

## The Paradigm of Non-Performing Assets in India - Creation of Robust Asset Portfolios in a Turbulent Environment

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### Abstract

Banking sector plays a prominent role in the economic development of the country. Growth of the country's economy is affected by the stability and efficiency of the banking sector. Without an effective and sound banking system, no country can have a healthy economy. Lending is the core function of banks. It is the primary source of revenue generation for banks. Banks accumulate surplus savings from the public and make them available for lending and investment purposes. There were 12 public sector banks after the mega merger of banks and multiple other private sector banks. Lending involves the risk of defaulting the payments resulting increasing non-performing assets which intern effects the financial sector as well as other parts of the economy. Financial health of the banking industry can be measured by the size of Non-Performing Assets. It directly effects the bank's profitability and its performance. For scheduled commercial banks NPAs are the major concerns. Increased NPA is barrier for the recycling of the funds resulting inability of banks to lend more. By increasing the cost of capital, increased risk level effecting liquidity position of the banks NPA effects the profitability of the bank. Increased NPA is an indication of high risk of significant number of loan defaults impacting bank's net worth and performance and even decreases the asset value. Increasing NPA is the great drawback for the banking industry, hence it should be managed properly to increase the profits and performance of the banks. This study is focusing on the level of non-performing loans in Indian Banks and their impact on the economy and performance of the banks. Also tries to explain how pandemic effected Indian baking sector and how it affected NPA.

**Keywords:** Banking; Assets; Non Performance; Default Risk; Securitization; Collateral Management; Asset Reconstruction.

### Introduction

The banking system is the heart of the financial system of the country. The stability of the entire economy depends on the functioning of the banking Industries. The primary function of the banks is mobilizing the public savings and allocating the same in the different sectors of the economy as investments. In the emerging economy, healthy financial system plays an important role in financial intermediation and also carries social responsibilities achieving government's objectives. The link between banks and economic growth, the development of the economy is depending upon the healthy banking sector. The global financial crisis enlightened the importance of healthy banking system for a country. This highlighted the need to monitor the bank's performance, as it can affect the profitability, productivity [10,37].

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Assets which do not generate revenue to the banks are called as Non-Performing Assets and those which produces revenue are called Performing Assets. RBI defined NPA as the asset on which the interest and principal amount is due for more than 90 days. On the recommendation of Narasimham Committee RBI [8] introduced the concept of NPAs during the banking sector reforms to reflect the banks health in its balance sheet. India is facing the problem of raising NPA, which intern effecting the economic development and banking sector performance. The problem of raising NPA is directly linked with the lending function of the banks, which is the primary source of revenue. Increased NPA not only reduces the profitability of the bank but also reduces the creditability. As Indian banks are facing a serious problem of raising NPAs and to avoid these effective provisions should be followed [16]. Banks were decreasing the interest rates on deposits due to raising NPAs. It can destabilize the confidence among the depositors as the commercial banks witnessing the high level of NPA. Recognition of NPAs termed as a step towards cleaning of Banks Balance Sheets to make them financially strong. The accounts which are classified as NPAs includes Corporates, Micro, Small, Medium industries, traders, and exporters etc., who generates wealth and GDP for a country and also provides large number of employment opportunities. Overall NPA is having an adverse effect on the economy.

Basically, NPAs are classified as Gross NPAs and Net NPAs. Gross NPA is the sum of total loan amount defaulted within specified time. While Net non-performing asset is the sum of total amount of loan defaulted after deducting provisions from GNPA [35]. GNPA does not affect any loss to the banks as provisions are not deducted. But NNPA are actual losses to the banks as provisions are deducted.

NPAs are further classified into 3 categories based on the periodicity. The 3 categories as follows; 1. Substandard Assets, 2. Doubtful Assets, 3. Loss Assets [47,58].

1. Substandard Assets are those accounts, which remained as NPA for 12 months as or less than that.
2. Doubtful Assets are those accounts, which remained as Substandard Assets for 12 months.
3. Loss Assets will be classified as Loss asset by internal auditors or external auditors of the bank declares it as Loss Assets or when RBI inspection team declares it as Loss assets.

Banks with higher NPA will have less funds available for lending because of the increased NPA. Those banks need to maintain higher provisioning to manage the NPA and on the other hand less funds are available for lending, which will affect the potentiality of banks to earn interest income. Increased provisioning will impact the profitability of the bank. Thus, banks find it difficult to maintain Capital Adequacy Ratio. Net Interest Margin will be stressed to reduce the NPAs [18,50].

As per RBI guidelines banks are required to make provisions for precautions and to meet the unforeseen losses. RBI issued guidelines on Income Recognition, Asset Classification and Provisioning. Banks are required to provide 25% provisioning [6,27] (Unsecured) and 15% (Secured) for Substandard Assets. For Doubtful Assets 1 year to 3 years 40% provisioning will be made and 100% for more than 3 years. For Loss Assets 100% provisioning will be made from the beginning itself [36].

Global Financial Crisis effected the global economy. The impact of crisis morphed into a global economic downturn. The financial crisis has resulted in a spike because of bad debts and defaults. After Global Financial Crisis COVID-19 pandemic is the serious challenged faced across the Globe. Indian Banking Sectors were affected severely as they were already struggling with the problem of raising NPA. During the Pandemic India had faced a great recession in its GDP. Banks are trying to overcome the problem of raising NPA as per the norms of RBI. Resolving the inflating NPA will be the greatest obstacle for banks in India in 2021 default rates are increased during the pandemic. 1<sup>st</sup> and 2<sup>nd</sup> wave of pandemic lockdown effected the cash flow across economy. Due to decreased cash flow, generation of income is less hence many medium and small enterprises are struggling to repay the dues.

### Review of literature

Raj Kumar and Deeksha (2017) [32] made an analysis on the Problem of Rising NPA in Indian Public and Private Sector Banks. Government and RBI has taken various measures to minimize the NPA problem, but banks should also take the appropriate measures to manage the NPA. Author suggests the Indian banks to sanction the loans only after considering soundness of the customers and return on investment of projects.

Rabindra Kumar Swain (2017) [17] has made a study on NPA in Scheduled Commercial Banks in India. The study analysed the various factors responsible for raising NPA and its impact on the operations of the banks. Author have found that SERFAESI AC-2002 is the best measure implemented by the government among other measures. The study reveals how the Indian scheduled commercial banks are suffering because of money blocked as NPA. Author have suggested few measures to control the NPA level and speedy recovery of dues.

Banerjee R, Verma D & Jaiswal B. (2018) [33] has conducted study on Non-Performing Assets. The study found that NPAs has always been a concern for the banking sector for last 2 decades due to economic slowdown. They have examined the GNPA and NNPA status in both public sector and private sector banks in India. The study reveals the reasons for increasing NPA in Indian banks, they are defaulted loans, poor policies of credit management, loan sanctioned without proper analysis of credit worthiness, most agricultural loans etc. the banks should focus on the better credit recovery policies, and also bank should concentrate on formulation and implementation of better strategies. The study reveals that private banks are doing well than government banks.

Ashish Kumar, Srirang K Jha, Sahil Grover (2021) [25] has conducted a study on effect of NPA on Profitability on selected Indian banks. This study tries to compare the NPA level at SBI and HDFC banks and also analyses the performance and profitability of the banks. This study reveals that HDFC is having less NPA as compared to SBI. For SBI increased NPA is proven a roadblock to earn more profits. HDFC bank is comparatively less effected as compared to SBI. The problem of NPA needs to be tackled and appropriate measures should be followed to prevent the same. The study suggests the Governments 4R's strategy that is Recognition, Resolution, Recapitalisation, Reforms because it has reduced extent of NPAs.

Chethan Dudhe (2017) [52] analysed the Impact of NPA on the profitability of the banks. This study proves that public sector banks are more prone to the problem of NPAs which will

affect their profitability and creditability. To control raising NPA factor proper credit management system should be implemented which includes credit planning, proper credit appraisal.

Kumar Thammanaveni (2017) [39] has analysed the NPA in commercial banks in India and their recovery in India through various mediums that is SERFAESI Act, Debt Recovery Tribunals, Lok Adalat. The study has found that the number cases referred to DRT and SERFAESI act 2002 and the total amount of NPA recovered during the period of 2010-2016. The study has proven that the number of NPA cases referred to DRT and SARFAESI has increased during this period. This study found that Lok Adalat is not that efficient for recovery of loans.

Rajeshwari Sengupta and Harsa Vardhan (2017) [19] Made a study on banking crisis one that took place in 1990 and another in 2008 the global financial crisis. The financial crisis (2008) raised the problem of NPAs. Authors stated in their report the strong governance, strong legal framework, proactive banking regulations would be helpful to resolve the issue of NPAs.

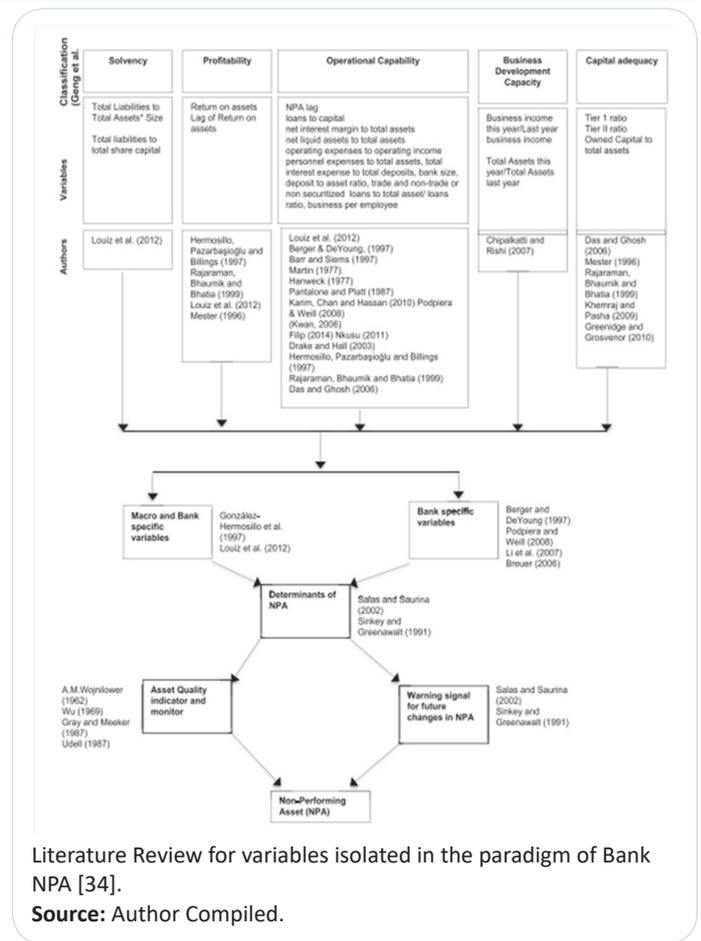
Shalini HS (2013) [11] has conducted the study on cause and therapy for raising NPAs in Indian public sector banks, with special remarks to Agricultural sector. The study has analysed the several issues witnessed by the agriculturist. Author also gives suggestion to take appropriate measures before lending like examining the pre and post sanctioning inspections, guiding and creating awareness among the farmers on the effects of defaulting etc.

Kumar, S. (2018), [21] The study impact of NPA on performance of the banks made an analysis on the extreme effect on the liquidity and profit. Author suggests that, if the problem NPA is managed properly, then the microeconomic problems like poverty, imbalanced payment system, and unemployment can be decreased and also can boost the money market. Hence Indian banks can deal with international markets efficiently.

Jaskaran Singh Madray, Roop Kamal (2020), [30] has conducted a study on Merger of Public Sector Under takings. This study found that, the decision of Government for the Merger of banks is needed for the betterment of the PSUs. This strengthens the banking system as the NPAs are reduced after the merger of the banks. M. Valliammal and Dr. SK (2018), [40] the study examines the relation between the NPA and profits of Indian banks and how it is impacting the economic performance of the Indian banks. Author analysed the data for 7 years, from 2011-2017 by correlation. The study resulted in the inverse relation between the NPA and profitability of the banks. This analysis showed that impact of NPA is having a strong effect on the profitability.

Bharat Kumar Meher (2017), [40,55] the study looks into the impact of demonetization on NPA in Indian banking. For the last few decades Indian public sector banks are facing the problem of NPA but demonetization step taken by government can help the banks to uplift the banking system as well as the economy. Author finds both the positive and negative effects of demonetization on the banking system.

Dr. Pooja Ralhan (2018) [23,54] studied the impact of NPA on banks profitability. The statistical data from 1998 to 2017 were analysed under ratio analysis and linier regression model. This analysis results showed that government banks are having negative impact than the private banks. NPA effects the profitability of the organization, and this study has proven that government banks are having more impact than the private banks.



Ambrish Kumar Mishra, Archana Patel and Sarika Jain (2020) [13] assessed the Impact of Covid-19 pandemic on Indian Banking Sector. The report states that financial soundness of the country is reflected by the economic growth and high purchasing power in the hands of the customers. Pandemic effected growth of the different sectors of the economy. In maintaining the good liquidity position in the country, bank plays an important role. Author have used the Covid19-IBO ontology to analyse the COVID-19 impact on Indian banks. This study focuses on the necessary steps to be taken for minimizing the effect of pandemic, major challenges faced by the Indian banks and the preparations banks have done to face the challenges.

Bhaskaran (2016), [26,28,43] this paper focused on comparing the level of NPA in Indian banks over 10 years from 2004 to 2013. This research article evidenced that private sector banks are doing well than Indian public sector banks. Private sector banks are having comparatively less NPA than public sector banks. Author cautioned banks to be dynamite and while adopting policies relating to NPAs management.

Dey (2008) [9,31] has conducted a study on Recovery mechanisms of NPAs. In his study he looked into the aspects of recovery in Indian banks, and he found that the role of Debt Recovery Tribunals is much better than the recovery under Lok Adalat's and SARFAESI act.

Kumar RB, Subba Rao BVSS and Kusuma GDV (2018), [20,49] Genesis for increasing NPAs. This is an interesting study conducted by the authors to detect important factors behind raising NPAs. The study is conducted to discover the causes for industrial sickness, poor credit appraisal, changes in government policies, will full defaults and defects in lending system.

Sunil Kapadia and Venu Madhav (2019), [12,15] analysed some of the important factors that are leading to raise in NPA

level for commercial banks. According to the author factors of lending are loos, hence bank face the problem of raising NPA. They suggested that the problem of NPA I the beginning of credit consideration with risk management and appropriate credit appraisal and prudential norms laid down by RBI.

Sharma, G. (2018), [29,38] study focuses on the role of banks in economic growth. The article discusses how the banks are overburdened because of raising NPA especially in the case of public sector banks. Here the suggestion given is that timely implementation of preventive measures and regulatory standards can help the banking sector in India.

Barge, A. (2012), [45,51] NPA management in banks examines the need for early supervision and management of funds advanced. Thus, study referred several suggestions like betterment of supervision process, evaluating credit reports and educating the borrower to develop productive business skills and activities so that due becoming NPA can be reduced.

**Research methodology**

This research work in based on secondary data on Non-performing assets in SCBs, PSBs, Private banks and Foreign banks for last 10 years.

The study is descriptive in nature. Secondary data has been used in the study from RBI website and some other online sources. Statistical tools like Tables and Graphs are used to interpret the data. This study is generally aimed to explore the trend in NPAs over the study period.

**Objectives of the Study**

- A. The objective of the study, “Impact of raising NPA” is to find out the trend in NPA level in Indian banks for last 10 years.
- B. To analyse the reasons for rising NPA.
- C. To study the impact of rising NPA.

**Scope**

The scope of the study is to analyse the quantum of NPA in Indian banks by covering the periodicity of 10 years from 2011-2020. Study also focuses on cause for increasing NPA and impact of rising NPA in banking sector. The aim of the study is to analyse the trend in NPA.

**Selection of banks**

The analysis on the study “Impact of NPA in Indian banking sector” is conducted by grouping the banks into SCBs, PSBs, PrSBs. [24] The idea behind this analysis is to know the level NPA in SCBs, PSBs, PrSBs. public sector banks are bound to the policies of the government i.e certain portion of lending towards priority sector lending’s etc. These obligations on part of public sector banks leads to liberal lending norms, which in turn leads to loan accounts becoming NPA. While in case of private sector banks have less social obligations and results in less NPA in Private banks [22].

**Table 1:** GNPA and NNPA of SCBs as a Percentage of total advance and total assets. (Rs. in crores).

Year	GNPA	GNPA as a % of gross advances	GNPA as a % of total assets	NNPA	NNPA as a % of Net advances	NNPA as a % of total assets
2010-2011	97973	2.2	1.4	41799	1	0.6
2011-2012	142903	2.8	1.7	65205	1.3	0.8
2012-2013	194053	3.2	2	98693	1.7	1
2013-2014	263362	3.8	2.4	142421	2.1	1.3
2014-2015	323335	4.3	2.7	175841	2.4	1.5
2015-2016	611947	7.5	4.7	349814	4.4	2.7
2016-2017	791791	9.3	5.6	433121	5.3	3.1
2017-2018	1039679	11.2	6.8	520838	6	3.4
2018-2019	936474	9.1	5.6	355068	3.7	2.1
2019-2020	899803	8.2	5	289531	2.8	1.6

**Data analysis and interpretation**

Tables 1 shows the GNPA and NNPA as a percentage of Gross and Net advance ratio of Scheduled commercial banks from 2010-2020. It can be seen from the data during year 2010 the gross NPA as a percentage of gross advance ratio was 2.2, which starts rising year by year. Initially it was less but starts increasing every year. The ratio started increasing from subsequent year and reached 9.3 in the year 2017 and 11.2 in the year 2018, which was highest in the last 10 years. In the financial year 2018-2019 gross NPA as a percentage of gross advance ratio starts decline from 11.2% to 9.1 and 8.2% in the 2019-2020. Here we can see a constant increase in the Gross NPA of Scheduled Commercial Banks and which starts decreasing from 2019 [9,38].

The Net NPA as a percentage of gross and net advance ratio of SCBs was 1% in the year 2010 which starts increasing in the subsequent year. In the next year it increases by 0.3%. NPA ratio increase by 0.4% in the next 2 subsequent years [41,59]. As GNPA, NNPA also increases constantly year by year. NNPA as percentage of Net advance ratio reaches 5.3% in the year 2017 and 6% in the year 2018, which was highest in the list. Once it reaches 6% in the year 2018, it starts decreasing from 2018 [44]. From 6% it declines to 3.7% in the year 2019 and 2.8% in the year 2020. Table 1 data shows, both GNPA and NNPA ratio increase constantly and reaches highest in the year 2018 and starts decreasing for next 2 subsequent years. During the period of study GNPA and NNPA ratio of Gross advance of commercial banks are increasing constantly. Same can be observed in the case of total asset ratio.

**Table 2:** GNPA and NNPA of PSBs as a Percentage of total advances and total assets. (Rs. in crores).

Year	GNPA	GNPA as a % of gross advances	GNPA as a % of total assets	NNPA	NNPA as a % of Net advances	NNPA as a % of total assets
2010-2011	74664	2.2	1.4	36055	1.1	0.7
2011-2012	117839	3	2	59391	1.5	1
2012-2013	165006	3.6	2.4	90037	2	1.3
2013-2014	227264	4.4	2.9	130394	2.6	1.6
2014-2015	278468	5	3.2	159951	2.9	1.8
2015-2016	539956	9.3	5.9	320376	5.7	3.5
2016-2017	684732	11.7	7	383089	6.9	3.9
2017-2018	895601	14.6	8.9	454473	8	4.5
2018-2019	739541	11.6	7.3	285122	4.8	2.8
2019-2020	678317	10.3	6.3	230918	3.7	2.1

Source: www.RBI.org.in

Table-2 shows the data pertaining to GNPA and NNPA of Public Sector Banks as percentage of gross and net advances and total assets for 10 years. In the year 2010 Gross NPA as a percentage of gross advances is 2.2, latter which gradually increases continuously for next 7 years and reaches 14.6% in the year 2018 which is highest in the list. For next 2 years that is for 2019 and 2020 GNPA as percentage of gross advances decreases slightly from 14.6% to 11.6% and 10.3% [22,38,53]. The same trend can be seen in Net NPA as a ratio of Gross advances. Wich is also increases in the initial 8 years and starts declining from 2018. NNPA declines from 8% in the year 2018 to 4.8% in 2019 and further decreases by 1.1% and reaches 3.7% in 2020.

NNPA of PSBs are decreasing and becoming better in the recovery process of loan. GNPA and NNPA of ratio as of total assets are also fluctuating year by year. There is a continuous increase in the net advance ratio and total assets ratio but in the year 2019 and 2020 NPAs of PSBs are decreasing [44].

From the above analysis it can be concluded that GNPA as a percentage of gross advances and total assets and NNPA as a percentage of net advance and total assets are increasing in size during period of study [46,56] but they were sturdily declining in the last 2 years which indicates the betterment of NPA problem in PSBs.

**Table 3:** GNPA and NNPA of Private Sector Banks as a Percentage of total advance and total assets. (Rs. in crores).

Year	GNPA	GNPA as a % of gross advances	GNPA as a % of total assets	NNPA	NNPA as a % of Net advances	NNPA as a % of total assets
2010-2011	14500	2.3	1.3	3400	0.6	0.3
2011-2012	14500	1.9	1.1	3000	0.4	0.2
2012-2013	15800	1.8	1	3900	0.4	0.3
2013-2014	24542	1.8	1.1	8862	0.7	0.4
2014-2015	34106	2.1	1.3	14128	0.9	0.5
2015-2016	56186	2.8	1.8	26677	1.4	0.8
2016-2017	93209	4.1	2.6	47780	2.2	1.3
2017-2018	129335	4.7	3	64380	2.4	1.5
2018-2019	183604	5.3	3.5	67309	2	1.3
2019-2020	209568	5.5	3.6	55746	1.5	1

Source: www.RBI.org.in

Table 3 presents the data on GNPA and NNPA as a percentage of total advances and total assets of New Private Sector banks. In the initial years of study period GNPA as a percentage of gross advance is 2.3% and there is a gradual decrease in the GNPA's in year 2012, 2013 and 2014. GNPA gradually decreases from 2.3% to 1.9% in 2011, 1.8% in 2012, 1.8% in 2013 and remains constant in 2014 [4,54]. In 2015, GNPA starts increasing constantly in the subsequent years reaches 5.5% in the year 2020 which is highest in the list. Same observation can be seen in the total asset percentage, there is a constant increase in the GNPA total asset percentage. GNPA as a percentage of total asset is 1.3%, which falls by 0.3% in the tear 2013 and starts increasing in subsequent years and reaches 3.6% in the year 2020.

Initially, NNPA as a percentage of net advances was 0.6% and falls by 0.2% in the year 2012 and remains constant in 2013. In 2014 NNPA again increases to 0.7% and starts increasing in the coming years and reaches 2.4% in the year 2018 which was maximum in the list [53]. During the study period it can be observed that, initially NNPA was 0.6% which declines to 0.4% in next 2 years and again starts increasing to 0.7%, 0.9%, 1.4%, 2.2%, 2.4% in the subsequent years. But starts declining in from 2019. In 2019 NNPA as percentage of Net advance is 2% and 1.5% in 2020 [2,48]. Same fluctuating trend can be seen in the total asset percentage. It can be concluded that, as compared to Commercial banks and PSBs, Private sector banks are having less NPA which is the indicator for profitability and performance of private banks.

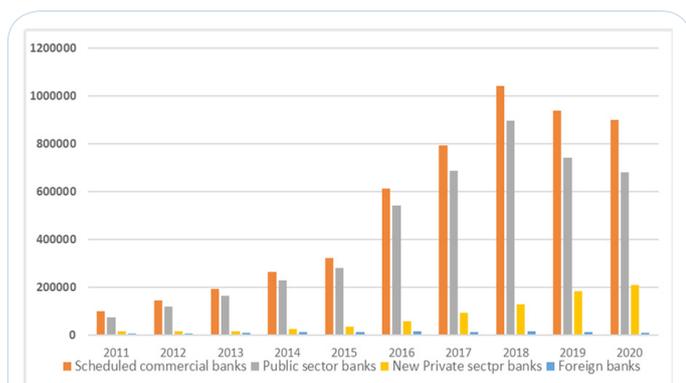
**Table 4:** GNPA and NNPA of Foreign Banks as a Percentage of total advance and total assets. (Rs. in crores).

Year	GNPA	GNPA as a % of gross advances	GNPA as a % of total assets	NNPA	NNPA as a % of Net advances	NNPA as a % of total assets
2010-2011	5069	2.5	1	1312	0.7	0.3
2011-2012	6297	2.7	1.1	1412	0.6	0.2
2012-2013	7977	3	1.3	2663	1	0.4
2013-2014	11565	3.9	1.5	3160	1.1	0.4
2014-2015	10761	3.2	1.4	1762	0.5	0.2
2015-2016	15805	4.2	1.9	2762	0.8	0.3
2016-2017	13629	4	1.7	2137	0.6	0.3
2017-2018	13849	3.8	1.6	1548	0.4	0.2
2018-2019	12242	3	1.2	2051	0.5	0.2
2019-2020	10208	2.3	0.8	2084	0.5	0.2

Source: www.RBI.org.in

Above table represents data on GNPA and NNPA of foreign banks as a percentage of advances and total assets from 2011-2020. GNPA as of gross advance is 2.5% in the initial stage of study period, which then increases to 2.7% in next year and reaches 3% in the year 2013.

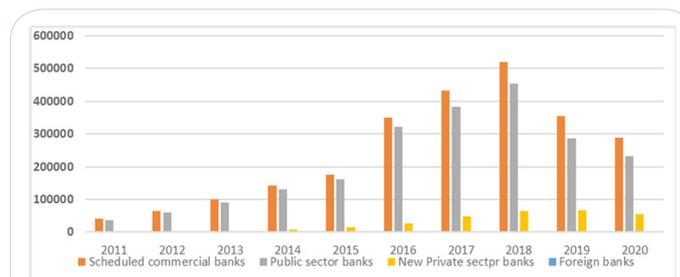
- A. In 2014 GNPA was 3.9% but falls by 0.7% in the year 2015 [57]. There is again rise in GPNPA and reaches 4.2% which was highest in the list by 2016. GNPA of Foreign banks are fluctuating, there is a gradual rise and fall in the GNPA.
- B. GNPA decreases and reaches minimum 3% in 2019 and 2.3% in 2020. Initially GNPA as of total assets is 1%, which increases year by year.
- C. In the year 2012 GNPA percentage was 1.1, which increases by 0.2% in the next 2 years but falls by 0.1% in the next year [5,7].
- D. GNPA reaches 1.9 in the year 2016, which was highest during the study period. After reaching highest in the year 2016, GNPA of foreign banks starts declining gradually in the subsequent years and reaches 0.8% in the year 2020 which minimum during the period of 10 years.
- E. GNPA of foreign banks also increases in size year by year but as compared commercial, public and private banks it is less. Same fluctuating trend can also be seen in NNPA.
- F. NNPA as of Net advance and as of total asset is quite constant which shows the ability of banks to recover debt [1,42].



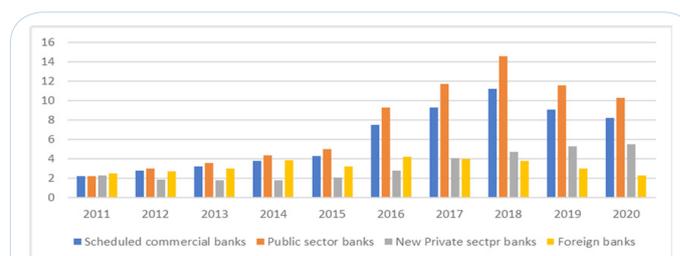
**Figure 1:** GNPA in Indian Banks.

Above graph shows the level of GNPA in commercial, PSBs, PrSBs and foreign banks. Gross NPA is the sum of total loan amount defaulted within specified time. Graph shows that in the initial stage NPAs were less but in subsequent years there is upward trend in the level of Gross NPA. GNPA in commercial and public sector banks are huge in size. While slight increase in the GNPA of private and Foreign banks can be seen. NPA is rising at a rapid rate in commercial and public sector banks in last 5-6 years. It is clear from graph that, even though there is rising NPA banks are trying to manage the level of NPA and there is reduction in the level of NPA of PSBs [3,14].

The subsequent graph shows the level of NNPA in SCSs, PSBs, private and foreign banks. Net non-performing asset is the sum of total amount of loan defaulted after deducting provisions from GNPA. From the above graph it can be seen that commercial and Public sector banks are having high NPAs and there is slight increase in the NNPA of private and foreign banks. In the last 2 years NNPA of commercial and public sector banks are gradually decreasing which is a good indicator [22,54].



**Figure 2:** Net Non-performing Assets in Indian Banks.  
Source: www.RBI.org.in



**Figure 3:** GNPA as a percentage of gross advances.

The graph represents level of GNPA as a percentage of Gross advances. GNPA as of gross advances of banks are increasing every year and declines in the last 2 years. It can be seen in the graph, PSBs are having huge percentage of GNPA.

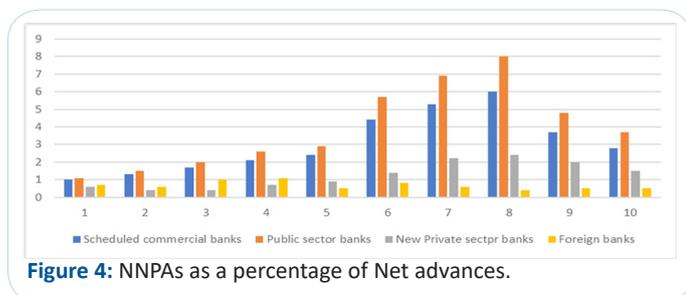


Figure 4: NNPA as a percentage of Net advances.

Above graph represents level of NNPA as a percentage of Net advances. During the study period there is a constant rise in the NNPA of the banks, which decreases in the year 2019 and 2020. It is clear from the graph that PSBs and commercial banks are having huge NPA. Whereas Private and Foreign banks are having less risk of NPA as compared to commercial and PSBs [29].

### Reasons for rising NPA

#### External factors

- There are number of recovery tribunals set by the government, which works for the recovery of debt. If they fail to recover the loan amount banks will suffer heavy loss which intern effects the performance and profitability of the banks.
- Proper due diligence of the borrower should be done to recognize the credit risk involved. Wilful defaults causes heavy loss to the banks and leads NPA.
- Natural calamities are measured factors, which is leading to rise in the NPAs of PSBs. Because of natural calamities specially agriculturists fails to make the repayment of the loans which lead to NPA.
- Industrial sickness is also one of the reason rising NPA. Lack of resources, lack technology, inappropriate management and project handling, changes government policies lead to industrial sickness. Lending to those industries, makes banks to end up with rising NPA and loss for the bank.
- Manufacture Indian fails to recognize and market demand. Lack of demand in the market leads to business failure. On failure repayment and recovery of loans banks have to record the unpaid part as NPA.
- Changes in government policies and fluctuation in the economy is also a factor leading to NPA.

#### Internal factors

- Diversion of funds for other purposes.
- Defective lending process of banks makes them fail to choose the right borrower in spite stringent norms.
- Credit appraisal plays an important role in the in the assessment of the borrower to choose right borrower. Poor credit appraisal system is an additional factor contributing to NPA.
- Managerial inabilities of the banks contributes to the rising NPA. Banks should be very much cautious while lending and accepting the collateral and securities. Banks should consider market, risk and other factors. Banks should also consider the concentration risk, lending to the single industry or Single borrower makes banks to suffer

when they fail to repay the loan.

- Inappropriate pre and post sanction inspection.
- Lack of credit management and monitoring.

### Impact and Findings of rising NPA

Non-performing assets directly affects performance and profitability of Indian banks. Following are the some of the impacts of rising NPA.

- Rising NPA effects the liquidity position of the banks by creating difference between assets and liabilities which makes banks to rise high cost resources.
- Increasing NPA disturbs the goodwill of the banks which results in lack of public confidence, lower profitability.
- Rising NPA effects the funding process of banks, which creates fluctuation in the economy.
- Rise in NPA leads to high cost of capital as now bank needs more capital for smooth function of the banks.
- Due to increased NPA banks reduces the interest on deposits.
- Interest income is the primary source of income for banks. When loan accounts becomes NPA, it reduces the income of the banks.
- NPA reduces the profitability of the banks and banks have maintain provisions for NPA which is a loss to the banks.
- As per RBI guideline banks have to maintain sufficient capital on risk weighted assets. Any rise in NPA contributes to rise in risk weighted provisions
- It reduces the earning capacity of the banks and negatively effects the return on investment.
- Due to increase in NPA banks increase the interest rates, which is a burden to the society. Because now they have to fetch additional income for payment of increased interest rates.
- Continuous rise in NPA disturbs the public trust on banking sector. The reputation of the banks are always influenced by the increased NPA.

### Findings

There is continuous increase in the GNPA and NNPA of PSBs, SCBs, PrSBs and Foreign banks. There is a gradual rise in the NPA for 8 years but from 2018 NPAs of public sector banks are declining.

### Conclusion

NPAs are a primary challenge of Indian banks. Banks have to attribute provisions out of profit against them, the money locked as provisions otherwise can be utilized for other investments which is a loss to the banks. This affects the performance and profitability of the banks. Interest income is the primary source of income for all the banks, but when accounts becomes NPA interest income from those accounts are blocked. As per the analysis PSBs are having huge amount of NPA. PSBs are binding on the government policies and they have to lend certain portion to priority sector and other sector [8,55]. This results in accounts becoming NPAs. Study indicates that NPAs of banks generally showing the rising trend during 2011-2020.

NPAs of PSBs are high during study period as compared other sectors of banks.

The study observed that there is an upward trend in the GNPA as of gross advance of banks in the last 10 years. However there is decline in the size of NPA in last 2 years which indicates the improvement in asset quality management of commercial, public and private sector banks. There is a significant improvement in the management of NPAs. Mega merger of banks helped the Indian PSBs to manage their NPAs to some what extent. The study observes that provisioning and prudential norms of RBI and other initiatives by the central banks helped the banks to manage their NPA and this resulted in improvement in the performance of the banks. PSBs are facing major problems because of NPA and some banks are failing in their operation due to increasing NPAs.

The initiatives like DRTs, LOK Adalats, NCLT, SERFAESI act helps banks in speedy recovery of debts and strengthens functioning and performance of Indian banks. It improves recovery process and makes task easier. As there is a decline in GNPA and NNPA of PSBs and private banks, currently due to pandemic economy is suffering but if banks succeed to manage the asset quality in future PSBs can overcome the problem NPAs. Therefore banks and government should make efforts to manage the asset quality and NPAs in coming days to mitigate the problem of rising NPA. It might not be possible to have zero NPA but Indian Public sector banks should try to reduce the size of NPA. They should manage to make the speedy recovery of loans with corporate borrowers. Because corporate loans are contributing highest portion of NPA. To reduce the NPA from Indian banking sector government should take some initiative measure to settle the pending cases.

There should be some relaxation on part of mandatory lending to priority sector because Priority sector lending are having arte of default risk. To mitigate the problem of rising NPA government and RBI should to take some initiative measures to overcome this problem and improve the profitability and performance of Indian banks.

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