

## **Ever growing challenges in the Banking Sector**

- An overview of Non-performing Assets in Banking.

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Dr. N.M. Mekala\*, Asst. Prof. of Commerce,  
Sourashtra College, Madurai 625 004.

Ph: 8610440108, email:ID: commercemekala@gmail.com

Mr. T. G. Giritharan\*\* M.com (regular student),  
Dept.of.commerce, Madurai Kamaraj university, Madurai – 625021.  
Ph:7418000589, email:ID: tggiritharan17@gmail.com.

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### **Abstract**

The Indian banking sectors have been facing more issues in increasing level of Non-performing Assets. The Objectives of the study say that the concept of Non Performing assets, the causes and the measures to be taken to recover the dues in banking sectors. This study also focuses on the Non performing assets in SBI and its Gross Non Performing assets.

### **Introduction**

The Banking system in India works according to the guidelines issued by the Reserve Bank of India. Every bank should deposit certain amount in the Reserve Bank of India. The commercial banks have the powers to borrow the money from the RBI when they are in need of finance.

Performing asset is an asset that provides a dependable annual financial return. For example production, machinery in transportation and in airlines. A Non performing asset (NPA) is a loan or advances for which the principal or interest payment remained overdue for a period of 90 days. A loan is in arrears when principal or loan interest payments are late or missed. If the borrowers account is classified as a NPA where repayment is overdue by 90 days, the lender has to first issue a 60 days' notice to the defaulter. If the borrower fails to repay within the notice period the bank can go ahead with sale of assets.

The bank cannot charge further interest in the account and take it to the P& Loss account. If it is recovered through court they will order the borrower to pay the interest and it may be 6% to 18%.

**Objectives of the study**

The study has the following objectives

To present the concept of Non Performing Assets.

To identify the causes of NPAs

To highlight the top seven types of NPS.

To give suggestions and conclusions of the study.

**Methodology**

The sources of data collected through secondary data, the data published by State Bank of India, various magazines , journals, and books dealing with current banking theory, law and practices as well from the unpublished thesis.

This study focuses on the Non Performing Assets of State Bank of India. The data has been collected from the SBI's annual report and also from the Websites. This study concentrates on the conceptual aspect of NPAs , the causes of NPAs, and also highlights the top seven types of NPAs and also study about the measures to be taken for NPAs.

**Period of the study**

Five years have been selected for the study purpose (from 2015 to 2019).

**Top seven types of NPAs**

The Top seven NPAs are

Type 1: term loans

Type 2: cash credit

Type 3: Agricultural loan

Type 4: standard assets

Type 5: loss assets

Type 6 : doubtful debts

Type 7 : collateral

### Causes of NPAs

Wilful defaults industrial crisis, lenient lending norms and credit distribution of mis-management, natural calamities industrial sickness, lack of demand change on government defective lending processes and inappropriate technology are the causes of Non-performing Assets in Banking sectors.

The following table shows the Gross NPAs , Net NPAs and also the percentage of GNPAs and Net NPAs.

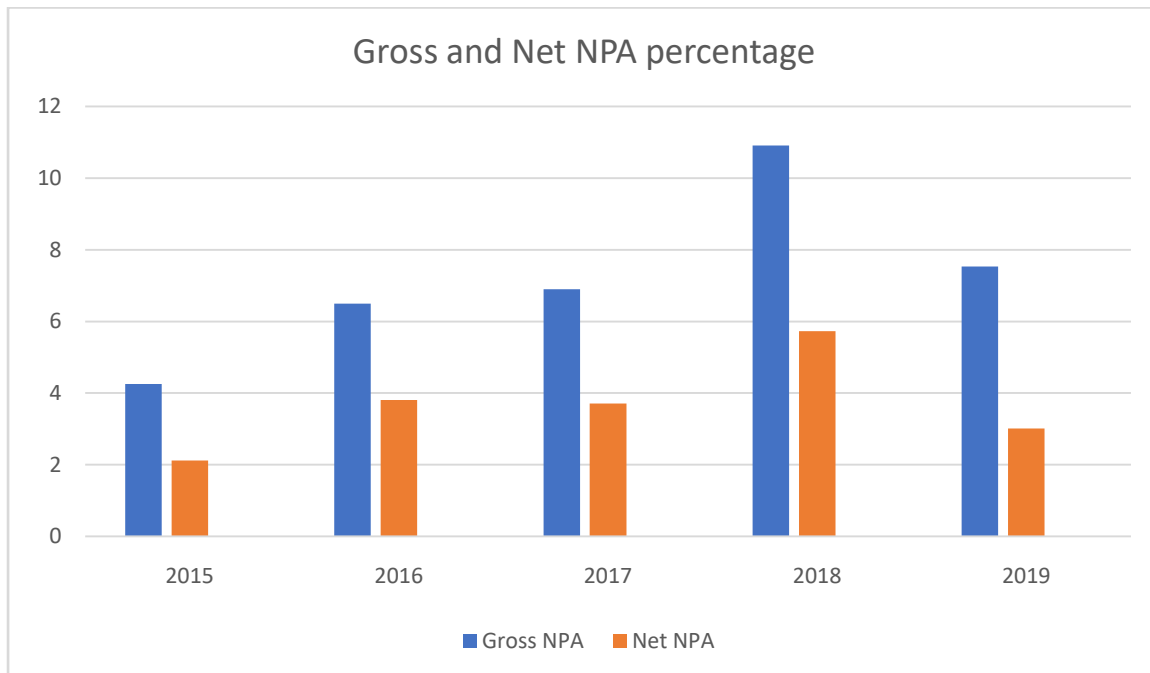
Table 1

Gross NPAs, Net NPAs and their percentages of SBI

Years	Gross NPA	Net NPA	Gross NPA %	Net NPA %
2015	56,725.34	27,590.58	4.25	2.12
2016	98,172.80	55,807.02	6.50	3.81
2017	1,12,342.99	58,277.38	6.90	3.71
2018	2,23,427.46	1,10,854.70	10.91	5.73
2019	1,72,750.36	65,894.74	7.53	3.01

Sources: Secondary data

The above table shows that amount and the percentage of Gross and Net NPA during the period of 2015 to 2019. The Gross amount and Net amount of NPA was increased in the 2018 [Gross NPA: 2, 23,427.46, (10.91%) and Net NPA: 1,10,854.70(5.73)]. And the amount was decreased in the year 2015 [[Gross NPA: 56,725.34, (4.25%) and Net NPA: 27,590.58(4.25)]. The following chart clearly explains the Gross NPAs and Net NPAs and also its percentages of State Bank of India.



### Impact

A Performance of NPA will affect the profitability of banks. A bank may invest more toward risk-free investment to avoid or to reduce riskiness and NPA.

The balance sheet may not tally. It may mismatch.

It affects the capital adequacy ratio and profit of the bank

It may affect the risk facing ability

The NPA will affect cost of capital.

### Measures to recover loan amount from NPAs

Public sector banks initiated cleaning up by recognising NPAs and Asset quality review should be carried out make NPAS clear. The further loan facilities are not to be provided to the borrowers through any sources.

### Suggestions and Conclusions

The NPA creates too many problems in the nation, it has provided more credit to the small scale and large scale businesses, It may affect the banking sectors also. The bank should aware of when loan provided to the customers. This study says about the gross NPA of SBI banks. The government should take more steps to reduce the NPA. RBI and government should create a new policy of NPA to recover the debt from the borrowers. The private companies may also play more roles in collecting the NPAs. The necessary step should be taken by public sector banks and also avoid the NPA.

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