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NPA in Indian public sector commercial banks

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Abstract

In India Banking Sector has been instrumental in shaping the pattern of economic of the country. Most of the Indian banks are incurring the serious problems related to rising trend of NPA (Non-Performing Assets). Non-Performing Assets is a prevalent major problems before banking system in India having adverse impact over financial health of bank and economics of the country.

Keywords: Gross domestic product, human resource, public sector commercial bank, reserve bank of India

Introduction

NPA in Indian Banking Sector plays a key part in promoting health of financial sector. In absence of the sound and efficient banking system no country can lead to a healthy economy. It is Narasimhan committee, which introduced the prime and basic concept of Non-Performing Assets. It is the right option for judging the status of financial soundness of the bank. NPA a major burden and the burden will lie on the part of bank for the non-payment of loans, on time. Whenever the loans are not repaid to the bank there may be great loss to the part bank and there will be no fund to further transact between the customers of the bank. It is a risk which are from the customers to the banks. Presently the trend of non-performing asset is increasing in both public sector and private sector banks.

NPA in PSCBs.

Various sectors related to textile, mining, aviation, and infrastructure are responsible for large volume of non-performing assets. Because major portion of loans has been provided to those sectors by the PSCBS, These sector contribute major portion of Non-Performing Assets (NPAs). As clear PSCBS provide near about 75 percent of credit to the most of Indian industries, which formulate most of the NPAs. So many organisation has taken loan from PSCBS but banks are not able to recover loan amount from these system and sectors because of

1. Less professional attitude
2. Political intervention and pressure
3. System, which force PSCB to lend not to create pressure.
 - The facilities related to restricting of loan to the organisations has been high, which has been faced higher problems of over –leverage and poor profitability. The PSCBs are facing this problem more
 - Most of the PSCBS are lacking proper planning related to contingency for controlling project risk.
 - According to the report of standing committee (Finance), the prime cause of rising NPAs in PSCBs. As per the Committee report NPA in corporate sector has been more than that of agriculture sector or priority sector, Hence priority sector lending has been the prime reason for increasing size of NPAs in PSCBs.

Assets become NPA

Many forces are accountable for increasing volume of NPA in Public sector commercial Banks. At global level, Indian Banking industry contains maximum portion of non-performing assets. Why assets becomes NPA are stated below.

- Absence of effective follow-up and monitoring systems and measures
- Big change in environmental policies and economic policies
- Poor accounting system and practices
- Non transparent accounting practice inadequate legal system and poor corporate culture.
- Absence of proper co-ordination among banks and other financial institutions.

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- Entry of other financial institutions.
- Failure in the side of promoters.

Internal Factors

Broadly speaking there are few significant principles regarding the bank lending, which is supported by PSCB, there are stated below

- To follow profitability
- To maintain liquidity
- To maintain safety
- In discriminatory lending system by few of state-owned banks
- Lack of rigorous loan evaluation methods
- Totally regulated Indian Banks.
- According to recent reports, the Standing Committee has examined the reasons for increasing trend of high NPA in PSCBs. Broadly the data, provided by the Standing Committee, says that NPA of the corporate houses has been far higher than that in the priority sector. In the priority sectors, incremental NPA has been high in comparison to micro, small and medium enterprises supported by the agro-based sectors. Further the total problem may be grouped. In two parts – External problems and internal problems which are faced by the banks in India.

External Factors

With the fall down in worldwide economy Indian economy faces slowdown in the country. It situation has adverse impact on various corporate houses in the country during this period uncertainly in the world market forced exporters to export low volume and Quantities of product in the global market. Keeping these things in view several products namely engineering products, leather items, textile products have been exported in low Quantity. During this period many corporate sector faces problem in repayment of loan.

Various other factor such as delay in getting environmental permits (green certificate) have affected the power, steel and iron sector in India. Apart from this volatility in the prices of raw material and other products, power shortage have been negative impact on the operation and performance of various sectors in India. The adverse situation, which these sector faced have negative affect as far as their ability to repay the loan amount back, has been the reason of slowdown of loan payment causes raise in NPA. Further the unhealthy recovery of loan amount has increased NPA in Indian banking system. Indian Government has set-up several loan recovery units and tribunals for repayment of bank loan. These tribunal acts for the recovery of bank loans and advances provided by the banks. But these tribunals do not act in right manner, hence because of its improper and ineffective working attitude the banks in India suffers the situation of non-recovery and faces the issue of profitability and liquidity till date.

- Environmental forces
- Decreasing trend of Demand
- Sickness of Industries
- Willing not the pay tendency
- Changing attitude of government

Impact of Rising NPA

Huge accumulation of NPA in the banking sector can adversely affect the economy in different ways. If this volume is not soundly managed it can result in economic

and financial downfall. Which is a bad signal and can create negative investment environment. NPAs amount is a significant threat for the financial performance and soundness of banks. Therefore by the practice of proper management technique, the issue related to Non-Performing Assets can be resolved. The declining trend of Non-Performing Assets is essentially required in Indian Banking sector in order to remove the economic drawback and improve profit making climate in banks. The Non-Performing Assets is termed of a loan asset, which has stopped to create any income, in the form of interest/principal repayment for the bank. In India banking sector is a vital sector instrumental for the growth of the economics of the country. This sector has been in the foundation of economic development of the nation. The increasing trend of NPAs in PSCB has been very negative for the economic development of the nation. In future session a good Quality assets in good Quantity for maintaining adequacy of capital.

Conclusion

After introduction of Liberalisation, Privatisation and Globalisation the banking structure in the country encounters various reforms in order to make proper change. Before introduction of this policy, it has been found that vast amount of NPA has been serious issue, which were not maintained in the balance sheets of the banks. This had been the cause the poor financial status of the banking system. The prime aim of Liberalisation was to negate such regulation from the banking operation which are not useful. The main aim of this LPG Policy had been to give emphasis on self regulation. So that banking operation can become smooth and economic development of the country can be accelerated fastly. The Indian banking sector has been facing major problems of raising NPAs. The NPAs growth has negative impact on profitability of banks. NPAs are the major concerns for PSCBs, in India. According to the recommendations of Narasimham committee and Verma committee, few points have been taken to resolve the problem of NPAs in the balance sheets of the banks.

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