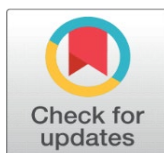


# NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR – A STUDY OF LITERATURE REVIEW

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## ABSTRACT

A key driver of India's economic growth has been the banking sector. While the rest of the world was scrambling to recover from a financial meltdown, the Indian banking sector had amazing development in the past few of years. As a result of the country's successful economic growth and financial sector liberalisation throughout the last two decades, the banking industry in India has undergone significant changes. Nonperforming assets are becoming a problem for all types of banks, whether public and private. The COVID-19 epidemic has halted numerous economic operations worldwide, with the financial sector bearing the brunt of the impact; thus, none of those businesses can run economically. Nonperforming assets in India's banking sector are the focus of this article's literature study.

**Keywords:** Non-Performing Assets, Liberalization, Financial and Banking Sector

## 1. INTRODUCTION

It is thought that banking is the backbone for thrift of every nation. The growing amount of non performing assets (NPAs) in banking industry in many ways can harm the economy but a badly handled NPAs can result to financial and economic deterioration which in turn implies a bad investment climate. It is generally believed that banking is the backbone of every nation's thrift. A number of banks from different categories take a loan to a number of industries; public, priority, agricultural, or SSI sectors. These advances, in turn, are necessary to keep from the present position where the Indian banking industry is under pressure of high NPAs, which need pre approval assessment as well as post disbursement management to manage them. To increase bank profitability, it is important to reduce its non performing assets (NPAs). A number of choices for debt restructuring and recovery has developed on a comprehensive framework of guiding NPAs. On March 27, 2020, RBI announced the COVID-19 rescue compendium that includes a three month loan dormancy, additional orderly rate cuts and regulatory relief. Apart from this, CRR was also dropped to 100bps and repo rate by 75bps in the package. By March 2021, the gross nonperforming assets percentage is expected to rise to reach 15.2%. Most Indian banks are presently threatened by default risk: Indian banks save a part of profits for paying the payments on non performing assets.

## 1.1. OBJECTIVES

The purpose of this research is to examine existing literature on the topic of non-performing assets in banks, draw comparisons between public and private sector banks' non-performing assets, and finally, provide solutions to this problem. Another goal is to demonstrate the impact of non-performing assets on the profitability of banks.

## 2. RESEARCH METHODOLOGY

The research is grounded on secondary sources. The research data is gathered from research articles that have been published in both domestic and foreign publications.

## 3. LITERATURE REVIEW

A number of studies have been carried out by academicians and researchers to look into the reasons behind the rise in NPAs (Non Performing Assets), the best course of action to adopt while the issue is at its nascent stage and also the changes that will have the maximum impact on curbing the accumulation of NPAs. The literature that is discussed in this section include the research papers and articles written by researchers and published in different publications. All of the relevant researches are arranged sequentially.

- 1) Challenges that confront Non Performing Assets (NPAs) in the aftermath of the global monetary crisis were examined by Rajeev and Mahesh (2010). The NPA issue can easily be managed just with self monitoring and problem awareness, they contend. Debt recovery can also be important at the self help organization level.
- 2) D. (2011) Prasad and Veena then examined a number of other factors associated with patterns in non performing assets (NPAs) in the banking business. Admitting that public sector banks have as compared with other sectors of the banks, lots of inactive assets and unproductive personnel.
- 3) In this analysis Gupta (2012) compares the status of non-performing assets (NPAs) in State Bank of India (sbi) and its affiliates and further public sector banks. The researcher concludes that each bank should own a separate credit rating agency which will assess the solvency of the debtor. It includes the assertion that there must be a group of financial specialist that will be in charge for overseeing as well as watching to the challenges that the poor performance asset can make.
- 4) The non-performing assets (NPA) of scheduled commercial banks are investigated by Bamoriya et al. (2013) in relation to the impact of certain prominent financial figures. The data is examined using multiple regression analysis. Total assets and total deposit were found to have a significant effect on total non performing asset (NPA). Net interest income or total advance income, however, does not affect NPAs.
- 5) According to Singh's (2013) research on the non-performing asset situation in India's commercial banks, poor-quality loans have long been an issue for public sector banks and have been steadily increasing in recent years. The majority of the funding goes towards microfinance initiatives and programs that aim to alleviate poverty.
- 6) However, in their work (Ibrahim, M.S., & Thangavelu, R., 2014) a number of asset categories were looked at. They find the amount of substandard assets in public and foreign banks is quite high and in the case of private sector banks, the amount of dubious assets is quite high. What they did notice is that the gross non performing assets are rising annually.
- 7) The effectiveness of public and private sector banks' management of nonperforming assets was examined by Krishna Murari in 2014. Although there is a statistically significant difference between public and private banks in India in terms of average gross and average net nonperforming assets (NPAs), he claims that public sector banks have been more successful in increasing these metrics than private sector banks. The notion that public and private sector banks have been consistently working to lower their nonperforming asset ratios in response to regulatory and supervisory pressures is supported by the fact that their gross and net nonperforming assets are indistinguishable. In addition to proactive measures for prevention and correction, he mentioned technological advancements that might assist in non-performing asset management.

- 8) The effects of ownership on non-performing assets were examined by Shriharsha Reddy (2015). A key factor in nonperforming asset levels, he argues, is ownership structure. New private banks have the lowest nonperforming assets (NPAs), followed by public sector banks and older private banks. Loans to sensitive and non-priority sectors, particularly personal and real estate loans, are the main drivers of India's debt, according to his research on the enormously negative effects of priority sector lending on non-performing assets (NPAs).
- 9) Similarly, Vivek Rajbahadur Singh (2016) found that between 2008 and 2014, the number of non-performing asset cases reported to the SARFAESI Act grew. The Act's success in handling nonperforming assets held by commercial banks, he says, is what really drove expansion. "Commercial banks are using the Act to recover their non performing assets (NPAs) and improve their bottom line; it has therefore become a godsend for them", he says.
- 10) Another study on nonperforming loans and recovery status, this one by Singh (2016), indicated that public sector banks are having a harder time with the issue than private sector banks. According to the scholar's writing, strict lending regulations are necessary for debt recovery.
- 11) In a current research on Indian banks' credit retrieval strategies, Thomas and Vyas (2016) proposed two measures: corrective and preventative. The latter, in addition, present a number of remedial actions, which should be executed to rebalance the non-performing loans, by means of their legal, regulatory, and non-legal remedial actions.
- 12) Other research conducted by Chethan Dudhe (2017) examined how NPAs affect banks profitability. The survey indicates public sector banks are more prone to issues arising out of non performing asset (NPA) and that these can affect the profitability of the banks. Concerning the non perform assets regulation, it recommends adequate credit management tasks such as need based credit, post sanction follow up, credit planning and proper credit evaluation.
- 13) During post-demonetization era, Meher (2017) has analysed the impact of notebandi made by the government on NPA of Indian banks. According to the study, the incident is advantageous and disadvantageous for the financial sector.
- 14) Mishra and Pawaskar (2017) suggest that banks follow an honest credit evaluation method in order to avoid non performing asset (NPA). According to many, of course, if a proper legal framework is in place to enable the banks to chase their debtors, the NPA problem is generally resolved.
- 15) This paper analyzed the amount of non performing assets (NPAs) in the Indian banking business, and hence what has led to increase in the NPAs. Despite efforts by the government to decrease the delinquent of non performing assets (NPAs), they said bankers had to make decisions to tackle NPAs with effective strategies. Before approving the loan, the return on the planned project – and, consequently, the creditworthiness of the clients – should be considered.
- 16) External factors impacting India's higher incidence of non-performing assets (NPAs), such as a fall in globally competitive prices of commodities that slow down exports, were examined by Ahita Paul (2018). And some are more fundamental to Indian banking. According to him, the lending that is now branded as nonperforming assets (NPAs) was executed when the economy was dynamic and the dynamics of business prospects were very good somewhere in mid 2000s. Big firms were given loans for something that fits in after their last success and growth. But when the global crisis made the economy standstill in 2008, these companies lost their capacity to pay off debts. This caused the double balance sheet problem in India that adds another burden to both the business and banking sectors. The banks themselves began to practise "ever greening" at this period, which entailed providing additional loans to specific promoters so that they could pay off the interest on their existing loans. The reasons for the unprofitability of these loans were not addressed, but they were kept in the non-performing status until a later period.
- 17) According to Sharma (2018), the banking industry acts as a means for the economic expansion and development. The paper explores the extent to which banks—particularly the public sector banks—are under pressure due to increasing levels of non-performing assets (NPAs). The author considers a number of preventative measures, including limiting the size of non performing assets. If workable regulatory norms could be implemented on time, we might have a robust financial industry in India.
- 18) Ambuj Tiwari and Vipul Garg (2018) emphasize that a high value of NPA ratio has got cracks into the confidence of lenders, depositors, investors, and other entities. Moreover, it results to inadequate money recycling, which will impact negatively on the credit deployment. As NPAs rise, interest rates on loans will go up. This could perhaps

- affect directly those investors who are willing to borrow to finance infrastructure, industrial projects, etc. In consequence, the Indian markets are a victim of shortage of capital.
- 19) Kumar's (2018) paper concluded that nonperforming assets (NPAs) severely affect profitability and liquidity of the banking industry. If NPAs problem is taken on effectively, she opines that, many micro economic problems like unemployment, poverty, balance of payment imbalances are often taken care of, the money market is often fortified and as a result often the Indian banking sector often has a strong name in the global marketplace.
  - 20) Banks' asset quality was examined by Banerjee et al. (2018), who looked at both public and private banks' gross and net nonperforming assets (NPAs). Nonperforming assets (NPAs) are mostly caused by loan defaults that are intentional, inadequate credit management methods, and lending to borrowers without determining their risk carrying ability. Banks should prioritise improving the process of developing and implementing strategies. Strict government controls might help reduce the size of non-performing assets.
  - 21) For instance, Tejashwini and Ramani (2019) analyzed the performance of two banks (HDFC and Bank of Baroda) over three years, 2017 and 2019. It is found that private sector banks outperform public sector banks although the trend in both bank sectors is accelerating. With regard to advances, deposits and the ability to generate revenues, HDFC outperforms Bank of Baroda. But during the research period, HDFC surpassed the profitability, liquidity and ability to hasten the amount of provisions for bad loans relative to Bank of Baroda. Similar to this, they decided that of all the banking sectors, the private sector is really giving the best contribution to the widening of its very attractive lending policy and easy loan application process. Such may allow them to amplify the reach of their deposits and advances.
  - 22) As per the 2019 study by Sunil B. Kapadia and Venu V. Madhav, a vast majority of the banking sector resources are blocked and made ineffective by bad loans, and this was based on it being recovered in such a low number as is possible, and so the role of lending dynamism in the growth of non performing assets remains pessimistic.
  - 23) On the one hand, the banking industry, regulators, and the Indian economy are all under immense pressure due to the steadily deteriorating asset quality of banks, especially public sector banks (Senthil Arasu, Sridevi et al., 2019). During the course of their investigation, too, they claim. Commercial and public sector banks' gross and net nonperforming assets (NPAs) rose from 2014 to 2018. Public and private sector banks' nonperforming assets (NPA) and return on assets (ROA) are negatively correlated with one another, whereas NPA and net nonperforming assets (NPA) are positively correlated with one another. Nonperforming assets (NPA) have a significant negative impact on return on assets (ROA) for public and private sector banks, but net nonperforming assets (NPA) have a positive effect. It strongly recommended that the appropriate bank regulators and authorities take the required steps to enhance the recovery process and optimise the decrease of non-performing assets (NPAs).
  - 24) Nonperforming assets (NPA) at scheduled commercial banks have been rising at an alarming rate, according to Sunil Kapadia and Venu Madhav (2019). Issues with credit management and oversight, reallocating funds for modernisation, diversification, and expansion, project implementation overruns in terms of both time and money, unanticipated and unexpected accessions to capital markets, difficulty in raising funds, and inability to recognise early warning signs constitute standard assets. Banks should be able to reduce or do away with nonperforming assets (NPAs) thanks to the prudential criteria put forth by the Reserve Bank of India (RBI). They contend that a proper risk management system and credit assessment should be considered throughout the early stages of a loan's consideration in order to address the nonperforming asset (NPA) issue.
  - 25) Nonperforming assets (NPAs) are a threat to any financial institution, whether it's a public or private sector institution (Abhishek Kumar Singh and Nayan Aggarwal, et al., 2019). A considerable improvement in the asset quality of scheduled commercial banks was seen in March 2019 when the gross nonperforming asset ratio dropped from 11.5% to 9.3%. The researchers discovered that the main reason public sector banks' nonperforming assets (NPAs) are on the rise is because politicians meddle in the day-to-day operations of these institutions.

#### 4. FINDINGS

Personal loans, real estate loans, and other sensitive and low-priority sectors have contributed significantly to India's nonperforming asset (NPA) crisis. Nonperforming assets in public and private banks are quite different. Compared to commercial banks, public sector banks aren't very good at handling nonperforming assets (NPAs). Public sector banks have greater ratios of gross nonperforming assets to net nonperforming assets than private sector banks.

Both the gross and net nonperforming assets of public sector banks are often higher than those of private sector banks. More nonperforming loans (NPAs) made the bank's profitability and development programs less effective, in my opinion.

## 5. CONCLUSION

It is said that the economy of every nation is based on banking. Any issue about the banking industry may either positively or negatively influence the economy. Indian banking industry is troubled by a growing accumulation of non performing assets, hence might be a problem for Indian economic health. Lending policies of the bank should be stringent and the bank must take prompt action to sort out non performing assets. When giving a loan, the bank has to check whether the borrower meets the creditworthiness requirement. Credit risk management will have to help banks to reduce non performing assets (NPAs) and in banking industry expansion on the other hand; re capitalization of banks will also be necessary. With the situation remaining what it is, financial institutions will require strong political will in order to find definitive solutions to reduce their non performing assets (NPAs).

## CONFLICT OF INTERESTS

None.

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