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Analysis of Non-Performing Assets of Public Sector Banks in India

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Abstract: Non-performing Asset has become an important parameter in the analysis of financial performance of a bank as this problem of raising Non- Performing Assets (NPAs) is mounting day by day. Due to mounting NPA's the profits are declining and higher provisioning is done for doubtful debts. The recommendations of Narasimham committee and Verma committee had suggested solving the problem of NPAs in the balance sheets of the banks, so that this problem can be tackled systematically. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also blocks the money of the banks, thus affecting the liquidity in the economy. It is necessary to prevent NPAs so that financial health in the banking system can be improved. An attempt has been made in this paper to understand the meaning, status and its trends of NPA in Indian public banks. The motive of present study is to assess the non – performing assets of public banks in India. NPA's are further categorized and studied with respect to loan advances to priority and non- priority sectors. The study uses the published reports of Reserve Bank of India for the period of ten years from 2004 to 2014. The data has been analyzed by using tables. This study is important for declining the NPA's among the banks and is essential to improve the profitability position of banks. This study concludes that NPA's are continuously raising in the public sector banks in India and the amount and %share of NPA of both banks in priority as well as non priority sector are continuously increasing.

Keywords: Non performing assets; priority sector; sub-standard asset;, doubtful assets; loss assets.

I. INTRODUCTION

The Indian banking system consists of commercial banks, cooperative banks, regional rural banks, foreign and Indian private sector banks. The banking industry in India has undergone a sea change post first phase of economic liberalization in 1991, as a result various norms have been set from time to time by various committees. The primary function of banks is to lend funds to various sectors such as agriculture, industry, personal or retail, housing etc. and to receive deposits from the same. However receiving deposits doesn't involve any risk, since it is the bank who owes a duty to repay the deposit, whenever it is demanded. Whereas lending involves risk of repayment by the customers. That's why banks now days have become extra cautious in granting the loans so that non performing assets can be avoided. Non-performing assets had been the single largest cause of losses/ poor performance of the banking sector of India as lending involves risk. Asset quality was not of prime concern to the Indian banks till 1991, but it mainly focused on performance objectives such as opening wide networks/branches, providing new and convenient banking services, micro financing, priority sector lending, higher employment generation, etc. But in recent times the banks have become very cautious while extending loans. The banks carefully scrutinize credit history, our cash flow history and projections for the business, collateral available to secure the loan, character of the individual, myriad pieces of loan documentation that includes financial statements of the borrowers, income tax returns filed a project / investment plan etc. The reason being soaring non performing assets (NPAs) and they have become one of the major concerns for banks in

India. Stressed assets are mounting in case of both public as well as private sector banks which have raised alarm bells for the banking sector and regulator Reserve Bank of India.

Bankers are the custodians of the savings of the people by accepting deposits from the public. Deposit by the savers mobilizes the economic prosperity by controlling the money circulation flow in the economy. The financing and investment activities of the bank are based on the sources of funds. The Narasimha committee-I in one of it's report had concluded that the main reason for the reduced profitability of the commercial banks was the major thrust to priority sector lending in India. The committee had highlighted that the thrust on priority sector lending was leading to the mushrooming of non-performing assets of the banks and thus it recommended phasing out the emphasis on the same. Subsequently, the Narasimha committee-II has also highlighted the need of zero non-performing assets for all Indian banks. A major chunk of the money lent to the borrowers comes from the deposits received from the public. Such deposits are mostly repayable on demand by the depositor and it ensures the easy flow of cash in the economy. Therefore while sanctioning credit the banker should do careful appraisal of the project else it might lead to the non-repayment of loans and advances and income thereon.

Non Performing Asset (NPA)

The Non Performing Asset (NPA) means loans, advances and investments, of which there is no possibility of recovery. As long as an asset keeps generating the income expected from it, it is treated as performing asset, and when it fails to generate the expected earnings it becomes a "Non-Performing Asset". In gist, we can conclude that a loan asset becomes a Non Performing Asset when it ceases to generate any income. Non-Performing Assets are also known as Non-Performing Loans. It is made by banking or finance company or any lending institution on which repayments or interest payments are not being made on time. A loan is an asset for a bank that creates regular income in terms of interest payments and the repayment of the principal amount creates a usual stream of cash flows. Interest payments are the main source of income to the banks. A high level of non performing assets can be a sign of economic problems which needs to be tackled as per the banking considerations.

Types of Assets

As per the prudential norms the assets can be categorized into-

1. Standard asset:- An assets which is generating regular income to the bank.
2. Sub-standard asset:- An asset from which the income is overdue for a period of more than 90 days but less than 12 months.
3. Doubtful asset:- An asset from which the income is overdue for a period of more than 12 months.
4. Loss asset:- Assets which are doubtful and considered as non-recoverable by the bank Sub-standard assets, Doubtful assets and Loss assets are termed as non performing assets.

Causes of NPA's

The NPA's gets created for the following reasons:

- Default - One of the main reasons behind NPA is default by borrowers in repaying the loan or any interest income.
- Economic conditions – Poor economic conditions of a region due to controllable or uncontrollable reasons may cause NPA.
- No more proper risk management -Sometimes banks provide loans to borrowers with poor credit history. So if careful credit appraisal is not done by the bankers then the probability of default in these cases increases.
- Mismanagement – Any mismanagement practice by the staff for their personal benefit like borrowers giving bribe to the bank officials to get loans with an intention of default, might lead to the NPA.

- Diversion of funds - Many times borrowers divert the borrowed funds and invest such funds in purposes other than stated in the loan documents. The recovery from such kind of borrowers becomes difficult.

Continuous NPA leads to draining of profits, adversely affects the goodwill of the business, adversely affects the growth of equity, the movement of cash flows gets restricted. To avoid the NPA's in India, various Debt Recovery Tribunals (DRT's) have been set up in India on the recommendations of Narsimham as well as other Committees, the Securitization Act 2002 was formulated, Lok Adalats were formed etc. T**he issue of NPAs needs to be tackled at the level of prevention rather than cure, therefore the bankers must adopt conservatism policy for granting money, bankers must focus on improving the credit sanctioning process.** The banks lend their money to the priority, non priority as well as to the public sector. Priority Sector Lending norms are imposed by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific small and unorganized sectors like agriculture and allied sector, micro and small scale enterprises, poor people for housing, students for higher education and other low income groups. This is meant for an all round development of the economy. The new lending norms require banks to ensure that 8% of their loans go to small and marginal farmers.

An analysis of the present scenario brings us to the point that the problem is multi-faceted and has roots in economic slowdown; deteriorating business environment in India; pitfalls in the legal system; and the poor operations of the banks. Therefore, this problem has to be dealt at multiple levels. But, the kind of attention with which this problem has been received by the policymakers and bankers alike is a big ray of hope. Right, timely, and concerted actions will put a lid on NPAs. Prevention, however, has to become a priority than mere cure.

II. REVIEW OF LITERATURE

Meeker Larry G. and Gray Laura in 1983 conducted a study on banks. The purpose of this study is to evaluate bank asset quality in the form of non-performing asset. A regression analysis comparing the non-performing asset statistics with classifications of assets suggests that the non-performing asset statistics can act as a useful aid in analyzing the asset quality of banks, particularly when the information is timely.

Toor N.S. (1994) stated that recovery of non-performing assets can be done through the process of compromise by direct talks between the parties rather than by following the lengthy and costly procedure of litigation. He suggested that by constant monitoring, it is possible to identify, the sticky accounts, the incipient sickness of the early stages itself and an attempt could be made to review the bas asset and put it back on the road to recovery.

PaulPurnendu, Bose,Swapan and Dhalla, Rizwan S.(2011) in this study attempted to measure the relative efficiency of Indian PSU banks on overall financial performances. The financial industry in a developing country like India is undergoing through a very dynamic pace of restructuring, it is important for the banks to continuously monitor their efficiency on Non-Performing Assets, Capital Risk-Weighted Asset Ratio, Return on Assets and Profit per Employee. Here, Non-Performing Assets is a negative financial indicator.

Ms. Shalini H. S. (2012) conducted "A study on causes and remedies for non performing assets in Indian public sector banks with reference to agricultural development branch of state bank of Mysore". This research paper focused on identifying the effect of a set of micro economic variables like Age, Sex, Education etc. of Indian farmers on the management of their credit. An attempt was also made to find the causes of non performance of the assets by considering a set of 20 variables which have a major impact on the performance of farmers and also the remedies were designed to overcome these credit risks. This paper also aimed to study the difficulties faced by Indian farmers in paying back the borrowed sum with regular payment of interest. This study involved data collection and Telephonic interview to collect sufficient information. Chi square analysis test was also used in order to find out whether these variables affect the payment of interest. This study concluded that the young farmers have very less chance of defaulting the loan than the old aged farmers. The percentage of women defaulting was rare because they were usually financed in groups (self help groups) wherein each group has a leader and that leader will take the responsibility of the entire repayment of the loan amount According to this study the creditworthy farmers did not take any loan from outside because they were to payback the money at later stage but non performing farmers took loan from wherever the money was made available as their job is to default.

B.Selvarajan & Dr. G. Vadivalagan (2013) had worked on a "Study on Management of Non Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks . The study aimed at analyzing the trend of the NPA in public sector banks and resulted in the fact that agriculture advances have registered a 7 fold net increase, SSI advances have increased to 8.5 times and the advances to other priority sector have increased to 4.5 times, that of their respective figures in 2001–02.

Dr. Sonia Narula & Monika Singla (2014) conducted a research on "Empirical Study on Non Performing Assets of Bank". The motive of present case is to assess the non – performing assets of Punjab National Bank and its impact on profitability & to see the relationship between total advances, Net Profits, Gross & Net NPA. The data has been analyzed by using tables and coefficient of correlation. The study resulted in the fact that NPA level on PNB showed a positive relation between Net Profits and NPA of PNB. Because of the mismanagement on the side of bank, as profits increase NPA also increase.

Satpal A (Aug 2014) conducted a study on "A Comparative study of Non Performing Assets in Public and Private Sector Banks in the New Age of Technology" has focused on what is NPA, factors contributing to the growing NPAs, reasons for high NPAs and their adverse influence on Indian banking operations, the trend and magnitude of NPAs in selected Indian banks. The study revealed that a high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and asset position of banks and also erodes the value of the asset. NPAs affect the liquidity and profitability and also poses threat on quality of asset and survival of banks. The NPAs growth has a direct impact on profitability of banks. It involves the necessity of norms/ provisioning, which reduces the overall profits and shareholders' value.

M. P. Patel and Sunil Sharma (2016) conducted a comparative study of NPA in ICICI Bank and HDFC Bank. The study aimed at knowing the operation of bank in its lending and credit policy and the steps which should be taken by bank to reduce NPA. Descriptive research was used for this study and resulted in the fact that it is not possible to totally eliminate the NPAs in the banking industry but can only be minimized. It is always wise it follow the proper policy appraisal, regular supervision and proper follow-up of advances to avoid NPAs. The banks should not only take steps for reducing present NPAs, but necessary precaution should be taken while lending money to avoid future NPAs.

III. Objectives of the Study

1. To understand the meaning of non performing assets.
2. To make comparison of NPA's of the nationalized banks and the SBI group in different sectors.
3. To analyze the overall performance of PSBs on the basis of NPA.
4. To find out Non Performing Assets under the Priority sector lending in Indian Bank and Compare with Public Sector Banks (PSBs).

IV. Research Methodology

This study is related to NPA analysis of public sector banks in India on the basis of various sectors. So for this purpose secondary data is collected from the annual report of RBI journals. Information from the NPA of PSBs and other information have been taken from the internet, mainly RBI's official website. For this study we have taken the data from 2004-2014.

Methodology of Study

Type of data: Our study is based on secondary data. For this study, we have considered performance of Non Performing Assets in Scheduled Commercial Banks which includes public sector banks, private sector banks and foreign banks listed in the Second Schedule of the Reserve Bank of India Act, 1934. The paper discusses the conceptual framework of NPA and it also reflects the trends, status and impact of NPA on scheduled commercial banks during the period of 10 years i.e. from 2004 to 2014.

Sources of Data: The data collected is mainly secondary in nature. The sources of data for this study include the literature published by various banks and the reports published by Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

Population: Indian banking industry is taken for the study, where aggregate data related to NPA for all the scheduled commercial banks is used.

Tools and techniques used

The data collected from secondary sources are classified into tabular form on the basis of different sectors and then converted into diagrams and interpretation is made by using various simple statistical techniques.

V. Analysis of Interpretation

Table 1: NPA's in Priority Sector in the nationalized as well as SBI group banks.

Amount of NPA's in Priority Sector- 2004 To 2014						
						(Rs. Billion)
As on March 31						
Year	**Nationalized Banks**		**SBI Group**		**Public Sector Banks**	
	Amount	**Percent Share**	**Amount**	**Percent Share**	**Amount**	**Percent Share**
2004	167.05	47.74	71.36	47.07	238.40	47.54
2005	163.81	51.17	70.17	47.39	233.97	49.98
2006	151.24	53.66	72.50	54.95	223.74	54.07
2007	157.79	61.28	71.75	57.15	229.54	59.92
2008	163.85	67.21	89.02	58.49	252.87	63.85
2009	157.21	60.10	84.47	47.26	241.68	54.89
2010	199.06	56.13	109.40	50.11	308.46	53.84
2011	257.21	59.90	155.67	55.32	412.87	58.09
2012	322.90	48.34	239.11	52.33	562.01	49.96
2013	404.86	42.21	264.42	44.09	669.28	42.93
2014	530.00	37.7	261	34.4	792	36.5

Source: Department of Banking Supervision RBI

The table given above is depicting that amount of NPA of both nationalized as well as SBI group banks in priority sector is showing a mix of increasing as well as decreasing trend from the year2004 to 2009 but after that NPA of both the banks is showing an increasing trend till the year 2014. However the percentage share of NPA's to advances has reduced over the years for both nationalized as well as SBI group banks. Overall we see that the NPA's in priority sector are raising over the years in the public sector banks.

Table 2: NPA's in Non- Priority Sector in the nationalized as well as SBI group banks.

Amount of NPA's in Non Priority Sector- 2004 To 2014						
(Rs. Billion)						
As on March 31						
Year	Nationalized Banks		SBI Group		Public Sector Banks	
	Amount	Percent Share	Amount	Percent Share	Amount	Percent Share
2004	178.95	51.14	78.03	51.48	256.98	51.24
2005	153.46	47.94	76.24	51.48	229.69	49.06
2006	122.53	43.48	58.19	44.10	180.72	43.68
2007	96.68	37.55	51.93	41.36	148.61	38.80
2008	77.93	31.96	62.22	40.88	140.15	35.39
2009	101.40	38.76	92.50	51.75	193.90	44.04
2010	152.77	43.08	106.46	48.77	259.23	45.25
2011	169.47	39.47	125.67	44.66	295.15	41.52
2012	343.13	51.37	217.59	47.62	560.71	49.85
2013	553.59	57.71	334.94	55.85	888.53	57.00
2014	877	62.3	499	65.6	1,375	63.5

Source: Department of Banking Supervision, RBI

The above table shows that amount of NPA in non priority sector of nationalized banks is decreasing from the year 2004 to 2008 but after that we can see a continuous rise in the NPA's. However in case of SBI group amount of NPA in non priority sector is in decreasing order from the year 2004 to 2007 and from the year 2008 we can see a mounting NPA's. Overall we find that NPA's in non priority sector are rising as is evident from the above table.

Table 3: NPA's in Public Sector in the nationalized as well as SBI group banks.

Amount of NPA's in Public Sector- 2004 To 2013						
(Rs. Billion)						
As on March 31						
Year	Nationalized Banks		SBI Group		Public Sector Banks	
	Amount	Percent Share	Amount	Percent Share	Amount	Percent Share
2004	3.90	1.11	2.20	1.45	6.10	1.22
2005	2.83	0.88	1.68	1.13	4.50	0.96
2006	8.08	2.87	1.25	0.95	9.32	2.25
2007	3.02	1.17	1.88	1.50	4.90	1.28
2008	2.02	0.83	0.97	0.63	2.99	0.75
2009	2.97	1.13	1.77	0.99	4.74	1.08
2010	2.80	0.79	2.44	1.12	5.24	0.91
2011	2.73	0.64	0.06	0.02	2.78	0.39
2012	1.92	0.29	0.25	0.05	2.17	0.19
2013	0.78	0.08	0.31	0.05	1.08	0.07

Source: Department of Banking Supervision, RBI

The above table depicts that NPA's of nationalized banks were maximum in the year 2006 and after that they were continuously decreasing and NPA of SBI group were maximum in the year 2010 and after that they were continuously decreasing. Overall, we can say that over a time period NPA's have been declining in the public sector banks in India.

VI. FINDINGS AND CONCLUSION

1. From this study we found that NPA's are continuously raising in the public sector banks in India. In the year 2014 NPA's of SBI group has been declined whereas nationalized banks have increased. In case of nationalized banks NPA's were minimum in the year 2009 while in case of SBI group NPA's were lowest in the year 2005.

2. The amount and %share of NPA of both banks in priority as well as non priority sector are continuously increasing. This study has revealed the fact that NPA's are rising in case of nationalized as well as SBI group banks in both the priority as well as non priority sector. However percentage share of NPA to the advances given in priority sector is lower as compared to the non- priority sector as the loan market in case of priority sector is narrower.

3. The study reveals that public sector share in NPA in public banks is continuously decreasing from the year 2010. The loans given to the public sector resulted in lesser NPA's as compared to priority & non priority sector which is a good sign. NPA's in public sector were lowest in the year 2013.

In short, we can conclude that NPA's are rising in priority & non priority sector of public banks whereas in case of public sector NPA's are declining.

VII. SUGGESTIONS

1. To avoid NPA's banks must do proper credit worthiness assessment of the borrowers. Credit risk must be assessed properly for each customer who approaches the banks for loans.

2. Credit appraisal and performance evaluation methods adopted should be such that they can scrutinize the creditworthiness of the borrower from various aspects. This can act as screening stage of the borrower's loan applications.

3. Before granting or disbursal of loan due diligence report must be prepared. Such report tells the credit history of the buyer. So banks must ensure that full enquiry is being made before sanctioning the loan amount.

4. Loan should be granted to different sectors according to the asset performance in various segments.

5. Proper norms should be developed for employees to do their job ethically. Sometimes, the salesman's pressurizes the credit team members for approving the loan as they have to meet certain targets or sometimes some employees do favor for some of their known borrowers without properly assessing their credit worthiness. So stringent norms shall be made by the organization so that no favor shall be given to any borrower unless and until borrower passes through the credit rick check process.

Also, the rising cases of loss assets can be avoided by levying strict penalties to the defaulters or those who provide fake or wrong information. The banks must approach the debt recovery tribunals or any such judicial proceedings for the speedy recovery of the loans. Also, our government must ensure speedy recovery of such cases as heavy NPA's blocks the circulation of money in the hands of the banks and it affects overall flow of money in the economy.

VIII. LIMITATIONS OF THE STUDY

The important limitations of the study are as follows;

- The study of non-performing assets of the banks is limited to the Indian Banks and till the end of the financial year March 2015.
- The data of non-performing assets of the banks have been taken from the Reserve Bank of India Publications.
- The study is done in the present environment without Annual Research foreseeing future developments.

- Information on non-performing assets is critical and hence bank officials were not willing to share all the information available with them.

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