Economic Impact of Non Performing Assets on Financial Health of Public and Private Sector Banks

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Abstract

These days with rising NPAs there have been increasing concerns about the quality of assets and which means that bank officials must be more cautious while giving loans and related decisions. When bank feels that the lenders are working via bankable tenders, then there would be no hesitation from their side to lend. Banks are not comfortable enough in restructuring of loans in the present times as they have a number of challenges ahead of them, one of which is extending of support to the production sector growing at a rapid pace. Credit exposure ceiling limits in Indian banks is valued at 15% of capital funds in case of single borrower and 40% of capital funds in case of borrower groups. The capital funds for the purpose of credit limits comprise Tier I and Tier II capital, it is found to be higher in case of developed economies.

Keyword: *NPAs, Assets, Loans, Capital Funds.*

Introduction

Non-Performing Assets also denoted or expressed as non-performing loans, loans can be characterized as non-performing assets when repayments or interest payments of loans are not being made on time by the bank or any other financial institution. A loan becomes an asset for a bank since it receives interest amount/ payment on the loans and advances and then receives principal as well which is a source of cash flows. A bank makes its profits through interest payments and if such payments they do not receive in time (90 days) they treat these loans which were primarily termed as assets as non-performing assets. Such assets are termed as past due if payments are delayed for a short times.

For any flourishing economy, a strong banking sector is definitely a foundation and the poor performance of the banking sector adversely affects the other sectors of the nation' s economy. One of the major concerns of banking systems in India is that of Non Performing assets. As NPAs determines the performance of a bank. The high level of NPA has direct impact on its profitability which might also affect the net worth of the bank and also the asset value. Growth in NPA hedges in the inevitability of provisions, which in turn diminishes the profits of the banking in business thereby decreasing shareholders value. It is not only the matter of fact that NPAs are affecting the banks but also its effect can be visualized easily on the economy as whole.

It has been realized from the critical analysis of NPAs that in addition to priority sector, loans to large industries also formulate a major part of NPAs. The segment of minor loans of rural sector is extremely trivial compared to the huge loans. It was found that in some of the priority sector loans were on the higher side but its contribution to entire NPAs was not found very noteworthy. However, proportion of NPAs in situation of huge loans was found lesser but at the same time it was found that it contributes majorly towards the total NPAs. Over a period Non- Performing Asset (NPA) has come in to picture as one of the most distress in hazards to the banking industry in India.

Research Methodology

The research paper based on secondary data collected.

Objective of Study

- To profile the growth in Non-performing Assets and to analyze the reasons associated with it.

Data Collection

Data has collected from newspaper, books, magazines, reports, and websites.

Review of literature

Ankur Bhushan (Dec. 2010) had studied " The comparative study on NPA in HDFC Bank and OBC Bank" and screens in the nature of bank' s credit portfolio. The Objective on study is impact on NPA. The methodology is based on Auxiliary data and wellsprings of Data. The ratio analysis of NPA is based on limited resources of NPAs.

Ayub Ahamed KS (Dec.2011) had studied a " Comparative Study of Non-Performing Assets in Private Sectors Banks and Public Sector Banks in India" . The objectives are to study NPA trend in last 5 years of Private and private sector banks to measure and suggest the proper management of NPA in Banks. Research Methodology used to carry out is descriptive in nature and describing samples on IDBI Bank, Canara Bank, Central Bank, Axis Bank, ICICI Bank, Kotak Mahindra Bank.

Conclusion

There is need to strengthen the risk management system of banks in order to restrain emergence of fresh NPAs. For this purpose, an investment in improving IT infrastructure is essential. Also there is need to train the man-power in latest risk management methods. Such training is needed more in Public Sector Banks as compared to Private sector banks.

Banks must maintain regular follow-up with the customers also bankers should take proper care to ensure that there is no diversion of funds. Bank should ensure that this process can be taken up at regular intervals. If feasible, personal visits should be made after sanction and disbursal of credit and further close monitoring of the operations of the accounts of borrowed units should be done periodically.

Investors normally use the information contained in financial statement of the bank for taking their economic decisions about the bank. Investors also analyze the financial position and financial performance of the bank of the basis of such financial statement. Hence it is recommended to the regulating authorities that there should be some information about NPA under the section ' notes to the financial statement' .

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