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# NPAS AND THEIR EFFECTS ON BANKS' PROFITABILITY

## With special reference to PublicSector Banks in India

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**Abstract:**The high rate of NPAs raises the risk of high-interest rate debt and bank overdrafts and undermines the value of assets. NPAs affect liquidity and profitability, in addition to endangering the quality of goods and the life of banks. The growing NPAs not only reduce profits but also have a negative impact on the credibility of banks in the Indian Banking Sector. These growing NPAs in commercial banks undermine the value of large sums of money in public sector banks which in turn undermines the confidence of investors in banks.In India, when banks were nationalized, a large number of central government controls came into being. The rising NPA graph in public sector banks is a matter of concern due to which the profitability of the banks is declining drastically as a result of age the banks have to make huge provisions. The bank's economic cycle has come to a grinding halt due to the non-repayment of a large number of disbursed loans.The help of various sources has been taken to study the impact of nonperforming assets on the profitability and learning health of the banks. Secondary information has been used.Secondary information is based on various published international research articles, books etc.

**Keywords:**Narasimhan Committee,NPA, Provision of NPAs.Public sector banks.

## Introduction:

The high rate of NPAs raises the risk of high-interest rate debt and bank overdrafts and undermines the value of assets. NPAs affect money and profit, in addition to endangering the quality of assets and the lives of banks. The growing NPAs not only reduce profits but also hurt the credibility of banks in the Indian Banking Sector. These growing NPAs in commercial banks undermine the value of large sums of money in public sector banks which leads to undermining the confidence of depositors in banks. The NPA is nothing but old wine in a new bottle. Bad loans known as Bad Debts have been renamed Unused Assets on the recommendation of the Narasimhan Committee. In the past, banks canceled bad debts according to their decisions depending on the health of the banks. But the Narsimham Committee decided on a standard procedure for the provision of NPAs. The Narasimhan Committee was deployed to all banks in 1991. The committee also categorized the assets into different categories and% levels to be provided.

Separation of goods

Ordinary goods - no provision in 1991

Inferior goods - require a 15% discount on the safe part and 25% on unsecured disclosure. Doubtful assets - section 1–25% insecure and 100% insecure

Category 2– 40% in the Protected section and 100% in the unprotected section

Phase 3– 100%

Lost Goods - 100%

Common assets are those assets that work well without default. Previously there was no provision for the provision of these standard goods. Thereafter, banks are instructed to provide their normal assets at the following levels:

Direct development of agriculture or small businesses: 0.25%, Real Estate 0.75%, real estate, and 1%, and mortgage rental 2%.

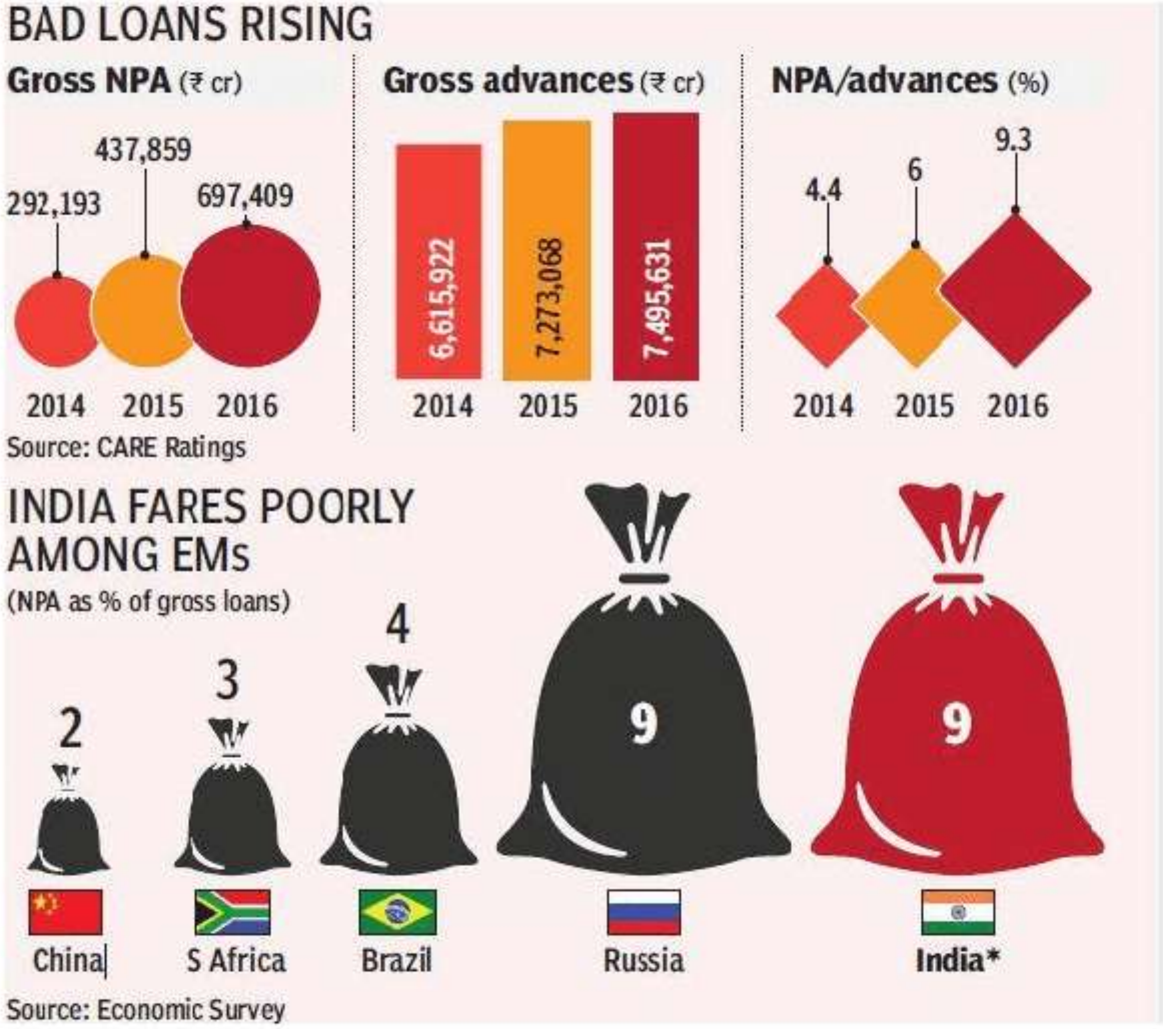

**Results of NPAs**

On closer inspection, it will be clear that the banks started to lose out after the implementation of the Narsimham Committee recommendations. As a result of the efficient supply of goods, the erosion of bank financing began. After that, the concept of strong banks and weak banks came into effect. To save weaker banks, the government began reviving weaker banks.

The RBI and the government are beginning to pressure banks to resort to strict procedures to recover NPAs and improve their balance sheets.

In a critical analysis, it has been noted that a large proportion of NPAs is donated by a few top industrialists. In general, NPAs in the agricultural and non-agricultural sectors are lower than those of corporations. It is said that due to the government's policy of repaying agricultural loans in the event of floods, droughts, and natural disasters, the burden on NPAs for all PSBs is increasing. Usually, smallholder farmers and small businesses repay their loans on time, as evidenced by research conducted by various agencies.

Although the government passed the SARFAESI Act of 2002 which gave banks the power to obtain loans, property, etc., and discard the same at auction to repay loans, banks are still experiencing problems while implementing the Act.




**Reasons for the rise of NPAs**

Other major economic factors such as low exports due to the global economic downturn, declining commodity price cycles, etc.

Most modern NPAs are borrowed in the mid-2000s when the economy was booming and business confidence was booming. But as economic growth stagnates in the aftermath of the global financial crisis in 2008, the credit rating of these lenders is declining. This leads to the so-called problem of India's Twin Balance Sheet, where both the banking sector and companies are struggling under financial pressure.

And political factors such as crony capitalism have also created top NPAs in India.

In addition, there have recently been major frauds that have contributed to the rise of NPAs. Although the magnitude of fraud compared to the total number of NPAs is relatively small, these frauds are on the rise, and there are no instances of punishment for high-level fraudsters like Vijay Mallya, Nirav Modi, and Mehul Choksey.

Arbitration Program to Bind growing NPAs

Banks should determine in advance that there will be a default and report it to the Central Repository of Information on Large Credits (CRILC).

**Preventive Measures**

1. Check the school's Credit Information Bureau (India) Limited (CIBIL) school.

2. Loosen or use various payment schemes.

3. Use alternative dispute resolution mechanisms to speed up payment of debts such as using Lok Adalats and Debt Recovery Courts.

4. Actively disseminate information on people who do not pay.

5. Take drastic action against major NPAs.

6. Use an Asset Recovery Company.

7. Legislative changes such as the implementation of the Payment Code and Money Laundering have taken place.

8. Corporate Credit Rendering (CDR).

9. Propose guidelines on intentional non-payment / diversion.

10. Special Specified Accounts - Extra Monitoring on Performance Level.

Recent Measures with RBIThe key suggestions are:

1. Lenders Committee with strong deadlines for the decision process to be established.

2. Lenders should be given incentives to agree to plan together as soon as possible

3. The development of the current restructuring process focuses on operating systems and the appropriate sharing of losses between developers and lenders.

4. Future lending to non-cooperative lenders should be made more expensive to resolve.

5. The sale of goods should be given free control.

6. If the loss is fully disclosed, lenders should be allowed to spread their losses by selling for more than two years.

7. It will not be considered a restructuring if long-term funding occurs.

8. If specialized businesses acquire ‘pressurized companies’, limited purchases should be allowed.

9. Steps must be taken to facilitate the efficient operation of the Retail Companies.

10. Sector-specific companies / Private equity companies should be assisted to play an active role in the market for fixed goods.

## Objectives:

1) Understanding the concept of what non-performing assets
2) Study the extent to which non-performing assets made banks' profits have declined
3) To study the measures implemented by the Reserve Bank to reduce NPAs.

## Review of Literature:

(Harani.B, 2019), Comparative Analysis of Non-performing Assets (NPAs) of Public and Private Industry Banks in India - Endless War, has found that the level of NPAs is much higher than in state-owned banks compared to private sector banks. Therefore, careful action is required as per the policy, while borrowing in respect of local equity and legal procedures, if there is any deviation there a third party should be penalized with large fines, which will make inspectors realize the importance of fairness. with care. Deliberate lenders should not be given a loan for at least 5 years, some banks will offer loans to those who deliberately fail to pay (although they do not have CIBIL points) with a high-interest rate, any deviation should not be accepted as stated. Bank employees had to work together to secure loans, internal corruption, political pressures, and bank robbery scandals that led to high levels of NPA in India.

## Hypothesis:

- The rising NPA ratio in banks is drastically reducing the profitability of banks.

**Research Methodology**: The bank's economic cycle has come to a grinding halt due to the non-repayment of a large number of disbursed loans.The help of various sources has been taken to study the impact of nonperforming assets on the profitability and learning health of the banks. Secondary information has been used.Secondary information is based on various published international research articles, books, etc.

## Limitations:

1) The basis of secondary information has been taken for the preparation of the research article.
2) The findings obtained in the research articles are presented only on the basis of available information.
3) A research article related to public sector banks operating in India has been prepared.

**Conclusion:** In India, when banks were nationalized, a large number of central government controls came into being. The rising NPA graph in public sector banks is a matter of concern due to which the profitability of the banks is declining drastically as a result of age the banks have to make huge provisions. The bank's economic cycle has come to a grinding halt due to the non-repayment of a large number of disbursed loans.The PSBs are the backbone of the Indian economy and should be fed by the government in order to continue to thrive. Bank merger alone is not the only tool for economic growth. Interference with the various political parties in the operation of the banks must be stopped.

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