Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, GIF: 2.7282, CIF: 5.647, Volume 10, No. 01, January, 2020, pp. 211-218

ANALYZING AND INTERPRETING THE TREND OF NPA LEVEL IN PRIVATE SECTOR BANKS AND PUBLIC SECTOR BANKS

Dr. Vaibhav Kaushik*
CA Kamakshi Mehta**

ABSTRACT

The business of banking is the acceptance of deposits and granting of loan. There main source of income is the interest they receive from various loans and advances. A certain margin is maintained between the interest charged and the interest paid. It is evident that the major chunk of revenue is generated from interest received from loans granted. If the loans accounts start turning into NPA's thus are not generating any income then the profitability of the bank starts to fall. Yet again, if the bank is not able to recover any loans given to the borrowers then the liquidity position of the bank also shall be widely affected. This will in turn result in the customers losing faith on the bank credibility. NPA's is draining out the strength from our economy as it is destroying the profitability and the liquidity position of the banks which are the pillars for a strong economy. The Government of India, RBI and the banks should ensure the follow of such strict procedures not only at the time of issue of the loans but also regular follow up, scrutiny's and forensic audit should be done to prevent assets turning into NPA's.

KEYWORDS: *Public Sector Banks, Private Sector Banks, Non- Performing Asset.*

——————————

Introduction

Non-Performing Assets (NPA's) have been plaguing the Indian Banking system since 2009. The alarming rate of increasing Bank loans has pushed the economy into a whirlpool of struggle. The most prominent sector has always been the banking sector. The public sector banks have been the worst hit as compared to their private counterparts. The Government of India and Reserve Bank of India have time and again, collaboratively made rules and regulation to curb these rising figures of NPA's. These repeated measures have failed to bring the desired results and have heightened the level of deterioration of asset quality and profitability level of Indian Banks. The past years have witnessed the outstanding achievements of the Banking sector. Banking is no longer confined to themetro cities, it has now has reached our rural areas too.It is one of the main reasons of India's growth in the progress of the banking services.

1786 saw the establishment of the first bank in India. From then it was no looking back.

- Phase I-Early phase from 1786 to 1969 of IndianBanks;
- Phase II-Nationalization of Indian Banks and up to 1991 prior to Indian Banking sector Reforms;
- Phase III-New phase of Indian Banking Systemwith the advent of Indian Financial & Banking Sector Reforms after 1991.

NPA and Indian Banking System

Non-performing Assets (NPAs) are an unavoidable part of the Banking industry. They have been considered as the basic charge of doing Business but the dramatical increase percentage not only scary but also threatening for the Economy and the general public.

* Assistant Professor, Amity University, Haryana, India.
** Research Scholar, JNU, Jaipur, Rajasthan, India.

EWS: Early warning signs clearly indicate the deteriorating conditions in the Loan account. They highlight the problems involved in the red flagged accounts on which immediate action is required. They act as a whistle blower.

As per the ruling of RBI the assets are classified into the following categories:

- StandardAsset
- DoubtfulAsset
- Sub-standard Asset
- LossAsset
    - Standard Asset: This category consists of those assets which are regular in payment.They do not disclose any credit problem.
    - Doubtful Asset: These are those assets which have been classified as NPA and remain in this category for a period exceeding 2years.
    - Sub-standard Asset: They are those which are NPAs for a period not exceeding two years.
    - Loss Asset: Are those NPAs where 100% loss has been identified and it is not yet written off in the books of accounts.

According to the RBI guidelines, before a loan account turns into an NPA, banks are required to identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the table below:

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

Table 1: Provisional Norms

Asset Classification	Provision Requirements
Standard assets	• direct advances to agricultural & SME sectors at0.25 percent; • residential housing loans beyond Rs.20 lakhs at1 per cent; • advances to specific sectors, i.e., personalloans (including creditcardreceivables), loans and advances qualifying as Capital Market exposures, • Commercial Real Estate loans etc. at 2 per centall other advances not included in (a), (b) and(c) above, at 0.40percent
Substandard Assets	10 per cent of the total out standings for substandard
Doubtful assets	100% to the extent of deficit (deficit=advance- security)
Doubtful upto 1 year (NPA morethan 2 years but upto 3years)	20% of tangible securityavailable.
Doubtful for more than 1 year but upto 3 years(NPA more than 3 yearsbut upto 5years)	30% of tangible securityavailable
Doubtful for more than 3year (NPA more than 5years)	50% of tangible securityavailable.
Loss assets	100% of the outstanding

Research Designand Objectives of the Study

- To trace out the trend in NPA level.
- To find the various causes that contribute to NPA
- To suggest the various measures for the management of NPA.

Scope of the Study

The nature of study is descriptive. The main objective of the study is to evaluate the level of NPA of Public and Private sector banks in India. This study shall provide a guideline for a better understanding of the NPA level. The findings of study present a comparison between selected variables for the past six years.

Review of Literature

- The researcher has made a study about the performance of private and public sector banks and their system of management of NPA's. The researcher has also given recommendation as to how the NPA level can be approved by the bank. (Kajal and Monika 2011)
- The researcher attempts to analyze the trends, causesand impact of NPA's. This paper deals with the comparative study of advances and NPA in Public and private sector Banks.(Pratap 2012)
- The researcher, through his study, has discussed the concept and causes of NPA's. This paper also suggests the strategies to be followed by Commercial Banks to manage and reduce NPA's. (Bhavani and Veena 2011)
- The researcher has discussed the causes and consequences of NPA's and has also suggested strategies for improvement of NPA level.(Mohan and Govind 2012)

Purpose of the Study

The basic purpose of the study is to understand the concept and causes of NPA in public and private sector banks. The study also intends to suggest measures to minimize NPA's. This research also intends to advise the banks to identify the problems relating to an account and to avoid the conversion of the account into NPA.

Statement of the Problem

The profitability strength of the banks will depend to a great extent on the level of its NPA level.If a bank has a high level of NPA thenit's existence will be under great threat. Such bank will lose the confidence of the customers.

Research Methodology

The data used shall be collected from secondary sources for the purpose of understanding the NPA levels of different Banking sectors in India.

Data Collection

The study is based on secondary data which has collected from annual reports and financial statements published by the bank and RBI.

Sources of Data

The sources of secondary data used are the reports, journals, papers, financial statements and annual reports published by the bank and RBI.

Factors Contributing to NPA

- **Internal Factors**
  - The corporate may be involved in diversion of funds into new projects or for promoting associate concerns.
  - Time or cost overrun during the project implementation stage.
  - Product failure or failure of management resulting in business failure.
  - The management of the bank may be in efficient.
  - Inefficient credit management and monitoring of flagged accounts by the bank officials.
  - Technology or problems related to modern technology.
- **External Factors**
  - Recession in the economy as awhole.
  - Input or powershortage.
  - Price escalation ofinputs.
  - Exchange ratefluctuations
  - Change in governmentpolicies
- **Other Factors**
  - Liberalization of the economy and the consequent pressures from liberalization like several competitions, reduction of tariffsetc.
  - Poor monitoring of credits and failure to recognize early warning signals shown by standardassets.

- Sudden crashing of capital market and inability toraise adequatefunds.
- Mismatching of funds i.e. using loan granted forshort term for long termtransactions.
- Granting of loans to certain sectors of the economy on the basis of government directives rather than commercialimperatives.

Data Analysis Andinterpretation

Table 2: Classification of Loan Assets of Public Sector Banks – 20015 To 2019

Bank Group	End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
PSBs	2015	53382	95	1054	1.9	1630	2.9	100	0.2
	2016	52,875	90.7	2,005	3.4	3,232	5.5	163	0.3
	2017	45,012	87.5	1,641	3.2	4,603	9	167	0.3
	2018	46,021	84.5	2,053	3.8	5,936	10.9	465	0.9
	2019	50,868	87.8	1,373	2.4	5,064	8.7	662	1.1

Source: http://www.rbi.org.in/

The above table shows classification of loan assets of the Public sector banks. Over the years we can see fluctuation of NPAs among the banks both increase and decrease. In case of standard asset 2015 has a highest amount and then there was a constant decrease from 2016 to 2018 reaching a five-year low to 46,021 and then a slight increase in 2019. In case of sub-standard asset, for public sector banks it shows a fluctuating trend. In case of doubtful and loss asset of public sector banks there were a constant increase.

Table 3: Classification of Loan Assets of Private Sector Banks – 2015-2019

Bank Group	End-March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
PVBs	2015	15,750	97.9	108	0.7	176	1.1	52	0.3
	2016	19,184	97.2	186	0.9	311	1.6	62	0.3
	2017	20,310	96.5	244	1.2	429	2	65	0.3
	2018	24,505	96	272	1.1	699	2.7	52	0.2
	2019	31,035	95.2	424	1.3	1,046	3.2	95	0.3

Source: http://www.rbi.org.in/

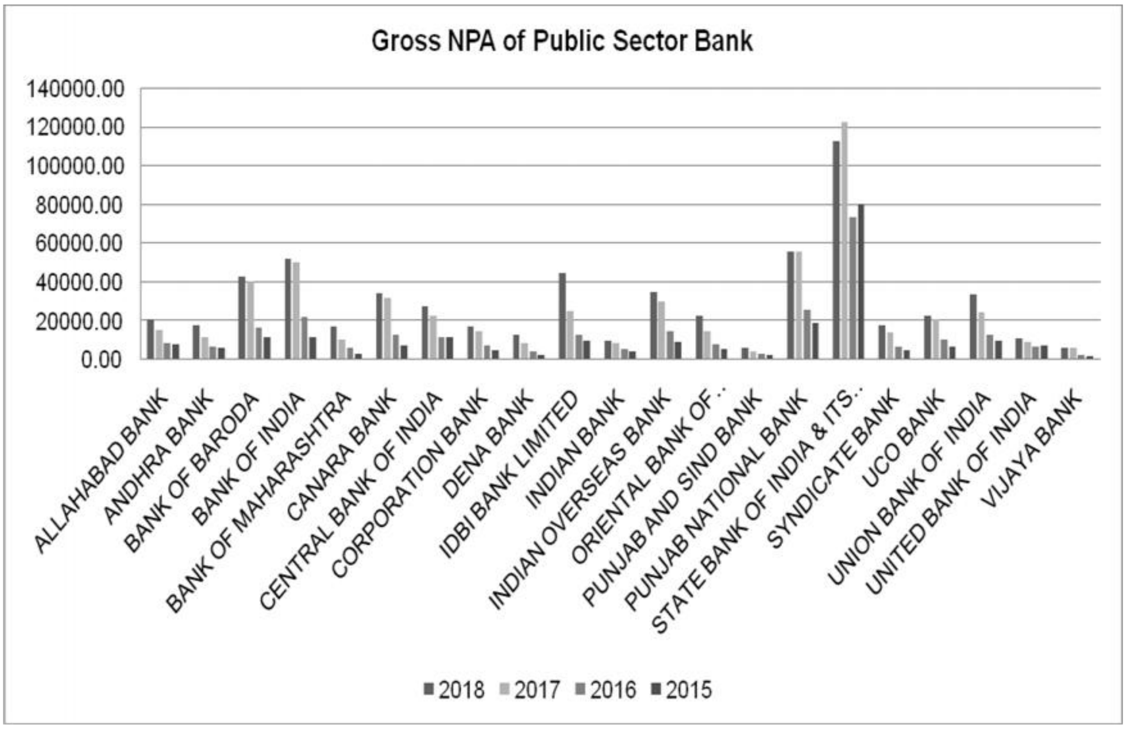
The above table shows classification of loan assets of the Private sector banks. Over the years we can see fluctuation of NPAs among the banks both increase and decrease. In case of standard asset there was a constant increase from 2015 to 2019. In case of sub-standard asset, for private sector banks it kept on increasing. In case of doubtful asset, private sector banks have also seen a constant increase from 2015 to 2019.Compared to Private sector banks, Public sector banks NPAs level is more in case of sub-standard asset and doubtful asset. But in case of standard asset private sector banks remain high which shows a good position of private sector banks and also it shows that they have adopted all necessary measures in order to avoid any account becoming NPAs. Public sector banks need to be more cautions while granting loan and also to avoid the occurrence of NPA in public sectorbanks.

Table 4: Composition of Gross NPA's of Public Sector Bank

Public Sector Banks	2018	2017	2016	2015
Bank	**Gross NPAs**	**Gross NPAs**	**Gross NPAs**	**Gross NPAs**
	Rs	**Rs**	**Rs**	**Rs**
Allahabad Bank	20687.83	15384.57	8357.97	8068.04
Andhra Bank	17669.98	11443.63	6876.54	5857.6
Bank of Baroda	42718.70	40521.04	16261.44	11875.9
Bank of India	52044.52	49879.13	22193.24	11868.6
Bank of Maharashtra	17188.71	10385.85	6402.06	2859.85
Canara Bank	34202.04	31637.83	13039.96	7570.21
Central Bank of India	27251.33	22720.88	11873	11500

Corporation Bank	17045.22	14544.25	7106.67	4736.79
Dena Bank	12618.73	8560.49	4393.04	2616.03
Idbi Bank Limited	44752.59	24875.07	12684.97	9960.16
Indian Bank	9865.14	8827.04	5670.44	4562.2
Indian Overseas Bank	35098.26	30048.63	14922.45	9020.48
Oriental Bank of Commerce	22859.27	14701.78	7666.22	5617.86
Punjab and Sind Bank	6297.59	4229.05	3082.19	2553.52
Punjab National Bank	55370.45	55818.33	25694.86	18880.06
State Bank of India & its Associates	112342.99	121968.56	73508	79816.49
Syndicate Bank	17609.31	13832.16	6442.38	4611.13
Uco Bank	22540.95	20907.73	10265.05	6621.37
Union Bank of India	33712.28	24170.89	13030.87	9563.74
United Bank of India	10951.99	9471.01	6552.91	7118.01
Vijaya Bank	6381.78	6027.07	2443.21	1985.86
Total	619209.66	539954.99	278467.47	227263.90

(Amount in Crore)



Source: http://www.rbi.org.in/

The above table depicts the total amount of NPAs of Public sector banks in India as on 31st march from 2015 to 2018. The above table depicts the composition of NPAs of different sector at public banks. During 2018, all the public sector banks witnessed the highest NPA's. A constant increase in NPA's can be seen over the years from 2015 to 2018 with highest NPA's figures of SBI and its associates closely followed by Bank of India.

In the last three years, public sector banks (PSBs) in India have lost a total of Rs. 22,743 crores, on account of various banking frauds. With various measures initiated by the RBI, numbers of banking fraud cases have declined, but amount of money lost has increased in these years. Prior to 2019 there were a total of 22 Public sector Banks in India. Government of India has reduced the number to 12 after it announced the third round of bank merger plan to revive public sector banks along with flagging economy from the five-year low. Finance Minister Nirmala Sitharaman declared the merger of 10 public banks into four.

Table 5

Sl. No.	Acquirer Bank	Banks Merged
1	Punjab National Bank (PNB)	Oriental Bank of Commerce and United Bank of India.
2	Indian Bank	Allahabad Bank
3	Canara Bank	Syndicate Bank
4	Union Bank of India	Andhra Bank and Corporation Bank.

This merger has changed the names of the ladder of NPA's as follows:

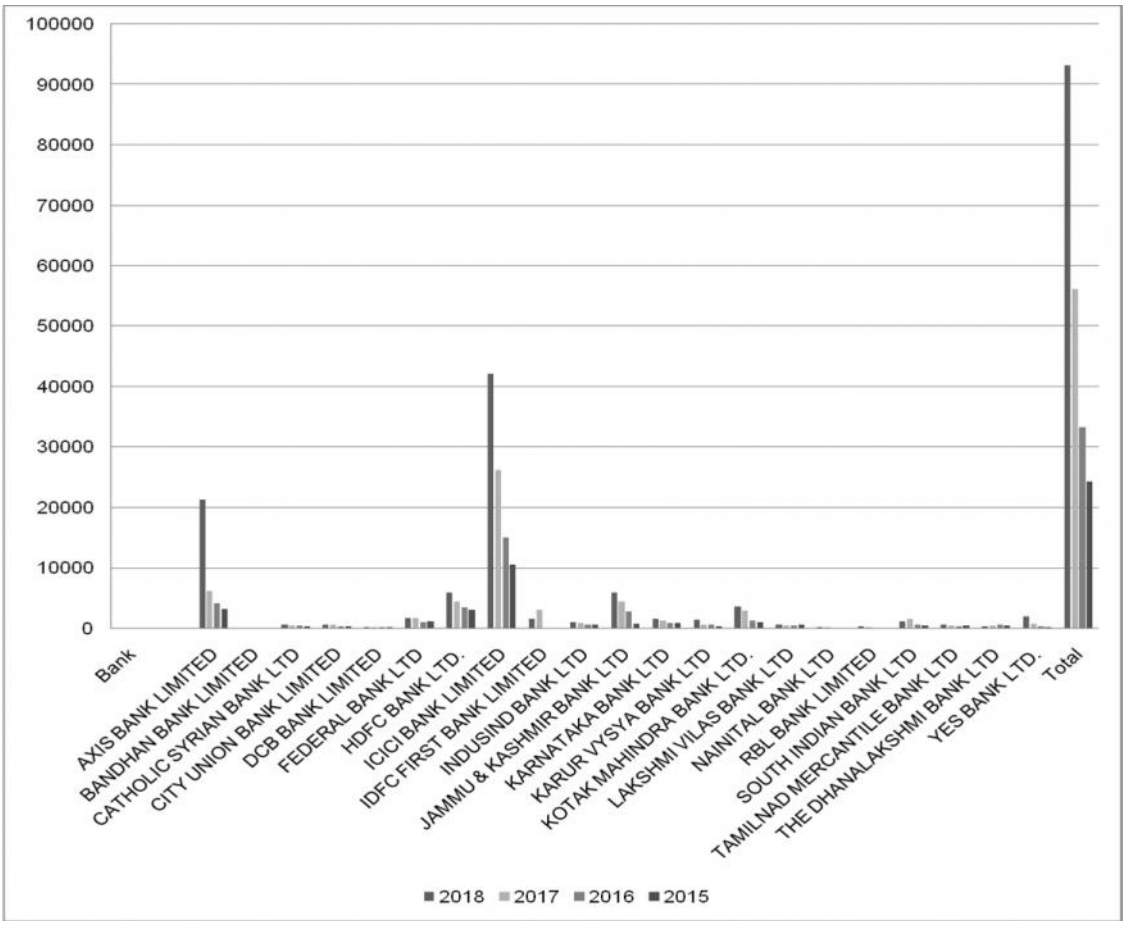
Table 6: List Of The Public Sector Banks After Amalgamation in the Descending Order of their Business Size and NPA

S. No.	Name of Bank	Total Business (Amt in crore)	Closing NPA 2107-18 (in crore)
1	State Bank of India	5205000	112342.99
2	PNB + OBC+ United Bank of India	1794000	89181.71
3	Bank of Baroda (including Vijaya and Dena)	1613000	61719.21
4	Canara Bank + Syndicate Bank	1520000	51811.35
5	Union Bank + Andhra Bank + Corporation Bank	1459000	68427.48
6	Bank of India	903000	52044.52
7	Indian Bank + Allahabad Bank	808000	30552.97
8	Central Bank of India	468000	27251.33

This has declared SBI and its associates at 112342 crores as the leader on the NPA's dash board followed by PNB and its associates at 89181 crores.

Table 7: Composition of Gross NPA's of Private Sector Bank

Private Sector Bank	2018	2017	2016	2015
Bank	Gross NPAs	Gross NPAs	Gross NPAs	Gross NPAs
	Rs	Rs	Rs	Rs
Axis Bank Limited	21280.48	6087.51	4110.19	3146.41
Bandhan Bank Limited	86.26	18.77	---	---
Catholic Syrian Bank Ltd	600.10	446.91	474.81	333.55
City Union Bank Limited	681.98	511.98	335.82	293.06
DCB Bank Limited	254.20	197.38	186.07	138.45
Federal Bank Ltd	1727.05	1667.77	1057.73	1087.41
Hdfc Bank Ltd.	5885.66	4392.83	3438.38	2989.28
Icici Bank Limited	42159.39	26221.25	15094.69	10505.84
Idfc First Bank Limited	1542.10	3058.3	---	---
Indusind Bank Ltd	1054.87	776.82	562.92	620.79
Jammu & Kashmir Bank Ltd	6000.01	4368.61	2764.08	783.42
Karnataka Bank Ltd	1581.59	1180.4	944.21	835.94
Karur Vysya Bank Ltd	1483.81	511.18	677.78	279.18
Kotak Mahindra Bank Ltd.	3578.61	2838.11	1237.23	1059.44
Lakshmi Vilas Bank Ltd	640.19	391.25	454.62	546.46
Nainital Bank Ltd	164.27	121.04	77.41	61.1
Rbl Bank Limited	356.84	208.05	111.23	77.75
South Indian Bank Ltd	1149.01	1562.36	643.45	432.62
Tamilnad Mercantile Bank Ltd	648.64	418.94	318.68	428.02
The Dhanalakshmi Bank Ltd	315.60	458.92	558.29	485.82
Yes Bank Ltd.	2018.56	748.981	313.4009	174.9256
Total	93209.22	56187.36	33360.99	24279.47



A brief comparison of the Private bank shows that the leader on the dashboard is the unopposed ICICI bank followed by Axis Bank.

Suggestions to Reduce NPAs in Banks

These are some of the legal measures in order to recoverNPAs:

- Forensic auditing techniques: All loans accounts which are above 1 crore should be verified using Forensic auditing techniques before sanction so that any intentional manipulation of financial statements is red flagged.
- Debt Recovery Tribunals (DRTs): A recommendation was made in 1991 by the Narasimha Committee for setting special tribunals to deal with this problem.
- Securitization Act 2002: Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitization Act. This act has empowered the bankers to issue legal notice to accounts who have defaulted for a period of more than 60 days. On the issue of this notice the collateral provided by the borrower is locked and cannot be sold or transferred by the owner. This provides the bank a security. According to the provisions of the Act, Asset Reconstruction Company of India Ltd. with eight shareholders and an initial capital of Rs. 10 crores have been set up. The eight shareholders are HDFC, HDFC Bank, IDBI, IDBI Bank, SBI, ICICI, Federal Bank and South IndianBank.

Lok Adalats

Lok Adalats have been found suitable for the recovery of small loans. According to RBI guidelines issued in 2001, they cover NPA up to Rs. 5 lakhs, both suits filed and non- suit filed are covered. Lok Adalats avoid the legal process.

Other factors to reduce NPAs Credit Appraisal and Monitoring:

- Policies of the bank regarding their loan sanction and disbursal should be clearly drawn and communicated to every employee involved in the process of granting of loan.
- Credit appraisal should be done by diligent bank officials and should be verified at various stages without any bias.
- Periodical review of all loan account should be done using Forensic technique so that any issue or sign of default can be flagged at the earliest.

Inspection and Credit

A proper inspection and audit which has incorporated the forensic auditing techniques should be carried out at regular intervals to prevent any non-performing assets.

Asset Management Companies

The SARFAESI act 2002 provides for formation and operation of Asset Reconstruction Company/Securitization Company. There should be concerted efforts in all quarters to make the AMC/ARC take off effectively. This concept has been fairly working in certain Asian countries like Japan, South Korea, China, Thailand, Malaysia and Indonesia.

NPAs Impact on Profitability of Banks

The business of banking is the acceptance of deposits and granting of loan. There main source of income is the interest they receive from various loans and advances. A certain margin is maintained between the interest charged and the interest paid, as is evident that the major chunk of revenue is generated from interest received from loans granted. If the loans accounts start turning NPA's thus are not generating any income then the profitability of the bank starts to fall. If the bank is not able to recover any loans given to the borrowers then the liquidity position of the bank also shall be widely affected. This will in turn result in the customers losing faith on the bank.

References

- ✓ AbhinavRajiv Ranjan and Sarat Chandra Dhal; Non-Performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment. RBI occasionalpapers.
- ✓ C.S.Balasubramaniam; Non-Performing Assets and Profitability of Commercial Banks in India: Assessment and Emerging Issues, 2009.
- ✓ Dr. Partap Singh, An Evaluation Of Performance Of Indian Banking Sector (With Special Reference To Npas Of Some Indian Public Sector Banks), APJRBM, Volume 3, Issue 12, December, 2012
- ✓ Dr. Ravindra N. Soma and Mr. Chandan Tiwari; Trend Analysis of Non-Performing Asset in Scheduled Commercial Banks in India,IJEIAM
- ✓ Hemal Pandya, Corporate Governance Structures and Financial Performance of Selected Indian Banks, Journal of Management & Public Policy, Vol. 2, No. 2 June 2011.
- ✓ Limbore N. V, & Nalkol A. P, Astudy of effectiveness and prospects of E-tailing with special reference to Baramati Region, AJMS, Vol. I, Issue 5, Dec-2015, p (72-80).
- ✓ Milind Sathye, Privatization, Performance, and Efficiency: A Study of Indian Banks, Vikalpa, Volume 30, No 1, January - March 2009.
- ✓ Ram Pratap Sinha, Ownership and Efficiency: A Non-Radial Bilateral Performance Comparison of Indian Commercial Banks, The ICFAI University Journal of Managerial Economics, Vol. VI, No. 4, 2018.
- ✓ Samir, Deepa Kamra; A Comparative Analysis of Non- Performing Assets (NPAs) of Selected Commercial Banks in India,IJM
- ✓ Shrivastava and P. Purang, Employee perceptions of performance appraisals: a comparative study on Indian banks, The International Journal of Human Resource Management, Vol. 22, No. 3, January 2011.
- ✓ www.axis.com.
- ✓ www.moneycontrol.com
- ✓ www.sbi.co.in

♦❐♦