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IMPACT OF NON-PERFORMING ASSETS (NPAs) ON PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS: A COMPARATIVE STUDY

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ABSTRACT

Due to increase in the credit flow of various sectors like infrastructure, industry, services and agriculture, there has also been an increase in the Non-Performing Assets (NPAs) in the Indian banking sector. This directly effect to the profitability, net worth and smooth functioning of the banks. The level of NPA is best indicator for assessing the health of banking sector of a country. The banks have to take initiatives to bring down the Non-Performing Assets. The growth of any economy depends on the stability of Banks, also the companies need to plan new projects as well as investments, and otherwise there will be no growth in the economy. In the current situation banks are unstable. In economic survey 2016, it was stated that bad debts exceeded the operating income of banks, this means banks are at a huge risk, seeing this if depositors start taking out their money banks will have to be closed, and as a result new companies will not be able to start their business as banks will not able to fund them as banks will start funding at a very low rate , which will result in low GDP growth, so twin balance sheet problem is the most critical challenge that will be faced by the economy and an obstacle in the economic recovery. Despite of being such a serious problem till now a perfect mechanism have not been identified. Gross NPA reflects the quality of the bank loans and the Net NPA reflect the actual burden of the banks. In this paper we will analyse the performance of public and private sector banks based on Gross NPAs and Net NPAs.

Keywords: *Non-Performing Assets, Twin Balance Sheet Problem, Gross NPAs, Net NPAs.*

Introduction

Performance of financial institutions is greatly affected by the occurrence of NPAs. They affect the performance of the credit institutions both financially and psychologically. (NPA) is not only non-performing but also makes the banker and the bank non-performing as by Preventing or delaying recycling of funds, denies income from the asset by way of interest, Erodes profit by way of provisions. So, it's very important to understand NPAs

Garg (2016) stated that "Non-performing Asset is one of the prevalent problems of Indian Banking sector. For the past three decades, the banking system has several outstanding achievements to its credit. Many banks are facing the problem of NPAs which hampers the business of the banks. Non-performing assets are a drain to the banks. Various research studies have been conducted to analyse the root causes of NPA."

Objectives of the Study

- To study impact of NPAs on the performance of Banks
- To analyse Performance of Public and private Sector Banks

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Review of Literature

According to **Moli**, not only do NPAs reflect badly in bank accounts, they have a negative impact on the national economy.

Gnawali, stated Non-Performing Assets (NPA) means, the amount of the loan provided by the individual commercial banks and not paid by customer until the time already matured. The distributed loan is not returned in due time by the clients, and then is known as Non-Performing Assets for the banks.

According to **Samir, Kamra**, NPA is a disorder that results in the non-performance of a portion of the loan portfolio leading to no recovery or less recovery / earnings on the lender. NPAs are the quantified "Credit Risk." It also plays a devastating role in the mental make-up of the banker, where the banker attempts to slow down lending, fearing future NPAs, could lead to a delay and a refusal of credit resulting in a low take-off of lendable funds.

Impact of NPAs on the Performance of Banks

- It leads into erosion of capital base and reduction in their competitiveness.
- When bank do not get loan repayment or interest payments, liquidity problems may ensue results adverse effect on Bank shareholders
- They affect the service being rendered to the customers as their needs may not be met.
- This leads to loss of business and reduction in profit. Decline in profit has its bearing on variables like Capital to Risk Weighted Assets Ratio (CRAR and cost).

Analysis of Performance of Banks through NPAs

Non-performing assets are one of the important parameters of analysing financial performance of banks. The Non - Performing Assets are mainly Gross Non-Performing Assets and Net Non-Performing Assets. The financial performance of Banks of this study is analysed based on these Ratios:-

- Gross Non- Performing Assets Ratio
- Net Non- Performing Assets Ratio

Gross Non- Performing Assets Ratio

Gross NPA Ratio is the ratio of total gross NPA to total advances (loans) of the bank

“Gross NPAs Ratio = Gross NPAs / Gross Advances

Table 1: Gross NPA ratio of Public Sector Banks and Private Sector Banks

(In Percentage)

Year	Public Sector Banks	Private Sector Banks
2017-18	14.6	4.7
2016-17	11.7	4.1
2015-16	9.3	2.8
2014-15	5.0	2.1
2013-14	4.4	1.8
2012-13	3.6	1.8
2011-12	3.2	2.1
2010-11	2.3	2.5
Mean	6.76	2.73
S.D	4.53	1.091
Variance	20.50	1.19

Source: Annual Reports of RBI

The above table No.1 showed Gross Npa ratio of Public Sector Banks and Private sector Banks. It can be seen clearly that on an average Gross NPA Ratio of Public Sector Banks is greater than that of Private Sector Banks. Average of Public Sector Banks is 6.76% and private Sector Banks is 2.73%.

In case of Public Sector Banks Gross NPA ratio ranged between 2.3% in 2010-11 to 14.6% in 2017-18, this show NPAs has increased 12.3 % in last 8 years. In 2011-12, NPAs were 3.2% and then Increased slightly to 3.6% in 2012-13, then further increased to 4.4% in 2013-14, but this rise does not stop here further the ratio increased for consecutive 4 years in year 2014-15 it was 5.0 %, 2015-16 rose up to 9.3% and in 2016-17 it increased to 11.7 % and in 2017-18 showed increase of 2.9 % and Ratio was 14.6%

In Private Sector Banks also Gross NPA Ratio showed increasing trend, the ratio increased from 2.5 % in 2010-11 to 4.7 % in 2017-18, the average ratio of Private Banks was 2.73% during the study period. In 2011-12 the ratio has increased to 2.1%, and then again bounced to 1.8% in 2012-13, and maintained status Quo in 2013-14 at 1.8% and increased slightly to 2.1% in 2014-15 and in 2015-16 showed further increase and ratio stood at 2.8% and then further increased for two years in 2016-17 it was 4.1 % and in 2017-18 it was 4.7 %.

Net Non- Performing Assets Ratio

The other parameter for analysing financial performance of banks is Net Non - Performing Asset Ratio.

Net NPA Ratio is the ratio of Net NPA to Net advances (loans) of the bank

“Net NPAs Ratio = Net NPAs / Net Advances

Table 2: Net NPA Ratio of Scheduled Commercial Banks

(In Percentage)

Year	Public Sector Banks	Private Sector Banks
2017-18	8	2.4
2016-17	6.9	2.2
2015-16	5.7	1.4
2014-15	2.9	0.9
2013-14	2.6	0.7
2012-13	2.0	0.5
2011-12	1.5	0.5
2010-11	1.1	0.6
Mean	3.84	1.15
S.D	2.64	0.77
Variance	6.99	0.59

Source: Annual reports of RBI

The above table No.2, showed Net NPA ratio of Public Sector Banks and Private sector Banks. It can be seen clearly that on an average Net NPA Ratio of Public Sector Banks is greater than that of Private Sector Banks. Average of Public Sector Banks is 3.84 % and private Sector Banks is 1.15 %.

In case of Public Sector Banks, Net NPA ratio ranged between 1.1 % in 2010-11 to 8 % in 2017-18, this show NPAs has increased by 6.9 % in last 8 years. The average ratio was 3.84 % In 2011-12, NPAs were 1.5% and then Increased 2.0% in 2012-13, then further increased slightly to 2.6 % in 2013-14, but this rise does not stop here further the ratio increased for consecutive 4 years in year 2014-15 it was 2.9 %, 2015-16 rose up to 5.7% and in 2016-17 it increased to 6.9 % and in 2017-18 Ratio was 8%.

In Private Sector Banks, Net NPA Ratio showed little fluctuating trend, the ratio increased from 0.6 % in 2010-11 to 2.4 % in 2017-18, the average ratio of Private Banks was 1.15% during the study period. In 2011-12 the ratio has slightly decreased to 0.5%, and then maintained same position in 2012-13 at 0.5%, then it increased slightly to 0.7% in 2013-14 then increased to 0.9% in 2014-15 and in 2015-16 showed further increase and ratio stood at 1.4% and then further increased for two years in 2016-17 it was 2.2 % and in 2017-18 it was 2.4 %.

Conclusion

Here, it can be seen clearly that both Gross NPAs and Net NPAs of Public Sector Banks are greater than that of Private Sector Banks, and the rationale behind this is that there are several social responsibilities for Public Sector Banks that need to be fulfilled, and that private banks do not have such responsibilities, resulting in the creation of bad loans or NPAs in public sector banks. Public sector banks need to provide loans to those sensitive and responsible sectors of the economy, namely Infrastructure, Textiles, Construction, Iron and Steel, Wholesale and Retail Trade, which are also considered to be the backbone of the Indian economy, so lending is not denied by public sector banks, however most projects in these sectors are not in a position to repay their loans. Apart from that, the management of private sector banks is better than that of public sector banks, which appoint professionals and experts to have better control of their funds and to plan how loans can be recovered from debtors. As a result, the problem of NPAs is much more serious in public sector banks than that in private sector banks.

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