

Non Performing Assets: An Indian Perspective

Suresh Kumar

P G Department of Economics, Doaba College, Jalandhar, Punjab, India

Email: magosuresh75@gmail.com

To Link this Article: <http://dx.doi.org/10.6007/IJAREMS/v3-i2/797> DOI:10.6007/IJAREMS/v3-i2/797

Published Online: 03 March, 2014

Abstract

One of the major concerns for banks in India is the rising level of NPAs. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affects the profitability and net-worth of banks and also erodes the value of assets. High NPAs degrade a bank's credit rating, lowering its creditability as well as the ability to raise fresh capital. Moreover with high level of NPAs banks are left with less liquidity in hands to handle the day to day operations. Before the initiation or reform measures in 1990s, commercial banks were not in the habit of classifying their assets into performing and non-performing assets. The Narasimham Committee (1991) recommended the adoption of international accounting practices so that banks can make their balance sheets financial healthy. In the present paper an attempt is made to study the trends in NPAs of scheduled commercial banks in India and also to study the major reasons responsible for the high levels of NPAs. Moreover, various measures adopted in India to tackle the problem of high NPAs have also been examined.

Keywords: Non-Performing Assets, Public Sector Banks, Private Sector Banks, Asset Classification, Provisioning for NPAs

JEL Codes: G 21, G 28

Banks are the important financial intermediaries. They perform their intermediation role by matching assets and liabilities, pooling small deposits and lending for various tenures and managing risks. The bank lending is encouraged because it has the effect of funds being transferred from the system to the productive purposes, which results in economic growth. So bank lending is critical for lubricating the wheels of the economy. But lending also involves risks. If there are delays in payment of interest or principal the loan assets become Non Performing assets. The process of credit cycle is affected by non-recovery of loans along with interest. Thus, loan losses and requirements of provision of losses, affect the bank's profitability on a large scale. NPAs reflect the performance of banks. The earning capacity of banks and profitability of the banks are highly affected because of the existence of NPAs. If the NPAs of the banks are high then it implies that there are large number of credit defaults that affects the profitability and net worth of banks. NPAs are inevitable burden on the banking industry.

NPAs have become one of the major concerns for the banks in India. Since the early 1990s, focus has been shifted towards improving quality of assets and better risk

management. In place of 'Directed Lending Approach', the market driven practices have been given importance. In this reform period the parameters for evaluating the performance of banks have also changed. In the pre-reform period, profitability was not considered as the yard stick for evaluating the performance of banks. But in the post-reform period profitability is considered as a benchmark for the banking industry. But increasing NPAs adversely affect the profitability of banks.

Review of Literature

A large number of studies examined various aspects of NPAs in the India banking system. Many important books and research articles have been published.

Ms. Asha Singh (2013) in her paper studied that the NPAs have always been a big worry for the banks in India. The extent of NPAs has been comparatively higher in public sector banks and to improve the profitability and efficiency of banks, the NPAs have to be scheduled.

Priyana Mohnani & Monal Desh Mukh (2013) in their paper "A Study of Non-Performing Assess of Scheduled Public and Private Sector Banks" examined various aspects of NPAs of SBI, PNB, ICICI and HDFC Bank and concluded that NPAs can be properly managed by framing reasonably well documented loan policy, credit appraisal & monitoring.

C.S. Balasubramaniam (2013) in his study "NPA and Profitability of Commercial Banks in India: Assessment and Emerging Issues" studied the impact of NPAs on profitability and financial soundness of banks. He also studied the trends in NPAs and also concluded that Indian banks have overall demonstrated trend of continued good performance and profitability despite rising interest rates, increasing opportunity costs and the spill over effects of recent global financial crisis. Moreover for further reducing their NPAs banks should follow good appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets.

Dr. T.R. Gurumoorthy & B Sudha (2012) also studied various aspects relating to NPAs of Indian banks and also gave various suggestions to tackle the problem. Their study suggested that the banks can remove their old NPAs to Asset Management Companies and fresh NPAs can be prevented by adopting proper loan policies.

Dr. Mohan kumar & Govind Singh (2012) in their paper "Mounting NPAs in the Indian Commercial Banks" concluded that NPAs occur due to the factors attributed to the borrowers, lenders and also due to the external environment. In the study they also concluded that problem of NPAs in India has not yet reached in the critical stage that has reached in most countries.

Bhavani Prashad & Veena (2011) examined the reasons behind NPAs of public sector banks in India. In their study falling revenues from traditional sources is the main reason responsible for the higher level of NPAs in public sector banks.

Concept of Non Performing Assets

NPA is defined as a credit facility in respect of which the interest &/or instalment of principal have remained past due for a specific period of time. In simple language, an asset becomes non performing when it fails to contribute any income to the owners.

Before the initiation of reform measures in 1990s, commercial banks were not properly defining 'income' on loans and advances. They used to charge interest income on accrual basis, even though not received. Such interest income is carried forward to profit and loss account, which inflated the profits. This is against standard accounting principles. In the same manner, banks were not in the habit of classifying their assets into performing and non-

performing assets. The Narasimham Committee recommended the adoption of international accounting practices so that banks can make their balance sheets financially healthy. As per the guidelines of RBI, NPA means an assets or account of the borrower, which has been classified by the bank or financial institution as sub-standard or doubtful or loss asset. An amount due under any credit facility is treated as 'past due' when it has not been paid within 30 days from the due date. Due to the improvement in the payment and settlement systems, recovery climate, up gradation of technology in the banking system etc, it was decided to dispense with the 'past due' concept with effect from March 31, 2001. Subsequently, with a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt 90 days overdue norms for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a Non –Performing Asset shall be a loan or advance where:

1. Interest and/or installment of principal remains overdue for a period more than 90 days in respect of a term loan.
2. The account remains 'out of order' for a period more than 90 days, in respect of an overdraft/cash credit.
3. The bills remain overdue for a period more than 90 days in case of bills purchased and
4. Interest and/or installment of principal remains overdue for two harvest seasons but for period not exceeding two half years in case of an advance granted for agricultural purposes, and
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other.

Types of NPAs

Gross NPAs: It is the sum total of all loan assets that are classified as NPAs as per the RBI guidelines as on balance sheet date. Gross NPA is the amount outstanding in the borrower's account, in the books of the bank other than the interest which has been recorded and not debited to the borrowal account.

Net NPAs: Net NPAs shows the actual burden on banks. Net NPA is the amount of gross NPA less a) Interest debited to borrowal and not recovered and not recognised as income and kept in interest suspense. b) Amount of provision held in respect of NPAs c) Amount of claim received and not appropriate.

Since in India bank's balance sheet contains a huge amount of NPAs and the process of recovery and write off is quite time consuming, the provisions the banks have to make against NPAs according to the central bank's guidelines, are quite significant. That is why the difference between Gross & Net NPAs is quite high.

Asset Classification: Banks are required to classify their assets into four broad categories according to their performance- Standard assets, Sub-Standard assets, Doubtful assets and Loss assets. Out of these four, the first one is considered as performing asset and the other three are known as non-performing assets.

Standard Assets These are the assets which do not carry more than the normal risks and are regular in all respects. These assets do not disclose any problem for the bank. The arrears of interest and principal amount of loan do not exceed 90 days at the end of the financial year. But if the asset fails to be in the category of standard asset i.e. the amount remains due more than 90 days then it is called as NPA and NPAs are further classified into sub categories of sub-standard, doubtful and loss assets.

Sub-Standard Asset: With effect from March 31, 2005, a sub-standard asset would be one, which has remained NPA for a period less than or equal to 12 months. In case of such assets, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the bank in full.

Doubtful Assets: An asset classified as doubtful asset, has all the deficiencies that a sub-standard asset has but it also contains the feature that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values- highly questionable and improbable. With effect from March 31, 2005, an asset would be classified as doubtful asset if it remained in sub-standard categories for a period of 12 months.

Loss asset: A Loss asset is a credit facility where the loss has been identified by bank's internal or external auditor or the RBI inspectors but the amount has not been written-off.

Trend Analysis of NPAs of Banks in India

Table No.1

Gross and Net NPAs of Scheduled Commercial Banks

Year	Gross NPA		Net NPA	
	Amount (Rs. Cr.)	% to Net Advances	Amount (Rs. Cr.)	% to Net Advances
2000-01	63883	11.4	32632	6.2
2001-02	70861	10.4	35554	5.5
2002-03	68717	8.8	29692	4.4
2003-04	64785	7.2	24396	2.9
2004-05	59373	5.2	21754	2.0
2005-06	51816	3.3	18529	1.2
2006-07	50486	2.5	20101	1.0
2007-08	56309	2.3	24734	1.0
2008-09	68328	2.25	31564	1.05
2009-10	84747	2.39	39126	1.12
2010-11	97922	2.5	41813	1.1
2011-12	142300	3.1	64900	1.4
2012-13	194000	3.6	98600	1.7

Source: Report on Trends & Progress of Banking, various issues

As from the table, during the period 2000-01 to 2002-03, the NPAs of SCBs were quite high. But in 2003-04, there was significant decline in the non-performing assets of

banks. The Gross NPAs (% to Net Advances) declined from 11.4% in 2000-01 to 7.2% in 2003-04. Net NPAs also declined from 6.2% in 2000-01 to 2.9% in 2003-04. Both gross NPAs and net NPAs declined in absolute terms also (up to the period 2006-07). But this falling trend of NPAs in absolute terms changed to rising from 2007-08. Even in percentage terms the gross and net NPAs started to rise. Net NPAs (% to Net Advances) which were 1.0% in 2007-08, increased to 1.7% in 2012-13.

Table no. 2

Classification of Loan Assets- Bank-Group Wise

Bank group	Year	Standard Assets		Sub-Standard Assets		Doubtful assets		Loss Assets		Gross NPAs	
		Amount (Rs. billion)	%age	Amount (Rs. Billion)	%age	Amount (Rs. Billion)	%age	Amount (Rs. Billion)	%age	Amount (Rs. Billion)	%age
Public Sector Banks	2012	38255	97.0	623	1.6	490	1.2	60	0.1	1178	3.3
	2013	43957	96.4	815	1.8	761	1.7	68	0.1	1650	4.1
Nationalised banks	2012	26909	97.5	402	1.5	268	1.0	21	0.1	696	2.8
	2013	30396	96.8	558	1.8	424	1.3	35	0.1	1022	3.6
SBI Group	2002	11345	95.9	221	1.9	222	1.9	39	0.3	482	4.6
	2013	13561	95.6	258	1.8	337	2.4	33	0.2	627	5.0
Private sector Banks	2012	9629	98.1	52	0.5	104	1.1	29	0.3	187	2.1
	2013	11384	98.2	64	0.6	112	1.0	32	0.3	210	2.0
Old Private Sector Banks	2012	2287	98.2	18	0.8	17	0.7	7	0.3	42	1.8
	2013	2679	98.1	23	0.9	23	0.8	6	0.2	52	1.9
New Private Sector banks	2012	7342	98.1	34	0.4	87	1.2	22	0.3	145	2.2
	2013	8705	98.2	41	0.5	89	1.0	25	0.3	158	2.0
Foreign Banks	2012	2284	97.3	21	0.9	22	0.9	20	0.8	62	2.6
	2013	2610	97.0	29	1.1	27	1.0	23	0.9	79	2.9
Scheduled Commercial Banks	2012	50168	97.2	695	1.3	617	1.2	109	0.2	1429	3.1
	2013	57951	96.8	909	1.5	900	1.5	123	0.2	1940	3.6

Source: Trends and Progress of Banking 2012-2013

Observations: The above table (No. 2) shows that there are signs of deepening deterioration within NPAs with an increase in the proportion of doubtful assets. The increased shift of loan

assets towards the doubtful category was the most prominent for the SBI group and nationalised banks. For Public sector banks Gross NPAs increased from the level of 3.3% in 2012 to 4.1% in 2013. But for private sector banks NPAs have remained almost at the same level during the same period. If we examine the NPA ratio for the Scheduled Commercial Banks as a whole then we find that NPAs have increased from the level of 3.1% in 2012 to 3.6% in 2013.

Table No. 3

Sector-wise NPAs of Domestic Banks

Bank Group	Year	Priority sector								Non-Priority sector		Total NPAs	
		Agriculture		Micro & SSI		Others		Total		Amount	%age	Amount	%age
		Amount	%age	Amount	%age	Amount	%age	Amount	%age				
Public Sector Banks	2012	227	20.2	174	15.	161	14.3	56	50.0	563	50	1125	100
	2013	280	18.0	284	18.2	105	6.7	2	42.9	890	57.1	1559	100
	2012-13							66					
Private sector Banks	2012	22	11.8	17	9.4	12	6.7	51	27.9	132	72.1	183	100
	2013	22	10.9	20	9.9	11	5.3	52	26.0	148	74.0	200	100
	2012-13												
All SCBs	2012	249	19.0	191	14.	173	13.2	61	46.9	695	53.1	1308	100
	2013	306	17.2	304	17.3	116	6.5	3	41.0	1038	59.0	1759	100
	2012-13							72					

Source: Trend and Progress of Banking in India 2012-2013

Observations: The above table clearly shows that the deterioration in asset quality in 2012-2013 was primarily on account of the non-priority sector. In case of Public sector banks, in 2012-13, 57.1% of NPAs were contributed by the non-priority sector. But for private sector banks the share of non-priority sector in NPAs is 74% and that of the priority sector is just 26%. If the NPAs off all the scheduled commercial banks are studied then we find that the priority sector contributed 41% and the non-priority sector contributed 59% during the year 2012-13.

Causes of NPAS

In 1999, RBI conducted a study of 800 top NPA accounts of 17 banks to ascertain the factors responsible for a high level of NPAs in banks. The study explained different causes of NPAs in two categories as a) Internal causes and b) External causes

Internal Factors

- i) Diversion of funds for expansion/diversification/modernisation
- ii) Taking up new projects
- iii) Helping /promoting associate concerns

- iv) Time/Cost overrun during the project implementation stage
- v) Business (product, marketing etc.) failure
- vi) Inefficiency in management
- vii) Slackness in credit management and monitoring
- viii) Inappropriate technology/technical problems
- ix) Lack of co-ordination among lenders

External Factors

- i) Recession
- ii) Input/power shortage
- iii) Price escalation
- iv) Exchange rate fluctuations
- v) Accidents and natural calamities etc.
- vi) Changes in government policies in excise/import duties, pollution control orders etc.

In addition to the above mentioned factors, high NPAs are also due to the following reasons-

- Liberalisation of economy/Removal of restrictions/reduction in tariffs. A large number of borrowers were unable to compete in the competitive market in which lower prices and greater choices were available to consumers. Further, borrowers operating in specific industries like sugar and fertilisers have suffered due to political, fiscal and social compulsions, compounding pressure from liberalisation.
- Banks were not properly monitoring credit and also failed to recognise the early warning signals.
- There was unlawful diversion of funds. Defaulters were utilising the bank funds for the purposes other than the one for which loan was granted.
- The Directional Credit Policy of the government.
- Lack of ability of some borrowers to absorb the changing economic situations in the country, as they were undercapitalized and over burdened with debt.
- High interest policy.

Impact of rising NPAs

Profitability: The issue of NPAs is the root cause of the recent global financial crisis. Whenever a bank makes a wrong choice of its clients, its performing assets turn into Non Performing Assets. NPAs affect not only current profits of the banks but also future stream of profits, which may lead to the loss of some long term beneficial opportunities. NPAs generate no income for the banks.

Lower credit rating: High NPAs degrade a bank's credit rating, lowering its creditability as well as its ability to raise fresh capital. Today the incidence of high NPAs in the Indian banking industry points to a deteriorating credit market. Due to NPAs, banks also loose their goodwill and brand image which creates negative impact and depositors deposit their money in some other bank.

Liquidity: As the assets of banks are blocked, banks are left with less liquidity in hands and sometimes they are forced to borrow money from other banks leading to additional cost. This shortage of liquidity also creates difficulty in day to day operations of the bank.

Involvement of Management: This is another indirect cost of high NPAs that a bank has to bear. Time and management in handling and managing NPAs would have diverted to some fruitful activities, which would have given good returns. Now a days, banks have special employees to deal with NPAs, which is additional cost to banks (Asha Singh)

Adverse impact on Capital Adequacy ratio: As per Basel Norms, every bank must maintain a Capital Adequacy Ratio, which is the ratio of total capital to risk weighted assets. As NPAs go up, so do the aggregate risk weighted assets, forcing the banks to allocate further capital in order to maintain the ratio. Today commercial banks in India are struggling to meet the Capital Adequacy norms.

Management of NPAs/ Measures adopted in India to tackle NPAs/ Recovery management of NPAs

Looking at the gravity of the situation, each bank has formulated its own NPA management policy and is making all efforts to recover NPAs in its own way. A reduction in gross NPAs and Net NPAs indicate significant improvement in the management of NPAs. Banks in India cannot adopt to use the cruel methods adopted by Kabulliwallahs nor the deceitful techniques of Indian village moneylenders. But they have to be versatile in their techniques and have to discover novelties in credit management. Moreover to speed up the recovery of NPAs, Indian government also constituted various committees. The Tiwari Committee (1980) examined various ways & means for the recovery of NPAs and recommended the setting up of Debt Recovery Tribunals. The Narasimham committee (1991) also supported this recommendation and also recommended to establish Asset Reconstruction Fund so as to take over the NPAs from banks and other financial institutions at a discount and recover the dues owned by the primary borrowers. As per the recommendations of the committee, the government of India undertook various steps to tackle the problem. The main steps include setting up of Lok Adalats, Debt Recovery Tribunals & Civil Courts. In addition to these, many legal reforms were also introduced to speed up the recovery.

Lok Adalats: For the recovery of dues in the category of doubtful and loss assets (outstanding amount of Rs. 10 lakh) government has made provision for the setting up of Lok Adalats. On a given date of Lok Adalat, both the borrower and the banker should be present. After hearing both the parties the Lok Adalat issue a recovery certificate, which helps the bank to obtain decree from the concerned court without involving much time.

Debt Recovery Tribunals: The government of India has also set up 25 DRTs in the country. But these DRTs have not recorded much success because the number of cases filled is too much but the officers lack sufficient powers and proper training is not given to them.

Corporate Debt Restructuring: It is a non-statutory mechanism to provide timely and transparent system for restructuring corporate debts of Rs. 20 cr. or above, of viable duties financed by banks and financial institutions under consortium or multiple banking arrangements.

There was a steep rise in the growth of restructuring debt under the CDR mechanism in 2012-13. During this year, there was a growth of about 37 percent in the total number of cases approved for restructuring under this mechanism and the debt thus restructured posted a growth of 52 percent, marking a sharp increase over its corresponding

growth in 2011-12. The growth in number of cases and amount of debt receded marginally in the first quarter of 2013-14.

Table No. 4

Trends in Debt Restructured under CDR Mechanism

End-Period	No. Of cases approved	Aggregate Debt (Rs. Billion)
March 2012	292 (20.7)	1505 (35.7)
March 2013	401 (37.3)	2290 (52.2)
June 2013	415 (34.3)	2503 (48.6)

Note: Figures in brackets indicate percentage change over the corresponding period during the same period.

Source: Report on Trends & Progress of Banking in India 2012-13

Purchasing/Trading of NPAs: In April 2005, the RBI issued guidelines for trading of NPAs of banks and other non-banking financial institutions. A NPA in the books of banks will be eligible for sale to other banks only if it has remained NPA for at least 2 years. But in India there is still need to develop a healthy secondary market for NPAs.

Asset Reconstruction Corporation of India Limited: This Corporation was established with a view to provide a platform through which sellers and investors in NPAs will function. The ARCIL floated its first ever issue of Rs. 2000 cr. The proceeds collected through the issues will be utilised to lay the assets of selected firms.

Securitization and Re-Promulgation of Financial Assets and Enforcement of Security Interest Ordinance (SARFAESI) : The recovery mechanism of NPAs in India was time consuming and cumbersome. Therefore, it was required to give more powers to banks and other financial institutions so that they can sell securities to recover their dues. Keeping in view this fact in 1999, the Indian government appointed a committee under the chairmanship of Mr. T.R.Andhyarujina, senior Supreme Court advocate & former solicitor of India. The enforcement of SARFAESI Act was one of the important recommendations of this committee. This Act was approved by the government in 2002, with the objective to tackle the problem of NPAs. This Act aims to strengthen the ability of lenders to resolve NPAs by granting them greater rights as to enforcement of security and recovery of dues from the corporate borrowers. This Act permits the secured creditors(If 75% of the secured creditors agree) to enforce security interest in relation to the underlying security without reference to the court after giving a 60 days notice to the defaulting borrower. This Act gives sweeping powers to the secured creditors such as taking over the possession of secured assets of the borrower including the right to transfer by ways of lease, assignment or sale, takeover the management of secured assets. This legal enactment will remove legal hurdles and help in resolving a large number of NPAs quickly.

SARFAESI Act remains the most important channel for NPA recovery

In 2012-13, among the three channels for NPA recovery (SARFAESI Act, Debt recovery Tribunals and Lok Adalats), the largest amount was recovered through the SARFAESI Act. NPAs recovered through this Act accounted for about 80 percentage of the total amount of NPAs. However in terms of total number of cases referred, Lok Adalats dominated with a share of 80 percentage, this was because these courts dealt with a large number of cases involving smaller amounts having an individual ceiling of Rs. 20 lakh.

Table No. 5

NPAs of SCBs recovered through various channels (Amount in Billion)

Recovery Channel	2011-12				2012-13			
	No. Of cases referred	Amount Involved	Amount Recovered	%age	No. Of cases referred	Amount Involved	Amount Recovered	%age
Lok adalats	476073	17	2	11.8	840691	66	4	6.1
DRTs	13365	241	41	17.0	13408	310	44	14.0
SARFAESI Act	140991	353	101	28.6	190537	681	185	27.1
Total	630429	611	144	23.6	1044636	1058	232	21.9

Source: Report on Trends & Progress of Banking in India 2012-13

During 2011-12, total NPAs recovered through these three channels (Lok Adalats, DRTs and SARFAESI) were Rs. 144 billion, and out these Rs. 101 billion were recovered through SARFAESI Act only. i.e. 70%. In 2012-13, the share of SARFAESI Act increased further. In 2012-13, out of the total NPAs recovered of Rs. 232 billion, Rs. 185 billion were recovered through SARFAESI Act alone, i.e. 80% of the NPAs recovered were contributed by this Act. Thus it shows that SARFAESI Act is the most important channel for NPA recovery for Indian banks.

Conclusions:

Since the NPAs have adverse impact over ROA and CAR of banks, therefore NPAs have always been a big worry for the banks in India. To improve the efficiency and profitability, the NPAs have to be controlled. The extent of NPAs is comparatively higher in Public Sector Banks than in Private sector banks. Complete elimination of NPAs in Public Sector Banks is not possible because government business and development schemes are mostly routed through PSBs. But banks can always aim to keep NPAs at the minimum possible levels. NPAs may not turn banks into non-performing banks; instead steps should be taken to convert the Non-Performing Assets into Now-Performing assets. The government of India has taken various steps to reduce the NPAs. But steps should also be taken to prevent fresh NPAs. Bank managers should be professionalised. Required orientation toward proper handling of NPAs should be given to the bank staff by formal training. The resource faculty for training may be drawn from those banks, which have zero NPAs. Promotions must be based on performance, not by seniority alone, so that there is concern and pressure to deliver; particularly in PSBs. Promotions of officials can also be linked to the outstanding dues recovered/pending. This will go a long way in reducing the incidence of bad loans. The officers responsible for sanction of loans (which became NPA) should be made accountable, if there

is evidence of malafide intentions. But care must be taken that there is no perception of victimisation.

Management of NPAs is the need of the hour. Every bank has to ensure that an asset does not become NPA. If it does, proper steps should be taken for early recovery, failing which profitability of the bank will be eroded. Therefore proper management of NPAs in banks is the necessity. This can be done in the following ways

Before disbursing loan, banks have to sharpen their appraisal techniques. All technical, economic, commercial, organisational and financial aspects of the project need to be assessed critically. The project should be technically feasible with respect to technical know-how, scale of production etc. Some projects are born sick because of unrealistic planning, inadequate appraisal and faulty implementation. Since the decision of rejecting or accepting the loan application lies with the bank, the decision should be taken after studying all the factors rationally. Moreover, the ability, character and experience of the borrower should also be examined. It is better to sanction 'B' class project with 'A' class entrepreneur than vice-versa. Proper care must be taken for fixing the repayment schedule. Repayment schedule may be fixed after taking into account the gestation period, harvesting season, income generation, surplus available etc. Thus it is very important to properly examine the borrower's ability to pay and his repayment source.

After the loan disbursement, proper follow-up strategy should also be prepared. Banks can do either off-site surveillance or on-site inspections to know the working of the project. The early warning signals of NPAs should not be overlooked.

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