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## Growth Scenario of Non-Performing Asset in Indian Banking Sector and its Impact

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### Abstract

Indian banking industry plays an important role in the sustainable socio economic development of the country. This role is performed by banks by extending credit to several deficit sectors for their expansion and development. These credits are asset for the banks but non-payment of interest and principal of previously issued credit are known as bad loans or 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. The problem of NPAs is not only affecting the banks but also the entire economy. The Indian banking sector is facing a serious problem of NPAs. The gross non-performing advances (GNPAs) ratio increased sharply to 5.07 per cent from 2.2 per cent between March 2008 and March 2015. In the present study an attempt is made to analyze the trends and position of NPAs of public sector banks, to identify and study the reasons for occurrence of NPAs and their impact on Indian banking operations.

**Keywords:** Advances, Loans, NPA, Public sector banks

### Introduction

Indian banking industry plays an indispensable role in the sustainable socio economic development of the country. This role is performed by banks by extending credit to several deficit sectors for their expansion and development. By lending of various loans to individuals, corporate, small scale industries and etc. the financial institutions have credit risk associated with these product and services with the payment of interest and principal amount. These loans are asset for the banks, Non-payment of interest and principal are known as bad loans or Non-performing assets (NPAs). Non-performing assets are one of the most important concerns for Indian banking system. 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. The problem of NPAs is not only affecting the banks but also the entire economy. Before moving further, let us discuss the conceptual framework of the term "NPA".

### Objectives of the Study

Some of the underlying objectives of the study are as follows.

- a) to analyze the trends and position of NPAs of public sector banks,
- b) to identify and study the reasons for occurrence of NPAs and their impact on Indian banking operations,

### Methodology

For our study, we have considered Non-Performing Assets in public sector banks in India. The study is based on secondary data. The paper discusses the conceptual framework of NPA and it also highlights the trend of NPA in various banks during the period of 22 years i.e. from 1993-94 to 2014-15. Several reputed research journal including research paper and articles have been used by the researchers. Moreover, RBI Report on Trend and Progress of Banking in India for various years, websites has been referred during the study.

**Trend Analysis of NPAs in Public Sector Banks of India**

The gross and net Non-Performing Assets (NPAs) and percentage of gross and net Non-Performing Assets (NPAs) of Public Sector Banks and the growth scenario have been presented in Table 1. It can be viewed from the table that the gross NPA of Rs. 41,041.3 crores in 1993-94 have increased to Rs. 2,78,546 crores by the year 2014-15 with an annual growth rate of 28.52 per cent. Gross and net NPAs have increased in absolute terms till 2006-07 and started declining upto 2008-09 but it increased sharply again after 2010-11 upto 2014-15. It is observed that gross NPAs as a percentage terms with gross advances of PSBs have declined from 24.78 percent to 1.97 percent in the period of 1993-94 to 2008-09 and after that it is increased to 5.07 percent in the year 2014-15. On the other hand net NPAs of Public sector banks as a percentage terms have also come down from 10.67 percent in 1994-95 to 0.94 percent in 2008-09 and after that it is increased to 2.90 percent in the year 2014-15. Similarly the amount of gross NPAs was Rs. 17,566.6 crores in 1994-95 have increased to Rs. 1,60,041 crores registering an annual growth rate of 22.49 per cent. The decline in the absolute amount of gross NPAs

of the Public Sector Banks is evident since 2001-02 where it is Rs.56, 507 crores. A further analysis reveals that, over the years under review, the annual rate of growth in gross NPAs experienced a marked decline from 13.2 per cent in 1998-99 to stand at (-)11.88 per cent in 2005-06. It is also clear from the fact that the annual rate of growth in net NPAs of public sector banks which was 14.03 per cent in 1999 gradually have come down registering a negative growth rate of (-)16.72 per cent in 2005-06 and only 4.01 per cent in 2006-07. So, even after implementation of prudential norms in early nineties and serious concern raised by govt. about growing size of NPAs, Public Sector Banks paid least attention to all these warnings, which subsequently led to turning fresh loans of banks into non-performing category. So, falling ratio of NPAs in terms of advances is not a true indicator of performance of PSBs in the field of NPAs. In fact, growing size of gross NPAs in absolute form has been real cause of worry. However; there is a silver lining, on account of the steps taken by the banks under the Securitization Act. The gross as well as net NPAs of Public sector banks have started declining after 2002 this showed the reverse trend in contrast to the earlier years.

**Table 1:** Distribution of Gross and Net NPA in Public Sector Banks of India during 1992-1993 to 2014-2015

Year	Gross NPA (Amount in Rs. Crore)	Annual Growth Rate of Gross NPA (%)	% of Gross NPA to Gross Advances	Net NPA (Amount in Rs. Crore)	Annual Growth Rate of Net NPA (%)	% of Net NPA to Net Advances
1992-1993	39253.1		23.18	Not Compiled		
1993-1994	41041.3	4.56	24.78	19690.7		14.46
1994-1995	38385.2	-6.47	19.45	17566.6	-10.79	10.67
1995-1996	41660.9	8.53	18.01	18297.5	4.16	8.9
1996-1997	43577.1	4.60	17.84	20284.7	10.86	9.18
1997-1998	45652.6	4.76	16.02	21232.1	4.67	8.15
1998-1999	51710.5	13.27	15.89	24211.5	14.03	8.13
1999-2000	53294	3.06	14.02	26187.6	8.16	7.42
2000-2001	54773.2	2.78	12.4	27968.1	6.80	6.74
2001-2002	56507	3.17	11.09	27958	-0.04	5.82
2002-2003	54090	-4.28	9.4	18860	-32.54	4.5
2003-2004	51538	-4.72	7.8	24887	31.96	3
2004-2005	47796	-7.26	5.5	17490	-29.72	2.1
2005-2006	42117	-11.88	3.71	14560	-16.75	1.32
2006-2007	38974	-7.46	2.7	15144	4.01	1.1
2007-2008	40598	4.17	2.2	17836	17.78	1
2008-2009	44957	10.74	1.97	21155	18.61	0.94
2009-2010	59,926	33.30	2.19	29644	40.13	1.1
2010-2011	74614	24.51	2.23	36071	21.68	1.09
2011-2012	117200	57.08	3.3	59100	63.84	1.7
2012-2013	155890	33.01	3.84	87146	47.46	2.02
2013-2014	216739	39.03	4.72	130653	49.92	2.54
2014-2015	278546	28.52	5.07	160041	22.49	2.9

Source: dbie.rbi.org.in

**Figure 1** shows the trend of Gross NPA and Net NPA in Crore for the period of 22 years starting from 1993-94 till 2014-15. The x-axis represents the years i.e. as the period of (1993-94 to 2014-15) whereas y-axis represents the

amount of NPA. We can observe here that the Gross and Net amount of NPA has been showing an upward trend beginning from 2009-10 to 2014-15.

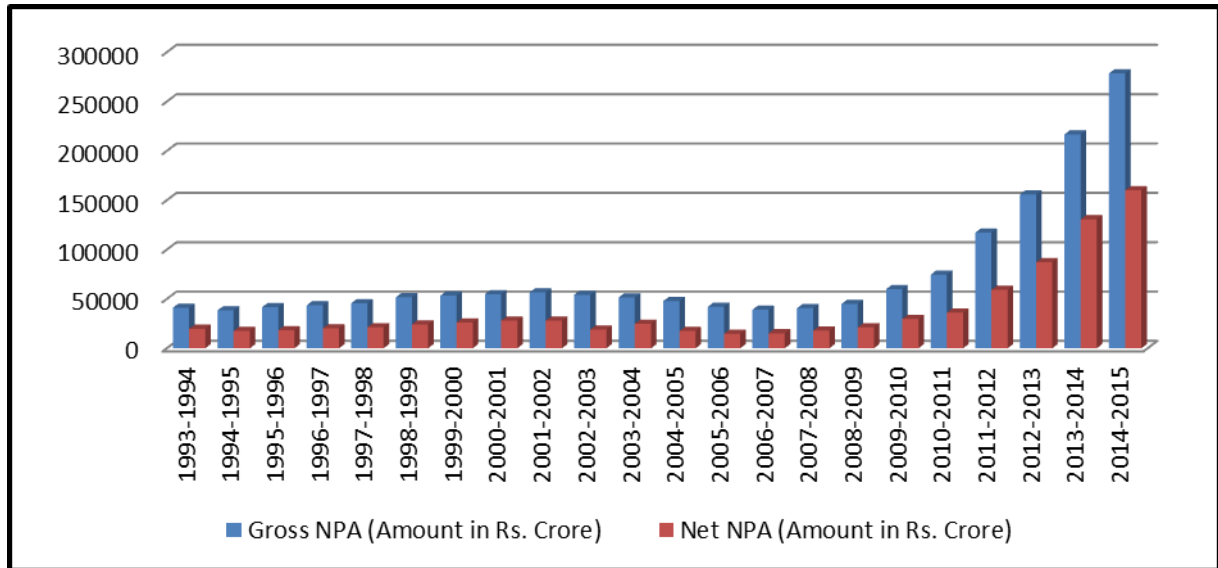


Fig.1: Scheduled Commercial Banks (Gross and Net NPAs)

Figure 2 portrays the trend of Gross NPA and Net NPA in percentages for the period of 22 years i.e. from 1993-94 till 2014-15. The x-axis represents the years whereas y-axis represents the percentage of NPA. We can observe here

that the Gross and Net percentage of NPA has been showing downward trend from 2001-02 to 2007-08 and an upward trend beginning from 2008-09 to 2014-15.

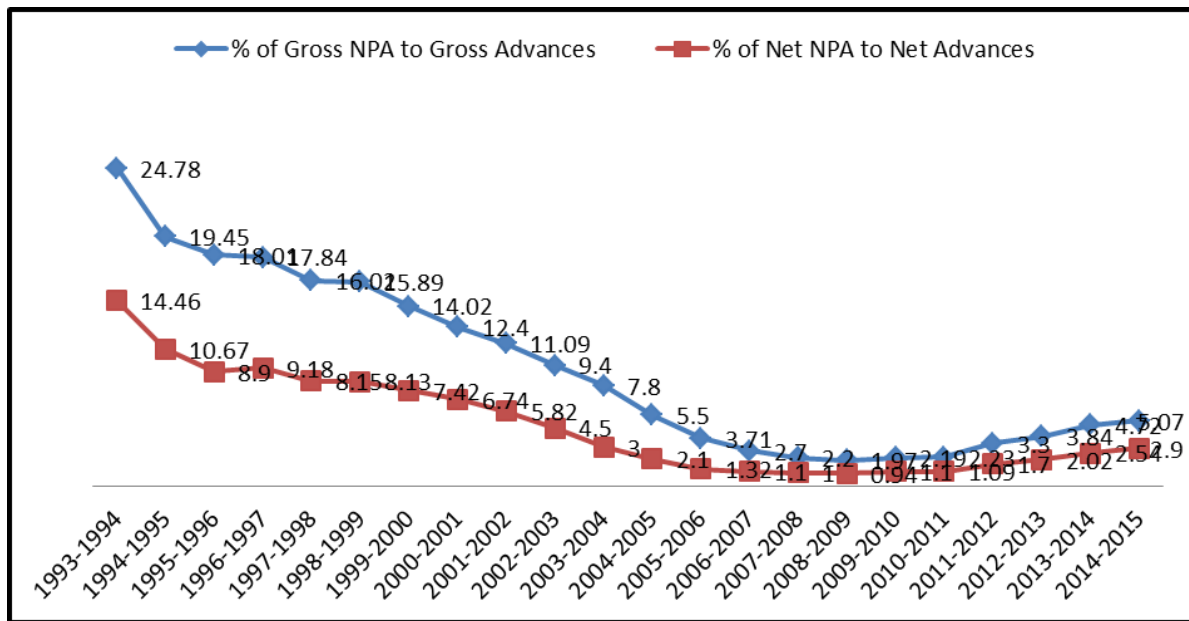


Fig.2: Gross and Net NPA (in Percentage)

Figure 3 reveals that the trends of annual growth rate of Gross NPA (GNPA) and Net NPA (NNPA) in percentages for the period of 22 years i.e. from 1993-94 till 2014-15. The x-axis represents the years whereas y-axis represents the percentage of annual growth rate of Gross NPA and Net

NPA. We can observe here that the growth rate of both Gross and Net NPA has been showing downward trend from 1998-99 to 2005-06 and an upward trend beginning from 2006-07 to 2012-13.

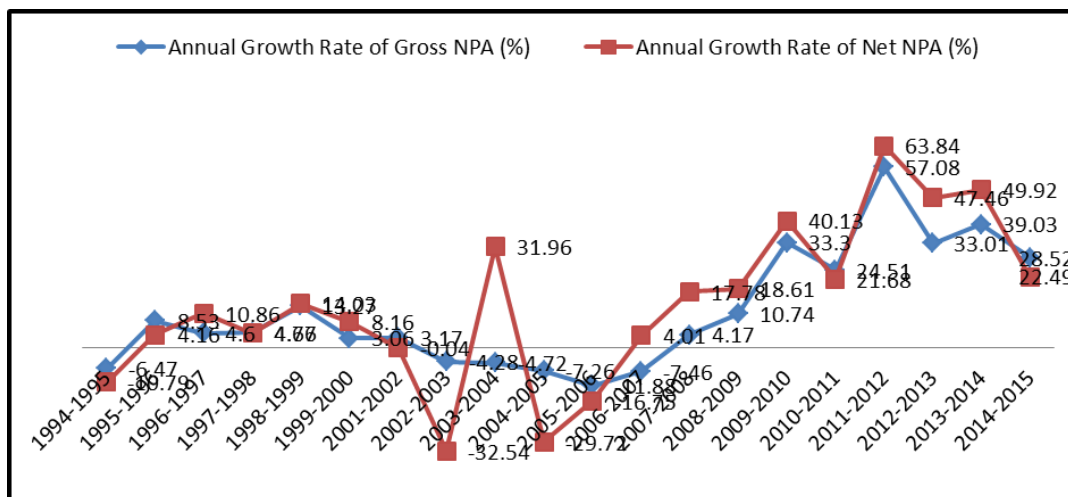


Fig.3: Annual Growth Rate of Gross NPA and Net NPA

### Causes of NPA

The banking sector has been facing the serious problems of the rising NPAs. Some of the main causes of NPA are Ineffective recovery, Willful defaults, Natural calamities Industrial sickness, lethargic Legal System, Unfavourable Business Cycle, Defective lending process, Inappropriate technology, Poor Quality Management, Managerial deficiencies and Absence of Monitoring and Follow up.

### Impact of NPA

NPA is a double edge weapon. On one hand, it does not generate income; on the other hand it requires making provisions for such NPAs from current profits of the bank. So NPA doesn't affect not only current profit but also future stream of profit, which may lead to loss of some long-term benefits. Further, the recovery process of NPAs involves wastage money and time of the employees and management. Apart from internal and external complications, increases in NPAs directly affect banks' profitability. The most notable impact of NPA is changing the banker's sentiments which may hinder credit expansion for productive purpose, which is not beneficial for the growth of economy.

### Conclusion

The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. The ratio of gross NPAs to gross advances in public sector banks has declined after reform period till 2008-2009 and then there are an increase has been seen from 2009-2010 to 2014-2015 and similarly the ratio of net NPA has also declined till the end of March 2009 except a few year, at the end of march 2010 and 2011 the ratio was almost same but it is increased as at the end of march 2012 it was 1.7% and it was about 2.9 % in last year. Instead of these improvement indicated by ratio the level of NPAs both Gross as well as Net NPAs are alarming to the public sector bank in India. Thus the public sector banks need to manage it more carefully in terms of their banking operations, credit appraisal and lending process. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The government should also make more provisions for faster settlement of

pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

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