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An Analysis of NPAs of Scheduled Commercial Banks in India

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Abstract
India has a well-developed financial system that is meeting the country's credit and banking needs. During 2022-23, the commercial banks' total balance sheet rose by double digits, driven by continuous credit growth. The non-performing assets are considered as the best to measure the soundness of its banking sector. Reduced non-performing assets show that banks have improved their credit assessment methods over the period of time, whereas the rising NPAs necessitate the usage of provisions, which reduced the banks' overall profitability. Banks need to reduce and control its non-performing assets (NPAs) in order to enhance their efficiency and profitability. The share of NPAs in total bank advances is the main indicator of banking health. This paper traces the Non-performing assets' story from 2014 to 2023. In identifying the trends of NPA, the paper adopts two period classification viz., (a) 2014-2017, exhibiting an upward trend in Gross and Net NPA and (b) 2018 to till date shows downturn in NPAs of Indian Scheduled Commercial Banks (SCBs).GNPA as a percentage of Gross Advances decreased significantly from its peak of 11.2% in 2017-18 to 2.8% in 2023-24. Similarly, NNPA as a percentage of Net Advances rises at 0.6 percent in 2023-24 indicating an improvement in the bank's asset quality. The NPA level is comparatively higher in public sector banks (PSBs).

Key Words: Scheduled Commercial Banks, Asset Quality, Non-performing asset, Gross NPA, Net NPA

Introduction:
The country's economic growth depends mainly on the timely flow of credit to various sectors such as agriculture, MSMEs, priority sector, microfinance etc. In this context, the efficiency and stability of the financial system is vital. The banking sector is main part of the financial system, including institutions that render financial services to individuals, corporate, and governments. The overall stability of financial system mostly depends on the soundness of banks. Deteriorating asset quality is one of the most serious dangers to banks' financial stability, which results to NPAs. The banking industry is very concerned about non-performing assets, or NPAs. The asset quality (mainly loans and investments) is critical to the health of banks and financial sector (Mohan and Roy, 2022). **Here the question arises,** Why NPAs Matter? The answer to this is that NPAs affect the financial health of banks, exposed to credit risk and have impact on the economy. The "Asset Quality Review of RBI in 2015" included Restructured Standard Advances (RSA) which portrays the exact picture of growing NPAs in banks and provided the holistic view of overall stressed assets in Indian banks (Nidugala and Pant, 2017).
NPAs have an effect on the profitability of banks due to the non realization of expected interest income from these loans. Furthermore, banks have to set aside provisions on these bad loans, which affect their financial performance. Higher non-performing assets can erode the capital base of banks (affect the ability to absorb losses and sustain financial stability) and impact the willingness and ability of banks' to lend to other borrowers, may leads to credit crisis. If banks are unable to recover from NPAs, it can lead to reduced lending and investment in the economy. This can halt economic growth and also distress businesses and individuals who trust bank credit. The amalgamated balance sheet of Scheduled Commercial Banks (except Regional Rural Banks) experienced the

most significant growth in nine years, with a 12.2 per cent increase in 2022-23. Bank credit was the key driver of asset growth, which recorded its fastest pace of growth over ten years. (Trend and Progress Report 2022-23, RBI). The paper traces the Non-Performing Assets story over the decade from 2014 to 2023. In interest to identify the turns and trends of NPA of SCBs, the paper adopts a two period classification viz., (a) 2013-14 to 2017-18, which exhibits an upward trend in NPA of SCBs. (b) 2018 to till date, revealed downturn in NPAs.

1.1. What Are NPAs?

Banks are mainly involved in the lending business, and they earn profits from the interest accrued on it. However, when a borrower fails to make their interest payments for a certain time period, then it is classified as "non-performing assets/loans" (NPAs/NPLs). According to Reserve Bank of India (RBI), "Non-Performing Asset shall be a loan or an advance where interest and / or installment of principal remain overdue for a period of 90 days". NPAs or non-performing assets are those assets which are not generated any returns for ninety days. NPAs are further categorized as substandard, doubtful and loss assets. Essentially, these are assets that are not producing any revenue for the bank because the borrower is not making the required payments. Following the Report of Narasimhan Committee (1991) observed that the health code of Indian banking industry was not as per the international standards. In 1992-93, India implemented an appropriate arrangement to observe bad loans or non-performing assets (NPAs).After this the concept of NPA was introduced in India.
NPAs are broadly classified into classes:

a) Gross NPAs

Gross NPAs are the sum of all loan assets identified as NPAs in accordance with RBI criteria as of the balance sheet date. The gross NPA indicates the quality of loans completed by banks.
Gross NPA Ratio= Gross NPA/ Gross Advances

b) Net NPAs

Net NPAs are those NPAs from which bank has subtracted the provision regarding NPAs. Net NPA shows the actual burden on banks due to NPAs.

Literature Review

Most academicians have examined the NPAs in India. **Kadanda& Raj (2018)** shows that the matter of NPA has been raising in Indian banking sector, which poses a major threat to the stability of its financial system. It further shows that different NPA recovery strategies are ineffective in addressing the problem of bad debts. Significant factors that contribute to non-performing assets (NPAs) include banks' aggressive lending practices, poor management and increased credit concentration, rising interest rate and moral hazard. **Poonam Mahajan (2014)** has analysed the trends of NPA of public and private sector banks and pinpoint that the NPA issue was more prevalent in public banks. Private Sector Banks exhibited superior performance compared to public banks. The Non-performing asset level is higher in public sector banks. Foreign banks and new private started with a clean slate with the newest technologies, whereas public sector banks needs to work on their old systems and employee resistance and must launch the latest systems, procedure and standards **(Prasad and Veena,2011)**.The top management of private and foreign banks is more knowledgeable, experienced and professional than public sector banks. It is mandatory for public banks to lend money to underprivileged and poor units of the society, where the probabilities of regaining are almost negligible **(Poonam Mahajan, 2014)**. A study by **Santosh kumar Das (2023)** revealed that NPA problem is not widespread in private sector banks despite an increase in the volume of loan defaults. Faculty earnings management and worsening loan quality have led to huge NPAs in Indian banks. Deteriorating asset quality is the main cause of increasing NPAs which require higher amount of provision against NPAs. According to **Nidugala and Pant (2017)**, banks need to concentration on refining their earning management and quality lending. Ownership plays a crucial role in explaining NPAs in the Indian banking as NPA figures are notably high in public sector banks as compared to private sector banks. Political factor, often ignored, is one of the chief elements of mounting NPAs in public sector banks **(Nidugala and Pant, 2017). Tulsani (2022) and Chawla and Rani (2019)** state that PNB statistics revealed more deeply ingrained asset in the bank, implying a more serious rise. According to **Batra and Batra (2020) and Singh and Prasad (2020)** PSBs have highest variability among banks. Standard deviation and annual growth rate indicates the variability of NPAs. Early warning systems, thorough monitoring, effective screening of advancements, educating staff with needed analytical abilities, and applying latest technology in the entire process can function as preventative and corrective methods to reduce NPA growth **(Dhakappa, 2017)**. From 2005-2018, the average NPAs of bank shows an increasing trend. There is a need to revisit the model of PSBs and redesign it so that the problem of non-performing assets (NPAs) can be overcome **(Batra and Batra, 2020)**. The above literature reveals that the banking industry is constantly burdened with non-performing assets. The bank's income, liquidity and solvency are directly impacted by steadily rising non-performing assets (NPAs). Understanding the significance, the current research has been taken out to identify the trends and turns in NPAs of Scheduled Commercial Banks in India and also study the composition of loan assets of SCBs.

Objective of the Study:

The goal of the research is to acquire understanding the NPAs of Scheduled Commercial banks in India. Following are the objectives to be considered for the study:

- To study trend of NPAs of All Scheduled Commercial Banks in India.
- To study the composition of Loan Assets of Scheduled Commercial Banks in India.

Data Sources and Preparation

The Indian Banking consist of 12 public sector banks (PSBs), 21 Private sector banks (PUBs), 44 foreign banks (FBs), 12 Small Finance Banks (SFBs), 6Payment Bank (PB), 43 Regional Rural Banks (RRB's) and 2 LABs. Out of 140 commercial banks (CB), 136 banks were categorized as scheduled while 4 banks were non-scheduled. "SCBs are classified into scheduled and non-scheduled based on their inclusion or otherwise in the second schedule of the RBI Act, 1934. Two PBs, *viz*., Jio Payments Bank Ltd. and NSDL Payments Bank Ltd and two LABs *viz*., Coastal Local Area Bank Ltd. and Krishna Bhima Samruddhi LAB Ltd. are non-scheduled commercial banks" (Trend and Progress report, 2022-23). The current study is based on secondary data of All Indian Scheduled Commercial banks for a period of ten years i.e. from 2014 to 2023. RBI's Trend and Progress report of Banking, statistical table relating to Banks in India are the sources from where the relevant data have been collected. The objective of the paper is to study the trend and pattern of NPAs of SCBs in India from 2014 to 2023.The study utilized Gross NPAs data to provide a genuine representation of banks' loss assets, without any provisioning.

Table 1: Group-wise NPAs in Indian Banks: 2014-2023
(Amount in Crores)

Year (end-March)	All SCBs		Public Sector Banks		Private Banks		Foreign Banks	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
2013-14	263,362	142,421	228,274	130,635	24,542	8,862	11,565	3,160
2014-15	323,335	175,841	278,468	159,951	34,106	14,128	10,761	1,762
2015-16	611,947	349,814	539,956	320,375	56,186	26,677	15,805	2,762
2016-17	791,791	433,121	684,732	383,089	93,209	47,780	13,629	2,137
2017-18	1,039,679	520,838	895,601	454,473	129,335	64,380	13,849	1,548
2018-19	936,474	355,068	739,541	285,122	183,604	67,309	12,242	2,051
2019-20	899,803	289,370	678,317	230,918	209,568	55,683	10,208	2,005
2020-21	835,138	258,050	616,616	196,451	197,508	55,377	15,044	3,241
2021-22	743,653	204,226	542,174	154,745	180,782	43,733	13,786	3,023
2022-23	571,546	135,333	428,197	102,532	125,214	29,507	9,526	1,622

Source: Compiled from data available on RBI website.

Table 2: Group-wise NPAs in Indian Banks: 2014-2023(Percent)

Year (end March)	All SCBs		Public Sector Banks		Private Sector Banks		Foreign Banks	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
2013-14	3.8	2.1	4.4	2.6	1.8	0.7	3.9	1.1
2014-15	4.3	2.4	5	2.9	2.1	0.9	3.2	0.5
2015-16	7.5	4.4	9.3	5.7	2.8	1.4	4.2	0.8
2016-17	9.3	5.3	11.7	6.9	4.1	2.2	4	0.6
2017-18	11.2	6	14.6	8	4.7	2.4	3.8	0.4
2018-19	9.1	3.7	11.6	4.8	5.3	2	3	0.5
2019-20	8.2	2.8	10.3	3.7	5.5	1.5	2.3	0.5
2020-21	7.3	2.4	9.1	3.1	4.8	1.4	3.6	0.8
2021-22	5.8	1.7	7.3	2.2	3.8	1	2.9	0.6
2022-23	3.9	0.9	5	1.2	2.3	0.5	1.9	0.3
Average	**7.04**	**3.17**	**8.83**	**4.11**	**3.72**	**1.4**	**3.28**	**0.61**

Source: Compiled from Statistical Tables available on RBI website.

Figure : Gross and Net NPA of Scheduled Commercial Banks in India

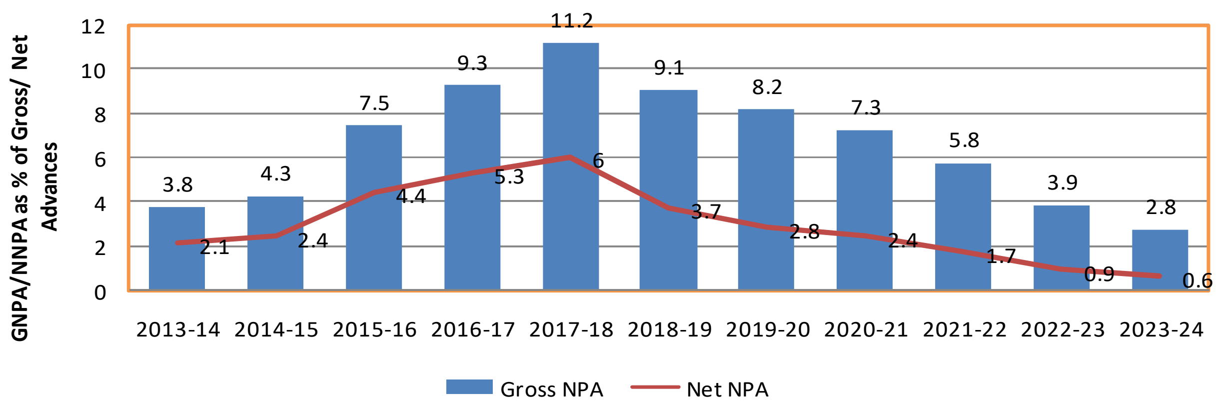
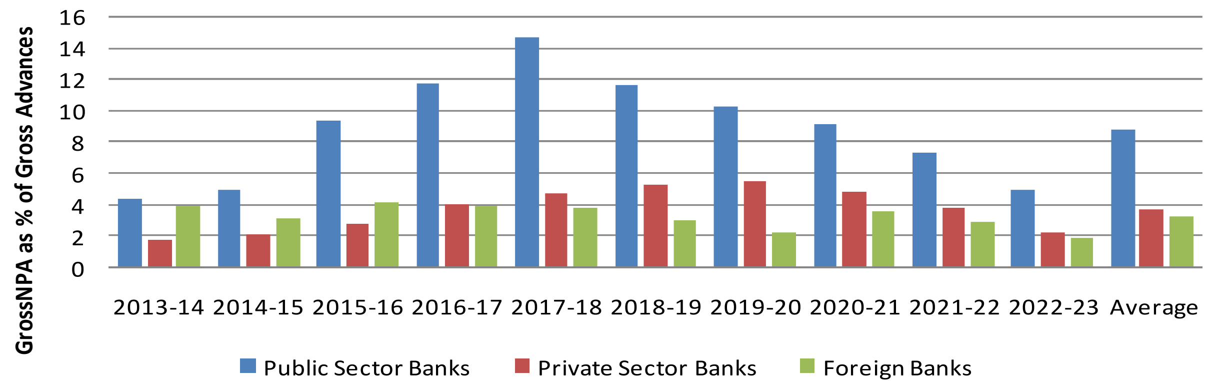


Table 1 & Table 2 shows the group-wise NPAs (Gross and Net) of Indian banks from 2014 to 2023. Bank group-wise data shows that Public sector banks were badly affected by the NPA. If we look at the average GNPA ratio for banking sector as a whole stood at 3.8 percent in 2013-14, the GNPA of PSBs rose to 4.4 percent. In year 2017-18, GNPA ratio was at peak for all Scheduled Commercial Banks i.e. 11.2 percent. Public sector bank shows GNPA ratio at 14.6 percent, highest among all bank groups. Whereas foreign banks have highest GNPA ratio in 2015-16 thereafter it shows downward trend in GNPA and NNPA ratio, except in year 2019-20. Private sector banks have highest GNPA ratio in 2019-20. Public sector banks experienced greater trouble than private and foreign sector bank, both in terms of volume and share. From 2017-18 to 2022-23, the Gross NPA ratio of SCBs reduced to 3.9 percent from as high as 11.2 percent in 2017-18 (Table 2).

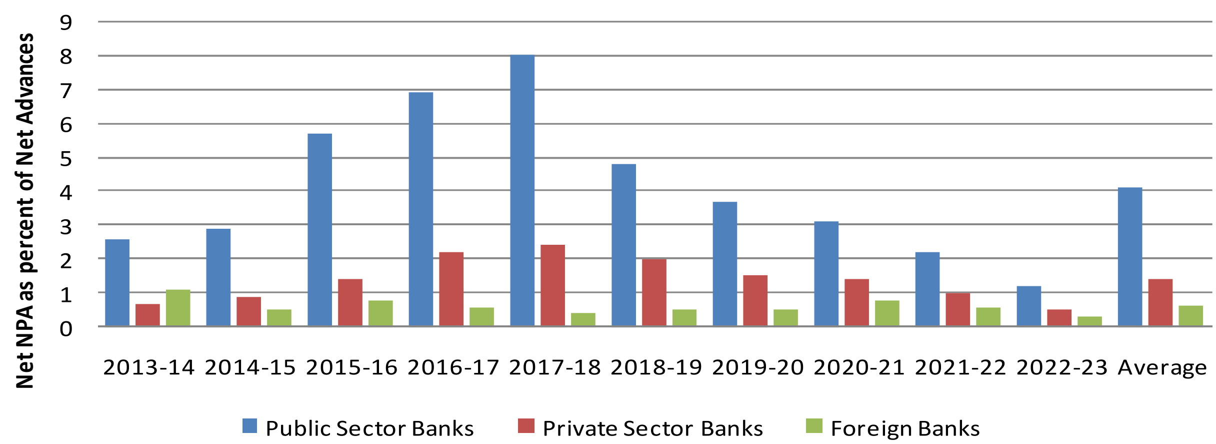
The GNPA ratio (ratio of non-performing advances to total advances) of the SCBs has significantly risen to 11.2% in 2017-18. "Gross non-performing loans as a percentage of gross advances" came down gradually to 3.9 percent in 2022-23 (Table 2).

Figure 1 shows Gross NPA and Net NPA of Scheduled Commercial Banks (SCBs) in India. From 2013-14 to 2017-18 NPAs have upward trend. It's evident from the figure that both Goss and Net NPA shows downward trend from 2017-18 to till date. Gross non-performing assets (GNPA) and net non-performing assets (NNPA) ratios dropped to multi-year lows of 2.8% and 0.6%, respectively, indicating an ongoing improvement in asset quality. The special mention accounts – 2 (SMA-2) ratio as a leading indicator of asset quality, suggests the low levels of future impairment. SCBs "gross non-performing assets ratio" declined to a multi-year low of 2.8% and the "net non performing assets ratio" to 0.6% at end March 2024 indicating an improvement in the assets quality of banks.

Figure 2: Gross NPA of Different Banks in India



Net NPA of Different Banks in India



NOTE:

"1. Gross NPAs= Sub-standard Assets+ Doubtful Assets+ Loss Assets

2. Net NPA = Gross NPA – (Balance in interest suspense account + DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held)".

The ratio of gross NPAs to gross advances and net NPAs to net advances is the well known practice (Nidugala and Pant, 2017).

Figure 2 shows the Gross NPA and Net NPA of banks other than SCBs i.e. Public sector banks (PSBs), Private sector banks (PVBs) and foreign banks (FBs). The bank data shows that Public sector banks had register higher GNPA ratio in comparison to private and foreign banks. The average Gross NPA of Public banks' is 8.83% whereas average Net NPA is 4.11%, highest across all bank groups.

Table 3: CLASSIFICATION OF LOAN ASSETS OF ALL SCHEDULED COMMERCIAL BANKS (Amount in Crores)								
As on March 31								
Year	**Standard Advances**		**Sub-Standard Advances**		**Doubtful Advances**		**Loss Advances**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
2014	66,13,796.78	96.2	1,08,712.69	1.6	1,37,356.51	2.0	16,952.03	0.2
2015	72,39,058.10	95.7	1,18,581.38	1.6	1,86,131.13	2.5	18,213.29	0.2
2016	75,66,800.00	92.5	2,25,350.58	2.8	3,60,284.60	4.4	25,994.04	0.3
2017	76,80,400.00	90.7	2,08,190.00	2.5	5,50,346.00	6.5	31,726.00	0.4
2018	82,30,022.00	88.8	2,50,941.00	2.7	7,24,835.00	7.8	60,411.00	0.7
2019	93,53,476.40	90.9	1,88,802.26	1.8	6,57,779.24	6.4	87,027.35	0.8
2020	1,00,22,835.17	91.8	2,00,816.06	1.8	5,38,530.24	4.9	1,56,736.15	1.4
2021	1,05,64,556.58	92.7	1,89,195.34	1.7	4,74,521.36	4.2	1,71,334.72	1.5
2022	1,20,08,429.54	94.2	1,27,973.70	1.0	4,36,572.59	3.4	1,77,850.88	1.4
2023	1,41,95,397.72	96.1	1,02,806.68	0.7	2,99,347.61	2.0	1,69,696.05	1.1

Note: Data is for inclusive of Domestic & Global Operations of Banks.

Source: Reserve Bank of India (http://www.rbi.org.in)

Table 3 shows the classification of loan assets of the SCBs in India from 2014 to 2023. Over the study period, we see fluctuations (both increase and decrease) in NPAs. Standard advances show a decreasing trend from 2014 to 2018, thereafter it starts rising. The increase in the "ratio of standard assets to total advances" was sustained for year 2022-23. The amount of NPAs decreased. Whereas sub-standard advances fluctuates from 2014 to 2018, after that it shows decreasing trend from 2019 to 2023. Doubtful advances shows increasing trend from 2014 to 2018 and after that it starts decreasing. Loss advances declined from 0.2 percent in 2014 to 0.7 percent in 2018. From 2020 to 2022, the share of loss advances increased. However, the recent year data suggests that it has declined to 1.1% in 2023.

Conclusion:

Over the study period, we see fluctuations (both increase and decrease) in NPAs. Due to lower slippages, the asset quality of Indian banking sector improved during 2022-23 and 2023-24, with Gross NPA ratio falling to its lowest in ten years. Due to loans to the retail and services sectors, the SCBs' combined balance sheet grew more quickly. Profitability was increased by lower provisioning requirements and higher net interest income. GNPA as a percentage of Gross Advances decreased significantly from its peak of 11.2% in 2017-18 to 2.8% in 2023-24. Similarly, NNPA as percentage of Net Advances rises at 0.6 percent in 2023-24 indicating an improvement in the asset quality of banks. Public sector banks (PSBs) have comparatively higher NPAs.

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