

ISSN NO: 2395-339X

MANAGEMENT OF NPA (NON PERFORMING ASSETS): A CHALLENGE FOR INDIAN BANKING INDUSTRY IN POST COVID ERA

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ABSTRACT

The Non-Performing Assets (NPAs) issue in banking sector of Indian has become a subject to discussion & scrutiny in few years and more after Covid pandemic. A Finance Standing Committee released report for Indian banking sector in which it was observed that the banks' lending capacity is severely affected due to mounting of NPAs. An Estimates Committee from Lok Sabha also is examining performance of the public sector banks (PSBs) with due respect of their burgeoning NPA problem as well as available loan recovery mechanisms. In addition, the guidelines to banks released by Reserve Bank of India (RBI) concerned to timely resolution for such stressed assets is under scrutiny and the multiple cases are being filed at courts for the same.

The Reserve Bank of India vide its circular of March 27, 2020 had announced certain regulatory measures to mitigate debt burden servicing brought disruptions due to COVID-19 pandemic and so to ensure continuity of such viable businesses with granting 3 months Moratorium / Deferment in the instalments / interest payments which are falling due in between March 1, 2020 to May 31, 2020 (which was extended for further two months).

KEY WORDS: Banking, NPA, Covid-19, Crisis, Growth.

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INTRODUCTION

The impact of regulatory measures were observed at an order passed by the Delhi High Court adjudicating the Stay Petition by video conference at April 13, 2020 for the case of the Shakuntla Educational and Welfare Society vs. Punjab & Sind Bank with respect to the default which was first due on the December 31, 2019, the High Court of Delhi restrained the Punjab and Sindh Bank from declaring the loan accounts of Shakuntla Educational & Welfare Society as a non-performing asset.

NPA PROBLEM FOR INDIA: EXTENT & EFFECT

Banks provide loans & advances to the borrowers and depending at loan performance IT IS categorized IN: (i) standard asset, AND (ii) non-performing asset. NPAs are such loans & advances which borrowers have stopped paying back in form of interest / principal repayments for more than 90 days.

Considering provisional estimates of March 31, 2020, it suggests total gross NPAs volume in economy is of approx Rs 10.35 lakh crore which is about 85% and these NPAs are majorly from the loans & advances given by public sector banks. As example, NPAs of State Bank of India are approx worth of Rs 2.23 lakh crore. In recent years, the banks' gross NPAs have increased from the 2.3% of total loans at 2008 to the 9.3% at 2017 (Figure 1), which indicates drastic increasing proportion at bank's NPAs and thus it has ceased the incomer generation of bank which has reduced bank's profitability & ability of granting the further credit.

Escalating NPAs is required for bank to make the higher provisions at losses at their books. Banks has to keep aside the more funds for paying the

ISSN NO: 2395-339X

anticipated future losses which leads towards the low profitability. The bank profitability is measured on its “Return on Assets” (RoA), and it is a ratio for net profits of bank against net assets. The banks have witnessed decline at the profitability in recent years (Figure 2) which makes them vulnerable towards adverse economic shocks as well as consequently they also put consumer deposits on risk.

Figure 1: Gross NPAs (% of total loans)

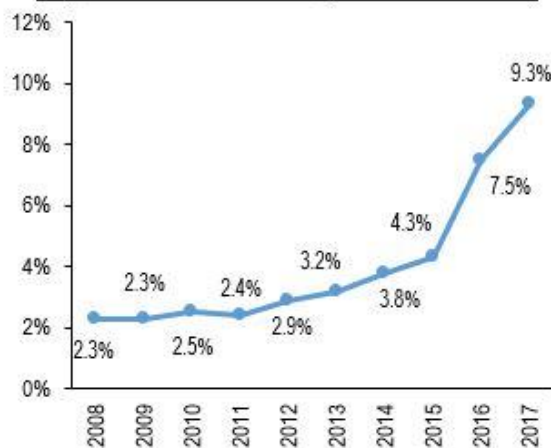
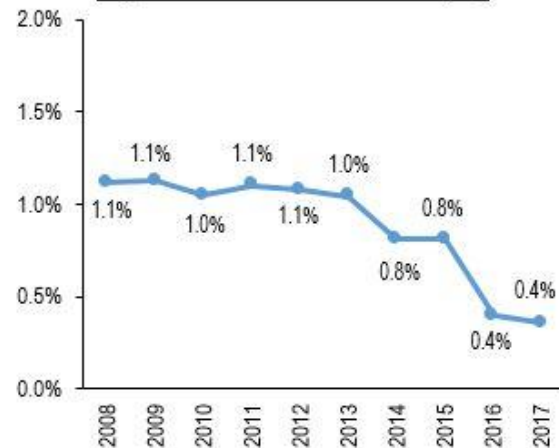


Figure 2: Return on Assets (%)



Source: Reserve Bank of India; PRS.

NPAs RISE: FACTORS

Factors leading increased occurrence for NPAs are the externals like decreases at global commodity prices which leads towards the slower exports and well some are intrinsic to Indian banking sector. When a project to which loan was taken, started underperforming, the borrowers also lost the capability to pay back to the bank. Though banks took in practice ‘ever greening’, under which the fresh loans were also provided to promoters for enabling them for paying off the interest. But effectively, this pushed recognition of such loans to non-performing gradually and became the root causes for the unprofitability.

ISSN NO: 2395-339X

Apart to it, some recent high magnitude frauds contributed at raising the NPAs. The size of such frauds is not relative small to total NPAs volume and so these frauds are effecting a lot on banking sector are also been increasing, and yet there are no instances of such high profile fraudsters of being penalised badly.

RECENT RBI'S GUIDELINES FOR BANKS AND CHANGES

Recently RBI has issued certain guidelines with aim to resolve stressed assets problems of banks which includes introduction to some schemes like: (i) Strategic Debt Restructuring (which has allowed banks to change management of defaulting company), & (ii) Joint Lenders' Forum (in where the lenders evolved resolution plan & voted for its implementation). With enactment of IBC, RBI, by circular at February 2018 substituted all specific & pre-existing guidelines in a simplified, time-bound, generic framework to resolve the stressed assets.

CONCLUSION

The gross nonperforming assets (NPAs) for the system will come down to 8-8.5 per cent from the peak of 11.5 per cent in March 2020 as fresh accretion through slippages gets slower and also with big ticket resolutions, it said. A system is afflicted to scourge high NPAs in nearby years, which led the net worth erosion as well as also led scam discovery in sector. So coming years are going to become very challenging for the banks and so they have to sight beyond bad loan resolution & address pressing the issues like cyber security, frauds & good governance.

Saarth

E-Journal of Research

ISSN NO: 2395-339X

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