

## **“Analysis of Non-Performing Assets (NPAs) in Indian Public Sector Banks (2005-2015)”**

**\*Dr. Sushil Jain**

### **ABSTRACT**

The phenomenon of Non-Performing Assets (NPAs) has long been regarded as a key indicator of the financial health of the banking system. In India, public sector banks (PSBs) dominate the financial landscape, accounting for nearly 70% of total banking assets. Between 2005 and 2015, the Indian banking system experienced both a credit boom and a subsequent deterioration in asset quality. This paper provides a decade-long analysis of NPAs in PSBs, examining their growth, causes, and economic impact. The study further explores the regulatory measures initiated by the Reserve Bank of India (RBI) and the Government of India to contain the NPA crisis. Findings indicate that while NPAs declined steadily from 2005 to 2008 due to robust credit growth and economic expansion, they began to surge after 2011, largely due to stalled infrastructure projects, weak governance, and poor risk management. The paper concludes with policy suggestions aimed at ensuring sustainable asset quality and banking stability.

**Keywords:** Non-Performing Assets, Public Sector Banks, Financial Stability, RBI, Credit Risk, Asset Quality

### **1. Introduction**

The Indian banking system plays a pivotal role in channelling savings into productive investments. Public Sector Banks (PSBs) form the core of this system, contributing significantly to financial inclusion and economic growth. However, the quality of assets held by PSBs determines their capacity to lend and sustain profitability. Non-Performing Assets (NPAs) represent loans and advances for which interest or principal payments have remained overdue for more than 90 days, as per RBI norms.

Between 2005 and 2015, India experienced one of the most dynamic financial periods in its history—marked by economic liberalization, credit expansion, and subsequently, a slowdown leading to asset stress. While the period from 2005 to 2008 showed improvement in asset quality, the years following the global financial crisis of 2008 brought a reversal, exposing vulnerabilities in the credit assessment systems of banks. This paper systematically examines these shifts, their causes, and the policy interventions aimed at resolution.

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## 2. Concept and Classification of NPAs

The Reserve Bank of India (RBI) classifies NPAs into three categories:

1. **Substandard Assets:** Assets that have remained NPA for less than or equal to 12 months.
2. **Doubtful Assets:** Assets that have remained in the substandard category for 12 months or more.
3. **Loss Assets:** Assets identified by the bank or RBI as uncollectible and of little or no value.

High NPAs reflect inefficiency in loan appraisal, lack of supervision, and inadequate recovery mechanisms. They adversely affect a bank's profitability, liquidity, and capital adequacy ratio (CAR). Persistent NPA accumulation can lead to reduced credit flow, loss of depositor confidence, and macroeconomic instability.

## 3. Trends in NPAs in Indian Public Sector Banks (2005–2015)

The decade witnessed three distinct phases in the movement of NPAs:

- **2005–2008:** Decline in NPAs due to strong GDP growth (8–9%), effective debt restructuring, and improved credit quality.
- **2009–2011:** Stabilization phase, where credit expansion continued despite early signs of stress.
- **2012–2015:** Sharp escalation in NPAs due to policy paralysis, infrastructure bottlenecks, and delayed project implementation.

**Table 1: Gross NPAs of Public Sector Banks (2005–2015)**

Year	Gross NPAs (₹ Crore)	Gross NPA Ratio (%)
2005	41,358	2.00
2008	38,117	1.96
2010	59,927	2.30
2012	117,262	3.20
2014	227,000	4.72
2015	267,000	5.43

Source: RBI – *Trends and Progress of Banking in India (2005–2015)*

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The table reveals that while NPAs were relatively low in the pre-crisis years, they nearly doubled between 2011 and 2015. This deterioration coincided with the slowdown in industrial production and a decline in global commodity prices, which hit sectors like iron & steel, textiles, and mining.

#### 4. Sectoral Distribution of NPAs

The composition of NPAs across sectors provides insight into the concentration of risk. The largest contributors during 2005–15 were infrastructure, power, iron & steel, and textiles.

**Table 2: Sectoral Contribution to NPAs in PSBs (as of 2015)**

Sector	Share of Total NPAs (%)	Key Issues
Infrastructure	30	Project delays, cost overruns
Iron & Steel	15	Price volatility, global slowdown
Power	10	Fuel linkages, distribution losses
Textiles	8	Decline in exports, obsolete technology
Mining	6	Policy delays, legal disputes
Agriculture & MSME	12	Loan waivers, weak recovery
Others	19	Miscellaneous defaults

**Source:** RBI Supervisory Data; Ministry of Finance (2015)

These figures highlight the exposure of PSBs to long-gestation and policy-sensitive sectors. Many of these projects were financed aggressively during the boom years (2006–08) without adequate risk analysis.

#### 5. Causes and Effects of Rising NPAs

##### 5.1 Major Causes

1. **Macroeconomic Factors:** Economic slowdown post-2008 reduced repayment capacity in key industries.
2. **Policy Delays:** Environmental clearances and land acquisition bottlenecks led to stalled projects.
3. **Lending Practices:** PSBs relied on collateral-based rather than cash-flow-based lending.

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4. **Corporate Governance Issues:** Political interference and connected lending undermined prudential standards.
5. **Restructuring Abuse:** Loan restructuring under CDR often postponed recognition of true asset quality.
6. **Global Factors:** Declining commodity prices and currency fluctuations impacted export-oriented sectors.

## 5.2 Consequences

- Decline in profitability and return on assets (ROA).
- Reduction in lending capacity due to higher provisioning.
- Capital erosion, necessitating government recapitalization.
- Weakened investor confidence in PSBs.
- Fiscal implications for the government due to public ownership.

The cumulative effect was a credit slowdown and subdued investment climate in the economy.

## 6. Regulatory and Policy Measures (2005–2015)

The RBI and Government of India undertook several reforms to control and resolve NPAs.

### a) Corporate Debt Restructuring (CDR) Mechanism:

Introduced to provide relief to distressed but viable corporate borrowers.

### b) Asset Reconstruction Companies (ARCs):

Enabled banks to sell NPAs and clean up their balance sheets under the SARFAESI Act (2002).

### c) Joint Lenders' Forum (JLF):

Established in 2014 to ensure collective decision-making among banks for large exposures.

### d) Central Repository of Information on Large Credits (CRILC):

Developed by RBI in 2014 to track borrower exposures across institutions.

### e) 5/25 Refinancing Scheme:

Allowed infrastructure loans to be refinanced in alignment with project cash flows.

### f) Strategic Debt Restructuring (SDR):

Permitted banks to convert debt into equity to take control of management in defaulting companies.

Despite these steps, the impact remained limited due to weak legal enforcement and a culture of

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forbearance.

### 7. Comparative Analysis: PSBs vs. Private Banks

Indicator (FY 2015)	PSBs	Private Banks
Gross NPA Ratio (%)	5.43	2.15
Net NPA Ratio (%)	2.9	0.9
Return on Assets (%)	0.4	1.2
Capital Adequacy (%)	11.2	13.5

Private banks consistently outperformed PSBs in asset quality and profitability due to stronger governance, risk assessment, and accountability structures. The dominance of government ownership in PSBs often resulted in limited autonomy and delayed decision-making.

### 8. Post-2015 Developments and Lessons Learned

The sharp rise in NPAs post-2011 prompted deeper structural reforms. The introduction of the **Insolvency and Bankruptcy Code (IBC) in 2016** created a time-bound insolvency framework. The **Asset Quality Review (AQR)** by RBI in 2015–16 compelled banks to recognize hidden NPAs. These measures, coupled with recapitalization programs like **Indradhanush**, aimed to restore banking stability.

Key lessons from 2005–15 include:

- Overemphasis on growth without robust risk assessment is unsustainable.
- Strong governance and accountability mechanisms are essential.
- Early recognition and resolution prevent systemic crises.
- Diversified credit portfolios reduce sectoral risks.

### 9. Conclusion and Policy Recommendations

The analysis of NPAs in Indian PSBs over 2005–2015 reveals a classic case of credit exuberance followed by asset deterioration. While economic cycles and policy factors played a role, governance weaknesses and poor risk management were central to the crisis.

To ensure long-term financial stability, India must:

1. Institutionalize *independent credit evaluation agencies* for large loans.

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2. Strengthen *bank board governance and autonomy* of PSBs.
3. Mandate *early warning systems* for stress detection.
4. Integrate CSR and ESG principles into lending policies.
5. Promote a *credit culture of accountability* rather than political expediency.

If implemented effectively, these reforms can prevent a recurrence of the NPA crisis and strengthen the banking sector's role in India's economic transformation.

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