MR. DEVDATTA DHONDIRAM SHETE

ASST.PROFESSOR- AGASTI ARTS, COMMERCE AND D.R. SCIENCE COLLEGE AKOLE,
TAL-AKOLE, DIST-AHMEDNAGAR, AKOLE-422601,
STATE-MAHARASHTRA.
E-MAIL-prof.shete2013@gmail.com
CONTACT NO-9657003277

NON PERFORMIMG ASSETS (NPAs): AN ALARMING ISSUE IN PUBLIC SECTOR BANKS OF INDIA.

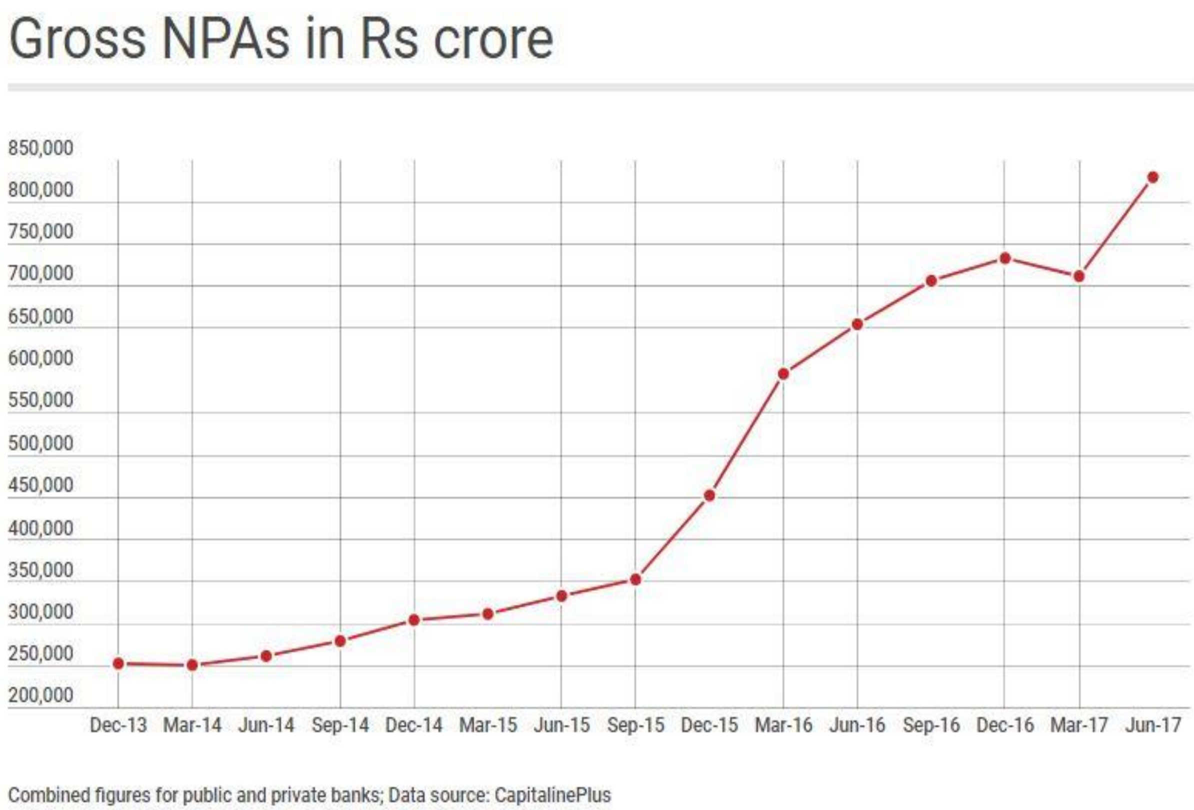
Introduction: The problem of NPAs started developing in post crisis (2008) period. The private sector as well as public sector banks suffered from this but later the Public sector banks (PSBs) were the worst sufferers. Total bad loans of 39 listed banks have reached the Himalayan height to Rs. 8.29 lakh crores by June 2017(which is nearly 11% of total bank loans of the banking industry). Non Performing Assets (NPA) can be defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. Banking in India is one of the most prominent sectors fuelling the growth of Indian economy. This sector is the foundation of modern economic development and key player of development strategy. Public sector banks are the ones in which the government has a major holding. They are divided into two groups, i.e., nationalized banks and State Bank of India and its associates. The future of PSB's would be based on their capability to continuously construct good quality assets in an increasingly competitive environment and maintaining capital adequacy and stringent prudential norms. Most banks follow Early Warning Systems (EWS) for recognition of probable NPAs, the actual procedures followed varies from bank to bank. The major mechanisms of a EWS followed by banks in India as brought out by a study conducted by Reserve Bank of India at the instance of the Board of Financial Supervision which included the parameters like designating Relationship Manager/Credit Officer for monitoring account/s, preparation of 'know your client' profile, credit rating system, identification of watch list / special mention category accounts, monitoring of early warning signals. As a result of steep fall in the profits because of high provisioning of NPAs it is now linked with technology. There is a welcome change to curb and track NPAs using technology. This will help the banks to avoid human interference. As the software will flag the defaulting accounts as an NPA thereby diminishing discretionary power of Bank Managers to classify the same. Currently, only Indian Bank and SBI have started calculating NPA under the technological platform called the Core Banking Solution (CBS) system. Most other PSU banks are in the final stages of migrating to CBS and calculating NPAs under the CBS system. The most important challenge the country's financial system faces today is to bring informal loans into the formal financial system. By implementing Basel II norms banks involved significant changes in business model in which prospective economic impacts can be carefully monitored. Since, management quality of credit risk by the banks is a reason for expanding NPAs, banks concerned are continuously monitoring loans to identify accounts that have potential to become non-performing as banks need to maintain have adequate capital to support all the risks. Under the Basel II norms, banks should keep a minimum capital adequacy requirement of 8% of risk assets. All commercial banks in India excluding Regional Rural Banks and Local Area Banks have become Basel II obedient. The Reserve Bank of India has mandated maintaining of 9% minimum Capital Adequacy Ratio (CAR) or Capital to Risk Weighted Assets Ratio (CRAR) for India. For the purpose of making Indian banking business at par with global standards and make it more reliable, transparent and safe the Reserve Bank of India (RBI) has introduced stringent policy norms. These norms are necessary since India is a developing economy and it is observing increased capital flows from foreign countries and there is increasing international financial and economic transactions. This research paper is organized as follows. Review of the existing literature is discussed in section 1. The theoretical framework is shown in section 2. Section 3 identifies the methodology used. Data analysis and interpretation of the results is summarized in section 4. Section 5 presents findings. The final section concludes.

Key words- non-performing assets, early warning system, performance indicators, regulatory compliance, capital adequacy norms, core banking systems.

Objectives: The objectives of the present paper are as follows-

1. To study the NPA of public sector banks in India.
2. To study the shadow of NPA on public sector banks.
3. To compare the NPA of privet banks with public sector banks.

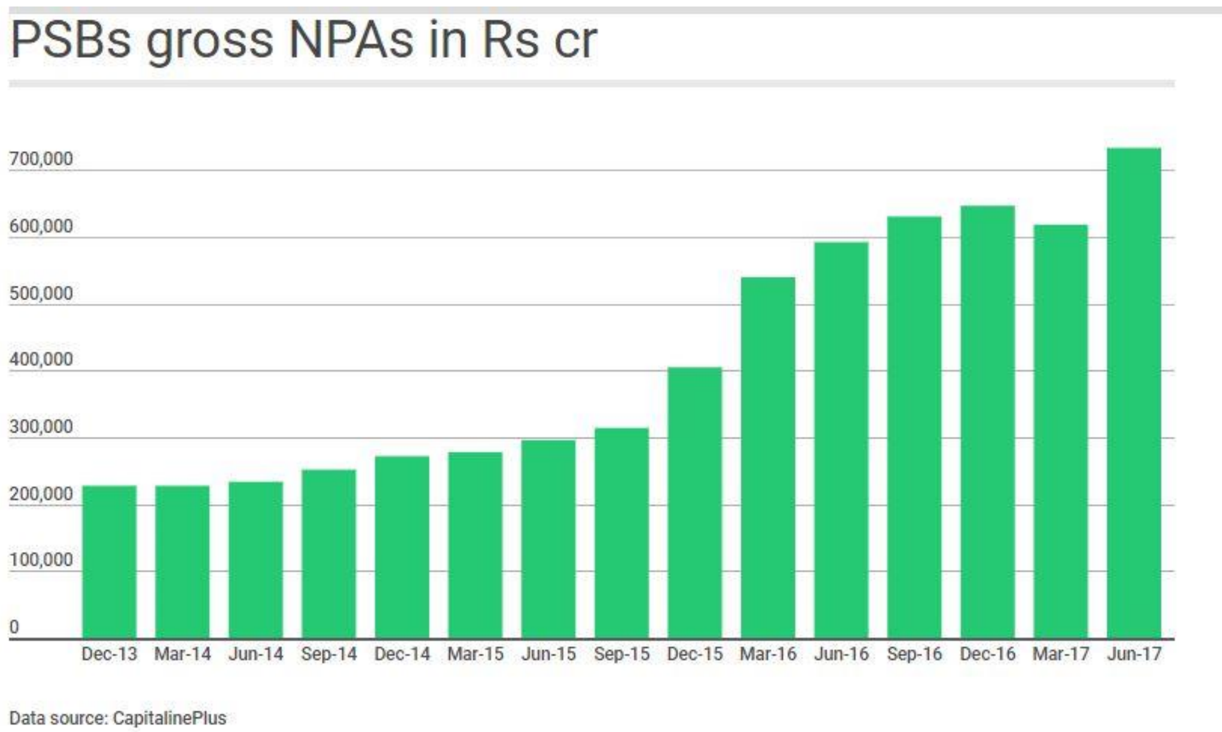
4. To suggest the ways to tackle NPA.

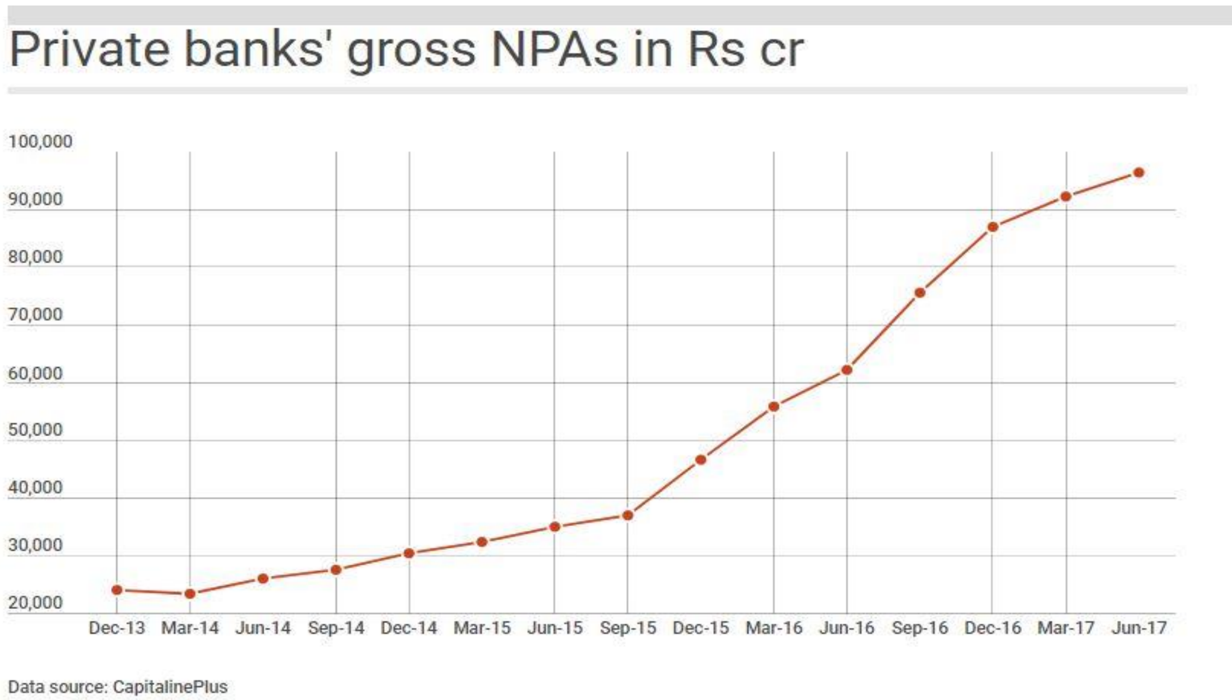


The world economy is on the recovery mode after post crisis 2008 but India an outlier. Private sector investment is falling, credit off-take is lowest. Exports are decelerating and the CAD is around 2.5% of GDP. Employment generation is at the lowest. A large number of small and medium industries are closing every year. The whole economy is languishing; is because of issue of NPAs in the banking industry are at worrying proportions. The banking sector, once considered to be medium of “social control” and an “extended arm of the government” is in the eye of the storm. This was a time (2011-13) when everyone rushed to give money to corporations, no matter what the credit perception was and everyone expected a miraculous pickup in the economy.

Shifting the problem of NPAs from Private sector to Public sector banks:

Surprisingly, in the post-crisis period (after the Lehman Brothers failure) the private sector banks were the top scorers in the NPAs list. It was only after 2009 and particularly in the period 2011-13 the PSBs took the command by their irrational exuberance in corporate leveraging in a big way. Gross NPAs of 17 private sector banks were Rs.96201 crores in June,2017 rose from Rs. 36878 crores in Sept. 2015.Failing the public sector, in general, is at the root of developing private sector.





Weak investment demand, partly emanating from the twin balance sheet problem (a leveraged corporate sector alongside a stressed banking sector) is a major challenge. Retrenchment of credit by PSBs is partly offset by NBFCs, MFs and the capital market but they cannot substitute for banks in a bank based financial system like ours. Hence to restore the health of banks assume urgency. Incremental accretion to NPAs is quite substantial and big addition after AQR. The NPAs age will further put pressure on bottom lines of banks. During 5 years to March 2015 restructuring of loans in many cases postponed the recognition of NPAs or what we call ‘extend and pretend’ actually masking the actual extent of deterioration of loan portfolio. The Rs.95 trillion banking industry is at cross-roads owing to the huge Non Performing Assets(NPAs). The slowdown is not just ‘TECHNICAL’ but ‘REAL’ and resolution of the stressed assets is yet to happen. Not that the disease of NPAs is incurable but its metastasis is lethal.

Reason’s for NPA: The following are the reasons behind the raising of NPA’s in banking sector of Indian economy.

Irrational exuberance by banks

Over optimistic capitalisation of projects

Delay in project completion

Unplanned restructuring of loans

Business politics nexus

Wilful default and loan amnesties

Failure in credit monitoring and governance resulting in mis-appropriation of funds

Poor diversification of credit portfolio of banks.

Concerns are many but some important concerns can be mentioned here….

Though the banks are in the business of risk but taking measured risk is converted into recklessness.

i. The problem of NPAs is spread over across the sectors. Started from steel it has overtaken infra, textile, pharma, power, telecom, transport, real estate and all these sectors are engines of growth and highly employment and investment oriented. It will be a huge task to settle them through NCLT driven mode of bankruptcy.

ii. Writing off of loans and restructuring will stress the capital of banks further

iii. There is a significant increase in share of 'debt at risk' as seen under a sensitivity test for NGNF affecting directly the 'repaying ability of the industry.

iv. Banking sector stability indicator (BSI) is worsening. Under severe stress conditions, gross bad loans of all banks will jump to 11.2% of total in March2018 from 10.1% in Sept.2017. For state run banks it will be 14.2% from 12.7% (see FSR June 2017). One reason of economic slowdown is stress on banks (V.Acharya)

v. The already dismal position of unemployment will further worsen. The NPAs not to tackled in isolation but in totality with pro-active policy initiatives.

vi. Banks are seriously suffering from the issues of governance despite the Indradhanush Initiatives. PSBs are rampant with the problems of manpower shortage and accountability.

vii.Credit discipline seems to have been jettisoned. "Nothing can replace credit discipline… focus has to be on strengthening internal governance framework."(FSR Report, June'17).

viii. Layers of credit management still leaves much to be desired. Risk management function need to institutionalised at all levels rather than having a box ticking system. As the Basel Committee has suggested that banks should have an independent risk management function under the CRO with sufficient stature, independence, resources and access to the Board.

ix. If banks remained locked with NPAs for some more time it would make them risk averse and choke the lending for economic development. Another consequence may be to shift the focus of banks to less risky segments like retail and housing. Yet another may be to shift leverage from corporate to household sector. Demonetisation and hurried implementation of GST has added salt to the wounds.

Bank-wise NPA ratio as of June 2017 (%) –

Thanks to the AQR which resulted in the massive jump in NPAs from Rs. 3.51 lakh crores in Sept.,2015 to Rs. 8.29 lakh crores in June, 2017 or 136% in just seven quarters. Banks were forced to 'report' than 'hide'. Hitherto, they were hiding more than reporting. PSBs alone constitute 90% of these NPAs. Great hue and cry arose when the banking industry wrote off loans worth of Rs.1.14 lakh crores.

Bank	NPA ratio	Bank	NPA ratio
IDBI Bank Ltd.	24.11	ICICI Bank Ltd.	7.99
Indian Overseas Bank	23.60	Vijaya Bank	7.30
UCO Bank	19.87	Indian Bank	7.21
Bank Of Maharashtra	18.59	Dhanlaxmi Bank Ltd.	5.62
Central Bank Of India	18.23	Axis Bank Ltd.	5.03
Dena Bank	17.37	The Karnataka Bank	4.34
United Bank of India	17.17	Karur Vysya Bank	4.27
Corporation Bank	15.49	IDFC Bank	4.13
Oriental Bank Of Commerce	14.83	The Lakshmi Vilas Bank	3.78
Allahabad Bank	13.85	The South Indian Bank	3.61
Punjab National Bank	13.66	City Union Bank	3.05
Andhra Bank	13.33	Kotak Mahindra Bank	2.58
Bank Of India	13.05	The Federal Bank	2.42
Union Bank Of India	12.63	DCB Bank	1.74
Bank Of Baroda	11.40	RBL Bank	1.46
Punjab & Sind Bank	11.33	HDFC Bank.	1.24
The Jammu & Kashmir Bank Ltd.	10.79	IndusInd Bank	1.09
Canara Bank	10.56	Yes Bank Ltd.	0.97
State Bank Of India	9.97		
Syndicate Bank	9.96		

Source: AceEquity

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