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# A Paper On "NPAs inIndian Banking Industry" - A Snapshot

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## Abstract
This paper focuses on the reasons of formation of Non Performing Assets (NPAs), the status of the non performing assets to loans ratio of Indian banks and what the ways to deal with this situation are. The Indian banking system is facing critical situation due to some bad loans it advanced in past and it is high time they should be revived to keep Indian economy on track.

**Keywords -**NPAs, bad loans, Indian banks, restructure

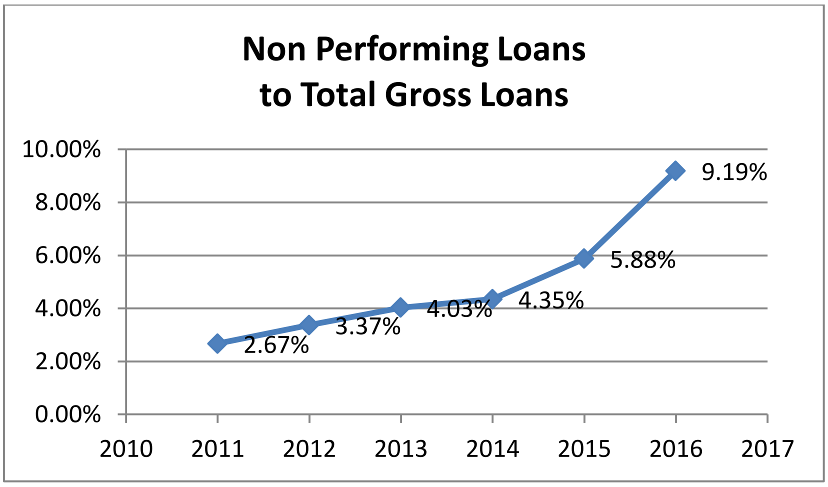
## Introduction
According to recent ASSOCHAM-Crisil Study the gross NPAs are likely to be increased by 1.5 lac crores by March, 2018 from 8 lac crores in the same month last year. NPAs are one of the major concerns of the present government as it can cause break down in Indian Economy if not dealt with immediately. Power, metal and construction sectors are major contributors of the stressed assets nearly forming 30%, 25% and 15% respectively.

## Objectives
The objective of the paper is toknow what are the reasons of NPA formation and ways to resolve it.

## Methodology
This paper is based on secondary data collected from various, articles, websites and research journals.

## What is NPA?

According to RBI, An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A 'non-performing asset' (NPA) was defined as a credit facility in respect of which the interest and/ or installment of principal has remained 'past due' for a specified period of time.




Source: World Bank

The World Bank data shows that the Non Performing Loans to total gross loans of Indian banks is rising, 4% mark is considered to be safe zone. From the above graph it can be seen that in 2015 the ratio was 5.88% and it reached to 9.19%. If we compare India's Non performing loans to total gross loans ratio of other developing nations like china, brazil, south Africa and Russia, except Russia our ratio does not indicate good scenario.

## Reasons for NPAs.

1. During 2000 to 2010 the public sector banks had advanced loans to mining, power, metal and construction sectors. But due to global recession and ban in mining industry, and environmental issues in power sector affected the ability of the companies to pay back loans.
2. Banks advanced loans to corporate players without properly considering their creditworthiness. This may be due to competition in banking sector they had advanced unsecured loans.
3. One of the reasons can be political pressure companies with weak debt repayment capacity received more and more loans.
4. Lack of bankruptcy code and sluggish legal system.

5. Reserve bank of India had conducted an internal study and they have given following factors contributing to NPA formation.

| Internal Factors | External Factors | Other Factors |
|---|---|---|
| Diversion of funds for expansion, Diversification, Modernization, Or for taking up new projects. | Exchange rate fluctuation. | Pressures due to liberalization like several competitions, reductions of tariffs etc. |
| Times or cost overrun during the project implementation stages | Recession in the economy in whole. | Poor monitoring of credits. |
| Business failure due to product failure and failure in marketing etc. | Change in government policies. | Mismatching of funds i.e. using loan granted for short term for long term transactions |
| Inefficiency in bank management | Price volatility of inputs. | Inability to raise adequate funds. |
| Slackness in credit management and monitoring | Input or power shortage. | Granting of loans to the certain sectors of the economy on the basics of government directives. |

Source: RBI

## Conclusion

NPAs are growing in number and the banks must come up with stringent policies to act against the past dues it will require the support and coordination of government of India and Judicial system to recover the past dues, learning the lesson from this menace the banking sector reforms must be conducted to make sure such situation does not occur in future. Reserve bank can play an important role in coordination of the banks to recover the amount from defaulters.

## The remedies – way forward

The government of India and reserve bank of India must act immediately to stop this menace, this is very alarming situation. The followings are some of the ways it can be done.

1. The restructuring – traditional way of dealing with this kind of situation is not going to work as it is not a “liquidity problem” but a “Solvency Problem”. The strategic debt restructuring did not work due to lack of proper coordination between different banks involved.

2. Instead the government should come up with a new institution which will deal with recovery of the bad loans and all public banks must transfer their bad loans to this institution for recovery.

3. The traditional method of allocating more funds to weak banks should be reverted instead the government must allocate funds to strong banks it will work as incentive to weak banks to perform better to get more funds from banks.

4. The government equity should be reduced below 51% in some of the banks and attract some strategic investors to change them in more efficient entities.

5. Banking sector reforms should be initiated to authorize RBI to issue directions to banks to initiate recovery process of bad loans.

6. Formation of bankruptcy code and speeding up legal process for recovery of bad loans.

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