FINANCIAL MANAGEMENT MANAGEMENT OF NON-PERFORMING ASSETS (NPAS)

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ABSTRACT: Banking sector plays an important role in the Indian economy. The banking sector performance can be measured by assessing the bad loans which cannot be recovered. The level of NPAs indicates the soundness of the banking sector. The purpose of this research is to examine the role of the different banks in managing and controlling the NPAs through the various recovery mechanisms. This paper identifies the reasons on occurring of NPAs in Indian banking industry, and to find out existing monitoring systems and credit appraisals to control the NPAs. The information will be useful for investors as the issue of poor loans causes for the NPAs and to know its impact on the profitability of the banks and thereby the future prospects of the banking sector.
The main objectives of this paper; to examine the gross NPAs and incidence of NPAs.
To measure the trends of NPAs in the Indian banking sector.
Further the paper also attempts to study adherence to the guidelines and directions issued by the RBI from time to time

Keywords: NPAs review mechanisms, GNPA, CAR and PCR percentage ratio.

1. INTRODUCTION

Banking sector plays an important role in the development of economy. Finance is the life blood of trade and industry. Banks provides financial assistance to the individuals, and industries. Credit is the one of the important tools used for making profit by the banking sector. The funds received from the borrowers should be returned by them within the stipulated period of time. The banker should have the good credit appraisal system for the recovery of the loans. Otherwise it affects the profitability of the banks. NPAs are the leading parameters considered for the evaluation of the performance of the banking sector.

The main source of the income for banks interest earned on the loans and advances and repayment of the principal within the stipulated time. If such assets are failed to generate the income, then they are classified as Non-performing assets. Generally a loan or advance is

treated as NPA if the interest or installment of principal remains overdue for 90 days.

In the balance sheet of the banks NPAs existence is not a healthy sign for banking sector. It's had an unfavorable impact on the profitability due to the high provisions should be made against these bad loans. There is need for banks to maintain the certain level of capital adequacy to strengthen their net worth. NPA is the major issue for the banking sector. The objective of this paper is to find out the status and the trends of NPAs in the banking sector. SBI and ICICI banks are the sample banks, and the period of study is considered from 2010-11 to 2019-20.

Types of NPAs;

1. Gross NPAs; are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on balance sheet date.
2. Gross NPAs ratio= gross NPAs/gross advance*100
3. Net NPAs; are those type of NPAs in which the bank deducted the provision for uncertain and unpaid debts.
4. Net NPAs= Gross NPA provision on Gross advances.

2. LITERATURE REVIEW

Ankit George (2016); a study on management of NPAs in context of Indian banking system. The paper reviles the causes of NPAs and its impact on profitability of banks. The RBI trends, tables and charts are used for analysis and interpretation.

Varun Agarwal Nidhi agarwal (2019); A critical review of NPAs in the Indian banking industry. The paper highlights on the growth rate of NPAs is low in private sector banks as compare to public sector banks. Mean growth rate is used for analysis and interpretation.

Jaslene kaur Bawa and Sankarshan Basu (2019); an analysis of NPAs of Indian banks; using a comprehensive framework of 31 financial ratios. The study examines panel data for46 Indian banks with 31 bank specific financial ratios over eight years (2007 to 2014). These ratios reflects operating capability,, liquidity, solvency, profitability and business development. the data was analyzed by using a GMM model.

Abhishek Sikdar (2020); NPAs and its effects on banks profitability. The paper revels the action plans to control the NPAs and preventive measures to reduce the NPASs to some extent. And also explains the latest RBI measures to control the NPAs.

Santosh Kumar Das and Khushboo Uppal (2021). NPAs and profitability in Indian banks an empirical analysis. The paper reveals the NPAs and profitability relationship by estimating the determinants of public and private sector banks. NPAs and profitability in Indian banks an empirical analysis

3. RESEARCH GAP

Thus an overview of the above literature shows that are quite a few studies in the field of NPAs in the banking industry. However, there are no studies that look at the data till 2020, which is important and pertinent to understand the current status of NPAs in the Indian banking sector. Hence the article is not only relevant but also helps to know the current status of Indian banking sector. The researcher contributes the knowledge regarding the position of Indian banks about the NPAs status and its impact on the profitability of the banks.

4. OBJECTIVES OF THE STUDY

1. To determine the incidence pattern of Gross NPAs of selected public and private sector banks
2. To examine the trends of NPAs in the selected public and private sector banks
3. To study the initiatives and measures adopted by banks to manage and control the NPAs in the selected public and private sector banks.

5. METHODOLOGY OF THE STUDY

5.1. Sources of data

The present study based on the secondary data. These data have been collected from different sources such as;

a) Annual reports of SBI and ICICI bank.
b) Press release reports of SBI and ICICI bank
c) Websites of SBI and ICICI banks.

5.2. Sample design the public and private sector bank for the study were selected on convenience sampling method. SBI and ICICI banks were considered for the research purpose. The study period is from 2010-11 to 2019-20.

5.3. Statistical tools used

Mean has been calculated to know the average performance to know the stability in the performance of the banks to find out the NPA and other key parameters of bank.

6. THE INCIDENCE PATTERN OF GROSS NPAS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS

There are many factors for the incidence of NPAs in the banking sector. In the banking organization the internal and external factors causes for the growth of NPAs.

6.1. INTERNAL FACTORS

Defective lending process the banks should follow the principle bases lending process. The principle like safety, liquidity and profitability. The principle of safety means that the borrower should capable to pay back the loan. Due to the negligence on the part of the banker many times loans were disbursed to the incapable and willful defaulters. Which causes to the growth in NPAs. The character and the capacity of the borrower should be verified before sanctioning the loans.

Technology impact; the technology had the positive and negative impact. The bankers have upgraded the technology security; the hackers are successful in making frauds. The illiteracy of the customers causes for the success of hackers. The banks should try to educate the customers about the internet banking system does and don't.

Improper SWOT analysis; the banks should evaluate the projects for long term loans. The strength and weakness, opportunities and threats should be evaluated and scrutinized before the disbursement of long term loans. The top management involved in sanctioning the loans for the projects make discussions, verification of documents, and proper field investigation before taking the decision to sanction the loan .

Poor credit appraisal system; the banks are failed to make proper credit appraisal system before sanctioning the loans. Due to the poor credit appraisal the banks sanctioned advances to the incapable borrowers which results in NPAs.

Managerial deficiencies; many top level officers are failed to make the proper verification of documentation of collateral securities. The field officers should follow the ethics in verification and sanctioning the loan.

6.2. EXTERNAL FACTORS:

Table 1 – Gross NPA's of ICICI Bank v/s SBI

Year	Gross NPAS of SBI	Gross NPAs of ICICI bank
2015-16	98173.8	26720.93
2016-17	177866.99	42551.54
2017-18	223427.46	54062.51
2018-19	172750.36	46291.63
2019-20	149091.85	41409.16
Total	821310.46	211035.77
MEAN	164262.092	42207.154

Source – Secondary Data

Willful and smart defaulters; the borrowers approach to the bank with high influence to get the loans. The bankers should be strong towards their duties and responsibilities; they should not care for any influences to sanction the loans.

Natural calamities; the bankers failed to recover the loans due to the natural calamities like floods, cyclones, etc. basically the farmers depends on rainfall for cropping due to these calamities the farmers were unable to attain the production level and they are unable to repay the loans. As the per the RBI guidelines the banks should lend 40% to the priority sector lending which is the main reason for the increasing the NPAs.

Industrial sickness: lack of adequate resources, in poor technology, ineffective management the industries are failed to make the repayment of the loans. The Government policies for growth of the MSMEs, causes the problem of recovery loans by the banks.

6.3. To examine the trends of NPAs in the selected public and private sector banks
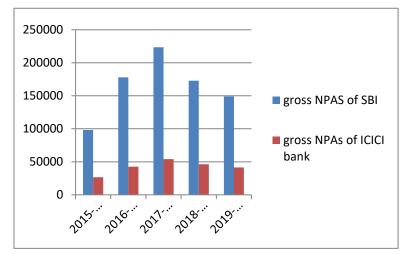
The management of NPAs is challenging task for the banking sector. For good financial health it is essential to control and manage the NPAs. There are two types of NPAs gross and net NPAs. The gross NPAs are considered for the research purpose.

Table 2 CAR of SBI and ICICI bank

Year	CAR OF SBI	CAR OF ICICI BANK
2015-16	13.12	13.09
2016-17	13.11	14.35
2017-18	12.6	15.92
2018-19	12.72	15.09
2019-20	13.06	14.72
Total	64.61	73.17
MEAN	**12.922**	**14.634**

Source – Secondary Data

Table 1: Reveals the gross NPAs of SBI and ICICI bank. SBI has highest mean of 1644262.092 followed by ICICI bank with 42207. There is a variation in the NPAs of SBI in the year 2015-16 it is 98173.8, whereas very high in the year 2017-18 which is 223427.46, due to the merger of five banks with SBI in 2017-18. Whereas in the year 2019-20 it is 149091.85.

Graph 1 depicts the GNPA % of SBI and ICICI bank from 2010-11 to 2019-20

The above graph depicts the gross NPAs of SBI and ICICI bank from 2015-16 to 2019-20. During the year 2017-18 the gross NPAs shows the highest growth of SBI and ICICI banks

6.4. CAR; CAPITAL ADEQUACY RATIO

The CAR ratio of banks capital in relation to the risk weighted assets and current liabilities. This is a measure used to banks' ability to meet its obligation. A high CAR means the bank can absorb losses without diluting capital.
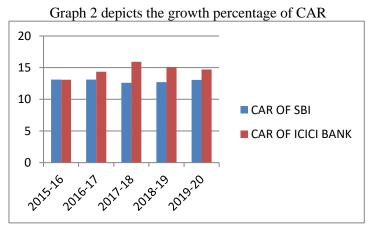
Table 2 capital adequacy ratio of SBI and ICICI bank from 2015-16 to 2019-20

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Total	64.61	73.17
MEAN	12.922	14.634

Source – Secondary Data

The table 2 shows capital adequacy ratio of SBI and ICICI bank from 2016 to 2020. In the year 2015-16 the CAR of SBI is 13.12 and in the year 2019-20 it is 64.61, there is a consistency in

the CAR percentage of SBI during the period. The highest mean of ICICI bank is 14.63 followed by SBI. The CAR of ICICI bank is more consistency compares to SBI.

Graph 2 depicts the growth percentage of CAR

The above graph depicts the growth percentage of CAR of SBI and ICICI banks. Compares to SBI the ICICI bank CAR growth percentage is high, which is a better to control and manage the NPAs. The banks have to maintain the better CAR percentage to face and control the NPAs and bad loans.

6.5. PCR provision coverage ratio; it is the ratio of provisions to gross NPAs

PCR= provisions /Gross NPAs. It helps to understand the financial health of banking sector. PCR of 70% is the bench mark as set by the RBI. A high percentage of PCR should be maintained by the banks to control the Gross NPAs.

Table 3 Provision coverage ratio of SBI and ICICI bank from 2015-16 to 2019-20

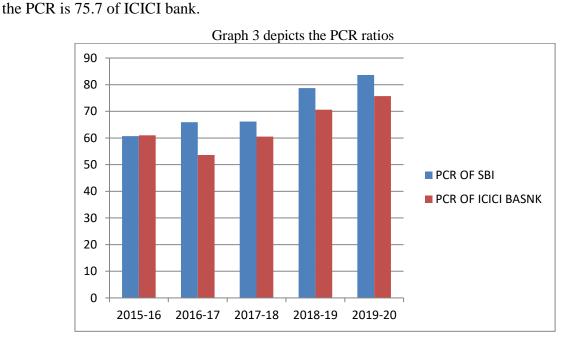| YEAR	PCR OF SBI	PCR OF ICICI BANK
2015-16	60.69	61
2016-17	65.95	53.6
2017-18	66.17	60.5
2018-19	78.73	70.6
2019-20	83.62	75.7
Total	355.16	321.4
Mean	71.032	64.28

Source – Secondary Data

The table 3 shows the PCR of SBI and ICICI bank from 2015-16 to 2019-20. The PCR is 60.69 in the year 2015-16 which and consistently increasing in the year 2019-20 it is 83.62 which is highest during the period. Whereas ICICI bank PCR in the year 2016-17 is 53.6 which is lowest, and in the year 2019-20 it is 75.7 which is highest. Compares to ICICI bank SBI banks PCR is in better position.

6.6. Graph depicts the PCR ratios of SBI and ICICI bank

In the below graph we can observe the SBI PCR growth is high compares to ICICI bank.

Compare to first three years the PCR percentage is good in the year 2018-19 it is78.73 and 2019-20 it is 83.620of SBI and in the year 2018-19 the PCR is 70.6 and in the year 2019-20 the PCR is 75.7 of ICICI bank.

Graph 3 depicts the PCR ratios

6.7. The initiatives and measures adopted by the SBI and ICICI banks to manage and control the NPAs

As per the initiatives of RBI, and Government policies, the banks have taken measures to control the NPAs through the recovery channels like SARFAESI Act 2002 securitization and reconstruction of financial assets and enforcement of security interest act, DRT debt recovery tribunal, Insolvency and Bankruptcy code 2016, NCLT national company law tribunal, IBBI the insolvency and bankruptcy board of India, Lok Adalat etc. The banks are recovering the amounts with the help of these various recovery channels to control the NPAs.

6.8. Reporting to central repository of information on large credits (CRILC)

As per the RBI guidelines the banks should make report to the CRILC their credit data of borrowers. The credit information would also include all types of exposures as defined under RBI circular on exposure norms. It is mandatory to contribute their credit information of the borrowers. As per the current guidelines, all lenders are required to report credit information,

including classification of an account as SMA to central Repository of information on large credits on all borrowers the fund based and non-fund based 500 lakh and above. It will also help to maintain the sustainability in the recovery process.

Provisioning coverage ratio. As per the RBI guidelines it obligatory on the banks to maintain the required PCR. It indicates the extent of funds a bank has kept aside to cover the loan losses. This can be achieved by the banks when they make deep investigation of borrower's assessment before sanctioning the loan amount. All the loan accounts, including temporary overdraft, irrespective of size, sector or types of limits, shall be covered in the automated IT based system for asset classification, up gradation, and provisions processes. Banks investments shall also cover under the system.

7. FINDINGS OF THE STUDY

The incidence pattern of Gross NPAs of selected public and private sector banks; based on this objective the factors like internal and external causes for NPAs is explained.

To examine the trends of NPAs in the selected public and private sector banks;

7.1. Assessment of gross NPAs level.

At the individual level of SBI there is an increase in the growth rate of NPAs during the study period. Compares to ICICI bank the SBIs gross NPAs are high during the period. An examination of the gross NPAs position of the selected public and private sector banks shows the growth rate of NPAs of both banks. The mean is used for evaluation purpose.

7.2. Assessment of CAR ratio of SBI and ICICI bank

The table 2 shows capital adequacy ratio of SBI and ICICI bank from 2016 to 2020. In the year 2015-16 the CAR of SBI is 13.12 and in the year 2019-20 it is 64.61, there is a consistency in the CAR percentage of SBI during the period. The highest mean of ICICI bank is 14.63 followed by SBI. The CAR of ICICI bank is more consistency compares to SBI.

7.3. Examination Provision coverage ratio of SBI and ICICI bank. It is essential on the part of the banks to maintain the PCR as per the RBI guidelines. Compares to ICICI bank the PCR of SBI is comparatively good that is 71.03 whereas ICICI bank is 64.28. It is essential on the part of the ICICI bank to maintain the required level of PCR.

The initiatives and measures adopted by the SBI and ICICI banks to manage and control the NPAs. The various measures adopted by the SBI and ICICI banks are explained.

8. SUGGESTIONS

1. Banks shall keep the business logic and other parameters and configurations of the system updated to ensure that the system based identification, classification, provisioning and income recognition are strictly in compliance with the regulatory guidelines.

2. There should be periodic system audit, at least ones in a year, by internal or external auditors.

3. Credit appraisal system should be upgraded by the banks as per the requirements of the borrower's history and KYC. Bankers should follow the ethics in the evaluation of credit appraisal of the borrower which is very important to control the NPAs.

4. Field investigation report should be very accurate and precise to sanction the loan amount before sanctioning the loan the report should be submitted to the higher authority and it should be verified.

5. The banker should be unbiased and impartial towards his duties and responsibilities, small ignorance may cause the big problem.

6. Conclusion; this study concludes that banking sector contributions are valuable in the development of an economy. The objective of this paper is to understand the reasons for NPAs and controllable measures adopted by the banking sector. And also to examine the trends in NPAs of public and private sector banks. The banks have to adopt the better credit appraisal policy mechanisms to control the NPAs. The banks adhere to RBI guidelines to control the NPAs.

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