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### Non-performing assets in Indian Banks: An analytical study of selected public sector banks

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#### Abstract

Indian monetary region has been defying such tremendous quantities of troublesome issues regarding the extending level of Non-Performing Assets. The objective of our examination is to find the part which has higher NPAs, causes and control measures for rising NPAs. NPAs conversely effect on the efficiency, liquidity and dissolvability of the banks. The NPAs development directly affects productivity of banks. It includes the need of arrangements, which diminishes the general benefits and investors' worth.

The issue of NPAs isn't just influencing the banks yet additionally the entire economy. Truth be told elevated level of NPAs in Indian banks is only an impression of the condition of soundness of the business and exchange. To improve the effectiveness and benefit, the NPAs must be booked. Different advances have been taken by governments to diminish the NPAs. It is exceptionally difficult to have zero rate NPAs. However, at any rate Indian banks can take a stab at contending with unfamiliar banks to keep up worldwide norm. An endeavour is made in this paper to understand the impact of NPA on Indian Banks. The factor adding to NPAs, explanation behind high NPAs and their effect on Indian financial activities, the pattern and greatness of NPAs in chose Indian banks.

**Keywords:** NPA, liquidity, economy, development, Indian banks

#### Introduction

Banking is considered as the presence blood of every country's economy. Any issue relating to the budgetary part will inimically impact the economy. Indian money related division has been defying such countless troublesome issues concerning the extending level of Non-Performing Assets. According to RBI, Non-Performing Asset shows an advantage of borrower, which has been assembled by cash related establishment as inadmissible, disaster or fantastical asset, concerning the principles relating to asset portrayal. Accepting store includes no danger, since the broker owes an obligation to reimburse the store, at whatever point it is requested. On other hand loaning consistently includes a lot of danger on the grounds that there is no sureness of reimbursement. Lately the banks have gotten extremely mindful in expanding advances, the explanation being mounting non-performing resources. Non-performing resources had been the single biggest reason for bothering of the financial part in India.

**Table 1:** Types of loans and its characters

Nature of Facility	Parameters
Term Loan	Interest and/or instalment of principal remain overdue beyond 90 days
Overdraft/Cash Credit	Remains 'out of order' as indicated above
Bill Purchased/discounted	Remains overdue beyond 90 days
Crop Loans (short duration crops)	Instalment of principal or interest thereon remains overdue for 2 crop seasons
Crop Loans (Long duration crops)	Instalment of principal or interest thereon remains overdue for 1 crop season
Securitization transactions	Amount of liquidity facility remains outstanding beyond 90 days
Derivative transactions	Overdue receivables representing positive mark-to-market value of a derivative contract which remains unpaid beyond 90 days from specified due date for payment
Securitisatation transaction	Liquidity facility remains outstanding for more than 90 days,

Source: <http://www.iibf.org.in/documents/IRAC.pdf>

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### Impact of NPA on financial system in India

The issue of NPAs in the Indian money related structure is one of the issues that had impact the entire monetary system. The extended NPA level is likely going to have disagreeable impact on the bank business similarly as benefit in this manner the financial specialists don't get a market return on their capital and a portion of the time it may break up their assessment of theories.

**Public Confidence:** Credibility of banking system is also impacted exceptionally in view of more raised level NPAs since it shakes the conviction of generally populace in the amplexness of the money related structure. The extended NPAs may introduce liquidity issues which is presumably going to lead continued running on bank by speculators.

**Profitability:** NPAs put badly arranged impact on the advantage as banks stop to win compensation on one hand and pull in higher provisioning appeared differently in relation to standard assets of course. On a typical, banks are giving around 25% to 30% additional plan on consistent NPAs which has direct bearing on the productivity of the banks.

**Resource shrinkage:** The extended NPAs put weight on reusing of benefits and decreases the limit of banks for advancing more and thusly achieves lesser premium compensation. It gets the money stock which may incite budgetary log jam.

**Obligation Management:** In the light of high NPAs, Banks will as a rule bring down the advance expenses on stores on one hand and subject to request higher financing costs on advances to help NIM. This may push toward turning out to be hindrance in smooth cash related intermediation technique and hampers bank's business similarly as financial turn of events.

**Capital Adequacy:** as indicated by Basel guidelines, banks are needed to keep up adequate capital on danger weighted assets on a consistent reason. Every development in NPA level adds to danger weighted assets which warrant the banks to help their capital base further. Capital has retail cost stretching out from 12% to 18% since it is an uncommon resource.

### Review of Literature

**Dutta. A (2014):** This paper considered the development of NPA in general society and private division banks in India, and investigated part astute non-performing resources of the business banks. With the end goal of the examination information has been gathered from optional sources; for example, report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance, RBI Economic Surveys of India.

Das, S. (2010): In this paper the creator has attempted to break down the boundaries which are really the reasons of NPAs, and those are, market disappointment, wilful defaults, poor development and management, non-participation from banks, poor Legal system, absence of innovative abilities, and preoccupation of assets.

Ahmad, Z., Jegadeeshwaran, M. (2013): The current paper is composed on the NPA, and reasons for NPA. Optional information was gathered for a time of five years and broke down by mean, CAGR, ANOVA and positioning banks. The banks were positioned according to their exhibition in dealing with the NPA's. The proficiency in dealing with the NPA by the nationalized banks was tried.

Ranjan, R., Dhal, S.C. (2013): This paper investigates an exact way to deal with the examination of the Indian business banks' nonperforming credits by relapse investigation. The experimental examination assesses concerning how the NPLs are affected by three significant arrangements of monetary and money related components, i.e., terms of credit, bank size prompted hazard inclinations and macroeconomic stuns.

Gopi and Paulraj (2015) referred to in their examination about the components that are adding to NPA are wrong credit helpless development organization methodology, business disillusionments, helpless recovery of receivables, mechanical plunge and adversarial exchange rates, etc if the right organization of the NPAs isn't tried it would hamper the productivity of the banks. The NPAs pound the current bit of leeway and intrigue pay and effect the smooth working of the reusing of the advantages.

Baskshi (1998) in his articles, "NPAs the board in banks" examined that there was a wellbeing code framework which order the benefits in 1998 yet the standard was not all that powerful. RBI acquainted prudential standards with direct NPAs which includes resource order, acknowledgment of pay and provisioning standard.

### Research Objectives

- To study the trend of NPAs of selected public sector banks
- To study the impact of NPA on Indian Bank.
- To analyse the financial performance of selected public sector banks

### Research Design

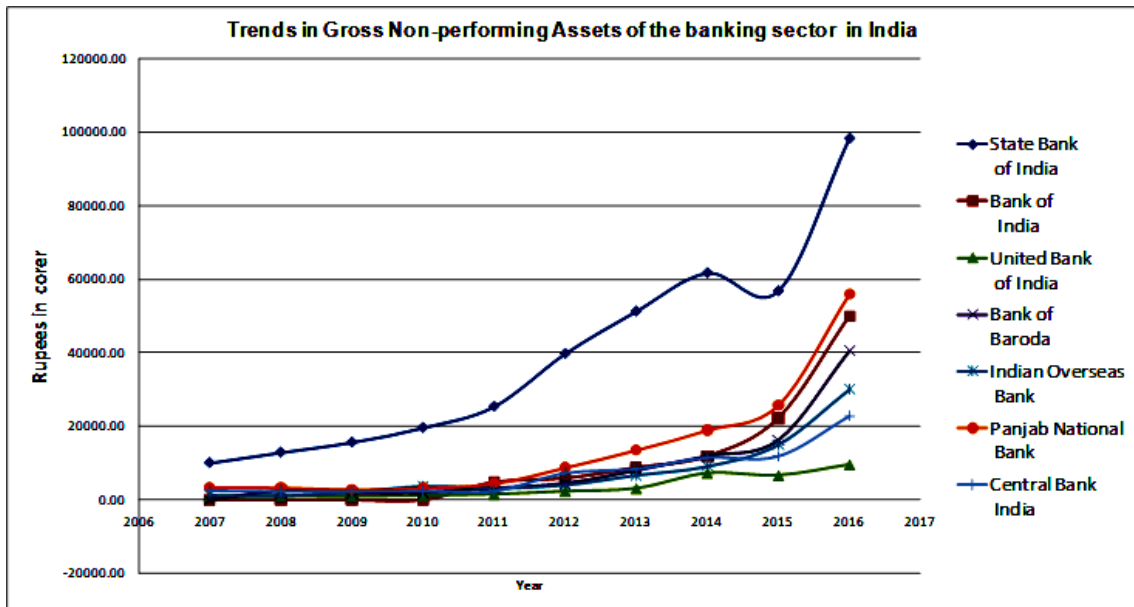
The study is analytical in nature and based on secondary data. This is specific investigation and the information for the investigation has been sourced from RBI releases, factual tables identifying with banks in India, report on existing and progress of banking in India, given by the RBI. The investigation likewise proposes multi-pronged and enhanced methodology for rapid recuperation of NPAs in business banks in India. The last examination is finished by Correlation and Regression utilizing MS Excel.

**Data Presentation**

**Table 2: Gross NPA of the 7 selected banks (in Rs. Cr)**

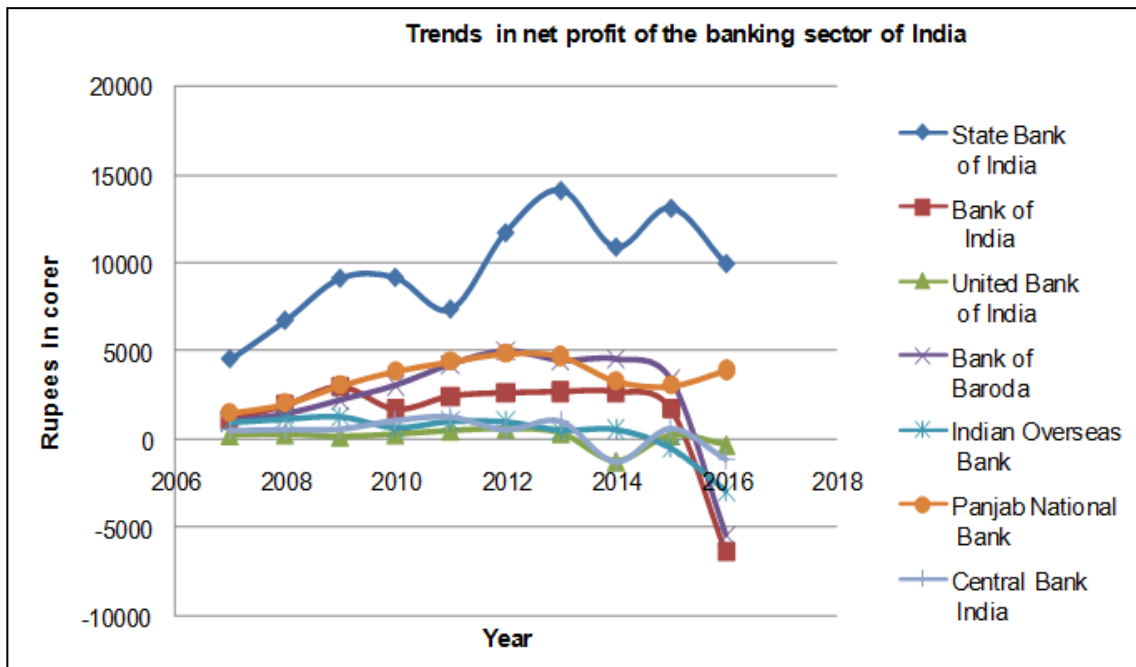
Year	State Bank of India	Bank of India	United Bank of India	Bank of Baroda	Indian Overseas Bank	Panjab National Bank	Central Bank India
2007	9998.00	0.00	744.30	0.00	1120.00	3390.72	2572.00
2008	12837.34	0.00	817.00	2400.69	997.00	3319.30	2350.00
2009	15588.6	0.00	761.00	1842.92	1923.40	2767.46	2316.50
2010	19534.89	0.00	1019.60	1981.38	3611.00	3214.41	2457.90
2011	25326.29	4811.55	1355.78	3152.50	3089.00	4379.39	2394.53
2012	39676.46	5893.97	2176.42	4464.75	3920.00	8719.62	7273.46
2013	51189.39	8765.25	2963.83	7982.58	6607.00	13465.79	8456.18
2014	61605.35	11868.80	7118.01	11875.90	9020.00	18880.06	11500.01
2015	56725.34	22193.24	6552.91	16261.45	14922.00	25694.86	11873.06
2016	98172.80	49879.12	9471.01	40521.04	30048.00	55818.33	22720.88

Source: Annual Reports of 7 selected banks for the period: 2007-2016



Source: Primary Data

**Fig 1: NPA Trends of the 7 banks selected for the study**



Source: Primary Data

Fig 2: Net profit Trends of the 7 banks selected for the study

Table 3: Correlation between NPA and Net Profit of the 7 bank selected for the study

Bank	Correlation
State Bank of India	0.591125611
Bank of India	-0.863792026
United Bank of India	-0.654074198
Bank of Baroda	-0.720973007
Indian Overseas Bank	-0.985503809
Panjab National Bank	0.194168193
Central Bank India	-0.73857971

Source: Primary data

**Findings**

The introduction of banking part depends upon how effectively you manage the non performing assets. Beside SBI and Punjab National Bank all of the banks are standing up to issues concerning NPAs. It doesn't show that the more NPAs the more advantages for SBI yet the greatest bank of India can get more advantages essentially due to its wide collection of budgetary organizations and feasible organization of NPAs. However, if NPAs continue along these lines, by then even colossal banks will similarly vacillate like Lehman Brothers in USA which achieved International monetary crisis.

Considering mess up in bank there is a positive association between Total Advances, Net Profits and NPA of bank which isn't extraordinary. NPA of the banks kept growing in all of the years yet an extraordinary raise was found in the year 2016. The rate raise of NPA of the banks in the year 2016 when stood out from 2015 were SBI – 73.07, BOI-124.75, UBI-44.53, BOB-149.18, IOB-101.37, PNB-117 and CBI-91.36.

Positive association among NPA and advantages are a direct

result of wrong determination of clients by Banks. There is an antagonistic effect on the Liquidity of Bank. Bank can't offer advances to the new customers in light of nonappearance of advantages which rises due to NPA as indicated by the lawmaking body, the standard clarifications behind rising in NPAs are tiredness in the private improvement in the continuous past, slow recovery in the overall economy and continuing with weakness in overall business sectors inciting lower tolls of various things, for instance, materials and calfskin.

**Conclusion**

The NPAs have consistently made a major issue for the banks in India. It is simply not issue for the banks but rather for the economy as well. The cash secured up NPAs directly affects gainfulness of the bank as Indian banks are profoundly subject to pay from enthusiasm on reserves loan specialist. This investigation shows that degree of NPA is similarly high in open segment banks when contrasted with private banks.

Demanding measures are ought to have been taken up to

fight these NPAs crises. It is significantly hard to have zero rate NPAs. So the issue of NPA needs lots of certified undertakings for the most part, NPAs will keep butchering the advantage of banks which isn't helpful for the creating Indian economy in any way shape or form.

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