

# “Recovery of Non-performing assets- A challenge for Indian Financial Institutions”

**Ms. Rina Khanum**

Guest Faculty, Institute of Management Studies and Research,  
Jnanasahyadri, Kuvempu University, Shankaraghatta

**Dr. Sumathi.K**

Guest Faculty, Institute of Management Studies and Research, Jnanasahyadri,  
Kuvempu University, Shankaraghatta

## **Abstract:**

*The financial institutions or the banks involve in the lending activities with the aim of generating some returns instead that the banks need to wait for many a time to get interest payment by the borrowers, because the borrowers were not running with the good. This leads to banks have a positive growth of the NPAs and negative growth of the profit since the NPAs ultimately affect the profit. These NPAs will not only affect the profit but also give birth to so many problems, such as problem in liquidity, loss of shareholders interest, capital in adequacy, insolvency, etc., there should be a strict requirement of strict action to be taking on control and recovery of the NPAs. An attempt was made to understand the reasons contributed for the NPAs and impact of NPAs on the banks as well as on the market, and also to give possible suggestions for the recovery of NPAs. For the purpose of the study secondary data was collected from the SBI and Canara Bank website about the statistics of the NPAs and also referred articles and journal. The findings of the study reveals that improper recovery channels and the unpredictable market trends make the borrowers not to make the settlement, for that it is suggested that to formulate the effective strategies so that the smooth recovery can be done, and also recommended to use the following suggestions which are listed below for the betterment of the banks in recovery of NPAs.*

**Key words:** NPAs, SBI, Canara Bank, Financial Institutions, Recovery.

## **1. Introduction:**

Non-performing Assets sounds for the assets or the debt instrument which will not generate any income. It is also consider the any assets which stop providing profit to its investors after a specified period, generally that specified period of time is 90 days. For instance, suppose ICICI bank offers loan of Rs 5 crores to a company for an interest rate of 12% per annum. If the market support for that company was good and company possible to make the interest payment and later due to some reasons company not able to make the interest payment for 90 days. In the case, a loan offered to that company will be considered as NPAs, which is the biggest challenge for the Indian financial system.

The Indian Financial institutions are the composition of both banking and non-banking financial institutions. These financial institutions plays very crucial role in the financial system of the country to facilitate the financial requirements in the economy by transferring the fund from Surplus to deficit areas. Surplus is the area or the platform where excess of the fund is available which called Banking and non-banking institutions and the deficit is the platform where financial requirement is available such as individuals and industries. When the financial institutions works good in distribution of finance in exchange of interest on the basis of certain rule and regulation, the people or the industries who has taken financial assistance from the financial institutions fails to meet the

interest payment requirement after specified period of time then it becomes the Non-performing assets. The asset or the debt instrument was blocked will not generate any income or returns from the borrowers to lenders due some technical, corporate and market reasons, Now the recovery of the NPAs become challenge for the lender or financial institutions because once asset of the lender blocked in the form of NPAs it's a very toughest job for the financial institutions to overcome that and make companies to pay the regular interest and instalments.

## 2. Literature review:

Rasmi Rekha Bhuyan and Dr Ashok Kumar Rath (2013), made a study on "Management Perspective of Non-performing Assets: A Challenge for Indian Banking Sector in the Post Economic Reform Era" with the intent to study the factors contributing to NPAs, Magnitude of NPA, reasons of NPA and Management of NPA in the Indian banking sector. Beside this the intent was also made to find out the ratio of NPAs relates to public sector and private sector. To achieve the state objectives in the article the author has collected primary data by distributing questionnaires and through personal interview and also secondary data has been collected. The statistical tools such as percentages and trend analysis used for the purpose of the study. The study reveals that the trend of NPAs in the year 2013 was increases year by year and gross NPA to gross advances was also increased in Public sector banks and in case of the private banks and foreign banks the NPAs was decreased. And the study recommends the Indian banks to take care of the credit worthiness of the customers to ensure prevention of the NPAs.

Yeruva Priyanka and Ch. Rajesh Kumar (2019), Made a study on "Non-performing Assets of Commercial Banks and its Recovery in India" with the purpose of understanding the NPAs status and Trends in Indian Schedules Commercial Banks also to understand the factors affecting increase of NPAs and reasons

impact on the recovery of the NPAs. The study was completely based on the secondary data and descriptive in nature. The outcome of the study disclose that the NPA impact the performance and profitability of the banks and suggested to the government to create more provisions for proper recovery management and reduction of NPAs.

Mr Amit Kumar (2014), made a study on "Non-Performing Assets: A Challenge before Banking Sector in India" with the aim of assessing the problems affecting the management of NPAs and remedies taken by the banks to overcome the same. For the purpose of the study secondary data was collected from the RBI Website for the period of around six years, and mean, standard deviations and t-test was used applied for the statistical analysis of the collected data. The outcome of the study reveal that as total gross advances increased there is a probability to increase the NPAs. The study able to recommend that there is a requirement of the effective practices in banks in managing NPAs.

Sudin Bag and Sajjilul Islam (2017), Made a study on "Non-Performing Assets A Biggest Challenge in Banking Sector- Comparative Study Between Indian and Bangladesh Banking Sector" with the purpose to analyse the recent trends in the NPAs in banks with reference to Indian and Bangladesh and also to find out the relationship of NPAs with the profitability. For the purpose of the study secondary data was collected from the reports and website of RBI and state owned and private banks of Bangladesh. The author concluded that the growth of NPAs in public sector banks of both India and Bangladesh is in increasing trend, and private sector banks were more conscious about the NPAs.

Divya Jain and Ravindra Kumar Saini (2015), Made a study on "Non-Performing Assets Recovery Channel: An Assessment of Securitization Act 2002" with aim to assess the performance of the Securitization Act 2002 as most effective recovery channel. For the purpose of the

study secondary data has been collected from various sources and standard deviation, ratio analysis, graphs, tables were used to analyze and represent the data. The findings of the study disclose that the recovery of NPAs has been a greater challenge for the Indian banks and also worldwide. Increase of NPAs negatively affect the various operations such a liquidity, profitability, solvency, lending etc. And it recommends the RBI to take serious action against this.

Priyanka Gupta and Surender Kumar (2019), Made a study on “Non-Performing Assets: A Serious Challenge to Indian Banks” with the objective to understand the concept of NPAs, causes and its impact on profitability. To achieve the stated objectives of the study secondary data was collected and the study is descriptive in nature. The study discloses the various factor affects the increase of the NPAs in banking sector and also reveals the preventive measures for the reduction and recovery of the NPAs in the banking sector.

Manoj Kumar Sahoo and Dr. Muralidhar Majhi (2020), Made a study on “The Recovery Management System of NPAs-A Case study of Commercial Banks in India” with the aim of analysing the various recovery mechanisms of NPAs with three important wings such as Recovery through Lok Adalat, Debt Recovery Tribunals and Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act(SAFASEI). The study was completely based on the secondary data collected from the reports and websites. ANOVA was used to analyse the statistical data. As per the statistical analysis made in the study, the author concluded that present recovery channels are not sufficient to deal with the problems encountered by the banking sector in recovery of the NPAs.

### 3. Objectives of the study:

- To determine the challenges faced by the financial institutions in recovery and reduction of the NPAs.

- To understand NPA as the major factor affecting the banking operation to become difficult.

- To provide necessary suggestions for the problems encountered by the financial institutions in recovery of NPAs.

#### 4. Research Design

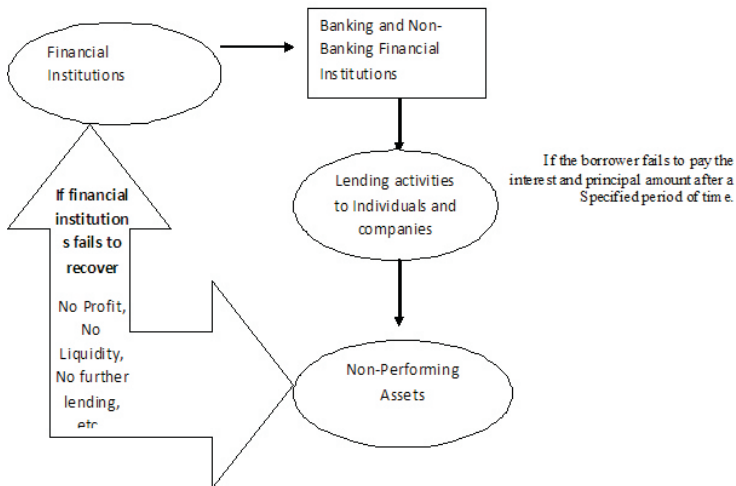
For the purpose of the study, the secondary data is considered from the article, Report and website. The type of the study is descriptive in nature. The study focus on the NPAs of the financial institution or the banks. The conceptual scope of the study reveals frame work NPAs, and SBI and Canara Bank NPAs were practically analysed. For that purpose the statistical data of SBI and Canara Bank was collected about Five years from 2016 to 2020. The finding and suggestion is based on the collected data from the website as well articles and journals.

### 5. Results and Discussion

#### 5.1 Non-Performing Assets:

Non-Performing Assets is the biggest threat to the financial system of the country, especially for the financial institutions. The financial institutions are the platform to distribute the fund over the country for the needy people, and industries, if the funds offered by the financial institutions will blocked if the borrower fail to repay the interest as well as the principal. The concept of the Non-Performing assets becomes the challenge for the financial institutions, and it is essentially required thing for the financial institutions for further financial operation, because the actual job of the financial institutions is, recycling the fund for other customers, if the fund is blocked, then the financial institutions will not able to lend for others, difficult to liquidate the available assets, to generate the returns, raise the fund for lending activities. Below table clearly shows the reasons for NPA's for the financial institutions in view of this.

**Table:5.1 Creation of NPA's in Financial Institutions**



### 5.3 Impact of Non-performing assets:

The problem of the NPAs in the financial system of the country becomes the unsolvable threat, and is a biggest challenge to the financial system to resolve it to avoid its impact on the entire system. The challenge to the financial system is not to reduce the NPAs and its recovery but also to protect the entire system or economy from the impacts such as loss, increase of risk, reduction of the shareholders confidence and interest in order to maintain profitability and liquidity, liability management, capital adequacy and protection shareholders confidence and interest.

### 5.2 Classification of NPA's

The Financial institutions generally grant the grace period before categorize an asset as non-performing. After that the financial institutions or the lender will classify the NPA into the following sub-categories.

1. **Standard assets:** Assets due for 90 days to 12 months, with a normal level of risk.
2. **Sub-standard assets:** Assets due for more than 12 months significantly at higher level of risk. Usually to such NPAs market value reduced because those NPAs are less certain that the borrower will eventually repay the full amount.
3. **Doubtful Debts:** Assets have been due for at least 18 months. Lender has the serious doubts that borrower will repay the full loan. This category of the non-performing assets critically affects the banks risk profile.
4. **Loss Assets:** These are Nonperforming assets with extensive period of non-payment. By these assets banks forced to accept that the loan will not be repaid and accept the loss and need to record the loss in the balance sheet.

**Financial institutions:** Financial institutions are the source to transfer the fund from the surplus to the deficit areas also the presence of the financial institutions brings the real meaning to the financial system in terms of creating and providing the variety of instruments as a tool for the lenders and borrowers to financial transactions to take place. Financial institutions are most appropriate in serving the specific needs and services to the customers. Financial institutions involve the banking and non-banking institutions, such as central bank, commercial banks, and Non-banking financial institutions. These financial institutions use to transact in the financial markets as well with the purpose to raise the fund for financial transactions also indulge into financial loss by having creation of the Non-performing assets due to failure of the borrowers to repay back to the financial institutions. There is a highest level of risk facing by the financial institutions in terms of the Non-performing assets, which is due from pas many months and associated with the significant risk.

### 5. Results and Discussion:

The following is the level of Non-performing assets of the State Bank of India and Canara Bank.



**Table:6.1 Gross and Net NPA's for five Years of SBI**

NPA RATIOS :	MAR 20 (NRS CR)	MAR 19	MAR 18	MAR 17	MAR 16
i) Gross NPA	149,091.85	172,750.36	223,427.46	112,342.99	98,172.80
ii) Net NPA	51,871.30	65,894.74	110,854.70	58,277.38	55,807.02
i) % of Gross NPA	6.15	7.53	10.91	6.90	6.50
ii) % of Net NPA	2.23	3.01	5.73	3.71	3.81
Return on Assets %	0.38	0.02	-0.19	0.41	0.46

Source: moneycontrol.com

Analysis and Interpretation: The Gross NPA and Net NPA from the year 2016 to 2018 drastically increase, and from the year 2018 to 2020 it was decreased. The % of Gross NPA and Net NPA was increased from the year 2016 to 2018 and the % of Gross NPA and Net NPA was decreased from the year 2018 to 2020. The return on Assets in terms of percentage was highest in the year 2016 and it was decreased immediately in the year 2017, in the year 2018 the return on Asset was at loss and in the year 2019 and 2020 it was slightly increased. In the below table an attempt is made to forecast NPA's for five years by using regression equation.

**Table 6.2 Computation of Regression Equation (SBI)**

Year	Net NPA (y)	Time Deviation (x)	Square up TD (x <sup>2</sup> )	XY
2016	55,807.02	-2	4	-111,614.04
2017	58,277.38	-1	1	-58,277.38
2018	110,854.70	0	0	0
2019	65,894.74	+1	1	65894.74
2020	51,871.30	+2	4	103,742.6
n=5	?y=342705.14	?x=0	Ex <sup>2</sup>	?xy=207739.28

**By using regression equation Y=a+bx**

$$a = \frac{\sum y}{n}$$

$$= \frac{342705.14}{5}$$

$$= 68,541.028$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{207739.28}{6}$$

$$= 34,270.514$$

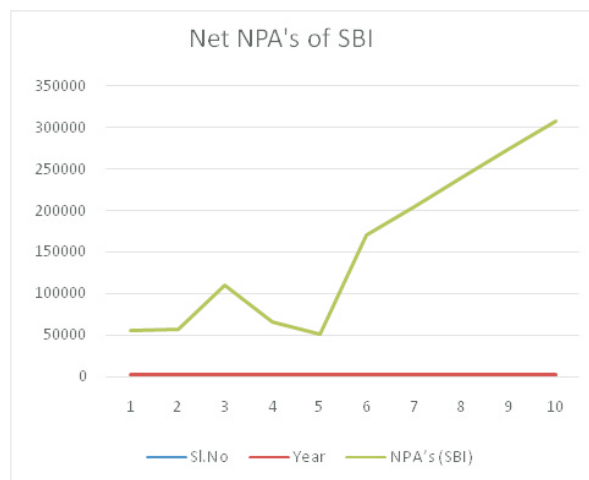
**Table 6.3 : Projected NPA's for next five years based on Straight-line equation**

Year	Equation	Projected NPA's (in Crores)
2021	68541.028+34270.514(3)	171,352.57
2022	68541.028+34270.514(4)	205,623.084
2023	68541.028+34270.514(5)	239,893.598
2024	68541.028+34270.514(6)	274,164.112
2025	68541.028+34270.514(7)	308,434.626

Hence, NPA's for 10 Years will be as calculated and shown below.

**Table and Chart 6.4: Projected NPA's of SBI for 05 Years**

Sl.No	Year	NPA's
1	2016	55,807.02
2	2017	58,277.38
3	2018	110,854.70
4	2019	65,894.74
5	2020	51,871.30
6	2021	171,352.57
7	2022	205,623.084
8	2023	239,893.598
9	2024	274,164.112
10	2025	308,434.626



Interpretation: Above table and chart depicts the projected NPA's from the year 2021 to 2025. There is a increasing trend identified, this is because of policy issues and other internal factors of the bank. Therefore, it is suggested to the bank that they have to strengthen their recovery management policies and strategies, lending policies should be strengthen to avoid default repayments. Below table clearly shows the five years NPA's of CANARATable:6.5 Quantitative data for Five years of NPA's of CANARA Bank bank.

**Table:6.5 Quantitative data for Five years of NPA's of CANARA Bank**

NPA RATIOS :	MAR 20 (IN RS CR)	MAR 19	MAR 18	MAR 17	MAR 16
i) Gross NPA	37,041.15	39,224.12	47,468.47	34,202.04	31,637.83
ii) Net NPA	18,250.95	22,955.11	28,542.40	21,648.98	20,832.91
i) % of Gross NPA	8.21	8.83	11.84	9.63	9.40
ii) % of Net NPA	4.22	5.37	7.48	6.33	6.42
Return on Assets %	-0.32	0.06	-0.75	0.20	-0.52

Source: moneycontrol.com

**Analysis and Interpretation:**

The Gross NPA and Net NPA of Canara Bank was at the increasing trend from the year 2016 to 2018, and Gross NPA and Net NPA of the Canara Bank was at decreasing trend from the year 2018 to 2020. The increasing trend of the Gross and Net NPA describes that the Canara bank is at the risk because the level when the level of NPA increased the return on assets decreases. The % age of the Gross NPA and the Net NPA was also increased during the years 2016 and 2018; it was decreased during the year 2018 to 2020. The return on Assets was at loss in the year 2016 and the return on asset was recovered in the year 2017 but in the year again the loss and immediately after that in the year 2019 little returns the bank has received and after again in the year 2020 the bank undergone for the loss of (-0.32). These variations in the returns on asset was not good for the banking business because literally banks needs

the returns on the assets for further banking operations. And every financial institution expect the increasing growth in term of the returns on assets if it not able to recover the interests from the borrowers it becomes the threat for the lending activities and this leads to the creation of the so many problems such liquidity, capital inadequacy and loose of the shareholders and many other. This leads to the problem of insolvency at the highest level of risk. Table 5.3 depicts the calculation of NPA's for next five years by using regression equation.

**Table 6.6 Computation of Regression Equation (CANARA)**

Year	Net NPA (y)	Time Deviation (x)	Square-up TD (x <sup>2</sup> )	XY
2016	20832.91	-2	4	-41665.82
2017	21648.98	-1	1	-21648.98
2018	28542.40	0	0	0
2019	22955.11	+1	1	22955.11
2020	18250.95	+2	4	36501.9
n=5	?y=112230.35	?x=0	Ex <sup>2</sup>	?xy=-3857079

**By using regression equation Y=a+bx**

$$a = ? y/n$$

$$= 112230.35/5$$

$$= 22446.07 = 11223.035$$

$$b = ? y/x^2$$

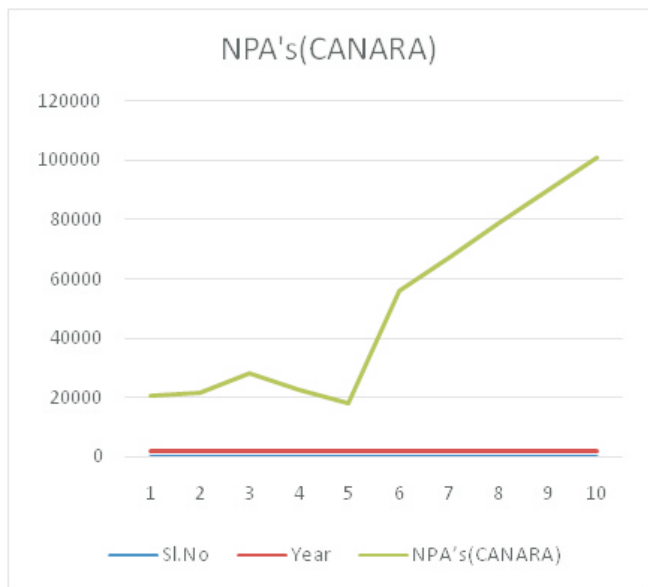
$$= 112230.35/10$$

Projected NPA is for next five years based on Straight-line equation

Year	Equation	Projected NPA's (in Crores)
2021	22446.07+11223.035(3)	56115.175
2022	22446.07+11223.035(4)	67338.21
2023	22446.07+11223.035(5)	78561.245
2024	22446.07+11223.035(6)	89784.28
2025	22446.07+11223.035(7)	101007.315

**Table: 6.6 NPA for 10 Years will be (CANARA)**

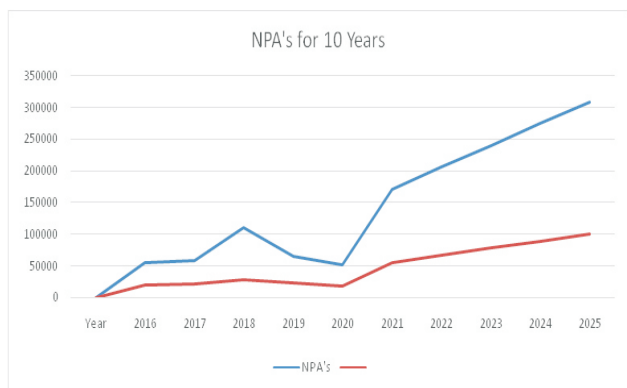
Sl.No	Year	NPA's
1	2016	20832.91
2	2017	21648.98
3	2018	28542.40
4	2019	22955.11
5	2020	18250.95
6	2021	56115.175
7	2022	67338.21
8	2023	78561.245
9	2024	89784.28
10	2025	101007.315



**Interpretation:** Table and chart above portrays the projected NPA's from the year 2021 to 2025. Year by year it is increasing due to some reasons like policy issues and practices adopted by the bank. Hence it is suggested to the bank that the policy issues should be developed to manage and reduce the NPA's.

**Table and Chart6.7: Comparison of NPA's of SBI and CANARA**

Sl.No	Year	NPA's	
		SBI	CANARA
1	2016	55,807.02	20,832.91
2	2017	58,277.38	21,648.98
3	2018	1,10,854.70	28,542.4
4	2019	65,894.74	22,955.11
5	2020	51,871.30	18,250.95
6	2021	17,1352.57	56,115.17
7	2022	2,05,623.08	67,338.21
8	2023	2,39,893.60	78,561.24
9	2024	2,74,164.11	89,784.28
10	2025	3,08,434.63	1,01,007.32



Interpretation: Above table and chart represents that comparison between the NPA's of SBI and CANARA. When compare to CANARA bank in SBI it is represented more NPA's over the years, and increasing too. This may because of policy issues of the banks.

**7.Major Findings:**

As a part of the research problem related to the NPAs, there are so many findings, which we come through, and requires the serious attention on it.

- The reason for the increasing ratios of Non-performing Asset is the improper recovery channel of the banks as well as the financial institutions, which involves in the financial operations.

- Market conditions or trends are very unsure and the financial institutions, borrowers were completely unaware about it. The thing is that the financial institutions and the banks use to lend the fund by keeping in mind the project of the borrower, life of the project, financial position, background of the borrower, credit worthiness of the borrower and many other criteria's but it will not consider the future trends or the future market conditions which lead to hamper on the business operation of the borrower, then the borrower fails to make the payment. In addition, the future is unpredictable so that this unpredictable future becomes threat for the proper decision making in consideration borrower to borrowers the fund.

- The increase of the NPAs definitely leads to the birth of various problems, and those problems ultimately effects the financial well-being of the lender.

- There is a variation in the return on assets of the banks or financial institutions and the major reason for this variation is the variations in the NPAs, which means the increase or decrease of the NPAs. Where it comes to the return on asset, that should be in increasing

trend but as per the data taken from the SBI and Canara Bank these banks return have makes the differences in terms of growth over the years, and those differences were not healthy differences.

- It is difficult to accept that the rate of NPAs increasing in the banks and financial institutions because there is a probability that this increasing NPAs are malpractices.

- Financial market condition becomes worst as NPAs are much, because if more NPAs no profit and if no profit supply of fund come down and if supply low huge demand for the fund and the cost on raising fund will become higher., this leads create chain on the entire economy.

### **8. Suggestion:**

The banks need to stop the lending activities when it finds the level of NPAs are increasing and can start lending activities once after existing NPAs were recovered, by this activity at certain level banks can maintain the stability in the financial conditions.. If it is into continues lending activities after facing the Increase of the NPAs this makes the banks into losing of the available fund, which certainly leads to creation of many difficulties.

Banks and financial institutions need to focus on the strategy formulation for the recovery of the NPAs in terms of formulating the proper recovery mechanism.

There are some preventive measures, which we suggest for the banks and financial institutions.

- Stop doing the lending activities when the banks or financial institutions find the rate of NPAs are increasing and try to do the financial operations in term of other financial products other than lending activities for a certain period of time to ensure the financial stability, but that break from lending activities is only for specified period of time but not more

than that.

- Before lending to the borrower better, go for checking the credit worthiness of the borrowers or the companies.

- When the bank or financial institutions finds that the company or the borrower is having delay in the payment, it is definitely a signal that the company going to create the NPAs for the banks. This signal needs a serious care to avoid the creation of the NPAs. The banks or the financial institutions try to fix problem of the company or the borrower because this problem is the reason for that delay in payments.

- The lender need to involve in the business activities of the borrower in the ways of promotional activities, project selection, product development and many other activities of the borrower, which definitely reduce the problems of the company, and there will be no technical and administrative problem and definitely leads to avoid the delay in payments.

- Banks need to go for follow up activities frequently to ensure healthy business environment of the companies or borrowers.

- Financial institutions or banks need to be attentive in addressing the problems facing by the borrowers so that the immediate action can take to that immediate problem to ensure the financial well-being of the borrower.

- The central bank need to strengthen the supervisory and monitory activities so that the banks cannot be indulged into malpractices.

- The banks or the financial institutions need to adopt the target based lending strategy for a year do that level of NPAs may reduce to the small extent. For eg: the banks should limited the fund lending for only 100 crores in a year, by that case banks will not go for further lending because the target is of



lending 100 crores. If banks having excess of fund then also it will not able to lend then in that case lending activities will stop in that year and it will resume once after completion of that particular financial year.

- It is better if the banks go for outsourcing the payment by Agent Company in that the agent company on behalf of the borrower can make manner the regular payment and borrowers will be charged with the extra fund for Agent Company.

- Regular inspections and auditing will be done to both borrower and the lender by the RBI in that case there would be accountability and the cooperation between the RBI and the banks, and bans with the borrower in order to be aware about the financial condition, problems, and the initiatives of the borrowers as well as the banks.

## 9. Conclusion:

The increase of the NPAs is no healthier for the banks. Profit is the major motive of the every business operation and even for the banking operation as well. The profit is the most affective part in the banks as well as the financial institutions due to the NPAs. The present study also reveals the same that profit was affected due to the NPAs. The reasons for increasing the NPAs are many but the most affective reason that leads to the birth of many other reasons is the strategies or practices. And the effective strategy is the one which can face many problems even if the extent of affecting that problem on banking business is bigger. I recommend the banks to give more attention on the strategy formulation or development of practices. There should be competitive nature among the banks or financial institutions in recovery of the NPAs and link the recovery of loan with the performance of the bank employees so that innovative methods can develop by bank employees for recovery of NPAs, because ultimately employees need to perform well.

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