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Analysis of gross and net non-performing assets of scheduled commercial banks in India

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Abstract
Banking Sector is the powerhouse of the economy, a strong and growing economy thereby implies that the banking sector must be working well and acting as a catalyst for economic growth. Banks provide credit, which is further invested in profitable projects and the development of the country. But when money moves out of the financial system and cycle of lending-repaying and borrowing gets impacted. Banks have a responsibility to pay back their depositors and other lenders. In the absence of loan repayment, banks are forced to take out new loans in order to pay back depositors and creditors. This results in a situation where banks are hesitant to lend more money to ongoing or new projects. The economy suffers when credit to diverse areas of the economy slows down. Additionally, NPAs force credit risk management to take precedence over other parts of a bank's operation. A bank with a high NPA ratio would be required to pay carrying costs on non-income producing assets. I this paper an attempt is made to analyze bank group wise the gross and net non-performing assets of scheduled commercial banks in India.

Keywords: Gross, net, foreign, public, private

Introduction

The banking sector plays a crucial role in the development of any country. Banks for generating credit follow the concept of maturity transformation, i.e., using short-term deposits from savers and turning them into long-term borrowings. Considering all borrowers pay back on a timely basis, the banks are able to generate credit, stimulate the money flow within the country, and thereby contribute to the economic development of the country by acting as the strong backbone of the economy. But this doesn't happen in reality, borrowers default when it comes to repaying their debt, hence leading to hindrances in credit creation and development of the nation. Non-Performing Assets (NPA) continue to be a prominent buzzword since the last decade. When a borrower deliberately defaults on a loan payment (either on interest and capital repayment) or is unable to make loan repayments because of adverse business economic conditions, non-performing assets occur. RBI defined NPAs as credit in respect of which interest and/ or installment of principal has remained 'past due' for a specific period of time.

The severity of the incidence of non-performing assets (NPA henceforth) in Indian public sector banks (PSBs henceforth), noted in the early 1990s, raised a severe hue and cry in various quarters. In fact, the problem started much earlier, which became evident from continued recapitalisation of many PSBs since 1985-86. Whatever be the root cause, malfunctioning of the PSBs increased by the end of the 1980s. This led to the setting up of the Narasimham Committee (1991), which, in fact, identified NPA as one of the possible causes/effects of the malfunctioning of the PSBs. In order to quantify the NPA problem, Narasimham Committee (1991) made it mandatory on the part of the banks to publish annually the magnitude of NPAs. NPAs are those categories of assets (advances, bills discounted, overdraft, cash credits etc.) for which any amount remains due for a period of 180 days. Following the recommendations, banks started publishing in their annual reports NPA data, which were astonishingly high. RBI (1999) report on NPA stated that reduction in NPA should be treated as a 'national priority'. In the Task Force report on non-performing assets in the Indian financial system, it is argued that three NPA ridden banks (UCO bank, United Bank of India and Indian Bank) are open sores threatening the health of the entire financial system. The report went to the extent of stating that these banks were not viable candidates either for privatization or for merger, and thus they should be closed down. The Verma Committee (1999), on the other hand, felt that these three banks could be revived if they submit themselves to the discipline of a rigorous restructuring, underpinned with adequate infusion of funds and simultaneous relief from the load of NPA and excess manpower. The difference in the respective recommendations has provoked protests of varying orders of frenzy, from the unionized employees. The unions have argued that the banks have been the victims of the willful default by large corporate borrowers.

One of the major segments of the economy that has received renewed focus in recent times has been the financial sector. Within the broad ambit of the financial sector, the banking sector has been the cynosure of academic and policy makers alike. Among the various reasons attributable to be re-surgence of interest in banking, the world-wide trend towards deregulation of financial sector, ascendancy of free market philosophy and the growing number, breadth and severity of bouts of financial distress that have plagued several economics since the eighties have been the dominant ones. Such liberalization has raised a gamut of questions relating to the linkage between deregulation and the various categories of risks confronting the banking sector. With concerns about financial stability emerging and presenting of policy challenges to central banks world-wide, it is being increasingly realized that promoting healthy financial institutions, especially banks, is a crucial prerequisite towards this end. In consonance with this trend, the traditional face of banking has also been undergoing a change from one of mere intermediator to one of provider of quick, cost effective, efficient and consumer centric services.

One of the key constituents of the financial sector in India is the banking system, which has been playing a significant role in the national economic development by providing intermediation services, enabling capital formation process and enhancing resources for achieving national objectives and priorities. Since the early 1990s, the structure of the banking sector has significantly changed due to deregulation and liberalization, accompanied by divestment of public banks and entry of new private and foreign banks. These developments are expected to have important implications for operating performance and profitability in the Indian public sector banks and private sector of reform measures based on the recommendation of the Narasimhan committee to make the banking sector economically viable and competitively strong.

Banks are the institutions that not only possess the potential to be a great catalyst of growth but also have the capability of causing catastrophe to an economy. When they efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth. Their role in the intermediation process is very significant because of overwhelming control over the entire financial assets of the economy and more because of the under development of capital market in most of the developing economies like India and many others. They are the primary financial intermediaries that arise during savings-investment process and come in between the ultimate borrowers and lenders. They accept deposits on promise to pay a rate of interest, which is then converted to different categories of assets out of which loan is the most prominent one.

Review of Literature

Rajveer Rawlin (2012) [1] attempted to develop a predictive model for the NPA% at both the gross and net level from the advances made at a midsized Indian national bank. A strong correlation was observed between gross and net NPA% and the advances made suggesting that estimates of gross and net NPA can be made from advances. Linear and non-linear models were fit to predict the NPA% from the amounts advanced. A non-linear model linking both Gross and net NPA to advances provided the best curve fit and the least deviation from actual values. Thus by simply looking at advances an overall picture of the banks NPA level can be ascertained.

As per Rekha Gupta and Nitin S. Sikarwar (2013) [2] the Government and the banks have been initiated a number of strategies in the past and are being initiated at present to bring down the level of NPAs. In view of the vital role of nonperforming assets on the profitability, Punjab National Bank and HDFC Bank have been selected for the purpose of present research because both are the giant banks in public and private sector, so a comparative study is made. The author make an analytical study in respect of Non-Performing Assets and their recovery management, so that it may be useful at all banking levels regarding the efficient utilization of resources which may lead to better working of the banking sector.

Joice John *et al*. (2016) [6] in their paper assesses the impact of asset quality of banks in India on monetary transmission. The study finds that credit risk, proxied separately by the gross non-performing assets (NPA) ratio and the stressed assets ratio (NPA plus restructured assets), had a statistically significant and positive impact on the NIM of scheduled commercial banks, suggesting that deterioration in asset quality impeded monetary transmission. The analysis of two sub-periods suggests that monetary transmission was impaired through the interest rate channel when the gross NPA ratio was at a relatively low level but rising. At a high level of gross NPA ratio, NIMs came under pressure as banks were not able to sufficiently increase their spreads in a competitive market to compensate for credit risk. However, banks became risk averse and reduced their loan exposures, which impacted monetary transmission through the lending channel. This was further corroborated by the results of bank group-wise analysis. Overall, it emerges that the deterioration in asset quality has impaired monetary transmission in India.

Ravi Kumar B., *et al.* (2018) [7] in their paper discusses the causes for increase of NPAs and they are ranked with the help of Garrett Ranking Technique. Therefore banks need to effectively control their NPAs in order to increase their profitability and efficiency. According to author NPAs are draining the capital of the banks and weakening their financial strength. It is also as much a political and a financial issue. Nonperforming assets have always been a problem for the Indian banking sector as it is having a direct impact on the profitability of the banks. The failure of the banking sector may have an adverse impact on other sectors. Thus, there is a need to ensure that the banks take proper steps to resolve it, thereby ensuring fair and efficient recovery of loans so that banking sector continue to function without stress. The banks and financial institutions should be more proactive to adopt a pragmatic and structured Non Performing Assets management policy where prevention of non-performance assets receives priority.

Sharma R.S.N., (2019) [8] in his research paper made an attempt to make study on Non-Performing assets of banks in various sectors in India by using percentages, Indexed values. The study is completely based on secondary data collected from handbook of statistics of Reserve Bank of India.

Shaik Yasmin Naaz (2021) [3] in his study makes an effort to comprehend the reasons for an asset to become a non-performing asset (NPA) and various corrective steps that can be taken to reduce the amount of NPA in banks. The author analysed the effect of nonperforming assets (NPAs) on the profitability of public sector banks (PSUs). According to the author the rising number of non-performing assets (NPAs) puts a strain on fund recycling and limits banks' ability to lend further, resulting in lower interest income. NPAs must be reduced and regulated in order for banks to improve their performance and profitability. The author further attempts to determine the relationship between NPAs and bank's profitability, taking into account major public sector banks that are dealing with the mounting NPAs. With the aid of the RBI, banks are now taking proactive steps to manage non-performing assets. The author concludes that in order to boost bank profitability, the level of NPA must fall, and banks must take various steps to achieve this.

Santosh Kumar Das and Khushboo Uppal (2021) [4] in their research paper has examined the NPAs and profitability relationship by estimating the determinants of profitability of 39 public sector and private banks for the time period from 2005 to 2019. Using a set of bank specific and macroeconomic predictors of profitability, the authors found that NPA has negative impact on the rate of profit of the Indian banks. The study suggests that the banks must reduce their NPAs and operating cost to improve their profitability.

Mukul, *et al*., (2022) [5] in their paper explores the present status and management of NPA/NPL in advanced and emerging economies. In line with the international level in different nations of NPA/NPL's the performance of the Indian banking system was evaluated. The study is based on the yearly time series data from 2011 to 2018 from 21 diverse nations, eleven are developed, and ten are developing. For picking the countries to compare and discover the measures to lower down the NPL, Malaysia, the US and Canada are chosen based on average performance and Compound Annual Growth Rate (CAGR). The authors found that India's performance in NPA of the Banks has been very critical, which creates an urge for other financial sector reforms. Originality/Value- Data is has been mainly collected from the official websites of the Central Banks of various nations, thus it covers a wide countries group.

Table 1: Gross and Net NPAs of scheduled commercial banks

Year (end-March)	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
	Gross	Net	Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
2010-11	4357548	4298704	97973	2.2	1.4	41799	1.0	0.6
2011-12	5158878	5073559	142903	2.8	1.7	65205	1.3	0.8
2012-13	5988277	5879773	194053	3.2	2.0	98693	1.7	1.0
2013-14	6875748	6735213	263362	3.8	2.4	142421	2.1	1.3
2014-15	7559760	7388160	323335	4.3	2.7	175841	2.4	1.5
2015-16	8173121	7896467	611947	7.5	4.7	349814	4.4	2.7
2016-17	8492565	8116109	791791	9.3	5.6	433121	5.3	3.1
2017-18	9266210	8745997	1039679	11.2	6.8	520838	6.0	3.4
2018-19	10294463	9676183	936474	9.1	5.6	355068	3.7	2.1
2019-20	10918918	10301914	899803	8.2	5.0	289531	2.8	1.6

Notes:
1. Data for 2019-20 are provisional.
2. *: For Private Sector Banks, data from 2008-09 till 2012-13 pertain to only new private sector banks. From 2013-14 onwards data pertains to all Private Sector Banks i.e. inclusive of both old and new private sector banks.
3. Data on Small Finance Banks pertain to 7 entities in 2018-19 and 10 entities in 2019-20.

Source: Reserve Bank of India.

It can be noted from table 1 that the gross as well as net non-performing assets amount of scheduled commercial banks in India is gradually showing upward trends during the ten years of study period. The gross NPAs of scheduled commercial banks increased more than 9 times during 10 years period. While, the net NPAs amount of scheduled commercial banks is enhanced nearly 7% during the same period. The share of gross NPAs to the gross advances is highest i.e. 11.2% in 2017-18 and it is lowest (2.2%) in 2010-11. The gross NPAs share to the total assets of scheduled commercial banks is not evenly distributed. As in the case of gross NPAs share to the total advances, the share of gross NPAs to the total assets is high and low in 2017-18 and 2010-11 respectively. The share of net NPAs to total advances of scheduled commercial banks varies between 1% (2010-11) to 6.8% (2017-18). The share of net NPAs of scheduled commercial banks to total assets is lowest in 2010-11 (0.6%) and highest in 2017-18 (3.4%).

Table 2: Gross and Net NPAs of Public Sector Banks

Year (end-March)	Advances		Non-Performing Assets (NPAs)					
	Gross	Net	Gross			Net		
			Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
2010-11	3346450	3305632	74664	2.2	1.4	36055	1.1	0.7
2011-12	3942732	3877308	117839	3.0	2.0	59391	1.5	1.0
2012-13	4560169	4472845	165006	3.6	2.4	90037	2.0	1.3
2013-14	5215920	5101137	227264	4.4	2.9	130394	2.6	1.6
2014-15	5615793	5476250	278468	5.0	3.2	159951	2.9	1.8
2015-16	5823907	5593577	539956	9.3	5.9	320376	5.7	3.5
2016-17	5874849	5557232	684732	11.7	7.0	383089	6.9	3.9
2017-18	6141698	5697350	895601	14.6	8.9	454473	8.0	4.5
2018-19	6382461	5892667	739541	11.6	7.3	285122	4.8	2.8
2019-20	6615112	6158112	678317	10.3	6.3	230918	3.7	2.1

Notes:

1. Data for 2019-20 are provisional.
2. *: For Private Sector Banks, data from 2008-09 till 2012-13 pertain to only new private sector banks. From 2013-14 onwards data pertains to all Private Sector Banks i.e. inclusive of both old and new private sector banks.
3. Data on Small Finance Banks pertain to 7 entities in 2018-19 and 10 entities in 2019-20.

Source: Reserve Bank of India.

Table 2 reveals that the gross nonperforming assets of Public Sector Banks in India in 2010-11 is Rs. 74, 664 crores and by 2019-20 they enhanced to Rs. 678, 317 crores by 2019-20, registering a growth of 9% during the study period. The gross NPAs of Public Sector Banks registered double digit percentage as percentage of total gross advances during last 4 years of the study. As percentage of total assets the gross NPAs of Public Sector Banks is gradually increasing during 2011-12 to 2017-18. Thereafter its share is declining and stood at 6.3% by 2019-20. The net NPA amount of Public Sector Banks in India registered 6.40% growth during the 10 years of the study. The gross NPAs of Public Sector Banks to the gross advances varies between 2.2% (2010-11) to 14.6% (2017-18). In the same way the share of gross NPAs of Public Sector Banks as percentage to total assets is high (8.9%) in 2017-18. The net NPAs of Public Sector Banks enhanced 6.40% during the study period. The share of net NPAs as percentage of net advances and as percentage of total assets is low in 2010-11 and 2017-18 respectively.

Table 3: Gross and Net NPAs OF Private Sector Banks

Year (end-March)	Advances		Non-Performing Assets (NPAs)					
	Gross	Net	Gross			Net		
			Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
2010-11	624484	612886	14500	2.3	1.3	3400	0.6	0.3
2011-12	748500	736300	14500	1.9	1.1	3000	0.4	0.2
2012-13	886023	873252	15800	1.8	1.0	3900	0.4	0.3
2013-14	1360253	1342935	24542	1.8	1.1	8862	0.7	0.4
2014-15	1607329	1584312	34106	2.1	1.3	14128	0.9	0.5
2015-16	1972608	1939339	56186	2.8	1.8	26677	1.4	0.8
2016-17	2266721	2219475	93209	4.1	2.6	47780	2.2	1.3
2017-18	2725891	2662753	129335	4.7	3.0	64380	2.4	1.5
2018-19	3442347	3327328	183604	5.3	3.5	67309	2.0	1.3
2019-20	3776231	3625154	209568	5.5	3.6	55746	1.5	1.0

Notes:

1. Data for 2019-20 are provisional.
2. *: For Private Sector Banks, data from 2008-09 till 2012-13 pertain to only new private sector banks. From 2013-14 onwards data pertains to all Private Sector Banks i.e. inclusive of both old and new private sector banks.
3. Data on Small Finance Banks pertain to 7 entities in 2018-19 and 10 entities in 2019-20.

Source: Reserve Bank of India.

The data in table 3 shows that the gross NPA amount of private sector banks is increasing at alarming rate. It is Rs. 14500 crores in 2010-11 and it bulged to Rs. 2, 09, 568 by 2019-20 registering a growth of 14.45% during 10 years period. The share of gross NPAs to total advances of private sector banks ranges between 1.8% to 5.5%. The gross NPAs percentage of private sector banks to total assets of the banks varies between 1 to 3.6%. The net NPAs amount of private sector banks showing 16.40% growth during the 10 years of the study period. The net NPAs of private sector banks as percentage of net advances vacillating between 0.4% to 2.4%. The net NPAs of private sector banks as percentage of total assets is low in 2011-12 and high in 2017-18 (1.5%).

Table 4: Gross and Net NPAs of Foreign Banks

Year (end-March)	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
	Gross	Net	Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
2010-11	199318	195539	5069	2.5	1.0	1312	0.7	0.3
2011-12	234727	229849	6297	2.7	1.1	1412	0.6	0.2
2012-13	268966	263680	7977	3.0	1.3	2663	1.0	0.4
2013-14	299575	291142	11565	3.9	1.5	3160	1.1	0.4
2014-15	336638	327599	10761	3.2	1.4	1762	0.5	0.2
2015-16	376607	363551	15805	4.2	1.9	2762	0.8	0.3
2016-17	343822	332335	13629	4.0	1.7	2137	0.6	0.3
2017-18	363305	351016	13849	3.8	1.6	1548	0.4	0.2
2018-19	406881	396726	12242	3.0	1.2	2051	0.5	0.2
2019-20	436066	428072	10208	2.3	0.8	2084	0.5	0.2

Notes:
1. Data for 2019-20 are provisional.
2. *: For Private Sector Banks, data from 2008-09 till 2012-13 pertain to only new private sector banks. From 2013-14 onwards data pertains to all Private Sector Banks i.e. inclusive of both old and new private sector banks.
3. Data on Small Finance Banks pertain to 7 entities in 2018-19 and 10 entities in 2019-20.

***Source*:** Reserve Bank of India.

The data in table 4 shows that compared to Public Sector Banks and Private Sector Banks the growth rate of both the gross and net NPAs of foreign banks is low. In case of gross NPAs the growth of gross NPAs is 2% and net NPAs is 1.59% during the 10 years period of study. The percentage of gross NPAs of foreign banks to gross advances never crossed 4.2%. In the same way the net NPAs of foreign banks to total assets of the bank never crossed 1.9%. The net NPAs of foreign banks to net advances is less than 1% during 8 out of 10 years of study. As percentage of total assets the net NPAs percentage of foreign banks varies between 0.2% 0.4%.

Conclusion

Considering the long history of NPAs in India they have been at their lowest level during the global financial crisis and the few years following it. But there is an increase in NPAs since 2011; however, till 2013-14 the growth rate of NPA was considerably slow. From 2014 onwards, NPA grew at an exponential pace, reaching the maximum levels in 2017-18. The spur in NPAs was coming largely from the Public Sector Banks. Enhanced standards in credit evaluation, project monitoring, accounting, and auditing are among the essential components of NPA prevention that lie under the scope of banking operations. Other important outside elements that may help prevent NPAs include enhancing corporate governance, enhancing bank governance, increasing monitoring and regulation, and determining the reach of the term lending institutions

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