Impact of Non-Performing Assets on Public Sector Banks in India

Dr. Raghu. G. Anand
Associate Professor and Head-Dual Programs, Jain Deemed-to-be University- Center for Management studies, Bangalore

Ms. Radhika Goenka
Jain Deemed-to-be University- Center for Management studies, Bangalore

Mr. Harsh Raj
Jain Deemed-to-be University- Center for Management studies, Bangalore

Abstract
In the present era, the Indian banking systems have faced accumulation of excessive non-performing assets (NPA’s), especially in the public sector banks. With the growing percentage of credit default happening over the past few years, Indian banks are facing large cases of NPA’s. As per RBI, delay in the payment of loans even by a single day is considered default. As per the financial predictions made, the companies may default on more than 2.5 lakh crore rupees in the upcoming years. There are several reasons for this research paper to be made. The primary motive is to do an extensive study on the behaviour of these defaulters and how will it affect the profitability of banks in the upcoming scenario. Moreover, this research paper will throw light upon few of the largest NPA’s the Indian banks have suffered in the past and how in the future they can reduce loan defaults. It will also contain in-depth research about the relationship between the profits and non-performing asset in the public sector bank. There is immense need for an effective risk management policy in the public sector banks so that the banks can get hold of the urgency of the risk. Over the past few years, the economy has seen merger of a large number of banks. One of the major reasons behind the merger was the huge amount of NPAs the acquired banks had with them which made them impossible to survive in this fast-paced economy. These issues will not only lead to poor economic growth but also a much lower level of employment in the economy.

Keywords: Correlation, Gross NPAs, Net NPAs, Public Sector Banks, Net Profit, Return on Assets.

To cite this article: Dr. Raghu. G. Anand, Ms. Radhika Goenka, and Mr. Harsh Raj. (2021) Impact of Non-Performing Assets on Public Sector Banks in India. Review of International Geographical Education (RIGEO), 11(7), 2926-2940. Doi: 10.48047/rigeo.11.07.269

Submitted: 09-10-2020 ● Revised: 11-12-2020 ● Accepted: 13-02-2021
Introduction

Default is the non-payment of the debt including the principal amount along with the interest on a loan. It occurs when the borrower is unable to meet his financial obligations and is unable to comply with the legal aspects of the loan. These defaults turn into Non-Performing Assets (NPA’s) after a period of 90 days. NPA’s are recorded in the balance sheet in the books of accounts of the financial institutions. The lender after facing a delay in the payment may force a debtor for paying an asset which was used like a collateral or in certain conditions where there was no collateral, may sell of any existing asset of the borrower to a collection agency after writing down the asset as a bad debt in the books[1].

With the dynamic growth and competition in the economy and the constant changes taking place, the financial sectors are undergoing rapid expansion and are building a huge customer base. The ongoing development is enabling the businesses to acquire loans from the banks which in certain cases lead to credit risks or defaults. The banking sector and specifically the public sector banks in India have encountered certain huge cases of NPA’s in the recent years. The origin of NPA’s was seen post the economic liberalisation in the mid 1990’s when there was the establishment of new businesses in the country. Its growth was seen in the mid-2000s when the economy was at a boom along with a sense of over optimisation in the minds of people and there was a rise in the growth and expansion of businesses[2].

Large business houses were provided credit facilities based on their conclusion of previous performances. Loans were granted at an alarming rate during that period. These corporations were easily granted loans which led to higher financial leverage of those firms denoting that they majorly depended on external debt rather than issuing internal equity[3]. It was during the global financial crisis of 2008, when the economy became highly stagnant that these businesses suffered a huge set back thereby substantially decreasing their efficiency to repay the loans. This along with the irrational exuberance of the people resulted both the financial as well as the corporate sector to come under financial stress. The predictions of the business houses began to seem highly unrealistic thereby making the banks aware of their exaggerated claims. When they were unable to pay off their existing debts due to their poor performance, the banks instead of being cautious began the practice of evergreening i.e., providing new loans to pay off the existing ones. These loans effectively turned into NPA’s at a later stage in the balance sheets of the financial corporations.

In the recent years, the Indian economy has witnessed merger of some its largest public sector banks. The principal cause for the amalgamation of these banks is that the smaller banks have huge NPA’s in their books which they are unable to recover thereby affecting their profitability to a great extent. Lending is extremely risky therein reimbursement of the loans isn’t continually bonded and most of the days depend upon alternative factors not within the management of the recipient. Therefore, managing loans during a correct means not solely has positive result on the banks performance however additionally on the recipient and a country’s economy as a full[4]. Failure to manage loans, that form up the biggest share of banks assets, would seemingly cause high levels of non-performing loans and this successively result on the performance of banks and also the economy at massive.

Types of NPA

Gross NPA

Gross NPA refers to the total amount of loans that are unrecovered by the banks or other financial institution. It consists of all the types of assets i.e., sub standard’s asset, doubtful asset & loss asset. It is a type in non-standard asset on which the bank makes preparations & is nevertheless taken into account within accounting records of the bank.

Net NPA

Net NPA refers to the overall amount of NPA’s remaining after deducting the gross NPA’s with the provisions. It shows the genuine liability of the bank. The banks are further required to make provisions for these NPA’s.

\[
\text{NET NPA}= \text{GROSS NPA}- \text{PROVISIONS}
\]
Asset classification

Standard Asset

These assets are the normal assets of the firm which neither disclose any problem to the business nor carry any extra risk attached to the business. These are the source of regular income in the business. These consist of the loan accounts, or the bills purchased/discounted which do not fall under the NPA classification. These assets are generally not classified as NPA’s and thus the risk on these assets is considered as normal.

Substandard Asset

The assets which have remained NPA for a period of 12 months or less are known as sub-standard asset. In such kind of loans and advances, the risk possessed is more than the standard asset and the credibility of the borrower is considered fragile in this asset thereby jeopardizing the liquidation of the debt. The banks are required to make provisions on the outstanding amount for these advances. The provisioning is as follows:

- On the secured portion, 15% of the outstanding amount is made as the provision.
- And on the unsecured portion, 25% of the outstanding amount is made as the provision.

Doubtful Asset

The assets that have remained as substandard asset for a period of more than 12 months are known as doubtful assets. These comprise of all those loans and advances which do not comply with the norms of the standard asset. The collection of such loans is highly doubtful and there is a least probability that banks will recover anything from these advances. These assets are highly injurious to the firm’s liquidity and reputation. The provisions made for these assets are:

- On secured portion, 25% of the outstanding amount is taken as provision.
- On the unsecured amount, 100% of the outstanding amount i.e., the entire amount is taken as a provision.

Loss Assets

The assets which cannot be recovered by the banks are known as loss assets. For this type of loans and advances, the banks or the external auditors are certain for the fact that recovery of the amount lent by them is impossible. Therefore, the bank has to write off the entire amount of loan outstanding or make a provision for the full amount which has to be written off in future.

The provisioning for the assets is done by the banks as per the guidelines of the RBI to address the quality of the asset. The provisioning done by the bank is directly proportional to the asset quality, i.e., worse the asset quality, higher is the provision made for that asset. Furthermore, these provisions ensures an accurate assessment of their overall financial health and also provides a true and fair picture of their balance sheet[5].

Causes of NPA’s

Providing loans and advances is one of the major function of banks. With the increasing development of the economy, borrowing loans and advances is the basic necessity for any business. These extensions of loans made by the banks in such high ratios often constitute the major cause of the increase in non-performing assets. The borrowing rate of the economy is noticeably higher than the repayment or the recovery rate. The significant increase in the amount of unrecoverable loans in the economy has been a subject matter for quite some time. Nearly 7% of gross NPA’s today are classified as loss assets[6]. The factors leading to the substantial increase in NPA’s are both external as well as internal.
Internal Factors

Defective lending process

Also referred as the poor lending decision, this factor comprises of the major determinant in the increasing amount of NPA’s in the economy. It takes place due to the ignorance of three basic principles of the banks namely – principle of liquidity, principle of safety and principle of profitability. The banks before the extension of loans should carefully examine the borrower’s financial history. It should make sure that the business is a sound one and is actually competent to pay off the debts.

Improper SWOT analysis

SWOT comprises of Strengths, Weakness, Opportunities and Threats. Before extending any loan, the banks should carry forward an appropriate SWOT analysis so as to get a thorough picture of the borrower’s credit worthiness. The banks should not only examine the balance sheet of the business but also should see the primary purpose of the loan. Inadequacy of these factors add up to the increasing amount of loans in the economy.

Improper risk management

The improper risk management of the banks also contribute towards the rise of NPA. In some cases, it so happens that the banks provide loans to businesses having poor credibility. This proves to be a major default from the banks side which in turn leads to generation of NPA’s.

Inappropriate technology

Technology in today’s world helps in the day-to-day operations of the banks. Improper technology or poor management system of the banks will lead to unjust decisions which can prove to be a great error on bank’s behalf. Poor accounting system as well the information system may provide incorrect data to the banks about the firm’s credit worthiness which may lead to the generation of NPA’s in the economy.

External Factors

Lack of demand

In certain situations, the businesses are unable to determine their future demand for products and services. Expecting a higher demand, these businesses often borrow huge amounts of debts which they are unable to pay off due to their poor sales. The banks then are left with no choice but to sell off their assets which only proves to cover the tiniest amount of the loan amount borrowed. This leads to the substantial increase in the NPA’s of the banks.

Poor economic conditions

The poor economic conditions as well as the market behaviour led to the growth of NPA’s. Furthermore, natural calamities lead to an alarming rise in the NPA’s of the banks. Banks are required to maintain huge provisions for such unforeseen calamities.

Persistent defaults

The faulty defaults of the borrowers willingly is another reason for the increase in NPA’s. In certain cases, the borrowers are unwilling to pay off their liabilities to the banks thus resulting in the increase of NPA’s in the banks.

Changes in government policies
With the change in the government in the economy, the policies of the banks get refurnished. This too leads to the increasing amount of NPA’s in the economy.

**Effect of NPA**

There are several problems faced by the banks with the increasing amount of NPA’s. These are as follows:

**Effect on profitability of banks**

Increase in NPA is inversely proportional to the profitability of the bank. As the amount of NPA’s increase, the profitability decreases. NPA’s tend to cease the incomes of the banks.

**Effect on liquidity of banks**

NPA’s also effect the liquidity of the banks. It tends to cause a mismatch between the assets and the liabilities of the banks. The banks raise their resources at a relatively high cost in order to maintain their liquidity position.

**Effect on provisioning made by the banks**

Increase in the amount of NPA’s lead to the increase in the provisioning made by them. The banks in order to avoid huge losses tend to create huge provisions. Furthermore, RBI has provided guidelines for the provisions to be made on the different types of assets.

**Increase in the cost of capital**

It also leads to a substantial increase in the cost of capital as the banks are required to keep a high amount of funds for the provisions that are to be made for the NPA’s and also for the smooth functioning of their operations. In such cases, banks tend to increase their interest rates in order to generate more income and to curb down their expenses.

**Credit contraction**

Increasing amount of NPA’s often reduces the lending capacities of the banks. The banks are not able to extend loans on a very regular basis. It also leads to generation of less interest income in the banks. Furthermore, they also tend to reduce the money supply in the economy thereby causing an economic slowdown in the country.

**Shareholder’s confidence**

Increase in the amount of NPA’s leads to the decrease in the shareholder’s confidence. The shareholders who have invested their money in the banks often do not get any returns and their investment value starts to erode. This leads to the decrease in the confidence of the shareholders who were expecting higher dividends from the banks for investing their money.

**Increase in the burden of the government**

Rising amount of NPA’s also lead to the increase in the burden of the government. Since in the public sector banks, the government is the major source of equity provider, it has to provide additional sources of capital to these banks which are struggling due to the increase in the amount of NPAs.

**Impact on MSMEs**

Since the amount of NPAs are increasing in the economy, the banks are hesitant to provide loans.
to the small and the medium industries. They extend loans to the big business houses and are reluctant for the MSMEs. This leads in the fall of the MSME in the economy.

LITERATURE REVIEW

The impact of profitability of public sector banks due to the subsequent rise in the NPAs has been a topic of keen interest for many researchers since the late 1980s whenever the need be perceived in the economics for the transformation of the Indian banking industry. Several research papers have been written to assess the mentioned problem and several solutions have also been devised for the same[4].

Initially the researchers believed that the profitability of banks was measured by their efficiency to provide loans and their ability to provide credit generation efficiently and effectively. It was only in the late 1980s that the NPAs engrossed the attention of the researchers when there was a necessity to transform the Indian banking sector[7].

According to Gopalakrishnan, T.V.[8], as he emphasised the impact of NPA on Banks sustenance and development in the current research "Managing Non-Performing Advance." He stressed the links of NPA with various macroeconomics' metrics like GDP or inflations, Agricultural capability and the performance of the business sector of the economy. Upon conducting a study upon the performance of the Indian public sector banks from 1993-2001, a significant relationship has been observed between the consequent rise of NPA's and a few major macroeconomic factors that play a huge role in the generation of NPA's. Some of these factors include GDP, Inflation, money supply, increasing government debt and so on. Based upon the actual data, the author dwelled upon the fact that the economy needed restrictive measures to supervise the extent of NPA. The conclusion of the study further highlighted that NPAs contribute a heavy threat upon the balance sheets and profitability of banks and exceeding level of NPAs within the books of accounts could be major threat for banking constancy, & sound.

Reddy B.R.[9], in his research, found that all these scientific studies contribute to a significance of a NPAs in the successful administration of public sector bank utilising secondary & primary datasets, the following research was carried out. In short, those study studies identified the NPA as just a risk for the existence, development & management of Indian public service banks.

The Asymmetric information theory [10] says because when it became costly for the financial institutions for gather data on the borrowers, it is difficult to determine among good & evil bidders. This is because the entity with additional knowledge about the product (borrower) is in a good situation than that of the other side to bargain optimum terms and conditions (lenders). The party with less knowledge about the object to be bought might either decide the transactions correctly or incorrectly.

According to the Inverted Pyramid effect banks offer more loans to customers who have good loan history. Such customers are encouraged to take more loans although they had not planned to. In the end these customers may not be able to repay the loans because of increased burden due to increased instalments. Increase in the loan amount also increases the risks associated with loans.

The administration in the NPA in the Indian public sector banking, stressed upon symbolism function in the control of NPA of financial institutions through prudential norms. The researchers advised that the DRTs should be strengthened to cope against debtors extra seriously. The emphasis of this study was mainly on enhancing the management policy of the banks to regulate NPA in the Indian public banking sector[11].

Another study focused upon the relationship between the solvency of the banks and NPAs. According to the researchers, an asset worth greater than that of obligations will have a financially stable bank. If, however, its obligations affect the amount of the bank's personal asset in specific conditions, then it shall refer its capitalization to absorb its loss. And when the depositors begin to withdraw their deposits from the banks the solvency of those banks get seriously affected. The rise in the bank's financial ratio would ultimately result in higher of the bank's interest payments expenditures. In addition, a rise in NPA price indicates increased NPA rules. Firstly, this would lead to greater interest payments and provisions of non-performing assets for costs sustained via a bank as well as, secondly, to lower income accrued by NPAs. Higher NPAs can cause significant crisis in the bank profits[12].

2932
The Reserve Bank of India too has undertaken research in which 800 major NPA account in
government bank leading to the greater level of NPAs are identified, the major public sector
banks. The analysis showed that India’s banking industry defaults debts were usually quite large.
As of 31 March 1989, the majority of public sector loans really accounted at 17.91% of its total
advance. The quantity that was stored in disabled manufacturing plants was not included in that
percent. The defaulted loan was so substantially greater. Though, there was a significant decrease
in the NPA’s, it declined to nearly 17.440% like 31st March 1997. However, inside many among the
banks, the fall in the NPA proportion was largely so the progression after 1992 was proportionally
stronger & the accumulation of NPA is less. The research also concluded the greatest factors
which played a significant role for the conversion of the loans to NPA’s. These factors included
inefficient management, Government policies like changes in excise duties, pollution control
orders, deficit of labour, abandoned technology, shortage of capital, inflation in the economy,
increase in the debt markets, natural calamities etc. A RBI research indicated that its NPAs
reductions in the financial system must be considered as a major issue for strengthen, resilience &
face the problems posed by globalisation in Indian financial system[13].

Research Questions:
• What is the extensive study on the behaviour of the defaulters?
• How will it affect the profitability of banks in the upcoming scenario?

METHODOLOGY

Design

The research methodology portrays the various methods and techniques used by the researchers
for the data collection of the paper. In order to attain the objectives of this paper, secondary
data was collected and both the qualitative and quantitative research designs were adopted. A
lot of research papers and articles were studied, and the conclusions were made.

Sample

The secondary datasets have been composed by various resources like:
• Data provided by RBI
• Different research journals and articles
• Bank websites

Different studies done by the Central banks

Instrument

Ratio Analysis

• Gross NPA Proportion
• Net NPA Proportion
• Return On Asset Proportion

Correlation Analysis

Data Collection

The integrity and the durability of the banking sectors in India is primarily determined by the quality
of assets that the bank owns. These assets also include the gross and the net NPAs that the banks
have in their balance sheets. Gross NPA is represents the quality of loans that the bank actually
has while net NPA determines the actual burden of the loans that the banks bear.
Return on Asset

Return on Asset, the productivity proportion that indicates how much profit a bank is able to generate from its assets. It shows the efficiency of the bank in the long run by utilising its assets so as to earn the maximum profit. Since profitability of the banks is inversely proportional to NPA it owns, ROA ratio is directly proportional to the profitability. Thus, if the ROA is high in banks, it shows its better performance in order to generate more profit. A bank can boost its ROA by either boosting its profit margin or by utilising its assets in a more efficient way. Thus, more efficient banks have higher ROA and are expected to generate higher income on its asset.

\[
\text{Return on Asset (ROA)} = \frac{\text{Net Income}}{\text{Total Asset}} \times 100
\]
Dr. Raghu. G. Anand, Ms. Radhika Goenka, and Mr. Harsh Raj. (2021) Impact of Non-Performing Assets on Public Sector Banks in India

Table 4
Relation between GNPA and ROA of Public Sector Banks from 2015-16 to 2019-20

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SBI</th>
<th>PNB</th>
<th>BOB</th>
<th>CANARA</th>
<th>UNION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>GNPA</td>
<td>ROA</td>
<td>GNPA</td>
<td>ROA</td>
<td>GNPA</td>
</tr>
<tr>
<td>6.50</td>
<td>0.42</td>
<td>12.90</td>
<td>-0.59</td>
<td>9.99</td>
<td>-0.80</td>
</tr>
<tr>
<td>2016-17</td>
<td>6.90</td>
<td>0.38</td>
<td>12.53</td>
<td>0.18</td>
<td>10.46</td>
</tr>
<tr>
<td>2017-18</td>
<td>10.91</td>
<td>-0.18</td>
<td>18.38</td>
<td>-1.06</td>
<td>12.26</td>
</tr>
<tr>
<td>2018-19</td>
<td>7.53</td>
<td>0.02</td>
<td>15.50</td>
<td>-1.28</td>
<td>9.61</td>
</tr>
<tr>
<td>2019-20</td>
<td>6.15</td>
<td>0.36</td>
<td>14.21</td>
<td>0.04</td>
<td>9.40</td>
</tr>
</tbody>
</table>

Data Analysis

This Table 1 show gross NPA and gross advance proportion for the largest public sector bank inside India for a period of five years.

Gross NPA refers to the sum total of all the NPAs of the bank. This ratio depicts the relationship between the gross NPA and the banks' gross progress in percentage form[14]. It shows the power of the bank's loan book. When the proportion is larger, the economic situation of the banks is weak & vise-versa.

Gross NPA Proportion = (Gross NPA/ Gross Money up front) *100

Table 1 shows a change in the ratios for an Indian public sector bank.

- Total NPA to Total advances proportion for State Bank of India (SBI). Gross advances of SBI are 6.50% in 2015-16, 6.90% in 2016-17 and then again increased to 10.91% in 2017-18. Then it decreases for the next two years to 7.53% in 2018-19 and 6.15% in 2019-20[15].
- Total NPA to Total advances proportion for Punjab National Bank (PNB). Gross advances of PNB are 12.90% in 2015-16, 12.53% in 2016-17 and then again increased to 18.38% in 2017-18. Then it decreases for the next two years to 15.50% in 2018-19 and 14.21% in 2019-20.
- Total NPA to Total advances proportion for Bank of Baroda (BOB). Gross money up front of BOB is 9.99 in 2015-16, 10.46% in 2016-17 and then again increased to 12.26% in 2017-18. Then it decreases for the next two years to 9.61% in 2018-19 and 9.4% in 2019-20[15].
- Total NPA to Total advances proportion for Canara Bank. Gross advances of Canara Bank are 9.40% in 2015-16, 9.63% in 2016-17 and then again increased to 11.84% in 2017-18. Then it decreases for the next two years to 8.83% in 2018-19 and 8.21% in 2019-20[16].
- Total NPA to Total advances proportion for Union Bank. Gross advances of Union Bank are 8.70% in 2015-16, 11.17% in 2016-17 and then again increased to 15.73% in 2017-18. Then it decreases for the next two years to 14.98% in 2018-19 and 14.15% in 2019-20[17].

This Table 2 shows the ratio of net NPA to net advances of the five largest Indian public sector banks for a period of five years.

The ratio determines the relationship between the net NPAs and the net progress in percentage form. It acts as a detrimental measure of banks' financial soundness. The reliability of the banks' likelihood function also is measured. Such as the gross NPA rate, it demonstrates that perhaps the debt capability of the banks is inadequate & likewise if another proportion is larger.

Overall NPA Rate= Overall NPA/ Overall Advances*100

Table 2 shows the changes in the ratios of the Indian public sector banks.

- Overall NPA to Overall advancement ratio in State Bank of India (SBI). Net advances of SBI are 3.81% in 2015-16, 3.71% in 2016-17 and then increased to 5.73% in 2017-18. Then it decreases for the next two years to 3.01% in 2018-19 and 2.23% in 2019-20[15].
- Net NPA to Net advances ratio of Punjab National Bank (PNB). Net advances of PNB are 8.61% in 2015-16, 7.81% in 2016-17 and then increased again to 11.24% in 2017-18. Then it decreases for the next two years to 6.56% in 2018-19 and 5.78% in 2019-20.
- Net NPA to Net advances ratio of Bank of Baroda (BOB). Net advances of BOB are 5.06% in 2015-16, 4.72% in 2016-17 and then increased to 5.49% in 2017-18. Then it decreases for the...
next two years to 3.33% in 2018-19 and 3.13% in 2019-20[15].
- Net NPA to Net advances ratio of Canara Bank. Net advances of Canara Bank are 6.42% in 2015-16, 6.33% in 2016-17 and then again increased to 7.48% in 2017-18. Then it decreases for the next two years to 5.37% in 2018-19 and 4.22% in 2019-20[16].
- Net NPA to Net advances ratio of Union Bank. Net advances of Union Bank are 5.25% in 2015-16, 6.57% in 2016-17 and then again increased to 8.42% in 2017-18. Then it decreases for the next two years to 6.85% in 2018-19 and 5.49% in 2019-20[17].

The Table 3 shows the association among the Net Profits & the Net NPA in select public sector banks. The correlation of BOB is positive while all the other banks are negative. It means that for BOB as the profits increase NPAs also tends to increase. But for the remaining banks, NPAs are increasing every year while their Net profits are decreasing and vice versa.

The Table 4 shows the Return on Asset ratio of select Indian public sector banks. By an information mentioned upwards, this was very clear, the antagonistic effects of GNPA over a ROA in banks is found. When GNPA is high, ROA is at its minimum and vice versa. In 2017-18, when GNPA of SBI was 10.91 percent, ROA was -0.18 percent and in 2015-16 when GNPA fell down to 6.50 percent, ROA increased to 0.42 percent. Similarly, in the case of BOB, when GNPA in 2015-16 was 9.99 percent, ROA was -0.80 percent and in 2017-18 when GNPA rose to 12.26 percent, ROA reduced to -0.33 percent. A similar behaviour is noticed in all the previously mentioned banks. Thus, it is very evident that the impact of GNPA on ROA is inversely related.

**RESULTS AND DISCUSSION**

![Figure 1: Relation between GNPA and ROA in SBI Banks from 2015-16 to 2019-20](image1)

![Figure 2: Relation between GNPA and ROA in PNB Banks from 2015-16 to 2019-20](image2)
Figure 3: Relation between GNPA and ROA in BOB Banks from 2015-16 to 2019-20

Figure 4: Relation between GNPA and ROA in CANARA Banks from 2015-16 to 2019-20

Figure 5: Relation between GNPA and ROA in UNION Banks from 2015-16 to 2019-20

From the following Figures 1, 2, 3, 4, 5, it can be clearly determined that the relationships among the two are highly unfavourable, GNPA and ROA of all the five banks. The Figures show...
that by decreasing the GNPs, there is an increase in the ROA of the banks which is the measure of profitability of the banks. A positive correlation means that as the GNPA increases, the profitability of the banks also increases i.e., if GNPA increases, ROA would also increase at an alarming rate. However, the above following banks are showing a negative correlation.

**Measures to control NPA**

As long as banks extend loans to its borrowers, there are chances of those loans converting themselves into NPAs. Though NPAs cannot be totally avoided by the banks, they can surely be curbed to a great extent. Banks can adopt certain measures and can take some preventive steps in order to curb the amount of NPAs that they incur. NPAs in banks should be kept at minimum so as to maintain sound liquidity and financial position. The ways to control NPAs are as follows:

**Identifying genuine borrowers**

The first and the foremost step the bank has to take before extending any loans and advances is to do a thorough investigation of the borrowers. Only genuine borrowers with an honest intent must be considered suitable who have the commitment to take the loan seriously and repay in the future days.

**Recognition at early stages**

Furthermore, banks must oversee the performance of its borrowers from the very beginning. If it becomes too late for the banks to recognise the wilful defaulters, the banks are assured that their loans are bound to convert into NPAs. Banks must further not wait till the very end but must revive their amount by winding up the borrower so as to get the highest amount possible.

**Focus on cash flows**

The banks must at all times not only keep a track of their cash flows but also of their borrowers. In the cases of default, the banks must make sure that the business unit which is still functioning has adequate cash flows and is using them towards their working capital requirements. This will ensure the timely payment of the dues of the borrowers to the banks.

**Ninety-day limit**

The banks must maintain their ninety-day limit. After ninety days, the loans are converted into NPAs. This shifts the attention of both the borrower as well as the bank towards the functioning of that loan. In these situations, the borrowers try to shift their banks and get fresh loans from other banks to carry forward their operations and they often tend to forget about this loan. Such defaulters should be treated timely and sternly so that the bank is able to revive the amount of loan extended.

**Management of loans**

A proper and a guided management of loans is necessary for the smooth functioning of the banks. A thorough appraisal should be done by all banks so as to ensure that their loans are not turning bad. Furthermore, consortium discipline needs to be redefined so as to maintain a healthy credit relationship. The banks should not extend loans to borrowers based on the credit certificates provided by the borrowers rather they should themselves do a complete background check on the credit worthiness of the borrower. For this, the banks need to maintain a separate board of individuals who can assess the borrower’s credibility.

**Corporate debt restructuring (CDR)**

It is a voluntary and non-statutory mechanism under which the banks and financial institutions come together to restructure the debts of the businesses. It is done to revive the drowning
businesses and also to safeguard the integrity and interests of the banks. It is applicable to business houses who have multiple bank accounts with various banks. It was implemented in 2001 by RBI to provide timely and transparent system of corporate debt revival.

**Introduction of bankruptcy code**

The Insolvency and Bankruptcy Code (IBC) was implemented in 2016 by the act of the Parliament. It applies to individuals, companies and partnerships to provide a time bound process to resolve insolvency. It was necessitated due to the huge pile of NPAs in the banks and delay in the resolution of the debts. Apart from these, pre-sanctioning and post-sanctioning of credit monitoring plays an important role to reduce NPAs. Recovery through Lok Adalats, DRT, and various other civil bodies also help to control NPAs. Bearing in minds the ever-growing increase in the value of NPAs, it’s high time that the banks adopt innovative measures to reduce them. NPAs not only serve as a threat to banks but also to the economy as a whole. The progress of the economy depends upon these macroeconomic stabilities which can only be maintained my NPAs are under control. A proper solution, unless thorough credit evaluation & risk evaluation are carried out could NPAs be accomplished. This is necessary for the banking system to come up with certain norms which can help in minimising the increase in NPAs if not totally curb it.

**CONCLUSION**

NPAs always has been a huge hindrance in the Indian banking sector. It is affecting the credit institutions both physically as well as psychologically. With this fast paced and dynamic economy, it has been a major concern for the past few years. The extent of NPAs in the Indian public sector banks is much higher than the private sector banks. That is majorly because of the fact that the private sector banks have a secure loan policy as compared to the public sector banks. Public sector banks are required to provide more loans to the priority sector, which leads in more NPAs than the private sector. The government has taken some strict measures and has brought out some preventive policies so as bring it under control. The banks need to be proactive in the selection of customers and the sanctioning of loans. It is not possible to eliminate NPAs in the Indian banking sector. The banks can, however, speed up their loan recovery process. The government needs to take more preventive measures in order to curb the extent of NPAs in the economy. The NPAs have a direct impact on the profitability of the banks as the public sector banks largely depend upon the interest income. Although various research regarding NPA control have been undertaken, the effect of NPA mostly on bank profitability is vital to comprehend. Therefore, the effect of NPA upon this economic performance of the listed banking industry in India was studied. Although various research on NPA controlling have been undertaken, the effect of NPA upon on bank profitability is vital to comprehend. Therefore, the effect of NPA here on financial management practices on the performance banks in india was studied. During the research, it has been noticed that every bank has high provisions for NPAs and shows low recovery and is thereby suffering losses. These NPAs cause an adverse effect on the banking performance in the Indian public sector banks.

**REFERENCES**


