the most important factor and holds 35% weight-age of credit score of an individual. With every late payment, their score gets deteriorated.

- All branch managers agreed that the increased help of CIBIL has helped in evaluating their past loan repayment history which resulted in decrease of NPAs.
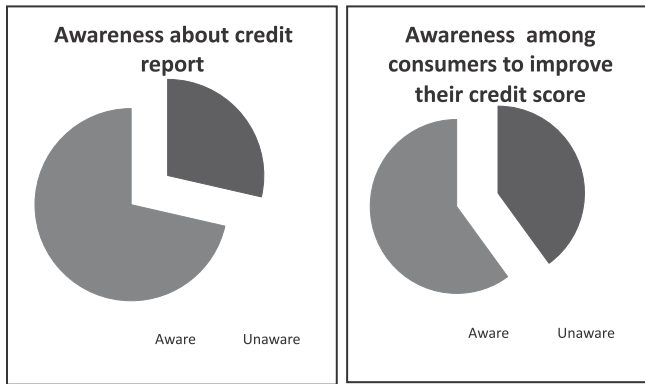
Fig. 4. Awareness of Credit Score and awareness among consumers to improve their credit score.

Limitations of the Study :

- The study was confined to extent of data availability as most of the information has been kept confidential.
- Some respondents were not co-operative due to lack of trust and interest.
- Some people were not ready to be a part of our survey due to lack of time.

Recommendations :

- Continuous follow up of account
- Pre sanction appraisal & post sanction follow up
- Monitoring of loan on regular basis
- Frequent discussions with bank staffs
- Same credit policy in all banks
- Fair practice by both bank as well as customers
- Strict legal action against willful defaulters
- Less interference of government in bank's policies
- Borrowers should be contacted vigorously for credit & installment

Conclusion:

The NPAs are the outcome of credit activity of the bank, which is their most important function to earn profit. The credit is associated with risk and therefore the bank cannot totally avoid NPA. However, strict compliance of lending norms, steady growth of credit over different segments and activities, careful planning, regular monitoring and follow-up, banks can control the advances turning into non performing assets. Even in case of NPAs, recovery or reduction is possible by adopting various strategies.

Although, elaborate guidelines on management of NPAs have been prescribed, it is necessary to keep in mind that application of these guidelines may or may not bring the desired results. For this it is necessary to devise branch specific strategy bases on the analysis of NPAs and then focusing on recovery by adopting different methods. Management of NPAs is not limited to recovery of dues. It involves careful planning, understanding the reasons for default, problems faced by individual borrower and then deciding appropriate course of action for recovery. This naturally requires dedicated and trained staff at branch totally involved in the process for management of NPAs.

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