Committee, 1969) was set up which recommended the adoption of Area Approach for bridging the spatial and structural credit gaps. Based on the recommendations 'Lead Bank Scheme' was adopted.

1.2 REVIEW OF LITERATURE

The First Narasimham Committee (1991) on financial sector reform in 1991, acknowledged the role of the Priority Sector Lending programmes in extending the reach of banking system to the neglected sectors of the economy and therefore it recommended that the priority sector should be redefined to include the marginal farmers, tiny sector, small business and transport sector, village and cottage industries etc. The committee had drawn attention to the problem of low and declining profitability and stated that there is need for gradual phasing out of the directed credit programme. The committee had recommended reducing the 40% directed credit target to 10%, while simultaneously narrowing the definition of the priority sector to focus on small farmers and other low income target groups. This recommendation was not accepted by the government and the directed credit requirement continues unchanged.

Rajagopal Committee (1994) suggested that concessional credit or low rate of interest should be restricted only to the poorest of the poor and to the underprivileged sections of the society and recommended that commercial rate of interest should be charged from those who can afford it.

The Second Narasimham Committee (1998) observed that directed credit had led to an increase in non- performing loans and had adversely affected the efficiency and profitability of banks. It was observed that 47% of all non-performing assets have come from the priority sector. At the same time, the committee also accepted that a sudden reduction of priority sector targets could have the danger of a disruption in the flow of credit to these sectors. The committee recognized that the small and marginal farmers and the tiny sector of industry and small businesses have problems with regard to obtaining credit and some earmarking may be necessary for this sector. Under the present dispensation, within the priority sector, 10% of net bank credit is earmarked for lending to weaker sections. The Committee recommended that given the special needs of this sector, the current practice may continue. The Committee also proposed that given the importance and needs of employment oriented sectors (like food processing and related service activities in agriculture, fisheries, poultry and dairy), these sectors should also be covered under the scope of priority sector lending. It recommended for the removal of concessional rates of interest on loans up to Rs 2 lakhs and a phased moving away from overall priority sector targets and sub-sector targets. Debt securitization concept was suggested within the priority sector. This would enable banks, which are not able to reach the priority sector target, to purchase the debt from other institutions.

Verma Committee (2000), Vyas committee (2001), Vyas Committee (2004), C.S. Murthy Committee (2005), Raghuram Rajan Committee (2009), Malegam Committee (2011), Nachiket Mor Committee (2014) pointed out several matters regarding priority sectorlending. In 2015, RBI appointed Internal Working Group (Chair: Lily Vadera) to revisit the existing priority sector lending. This committee recommended several measures which may be implemented in future.

1.3 RESEARCH GAP

The Banks are providing huge amount of loan to corporate sector which is a part of non-priority sector lending of banks to initiate economic growth, reducing unemployment and poverty elevation. When corporate sector fails to repay required amount of principal or interest the above loan which is an asset to bank turned to an asset which is not performing and income generated out of it should not be considered by banks. This continuous process simultaneously erodes capital and reduces profitability. Due to this fear, bank are providing fresh loan to revive the non-performing asset which is known as corporate debt restructuring. Now this process brings the entire banking industry in front of dangerous situation. In 2015, the corporate debt restructuring was Rs 2067.30 billion which was 20 times more than 2005. Another important reason for which corporate debt is increasing is the NPAs 'regulation. If in a block of 20 account of a certain company only 1 account become NPA, the entire block of asset becomes non-performing asset. Due to this, banks are bound to provide restructuring measures. The paper analyses the growth of priority, non-priority sector non-performing assets and find out relationship of non-performing assets with GDP and inflation. This paper also analyses corporate debt restructuring with non-performing assets and tries to find out relationship.

1.4 OBJECTIVE AND METHODOLOGY

The Growth and sustainability in banking sector are imperative for attainment of economic objectives. Performance of banks is measured in terms of both income generation and quality of assets. Non-Performing Assets reveal the quality of assets, possibility of losses and reduction in income levels due to provision against such loses. Many studies have been conducted focusing NPAs, but a gap is found regarding relationship of NPAs and GDP and impact of corporate debt restructuring in NPAs generation. Focusing on this, the objectives are summarized below.

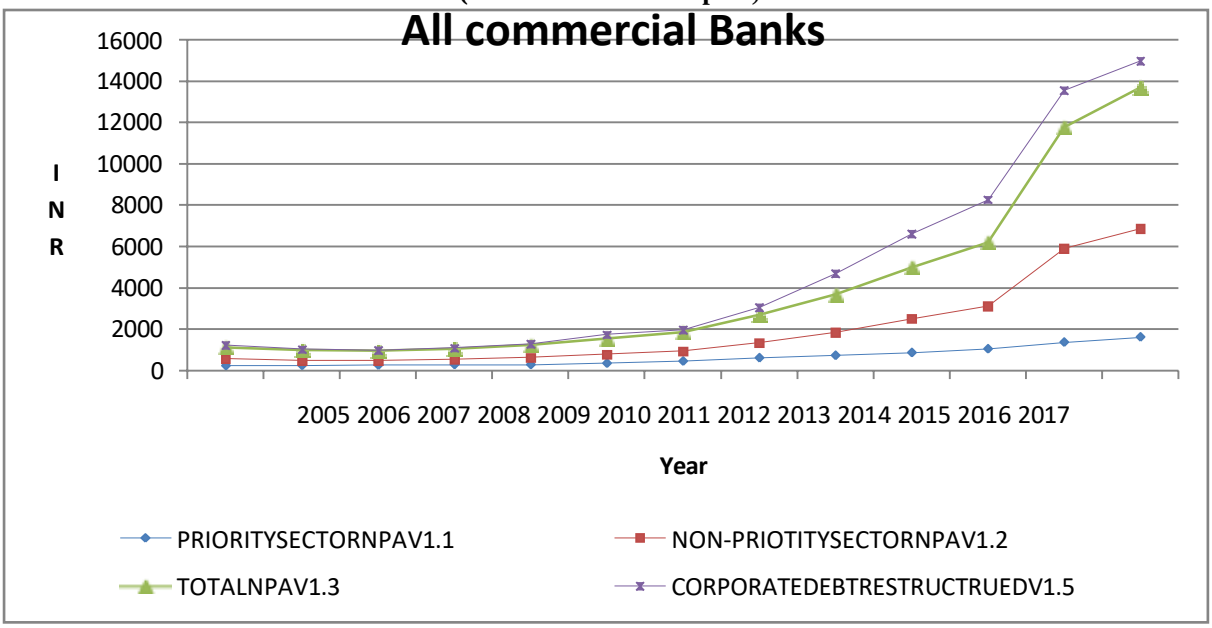
To analyze bank-wise as well as sector-wise movement of non-performing assets and find out contribution of each sector towards building up non-performing asset in Indian commercial banks.

1.5 ANALYSIS OF NON-PERFORMING ASSETS IN BANKING SECTOR

The Adequate and cheap credit is a boon for the economic development of a country. Economic progress can easily be achieved by providing credit to farmers, industries, traders' and business and this sector is termed as priority sector. The banks play a very crucial role in the process of economic development of any country that is why the availability of banking infrastructure is considered as pre condition for rapid and balanced development of the country. The impact of banking system on economic growth can be seen by enhancing resources to those sectors which are employment intensive and have greater contribution to GDP (Gross Domestic Product)of the country. But in recent times the default in loans which is termed as non-performing assets increased in priority sector. We already come to know that NPA is the menace for the banking industry so we need to analyze more and more the

origin of NPAs to save our industry and economy. Another very interesting fact on which very few research are found is corporate debt restructuring. We have noticed that in recent years it is increasing rapidly. Banks are restructuring loans of big corporate house in the hope that it may be turned into performing assets but in turn every year billions of money goes into drain when the revival process completely fails and the loans become non-performing assets.

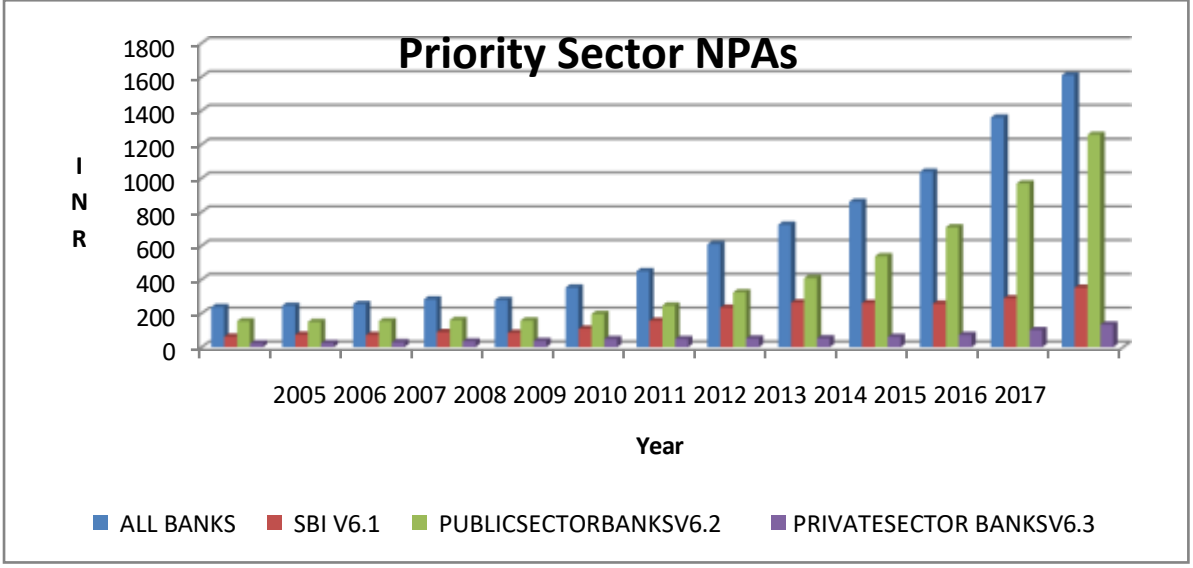
Figure1: Priority Sector NPAs, Non-Priority Sector NPAs, Corporate Debt restructuring of all Commercial Banks (Amount in billion rupees)



Data Source: https://dbie.rbi.org.in

It is seen from Fig. 1, priority sector NPAs of all the banks in 2005 is Rs. 237.24 billion andin2016 it is Rs. 1359.09billioni.e. There has been 5.73times increase in NPAs. On the other hand NPAs in non-priority sector in 2005 is Rs 321.06 billion and in 2016 is Rs. 4523.48 billion i.e., a 13.09 times increase, and in case of total NPAs, in the year 2005 it is 564.22 billion and Rs. 5883.57 billion in 2016 i.e., a 9.42 times increase. It is clearly seen that non- priority sector NPAs increases almost 2.28 times than priority sector NPAs. It is very interesting to see that corporate debt restructuring in 2005 is Rs 103.98 billion and in 2015 and 2016 is Rs. 2067.30 and Rs. 1779.50 billion respectively i.e., 17.11 times increase in2016 than 2005. In 2017 the restructuring is slightly reduced than 2016. It may be said from the above data that as soon as the corporate debt restructuring increases, the non-priority sector NPAs and the total NPAs increases. Willful default, insolvency, poor performance in certain core sectors such as power, coal, steel, infrastructure etc. are the reasons for this restructuring. When the performance of core sectors banks provide more amount of loan to revive it but how far it should be beneficial for the banking industry is a big question to the policy maker and regulators.

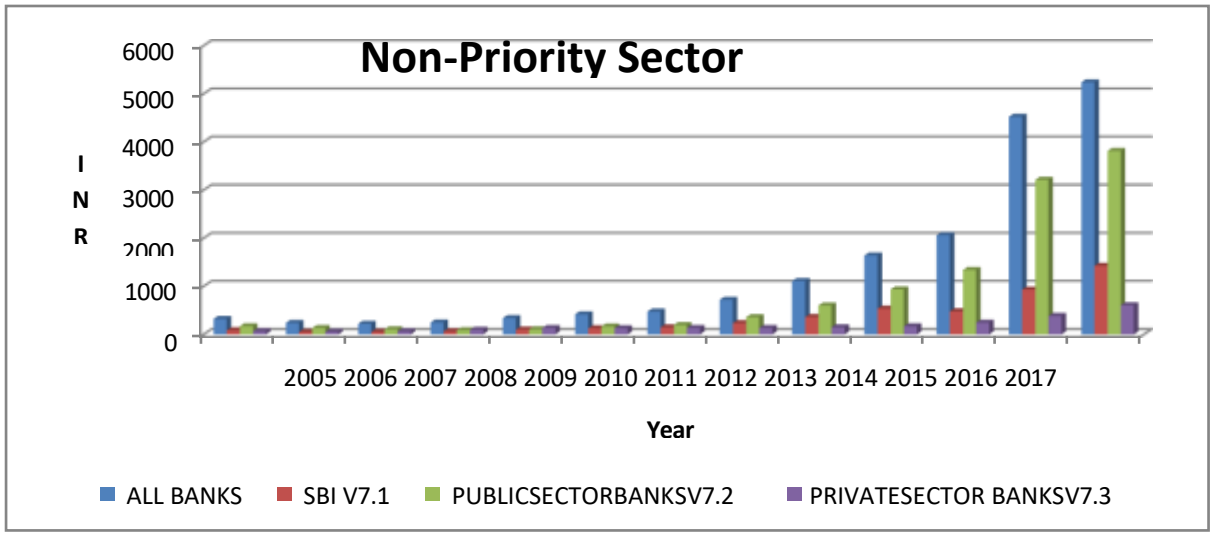
NPAs Figure 2: Priority Sector of all Commercial Banks (Amount in billion rupees)



Data Source: https://dbie.rbi.org.in

It is observed that priority sector NPAs in public sector banks increased 10.49 times in 2017 than 2005. In 2005 the priority sector NPAs in above sector was Rs. 153.36 billion. It increased steadily up to 2017 and has become Rs. 1609.42 billion. Because of priority sector NPAs of Public sector banks, the industry NPAs in priority sector has increased. Faulty loan sanction process, improper KYC verification, loan waiver policy of Government, faulty due diligence in the banking system are mainly responsible for this hike in priority sector NPAs in public sector banks. In case of SBI and private sector banks the priority sector NPAs increased to 5.76 times from 2005 to 2017, and the NPAs in priority sector compared to industry average is much lower up to 2017. As per Figure 2 the priority sector loan management policy of SBI and private sector banks is much better than other public sector banks up to 2017.

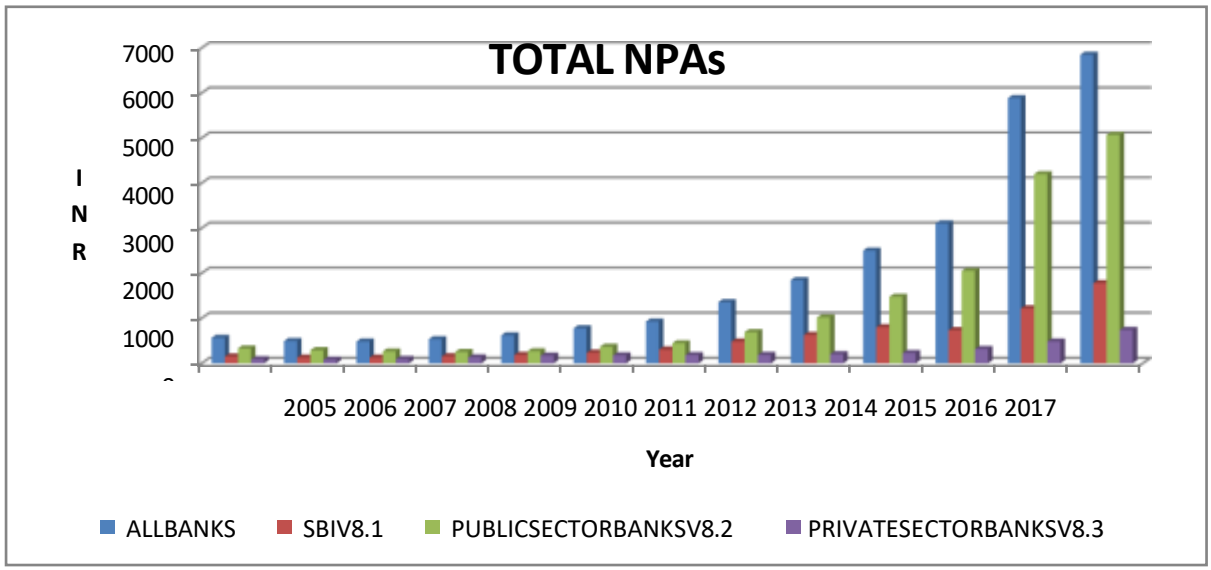
Figure3: Non-Priority Sector NPA so fall Commercial Banks(Amount in billion rupees)



Data Source: https://dbie.rbi.org.in

As per Figure 3 non-priority sector NPAs in public sector banks is highest among other banks. In2005 non-priority sector NPAs was Rs. 170.62 billion and in2017; it is Rs. 3811.93 billion i.e., 22.34 times more than 2005. In case of SBI, non-priority sector NPAs in 2017 is Rs.1425.98 billion i.e., 16.91 times of 2005. Due to the increase in NPAs in above two sectors of banks, the total industry NPAs have become higher and stands at Rs. 6847.32 billion in 2017. But in case of private sector banks, the non-priority sector NPAs is much lower than public sector banks and State Bank of India. The management and the regulators have to look into this rising non-priority sector NPAs in public sector for the survival of banking industry as this menace in one hand can erode the capital and hamper capital adequacy, on the other it stops future flow of income.

Figure4: Total NPA so fall Commercial Banks (Amount in billion rupees)



Data Source: https://dbie.rbi.org.in

It is seen from the Figure 4, total NPAs of all the banks, SBI, public sector banks and private sector banks increased rapidly from 2011. In 2017, the public sector NPAs become Rs. 5069.22 billion which is more than double of 2015 when the figure was Rs. 2049.59 billion. In case of SBI, the figure increased in 2016 than 2015 by almost 1.5 times, and in 2017 the figure is increasing. Because of the combined effect of SBI and public sector banks the total NPAs also increased through

the years. However the NPAs in private sector banks increased at a comparatively lower pace than public sector banks. In 2005 the NPAs in private sector was Rs. 88 billion and in 2017 the figure is Rs. 738.42 billion.

1.6 SUGGESTION AND RECOMMENDATION

In that addressing the issue of Non-Performing Assets (NPAs) in Indian banks requires a comprehensive and multi-dimensional approach involving regulatory authorities, bank management, and policymakers. Based on the analysis of the period 2005–2017, several suggestions and recommendations can be proposed to improve asset quality and strengthen the banking system.

First, banks, particularly public sector banks, should strengthen their credit appraisal and risk assessment mechanisms. This includes adopting advanced credit evaluation models, ensuring proper due diligence, and assessing the repayment capacity of borrowers more rigorously. Emphasis should be placed on cash flow-based lending rather than collateral-based lending to minimize default risk.

Second, there is a need to improve monitoring and supervision of loans after disbursement. Early warning systems should be developed to identify potential stress in loan accounts at an initial stage. Timely intervention can prevent accounts from slipping into NPAs. Regular audits and performance reviews of large loan accounts can further enhance accountability.

Third, strengthening governance and accountability in public sector banks is essential. Reducing political and administrative interference in lending decisions will improve operational efficiency. Professionalizing bank boards and management by appointing skilled and experienced personnel can lead to better decision-making and risk management.

Fourth, banks should focus on diversification of their loan portfolios to reduce concentration risk. Excessive exposure to specific sectors such as infrastructure and heavy industries has historically contributed to rising NPAs. A balanced portfolio across sectors and borrower categories can mitigate such risks.

Fifth, enhancing recovery mechanisms is crucial. Legal frameworks and insolvency processes should be made more efficient and time-bound to ensure faster resolution of stressed assets. Banks should also actively pursue measures such as restructuring, asset reconstruction, and settlements where feasible.

Sixth, the role of technology and data analytics should be expanded in banking operations. Using big data and predictive analytics can help in identifying risky borrowers and improving credit decisions. Digital platforms can also streamline loan tracking and recovery processes.

Finally, regulatory authorities should continue to enforce strict norms on asset classification, provisioning, and disclosure. Periodic stress testing and transparency in reporting will help maintain financial discipline and build investor confidence.

1.7 CONCLUSION

In conclusion, the analysis of Non-Performing Assets (NPAs) in public and private sector banks in India during the period 2005–2017 reveals significant differences in asset quality, risk management, and overall financial performance. The study finds that public sector banks were more adversely affected by the rising burden of NPAs, particularly in the post-2011 period, due to their higher exposure to large corporate loans and stressed sectors such as infrastructure, power, and steel. Issues such as inadequate credit appraisal, delays in project execution, and weak recovery mechanisms further aggravated the situation. On the other hand, private sector banks demonstrated relatively better control over NPAs, owing to more efficient credit risk assessment practices, diversified loan portfolios, and stronger recovery strategies. Although they were not entirely immune to the problem, their ability to manage asset quality remained comparatively robust throughout the study period. The findings underscore the importance of strengthening institutional frameworks, enhancing credit monitoring systems, and ensuring timely resolution of stressed assets. Regulatory initiatives such as stricter asset classification norms and insolvency mechanisms played a crucial role in improving transparency and accountability in the banking sector. Overall, addressing the issue of NPAs requires a coordinated approach involving policy reforms, improved governance, and adoption of best banking practices. Such measures are essential to restore the financial health of banks and to sustain long-term economic growth in India.

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