A Comparative Study of NPA's of Indian Commercial Banks

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Abstract: **Indian banking industry plays a crucial role in the economic development of the country. This role is performed by banks by extending credit to several industries/sectors for their operations, expansion and development. This process of credit creation leads to credit risk which in turn leads to Non-Performing Assets (NPA's).**

The Indian banking sector has been facing serious problems of increasing Non- Performing Assets (NPAs) for more than two decades. NPA's reflects the performance of banks, affect the liquidity, profitability, net-worth of banks and also erodes the value of the asset.

The Public Sector Banks have shown good performance over the private sector banks as far as the financial operations are concerned. The Private Sector Banks have also shown comparatively good result. However, the only problem of the Public Sector Banks these days are the increasing level of the non performing assets and Managing NPA's has emerged as one of the major challenges facing public sector banks in India

The Non Performing Assets of the Public Sector Banks have been growing regularly. On the other hand the non performing assets of private sector banks have been decreasing regularly except few banks. Generally reduction in NPAs shows that banks have strengthened their credit appraisal processes over the years and vice -versa.

Today Non- performing assets are one of the major concerns for scheduled commercial banks in India. The recommendations of Narasimham committee and Verma committee, some steps have been taken to solve the problem of old NPAs in the balance sheets of the banks.

The objective of this research is to study, compare Gross NPA's, Net NPA's and position of NPAs of public and private sector banks and to identify reasons for increasing of NPAs, to examine the steps to be engaged for recovery of NPAs and to suggest measures for efficient management of NPA's to improve the financial health in the overall banking system.

Keywords: **Non- Performing Assets, NPA, Scheduled Commercial banks, Narasimham committee, Gross NPA, Net NPA, Public sector banks, Private sector banks.**

I. INTRODUCTION

A country's development can be better perceived through economic growth which is influenced by the prevailing financial system. The 'Financial System' plays a crucial role and it intermediates between the flow of funds to those who save a part of their income and those who invest in productive assets. A strong financial system is essential to fulfil the objective of strengthening the economy and for its healthy and orderly growth.

Financial Institutions (Bank's) are intermediaries that mobilize savings and facilitate the allocation of funds from surplus units to deficit units in an efficient manner. Good financial institutions are vital to the functioning of any economy. If finance were to be described as the articulatory systems of the economy, financial institutions are like its brain.

Banking System In India

Indian banking industry has been divided into two parts, organized and unorganized sectors. The organized sector consists of Reserve Bank of India, Commercial Banks and Co-operative Banks, and Specialized Financial Institutions (IDBI, ICICI, IFC etc).

Scheduled Commercial Banks

The commercial banking construction in India consists of scheduled commercial banks and unscheduled banks. Scheduled Banks in India constitute those banks which have been included in the second schedule of RBI act 1934. For the purpose of assessment of performance of banks, the Reserve Bank of India categories those banks **as public sector banks, private sector banks, and foreign banks**, i.e. private sector, public sector, and foreign banks come under scheduled commercial banks.

NON PERFORMING ASSETS (NPAs)

The concept of Non-Performing Assets (NPAs) was introduced for the first time in the Narasimham Committee on "Financial System Reforms" that was tabled in Parliament on December 17th 1991. The Committee studied the prevailing financial system, identified its short-comings and weaknesses and made with ranging suggestions and recommendations in line with internationally accepted norms. Based on the recommendations of the Committee on "Financial System Reforms", the RBI evolved prudential norms on Income recognition, Asset classification and Provisioning and issued revised instructions to banks in April 1992.

Generally the banks have different kind of assets, like cash in hand, balances with other banks, investment, loans and advances, fixed assets and other assets. The Nonperforming Asset (NPA) concept is restricted to loans, advances and investments. As long as an asset generate the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a "Non-Performing Asset".

In other words, an asset which becomes as Non Performing Asset (NPA) when it cease to generate income, i.e. interest, commission or any other dues for the bank for more than 90 days.

II. REVIEW OF LITERATURE

i) **Kumar (2013)** 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 trouble and pain for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90sadversely affecting was the accumulation of huge non-performing assets (NPAs).

ii) **Gupta (2012)** in his study A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks had concluded that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before credit facility and credit rating agencies should regularly evaluate the financial condition of the clients.

iii) **Malyadri (2011)** in his research paper title "A comparative Study on NPAs in Indian banking Industry" analyze NPA in weaker segments of public Sector banks and private sector banks specifically in India .he study observed that there is increase in advances over the period of the study. However, the basis of analysis that there is significant improvement in the management of NPAs of the public sector banks in India. It was recommended that public sector banks should try to improve technology and should devise customer friendly policies to face competition at national and international level.

iv) **Arora and Ostwal (2014):** The present paper analyses the classification and comparison of loan assets of public and private sector banks. The study concluded that NPAs are still danger for the banks and financial institutions and in comparison to private sector banks; public sector banks have higher level of NPAs.

III. CONCEPT OF NPA & CLASSIFICATION

The Non Performing Asset (NPA) concept is confined to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a "Non Performing Asset".

In other words, a loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission or any other dues for the bank for more than 90 days.

A NPA is an advance where payment of interest or repayment of instalment on principal or both remains unpaid for a period of two quarters or more and if they have become „past due". An amount under any of the credit facilities is to be treated as past due when it remain unpaid for 30 days beyond due date. It is also called as Non Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as Non-Performing.

NPAs Classification:

NPA have been classified into following four types:-

(i) **Standard Assets**: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense.

(ii) **Sub-Standard Assets:** All those assets (loans and advances) which are considered as non-performing for a period of 12 months.

(iii) Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months.

(iv) Loss Assets: All those assets which cannot be recovered. These assets are identified by the Central Bank or by the Auditors.

Types of NPA:

Gross NPA: Gross NPAs are the sum of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be measured with the help of following ratio: Gross NPAs Ratio = Gross NPAs / Gross Advances

Net NPA: Net NPAs are the type of NPAs in which the bank has deducted the provision concerning NPAs. Net NPA shows the real burden of banks**.** Since in India, bank balance sheets hold a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to make certain provisions against the NPAs according to the central bank guidelines.

It can be calculated by following:

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

IV. OBJECTIVES OF THE STUDY

- To study and understand the performance of Non Performing Assets of Scheduled Commercial Banks in India from last decade.
- To make a comparative study of the magnitude and dimensions of NPAs in the Public and private sector banks.
- To make useful suggestions to avoid future NPAs and to manage existing NPAs in banks at present.

V. ANALYSIS OF NPAs OF PUBLIC AND PRIVATE SECTOR BANKS

Bank-wise NPAs As on June -2017 (Rs: Cr)

Public Sector Bank's NPA's Rs: Cr		Private Sector Bank's NPA's Rs: Cr	
State Bank of India	**1,88,068**	**ICICI Bank Ltd**	**43,148**
Punjab National Bank	**57,721**	**Axis Bank Ltd**	**22,031**
Bank of India	**51,019**	**United Bank of India**	**12165**
IDBI Bank Ltd	**50,173**	**HDFC Bank Ltd**	**7,243**
Bank of Baroda	**46,173**	**Vijaya Bank**	**6,812**
Canara Bank	**37,658**	**Punjab & Sind Bank**	**6,693**
Union Bank of India	**37,286**	**The Jammu & Kashmir Bank**	**5,641**
Indian Overseas bank	**35,453**	**Kotak Mahindra Bank**	**3,727**
Central Bank of India	**31,398**	**IDFC Bank**	**2,004**
UCO Bank	**25,054**	**The Federal Bank**	**1,868**
Oriental Bank of Commerce	**24,409**	**Karur Vysya Bank**	**1,807**
Corporation Bank	**21,713**	**The South Indian Bank**	**1,696**
Allahabad Bank	**21,032**	**The Karnataka Bank**	**1,691**
Syndicate Bank	**20,184**	**Yes Bank**	**1,364**
Andhra Bank	**19,428**	**Indus Ind Bank**	**1,272**
Bank of Maharashtra	**18,049**	**The Lakshmi Vilas Bank**	**878**
Dena Bank	**12,994**	**City Union Bank**	**735**
Indian Bank	**9,653**	**RBL Bank**	**458**
		Dhanlaxmi Bank	**354**
		DCB Bank	**285**
Total NPA's	**7,07,465**	**Total NPA's**	**1,21,872**

Source: Annual Financial Reports of Banks, RBI Reports Table - 1

The study has been carried out using the RBI reports on banks (Annual Financial Reports) information /data obtain from banks and discussion with few bank officials. The public sector and private sector banks showed a huge difference in NPA's. The total NPA's of public sector Banks is about more than 6 times of private sector Banks. It indicates public sector banks have higher NPA's compared to Private sector banks. Based on this we can understand the reason for this is that private sector banks have a secured loan policy & recovery as compared to public sector banks.

ANALYSIS OF GNPA'S & NNPA'S OF MAJOR BANK'S

Public Sector Bank Gross and Net NPA's **(Rs: cr)**

Years	SBI				PNB			
	GNPA	%GNPA	NNPA	%NNA	GNPA	%GNPA	NNPA	%NNPA
2013	**51189**	**4.75**	**21956**	**2.1**	**13465.79**	**4.27**	**7236.50**	**2.35**
2014	**61605**	**4.95**	**27590**	**2.57**	**1880.06**	**5.25**	**9916.99**	**2.85**
2015	**56725**	**4.25**	**27591**	**2.12**	**25695**	**6.55**	**15396**	**4.06**
2016	**98173**	**6.5**	**55807**	**3.81**	**55818**	**12.90**	**35423**	**8.61**
2017	**112342**	**6.90**	**58277**	**3.71**	**55370**	**12.58**	**32702**	**7.81**

Source: Author's Calculations **Table-2**

It has been observed that gross NPAs and net NPA's as absolute amounts and in terms of % with gross advances of public sector banks have increased from 2% to 5% in the period of 2013-14 to 2017-18, whereas gross NPAs of SBI & PNB banks have risen from 4.27 to 12.58% in the period of 2013-14 to 2017-18 as shown in Table-1. On the other hand net NPAs of public sector banks in absolute and in percentage terms have also risen from 2.1% to 7.81% in the period of 2013-14 to 2017-18.

Private Sector Bank Gross and Net NPA's (Rs: cr)

Years	HDFC				AXIS			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2013	**2334**	**0.97**	**468**	**0.2**	**2393**	**1.06**	**704**	**0.32**
2014	**2989**	**1.00**	**820**	**0.30**	**3146**	**1.22**	**1025**	**0.40**
2015	**3438**	**0.9**	**896**	**0.20**	**4110**	**1.34**	**1317**	**0.44**
2016	**4393**	**0.94**	**1320**	**0.28**	**6083**	**1.67**	**2522**	**0.70**
2017	**5886**	**1.05**	**1844**	**0.33**	**21280**	**5.04**	**8626**	**2.11**

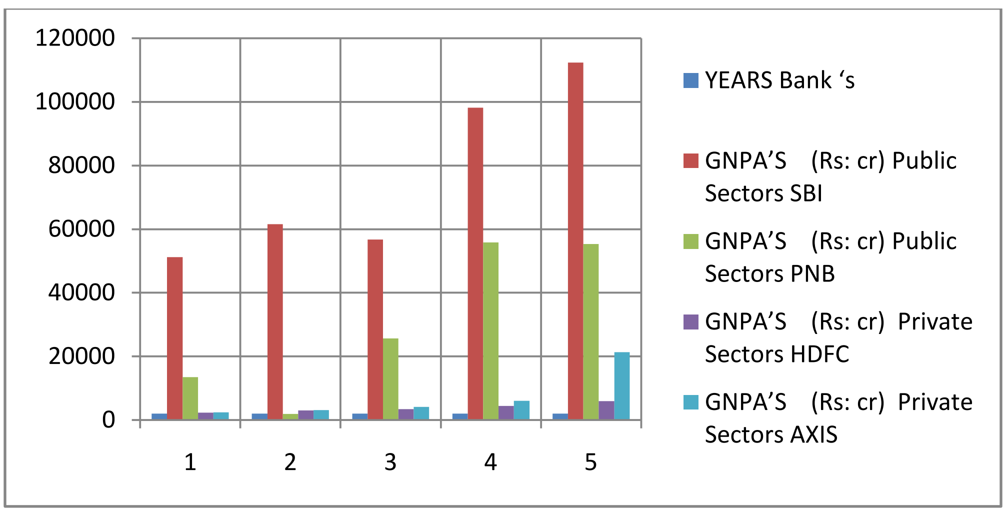
Source: Author's Calculations. **Table-3**

The above study reveals that the Gross NPA's of private sector Banks are very less and the Net NPA's are comparatively very low when compared to public sector Banks. This represents effective loan policies, loan sanctions and disbursement, recoveries.

Analysis of Gross NPA's

Years	**GNPA'S (Rs: cr) Public Sectors**		**GNPA'S (Rs: cr) Private Sectors**	
Bank 's	**SBI**	**PNB**	**HDFC**	**AXIS**
2013	**51189**	**13465.79**	**2334**	**2393**
2014	**61605**	**1880.06**	**2989**	**3146**
2015	**56725**	**25695**	**3438**	**4110**
2016	**98173**	**55818**	**4393**	**6083**
2017	**112342**	**55370**	**5886**	**21280**

Source: Bank's Annual Reports



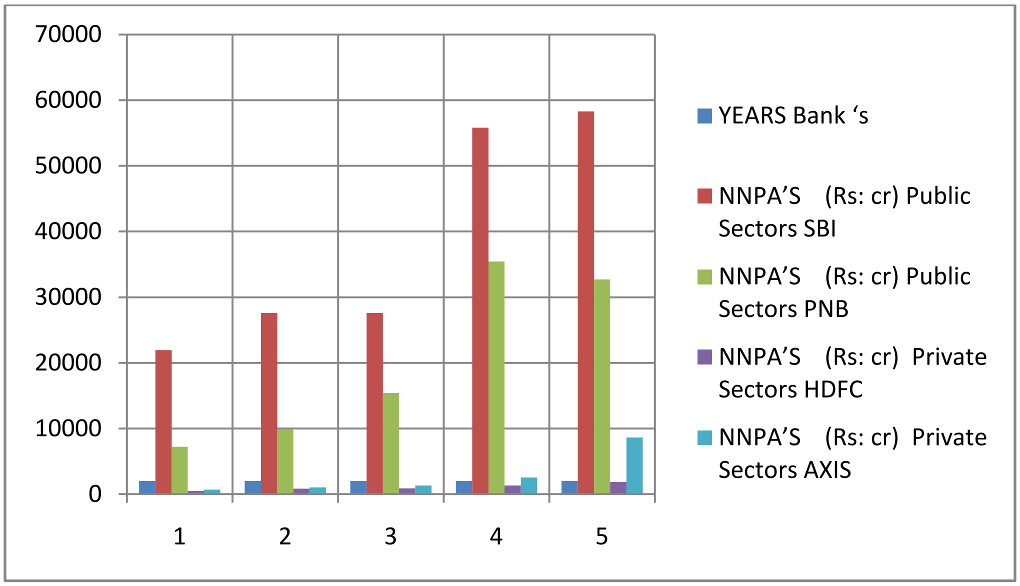
The above figure portrays the trend of Gross NPA of both public sector and private sector are increasing for the period from 2013-14 to 2017-18. When compared to private sector the public sector banks NPA's are very high due to lack of recovery policies and credit claims from borrowers.

It is observed that a public sector bank gross NPA's are in increasing is the biggest challenge in front of the banks at present and also in future. The above comparison is in between SBI & PNB.

Analysis of Net NPA's

YEARS	NNPA'S (Rs: cr) Public Sectors		NNPA'S (Rs: cr) Private Sectors	
Bank 's	SBI	PNB	HDFC	AXIS
2013	21956	7236.50	468	704
2014	27590	9916.99	820	1025
2015	27591	15396	896	1317
2016	55807	35423	1320	2522
2017	58277	32702	1844	8626

Source: Bank's Annual Reports



The above figure portrays the trend of Net NPA's of both public sector and private sector are increasing for the period from 2013-14 to 2017-18. When compared to private sector the public sector banks Net NPA's are very high because the private sector banks maintaining well loan advances and provisions from time to time.

It is observed that public sector bank Net NPA's are in increasing results to decrease in financial position, profitability and also wealth of banks as well as economy. This is from poor loan norms, recovery policies and other loan defaults by the borrowers. These results changes in repo, reverse repo rates by RBI and it affects both borrowing costs and deposits interests also.

VI. FINDINGS

- Gross NPAs of scheduled commercial banks have increased during the study period.
- Net NPAs of scheduled commercial banks have also increased tremendously year by year.
- Gross NPA's of public sector banks are much more than of private sector banks.
- Net NPA's of public sector banks are much more than of private sector banks because of less amount of loans advances and provisions etc.

VII. CONCLUSION

NPAs reflect the overall performance of the banks. The NPAs have always been a big concern for the banks in India. Indian public sector banking majorly facing a serious problem of NPAs. A high level of NPA's suggesting large number of credit defaults that affect the profitability and liquidity of banks. The extent of NPA's has comparatively higher in public sectors banks. To improve the performance and profitability of the banks, the NPAs have to be carefully monitored and analyzed.

The RBI, Government has to make/formulate various risk management tools for measuring credit risk and it need revision of loan policies to manage NPA's. And various measures have to be adopting by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs for any bank or financial institutions.

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