

# “The Rise of NPA’s in the Indian Banking Sector”

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**Abstract** - Research in the field of banking sector has become a dynamic area. The growth of the economy depends upon the efficiency and the stability of the banking sector. Some of the common causes that lead to the rise of NPAs are lack of supervision, political interference, wilful defaulters and Internal/External causes. This research paper shows how the rise of NPAs in the Indian banking sector has impacted banks and the economy immensely.

**Key Words:** NPA's, Indian Banking Sector

## 1. INTRODUCTION

Research in the field of banking sector has become a dynamic area. The growth of the economy depends upon the efficiency and the stability of the banking sector. Some of the common causes that lead to the rise of NPAs are lack of supervision, political interference, wilful defaulters and Internal/External causes. This research paper shows how the rise of NPAs in the Indian banking sector has impacted banks and the economy immensely.

### 1.1 Objectives

The particular goals of the present examination are:

1. To discover the quantum of NPAs in open area and private sector banks in India.
2. To analyze the impact of NPAs on banks' performance.
3. To dissect the purposes behind mounting NPAs in banks in India.
4. To recommend approaches to lessen the degree of NPAs in banks in India.

## 2. LITERATURE REVIEW

Dr. Ganesan & R. Santhanakrishnan in their research paper “NON-PERFORMING ASSETS: A STUDY OF STATE BANK OF INDIA” have made an attempt to examine the non-performing assets of State Bank of India over the past 10 years beginning from financial year 2002 to the financial year 2012. The researchers in this paper aimed to study the sources of deployment of funds for the chosen bank. They examined the gross and the net NPA of the bank and investigated the impact of NPA on the profitability of the bank. They’ve also suggested measures to improve NPA effectively in SBI.

Vaibhavi Shah and Sunil Sharma in their research paper titles as A COMPARATIVE STUDY OF NPA IN ICICI BANK AND HDFC BANK have made an attempt to study the non-performing assets of ICICI and HDFC bank. Since, both the banks belong to the private sector of the Indian Banking industry, they aimed at comparing the NPAs and hence the overall growth of the selected banks.

D.JAYAKKODI in her research paper titled- A STUDY ON NON PERFORMING ASSETS OF SELECT PUBLIC AND PRIVATE SECTOR BANKS IN INDIA aimed to examine and compare the Gross NPAs and Net NPAs of select Public and Private Sector Banks

Prashanth K. Reddy (2002) in his works, “A Comparative Study of NPA in India in the Global context” highlighted and examined the similarities and dissimilarities and remedial measures. Financial Sector reform in India has progressed immensely on aspects like interest rate deregulation, reduction in reserve 78 requirements, barriers to entry, prudential norms and risk – based supervision. The paper deals with the experiences of the policies on the level of NPA and suggests mechanisms to handle the problem by drawing on experiences and recommendations from other countries

V.R SINGH in his paper titled A Study of Non-Performing Assets of Commercial Banks and its Recovery in India has aimed to study the status of Non-Performing Assets of Indian Scheduled Commercial Banks in India and their impact on the banks. He also tried to uncover the channels through which recovery of NPA can be done. He provided the readers with some suggestions to manage NPA in near future effectively.

### 2.1 Impact of NPAs on Banks

- The increasing NPAs not only reduce the profitability of banks but also affect its credibility.
- Threatens to erode half of the capital base of public sector banks.
- The current level of NPAs is threatening the stability. Destabilization of the confidence of the depositors results in them withdrawing their deposits which in turn would result in the banking system’s collapse.
- Higher amount of NPAs also pressurize banks to decrease the interest rate on saving deposits to increase the margin. Already there is a gap between interest rate on bank savings vis-a-vis savings in other non-banking accounts like PPF, post office saving schemes etc. Further, several mutual funds are providing returns of more than 10%. Further diversion in interest rates will divert the funds from banking sector to non-banking sector further eroding the capital with banks.
- Thus, the increasing NPAs pose long-term threats to the stability of banking sector.

### 2.2 Observation

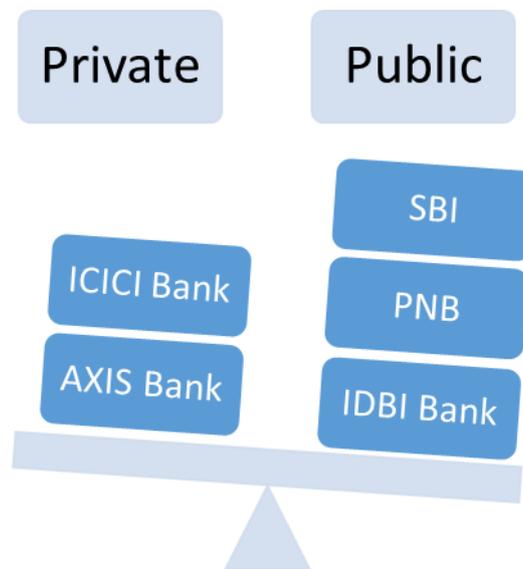
On completing an extensive secondary research and literature review, the following conclusions can be made.

- There is a direct impact on the banks performance due to the rise of NPA’s.
- NPA’s have a negative effect and influence on the performances of both Public and Private Banks.

### 2.3 Research Gap

Research has been conducted extensively on the relationship between banks and NPA’s in India, but there is not enough studies on purposes behind mounting NPAs in banks in India and that will be explored by me in my next article.

### 2.4 Conceptual Model



| BANK NAME               | GROSS NPA         |
|-------------------------|-------------------|
| 1. State Bank of India  | RS. 2.01 trillion |
| 2. Punjab National Bank | RS. 552 billion   |
| 3. IDBI Bank            | RS. 445 billion   |

| BANK NAME     | GROSS NPA |
|---------------|-----------|
| 1. ICICI BANK | 54063     |
| 2. AXIS BANK  | 34,249    |

## 2.5 Interpretation of the conceptual model

### Private Sector Banks

- According to the IE Report, ICICI Bank topped the NPA list with Rs.54,063 crore in bad loans.
- Followed by Axis Bank, with Rs 34,249 crore in bad loans

### Public Sector Banks

- The highest amount of gross NPAs is held by the country's **largest lender SBI amounts Rs. 2.01 trillion which is equal to 24.39%** of the gross NPAs.
- Other Public Sector Bank includes; Punjab National Bank (PNB) holds Rs. 552 billion and IDBI Bank has Rs. 445 billion.

## 3. CONCLUSIONS

On completing an extensive secondary research and literature review, the following conclusions can be made.

- It is interesting to know that **Public Sector Banks accounted for 88.74%** of the total gross NPAs in December 2017 and top 5 among these banks is responsible for 46.76% share of the gross NPA.
- Contrary to 19 PSBs, **21 private sector banks have total gross NPAs of Rs 93,044 crore**. There are 19 out of 21 private bank's gross NPAs is less than 1%, while only two PSBs- Sind Bank and Vijaya Bank can claim this achievement.
- The biggest reason behind the increasing NPAs of the Public Sector Banks is the **political interference in the functioning of the Public Sector Banks**.
- As of now Public Sector Banks and NPAs have almost become synonymous. So there is an urgent need to do appropriate banking reforms in the country.
- Recent studies however have showed that there has been a major improvement in asset quality of scheduled commercial banks (SCBs) during the year 2018-19 as gross NPA ratio declined to 9.3 per cent as on March 2019 against the mount of 11.5 per cent recorded in March 2018.

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