

Research Article

Non-performing Assets Impact on Indian Banking Industry

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ABSTRACT

This paper presents how non-performance assets (NPAs) impact on banking industry, how its impact on customer services quality and customer satisfaction. In the present scenario, the Indian banking industry suffering with NPAs, and the banks are recovering the amount which loss by NPA that loss recovering by customers in the form of service tax.

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INTRODUCTION

Indian Banking Industry

The Indian banking system consists of 27 public sector banks, 21 private sector banks, 45 foreign banks, 56 regional rural banks, 1589 urban cooperative banks, and 93,550 rural cooperative banks, in addition to cooperative credit institutions. As of Q2 FY18, total credit extended by commercial banks surged to US\$ 1694.55 billion and deposits grew to US\$ 1695 billion. Assets of public sector banks stood at US\$ 1518 billion in FY17. Indian banks are increasingly focusing on adopting integrated approach to risk management. Banks have already embraced the international banking supervision accord of Basel II, and majority of the banks already meet capital requirements of Basel III, which has a deadline of March 31, 2019.

A new portal named “Udyami Mitra” has been launched by the Small Industries Development Bank of India with the aim of improving credit availability to micro, small and medium enterprises’. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017, bill has been passed and is

expected to strengthen the banking sector. Deposits under Pradhan Mantri Jan Dhan Yojana are growing. Rs. 74,534.79 crore (US\$ 11.51 billion) was deposited and 310.7 million accounts were opened in India. Rising incomes are expected to enhance the need for banking services in rural areas and therefore drive the growth of the sector. The Reserve Bank of India (RBI) has relaxed its branch licensing policy, thereby allowing banks (which meet certain financial parameters) to set-up new branches in tier-2 to tier-6 centers, without prior approval from RBI.

The digital payments revolution will trigger massive changes in the way credit is disbursed in India. Debit cards have radically replaced credit cards as the preferred payment mode in India, after demonetization. Debit cards garnered a share of 87.81% of the total card spending.

NON-PERFORMANCE ASSETS (NPAS)

NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. As per the prudential norms suggested by the RBI, a bank cannot book interest on an



NPA on accrual basis. In other words, such interests can be booked only when it has been actually received. Therefore, an NPA account not only reduces profitability of banks by provisioning in the profit and loss account but their carrying cost is also increased which results in excess and avoidable management attention. Apart from this, a high level of NPA also puts strain on a bank's net worth because banks are under pressure to maintain a desired level of capital adequacy and in the absence of comfortable profit level; banks eventually look toward their internal financial strength to fulfill the norms, thereby slowly eroding the net worth.

IMPORTANCE OF THE STUDY

The study of NPA is very important because bank is only the mediator between investor and depositor, in present situation clearly showing that banks are misusing the public deposits and more importance giving corporate customers, who are responsible for the NPA, banking managers, or corporate customers.

OBJECTIVE OF THE PAPER

1. To study the Indian banking industry analysis.
2. To study the NPA impact on Indian banking industry.
3. To study recent scams in Indian banking industry.

NPA impact on Indian Banking Industry

Causes of NPAs

Wilful defaults

The Indian public sector banks are worst hit by these defaults. It is a default in repayment obligation. Kingfisher Airlines Ltd. is one among many of those wilful defaulters. Others are Beta-Naphthol, Winsome Diamonds and Jewellery Ltd., Rank Industries Ltd., XL Energy Ltd., etc.

Industrial crisis

Industries depend on banks to fulfill their projects. If industry is in crisis, it is bound to hit the banking sector and their NPA will rise.

Credit distribution mismanagement

Often, ill-minded borrowers bribe bank officials to get loans with an intention of default.

Lenient lending norms

One of the main reasons of rising NPAs is the lenient lending norms, especially for corporate honchos where their financial status and credit rating are not analyzed properly.

Present NPA Scenario

RBI's financial stability report said the gross NPA ratio of all banks increased to 9.1% by September 2016 from 7.8% in March 2016. Public Sector Banks are worst hit as their gross NPA increased to 12.5% by March 2017 from 11.8% in September 2016.

Impact of NPA

1. Bank's profit will come down which they earn in the form of interest.
2. Banks will become reluctant to lend, thus affecting their borrowers.
3. Affects the liquidity position of banks.
4. Service to good customers may get affected.
5. Adversely affect the bank balance sheet.
6. Lenders suffer lowering of profit margins.
7. Stress in banking sector causes less money available to fund other projects, therefore, negative impact on the larger national economy.
8. Higher interest rates by the banks to maintain the profit margin.
9. Redirecting funds from the good projects to the bad ones.
10. As investments got stuck, it may result in it may result in unemployment.
11. In the case of public sector banks, the bad health of banks means a bad return for a shareholder which means that Government of India gets less money as a dividend. Therefore, it may impact easy deployment of money for social and infrastructure development and results in social and political cost.
12. Investors do not get rightful returns.
13. Balance sheet syndrome of Indian characteristics that is both the banks and the corporate sector has stressed balance sheet and causes halting of the investment-led development process.

Solution to NPA

SARFAESI Act

The act improves the banks/financial institutions (FIs) to recover their NPA through acquiring and disposing of the secured assets in NPA account with outstanding amount of Rs. 100,000 and above.

DRT Act

The act provides setting up of Debt Recovery Tribunals and Debt Recovery Appellate Tribunals for expedition and exclusive disposal of suits filed by banks/FIs for recovery of their dues in NPA account with outstanding amount of Rs. 1,000,000 and above.

Lok Adalat

Lok Adalat mechanism offers mutually acceptable way of settlement of disputes. Government has advised PSBs to utilize this mechanism to its fullest potential for recovery in NPA cases.

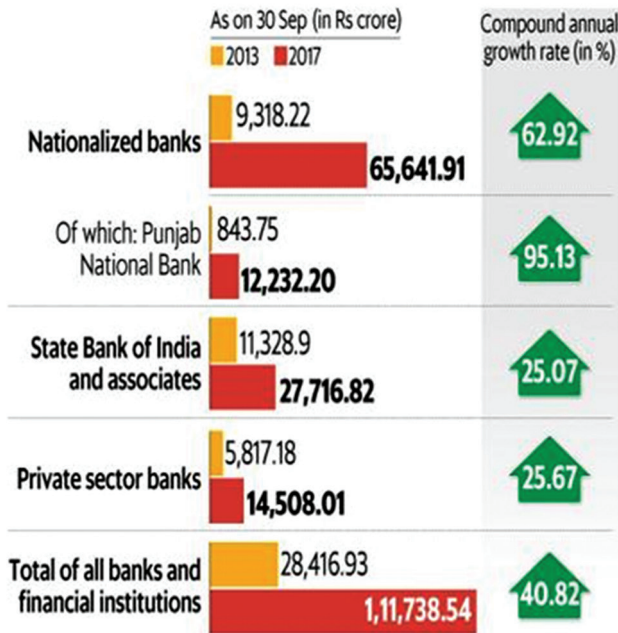
From time to time, many norms have been framed to get a hold over rising NPA, and these norms have been proved to be beneficial. However, out of all these, SARFESI Act, 2002 and DRT Act proved to be most beneficial among all.

Recent scams in Indian Banking Industry

CARNIVAL OF FRAUDS

Nationalized banks have led the way in frauds, with PNB an outstanding performer.

Suit-filed accounts of wilful defaulters*



*Loans outstanding Rs25 lakh and above

Source: CIBIL

The exposure of Indian banks in the alleged fraud involving jeweler Nirav Modi, his relatives and associated companies may touch Rs. 20,000 crore, said bankers and government officials, almost twice the initial estimate. The amount cited above would include bonafide credit to related firms that now risks being classified as bad debt given that the promoters have been accused of fraud. The amount involved was initially pegged at Rs. 11,300 crore. Availing short-term overseas credit could become more difficult for established firms, with India's biggest banking fraud at the Punjab National Bank (PNBBSE 0.56%) triggering a spell of self-introspection - and process strengthening - among local lenders.

From the strongest lenders such as State Bank of India BSE - 0.06 %, ICICI Bank, Bank ofThe State Bank of India got non-performing assets worth Rs. 7,016 crore off its books by writing off loans owed to it by 63 wilful defaulters, daily news and analysis reported Wednesday. The clean-up saw the bank forgo almost Rs. 1201 crore in dues owed by

Vijay Mallya's defunct Kingfisher Airlines, which heads the list of wilful defaulters. Documents accessed by DNA reveal that 63 accounts have been fully written off, 31 partially written off and six have been shown as NPAs. SBI adjusted its balance sheets by moving the Rs. 7016 crore to an advance under collection account. The top wilful defaulters include KS Oil (Rs. 596 crore), Surya Pharmaceuticals (Rs. 526 crore), GET Power (Rs. 400 crore), and SAI Info System (Rs. 376 crore).

FINDINGS AND CONCLUSION

1. Who is the responsible of NPA, most of the cases the banking top management, influenced by the corporate customers.
2. No proper observation of RBI and banking officials.
3. Banking concentration on only corporate customers, corporate investors only.
4. Negligence of banking top management.
5. Lack of controlling the corporate customer loans.

Suggestions

1. Banks have to give more importance to other than corporate customers.
2. Observation is required by RBI on corporate loans.
3. Before providing the loans to corporate customers, bank has analysis to the performance of cooperates.

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