NPA Management in Indian Scheduled Commercial Banks

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Abstract

Non-performing assets are currently a major obstacle for the Indian banking sector to overcome. The quality of assets and efficiency of banks are directly proportional. An asset which includes any leased asset becomes non-performing when it ceases to generate the coveted income for the group. This paper analyses the growth of some selected NPA variables and compares them with the banking performance indicators.

Keywords: Non-Performing Assets

## 1. Introduction

1.1. Overview

A robust banking system is of utmost necessity for any developing economy. There is an adverse effect of NPA on the profitability, liquidity, and solvency positions of the bank. A non-performing asset can be defined as a loan or advance facility whose interest and/or principal amount is not repaid. Like any other business, the banking sector's primary motive is also to earn profit. An increase in the amount of NPA is reducing the profits of many SCBs because of the drastic reduction in the quality of assets.

NPA management refers to the tools and techniques which help to identify risks and give early warning to take prompt action against any future loss. The management of NPA will begin as soon as the application for the loan is received from any customer.

In this article, the NPA management in Indian scheduled commercial banks is tried to be analyzed only. Scheduled commercial banks are those banks that are included in the second schedule of the Reserve Bank of India Act, 1934. We have selected only the scheduled commercial banks as they are under the control of RBI and they enjoy some privileges from RBI.

1.2. Classification

Non-performing assets are subdivided into three categories based on the time of their non-recovery or non-generation of income with effect from 31 March 2005.
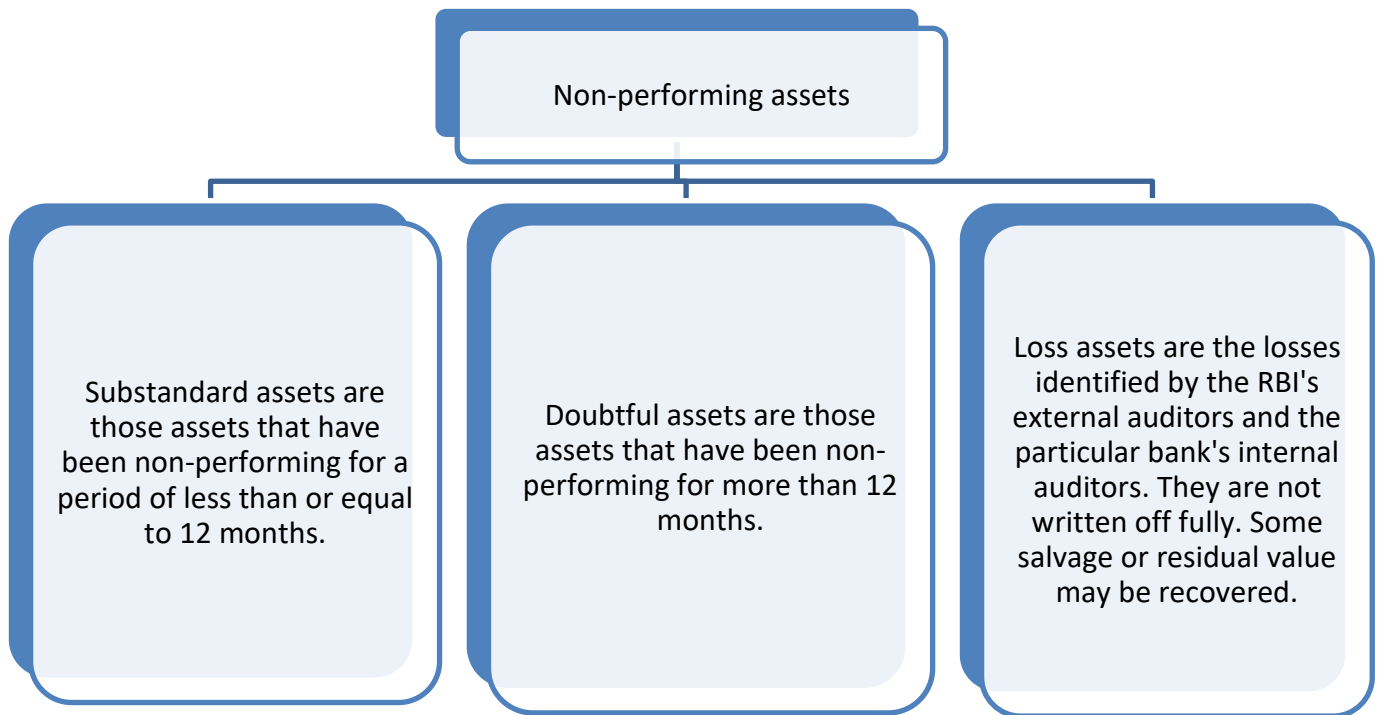
Figure 1: The classifications of NPA

(Source: As created by the author)

2. Literature review

Year	Serial No.	Author	Name of the projects /books	Findings
2021	1.	Siddhartha Sankar Saha	Indian Financial System	The government's directive in granting loans to companies without checking its commercial imperatives is an external factor that leads to NPA.
2021	2.	Abilash Mani	Non-Performing Assets (NPA): A Review of (NPA) Mechanism and its Emerging Menace in Indian Public Sector Banks	A distinct committee should be set up by the banks to pre-check creditors' ability and also identify if there are any other obligations overdue in their account before granting the further loan.
2019	3.	Varuna Agarwala and Nidhi Agarwala	A critical review of non-performing assets in the Indian banking industry	RBI is coming up with strict norms to check the growth of NPAs.
2014	4.	Sulagna Das and Abhijit Dutta	A study on NPA of Public Sector Banks in India	All banks have had similar NPAs in recent years irrespective of their operations.
2013	5.	K.K. Siraj and P. Sudarsanan Pillai	The efficiency of NPA Management in Indian SCBs – A Bank-Group Wise Exploratory Study	Public Sector Banks have shown improvement in efficiently managing NPAs.

Table 1: Table shows the review of the literature

(Source: As created by the author)

3. Objective of the study

- To study the concept of Non- Performing Assets in the banking sector.
- To study whether Scheduled Commercial Banks have improved in the management of NPA during our study period 2017-2022.
- To study the effect measurements of a regulatory framework for recovering the debts of Scheduled Commercial Banks.
- To study both the income-generating factors and qualitative measurement of assets.
- To find out the significant relationship between NPA management and the negative impact of the Covid-19 pandemic.

4. Methodology

The study is based on secondary data only. Data has been collected from various publications of RBI, annual reports of various commercial banks, several journals, and research publications. Data are analyzed and presented with the help of different statistical operations in MS-EXCEL.

5. Limitations of the study

In this study, there are certain limitations which are as follows:-

- This study is limited to only debt recovery tribunals and SARFAESI Act.
- The data for the study is confined to all scheduled commercial banks from 2017 to 2022. Data for longer period could have given impeccable results.
- The analysis can further be done based on the categorization of the banking sector based on ownership and debt structure.

6. Findings and Interpretations

The analysis of managerial controls of the Non-Performing Assets based on the various scheduled commercial banks in India has been performed. The total samples are 24 which are equally classified into government and non-government.

6.1. Overall Analysis

						(Rs. in Crore)
Name of the Bank	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
State Bank of India	58277.38	1,10,854.70	65894.74	51871.30	36809.72	27965.71
Bank of Baroda	18080.00	23483.00	15609.00	21577.00	21799.88	13364.64
Bank of India	25305.03	28207.27	19119.00	14311.00	12262.00	9852.00
Bank of	11230.00	9641.09	4559.33	4145.38	2544.32	1276.57

Maharashtra						
Canara Bank	21648.98	28542.40	22955.11	18250.95	24442.00	18668.00
Central Bank of India	14217.83	17377.87	11333.24	11534.46	9036.45	6675.17
Indian Bank	5606.57	5959.56	6793.11	6793.11	12271.13	8848.64
Indian Overseas Bank	19749.32	20399.66	14368.30	6602.80	4577.59	3824.62
Punjab National Bank	32702.10	48684.29	30037.66	27218.90	38575.70	34908.73
Punjab & Sind Bank	4375.08	4607.87	4994.23	4684.15	2461.95	1742.27
Union Bank of India	18832.10	24326.31	20332.42	17303.14	27280.52	24303.30
UCO Bank	10703.39	14082.07	9649.92	5510.66	4389.51	3315.78
Axis Bank	8626.55	16591.71	11275.60	*9134.56*	6993.52	5512.16
City Union Bank	408.34	474.78	591.46	778.49	1075.19	1191.10
Dhanlaxmi Bank Ltd.	166.48	194.65	151.71	100.94	322.92	232.16
Federal Bank Ltd.	941.20	1551.96	1626.20	1607.17	1569.28	1392.62
HDFC Bank Ltd.	1843.99	2601.02	3214.52	3542.36	4554.82	4407.68
ICICI Bank Ltd	25216.81	27823.56	13449.72	9923.24	918.00	6961.00
Yes Bank Ltd	1072.27	1312.75	4484.85	8623.78	9813.36	8204.53
Bandhan Bank Ltd	61.17	172.90	228.32	389.40	2,861.03	1564.23
Karnataka Bank Ltd	974.73	1400.51	1616.71	1755.01	1645.05	1376.97
IDBI Bank Ltd.	25205.80	28665.14	14837.44	5439.49	2519.00	1856.00
South Indian Bank Ltd	674.56	1415.80	2163.62	2150.78	2734.52	1777.77
IndusInd Bank Ltd	438.91	745.67	2248.28	1886.58	1476.57	1529.83

Table 2: Statement showing the historical closing values of Net Non-Performing Assets as on 31st March

(Source: As created by the Author based on the Annual reports of these banks)

These data have been taken from the respective annual reports; however, the data for 2020 for Axis Bank was not found. In this regard, an interpolation method was used to ascertain the value. These banks manage their NPAs both positively and negatively. Year-wise average values have been taken to ascertain the overall performance of the scheduled commercial banks in India.
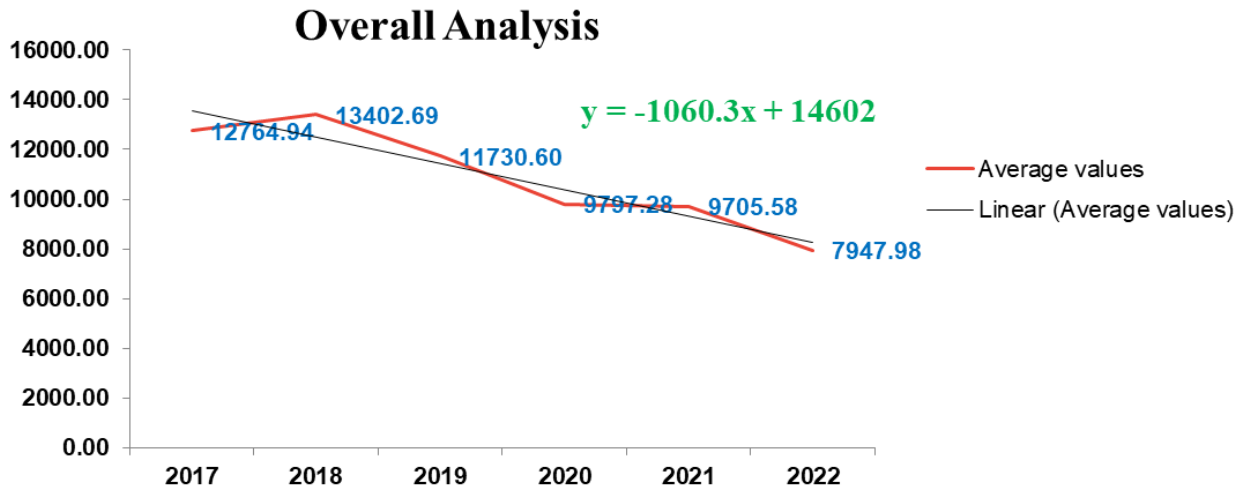

Figure 2: The graph shows the overall performance of these banks to control their NPAs

(Source: As created by the author)

The above graph shows a downward trend in the NPAs over the respective period. That means the overall NPAs are going down which is a green signal for the Banking industry in India.

6.2. Slope analysis of Trend lines

The trend of the NPA movement has been found. However, it needs to be analyzed more in terms of slopes. Slopes can elaborate more on whether the trend is strong or weak.

Name of the Bank	Slopes	Modulus Slopes	Shapes of Trend
State Bank of India	-1575.80	1575.80	Flatter
Bank of Baroda	-647.38	647.38	Flatter
Bank of India	-3711.70	3711.70	Steeper
Bank of Maharashtra	-2042.00	2042.00	Flatter
Canara Bank	-911.72	911.72	Flatter
Central Bank of India	-1786.80	1786.80	Flatter
Indian Overseas Bank	-3853.00	3853.00	Steeper
Punjab National Bank	-631.75	631.75	Flatter

Punjab & Sind Bank	-568.91	568.91	Flatter
UCO Bank	-2004.40	2004.40	Flatter
Axis Bank	-1328.80	1328.80	Flatter
ICICI Bank Ltd	-5014.90	5014.90	Steeper
IDBI Bank Ltd.	-5845.30	5845.30	Steeper

Table 3: Banks having negative sloped NPAs

(Source: As created by the author)

The straight line equation is constructed for every bank based on the equation $y = mx + c$.

Where, y = dependent variable, x = independent variable, m = slope, and c = intercept.

13 banks are negatively sloped which means the NPAs are going down. Therefore, it indicates that these 13 banks out of 24 are performing better. The arithmetic mean of these modulus slopes is 2301.73. If the corresponding slope is greater than the mean value, then that is considered 'steeper', and others are considered 'flatter'. Moreover, there are 4 banks whose trend lines are steeper, and the remaining 9 banks have flatter trend lines. In comparison with slopes, only 4 banks are performing quickly out of 13 banks.

| Name of the Bank	Slopes	Shapes of Trend
Indian Bank	1004.10	Steeper
Union Bank of India	948.27	Steeper
City Union Bank	168.63	Flatter
Dhanlaxmi Bank Ltd.	18.93	Flatter
Federal Bank Ltd.	65.43	Flatter
HDFC Bank Ltd.	543.08	Steeper
Yes Bank Ltd	1865.80	Steeper
Bandhan Bank Ltd	449.74	Flatter
Karnataka Bank Ltd	82.38	Flatter
South Indian Bank Ltd	270.27	Flatter
IndusInd Bank Ltd	208.16	Flatter

Table 4: Banks having positive sloped NPAs

(Source: As created by the author)

The 11 banks have positive sloped trend lines which means the NPAs are going up. Hence, these 11 banks out of 24 are not performing well. The arithmetic mean of the slopes is 511.34. There are 4 banks whose slopes are greater than the mean value and considered 'steeper', and the remaining is considered 'flatter'. These 4 banks out of 11 banks are performing worse and going up at a rapid speed.

6.3. NPA management by Government and Non-government banks

The samples are taken equally from the government sector and non-government sector banks. The averages are taken to analyze the overall performance of the government as well as non-government banks.
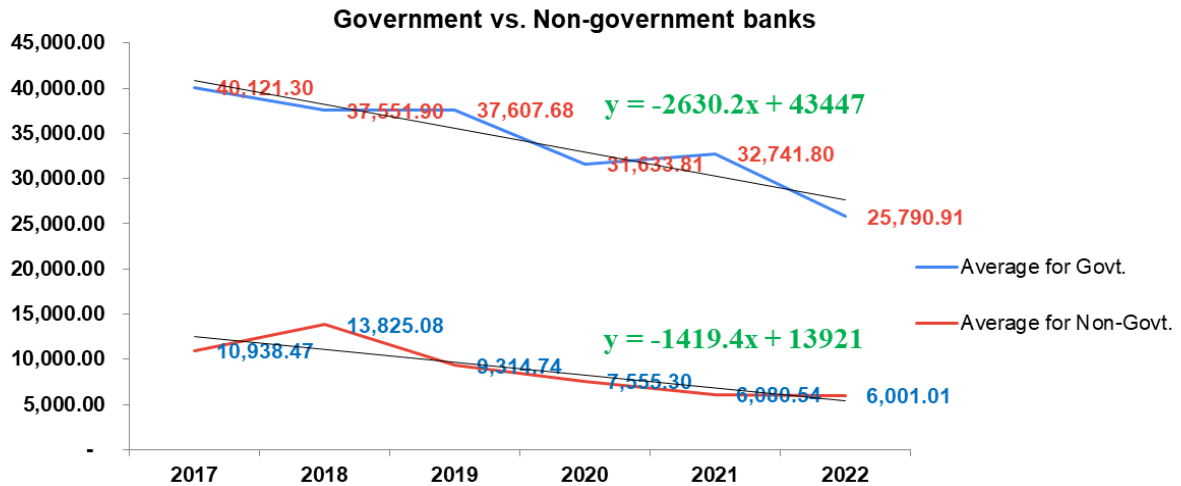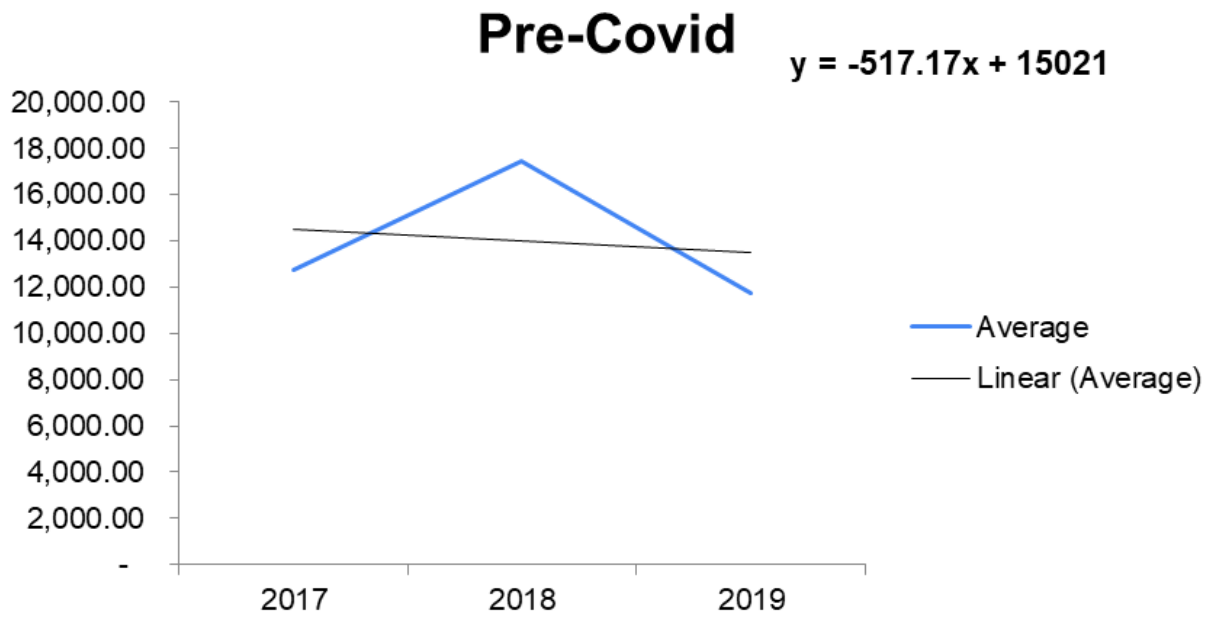

Figure 3: The graph shows the overall performance of government and non-government banks to control their NPAs

(Source: As created by the author)

The trend line has been formed based on the performance of government and non-government banks to control their NPAs. An equation is assigned for the trend line for government banks, that is y = -2630.2x + 43447, and another equation is assigned for non-government banks, that is y = -1419.4x + 13921. In comparison between these two equations, the mod value of the slope, that is the coefficient of x is greater for government banks. Therefore, the trend line for government banks is steeper than the trend line for non-government banks which signifies that more improvement is seen in government banks in the case of controlling the NPAs. However, the greater intercept of government banks' trend line indicates that the level of NPAs is also higher for government banks.

6.4. Effectiveness of Covid-19 on controlling the NPAs

According to various reports from the Government, the lockdown started in India in 2020 due to the Covid-19 pandemic. Due to the lockdown, there are numerous negative effects on the worldwide economy. This study also aims to know whether there is any significant effect on the NPAs of the selected banks due to covid-19. The data which have been selected for this study are from 2017 to 2022. The period between 2017 to 2019 is taken as the pre-covid period. On the other hand, the period from 2020 to 2022 is taken as during and post-covid periods. The average values are taken to assess the overall performance.

Figure 4: The graph shows the overall performance of banks to control their NPAs in pre-covid periods.

(Source: As created by the author)
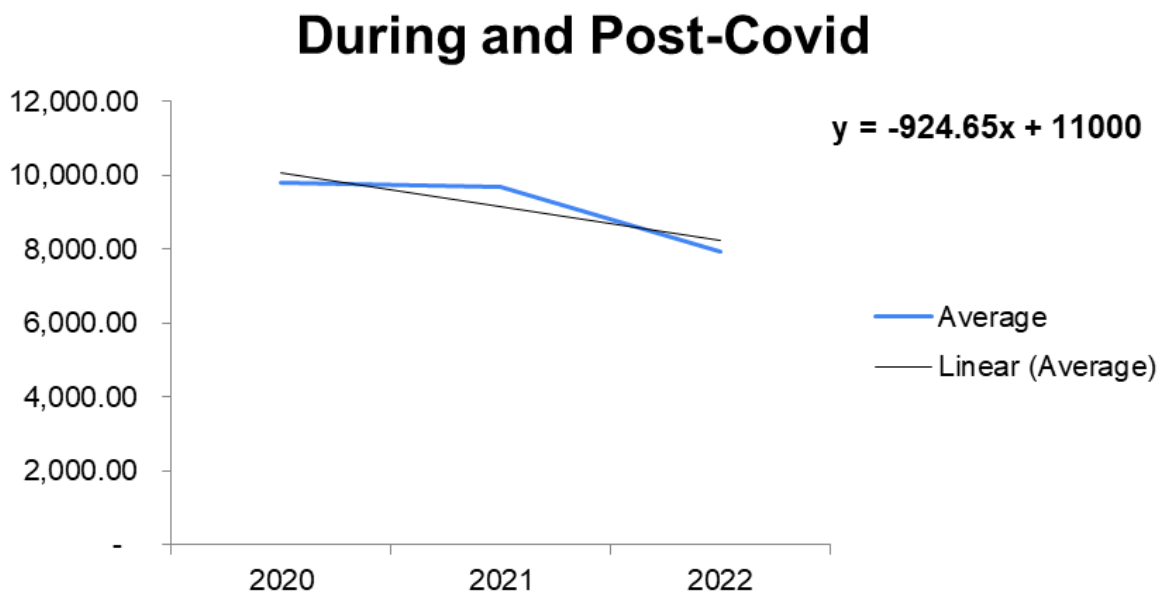
Figure 5: The graph shows the overall performance of banks to control their NPAs during covid and post-covid periods.

(Source: As created by the author)

Above two graphs show that both the curves are downward sloping signifying the banks are improving their NPAs management. However, the pre-covid trend has a slope of -517.17 and during the covid & post-covid trends has a slope of -924.65. Taking the mod value of those slopes we get that the during

covid & post-covid trend line is steeper than the pre-covid trend line. Therefore, it indicates that the NPAs are going down faster during covid & post-covid periods than in the pre-covid period. Hence, the covid did not affect the NPAs management of the scheduled commercial banks.

7. Observations and Recommendations

It is observed that the banking sector has improved slightly from the nemesis of NPA during the period of our study. This is due to the stringent measures taken previously for NPA management. However, the banking sector can be improved faster through the following recommendations:-

● Banks often grant huge amounts of loans to various sectors of the economy merely on the directives of the Government. This should be stopped altogether. Higher officials of banks should work independently without any pressure from the Government. Banks should check the commercial imperatives, future viabilities, previous loan repaying history, and overall condition of that particular sector of the industry before disbursing a loan.
● No bank should grant a loan with easier terms and conditions to any business entity. They should follow all the proper guidelines, and collect collateral securities. This can prevent the creation of further NPAs.
● RBI's circular regarding income recognition, asset recognition, and NPAs should be followed and executed properly by all the scheduled commercial banks for proper classification of NPAs and their timely recovery.

8. Conclusions

This study concludes the ample contribution towards the economy of India by the banking sectors. The pivotal role of this study is to understand the reasons for the occurrence of NPA in both the public and private sector banks. The study has been done with the measurement of straight line equation based on linear trend line and efficiency effectiveness of different banks. The result observed showed improvement regarding the effectiveness of public sector banks as most of the banks have taken some initiative in quality management. The study concludes that every bank needs to set up a committee to check creditors' ability and existing overdue in their accounting before the new loan disbursement.

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