

**AN INVESTIGATION INTO THE TREND AND COMPOSITION OF NPAS OF SCHEDULED COMMERCIAL BANKS IN INDIA**

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**ABSTRACT**

Health of the financial system determines the development potential of any region or country. A well strengthened financial system is crucial to meet all kinds of macro-economic objectives. As banks are the major constituent of overall financial system in every economy, their efficiency and productivity is essential for the sound functioning of any economy. Banks need to possess sound quality of assets to work with competence and economic efficiency. Bad quality of assets makes the banking operations inefficient and economically non-viable. Swelling levels of Non-Performing Assets (NPAs) in Indian banks has become a matter of great concern among the bankers and policy makers. Present study investigates into the trend and composition of NPAs of different groups of Scheduled Commercial Banks in India. The study highlights that public sector banks witness the highest level of Non-Performing Assets and gross NPA Ratio of Public Sector Banks has constantly increased during the study period 2012-13 to 2017-18. Sectoral division of Non Performing Assets of public sector banks suggests that advances to the non-priority sector are causing growth in the stressed assets of public sector banks. Policy thrust on sound banking information system, well-defined credit policies, periodical review of all loan accounts, constant follow-up, time bound recognition and recovery of bad loans along with strict adherence to due diligence and KYC norms can help to address the problem.

**Keywords:** NPAs, Financial System, Scheduled Commercial Banks, GNPA Ratio, due diligence, KYC

**INTRODUCTION**

Sound banking system is the most important ingredient in the recipe of economic success in the present contemporary world. Banks are expected to play a dynamic role in improving the macro-economic life of a nation and therefore it becomes extremely important for every nation to take care of the needs and financial health of its banks to enable them to function efficiently so as to facilitate the overall functioning of the economy and its various sectors. In a country like India, banks can contribute significantly in economic growth by mobilising resources from the surplus regions/sectors and allocating those resources to the deficit regions/sectors. Banks can play a vital role in achieving the national objectives of eradicating poverty, unemployment and regional disparities. Besides, they can act as agents of growth by extending loans to agriculture, manufacturing and tertiary sector with a view to

address their financial requirements concerning expansion and diversification. Moreover, banks help to attain the goal of bringing down personal inequalities by giving advances to small agriculturalists and industrialists on priority basis under the priority lending scheme of government.

Two most important functions of commercial banks are to mobilise public savings in the form of deposits and to channelize those savings in the form of lending to the priority sectors as per national macro level socio-economic goals. Deposits are considered to be the banks' liabilities as they need to be returned back to the depositors along with the rate of interest whereas the advances given by the banks are considered as their assets as the borrowers are responsible to repay the loan to the bank along with stipulated rate of interest. Therefore advances are the primary source of banks' income. Therefore strict adherence to all the prudential norms by the banks at the time of lending and stringent regulations concerning KYC norms should never be taken for granted.

**NON-PERFORMING ASSETS: MEANING**

Disbursement of credit in accordance with national socio-economic goals is essential for the fast and well directed economic growth of the nation. Any obstacle in the regular flow of credit to different sectors and sub sectors may result into irreparable loss to the economy in terms of growth and financial stability. Due to lack of due diligence at the time of lending and weak recovery system, commercial banks very often run the risk of non-payment of either principal or interest by the borrower. As per Reserve Bank of India, an asset becomes non-performing when it stops generating any income for the bank. Though non-performing assets in banks is a global phenomenon, stressed assets beyond alarming levels become a great cause of concern for the financial stability of the nation. Distressed assets reduce banks' productivity and profitability and therefore banks start hesitating from giving loans to less productive and less profitable sectors which adversely affect the

achievement of national goals of elevating production, productivity, income, equality and employment opportunities in the economy.

As per RBI's Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to the Advances Portfolio issued on September 01, 2001, 'a Non-Performing Asset (NPA) is a loan in case of which interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a Term loan, the account remains out of order in respect of an Overdraft/Cash Credit, the bill remains overdue for a period of more than 90 days in case of bills purchased and discounted. An agricultural loan becomes NPA if interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes and the instalment of principal or interest remains overdue for two crop seasons for short duration crops or one crop season for long duration crops'.

Precisely below are the NPA identification norms as per RBI guidelines:

Type of Loan	Identification Norms
Term loan	Interest and Principal remains overdue for more than 90 days
Overdraft	Account 'out of order'
Bills purchased and discounted	remain overdue for more than 90 days
Agricultural loan	Interest and/or instalment of principal remains overdue for two harvest seasons but not exceeding two half years

Following are the objectives of the study:

1. To investigate into the trend and status of NPAs of different groups of Scheduled Commercial Banks
2. To study composition of NPAs of public sector banks in terms of priority and non-priority advances
3. To make suggestions to contain the problem of NPAs of Scheduled Commercial banks in general and Public Sector Banks in particular

## REVIEW OF LITERATURE

Balasubramaniam (2013) in his study concerning the status of NPAs in Indian banks for the period 2001 to 2010 found that the level of Non-Performing Assets was extremely high in Indian banks during the study period and recommended to follow sound credit appraisal procedure to address the problem.

Lalitha (2013) reported decline in gross NPAs during the study period of 2001-02 to 2011-12 in all the four banks chosen for the purpose of study namely SBI, Canara Bank, HDFC and Karur Vysya Bank. The value of Gross NPAs to gross advances for SBI was more than the average value for all the public sector banks. Average value of Gross NPAs in the private sector banks was much better than those of public sector banks.

Singla et.al. (2011) investigated into the issue of Non-Performing Assets of select public sector banks for the period 2005-06 to 2008-09 and suggested that efficiency of reminder system and regular follow-ups can help the banks in containing the problem of non-performing assets.

Harpreet kaur (2006) in her study on NPAs of public sector banks for the period 1994-95 to 2004-05 opined that regular follow up through constant reminders and setting up of independent resolution and recovery department can help the banks to deal with the problem of stressed assets.

Arun Yeole (2004) also studied the problem of NPAs of banks in India for the period 1997-2003. The study highlighted that that Public sector banks reported relatively higher percentage of NPAs as compared to private sector banks and foreign banks. The study suggested careful selection of borrower accounts, regular contact with borrowers, proper follow-up, need based financing, financing of only economically viable projects to contain the growing amount of NPAs in banks.

Das and Ghosh (2003) empirically analysed non-performing and stressed assets of public sector banks of India and concluded that public sector banks need to devise appropriate lending terms after careful consideration of factors such as the cost of credit, cost of funds, maturity of loans as this may help to reduce the number of credit defaulters and the resultant amount of Non-Performing Assets.

Shakunthalamani (2001) studied the problem of NPAs in Scheduled Commercial Banks and Regional Rural Banks during the period 1993-1994 to 1998-99. The study highlighted that political interference, competition pressures, poor legal framework and lack of prudential norms led to the growing problem of NPAs during the study period.

## RESEARCH METHODOLOGY

The study limits itself to the problem of NPAs of different groups of scheduled commercial banks in India. To meet its objectives, the study relies on the secondary data collected from various publications of RBI including Statistical Tables relating to Banks in India, Basic Statistical Returns of Scheduled Commercial Banks in India and RBI Handbook of Statistics on Indian Economy. The data collected from various sources has been tabulated and analysed in the form of graphs.

## DATA ANALYSIS AND DISCUSSION

The banking system in India heavily relies on Commercial Banks for its operations. Commercial Banks account for more than 60 percent of the total banking transactions. Based on their ownership pattern, the Commercial Banks can be grouped into (i) Public Sector Banks (PSBs) which include the State Bank of India and its subsidiaries and the nationalized banks (ii) Private Sector Banks (iii) Foreign Banks operating in India (iv) Regional Rural Banks (v) Other Scheduled Commercial Banks. However, the Public Sector Banks dominate the banking system of the country because of their huge presence especially in the rural areas and their large sized deposit mobilisation and lending operations.

To make a clear assessment of the relative importance of different bank groups in terms of their business transactions, it is essential to analyse the percentage share of different bank groups in total deposits and credit of Scheduled Commercial Banks and the data suggests that public sector banks account for more than 60% of the total deposits and credit of Scheduled Commercial Banks in India followed by the Private Sector Banks. However, Role of Foreign Banks and Regional Rural Banks seem to be pretty small in comparison. The result of deposits and credit of Scheduled Commercial banks according to different bank groups is given in table

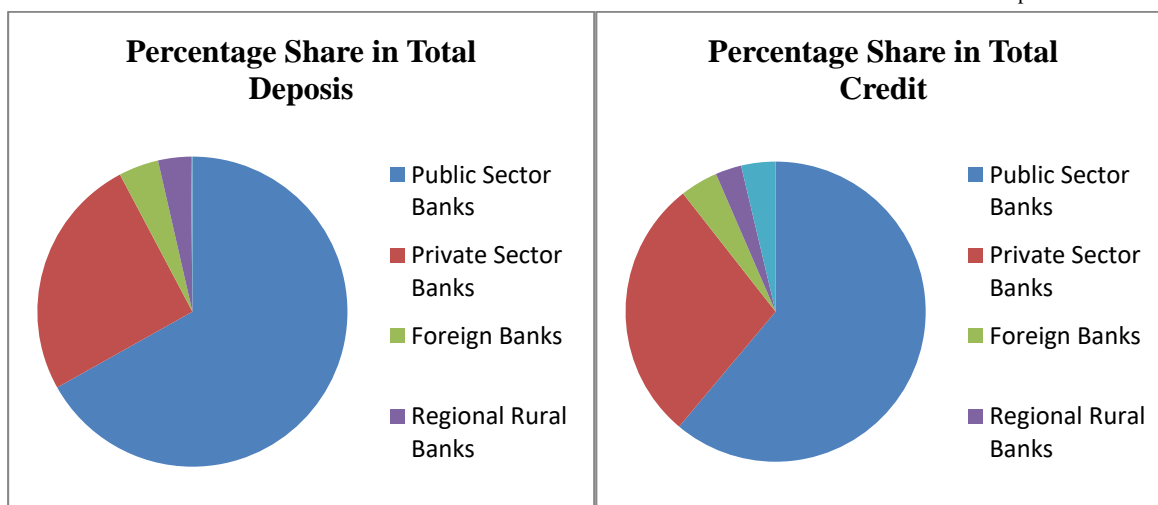
**Table 1: Deposits and Credit of Scheduled Commercial banks According to Different Bank Groups as at end of March 2018 (Amount in Crore)**

Bank Group	Amount of Deposits	As Percentage to Total Deposits	Amount of Credit	As Percentage to Total Credit
Public Sector Banks	7,646,037.21	66.87	5543260.9	61.12
Private Sector Banks	2,903,710.26	25.39	2567037.4	28.30
Foreign Banks	476,532.55	4.17	367830.3	4.07
Regional Rural Banks	391,121.56	3.42	255252.2	2.81
Small Finance Banks	17,049.35	0.15	33591.8	3.70
All SCBs	1,14,34,450.93	100	9069372.4	100

**Source: Basic Statistical Returns of Scheduled Commercial Banks, RBI**

As clear from the table 1 that public sector banks account for more than 60% of the total transactions followed by the private sector banks. Small Finance banks are more popular for their lending activities than their saving mobilisation activities. Despite of national thrust on Regional Rural banks, RRBs don't seem to do much in the field of banking in India. This is despite of the fact that most of Indian population lives in rural areas with agriculture as its predominant occupation.

**Figure 1: Percentage Share of Different Bank Groups in Total Deposits and Total Credit of Scheduled Commercial banks**



Banks witness numerous amounts of hurdles in their day to day transactions however the growing amount of NPAs is the biggest challenge in front of Indian banking system. The efficiency and success of any banking institution depends upon the prudent management of its affairs by following due diligence and ensuring the fulfilment of KYC requirements so as to keep the NPAs within the tolerable limits. With a view to have a deeper understanding of the problem of NPAs in SCBs of India, it is pertinent to analyse the available data published by RBI from time to time.

**Table 2: Amount of GNPA of all SCBs in India as in March 2018 (in Rs crore)**

Bank Group	Amount	As percentage to the Total
Public sector Banks	895601.30	86.43
Private Sector Banks	125862.89	12.15
Foreign banks	13829.66	1.33
Small Finance banks	893.35	0.09
All SCBs	1036187.20	100

**Source: Handbook of Statistics on the Indian Economy, RBI**

Table 2 highlights the amount of GNPA of all scheduled commercial banks along with the percentage share of different bank groups in the total amount of GNPA. The table shows that Public Sector Banks accounted for around 86% of GNPA in 2018 whereas private sector banks accounted for 12.15% of GNPA followed by foreign banks sharing 1.33% of GNPA and Small Finance Banks accounting for meagre 0.09% of GNPA of all the Scheduled Commercial Banks in India.

**Figure 2: Percentage Share of Different Bank Groups in Total Amount of GNPA of Scheduled Commercial Banks**

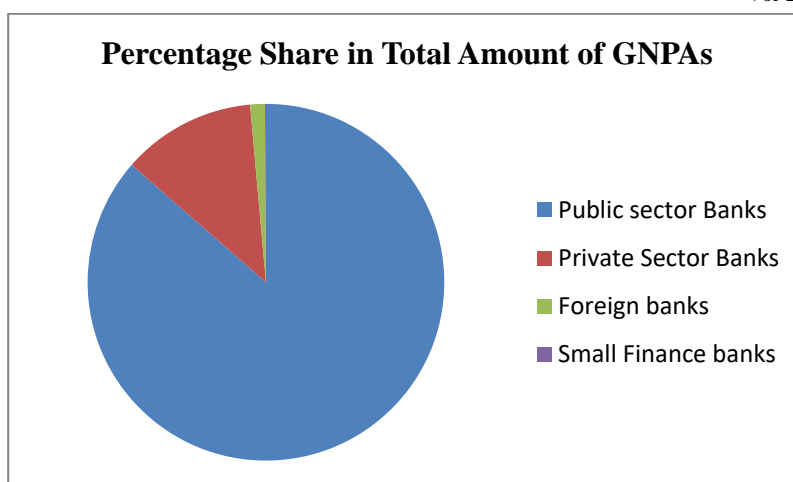


Table 3 highlights the Gross Non-Performing Assets' Ratio of Scheduled Commercial banks which is a ratio of gross non-performing Assets of SCBs to their Gross Advances. The table shows that GNPA ratio of SCBs is persistently rising since 2012-13. GNPA ratio of SCBs witnessed constant rise during the study period of 2012-13 to 2017-18. The GNPA ratio of SCBs recorded rise from 3.2% in 2012-13 to 11.2% in 2017-18.

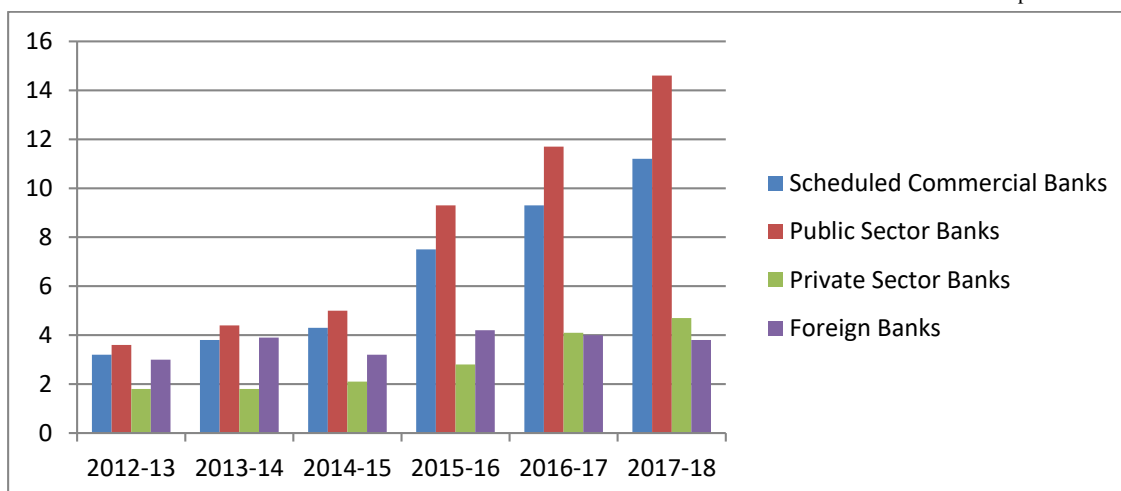
**Table 3: Gross NPAs of Scheduled Commercial Banks as percentage of Gross Advances Bank Group wise (in percentage)**

Year	Scheduled Commercial Banks	Public Sector Banks	Private Sector Banks	Foreign Banks
2012-13	3.2	3.6	1.8	3.0
2013-14	3.8	4.4	1.8	3.9
2014-15	4.3	5.0	2.1	3.2
2015-16	7.5	9.3	2.8	4.2
2016-17	9.3	11.7	4.1	4.0
2017-18	11.2	14.6	4.7	3.8

**Source: Handbook of Statistics on Indian Economy, RBI**

Table 3 shows that Public Sector banks recorded rise in their GNPA ratio from 3.6% in 2012-13 to 14.6% in 2017-18. Private sector banks recorded the rise in their GNPA ratio from 1.8% in 2012-13 to 4.7% in 2017-18. However, foreign banks managed to contain their GNPA ratio after 2015-16.

**Figure 3: Gross NPAs of Scheduled Commercial Banks as percentage to Gross Advances (Bank Group wise)**



An analysis of Gross NPAs of Scheduled Commercial Banks as percentage of their Total Assets (As given in table 4) shows that Scheduled Commercial Banks witnessed an increase in this ratio during the entire study period.

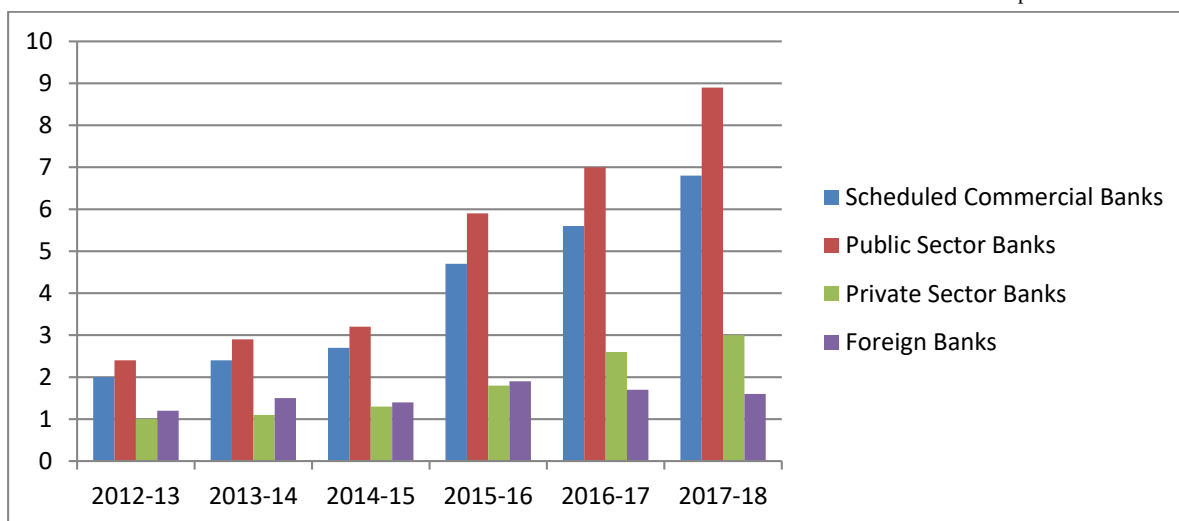
**Table 4: Gross NPAs of Scheduled Commercial Banks as percentage of Total Assets  
Bank Group wise (in percentage)**

Year	Scheduled Commercial Banks	Public Sector Banks	Private Sector Banks	Foreign Banks
2012-13	2.0	2.4	1.0	1.2
2013-14	2.4	2.9	1.1	1.5
2014-15	2.7	3.2	1.3	1.4
2015-16	4.7	5.9	1.8	1.9
2016-17	5.6	7.0	2.6	1.7
2017-18	6.8	8.9	3.0	1.6

**Source: Handbook of Statistics on Indian Economy, RBI**

Table 4 shows that public sector banks recorded persistent rise in this undesirable ratio. The percentage value of gross NPAs to the total amount of assets in Public Sector banks was recorded to be highest among all other bank groups throughout the study period. Private sector banks also registered constant rise in the ratio during the period whereas foreign sector banks' Gross NPAs to total assets ratio declined after 2015-16.

**Figure 4: Gross NPAs of Scheduled Commercial Banks as percentage of Total Assets  
(Bank Group wise)**



The data reported in various tables shows that problem of NPAs has swelled to the alarming level especially in the public sector banks which may threaten the survival, efficiency and functioning of these banks in the coming years along with compromising the trust of people in the banking system of the country. Therefore the banking sector of India calls for urgent attention of RBI and Policy makers towards the rising problem of NPAs especially in the Public sector Banks.

The analysis shows that the Public sector banks account for the highest percentage of GNPA of SCBs. The data makes it evident that the problem of rising NPAs in Scheduled Commercial Banks of India cannot be dealt with adequately without analysing the problem at the level of Public Sector Banks which account for most of NPAs in their portfolio.

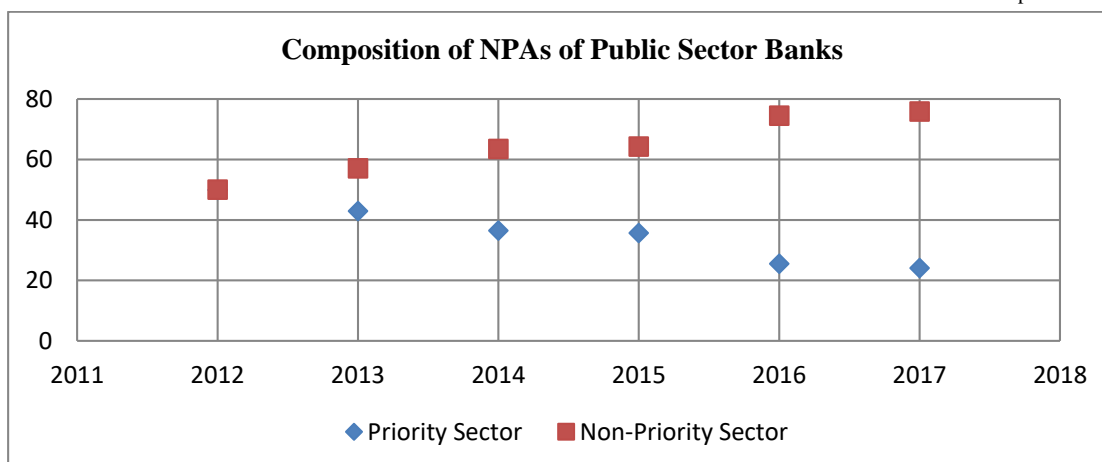
**Table 5: Composition of NPAs of Public Sector Banks in India (in Percentage)**

Year	Priority Sector	Non-Priority Sector
2012	49.96	50.04
2013	42.93	57.07
2014	36.50	63.50
2015	35.70	64.31
2016	25.50	74.50
2017	24.10	75.90

**Source: Statistical Tables relating to Banks in India, RBI**

Table 5 highlights the composition of NPAs of Public Sector Banks in India. The data shows that Priority Sector (i.e. Agriculture, Small Scale Industry, Medium Scale Industry etc.) accounted for higher percentage of NPAs till 2011 as compared to non-priority sector but thereafter the trend changed altogether and the contribution of non-priority sector surpassed the priority sector by significant magnitude.

**Figure 5: Composition of NPAs of Public Sector Banks in India**



To address the problem of rising NPAs of SCBs in India, RBI in June 2019 has come up with new directions to speed up the process of resolution of bad loans. Banks are now allowed more time (30 days) to decide on the course of their action after a loan default along with the provision of 180 days to execute the plan of recovery. Several directions have been given to the banks for early recognition and reporting of bad debts along with their time bound resolution. Any bad loans are now to be classified as Special Mention Accounts immediately on their default. Banks are left completely free to initiate legal proceedings against the defaulters both for insolvency and recovery. However, all the RBI rules and regulations will work to lessen the burden of NPAs of SCBs only if they strictly follow the guidelines concerning due diligence and KYC.

**SUGGESTIONS**

Ensuring a sound information system, adequacy of well-designed prudential norms and strong legal framework can help to prevent loans from turning into NPAs. Information regarding default loans and defaulter borrowers of one bank should be available to all other banks so that lending to borrowers can be avoided. Centralised database and sound credit management information system can help to prevent bad loans to a great extent.

Sound policy framework concerning credit portfolio and proper training and regular communication to the staff may help in the reduction of NPAs. Effective credit appraisal and its proper monitoring can help to address the problem. Periodic review of all loan accounts and constant contact with the borrowers at each stage to ascertain their financial position by the banks can also help in this regard. Bankers need to be vigilant about the current market conditions. Proper training of bankers for building sound knowledge about credit appraisal and monitoring systems should be the top most priority of the HRD department of the banks.

Adequate number of Debt Recovery Tribunals should be ensured to reduce the time taken for resolving NPA cases.

**CONCLUSION**

Banking sector plays a very significant role in ensuring the all-round growth of the economy. Therefore it becomes imperative for every nation to take care of financial health and efficiency of its banks. Credit monitoring, risk management and recovery methods of the banks affect the quality of assets under their possession. With growing amount of stressed assets, reduction in NPAs has become a prime concern for all the bankers and policy makers in India. Stressed assets reduce the capacity of banks to provide adequate amount of financial services or products to the disadvantaged sections of society. Therefore the problem of growing NPAs of the Scheduled Commercial Banks especially the Public sector banks needs to be addressed on priority.

Public sector banks are the backbone of Indian banking system because of their wide coverage across regions and different groups of people. Public sector banks function as per national socio-economic priorities and therefore have opened up their branches even in those kinds of regions/areas where private sector never had interest due to geographical inaccessibility and high operational cost. But public sector banks are gradually losing their strength of reaching out to each corner of the country to ensure greater financial inclusion. It is because of the growing NPAs which are causing leakage of the capital of public sector banks. The study suggests that banks need to be proactive in the adoption of a well-designed credit monitoring and risk management policy. Regular contact with the borrowers and constant post sanction follow-up should receive the

top most priority of banks. Effective and regular training of bank officials should be taken seriously by all the banks.

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