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Topic of Research: Impact of Escalating NPA in Banks on the Growth of Banking Sector in India

FINDING

KEYWORDS**:** Non-performing assets, Determinants of NPA, Profitability, Credit Growth, Panel Data Modelling

A sudden hike in NPA in recent years has become a major concern for banks as NPA erodes the profitability and productivity of banks. India's NPA level is the highest except for Russia in emerging economies. The first reason revealed for the sudden hike in NPA in the Indian banking sector is Asset Quality Review (AQR) mechanism implemented by RBI in March 2015. India along with other countries did follow the standard path of loosening credit norms in times of boom, leading to companies following over leverage policy. Higher potential for income and profitability during the economic upturn (2003–08) could have led to excessive credit growth, which could have diluted credit appraisal standards. Major Findings of the Study are:

1. It has been observed through Tobin's Q ratio that the top five public sector banks are Indian Overseas Bank, State Bank of India, Bank of Maharashtra, UCO and Canara Bank and top five private sector banks are Kotak Mahindra Bank Ltd., Bandhan Bank Ltd., HDFC Bank Ltd., ICICI Bank Ltd. and Axis Bank Ltd.
2. It has been observed that the large corporates are the main culprits of NPA and 25 per cent of NPA of banking sector belong to 12 companies which were later identified for bankruptcy proceedings. And the major causes of NPA are over optimization of lenders slow growth, frauds and willful defaults, lack of credit monitoring system.
3. Among the determinants of NPA, ROA, Income diversification, GDP Growth, NIM are negatively significant. Size and lagged NNPA are positively significant. Capitalisation is negatively insignificant and priority sector lending are positively insignificant.
4. The Weltch t-test conducted to analyse the difference in NPA of public and private sector banks. The Weltch test on GNPA to gross advances of PSB and PVB, NNPA to net advances of PSB and PVB, GNPA to total asset and NNPA to total assets of PSB

and PVB shows significant difference and hence, it has been observed that private sector banks are managing their NPA better than public sector banks.

5. The NNPA has a significant impact on profitability of banks measured by ROA. Capital is positively significant, concentration in the industry and operating efficiency of the banks are negatively significant. NIM, size, GDP, Interest Rate and liquidity management are positively insignificant.
6. The NNPA has a significant impact on profitability of banks measured by ROE. Concentrations in the industry, operating efficiency, liquidity management are all negatively significant. Monetary policy is positively significant. Sizes of the bank, NIM and capital strength are positively insignificant. GDP is negatively insignificant.
7. Among the determinants of Credit Growth, Deposit growth, and GDP Growth are found to be positively significant. GNPA Ratio which is our primary explanatory variable is found to be negatively significant.
8. The Net Interest Margin of both public and private sector banks has started decreasing after 2012 due to sudden increase in NPA after 2011. The CRAR of public and private sector banks remain slow due to rise in NPA and for creating the provision for it.
9. Management and recovery of NPA undertaken by the government are establishment of Lok Adalats, DRTs, SARFAESI Act 2002 and the recent act of IBC 2016 and its amendments. SARFAESI Act 2002 proved to be most effective for recovery of loans among Lok Adalats, DRTs and SARFAESI Act. IBC has proved to be most effective since its inceptions in 2016 and recovered the largest percentage of amount involved.