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IMPACT OF NPAS ON THE BANKS

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ABSTRACT

Non-performing assets (NPAs) in the banking sector contribute to India's economy. No one should be surprised that banks drive economic growth in any economy. A thriving economy is great for banking and other financial institutions because it increases credit demand. Examining the development of the Indian economy over time, reveals that banks have been essential to the country's rapid economic growth. Banks and other financial institutions are expanding their product lines, geographic reach, and credit offerings. Non-performing loans are the most worrisome aspect of financial companies' rapid growth in recent years. Despite the long history of this issue, much research remains to be done. The Government of India and the Reserve Bank of India (RBI) have begun to deal with the growing number of non-performing loans; however, it will take a coordinated effort and a methodical strategy to solve the issue. Solving this problem requires hard work and an organised strategy.

Keywords: Non-performing assets, banks.

INTRODUCTION

It is difficult to overestimate the significance of the banking industry to the overall economy of a nation without seeming hyperbolic. The economic might of a nation and the soundness of its financial system are both closely associated with the quality of the banking sector that the nation possesses. The banking sector in India went through a number of structural shifts as a consequence of the liberalisation process that took place there. The problem of nonperforming assets, on the other hand, is a significant one that is pervasive across the whole financial sector (NPA). Non-performing assets may be a double-edged sword for banks since they can hinder the banks' capacity to generate a profit and diminish their overall efficiency while also preventing the banks from bringing in any new money. In other words, non-performing assets can be a double-edged sword. A bank will give credit to a borrower in exchange for the borrower's assurance of future repayment. Throughout the term of the loan, the borrower will be responsible for paying interest to the bank on the money that are being borrowed. When borrowers fail to repay their debts as agreed, the lending organisation not only loses the interest revenue from the loan but also the original amount that was utilised to finance the loan in the first place. This is due to the fact that they both have an impact on the overall financial picture. There is always the possibility that a borrower will be unable to repay a loan that they have taken out. As a consequence of this, there is a possibility that the debt may not be repaid by the borrower, which places the lender in a precarious position. At this point of time, the most significant problem confronting the global banking sector as a whole is the expanding risk provided by non-performing assets, which endangers the institutions' capacity to remain in business over the course of time.

"Assets that Do Not Contribute to Earnings" The banking and financial industries make use of the phrase "non-performing assets," which is more commonly abbreviated as "NPA." The part of a loan that has not been repaid is referred to as non-performing assets (often abbreviated as NPA for short).

To put it more simply, this is what takes place when a lender (such as a bank or other financial institution) is unable to collect the money that is owed to it by a borrower within the first ninety days of the loan's term. This is a metaphor for loans that went into default as well as for individuals who were unable to repay their obligations.

Non-performing assets (NPAs) are defined as loans and advances that do not meet the following criteria and have been so since March 31, 2004.

- Default occurs on a term loan when either the interest or principal payment is more than 90 days late.
- Any account that has been "out of order" for more than 90 days due to an outstanding overdraft or cash credit is subject to closure.
- Bills that have been acquired to reduce their outstanding sums are now overdue by more than 90 days.
- A loan for short-term crops will be classed as a non-performing asset and the borrower will be accountable for any additional charges incurred if the borrower is late with a payment of principal or interest for more than two crop seasons.
- When a loan's principal or interest payment is overdue for more than one growing season, the loan is considered a non-performing asset (NPA), even if it was made for long-term crops.
- When a payment is overdue by more than ninety days in relation to other accounts, the amount in question is considered overdue and must be paid.

Types of NPA

a) **Sub-standard assets:** An asset is classified as a Sub-standard asset if it remains as an NPA for a period less than or equal to 12 months

b) **Doubtful assets:** An asset is classified as a Doubtful asset if it remains as an NPA for a period more than 12 months

c) **Loss assets:** An asset is classified as a Loss asset when it is “uncollectible” or have such little value than its continuance as a bankable asset is not suggested. However, there may be some recovery value left in it as the asset has not been written off wholly or in parts.

Asset classification categories of NPAs

1. General Assets If the consumer has consistently paid back the loan's interest and principle, the bank will consider the asset to be in good standing. Standard assets are those that are generally accepted as good investments. It is crucial that, at the conclusion of the fiscal year, the loan's interest and principle arrears have not accumulated to more than 90 days.
2. Subpar Assets As of March31, 2005, assets were considered insufficient if they had been classified as Non-Performing Assets (NPAs) for a time period of less than or equal to one year.
3. Property whose worth is contested Substandard loans stayed there for a year before being downgraded to "questionable."
4. A loss-making portfolio consists of four types of assets. A loss asset is an asset that has been determined to be both uncollectible and of such low worth that it is not financially prudent to continue holding it. It would be impossible to make a profit off of the sale of such an item. However, the object may have value after it is salvaged or recovered. The bank, its auditors (both internal and external), and the RBI's inspection team would have all labelled these assets as "loss assets," but the full value of the assets would not have been written off.

Objectives of the Study

1. 1. Study Indian Scheduled Commercial Banks' NPAs
2. 2. To study bank NPAs.

Methodology

Descriptive work will make up the bulk of this study. Since this body of work relies on secondary sources for its conclusions, the study's sample consists of twenty different banks, ten from the private sector and ten from the public sector. For this study, we gathered information for a whole decade. This research relied on secondary data collected from many online resources, including Money Control, the Reserve Bank of India's website, and the Reserve Bank of India's annual reports. The use of the web enabled access to these digital libraries. When investigating the connections between NPAs and financial indicators, regression analysis is the method of choice.

Data Analysis

The Impact of Total Nonperforming Assets on the CAMEL Model Applied to Public Sector Financial Institutions

In this particular regression analysis, the following is a list of both the dependent variable and the independent variables that were considered: Dependent variable: Gross NPA (Y) Independent variables:

1. Capital Adequacy Ratio (X_1)
2. The Quantity of Quality Contained Within the Assets (X_2)
3. The Percentage of Dependability Exhibited by the Management (X_3)
4. Profitability, as well as the ratio of earnings to expenses (X_4)
5. Liquidity Ratio (X_5)

Multiple regression variables - public sector banks' gross NPA

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	5.408	0.139		10.367	0.000
Capital Adequacy Ratio	0.541	0.160	-0.291	-2.639	0.107
Assets Quality Ratio	0.629	0.148	0.001	0.008	0.683
Management Soundness Ratio	0.344	0.267	0.218	1.399	0.006
Earnings and Profitability Ratio	0.603	0.163	0.149	2.697	0.371
Liquidity Ratio	0.841	0.150	0.367	3.161	0.195

Multiple regression variables - public sector banks' gross NPA

$Y = 5.408 + 0.541X_1 + 0.629X_2 + 0.344X_3 + 0.603X_4 + 0.841_5$

Gross NPA influences

a. A capital adequacy ratio that is 54.1%, which indicates that the relationship between the two variables is in a healthy state.
b. An asset quality ratio that is 62.9 percent of the total
c. The Management Soundness Ratio is currently at 34.4 percent at the time of writing.
d. An earnings and profitability ratio that is 60.3% of total sales; this indicates a healthy business.

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e. Liquidity Ratio at 84.1 percent.

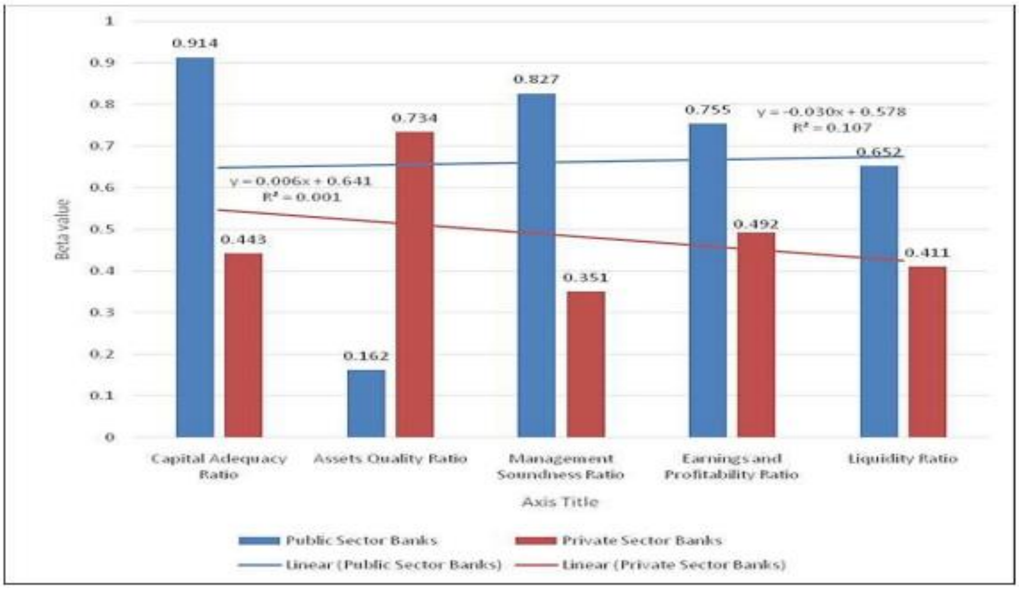
Multiple regression variables — private sector gross NPA

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	4.836	0.047		19.489	0.000
Capital Adequacy Ratio	0.638	0.191	-0.184	-9.788	0.002
Assets Quality Ratio	0.703	0.160	0.052	4.252	0.011
Management Soundness Ratio	0.818	0.316	0.104	9.994	0.013
Earnings and Profitability Ratio	0.454	0.018	0.118	4.551	0.274
Liquidity Ratio	0.593	0.201	0.262	1.750	0.116

Multiple regression equation:

$Y = 4.836 + 0.638X_1 + 0.703X_2 + 0.818X_3 + 0.454X_4 + 0.593X_5$

The Effect of the Total Gross NPA



Multiple regression variables – public sector bank NPA

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	8.834	0.104		15.857	0.000
Capital Adequacy Ratio	0.914	0.305	-0.488	6.260	0.000
Assets Quality Ratio	0.162	0.247	0.071	4.029	0.000
Management Soundness Ratio	0.827	0.170	0.517	9.097	0.079
Earnings and Profitability Ratio	0.755	0.282	0.430	13.454	0.003
Liquidity Ratio	0.652	0.416	0149	11.798	0.017

The following expression represents the equation for multiple regression: $Y= 8.834 + 0.914X1 + 0.162X2 + 0.827X3 + 0.755X4 + 0.652X5$

It affects

b) With a capital adequacy ratio of 91.4%, the company is in a favourable position.

c) The AQR was 16.2% of the total.
d) An operational reliability index of 82.7%
e) The profitability came in at 75.5 percent.
f) 65.2% liquidity

CONCLUSIONS

"Non-performing assets" no longer generate bank revenue. These are assets. These challenges are now India's top banking priority. These concerns affect the entire economy, not just the banks. Non-performing assets (NPAs) reduce bank profits since the money can't be used productively. Problem assets are NPAs. Nationalized banks have more non-performing loans than private and foreign rivals. This study aims to evaluate non-performing assets (NPAs) and their influence on Indian nationalised banks' liquidity and profitability. We'll also present the research's findings. Profitability and liquidity are the dependent or criteria factors, whereas gross nonperforming assets, net nonperforming assets, provision coverage ratio, The independent or predictive variables are the capital adequacy ratio and the ratio of available capital to total assets. With SPSS, correlation and multiple regression were used to analyse the data. The profitability of public banks decreases as their portfolios contain more nonperforming assets (NPA). Even with a low NPA, this is true.

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