A Comparative Study of Non-Performing Assets of Public Section and Private Sector banks in India

Neha Yadav, RBMI, Greater Noida

Abstract

Banking sectors is exposed to number of risk like market risk, interest rate risk, liquidity risk, borrower’s risk, and among these many risk the bank face one of the most critical is the borrowers risk – the risk of non payment of the disbursed loans and advances. As big chunk of deposits fund is invested in the form of loans and advances. Hence, parameters for evaluating the performance of banks have also changed. This study provides an empirical approach to the analysis of profitability indicators with a focal point on non-performing assets (NPAs) of public and private sector banks. NPAs reflect the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. A high level of NPAs suggests that large number of credit defaults that affect the profitability and net-worth of banks. Private and public Sector banks are highly affected by this three letter virus NPA. In this study an effort has been made to evaluate the operational performance of the selected PSBs & Private bank in India and also analyze how efficiently Public and Private sector banks can managing NPA.

Keywords: Non-performing assets, banking sector, high level, Credit Defaulter

Introduction

Non-Performing Assets

Action for enforcement of security interest can be initiated only if the secured asset is classified as Nonperforming asset.

Nonperforming asset means an asset or the account of the borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the direction or guidelines relating to assets classification issued by RBI. An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.

A non performing asset (NPA) is a loan or an advance where;

Interest and / or installment of principal remain overdue for a period of more than 12 months in respect of a Term Loan.

The account remains 'out of order' for a period of more than 180 days, in respect of an overdraft/cash Credit (OD/CC),

The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted,

Interest and/ or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose, and Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.
Types of NPA

Gross NPA:

Gross NPAs is the sum total of all loan assets that are classified as NPAs as per RBI guidelines as of Balance Sheet date. *Gross NPA reflects the quality of the loans made by banks.* It consists of all the non standard assets like as sub standard, doubtful, and loss assets.

Net NPA:

Net NPAs are those types of NPAs in which the bank has deducted the provision regarding NPAs. *Net NPA shows the actual burden of banks.* Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high.

Categories of NPAs

Standard Assets:

Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan does not exceed 90 days at the end of financial year. If asset fails to be in category of standard asset that is amount due more than 90 days then it is NPA and NPAs are further need to classify in sub categories.

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained *non-performing* and the *realisability* of the dues:

Sub-standard Assets:

With effect from 31 March 2005, a sub standard asset would be one, which has remained NPA for a period less than or equal to 12 month. The following features are exhibited by sub standard assets: the current net worth of the borrowers / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full; and the asset has well-defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets:

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable .With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

Loss Assets:

A loss asset is one which considered uncollectible and of such little value that its continuance as a bankable asset is not warranted- although there may be some salvage or recovery value. Also, these
assets would have been identified as ‘loss assets’ by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

**Reasons for NON NPA:**

- Improper selection of borrower’s activities
- Weak credit appraisal system
- Industrial problem
- Inefficiency in management of borrower
- Slackness in credit management & monitoring
- Lack of proper follow up by bank
- Recession in the market
- Due to natural calamities and other uncertainties

**Objective of Study**

- To study of the concept of Non Performing Asset in Indian perspective.
- To study the Reasons for & Impact of NPAs
- To study NPA trend in last 5 years of private and public sector banks.
- To make appropriate suggestions to avoid future NPAs and to manage existing NPA’s.

**Literature Review**

Chatterjee, Mukherjee and Das (2012) in their study on Management of non-performing assets - a current scenario has concluded that banks should find out the original reasons/purposes of the loan required by the borrower. Proper identification of the guarantor should be checked by the bank including scrutiny of his/her wealth. Framing reasonably well documented loan policy and rules.

Selvarajan & Vadivalagan (2013) in A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs) their research paper has studied that the growth of Indian Bank’s lending to Priority sector is more than that of the Public Sector Banks as a whole. Therefore, the management of banks must pay special attention towards the NPA management and take appropriate steps to arrest the creation of new NPAs, besides making recoveries in the existing NPAs. Timely action is essential to ensure future growth of the Bank.

Dr. Poonam Mahajan(2014), The position of NPAs is improving in India. Though NPAs are having a declining trend over a period of study, but Non Performing Assets of public sector banks are still higher than private and foreign sector banks. Top management of private and foreign sector banks is more professional, core competent and expertise than public sector banks. So, they are more competent in making plans for recovering funds from borrowers (both individuals and institutional). The public sector banks are required to lend money to weaker sections of the society also, where the chances of recovery is almost negligible.

Kaur, A. (2012) studied the income and expenditure pattern, profitability performance and NPAs position of public sector commercial banks in India for a period of 2000-01 to 2009-10 respectively. Growth rate, compound growth rate, coefficient correlation, ratio analysis and median test have been used for the analysis. The author concluded that the PSCBs have shown downward trends of NPAs for the period under study.
Mayur Raoa and Ankita Patelb (2015), Non Performing Assets (NPA’s) are one of the major areas of concern for the Indian banking industry. Non-Performing Assets are like a double edged sword. They do not generate any income, whereas, the bank is required to make provisions such as assets. (Olekar and Talawar, 2012). This paper considers the aggregate data of public sector, private sector and foreign banks and attempts to compare analyze and interpret the NPA management from the year 2009 -2013. On the conceptual side, it gives an overview of NPA, Types of NPA, causes and on the calculation side, it covers various NPA related ratios, use of Least square method for estimating Gross NPAs in the year 2014, and also application of ANOVA test to judge the presence of any significant difference between ratio of Gross NPA to Gross Advances. The findings reveals the percentage of Gross NPA to Gross advances is increasing for public banks, ratio of Loss Advances to Gross Advances are higher in foreign banks, the Estimated Gross NPA for 2014 is also more in public banks as compared to private and foreign banks.

Research Methodology

Descriptive as well as analytical research methodology is taken into account to carry out this study. The prime objective of this research is to study of the concept of Non Performing Asset in Indian perspective and to study the measures taken by banks for reducing NPA level. The banking industry is taken for the study, where the aggregate data related to NPA for Public sector Banks, Private Sector Banks are used.

Data Presentation and Analysis

For the purpose of analysis and comparison we have taken non performing assets of private sector and public sector banks for the period of 5 years.

NPA (Non Performing Assets) of Indian Banks has risen significantly in past five years. In December 2016, Gross NPA of public banks remained Rs 6.46 lakh crore rupees.

Gross NPA of public banks during last five years

For public banks, Punjab National Bank has the highest share of bad loans in their advances. State Bank of India, Canara Bank, Oriental Bank of Commerce and Bank of Baroda has less percentage of gross NPA.

1. Public Banks

2. Figures in Rs Crores

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>SBI</th>
<th>PNB</th>
<th>Bank of Baroda</th>
<th>Oriental Bank of Commerce</th>
<th>Bank of Baroda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2016</td>
<td>Advances</td>
<td>1,463,700.42</td>
<td>412,325.80</td>
<td>383,770.18</td>
<td>148,879.99</td>
<td>324,714.82</td>
</tr>
</tbody>
</table>
NPA (Non Performing Assets) of Indian Banks has risen significantly in past five years.

The amount of advances has increased significantly

Higher the NPA, the more loss a bank will face.

For public banks, Punjab National Bank has the highest share of bad loans in their advances. State Bank of India, Canara Bank, Oriental Bank of Commerce and Bank of Baroda has less percentage of gross NPA.

3. Private Banks

For private banks, Yes Bank is the best performer followed by HDFC Bank, Axis Bank, Kotak Mahindra Bank and ICICI Bank. While public banks face a rapid rise in their NPAs, private banks have been able to counter the bad loans and stayed stable.
NPAs of Yes Bank and HDFC Bank have remained stable during the last five years whereas ICICI Bank and Axis Bank have seen a significant rise in the share of their bad loans.

**Ways to Reduce NPA**

SARFAESI ACT 2002: the securitization and reconstruction of financial assets and enforcements of security interest act 2002 empowers the banks and other financial institutions to recover the non-performing assets without court’s intervention.

Non-Performing Asset can be recovered by 3 methods:

1. Securitization
2. Enforcement of security without intervention of court
3. Asset Reconstruction

In case borrower fails to comply and return what he borrowed bank can use following measures:

1. Appoint any person to manage the same

<table>
<thead>
<tr>
<th>Year</th>
<th>Advances</th>
<th>HDFC</th>
<th>AXIS</th>
<th>ICICI</th>
<th>YES</th>
<th>Kotak Mahindra</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2016</td>
<td>Advances</td>
<td>464,593.96</td>
<td>338,773.72</td>
<td>435,263.94</td>
<td>98,209.93</td>
<td>118,665.3</td>
</tr>
<tr>
<td></td>
<td>Gross NPA</td>
<td>4,392.83</td>
<td>6,087.51</td>
<td>26,221.25</td>
<td>748.96</td>
<td>2,838.11</td>
</tr>
<tr>
<td>Year 2015</td>
<td>Advances</td>
<td>365,495.03</td>
<td>281,083.03</td>
<td>387,522.07</td>
<td>75,549.82</td>
<td>66,160.71</td>
</tr>
<tr>
<td></td>
<td>Gross NPA</td>
<td>3,438.38</td>
<td>4,110.19</td>
<td>15,094.69</td>
<td>313.40</td>
<td>1,237.23</td>
</tr>
<tr>
<td>Year 2014</td>
<td>Advances</td>
<td>303,000.03</td>
<td>230,066.76</td>
<td>338,702.65</td>
<td>55,632.96</td>
<td>53,027.63</td>
</tr>
<tr>
<td></td>
<td>Gross NPA</td>
<td>2,989.28</td>
<td>3,146.41</td>
<td>10,505.84</td>
<td>174.93</td>
<td>1,059.44</td>
</tr>
<tr>
<td>Year 2013</td>
<td>Advances</td>
<td>239,720</td>
<td>196,965.96</td>
<td>290,249.44</td>
<td>46,999.57</td>
<td>48,468.98</td>
</tr>
<tr>
<td></td>
<td>Gross NPA</td>
<td>2,334.64</td>
<td>2,393.42</td>
<td>9,607.75</td>
<td>94.32</td>
<td>758.11</td>
</tr>
<tr>
<td>Year 2012</td>
<td>Advances</td>
<td>195,420</td>
<td>169,759.54</td>
<td>253,727.66</td>
<td>37,988.64</td>
<td>39,079.23</td>
</tr>
<tr>
<td></td>
<td>Gross NPA</td>
<td>1,999.39</td>
<td>1,806.30</td>
<td>9,475.33</td>
<td>83.86</td>
<td>614.19</td>
</tr>
</tbody>
</table>
2. Take possession of security

3. Sale or lease the right over the security.

**Lok Adalats**: These can be used for recovery of small loans like 5 lakh or less. Lok Adalat institutions help banks to settle disputes involving account in “doubtful” and “loss” category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. Debt recovery tribunals have been empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. This mechanism has proved to be quite effective for speedy justice and recovery of small loans. The progress through this channel is expected to pick up in the coming years.

**Credit Information Bureau**: This helps the banks by maintaining data of an individual and provides this information to all banks.

**Debt Recovery Tribunal (DRT)**: The recovery of debts due to banks and financial institution passed in March 2000 has helped in strengthening the function of DRTs. Provision for placement of more than one recovery officer, power to attach defendant’s property/assets before judgment, penal provision for disobedience of tribunal’s order or for breach of any terms of order and appointment of receiver with power of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in the times to come.

Comprise Settlement: This scheme helps to provide simple mechanism for recovery of NPA.

**Findings & Conclusions**

- The NPA is one of the biggest problems that the Indian Banks are facing today. If the proper management of the NPAs is not undertaken it would hamper the business of the banks.
- If the concept of NPAs is taken very lightly it would be dangerous for the Indian banking sector. The NPAs would destroy the current profit, interest income due to large provisions of the NPAs.
- Public sector banks are more efficient than private sector & foreign banks with regard to the management of non-performing assets.
- Government has taken various measures to minimize level of non-performing assets like Corporate Debt Restructuring, Red flagged accounts etc.
- Sale of NPAs to Asset Reconstruction companies (ARCs) in the light of the Framework on Revitalizing Stressed Assets could be another reason for this improvement.

The Non-Performing Assets (NPAs) problem is one of the foremost and the most formidable problems that have shaken the entire banking industry in India like an earthquake. Like a cancer worm, it has been eating the banking system from within, since long. It has grown like a cancer and has infected every limb of the bankingsystem. At macro level, NPAs have choked off the supplyline of credit to the potential borrowers, thereby having deleterious effect on capital formation and arresting the economic activity in the country. At the micro level, the unsustainable level of NPAs has eroded the profitability of banks through reduced interest income and provisioning requirements, besides restricting the recycling of funds leading to serious asset liability mismatches. Unfortunately the high level of NPAs of banks is adversely affecting the profitability, liquidity and...
solvency position of the banking sector. Therefore NPA should be brought down to internationally accepted level.

**Bibliography**

Data for all banks in India has been accessed from www.rbi.org.in

Financial Stability Reports (https://rbi.org.in/Scripts/FsReports.aspx)


**Author(s) Biography:**
Neha Yadav, MBA, , Assistant Professor, RBMI, Noida has 1 year experience in teaching. Her areas of interest include Accounting & Finance. She has published several research papers in peer reviewed journals.