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# SCENARIO OF NPA IN INDIA

**Dr. Mohit R. Raut**

Department of Economics

Tuljaram Chaturchand College of Arts, Science & Commerce, Baramati, Pune

Email: dr.mohitraut@gmail.com

## **Introduction:**

The banking business has boomed since independence particularly after the LPG reforms. The sector is currently valued at RS. 115 lakh crore and expected to more than double at RS. 288 lakh crore by 2020. Out of this 70 % of business is being done by public sector banks.

Looking at the enormous size of the banking industry, the NPAs are a big cause of concern. According to the RBI's financial stability report of Dec 2017, they currently stand at 10.2 % of all assets, while stressed assets, which are believed to be NPAs in effects, stand at 12.8 % related frauds amount to INR 612.6 billion in the last five financial years and governance failures on account of integrity and competence issues plague the banking system. The report has underlined serious concerns on several issues related to NPA's bank frauds and working of public sector banks.

### ➤ **What is NPA :**

"A Non-performing assets (NPA) refers to a classification for loans or advances that are in defaults or are in arrears on scheduled payments of principals or interest in most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days."

### ➤ **Classification of Assets :**

- 1) **Standard Assets:** These are assets which are regular in paying interest / installment & its operations are normal.

- 2) Substandard Assets: Assets which has remained NPA for a period less than or equal to 12 months.
- 3) Doubtful Assets: An Asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
- 4) Loss Assets: The provision is made by the banks to write-off these account at 100% as there is no chance of recovery & even if recovery is there. It is of a very little value.

➤ **Impacts of NPAS :**

- 1) This will lead to a crisis situation in the market.
- 2) The higher is the amount of NPA the weaker will be the bank's revenue stream.
- 3) As investment got stuck. It may result in it many result in employment.
- 4) Investors do not get rightful returns.
- 5) Lenders suffer lowering of profit margins.
- 6) Redirecting funds from the good projects to the bad ones.
- 7) Higher interest rates by the banks to maintain the profit margin.
- 8) Stress in banking sector causes less money a available to fund other projects, therefore negative impact on the larger national economy.

➤ **Recent NPAs issues in India :**

A break up of the NPAs shows that 21 public sector banks. Saw their bad loans pile grow by Rs. 1.19 lakh crore (15.4%) to Rs 8.97 lakh crore in the March 2018 quarterly, compared to Dec. 2017's figure. While that of 18 private banks surged by Rs. 19.446 crore (17.9%) to Rs. 1.28 lakh crore in the march 2018.

• **Internal Advisory Committee (IAC) :**

RBI had recently indentified 12 Accounts for insolvency proceedings with each of them having over Rs. 5000 crore of outstanding loans, Accounting for 25% of total NPAs of banks.

- **In Solvency & Bankruptcy code (IBC) :**

According to RBI, these 12 Accounts would quality for immediate reference under the IBC.

- **Stressed Assets :**

Stressed assets for public sector banks are 17% while for private banks, it is 7% & for foreign lenders it is 6%

### Asset – quality of public sector & private sector banks

| Sr. No | Parameters                       | Over all |       |       | Public Sector Banks |       |       | Private Sector Banks |      |      |
|--------|----------------------------------|----------|-------|-------|---------------------|-------|-------|----------------------|------|------|
|        |                                  | 2015     | 2016  | 2017  | 2015                | 2016  | 2017  | 2015                 | 2016 | 2017 |
|        | <b>As on March 31</b>            |          |       |       |                     |       |       |                      |      |      |
| 1      | Gross NPA / Net NPA              | 4.63     | 7.71  | 9.20  | 4.97                | 9.29  | 11.3  | 2.11                 | 2.79 | 4.19 |
| 2      | Net NPA / Net Advances           | 2.50     | 4.65  | 5.3   | 2.92                | 5.73  | 6.47  | 0.94                 | 1.35 | 2.19 |
| 3      | Stressed Assets / Gross Advances | 10.54    | 11.11 | 11.58 | 12.16               | 13.26 | 13.90 | 4.58                 | 4.39 | 5.24 |

**Source: CARE rating & Banks, June-Aug. 2017**

### Status of Bad loans in India

(Figure in crore)

| Sr. No. | Economic year | Bad loans |
|---------|---------------|-----------|
| 1       | 2013 -14      | 34,409    |

|   |           |         |
|---|-----------|---------|
| 2 | 2014 – 15 | 49,018  |
| 3 | 2015 – 16 | 57,585  |
| 4 | 2016 – 17 | 81,683  |
| 5 | 2017 – 18 | 1,20000 |

**Source: RBI report 2018**

➤ **Steps taken by RBI & Government to curb NPA :**

**1) Mission Indradhanush:**

Government has launched mission indradhanush to make the working of public sector bank more transparent & professional in order to curb the menace of NPA in future.

**2) Bankruptcy code:**

Government has also proposed to introduce Bankruptcy code. IBC is the bankruptcy law of India which seeks to consolidate the existing framework by creating a single law for insolvency & bankruptcy.

**3) Corporate Debt Restructuring (CDR):**

RBI introduced number of measures in last few years which include tightening the corporate debt Restructure (CDR) mechanism for empowering them to take majority control in defaulting companies under strategic debt Restructuring (SDR) Scheme.

**4) Promulgation of banking regulation (Amendment) ordinance 2017:**

It also gives advice to banking agencies on ways of tackling with its stressed assets problems.

**5) Sustainable structuring of stressed Assets:**

An independent agency hired by the banks will decide on how much of the stressed debt of a company is sustainable.

**6) Concept of Bad banks:**

In this concept the banking institutions sell their bad loans to an intermediary & thus they write-off their bad loans & intermediary has to recover the loan from defaulter.

### **7) Debt Recovery Acts:**

These laws established debt recovery tribunals with the power to recover debts of Banks & financial institutions.

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