**A Case Study on Banking Crisis in India with special reference to Non-Performing Assets (NPA).**

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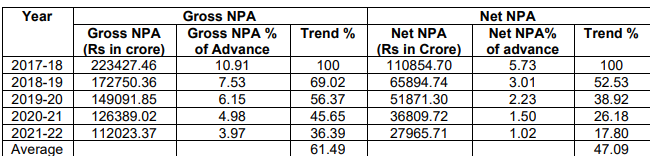
In the economic world, banks are incredibly important. Banking is the practice of accepting public deposits of money that are repayable on demand or in some other way for the purpose of lending or investing those funds and withdrawing those funds via cheque, draft, or other ways. The primary risk that banks confront when doing their business is lending money. A banker takes considerable caution when making loans since they involve money that the public contributed in the form of deposits and he is unsure whether they will be repaid. Non-repayment of the amount lent will create stressed assets or bad loans which are commonly known as Non-Performing Assets (NPAs). In line with RBI NPA refers to a loan or advance where interest or instalment of principle amount is past due for more than 90 days in the case of a term loan.

Non performing assets:

Based on the length of the NPA, there are three categories: substandard assets, doubtful assets, and loss assets. Substandard assets are those that have an NPA status for less than or equal to 12 months. Doubtful assets are those that have an NPA status for more than 12 months and loss assets are assets where a loss has been determined by the bank or the RBI. External and internal factors can both contribute to NPA. It is referred to as an internal cause if it includes factors like faulty projects, negligent handling by bankers, a lack of professionalism and appraisal standards, a disregard for systems, procedures, and a lack of insistence from higher-ups. Major external causes include natural disasters and climatic conditions, recession, changes in government policies, changes in economic conditions, industry-related issues, the impact of liberalisation on industries, and technical problems, among others.

Gross non-performing assets (GNPAs) of scheduled commercial banks (SCBs) have decreased from Rs. 9,33,779 crore (GNPA ratio of 9.07%) as of 31.3.2019 to Rs. 8,00,463 crore (GNPA ratio of 6.93%) as of 30.9.2021, according to Reserve Bank of India (RBI) data on global operations. the Minister stated that as per RBI inputs, GNPAs of Public Sector Banks (PSBs) as a proportion to that of SCBs have decreased from 79.2% as on 31.3.2019 to 75.7% as on 31.3.2020 to 73.8% as on 31.3.2021 and further to 72.3% as on 30.9.2021, whereas GNPAs of Private Sector Banks (PVBs) as a proportion to that of SCBs have increased from 19.4% as on 31.3.2019 to 23.0% as on 31.3.2020 to 24.2% as on 31.3.2021 and further to 24.9% as on 30.9.2021. India struggled with growing NPA in the years 2003 to 2004.When the economy performs well, more people borrow money to take advantage of growth prospects, which is when the problem of credit boom is amplified. In India, the credit boom issue persisted from 2003 to 2004. At that time, RBI tightened its monetary policy by raising the repo rate and reserve repo rate. But even after that, credit expanded, which resulted in an increasing NPA ratio. The judgements made by the courts at the period were unfavorable to businesses and had a negative effect, particularly on the mining, power, and steel industries. It also observed that many borrowers are purposefully defaulting on their loans. Identification of these individuals is necessary, and proper action must be taken to reclaim the money. Natural disasters in India are another factor contributing to rising NPA in public sector banks. Farmers rely on rain for their farming activities. High rainfall and drought have a detrimental effect on crops, which will lower production levels and make farmers unable to repay loans.These were some reasons for rising NPA during 2003-2004. Due to their lack of credibility, banks' profitability declines as NPA rises. Additionally, the public sector banks' capital bases have been severely impacted by this NPA. Any bank's chronically increasing NPAs have a negative impact on their ability to stabilise and cause them to experience severe crises. Banks may eventually fail as a result of account holders losing trust and deciding to withdraw their money. Because of the high NPA, banks are compelled to lower their interest rates on savings accounts in order to boost their margin.

State Bank of India (SBI) is a an Indian multinational provides public sector banking and financial services in India. It supports the 2.6 trillion-dollar economy of the country and provides for the aspirations of its huge population. Through its 22,010 branches and other outlets, joint ventures, subsidiaries, and associate firms, it offers a comprehensive range of goods and services to small and large businesses, public entities, and institutional clients.



Source: combined SBI annual reports

The SBI's Gross NPA and Net NPA trend is shown in the table. According to an international guideline, the gross NPA should be between 2 and 3 percent. The gross NPA, which was 10.91% in the 2017–18 fiscal year, will steadily decline to 3.97% in the 2021–22 fiscal year. As a result, S.B.I.'s Net NPA will similarly decline, from 5.73% in 2017–18 to 1.02% in 2021–22. According to the Gross NPA and Net NPA trend percentages, SBI's Gross NPA declined over the study period by 38.51% and Net NPA decreased by 52.91%. (KASHIV, 2017) (KASHIV, 2017)

Net NPA and net worth

Table

Description automatically generated

It is evident that the patterns of NPA to net worth are declining over the study period is clear. The predicted ratio of Net NPA to Net Worth ranged from 50.59 percent in 2017–18 to 09.98 percent in 2021–22. SBI lost money in 2017–18 as a result of its high NPA, and the ratio of NPA to Net Worth declined by 49.65 percent. NPA as a proportion of net worth was 25.47 on average before, and it has now risen by around 49.65 percent. As can be seen from the above table, NPA have an impact on SBI's net value, but the trend is downward.

Net NPA and return on assets(ROA)

Table

Description automatically generated

NPA has a direct impact on ROA (Return on Assets). According to the table, the bank's ROA for 2017–18 was -0.19 percent, but its estimated actual ROA was only 0.01 percent. Current ROA and actual ROA have both been increasing over time. Current ROA in 2021–2022 is 0.64 percent, and real ROA is 0.66 percent. If income from NPAs was permitted to be reclassified as bank profit, SBI most likely would have one of the highest ROA banks. The calculated real ROA was 0.35 percent, whereas the average existing ROA is 0.23 percent. . This circumstance at SBI demonstrates that NPA are SBI's major concern. SBI's ROA is increasing yearly as a result of strong NPA management.

The Debt Recovery Tribunals (DRTs) were established in 1993 to shorten the time needed to resolve disputes. Credit Information Bureau( 2000) -A reliable information system is necessary to avoid loans from slipping into the wrong hands and, as a result, NPAs. By maintaining and disseminating information on specific defaulters and intentional defaulters, it benefits banks. Lok Adalats They are beneficial in dealing with and recovering small loans, but the RBI guidelines established in 2001 limit them to loans of no more than 5 lakh rupees. Compromise Settlement in 2001 offers a straightforward approach for recovering NPA for advances under Rs. 10 crore. The SARFAESI Act of 2002 - Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest The Act enables banks and other financial institutions to recover their non-performing loans (NPAs) by purchasing and selling the secured property in NPA accounts having a balance of at least Rs. 1 lakh. Joint Lenders Forum (2014) inclusion of all PSBs with stressed loans gave rise to it. It exists to prevent loans from various banks being made to the same person or business. It was designed to stop situations where someone would borrow money from one bank and then lend it to someone another bank. These are some various policies to tackle NPAs.

CONCLUSION

In order to combat NPAs, quick corrective actions are required. In order to recognise the early warning signals, this should incorporate technology and data analytics ,a system to find the hidden NPAs, Internal skill development for credit evaluation and forensic audits to determine the borrower's intent.

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