
INDIAN BANKING AND NON PERFORMING ASSETS : AN EMPIRICAL ANALYSIS

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Abstract

Since the past decade, burning issue in the finance of the Indian economy has been the accumulation of huge non-performing assets i.e. (NPAs) in the balance sheets of banks, and that too particularly the public sector banks. Attempts are being made to resolve such bad debts, but there is hardly any evaluation and methodologies adopted for dealing with them. It affects the liquidity and profitability of banks. The NPAs growth has a direct impact on profitability of banks. It considers the necessity of provisions, whereby overall profits and shareholders' value reduces. The NPAs growth directly affects productivity of banks. It thinks about the need of arrangements, whereby generally benefits and investors' esteem decreases. The above issue isn't just influencing the banks yet in addition the general economy. In this article, a similar report has been made between NPA of open segment banks and private area banks in India for as far back as 10 years. The factors contributing to NPAs, reasons for high NPAs and their impact on Indian banking operations, the trend and magnitude of NPAs in Indian banks.

Keywords:

NPA, Foreign Banks, Gross NPA, Public and Private Sector Banks, Net NPA

Introduction

The banking industry has undergone a change after the first phase of economic liberalization in 1991. Till 1991, Asset quality was not prime worry in Indian saving money area till, but rather managing an account part was for the most part centered around execution targets, for example, opening wide systems/branches, need segment loaning, higher business age, and so forth. While the essential capacity of banks is to loan assets as advances to different divisions, for example, agribusiness, industry, individual advances, lodging advances and so forth., however as of late the banks have turned out to be extremely careful in expanding advances. The reason being developing Non Performing resources (NPAs) and these days these are one of the real worries for banks in India. NPA (non-performing resources) is identified with saving money and back term. Whenever bank or back organization can't recuperate its loaned cash from borrower in 90 days and portion is past due for 90 days than that sum which isn't recouped will be known as NPA.

Lately there has been broad talk on the amassing of gigantic non-performing resources (NPAs) on the asset reports of the Indian banks, all the more particularly, people in general area banks (PSBs). PSBs figure conspicuously in the discussion since they overwhelm the saving money industry, as well as since they have substantially bigger NPAs contrasted and the private and outside banks working in our nation. This brings a worry up in the business and the scholarly

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community in light of the fact that it is for the most part felt that NPAs lessen the gainfulness of a bank, debilitate its budgetary wellbeing and disintegrate its dissolvability. The nearness of substantial NPAs influences a bank's benefit in various ways:

(a) Through diminished intrigue pay

(b) Through the production of stores and arrangements (to go about as pads against credit misfortunes) to the detriment of benefits. This decrease in benefit has a heading on factors like the funding to chance weighted resources proportion (CRAR, or the capital ampleness proportion). With the plunge in benefit it ends up troublesome for the bank to raise Tier-I capital. So the capital base is influenced. Despite declining benefit, with the end goal to keep up the stipulated CRAR, the bank may need to raise Tier-II capital through bond-issues. The premium cost at that point will be higher, driving the cost proportion of the bank up and in this manner bringing about a further shrinkage of benefit. In this manner the nearness of vast NPAs may prompt an endless loop, influencing the money related strength of a bank to break down after some time. Henceforth, the bank, to break the endless loop, needs to make strides for decrease of amassed terrible obligation or evacuation of such obligation through a different substance. Diverse nations encountered an assortment of issues by virtue of high NPAs. The impacts went from liquidity emergency, store runs and bank disappointments that prompted composition offs of non-performing advances, mergers and acquisitions, rebuilding and even terminations of frail banks .

Managing NPAs includes two arrangements of approaches: the principal identifying with existing NPAs, and the second concerning ventures to decrease crisp NPA age. So far as old NPAs are concerned, a bank can evacuate it all alone or pitch the advantages for AMC's to make its asset report clean. For anticipating crisp NPA age, the bank itself ought to receive appropriate approaches. Be that as it may, some pre-conditions should be fulfilled with the end goal to empower the bank diminish NPAs effectively. There ought to be fitting lawful and institutional condition for effective and brisk recuperation of obligations.

Literature review

Paramita Mukherjee studied about the NPAs that are pertaining worldwide and that in India particularly the public sector banks. In this paper an attempt was made to draw some policy conclusions from the international experiences regarding the resolution of the problem of old bad debts. International experiences suggest that different countries adopted mainly two types of strategies, viz. the formation of asset management companies (AMCs), and the strategy of decentralised restructuring. It is found that the achievement of the successful AMCs has been supported by some special circumstances, while these companies were less effective in developing countries.

Kumar (2015) in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs). The quality of loan portfolio is very crucial for the health and existence of the banks. High level of (NPAs) has many implications on profitability, productivity, liquidity, solvency, capital adequacy and image of the bank.

Selvarajan & Vadivalagan (2017) in A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs) their research paper has studied that the growth of Indian Bank's lending to Priority sector is more than that of the Public Sector Banks as a whole. Indian Bank has slippages in controlling of NPAs in the early years of the decade. Therefore, the management of banks must pay special attention towards the NPA

management and take appropriate steps to arrest the creation of new NPAs, besides making recoveries in the existing NPAs. Timely action is essential to ensure future growth of the Bank. **Singh (2016)** in his paper entitled Recovery of NPAs in Indian commercial banks says that the origin of the problem of burgeoning NPA's lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing. Banks have to be given powers of inspection of the use of loans and the loan should be disbursed on the point of purchase by the borrowers to ensure proper utilization of deposits. Banks may also be given powers to recover loans from the guarantor of the borrower.

Objective of the study

To compare NPAs across private, public and Foreign Banks.

Research methodology

Research methodology used to carry out this study is descriptive research because it deals with mainly statistical data and the main aim of the report is to describe the factors affecting NPA and making comparison between different banks performance in context of the same. The study is carried out on the basis of data for the period of past 12 years from the financial year 2005-2017 and secondary data is collected mainly from the sources available at internet like the money control website, RBI website, websites of different banks etc. Data is presented with the help of Graphs, charts and tables etc.

NPA & its types

NPA may be classified into

a. Gross NPA

The Gross NPA is advance which is considered to be irrecoverable, for which bank has made some provisions, and which is still held in banks' books of account.

b. Net NPA

Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

Analysis And Interpretation

Flow of Research Analysis

- A) Overall Gross and Net NPA's of all the Scheduled Commercial Banks – form the above table we would be able to get the central idea about the overall NPA's that is being prevailing across different sector of banks in India.
- B) Sector Wise evaluation of Gross NPA's: Here we compared the Gross NPA of all the banks according to their sectors
- C) Detailed NPAs analysis of Scheduled commercial banks: The overall comparison of Private, Public and Foreign Banks has been done.
- D) TOP 10 Public sector and Private sector bank with highest Gross NPA value: Here we have sort out the banks according to their Gross NPA values(Sector wise)
- E) Top 10 Bank in terms of highest amount of NPA from Public Sector, Private Sector and Foreign Banks:- Here we have sort out the banks according to their Gross NPA values(overall wherein all the banks are included)
- F) Year wise Growth and Comparisons of NPAs amongst Public sector, Private sector and Foreign Banks:- Each year how much NPA is increasing can be analyzed
- G) Year wise recovery of NPA through various channels: Each year how much amount we are able to recover can be known through this.

Overall Gross and Net NPA's of all the Scheduled Commercial Banks.

The gross NPA and net NPA from the year 2005-2017 has been taken from RBI's website whereby the overall analysis of the same can be made.

TABLE-1 GROSS AND NET NPAs OF SCHEDULED COMMERCIAL BANKS								
(Amount in ₹ Billion)								
Year (end-March)	Advances		Non-Performing Assets (NPAs)					
	Gross	Net	Gross			Net		
			Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2005-06	11526.82	11156.63	593.73	5.2	2.5	217.54	2.0	0.9
2006-07	15513.78	15168.11	510.97	3.3	1.8	185.43	1.2	0.7
2007-08	20125.10	19812.37	504.86	2.5	1.5	201.01	1.0	0.6
2008-09	25078.85	24769.36	563.09	2.3	1.3	247.30	1.0	0.6
2009-10	30382.54	29999.24	683.28	2.3	1.3	315.64	1.1	0.6
2010-11	35449.65	34970.92	846.98	2.4	1.4	387.23	1.1	0.6
2011-12	40120.79	42987.04	979.00	2.5	1.4	417.00	1.1	0.6
2012-13	46488.08	50735.59	1423.26	3.1	1.7	650.19	1.3	0.8
2013-14	59718.20	58797.73	1935.09	3.2	2.0	986.09	1.7	1.0
2014-15	68757.48	67352.13	2633.72	3.8	2.4	1423.83	2.1	1.3
2015-16	75606.66	73881.60	3233.35	4.3	2.7	1758.41	2.4	1.5
2016-17	81673.45	78964.67	6119.47	7.5	4.7	3498.20	4.4	2.7
Public Sector Banks								
2005-06	8778.25	8489.12	483.99	5.5	2.7	169.04	2.1	1.0
2006-07	11347.24	11062.88	413.58	3.6	2.1	145.66	1.3	0.7
2007-08	14644.93	14401.46	389.68	2.7	1.6	151.45	1.1	0.6
2008-09	18190.74	17974.01	404.52	2.2	1.3	178.36	1.0	0.6
2009-10	22834.73	22592.12	449.57	2.0	1.2	211.55	0.9	0.6
2010-11	27334.58	27013.00	599.26	2.2	1.3	293.75	1.1	0.7
2011-12	30798.04	33056.32	746.00	2.4	1.4	360.00	1.2	0.7
2012-13	35503.89	38773.08	1172.62	3.3	1.9	592.05	1.5	1.0
2013-14	45601.69	44728.45	1644.61	3.6	2.4	899.52	2.0	1.3
2014-15	52159.20	51011.37	2272.64	4.4	2.9	1303.62	2.6	1.6
2015-16	56167.18	54762.50	2784.68	5.0	3.2	1599.51	2.9	1.8
2016-17	58183.48	55935.77	5399.56	9.3	6.0	3203.76	5.7	3.5
Private sector Banks								

2005-06	1274.20	1236.55	45.82	3.6	1.6	23.53	1.9	0.8
2006-07	2325.36	2300.05	40.52	1.7	1.0	17.96	0.8	0.4
2007-08	3252.73	3218.65	62.87	1.9	1.1	31.37	1.0	0.5
2008-09	4124.41	4067.33	104.40	2.5	1.4	49.07	1.2	0.7
2009-10	4547.13	4468.24	138.54	3.1	1.7	62.52	1.4	0.8
2010-11	4877.13	4783.58	140.17	2.9	1.6	52.34	1.1	0.6
2011-12	5450.14	6128.86	145.00	2.7	1.3	34.00	0.6	0.3
2012-13	8716.41	7363.23	187.68	2.2	1.1	44.01	0.6	0.3
2013-14	11512.46	8733.11	210.71	1.8	1.1	59.94	0.7	0.3
2014-15	13602.53	13429.35	245.42	1.8	1.1	88.62	0.7	0.4
2015-16	16073.39	15843.12	341.06	2.1	1.3	141.28	0.9	0.5
2016-17	19726.59	19393.39	561.86	2.8	1.8	266.77	1.4	0.9

Foreign Banks In India

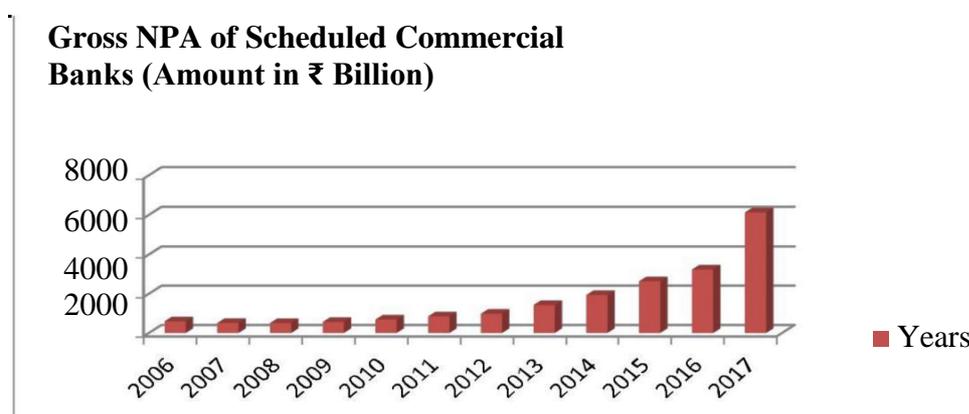
2005-06	770.26	753.54	21.92	2.8	1.4	6.39	0.8	0.4
2006-07	989.65	975.62	19.28	1.9	1.0	8.08	0.8	0.4
2007-08	1278.72	1263.39	22.63	1.8	0.8	9.27	0.7	0.3
2008-09	1629.66	1611.33	28.59	1.8	0.8	12.47	0.8	0.3
2009-10	1697.16	1653.85	64.44	3.8	1.5	29.96	1.8	0.7
2010-11	1674.37	1632.60	71.33	4.3	1.6	29.77	1.8	0.7
2011-12	1993.21	1955.39	50.00	2.5	1.0	12.00	0.6	0.3
2012-13	2267.77	2298.49	62.97	2.8	1.1	14.12	0.6	0.2
2013-14	2604.05	2636.80	79.77	3.1	1.3	26.63	1.0	0.4
2014-15	2995.76	2911.42	115.65	3.9	1.5	31.60	1.1	0.4
2015-16	3366.09	3275.99	107.61	3.2	1.4	17.62	0.5	0.2
2016-17	3763.37	3635.51	158.05	4.2	1.9	27.67	0.8	0.3

The above table shows us the overall NPA's across all the Category of banks. It gives the detailed analysis about overall performance of all the banks across country.

Sector Wise evaluation of Gross NPA's

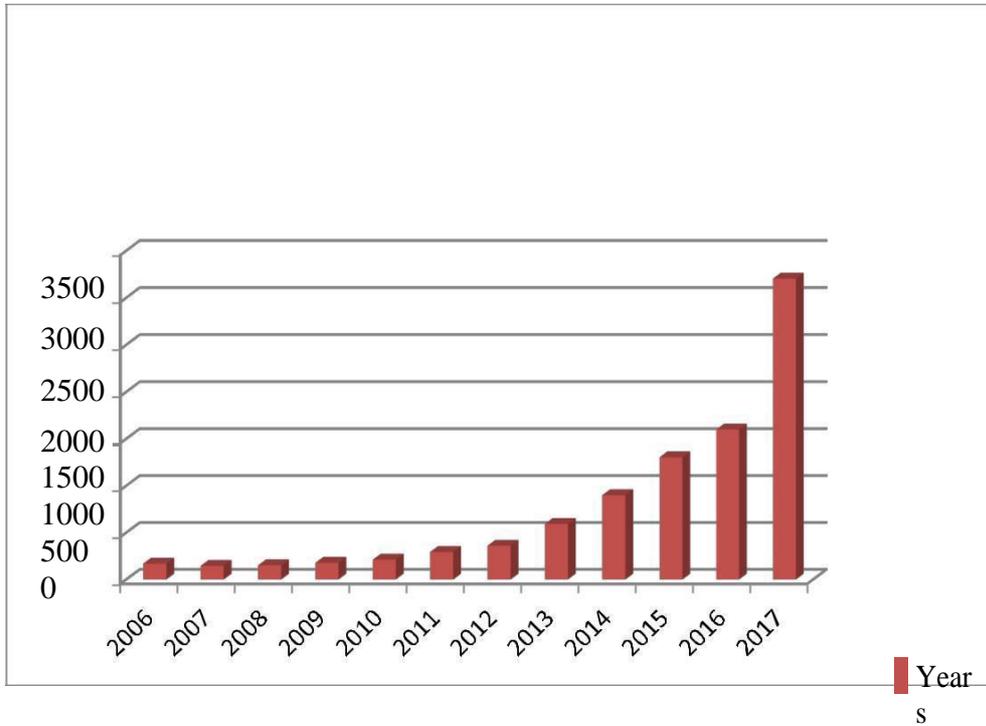
From the above table sector wise performances of different banks in terms of Gross NPA could be obtained as under:

1) Gross NPA of Scheduled Commercial Banks



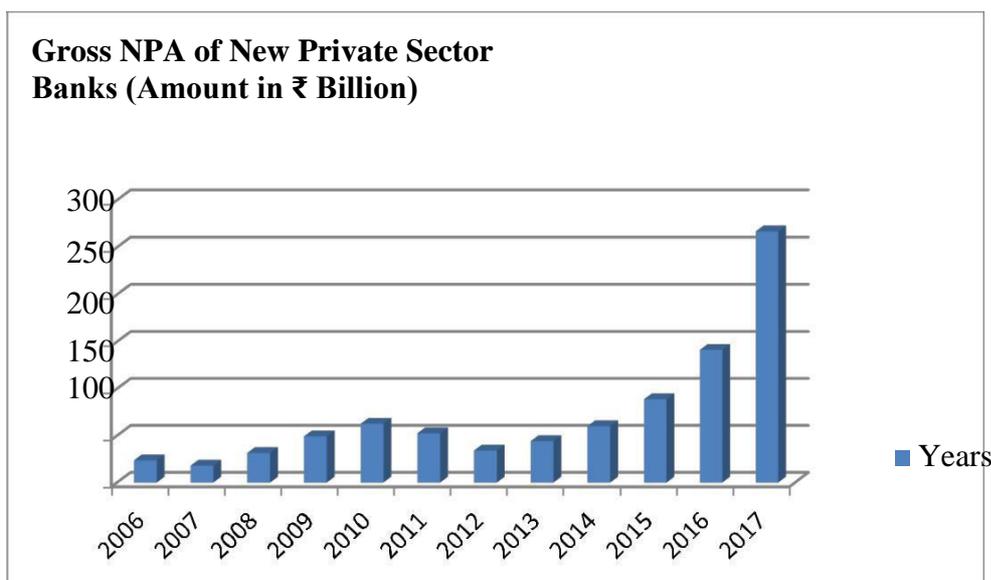
This depicts us about the overall performance of all the banks across the country. In simple words this shows us about all the banks that are included in the second schedule of RBI Act 1934 and which carry out all the normal business of banking.

**Gross NPA of Public Sector Banks
(Amount in ₹ Billion)**



The above table shows us about the Public Sector Banks. It depicts that the GNPA of public sector banks goes on increasing per year. There occurs a high increase in NNPA from the year 2015-2016. And for the years 2017 it has almost doubled the same compared to the previous year.

3.Gross NPA of Private Sector Banks

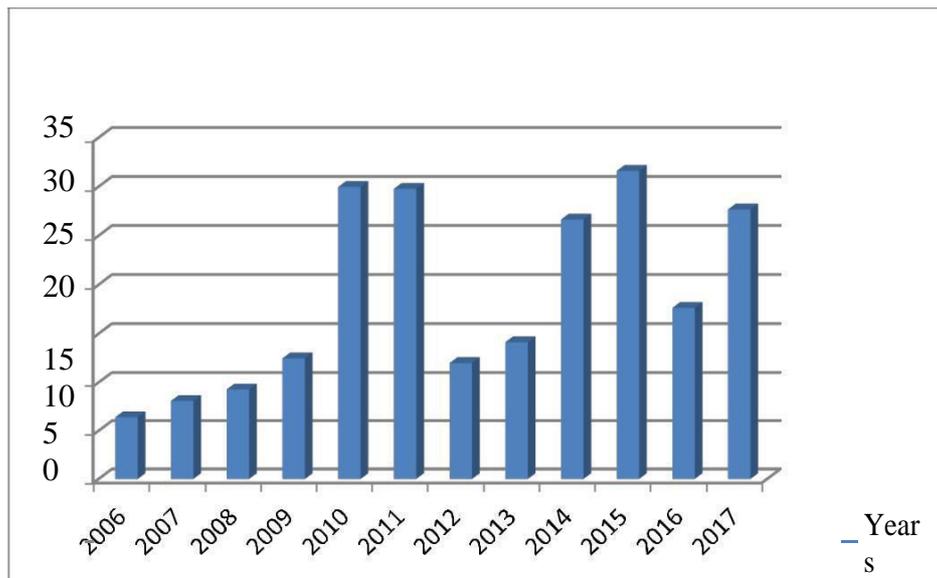


It only provides us the analysis of old private banks. It depicts that the GNPA of the same is almost stagnant till the year 2012 and after then the NPA is constantly increasing across all the

newly established private banks. And in the year 2017 it is at its peak wherein the NPA observed was almost twice the previous years.

Gross NPA of Foreign Banks In India

Gross NPA of Foreign Banks (Amount in ₹ Billion)



The above table shows us about the Foreign Sector Banks in India. It depicts that the GNPA of the foreign sector banks remains stagnant over the years. It could be said that the NPA has not increased heavily across the foreign sector banks and it maintains and remains only in the certain range.

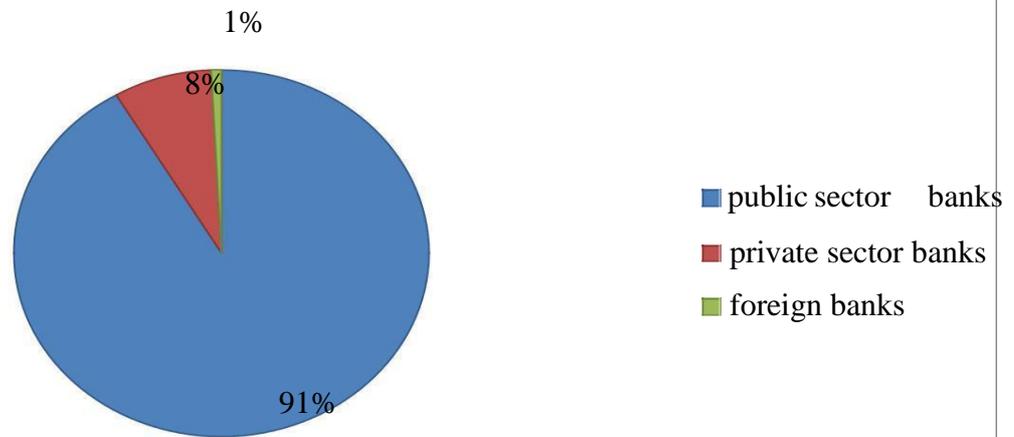
Detailed NPAs analysis of Scheduled commercial banks

SR. no	Scheduled Commercial Banks	Gross NPA
1	Public sector banks	3203.8
2	Private sector banks	266.77
3	Foreign banks	27.67
	Total	3498.2

Table 6

Above table shows that NPAs of public sector bank is much higher compared to private sector and foreign banks in India.

Percentage of NPA in different category of bank



Above graph shows percentage NPAs of different category of banks

1. Public sector banks comprises total of 91% Of NPAs
2. Private sector banks comprises total of 8% Of NPAs
3. Foreign banks comprises total of 1% Of NPAs

These graphs give us the glimpse about the problem of NPA prevailing in the public sector bank.

TOP 10 Public sector and Private sector bank with highest Gross NPA value Public Sector Banks

Sr no	Bank Name	Gross NPA
1	State Bank of India	Rs. 2.01 Trillion
2	Punjab National Bank	Rs. 552 Billion
3	IDBI Bank	Rs. 445 Billion
4	Bank of India	Rs. 434 Billion
5	Bank of Baroda	Rs. 416 Billion
6	Union Bank of India	Rs. 380 Billion
7	Canara Bank	Rs. 377 Billion
8	Central Bank of India	Rs. 324 Billion
9	Indian Overseas Bank	Rs. 317 Billion
		Rs. 243

10	UCO Bank	Billion
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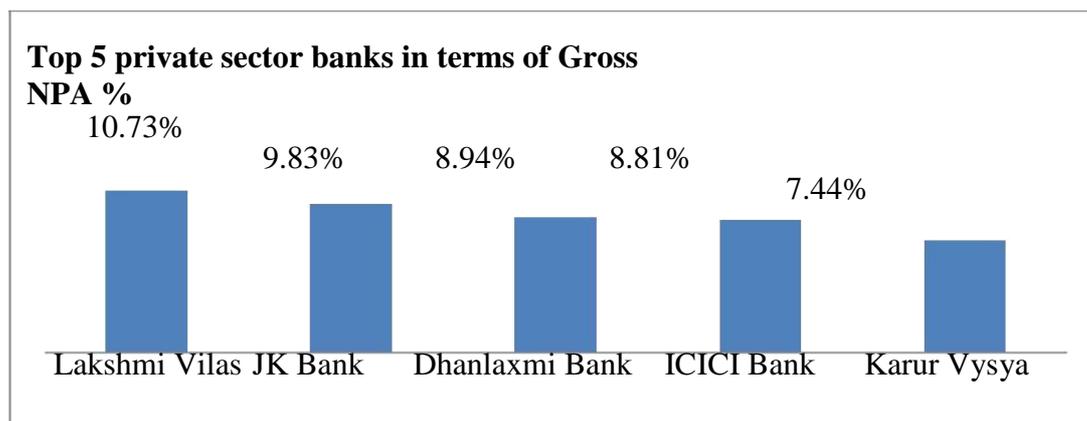
Table 7
Private Sector Banks

Sr. No	Bank Name	Gross NPA
1	ICICI Bank	Rs. 408 billion
2	AXIS Bank	Rs. 220 billion
3	HDFC bank	Rs. 80 billion
4	J&K Bank	Rs. 62 billion
5	Kotak Mahindra Bank	Rs. 37 billion
6	Karur Vysya BANK	Rs.18 billion
7	The South Indian Bank	Rs.16.96 billion
8	Karnataka bank	Rs .16.91 billion
9	The lakshmi vilas bank	Rs.88 billion
10	Yes bank	13.64 billion

Table 8

Above table shows the NPAs of different public and private sector banks.

1. SBI has highest NPAs among Public sector banks
2. ICICI has highest NPAs among Private sector banks.



Lakshmi Vilas bank has highest Gross NPAs % among private sector banks. Whereas YES bank and HDFC bank has very low Gross NPAs %.

Top 10 Bank in terms of highest amount of NPA from Public Sector, Private Sector and Foreign Banks

Sr NO	Bank Name	Gross NPA
1	State Bank of India	Rs. 2.01 trillion
2	Punjab National Bank	Rs. 552 billion
3	IDBI Bank	Rs. 445 billion
4	Bank of India	Rs.434 billion
5	Bank of Baroda	Rs. 416 billion
6	ICICI Bank	Rs.408 billion
7	Union Bank of India	Rs. 380 billion
8	Canara Bank	Rs. 377 billion
9	Central Bank of India	Rs. 324 billion
10	Indian Overseas Bank	Rs. 317 billion

Table 9

From above Table, it is clearly visible that out of 10 highest amount of NPAs bank 9 are from public sector and 1 are from private sector.

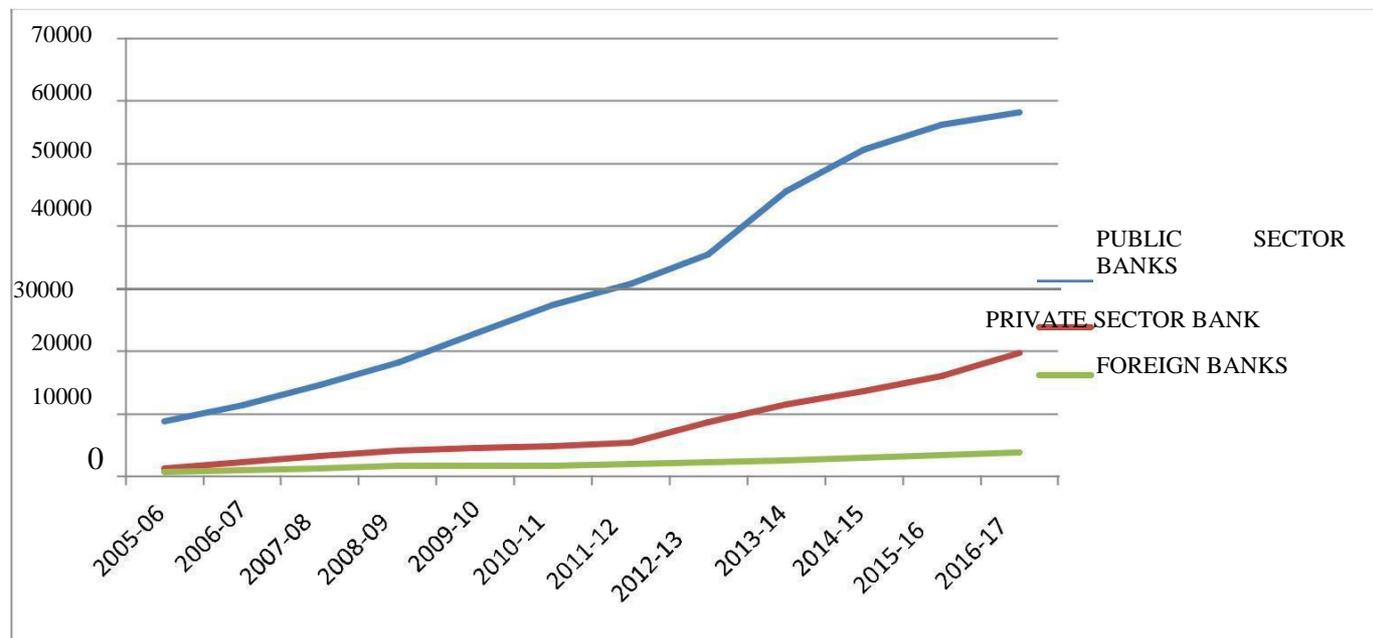
Total NPA of SBI is Rs.2.01 trillion (2010 billion), where as total NPA of ICICI is Rs.408 billion.

Yearly Growth of NPAs in banks.

Year	Public sector bank	Private sector bank	foreign bank
2005-06	8778.25	1274.2	770.26
2006-07	11347.24	2325.36	989.65
2007-08	14644.93	3252.73	1278.72
2008-09	18190.74	4124.41	1629.66
2009-10	22834.73	4547.13	1697.16
2010-11	27334.58	4877.13	1674.37
2011-12	30798.04	5450.14	1993.21
2012-13	35503.89	8716.41	2267.77
2013-14	45601.69	11512.46	2604.05
2014-15	52159.2	13602.53	2995.76
2015-16	56167.18	16073.39	3366.09
2016-17	58183.48	19726.59	3763.37

Table 10

Year wise comparison of NPAs amongst Public sector, Private sector and Foreign Banks
Increase in Net NPA of Public, Private and Foreign Sector Banks
(In Billion Rupees)



The comparisons between Gross NPA of Public Sector Banks and Private Sector Banks reveals that if there is an increase in Public Sector Banks GNPA there occurs an increase in Private Sector Banks GNPA. From the above only it could be depicted that the GNPA amongst the public sector is found to be constantly increased whereas that amongst the Foreign banks it's found to be stagnant over the years. If compared with the year 2008 the NPA's across the public sector has grown thrice.

And this would directly impact bank's revenue stream. The price of loans, interest rates will shoot up badly. Also as the NPAs of the banks will rise, it will bring a scarcity of funds in the Indian markets which will altogether lead to a crisis situation in the market as at the end shareholders of the banks will lose their money.

All these would eventually hurt the overall demand in the Indian economy. Hence to curb the above crisis the Government has taken certain steps which are as under:

Year wise recovery of NPA through various channels:

Year	Recovery channels	Lok Adalats	DRTs	SARFAESI Act	(In Billion)	
					Total	Percentage
2012-13	Amount involved	66	310	681	1057	22
	Amount recovered	4	44	185	233	
2013-14	Amount involved	232	553	953	1738	18
	Amount recovered	14	53	253	320	
2014-15	Amount involved	310	604	1568	2482	12
	Amount recovered	10	42	256	308	
2015-16	Amount involved	720	693	801	2214	1.2
	Amount recovered	32	64	132	228	
2016-17	Amount involved	1058	671	1131	2860	9.7
	Amount recovered	38	164	78	280	

Table 11:**Note: DRTs – Debt Recovery Tribunals % of Recovery per year**

Table shows the amount of NPA involved in channels of Lok Adalats, DRTs and SARFAESI Act and the amount recovered by those channels from 2012-2017. As per the above table, the amount involved for recovering the NPA is higher in the year 2016-17 and lower in the year 2012-13 and the Recovery of NPA is higher in the year 2012-13 when compared to other years and lower in the year 2016-17.

Findings

1. It is found out that a larger number of bad loans were originated in the period between 2006-2008 when economic growth was strong, and previous infrastructure projects such as power plants had been completed on time and within budget. It is at such times that banks make mistakes. They extrapolate past growth and performance to the future. So they are willing to accept higher leverage in projects, and less promoter equity. This is the historic phenomenon of irrational exuberance, common across countries at such a phase in the cycle.
2. When growth slowed down following the global meltdown of financial markets in 2008, bank loans quickly came under stress.
3. A variety of governance problems such as the suspect allocation of coal mines coupled with the fear of investigation slowed down government decision making in Delhi, both in the UPA and the subsequent NDA governments. The continuing travails of the stranded power plants, even though India is short of power, suggest government decision making has not picked up sufficient pace to date.
4. The absence of a proper bankruptcy code in this period made it difficult for banks to write off debt by penalising the debtor; the end result was the ever-greening of bad loans. However, malfeasance and fraud were also factors and the reluctance of the system to act is a serious problem.
5. The size of frauds in the public sector banking system have been increasing, though still small relative to the overall volume of NPAs. Frauds are different from normal NPAs in that the loss is because of a patently illegal action, by either the borrower or the banker. Unfortunately, the system has been singularly ineffective in bringing even a single high profile fraudster to book. As a result, fraud is not discouraged.
6. The investigative agencies blame the banks for labeling frauds much after the fraud has actually taken place, the bankers are slow because they know that once they call a transaction a fraud, they will be subject to harassment by the investigative agencies, without substantial progress in catching the crooks.

Conclusion

- The above study shows that the NPA in Public sector Banks is much higher than the foreign and private banks.
- The governments should also make more provisions for faster settlements of pending cases and also govt should reduce mandatory lending to priority sector as the major problem creating area.
- The NPA's should be well controlled to the soonest or else it will continue killing the profitability and liquidity of the banks.

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