



**DEPARTMENT OF ECONOMICS
GOVERNMENT DEGREE COLLEGE
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DEPARTMENT OF
ECONOMICS



Department Of
Economics
अर्थशास्त्र विभाग

Publications



**PATENT
AWARDS**

2020-2021

ISSN NO. 2394- 8965 GJMMS
Vol. – 6, Issue –3, July-September-2020

**NON-PERFORMING ASSETS IN INDIA: A
THEORETICAL ANALYSIS**

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Abstract

A thriving economy depends on a robust financial industry. Failure in the banking industry could have a negative effect on other industries. One of the main issues facing Indian banks is non-performing assets (NPA). NPAs show how well banks are doing. The existence of NPAs has a significant impact on the banks' ability to generate income and profitability. A high percentage of NPAs indicates that there have been numerous credit defaults, which have a negative impact on bank profitability and net value. In terms of financial activities, the public sector banks have outperformed the private sector banks by a wide margin. In contrast to private sector banks, the status of public sector banks is less favourable in the area of non-performing assets (NPAs). This research attempts to examine how effectively the chosen public and private sector banks managed their non-performing assets (NPAs).

Key Words: NPA, RBI, OD, and CC

Introduction (NPA Definition)

An asset, particularly one that is leased, becomes a nonperforming asset (NPA) when it stops bringing in income for the bank, according to the Reserve Bank of India (RBI). A credit facility that has interest and/or a principle installment that has been past due for a predetermined amount of time (90 days, starting on March 31, 2004) is known as a "non-performing asset" (NPA).

The financial sector is essential to a country's overall development. Banks from the public and private sectors both contribute significantly to the nation's economic growth. The main job of banks is to transfer surplus deposits to deficit units in the form of loans and advances to diverse industries, government agencies, and private individuals at reasonable interest rates. The banking industry's lending is typically supported since it has a greater impact on moving money from the system to useful uses. However, the lending process also entails a risk known as credit risk, which results from borrower failure. Default-risky loans are referred to as non-performing assets. The amount of non-performing loans is acknowledged as a crucial indication for evaluating bank credit risk, asset quality, and the effectiveness of resource allocation to productive sectors. Banks have made significant progress in removing NPAs from their balance sheets.

Importance Of the Research

The current study makes an effort to analyze the non-performing assets of Indian banks from both the public and private sectors. NPAs are an indicator of a bank's performance. The existence of NPAs has a significant impact on the banks' ability to generate income and profitability. As NPAs increase, provisions become necessary, which lowers total earnings and shareholder value. Like any other business, a bank's effectiveness is assessed based on its profitability and the calibre of its assets. The NPA must be decreased and controlled in order to increase the effectiveness and profitability of banks.

Types of NPAs

- Accounts with overdraft and cash credit (OD/CC) that have been inactive for longer than 90 days.
- Agricultural advances with interest or principal instalment payments that are two crop or harvest seasons or longer than one crop season past due.
- Expected payment on any other form of debt that is past due by more than 90 days.

Objectives

1. To assess the net and gross non-performing assets (NPAs) of a few public and private sector banks.
2. To conduct a comparison of NPAs in a few banks in the public and private sectors.

Research techniques

The research strategy is primarily descriptive. For the chosen public sector bank and private sector bank, this study is complete. The analysis is based on secondary data that was gathered from numerous yearly reports, journals, and newspapers published by the RBI. Study the literature.

The non-performing assets (NPAs) of Indian public, private, and foreign sector banks were researched in a study paper with the title Non-Performing Assets of Indian Public, Private, and Foreign Sector Banks. The study seeks to identify the essential elements that influence bank NPAs. Macroeconomic factors and bank-specific parameters make up a model that is built, and the behavior of NPAs in the three types of banks is observed.

Conclusion

The possibility of some investment failures cannot be ruled out from the perspectives of banks and borrowers because the sanctity of ethics and values is eroding and the challenges and risks faced by banks and borrowers are increasing as a result of the rapid changes taking place in the business environment and the economy in the context of economic liberalization and globalization. The emergence of NPAs is inevitable in such a situation, and the only way to avoid it is to have the recommended Fund gradually build up over time. All banking stakeholders, including the largest stakeholder, the Government, will undoubtedly benefit from this.

This implementation recommendation may prove to be a useful regulatory tool. It must be remembered that a decent plan violently carried out today is preferable to a perfect plan for the future. Time is always against you because it drives up the cost of repairs considerably. We do not have the resources, either in terms of time or money, to test solutions to the NPA problem.

Making banks more efficient at loan account evaluation, supervision, and follow-up, increasing borrowers' accountability and responsibility, and improving and expanding the regulatory framework are just a few of the recommendations made to reduce NPAs.

Since NPAs are a money problem that can only be solved by money since they are the result of borrowers, a model has been built through this study to identify some workable solutions to curb the threat in the future while also strengthening the balance sheets of banks. The answer is straightforward and workable. By recovering an annual levy from all standard advances in a graduated manner based on the performance of borrowers as reflected in the conduct of their accounts, in the range of 0.10% (i.e., approximately 10 paise for every Rs 100 borrowed by the client), a fund named Precautionary Margin Reserve will be created. The model also suggests that banks contribute to the aforementioned fund instead of earning compound interest on it in order to get them involved, help shoulder the cost of future NPAs, and encourage them to manage their credit portfolios more carefully. The balance sheet's liabilities section should get the funds right away. Given that it is a type of bank-owned money, it can be taken into account for capital adequacy purposes. As a result, the issuance of subordinated debt, which carries a high cost and is a recurring responsibility, can be avoided.

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YOUR SCORE: 40%

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B Thirumalesh

Dr.Bulla Thirumalesh
Lecturer in Economics

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Signature of the Lecturer

Signature of The Principal

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This is to certify that **M sudeer reddy**, *Economics lecturer* of *Govt degree college, jammalamadugu kadapa district* has participated in the National Level Online Quiz on “*General Awareness of Environmental Issues*” organised by Department of *Biology & Chemistry* Government Degree College, Ramachandrapuram, AP, INDIA through Google Forms on **5th june 2020** and secured **40%**. E-certificate id: **XCDNKA-CE000015**.

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K.Usha sri
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Dr.K.P.Raju
Quiz Convener, HOD -COMMERCE

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Mr/Ms/Dr. Msudeer reddy
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Has participated and successfully completed the online quiz on

'Banking Awareness Quiz', conducted by, S.Subramanya Sarma, Lecturer, Department of Commerce, Government Degree College, Srisailam Project, Kurnool Dist, Andhra Pradesh, India.

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has participated and successfully qualified in the Online Quiz on “Economics” on 17th June 2020

conducted by Department of Economics, and secured 14 / 30.

Dr. G. Mallikarjun
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