A Brief Study of Non-Performing Assets: It's Impact on Banking Sector

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ABSTRACT

A vital part in a nation's economic development is played by banks. Banks are a major source of economic growth, and the banking industry is subject to a number of risks, including operational, management, market, and credit risks as well as liquidity and interest risk. Loan recovery is a very significant risk in addition to these other hazards. The recovery of loans or a bank's level of non-performing assets (NPAs) determines its solid financial situation. Reductions in NPAs typically convey the idea that banks have improved their credit appraisal procedures over time, but increases in NPAs necessitate the need for provisions, which reduce banks' total profitability. The NPA issue in the Indian banking industry is a major one.In comparison, public sector banks have greater NPA levels. The NPA must be decreased and controlled in order to increase the effectiveness and profitability of banks.

Keywords: NPA, Banking sector, Bank Loan

INTRODUCTION

When an asset, including a leased asset, stops producing income for the bank, it is referred to as a non-performing asset (NPA). NPA is defined by RBI as a credit facility for which interest and/or a principle installment have been "past due" for a predetermined amount of time. NPA is a significant factor in the study of a bank's financial performance since it increases the need for provisioning, which reduces margin. In addition to endangering the quality of assets and the viability of banks, it has an impact on liquidity and profitability.It draws attention to the banks' credit risk. It first appeared in our banking sector around 25 years ago, providing depressing indications regarding the viability of the impacted banks. Private Sector Banks are now experiencing less issues than Public Sector Undertaking Banks . A rising level of NPAs in the banking industry can have a negative impact on the economy in a variety of ways. If NPAs are not handled effectively, it may lead to financial and economic decline, which in turn indicates a poor investment environment.

OBJECTIVES OF THE STUDY

- Recognize the idea of non-performing assets
- To comprehend NPAs on a sectoral level
- To understand how NPAs affect the Indian banking industry

A REVIEW OF THE LITERATURE

In his research paper titled "A comparative Study of Non-Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures," **Prashanth K. Reddy** emphasized the necessity of having a solid grasp of the macroeconomic variables and systemic issues pertaining to banks and the economy in addition to the importance of a strong legal and legislative framework for resolving the NPA issue.In their research paper

"Empirical Study on Non-Performing Assets of Bank" published in 2014, **Dr. Sonia Narula and Monika Singla** discovered a negative correlation between the bank's total advances, net profits, and non-performing assets. This is because of poor bank management. Due to a lack of funds brought on by NPA, the bank cannot offer loans to new customers.

The research paper "Analysis of Non-Performing Assets of Public Sector Banks" **by Neha Rani (2014)** indicated that the proportion of nationalized banks in the priority sector NPA was higher in 2008 but has since decreased. Although the combined NPA of the two banks is growing, their fraction of the total NPA has been steadily declining since 2010.

DESIGNING RESEARCH

Data Gathering

- The analysis is based on secondary data from the years 2011 to 2014. The annual reports of banks were used as the source for the information on banks.The information gathered is primarily of a secondary nature.
- The Reserve Bank of India publications, as well as several magazines, journals, books, and research papers, are the sources of information for this study.

Data analysis Tools :

- Ratio Evaluation: Ratio analysis is a type of financial statement analysis that is used to provide a rapid picture of how a company is doing financially in a number of important areas. Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios are the different categories for the ratios.
- Tools for analyzing data statistically to compare the ratios of three financial years and to comprehend the analysis of the same, tables are used.

DATA ANALYSIS & INTERPRETATION

A. Net NPA Ratio:

Net NPA Ratio = Net NPA/Net Advances X 100

Year	Net NPA	Net Advances	Net NPA Ratios (%) (₹ In Crore)
2013-14	1807.32	88920.4	2.03
2012-13	392.93	75470.8	0.52
2011-12	469.57	56059.8	0.84

Analysis & Interpretation

It is clear from the Net NPA ratio's increased from 0.84% in 2011–12 to 2.03% in 2013-14indicating that the bank did not make enough provisions against NPA during these years, which is not acceptable. The bank's management did not exercise sufficient caution when approving advances, and as a result, they are unable to collect from defaulters.

B. Total Provisions Ratio:

Total Provisions Ratio=Total Provisions/Gross NPAs X 100

Year	Provision	Gross NPA	Total Provisions Ratio (%) (? in crore)
2013-14	1009.9	2859.85	35.31
2012-13	709.69	1137.55	62.39
2011-12	790.11	1297.03	60.92

Analysis & Interpretation

It is clear from the preceding data that the bank has not made enough provision for its gross non-performing assets. According to the table, out of the five consecutive years under consideration, the provisions were highest in 2012–2013 at 62.39%, but they declined to 35.31% in 2013–2014, which is not encouraging for the bank. To lower the level of NPAs, the bank must make adequate provisions.

C. Problem Assets Ratio:

Problem Assets Ratio=Gross NPA/Total Assets X 100

Year	Gross NPA	Total Assets	Problem Assets Ratios (%) (? In Crore)
2013-14	2859.85	136320.1	2.1
2012-13	1137.55	116952.8	0.97
2011-12	1297.03	91137.38	1.42

Analysis & Interpretation

The problem assets ratio displays the percentage of gross non-performing assets to total assets, and the table above demonstrates that the bank's problem assets were on the decline up until the 2012–2013 fiscal year, mirroring the declining trend of NPA. However, the tendency has been accelerating during the year2013–2014 which is accelerating the trajectory of NPA. The ratio of Gross NPA to total assets of the bank appears to have received less attention from management. As a result, there is a correlation between problematic assets and NPA that is positive. Due to the rise in advances, the gross NPA is increasing.

D. Depositors' Safety Ratio:

Depositor's Safety Ratio=Total Standard Assets/Total outside liabilities X 100

Year	Total Standard Assets	Total Outside Liabilities	Depositors' Safety Ratio (%) (₹ In Crore)
2013-14	87509	128952	67.86
2012-13	75259	110556	68.07
2011-12	55682	86415	64.44

Analysis & Interpretation

The above table and graph indicate that the Bank of Maharashtra's Depositor's Safety Ratio has been adequate throughout the past five years, particularly in the years 2014–15. Although it decreased to 66.28% in 2015–16, the ratio's consistency over the previous five years indicates to common investors that their money is safe at this bank.

E. Shareholders' Risk Ratio:

Shareholder's Risk Ratio=Net NPAs/Total Capital & Reserves X 100

Year	Net NPA	Capital & Reserves	Shareholder's Risk Ratios (%)(? In Crore)
2013-14	1807.32	7368.15	24.53
2012-13	392.93	6396.94	6.14
2011-12	469.57	4722.66	9.94

Analysis & Interpretation

We can observe the position of Bank from the table above. The risk ratio in 2012–2013 was modest. After that, it keeps rising year until it reaches 24.53%, the highest level during the time period. This shows that the bank did not adequately make preparations for NPAs. The rising risk ratio is not a good sign, though, and the bank needs to act quickly to reduce the risk if it doesn't want to harm its goodwill, share price, and competitive market. This shows that there is no obvious level of safety for the shareholders money in this bank.

F. Sub-Standard Assets Ratio:

Sub−Standard Assets Ratio=Total Sub−Standard Assets/Gross NPAs X 100

Year	Sub-Standard Assets	Gross NPA	Sub-Standard Assets Ratios (%)(? In Crore)
2013-14	2159.03	2859.85	75.49
2012-13	581.7	1137.55	51.14
2011-12	681.49	1297.03	52.54

Analysis & Interpretation

According to the above table, the ratio has been rising over the last three years, from 2011–12 to 2012–13 and 2013–14, which is not encouraging. The higher percentage of dubious assets compared to substandard assets in the bank is what causes fluctuations in the substandard assets ratio. The management needs to take the appropriate actions to raise the proportion of substandard assets while decreasing lost assets and uncertain assets.

G. Doubtful Assets Ratio:

Doubtful Assets Ratio=Total Doubtful Assets/Gross NPAs X 100

Year	Total Doubtful Assets	Gross NPA	Doubtful Assets Ratios (%) (₹ In Crore)
2013-14	587.66	2859.85	20.55
2012-13	388.91	1137.55	34.19
2011-12	467.37	1297.03	36.03

Analysis & Interpretation

The table above displays the bank's ratio of dubious assets. Through compromise, banks can recoup more of the advances. According to the table, the ratio had been declining from 2011–12 to 2013–14, which is excellent. The dubious assets ratio is still lower than the substandard assets ratio, which is a good indicator. In order to lower the gross NPAs, management must work to recover as many dubious advances as they can.

H. Loss Assets Ratio:

Loss Assets Ratio=Total Loss Assets/Gross NPAs X 100

Year	Total Loss Assets	Gross NPA	Loss Assets Ratio (%)(⍰ In Crore)
2013-14	113.15	2859.85	3.96
2012-13	166.93	1137.55	14.67
2011-12	148.15	1297.03	11.42

Analysis & Interpretation

The ratio of lost assets to gross NPAs demonstrates the likelihood of loss for the institutions. The ratio must be as low as possible because it will show that the assets to be lost will be less than the gross NPAs. A larger percentage would indicate higher losses because it is unlikely that the lost assets can ever be restored. It is clear from the above table that while the lost assets ratio was very low in the study year, 2013–2014, it was high in the previous years. The bank needs to take its situation seriously and develop a plan of action to lower its loss assets ratio.

CONCLUSION

Over the past four years, the bank appears to have seen an increase in its NPA tendency. When choosing clients and consumers for loan approval, the bank must be proactive. The bank's business is sufficiently diverse to meet the demands of India's economy and society as a whole. All of the rules and guidelines provided by the RBI must be rigorously adhered to by the Bank of Maharashtra.

For the bank to avoid NPAs, a better credit appraisal system is required. However, once NPAs do exist, the issue can only be resolved if there is an enabling legal framework, as recovering NPAs frequently necessitates going to court and receiving court orders to recoup stock loans. Debt recovery in India is relatively slow due to protracted litigation. Even if the bank is taking the appropriate steps to recover the loans, it still needs the system's assistance. However, it takes at least one to two years for the court to provide approval for physical possession of any property, delaying the rest of the process.

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