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A Study of Non-Performing Assets (NPAs) of Public, Private and Foreign Sector Banks- Comparative Analysis

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Abstract

NPA hampers the economic development of the country. Non-performing assets (NPAs) plays an important role in examining the soundness and strength of the Commercial Banks. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs). The present study attempts to understand how efficiently and effectively Public sector banks, Private sector banks and Foreign banks are handling their NPAs. An attempt has also been made to suggest some preventive and corrective measures related to NPAs.

Introduction

A sound banking sector is important for the flourishing economy. The banking industry is growing in leaps and bounds, and so is the difficulty associated with it. The banking business is exposed to various risk, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk. Banks are growth-driver and apart from these risks the most important risk is loan recovery. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs). Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs bring down the overall profitability of banks and it also involves the necessity of provisions. The magnitude of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. In fact, the level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade.

Assets have to be further classified by the commercial banks into Standard, Substandard, Doubtful and Loss assets:

1. Standard assets: These type of assets are not NPAs because they do not encounter any problems. Except the business risk, no other risk is attached to standard assets.
2. Substandard assets: Assets which remains NPAs for a period less than or equal to 12 months.
3. Doubtful assets: If the asset has remained in substandard category for a period of 12 months, that asset will fall in the Doubtful category
4. Loss assets: They are also called as dead assets or uncollectible assets. All assets which are NPAs and considered by banks as non-collectible, are classified as Loss assets. Loss assets should be written off.

SARFEASI Act, 2002 defined NPA as "an asset or account of borrower, which has been classified by a bank or financial institutions as sub-standard, doubtful or loss assets in accordance with the direction issued the Reserve Bank of India".

An NPA is a loan or an advance where:

- Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- The account remains "out-of-order" in respect of an Overdraft or Cash Credit (OD/CC).
- The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.
- A loan granted for short duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for two crop seasons.
- A loan granted for long duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for one crop season. The Bank classifies an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter. This is a key to the stability of the banking sector. There should be no hesitation in stating that Indian banks have done a remarkable

job in containment of non-performing loans (NPL) considering the overhang issues and overall difficult environment.

Review of Literature

The purpose of this review is to examine some of the approaches that have been taken to measure Non-performing assets and its comparison with other sector banks. .

Dr. Sharma Sunita, Kothari Rajesh, Rathore D.S., Prasad Jagdish (2020), discussed that the major issue being currently faced by the banks is Non Performing Asset (NPAs) which is not only the burden for banks but it is the problem for whole financial system. They also explained that rising NPA affect the operational efficiency which in turn affects profitability, liquidity and solvency position of banks. They studied that the mounting up of NPAs had put stress on recycling of funds and minimized the ability of banks for lending more and thus resulted in lesser interest income. Further they concluded that for improving the efficiency and profitability of banks, NPA needs to be minimized and controlled.

Dr. Sah. P. Vanishree (2017), explained that there has been an increase in the Credit flow to various sectors of the economy such as industry, infrastructure, services and agriculture. But simultaneously there has also been an increase in the Non-Performing Assets (NPAs) in the Indian banking sector. In this paper he has studies the trends of Gross NPA, Net NPA, the impact of NPAs and the recent measures taken by the government to decrease the NPAs. He concluded that NPAs have direct impact on the profitability and the net-worth of the banks. Further he also suggested that the banks should take initiatives to bring down the Non-Performing Assets.

Naik, Janardhan G (2006), highlighted the problem of NPAs by putting more emphasizes on the public sector banks, old private sector banks, new private sector banks and foreign banks. He had studied the impact of NPAs on banking operations along with its magnitude. Various measures to manage NPAs are also discussed in detail.

Kaur, Harpreet and Pasricha, J.S. (2004), studied the problems of NPAs in Public sector banks. The study related to all public sector banks and covers the period from 1994-95 to 2001-02. The paper had work out the bankswise and sectorwise analysis of the magnitude of NPAs over the period of study.

Srivastava, R.M. and Nigam, Divya. (2001), had discussed the conceptual exposition of non-performing assets, NPAs in Indian commercial banks vis-à-vis other countries, impact of priority sector advances on NPAs, Factors for the NPAs in Indian Commercial Banks, suggestions for containing NPAs in Commercial banks and various steps taken by the RBI for containing NPAs.

Kaveri, V. S. (1995), highlighted that the paramount task before banks is to bring down Non-performing Advances and it can only be possible through writing off NPAs, which is not feasible due to low profitability of banks. That means they have to concentrate basically on recovery. Author have also discussed few aspects of the problem which need to be worked out in order to strengthen the recovery machine and in the end concluded that to prevent any advance becoming non-performing in future, much is desired in the present quality of management of lending.

OBJECTIVES OF STUDY

The present study has the following objectives

1. To know the level of Gross Non-Performing Assets of Public, Private and Foreign sector banks.
2. To know the level of Net Non-Performing Assets of Public, Private and Foreign sector banks.
3. To suggest the preventive measures to reduce the level of NPAs.

METHODOLOGY OF THE STUDY

Sample and Sources of data

The present study is analytical in nature. The study is based on the available published data related to Commercial banks (both Public sector banks and private sector banks as well as Foreign Banks operating in India) ranging from year 2007-08 to 2018-19. The data used in this research work has been taken from secondary sources viz. RBI reports, reference articles, websites, journals, etc.

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RESULTS AND DISCUSSION

The table 1 depicts the Gross NPAs of Commercial banks (Scheduled Commercial banks, Public sector banks, New Private sector banks and Foreign sector banks) operating in Indian economy.

Table 1: Gross NPAs of Commercial Banks (Amount in Crore Rs.)

Year	Scheduled Commercial Banks		Public Sector Banks		New Private Sector Banks		Foreign Sector Banks in India	
	Amount	As % of Gross Adv.	Amount	As % of Gross Adv.	Amount	As % of Gross Adv.	Amount	As % of Gross Adv.
2007-08	56309	2.2	40452	2.2	12997	2.5	2869	1.8
2008-09	68328	2.3	44957	2.0	16927	2.9	6445	3.9
2009-10	84701	2.6	59927	2.4	17640	3.0	7134	4.4
2010-11	97973	2.5	74664	2.4	18241	2.5	5069	2.6
2011-12	142903	3.1	117839	3.3	18768	2.2	6297	2.8
2012-13	194053	3.2	165006	3.6	21071	1.8	7977	3.1
2013-14	264381	3.8	228274	4.4	24542	1.8	11565	3.9
2014-15	323335	4.3	278468	5.0	34106	2.1	10761	3.2
2015-16	611947	7.5	539956	9.3	56186	2.8	15805	4.2
2016-17	791791	9.3	684732	11.7	93209	4.1	13629	4.0
2017-18	1039679	11.2	895601	14.6	129335	4.7	13849	3.8
2018-19	986474	9.1	739541	11.6	183604	5.3	12242	3.0

Source: RBI Publication- Handbook of Statistics on Indian Economy

Table 1 exhibits the gross NPAs of Scheduled Commercial Banks, Public Sector Banks, Private sector banks and foreign sector banks from the year 2007-08 to year 2018-19. The Gross NPA of Scheduled commercial banks have increased from 2.2% to 9.1% during this period. It was observed that in the year 2017-18, Gross NPAs of Scheduled Commercial Banks was highest i.e. 11.2%. in case of Public sector banks and private sector banks, gross NPA has increased to 11.6% and 5.3 % respectively as compared to previous year.

Only in case of foreign sector banks, Gross NPA turned out to 3.0% in 2018-19 as compared to 1.8% in 2007-08.

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Net NPAs of Commercial Banks

The table 2 shows the Net NPAs of Commercial banks (Scheduled banks, Public Sector banks, New private sector banks and Foreign sector banks) operating in Indian economy.

Table 2: Net NPAs of Commercial Banks (Amount in Crore Rs.)

Year	Scheduled Commercial Banks		Public Sector Banks		New Private Sector Banks		Foreign Sector Banks in India	
	Amount	As % of Net Advances	Amount	As % of Net Advances	Amount	As % of Net Advances	Amount	As % of Net Adv.
2007-08	24730	1.0	17836	1.0	5647	1.1	1247	0.8
2008-09	31564	1.1	21155	0.9	7412	1.3	2997	1.8
2009-10	39127	1.1	29643	1.1	6506	1.0	2977	1.8
2010-11	41799	1.0	36055	1.1	4432	0.6	1312	0.7
2011-12	65205	1.3	59391	1.5	4401	0.5	1412	0.6
2012-13	98693	1.7	90037	2.0	5994	0.5	2663	1.0
2013-14	142656	2.1	130635	2.6	8862	0.7	3160	1.1
2014-15	175841	2.4	159951	2.9	14128	0.9	1762	0.5
2015-16	349814	4.4	320376	5.7	26677	1.4	2762	0.8
2016-17	433121	5.3	383089	6.9	47780	2.2	2137	0.6
2017-18	520838	6.0	454473	8.0	64380	2.4	1548	0.4
2018-19	355076	3.7	285123	4.8	67309	2.0	2050	0.5

Source: RBI Publication- Handbook of Statistics on Indian Economy.

Table 2 exhibits that Net NPA of Scheduled commercial banks have increased from 1.0% in 2007-08 to 3.7% in 2018-19. Net NPA has come down in case of Foreign Banks in 2018-2019 to 0.5% from 0.8% in 2007-08. In case of public sector and private sector banks, Net NPA has increased as compared to their previous year balances to 4.8% and 2.0%. Although, Net NPAs of Foreign Sector banks have increased to 0.5% from 0.4% from the previous year, still it is lowest among all the other sector banks.

SUGGESTIONS

NPAs erode the capital of the banks. The government has taken several policy decisions and has prepared several strategies to control the high rate of NPAs in the banking sector. But these steps have not created desired effect on the rate of NPAs. Here are some suggestions for reducing nonperforming assets. If these suggestions are implemented effectively, they will be helpful for reducing NPAs with immediate effect.

- The banks should take enough care in selection of the borrower.
- The bank must take regular follow up of the borrower after sanctioning the loan. With this, the chances of default will be reduced.
- Banks should maintain higher provisioning ratios.
- Banks should have proper and effective Management Information System (MIS) so that default can be communicated or reported timely to the management.
- Banks should have proper Credit Risk Management system. It helps in Credit appraisal and accountability in a very refined manner.
- The banks should publish the names of such defaulters in the local news papers with their outstanding amounts.
- More powers should be given to the Commercial banks for loan recovery. Timely inspection and review should be done of various accounts. The bank should form a special recovery cell to recover the outstanding amount of loan.

CONCLUSION

Management of NPAs has been in focus ever since the banking sector reforms were initiated. All banks have been making efforts to contain the NPA level and reduce the drag on their profitability. Even as individual banks have devised various policies for containment of NPAs, the magnitude of the problem of slippage of performing assets to NPA category has become a cause of permanent concern. Though the recoveries affected in NPA accounts by the PSBs during past years were significant but the level of fresh accretion during this period was also significant. A continuous follow up to recover loan, the bank should provide adequate field staff to the branches. Apart from this, to improve the quality of lending which has a significant bearing on the recovery of loan, the designing of lending schemes, appraisal techniques and procedure for disbursement of loans and post-disbursement monitoring of the end use of credit and recoveries should be thoroughly carried out in order to avoid NPAs is one reason for not realizing the full profit potential of the banks. Gross NPAs and Net NPAs have increased in case of Public and Private Sector Banks. Effective management of NPAs therefore has assumed paramount importance.

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