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Analysis of Non-Performing Assets of Publicsector Banks

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ABSTRACT *After liberalization many banks are operating in india so competition between banks is on its peak and every bank should work efficiently because whole economic future of the country is dependent on it .This paper has attempted to analyze the performance of public sector banks in priority sector,non priority sector, public sector on the basis of NPA and it is concluded that NPA of public sector banks is increasing in non-priority sector, so banks should adopt proper procedure to reduce its NPA and public sector banks should try to develop unique products for meeting consumer needs and facing competition from other banks.*

KEYWORDS : NPA, Priority Sector, Non-Priority Sector and Public sector.

INTRODUCTION

Banking in india originated in the last decade of 18th century .At that time banks were known as institution which accept deposit from people and provide loan to them but after globalization and liberalisation competition has increased in banking sectorbecause many types of banks like private sector banks ,foreign banks and regional rural banks has entered into Indian market so now banking is not limited to providing loans but provide many facilities such as ATMs,credit card,merchant banking ,leasing and modern banking etc. So,there is need of strong, efficient banking system for achieving economic development and flourishing economy. Now nonperforming assets are big threat for banking sector and it is like a virus which can spoil Whole banking sector. Increase in nonperforming assets denotes that there is increase in credit defaulters which affect profitability, net worth of banks. So there is need to control NPA of banks by credit monitoring of borrowers before providing loans because NPA can become the cause of liquidity of banks.

NON PERFORMING ASSETS

Assets which generate income are called performing assets and but those do not generate income are called non-performing assets. Abhinav (2001) stated that In accordance with asset classification norms brought in with effect from March 31, 2004, a non-performing asset (NPA) shell be a loan or an advance, where:

1. Interest and /or instalment of principal remain overdue for a period of more than 90Days in respect of a Term Loan,
2. The account remains 'out of order' for a period of more than 90 days, in respect of anOverdraft/ cash credit (OD/CC)
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
4. Interest and/or instalment of principal remains overdue for two harvest seasons butfor a period not exceeding two half years in the case of an advance granted forAgricultural purpose, and
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

CLASSIFICATION OF NON PERFORMING ASSETS

T.N.Gurumoorthy (2012)stated that "non-performing assets can be further classified by bank as standard, substandard, doubtful and loss asset in accordance with guidelines related to asset classification issued by RBI."

Standard Assets: Standard assets generate continuous income and repayments as and when they fall due. So a standard asset is a performing asset. Such assets carry a normal risk and are not NPAs in the real sense. Hence, no special provisions are required for Standard Assets.

Sub-Standard Assets: A sub-standard asset was one, which was considered as non-performing for a period of 12 months.

Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful assets.

Loss Assets: A loss asset is one 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. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

PROVISIONALNORMS

Standard assets:

(a) direct advances to agricultural & SME sectors at 0.25 per cent;
(b) Residential housing loans beyond Rs. 20 lakh at 1 per cent;
(c) Advances to specific sectors, i.e. personal loan and credit card. Receivable loan and advances qualifying as capital market exposures, commercial Real estate loan at 2 percent.

(d) All other advances not included in (a), (b) and (c) at .40 percent.

Substandard assets:

10 per cent of the total out standings for total sub Standard assets.

Doubtful assets:

20- 50% of the secured portion depending on the age of NPA and 100% of unsecured portion.

Loss assets:

It may be either written off or fully provided by the

GROSS NPA AND NET NPA

Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

REVIEW OF LITERATURE

1. C.S Balasubramaniam (2010)reported that "private sector banks like ICICI and HDFC are well placed in complying BASEL III norms than public sector banks .Indian banks performance is good as reflected by ROE, ROA but NPA is also increasing which can be reduced by good credit appraisal procedure."
2. Srinivas K T (2013) observed that "financial services or products can be provided to weaker section at cheap rate only when public sector banks take correct measures to reduce NPAs in both priority and non priority sectors."
3. Priyanka.et.al (2013)found that "private and public sector banks are highly affected by this three letter virus NPA which can be reduced by well documented creditpolicy, credit appraisal and monitoring through market intelligence and reviewing irregular accounts."
4. Pradhan Tanmaya Kumar (2013)revealed that "gross advances and NPA of old private sector banks and foreign banks are rising so RBI initiated several measures like self appraisal of different risk management system by banks for introduction of BASEL II."
5. Anindita Chakraborty (2012)revealed that "according to employee's six factors such as proclivity, endorsement, inept, intrusim

and deliberately are responsible for NPAs."

6. Anshu Bansal (2012)found that "reduction in time for declaring a loan as non-performing is a good step for reducing NPAs and in turn improves asset quality of banks."
7. T.R. Gurumoorthy et.al (2012)concluded that "NPA of public sector banks can be reduced by reviewing loan application on the basis of 5 c's. Here 5 c's denotes capacity,collateral,condition, capital and character of borrower."

OBJECTIVE OF THE STUDY

1. To understand the meaning of nonperforming assets.
2. To make comparison of NPA of nationalized banks and SBI group in different sectors.
3. To analyse the overall performance of PSBs on the basis of NPA.

RESEARCH METHODOLOGY

This study is related to analsyis of public sector banks so for this purpose secondary data is collected from annual report of RBI,journals published on NPA of PSBs and other information provided on internet. Published data from 2004-2013 is used for doing this study.

TOOLS AND TECHNIQUES

The data collected from secondary sources are classified into table on the basis of different sectors and then converted into diagrams and interpretation is made.

ANALSIS AND INTERPRETATION:

TABLE 1

AMOUNT OF NPA OF BOTH BANKS IN PRIORITY SECTOR (AMOUNTIN RS. BILLIONS) NATIONALISED BANKS SBI GROUP BANKS

YEAR	AMOUNT	% SHARE	TOTAL NPA	AMOUNT	%SHARE	TOTAL NPA
2004	167.05	47.74	349.90	71.36	47.07	151.59
2005	163.81	51.17	320.09	70.17	47.39	148.08
2006	151.24	53.66	281.85	72.50	54.95	131.93
2007	157.79	61.28	257.49	71.75	57.15	125.56
2008	163.85	67.21	243.80	89.02	58.49	152.20
2009	157.21	60.10	261.58	84.47	47.26	178.74
2010	199.06	56.13	354.62	109.40	50.11	218.31
2011	257.21	59.90	429.40	155.67	55.32	281.40
2012	322.90	48.34	667.95	239.11	52.33	456.94
2013	404.86	42.21	959.22	264.42	44.09	599.67

SOURCE: (DEPT. OF BANKING SUPERVISION, RBI)

As from the table it is depicted that amount of NPA of both banks in priority sector is showing increasing and decreasing trend from 2004 to 2009 but after that NPA of both banks is increasing up to 2013.

TABLE 2

NPA OF BOTH BANKS IN NON PRIORITY SECTORS (AMOUNT IN RS. BILLIONS) NATIONALISED BANK SBI GROUP BANKS

YEAR	AMOUNT	% SHARE	TOTAL NPA	AMOUNT	% SHARE	TOTAL NPA
2004	178.95	51.14	349.9	78.03	51.48	151.59
2005	153.46	47.94	320.09	76.24	51.48	148.08
2006	122.53	43.48	281.85	58.19	44.10	131.93
2007	96.68	37.55	257.49	51.93	41.36	125.56
2008	77.93	31.96	243.80	62.22	40.88	152.20
2009	101.40	38.76	261.58	92.50	51.75	178.74
2010	152.77	43.08	354.62	106.46	48.77	218.31
2011	169.47	39.47	429.40	125.67	44.66	281.40
2012	343.13	51.37	667.95	217.59	47.62	456.94
2013	553.59	57.71	959.22	334.94	55.85	599.67

SOURCE: (DEPT. OF BANKING SUPERVISION, RBI)

As it is observed from the table that amount of NPA in non priority sector of nationalized bank is decreasing from 2004 to 2008 but after that it is continuously increasing and in case of SBI group amount of NPA in nonpriority sector is decreasing from 2004 to 2007 and after that it is continuously increasing.

TABLE 3

NPA OF BOTH BANKS IN PUBLIC SECTOR (AMOUNT OF RS. IN BILLIONS) NATIONALISED BANKS SBI GROUP BANKS

YEAR	AMOUNT	%SHARE	TOTAL NPA	AMOUNT	%SHARE	TOTAL NPA
2004	3.90	1.11	349.90	2.2O	1.45	151.59
2005	2.83	0.88	320.09	1.68	1.13	148.08
2006	8.08	2.87	281.85	1.25	0.95	131.93
2007	3.02	1.17	257.49	1.88	1.50	125.56
2008	2.02	0.83	243.80	0.97	0.63	152.20
2009	2.97	1.13	261.58	1.77	0.99	178.74
2010	2.80	0.79	354.62	2.44	1.12	218.31
2011	2.73	0.64	429.40	0.06	0.02	281.40
2012	1.92	0.29	667.95	0.25	0.05	456.94
2013	0.78	0.08	959.22	0.31	0.05	599.67

SOURCE(DEPT. OF BANKING SUPERVISION, RBI)

As it is concluded that NPA of nationalized banks is maximum in 2006 and after that it is continuously decreasing and NPA of SBI group is maximum in 2010 and after that it is continuously decreasing.

FINDINGS OF THE STUDY

1. From table 1 it is revealed that share of nationalized banks in priority sector NPA was greater in 2008 but after that it is decreasing .However amount of NPA of both banks is increasing but there % share in total NPA is decreasing after 2010 continuously.
2. From table 2 it is found that amount and %share of NPA of both banks is continuously increasing.
3. From table 3 it is revealed that public sector share in NPA is continuously decreasing.

So it is concluded that there is a need to concentrate on non priority sector for reducing NPA because NPA is increasing in this sector.

SUGGESTIONS

1. Good credit appraisal and performance evaluation method should be adopted.
2. Before proving loan full enquiry should be made and strict procedure should be adopted for recovery of loans.
3. Loan should be given to different sector according to their creditworthiness.
4. Proper norms should be developed for employees and employees should do their job ethically.

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