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# Non-Performing Assets and Recovery of NPA's in Indian Banking System

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## Abstract

This paper is an attempt to reduce NPA's in Indian Banking system and recovery of NPA's through various steps. The increasing bad loans could continue over a certain period of time and today it threatens the hamper of economic growth. This in turn has caused the slowing up the credit source to the economy in general making economic revival more difficult. The study focuses on NPA's increasing in the Indian Banking system which directly impacts the economy as a whole making to lose important financial resource for the nation which could be utilized some other infrastructure development works, thus effecting profits of banking system. The study is based upon secondary data recovered from websites, journals and articles.

**Keywords:** NPA • Economy growth • Banking system • Indian banking system

## Introduction

Non-performing assets refers when bank issue the loans to the borrowers, that borrowers won't repay that amount at specified time period. Vivek Rajbahadur Singh, states that The banking system in India comprises commercial and cooperative banks, of which the former accounts for more than 90 per cent of banking system's assets [1]. The Reserve Bank of India (RBI) on Thursday allowed banks more time and flexibility to consider how they want to treat an account after it has defaulted [2]. This came after the Supreme Court quashed the circular the RBI issued on February 12 last year on recovering bad loans [3]. Banks will now have 30 days to think of a plan after a "default" and a further 180 days to execute the plan. Banks can even delay implementing the plan if they have enough capital to set aside [4]. However, if they decide to take tough action against defaulters, their pledged provisions can be freed. Govt has to issue harsh norms and warnings for banks at the time of announcing monthly Monetary policies [5].

Aside a few foreign and Indian private banks, the commercial banks contain nationalized banks, the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority holding being with State Bank of India) [6]. Increasing cases of willful defaults and frauds have recently been in the news. Non-performing Asset is an essential factor to identify the financial performance of a bank. When an economy experiences healthy GDP growth, a substantial part of it is financed by the credit supplied by the banking system. In the baseline scenario, the gross Non-Performing Asset (NPA) ratio may come down from 10.8% in September 2018 to 10.3% in March 2019 and 10.2% in September 2019, RBI explained in its biannual Financial Stability Report (FSR). In his foreword to the report, new RBI governor Shaktikanta Das wrote that after a prolonged period of stress, the load of non-performing assets was reducing, with banks reporting their first half-yearly reduction in the gross NPA ratio since September 2015 [7].The report stated out that credit growth of banks has improved in September 2018, driven largely by private sector banks. However, the improvement of public sector banks witnessed an overall improvement, with credit growth increasing from 5.9% in March 2018 to 9.1% in September 2018 and deposit growth increasing from 3.2% to 5% during the same period [8]. RBI has also conducted a contagion analysis to assess whether the PCA framework has helped in reducing the systemic footprint of PCA banks [9].

## Description

- This paper is an attempt to reduce NPA's in the Indian Banking system and to explore the recovery of NPA's through various steps [10].
- The study focuses on NPA's increasing in the Indian Banking system.
- To identify what steps Indian banks are taking to recover the bad loans (Figure 1).

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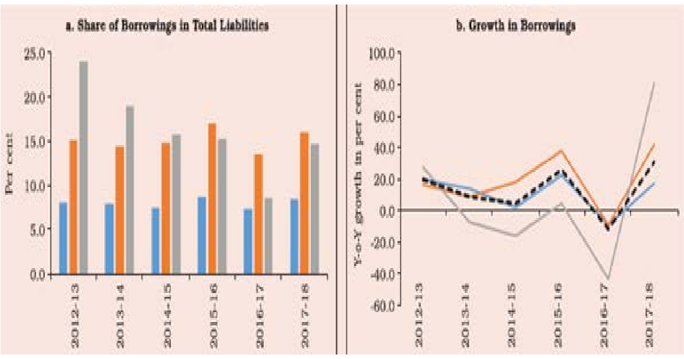


**Figure 1.** Changes in NPAS trends growth. Note: a) PSBs, PVBs, FBs; b) PSBs, PVBs, FBs, All SCBs

Remonetization resulted in a deceleration in deposits and consequently, borrowings by banks shot up by 31.4% during 2017-2018 from a significant decline (11.6%) in the previous year. For PVBs and FBs, which rely heavily on borrowings relative to PSBs, the bounce back was sharp. In H1: 2018-2019 as well, banks stepped up borrowings by 26% y-o-y [11]. This information as per RBI. During last five years' private banks had shown increase in the NPA's. Apart from private banks even public sector banks had seen little increase in the NPA'S in the last 5 years. Even foreign banks had shown reduction in their NPAs (Figure 2).

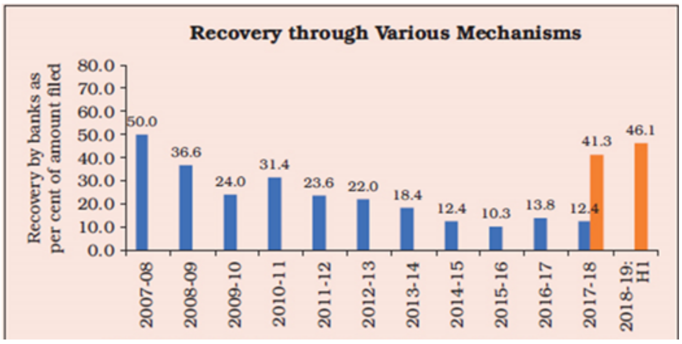


**Figure 2.** The above indicates that the IBC is an evolving legislation. Note: Average recovery (drt+sarfaesi+lok adalats), IBC.

The above indicates that the IBC is an evolving legislation, which has shown results in 2 years, especially in comparison to the erstwhile recovery and distress resolution framework. The realization proceeds under the corporate resolution framework of the IBC has also proven to be higher in comparison to the realization value under the previous framework (the graph above shows that the recovery percentage under the previous framework for the year 2017-18 was 12.4% approx. whilst it has been at approx. 41.3% under the IBC). A majority of the cases have seen more than 100% of the liquidation value being realized by the creditors. Since the liquidation process typically involves the sale of assets on a standalone basis, the liquidation value provides the estimated realizable value of each asset of the corporate debtor.

## Conclusion

Strong banking sector is one of the most significant prerequisite of strong economy because it channels the savings into the investment. A fragile banking sector will ultimately give way to the fragile economy. Strengthening the data collection, the details of default to be reported by reducing time period from quarterly to monthly. Govt has to give more powers to Indian Bankruptcy Code to control the NPA's mess. Every banking sector requisite to focus on the NPA's with their clients and remedy their Limited problem solving.

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