



## SCENARIO OF NPAs IN INDIA: A STUDY OF SCHEDULED COMMERCIAL BANKS

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### ABSTRACT:

*The magnitude of NPA has a direct impact on banks profitability, liquidity & equity. "NPA is an important parameter in the analysis of financial performance of banks". This study has attempted to analyze the scenario of NPAs in India. The study uses secondary data collected from RBI website. The study reveals that NPAs are increasing in scheduled commercial banks during the selected period of the study.*

**KEY WORDS:** Banking Industry, Scheduled Commercial Banks and NPAs.

### I. INTRODUCTION

To start with, performance in terms of profitability is a benchmark for any business enterprise including the banking industry. Extension of credit is one of the major activities of banks and financial institution. Credit represents the bulk of the bank and financial institutions asset portfolio. However, increasing NPAs have a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets as per the central Bank guidelines.

#### 1.1 MEANING OF NPA:

Non-Performing Asset means an asset or 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 RBI. A sum due under any acknowledge office is treated as "past due" when it has not been paid inside 30 days from the due date. Because of the enhancement in the installment and settlement frameworks, recuperation atmosphere, up degree of innovation in the managing an account framework, and so on., it was chosen to shed 'past due' idea, with impact from March 31, 2001. Accordingly, as from that date, a Non-Performing Assets (NPA) shall be an advance where

Interest and /or installment of principal remain overdue for a period of more than 180 days in respect of a Term Loan, The account remains 'out of order' for a period of more than 180 days, in respect of an overdraft/ cash Credit(OD/CC), The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted, Interest and/ or

installment 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 purpose, and Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

With a view to moving towards global prescribed procedures and to guarantee more noteworthy straightforwardness, it has been chosen to receive the '90 days past due' standard for recognizable proof of NPAs, from the year finishing March 31, 2004. Likewise, with impact from March 31, 2004, a Non-Performing Assets (NPA) will be an advance or a development where; Interest and/or portion of central stay past due for a time of over 90 days in regard of a Term Loan, The record stays 'out of request' for a time of over 90 days, in regard of an overdraft/money Credit(OD/CC), The bill stays late for a time of over 90 days on account of bills obtained and limited, Interest and additionally portion of key stays late for two collect seasons yet for a period not surpassing two half years on account of a development allowed for horticultural reason, and Any add up to be gotten stays late for a time of over 90 days in regard of different records.

## **1.2 ASSET CLASSIFICATION:**

Loan assets of the banks are broadly classified as Performing and Non-Performing Assets and again Non-Performing Assets (NPA) are classified into Substandard, Doubtful and loss assets. Assets are classified into following four categories i.e. Standard Assets, Sub-standard Assets, Doubtful Assets, Loss Assets.

### **Performing Assets / Standard Assets:**

Standard resources are the ones in which the bank is getting enthusiasm and also the foremost measure of the credit frequently from the client. Here it is additionally vital that for this situation the unfulfilled obligations of intrigue and the chief measure of credit don't surpass 90 days toward the finish of money related year. On the off chance that benefit neglects to be in classification of standard resource that is sum due over 90 days then it is NPA and NPAs are further need to characterize in sub classifications.

### **Non-Performing Assets:**

Banks are required to order non-performing resources further into the accompanying three classes dependent on the period for which the advantage has remained non-performing and the sensibility of the contribution:

**1. Sub-standard Assets:** With impact from 31 March 2005, a substandard resource would be one, which has remained NPA for a period not exactly or equivalent to year. The accompanying highlights are displayed by substandard resources: the present total assets of the borrowers/underwriter or the present market estimation of the security charged isn't sufficient to guarantee recuperation of the levy to the banks in full; and the benefit has very much characterized credit shortcomings that imperil the liquidation of the obligation and are portrayed by the particular plausibility that the banks will continue some misfortune, if insufficiencies are not remedied.

**2. Doubtful Assets:** An advance delegated suspicious has every one of the shortcomings inborn in resources that were named sub-standard, with the additional trademark that the shortcomings make gathering or liquidation in full, based on at present well established actualities, conditions and qualities – exceedingly faulty and unlikely. With impact from March 31, 2005, a benefit would be delegated far fetched in the event that it stayed in the sub-standard class for a year.

**3. Loss Assets:** A misfortune resource is one which thought about uncollectible and of such little esteem that its continuation as a bankable resource isn't justified despite the fact that there might be some rescue or recuperation esteem. Likewise, these advantages would have been recognized as "misfortune resources" by the bank or inward or outer examiners or the RBI examination however the sum would not have been discounted entirely.

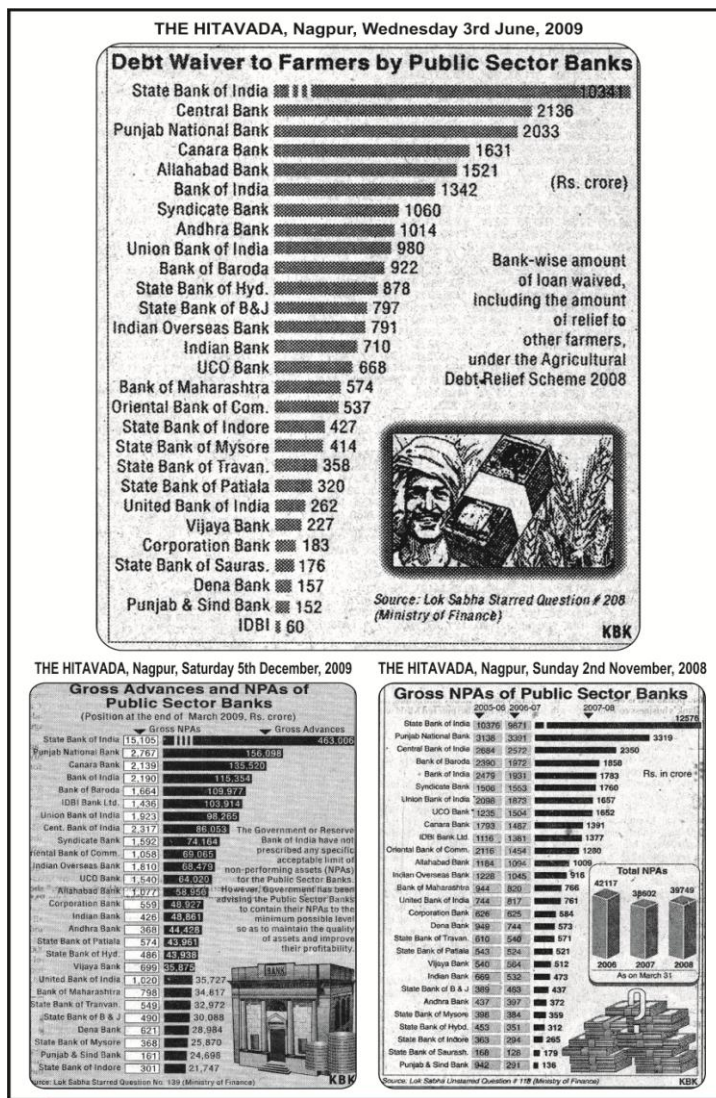
**1.3 TYPES OF NPA:**

1. **Gross NPA:** Gross NPAs are the aggregate of all advance resources that are named NPAs according to RBI rules as on Balance Sheet date. Net NPA mirrors the nature of the advances made by banks. It comprises of all the nonstandard resources like as sub-standard, far fetched, and misfortune resources.

2. **Net NPA:** Net NPAs are those sort of NPAs in which the bank has deducted the arrangement with respect to NPAs. Net NPA demonstrates the genuine weight of banks. Since in India, bank monetary records contain a tremendous measure of NPAs and the procedure of recuperation and discount of advances is extremely tedious, the arrangements the banks need to make against the NPAs as indicated by the national bank rules, are very huge. That is the reason the distinction among gross and net NPA is very high.

**1.4 NPA BULLETINS**

The image shows three newspaper clippings related to Non-Performing Assets (NPAs). The top-left clipping is from Lokmat, Nagpur, dated Tuesday 23 December 2003, with the headline 'अनुत्यादक कर्जे (NPA) बँका व्यवस्थेतील केंसरा' (Non-performing loans (NPA) are the cancer in the banking system). The top-right clipping is from The Hitavada, Nagpur, dated Friday 16 April 2010, titled 'NPAs of Private Sector Banks' and comparing data as of Dec 31, 2008 and Dec 31, 2009. The bottom-right clipping is also from The Hitavada, Nagpur, dated Friday 23rd April, 2010, titled 'NPAs of Foreign Banks' and comparing data as of Dec 31, 2008 and Dec 31, 2009. Both Hitavada clippings include bar charts and tables showing the amount in Rs. crore for various banks, categorized into Old Banks and New Banks.



II. REVIEW OF LITERATURE

In the saving money writing, the impacts of non-performing resources have been returned to in a few hypothetical and observational examinations. A synoptic review of the relevant literature on the effects of NPAs issues examined by different researchers is presented as follows:

**Dr. Jagdish R. Raiyani and Dr. GauravLodha (2011)** in their article “Evolution of Non-Performing Assets: An Empirical Analysis” has stated that the NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drives of financial stability and growth of banking sector. The study is investigative in nature. It examines the state of NPAs in the private sector banks during the period 2004-2008.

**Dr. M. Jayasree and R. Radhika (2011)** in their article titled Non-Performing Assets: A study of Scheduled Commercial Banks in India has stated Non- Performing Assets are assets which cease to generate any income for the bank. These have become the major concern of banks in India. NPA’s have direct impact on net-profit and also on the performance of the banks. The recognition of income norms for banks also posed a serious concern to commercial banks. The present article considers the patterns in non-performing resources

of Indian banks and makes an examination of open part banks, old Private area banks, new private segment banks and outside banks.

**Ms. RajniSaluja and Dr. RoshanLal (2010)** in their paper has stated the burgeoning NPAs in banking Industry is a matter of deep concern. It is just not a problem for banks but also proves fatal to the economic growth of the country. PSBs are under severe pressures of NPAs as compared to its counterparts that private and foreign banks. NPAs reduce the profitability of banks, weaken its financial health and erode its solvency. In this study an attempt has been made to compare the performance of public and private sector banks and in foreign banks in India with special reference to their NPAs.

**Dr. Ashok Khurana and Dr. Mandeep Singh (2010)** in their article NPA Management: A Study of New Private Sector Banks In India concluded that Private sector banks have successfully expanded their business over last five years in the Indian economy. The study conducted on the management of NPAs by new private sector banks found that there is significant improvement in the asset quality as reflected by decline in the diverse NPA ratios as well as asset wise classification of NPAs of these banks.

**Mr. Manoj Kumar Dash and Mr. GauravKabra (2010)** in their article stated it is widely accepted that the quantity or percentage of Non-Performing Loans (NPLs) is often associated with bank failures and financial crisis in both developing and developed countries. In fact, there is abundant evidence that the financial/banking crisis in India is preceded by high non-performing loans. The point of this examination is to break down the affectability of non-performing advances to macroeconomic and bank explicit factors in India.

### III. RESEARCH METHODOLOGY

#### 3.1 Objectives of the Study:

The objective of the study is to investigate the scenario of NPAs in scheduled commercial banks operating in India.

#### 3.2 Hypothesis:

H<sub>1</sub>: NPAs are increasing in scheduled commercial banks operating in India during the selected period of the study.

**3.3 Sample and Sample Size:** This refers to number of respondents to be selected from the population to constitute a sample. The sample includes scheduled commercial banks operating in India. The sample consists of all scheduled commercial banks operating in India.

#### 3.4 Data Collection Technique:

The study is based on secondary data. The data is collected from RBI website.

**3.5 Period of the Study:** FY 2010 to 2011

### IV. DATA ANALYSIS AND INTERPRETATION

The process of data analysis as a step of scientific method constitutes the basis of every research through which all activities related to research are controlled and guided from its beginning to its end.

**TABLE: MOVEMENT OF NON-PERFORMING ASSETS (NPAs) OF SCHEDULED COMMERCIAL BANKS - 2010 AND 2011***(Amount in Rs. lakh)*

Bank Name	Gross NPAs					Net NPAs	
	As on March 31, 2010	Addition during the year	Reduction during the year	Write-off during the year	As on March 31, 2011	As on March 31, 2010	As on March 31, 2011
	Column Number						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>SBI and its Associates</b>							
State Bank of India	1953489	1814570	834745	400685	2532629	1087017	1234690
State Bank of Bikaner & Jaipur	61185	61671	22740	16576	83540	27018	34133
State Bank of Hyderabad	64898	117108	66961	-	115045	28893	56272
State Bank of Mysore	59526	78273	51425	-	86374	29979	46788
State Bank of Patiala	100661	125093	87586	-	138168	48272	62077
State Bank of Travancore	64198	74506	55181	-	83523	35040	45099
<b>Nationalised Banks</b>							
Allahabad Bank	122180	174707	132095	-	164792	47015	73637
Andhra Bank	48787	79468	28691	-	99564	9572	27368
Bank of Baroda	240069	189701	114520	-	315250	60232	79088
Bank of India	488265	290838	297948	-	481155	220745	194499
Bank of Maharashtra	120979	69915	73524	-	117370	66243	61895
Canara Bank	259031	350837	300947	-	308921	179970	234733
Central Bank of India	245800	140900	147300	-	239400	72700	84700
Corporation Bank	65094	81294	67365	-	79023	19725	39774
Dena Bank	64199	75869	55844	-	84224	42753	54895
IDBI Bank Ltd.	212938	198732	133197	-	278473	140632	167791
Indian Bank	51010	95392	72371	-	74031	14493	39704
Indian Overseas Bank	361108	216926	269075	-	308959	199497	132842
Oriental Bank of Commerce	146875	155600	110421	-	192054	72382	93815
Punjab and Sind Bank	20615	38345	16532	-	42428	11663	23794
Punjab National Bank	321441	433670	317172	-	437939	98169	203863
Syndicate Bank	200682	159297	100082	-	259897	96320	103084
UCO Bank	166643	272991	65961	58637	315036	96628	182455
Union Bank of India	267089	292354	84561	112600	362282	96533	180344
United Bank of India	137230	98415	100067	-	135578	77855	75741
Vijaya Bank	99445	136226	109752	-	125919	58183	74116

<b>Old Private Sector Banks</b>							
Catholic Syrian Bank	14929	10787	6471	-	19245	7052	10840
City Union Bank	8823	12066	9641	-	11248	3967	4842
Dhanlaxmi Bank	7750	4113	5154	-	6709	4194	2677
Federal Bank	82097	87584	54848	-	114833	12879	19069
ING Vysya Bank	23451	23602	15904	15610	15539	22183	9179
Jammu & Kashmir Bank	46231	28914	15818	7445	51882	6433	5324
Karnataka Bank	54964	32376	17123	-	70217	18861	28034
KarurVysya Bank	23534	5355	6074	-	22815	3095	1387
Lakshmi Vilas Bank	32517	13754	30492	-	15779	25778	7288
Nainital Bank	2342	1528	1726	-	2144	-	-
Ratnakar Bank	2764	485	1098	-	2151	1136	689
SBI Comm. & Intl. Bank	327	-	5	119	203	39	36
South Indian Bank	21100	10651	8717	-	23034	6157	6002
Tamilnad Mercantile Bank	11500	10005	7392	-	14113	1998	2931
<b>New Private Sector Banks</b>							
Axis Bank	131800	144831	49872	66817	159942	41900	41035
Development Credit Bank	31918	5071	10632	-	26357	10762	4123
HDFC Bank	181676	142313	37703	116852	169434	39205	29641
ICICI Bank	948065	286563	231202	-	1003426	384111	240736
Indusind Bank	25547	19038	6926	11073	26586	10183	7282
Kotak Mahindra Bank	76734	21749	23275	14859	60349	36025	21116
Yes Bank	6020	4982	1781	1168	8052	1299	915

Source: <http://rbi.org.in/scripts/AnnualPublications.aspx?head=Statistical Tables Relating to Banks of India>

**Interpretation:** The above table shows that NPAs are increasing in scheduled commercial banks operating in India during the year 2010 to 2011 as indicated in Column No. 1 (31<sup>st</sup> March 2010) & Column No. 5 (31<sup>st</sup> March 2011).

## V. CONCLUSION

NPAs in banks and financial institutions has been a matter of grave concern to the public as bank credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit, one cause for which is the mounting NPAs, is bound to create adverse repercussions in the economy. The study reveals that NPAs are increasing in scheduled commercial banks operating in India during the year 2010 to 2011.

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