Comparative analysis of non-performing assets (NPAS) of public sector banks, private sector banks and foreign banks

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Abstract

The strength and soundness of the banking system primarily depends upon the quality of the assets. Non performing assets (NPAs) is one of the major concerns for banking system in india. In this paper we have made an attempt to analyze how efficiently public and private sector banks managed their NPAss. Secondary data has been collected for the selected categories of the banks from the rbi publications for a period of thirteen years i.e. From 2013 to 2018 the data has been analyzed using percentage and ratio method.trend projection and one-way .. Our results reveal that public sector banks have witnessed a continuous increasing trend in gross and net NPAss in comparison to private sector banks and there is statistical significant difference in the mean of gross and net NPAs of public and private category of indian banks. However there is no significant difference in gross and net NPAs ratio of both psbs and prsbs which indicates that public and private sector banks are trying hard to reduce their NPAsratios consistently due to the regulatory and supervisory pressure. Lastly, measures for NPAs .Management is explored which concludes that, besides the preventive and corrective measures of NPAs management, the role of technology in managing and warning the officials in advance seems to be crucial.

Keywords:public sector banks, private sector banks,non performing assets (NPAs), gross NPAs, net NPAs, ., NPAs management.

Introducton

NPAs is the shorten form of non performing assets. NPAs is when a bank is unable to recover the money which it has lent to a person or company or any financial institutions

NPAs arises because of one of the primary functions of banks i.e. Providing loans. Banks provide loans to their customers. Customers include from a common man to big enterprises. Interests from loans are the earnings of banks. But sometimes there customer fail to return the loan amount this situation is the beginning of NPAs.To anyone along with its interest amount for a specific period of time (generally for 90 days). The fear of today's banking industry is NPAs. Not only banks, but our economy, depositors, shareholders of that bank also is badly affected by non-performing assets. It is a big matter of stress in india. NPAs tells us about the status of the banks. A bank who has high NPAs directly means that it has large number of loans or advances which has not been recovered till date or which that bank cannot recover ever. High NPAs erodes the worth of company's talent. NPAs is not a default done by small borrowers, but when the defaulted amount is large that can be more than 100 crore.It is extremely important to trim down NPAs. NPAs dreadfully affect the bank and decline the achievements of the banks, it reduces the cash liquidity of banks i.e. The cash held by banks goes down.Banks are the essential sector of our nation. Banks were set up to accept deposits and make loans and advances available to public, but now it is much more than that. Every country has its own central bank which controls all other banks; the name of indian central bank is reserve bank of india. The reserve bank of india begins itworking on 1 april of 1935 in agreement with the reserve bank of india act, 1934. The reserve bank of india, act grants rbi various powers. The indian banking system consists of public and private banks. Public banks are those in which the government has 51% or more share and private banks are owned by persons other than government.Since 1991, after the introduction of lpg, the banking industry in india observed a string of innovative transformation. Non-performing assets (NPAs) were first recognize at the early 1990S and were not exposed in the balance sheet at that time. The banks become extremely feeble and the reason was NPAs. The burden of NPAs was massive. The key intention of banks is to encourage people in saving money and to lend finances to different sectors of country such as industry, agriculture, etc., but today's banks have become very alert in giving huge loans because of constant rise in NPAsNPAs is the shorten form of non performing assets. NPAs is when a bank is unable to recover the money which he has lent to a person or company or any financial institutionsOr anyone along with its interest amount for a specific period of time (generally for 90 days). The fear of today's banking industry is NPAs. Not only banks, but our economy, depositors, shareholders of that bank also is badly affected by non-performing assets. It is a big matter of stress in india. NPAs tells us about the status of the banks. A bank who has high NPAs directly means that it has large number of loans or advances which has not been recovered till date or which that bank cannot recover ever. High NPAs erodes the worth of company's talent. NPAs is not a default done by small borrowers, but when the defaulted amount is large that can be more than 100 crore.Narsimham committee finds out the concept of NPAsandintroduces it as a major problem and suggested that it is national responsibility to reduce it because it will affect the banking system very severely. In other terms any assets of banks which is not generating any revenue is NPAs. All around the world india is on 5^{TH} position in terms of bad loans. In india the government owned bank i.e. Public sector bank has high NPAs in relate to private sector banks. Public sector bank has rs 7.34 lakh crore of bad loans that is more than private banks i.e. Rs 1.03 lakh crore.

In the previous times NPAs was express as that loans or advances or bank assets which were unsettled for more than 30 days after the completion of the time. From march 31^{ST} of 2004 bank assets (loans or advances) are deemed to be NPAs when neither the principal amount nor installment is paid till 90 days. Lending is risky. A good portfolio can manage NPAs. To reduce NPAs the banks has to check the status of the borrower, will he be able to repay loans or is his assets enough to repay loans. The bank manager has to maintain a vision of the entire regulatory rule. The banks have to make a decision focusing on business background, risk profile etc of the person of company whoever is availing for loans.It is extremely important to trim down NPAs. NPAs dreadfully affect the bank and decline the achievements of the banks, it reduces the cash liquidity of banks i.e. The cash held by banks goes down. Government has taken some measures to have power over NPAs. Some acts and committee started by government to control NPAs are:

- The debt recovery tribunals (drt), 1993
- Credit information bureau,2000
- Compromise settlement,2001
- Lok adalats,2001
- The securitization and reconstruction of financial assets and enforcement of security interest,2002
- Joint lenders forum,2014
- Public assets reconstruction agency (para) also called bad banks,2017

Types of NPAss

Types of NPA

a) Gross NPA:

The sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

GROSS NPA = GROSS NPA/ GROSS ADVANCE

b) Net NPA:

Those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. In India, bank's balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following:

NET NPA=(GROSS NPA-PROVISION)/(GROSS ADVANCE – PROVISION) X 100

Provisions related to NPAs

	Type of Assets	Provisions
1	Standard Assets	0.25 % for all type of Standard Advances
2	Sub-Standard Assets	10 % for all types of Standard Advances
3	Doubtful Assets	
	- Up to One Year	100 % of unsecured Advances and 20 % of secured Advances
	- One to three Year	100 % of unsecured Advances and 30 % of secured Advances
	- more then three Year	100 % of unsecured Advances and 100 % of secured Advances
4	Loss Assets	100 % of unsecured Advances and 100 % of secured Advances

Categories of NPAs

CATEGORIES OF NPA

- **Standard Assets :** Arrears of interest and the principal amount of loan does not exceed 90 days at the end of financial year
- **Substandard Assets** : Which has remained NPA for a period less than or equal to 12 months.
- **Doubtful Assets** : Which has remained in the sub-standard category for a period of more than 12 months
  - D1 i.e. up to 1 year : 20% provision is made by the bank
  - D2 i.e. up to 2 year : 30% provision is made by the bank
  - D3 i.e. up to 3 year : 100% provision is made by the bank
- **Loss Assets** : where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

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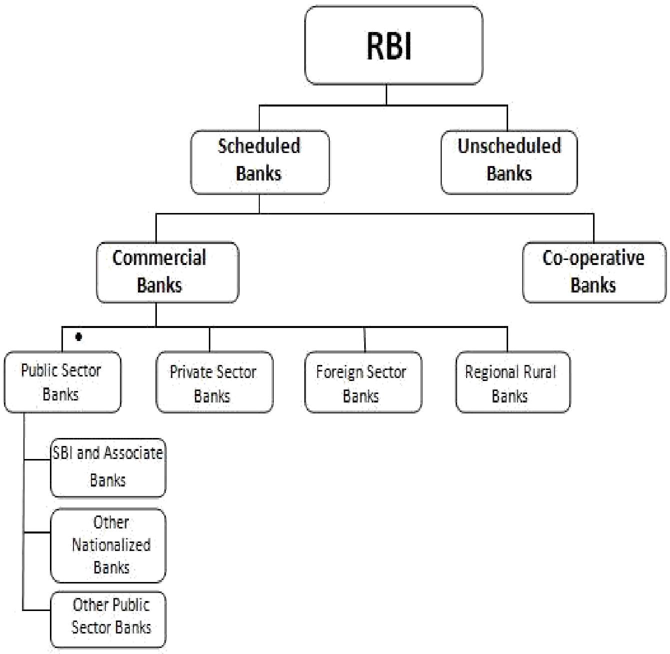
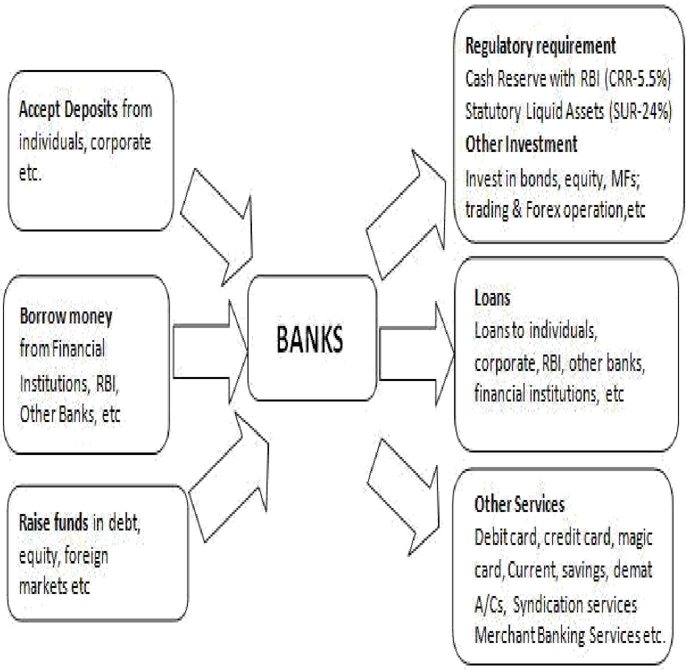
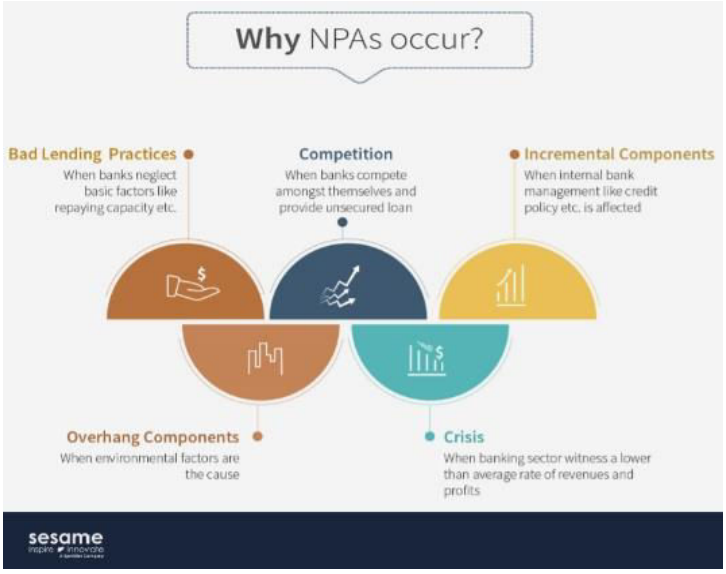
Structure of Indian banking system



How bank functions



Why NPAs occurs?



Objectives of study

2. To compare GNPA to gross advances ratio of Public sector Banks, Private Sector Banks and Foreign Banks.
3. To compare GNPA to total assets ratio of Public sector Banks, Private Sector Banks and Foreign Banks.
4. To compare NNPA to net advances ratio of Public sector Banks, Private Sector Banks and Foreign Banks.
5. To compare NNPA to total assets ratio of Public sector Banks, Private Sector Banks and Foreign Banks

Scope of study

This research paper analyzes the movement of non-performing assets of public sector banks, private sector banks and foreign banks of six financial year starting from fy 2013-14 to fy 2018-19. The study concentrates on all the banks that come under public sector banks, private sector banks and foreign banks.

Volume: 04 Issue: 08 | August -2020 ISSN: 2582-3930

The variables used in the presented research paper is gross non-performing assets, gross non-performing assets to gross advance ratio, gross non-performing assets to total assets ratio, net non-performing assets, net non-performing assets to net advance ratio, net non-performing assets to total assets ratio.For the purpose of analysis ratio and mean analysis is used.

Limitations

Variable of the Cost

Table 4.1: Variables of the study:

Variables Name	*Abv.*	*Measure/Formula*
Gross Non-Performing Assets	*GNPAs*	*Total NPAs (substandard, doubtful, and loss advances)*
Gross Non-Performing Assets to Gross Advance Ratio	*GNPAR*	*GNPAs/Total or Gross Advances*
GNPA to Total Assets Ratio	*GNTAR*	*GNPAs/ Total Assets*
Net Non-Performing Assets	*NNPAs*	*GNPAs-Provision*
Net Non-Performing Assets to Net Advance Ratio	*NNPAR*	*NNPA/Net Advances*
NNPA to Total Assets ratio	*NNTAR*	*NNPAs/ Total Assets*

1. **Gross Non-Performing assets:** The entire amount of NPA that one bank encompass is GNPA (Gross Non-Performing Assets). By way of explanation, the entire value of credit on which the interest earnings is not received within 90 days. The sum total of debt a customer has failed to pay is GNPA. It consists of doubtful assets, substandard assets and loss assets.

2. Gross non-performing assets to gross advance ratio: we can calculate thisratio by dividing gross non-performing assets by gross advance. It computes the excellence of bank's credit as it tells us that how much bad debt cannot be recovered. The lesser the ratio, it is good for bank health.
3. GNPAS to total assets ratio: this ratio portrays the fraction of assets that arenot performing well. By calculating this ratio we are able to come across banks position. The less the proportion is healthier the bank is.
4. Net non-performing assets: from the time a bank started to have a hint in thedirection of the customer who has taken loans from bank is not paying installment on a regular basis they create a provision for doubtful debt. NNPAs is the left bad loan of which provision is not created. It basically mean entire amount of NPAs less provisions.

   Net NPAs= gross NPAs – provisions

5. Net non-performing assets to net advance ratio: we calculate this ratio after dividing net non-performing assets by net advance.
6. NNPAs to total assets ratio: we calculate this ratio after dividing net non-performing assets by total assets. This ratio describes the net of all provisions that all financial institutions has reserved aside for their non recovery as a proportion of whole assets. The lesser the ratio, healthier it is.

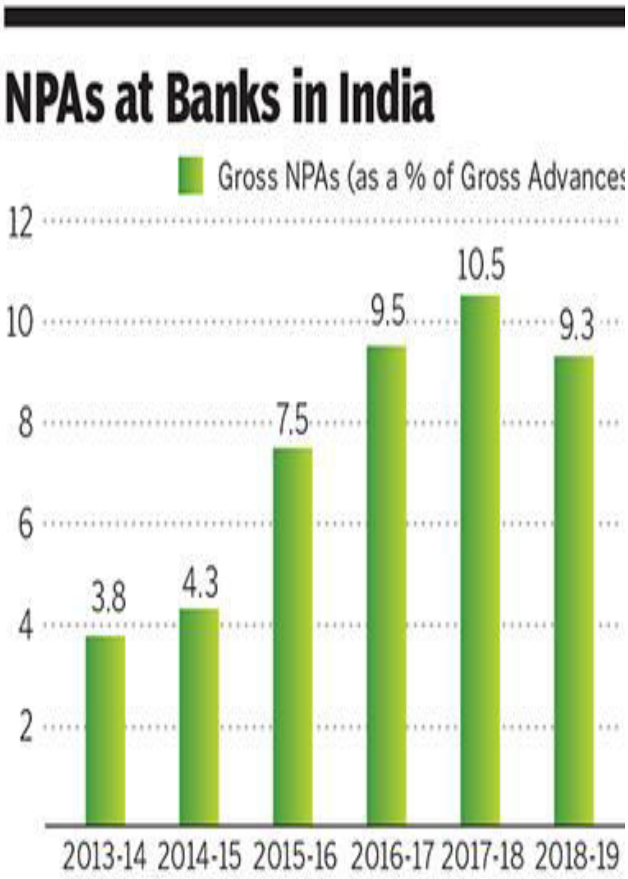
Literature review

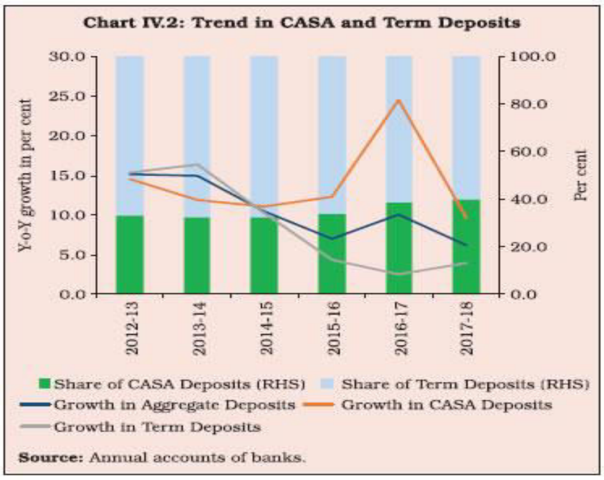
- Subbareddy&bhaskar(2018)
- Subbareddy&bhaskar(2018)
- Gupta &kesari (2018)
- Miyan(2017)
- Das and dutta(2014)
- Joseph (2014)
- Rao &patel (2015)

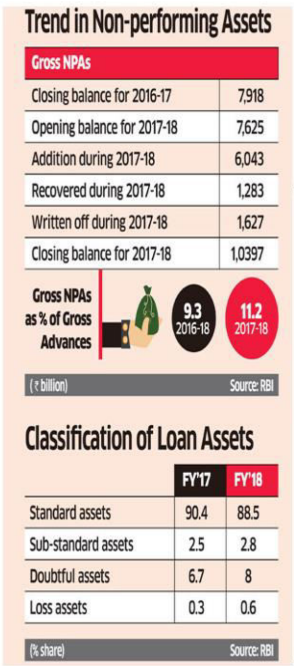
Research methodology

- Present research paper is a descriptive research. The pool of some relevant proven information is made and then an analysis of that gathered information is done.
- Descriptive research design is chosen because the presented research paper consists of quantitative data viz. Tables, graphs, charts etc

. Data analysis & interpretation







Trend in Non-performing Assets

Gross NPAs	
Closing balance for 2016-17	7,918
Opening balance for 2017-18	7,625
Addition during 2017-18	6,043
Recovered during 2017-18	1,283
Written off during 2017-18	1,627
Closing balance for 2017-18	1,0397

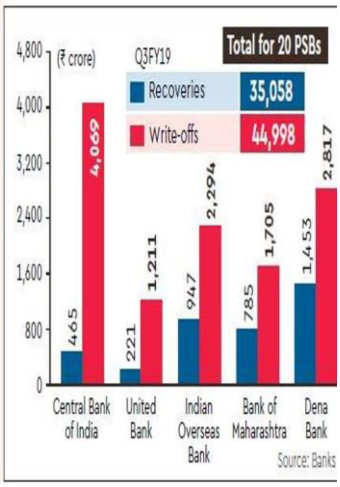
Gross NPAs as % of Gross Advances: 9.3 (2016-18), 11.2 (2017-18)

(₹ billion) Source: RBI

Classification of Loan Assets

	FY'17	FY'18
Standard assets	90.4	88.5
Sub-standard assets	2.5	2.8
Doubtful assets	6.7	8
Loss assets	0.3	0.6

(% share) Source: RBI



Gross non-performing assets to gross advance ratio :-

This is the proportion that we obtain after dividing gross non-productive assets by gross advance. It calculates the quality of the bank's credit, since it tells us how much the bad debt that cannot be recovered. The lower the ratio, it is good for the health of the bank. This ratio depicts how much total debt a bank has.The table as well as the graphical diagram discloses that the GNPAS ratio of public sector banks is constantly rising. Keeping the ratios of the public sector banks in spotlight the GNPAS of public banks in 2013 was 3.8 which increase to 9.3 in 2018. This steady increase in public sector banks GNPAS show that the bad debts of banks are raising and the possibility of recovery is going down.TheGNPAS to gross advance ratio has a huge dissimilarity in case of private sector banks. The ratio in the first half phase has fallen off and in the other half phase has started to increase. The GNPAS to total advance ratio in 2013 was 3.8 which increase to 4.3 in the year 2014 and it rose to 9.3 in the fy 2018. This ratio in private sector banks shows fluctuating trends.In case of foreign sector banks, this ratio is rising. The GNPAS to total advance ratio in 2013 was 2.5 which increases to 3.1 in the year 2013.it keep on increasing and reached to 4.2 in the fy 2018. It shows an escalating effect but is smaller in comparison of public sector banks.Taken as a whole this ratio has a increasing effect in case of public sector banks which is a matter of concern, fluctuation in case of private sector banks can be seen and this ratio in case of foreign banks is increasing. The GNPAS ratio of public sector banks is the largest among the all.

Findings

The analysis of gross non-performing assets to gross advances ratio of public sector banks, private sector banks and foreign banks disclose that out of the all three sector banks that are analyzed public sector banks has the maximum GNPAS to gross advance ratio. In the relation of different sector banks, the mean of gross non-performing assets to gross advances ratio of public sector banks is the highest i.e. 4.67, chased by foreign banks whose mean of GNPAS to gross advance ratio is 3.2 private banks has the low GNPAS to gross advance ratio mean (2.23)

Conclusion

Non-performing assets is a big problem for our economy. The NPAs (non-performing assets) issue for all time been a concern for all economies and the decline in NPAss will increase the monetary performance of financial institutions as a result economy will grow. The NPAs is a not just a balance sheet issue of every individual banks but it is broader than that. Unless pledge is taken by each and every bank for collecting dues rapidly and effectively these NPAs will not reduce. These assets will become less valuable over time and, as a result, only scrap values will be realized.

Suggestions

Rbi must make sure to check NPAs on a continuous basis. If banks are getting any hint of doubtful assets, it must be resolve as soon as possible internally. The banks also needs to set up reserves for NPAsat the end of each quarter (march, june, september and december) so banks knows the provisions made for NPAs's and are up to date about their NPAsconditions.By improving the quality of credit ratings and taking follow-up actions, banks can reduce NPAs. Banks must critically analysis existing credit appraisal frameworks by seeing the credit appraisal analysis of international banks. Based on the analysis of indian banking credit appraisal with international banks credit appraisal a solution should be drawn and according to that work should be done. It is very clear that credit rating and valuation techniques are one of the significant ways to lessen the risks of NPAs.

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