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NON PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA: A STUDY

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ABSTRACT

Indian managing an account area experienced huge changes since the presentation of money related segment changes in 1991, when it was discovered that the banks were worried with high measure of non-performing resources (NPA). Henceforth with a specific end goal to build the proficiency and gainfulness of Indian managing an account division in the nation it was vital to bring banks out of the weight of NPAs. In this manner, in light of the globally acknowledged accepted procedures, a few prudential standards were acquainted all together with enhance the proficiency and to control the disturbing circumstance of rising NPAs. It has been over two decades when these money related standards were executed and from that point forward saving money division has experienced different fundamental changes. Against this scenery, an endeavor has been made to consider the circumstance of NPA of general society and private area banks in recent decade since 2006. The information gathered from the optional sources were investigated utilizing proportion examination. It was discovered that NPAs of open segment banks are moderately higher than that of private segment banks. The examination uncovers that worldwide financial log jam and its effect on Indian economy was the essential purpose behind ascending of the NPAs. Taking a gander at the outcomes it is recommended that banks should work to fortify their recuperation channels for the rapid recuperation from NPAs.

KEYWORDS: *Non Performing Assets, Public Sector Banks, Private Sector Banks, Ratio Analysis.*

Introduction

The Indian keeping money part saw different changes after the execution of monetary segment changes amid year 1991. Resource quality was not the significant worry for Indian managing an account part till 1991, as the attention was on accomplishing the execution targets, for example, enlarging the system of bank offices, need area loaning, business era and so on. (Singh, 2016). After the suggestions made by Narsimham panel in 1991, it was discovered that Indian business banks were troubled with vast measure of NPAs because of which banks had gone monetarily feeble. The idea of NPAs developed as a contemporary issue when Reserve Bank of India (RBI) actualized the prudential standards in 1992-93. Before usage of these standards, a benefit was considered as non-performing if the portion or the enthusiasm of the vital stayed unpaid for over 180 days, however as indicated by prudential standards the 180-days time frame for proclaiming the advantage as non-performing was conveyed down to 90-days with impact from 31st March 2004 (Mahajan, 2014). Keeping in mind the end goal to assist the recuperation of NPAs, the RBI outlined a few channels of recuperation, for example, Debt Recovery Tribunals (DRTs), Lok Adalats, and the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. Besides, according to the RBI rules it is required for banks to make least arrangement against the distinctive sorts of credit resources. With the perspective of giving an extra option and building up a solid auxiliary market for NPAs, rules at a bargain and buy of NPAs

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were issued by banks (RBI, 2006). Indeed, even in the wake of taking different activities, administration of NPAs still remains a range of concern, especially because of the decrease in the estimation of rebuilt propels. The ascent in NPAs was reflected in the expanded measure of provisioning by banks in 2009-10. Consequently, to fortify the recuperation procedure the RBI issued testament of enlistment (COR) to fourteen securitization organizations amid June 2011. On 30th November, 2012, RBI prompted open division banks that they should find a way to fortify their hazard administration frameworks, credit examination, endorse process and post-authorize observing and follow-up for the early recognition of misery among the bank duty (RBI, 2013). As of late, in August, 2015, administration of India propelled a seven pronged arrangement "Indradhanush" to redo the working of open area banks and to bring them out of the worry of heaping up of NPAs. The 7 essentials of the arrangement incorporate arrangements, leading body of agency, capitalization, de-focusing on, strengthening, administration changes and structure of responsibility (Business Standard, 2015).

Review of Literature

Many studies have been conducted to highlight the issue of NPAs in Indian banks. This section of the study provides an overview of some existing literature on NPA:

Mohan and Rajesh (2004) conducted a descriptive study on the management NPAs in institutional agencies. The study revealed that prudential norms had played significant role in the management of NPA in commercial banks. It was recommended that RBI should strengthen the DRTs to deal with defaulters diligently. The overall emphasis of the study was towards the strengthening of regulatory measures taken by banks with regard to reduce NPA in public and private sector banks.

Chaudhary and Sharma (2011) made an attempt to measure the performance of public and private sector banks in context of reducing the level of NPAs. Authors recommended that banks should develop efficient management information system to get free from NPA problem. The loan officers of the bank should be imparted proper training regarding the sanctioning of the loan, documentation process and measures required to be taken for preventing advances turning into NPA. It was further suggested that employees of public sector banks should be well trained in the selection of borrower and analyzing of financial statements.

Aggarwal and Mittal (2012) conducted a comparative study to analyze the position of NPAs of selected public and private sector banks in India. Data collected from various secondary sources for the period 10 years was analyzed using descriptive statistics and ANOVA. They found that public and private sector banks are making efforts for improving the asset quality and profitability. Further, the study revealed that comparatively PNB and HDFC were relatively better in management of NPAs than SBI and ICICI.

Samir and Kamra (2013) studied the position of non-performing assets of selected banks namely State Bank of India, Punjab National Bank and Central Bank of India for the period 1997-2010. The secondary data sourced from the website of RBI was analyzed using percentage method. The results of the study showed that NPA are greater in public sector banks as compared to private and foreign banks in India. Further, it was found that small sector industrial units have largest share in total NPAs of priority sector. Hence, it was suggested that bank should use the basic principles of financial management to solve the problems of mounting NPA. Nevertheless, the process of NPA management should start with the identification of right borrower rather than to start after filing a suit.

Joseph and Prakash (2014) in their study entitled, A Comparative Study of NPAs in Public and Private Sector Banks in the New Age of Technology, attempted to highlight the factors contributing to NPAs, reasons for high NPAs, their impact on Indian banking operations and the trend and magnitude of NPAs in selected Indian Banks. Data for the period of 5 years from 2009-2013 was analyzed. Three banks each from public sector (State Bank of India, Corporation Bank, Bank of Baroda) and private sector (ICICI Bank, Axis Bank, HDFC Bank) were selected using convenience sampling technique. The results depicted that NPAs of public sector banks were comparatively higher than private sector banks. The study also revealed that as banks are highly dependent on interest income from advances, hence the money locked in NPAs have a huge impact on profitability of banks. It was suggested that strict policy with regard to recovery of NPAs should be framed for solving this problem. Moreover, banks should reduce the mandatory lending to priority sector as this was found to be major problem creating area.

Objectives of the Study

- To study and compare the trends in NPAs in public and private sector banks.
- To study the sector wise distribution of NPAs in public and private sector banks.

Research Methodology

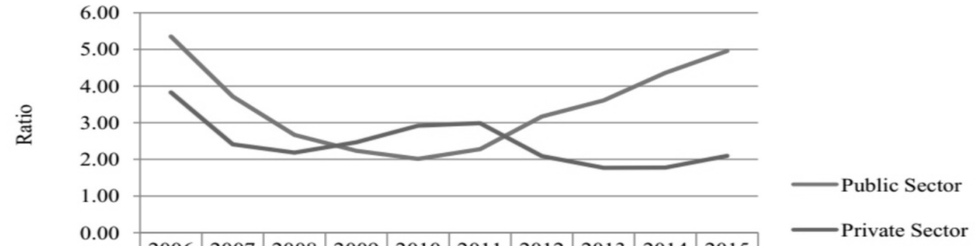
The study was conducted to analyze the position of NPAs in public and private sector banks of India. The pertinent auxiliary information for the examination was gathered from different RBI productions to be specific, Annual Report on Trends and Progress of Banking in India, Annual Report of RBI and Indian Banks Association (IBA) announcements. The extent of the investigation is constrained to the examination of NPAs out in the open and private division banks over the time of 2006-2015. Proportion examination has been utilized for dissecting the patterns in NPAs. Discoveries have been displayed as tables and graphs to make the near investigation of both the bank gatherings.

Analysis and Discussion

Ratio analysis method was used to analyze the trends of various ratios calculated and the findings have been presented below:

- **Trends in NPA**: As pointed out above, the concept of NPA came to light when RBI in year 1992-93 introduced the prudential norms on the recommendation of Narsimham Committee. In year 2004, RBI laid down the prudential norms stating that the overdue in interest payment or installment for the period of more than 90 days will be treated as NPA.
    - **Gross NPAs to Gross Advances Ratio**: Gross non-performing assets are treated as doubtful as they generate no return on advances. The thumb rule says that lesser the ratio, better it is. The gross non-performing assets to total advances ratio from year 2006-2015 has been presented in the table 1 given below:

Figure 1



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public Sector	5.35	3.71	2.66	2.23	2.01	2.27	3.17	3.61	4.36	4.96
Private Sector	3.83	2.41	2.19	2.47	2.92	2.99	2.09	1.77	1.78	2.10

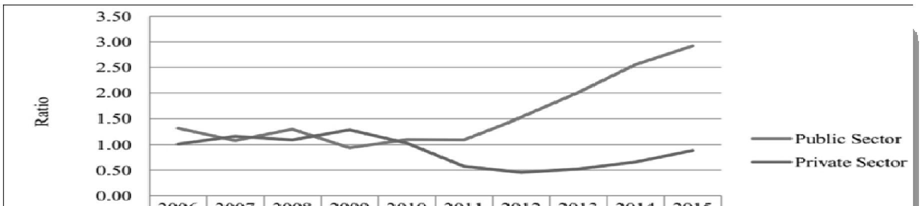
Table 1

Years

The figure 1 depicts that in case of public sector banks declining trend in gross NPA was witnessed from year 2006-2010, whereas in case of private sector banks it declined till year 2008. This decline in NPA during 2006 could be because of the decline in fresh NPAs and increase in gross loans and advances by both public and private sector banks which led to a decline in ratio of gross NPAs to gross advances (RBI, 2006). It was found that during 2007, the strong credit growth continued to be underpinned by significant improvement in asset quality. During this period RBI guidelines helped to strengthen the channels of recovery available to banks for dealing with bad loans, as a result of which Gross NPAs declined to 3.71% and 2.41% in both public and private sector banks respectively. In year 2008, gross NPA further decreased to 2.66% and 2.19% in case of public and private sector banks respectively. This decrease in the NPAs of both the bank groups could be attributed to the increase in the amount recovered under the SARFAESI Act and DRTs. The NPAs of public sector banks further decreased to 2.01% in 2010.

Further, the figure 1 exhibits that in case of public sector banks increasing trend in gross NPA to advances ratio was seen from 2011-2015, whereas in case of private sector banks, the ratio increased during 2009 to 2011 and thereafter it started decreasing and reached at the lowest level of 1.77% in 2013. The turbulence in the global financial markets and its macro economic impact on Indian economy could be the reason for the increase in the level of NPAs in Indian banks (RBI, 2008). Moreover, credit concentration to few sectors and higher leverage among corporate also increased stress on asset quality. During 2010-11 the priority sector gross NPA to priority sector advances increased in public sector banks, whereas it declined in private sector banks during the same period (RBI, 2011). During 2014-15, ratio of gross NPA to gross advances increased to 4.96% and 2.10% in public and private sector banks respectively. The deteriorating asset quality and weakening of recovery channels could the reason for this increase in gross NPA level in public and private sector banks. Hence, it is suggested that in order to improve the level of asset quality and reduce the NPAs, banks should develop the strategies for the early detection of distress (RBI, 2013).

Figure 2



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public Sector	1.32	1.08	1.30	0.94	1.10	1.09	1.53	2.01	2.56	2.92
Private Sector	1.01	1.16	1.09	1.29	1.03	0.57	0.46	0.52	0.66	0.89

Years

In order to control the deteriorating asset quality and reduce the level of NPAs, during year 1999 an expert group committee was constituted under the chairmanship of T.R. Andhyarujina, Senior Supreme Court advocate and former Solicitor General of India to formulate the SARFAESI Act, which was passed on December 17, 2002. From 2002 till 2009 number of cases handled under SARFAESI Act increased from 2,661 to 61,760, which contributed towards the recovery of Rs. 3982 crores from the total recoverable amount of Rs. 12067 crores (Rajeev and Mahesh, 2010). Figure 2, depicts that in case of public sector banks fluctuating trend in Net NPA to Net Advances ratio was witnessed from 2006 to 2011 and thereafter it started increasing and touched the level of 2.92% in 2015, whereas private sector banks witnessed the mixed trend till 2012 and thereafter started increasing and reached 0.89% in 2015. In 2007, the Net NPAs in public sector banks decreased from 1.32% in 2006 to 1.08% in 2007, which could be attributed to the write-off and write back of excess provisions made for NPA management, whereas marginal increase was witnessed in case of private sector banks. In 2009, Net NPA to Net Advances ratio stood at 0.94% and 1.29% in public and private sector banks respectively. It was also found that rising level of advances could be the reason for the increase in NPAs of public sector banks. On the other hand, declining trend was seen among private sector banks in 2010 which could be explained by the decline in NPAs of ICICI Bank from 2.19% to 1.96% during March 2010 and increase in the provision for contingencies by 20.93% in year 2011. Looking at the increasing trend of NPAs from 2013 onwards in both public and private sector banks, the Reserve Bank of India in 2014 established Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders. Under CRILC, banks needed to furnish the information of large borrowers, written-off accounts, current accounts and non-cooperative borrowers (RBI, 2014). Further, Figure 2 exhibits that with the steady increase in bad loans, Net NPA touched 2.92% and 0.89% in public and private sector banks respectively.

- **Sectoral NPA**

  Several channels of recovery were established by RBI to reduce the NPAs over a period of time.

Table 2

Years	Public				Private			
	Priority		Non-Priority Sector		Priority		Non-Priority Sector	
	Amount	% to Total	Amount	% to Total	Amount	% to Total	Amount	% to Total
2006	22374	54	18664	45	2284	29	5541	71
2007	22954	59	15158	39	2884	31	6353	69
2008	25287	64	14163	36	3419	26	9558	74
2009	24318	55	19251	44	3640	22	13172	78
2010	30848	54	25929	45	4792	28	12592	72
2011	41245	58	29803	42	4823	27	13147	73
2012	56200	50	59300	50	5100	28	13200	72
2013	66900	43	89000	57	5200	26	14800	74

As shown in the table 2, among the several channels of recovery available with banks for dealing with bad loans, only DRTs proved to be most effective with the recovery of 75.48%., whereas Lok Adalats and SARFAESI showed lower recovery during 2005-06. Further it was found that during year 2008-09 DRTs had been the most effective in terms of amount recovered. The amount recovered through Lok Adalats was only 2.39% in comparison to 12.36% during 2005-06. Even during 2014-15, amount recovered through these channels was less as compared to previous years. Hence, it is suggested that banks need to strengthen the existing channels for NPA recovery and should work to develop new ways for the speedy recovery of NPAs.

Non-performing assets as percentage of advances to priority sector had been a matter of concern in case of both public and private sector banks. The faulty lending process and compulsion by government to fulfill the targets of priority sector loans had been one of the reasons for increase in the level of NPAs.

In case of public sector banks growing trend of NPAs in priority sector was seen between year 2006 and 2008. Priority sector NPAs which were found to be more than 50% of the total NPAs, declined during in 2009 and 2010 (Table 2). In 2006-07, the RBI announced to facilitate credit flow to agriculture sector. Carrying forward this initiative, the central government fixed a target of Rs. 225000 crore for disbursements by banks in 2007-08. This could be one of the reasons for the rise in NPAs of priority sector. It was also found that recovery rate of agricultural advances declined from 2006 to 2008, as a result NPAs of agricultural loans increased in case of public sector banks (Figure 5.2.1). Moreover, in order to extend the scope of small scale industries (SSI), the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was notified on October 2, 2006, under which each bank was advised to operationalise at least one specialized SSI branch in every district and centre having cluster of SSI branches (RBI, 2007). On the other hand, private sector banks had more NPAs in non-priority sector lending in comparison to priority sector (Table 2) it further shows that in comparison to previous years NPA of SSI units increased in case of private sector banks. It could be because of the violation of RBI guidelines regarding non-payment of installments for regularly three months. Further, Table 2 exhibits that from 2009 onwards the public sector banks witnessed decline in NPAs of priority sector and non-priority sector registered the rise in level of NPAs. The decline in priority sector NPAs could be attributed to the contribution made by agriculture sector (Figure 2). This decrease in NPAs could also be reflected as an effect of debt waiver scheme of the government, whereas sharp rise in NPAs of non-priority sector could be because of the slowdown in the economy and stressed financial conditions of corporate (RBI, 2009). On the other hand, significant increase in the non-priority sector NPAs of private sector banks could be reflected as an after effect of the crises. In 2011, NPAs in priority sector lending increased in public sector banks. It could be the impact of higher growth registered in the credit to agricultural sector during the period of 2006 to 2008, whereas among private sector banks only one bank could not meet the priority sector lending target in 2010-11(RBI, 2011). However, decline in priority sector NPAs was again witnessed during the year ending 2012-13 in case of both public and private sector banks respectively, but steady decrease in the asset quality led to increase in the NPA level of non-priority in both the bank groups.

Conclusion

The rising Non-performing resources have dependably involved worry for open and private part banks in India particularly after 2011-12. The cash secured NPAs has coordinate effect on the effectiveness and benefit of the banks as premium wage from credits is an essential wellspring of salary for the banks in India. This examination demonstrates that in contrast with year 2006, the degree of NPA is similarly high if there should arise an occurrence of open part banks. It was discovered that prudential standards and different administrative measures taken by RBI helped banks to decrease the level of NPAs. It was watched that usage of prudential standards amid year 2002 with respect to diminishment in the beauty time frame from 180 days to 90 days, implementation of SARFAESI Act, and formation of Debt Recovery Tribunals, Lok Adalats also pushed banks to improve their performance. The ratio analysis shows that after being stable in initial stages, level of NPAs had increased year-on- year basis in case of both public and private sector banks. Although NPA level of public sector banks was found to be high as compared to private sector banks. Hence, it is suggested that in order to trim down the level of NPAs, banks should strengthen their credit rating mechanism to ascertain the paying capacity of borrowers. Moreover, banks can also develop a system wherein they can plan the finances of customers to avoid the misuse of borrowed funds. Further, the analysis conducted to study the distribution of NPAs in different financial sectors revealed that in earlier stages agricultural sector had been a matter of concern for RBI and Central Government, but over the years steady increase in NPA level of SSI and non-priority sector had been observed. On the basis of the study it is suggested that especially public sector banks need to strengthen its recovery channels (SARFAESI Act, DRTs and Lok Adalats) to reduce the deterioration of asset quality. Some latest measures taken by RBI, like initiation of "Indradhanush" reforms in year 2015 is one of the biggest measures taken by RBI and Central government to curb the rising level of NPAs. Private sector banks on the other hand also need to be cautious from the rising trend of NPAs seen in some previous years

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