MOUNTING OF NPA IN NATIONALISED BANKS

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Mounting NPA in Nationalised Banks

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Abstract :-

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. Non-performing assets (NPA) are one of the major concerns for banks in India. NPAs put detrimental impact on the profitability, capital adequacy ratio and credibility of banks. Non-Performing Assets have been **substantially reduced** since regulations were tightened in 1993, but **improvement** has recently **slowed down** and the levels of NPA remain high compared to international standards. According to RBI norms, NPA has been defined as a credit facility in respect of which interest has remained past due for a period of four quarters. The Gross Non-Performing Assets (GNPAs) of Nationalized Banks as on June 2012 were Rs.73,038 crore which amount to 2.94% of Gross Advances. As on March 31, 2013, net NPAs of 40 listed banks were Rs 93,109 crore, which rose to Rs 1,28,533 crore as on September 30, 2013. In this direction present paper is undertaken to study the reasons for advances becoming NPA in the Indian Commercial banks Sector and to give suitable suggestion to overcome the mentioned problem.

Keywords: Advances, Gross NPA, NPA, Loans

Introduction :

For any nation, banking system plays a vital role in the development of its sound economy. Banking is an important segment of the tertiary sector and acts as a back bone of economic progress. Banks are supposed to be more directly and positively related to the performance of the economy. Banks act as a development agency and are the source of hope and aspirations of the masses. Commercial banks are the major player to develop the economy. A major threat to banking sector is prevalence of Non-Performing Assets (NPAs). NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. In present scenario NPAs are at the core of financial problem of the banks. Concrete efforts have to be made to improve recovery performance. The main reasons of increasing NPAs are the target-oriented approach, which deteriorates the qualitative aspect of lending by banks and willful defaults, ineffective supervision of loan accounts, lack of technical and managerial expertise on the part of borrowers.

After liberalization the Indian banking sector developed very appreciate. The RBI also nationalized good amount of commercial banks for proving socio economic services to the people of the nation..

The non performing assets of the Public Sector Banks have been increasing regularly year by year. If we glance on the numbers of non performing assets we may come to know that in the year 1997 the NPAs were 47,300 crore and reached to 80,246 crore in 2002 and Net non-performing assets (NPAs) or bad loans of 40 listed banks jumped by 38% or around Rs 35,424 crore in the first six months of current financial year ended September 30, 2013, according to a study by NPAsource.com.

For every rupee that banks in India have lent in the nine months to December 2013, 13 paise has turned sour and has been classified a non-performing asset (NPA). For United Bank, 60 paise is bad for every rupee lent.
In the nine months during April-December in fiscal 2013, 42 banks have lent Rs. 5.02 lakh crore and their gross NPAs for the same period stood at Rs. 67,394 crore.

That shocking figure of Rs 2.06 trillion, is the gross non-performing assets (advances gone bad) of Indian banks. Alarm bells started ringing when State Bank of India, the largest bank in India, declared that its NPAs had crossed the 5 per cent mark

- **Review of Literature**

There are numerous empirical studies conducted on the issue of Non performing Assets of Nationalised banks in India as well as abroad. Present review deals with the empirical studies conducted in Indian context on Non performing Assets in public sector banks and private sector banks. Some of the notable studies in this field are as following.

Mishra, T.P. (2003) revealed the high rise in gross and Net NPA of the banking sector in the recent past as the exponential rate giving an indication, that the ongoing recession was taking a heavy toll on corporate audit discipline. This was further supported by recovery climate, legal system, approach of the lenders towards lending and many other factors. Despite myriad problems and existing set up, bans had to perform well and achieve the target for NPA reduction affixed as per international standard.
Swamy (2001) studied the comparative performance of different bank groups since 1995-96 to 1999-2000. An attempt was made by researcher to identify factors which could have led to changes in the position of individual banks in terms of their share in the overall banking industry. He analyzed the share of rural branches, average branch size, trends in bank's profitability, share of public sector assets, share of wages in expenditure, provision and contingencies, net non performance assets in net advances, spread, has been calculated. He concluded that in many respects nationalized public sectors banks much better than private banks, even they are better than foreign banks..

Khedekar Pooja S. (2012) A strong Banking Sector is essential for a flourishing economy. Indian banking sector emerged stronger during 2010-11 in the aftermath of global financial meltdown of 2008-10 under the watchful eye of its regulator. The level of NPA's act as an indicator showing the credit risks & efficiency of allocation of resource. NPA involves the necessity of provisions, any increase in which bring down the overall profitability of banks. An excessive rise in interest rates over the past 18 months has led to a sharp increase in non-performing assets. This not only affects the banks but also the economy as a whole. This paper deals with understanding the concept of NPA, the causes and overview of different sectors in India.

Kavitha. N (2012), emphasized on the assessment of non-performing assets on profitability its magnitude and impact. Credit of total advances was in the form of doubtful assets in the past and has an adverse impact on profitability of all Public Sector Banks affected at very large extent when non-performing assets work with other banking and also affect productivity and efficiency of the banking groups. The study observed that there is increase in advances over the period of the study

STATEMENT OF THE PROBLEM

The main motto of banks is to serve the people by providing loans and advances for needy people for their upliftment, even for the industry growth and for the growth of the economy. The borrowers are not repaying the amount to the banks regularly as per the due dates; it is affecting the performance of the banks. As per the new banking regulation if the borrower not paid the principle and interest amount within 90 days it is to be considered as Non-Performing Assets.

The research gaps and relevant questions which strike the mind during observation of various studies on Non- performing assets that, what is the level of NPA in Commercial banks? What are the reasons for the assets becoming Non- Performing assets and what is its impact on performance of a bank, public, government and society. Hence there arises a need to address the aforesaid questions.

Operational Definitions

The Non Performing Asset (NPA) concept is restricted to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a “Non Performing Asset”. In other words, a loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission or any other dues for the bank for more than 90 days. A NPA is an advance where payment of interest or repayment of instalment on principal or both remains unpaid for a period of two quarters or more and if they have become „past due‟. An amount under any of the credit facilities is to be treated as past due when it remain unpaid for 30 days beyond due date.

As per RBI directives an asset account (term loan/cash credit/ Overdraft/ bills purchase or discount) is classified as Non Performing Asset {NPA) if it remains irregular or out of order for a period of one quarter or 90 days. The prescribed period is one quarter or 90 days since 01 -04-2004 as against two quarters prior to 01-04-2004. Major impact and effect of NPAs would be: NPA don't generate income; they require provisions, resulting in further erosion of profits substantially; they enhance administrative, legal and recovery costs; borrowed resources are locked in NPA whereas the banks have to pay for the cost of outlay of these funds, resulting in negative spread; the cost of poor quality loans is shifted to bank customers through higher interest rate on advances.

NPAs Classification

NPA have been classified into following four types:-

(i) **Standard Assets**: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense.

(ii) **Sub-Standard Assets** : All those assets (loans and advances) which are considered as non-performing for a period of 12 months.

(iii) **Doubtful Assets:** All those assets which are considered as non-performing for period of more than 12 months.

(iv) **Loss Assets** : All those assets which cannot be recovered. These assets are identified by the Central Bank or by the Auditors.

Types of NPA

Gross NPA:

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio: Gross NPAs Ratio = Gross NPAs / Gross Advances.

Gross NPAs as on September 30, 2013 stood at Rs 2,29,007 crore, 27% higher when compared to Rs 1,79,891 crore as of March 31, 2013 for these 40 listed banks

Net NPA:

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks**.** Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to

make certain provisions against the NPAs according to the central bank guidelines. It can be calculated by following: Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions.
Net NPAs in the banking system is likely to touch Rs 1.5 lakh crore by March 2014

Objectives Of The Study

The present study has been undertaken with the following objectives:

• To identify the reasons for an asset turning into NPA.

• To find out trends in NPA level.

To study impact of NPA on operation of Banks.

To know what steps are being taken by the Indian banking sector to reduce the NPAs.

RESEARCH METHODOLOGY:

The study is based on secondary data which is collected from reports, journals and websites for the latest happenings in the banking sector in India, where a major part of the data is extracted from the tables relating to banks as published by RBI and Report on Trend and Progress of Banking in India 2002-2013. The study mainly emphasizes on the composition, development and management of non-performing assets (NPAs) in public sector banks and RBI norms on capital adequacy. So, the data used mostly support the study using specific parameters through tables and charts for a logical analysis. Public sector banks in India include seven banks under the State Bank of India group and twenty other nationalized banks.

The impact of NPAs on the profitability of the banks is summarized in the following points

1. **Reduces earning capacity of the assets:** NPAs reduced the earning capacity of the assets and as a result of this return on assets get affected.

2. **Blocks capital:** NPAs carry risk weight of 100% (to the extent it is uncovered). Therefore they block capital for maintaining Capital adequacy. As NPAs do not earn any income, they are adversely affecting "Capital Adequacy Ratio" of the bank.

3. **Incurrence of additional cost:** Carrying of NPAs require incurrence of Cost of Capital Adequacy, Cost of funds in NPAs and, Operating cost for monitoring and recovering NPAs.

4. **Reduces EVA:** While calculating Economic Value Added (EVA =Net operating profit after tax minus cost of capital) for measuring performance towards shareholders value creation, cumulative loan loss provisions on NPAs s considered as capital. Hence, it increases cost of capital and reduces EVA.

5. **Low yield on advances:** Due to NPAs, yield on advances shows a lower figure than actual yield on "standard Advances". The reasons that yield are calculated on weekly average total advances including NPAs.
6. **Affect on Return on Assets:** NPAs reduce earning capacity of the assets and as a result of this, ROA gets affected.

Reasons for NPAs in Banks

An account does not become an NPA overnight. It gives signals sufficiently in advance that steps can be taken to prevent the slippage of the account into NPA category. An account becomes an NPA due to causes attributable to the borrower, the lender and for reasons beyond the control of both. An internal study conducted by the RBI shows that in the order of prominence, the following factors contribute to NPAs.

Internal Factors

• Diversion of funds for

-Expansion/diversification/modernization.

-Taking up new projects.

-Helping/promoting associate concerns.

• Time/cost overrun during the project implementation.

• Inefficient management.

• Strained labour relations.

• Inappropriate technology/technical problems.

• Product obsolescence, etc.

• Poor credit Appraisals, monitoring and follow up, improper SWOT analysis on the part of banks.

External Factors

• Recession.

• Input or power shortage.

• Price escalation.

• Exchange rate fluctuation.

• Accidents and natural calamities.

• Changes in government policy such as excise, import and export duties, pollution control order

• Willful defaulters have been there because they knew that legal recourse available to the lenders is time consuming and slow.

• Sickness of the industry also leads to gradual erosion of the liquidity and units start failing to honour its obligations for the loan payments. Heavy funds are locked up in these units.

• Political tool-Directed credit to SSI and Rural sectors has been there

• Manipulation by the debtors using political influence has been a cause for high industrial bad.

Data Analysis and Findings

Table 1.
Table showing the Gross and Net NPAs Scheduled Commercial Banks Scheduled Commercial Banks.

	Advances		Non Performing Assets					
Year (End-March)	Gross	Net	Amount	Gross as % of gross advances	As % of Total assets	Amount	Net as% of Net advances	As % of Total Assets
1996-97	3016.98	2764.21	473.00	15.70	7.00	223.40	8.10	3.30
1997-98	3526.96	3255.22	508.15	14.40	6.40	237.61	7.30	3.00
1998-99	3994.36	3670.12	587.22	14.70	6.20	280.20	7.60	2.90
1999-00	4751.13	4442.92	604.08	12.70	5.50	300.73	6.80	2.70
2000-01	5587.66	5263.28	637.41	11.40	4.90	324.61	6.20	2.50
2001-02	6809.58	6458.59	708.61	10.40	4.60	355.54	5.50	2.30
2002-03	7780.43	7404.73	687.17	8.80	4.10	296.92	4.00	1.80
2003-04	9020.26	8626.43	648.12	7.20	3.30	243.96	2.80	1.20
2004-05	11526.82	11156.63	593.73	5.20	2.50	217.54	2.00	0.90
2005-06	15513.78	15168.11	510.97	3.30	1.80	185.43	1.20	0.70
2006-07	20125.10	19812.37	504.86	2.50	1.50	201.01	1.00	0.60
2007-08	25078.85	24769.36	563.09	2.30	1.30	247.30	1.00	0.60
2008-09	30382.54	29999.24	683.28	2.30	1.30	315.64	1.10	0.60
2009-10	35449.65	34970.92	846.98	2.40	1.40	387.23	1.10	0.60
2010-11	40120.79	42987.04	979.00	2.50	1.40	417.00	1.10	0.60
2011-12	46655.44	50746.00	1423.00	3.10	1.70	649.00	1.40	0.80

Source: RBI bulletin.

Interpretation: The above table depicts the gross and net NPAs of scheduled commercial banks in India since 1996-97 to 2011-12.

Table 2.
Table showing the Gross and Net NPAs Scheduled Public Sector Banks Public Sector Banks

	Advances		Non Performing Assets					
Year (End-March)	Gross	Net	Amount	Gross as % of gross advances	As % of Total assets	Amount	Net as% of Net advances	As % of Total Assets
1996-97	2442.14	2209.22	435.77	17.8	7.8	202.85	9.2	3.6
1997-98	2849.71	2604.59	456.53	16.0	7.0	212.32	8.2	3.3
1998-99	3253.28	2977.89	517.10	15.9	6.7	242.11	8.1	3.1
1999-00	3794.61	3527.14	530.33	14.0	6.0	261.87	7.4	2.9
2000-01	4421.34	4152.07	546.72	12.4	5.3	279.77	6.7	2.7
2001-02	5093.68	4806.81	564.73	11.1	4.9	279.58	5.8	2.4
2002-03	5778.13	5493.51	540.90	9.4	4.2	248.77	4.5	1.9
2003-04	6619.75	6313.83	515.37	7.8	3.5	193.35	3.1	1.3
2004-05	8778.25	8489.12	483.99	5.5	2.7	169.04	2.1	1.0
2005-06	11347.24	11062.88	413.58	3.6	2.1	145.66	1.3	0.7
2006-07	14644.93	14401.46	389.68	2.7	1.6	151.45	1.1	0.6
2007-08	18190.74	17974.01	404.52	2.2	1.3	178.36	1.0	0.6
2008-09	22834.73	22592.12	449.57	2.0	1.2	211.55	0.9	0.6
2009-10	27334.58	27013.00	599.26	2.2	1.3	293.75	1.1	0.7
2010-11	30798.04	33056.32	746.00	2.4	1.4	360.00	1.2	0.7
2011-12	35003.89	38783.00	1172.00	3.3	1.9	591.00	1.7	1.0

Source: RBI bulletin

Interpretation: the above table depicts the gross and net NPAs of scheduled Public Sector Banks in India since 1996-97 to 2011-12.

Table 3.

Table showing the Gross and Net NPAs Scheduled Old Private Sector Banks
Old Private Sector Banks.

	Advances		Non Performing Assets					
Year (End-March)	Gross	Net	Amount	Gross as % of gross advances	As % of Total assets	Amount	Net as% of Net advances	As % of Total Assets
1996-97	217.02	208.32	23.25	10.7	5.2	13.85	6.6	3.1
1997-98	255.80	243.53	27.94	10.9	5.1	15.72	6.5	2.9
1998-99	289.79	260.17	37.84	13.1	5.8	23.32	9.0	3.6
1999-00	354.04	338.79	38.15	10.8	5.2	23.93	7.1	3.3
2000-01	397.38	379.73	43.46	10.9	5.1	27.71	7.3	3.3
2001-02	440.57	422.86	48.51	11.0	5.2	30.13	7.1	3.2
2002-03	513.29	494.36	45.50	8.9	4.3	25.98	5.2	2.5
2003-04	579.08	556.48	43.98	7.6	3.6	21.42	3.8	1.8
2004-05	704.12	677.42	42.00	6.0	3.1	18.59	2.7	1.4
2005-06	851.54	829.57	37.59	4.4	2.5	13.75	1.7	0.9
2006-07	948.72	928.87	29.69	3.1	1.8	8.91	1.0	0.6
2007-08	1134.04	1116.70	25.57	2.3	1.3	7.40	0.7	0.4
2008-09	1303.52	1285.04	30.72	2.4	1.3	11.59	0.9	0.5
2009-10	1563.57	1541.36	36.22	2.3	1.3	12.71	0.8	0.5
2010-11	1872.96	1846.47	36.00	1.9	1.2	9.00	0.5	0.3
2011-12	2329.18	2301.00	42.00	1.8	1.1	13.00	0.6	0.4

Source: RBI bulletin.

Interpretation: the above table depicts the gross and net NPAs of Old Private Sector Banks in India since 1996-97 to 2011-12.

Table 4.

Table showing the Gross and Net NPAs Scheduled New Private Sector Banks New Private Sector Banks.

	Advances		Non Performing Assets					
Year (End-March)	Gross	Net	Amount	Gross as % of gross advances	As % of Total assets	Amount	Net as% of Net advances	As % of Total Assets
1996-97	82.57	78.14	2.17	2.6	1.3	1.54	2.0	1.0
1997-98	111.73	110.58	3.92	3.5	1.5	2.91	2.6	1.1
1998-99	140.70	137.14	8.71	6.2	2.3	6.11	4.5	1.6
1999-00	228.16	221.56	9.46	4.1	1.6	6.38	2.9	1.1
2000-01	314.99	300.86	16.17	5.1	2.1	9.29	3.1	1.2
2001-02	769.01	741.87	68.11	8.9	3.9	36.63	4.9	2.1
2002-03	947.18	895.15	72.32	7.6	3.8	13.65	1.5	0.7
2003-04	1195.11	1151.06	59.83	5.0	2.4	19.86	1.7	0.8
2004-05	1274.20	1236.55	45.82	3.6	1.6	23.53	1.9	0.8
2005-06	2325.36	2300.05	40.52	1.7	1.0	17.96	0.8	0.4
2006-07	3252.73	3218.65	62.87	1.9	1.1	31.37	1.0	0.5
2007-08	4124.41	4067.33	104.40	2.5	1.4	49.07	1.2	0.7
2008-09	4547.13	4468.24	138.54	3.1	1.7	62.52	1.4	0.8
2009-10	4877.13	4783.58	140.17	2.9	1.6	52.34	1.1	0.6
2010-11	5450.14	6128.86	145.00	2.7	1.3	34.00	0.6	0.3
2011-12	6475.28	7363.00	145.00	2.2	1.1	30.00	0.5	0.2

Source: RBI bulletin.

Interpretation: the above table depicts the gross and net NPAs of New Private Sector Banks in India since 1996-97 to 2011-12

NPA Trends

With effect from financial year 1992-93, as per the recommendations of the Narasimham Committee and the prudential guidelines issued by the Reserve Bank of India, banks were required to classify their loans and advances based on recovery into four categories -Standard, Sub-standard, Doubtful and Loss and make provisions at prescribed rate on the Non-Performing Assets. Table 4 shows classification of assets as percentage of advances of public sector banks. Standard assets showed continuous increasing trend and NPA (sub-standard, doubtful, loss) showed declining trend.

Table No. 4 (Assets (loans and advances) quality of public sector banks

S. N	Category	2003	2004	2005	2006	2007	2008	2009
1	Standard Assets	90.6	92.06	94.6	96.1	97.2	97.7	97.9
2	Sub-standard Assets	2.6	2.6	1.2	1.1	1.0	1.0	0.9
3	Doubtful Assets	5.6	4.6	3.4	2.3	1.5	1.1	1.0
4	Loss Asses	1.2	0.9	0.6	0.5	0.3	0.2	0.2
5	Total NPA Total Advances	9.4	7.8	5.4	3.9	2.8	2.3	2.1

(All data given in this table are in percent)

Source : Report on Trends and Progress of Banking in India, relevant issues

Table No. 5 and 6 list the gross and net NPA of various groups of banks viz all scheduled commercial banks, public sector banks, old private sector banks, new private banks. The analysis of NPA of different bank groups indicates that the total amount of Gross NPA and Net NPA of Public Sector Banks accounted more than 70% of all Scheduled Commercial Banks. Gross NPA percentage to Gross Advances for Public Sector Banks was higher when compared to all Scheduled Commercial Banks from 2001 to 2007, but from year 2008 the trend has changed. In the same manner Net NPA percentage to Net Advances for Public Sector Banks was also higher in the initial years when compared to all Scheduled Commercial Banks, but later on from year 2008 the scenario has changed. It shows the increased strength and efficiency of Public Sector Banks in managing NPA.

Table No.5 Group wise gross NPA of Commercial banks

Year ended	Scheduled Comm Banks (Amt)	Public Sector Banks (Amt)	Old Private Sector Banks (Amt)	New Private Sector Banks (Amt)
2002	70861	56507	4850	6822
2003	68717	54090	4555	7232
2004	64786	51538	4392	5963
2005	58300	47325	4206	4576
2006	51816	42106	3740	4072
2007	50486	38968	2969	6287
2008	56435	40595	2557	10426
2009	68226	44039	3072	13815

Amounts given in this table are in crore.
Source : Report on Trends and Progress of Banking in India, relevant issues

Table No. 6 Group wise net NPAA of commercial banks

Year ended	Scheduled Comm Banks (Amt)	Public Sector Banks (Amt)	Old Private Sector Banks (Amt)	New Private Sector Banks (Amt)
2002	35554	27958	3005	3663
2003	32671	24867	2740	4141
2004	24617	18860	2140	2717
2005	21441	16642	1859	2292
2006	18529	1451	1368	1793
2007	20101	15145	891	3137
2008	24734	17836	740	7907
2009	31424	21033	1165	6253

Amounts given in this table are in crore.
Source : Report on Trends and Progress of Banking in India, relevant issues

Gross NPA of public sector banks was increased in 2002, then it showed a declining trend except in year 2008 and 2009 when it was increased due to global recession. The increase in Gross NPA of public sector banks has direct relation with the development of the economy as a whole . For instance , global financial crisis has badly affected some sectors or industrial segments like real estate, cement, textiles, etc. which added NPA of banks in the recent period, which can be seen by the figures of year ended March 2009. During the year ended 31 .03.2009, there was net addition to gross NPA by Rs. 3444 crore, which was 8.48% of gross NPA as on 31 .03.2008.

Net NPA of public sector banks decreased during 2001 to 2006, but since last three years it increased due to recession and expansion in credit. Overall trend as per trend line is also declining for Net NPA.

Composition of NPAs

It is observed from the Table No. 7 that the Index of priority sector NPAs has gone up by more than 68% in 2011 as compared to 2001, while total NPAs increased by only 30%. It means the share of priority sector NPAs has been on the rise , the peak being 68.8% achieved in 2008. The compound growth rate (Cgr) of priority sector NPAs is comparatively higher than of the total NPAs. The slope of the non priority sector is negative , while for the priority sector it is positive; implies that priority sector advances are becoming bad every year.

Table No. 7 Statistics of the Composition of NPAs During 2001-2012

Item	Priority Sector	Non-Priority Sector	Total
Index (2001=100)	168.62	97.56	130.10
CGR	16.86	-89.77	13.01
Intercept	13852.00	18367.00	32665.00
Slope	571.85	-612.85	-60.16

As per the Reserve Bank of India ‘Report on Trend and Progress of Banking in India: 2011-12’, the Gross NPAs of the Scheduled Commercial Banks increased in absolute terms from INR 97900 Crores as on March 31, 2011 to INR 142300 Crores as on March 31, 2012. The banks, collectively, added fresh NPAs of INR 107100 Crores as against recovery, including amount written-off, of INR 62800 Crores, thus adding INR 44300 Crores to the Gross NPAs of the banking system. NPA of all scheduled commercial banks increased to 1.68 per cent of the total loan at the end of 2012-13, according to the Reserve Bank of India. The net NPA of all banks was 1.28 per cent at the end of 2011-12, RBI said in report titled ‘A Profile of Banks: 2012-13’.

India’s Rs 80 trillion banking industry is under severe stress and analysts warn that banks will be able to recover only half their NPAs due to the current economic depression.

Major steps taken to solve the problems of Non-Performing Assets in India :-

1. Debt Recovery Tribunals (DRTs)

Narasimham Committee Report I (1991) recommended the setting up of Special Tribunals to reduce the time required for settling cases. Accepting the recommendations, Debt Recovery Tribunals

(DRTs) were established. There are 22 DRTs and 5 Debt Recovery Appellate Tribunals. This is insufficient to solve the problem all over the country (India).

2. Securitisation Act 2002

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitisation Act. This act enables the banks to issue notices to defaulters who have to pay the debts within 60 days.

3**. Lok Adalats**

Lok Adalats have been found suitable for the recovery of small loans. According to RBI guidelines issued in 2001. They cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered. Lok Adalats avoid the legal process. The Public Sector Banks had recovered Rs. 40 Crores by September 2001.

4. Compromise Settlement

Compromise Settlement Scheme provides a simple mechanism for recovery of NPA. Compromise Settlement Scheme is applied to advances below Rs. 10 Crores. It covers suit filed cases and cases pending with courts and DRTs (Debt Recovery Tribunals). Cases of Willful default and fraud were excluded**.**

5. Credit Information Bureau

A good information system is required to prevent loans from turning into a NPA. If a borrower is a defaulter to one bank, this information should be available to all banks so that they may avoid lending to him.

Conclusion :-

Now days the serious problem faced by banks all over the world is the growth of non-performing assets. The value of loan-disbursement process is harmed because of non-recovery of loan instalment and the interest on the loan which in turn is the consequence of growth of NPAs which adversely affect the lending activity of the banks. As a result significant importance has been given, to make stronger the capital adequacy requirements like the measure of CRAR to measure the capacity of banks to absorb losses occurring from non-performing assets. Public sector banks in India have been able to manage high level of CRAR to provide sufficient cushion for any unexpected losses, in relation to capital adequacy requirements. Despite the fact, rise of nonperforming assets in recent years remains an area of concern and should be tackled with sincere efforts during the periods of disbursement of loans and recovery of the same.

Finally it can conclude that the banks can avoid sanctioning loans to the non creditworthy borrowers by adopting certain measures. Banker can constantly monitor the borrower in order to ensure that the amount sanctioned is utilized properly for the purpose to which it has been sanctioned. The banker should get both the formal and informal reports about the goodwill of the customer. If he had already proven as a defaulter then there is no question of sanctioning loan to him. The banker also has to educate the borrowers regarding the effects and consequences of defaulting. By considering all the above factors the banker can reduce the non-performing assets in a bank. The use of technology like Core Banking Solutions in Apex bank should make more reachable to all borrowers.

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