

A Study of Non Performing Assets of Indian Banking System and Its Impact on Economy

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Abstract

The aim of this research paper is to study the current trend of NPAs in Indian scheduled banks. The paper further examines its impact on Indian banking sector and on Indian economy. The height of this problem is no doubt very high in the developing countries like India. The fast growing problem of NPAs is threatening banks profitability and affecting the economy in general. It is necessary to tackle NPAs for better economic and future of the nation. Thus it became important to make entire banking sector. The most affected banks in Indian banking sector are banks of scheduled areas. So this paper includes the information related to the NPA of various public and private sector banks.

Keywords

Non- Performing Assets, Impacts, Indian Economy

I. Introduction

Lending is an integral part of the banking business and is fraught with risks. Risk of default – either not getting repayment of principal and/or interest or not getting repayment on time – is one of the major risk to which the banks are exposed. Lending activities are intended to earn profits and it depends largely on the ability of banks to roll over their folder loans and advances. Timely recovery of the amounts lent by banks play a vital role in maintenance of sufficient liquidity, desired profitability and further lending. Performance of an asset means generation of income to the bank. It is imperative for the banks to maintain good quality of their borrower accounts. Proper assessment of related risks, strict observances of pre and post sanction terms/covenants, regular monitoring, timely efforts to recover the dues understanding the warning signals/ signs of sickness and initiation of remedial measures to rectify irregularities are the key issues in maintaining the desired asset quality of the loan accounts. NPA does not generate income for the banks and is defined as credit facility wherein interest and/or principal has remained overdue for a more than 90 days. NPAs are more risk-weighted assets and more capital has to be maintained against them as per ICAR norms, which involves extra cost. Bank's funds are blocked in NPAs and, as much, cannot be recycled. This leads to reduction in business volume and earnings. This may also create liquidity problems for the banks, at times. NPAs adversely affect the image of the financing bank in the eyes of public/shareholders which reduces customer's confidence on the banks. NPAs also effect economy of the country as productive assets created out of bank finance are not/underutilized. Banks become hesitant in fresh financing which slows down the growth in economy.

II. Review of Literature

In this research I found that Miss Kaur (2006) in her thesis "credit management of the public sectors bank" if you want to better handling of NPAs you should have proper knowledge of market and also know about adverse impacts on profitability of bank. And as per Miss Bhatia (2007) NPAs is an important parameter to Measure the bank's performance and their financial position.

As per Mr. Chatterjee and C. Mukherjee J. and Das in their study on management of nonperforming assets a current scenario Has concluded that bank should find out the original purpose of loan required by the borrower and the proper identification should be checked at the time of giving the loan. Ms.Rai (2012) on performance of NPAs of Indian Commercial banks find out that corporate borrowers even after defaulting continuously never had the fear of bank taking action to recover their dues. This is because there was no legal framework to safeguard the real interest of banks.

III. Objectives of the Study

- To study the status of Non Performing Assets of Indian Scheduled Commercial Banks in India.
- To study the impact of NPAs on Banks.

IV. Research Methodology

Descriptive research approach is selected for this research and various research paper have been studied in this regard. The studied is conducted for the selected public sector bank and private sector bank. The study is based on the secondary data collected from various RBI annual reports research paper and articles.

V. Selected Banks for the Study

A. Public Sector Banks

- State Bank of India
- Bank of India
- IDBI Bank

B. Private Sector Banks

- AXIS BANK
- ICICI BANK
- YES BANK

VI. Indian Banks and their NPA and NPAs Ratios

Sr.No	Bank	NPAs	NPA Ratios
Public Sector Banks			
1	State Bank of Inda	1,88,068	9.97
2	Bank of India	51,019	13.05
3	IDBI Bank	50,173	24.11
Private Sectors Bank			
4	ICICI Bnak	43,148	7.99
5	AXIS Bank	22,031	5.03
6	YES Bank	1,364	0.97

VII. Data Analysis & Interpretation

From the above it is clear that in Public Sector Banks the State Bank of India has the highest NPA of Rs 1, 88,068cr, Followed by Bank of India which has a NPA of Rs 51,019Cr and IDBI Bank having a NPA of 50,173cr.

In Private sector bank, ICICI Bank has the highest npas of Rs 43,148cr, Followed by AXIS bank which has a NPA of Rs 22,031cr and YES bank having a NPA of 1,364 cr.

VIII. Impacts of NPAs on the Indian Economy

The problem of NPAs in the Indian banking system is one of the most important and the most formidable problems that had impact on the Indian economy. higher npas ratio quake the confidence of investors, depositors, lenders etc. it also causes poor recycling of funds, which in turn will have harmful effect on the deployment of credit. The un-recover debts or npas effects not only these banks but it is also hazardous for indian economy.

- The higher is the amount of non-performing assets (NPA) the weaker will be the bank's revenue stream.
- Indian Banking sector has been facing the NPA issue due to the mismanagement in the loan distribution carried by the Public sector banks.
- As the NPAs of the banks will rise, it will bring a scarcity of funds in the Indian markets. Few banks will be willing to lend if they are not sure of the recovery of their money.
- The price of loans interest rates will shoot up badly. Shooting of interest rates will directly impact the investors who wish to take loans for setting up infrastructural, industrial projects etc.
- All these factors hurt the overall demand in the Indian economy.

IX. Conclusion

Managing bad loans and controlling them at lowest level has become paramount important for the banking sector in recent years. It is found that the impact of NPAs on the Indian economy is because of mismanagement in banks. Certain precautions if taken from the very beginning the incidence of borrower accounts turning bad may be reduced to large extent. Such as pre - sanction formalities, promptness and follow up action.

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