
A STUDY OF NON-PERFORMING ASSET OF BANKS IN INDIA IN RELATION WITH INDIAN CORPORATE SECTOR

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ABSTRACT:

India ranks fifth across countries in the world in non-performing assets of banking industry. This severe crisis has been affecting the profitability of all banks but mostly public sector banks. The efforts have been undertaken by government in collaboration with RBI to curb NPAs across banks but these efforts are not giving expected results. Non-performing assets are also affecting the credit lending process of banks as profits have been dried up. It seems that the problem is not limited to only banks but posing a dangerous threat to overall economy. The stress across various sectors in Indian economy is very alarming. This paper tries to understand Non-performing assets, the current status, effect on banks, reasons behind high NPAs and relation with industrial sector in India.

Keywords: *Non-performing assets, NPA, Scheduled commercial bank, Indian Corporate sector*

INTRODUCTION

A proper financial sector is of special importance for the economic growth of developing and underdeveloped countries. The commercial banking sector which forms one of the backbones of the financial sector should be well organized and efficient for the growth dynamics of a growing economy.

In India, as in many developing countries, the commercial banking sector has been the dominant element in the country's financial system. The sector has performed the key functions of providing liquidity and payment services to the real sector and has accounted for the bulk of the financial intermediation process. Besides institutionalizing savings, the banking sector has contributed to the process of economic development by serving as a major source of credit to households, government, and business and to weaker sectors of the economy like village and small-scale industries and agriculture. Over the years, over 30-40% of gross household savings has been in the form of bank deposits and around 60% of the assets of all financial institutions accounted for by commercial banks. A large number of reform measures have been undertaken within the framework of the new Economic policy 1991. GDP growth rate for last 10 years (2007-2017) is around 7-8% (avg.)

The Indian banking system consists of 27 public sector banks, 26 private sector banks, 46 foreign banks, 56 regional rural banks, 1,574 urban cooperative banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control more than 70 per cent of the banking system assets, thereby leaving a comparatively smaller share for its private peers (www.ibef.org)

Banking industry in India is currently facing NPA crisis. Non-Performing assets (NPA) also known as Non-Productive Assets are integral part of bank's operations. In simplified terms, bank deposits money and then lend part of it. It earns interest on the money lent. It is expected that borrower will pay interest also the capital at its maturity. But when borrower gets defaulted, bank loses both: income and capital. It also adversely affects credit-dispensation process. In addition to this, banks need to create provisions for NPAs which reduces their profitability in the end.

Persistently high levels of NPAs may make banks fragile which can result in collapse of bank. This will have disastrous effect on economy. Thus, it becomes important for banks to keep NPA level as low as possible.

Loans and Advances are classified as performing and nonperforming, based on the guidelines/ directives issued by the RBI. Loan Assets become Non-Performing Assets (NPAs) where: i. In respect of term loans, interest and/ or installment of principal remains overdue for a period of more than 90 days; ii. In respect of Overdraft or Cash Credit advances, the account remains "out of order", i.e. if the outstanding balance exceeds the sanctioned limit/ drawing power continuously for a period of 90 days, or if there are no credits continuously for 90 days as on the date of balance sheet, or if the credits are not adequate to cover the interest debited during the same period; iii. In respect of bills purchased/ discounted, the bill remains overdue for a period of more than 90 days; iv. In respect of agricultural advances: (a) for short duration crops, where the installment of principal or interest remains overdue for two crop seasons; and (b) for long duration crops, where the principal or interest remains overdue for one crop season.

Currently, India with NPA of 9.85 (Dec, 2017) is 5th highest NPA level in the world. Few experts assume it to be around 15-16% considering restructured loans etc. This paper studies the reasons behind high NPA level in Indian banking industry with relation to real economy.

Review of literature:

Many articles, speeches, research papers etc. have been published on the said topic during last many years. Rajeshwari Sengupta and Harsh Vardhan (2017) in their study on Non Performing assets: This time it is different has stated that the NPA problem started assuming serious proportions roughly from 2013 onward. They have also mentioned that banks need to tighten their credit dispensation mechanism. Mr. Raghuram Rajan, former RBI governor, in his speech on Resolving stress in the banking system has stressed that cleaning up bank balance sheets and the restoration of credit growth are important for economy. He has also pointed the role of willful defaulters in his speech. CARE ratings in NPAs in Banks – June 2017 published in August, 2017 has mentioned that the performance of banks regarding NPAs are not positive. It has also highlighted the large share of public sector banks in total NPAs. Rakesh Mohan and Partha Ray (Jan 2017) in their study on Indian Financial Sector: Structure, trends and turns (IMF working paper) has said that the infrastructure and steel sectors are major cause of stress in banking sector. They have also mentioned that there could be departure from standard lending process and due diligence. The parliamentary standing committee on Finance in their report Non-Performing assets of

Financial Institutions (2016) has said that willful defaulters constituted 21% of total NPAs. Credit Suisse in their report House of Debt (Oct 2015) has said that major industrial groups in India are facing debt crisis and the recovery of loan from them seems to be bleak. Credit Suisse in India Corporate Health tracker (Feb 2016) estimated that Indian banks need Rs. 860 billion over the period of next 12 years. They have also raised concerns over the recovery of debt from major sectors as well as highlighted the point that banks are under a great stress.

Research and time gap in literature:

There is a large amount of research is done on the said topic but most of research papers lack the important cause of higher NPAs.

Objectives of the Study:

1. To study the status of Non-performing assets in Indian commercial banks
2. To study the causes of NPAs in banks.
3. To know debt of Indian corporate sector and its impact on banks NPAs.

Limitations of the Study:

1. There is time-gap between Indian corporate sector debt and banks NPAs. Banks NPAs have been considered till March 2017.
2. The report has been prepared without foreseeing the future developments.

Scope of the study:

1. The study could help banks to identify real reasons behind their NPAs.
2. This should help companies to identify the stress in their sector and make strategies according to it.
3. The study will help to take measures to control NPAs.

Sources of data:

The data collected is mainly secondary in nature. Most of the data has been collected from Reserve bank of India, Credit Suisse report, Indian banking report, various magazines and books dealing with current bank scenario.

Analysis of Data

Table 1: Gross Advances and gross NPAs of Scheduled commercial bank (in Rs. Million)

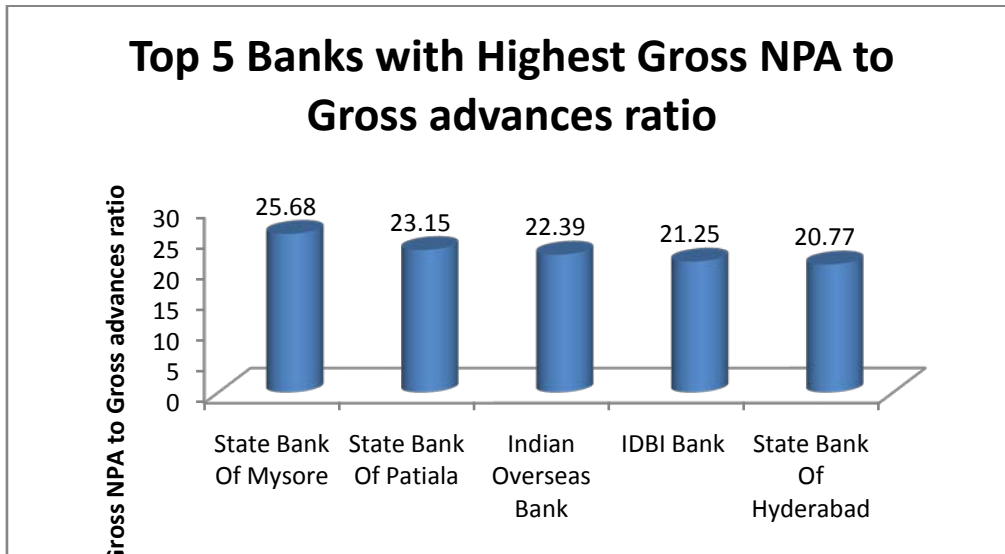
As on March 2017						
Year	Banks	Gross NPAs	Yearly increase (%)	Gross Advances	Yearly increase (%)	Gross NPAs to Gross Advances Ratio (%)
2017	STATE BANK OF INDIA & ITS ASSOCIATES	1778106	45.78	19519311	2.15	9.11

	NATIONALISED BANKS	5069217	21.28	39144423	0.08	12.95
	PRIVATE SECTOR BANKS	919146	64.56	22667207	14.91	4.05
2017	ALL SCHEDULED COMMERCIAL BANKS(includes foreign banks also)	7902680	29.21	84767053	3.74	9.32
2016	STATE BANK OF INDIA & ITS ASSOCIATES	1219686	65.92	19107755	11.15	6.38
	NATIONALISED BANKS	4179878	103.94	39111756	0.35	10.69
	PRIVATE SECTOR BANKS	558531	65.78	19726588	22.73	2.83
2016	ALL SCHEDULED COMMERCIAL BANKS	6116074	89.40	81711142	8.07	7.48
2015	STATE BANK OF INDIA & ITS ASSOCIATES	735084	-7.90	17191685	6.86	4.28
	NATIONALISED BANKS	2049595	39.01	38975490	8.05	5.26
	PRIVATE SECTOR BANKS	336904	39.31	16073394	18.16	2.10
2015	ALL SCHEDULED COMMERCIAL BANKS	3229161	22.77	75606658	9.96	4.27
2014	STATE BANK OF INDIA & ITS ASSOCIATES	798165	27.14	16087376	13.38	4.96
	NATIONALISED BANKS	1474474	45.01	36071821	14.83	4.09
	PRIVATE SECTOR BANKS	241835	18.65	13602528	18.15	1.78
2014	ALL SCHEDULED COMMERCIAL BANKS	2630152	36.44	68757479	15.14	3.83
2013	STATE BANK OF INDIA & ITS ASSOCIATES	627785	-	14188827	-	4.42
	NATIONALISED BANKS	1016831	-	31412859	-	3.24
	PRIVATE SECTOR BANKS	203817	-	11512463	-	1.77
2013	ALL SCHEDULED COMMERCIAL BANKS	1927688	-	59718199	-	3.23

Source: dbie.rbi.org.in

Gross NPAs of all scheduled commercial bank has increased by 300% in last 4 years (2013-17) with only 41% increase in gross advances over the same period. 86% of total NPAs are with public sector banks. Nationalized banks (excluding State bank and its associates) alone bear 64% of gross NPAs.

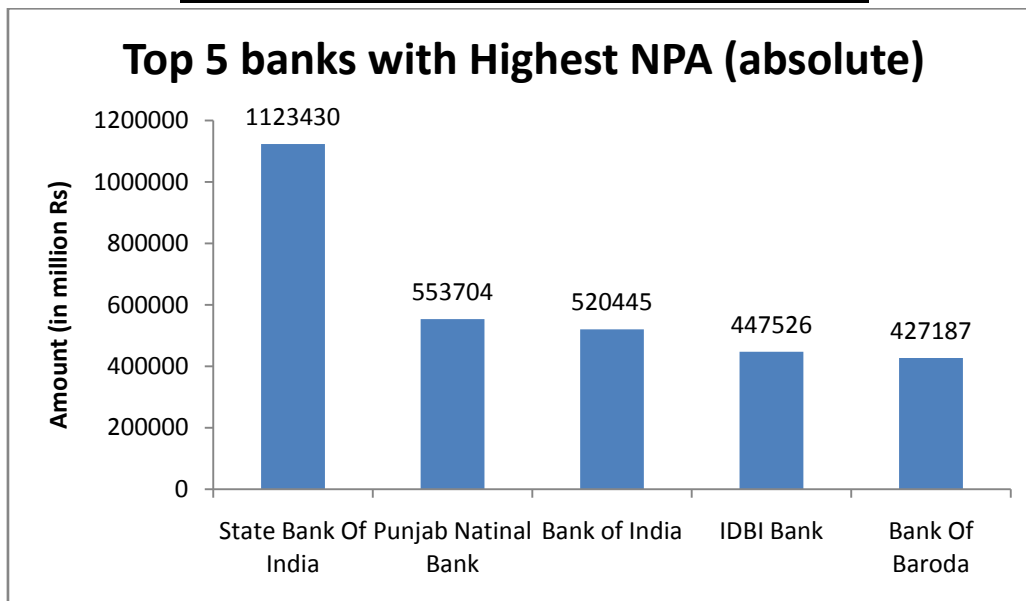
Table 2: Top 5 banks with Highest Gross NPA to gross advances ratio



Source: dbie.rbi.org.in

The top 5 banks with highest Gross NPA to Gross advances ratio are: State bank of Mysore, State bank of Patiala, Indian overseas bank, IDBI bank, State bank of Hyderabad. State bank of Mysore has highest 25.68%. All are public sector banks.

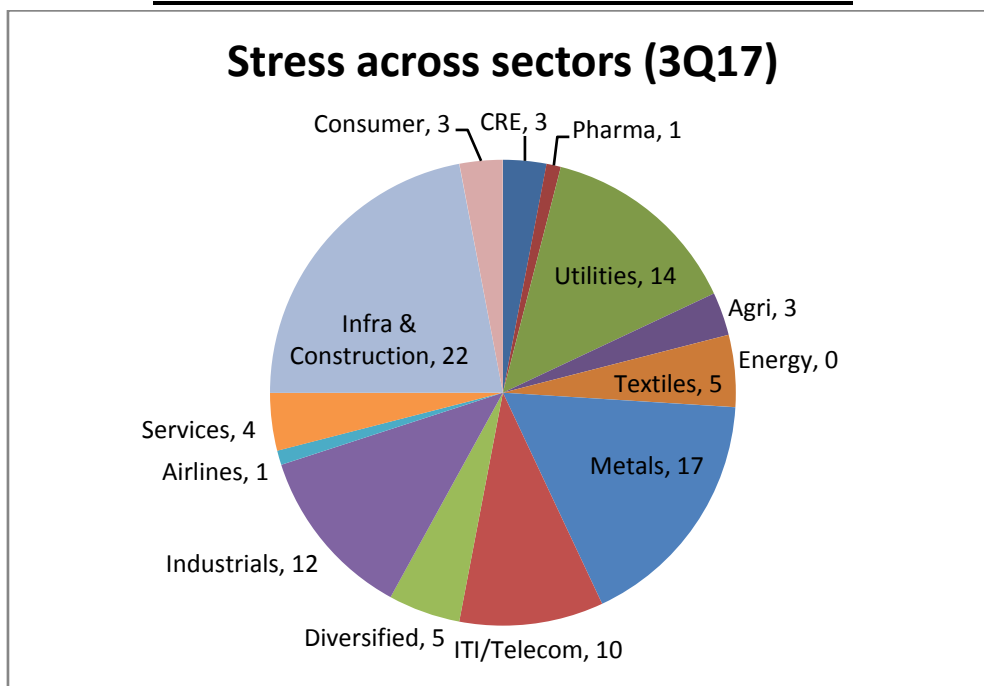
Table 3: Top 5 banks with Highest NPA (absolute)



Source: dbie.rbi.org.in

In absolute terms, State bank of India has highest NPA with 1123430 million Rs. (1, 12,343 cr.) which is almost double of Punjab National Bank. All top five banks are from Public sector.

Table 4: NPA Stress across Indian industrial sector



Source: Credit Suisse report: India corporate health tracker (Feb 2017)

Infra and Construction sector contributes 22% of total NPA while Metals, Industrials, Utilities and IT/Telecom sector follows it.

Other related data:

The IAC noted that under the recommended criterion, 12 accounts totaling about 25 per cent of the current gross NPAs of the banking system would qualify for immediate reference under IBC. (RBI Press release, June 13, 2017)

The 12 accounts are led by SBI (six of them), PNB, ICICI Bank, Union Bank, IDBI Bank and Corporation Bank, according to bankers. These accounts have an exposure of more than Rs 5,000 crore each, with 60% or more classified as bad loans by banks as of March 2016.

The first set of six troubled accounts are Bhushan Steel (Rs44, 478 crore), Essar Steel (Rs37, 284 crore), Bhusan Power and Steel (Rs37, 248 crore), Alok Industries (Rs22, 075 crore), Amtek Auto (Rs14, 074 crore) and Monnet Ispat (Rs 12,115 crore), a banker said.

According to RBI, these 12 accounts owe Rs 2.5 trillion (Rs 2.5 lakh crore) to the system, which constitute around 25% of gross bad loans.

The other accounts named for bankruptcy action, according to bankers, include Lanco Infra (Rs44, 364.6 cr), Electrosteel Steels (Rs10, 273.6 crore), Era Infra (Rs10, 065.4 crore), Jypae Infratech (Rs9, 635 crore), ABG Shipyard (Rs6, 953 crore) and Jyoti Structures (Rs5, 165 crore).

	Company Name	Amount (mn Rs.)
NPA	Bhushan Steel Ltd.	448858
	Alok Industries Ltd	229192
	Electrosteel Ltd	113040
	IVRC Ltd	108626

	Era Infra Engg. Ltd.	65091
	Sterling Biotech ltd	79197
	Moser Baer India ltd.	61962

	Company Name	Amount (mn Rs.)
Restructured accounts	Lanco Infratech Ltd.	454352
	Hindustan Construction ltd.	114466
	Jindal Stainless ltd.	102916
	Bajaj Hindustan Sugar ltd.	70766
	S E L Manufacturing Co. Ltd.	59191

Source: Credit Suisse report: India corporate health tracker (Feb 2017)

Findings:

- Gross NPAs of all scheduled commercial banks in March 2017 is 7.9 lakh cr while it was 1.9 lakh cr in March 2013.
- Gross NPA to advances ratio increased from 3.23% in March 2013 to 9.32% in March 2017.
- State bank of Mysore has highest 25.68% gross NPA to advances ratio
- In absolute terms, State bank of India has around 1.12 lakh crore NPA as on March 2017 while it is 55,370 cr in Punjab National Bank.
- Infra and construction sector contributes 22% of total NPA in banking industry. Metals and Industrials sector come second and third respectively.
- Most of NPAs are being borne by large accounts and industrial sector.
- Bhushan Steel is having NPA of 44,858 crore while Alok industries owes 22,919 crore.
- 12 accounts are having around 25% of total gross NPAs of banking industry.

Recommendations:

- The strict monitoring and risk analysis of banking industry should be done periodically by RBI
- The banks should develop strict credit disposal system to small as well as large lenders.
- If the lender is willful defaulter, the policy of disclosing names should be carried out and penalties can be increased.
- Quick and effective investigation mechanism should be put to keep check on fraudsters.
- The loan approval system should be immediately revamped to keep check on bankers.
- The government should improve the governance of public banks which should help in loan evaluation, monitoring and repayment.
- The infusion of capital into banking industry becomes necessary for the survival of banks.

Conclusion:

The banks always face some part of their advances as non-performing assets and make provisions for that in their balance sheet. The Indian banks have been consistently facing NPAs over the period of last several years. It does not only affect the profitability but also may force bank into the dangerous crisis. The current state of banking industry is very severe as NPA crisis is larger than never before. This study highlights that Non-performing assets of the banking industry is comparatively very high and most of public sector banks are in critical condition. It has been understood that NPA crisis has been mostly caused by industrial sector in India. Stress across various sectors in Indian economy is giving alarming signs. The overall slow growth rate of these Indian companies and sectors poses a problem to the recovery of NPA. Though the efforts have been taken by government to curb NPAs in banks, also the process of recovery is very slow. So, the crisis of NPA needs to be dealt with very urgently and systematic efforts are need to be taken otherwise it will not only hard hit banks but also overall Indian economy.

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