Non-Performing Assets of Select Public and Private Sector Banks in India – A Study

S.Madasamy
Assistant Professor, Department of Commerce, M.R. Government Arts College, Mannargudi, India

Abstract

A strong banking sector is an important for successful economy. The failure of the banking sector may have an adverse impact on other sector. Non Performing Assets (NPA) is one of the major concerns for banks in India. NPAs reflect the performance of banks. The earning capacity and profitability of the banks are highly affected because 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. The public sector banks have shown very good performance over the private sector banks as far as the financial operations are concerned. However, the position of public sector banks is not so good in the area of Non Performing Assets (NPAs) as compared to private sector banks. In this paper made an attempt to analyse how efficiently the selected public and private sector banks managed their NPAs.

KEYWORDS: Public Sector Banks, Private Sector Banks, Gross NPAs, Net NPAs

Abbreviations: SBI = State Bank of India, IB = Indian Bank, CB = Canara Bank, IOB = Indian Overseas Bank, ICICI = Industrial Credit and Investment Corporation of India, HDFC = Housing Development Finance Corporation, KVB = Karur Vysya Bank.

INTRODUCTION

Financial sector plays a vital role in the overall development of a country. In India both Public and Private Sector banks play an important role in economic development. The primary function of banks is mobilizing deposits from surplus units to deficit units in the form of loan and advances to various sectors such as agricultural, industry, personal and governments at reasonable interest rates. Lending by the banking sector is generally encouraged because it has the more effect of funds being transferred from the system to productive purposes. However, the process of lending also carries a risk called credit risk, which arises from the failure of borrower. Non-Performing asset refers to loans that are in risk of default. The level of Non-Performing loans is recognised as a important indicator for assessing banks credit risk, asset quality and efficiency in allocation of resources to productive sectors. Reflecting the success of financial sector reforms and regulatory and supervisory process in particular, banks have made substantial progress in cleaning up the NPAs from their balance sheets.

SIGNIFICANCE OF THE STUDY

The present study attempts to analyse the non-performing assets of Public and Private Sector banks in India. NPAs reflect the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. Similar to any other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it possess.

To improve the efficiency and profitability of banks the NPA need to be reduced and controlled.

REVIEW OF LITERATURE

Rekha Gupta and Nitin Sikarwar (2013)[1] in their article titled “A Case Study of Recovery Position of Non Performing Assets of Punjab National Bank of India and HDFC Bank Limited” have observed that the Government and the banks have been initiated a number of strategies in the past and are being initiated at present to bring down the level of NPAs. In view of the vital role of nonperforming assets on the profitability, Punjab National Bank and HDFC Bank have been selected for the purpose of present research because both are the giant banks in public and private sector, so a comparative study is made. The author make an analytical study in respect of Non Performing Assets and their recovery management, so that it may be useful at all banking levels regarding the efficient utilization of resources which may lead to better working of the banking sector.

Rani Chanchal (2013)[2] in their article titled “Evaluation of Various Techniques Used by the Public Sector Banks for the Management of Non Performing Assets (NPAs)” have examined that the impact of securitisation legislation in the management of NPAs in selected financial institutions. To attain this target following banking institutions operating at their local, regional and zonal levels have been approached to provide the requisite data and information. Banks operating at all the three levels include State Bank of India, Oriental Bank of Commerce, Union Bank of India, Allahabad Bank, Bank of Baroda, Canara Bank and Punjab National Bank. Banks operating at two levels include Bank of India, Central Bank of India, Dena Bank, Punjab & Sind Bank, State Bank of Patiala, Syndicate Bank and Vijaya Bank. Banks operating at only one level include Andhra Bank, Bank of Maharashtra, Corporation Bank, Indian Bank, Indian Overseas Bank, United Bank of India and UCO Bank. The study reveals that the NPAs have not only affected the profitability and productivity of the banks and financial institutions, but also put a stigma on the image of Indian banking and a drain on the very value system of the society.

Samir and Deepa Kamra (2013)[3] in their article titled the position of NPAs in selected banks namely State Bank of India (SBI), Punjab National Bank (PNB) and Central Bank of India (CBI).It also highlights the policies pursued by the banks to tackle the NPAs and suggests a multi-pronged strategy for speedy recovery of NPAs in banking sector. The study spans the period starting from 1996-1997 to 2009-2010.The authors analyze the trends in NPAs in terms of values, gross and net NPAs as a percentage of gross advances and net advances, gross and net NPAs as a percentage of Total Assets respectively. The paper details about the sector-wise classification of NPAs, reasons for their occurrence, the effects of NPAs on banks, and frequency distribution of public sector banks by ratio of net NPAs to net advances.

Selvarajan and Vadivalagan (2013)[4] in their article titled “A Study on Management of Non Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs)” have consider that the problem of NPA is not limited to only Indian public sector banks, but it prevails in the entire banking industry. Major portion of bad debts in Indian Banks arose out of lending to the priority sector at the dictates of politicians and bureaucrats. If only banks had monitored their loans effectively, the bad debt problem could have been contained if not eliminated. The top management of the banks was forced by politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers. The authors estimates that the Agriculture advances have registered a 7 fold net increase, SSI advances have set a record net increase of 8.5 times and the advances to other priority sector have made a net increase of 4.5 times, that of their respective figures in 2001–02.

Ahmad Zahoor and Jegadeeshwaran DM. (2013)[5] in their article titled "Comparative Study on NPA Management of Nationalised Banks" have describes that the non performing assets of nationalised banks. The reason being mounting nonperforming assets (NPAs), NPA account not only reduces profitability of banks by provisioning in the profit and loss account, but their carrying cost is also increased which results in excess & avoidable management attention. Apart from this, a high level of NPA also puts strain on a bank‟s net worth because banks are under pressure to maintain a desired level of Capital Adequacy and in the absence of comfortable to assess the health of various categories of loan assets in various categories of banks. The data was collected for a period of five years and analysed by mean, CAGR, ANOVA and ranking banks. The individual banks got ranks as per their performance in management of NPA‟s. It was also tested, whether there is significant difference between nonperforming assets of banks, it was found that there is significant difference in the level of NPA‟s of nationalised banks which reflect their varied efficiency in the management of non-performing assets.

Kartikey Koti, (2013)[6] in their article titled "Management of non-performing assets A Case study in Krishna Grameena Bank, Gulbarga District" have ventilates that the recent years public sector banks have been experiencing a growth in profits. But many drivers of profits of not sustainable in the long run, They should focus on key factors like diversified loan portfolio, robust Internal risk management techniques by putting in place appropriated risk Measurement and mitigating framework, sophisticated credit monitoring Systems, higher share of non fund income in total, which helps in sustainable Profits in long run. Indian banking has witnessed tremendous changes in the wake of the new economic reforms ushered in the year 1992. The reforms have positively impacted on the banking system, which has become resilient, Competitive and efficient with better productivity. The winning strategies for them could be clear customer segmentation and product offerings focus on Cost efficiencies and entrepreneurial ability to face stiff competition. Reserve bank of India which is the central banking authority aims at financial stability through structural and regulatory measures. It envisages the new economic reforms in the banking sectors as those aimed at enhancing operational efficiency thorough completion and prudential norms. The biggest challenge for the banks in India is efficient management of non-performing assets (NPA's). The study focuses to know what the non-performing Assets are, and how they can handle to reduce loss. The study reveals the reason for NPA's, methods that are used to control NPA's. The data for the study is collected based on informal discussions and from manuals, annual reports of the Krishna Grameena Bank.

Garg Sambhav *et al.*, (2013)[7] in their article titled "A Study on NPA Management in Indian Banking Industry" have reveals that the Priority and Non-Priority Sector Advances of Scheduled Commercial Banks. The present study highlighted that all the Indian banks are facing the challenge of NPAs and intensity of NPAs is much higher in Public Sector Banks. It shows that earlier Public Sector's

NPAs was more as compared to Public Sector Banks. However, now it has been managed at lower end.

Shalini (2013)[8] in her article titled “A study on causes and remedies for non performing assets in Indian public sector banks with special reference to agricultural development branch, state bank of Mysore” has illustrates that the effect of different variables on the non performing farmers, as the main objective of our study is to know what are the difficulties faced by our Indian farmers in paying back the borrowed amount with regular payment of interest. We have used both the data collection methods and Telephonic interview method to collect sufficient information. Apart from these methods we have also used the chi square analysis test in order to know whether these variables have an effect on the nonpayment of interest. I have also tried to find out, are there any significant differences in our study? If yes, what is their significance level? In order to make my study more accurate the author considered 1% level of significance. After the study suggestions are given as to how the NPA’s can be minimized by considering the 5 main functions of Management.

Siraj K.K. and Sudarsanan Pillai P. (2013)[9] in their article titled “Efficiency of NPA Management in Indian SCBs – A Bank-Group Wise Exploratory” have ventilates that the growth of selected NPA variables and compare it with banking performance indicators. The authors utilized the growth rate measured using exponential growth equation to estimate the relative efficiency of different bank groups in India. The estimation using EG value is more accurate since variables used in this study showed non-linear movements. Variables that impact NPA of banks is assessed and based on its growth rate, inference is generated. The analysis focused on identifying relative efficiency of different bank groups in managing their NPA. The findings revealed relative efficiency of public sector banks, which of course may be judged as the major reason for the resilience of Indian banking towards financial crisis.

STATEMENT OF THE PROBLEM

A strong banking sector is an important for successful economy. Credit is one of the most important assets of the banks. Availability of adequate and timely credit can go long way in improving productive capacity of the different sectors of the economy equally important is the adequate and timely recovery of loans. The process of credit cycle is affected by non-recovery of loans along with interest. Operational efficiency of the banks is affected by the quality of advances which in turn has on impact of the profitability, liquidity, and solvency position of the banks.

OBJECTIVES OF THE STUDY

The study has framed the following objectives.

1. To study the Gross NPAs and Net NPAs of select Public and Private Sector banks.
2. To make a comparative study of NPAs in select Public and Private Sector banks.

SAMPLING DESIGN

The study is descriptive in nature. The study has focused on the comparison of NPAs between selected Public and Private Sector banks. The present study was mainly based on secondary data which were collected from annual reports of the respective banks. The banks for the purpose of the study are chosen as per convenience only. The sample consists of four Public Sector banks namely State Bank of India, Indian Bank, Canara Bank and Indian Ovearseas Bank and four Private Sector banks namely ICICI bank, HDFC bank, Karur Vysya bank and AXIS bank. The study is done on the basis of data for the period of 10 years from 2008-2009 to 2017-2018.

STATISTICAL TOOLS USED FOR ANALYSIS

This study has used some of the statistical tools such as:

Mean

The mean is the average of the numbers, a calculated "central" value of a set of numbers. It has been obtained by adding the values of all observations and dividing it by the number of observations.

$$\text{Mean } (X) = \frac{\Sigma x}{N}$$

Where, Σx = sum of variables and N = Number of observations.

DATA ANALYSIS AND INTERPRETATION

Types of NPA

Gross NPA

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. 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. It can be calculated with the help of the following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

Net NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks**.** Since in India, the 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. It can be calculated by the following ratio:

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

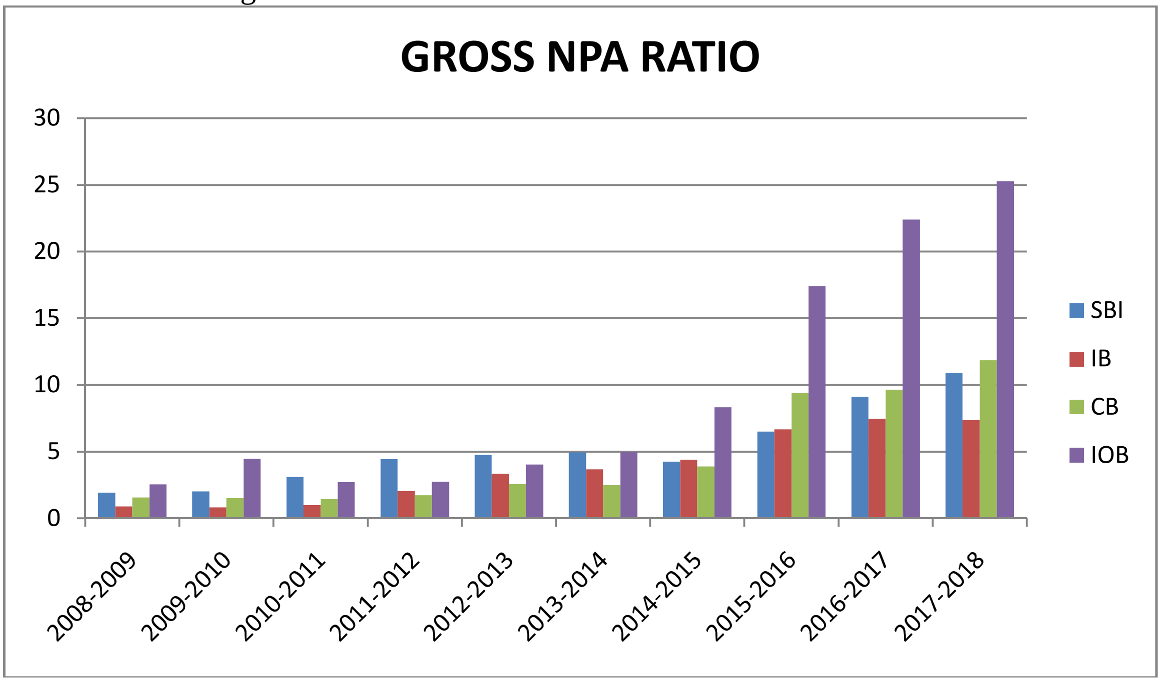
Table 1: Gross and Net NPAs of Public Sector Banks

Year	SBI		IB		CB		IOB	
	GNPA	NNPA	GNPA	NNPA	GNPA	NNPA	GNPA	NNPA
2008-2009	1.91	1.79	0.89	0.18	1.56	1.09	2.54	1.33
2009-2010	2.01	1.72	0.81	0.23	1.52	1.06	4.47	2.52
2010-2011	3.09	1.63	0.98	0.53	1.45	1.11	2.72	1.19
2011-2012	4.44	1.82	2.03	1.33	1.73	1.46	2.74	1.35
2012-2013	4.75	2.10	3.33	2.26	2.57	2.18	4.02	2.50
2013-2014	4.95	2.57	3.67	2.26	2.49	1.98	4.98	3.20
2014-2015	4.25	2.12	4.40	2.50	3.89	2.65	8.33	5.68
2015-2016	6.50	3.81	6.66	4.20	9.40	6.42	17.40	11.89
2016-2017	9.11	5.19	7.47	4.39	9.63	6.33	22.39	13.99
2017-2018	10.91	5.73	7.37	3.81	11.84	7.48	25.28	15.33

Source: Computed from the Annual reports of the respective Banks

Table 1 reveals that at the end of 2008-2009, Gross NPAs to gross advances ratio of SBI bank was 1.91 per cent, while at the end of 2017-2018, it was 10.91 per cent, with the highest being 10.91 per cent at the end of the year 2017-2018. In case of IB, the Gross NPA ratio was 0.89 per cent at the end of 2008-2009 and it was increased to 7.37 per cent at the end of 2017-2018 and it being the highest. At the end of 2008-2009, this ratio of CB was 1.56 per cent, while at the end of 2017-2018, it was 11.84 per cent and it being the highest. In case of IOB, the Gross NPA ratio was 2.54 per cent at the end of 2008-2009 and it was increased to 25.28 per cent at the end of 2017-2018 and it being the highest.
It is observed that the Gross NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study.

Figure 1. Gross NPAs of Public Sector Banks



From the table 1, it is observed that the Net NPA ratio increased from 1.79 per cent to 5.73 per cent in SBI Bank, in the case of IB, this ratio increased from 0.18 per cent to 3.81 per cent. Whereas in the case of CB, this ratio increased from 1.09 per cent to 7.48 per cent, in case of IOB, this ratio increased from 1.33 per cent to 15.33 per cent during 2008-2009 to 2017-2018.

In figure 2, it is observed that the Net NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study.

Figure 2. Net NPAs of Public Sector Banks

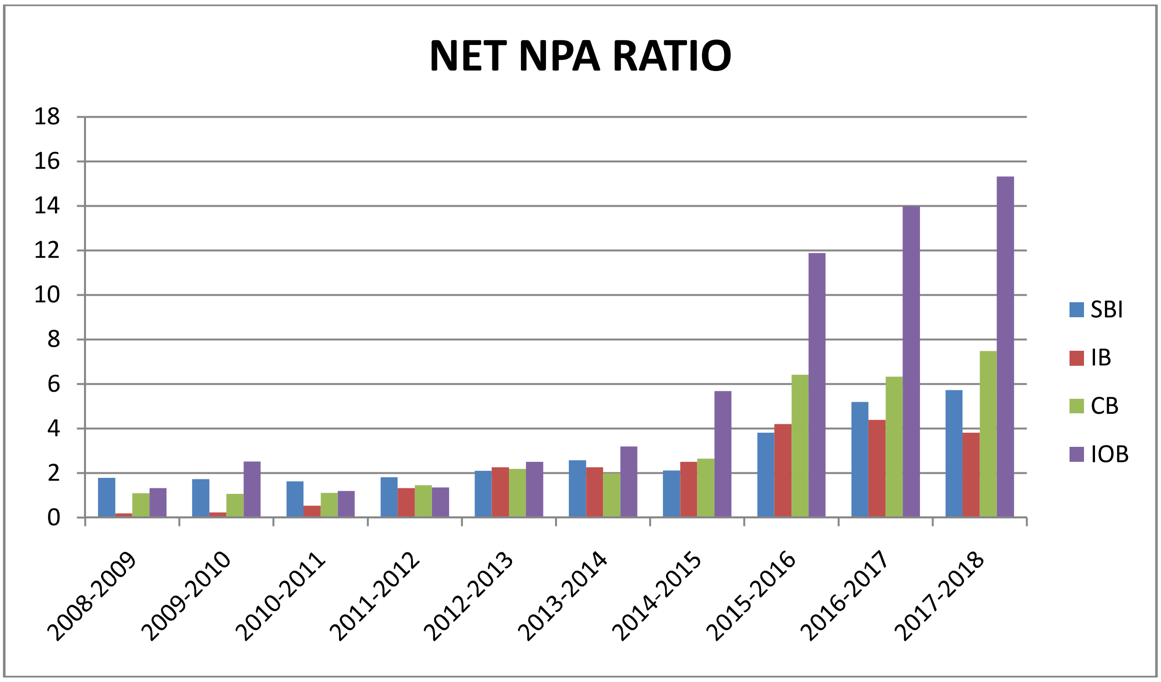


Table 2: Gross and Net NPAs of Private Sector Banks

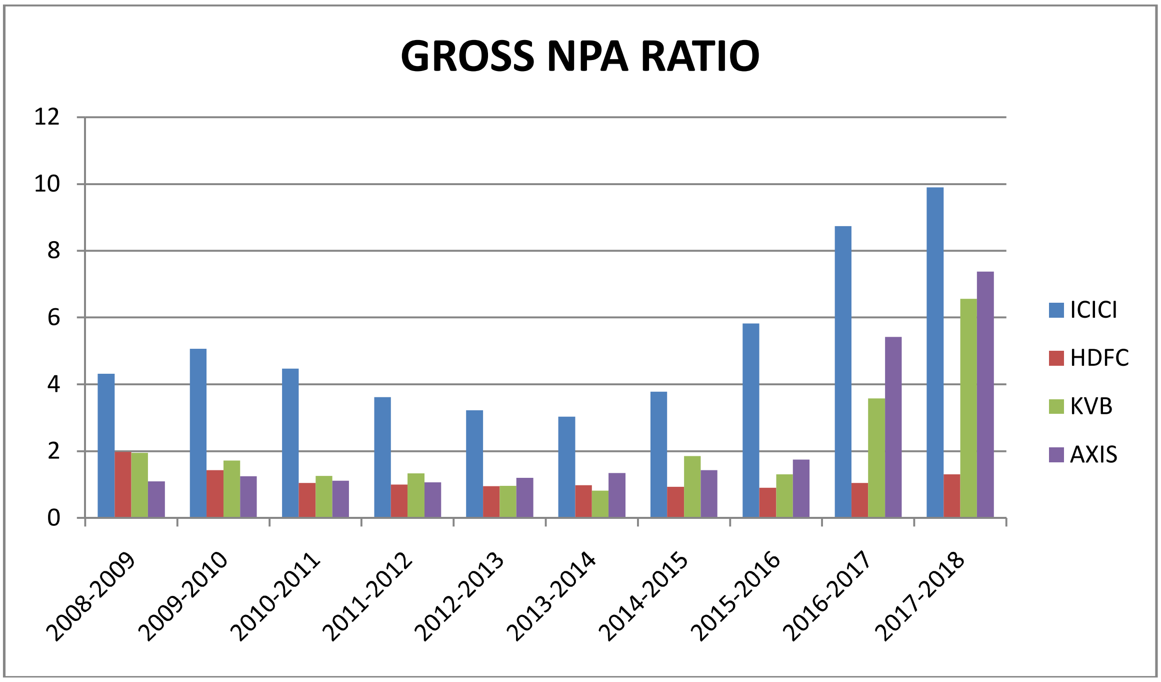
Year	ICICI		HDFC		KVB		AXIS	
	GNPA	NNPA	GNPA	NNPA	GNPA	NNPA	GNPA	NNPA
2008-2009	4.32	2.09	1.98	0.63	1.95	0.25	1.09	0.40
2009-2010	5.06	2.12	1.43	0.31	1.72	0.23	1.25	0.40
2010-2011	4.47	1.11	1.05	0.19	1.26	0.07	1.11	0.29
2011-2012	3.62	0.73	1.00	0.18	1.33	0.33	1.06	0.28
2012-2013	3.22	0.77	0.95	0.20	0.96	0.37	1.20	0.36
2013-2014	3.03	0.97	0.98	0.28	0.82	0.41	1.34	0.44
2014-2015	3.78	1.61	0.93	0.26	1.85	0.78	1.43	0.46
2015-2016	5.82	2.98	0.90	0.28	1.30	0.55	1.75	0.73
2016-2017	8.74	5.43	1.05	0.33	3.58	2.53	5.42	2.26
2017-2018	9.90	5.43	1.30	0.40	6.56	4.16	7.38	3.69

Source: Computed from the Annual reports of the respective Banks

From table 2, it can be seen that at the end of 2008-2009, Gross NPAs to gross advances ratio of ICICI bank was 4.32 per cent, while at the end of 2017-2018, it was 9.90 per cent with the highest being 9.90 per cent at the end of the year 2017-2018. At the end of 2008-2009, Gross NPA ratio of HDFC bank was 1.98 per cent, while at the end of 2017-2018, it was 1.30 per cent with the highest being 1.98 per cent at the end of the year 2008-2009. At the end of 2008-2009, this ratio of KVB was 1.95 per cent, while at the end of 2017-2018, it was 6.56 per cent and it being the highest. In the case of AXIS bank, the Gross NPA ratio was 1.09 per cent at the end of the year 2008-2009 and it was increased to 7.38 per cent while at the end of the year 2017-2018 and it being the highest.

It is observed that the Gross NPA ratio has shown a trend in selected Private Sector banks over the period of study.

Figure 3. Gross NPAs of Private Sector Banks



From the table 2, it is observed that the Net NPA ratio of ICICI Bank increased from 2.09 per cent in 2008-2009 to 5.43 per cent in 2017-2018. In the case of HDFC Bank, this ratio was increased from 0.63 per cent in 2008-2009 to 0.40 per cent in 2017-2018, whereas in the case of KVB Bank it was increased from 0.25 per cent to 4.16 per cent during the same period. In the case of AXIS bank, this ratio was increased from 0.40 per cent to 3.69 per cent in 2017-2018. It is observed that Net NPA ratio has shown a trend in selected private sector banks over the period of study.

Figure 3. Net NPAs of Private Sector Banks

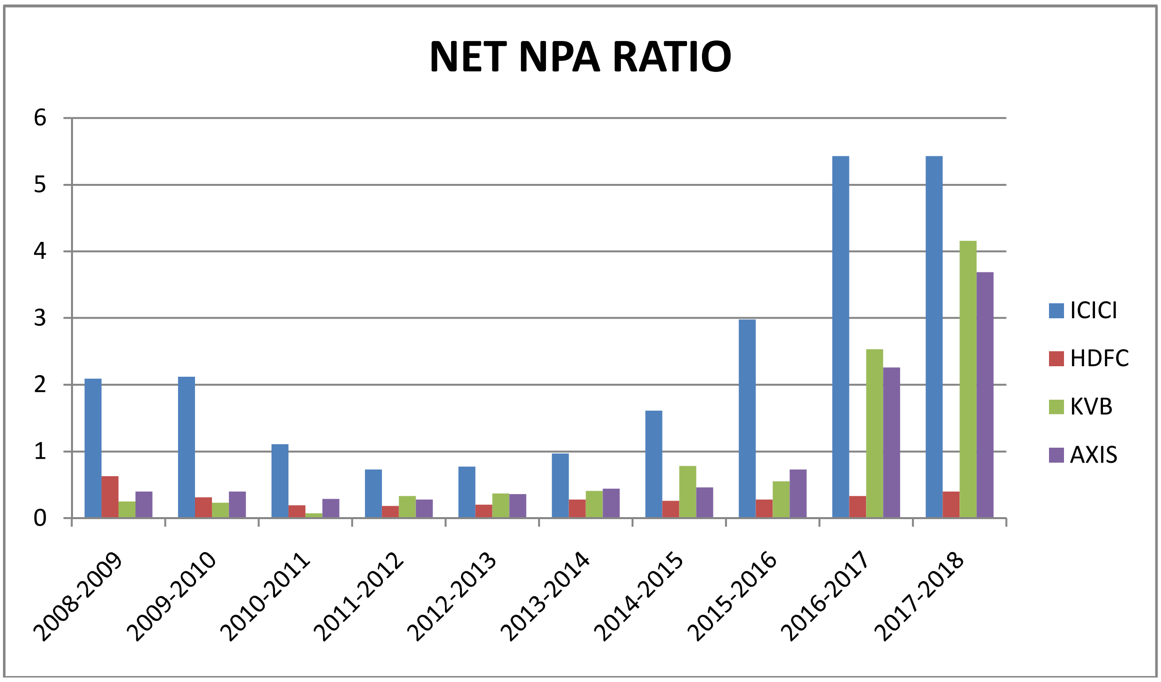


Table 3. Public vs. Private Sector Banks

Banks	Bank Name	Mean
Public Sector	SBI	5.19
	IB	3.76
	CB	4.61
	IOB	9.49
Private Sector	ICICI	5.20
	HDFC	1.16
	KVB	2.13
	AXIS	2.30

From the above table shows that the private sector banks (Mean=2.70) have performed well in controlling the NPAs with compared to public sector banks (Mean =5.76) and out of four public sector banks were selected for the study, the IB (Mean = 3.76) has controlled its Gross NPA ratio by using various policy measures with compared to other public sector banks. Out of four private sector banks were selected for the study, the HDFC bank (Mean = 1.16) has controlled its Gross NPA ratio by using various policy measures with compared to other private sector banks. So, the public sector banks should concentrate more to take an immediate action for reducing the NPAs. From this analysis, the HDFC Bank appears to be the best bank in terms of NPA management with lowest mean of 1.16 per cent, which implies that HDFC Bank is most effective in controlling its NPAs over the years in comparison to other banks. The HDFC bank provides majority of loan to housing sector only. The housing loans have low chance of default as compared to other loans.

FINDINGS OF THE STUDY

1. Public Sector banks have higher NPA ratio as compared to Private Sector banks over the period of the study.
2. Gross and Net NPAs ratio has shown an increasing trend in selected Public Sector banks over the period of study.
3. It is revealed that the Gross NPA ratio has shown a declining trend in Private Sector banks.
4. It is observed that Net NPA ratio has shown an increasing trend in selected private sector banks over the period of study.

SUGGESTIONS

The following suggestions were presented through this study for the better performance of the selected banks.

1. Decline of NPA is essential to improve profitability of banks and fulfill with the capital adequacy norms as per the basal accord.
2. Steps initiated by Reserve Bank of India and Government of India to strengthening and improving the functioning of debt recovery Tribunal, Lok adalats, SERFASI Act as a comprehensive settlement policy certainly improves the recovery in NPA accounts.

CONCLUSION

The money locked up in NPAs is not available for productive use and adverse effect on banks. The effect of NPA is comparatively higher in public sector banks. To improve the efficiency and profitability of various steps have been taken by government to reduce the NPAs. The NPA level of our banks is still high as compared to the international standards. The banks should take care to ensure that they give loans to creditworthy customers. It is not at all to have zero NPAs. The bank management should speed up the recovery process. The government should also make more provisions for faster settlement of pending cases. So, the problem of NPA needs to lot of serious efforts otherwise NPAs should affect the bank's profitability, liquidity and solvency.

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