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Bank NPAS: Still Remain Far from Their All-Time Lows

Dr. Pritha Chaturvedi

Assistant Professor, ICFAI University Jharkhand

Email: prithachaturvedi@iujharkhand.edu.in

ABSTRACT

For most of the last decade, the banking industry has been plagued by ballooning non-performing assets (NPAs). Furthermore, as a result of a flurry of RBI and government initiatives, net NPAs in Q2FY22 dropped to roughly one-third of their maximum of 6% in FY18. Bank profitability metrics have returned to pre-pandemic levels, as total and net non-performing assets have decreased and the requirement coverage ratio and capital buffers have increased. As per the economists, lenders also may face a higher level of NPAs as a consequence of the domino effect of the Russia-Ukraine situation on numerous industries. As per the India Ratings and Research, the debt at risk (with net leverage greater than 5x) would outweigh pre-conflict expectations by 1.2 lakh crore. While NPAs have steadily declined since their peak in FY18, they remain far from their all-time low points, implying that the recovery is still underway for an economy to represent a concern. This article presents some real time frauds in the Indian banking sector with their impact on the ROE and also highlights the changing scenario and how this has lead to improvements in the debt recoveries.

Keywords:Indian Banking Industry, Non Performing Assets, Baking Frauds, Debt, Economy.

I. INTRODUCTION

The Indian economic crisis of the 1990s fueled the demand for World Bank and IMF loans, leading to the restructuring of India's banking sector in tandem with the economic liberalization policies of 1991 in the form of Narsimham Committee reforms. The Narsimham Committee proposed, among other things, that Non-Performing Assets (NPAs) be reduced.Critical examination reveals that the banks began experiencing losses following the adoption of the Narsimham Committee recommendations. The bank's capital began to erode as a result of uniform asset provisioning. Following that, the notion of strong banks and weak banks was implemented. The government began recapitalizing weak banks in order to ensure their existence.The majority of today's NPAs are the result of loans made in the mid-2000s, when the economy was growing and company confidence was high. However, as economic development slowed during the 2008 global financial crisis, these debtors' repayment ability shrank. This resulted in what is known as India's

Twin Balance Sheet Problem. Political considerations like as crony capitalism have also contributed to rising NPAs in India.

Furthermore, there have lately been large-scale scams that have led to increased NPAs. Although the magnitude of scams is tiny in comparison to the entire number of NPAs, they have been growing, and high-profile fraudsters like as Vijay Mallya, Nirav Modi, and Mehul Choksey have not been penalized.

During 2021-22, the Indian banking sector began a period of consolidation. Banks increased their risk-taking capability as gross non-performing assets fell to their lowest level in six years. Macro stress tests show that even in a severe stress scenario, all banks can meet basic capital adequacy standards; however particular segments and non-banking financial enterprises may be sensitive to liquidity shocks. Contagion risks rose in March 2022 compared to September 2021 as interbank market links deepened**.**Policy assistance, including regulatory dispensations, aided the Indian banking industry in navigating epidemic waves and strengthening risk absorption capacity. With the gradual normalization of economic activity, banks were able to jumpstart a new lending cycle while boosting profitability. However, there are early signals of stress in certain areas, necessitating prudence and continuing monitoring.

II. RESEARCH METHODOLOGY

The research is based on secondary information. Secondary data is gathered from numerous journals, publications, and websites and presents some real time frauds in the Indian banking sector with their impact on the ROE and also highlight the changing scenario and how this has lead to improvement in the debt recoveries.

III. OBJECTIVES

- Presentation of some real time frauds in the Indian banking sector
- To study the impact of the high-profile fraud and inefficiency of recovery on the ROE of the banking sector
- To highlight the changing scenario and how this has lead to improvement in the recoveries.

IV. MAJOR FRAUDS IN THE INDIAN BANKING SECTOR

According to Reserve Bank of India (RBI) data, around 34% of bank frauds are internal and may be linked to junior and mid-level employees doubting the banks' integrity, trustworthiness, survivability, and operations.

The Indian banking sector has grown exponentially over the last three decades, and with it, banking frauds have increased dramatically; for example, in 2018-2019 alone, 6646 fraud cases totaling $715.3 billion were reported, while the total banking sector size was $2165 billion, representing approximately 33% of the total banking sector.

The list of corporate bank scams appears to be limitless. The ABG Shipyard banking scandal, which has been recorded as the largest of its type and has impacted 28 banks, including the State Bank of India, is just the tip of the iceberg. Other skeletons are slowly emerging from the closet, indicating a larger sickness to severely damage the financial sector. Banks have completely funded the majority of these loans.

The Bank of Maharashtra is accused of sanctioning numerous credit facilities to Siddhi Vinayak Logistics Limited's drivers without their knowledge from 2012 to 2014. The corporation cheated the loan amount and failed to use the loan profits for the intended purpose.

Nine persons were detained, including a former Syndicate Bank executive, for allegedly creating 386 accounts in three Syndicate Bank branches in Rajasthan and "defrauding" the bank of Rs 1,000 crore by using forged cheques, letters of credit, and LIC policies.

One of the major frauds was of Kingfisher Airlines and Nirav Modi (each of them was involved in fraudulent operations worth over 10,000 crore). But it was the IL&FS Group's loan scam that rattled the whole banking sector. With at least twenty - four direct subsidiary companies, 135 indirect subsidiary companies, six joint - venture, and four affiliated entities, the NBFC had a debt of approximately 91,000 crore. The second notable case was the former founders of Yes Bank, who were alleged of favouring specified commercial groups through credit disbursements in exchange for favours.

Other examples include the 3,250-crore Videocon loan fraud, the 8,100-crore Sterling Biotech default by Sandesaras, the 7,000-crore winsome gems loan default, and the siphoning off of over 1,000-crore cash from Bhushan Power & Steel Ltd (BPSL).

V. ROE OF THE BANKING SECTOR

The total credit of the Indian banking sector was 120 lakh crore as of May 6, 2022, according to the RBI.Banks are the first line of defense in detecting a loan that is becoming delinquent or diverting cash. When money is diverted, the lender can trace the earliest evidence by writing a check or making a payment to an unrelated individual. Bank policies detail the steps that must be followed when making a lending decision.Similarly, the central bank has provided explicit guidelines on 'willful defaulters.' Following the identified defaulter's response to the 15-day notification, the bank committee should issue a rational order stating the true source of the default/fraud and providing him/her with a chance for a personal hearing.However, certain banking committees/authorities are refusing to issue such a reasoned order. There have been instances where the bank made an error, but the borrower bears full responsibility due to the definition stated in the RBI regulations for declaring someone a deliberate defaulter. Those suggestions should be reconsidered. Every time a default occurs, only industrialists/entrepreneurs are blamed, especially when a large one is revealed. Senior officials and auditors in charge of managing structures and procedures that attempt to track substantial loans that are likely to default are not being questioned.

A forensic audit of the bank and borrower firm is required every year, immediately following the completion of the audited balance statement of the bank and borrower. This would allow all parties to take immediate and corrective action. The borrower is accused with fraud and criminal conspiracy under many articles of the 1988 Prevention of Corruption Act.

Similarly, central/statutory and concurrent examiners who check and authenticate a lender's accounts and balance sheet as well as the borrower firms' records every quarter (for publicly traded companies) are not questioned about borrower fund deviations and diversions.

VI. THE CHANGING SCENARIO AND THE IMPROVEMENT IN THE DEBT RECOVERIES.

In a report released just before the Russian invasion, Ind-Ra tried to raise the banking sector's FY23 projection to a high. The positive health trend that started in FY20 is anticipated to continue until FY23. Besides that, key financial measures are expected to improve further in FY23 as a result of improved balance sheets, a better loan demand perspective, and the projected start of the corporate capex cycle. Scheduled commercial banks' gross and net NPAs ratios have dropped sharply, from a high of 11.21% in FY18 to 6.9% at the end of September 2021. Outstanding bank credit has increased from 85.12 lakh crore at the end of March 2018 to 107.38 lakh crore at the end of March 2021March 2021. NNPAs fell by more than 50 percent from 5.07 lakh crore to 2.56 lakh crore during the same time period, from nearly 9.55 lakh crore to 7.89 lakh crore.

By the end of September 2021, the net profit of SCBs will have increased 32.48% year on year to 78,729 crore.By the end of September 2021, the net profit of SCBs will have increased 32.48% year on year to 78,729 crore. The industry recorded a return on assets of 0.79% in September 2021 (Q2FY22), particularly in comparison to a de-growth of (-) 0.15% in March 2019. PSBs' RoA became positive in June 2020 after posting negative profitability ratios from March 2016 to March 2020.Following that, the trend is upward. In Q3FY22, the banking industry reported 1% RoA (annualized; highest in 30-32 quarters). Private banks recorded a RoA of 1.6% (annualized; the highest in 24 quarters), while public sector banks reported a RoA of 0.6%. (annualized; highest in 30-32 quarters).Meanwhile, between March 2019 and September 2021, the RSA ratio of SCBs increased from 0.4% to 1.5%, raising the stress asset ratio to 8.5%, up from 7.9% the previous year.As per the Economic Report 2021-22, various Covid-related dispensations/moratoriums on asset quality contributed to an increase in restructured assets.

CRISIL, on the other hand, reported recently that all its Financial Conditions Index weakened in April compared to last month, as some of the worldwide headwinds generated by the Russia-Ukraine conflict abated.

In contrast to previous lengthy systems such as One Settlement Debt Recovery Tribunals, CDR and SARFAESI Act, that have assisted banks in addressing the bad-loan situation, the Bankruptcy and Insolvency Code, which was promulgated in 2016, initiated an enforced, time-bound recovery and market-linked resolution mechanism that has also augmented recoveries. The Central Bank and the government had indeed launched a slew of initiatives to track down and minimize NPAs, as well as to maintain the books in order in the future. To expedite this same NPA resolution process, the National Asset Reconstruction Company Ltd with a loan pool of 2 lakh crore has been suggested for debt aggregation and effective resolution of major NPA accounts worth more than 500 crore.

CONCLUSION

When compared to a few years ago, banks' enhancing asset quality, profitability, and capitalization reveal a solid, if not robust, industry. At the end of September 2021, SCBs' capital to risk-weighted asset ratio was at a comfortable 16.54%, with at least 2.5% more cushion than regulatory standards.

Experts estimate that the high PCR of 70% — the degree of risk coverage of lenders' risk-weighted loan exposure levels — will remain. This could shield the Indian banking sector from major shocks. Asset quality measures will continue to improve in the future, according to Ind-Ra, with the NPA ratio for banks anticipated to decrease to 6.3% and 6.1% in FY22 and FY23, respectively (PSB — FY22: 8.3%, FY23: 8.1%; non-PSU — FY22: 3.2%, FY23: 3.2%).

The 40 basis point (100 basis point = one percentage point) increase in the repo rate in May, citing a worsening inflation forecast, is expected to raise EMIs for long-term borrowers, putting extra pressure on NPAs in the near term. Many experts predict that repo rates will rise another 75-100 basis points during the current fiscal year. Having government agencies examine bank employees' business actions, observers argue, increases the 'fear factor,' further disassociating them from responsible responsibilities. Because only junior managers attend loan consortium meetings, many large loan defaults may not be noticed until the last minute. The NPA situation may strengthen if the RBI and banks design solutions to the gaps discovered by these authorities in each case to ensure that the same type of fraud does not occur again. Expect a further 75-100 basis point increase in repo rates over the course of the current fiscal year

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