

## **NPAS IN INDIA: COMPOSITION AND RECOVERY**

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**Abstract:**

Widespread of Non-Performing Assets (NPAs) in Indian banking system is major challenges in the front of central bank and the Government. The main objective of the study is to analyze trends and composition of NPAs and overview the recovery channels of NPAs in India. Due to increasing burden of Non-Performing Assets banking sector is facing problem of credit crunch. The nature of study is descriptive and analytical. Secondary data have been used for analyzing the concept of NPAs. It is found that the growth of NPAs has increased very rapidly since 2014 and the ratio of the non-priority sector is more than priority and the public sector. During the 12<sup>th</sup> five-year plan, 12.17 percent of NPAs was recovered by banks through three different channels respectively Lak Adalats, DRTs, and SARFAEST Act.

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**Keywords:**

NPAs;  
Composition;  
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## 1. Introduction

The economy of India is 5th largest economy as nominal Gross domestic product (GDP), and 3rd largest economy in terms of Purchasing power parity (PPP). Growth rate of Indian Economy is much better than many developed and under developed countries. The banking system is the backbone of the financial system and the entire economy. Role of banking sector is excessive required for maintaining this growth rate. The banking efficiency and stability influence economy growth positively. One of the most important factors to measure the health of the banking sector is NPA. NPAs have direct impact on profitability and financial performance of banking sector. In the banking sector, any loan that ceases to give returns to the bank for the specified period is known as Non-Performing Asset (NPA). The problem of NPAs is associated with the lending mechanism of banks; it is a terrible burden on the banks. The banking system provides loans to the needy people and organizations and earns interest on it. When loans are not repaid timely by lenders, the banking system loses income stream and liquidity. Whenever the bank lends, the risk is also hidden due to default in paying money with it (Kaur, H. and Pasricha, J.S., 2004). At present, the Indian banking sector is facing the problem of the increasing amount of NPAs, which has become a major challenge in front of their survival. In India, banking assets has been categorized basically four categories namely standard assets, sub-standard assets, doubtful assets and loss assets (RBI).

**Standard Assets:** A standard asset is a continuous performing asset for the banking system and gives timely returns. It carries a normal risk and not has NPAs in the real sense.

**Sub-standard Assets:** In this category includes debts that are doubtful in nature and not repay in 12 months.

**Doubtful Assets:** In this category includes debts which are non-performing for period of more than 1 year and less than 3 years.

**Loss Assets:** This category contains all the debts which are unrecoverable by the banks. In real sense this is the NPAs for banking system.

Prasad et al. (2011) analyse trends and issues of NPA in India and found that due to increasing NPA, the rate of revenue in banking sector has fallen. Lack of diversification of funds is the main problem for increasing NPAs and banks should be taken the drastic measure as the Nation's Priority (RBI). Lacks of managerial and technical expertise are main cause of growing NPAs, because due to these problems deteriorates of qualitative aspects of lending by banks (Rai, K., 2012). In recent times, there has been a huge reduction in the NPAs of the corporate sector, while there is concern about the increase in NPAs in retail and the growing issue of fraud in mortgage loans (Castelino, M., 2005). Credit, bank size and macroeconomic shocks showed a significant impact on increasing NPAs (Ranjan, R. and Dhal, S.C., 2003). The NPAs of Public sector bank is continuously increasing whereas the NPAs of Private banks are decreasing over the time period (Singh, A., 2013). NPA is a major threat to the profitability of banks (Singh, V.R., 2016). In front of the Indian banking system, the problem of increasing non-performing assets has become a big challenge. There have been seen continuously increasing trends of NPAs, so it is very important to tackle this challenge. The Government of India has taken several steps towards this challenge. The major steps taken by the Government regarding NPAs includes; Compromise Settlement Scheme, introduction of Debt Recovery Tribunals, Securitization Act 2002 and introduction of credit information bureau. The main objectives of the paper are to analyze trends and pattern of NPAs in India, investigate the bad debts recovery system of Indian banking and examined causes and impact of NPAs in the banking sector and economic growth.

## **2. Research Methodology**

The study is mainly descriptive and analytical in nature and used secondary data from RBI publications, Journals, Reports regarding the banking sector.

## **3. Results and Analysis**

### **3.1 Trends and Pattern of NPAs**

The below table 1 shows the Non-Performing Assets in the context of gross advances of scheduled banks in India. In 2004, the banks paid an advance of Rs 7102.62 billion to the people, out of this approximately Rs 515.57 billion have become NPAs. In that time, the NPAs were 7.26 percent of total gross advances of Scheduled Commercial Banks. Since 2004, the banks have released continuously higher amount for the peoples. The proportions of NPA's from gross

advances have decreased continuously by 2008, but after 2004, the absolute amounts of NPA have increased steadily. In 2008, the ratio of NPAs from gross advances was 2.26 percent, which was the least in the last decade. In 2008, due to the global financial crisis, there was a negative impact on the world banking system. After 2008, large amounts of advance payments started increasingly becoming NPAs. After 2015, NPA has become a major challenge in front of the Indian banking system. The ratio NPAs were 7.48 percent in the year 2016, 9.32 percent in 2017 and it has increased to 11.18 percent in 2018. It is found that the rate of increase in gross advances was much higher from 2004 to 2011. In comparison to the year 2004, the banks provided 64.4 percent more loan in the year 2005. After the year 2014, the rate of gross advances has come down. On the other hand, gross NPAs have increased significantly in the year 2012 to 2018 as compared to the year 2004 to 2011.

**Table 1: Gross Advances and Gross NPA ratio of Scheduled Commercial Banks**

(Amount in Billion ₹)

Year	Gross Advances	Increases in %	Gross NPAs	Increases in %	Gross NPAs to Gross Advances Ratio (%)
2004	7102.62	-	515.57	-	7.26
2005	11676.84	<b>64.40</b>	573.96	11.33	4.92
2006	15457.30	<b>32.38</b>	517.53	-9.83	3.35
2007	20074.13	<b>29.87</b>	505.17	-2.39	2.52
2008	25034.31	<b>24.71</b>	566.06	12.05	2.26
2009	30246.52	<b>20.82</b>	699.54	23.58	2.31
2010	32620.79	<b>7.85</b>	817.18	16.82	2.51
2011	39959.82	<b>22.50</b>	939.97	15.03	2.35
2012	46488.08	16.34	1369.68	<b>45.72</b>	2.95
2013	59718.20	28.46	1927.69	<b>40.74</b>	3.23
2014	68757.48	15.14	2630.15	<b>36.44</b>	3.83
2015	75606.66	9.96	3229.16	<b>22.77</b>	4.27
2016	81711.14	8.07	6116.07	<b>89.40</b>	7.48
2017	84767.05	3.74	7902.68	<b>29.21</b>	9.32
2018	92662.10	9.31	10361.87	<b>31.12</b>	11.18

Source: Computed by Authors.

### 3.2 Composition of NPAs:

The below table 2 shows the composition of Non-Performing Assets (NPAs) of scheduled commercial banks. There are mainly three compositions of NPAs which are priority sector, non-priority sector, and public sector. The Priority Sector includes all those sectors which have difficulty in getting the loan from various sources. As per RBI guidelines, scheduled commercial banks have to distribute 40% of their loans to the priority sectors. Priority sector mainly includes agriculture, MSME, education, housing, renewable energy, social infrastructure, and export credit (Ramesh, 2016). In 2003, 47.1 percent of total NPAs were in Priority Sector, 51.33 percent in Non-Priority Sector and 1.56 percent in the public sector. There is negative relationship between NPAs of priority and non-priority sector. From 2003 to 2008, the ratio of priority sector has increased, whereas the ratio of the non-priority sector has been decreased. In 2016, the ratio of priority sector in NPA was minimum at 23.18 percent, whereas the ratio of non-priority sector increased to 76.86 percent. In the year 2017, the ratio of priority sector has been increased, whereas the ratio of non-priority sector decreased. Simultaneously, the proportion of public sector in NPAs has been between 1 to 2 percent.

**Table 2: Composition of NPAs of Scheduled Commercial Banks**

(Amount in Billion ₹)

Years	Total	Priority Sector		Non-Priority Sector		Public Sector	
	Amount	Amount	Percentage	Amount	Percentage	Amount	Percentage
2003	358.49	168.86	47.1	184.02	51.33	5.61	1.56
2004	349.9	167.05	47.74	178.95	51.14	3.9	1.11
2005	328.04	153.36	46.75	170.62	52.01	4.06	1.24
2006	288.17	149.22	51.78	132.27	45.9	6.68	2.32
2007	261.72	153.44	58.63	103.4	39.51	4.87	1.86
<b>2008</b>	<b>249.74</b>	<b>159.72</b>	<b>63.96</b>	<b>85.63</b>	<b>34.29</b>	<b>4.38</b>	<b>1.76</b>
2009	265.43	157.54	59.35	106.68	40.19	1.21	0.46
2010	363.95	195.67	53.76	165.23	45.4	3.05	0.84
2011	442.72	246.2	55.61	194.1	43.84	2.42	0.55
2012	690.48	324.24	46.96	355.55	51.49	10.68	1.55
2013	1016.83	408.34	40.16	599.01	58.91	9.48	0.93
2014	1474.48	537.5	36.45	935.67	63.46	1.3	0.09

2015	2049.59	709.34	34.61	1337.67	65.26	2.59	0.13
<b>2016</b>	<b>4179.88</b>	<b>969.03</b>	<b>23.18</b>	<b>3210.85</b>	<b>76.82</b>	<b>17.63</b>	<b>0.42</b>
2017	5069.22	1257.29	24.8	3811.93	75.2	147.2	2.9
<b>Average</b>	<b>1159.24</b>	<b>383.79</b>	<b>46.06</b>	<b>771.44</b>	<b>52.98</b>	<b>15.00</b>	<b>1.18</b>

Source: Computed by Authors.

### 3.3 Debt Recovery channels and Recovery of NPAs:

The below table 2 shows the various NPAs recovery channels and past recoveries of scheduled commercial banks. From 2012 to 2017 total 12045490 cases have been registered in Lok Adalats. The total amount involved in the cases was approximately 2386 billion rupees but only 98 billion rupees recovered to banks, which was just 4.11 percent of the total amount. In 1993, the Government of India established The Debts Recovery Tribunals (DRTs) for recovery of NPAs. From 2012 to 2017 total 117109 cases referred to DRTs. The total amounts of cases were 2831 billion rupees and banks recovered 367 billion rupees through DRTs, which was around 12.96 percent of the total amount. To overcome expending NPAs the Government of India passed The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act). This act gives permission to banks and other financial institutions to auction properties of defaulter to recover loans. From 2012 to 2017 total of 12976856 cases were referred through the SARFAESI Act. The total amounts of cases were 10351 billion rupees and banks recovered through the auction of properties approximate 1429 billion rupees, it was 13.81 percent of the total amount. It is found that from 2012 to 2017, the banks recovered the total amount of 1894 billion rupees out of 15568 billion rupees of NPAs; it was only 12.17 percent of the total amount.

**Table 2: Recovery of NPAs through various channels of Scheduled Commercial Banks**

(Amount in Billion ₹)

Recovery Channel	Years	No. of Cases Referred	Amount Involved	Amount Recovered*	Recovery in Percentage
<b>Lok Adalats</b>	2012-13	840691	66	4	6.06
	2013-14	1636957	232	14	6.03
	2014-15	2958313	310	10	3.23

	2015-16	4456634	720	32	4.44
	2016-17	2152895	1058	38	3.59
<b>Total (1)</b>		<b>12045490</b>	<b>2386</b>	<b>98</b>	<b>4.11</b>
<b>DRTs</b>	2012-13	13408	310	44	14.19
	2013-14	28258	553	53	9.58
	2014-15	22004	604	42	6.95
	2015-16	24537	693	64	9.24
	2016-17	28902	671	164	24.44
<b>Total (2)</b>		<b>117109</b>	<b>2831</b>	<b>367</b>	<b>12.96</b>
<b>SARFAESI Act</b>	2012-13	1044636	1057	233	22.04
	2013-14	1859922	1738	320	18.41
	2014-15	3155672	2482	308	12.41
	2015-16	4654753	2214	288	13.01
	2016-17	2261873	2860	280	9.79
<b>Total (3)</b>		<b>12976856</b>	<b>10351</b>	<b>1429</b>	<b>13.81</b>
<b>Grand Total (1+2+3)</b>		<b>25139455</b>	<b>15568</b>	<b>1894</b>	<b>12.17</b>

Source: computed by authors

\*The recovered amount in that year, which could be the present year as well as the previous years.

### 3.4 Causes of Increasing NPAs:

There are many hidden factors which affecting of increasing non-performing assets in Indian banking sector last some decades. Some of them briefly described below:

- **Global financial Crisis:** The Indian economy was in a phase of high growth during the period of 2000-2008. In this time banks' lending a large amount to corporate sector. In 2008 the world economy faced global financial crisis. Due to crisis the cycle of borrowing and lending was breakdown. The capacity of repayment of debt affected negatively because the profit margins of corporate sectors reduced.

- **Misuse of borrowing:** There are a large number of borrowers in the society, who takes a loan from a banking sector for a particular purpose and the loan uses another purpose. It is mainly spent on wasteful purpose.
- **Non-recovery of loans:** Due to sufficient collateral security, proper inspection of the borrower and procedural simplifications the incidence of fraudulent activities by the borrower has been increased over past sometimes.
- **Misallocation of liquidity:** In India more than 75 percent of total lending has been given to industry sector. Concentration of Lending in few sectors like mining, textiles, infrastructure and aviation are the main cause of increasing debt failure.
- **Business cycles:** Due to change in economic conditions many firms have to face crunch of working capital. Many times, the firms reach the verge of closure. Due to this there is a lot of increase in NPAs of banks.
- **Change in circumstances:** In recovery period of the economy, banks provide large amount to lending at minimum rate of interest but at the time of repayment of debt, there is a possibility that the rate of interest increased and thus the burden of debt is increased at the time of repayment.
- **Suspicious performance of debt recovery tribunals (DRTs):** The establishment of DRTs had set up to release the pressure to recover NPAs for banking sector. Lack of inadequate numbers of DRTs can be cause of inefficient performance of recovery tribunals.

### 3.5 Impact on NPAs on Banking sector and Economy:

NPAs directly concerned with profitability of the banks. There are several ways, which are affecting the profit of banks:

- **Liquidity position:** NPA affects banking liquidity, thereby creating a mismatch between assets and liability, and banks have to be forced to raise resources at high costs.
- **Effect on banking liquidities:** As the NPAs increases the availability of liquidity in the market extensively decreases. This can lead to a lack of investment in the economy.
- **Increase cost of borrowing:** After increasing NPAs banks have less amount of liquidity. Banks will charge high to maintain their profits and money supply according to market demand.
- **Increase risk:** Due to increase NPAs banks have in a dilemma to give or not lending's. So, the risk of lending will increase in the banking sector. It has adverse effects on the economy.



- **Declining productivity:** Because of NPAs, the liquidity does not utilize appropriately and it will waste resources like time, money and manpower. This will ultimately result in declining profitability and productivity.
- **The burden on society:** This will affect borrowers because they will have to get money by paying higher interest.

### **Suggestions:**

To prevent the burden of the increasing NPAs on the banking sector, the following some suggestions are suggested here. China has proved to manage its NPAs as 1-2 percent. India can learn from the strategy adopted by china. The four-step strategy was adopted which includes the financial strengthening of the banking sector by recapitalisation, creation of asset management companies and asset-based securitization and the incentives like tax breaks, exemptions from administrative fees and transparent evolution norms. The banking system of recovery of loans must be strict. Appropriate training programmes must be organized to train the personnel of the loan department. This training will give them the sense to save the loan from getting NPA. Necessary documents must be checked when the loan is sanctioned. Banks should try to diversify the lending for different categories.

### **Conclusion:**

After 2012, the explosive rate of increasing NPAs is a major challenge for the banking system and Indian policymakers. The steps taken against the NPAs by the RBI and the government have been disappointing, they could not stop growing NPAs. The NPAs has become a hindrance to banking and financial system in India, in which many cases have emerged as frauds of billions of rupees of the banks. From 2012 to 2017, the banks recovered only 12.17 percent of the total amount of NPAs. According to the present situation of the increasing NPAs, it does not seem to resolve this problem, but reformist measures can be taken to reduce this risk of the banking system. In order to overcome the problem of NPAs, the government should establish and proper utilization of regulatory framework.

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