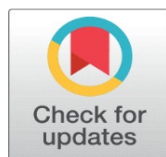
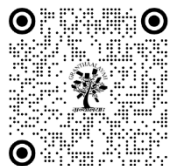


ROLE OF NON-PERFORMING ASSETS- A MSME PERSPECTIVE IN INDIA

Aarti Deveshwar ¹, Diksha Yadav ²✉

¹ Associate Professor, Deenbandhu Chhotu Ram University of Science and Technology (DCRUST), Murthal, Sonapat, India

² Research Scholar, Deenbandhu Chhotu Ram University of Science and Technology (DCRUST), Murthal, Sonapat, India



Corresponding Author

Diksha Yadav, diksha400@gmail.com

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ABSTRACT

The Micro, Small, and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of India, significantly impacting GDP and exports. Particularly in semi-urban and rural areas, MSMEs foster entrepreneurship, generate employment, and play a pivotal role in poverty reduction. This sector is the second largest employer in India after agriculture, characterized by its dynamism and vibrancy.

Banks play an indispensable role in mobilizing resources and supporting diverse economic sectors. The growth and development of MSMEs are heavily reliant on timely and adequate access to financial services. NPA is also the biggest challenge in the development of the Banking system. Majority of the studies analysis the Non-Performing Assets of banking sector. But very few studies are conducted in NPA with reference to specific sectors i.e. MSMEs, so NPA related to MSME also be assessed in the study. The study analysis of Non-Performing Assets (NPAs) in the context of scheduled commercial banks (SCBs) in India, with a specific focus on their credit exposure to the Micro, Small and Medium Enterprises (MSME) sector. This objective brings forth crucial insights into the financial health and risk management efficacy of these banks in relation to their MSME lending.

Keywords: MSMEs, NPAs, Scheduled Commercial Bank

1. INTRODUCTION

MSMEs are the backbone of any economy. The progress of several poor nations depends on their aid. With the ability to promote economic growth and modernization, any state may reap the benefits, but the least developed ones would certainly get the most. Although it affects the economy in many ways, it is the best indicator of a country's capacity for industrial success. Small and medium-sized enterprises are seen as crucial to global economic growth and a tool for achieving economic stability in the long run in many regions. Lots of people all across the world share your sentiment. The low cost of capital investment required to provide new employment opportunities is the primary advantage of the industry. Compared to huge organizations, small and medium-sized firms often use a lot more manpower

2. NON-PERFORMING ASSETS

The banking sector is borrowing from the public and lend it to the needful people at some interest rate. But when the loans and advances made by institutions and banks turn into non-productive, it creates credit risk, and it will become Non-Performing Assets (NPA). Hence, in simple words, a non-performing asset (NPA) is a loan or an advance whose

interest and installment of principal remain overdue for a period of more than 90 days in respect of a term loan. Non-performing assets are the loan of the borrowers which divide into four segments i.e. standard, sub-standard, doubtful assets, and loss assets. These categories are based on the credit weakness and valuation of securities for the realization of the bank's dues.

Researchers (Dias, 1990; Biswas, 2014) concurs that SMEs in India have difficulties in obtaining timely finance. Scheduled commercial banks continue to be the primary financing source for micro, small, and medium-sized firms. The vital importance that micro, small, and medium-sized companies (MSMEs) play in India's economy is emphasised by their reliance on banks for financial support. In addition, the research shows that NPAs are a huge issue for banks throughout the globe, including those in India (Venkatesh and Kumari, 2015). By disrupting the normal functioning of banks, nonperforming assets (NPAs) pose a threat to economic growth.

3. OBJECTIVES OF THE STUDY

The objective of the study is to review the current statistics of NPA related to MSMEs in India.

Table 1 Non-Performing Assets of MSME Sector. (In Crore)

Financial Year	Public Sector Banks	Private Sector Banks	Foreign Banks	Gross NPA of SCBs
2014-2015	86469	4680	724	91873
2015-2016	103120	6098	1010	110228
2016-2017	109562	8228	1062	119044
2017-2018	151380	10255	1007	163229
2018-2019	142828	17211	1008	161733
2019-2020	137837	22242	1392	162310
2020-2021	148103	29975	1749	182114
2021-2022	125959	24250	2230	154831

Source Reserve Bank of India

Table 1 shows the history of non-performing assets (NPAs) of SCBs in the micro, small and medium enterprise (MSME) sector. The analysis of banks' financial health in regard to their exposure to the MSME sector requires this information.

Table 2 Public, Private and Foreign Banks Credit Outstanding to MSME sector

Financial Year	Public Sector Bank	Private Sector Banks	Foreign Banks
2014-2015	852689.27	281548.83	36787.95
2015-2016	820548.01	359085.33	36373.76
2016-2017	828933.42	430962.7	36502.7
2017-2018	864597.79	411101.78	48881.34
2018-2019	880032.9	563678.48	66939.14
2019-2020	893314.83	646988.27	73279.06
2020-2021	908659.06	792041.95	83223.79
2021-2022	955860.38	969844.22	85352.38

Source Reserve Bank of India

The above table presents a detailed overview of the bank-wise outstanding to MSMEs (Micro, Small and Medium Enterprises) in India, categorized by banks - Public, Private, and Foreign. The data spans from the fiscal year 2014-2015 to 2021-2022. There is a clear and consistent trend of growth in the lending activities of all three types of banks to the MSME sector.

Table 3 NPA/Credit Ratios for Public, Private, and Foreign Banks

Financial Year	Public Bank NPA/ Credit Ratio	% Change in Public Bank NPA/ Credit Ratio	Private Bank NPA/ Credit Ratio	% Change in Private Bank NPA/ Credit Ratio	Foreign Bank NPA/ Credit Ratio	% Change in Foreign Bank NPA/ Credit Ratio
2014-2015	0.0915	-	0.0204	-	0.026	-
2015-2016	0.114	24.63	0.0216	6.04	0.0302	15.77
2016-2017	0.1194	4.72	0.0237	9.57	0.0331	9.9

2017-2018	0.1545	29.41	0.0269	13.47	0.0261	-21.36
2018-2019	0.1406	-8.98	0.029	7.71	0.0187	-28.16
2019-2020	0.1458	3.69	0.0338	16.95	0.0238	27.26
2020-2021	0.1479	1.42	0.0405	19.78	0.0257	7.874
2021-2022	0.1279	-13.52	0.0258	-36.3	0.0301	17.26

Source Reserve Bank of India

This NPA/Credit Ratio helps in understanding the efficiency of each bank type in managing their NPAs relative to the amount of credit they provide to the MSME sector. The ratio demonstrates that Public Sector Banks generally have a higher NPA/Credit Ratio compared to Private and Foreign Banks, indicating a greater challenge in managing NPAs relative to the credit extended. This analysis is crucial for assessing the financial health and risk management efficacy of different bank types with respect to their MSME sector exposure. Table 3 provides a comparative snapshot of the health of the MSME lending portfolio across different types of banks in India. By examining the NPA/Credit Ratio over eight fiscal years, we can assess how effectively each bank category manages its credit risks associated with the MSME sector.

Public Sector Banks exhibit a higher NPA/Credit Ratio, which signals a proportionately greater volume of non-performing loans. Initially, the ratio was at 9.15% in 2014-2015, which increased to a peak of 15.45% in 2017-2018. This could have been due to a variety of factors including the economic climate, policy changes, or perhaps an aggressive lending approach without corresponding risk mitigation measures in place. However, a declining trend post- 2017-2018 suggests an improvement in NPA management, possibly due to stricter credit appraisals, better recovery processes, or write-offs.

Private Sector Banks show an upward trend in the NPA/Credit Ratio until 2020-2021, where it reaches 4.05%. The rising trend might reflect a growing MSME loan portfolio and possibly an evolving risk profile for these banks. The slight decrease in the ratio afterward could indicate that private banks are adapting their risk assessment and management frameworks to better handle the challenges of NPA.

Foreign Banks maintain the lowest NPA/Credit Ratio throughout the period, starting at 2.60% in 2014-2015 and never exceeding 3.01%. This suggests that foreign banks might be exercising more stringent credit policies, or they may have a more conservative approach towards MSME lending. Their stability and lower ratio indicate more effective risk management practices concerning MSME credit.

The ratios highlight the differential impact of sectoral risk across bank categories and underscore the importance of robust credit risk management systems in sustaining the financial health of the banking sector, particularly as it relates to MSME lending.

4. CONCLUSION OF THE STUDY

The findings from this study are crucial for understanding the banking sector's approach to MSME lending and the associated risks. The trends in NPAs and the lending patterns across different bank categories underscore the systemic nature of credit risk in the MSME sector. The increasing lending activities by banks highlight the MSME sector's potential and its recognition as a key contributor to economic growth. However, the varied NPA trends across different bank types also highlight the need for continuous monitoring and enhancement of credit risk frameworks. The banking sector's ability to manage NPAs effectively is vital for the sustained growth and stability of the MSME sector. As MSMEs are instrumental in driving economic development, innovation, and employment, responsible lending practices and robust risk management are key to nurturing this crucial sector.

CONFLICT OF INTERESTS

None.

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