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Analysis of the Growth of Non-Performing Assets (NPAs) and Factors Influencing the Restructuring of Indian Financial Institutions

Ms. Namrata Bhalerao[1], Mr. Ashish Singh[2], Mr. Shikhar Yadav[3]

Assistant Professor, Lilavati Lalji Dayal Night College of Commerce, Charni Road, Mumbai[1]

FYBMS, Lilavati Lalji Dayal Night College of Commerce, Charni Road, Mumbai[3]

FYBCOM, Lilavati Lalji Dayal Night College of Commerce, Charni Road, Mumbai[4]

Abstract*:* *The recent restructuring of Public Sector Financial institutes (PSBs) has generated significant interest among various economic stakeholders, including as investors, depositors, borrowers, financial institute staff, and the executive teams of the merging organizations. Depositors aim to ensure their financial stability, while borrowers from merging companies are looking for alternative loans that provide cheaper interest rates and faster processing. Investors will prioritize a higher rate of dividend payments and an appreciation in the value of their assets, while employees would prioritize the enhancement of their working conditions. The senior leadership will seek greater independence to effectively oversee and operate their multiple institutions, with the aim of expanding and maximizing profitability. The initial Narasimham Committee proposed in 1991 that robust financial institutes should merge. After an extensive period of 28 years, the Indian government finally acted upon the vital recommendation from the committee. The significant accumulation of non-performing assets (NPAs) in public sector financial institutes and the subsequent need for recurrent recapitalization are commonly believed to be the reasons for this slow response. Any government that regularly provides more capital to public sector financial institutes (PSBs), while also being the majority shareholder and having full administrative control over their boards and senior management, is participating in a moral hazard and practicing poor economics. The utilization of taxpayer funds, which are earned to promote the economic development of the country, for the purpose of enabling Public Sector Financial institutes (PSBs) to meet the regulatory capital requirements set by international standards and the provisioning needs mandated by the Reserve Financial institute of India, is questionable. The government's objective behind the merger is to enhance the size and global competitiveness of PSBs, while also improving their access to financial markets for funding purposes. The need to restructure Public Sector Financial institutes can be assessed by examining the growth of Non-Performing Assets (NPAs) and the financial deterioration of PSBs over time, as similar government interventions may be necessary in the future. The establishment of "too big to fail financial institutes" with worldwide influence, as a result of the Government of India's restructuring law, would depend on the enhancement of financial performance indicators of PSBs in the next years*

Keywords: stakeholders, recapitalisation, government, financial institutes, restructuring, Non-performing assets (NPA)

I. INTRODUCTION

Financial institutes worldwide are responsible for the task of financial intermediation. Customers with surplus funds deposit their money in financial institutes, and those in need of credit for various purposes borrow from them. Financial institutes get their main revenue from the interest rate spread between the income they earn from lending activities and the interest they pay on deposits. In addition to income from lending, financial institutes also generate money from commissions and exchange rates on remittances, letters of credit, guarantees, and sales of third-party products. In India, the financial institute sector remained largely unchanged until the late 1960s. It was under the dominion of private industrial enterprises that only prioritized their own interests. Based on the RBI's data, in 1967, scheduled commercial

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financial institutes allocated 64.3 percent of their total advances to the industry sector, while only 2.2 percent was allocated to the agriculture sector. In 1969, the five most populous cities in the country—Ahmedabad, Delhi, Mumbai, Kolkata, and Chennai—accounted for around 44% of total financial institute deposits and 60% of all outstanding financial institute credit. Among the 2700 towns in the country, a significant number of 617 did not have access to commercial financial institute services. Similarly, out of the 600,000 villages, only 5000 had financial institutes.

The Indian government observed that financial institutes mostly focused on serving prominent manufacturers and dealers, neglecting small-scale farmers, small businesses, and the economically disadvantaged in metropolitan areas. The general people were unable to avail themselves of essential financial institute services such as money storage or emergency borrowing. Farmers depended on moneylenders or grain merchants to meet their financial needs for both consumption and output. Securing a loan for personal expenses, such as buying a car or building a home, was unattainable. In 1969, the Indian government made the decision to nationalize 14 private sector financial institutes in response to this realization. These financial institutes were largely used to assist social objectives like as poverty eradication and overall development. They achieved this by establishing branches in underserved communities and offering loans to vital sectors, including small-scale manufacturing, agriculture, and small businesses. In 1980, the government nationalized six more financial institutes after realizing that taking control of private financial institutes would help achieve its objective of economic development. Over time, the size of these financial institutes expanded as a result of economic expansion and societal needs. Scheduled Commercial Financial institutes in India encompass several types of financial institutions, including Public Sector Financial institutes (such as State Financial institute of India and Nationalised Financial institutes), Foreign Financial institutes, Regional Rural Financial institutes, and Other Scheduled Commercial Financial institutes. This category also includes Private Sector Financial institutes (both old and new generation), Small Finance Financial institutes, and Payment Financial institutes.

In the early stages, there was limited public engagement with financial institutes in India, and financial institutes established personal relationships with their clientele. This facilitated the financial institutes' ability to obtain consumer deposits and extend loans to a specific set of customers with whom they had a sense of ease and confidence. One notable characteristic of this financial institute period was the infrequency of loan defaults. Financial institute loan default was perceived as socially reprehensible.

Due to the expansion of the economy and the heightened financial demands placed on enterprises and sectors, there were instances where borrowers were unable to fulfill their responsibilities to their institutions. The proliferation of deceitfulness and avarice in society contributed to this phenomenon. Due to intense competition among financial institutes to increase credit and generate more interest revenue in the future, non-performing loans, sometimes referred to as bad loans, emerged.

Non-performing assets, sometimes known as NPAs, have been a global concern for commercial financial institutes. The problem of non-performing loans has significantly exacerbated in India in recent years. According to RBI policy criteria, a loan, advance, or bill is considered non-performing when the interest and/or principal instalment is overdue for more than 90 days. The duration of agricultural loans is determined based on the time required for both short-term and long-term crops. NPAs are commonly classified into two distinct categories: gross and net.

Gross non-performing assets (NPA) refer to the outstanding amount of principle and interest that remains unpaid as of the date of categorization. As per the guidelines set by the Reserve Financial institute of India, Net Non-Performing Assets (NPAs) are calculated by subtracting the provisions made for such NPAs from the Gross NPAs. Financial institutes classify their non-performing assets into three categories, namely Sub-standard, Doubtful, and Loss assets, as per the guidelines provided by the Reserve Financial institute of India (RBI). The classification is based on factors such as the age of the asset and the securities held in the account.

Equity capital serves as a protective buffer to withstand losses arising from a financial institute's subprime loans. The capital must be sufficient to cover anticipated losses and support the financial institutes' financial stability. Previously, the Government of India had to frequently inject additional capital into public sector financial institutes in order to meet international capital rules called BASLE Norms and safeguard unsecured creditors, such as depositors. In order to mitigate the frequent need for recapitalization of Public Sector Financial institutes (PSBs), the government has to undertake a restructuring of these financial institutes.

In 2018, the Indian government initiated the consolidation of public sector financial institutes. Since 2019, the subsequent consolidations have taken place:

1. Merger of State Financial institute of India and its Associate Financial institutes
2. Vijaya Financial institute, Dena Financial institute, and Financial institute of Baroda are the three financial institutes mentioned.
3. United Financial institute of India, Punjab National Financial institute (PNB), and Oriental Financial institute of Commerce (OBC)
4. Syndicate Financial institute and Canara Financial institute
5. The sum of Corporation Financial institute, Union Financial institute, and Andhra Financial institute.
6. Allahabad Financial institute and Indian Financial institute

The main objective of consolidating public sector financial institutes is to establish institutions with the required magnitude to foster a $5 trillion economy. The subsequent objectives are as follows:

• Increased willingness to take on risk;
• Emphasis on cutting-edge technology for financial institute;
• Expanded range of options with improved flexibility to customize;

Enhanced capacity to procure resources from capital markets (It is vital that a limited number of large financial institutes utilize the capital markets to acquire equity in order to uphold investor confidence.)

II. LITERATURE REVIEW

Extensive study has investigated the impact of non-performing assets (NPAs) on financial institute efficiency. A group of researchers have found that a significant level of Non-Performing Assets (NPAs) affects both the capital and efficiency of financial institutes, as well as their loan growth. Conversely, financial institutes that had a bigger amount of financial institute capital were more inclined to assume greater credit risk, resulting in increased non-performing assets (NPAs). Researchers have not yet sufficiently explored the impact of Non-Performing Assets (NPAs) on the Capital Adequacy and other crucial financial indicators of Public Sector Financial institutes that necessitate their restructuring. The subsequent investigations are being examined:

Reddy (2002) undertook a comprehensive examination of the factors contributing to non-performing assets (NPAs) in China, Thailand, Korea, Japan, and India on a country-by-country basis. The analysis identifies real estate, crony capitalism, directed loans, and a lack of prudential rules as the primary factors contributing to the problem, with significant variations observed across different countries. In addition, he found that every nation had inadequate court systems that caused delays in resolving matters promptly. Conversely, the problem arose from the idea that if financial institutes faced difficulties, the government would be obligated to provide financial assistance. In 2002, Rajaraman and Vasistha conducted a study on 27 public sector financial institutes to examine differences within a group that had the same ownership. The Verma Committee identified Indian Financial institute and United Financial institute of India as weak financial institutes and suggested that operational reform and recapitalization may not be sufficient to address their problems, as there were still unresolved issues even after considering improvements in operating efficiency. Jayakkodi and Rengarajan (2016) established a correlation between GNPA and ROA of Public Sector Financial institutes, and determined that GNPA had a detrimental effect on ROA. In a study conducted by Singh (2016), an analysis was made on the Non-Performing Assets (NPAs) in scheduled commercial financial institutes from 2000 to 2014. The study revealed that NPAs have a significant influence on the profitability of financial institutes, as Indian financial institutes primarily depend on interest income generated from loans. Furthermore, our institutions have a relatively high level of non-performing assets (NPAs) when compared to international financial institutes. Dhananjaya and Raj conducted a study in 2017 to analyze the accumulation of non-performing assets (NPAs) and the provision coverage ratio (PCR) of several financial institute groups, such as the State Financial institute Group, Nationalised Financial institutes, Private Sector Financial institutes, and Foreign Financial institutes. Their main focus was on the deteriorating asset quality of public sector financial institutes. Tandon et al. (2017) examined the impact of macroeconomic variables on non-performing loans and the financial performance of financial institutes. The study concluded that the management of non-performing assets (NPAs) in public sector financial institutes has to be addressed, since it has a substantial adverse effect on both productivity and profitability. Rashmi et al. (2017) conducted a comparison of the Non-Performing Assets (NPAs) and financial performance, namely Return on Assets (ROA), of several public and private sector financial institutes. The financial institutes were selected based on their market capitalization. Sengupta and Vardhan (2017) conducted a study on two instances of high financial institute non-performing assets (NPAs) in India following liberalization. The study elucidates the underlying factors contributing to these periods of crisis, as well as their resultant impacts and potential remedies. These researchers argue that the timing of crisis resolution is key, as timely identification and intervention can mitigate the detrimental effects of a crisis.

Kokane and Nerlekar (2017) observed that the Capital Adequacy Ratio is decreasing as the Non-Performing Asset (NPA) levels of PS Financial institutes increase, while investigating if the recapitalization policy will reduce these financial institutes' NPA levels. Data was gathered from 2009 to 2015, prior to the substantial recapitalization of public sector financial institutes. Gulati's (2018) study reveals that public sector financial institutes experienced a greater negative effect on profitability from non-performing assets (NPAs) compared to overseas financial institutes, new private sector financial institutes, and existing private sector financial institutes. Nachimuthu and Veni (2019) conducted multiple research to ascertain the impact of Non-Performing Assets (NPAs) on the profitability of scheduled commercial financial institutes. Garg (2019) stated that the presence of a substantial number of non-performing assets (NPAs) has made it difficult for financial institutes to finance new projects in the private sector. In order to reinstate lending, a series of corrective measures must be implemented. One crucial strategy is to promote new capital infusion through recapitalization. However, this technique encounters various challenges, such as adverse effects on bond rates and inflation, as well as the presence of moral hazard. As to the 2019 study conducted by V Agarwala and Nidhi, the analysis of non-performing assets in the Indian financial institute sector reveals that the growth rate of NPAs is consistent across both small and large financial institutes. Non-performing assets (NPAs) impact both the shareholders' wealth and the financial institutes' level of profitability. Devika (2020) argues that the lending practices of public sector financial institutes are problematic due to their failure to conform to core standards. Public sector financial institutes benefit from the recapitalization process, which simultaneously reduces the amount of stress associated with loans. Nevertheless, the augmentation of non-performing assets will temporarily diminish the efficacy and worth of injected money.

2.1 Literature review on financial institute restructuring:

Extensive research studies on financial institute restructuring have been undertaken both domestically and internationally. These studies primarily attribute the reduction in the financial health of all financial institutes to the increase in non-performing assets (NPAs). Hence, prompt measures are necessary to effectively handle impaired assets by implementing novel institutional frameworks, employing diverse restructuring methods, analyzing the impact of competition following financial institute restructuring, recognizing the significance of macroeconomic policies in ensuring successful restructuring, addressing the challenges posed by conflicting corporate cultures during the merger process, and understanding the underlying motives behind mergers. Research on financial institute crises has prompted inquiries on the anticipated government intervention. The subsequent research results are emphasized:

Shang (1990) asserts that most financial institutes fail as a result of the high leverage of their corporate borrowers, their own insufficient capitalization, inadequate management of asset quality, and potentially fraudulent activities. The financial institute system's susceptibility to macroeconomic shocks or the consequences of poor government policy was mostly due to insufficient capital reserves, which included faulty financial institute accounting practices that concealed the risks and exposure of the asset portfolio. In Rhoades' (1993) study, the effect of financial institute mergers on efficiency was investigated, revealing that acquiring financial institutes tend to be more efficient than the target financial institutes. The findings indicate that horizontal financial institute mergers between 1981 and 1986 rarely resulted in improved efficiency. Kunt and Detragiache conducted an examination in 1997 to analyze the specific aspects of the economic environment that contribute to the development of fragility and vulnerability in the financial institute sector, ultimately leading to systemic financial institute crises. According to Dziobeck and Pazarbasioglu (1997), although financial institute restructuring programs can be initiated and successfully implemented during an economic downturn, strong economic development helps financial institutes to resume lending and become profitable again.

Daniel and Saal (1997) argue that in order to avoid the need for repeated efforts, financial institutes must undergo both financial and operational restructuring during the process of successful restructuring. Furthermore, it should enhance accounting protocols, management protocols, and provide appropriate accountability and transparency. Hence, the process of changing systemic institutions is a lengthy endeavor that spans multiple years. Abel and Szakadat (1998) discovered through their research on financial institute restructuring in Hungary that recapitalizing the financial institute sector was a costly endeavor. This was mostly due to the failure to mitigate moral hazards. Nevertheless, there are also a few promising indicators. The portfolios of financial institutes significantly improved, making it possible to privatize state-owned commercial financial institutes.

Milbourn et al. (1999) argue that financial institutes need to increase their size in order to take advantage of economies of scale. Moreover, when traditional commercial financial institutes face intense competition that reduces their profit margins, they are motivated to seek alternate sources of income, typically outside the confines of the traditional commercial financial institute sector. Consequently, there is a sense of urgency to expand the range of financial services in order to offer consumers a more extensive selection of options in a single location.

In his opinion on the global financial crisis, Hawkins (2000) emphasized the need of the government recognizing the extent of the problem and promptly implementing necessary measures. Supervisors should have strong support when they decide to close insolvent institutions, as they are likely to encounter strong resistance from special interest groups during such situations. Baer and Nazmi observed that during the privatisation and restructuring of financial institutes in Brazil in 2000, public financial institutes were utilized for political purposes. While the elimination of these institutions will address the financial imbalances resulting from inflationary periods, the issue of which organization will assume the responsibilities originally assigned to them, namely, providing credit to underserved regions, population groups, and economic sectors, will remain unresolved. Leslie (2000) et al. According to Al., the process of systemic financial institute restructuring requires strong government leadership. This is because it is focused on protecting an important economic system and has notable impacts on the overall economy and distribution of wealth. At that time, they were examining the financial sector crisis and the reorganization of Southeast Asian countries. The authors emphasize that historical evidence indicates that an opaque restructuring strategy may not be effective in restoring the public's confidence in the political system and financial industry. Rochet (2003) observed that a significant number of financial institute crises took place in the 1980s and 1990s, which led to renewed interest in economic research on the elements that contribute to the vulnerability of financial institutes and possible remedies. During this period, substantial modifications were implemented to the structures responsible for overseeing the financial sector. The Basel Accord was established by the Basel Committee on Financial institute Supervision (BCBS) in 1989. After being a member of the G-10, BCBS has expanded its membership to encompass 28 countries, which now includes India. In 2010, BCBS introduced Basel III, a comprehensive set of reforms aimed at strengthening financial institutes and financial institutions.

As a result, it is reasonable to anticipate that the topics of financial institute capitalization and restructuring gained significant focus from researchers at an early stage. Williams and Nguyen (2005) argue in favor of economically rationalizing financial institute privatization and eliminating state control.

Kalaichelvan (2019) conducted a study on the efficacy of mergers and acquisitions in the Indian financial institute sector. The study analyzed the performance of financial institutes that underwent mergers between 1993-1994 and 2004-2005, following the financial sector reform. It has been found that mergers do not have a substantial effect on the company's profitability or financial condition. Benzekkoura et al. (2014) found that restructuring gains result from improved financial institute performance due to cost management strategies and the utilization of technology for product development. In a study conducted by Siauwiijaya (2017), the author examined the efficiency of financial institutes in Indonesia's financial institute sector during the period following a merger. The CAMELS ratings of the selected financial institutes demonstrate that private sector merging institutions surpass their public counterparts.

Vo and Nguyen (2018) examined the correlation between financial institute restructuring and financial institute efficiency and found that state intervention, mergers and acquisitions, and the privatization of state-owned commercial financial institutes do not have a substantial impact on efficiency. Financial institute efficiency is negatively impacted during this time due to transition costs and the influence of other external factors such as the financial crisis or a decelerating domestic economy. In 2019, Kithinji (2019) conducted a study to examine the influence of financial institute restructuring on the financial performance of Kenyan commercial financial institutes. Conclusion: The restructuring of financial institutes affects financial performance by reorganizing assets and capital. Increasing capital can enhance profitability, however enhancing asset quality reduces financial institute earnings.

In 2019, the Deloitte consulting firm identified six essential factors for financial institute mergers: digital capabilities, a larger customer base, regional expansion, culture and management, risk and regulatory compliance, and the integration of people, processes, and technology.

Bersch et al. (2020) state that difficult mergers, which are usually considered as a last option when other forms of financial support have been unsuccessful, along with traditional supervisory rescue measures like capital assistance (such as capital injections and guarantees), are frequently employed to identify financial institute distress. Early capital assistance is more common prior to a merger compared to when there is no merger. Mergers significantly complicate control group research due to the substantial differences in size and regional focus of financial institutes before and after the merger.

III. ANALYSIS AND INTERPRETATION

The Indian government clandestinely executed the restructuring of thirteen public sector financial institutes. Researchers have utilized the CAMELS Model research to tackle the issue of financial institutes' financial performance. Nevertheless, the correlation between the financial prosperity of different PSBs and their merger remains uncertain. The query remains unanswered without a definitive response.

The Indian government will merge thirteen public sector financial institutes as part of a reorganization. The decision to privatize two further public sector financial institutes has been made. In the future, it will be imperative to restructure further public sector financial institutes by means of mergers, privatization, or a decrease in the Indian government's ownership stake. It would be intriguing to observe whether the ongoing restructuring process achieves success or failure, considering the government's declared objective for undertaking such measures.

3.1 Historical Context:

The Indian economy initiated its process of liberalization in 1991. The government established multiple committees to scrutinize the financial institute sector and propose essential policy modifications. The Narasimham Committees I and II formulated a comprehensive strategy for implementing changes in the financial institute sector. These measures encompass the abolition of the policy of branch licensing, the relaxation of interest rates, the reduction of the cash reserve ratio, and the statutory reserve requirements. In addition, the adoption of rules for risk-based capital requirements, universal accounting principles for revenue recognition, and bad debt provisioning requirements took place. This was in compliance with the Basle I regulation that was suggested by the Basle Committee on Financial institute Supervision (BCBS). The rivalry between public sector and private sector financial institutes has heightened due to the financial institute industry's transparency.

During the global crisis of 2007–2008, the world economy experienced a significant downturn, resulting in the demise of major multinational firms such as Lehman Brothers, Royal Financial institute of Scotland, Merril Lynch, and others. Our nation also experienced substantial tremors. The Indian government initiated a comprehensive program to allocate financial institute funding for the expansion of several economic sectors in a bid to rejuvenate the nation's economy. Public sector financial institutes (PS financial institutes) assumed the role of lending as private sector financial institutes refrained from doing so, due to the influence of huge firms (Crony Capitalism). The intense competition among public sector financial institutes to consistently improve their financial performance each quarter played a vital role in driving the significant growth of loans.

The lending portfolios of both private and public sector financial institutes expanded rapidly, leading to increased competition between them. Financial institutes introduced retail lending initiatives for homes, autos, education, and personal loans, alongside business and priority sector loans, contingent upon the applicants' repayment capacity. In 2008, the loan portfolio of public sector financial institutes alone amounted to Rs. 18 lakh crores. At that time, several industries such as infrastructure and industry, including mining (coal and iron ore), aviation, road and airport construction, port operations, shipping, oil exploration, and telecommunications, were being established. Private sector financial institutes took on the responsibilities of loan syndicators and aggregators with the sole objective of augmenting their fee-based revenue. Potential creditors were presented with alluring demonstrations in luxurious venues to secure their endorsement for accepting a percentage of the offered funds. Without term lending institutions such as IDBI and ICICI, which played a universal financial institute role, and IFCI, the public sector financial institutes relied solely on the assessment of lead institutions like SBI Capital Markets, supported by SBI, Axis Financial institute, and similar institutions like ICICI financial institute. This was because the public sector financial institutes lacked the necessary technical knowledge to evaluate the industries that needed financing. During the period from 2008 to 2014, the loan portfolio of Public Sector Financial institutes (PSBs) increased from Rs 18 lakh crore to Rs 52 lakh crore. The public sector financial institutes, in particular, excessively extended loans to various projects in an attempt to surpass their competitors in credit expansion and non-funded profits. Some of these investments were made to current promoters without undertaking the required due diligence, as well as to promoters with a dubious track record in the sector of new investments. The failure of various road projects was attributed to land acquisition concerns. Moreover, numerous gas-based power projects faced failure due to the absence of financial institutes' assurance over the availability of gas. All public sector financial institutes experienced a rise in Gross Non-Performing Assets (GNPA) during the fiscal year 2015-16. The average Gross Non-Performing Assets (GNPA) increased significantly from 5.20 percent in the fiscal year 2014–15 to 9.10 percent in the fiscal year 2015–16.

"The magnitude of the mess was astounding. Only 12 accounts had outstanding loans totalling more than 1.72 lakh crore, all of which were classified as NPA. This left the balance sheets of financial institutes and corporations swollen without corresponding income. There was widespread reckless lending and borrower abuse. This was a serious situation that the general population did not comprehend. 2020 Rajiv Kumar Instances of NPAs increased, and by March 2018 (11.2 percent of Gross Advances), financial institutes were burdened with a fund of over 10.40 lakh crore in non-performing loans. According to information provided by the RBI, aggressive lending practises, wilful default, loan fraud, and corruption in certain circumstances, as well as a slowing economy, are the main causes of the increase in stressed assets. This served as a rallying cry for the government to intervene and stop the decay. At the owner (MOF) and the regulator, there was a tonne of homework to be completed (RBI). Due to the suspension of income from large advances and the ensuing need to make provisions for non-performing loans, PSBs saw a significant erosion of capital. In October 2017, the government was forced to provide a recapitalization plan of INR 2.11 trillion for public sector financial institutes. Parallel to recapitalizing PSBs, the Reserve Financial institute of India also made a key move by imposing Prompt Corrective Action (PCA) on some financial institutes whose asset quality, capital, and/or profitability did not satisfy pre-established benchmarks. The goal was to provide financial institutes the ability to maintain capital and rebuild financial strength.

The majority of nations' regulators use the solvency standards set by the Basle Committee to minimize the occurrence of non-performing assets (NPAs). These standards include a minimum capital level of 8% of risk-weighted assets, with different weights assigned to reflect the credit risk associated with different types of assets. The Federal Deposit Insurance Corporation (FDIC) Improvement Act of 1991, which led to the implementation of Prompt Corrective Action (PCA), was enacted in response to the Savings & Loans (S&L) crisis in the USA during the 1980s. This crisis prompted the government to provide financial assistance (bailouts) to several thrifts. In essence, PCA was a planned strategy to intervene early and resolve financial institute crises, preventing financial institutes from going financial bankrupt.

3.2 Government measures to address Non-Performing Assets (NPAs):

Financial institutes worldwide are grappling with the challenge of managing non-performing assets (NPAs) to maintain their financial health. Governments, in collaboration with central financial institutes, are taking measures to address this issue through institutional frameworks and legal consequences. Periodically, financial institutes have undergone recapitalization to ensure sufficient capital. In the past, financial institutes artificially improved their financial ratios by extending the repayment period of stressed assets and NPAs, which did not accurately reflect the actual situation. The rise in NPAs adversely affects financial institutes' profitability and efficiency. Additionally, it leads to higher costs and limited availability of credit, impacting the economic growth of nations. The chart below depicts the increasing trend of NPAs in scheduled commercial financial institutes over the past five years:

IV. THE INFLUENCE OF NON-PERFORMING ASSETS ON THE FINANCIAL PERFORMANCE OF PUBLIC SECTOR FINANCIAL INSTITUTES

The rapid approval of projects that were poorly evaluated led to an increase in NPAs. The fact that the RBI had to introduce programmes like the 5:25 scheme and Strategic Debt Restructuring, which make provisions for taking into account infrastructure projects' lengthy gestation periods and the Sustainable Portion of Debt, which could only be repaid with cash flow from these projects, is evidence of how poorly financial institutes rated projects. The dishonest promoters profited from it. The identical projects that are currently being sold by the financial institutes through the NCLT mechanism only bring in 25–35 percent of the loan amounts that were previously financed by the financial institutes after a 65–75 percent haircut. The capital of practically all Public Sector Financial institutes has been diminished by NPAs. PSBs make up approximately 85%, or Rs. 8.84 lakh crore, of the nation's total NPAs, with bad loans reaching Rs 10.40 lakh crore in March 2018. Bad loans were Rs. 2.23 lakh crore at the biggest PSB State Financial institute of India. Nearly all of these financial institutes' financial parameters, including the Capital Adequacy Ratio, CASA deposits, Net Interest Margin, Return on Assets, Return on Equity, and Credit Deposit Ratio that management often harps on in investor meetings, are likely to have been harmed by the prevalence of NPAs. In the last several years, the government of India has invested around Rs 3.5 lakh crore in recapitalizing PSBs so that financial institutes may restore their vitality by improving qualitative lending while maintaining an appropriate CAGR. Because PSBs frequently require recapitalization, the government has been pushed to reorganise them in the hopes that larger financial institutes will benefit from economies of scale by reducing their need for people, technological upgrades, and loss-making branch closures. The sheer scale of such companies could attract investors' attention and aid them in raising financing when they need it.

V. CONCLUSION

The Government conducted the reorganisation of Public Sector Financial institutes in an opaque way. The decision to group together various financial institutes may be influenced by regional factors or the use of similar technological platforms. It is acknowledged that corporate cultures and the human dimension were not taken into account while the merger was being planned. Two additional financial institutes will probably be privatised in addition to the thirteen nationalised financial institutes that have already merged. There is talk about privatising the Central Financial institute of India and the Indian Overseas Financial institute (IOB). Both of them fall within the RBI PCA framework. However, the ultimate decision can be based on how these institutions' financial situation has improved. Any government sale of its stake in public sector financial institutes has to entice value-seeking investors. Additionally, the government ought to be able to profit as anticipated from the divestiture or sale of shares. Financial institutes that are going through privatisation are thought to have more toxic assets, which might lead to a decrease in their market value. Therefore, it may be said that a financial institute's financial health ultimately depends on how it manages its non-performing assets. Therefore, further restructuring of public sector financial institutes will depend on strong financials and room for development.

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