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Impact of Non-Performing Assets on Bank Lending Behaviour: A case of Indian Banking Industry

Dr. Komal Raghav
Post-Doctoral Fellow (ICSSR, New Delhi),
SOS in Economics, Jiwaji University,
Gwalior, M.P.

ABSTRACT

Sound financial health of banks is the pillar for the development of a country's economy and the soundness of banks is measured through proper and adequate fund flow in banking system. But this thing can't be seen in Indian banking industry just because of rising Non-performing assets (NPAs). The problem of NPA has deteriorating the Indian banking financial system for years now. Still in 2018, we are not in a position to solving the large problem of non-performing asset (NPA). The rising NPAs have curtailed the lending capacity of state-owned banks as they have make extra provisions for bad loans. To strengthen the Indian banks, the government has approach with a Rs. 2.12 lakh crore large integer recapitalisation set up and Rs.80,000 crore for recapitalisation bonds in ending March, 2018.The aim of this study is to understand the impact of non-performing assets on lending behavior of banks during financial crisis, in order to know whether there is reduction in banks lending activity if there is increase in credit risk during the observed period. In present study, both primary and secondary data is used by researcher to find out the results. During study, it has observed that NPAs level is rising continuously in Indian banking industry and there is a negative impact of NPAs on bank lending behavior.

Keywords: *Indian banks, Non Performing Loans, NPAs.*

INTRODUCTION

NPA accounts are those accounts which do not yield any income or ceased to generate income for the bank. A loan becomes NPA when;

- Interest/installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains "out of order" in respect of an overdraft/ cash credit
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted
- In case of short duration crops if the installment/interest of loan remains overdue for two crop seasons and for one crop season in case of long duration crops

NPAs are classified into four categories which are as follows:

Standard Assets: A Standard asset is one with respect to which no default in repayment of principal or payment of interest is perceived, and which does not disclose any problems nor carry over traditional risk connected to the business. These assets do not require provisions.

Substandard Assets: that has remained NPA for a amount but or adequate twelve months.

Doubtful Assets – that has remained within the sub-standard class for a amount of twelve months (mainly up to three years).

Loss Assets – wherever loss has been known by the bank or internal or external auditors or the run review however the number has not been written off whole.

The non-performing assets can also be classified into two categories which are: Gross NPAs and Net NPAs.

Gross NPAs: These are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on balance sheet date. Gross NPAs reflect the quality of loans made by banks and consist all non-standard assets like sub-standard, doubtful and loss assets. It can be calculated by following:-

Gross NPAs Ratio=Gross NPAs/ Gross Advances

Net NPAs: Those NPAs in which the banks deduct the provisions regarding NPAs and which shows the actual burden of banks are known as Net NPAs. Net NPA is quite high and can be calculated by following:

Net NPAs=NPAs-Provisions/Gross Advances-Provisions

OBJECTIVES OF THE RESEARCH

1. To analyse the trend of NPAs in Scheduled Commercial banks from 2014-15 to 2016-2017.
2. To find out the impact of NPAs on bank lending behaviour.

DATA COLLECTION

The present study relies on Primary and Secondary knowledge.

1. The Primary Date wascollected from survey method

*Questionnaire

*Direct Interview

2. The Secondary Data was collected from the following sources

**Official publications of Banks, RBI, IBA

*Websites

***** Journals

***** Newspapers etc.

RESEARCH METHODOLOGY

The present study is descriptive and empirical in nature primarily supported survey technique. For this study, samples (bank employees) have been selected from various banks in Gwalior. The sample size was 100. Proposed study consists of a period of 2015-2017. Availability of data is very less in these banks, confidential data will not provide by the banking institutions. Data are collected from both primary and secondary basis. Primary data consists of Direct Interview and Questionnaire and secondary data consist of Annual Reports, Websites of Banks and Reserve Bank of India, Published and unpublished documents etc. For analysis of data, percentage method and graphical representation is used by the researcher.

NPAs IN INDIAN BANKING INDUSTRY

The problem of NPA has deteriorating the Indian banking financial system for years now. Still in 2018, we are not in a position to solving the large problem of non-performing asset (NPA).At last count, the total gross NPA in the Indian banking system totaled up to around Rs 9 lakh crore. The recent case against Rotomac for wilful default to the tune of Rs.3,695 crore has highlighted the situation of non-performing assets (NPAs) in Public Sector Banks (PSBs). State Bank of India, Punjab National Bank (PNB) which is mired in the Rs.11,400 crore NiravModi scam and IDBI Bank Limited top the list of bad loans given out by PSBs in terms of quantum of loan amount. According to data obtained from Question Hour in Parliament, State Bank of India had the highest gross value of non-performing assets (NPAs) at Rs.1.86 lakh crore, followed by PNB at Rs.57,630 crore as on September 30, 2017. The 21 PSBs together accounted for about 88% of the total gross NPA value for banks, while private banks accounted for the rest. The total amount of bad loans given by PSBs was about Rs.7.3 lakh crore. This is a whopping increase since March 2013, when the number stood at Rs.1.5 lakh crore.

Table - 1 represents the percentage of gross NPAs to gross Advances in scheduled commercial banks in India from 2014-15 to 2016-17. In 2014-15, the percentage of gross NPAs to gross advances was 4.27% which reached to 9.32% in 2016-17. It shows that the level of NPAs in Indian banking industry is rising from year to year. This rise in the level of NPAs is continuously deteriorating the financial health of Indian banks and also their lending capacity for future.

Table -1
NPAs IN SCHEDULED COMMERCIAL BANKS IN INDIA FROM 2014-15 TO 2016-17

Year	Gross NPAs to Gross Advances Ratio (%)
2014-15	4.27
2015-16	7.48
2016-17	9.32
	Source: www.dbie.org.in

Chart-1
Gross NPAs to Gross Advances Ratio (%)

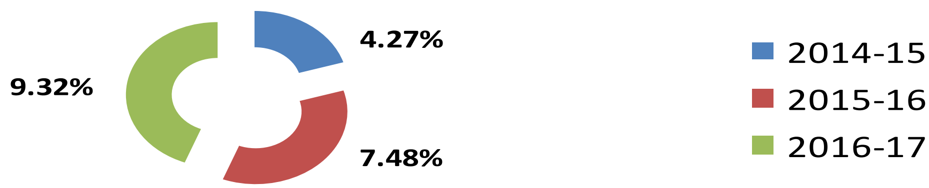

Table-2
Net NPAs IN INDIAN BANKING INDUSTRY FROM 2014-15 TO 2016-17

BANK NAME As on 31st March	2014-2015 Net NPAs (In Rs. Crore)	2015-2016 Net NPAs (In Rs. Crore)	2016-2017 Net NPAs (In Rs. Crore)
Public Sector Banks	**159,952.00**	**320,375.00**	**383,089.00**
Private Sector Banks	14,128.24	27,011.09	49,014.80
Foreign Banks	1755.85	2764.64	2088.73
			Source: www.iba.org.in

Table-2 represents the net NPAs in Public sector, Private sector and Foreign banks in India from 2014-15 to 2016-17. In 2014-15, the total net NPAs were Rs.159,952 crore in public sector banks, Rs. 14,128.24 crore in private sector banks and Rs. Rs.1755.85 crore in foreign banks which reached to Rs.383,089 crore, Rs.49,014 crore and Rs.2088.73 crore in public, private and foreign banks in 2016-17. The amount of net NPAs was raised higher in public sector banks as compared to private sector and foreign banks during the study period which can also be cleared from table-3 which highlights the percentage of net NPAs to net advances in public sector, private sector and foreign banks.

Table-3
PERCENTAGE OF NET NPAs TO NET ADVANCES IN INDIAN BANKING INDUSTRY FROM 2014-15 TO 2016-17

As on 31st March → BANK NAME ⇩	2014-2015 Net NPAs to Net Advances	2015-2016 Net NPAs to Net Advances	2016-2017 Net NPAs to Net Advances
Public Sector Banks	**2.92**	**5.75**	**6.89**
Private Sector Banks	0.89	1.39	2.21
Foreign Banks	0.54	0.76	0.71

Source: www.iba.org.in

In 2014-15, the percentage of net NPAs to net to net advances were 2.92% in public sector banks, 0.89% in private sector banks and 0.54% in foreign banks which reached to 6.89%, 2.21% and 0.71% in public sector, private sector and foreign banks in 2016-17. The majority of Non Performing Assets were in public sector banks (PSBs) in India.

There are some internal and external factors which are behind the rising NPAs in Indian banking industry. These are as follows as follows:

EXTERNAL FACTORS	INTERNAL FACTORS
Willful Defaulters	Unsecured Advances
Ineffective Recovery	Defective Lending Process
Directed Loans System	Hesitation in bank employees due to improper documentation
Industrial Sickness	Inappropriate Technology
Natural Calamities	Change in Customer Psychology towards Loan Repayment
Change of Government Policies	Fraud by Bank Employees
Political Influence	Lack of Proper Credit Monitoring

To analyse the impact of rising NPAs on bank's lending behaviour, survey method was used (questionnaire and direct interview of selected bank employees) by the researcher.

Table-4 is showing the percentage of no. of respondents for their responses on related question. From 100 respondents, 90% selected bank employees said that there is adverse impact of NPA on bank lending behaviour. With the increase in the level of NPAs, the financial health of banks is going down and it makes bank unable to lend for needy sectors from which 75% bank employees were agreed. Because the major part of loans and advances are given by banks to those borrowers which are not interested to repay the loan amount timely or they are willful defaulters or they diversified the funds in other projects.

Table-4
IMPACT OF RISING NPAs ON BANKS LENDING BEHAVIOUR

Particulars	1	2	3	4	5
Adverse impact on bank lending behaviour	High (7%)	Very High **(90%)**	Average (3%)	Low (0)	Very Low (0)
Recovery of NPAs increase after demonetisation	Very High (15%)	High (25%)	Average (10%)	Low **(45%)**	Very Low (5%)
Scarcity Of Funds For Needy Sectors	Agreed **(75%)**	Highly Agreed (10%)	Average (15%)	Disagreed (0)	Highly Disagreed(0)
Adverse Impact On Goodwill Of Banks	High (20%)	Very High **(70%)**	Average (9%)	Low (1%)	Very Low (0)

Source: Compiled by researcher on the basis of questionnaire and direct interview

The recovery of NPAs increase very high after demonetisation as per 25% bank employees due to deposition of money in banks, also in borrowers account from which banks were able to recover their loan amount while 45% respondents said that there is low recovery of NPAs after demonetisation. The reason behind this is loans and advances given by banks due to increase in deposits of banks during demonetisation. Due to which the level of NPAs rising in banks after demonetisation instead of going downward.

This increase in the level of NPAs in banks also adversely affects the good will of banks according to 70% of bank employees. Due to increase in NPAs, banks financial health, lending capacity and many other things affect which directly affect the good will of banks.

CONCLUSION AND SUGGESTIONS

The researcher found that there is rise in level of NPAs in Indian banking industry and there is a negative impact of NPAs on bank lending behavior. The rising NPAs have curtailed the lending capacity of banks. The rate of growth in NPAs is showing signs of slowing down, the overall problem is still far from any sort of quick resolution.There is need to take some effective steps by banks to solve this problem of rising NPAs like appropriate reporting system for NPAs should be used by bank. Loan recovery agencies should be implemented. Appointment of experts, Early Diagnosis of NPAs in banks, Vigilant Lending under Government Sponsored schemes, Adequate appraisal about credit worthiness of borrower, Need for New Provision for Unsecured loans, Effective Follow-Up of borrower, Proper Motivation of Employees for their involvement in loan recovery, Effective Legal Measures for Loan

Recovery, Availability of Trained Staff for loan recovery, Use of Appropriate Technology, Strict Action on loan default issues, Cautious selection of borrower, Valuable Securities and Identification of Willful Defaulters in banks etc. are some precautions which can be taken by banks during providing loans to borrowers.

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