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A Comparative Study of NPAS in Public & Private Sector Banks in India

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Abstract- **Non performing assets are one of the major concerns for banks in India. NPAs reveal the performance of banks. It affects the liquidity and profitability of banks. Growing non performing assets is a recurrent problem in the Indian banking sector. The NPAs growth has a direct impact on profitability of banks. It involves the necessity of provisions, which reduces the overall profits and shareholders' value. The problem of NPAs is not only affecting the banks but also the whole economy. In this article, a comparative study has been made between NPA of public sector banks and private sector banks in India for the past 5 years. The factors contributing to NPAs, reasons for high NPAs and their impact on Indian banking operations, the trend and magnitude of NPAs in Indian banks. The recovery of NPAs in both public and private sector banks has been analysed.**

KEYWARDS: NPA, Public and Private Sector Banks, Gross NPA, Net NPA

INTRODUCTION

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India. NPA (non-performing assets) is related to banking and finance term. When bank or finance company is unable to recover its lent money from borrower in 90 days than that amount which have not been recovered will be treated as NPA.

REVIEW OF LITERATURE:

Kumar (2015) in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs). The quality of loan portfolio is very crucial for the health and existence of the banks. High level of (NPAs) has many implications on profitability, productivity, liquidity, solvency, capital adequacy and image of the bank.

Selvarajan & Vadivalagan (2017) 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. Indian Bank has slippages in controlling of NPAs in the early years of the decade. 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.

Singh (2016) in his paper entitled Recovery of NPAs in Indian commercial banks says that the origin of the problem of burgeoning NPA's lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing. Banks have to be given powers of inspection of the use of loans and the loan should be disbursed on the point of purchase by the borrowers to ensure proper utilization of deposits. Banks may also be given powers to recover loans from the guarantor of the borrower.

OBJECTIVES OF THE STUDY:

1. To discuss the factors for rise in NPAs.
2. To review the impact of NPA.
3. To study NPA trend in last 5 years in private & public sector banks.
4. To make a comparative study of NPAs of public sector & private sector banks.

RESEARCH METHODOLOGY:

Research design used to carry out this study is descriptive research because it deals with statistical data and the main aim of the report is to describe the factors affecting the problem mentioned and making comparison between banks performance in context of NPA. The study is done on the basis of data for the period of 5 years from the financial year 2012-2017 and secondary data is collected mainly from the sources available at internet like the RBI website, websites of the banks etc. Data is presented with the help of Graphs, charts and tables etc.

LIMITATION OF THE STUDY:

Every study has certain limitations. Same is true with this study also. Some of the limitations faced during this study are:

For the purpose of this study only data of 5 years has been taken that is from financial year 2013-2017.

NPA & ITS TYPES:

NPA may be classified into

a. Gross NPA

Gross NPA is advance which is considered irrecoverable, for which bank has made provisions, and which is still held in banks' books of account.

b. Net NPA

Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

FACTORS FOR RISE IN NPA:

The banking sector has been facing the serious problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks. The NPAs are growing due to external as well as internal factors.

External factors

a. Ineffective recovery - The Govt. has set up numbers of recovery tribunals, which works for recovery of loans and advances. Due to their negligence and ineffectiveness in their work the bank suffers the consequence of non-recover, thereby reducing their profitability and liquidity.

b. Wilful defaults - There are borrowers who are able to pay back loans but are intentionally withdrawing it. These groups of people should be identified and proper measures should be taken in order to get back the money extended to them as advances and loans.

c. Natural calamities - This is the major factor, which is creating alarming rise in NPAs of the PSBs. Every now and then India is hit by major natural calamities thus making the borrowers unable to pay back there loans. Thus the bank has to make large amount of provisions in order to compensate those loans, hence end up the fiscal with a reduced profit.

d. Industrial sickness - Improper project handling, ineffective management, lack of adequate resources lack of advance technology , day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.

e. Lack of demand - Entrepreneurs in India could not foresee their product demand and starts production which ultimately piles up their product thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers a minimum label. Thus the banks record the non-recovered part as NPAs and has to make provision for it.

f. Change on govt. Policies - With every new govt. banking sector gets new policies for its operation. Thus it has to cope with the changing principles and policies for the regulation of the rising of NPAs.

g. Directed loans system - Under this commercial banks are required to supply 40% percentage of their credit to priority sectors. Most significant sources of NPAs are directed loans supplied to the —micro sector are problematic of recoveries especially when some of its units become sick or weak.

INTERNAL FACTORS:

a. Defective lending process - There are three cardinal principles of bank lending that have been followed by the commercial banks since long

i. Principle of safety
ii. Principle of liquidity
iii. Principle of profitability.

b. Inappropriate technology - Due to inappropriate technology and management information system, market driven decisions on real time basis can't be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, thus NPAs. All the branches of the bank should be computerized.

c. Improper SWOT analysis - The improper strength, weakness, opportunity and threat analysis is another reason for rise in NPAs. While providing unsecured advances the banks depend more on the honesty, integrity, and financial soundness and credit worthiness of the borrower.

d. Poor credit appraisal system - Poor credit appraisal is another factor for the rise in NPAs. Due to poor credit appraisal the bank give advances to those who are not able to repay it back. They should use good credit appraisal to decrease the NPAs.

e. Managerial deficiencies -The banker should always select the borrower very carefully and should take tangible assets as security to safe guard its interests. When accepting securities banks should consider the:

1. Marketability 2. Acceptability
3. Safety 4. Transferability

The banker should follow the principle of diversification of risk based on the famous maxim do not keep all the eggs in one basket, it means that the banker should not grant advances to a few big farms only or to concentrate them in few industries or in a few cities. If a new big customer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected.

f. Absence of regular industrial visit - The irregularities in spot visit also increases the NPAs. Absence of regularly visit of bank officials to the customer point decreases the collection of interest and principals on the loan. The NPAs due to wilful defaulters can be collected by regular visits.

g. Faulty credit management - like defective credit in recovery mechanism, lack of professionalism in the work force.

IMPACT OF NPA:

NPA impact the performance and profitability of banks. The most notable impact of NPA is change in banker's sentiments which may hinder credit expansion to productive purpose. Banks may incline towards more risk-free investments to avoid and reduce riskiness, which is not conducive for the growth of economy. If the level of NPAs is not controlled timely they will

1. Reduce the earning capacity of assets and badly affect the ROI.
2. The cost of capital will go up.
3. The assets and liability mismatch will widen.
4. Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
5. The economic value additions (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital.
6. NPAs causes to decrease the value of share sometimes even below their book value in the capital market.
7. NPAs affect the risk facing ability of banks.

ANALYSIS AND INTERPRETATION:

The gross NPA and net NPA from the year 2013-2017 has been taken for analysis separately for both private and public sector banks.

Table 1

Gross and Net NPA of Public Sector Banks (In Million)

Year	Gross NPA	Net NPA	% of Increase
2013	16,50,057	9,00,369	-
2014	22,82,737	13,06,348	45.09
2015	27,84,680	15,99,511	22.44
2016	53,99,564	32,03,752	100.30
2017	68,47,319	38,30,889	19.57

The above table shows that the GNPA and NNPA of public sector banks also goes on increases per year. There occurs a high increase in NNPA on the year 2015-2016.

TABLE 2

Gross and Net NPA of Private Sector Banks (In million)

Year	Gross NPA	Net NPA	% of Increase
2013	2,10,705	59,944	-
2014	2,45,424	88,615	47.82
2015	3,41,062	1,41,283	59.43
2016	5,61,857	2,66,774	88.82
2017	9,32,092	4,77,802	79.10

The above table shows that the GNPA and NNPA of private sector banks goes on increases per year. There occurs a high increase in NNPA on the year 2015-2016.

CORRELATION ANALYSIS:

Ho: There is no significant relationship between NNPA of Public and Private Sector Banks.

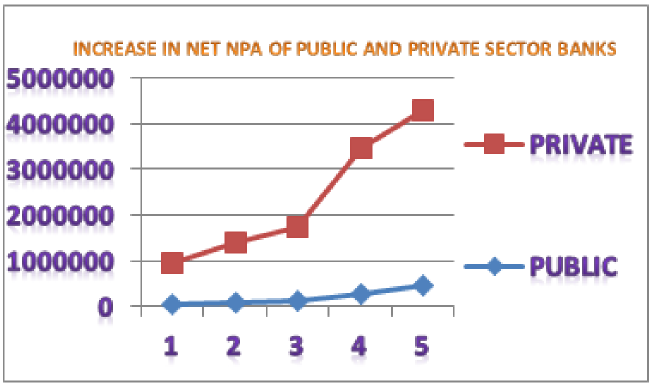
When the calculated value of correlation analysis is between -1 to 0 there occurs a negative correlation and when the value is 0 no correlation occurs and when the value is 0 to 1there occurs a positive correlation.

The calculated value of correlation analysis is 0.96.

The correlation analysis between NET NPA of Public Sector Banks and Private Sector Banks reveals that if there is an increase in Public Sector Banks NNPA there occurs an increase in Private Sector Banks NNPA. Thus the Null hypothesis is rejected.

Chart

Increase in Net NPA of Public and Private Sector Banks (In million)



RECOVERY OF NPA THROUGH VARIOUS CHANNELS:

TABLE 3
NPAs recovered through Various Channels
(In Billion)

Year	Recovery channel	Lok Adalats	DRTs	SARFAESI ACT	Total	%
2012-13	Amount involved	66	310	681	1057	22
	Amount recovered	4	44	185	233	
2013-14	Amount involved	232	553	953	1738	18
	Amount recovered	14	53	253	320	
2014-15	Amount involved	310	604	1568	2482	12
	Amount recovered	10	42	256	308	
2015-16	Amount involved	720	693	801	2214	1.2
	Amount recovered	32	64	132	228	
2016-17	Amount involved	1058	671	1131	2860	9.7
	Amount recovered	38	164	78	280	

Note: DRTs – Debt Recovery Tribunals
% of Recovery per year

Table 3 shows the amount of NPA involved in channels of Lok Adalats, DRTs and SARFAESI Act and the amount recovered by that channels from 2012-2017. As per the above table, tha amount involved for recovering the NPA is higher in the year 2016-17 and lower in the year 2012-13 and the Recovery of NPA is higher in the year 2012-13 when compared to other years and lower in the year 2016-17.

CONCLUSION:

This study shows that extent of NPA is comparatively very high in public sector banks as compared to private banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The extent of NPAs has comparatively higher in Public sector banks. To improve the efficiency and profitability, the NPAs have to be scheduled, various steps have been taken by governments to reduce the NPAs. The governments should also make more provisions for faster settlements of pending cases and also it should reduce the mandatory lending to priority sector as the major problem creating area. The problem of NPAs needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all. A conclusion section is not required. Although a conclusion may review the main points of the paper, do not replicate the abstract as the conclusion. A conclusion might elaborate on the importance of the work or suggest applications and extensions.

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