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Non-Performing Assets (NPA): Some Suggestions for Reducing NPA

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ABSTRACT: The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into picture. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand, lending always involves much risk because there is no certainty of repayment. In recent times the banks have become very cautious in extending loans, the reason being mounting non-performing assets. Non-performing assets had been the single largest cause of irritation of the banking sector of India. Earlier the Narasimha Committee-I had broadly concluded that the main reason for the reduced profitability of the commercial banks in India was given importance to priority sector lending. The committee had highlighted that priority sector lending was leading to the building up of non-performing assets of the banks and thus it recommended it to be phased out. Subsequently, the Narasimha committee-II also highlighted the need the zero non-performing assets for all Indian banks with international presence. A major portion of the money lent comes from the deposits received from the public. These deposits are mostly repayable on demand. Therefore, while sanctioning credit the banker should appraise the project reasonably or else it leads to the non-repayment of loans and advances. Most of the banks today in India are facing the default risk wherein some part of the profit is reserved for covering the non-performing assets. The objective of the present paper is to highlight the concept of non-performing assets, to study the general reasons for assets to become non-performing assets and to make appropriate suggestions based on findings of the study to avoid future NPAs and to manage existing NPAs in Indian Banks.

Keywords: Non-performing assets, Public Sector Banks, Internal check, Liberalisation, Deposit Mobilisation

I. INTRODUCTION

For any nation, banking system plays a vital role in the development of its sound economy. India is not an exception. Bankers are the custodians and distributors of the liquid capital of the country. The foremost function of the banking system is to mobilize the savings of the people by accepting deposits from the public. The banker becomes the trustee of the surplus balances of the public. Here-in-lies the onerous duty of the banker is in stimulating the mobilization of surpluses. Well-knit banking systems secure a good foundation for a Nation's Industrial and Economic Progress. The role of banking in promoting development and growth, especially in the context of planning to break the vicious cycle of poverty and to retrieve the economy from the trap of under-development is a matter of paramount importance, particularly when our country is on the way of development. Deposit mobilization promotes the economic prosperity by controlling the money circulation and canalizing for development and productive purposes. In order to mobilize deposits, the commercial banks undertake deposit mobilization through various deposit schemes suited to the different sections of the people. As the growth of the bank deposits is the key element in the progress of the banking business, bankers spend more time and man power in the mobilization of deposits. The deposits along with other sources of funds, namely, capital, reserves and borrowings, form the sources of funds for the banks. The lending and investment activities of the bank are based on the sources of funds.

OBJECTIVES OF THE STUDY

The present study has been designed to achieve the following objectives:

1. To understand the concept of Non-performing assets (NPA).
2. To study the general reasons for assets to become Non-performing assets.
3. To make appropriate suggestions based on findings of the study to avoid future NPAs and to manage existing NPAs in Indian Banks.

LIMITATION OF THE STUDY

The study is limited to management of NPAs. Thus, the important limitations are as follows;

1. Since non-performing assets are critical, bank officials are not willing to part with all the information with them.
2. Reasons for NPAs and Management of NPAs are changing with the time. The study is done in the present environment without foreseeing future developments.
3. An analysis is made non-performing assets only. The performing assets do not pose any problems to credit management.
4. Since the part of the study is based on their perceptions, the findings may change over the years in keeping with changes in environmental factor.

SCOPE OF THE STUDY

The study has the following scope:

1. The study could suggest measures for the banks to avoid future NPAs & to reduce existing NPAs.
2. The study may help the government in creating & implementing new strategies to control NPAs.
3. The study will help to select appropriate techniques suited to manage the NPAs and develop a time bound action plan to arrest the growth of NPAs.

CONCEPT OF NON-PERFORMING ASSETS

The banks, in their books, have different kind of assets, such as cash in hand, balances with other banks, investment, loans and advances, fixed assets and other assets. The Non-Performing Asset (NPA) concept is restricted to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a "Non-Performing Asset".

In other words, a loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission or any other dues for the bank for more than 90 days. A NPA is an advance where payment of interest or repayment of installment on principal or both remains unpaid for a period of two quarters or more and if they have become 'past due'. An amount under any of the credit facilities is to be treated as past due when it remains unpaid for 30 days beyond due date.

Non-Performing Assets are also called as Non-Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing. A high level of non-performing assets, compared to similar lenders, may be a sign of problems.

Non-Performing Asset: Generally speaking, assets which generate income are called performing assets and but those do not generate income are called non-performing assets. Abhinav (2001) stated that In accordance with asset classification norms brought in with effect from March 31, 2004, a non-performing asset (NPA) shell be a loan or an advance, where:

1. Interest and /or installment of principal remain overdue for a period of more than 90Days in respect of a Term Loan,
2. The account remains 'out of order' for a period of more than 90 days, in respect of an overdraft/ cash credit (OD/CC)
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
4. Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for Agricultural purpose, and
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Classification of Non-Performing Assets

T.N.Gurumoorthy (2012) stated that "non-performing assets can be further classified by bank as standard, substandard, doubtful and loss asset in accordance with guidelines related to asset classification issued by RBI."

Standard Assets: Standard assets generate continuous income and repayments as and when they fall due. So a standard asset is a performing asset. Such assets carry a normal risk and are not NPAs in the real sense. Hence, no special provisions are required for Standard Assets. In other words, Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year. If asset fails to be in category of standard asset that is amount due more than 90 days, then it is NPA and NPAs are further need to classify in sub categories.

Sub-Standard Assets: With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. The following features are exhibited by substandard assets: the current net worth of the borrowers / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full; and the asset has well-defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful assets. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable. With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

Loss Assets: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. A loss asset is one which considered uncollectible and of such little value that its continuance as a bankable asset is not warranted- although there may be some salvage or recovery value. Also, these assets would have been identified as 'loss assets' by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

Provisional Norms

Standard assets:

(a) Direct advances to agricultural & SME sectors at 0.25 per cent;
(b) Residential housing loans beyond Rs. 20 lakhs at 1 per cent;
(c) Advances to specific sectors, i.e. personal loan and credit card. Receivable loan and advances qualifying as capital market exposures, commercial Real estate loan at 2 percent.
(d) All other advances not included in (a), (b) and (c) at .40 percent.

Substandard assets:

10 per cent of the total outstanding for total Substandard assets.

Doubtful assets:

20- 50% of the secured portion depending on the age of NPA and 100% of unsecured portion.

Loss assets:

It may be either written off or fully provided by the gross NPA and net NPA.

Gross NPA and Net NPA

Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of Bond finance Principal has remained 'past due' for a specified period of time. NPA is used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principle payments for 90 days/ 3 Months the loan is considered to be a non-performing asset. Non-performing assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs.

With a view to moving towards international best practices and to ensure greater transparency, it had been decided to adopt the '90 days' overdue' norm for identification of NPA, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) is a loan or an advance where; Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan, The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC), The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts. Non submission of Stock Statements for 3 Continuous Quarters in case of Cash Credit Facility. No active transactions in the account (Cash Credit/Over Draft/EPC/PCFC) for more than 91days

The Problems Caused by NPAs

Sub-standard asset is the asset in which bank have to maintain 15% of its reserves. All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets. All those assets which cannot be recovered are called as Loss Assets.

NPAs do not just reflect badly in a bank's account books, they adversely impact the national economy. Following are some of the repercussions of NPAs:

Depositors do not get rightful returns and many times may lose uninsured deposits. Banks may begin charging higher interest rates on some products to compensate Non-performing loan losses

Bank shareholders are adversely affected

Bad loans imply redirecting of funds from good projects to bad ones. Hence, the economy suffers due to loss of good projects and failure of bad investments

When bank do not get loan repayment or interest payments, liquidity problems may ensue.

REASONS FOR NPAs IN BANKS

An account does not become an NPA overnight. It gives signals sufficiently in advance that steps can be taken to prevent the slippage of the account into NPA category.

An account becomes an NPA due to causes attributable to the borrower, the lender and for reasons beyond the control of both. An internal study conducted by the RBI shows that in the order of prominence, the following factors contribute to NPAs.

1. Internal Factors

a) Diversion of funds for

i)Expansion/diversification/modernization.

ii) Taking up new projects.

iii)Helping/promoting associate concerns.

b) Time/cost overrun during the project implementation.

c) Inefficient management.

d) Strained labour relations.

e) Inappropriate technology/technical problems.

f) Product obsolescence, etc.

g) Poor credit Appraisals, monitoring and follow up, improper SWOT analysis on the part of banks.

2. External Factors

a) Recession.

b) Input or power shortage.

c) Price escalation.

d) Exchange rate fluctuation.

e) Accidents and natural calamities.

f) Changes in government policy such as excise, import and export duties, pollution control order etc.

g) Willful defaulters have been there because they knew that legal recourse available to the lenders is time consuming and slow.

h) Sickness of the industry also leads to gradual erosion of the liquidity and units start failing to honour its obligations for the loan payments. Heavy funds are locked up in these units.

i) Political Tool-Directed credit to SSI and Rural sectors has been there

j) Manipulation by the debtors using political influence has been a cause for high industrial bad debts.

In the current perspective, weidentify the following as the "main" reasons for the growing NPAs:

1) Switchover to a system- based identification of NPAs by PSBs

2) Prevailing macro-economic situation in the country;

3) Increased interest rates in the recent past;

4) Lower economic growth; and

5) Aggressive lending by banks in the past, especially during good times.

NPAs: Effect on the Performance of banks

The large percentages of NPAs have a deleterious impact on a bank's profit in a number of ways:

a) They result in reduced interest income

b) They erode (eat into) current profits through provisioning requirements.

c) It leads into erosion of capital base and reduction in their competitiveness

d) Through creation of reserves and provisions that come from profits, to act as cushions for loan losses.

e) Decline in profit has its bearing on variables like Capital to Risk Weighted Assets Ratio (CRAR and cost).

To quote the committee on banking sector reforms (Narasimham Committee II, 1998) "NPAs constitute a real economic cost to the nation is that they reflect the application of scarce capital & credit funds to unproductive uses. The money locked up in NPAs is not available for productive uses to the extent that bank seek to make provisions for NPAs or write them off. It is a charge on their profits, NPAs, in short, is not just a problem for banks; they are bad for the economy".

REMEDIES/SUGGESTIONS FOR REDUCING NPAs

1. Prepare a loan recovery policy and strategies for reducing NPAs.
2. Create special recovery cells as head office/Zonal office/ regional office levels identify critical branches for recovery
3. Fix targets of recovery and draw time bound action programmer
4. Select proper techniques for solving the problem of each NPA
5. Monitor implementing of the time bound action plan
6. Take corrective steps when ever found necessary while monitoring the action plan and make changes in the original plan if necessary

The impact of NPAs on the profitability of the banks is summarized in the following points

1. Reduces earning capacity of the assets: NPA.s reduced the earning capacity of the assets and as a result of this return on assets gets affected.

2. Blocks capital: NPAs carry risk weight of 100% (to the extent it is uncovered). Therefore, they block capital for maintaining Capital adequacy. As NPAs do not earn any income, they are adversely affecting "Capital Adequacy Ratio" of the bank.

3. Incurrence of additional cost: Carrying of NPAs require incurrence of "Cost of Capital Adequacy", "Cost of funds in NPAs" and Operating cost for monitoring and recovering NPAs.

4. Reduces EVA: While calculating Economic Value Added (EVA =Net operating profit after tax minus cost of capital) for measuring performance towards shareholders' value creation, cumulative loan loss provisions on NPAs s considered as capital. Hence, it increases cost of capital and reduces EVA.

5. Low yield on advances: Due to NPAs, yield on advances shows a lower figure than actual yield on "standard Advances". The reasons that yield are calculated on weekly average total advances including NPAs.

6. Effect on Return on Assets: NPAs reduce earning capacity of the assets and as a result of this, ROA gets affected

Some additional remedial measures are suggested to control the NPAs as follows: -

1. There must be an effective and regular follow-up with the customers and need to watch is there any diversion of funds. This process can be taken up at regular intervals.
2. A number of personal visits after sanction and disbursal of credit and close monitoring of the operations of the accounts of borrowed units.
3. Between the Bankers – borrower a healthy relationship should be developed. Many instances reported that the banks use force in recovery of loans, which is unethical.
4. Banks have to take decisions regarding filing of suits expeditiously and effectively follow-up the filed and decreed cases.
5. Managers in charge of non-performing assets should have dynamism and seal in their work. But many of them are worried due to accountability fixed arbitrarily. Many managers say that "we do not fear to negotiate but we do not negotiate out of fear. Such fear leads to arbitrary negotiation, which fails.
6. Frequent discussions with the staff in the branch and taking their suggestions for recovery of NPAs make them feel responsible.
7. Priority sector lending involves more risk and less return. Hence the priority sector lending bench mark of net bank credit should be redefined.
8. Assisting the borrowers in developing his/her entrepreneurial skill will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds.
9. Another way to manage NPAs by banks is compromise settlement schemes or One Time Settlement Scheme (OTS). However, under such schemes the banks keep the actual amount recovered in secret, under these circumstances, it is necessary to bring more transparency in such deals so that any flaw could be removed.
10. RBI need to take necessary actions against defaulters like, publishing names of defaulters in Newspapers, broadcasting media, which is helpful to other banks and financial institutions.
11. If the delinquencies are due to reasons beyond the control of borrower i.e. draughts, floods, natural disasters etc. the banker should suitably restructure the loans taking into consideration of the genuine difficulty of the borrowers.
12. Lok Adalats are identified as fast recovery agencies of smaller loans.
13. In the export related loan, banks have to check the authenticity of the firm with the export houses.
14. Good credit appraisal and performance evaluation method should be adopted.

15. Before proving loan full enquiry should be made and strict procedure should be adopted for recovery of loans.
16. Loan should be given to different sector according to their creditworthiness.
17. Proper norms should be developed for employees and employees should do their job ethically.
18. Banks should find out the original reasons/purposes of the loan required by the borrower.
19. Proper identification of the guarantor should be checked by the bank including scrutiny of his/her wealth.
20. Framing reasonably well documented loan policy and rules.
21. Sound credit appraisal on well-settled banking norms with emphasis on reduction in Gross NPAs rather than Net NPAs
22. Position of overdue accounts is reviewed on a weekly basis to arrest slippage of fresh account to NPA.
23. Half yearly balance confirmation certificates should be obtained from the borrowers.
24. A committee is constituted at Head Office, to review irregular accounts.
25. Based on the recent trends, banks should emphasize more on priority sector for reducing the quantum of NPAs.
26. Banks should ensure credibility of the borrower.
27. Appropriate SWOT analysis should be done before disbursement of the advance.
28. Banks should ensure that there is no diversion of funds disbursed to the borrower.
29. Bank officials should frequently visit the unit and should assess the physical conditions of the assets, receivables and stocks therein.
30. While advancing loans, the three principles of bank lending viz., Principle of Safety, Principle of Liquidity and principle of Profitability must be adhered to.
31. Banks should get the Non Encumbrance and Valuation of the primary and collateral securities done.
32. Banks should critically examine and analyze the reasons behind time overrun.
33. The banks should ensure that latest technology is being used by the borrower, to avoid obsolescence.
34. The banks should ensure that the assets are fully insured.
35. Recovery competition system should be extended among the staff members. The recovering highest amount should be felicitated.
36. Adopting market intelligence for deciding the credibility of the borrowers
37. Creation of a separate “Recovery Department” with Special Recovery Officer
39. There surely is a need to distinguish between willful and non willful defaulters. In case of the latter category of defaulters, the law should not be as harsh as in case of former category.
40. The recovery process is very slow; as such the Government needs to update the process which is fast and effective.
41. Bank officers should not forget the ethics of doing job.
42. Last but not the least; the act(s) should be judiciously and selectively applied so that NPAs should be converted into performing assets.

II. RESULTS AND DISCUSSION

The Public Sector Banks have shown very good performance over the private sector banks as far as the financial operations are concerned. The Public Sector Banks have also shown comparatively good result. However, the only problem of the Public Sector Banks these days are the increasing level of the non-performing assets. The non-performing assets of the Public Sector Banks have been increasing regularly year by year. If we glance on the numbers of non-performing assets we may come to know that in the year 1995 the NPAs were Rs. 38385 crores and reached to Rs. 44042 crores in 2009 in Public sector banks and comparatively in the year 2001 the NPAs were Rs. 6410 crores and reached to Rs. 16887 crores in 2009 in Private sector banks. The only problem that hampers the possible financial performance of the Public and private Sector Banks are the increasing results of the non-performing assets. The non-performing assets impact drastically to the working of the banks. The efficiency of a bank is not always reflected only by the size of its balance sheet but by the level of return on its assets.

NPAs do not generate interest income for the banks, but at the same time banks are required to make provisions for such NPAs from their current profits.

NPAs have a deleterious effect on the return on assets in several ways –

i) They erode current profits through provisioning requirements

ii) They result in reduced interest income

iii) They require higher provisioning requirements affecting profits and accretion to capital funds and capacity to increase good quality risk assets in future, and

iv) They limit recycling of funds, set in asset-liability mismatches, etc.

The RBI has also tried to develop many schemes and tools to reduce the non-performing assets by introducing internal checks and control scheme, relationship managers as stated by RBI who have complete knowledge of the borrowers, credit rating system, and early warning system and so on. The RBI has also tried to improve the securitization Act and SRFAESI Act and other acts related to the pattern of the borrowings. Though RBI has taken number of measures to reduce the level of the non-performing assets the results is not up to the expectations. To improve NPAs each bank should be motivated to introduce their own precautionary steps. Before lending the banks must evaluate the feasible financial and operational prospective results of the borrowing companies. They must evaluate the business of borrowing companies by keeping in considerations the overall impacts of all the factors that influence the business.

While gross NPAs reflects the quality of the loans made by banks, net NPA shows the actual burden of banks. Now it is increasingly evident that the major defaulters are the big borrowers coming from the non-priority sector. The banks and financial institutions have to take the initiative to reduce NPAs in a time bound strategic approach. Public sector banks figure prominently in the debate not only because they dominate the banking industries, but also since they have much larger NPAs compared with the private sector banks. This raises a concern in the industry and academia because it is generally felt that NPAs reduce the profitability of banks, weaken its financial health and erode its solvency. For the recovery of NPAs a broad framework has evolved for the management of NPAs under which several options are provided for debt recovery and restructuring. Banks and FIs have the freedom to design and implement their own policies for recovery and write-off incorporating compromise and negotiated settlements.

The incidence of non-performing assets (NPAs) is affecting the performance of credit institutions both financially and psychologically. The non-performing assets have become a major cause of concern. Imbibing the credit management skills has become all the more important for improving the bottom-line of the banking sector. It becomes essential to master the expertise for monitoring exposure levels, industry scenarios and timely action in respect of troubled industries. Skills of NPA management, include working out negotiated settlements, compromises constituting active settlement, advisory committees, restructuring and rehabilitation, effective recourse to suitable legal remedies are to be supplemented with most suitable legal reforms by banks to recover dues well in time so that the financial soundness of the banking sector will not be undermined.

On the international front, the various global risks associated with the banking industry will expose the credit assets to greater risks while serious efforts need to be taken for recovery measures, banks need to be equipped with necessary risk appraisal system to minimize credit defaults.

The position of NPAs continues to haunt Indian Banking Sector. Several experiments have been tried to curb NPAs (viz., BIFR/SICA, Lok Adalats, DRTs, OTS, SARFAESI etc) but nothing has hit the mark in tackling NPAs. The validity of both DRT/ Securitization act was challenged and still hangs in dilemma, which has dampened the spirits of bankers.

A clear discrimination is warranted while formulating any strategy in addressing the problem of genuine and willful defaulters. There should be a real crackdown on willful defaulters and their assets whether or not charged to banks should be declared as national assets and be disposed in a transparent manner, without major legal hurdles.

Nevertheless, the process of NPA management does not start after filing a suit but starts with the identification of a right borrower. The problem of NPA is greater in the public sector banks as compared to private and foreign banks in India. Similarly, the problem of NPAs is more in non-priority sector than priority and public sector. Further, SSI sector has largest share in the total NPA of priority sector. As a result of this, financial health of banks has been affected adversely. Hence, banks in India must apply the basic principles of financial management to solve the problems of mounting NPA.

Both types of banks, i.e. Public Sector and Private Sector banks showed a declining trend in gross and net NPAs over the period of the study but public sector banks higher ratio as compare to private sector banks reason behind this is that private sector banks have a secured loan policy as compares to public sector banks. Gross and net NPAs have increased in absolute terms till 2002 and started declining after that, yet they have declined significantly in relative terms in the given period. Public sector and nationalized banks are subjected to provide more loans to priority sector, which results in higher nonperforming assets. These banks are more exposed to political

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interference; they are not allowed to act in a professional manner, which results in high level of non- performing assets.

For all categories of banks except the foreign banks, agriculture is an important source of non- performing assets. Agriculture sector is still an important component of Indian economy and banks cannot ignore the need requirements of the agriculture sector. However, politics rather than pure business considerations influence the sanctioning of agricultural loans in comparison to other categories of loans.

NPA in agriculture as percentage to outstanding agricultural credit between 2009 and 2013 exhibited increasing trend and lowering in scheduled commercial banks than other banks. RRBs had high level of NPA whereas they were substantially higher in case of PCARDBs followed by SCARDBs and SCB.NPAs in Agriculture as percentage to total NPAs in the respective bank-group were significantly higher in public sector banks than that in private sector banks in 2012 and 2013.Within public sector banks SBI-group had marginally higher NPA percentage than that in nationalized banks in 2012 but significantly higher in 2013. In case of private sector banks, old private banks had marginally higher NPA percentage than that in new private banks in 2012 and 2013. NPA percentages in agriculture were significantly higher than that in others in 2012 and 2013 in public and private sector banks, whereas they were significantly higher than MSMEs in 2012 and marginally higher in 2013.

So far social banking concerned, too many development programmes targeted at rural uplift created the problems subscribed to the adage, too many cooks, because these programmes are administered under different ministries and departments of the Centre and States with not much coordination among different central ministries and the state agencies concerned. Necessary freedom of action for realizing objectives laid down under the plans and programmes has also been grossly inadequate - if not altogether absent as one comes across different news in the dailies which have resulted in many a case in abandoning the actions on the projects half way or subjecting them to different uncertainties. Banking operations have not had the go required of them, for which banks themselves have not always been responsible. In some cases, absence of cohesion among the dispensing authorities resulted in delay in completion of the projects because when a project was supposedly stalled or delayed, banks had to be in the know when payments thereon had to be stopped or withheld, the result being raising the cost of the projects. This has been a major handicap in many a project large and small, that required close coordination among all the involved agencies. Banks were entangled in all such cases as they were desired to play their part as long as the orders for withholding the payments related to such projects did not arrive. Social banking gets a jolt in such cases, because of affected flow of funds from the government coffers. The MGNREGA programme of 100 days' work that got a jolt resulting in different uncertainties regarding dispensation of funds, with the change in government at the Centre, is a case in point. A major scoring point in this respect is that Government has envisaged and implemented the opening of bank accounts for farmers and small traders without any

Initial deposit in which accounts would be entered all payments made to the prospective recipients of money on various accounts, including salary, compensation on various accounts or for any other purpose, the Aadhaar Card being the hallmark of identity. Even the Panchayats at the village level are being increasingly oriented towards using the nearest bank branches both receipt and payment of funds on different counts such as receipt of taxes, grants from the Government, payment of salaries to staff, deployment of funds for various development works and canalization of funds received under different State and Central Government Schemes. This is social banking par excellence!

With regard to management of NPAs, using statistical tools, namely, σ and β convergence, rank, scatter plot and cluster analyses, it is observed that average GNGA of 34 banks is 0.05 GNGA of about 17 banks is above 0.05 and spread in such a manner that fifty to ninety percent of interest earned by these 17 banks is likely to be eaten up by gross NPAs. Similarly, average PGN of all banks is 0.68 which means if 68 percent of gross NPAs become loss assets, entire profit earned by bank will be eroded leading to bankruptcy while private sector and foreign banks have managed their NPAs well compared to SBI group and nationalised banks, it may be due to their less exposure in term and stock based working capital lending. The study finds that the GNGA of about 17 banks is above 0.05 and spread in such a manner that 50 to 90 percent of interest earned by these banks is likely to be eaten up by gross NPAs. Similarly, the average PGN of all banks is 0.68 which means if 68 percent of gross. NPAs become loss assets, the entire profit by the banks will be eroded leading to bankruptcy. The study is, however, limited to classifying the banks in two groups. The study can be further extended to find out which other ratios at disaggregate level may be responsible for good and bad management of NPAs by banks.

Finally, the problem of NPAs has been a major issue for the banking industry. The RBI which is the apex body for controlling level of non-performing assets have been giving guidelines and getting norms for the banks in order to control the incidents of faults. Reduction of NPAs in banking sector should be treated as national priority item to make the Indian Banking system more strong, vibrant and geared to meet the challenges of globalization.

III. CONCLUSION

On the basis of the foregoing discussion, certain broad observations, issues and perspectives on the performance of banking sector and financial stability of the economy on the eve of the introduction of Basel III norms by RBI to the banks would be appropriate:

1. In retrospect, the Indian Banks have overall demonstrated a trend of continued good performance and profitability despite rising interest rates, increase in operating costs and the spillover effects of recent global financial crisis.This is reflected in higher credit growth deposit record, better return on assets, and return on equities. (ROE) The capital position improved significantly as the banks were able to mobilize substantial funds.
2. As observed from the foregoing chapters, the level of NPAs is high with all banks currently and the banks would be expected to bring down their NPA. This can be achieved by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets.
3. However, maintaining profitability is a challenge to commercial banks especially in a highly competitive era and opening up of banking business to NBFC and foreign banks in general. This assumes significance in a period of rising interest rates and operating costs of borrowers in general.
4. Banks would make efforts to mobilise funds in order to comply with provisioning norms and capital adequacy requirements while meeting Basel III standards which will be brought in by RBI shortly. However, the Capital requirements would be large considering the varied structure of banks and financial institutions operating in the economy and their NPA levels. The capital market environment currently prevailing in the economy would pose problems for the capital mobilisation by the banks.
5. It is significant to note that new and private sector banks led by ICICI Bank and HDFC Bank, with their high capital adequacy ratios, enhanced proportion of common equity and better IT and other modern financial skills of the personnel, are well placed to comply with Basel III norms in general. PSU banks although dominant banks in the Indian financial system may take more time and face challenges in following the Basel III guidelines in the ensuing years.

To conclude, the NPAs have always been a big worry for the banks in India. It is just not a problem for the banks; they are bad for the economy too. The money locked up in NPAs is not available for productive use and adverse effect on banks' profitability is there. The extent of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. This has led to decline in the level of NPAs of the Indian banking sector. But a lot more needs to be done. The NPAs level of our banks is still high as compared to the international standards. It is highly impossible to have zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard. One cannot ignore the fact that a part of the reduction in NPAs is due to the writing off bad loans by the banks. The Indian banks should take care to ensure that they give loans to creditworthy customers as prevention is always better than cure.

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