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**Topic** : **An Empirical Study of Non-Performing Assets  
In Commercial Banks in India**

### **ABSTRACT**

A strong banking sector is important for a flourishing economy. However, Non-Performing Assets are one of the major concerns for banks in India as they reflect the performance of banks. The problem of NPAs is not only affecting the banks but also the whole economy. Non-Performing Assets have emerged since over a decade as an alarming threat to the banking industry in our country sending distress signals on the sustainability & endurability of the affected banks. In the context of changing hostile environment, it is great task for Indian banks to look after their NPAs. Therefore, there is an urgent need to analyze the strengths and weakness of Indian commercial banking sector in respect of the management of NPAs.

The present study attempts to discuss the banking sector reforms in India, explains the conceptual and regulatory framework governing NPAs including the changes in provisions and policies on NPAs. Moreover it also attempts to find out the various strategies that can be used by the banks to reduce the present NPAs and to avoid further slippage of standard assets to NPAs category and analyzes the trends of NPAs in Indian banking industry among different bank groups. The trends of NPAs have been analyzed with the help of changes found in the assets quality of Indian banks and the behaviour of NPAs with regard to their types and distribution, through various ratios used.

For the purpose of the study the relevant data has been collected from various published reports of banks, RBI Bulletin, Global Financial Stability Reports (GFSR), Report of Trend and Progress of Banking in India, etc. for the time period from 2004-05 to 2008-09. Direct informal interview from the officials of banks through unstructured and informal questionnaire has also been used to collect the data.

### **Major Findings :**

- (i) Gross Non Performing Assets to Loan and Advances Ratio (GNPAsLAR), Gross NonPerforming Assets to Total Assets Ratio (GNPAsTA), Net Non Performing Assets to Total Assets Ratio (NNPAsTA), Gross Non Performing Assets to Gross Advances to Gross Advances Ratio (GNPAsGA), Net Non Performing Assets to Net Advances Ratio (NNPAsNA) of SCBs, PSBs, and PBs has shown a downward trend while it has shown an upward trend for FBs during the study period.
- (ii) Although the assets quality of FBs is at the top followed by PBs and PSBs, yet the assets quality performance of FBs is declining while that of PSBs and PBs is improving during the study period.
- (iii) The declining trend of Sub Standard Assets to Loan Assets Ratio (SSALAR), and Doubtful Assets to Loan Assets Ratio (DALAR) of PSBs indicates that the fresh slippage of standard assets to substandard assets and doubtful assets is reducing for PSBs. The rising trend of Loss Assets to Loan Assets Ratio (LALAR) of PSBs indicates that the slippage of their

existing doubtful assets to loss assets is increasing which shows that they are facing trouble from the heavy quantum of their existing doubtful assets.

- (iv) The rising trend of SSALAR of both PBs and FBs indicates that the fresh slippage of standard assets to sub standard assets is increasing for them while their declining trend of DALAR and LALAR indicates that their slippage of sub standard assets to doubtful assets and loss assets is reducing. Although PBs and FBs are facing the problem of increasing sub standard assets but once a standard asset becomes sub standard they manage it well to convert the same to standard rather than to doubtful and further to loss asset.
- (v) The rising trend of Priority Sector Non Performing Assets Ratio (PSNPAsR) and Agriculture Sector Non Performing Assets Ratio (ASNPAsR) of PSBs shows that their NPAs from priority sector advances especially agricultural advances are increasing while their declining trend of Small Scale Industries Non Performing Assets Ratio (SSIsNPAsR), Non Priority Sector Non Performing Assets Ratio (NPSNPAsR), and Advances to Weaker Section Non Performing Assets Ratio (AWSNPAsR) indicates that their NPAs from advances to SSIs, advances to non priority sectors, and advances to weaker section is decreasing.
- (vi) The rising trend of ASNPAsR and NPSNPAsR of PBs shows that their NPAs from advances to agricultural sector and non priority sectors are increasing while their declining trend of PSNPAsR, SSIsNPAsR, and AWSNPAsR indicates that their NPAs from advances to priority sectors, advances to SSIs, and advances to weaker section is decreasing.

To conclude, the NPAs have reduced drastically in Indian banking industry as a result of various institutional and legal reforms measures introduced by RBI. Although, the FBs are at the top in terms of assets quality, yet their assets quality is declining while the assets quality of PSBs and PBs has been improving. The strategies that the banks can use to manage NPAs are creation of proper data base, creating awareness among bank staff, strengthening pre-sanction appraisal, post sanction monitoring and follow up system of loan accounts, rehabilitation of potentially viable sick units, review and renewal of loan accounts, meetings with borrowers, checking slippage of standard accounts to NPAs, setting up of recovery/legal departments, recovery of dues through compromise settlements, bringing attitudinal change, writing-off bad debts, involvement of staff in recovery process, filing case with DI&CGC and ECGC, approaching DRTs and Lok Adalats, possession and sale of assets of the borrowers, supervision over the working of banks, asset liability management, following the principles of lending and effective recovery management.