International Journal of Marketing and Technology
Vol. 6Issue 9, September 2016,
ISSN: 2249-1058 Impact Factor: 5.810
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

NPA MANAGEMENT BY COMMERCIAL BANKS – PROBLEMS & PROSPECTS OF INDIAN MSME SECTOR

Dr. J. VENKATESH*

Ms. R. LAVANYA KUMARI**

Abstract

Indian Micro, Small and Medium Enterprises play a vital proportion in different sectors like manufacturing, services, exports and employment, and to maintain a healthy and a sound banking system MSME units are prone to various business risks due to which they fall sick or sometimes closed due to heavy losses or many of them becomes Non-Performing Assets (NPA) in the accounts of the banks which are very essential in order to grow and remain in this competitive environment. Reserve Bank of India has taken several measures in developing & functioning of the banking sector to be the best indicator for the health of the banking industry as its level of Non-Performing Assets (NPAs) reflects the performance of banks. NPAs have become a major in the Indian banking sector which has a direct impact on the profitability, liquidity and solvency position of the bank. The paper highlights to understand the concept of lending to priority sector and non priority sector of commercial banks in which to identify the problems and prospects of Micro Small Medium Enterprises and also to understand the concept of managing of Non Performing Assets in banking industry various measures has been taken by Reserve Bank of India.

Keywords:Early Warning Signals;Commercial Banks;NPA's;MSME's.

* **Associate Professor, Department of Management Studies, Anna University, Regional Campus Coimbatore, Navavoor, Coimbatore – Tamil Nadu, INDIA.**

** **Ph.D. (PT) Research Scholar in Management, Karpagam University, Pollachi Main Road, Eachanari Post, Coimbatore – 641 021. Tamil Nadu, INDIA.**

1. Introduction

The Banking system in India has been increasingly facing the pressure of Non-Performing Assets owing to expect the economic slowdown in India where the banking system comprises commercial and cooperative banks, of which the former accounts for more than 90% of banking systems assets. To improve the sound financial health in the banking system the Reserve Bank of India (1949) had issued guidelines and introduced several prudential and provisioning norms and which are pressurizing financial institutions to improve factor productivity, resource efficiency and trim down NPAs. The Government of India also permitted banks to open specialized MSME branches to look after the special needs of MSME units which only focus on MSME credit. The banks targeted MSME sector as its main market and enhanced its business but besides growth in credit facility to MSME sector bank has to keep an eye on its financial health measured in terms of capital adequacy, profitability, asset quality and provisioning for the doubtful losses. Almost absolute terms of Rs 6000 crores of Public Sector Banks are blocked in small enterprises NPAs.
Non- Performing Assets (NPAs) is one of the basic concerns for the Indian banks; the growth of NPAs has been a matter of serious concern which reflects the overall performance of the banks. A decade Non-performing Asset (NPA) has emerged as an alarming threat to the banking industry in our country sending distressing signals on the sustainability and endurability of the affected banks. The high NPA level suggests that high probability of a large number of credit defaults which affect the profitability and net-worth of banks and also erodes the value of the asset. The problem of NPAs is not only affecting the banks but also the whole economy. The paper aims to understand the concept of NPAs in a better way its magnitude and major causes for an account becoming non-performing and also strategies for reducing NPAs.

2. Non-Performing Assets And Banks

In today’s scenario the success of the bank depends upon the proper management of NPAs and keeping them within the tolerance level as NPAs are an inevitable burden on the banking industry. Banks need to monitor their standard asset regularly in order to prevent any account becoming an NPA. Early Warning Signals (EWS) system is a system where most of the banks have clearly indicates some signals of credit deterioration in the loan account as they show the problems involved in the account so that can be taken immediately remedial action. The Non Performing Assets are important parameter to analyze the performance and financial health of banks. The growth of the banking sector and financial stability is one of the drivers of the level of NPAs. Non Performing Assets (NPAs) are proving to become a major setback for the growth of the economy as the financial companies and institutions are facing a major problem of managing these assets. NPAs defined as "the borrower does not pay principal and interest for a period of 180 days which is taken into consideration as the default status would be given to a borrower if dues are not paid for 90 days". If any advance or credit facility granted by the bank to a borrower becomes non-performing, then the bank will have to treat all the advances or credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exists certain advances or credit facilities having performing status. The bank has classified the assets as per RBI guidelines which are as follows:

- **STANDARD ASSETS:** Standard assets defines that in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer, as in the case arrears of interest and the principal amount of loan which do not exceed 90 days at the end of financial year. Based on the period the banks are required to classify non-performing assets into the three categories for which the asset has remained non-performing and the reliability of the dues, if asset fails to be in category of standard asset that is amount due more than 90 days then NPAs are further need to classify in sub categories:

❖ **SUB-STANDARD ASSETS**

With effect from 31st March 2005 a substandard asset is the one which has remained NPA for a period of less than or equal to 12 months with the following features:

✓ Sub standard assets are current net worth of the borrowers, guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

✓ Due to the credit worthiness & the liquidation of the debt the assets are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

❖ **DOUBTFUL ASSETS**

As per with effect from March 31, 2005 an asset would be classified as doubtful if it remained in the sub-standard category for 12 months with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values which is highly questionable and improbable.

❖ LOSS ASSETS

A loss asset is defined as uncollectible and continuance as a bankable asset which is not warranted although there may be some salvage or recovery value as these assets would have been identified as ‘loss assets’ by the bank or auditors or the RBI verification but the amount would not have been written-off wholly. Loss assets include overdue loans in the following cases:

- Decrees or execution petitions have been time barred or documents lost which are legally to claim the debt
- Members and their sureties are declared insolvent or have died leaving no tangible assets.
- Members have left the area of operation of the society leaving no property and their sureties have also no means to pay the dues.
- In case of liquidated societies the amount cannot be recovered.

Table: Mandatory NPA Provisioning Requirement for Commercial Banks in India

TYPE OF ASSETS	PROVISIONS
Standard Assets	0.25% for all types of standard advances
Sub-standard Assets	10% for all types of standard advances
Doubtful Assets: - Up to one year - One to three years - More than three years	100% of unsecured advances and 20% of secured advances 100% of unsecured advances and 30% of secured advances 100% of unsecured advances and 100% of secured advances
Loss Assets	100% of unsecured advances and 100% of secured advances

Source: NPA Provisioning Guidelines, RBI

2. Statement of the Problem

Day by day the business growth is a major setback of the Indian economy where Non-Performing Assets is a challenge for the financial companies and institutions. For the significant improvement of NPAs to maintain at the lower levels the banks are working hard.

3. Objectives of the Study

- To study the impact of NPA on banks and MSMEs.
- To suggest measures for identifying the efficient and effective managing of NPAs.
- To understand the overall NPA analysis of Indian banks.
- To study the problems & prospects of sector wise NPA composition over Gross loans.

4. Problems & Prospects in Bank MSME Financing

- India's Commercial banks do not have requisite capability to discriminate between good and bad risk in which they have not yet developed adequate expertise in MSME lending risk assessment.
- Banks concerned is the recovery of the amount lent to this sector where as the problem of loan lent to priority sector including MSME's becoming as Non performing asset is the greatest challenge.
- Lending to MSME sector is a non- profitable banking activity as it lent under the guidance of social control measure.
- To make it as a profitable banking activity & as lending to MSME sector commercial banks cannot strategies lending policy under priority sector lending as it is very difficult for commercial banks to penetrate this unorganized sector and assume risk of lending, which almost turns to be as NPA because of majority of the MSME's are in organized sector.
- Commercial banks has a great opportunity to penetrate the vast and potential sector for lending, if number of units served by the commercial banks increase, then the transaction cost of serving this sector will automatically be reduced. MSME sector faced the problem of high transaction cost of serving by the commercial banks which can be reduced by including those units which are out of reach of commercial banks lending

5. Impact of NPAs on Micro, Small and Medium Enterprise's:

NPA (Non Performing Asset) is an industrial phenomenon which indicates industrial sickness. The national growth of a country particularly like India depends upon the growth and health of MSME's. The so called banking reform is targeted towards killing the Sick units rather than curing them. Though only about 15% of the total NPA in the country is on account of MSMEs, the impact is so large that the country is heading for an economic recession. The factory output growth slowed down to 2% in April, 2015; exports slumped 10.7% in last year. The prices of all commodities are on the rise which obviously proves that MSMEs are the real growth engine of any nation. It is the link between the agriculture and large-scale sectors. Punjab is rich because of flourishing MSMEs and agriculture and not for large-scale sector. Odisha is poor because of sluggish MSME and agriculture sector. India's the biggest challenge for the bank is the efficient management of Non-Performing Assets (NPAs) which adversely affect the profitability, liquidity and solvency while the importance of NPA management of banking institutions is widely recognized that can be used to measure the extent of NPA management efficiency of banks. Some of the important proposals are considered to reduce the MSME credit gap with policy makers & Ministry of MSME, GOI as recommended by the "Working Group on MSMEs Growth for 12th Five Year Plan (2012-2017)" boosting the credit to SME sector, which includes:

- During the 12^{th} Five Year Plan the Scheduled Commercial Banks (SCBs) has to maintain minimum 22% in their outstanding credit growth to MSME sector and the minimum 25% to be maintained during the remaining three years of the 12^{th} Five Year Plan (i.e. 2014-15, 2015-16 and 2016-17).
- On yearly basis banks should achieve 10% increase in new micro enterprises borrowers on which it add at least 12 new MSMEs in their semi-urban and urban branches.
- Under CGTMSE Guarantee coverage may be increased to at least 10 times the corpus during 12th Five Year Plan and it is expected to make available Rs 180,000 crore of credit guarantees to MSEs by the end of 12th Plan.
- It develop the capacity of the MSE loan officers by the banks to provide various advisory services like technology up gradation, consortium-led marketing etc. to the MSMEs.

6. Literature Review

Karunakar (2008) in his research he has discussed the problem of losses and lower profitability of Non-Performing Assets (NPAs) and liability mismatch in banks and financial sector depend on how various risks are managed in their business. The paper also states that what are NPAs and the factors contributing to NPAs, the magnitude of NPAs, the reasons behind for high NPAs and their impact on Indian banking operations. Besides capital to risk weight age assets ratio of public sector banks, management of credit risk and measures to control the troublesome **o**f NPAs. The solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism which is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms.

Meenakshi Rajeev and H P Mahesh (2010) provide insight to examine the trends of NPAs in India from various dimensions by recognizing and monitoring loan funds have helped in large reduction of NPAs. They also made a comparative study of Indian NPA with other nations. Vivek Srivastava and Deepak Bansal (2012) they found that existence positive trend and control of NPAs by the private sector banks in India. The data collected from various sources of secondary for a period of five years from 2008-2013 and analyzed by tools like average and comparative percentage analysis. They concluded that banks should take timely action against degradation of good performing assets as the level of NPAs is alarming with public sector banks in India. Zahoor Ahmed & Jagadeeshwaran.M. (2013) emphasis on a banking industry so as to become NPAs it is facing a major problems like improper processing of loan proposals, willful defaulting and poor monitoring.

7. Research Method

The study is carried out with the help of descriptive & analytical of secondary data with aim to understand the impact of existing scenario of NPA and also the NPA level of commercial banks.

(a) Time Period of Study: For a period of five years data from 2008 – 2013 have been selected & collected from various secondary sources of RBI to evaluate the state of NPA in Indian nationalized banks.

(b) Materials and Methods: The required secondary data were collected from various annual reports, journals, websites etc is carried out to assess the changes in NPAs and also the study is conducted both exploratory and empirical in nature.

c) Sample Size: The study is based on Public, Private as well as Foreign banks which includes from Indian Banking Industry

d) Data Collection

Secondary data is collected as a valuable source for research to achieve the objectives of the study, which includes the data which had been collected for some earlier research work and applicable in the study. A major part of the database has been taken from the published the reports of Reserve Bank of India (RBI) which includes Trend & Progress of banking in India, statistical tables related to Indian banks and also different business journals, magazines, newspaper, and periodicals were used for this study.

8. Result and Analysis:

The processing of data has been used with various tools like ratio analysis, percentage, averages & comparative statement analysis which is done manually with the help of SPSS software.

Table 1. Classification of Loan Assets of Public Sector Banks 2008 TO 2013

Bank/ Year	**Standard Advances**		**Sub-Standard Advances**		**Doubtful Advances**	
Public Sector Banks	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
2008	16564.5	97.70	168.46	0.99	190.83	1.13
2009	20,546.01	97.90	195.21	0.93	207.08	0.99
2010	24,551.47	97.72	276.85	1.10	246.79	0.98
2011	29,888.72	97.68	336.12	1.10	319.55	1.04
2012	34,379.00	96.83	603.76	1.70	470.75	1.33
2013	38,999.85	96.16	765.89	1.89	734.85	1.81

Source: http://www.rbi.org.in/

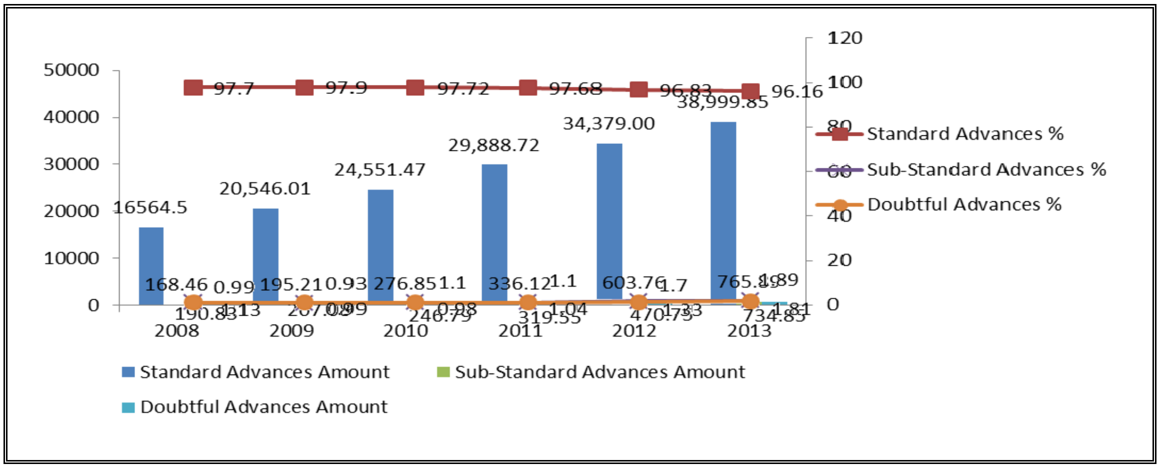

Figure 1. *Classification of Loan Assets of Public Sector Banks*

In the table & Figure it indicates fluctuation of loan assets public sector banks over the years as in case of standard asset there was a constant increase from 2009 to 2011 and then a slight decrease from 2012 where as in case of sub standard asset, for public sector banks it kept on increasing as the doubtful asset in public sector banks were a constant increase.

Table 2. Classification of Loan Assets of Private Sector Banks 2008 TO 2013

Bank/ Year	**Standard Advances**		**Sub-Standard Advances**		**Doubtful Advances**	
Private Sector Banks	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
2008	4597.22	97.25	72.81	1.54	44.53	0.94
2009	5,031.87	96.75	105.27	2.02	50.18	0.96
2010	5,677.23	97.03	86.78	1.48	65.43	1.12
2011	7,149.78	97.55	44.00	0.60	107.36	1.46
2012	8,628.96	97.92	51.33	0.58	103.16	1.17

2013	10,266.73	98.09	58.54	0.56	110.69	1.06

Source: Department of Banking Supervision, RBI.

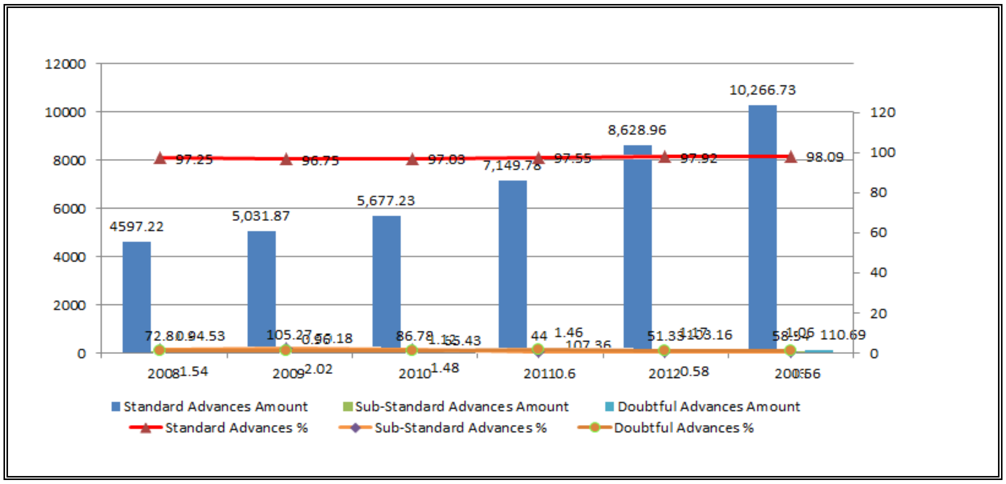

Figure 2. *Classification of Loan Assets of Private Sector Banks*

The table & Figure indicates that fluctuations of NPAs among the private sector over the years. From 2010 to 2013 there was a constant increase in standard asset where as in the case for private sector banks the sub standard asset, is keep on decreasing except in 2009 and also there were a constant increase from 2009 to 2011 and gradually decreased in 2012 and 2013 in terms of doubtful asset. As compared to Private sector banks, Public sector banks NPAs level is more in case of sub standard asset and doubtful asset but in case of standard asset private sector banks remain high which shows a good position of private sector banks and to avoid the occurrence of NPAs in public sector banks the banks need to be more cautions while granting loan.

Table 3. Outstanding Credit Flow to Micro Small & Medium Enterprise's (2012-2014)

Bank/ Year	**Public Sector Banks**	**Private Sector Banks**	**Foreign Sector Banks**	**All Schedule Commercial Banks**
2012	5,33,279.29	1,24,725.66	23,300.71	6,81,305.66
2013	6,43,525.02	1,82,247.82	43,251.30	8,69,024.14
2014	7,54,391.07	2,46,025.76	34,359.17	10,34,775.99

Source: www.rbi.org

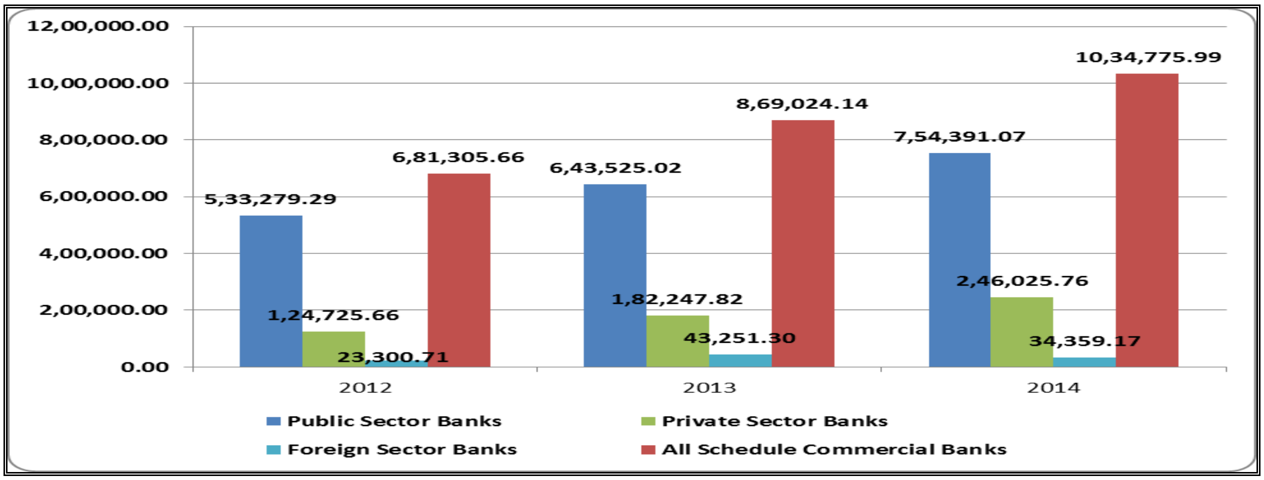

Figure 3. Outstanding Credit Flow to Micro Small & Medium Enterprise**'s**

The above table & figure shows that 2012 – 2014 there was a constant increase in public sector banks and in private sector banks whereas same with the scheduled commercial banks but foreign sector banks has the least credit flow performance comparing with all other banks.

Table 4. Gross Non Performing Assets for MSME's (2012-2014)

Bank/ Year	**Public Sector Banks**		**Private Sector Banks**		**Foreign Sector Banks**		**All Schedule Commercial Banks**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
2012	24,272.44	(6.1%)	1,880.73	(1.7%)	159.83	(0.7%)	26,312.99	(5.0%)
2013	28,575.29	(5.7%)	2,506.44	(1.6%)	396.23	(1.3%)	31,477.96	(4.6%)
2014	38,949.80	(6.3%)	3,021.63	(1.5%)	457.36	(1.5%)	42,428.79	(5.0%)

Source: www.rbi.org

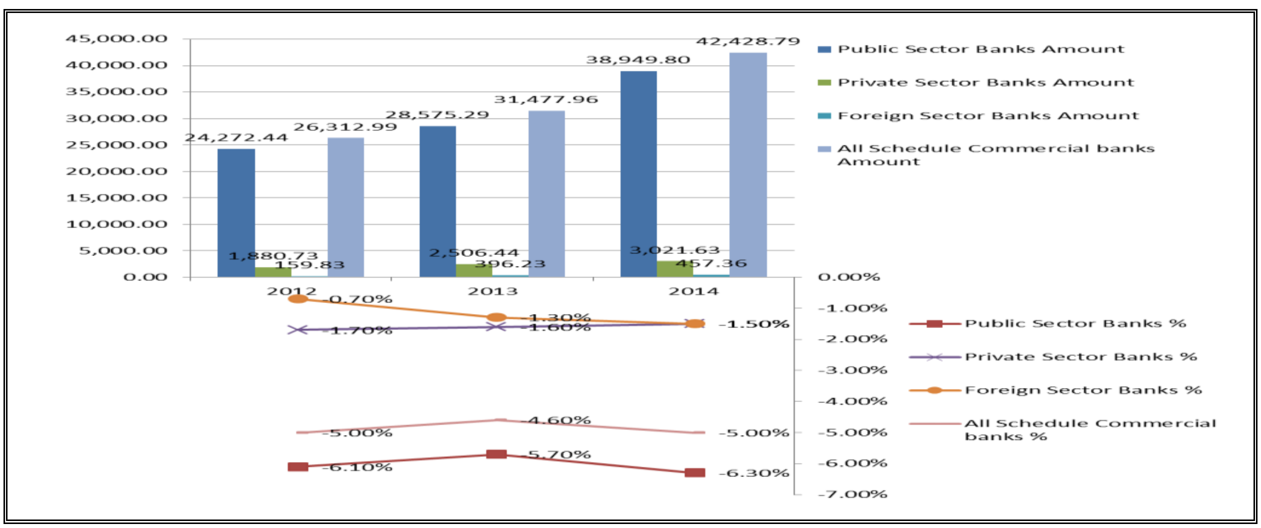

Figure 4. Gross Non Performing Assets for MSME's

The table & figure shows that all scheduled commercial banks on lending micro, small and medium enterprises (MSME) sector has registered an annualised growth of about 23% from

March 2012 to March 2014. This compares to the annualised growth in overall credit of 14.1% during the same period. There are many instances where a borrower had been a very valued customer of the Bank, but becomes vulnerable after being declared as NPA. The SME's are still far more in a pitiful condition.

Table 5. Composition of NPAs of Nationalized Banks - 2008 TO 2013

Bank/ Year	**Priority Sector**		**Non-Priority Sector**		**Public Sector**		**Total**
Nationalized Banks	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
2008	163.85	67.21	77.90	31.96	2.02	0.83	243.80
2009	157.21	60.10	101.4	38.76	2.97	1.13	261.58
2010	199.06	56.13	152.7	43.08	2.80	0.79	354.62
2011	257.21	59.90	169.4	39.47	2.73	0.64	429.40
2012	322.90	48.34	343.1	51.37	1.92	0.29	667.95
2013	404.86	42.21	553.59	57.71	0.78	0.08	959.22

Source: Department of Banking Supervision, RBI.

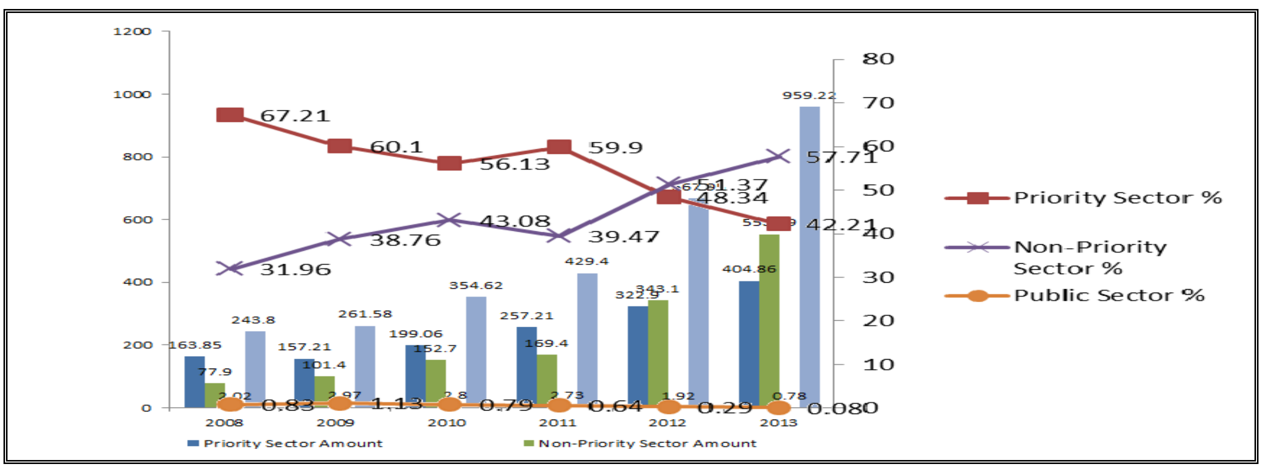

Figure 5. Composition of NPAs of Nationalized Banks

In the above table & figure depicts from 2008 to 2013 the total amount of NPAs at Nationalized banks in India and also the composition of NPAs of different sector at nationalized banks. The above analysis can be inferred that during 2012 and 2013 non-priority sector share in the amount of NPAs of Nationalized bank is more as compared to priority and public sector and during 2008, 2009, and 2010 were as the Priority sector share in the amount of NPAs of Nationalized banks is more as compared to public sector share and non-priority sector.

Table 6. Statement Showing Banks With High Non Performing Assets

BANKS	**NPA (%)**
United Bank of India	12
Indian Overseas Bank	8.00
PNB	6.50
IDBI	6.33
Central Bank of India	6.30
Other12 Banks	Ranging between 2% to 6%
Indian Bank	4.0
Syndicate Bank	3.94
Bank of India	3.93
ICICI Bank	3.78
Canara Bank	3.36
Vijay Bank	3.08
Lakshmi Vilas Bank	2.75
Federal Bank	2.04
Karur Vysya Bank	1.85

Source: Business Line Nov 20, 2014

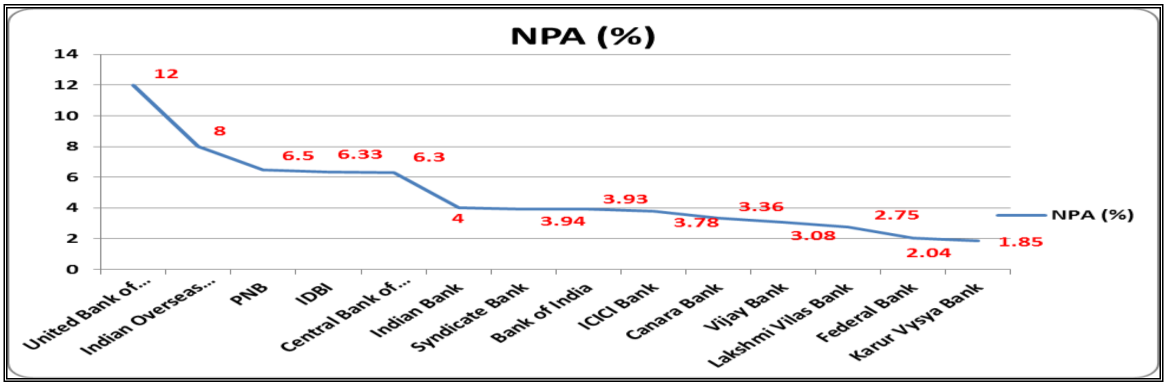

Figure 6. Banks with High Non Performing Assets

The above table & figure furnishes that United Bank of India is having a high % of NPAs as comparing with that of the other banks, high level of NPAs not only affects core performance area of the banking system but also raises corporate governance issues. Today's banks are facing one of the major challenge is management of asset quality has emerged as it is the most important factor for the basic viability of the banking system.

Table 7: Detailed Position of Gross and Net NPAs Percentage in Public and Private Sector Banks

Years	**Public Sector**		**Private Sector**	
	Gross NPA (%)	**Net NPA (%)**	**Gross NPA (%)**	**Net NPA (%)**
2008-2009	2.00	0.94	2.36	0.9
2009-2010	2.2	1.09	2.32	0.82
2010-2011	2.4	1.20	1.97	0.53
2011-2012	3.30	1.70	1.80	0.60
2012-2013	3.80	2.00	1.90	0.50
2013-2014	3.84	2.10	2.00	0.70

Source: Source: https://www.rbi.org.in/scripts/Publications

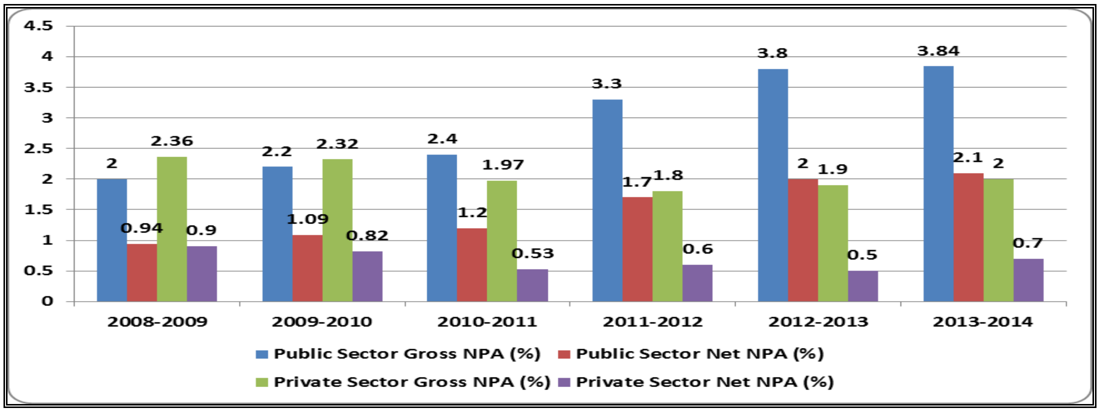

Figure 7. Position of Gross and Net NPAs Percentage in Public and Private Sector Banks

It is found that percentage of gross NPAs shows increasing pattern till the year 2013 as compared with other years. Public & private sector banks remain constant more or less where as the net NPAs % shows decreasing throughout a decade from the year 2008 to 2014. From the above analysis it is observed that public sector banks lagged private based on the parameters like asset quality and profitability.

Table 8. Industry wise gross NPA

SECTORS	**SEP 2013-14**	**SEP 2014-15**
Coal	-5.3	14
Food Processing	11.1	7.9
Textiles	10.8	9.5
Chemical & Chemical Products	-0.3	1.3
Cement & Cement Products	1.4	4.5
Iron & steel	7.4	9.3
Gems & Jewellery	6.5	3.5
Construction	5.7	1.7
Infrastructure	8.6	8.3
Aviation	14.5	10.0

Source: The Hindu-Business Line dated November 20, 2014

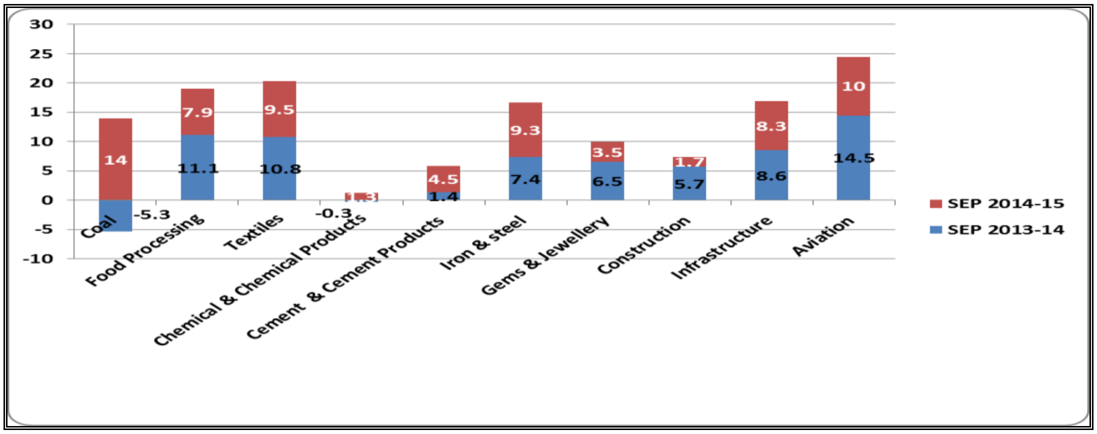

Figure 8. Industry wise gross NPA

The table furnishes the sectors like iron & steel, construction and aviation offered respite as the NPA has risen due to the sluggish growth, slowdown in recovery in global economy and uncertainty in the global markets bad debts in seven key industries registered a surge during the same period. The year 2014 as per RBI reports the credit growth of Scheduled Commercial Banks (SCB) on a year on year basis stood at 13.8% which was slightly lower than 13.9% witnessed in FY13 where as the public sector banks has 16.32% comparing with private sector banks 18.05% of advances.

9. Conclusion

NPAs problem can be confronted only with proper credit assessment and management mechanism where in a situation of liquidity overhang, the enthusiasm of the banking system to increase lending which may compromise on asset quality, raising concern about their adverse selection and potential danger of addition to the stock of NPAs. It is essential that the banking system is to be equipped with prudential norms to minimize if not completely to avoid the problem of NPAs. RBI can assist banks in reducing the cost of funding to infrastructure projects and minimize the need for restructuring such loans since the sectors that contribute among the level of stresses loans and which can slow down the pace of loans restructured within the sector. 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. The NPA level is more compared to private sector banks & public sector bank which must take more care in avoiding any account of becoming NPA in an efficient manner by taking proper preventive measures.

References

[1] Dr. G Nagarajan, N. Sathyanarayana & A. Asif Ali ***"Non-Performing Assets is a Threat to India Banking Sector - A Comparative Study Between Priority And Non-Priority Sector Lending In Public Sector Banks",*** International Journal of Advanced Research in Management and Social Sciences ISSN: 2278-6236, pp. 15 – 28.

[2] Dr. Harpreet Kaur & Neeraj Kumar Saddy ***"A Comparative Study of Non-Performing Assets of Public and Private Sector Bank",*** International Journal of Research in Commerce & Management,Volume No. 2 (2011), Issue No. 9 (September) ISSN 0976-2183, pp. 132 – 139.

[3] B. Nagaraju And Kavitha Vani S.D ***"Problems And Prospects In Bank SME Financing In India",*** Indian Streams Research Journal, Volume 3, Issue. 2 March. 2013, ISSN:-2230-7850 pp. 75 – 89.

[4] Report on Trend and Progress RBI 2008-09 to 2012-13.

[5] http://rbi.org.in.