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Analysis of Non-Performing Assets in Non-Banking Financial Institution

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Abstract

In simple words NPA stands for Non-Performing Assets. If we do not gain anything from the assets, it will be called non performing. If we do not receive interest and/or instalments in a loan for a specific period, it will turn into NPA. The management of NPA begins at the time of receiving an application of loan from the customer. If the character or Income is not well going, the future of the loan will be NPA. The bank staff should be well versed with analytical skill and should be well enough to decide about loan sanction limit to a probable customer. NPA management can't be done from sitting in an office between four walls, but review of current affairs and market trends is most important. The various tools of recovery are also of utmost importance. The knowledge of relevant acts is also a must.
Keywords: NPA, NBFC, Bank Assets, Loan.

History of NPA

The concept of NPA is introduced by RBI to reflect a bank's actual financial health in its balance sheet and as per the recommendations made by the Committee on Financial System (Chairman Shri M. Narasimham). The Narasimham committee studied the prevailing financial system, identified its shortcomings and weaknesses and made with ranging suggestions and recommendations in line with internationally accepted norms. The committee report was first tabled in Parliament on December 17, 1991. Based on the recommendations of the Committee on "Financial System Reforms", the RBI evolved prudential norms on Income recognition, Asset classification and Provisioning and issued revised instructions to banks in April 1992. The provisioning should be made on the basis of the classification of assets into different categories. The above instructions of RBI have since been implemented by banks from the financial year ended March 1998.

Before 31-03-2001, the concept of PAST DUE was in practice to consider any asset as Non-Performing Asset. An amount is considered as past due, when it remains outstanding for 30 days beyond the due date. An asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset was defined as credit in respect of which interest and / or instalment of principal has remained 'past due' for a specific period of time. The specific period was reduced in a phased manner as under:

Year ended March, 31 Specific period
1993 4 quarters
1994 3 quarters
1995 2 quarters

Causes for NPA; - The principle of causes for NPA's built up in the banks is:
(1) The quality of the loans
(2) The quality of the assets
(3) Borrowers integrity
(4) Intentions of the borrower and the bank management
(5) Lapses in supervision and follow-up of loans
(6) Laxity in assessment
(7) Political interference

(8) Managerial in competencies
(9) Absence of will to recover loans
(10) Lack of professionalism

NBFC in India

Non-Banking Financial Companies (NBFC) in India made a humble beginning way back in the 1960's to serve the need of the savour and investor whose financial requirements were not sufficient covered by the existing banking system in India. The NBFCs began to invite fixed deposit from investor and work out leasing deal for big industrial firms. Initially, they operated on a limited scale and could not make a significant impact on the financial system. However, between 1980's and 1990's, NBFCs gained good ground and started to inveigle a huge number of investors owing to them customer friendly reputation. Non-Banking Financial Companies or NBFCs in India are registered companies conducting business activities similar to regular banks. Their banking operations encompass making loans and advances available to consumers and businesses, acquisition of marketable securities, leasing of hard assets such as automobiles, hire-purchase and insurance business. Though they are akin to banks, they differ in couple of ways. NBFCs cannot accept demand deposits, cannot issue cheques to customers and the deposits with them are not insured by DICGC (Deposit Insurance and Credit Guarantee Corporation). Either the RBI (Reserve Bank of India) or SEBI (Securities and Exchange Board of India) or both regulate NBFCs. The NBFC sector in India has witnessed significant vicissitude over the past few years and has come to be recognized as a systematically key element of the financial system. The NBFC segment has witnessed consolidation over the recent past, especially in the NBFC-ND-SI segment. Indeed it is evident in India that with the development of NBFCs segment within the overall financial system, it challenged the other segments, i.e. banks to innovate, to improve quality and competence, and deliver at flexible timings and at competitive prices. In fact, in a number of un-treaded trajectories, NBFCs were the ones to foray first to explore the market and develop before banks entered the field. NBFCs are broadly classified into two categories based on whether they accept public deposits, i.e. NBFC-Deposit taking (NBFC-D) and NBFCs-Non-Deposit taking (NBFC-ND). Besides, there are only two residuary non-banking finance companies (RNBCs) which are also deposit taking companies of different character. In the recent years, infrastructure finance has gained steam, and NBFCs engaged in infrastructure finance are called 'Core Investment Companies'.

Review of Literatures

ASSCHOAM, PWC in the article titled "Building the Building the NBFC of the future– scalable and profitable modes". This paper highlights the scrutiny on NBFCs and their operation. The theme of this paper is that NBFC should take into their thinking around long term sustainable growth has discussed. Kaushal H.R. (2016) – In their research paper titled "Impact of Non- Banking Financial Companies in Indian Economy growth." He found that NBFCs has great scope for the improvement in free based business. They play a role of intermediaries between savers and the investors. NBFCs are the perfect alternatives to the conventional banks for meeting various financial requirements of financial enterprise .Kumar p. "NBFCs- status paper database" in this research paper Mr. Kumar has shown types of NBFCs, classification, regulation and number of registered NBFCs with RBI. He also analysed the profile of NBFCs dealing in assets and public deposit in 2008-09. DSIM, DNBS, MCA maintained NBFCs for different purpose. Shanmugham R. And sowahanya R. (2014): In their research paper titled Analysis of financial performance of NBFCs in India". They analysed that there is prominent difference between profitability ratio, leverage ratio, liquidity ratio and risk indicator ratios of selected NBFCs. Singh Dr.Kshetrimayum Ranjan (2014): in his research titled "Growth and development of Non-banking Financial Companies in India", he found that

NBFCs have greater reach and flexibility in tapping resources. They are doing more fee based business than fund based. The paper highlights that NBFCs have become major financial source for people. NBFCs are now focus more on retail sector, housing finance, personal loan etc. Yadav Sunita (2017): In her paper "A study of performance of NBFCs in India" showed the types of NBFCs. She analysed in profit ratio of Different non-banking financial companies durin 2008-16. Especially HDFC, BAJAJ FINSERY, PFC, INDIABULLS, LIC etc.

Obje... of the Research

...is study uses Descriptive research to gather preliminary information, observe the series of events that led to the crisis, record the actions that were taken by various stakeholders and ...scribe the consequences of the regulations during covid-19 pandemic.

...e Covid-19 pandemic has exacerbated the woes of non-banking financial companies (NB...). The decline in non-bank credit growth, which started in the second half of fiscal 2... ...ntinued through fiscal 2020, accentuated first by economic slowdown and then - more vi... - by the pandemic. While the impact of economic slowdown was expected to be grad... ...oviding time to build some kind of defence, the impact of the pandemic has been imme... and debilitating. The ramifications are being felt across the sector, though some se... ...ave been impacted more severely than others. The Reserve Bank of India (RBI) has al... ...enders to extend moratorium on loans up to August 31, temporarily mitigating the h...d ...f borrowers. However, in the absence of any such moratorium on non-banks' capital m... ...rrowings, ensuring adequate liquidity to meet repayments coming up in the near term h... b... ...e the primary challenge for most non-banks. Another challenge is to ensure asset q... ...mains under control, through steps such as maintaining close contact with borrowers and ... ...ting them through this unprecedented crisis. It is clear that NBFCs will need to re... ... their strategies in order to deal with changing business scenario post pan... . Several questions emerge in the context. How would credit growth of the sector be im...? When will the liquidity situation improve? Will the measures taken by the g... ...ent and RBI improve non-banks' access to funds? Can NBFCs achieve pre-2018 g... in the medium term, or will growth remain anaemic? Will the earnings growth tr... ...y be lower? How much capital will they need over the next 1-2 years? What will sep... the winners from the losers? Where are the opportunities for growth?

T... ...BFC

...re are different types of Non-Banking Financial Company (NBFC) in India re... ...y Reserve Bank of India (RBI) within these broad categories:-

1. ... ...inance Company (AFC)
2. ... ...ment Company (IC):
3. ...o... Company (LC):
4. ... ...ructure Finance Company (IFC)
5. ... ...lly Important Core Investment Company (CIC-ND-SI):
6. ... ...ture Debt Fund: Non- Banking Financial Company (IDF-NBFC)
7. N... ...king Financial Company – Micro Finance Institution (NBFC-MFI)
8. ... ...nking Financial Company – Factors (NBFC-Factors)
9. ... ...e Guarantee Companies (MGC)
1... N... C- Non-Operative Financial Holding Company (NOFHC)

...i... mandatory for any company who are juggling to start above said to business of the co... ...o get registered and acquire Certificate of Registration from Reserve Bank of India. T... ...Bank can impose penalty or fine on them or can even prosecute them in a court of l...w ...omplying with.

C... ...NBFCs

...n be said without an iota of doubt that NBFCs have scripted a great success story. Their ... bution to the economy has grown substantially from 8.4% in 2006 to more than 14 ... ch 2015. In terms of financial assets, NBFCs have registered a robust growth, i.e. a compo... annual growth rate (CAGR) of 19% over the past few years, consisting of 13% of the t... edit and estimated to reach nearly 18% by 2018-19. The success of NBFCs can be cl... ...ed to their superior product lines, lower cost, broader and effective reach, robust risk ... ment capabilities to check and control bad debts, and proper comprehension of their ... r segments. Not only they have displayed success in their conventional citadel (pass... ...d commercial vehicle finance) but they have also managed to build significant as... management (AUM) in the personal loan and housing finance sector which have be... ead and butter for retail banks. Moving ahead, the latent credit demand of an e... dia will permit NBFCs to bridge the gap, particularly where traditional banks have b... to serve. Additionally, improving macroeconomic conditions, higher credit pe... enhanced consumption and disruptive digital trends will allow NBFCs credit to rise at a ... ate of 7-10%in the coming years (Please refer exhibit 1).Within NBFC space, diff... segments have surfaced up which are more dominant than others. Mortgages, m... and unsecured loans appear to be driving growth. According to estimates, credit g... stounding 30 percent (y-o-y) for mortgages and 80 percent plus for microfinance as o... er 2015. Housing finance companies have enhanced their share of the overall pie f... rcent in FY09 to 38 percent in FY15. NBFCs also have giant share in niche se... commercial vehicle finance, the share estimated to have risen from 42 percent ... last three years ending FY15.According to a report by BCG, India's credit-... 97 percent as of FY15 versus 165 percent in China, 149percent in Germany, 2... US and 447 percent in the UK. This means huge scope for credit market in I... Interestingly, for the same year, the NBFC-credit-to-GDP ratio in India was ... rcent, versus 33 percent in China, 29 percent in Germany, 130 percent in the US a... ent in the UK. If one observes this fact that largest segment in the banking sector is ... challenges, then the opportunities to grow is expected to be higher. Non-... companies improved their performance on most metrics in the fiscal year 2... ng industry struggled under the weight of a rising pile of bad loans. A... ancial stability report (FSR) released on June 2016 mentioned that NBFC ... % in the year, twice as fast as the 8.8% credit growth across the banking se... aggregate level. The aggregate balance sheet of the NBFC sector expanded 15.5% i... 16 compared with15.7% in the year 2015.Looking at the non-food credit data ... Reserve Bank of India it can be observed that NBFCs have started moving at ... e banks. An intonation point was reached around September 2014, when, ... BFCs crossed scheduled commercial banks in terms of year-on-year credit ... r exhibit 2). In August 2016, the union cabinet has given nod for foreign ... DI) under the automatic route in regulated NBFCs. According to a report ... beginning of 2016 by consulting firm PwC India stated that by 2020, credit ... BFCs is estimated to account for anywhere between 18.2% and 20.9% of ... ke in the country.

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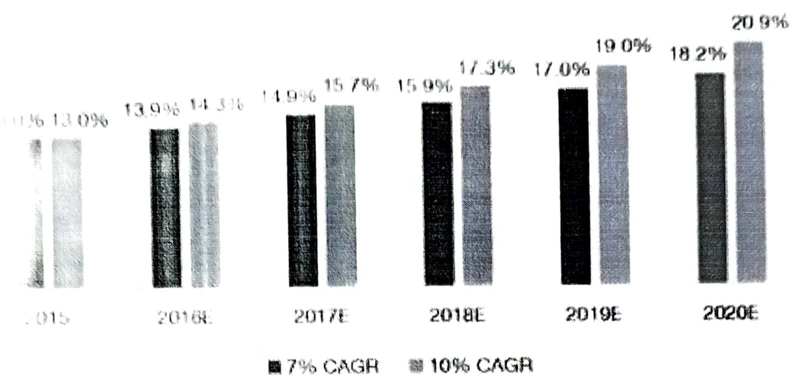
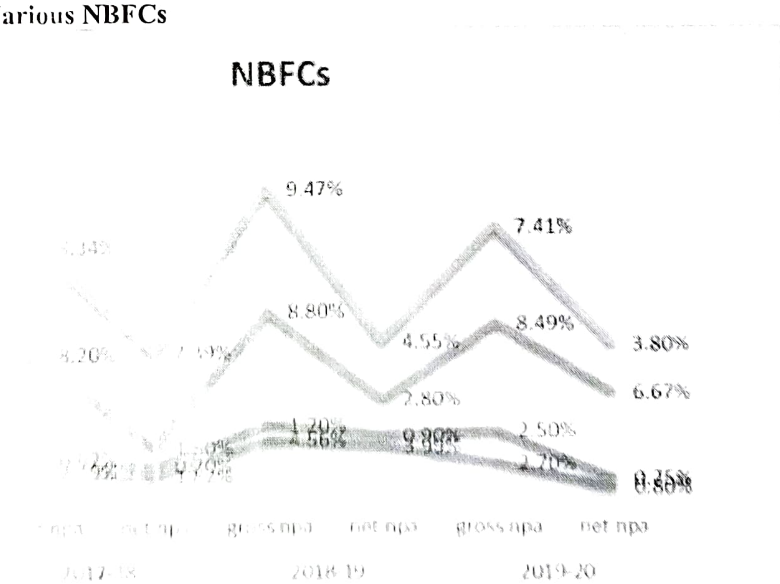
Credit Growth at NBFC as a % of Total Credit



An... Conclusion

...search of various non banking financial institution's non performing asset it was ... in highest in the year 2019-20 in about 10 years. According to RBI data, ... credit to all industry stood at Rs.27.01 trillion in the fortnight ended 28 Se... from the year-ago period. Loans to NBFCs stood at Rs.5.46 trillion on the sa... ht, ... 41.5% from the same period last year. This is the latest disaggregated se... ...le from RBI. Currently RBI has inducted Rs 40,000 crores through the go... ...s to meet the liquidity demand ahead of the festive season. In October, the ce... Rs 36,000 crores through open market operations in order to improve s... ...is. Currently RBI has allowed banks to lend up to 15% of their capital f... ...-infrastructure funding NBFC from the earlier 10%.

A... Various NBFCs



Aggregate NPA of various NBFCs

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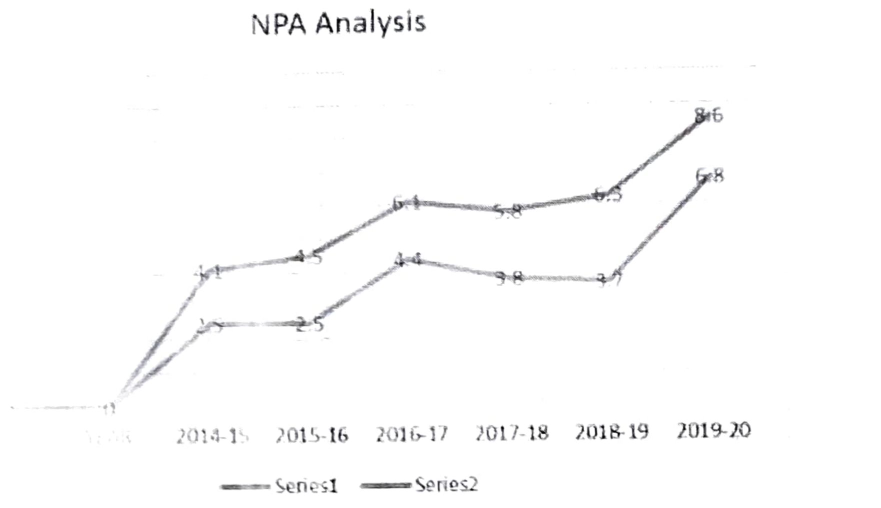

...hen we talk about the overall npa of various nbfcs it is found that it is increased from ... year 2019-20. It is happen due to various reasons and the reasons are

(1) ... wheelers **production:** In order to buy a car and seek finance for it, the NBFC of... immediately. Where the customers can axis to loan instantly by an NBFC, get... al from a bank takes around minimum of 20 days. Hence, most of the fin... by the NBFCs which they stopped. Due to this, consumer car loans came dow... ing of cars also fell subsequently. As a result there was a decline in prod... elers.

(2) ... sales **affected:** Same thing took place in case of two-wheeler's m... two wheeler manufacturing companies in several parts of India are well-f... were affected as the NBFCs did not finance in adequate. According to a r... otak Mahindra, sales figure of auto and car in the country is about Rs.5 l... hly sales was around Rs 40,000 crore. Now a 20% decline in the Rs.5 lakh cr... uld sum up to Rs.1 lakh crore which was being financed.

(3) ... NBFCs: Since the real estate companies were not being funded by banks a l... were being financed by NBFCs. The NBFCs were lending to these c... projects, construction and financing etc. However, after Real Estate ... RA), they could not divert the money given by house owners hence; ... s even for their working capital requirements.

(... **employment opportunities:** The operations and policies of NBFCs are ... ario. The Iron & Steel industry, the auto and real estate sectors are the ... building material like cement which is used by many a companies and ... the rate of employment also decreased gradually in other sectors

(... of **GDP:** Slowdown in GDP for the fourth quarter was due to ... in NBFC sector affecting consumption finance. NBFCs were ... r the shocker default by Infrastructure Leasing and Financial S... r last year.

... **echanism**

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...of banks is one of the most important indicators of their financial health. Ba... ...re, put in place a robust MIS mechanism for early detection of signs of dis... ...account level as well as at segment level (asset class, industry, geographic, size, ... early warning signals should be used for putting in place an effective prever... ...quality management framework, including a transparent restructuring m... ...accounts under distress within the prevailing regulatory framework, for p... ...e value of those entities in all segments. The banks' IT and MIS system sh... ...ble to generate reliable and quality information with regard to their asset q... ...sion making. There should be no inconsistencies between information f... ...atory statutory reporting and the banks' own MIS reporting. Banks sh... ...generated segment wise information on non-performing assets and restru... ...hich may include data on the opening balances, additions, reductions (... ...coveries, write-offs etc.), closing balances, provisions held, technical w...

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1 ...times.com
2 ...2...5.cms
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