NON- PERFORMING ASSETS: A STUDY OF SCHEDULED COMMERCIAL BANKS, PUBLIC SECTOR BANKS, NEW PRIVATE SECTOR BANKS AND FOREIGN BANKS

Dr. Narpal Yadav[*]
Dr. Deepak Gupta[**]
Dr. Satish Kumar[***]
Dr. Asha Pahwa[****]
Dr. Mamta Sharma[*****]
Ms. Silky[******]
Dr. Rajesh Gahlawat[*******]

ABSTRACT

NPAs is one of the major threatening issues on banking business faced by Indian banking sector. The data have been taken in the study are mainly secondary in nature. The study covers the periods from 2008-09 to 2017-18. The data have been analyzed through statistically tools such as ratio, percentage, Mean, co-efficient of variation, indices and chi-square test. The study examined the NPAs in SCBs, PSBs, New Pvt. SBs and FBs over the ten years period of the study. The results reveal that NPAs is increasing in SCBs and PSBs whereas in New Pvt. SBs and FBs is not increasing over the periods of the study. On the whole, the time has come, the Reserve Bank of India should set up a cell to regularly monitor the functioning of funds and non- funds activities of SCBs and PSBs. Therefore, that any intentional and unintentional irregularities taking place in the domain of SCBs and PSBs could be timely scrutinized for the healthy growth of the banking system. Otherwise, it will continue to erode the overall return on assets of the banks and enhance the threat of insolvency risk. On the other hand, new private sector banks and foreign banks performed in good position and recovery mechanism developed by banks geared to task. The study helps to judge the financial health of the banks and the economy and useful to government for further development of banking industry in India.

***Keywords:** NPAs, SCBs, PSBs, New Private SBs and FBs.*

Introduction

Non-Performing Assets have been the most vexing problem handled by banking sector in the present scenario. The credit growth is one of the drivers of economic growth. NPAs are value destroyers of the economy. NPA is any asset of a bank, which is not producing any return on loan disbursed. Such a loan is known as non- performing assets. In India, due to social banking motto, the problem of bad loans did not receive priority from policy makers initially. The concept of NPAs came into the reckoning after the reforms in the financial sector were introduced on the recommendations of

[*] Associate Professor of Commerce, Ahir College, Rewari, Haryana, India.
[**] Associate Professor, Department of Commerce, Indira Gandhi University, Meerpur, Rewari, Haryana, India.
[***] Assistant Professor, Department of Economics, Indira Gandhi University, Meerpur, Rewari, Haryana, India.
[****] Assistant Professor, Department of Commerce, Indira Gandhi University, Meerpur, Rewari, Haryana, India.
[*****] Assistant Professor, Department of Commerce, Kishan Lal Public College, Rewari, Haryana, India.
[******] Assistant Professor, Department of Commerce, Government College, Dujana, Haryana, India.
[*******] Associate Professor of Commerce, Sh.L.N. Hindu College, Rohtak, Haryana, India.

the report of the Narasimham committee. The objectives of the committee were introduced an appropriate accounting system put in place. The higher the NPAs, the longer will be probability of larger number of defaults, which affects the overall performance of the banks. Therefore, there is a strong need to properly scrutinize the advances given to various sector. Otherwise, it will continue to erode the overall return on assets of the banks and enhance the threat of insolvency risk. It is highly impossible to have zero percentage of NPAs. That is why an attempt is made that performance evaluating of NPAs in banking sector of India.

Objectives of the Study

- To examine the growth of NPAs in bank group –wise

- To test whether NPAs are increasing or not in bank group –wise.

- To study also tries to suggest the steps needed for reducing the level of NPAs in the banks.

Hypothesis

H_{01}:   NPAs of SCBs is not increasing during the study periods.

H_{02}:   NPAs of PSBs is not increasing during the study periods.

H_{03}:   NPAs of New Pvt. Sector Banks is not increasing over the periods of the study

H_{04}:   NPAs of FBs is not increasing under the study periods.

Methodology

        In the present study, secondary data have been used for analysis. The data have been obtained from Reserve Bank of India website and publications. The collected data have been analyzed through use of statistical tools such as ratio, percentage, mean, co –efficient of variation, indices and chi –square test has been used for testing the hypothesis to arrive at the conclusions.

Scope of the Study

        Keeping in view of the objectives, it has been decided to choose all Indian banks in Scheduled Commercial Banks (SCBs), Public Sector Banks (PSBs), New Private Sector banks (Pvt. SBs) and Foreign Bank (FBs) in the study. The study covers the periods of ten years from 2008-09 to 2017-18.

Table 1: Growth Analysis of NPAs of SCBs, PSBs, Pvt. SBs and FBs

(% of Gross Advances)

Year	SCBs	Index	PSBs	Index	Pvt. SBs	Index	FBs	Index
2008-09	2.3	100.00	2.0	100.00	2.9	100.00	4.4	100.00
2009-10	2.5	108.69	2.3	115.00	3.0	103.44	4.4	100.00
2010-11	2.4	104.34	2.3	115.00	2.5	86.21	2.6	59.09
2011-12	2.9	126.08	3.2	160.00	2.1	72.41	2.8	63.64
2012-13	3.2	139.13	3.6	180.00	1.8	62.07	3.0	68.18
2013-14	3.8	165.22	4.4	220.00	1.8	62.07	3.9	88.64
2014-15	4.3	186.96	5.0	250.00	2.1	72.41	3.2	72.72
2015-16	7.5	326.09	9.3	465.00	2.8	96.55	4.2	95.45
2016-17	9.3	404.35	11.7	585.00	4.1	141.37	4.0	90.91
2017-18	11.2	486.96	14.6	730.00	4.7	162.07	3.8	86.36
Mean	4.94		5.84		2.78		3.63	
C.V.	0.62		0.72		0.33		0.18	

Source www.RBI.gov.in

        Table 1 explains the growth analysis of NPAs in SCBs, PSBs, Pvt. SBs and FBs over the periods of ten-year study. The growth of NPAs in SCBs has risen 4.87 times with C.V. value 0.62. The C.V. value 0.62 proves high variation in the growth of NPAs. The index of NPAs in PSBs has risen 7.30 times with C.V. value 0.72. The C.V. value 0.72 reflects sharp fluctuation in the growth of NPAs. In New Pvt. SBs, NPAs have grown 1.62 times with C.V. value 0.33. The C.V. value 0.33 shows that there is considerable growth in NPAs. The growth of NPAs in FBs has risen 0.86 times with C.V. value 0.18. The C.V. value 0.18 proves nominal fluctuation in the growth of NPAs. It can be inferred that growth of NPAs in SCBs and PSBs has substantially enhanced. Therefore, it needs to be checked forth with in coming years also. Otherwise, it will difficult for these banks to get rid of the insolvency risk.

Table 2: Analysis of NPAs in Scheduled Commercial Banks

(% of Gross Advances)

Year	O	E	O-E	$(O-E)^2$	$(O-E)^2/E$
2008-09	2.3	4.94	-2.64	6.9696	1.4109
2009-10	2.5	4.94	-2.44	5.9536	1.2052
2010-11	2.4	4.94	-2.54	6.4516	1.3059
2011-12	2.9	4.94	-2.04	4.1616	0.8425
2012-13	3.2	4.94	-1.74	3.0276	0.6129
2013-14	3.8	4.94	-1.14	1.2996	0.2631
2014-15	4.3	4.94	-0.64	0.4096	0.0829
2015-16	7.5	4.94	2.56	6.5536	1.3266
2016-17	9.3	4.94	4.36	19.0096	3.8481
2017-18	11.2	4.94	6.26	39.1876	7.9327
	$\sum O=4.94$				$\chi^2= 18.8308$

Source: Author's Calculations

Table 2 shows the analysis of NPAs as percentage of gross advances over the periods of the study in Scheduled Commercial Banks of India. The tabulated value of Chi –square (χ^2) test at 5% level of significance is 16.92. The calculated value of χ^2 test is more than the tabulated value. The null hypothesis (H01) is rejected. It means that NPAs of SCBs is increasing over the periods of the study. It can be inferred that banks should take suitable action to more reform in the loan recovery mechanism. Otherwise, it will continue increasing of NPAs of the banks erode the overall return on assets of the banks.

Table 3: Analysis of NPAs in Public Sector Banks

(% of Gross Advances)

Year	O	E	O-E	$(O-E)^2$	$(O-E)^2/E$
2008-09	2.0	5.84	-3.84	14.755	2.52
2009-10	2.3	5.84	-3.54	12.532	2.15
2010-11	2.3	5.84	-3.54	12.532	2.15
2011-12	3.2	5.84	-2.64	6.970	1.19
2012-13	3.6	5.84	-2.24	5.018	0.86
2013-14	4.4	5.84	-1.44	2.074	0.36
2014-15	5.0	5.84	-0.84	.706	0.13
2015-16	9.3	5.84	3.46	11.972	2.05
2016-17	11.7	5.84	5.86	34.340	5.88
2017-18	14.6	5.84	8.76	76.738	13.14
	$\sum O=5.84$				$\chi^2= 30.73$

Source: Author's Calculations

Table 3 depicts the analysis of NPAs as percentage of gross advances in Public Sector Banks of India over ten years periods of the study. The tabulated value of χ^2 test at 5% level of significance is 16.92. The value of Chi –Square (χ^2) test is more than tabulated value. It means that null hypothesis (H02) is rejected. It may be concluded that NPAs of Public Sector Banks in India is increasing over the periods of the study. Therefore, there is a strong need to properly scrutinize the advances. The increasing trend of NPAs can lead to bank closer and ultimately financial crises. Hence, PSBs is not geared to task.

Table 4: Analysis of NPAs in New Private Sector Banks

(% of Gross Advances)

Year	O	E	O-E	$(O-E)^2$	$(O-E)^2/E$
2008-09	2.9	2.78	.12	.0144	.0052
2009-10	3.0	2.78	.22	.0484	.0174
2010-11	2.5	2.78	-.28	.0784	.0282
2011-12	2.1	2.78	-.68	.4624	.1663
2012-13	1.8	2.78	-.98	.9604	.3455
2013-14	1.8	2.78	-.98	.9604	.3455
2014-15	2.1	2.78	-.68	.4624	.1663
2015-16	2.8	2.78	.02	.0004	.0001
2016-17	4.1	2.78	1.32	1.7424	.6268
2017-18	4.7	2.78	1.92	3.6864	1.3260
	$\sum O=2.78$				$\chi^2= 3.0273$

Source: Author's Calculations

Table 4 highlights the analysis of NPAs in New Private Sector Banks over the periods of the study. The table value of Chi –Square (χ^2) test at 5% level of significance is 16.92. The calculated value of Chi –Square test is less than the table value. The null hypothesis (H03) is accepted. It proves that NPAs of New Private Sector Banks in India is not increasing over the periods of the study. It may be inferred that the recovery mechanism developed by New Private Sector Banks in India is geared to task.

Table 5: Analysis of NPAs in Foreign Banks

(% of Gross Advances)

Year	O	E	O-E	(O-E)^2	(O-E)^2/E
2008-09	4.4	3.63	0.77	.5929	0.1633
2009-10	4.4	3.63	0.77	.5929	0.1633
2010-11	2.6	3.63	-1.03	1.0609	0.2923
2011-12	2.8	3.63	-0.83	0.6889	0.1897
2012-13	3.0	3.63	-0.63	0.3969	0.1093
2013-14	3.9	3.63	0.27	0.0729	0.0201
2014-15	3.2	3.63	-0.43	0.1849	0.0509
2015-16	4.2	3.63	0.57	0.3249	0.0895
2016-17	4.0	3.63	0.37	0.1369	0.0377
2017-18	3.8	3.63	0.17	0.0289	0.0079
	$\sum$O=3.63				χ^2= 1.124

Source: Author's Calculation

Table 5 brings out the analysis of NPAs as percentage of gross advances in Foreign Banks over the periods of the study. The tabulated value of Chi –Square (χ^2) test at 5% level of significance is 16.92. The calculated value of chi –square test (1.124) is less than the table value (16.92). The null hypothesis (H04) is accepted. It means that NPAs of Foreign Banks is not increasing over the periods of the study. It reflects the efficiency of the foreign banks to recover their advances. Hence, position of Foreign Banks is remarkable.

Table 6: Summary of Results

Hypothesis	Tabulated Value .05	Degree of Freedom n-1 (10-1=9)	Expected Value	Results
H$_{01}$	16.92	9	18.8308	Reject
H$_{02}$	16.92	9	30.7300	Reject
H$_{03}$	16.92	9	3.0273	Accept
H$_{04}$	16.92	9	1.1240	Accept

After Applying the Chi –Square (χ^2) test table no.6 reveals that:

- **Hypothesis H$_{01}$** is rejected. It can be inferred that NPAs in Scheduled Commercial Banks (SCBs) is increasing during the study periods

- **Hypothesis H$_{02}$** is rejected. It can be concluded that NPAs in Public Sector Banks (PSBs) is increasing during study periods.

- **Hypothesis H$_{03}$** is accepted. It can be said that NPAs in New Private Sector Banks is not increasing under the periods of the study.

- **Hypothesis H$_{04}$** is accepted. It confirms that NPAs in Foreign Banks is not increasing from 2008-09 to 2017-18.

On the whole, it may be inferred that the time has come, the Reserve Bank of India should setup a cell to regularly monitor the functioning of funds and non –funds activities of SCBs and PSBs. So, that any intentional or unintentional irregularities taking place in the domain of SCBs and PSBs could be timely scrutinized and rectified for the healthy growth. On the other hand, New Pvt. Sector Banks and Foreign Banks performed in good position and recovery mechanism is geared to task.

and Suggestions

The banking sector plays a major role in the economic growth of a country. The growth of NPAs in SCBs is about 4.87 times, 7.30 times in PSBs, 1.62 times in New Pvt. SBs and 0.86 times in FBs with C.V. value 0.62, 0.72, 0.33 and 0.18 respectively. The Chi –Square test value is more than tabulated value in case of SCBs and PSBs at 5% level of significance. It proves that significant growth has been

recorded in NPAs. The chi –square test value is less than the table value in case of Pvt. SBs and FBs at 5% level of significance. It means that NPAs are not increasing over the periods of the study in Pvt. SBs and FBs. On the whole, it may be concluded that time has come, the Reserve Bank of India should setup a cell to regularly monitor the functioning of funds and non –funds activities of SCBs and PSBs. So, that any intentional or unintentional irregularities taking place in the domain of SCBs and PSBs could be timely scrutinized for the healthy growth. Otherwise, it will difficult to get rid of the insolvency risk. On the other hand, New Private Sector banks and foreign Banks performed in good position and recovery mechanism developed by banks is geared to task. The study helps to judge the financial health of the banks and the economy and useful to government for further development of banking industry.

Scope for Further Research

There is vast scope for further research on various aspects, viz. determinants of non–performing assets and impact of NPAs on profitability and corporate governance.

References

1.   Dave, S.R. (2011), Balance Scorecard: Experimenting with Indian Banks (1st Ed.), Himalaya Publishing House, New Delhi.

2.   Hempel, G., Simonson, D. & Coleman, (1994). Bank Management. Text and Cases (4th ed.), John Wiley & Sons, Inc.

3.   Kumar, S. (2010), Performance Measurement System in Indian Banking Sector (Thesis), Submitted to Faculty of Business Studies, Dept. of Commerce, Punjabi University, Patiala, Punjab.

4.   Nirmala Prasad, K. and Chandra Dass, "Banking and Financial System", Himalaya Publishing House, Mumbai, 1999.

5.   Parameswaran, R. and Natarajan, S. "Indian Banking", Sulthan Chand and Sons, New Delhi, (2002).

6.   Pathak, Bharati, V., "The Indian Financial System". Published by Dorling Kindersley (India) Pvt. Ltd., Licenses of Pearson Education in South Asia, Second Ed.

7.   Poonam Mahajan (2014), Non –Performing Assets. A study of Public, Private, Foreign Banks in India, Pacific Business Review International, 7(1), PP. 09-16.

8.   RBI, Statistical Table, Related to Banks in India

9.   Subha Rao, P., "Principal and Practices of Banks Management" Himalaya Publishing House, Mumbai, 1988.

10.   Suresh, R. (2013). "NPAs Management in Regional Rural Banks in Tamil Nadu, India". Finance India, 27 (1), 105-120.

□○□