



Study of Impact of NPA on banks and NPAs recovered by SCBs through various channels.

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Introduction : The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from

interest on funds lent. This study shows that extent of NPA is comparatively very high in public sectors banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs.

Non-Performing Assets in Indian Scheduled Commercial Banks

Table 1 – Gross Advances and Gross NPAS of SCBs (Amount in Rupees Billion)

Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (Percentage)
2001-02	6809.58	708.61	10.4
2002-03	7780.43	687.17	8.8
2003-04	9020.26	648.12	7.2
2004-05	11526.82	593.73	5.2
2005-06	15513.78	510.97	3.3
2006-07	20125.10	504.86	2.5
2007-08	25078.85	563.09	2.3
2008-09	30382.54	683.28	2.3
2009-10	35449.65	846.98	2.4

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2010-11	40120.79	979.00	2.5
2011-12	46655.44	1370.96	2.9
2012-13	59882.79	1931.94	3.2
2013-14	68757.48	2641.95	3.8

Source: dbie.rbi.org.in

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 2001-02 to 2013-14. The amount of advances of has increased from Rs. 6810 Billion in 2001-02 to Rs. 68757 Billion in 2013-14. The amount of gross NPA has increased from Rs. 708.61 billion in 2001-02 to Rs. 2642 billion in 2013-14. Similarly, NPA percentage is also showing the rising trend from 2.3 in 2007 to 3.8 in 2013.

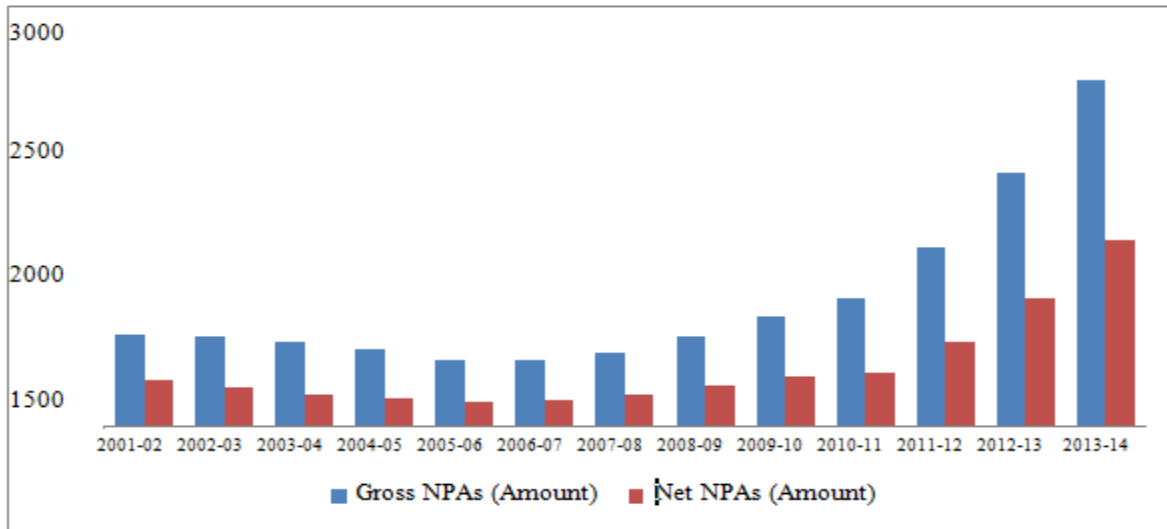
Table 2 – Net Advances and Net NPAS of SCBs (Amount in Rupees Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs (Percentage)
2001-02	6458.59	355.54	5.5
2002-03	7404.73	296.92	4.0
2003-04	8626.43	243.96	2.8
2004-05	11156.63	217.54	2.0
2005-06	15168.11	185.43	1.2
2006-07	19812.37	201.01	1.0
2007-08	24769.36	247.30	1.0
2008-09	29999.24	315.64	1.1
2009-10	34970.92	387.23	1.1
2010-11	42987.04	417.00	1.1
2011-12	50735.59	652.00	1.3
2012-13	58797.03	986.00	1.7
2013-14	67352.32	1426.57	2.1

Source: dbie.rbi.org.in



The above table shows the amount of Net Advances, Net NPA and the percentage of Net NPA during the period of 2001-02 to 2013-14. The amount of advances has increased from Rs. 6458.59 billion in 2001-02 to 67352.32 billion in 2013-14. Further, the amount of NPA has

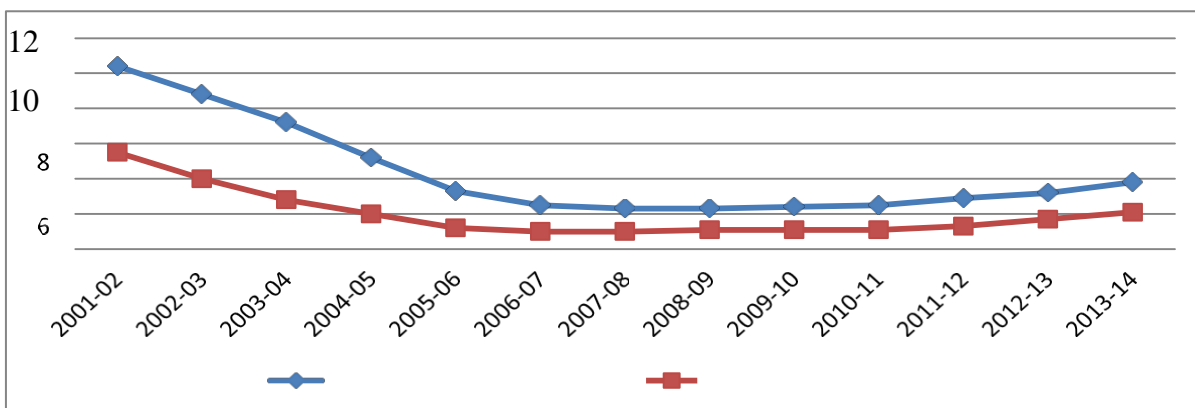


also increased from Rs. 355.54 billion to Rs1426.57 billion during the period (2001-02 to 2013-14). The percentage of Net NPA has first declined from 5.5 in 2001-02 to 1.0 in 2007-08. Then it has increased to 2.10% in 2013-14.

Figure 1 – Scheduled Commercial Banks (Gross and Net NPAs)

The above figure shows the trend of Gross NPA and Net NPA in billion for the period of 13 years starting from 2001-02 till 2013-14. The x-axis represent the years i.e. as the period of (2001-02 – 2013-14) whereas y-axis represent the amount of NPA. We can observe here that the Gross and Net amount of NPA has been showing an upward trend beginning from 2006-07 to 2013-14.

Figure 2 – Gross and Net NPA (in Percentage)





Gross NPAs (Percentage) Net NPAs (Percentage)

The above figure portrays the trend of Gross NPA and Net NPA in percentages for the period of 13 years i.e. from 2001-02 till 2012-14. The x-axis represents the years whereas y-axis represents the percentage of NPA. We can observe here that the Gross and Net percentage of NPA has been showing downward trend from 2001 to 2007-08 and an upward trend beginning from 2007-08 to 2013-14.

Table 3 – Showing NPAs recovered by SCBs through Lok Adalats (Amount in Crore)

Item	2008	2009	2010	2011	2012	2013	2014
Number of Cases Referred	1,86,535	5,48,308	7,78,833	6,16,018	4,76,073	8,40,691	16,36,957
Amount Involved	2142	4023	7235	5254	1700	6600	23200
Amount Recovered	176	96	112	151	200	400	1400
% of Amount recovered	8.2	2.4	1.55	2.87	11.8	6.1	6.2

Sources: R.B.I

Table 3 is showing NPAs of commercial banks recovered through Lok Adalats during the study period of 2008 to 2014. From the analysis of the table, it is clear that the number of cases referred to Lok Adalats for the recovery of NPAs of commercial banks has increased largely in

2014 as compared to 2008. However, if we look at the amount recovered by Lok Adalats during the study period, it shows a continuous decline from 2008 to 2009 and then it shows improvement from 2010 to 2014, but it is much less than the other recovery channels. These Lok Adalats are only successful in recovering 1400 crore out of 23200 crore means only 6.2% of the total amount involved in NPAs of the commercial banks. Due to its inefficiency in recovering, the amount involved in NPAs, the commercial banks resorting to others means of recovery.



Table 4. Showing NPAs recovered by SCBs through DRTs (Amount in Crore)

Item	2008	2009	2010	2011	2012	2013	2014
Number of Cases Referred	3728	2004	6019	12872	13,365	13408	28258
Amount Involved	5819	4130	9797	14092	24,100	31000	55300
Amount Recovered	3020	3348	3133	3930	4100	4400	5300
% of Amount recovered to Total Amount	51.9	81.1	32.00	27.89	17.00	14.1	9.5

Sources: R.B.I.

Table 4 is showing NPAs of commercial banks recovered through DRTs during the study period of 2008 to 2014. From the analysis of the table, it is clear that the number of cases for the recovery of NPAs referred to DRTs is increasing through the study period and also the amount involved in these cases and the amount recovered through DRTs has increased. DRTs shows their efficiency in 2008-09 where it recovers 81.1pc of the total amount involved in NPAs and in later years also the amount recovered by DRTs is quite significant. This is the basic reason why the commercial banks are approaching DRTs for the recovery of their NPAs as compared to Lok Adalats in which the percentage of recovered amount of NPAs is very low. Though we can say that there is a slight decrease in the percentage of amount recovered by DRTs of the NPAs of commercial banks, though these are a significant recovery channel for the commercial banks.

Table 5. Showing NPAs recovered by SCBs through SARFAESI Act (Amount in Crore)

Item	2008	2009	010	2011	2012	2013	2014
Number of Cases Referred	83,942	61,760	78,366	1,18,642	1,40,991	1,90,537	1,94,707
Amount Involved	7263	12067	14249	30604	35300	68100	94600
Amount Recovered	4429	3982	4269	11561	10100	18500	24400
% of Amount recovered to Total Amount	61.0	33.0	30.00	37.78	28.6	27.1	25.8



Sources: R.B.I

Table 5 is showing NPAs of commercial banks recovered through SARFAESI Act during the study period of 2008 to 2014. From the analysis of the table, it is clear that the number of cases referred to SARFAESI Act and the amount of NPAs involved is increased largely during the study period. This is done because of the efficiency of SARFAESI Act in recovering these NPAs of commercial banks. From the table it is clear that the SARFAESI Act is able to recover 25.8% of the amount of NPAs of the cases referred to it in the year 2014. In 2008 recovery percentage was quite higher 61.0% this act has emerged as a blessing in disguise for the commercial banks as now they are using this act largely in recovering their NPAs in order to increase their profitability.

Figure 4 – Recovery of NPAs of SCBs through various Channels (Amount in Rs. Crore)

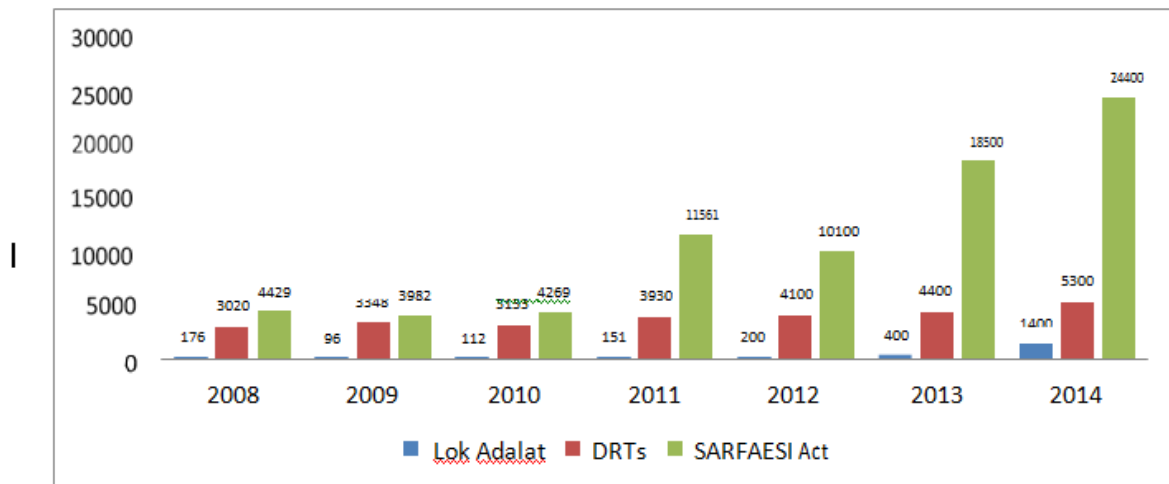


Figure 4 clearly showing NPAs of scheduled commercial banks recovered through various channels SARFAESI Act during the study period of 2008 to 2014. SARFAESI Act is the most effective channel of NPA recovery. Rs. 24,400 Crores were recovered through this channel in 2014.

Impact of NPA

NPA impact the performance and profitability of banks. The most notable impact of NPA is change in banker's sentiments which may hinder credit expansion to productive purpose.



Banks may incline towards more risk-free investments to avoid and reduce riskiness, which is not conducive for the growth of economy. If the level of NPAs is not controlled timely they will: Reduce the earning capacity of assets and badly affect the ROI. The cost of capital will go up. The assets and liability mismatch will widen.

- 1) Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
- 2) The economic value additions (EVA) by banks get upset because EVA is equal to the net operating profit minus cost of capital.
- 3) NPAs causes to decrease the value of share sometimes even below their book value in the capital market.
- 4) NPAs affect the risk facing ability of banks.
- 5) Reduce the earning capacity of assets and badly affect the ROI. The cost of capital will go up.
- 6) The assets and liability mismatch will widen.
- 7) Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
- 8) The economic value additions (EVA) by banks get upset because EVA is equal to the net operating profit minus cost of capital.
- 9) NPAs causes to decrease the value of share sometimes even below their book value in the capital market.
- 10) NPAs affect the risk facing ability of banks.

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