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NPA is the indicator of performance of banks. -A study of private banks and public banks.

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Abstract

This research paper presents a comprehensive analysis of literature in the context of NPA and its impact on the performance of banks, with specific reference to public sector banks and private sector banks. The analysis includes changing the definition and meaning of NPA by the regulator in India vis a vis its impact on the NPAs. Based on the analysis it is concluded that large no of intervention legal or otherwise such as merger and acquisition of the bank are followed by the regulator within Lakshmi Vilas bank, IDBI".

The banking sector is the most essential part of the Indian financial system. A major obstacle for Indian banks is achieving operating productivity appropriate for modern financial inter-mediation under the existing ownership framework. Given the rise in nonperforming assets (NPAs), it has been surprisingly safe for PSBs to recapitalize, as the government's powerful ownership system has minimized the conflicts of interest that private banks would face. NPAs are a major source of worry for public sector banks, as they must be managed and regulated. NPAs have a negative impact on bank loans because non-recovery of loan payments and interest on the loan account negate the efficacy of the credit dispensation scheme. The non-recovery of loans also harms bank performance. Furthermore, banks with a large degree of NPAs must hold more owned funds as resources, build buffers and provisions, and have a buffer for loan losses. The main aim of this paper is to have a review on the banking system in India, NPA, NPA rise, extent and effect and suggested govt. measures to Solve NPA.

Keywords: Banking, Banks, NPA, Loan, RBI.

1. Introduction

NPA is a crucial subject in the banking industry, and several scholars have attempted to investigate the causes of NPA, the issues that NPA causes, and the effect of NPA on the banking industry, as well as come up with a remedy or solutions to the growing issue of NPA. Several publications have been published and reviewed, and this work is an attempt to provide an analysis of all those that are available in the same field of non-performing assets of public sector banks, private sector banks, and other banks.

When the GOI (Government of India) started implementing financial reforms focused on the Narasimha Committee reports I and II, the RBI (Reserve Bank Of India) adopted certain prudential norms to counter the credit management policies that banks and other NBFCs were following. The GOI passed the "recovery of debts owed to banks and other financial institutions act" in 1993 and the "securitisation and restructuring of financial properties and protection of security interest act" in 2002 to improve the recovery of loans and dues by banks and other financial institutions. However, figures indicate that the amount of NPAs is steadily rising, indicating that the said act, which the Indian government enacted, is not fulfilling the function for which it was intended. The explanation for this may be the bank's approach and attitude toward funding and recovering loans, especially from small and medium businesses, as well as a lack of awareness about the law and its application in banking, as well as violations of RBI directives/circulars, which all banks and financial institutions are required to obey. (n.d., Non-Performing Assets)

In fiscal year 2020, Indian public sector banks owed approximately 6.8 trillion Indian rupees in non-performing assets. This figure was far higher in the previous fiscal year, about 7.5 trillion rupees, reflecting a sluggish yet steady improvement in India's economy in terms of non-paying reserves at public banks. The recovery of dues is a crucial issue for banks and other financial entities to address. Banks are focused on "performance and justice" while still understanding when faced with legitimate challenges in handling fraud. A strong banking and finance system is critical for a developing economy, and its absence could have ramifications in all industries.

In September 2020, bank NPAs totalled Rs 8.08 lakh crore. As of September 30, 2020, the government's policy of acknowledgment, resolution, recapitalization, and changes had reduced NPAs by Rs 2,27,388 crore to Rs 8,08,799 crore. (Source: Data from the CEI)

The research paper is divided in to seven sections starting with the section of introduction. It is followed by literature review in section 2.India's banking system (include India NPA from 2010-2020 , Effect and extent of the NPA problem in India, Reasons of NPA rise,

Measures to reduce NPA by government) presented in section 3.Non-Performing Assets (NPAs)in section 4.Conclusion in section 5 .

2. Literature Review

According to their research paper, Ray and Patil. (2013) conducted with the aim of doing a comparative review of NPAs and their effect on a bank's profitability and productivity. The study's results were summarised in the context of a thesis, which included chapters such as description, NPA instructions, current NPA situation, impact of NPA, explanations for NPA, management of NPA, and conclusion and recommendations. They investigated if the emergence of NPAs has a negative impact on a bank's performance and financial health.

The research paper by Ghosh and Ghosh (2011) stated that in the light of the RBI's rigorous regulatory system, this study focuses on the management of NPAs from the viewpoint of public sector banks in India under strict asset classification norms, the usage of the most up-to-date technical platform focused on Core Banking Solution, recovery procedures, and other bank-specific indicators. According to analysts, banks must reduce NPAs in order to increase performance and meet Basel Accord capital adequacy standards.

In their research paper Paul, et.al., (2011) attempt to quantify the relationship of Indian PSU banks on overall financial results. NPA is a pessimistic financial predictor in this case.

According to Goyal's (2010) research study is methodological in nature and is focused on secondary data retrieved from reports such as Report on Trend and Progress of Banking in India, Report on Currency and Finance, and others. The study's focus is restricted to examining public-sector bank NPAs from 2002-03 to 2008-09. She looked at NPA trends, asset efficiency, the health of many loan portfolios, and NPAs by industry. In absolute terms, her research found an improvement in gross and net NPAs and increased bank asset efficiency.

The paper by Uppal (2009) attempted to investigate the priority sector advances by public, corporate, and international bank classes. His research is focused on parameters such as public, private, and foreign bank groups lending to priority sectors, milestones reached by public, private, and foreign bank groups, and NPAs (nonperforming assets) when lending to priority sectors.

Between 1999 and 2011, Siraj and Sudarsanan (2011) studied the success of scheduled commercial banks in India in the pre- and post-global financial crisis period. The authors point out that the banking sector's success is critical to the economy's development. The sustainability of banks and the efficient management of reserves in banks determine the banking sector's success. The Indian banking industry, according to the report, is prone to the global financial crisis.

Uddin (2011) investigated the output of commercial banks in Bangladesh following the Bangladesh government's financial reforms. The author examined ownership, market concentration, legislative actions, and policies using secondary data collected over an eight-year span from 2001 to 2008. As a standard non-frontier for measuring bank results, the author used a Data Envelopment Analysis (DEA) focused frontier to quantify revenue, cost effectiveness, and NPLs and returns on assets. The investigator discovered that sample banks' profits and expense productivity rose from 15.28 percent in 2001 to 37.84 percent in 2008. The author also discovered that NPLs and return on assets increased the bank's efficiency. Finally, the author stated that further analysis can be performed by utilising parametric tests to assess output in absolute form in addition to non-parametric DEA, assuming that the prior functional form has been successfully established.

In the Indian commercial banking industry, Thiagarajan,et.al.,(2011) used an econometric model to predict credit danger determinants. The authors used secondary panel data from 22 public sector banks and 15 private sector banks for this study. For both public and private sector banks in India, the authors discovered an inverse association between GDP and credit danger. Furthermore, they discovered that non-performing assets of public sector banks had decreased from 14% in the early 1990s to 3% in 2004. The authors concluded that the amount of NPAs has risen in recent years, despite a modest decrease in the level of NPAs for both public and private sector banks in India over the last decade.

Mitra (2012) investigates the NPA administration of urban co-operative banks in West Bengal's Hooghly area. According to the report, the prevalence of NPA had a negative effect on the growth and performance of urban cooperative banks. The research looked at the triggers of NPA and NPA's current state from 2004-05 to 2010-11. To recognise the effect of NPAs on unban co-operative banks, a primary survey is conducted using a questionnaire, and the data obtained is analysed using arithmetic mean coefficient of correlation and regression analysis. Finally, the author concluded that higher loans and advances caused a high level of gross NPAs, indiscriminate sanction by flouting loan regulation, lack of sufficient expertise and experience of the director on the board, unwise fund investment, and imprudent banking decisions.

Balasubramaniam (2012) based on NPAs and commercial bank profitability in India. The author addressed NPA in the context of detection and management procedures, as well as their effect on bank profitability and financial soundness. Using a pattern analysis approach, the author investigated the effects of bank consolidation of advances in India. Finally, he has emphasised the difficulties faced by banks due to the RBI's decision to implement Basel III norms to maintain a safe and secure financial sector.

Rangan (2012) investigated the connection between higher interest rates and bank NPAs in India. Through using repo rates as a surrogate for interest rates, an analysis of the State Bank of India's repo rates, advances, and NPAs is conducted. The researcher generated a theory and used a t-test to test it. The author came to the conclusion that there is a connection between nonperforming assets and increasing interest rates. Rising NPAs, according to the author, are attributed to a lack of a positive market environment, willful default, a poor legal structure, and a weak repayment culture, among other factors.

NPAs, according to Kumar and Singh (2012), are a two-edged sword. According to them, on the one hand, banks are unable to generate interest on non-performing asset accounts, and on the other hand, higher borrowing costs drain the bank's profitability. The writers looked at the issues that Indian banks are having with non-performing assets. The analysts used pattern analysis and percentage analysis to determine the effect of non-performing assets on bank profitability and capital adequacy criteria in the banking sector. The writers propose that banks take two approaches to managing non-performing assets: the first is to control new NPAs, and the second is to reclaim funds from accounts that have already gone wrong. Person borrowers fared better in terms of rehabilitation than corporate and institutional borrowers, according to the writers. The writers came to the conclusion that India has a lower ratio of NPAs than China.

De Bock and Demyanets (2012) investigated how banks' credit development and asset quality in emerging markets are affected by internal and external influences. The authors explored how a strong balance sheet during a boom cycle can cause a bank to lend excessively against inflated collateral values, putting banks at risk of recapitalization if their balance sheets deteriorate. Between 1996 and 2010, the authors used a Dynamic Panel Regression Model to assess the variables that influenced bank asset quality in twenty-five emerging markets. Furthermore, the authors used the Structural Panel Vector Auto Regression Model to measure what happens to the real economy in terms of GDP inflation, exchange rates, terms of trade, capital flows, share values, and interest rates when banks' balance sheets deteriorate by calculating a rise in the ratio of net non-performing loans to total loans when banks' balance sheets deteriorate. The authors discovered that after systemic shocks that resulted in higher non-performing loans, economic development slowed dramatically. The authors concluded that declining growth conditions, a depreciating currency, lower terms of trade, and a decrease in debt-creating capital inflows would all exacerbate the loan quality issue.

Using regression analysis, Siddiqui, et.al., (2012) investigated the effect of lending rate fluctuations on Pakistan's NPAs. The growing number of NPAs, according to the writer, is a sign of impending crisis. The authors conclude that continuous research into nonperforming loans is essential to prevent distress in the country's economy and financial sector, which is entrusted by millions of people and businesses. The authors used secondary data from the State Bank of Pakistan for this analysis. The regression model's findings revealed that interest rate fluctuations has an effect on nonperforming loans. The authors argued that interest rate uncertainty is not exclusively to blame for NPAs; there are a variety of other variables that can affect the occurrence of NPAs.

According to Selvarajan and Vadivalagan (2012), the Indian banking sector contributes significantly to the country's economic development. They say that bank nonperforming assets are increasing in India. Furthermore, the authors discovered that nonperforming assets are not only unprofitable, but they also increase the expense of credit management. The authors used secondary data for the study, which covered a ten-year span from 2000 to 2010. They discovered that the bank pays more on maintenance costs than potential costs using ratio research, t-test, and F-test. Nonperforming assets are not only a concern for banks, but they are also bad for the economy as a whole, according to the writer.

According to Veerakumar (2012), the Indian banking sector is experiencing a severe issue with rising nonperforming assets (NPAs). One of the main triggers of NPAs, according to the researcher, is the "Direct Lending System," under which banks advance loans to priority industries. According to him, the RBI set a goal of 40% of total credit to the priority sector for scheduled commercial banks between 1989 and 1990. According to the author, the priority sector accounts for more than 55 percent of total NPAs at scheduled commercial banks. Secondary data are taken from the RBI Report on the Trend and Progress of Banking in India, the RBI Annual Report, and the RBI Report on Currency and Finance. The researcher discovered that non-recovery of credit on time and lower NPA recovery are the primary causes of rising NPAs in India's scheduled commercial banks. The author concluded that the remedial steps taken by the GOI, the RBI, and bank management in recent years have helped to lower the amount of nonperforming assets (NPAs) below 3% of total advances (average 2.5%), as suggested by the Narasimham committee, and that NPAs must be reduced further to increase productivity and profitability.

Vemula and Mahalingam (2012) emphasised India's Finance Minister Pranab Mukherjee's worry about the declining asset quality in the domestic banking sector, where nonperforming asset development has outpaced credit growth in recent years, and urged the industry to tighten its belt. According to leading rating firm CRISIL, gross nonperforming assets (NPAs) in the Indian banking sector hit an all-time high of 3% in March 2012, up from 2.4 percent two years prior. The authors cited a study published by the RBI about the increase in nonperforming assets (NPAs) in both public and private sector banks due to funds being diverted from the original reason for which they were given well as wilful defaults. The authors claimed that the bank's pause in disbursing the loan throws the project off course, with a cascading impact on its profitability and repayment potential. Finally, the writers proposed a few proposals to regulate NPAs under three main headings: administrative measures, organization measures, and NPA recovery redressal structures.

The effect of nonperforming assets (NPAs) on the profitability of the State Bank of India was examined by Ganesan and Santhakrishana (2013). The authors looked at SBI's origins of working capital and how it was deployed. They notice that SBI handled nonperforming assets (NPAs) prudently and steadily reduced the proportion of NPAs as a percentage of overall advances. They discovered that NPAs had had no substantial impact on the distribution of SBI after conducting hypothesis research. Furthermore, the author stated that the SBI had already recognised the value of credit management. As a result, they used caution when extending loans and doing credit appraisals. Nonetheless, the rise in NPAs has been attributed to inadequate credit conditions, a lack of aggressive recovery mechanisms owing to government interference, and a loan waiver programme. They came to the conclusion that NPAs in the priority field, especially agriculture, are a source of concern for SBI since these loans are given as part of government policy.

Arya (2013) spent five years (2004–2009) researching NPAs and bank viability in the public, commercial, and international sectors, at a time when the RBI released new guidelines for managing and administering NPAs. They used percentage analysis and the overall growth rate to examine secondary statistics. The analysis found that public sector banks effectively control their nonperforming assets (NPAs). Banks in the private sector and international banks all grew at a faster pace.

Khompi (2013) used percentage review and CAGR to investigate the NPAs of scheduled commercial banks in India over a 16-year span (1997–2012). The least squares approach of time series analysis is used to do trend value analysis. The asset quality improved until 2010–2011, according to the report, but then deteriorated from 2011–2012. As a result, the author recommends that banks concentrate on lender qualification policies, as well as maintain effective control over loan disbursement and recovery. Finally, the report concluded that public sector banks should investigate technologies and customer-friendly procedures in order to minimise nonperforming assets (NPAs).

According to Jha (2013), commercial bank efficiency is a critical element in attracting global interest in a dynamic environment. In order to determine the effect of risk management considerations such as capital risk, liquidity risk, and profitability ratios, the authors used Data Envelopment Analysis and the Tobit model. Between 2005 and 2010, the writers gathered data from 18 Nepalese commercial banks. In Malaysia, joint venture banks are more effective than public sector banks, whereas in Turkey, public sector banks are more efficient than joint venture banks and domestic private banks, according to the authors. The study discovered that commercial banks with higher NPLs are deficient in technological areas, and banks with weak operations are often low in loan management. The authors concluded that in order for commercial banks to increase their profitability, they must minimise inputs to reach the productivity frontier and take into account the impact of risk management variables.

Ibrahim (2014) investigates the composition of NPAs in India's Scheduled Commercial Banks. The research spans a six-year period, beginning in 2007 and concluding in 2012. Public sector banks, private sector banks, and foreign banks are all included in this report. It is a comprehensive and analytical analysis that relies on data from secondary sources. It emphasises that SCBs' working efficiency in comparison to NPAs has significantly improved. The amount of NPAs in a country's banks reflects its banks' success. The profitability of the bank suffers as the number of NPAs rises. The association between NPAs and bank results is inverse. This NPA crisis is destroying the whole economy, including the banking industry.

3. India’s Banking System

The Indian banking industry is split into two categories: organised and unorganised. The RBI, Commercial Banks, Specialized Financial Institutions and Co-operative Banks make up the structured economy. Moneylenders and indigenous bankers make up the majority of the unorganised market, which is not homogeneous. The RBI is the apex of the Indian banking sector. It is the monetary system's nerve centre in India. The RBI is administered by a designated central board (headed by a Governor) by the Indian government. The RBI has 22 regional offices throughout the country. In the year 1949, India's reserve bank was nationalised.

The bank was established to control banknote issues, retain reserves in order to ensure monetary stability, and manage the country's credit and currency system to its benefit. After independence, the Reserve Bank's responsibilities have slowly expanded as economic development has taken on a new urgency. The bank now exercises a number of developmental and advertising roles that were once thought to be outside central banking reach.

Banks are classified below

List of Scheduled Commercial Banks (SCBs)

List of Scheduled Public Sector Banks	
Sr.No.	**Name of the Bank**
1.	Bank of Baroda
2.	Bank of India
3.	Bank of Maharashtra
4.	Canara Bank
5.	Central Bank of India
6.	Indian Bank
7.	Indian Overseas Bank
8.	Punjab & Sind Bank
9.	Punjab National Bank
10.	State Bank of India
11.	UCO Bank
12.	Union Bank of India
Source:https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657	

List of Scheduled Private Sector Banks	
Sr.No.	**Name of the Bank**
1.	Axis Bank Ltd.
2.	Bandhan Bank Ltd.
3.	CSB Bank Ltd.
4.	City Union Bank Ltd.
5.	DCB Bank Ltd.
6.	Dhanlaxmi Bank Ltd.
7.	Federal Bank Ltd.
8.	HDFC Bank Ltd
9.	ICICI Bank Ltd.
10.	Induslnd Bank Ltd
11.	IDFC First Bank Ltd.
12.	Jammu & Kashmir Bank Ltd.
13.	Karnataka Bank Ltd.
14.	Karur Vysya Bank Ltd.
15.	Kotak Mahindra Bank Ltd
16.	Lakshmi Vilas Bank Ltd.
17.	Nainital Bank Ltd.
18.	RBL Bank Ltd.
19.	South Indian Bank Ltd.

20.	Tamilnad Mercantile Bank Ltd.
21.	YES Bank Ltd.
22.	IDBI Bank Ltd.
Source:https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657	

List of Scheduled Small Finance Banks	
Sr.No.	**Name of the Bank**
1.	Au Small Finance Bank Limited
2.	Capital Small Finance Bank Limited
3.	Equitas Small Finance Bank Limited
4.	Suryoday Small Finance Bank Limited
5.	Ujjivan Small Finance Bank Limited
6.	Utkarsh Small Finance Bank Limited
7.	ESAF Small Finance Bank Limited
8.	Fincare Small Finance Bank Limited
9.	Jana Small Finance Bank Limited
10.	North East Small Finance Bank Limited
11.	Shivalik Small Finance Bank Limited
Source:https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657	

List of Scheduled Payments Banks	
Sr.No.	**Name of the Bank**
1.	India Post Payments Bank Limited
2.	Fino Payments Bank Limited
Source:https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657	

List of Scheduled Regional Rural Banks	
Sr No	**Name of the RRB**
1.	Andhra Pragathi Grameena Bank
2.	Chaitanya Godavari Grameena Bank
3.	Saptagiri Grameena Bank
4.	Andhra Pradesh Grameena Vikas Bank
5.	Telangana Grameena Bank
6.	Arunachal Pradesh Rural Bank
7.	Uttar Bihar Gramin Bank
8.	Chhattisgarh Rajya Gramin Bank
9.	Saurashtra Gramin Bank

10.	Sarva Haryana Gramin Bank
11.	Himachal Pradesh Gramin Bank
12.	Ellaquai Dehati Bank
13.	J&K Grameen Bank
14.	Karnataka Vikas Grameena Bank
15.	Madhyanchal Gramin Bank
16.	Vidharbha Konkan Gramin Bank
17.	Maharashtra Gramin Bank
18.	Manipur Rural Bank
19.	Meghalaya Rural Bank
20.	Mizoram Rural Bank
21.	Nagaland Rural Bank
22.	Utkal Grameen bank
23.	Odisha Gramya Bank
24.	Puduvai Bharathiar Grama Bank
25.	Baroda Rajasthan Kshetriya Gramin Bank
26.	Rajasthan Marudhara Gramin Bank
27.	Tripura Gramin Bank
28.	Uttarakhand Gramin Bank
29.	Bangiya Gramin Vikas Bank
30.	Paschim Banga Gramin Bank
31.	Uttarbanga Kshetriya Gramin Bank
32.	Kerala Gramin Bank
33.	Assam Gramin Vikash Bank
34.	Baroda Gujarat Gramin Bank
35.	Dakshin Bihar Gramin Bank
36.	Punjab Gramin Bank
37.	Jharkhand Rajya Gramin Bank
38.	Karnataka Gramin Bank
39.	Madhya Pradesh Gramin Bank
40.	Tamil Nadu Grama Bank
41.	Aryavart Bank
42.	Prathama UP Gramin Bank
43.	Baroda UP Bank*
NOTE: * The process for Baroda UP Bank at Serial no 43, for inclusion in the Second Schedule of RBI Act, 1934, is yet to be completed.	
Source:https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657	

List of Scheduled Foreign Banks in India	
Sr.No.	**Name of the Bank**
1.	Australia and New Zealand Banking Group Ltd.
2.	Westpac Banking Corporation
3.	Bank of Bahrain & Kuwait BSC
4.	AB Bank Ltd.
5.	Sonali Bank Ltd.
6.	Bank of Nova Scotia
7.	Industrial & Commercial Bank of China Ltd.
8.	BNP Paribas
9.	Credit Agricole Corporate & Investment Bank
10.	Societe Generale
11.	Deutsche Bank
12.	HSBC Ltd
13.	PT Bank Maybank Indonesia TBK
14.	Mizuho Bank Ltd.
15.	Sumitomo Mitsui Banking Corporation
16.	MUFG Bank, Ltd.
17.	Cooperatieve Rabobank U.A.
18.	Doha Bank
19.	Qatar National Bank
20.	JSC VTB Bank
21.	Sberbank
22.	United Overseas Bank Ltd
23.	FirstRand Bank Ltd
24.	Shinhan Bank
25.	Woori Bank
26.	KEB Hana Bank
27.	Industrial Bank of Korea
28.	Kookmin Bank
29.	Bank of Ceylon
30.	Credit Suisse A.G
31.	CTBC Bank Co., Ltd.
32.	Krung Thai Bank Public Co. Ltd.
33.	Abu Dhabi Commercial Bank Ltd.
34.	Mashreq Bank PSC
35.	First Abu Dhabi Bank PJSC
36.	Emirates Bank NBD
37.	Barclays Bank Plc.

38.	Standard Chartered Bank
39.	NatWest Markets Plc
40.	American Express Banking Corporation
41.	Bank of America
42.	Citibank N.A.
43.	J.P. Morgan Chase Bank N.A.
44.	SBM Bank (India) Limited*
45.	DBS Bank India Limited*
46.	Bank of China Ltd.
[* Note: SBM Bank (India) Limited (Subsidiary of SBM Group) and DBS Bank India Limited (Subsidiary of DBS Bank Ltd.) have been issued licence on December 06, 2017 and October 04, 2018 respectively for carrying on banking business in India through Wholly Owned Subsidiary (WOS) mode. They have commenced operations as WOS with effect from December 01, 2018 and March 01, 2019.]	
Source:https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657	

4. Non-Performing Assets (NPAs)

Banking's true past reveals that it deals with money lending and compilation. It did, though, obey the universal rule of demand and supply, in which people with extra capital lent it to people who used it for more profitable uses and were able to pay a fee for it. The money lender knew who he lent money to, but the activities were small.

Over time, as the operations grew in size due to a rise in the number of customers, proper regulation and coordination of these activities became essential. Easy banking evolved into business banking over time, and commercial banking has experienced many developments across the globe over the last five decades. India is no different in this respect, and the reforms that have occurred in India have become much more dramatic and radical in certain ways than elsewhere in the world.

The Narasimham Committee on "Financial System Reforms," which was tabled in Parliament on December 17th 1991, was the first to implement the definition of non-performing assets (NPAs). The Committee examined the current financial architecture, identified its flaws and shortcomings, and made various proposals and recommendations that adhered to globally agreed standards. The RBI established prudential norms on income identification, asset classification, and provisioning and provided revised guidelines to banks in April 1992, based on the recommendations of the Committee on "Financial System Reforms." Although conveying the non-performing category to banks and their desire to paint a rosy image of their affairs, the aforementioned guidance also instructed them that, in accordance with foreign standard, income on NPAs should not be recognised on an accrual basis, but rather should be looked at only when it is genuinely realised, since an asset becomes non-performing when it ceases to produce income. Since the financial year ended March 1998, banks have been following the RBI's directives.

The role of lending money is related to the issue of NPAs. Banking began with the loan of funds raised from the public for interest rather than one's own money. Despite the fact that modern banking encompasses a broad range of financial activities in addition to conventional deposit gathering and money lending, lending remains the most important practise associated with banking. Banks meet the majority of society's credit requirements for carrying out trading transactions. Bank loans and advances in the form of term loans, demand loans, cash lending, overdrafts, inland and international bills bought and discounted, and deposits in non-government business instruments make up traditional credit from the financial system to the commercial sector.

Non-performing assets (NPAs) are an important aspect of a bank's business. A bank lends funds up front and receives interest over time based on a borrower's commitment to repay. The bank losses both its revenue source and its resources as debts are not repaid. Lending is often followed by collateral danger, which arises from the borrower's failure to repay the loan. Non-performing loans are widely regarded as a key metric for evaluating a bank's credit risk, asset quality, and capital distribution performance to profitable sectors. The most perilous dilemma confronting commercial banks around the world in recent years has been the rise in non-performing loans, which has harmed their stability and solvency, putting their eventual existence in jeopardy. As a result, the issue of NPAs should be addressed as soon as possible. It is only feasible if a check is put on NPAs from the start.

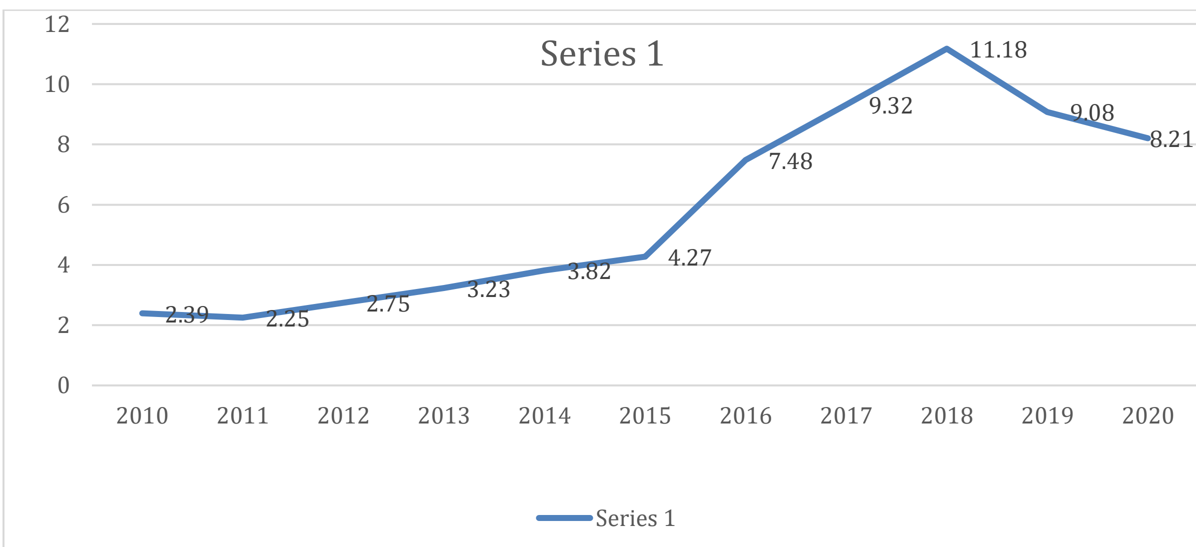
The unfolding situation was caused by a lack of preparedness and systemic weaknesses in our financial sector, and attempting to transition to globalisation further exacerbated the crisis. The main explanation for this was that the RBI (RBI) and the GOI were surveying and summarising the challenge of NPAs from the perspective of the banking sector, which was separate from the rest of the economy.

As per RBI, A "non-performing asset" (NPA) is a credit agreement on which the interest and/or principal instalments have been "past due" for a prescribed period of time. As seen below, the mentioned span was gradually decreased.

Year Ending March 31	Specified Period
1993	Four quarters
1994	Three quarters
1995 onwards	Two quarters
2004	Over 90 days
Source: RBI, 2004	

4.1 India NPA from 2010-2020

Year	NPA Ratios	
2010	2.39	
2011	2.25	
2012	2.75	
2013	3.23	
2014	3.82	
2015	4.27	
2016	7.48	
2017	9.32	
2018	11.18	
2019	9.08	
2020	8.21	
Source: www.ciedata.com/RBI.		



Source: www.ciedata.com/RBI.

The issue of NPAs in the Indian banking sector has sparked a lot of debate and examination. The Standing Committee on Finance recently issued a study on India's banking sector, noting that banks' ability to lend has been seriously harmed by rising NPAs. The Lok Sabha's Estimates Committee is also looking into public sector banks' success in terms of their burgeoning issue of NPAs and loan recovery mechanisms.

In addition, the RBI (RBI) issued guidelines for banks in February 2018 about the timely resolution of stressed assets, which have been the subject of several court cases. In this background, we look at the country's recent increase in NPAs, some of the underlying causes, and the measures taken so far to resolve the issue.

State Bank of India (SBI) had the most NPAs among the major public sector banks, with over Rs 1.86 lakh crore, led by PNB.

Bank Name	Gross NPA
State Bank of India	Rs. 2.01 trillion
Punjab National Bank	Rs. 557 billion
IDBI Bank	Rs. 445 billion
Bank of India	Rs.434 billion
Bank of Baroda	Rs. 416 billion
Union Bank of India	Rs. 380 billion
Canara Bank	Rs. 377 billion
Central Bank of India	Rs. 324 billion
Indian Overseas Bank	Rs. 317 billion
UCO Bank	Rs. 243 billion
HDFC	Rs 150.86 billion
Source : Reserve Bank of India and the Indian Express	

The following table shows the loans written off by Indian banks over the years.

Year	**Amount in INR Crores**
2013-14	19815
2014-15	60197
2015-16	72501
2016-17	107823
2017-18	162733
2018-19	236725
2019-20	237876
2020-21	185038
Source: Reserve Bank of India and the Indian Express.	

4.2 Effect and Extent of the NPA problem in India

Borrowers get loans and advances from banks. The loan may be classified as either (i) a normal asset (a loan where the creditor makes daily repayments) or (ii) a NPA, depending on its results. Loans and advances classified as NPAs are those on which the creditor has defaulted on interest or principal payments for more than 90 days.

The overall gross NPA in the economy are estimated to be Rs 10.35 lakh crore by 2020. Around 85% of these NPAs come from public sector bank loans and advances. The State Bank of India, for example, has NPAs worth Rs 1.86 lakh crore.

Bank gross NPA (as a percentage of total loans) have risen steadily in recent years, from 2.3 percent in 2008 to 9.3 percent in 2017. This means that a growing portion of a bank's assets is no longer generating profits, diminishing the bank's profitability and willingness to extend new credit.

When NPAs rise, a bank's allowance for losses would rise as well. Banks put aside more funds to cover potential possible expenses, resulting in poor profitability due to a number of systemic problems. A bank's profitability is determined by its Return on Assets (RoA), which is the ratio of net income to net assets. Bank profitability has been declining in recent years, leaving them prone to adverse economic shocks and, as a result, placing customer deposits at risk.

According to the RBI, gross bad loans in Indian banks could reach levels not seen in nearly two decades. From 9.3 percent in 2019, gross NPA fell to 8.5 percent in 2020. In the benchmark case, gross nonperforming assets (NPAs) will increase to 15.2 percent by March 2021, up from 11.3 percent a year ago. This could reach 16.3 percent in the “extremely heavy stress” situation.

Corporate credit expansion accounts for 37% of overall bank assets and produces 73% of nonperforming assets (NPAs). In July 2020, credit development to business eased to 0.8 percent, down from 6.1 percent in July 2019.

Bank gross nonperforming assets (as a proportion of overall loans) have risen steadily in recent years, from 2.3 percent in 2008 to 9.3 percent in 2019. This means that a growing portion of a bank's assets is no longer generating profits, diminishing the bank's profitability and willingness to extend new credit.

When nonperforming assets (NPAs) rise, a bank's allowance for losses would rise as well. Banks put aside more funds to cover potential possible expenses, resulting in poor profitability due to a number of systemic problems. A bank's profitability is determined by its Return on Assets (RoA), which is the ratio of net income to net assets. Bank profitability has been declining in recent years (Figure 2), leaving them prone to adverse economic shocks and, as a result, placing customer deposits at risk.

4.3 Reasons of NPA rise

Many researchers have discovered several explanations for NPA in previous papers. Market failure, willful defaults, poor follow-up and supervision, bank non-cooperation, a weak legal system, a lack of entrepreneurial skills, and fund diversion are only a few examples. (2010, Santanu Das) In their paper, Zahoor Ahmad and Dr. M. Jegadeeshwaran (2013) examined inappropriate borrower activity collection, a poor credit valuation scheme, industrial problems, inefficiency in borrower management, slackness in credit management and supervision, lack of adequate follow through by bank, business recession, and natural calamities and other uncertainty as reasons for NPA.

(Ashly Lynn Joseph, 2014) described a range of external, internal, and other considerations that lead to the creation of NPA, including: diversion of funds for growth, diversification, modernization, or taking on new projects; diversion of funds for assisting or supporting associate concerns; time or cost overrun at the project execution period.; and business failure. External considerations include the overall economy's contraction, supply or power shortages, input price escalation, exchange rate volatility, and policy changes. Other considerations include the liberalisation of the economy, such as certain competitions, tariff reductions, and so on; poor asset quality monitoring/recognition; and the capital market panics that goes on quickly and tumbles suddenly.

Any of the external factors contributing to the rise in NPAs are external, such as lower global oil prices resulting in slower exports. Some are more inextricably linked to the Indian banking industry.

Many of the loans still known as NPAs were issued in the mid-2000s, when the market was expanding and the industry outlook was bright. Loans for projects were provided to large companies based on extrapolation of their recent development and success. Corporations were heavily leveraged as bonds became more readily accessible than ever, meaning that the majority of funding came from outside sources rather than internal promoter equity. However, when the economy slowed during the global financial crash of 2008, these companies' capacity to fund their debts shrank. This led to what is now recognised as India's Twin Balance Sheet Crisis, in which both the banking sector (which lends money) and the business sector (which borrows money and must repay it) are experiencing financial difficulties.

Borrowers sacrificed their opportunity to repay the bank as the enterprise on which the loan was taken began to underperform. At the time, banks practised a method known as "evergreening," in which new loans were issued to certain promoters in order for them to pay off their interest. This largely postponed these loans' classification as non-performing, although it did not remedy the underlying causes of their insolvency.

Furthermore, there have been recent large-scale frauds that have led to rising NPAs. Despite the fact that the size of frauds is limited in comparison to the overall amount of NPAs, they have been rising, and no high-profile fraudsters have been punished.

4.4 Measures to Reduce NPA by Government

The steps taken to address and avoid NPAs can be divided into two categories: first, legislative means of resolving NPAs under different laws (such as the Insolvency and Bankruptcy Code), and second, RBI-prescribed and supervised remedial measures for banks for internal restructuring of stressed properties.

In May 2016, the Insolvency and Bankruptcy Code (IBC) was passed, establishing a time-limited 180-day restructuring period for insolvent accounts (where the borrowers are unable to pay their dues). The borrowers in these insolvent accounts determine whether to restructure the debt or auction the defaulter's properties to reclaim the accrued balance under the IBC, which is supervised over by an insolvency professional. If a determination is not made in a timely manner, the defaulter's properties are liquidated. The Debt Recovery Tribunal adjudicates real insolvencies, and corporate insolvencies are adjudicated by the National Company Law Tribunal (NCLT). As of March 2018, 701 cases had been filed and 176 had been resolved under the IBC.

Borrowers whose loans were flagged as nonperforming assets (NPAs) prior to the circular's publication recently crossed the 180-day deadline for banks to settle their loans internally. Several of these borrowers, including power producers and sugar mills, had filed appeals against the RBI guidelines in various High Courts. A two-judge bench of the High Court of Allahabad recently affirmed the RBI's authority to issue these rules, refusing to grant power producers immediate relief from being referred to the NCLT for bankruptcy. Both of the cases that were brought in reaction to the circular were appealed to the Supreme Court, which has now issued an order that maintains the status quo. These cases cannot be appealed to the NCLT until the Supreme Court decides on the RBI's circular, even after the 180-day deadline has passed.

5. Conclusion

It is preferable to prevent rather than cure. Proper loan plan appraisal undoubtedly aids banks in identifying unviable ventures in the early stages. Complete details on the unit, market, financial stake, administrators, and so on should be gathered. Due to the technical nature of lending, there is a pressing need to acquire specialized expertise in valuation, supervision, and recovery to maintain the credit portfolio's efficiency. Credit risk management is crucial, and its efficacy is dependent on a successful recovery and exit plan. Banks should be fitted with the most up-to-date credit risk management strategies to secure bank reserves and reduce insolvency costs. To mitigate these threats, banks should look at developing credit derivatives markets. Timely follow-up is important for maintaining asset quality and allowing banks to recover interest and instalments on time. Banks must monitor the units' operation by paying periodic visits to provide greater leverage over the assets generated by borrowings. This must be achieved with all units, regardless of whether the account is working or non-performing.

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