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Dr. M.Mirunalini Assistant Professor Department of Educational Technology Bharathidasan University,Khajamalai Campus, Thiruchirappalli. miru.bdu@gmail.com	R.Ganesan Professor and Head, Department of English, Kongu Engineering College, Perundurai. ganesankek@gmail.com
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MANAGEMENT OF NPA BY SCHEDULED COMMERCIAL BANKS IN INDIA

VANDANA KUMARI
Research Scholar
Patna University

ABSTRACT

Banks are one of the most important parts of financing sector of an economy. Smooth functioning of an economy depends a large upon its financial sector. Hence, this sector must keep itself hale & hearty in order to make the economy prosper. But these days, banking sector is facing a problem of increasing bad loans, which has shattered its functioning. Non-performing Asset is a loan which has stopped yielding any kind of income to the bank, either in the form of interest or instalment or both.

Current paper is an attempt towards how the banks manage this mounting NPA. Different methods are there for resolving the problem of NPA. Some of them are Lok Adalats, DRTs, SARFAESI etc. Apart from these some techniques applied are restructuring of loan accounts and Corporate Debt Restructuring(CDR) etc. This paper focuses on how much these channels have been beneficial for the banks.

KEY WORDS: *NPA, Management, CDR, DRT..*

I. INTRODUCTION

Banks are the building blocks of an economy. They provide finance for almost all economic activities. Theirs is such an important role. Along with such an important role there come big risks also. One of the major risks which banks face is of NPA. Non-performing Asset is loan which has stopped generating any income either in the form of interest or instalment or both. A payment which is due for 90 days or more is termed as NPA. NPA is increasing year by year and Gross NPA has touched a margin of

6.84lakh crore at the end of fiscal year 2016-17. This mounting NPA must be curbed otherwise banking sector will collapse. Although NPA can't be eliminated completely but some modes are available at the hands of banks to recover them. So that some loss could be mitigated.

Some related concepts are:

NPA means an asset or account of borrower which ceases to generate income for the bank. From the year ending March 31st, 2004 a NPA shall be a loan or advance:

1 Interest and/or instalment of principal remain unpaid for a period more than 90days in case of a term loan.

2 The account remains 'out of order' for a period of more than 90days in respect of a cash credit/overdraft.

3 The bill remains overdue for a period of more than 90days in case of bills purchased and discounted.

4 Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in case of an advance granted for agricultural purpose, and

5 Any amount to be received remains overdue for a period of more than 90days in respect of other accounts.

CAUSES OF NPA.

The NPAs in banks are growing due to external as well as internal factors.

EXTERNAL FACTORS-

- a) Ineffective recovery tribunal
- b) Wilful defaults
- c) Natural calamity
- d) Industrial sickness
- e) Lack of demand of products of manufacturer
- f) Frequent change in government policies.

INTERNAL FACTORS-

- a) Defective lending process
- b) Inappropriate technology and management information system
- c) Improper SWOT analysis
- d) Poor credit appraisal system
- e) Managerial deficiencies
- f) Absence of regular industrial visit
- g) Re-loaning process.

IMPACTS OF NPA

- 1. Reduction in profitability
- 2. Reduced liquidity
- 3. Involvement of management; time and efforts
- 4. Credit loss, that is, loss of goodwill

II. REVIEW OF LITERATURE

-In a paper by Dr. Harpreet Kaur & Neeraj Kumar Saddy(2011),it was concluded that NPA level of Indian banks is still high as compared to Foreign banks. One cannot ignore the fact that the reduction in NPAs is due to writing off bad loans by banks. The Indian banks should take care to ensure that they give loans to credit worthy customers as prevention is better than cure.

B. Selvarajan & G. Vadivalagan(2013). They conducted a descriptive research and found that the management of Indian bank must pay special attention towards NPA management and take appropriate steps to arrest the creation of new NPAs, besides making recoveries in the existing NPAs. Timely action is essential to ensure future growth of the bank.

Anuja Barge(2012). In her paper titled 'NPA management in Banks: An Indian perspective', recommended that India lacks a well-functioning Asset Restructuring Companies. The ARCs should have clear 'financial acquisition policy' and guidelines relating to proper diligence and valuation of NPA portfolio. And commercial banks should be allowed to come up with their own measures to address the problem of NPAs.

Dr. D. Jagan & Mohana Rao(2014). They conducted a study over a period of 6 years, from 2003-04 to 2008-09 and found that most of the NPA accounts were settled through one-time settlement. On the other hand Lok Adalats did not do a good task as the amount recovered through it declined. DRTs seem to be satisfactory during this period. More or less similar trend was observed in case of SARFAESI Act, as the amount recovered increased. Hence, it was concluded that functioning of different mechanisms or channels for recovering NPA is not satisfactory.

Ankit Garg(2016). Concluded that NPA affects profitability, liquidity, management and leads to credit loss. And suggested some preventive measures like: early recognition Of the problem, identifying borrowers with genuine intent, timeliness and adequacy of response etc.

Sonia Narula & Monika Singla(2014). They studied deeply on the causes of alarming NPA and emphasized on the negligence on the part of management. They tried to establish a positive relation between total advances, net profit and NPA of banks they selected and the reason they found was mis-management. Hence, suggested for good management on the part of bank.

III. STATEMENT OF PROBLEM

These days banks are suffering from a chronic problem of bad loans or NPA. It has become inevitable for banking sector to completely put an end to this NPA. But banks can prevent this disease or can recover some or more of NPA through various

recovery modes available to them like DRT, SARFAESI, Lok Adalats etc.

Current topic is about how the banking sector uses various channels in resolving the increasing Non-performing Assets. Hence, this paper focuses on management of NPA by various recovery channels available to scheduled commercial banks in India.

Objectives

1. To find out most beneficial and fruitful technique among different techniques used by banks to curb the mounting NPA.

2. To find out how much the different modes of recovery are helpful in resolving the problem of NPA.

IV. RESEARCH METHODOLOGY

This paper is descriptive in nature and is based on secondary data. And to achieve the objective of this paper software like Ms-excel has been used, graphs and pie-charts have been used.

To collect secondary data different sources were accessed. Sources accessed are RBI' websites, RBI's Data warehouse (DBIE), journals, articles etc. Data have been collected for five years from 2012-13 to 2016-17.

V. ANALYSIS AND FINDINGS

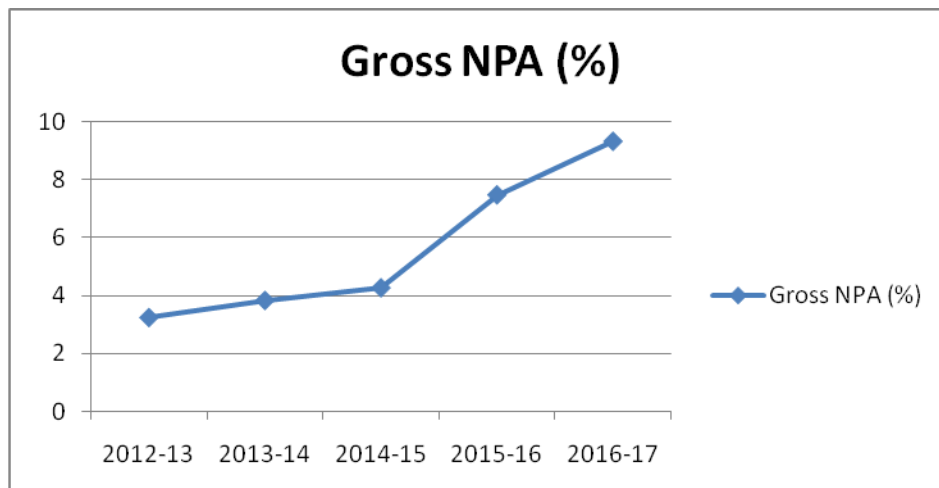
Table showing Gross NPA, Gross Advances and percentage of Gross NPA to Gross Advances.

(amount in ₹ million)

YEAR	GROSS NPA	GROSS ADVANCES	GROSS NPA TO GROSS ADVANCES (%)
2012-13	1940533	59718198	3.25
2013-14	2643811	68757480	3.84
2014-15	3233352	75606659	4.28
2015-16	6119473	81711142	7.49
2016-17	7915702	84767053	9.34

Source: Dbie.rbi.org.in

Table 1. Graph a.



The above graph shows the trend of Gross NPA in percentage from 2012-13 to 2016-17.

NPAs of Scheduled Commercial Banks recovered through various channels.

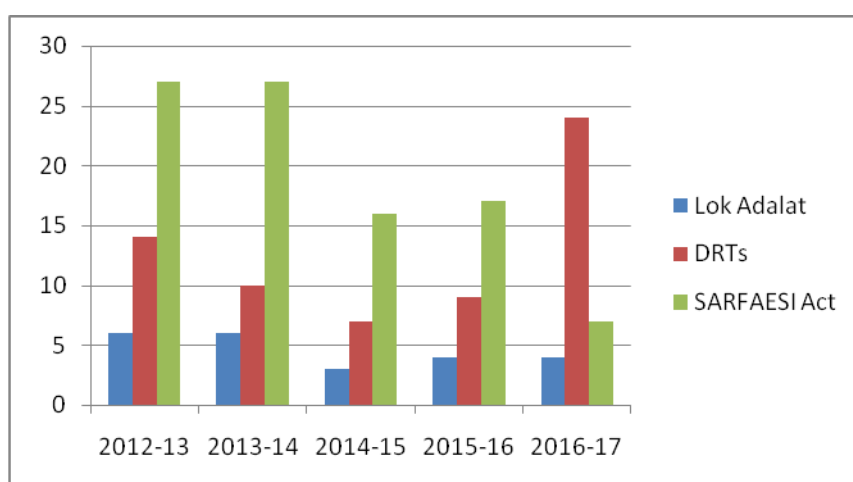
(Amount in ₹ billion)

YEAR		RECOVERY CHANNEL			Total
		Lok Adalats	DRTs	SARFAESI Act	
2012-13	1.No.of cases referred	840691	13408	190537	1044636
	2.Amount involved	66	310	681	1057
	3.Amount recovered	4	44	185	233
	4.Amt. recovered(%)	6	14	27	22
2013-14	1.No.of cases referred	1636957	28258	194707	1859922
	2.Amount involved	232	553	953	1738
	3.Amount recovered	14	53	253	320
	4.Amt. recovered(%)	6	10	27	18
2014-15	1.No.of cases referred	2958313	22004	175355	3155672
	2.Amount involved	310	604	1568	2482
	3.Amount recovered	10	42	256	308
	4.Amt. recovered(%)	3	7	16	12
2015-16	1.No.of cases referred	4456634	24537	173582	4654753
	2.Amount involved	720	693	801	2214
	3.Amount recovered	32	64	132	228
	4.Amt. recovered(%)	4	9	17	10
2016-17	1.No.of cases referred	2152895	28902	80076	2261873
	2.Amount involved	1058	671	1131	2860
	3.Amount recovered	38	164	78	280
	4.Amt. recovered(%)	4	24	7	10

Source: Dbie.rbi.org.in

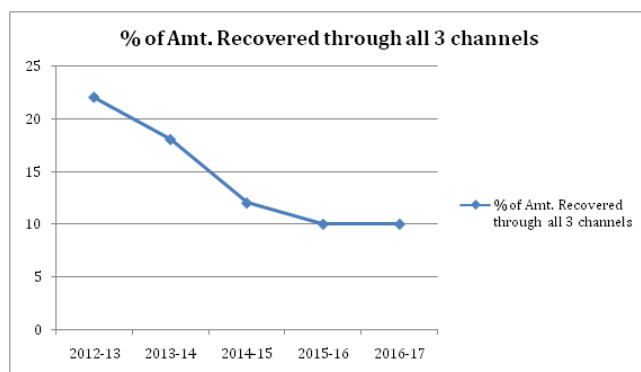
Table 2.

The above table (Table 2.) shows the NPA amount recovered through various channels like DRTs, Lok Adalat and SARFAESI Act. Data for 5 years from 2012-13 to 2016-17 have been collected.

%age of amount recovered

Graph b.

The above graph shows the percentage of amount recovered through Lok Adalat, DRTs and SARFAESI Act in different years.



The above graph shows the percentage of amount recovered through all three channels during different years.

VI. FINDINGS

1. Gross Non-performing Assets of Scheduled Commercial Banks has been showing an increasing trend since last five years. In the fiscal year 2016-17, it touched a margin of 9.34% and that's a matter of concern for banks.

2. Gross Advances has increased. But along with this increase in Gross Advance, Gross NPA has also increased.

3. India's most prevailing and well known channels of NPA recovery are Debt Recovery Tribunals (DRTs), Lok Adalat and SARFAESI Act. All three are well functioning at their places.

4. Lok Adalat has contributed the least in recovering the bad loans. In the year 2012-13, it could be able to recover 6% of total amount to be recovered through this channel of recovery. But in the year 2016-17, it could be able to recover only 4% of the amount involved.

5. Debt Recovery Tribunal (DRTs) has shown some progress in comparison to other channels of recovery. In the year 2012-13, the amount recovered was 14%, but in the year 2016-17, this figure reached a margin of 24%.

6. In case of SARFAESI Act, initially a good progress could be seen from the Table 2. And Graph b., which was 27% in the year 2012-13. But in the year 2016-17, its recovery percentage declined to 7%.

7. As far as overall performance of these channels is concerned, it is showing a declining trend since 2012-13(Graph c.). In 2012-13, the amount that could be recovered through all three channels was 22% and in the year 2016-17, it declined to 10%.

VII. CONCLUSION

After analysing the data, it can be concluded that Non-performing Assets is increasing year by year in Scheduled Commercial Banks, which affects their functioning badly. Although various channels of recovery and other tools are there in the country, still the problem is increasing and vast. Lok Adalats, DRTs and SARFAESI Act are not working up to a great success level. When they are analysed individually SARFAESI Act is a bit better than other two. In the country ARCs are there which also tries to mitigate the problem. But the problem should be removed at ground level. Banks should be careful while granting loans and advances. Many problems exist at bank level only, which if removed could be of great help in minimising NPA. NPA management needs proper attention in banks.

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