A Comparative Study of Non Performing Assets in Public and Private Sector Banks in India

Commerce

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ABSTRACT   *The economic reforms in India started in early nineties, but their outcome is visible now. Major changes took place in the functioning of Banks in India only after liberalization, globalisation and privatisation. It has become very mandatory to study and to make a comparative analysis of services of Public sector Banks and Private Sector banks. this paper an attempt to analyze how efficiently Public and Private sector banks have been managing NPA. Non-performing assets are one of the major concerns for banks in India. NPAs reflect the performance of banks. 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 erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The Indian banking sector has been facing serious problems of raising Non- Performing Assets (NPAs). The NPAs growth has a direct impact on profitability of banks.An attempt is made in this paper that what is NPA? The factors contributing to NPAs, reasons for high NPAs and their impact on Indian banking operations, the trend and magnitude of NPAs in selected Indian public and private sector banks.*

Introduction

The banking system has a significant role to play in the rapid growth of the economy   through planned efforts. In fact, banking system of any country is the lifeline or life-blood of the economy. A banking institution is indispensable in a modern society.

The banks, in their books, have different kind of assets, such as cash in hand, balances with other banks, investment, loans and advances, fixed assets and other assets. The Non- Performing Asset (NPA) concept is restricted to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a "Non-Performing Asset".

The last decade has seen many positive developments in the Indian banking sector. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector regulatory entities, have made several notable efforts to improve regulation in the sector. The sector now compares favourably with banking sectors in the region on metrics like growth, profitability and non-performing assets (NPAs). A few banks have established an outstanding track record of innovation, growth and value creation. Banking in India was defined under Section 5(A) as "any company which transacts banking, business" and the purpose of banking business defined under Section 5(B),"accepting deposits of money from public for the purpose of lending or investing, repayable on demand through cheque/draft or otherwise".

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India.

CONCEPT:

Bank: In a simple word bank means financial institution dealing in money. It   accepts deposits and leads money. Banking operations are performed by banker. Bank plays an important role in modern economic activities. Expansion of credit in economic activities is widely performed by banks.

Banking: Banking means the accepting for the purpose of lending or investment, deposits Of money from the public, repayable on demand or otherwise and withdraw able by cheque, drafts, order of otherwise.

Meaning of NPA

In a simple word, an asset which, ceases to generate income for the bank is called a non- performing asset (NPA). When a borrower could not pay interest and/or installment on a loan, which remain overdue for more than 180 days then it becomes non- performing. The basic factor to determine whether an account is NPA or the record of recovery is not the availability of security.

Non-Performing Asset

Asset means an asset or account of borrower, which has been classified by a bank or financial institution as substandard, doubtful or loss asset in accordance with the directions or guidance relating to asset classification issued by The Reserve Banks of India.

Public Sector Banks:

The banking company Act establishes it in July 1969 by nationalization of 14 major banks of India. The sent percent ownership of the banks is of government of India.

Private Sector Banks:

These banks are registered under company Act, 1956.Basic difference between co-operative banks and private banks in its aim. Co- operative banks work for its member and private banks work for earn profit.

Literature Review:

Many studies have been conducted by researchers on NPAs in banking Industry. The researcher has made attempts to present a brief review of literature available, which are published in the form of research articles and technical papers published in the journals, magazines and websites in the related area. The review of the literature is used to formulate theoretical analysis of Non-performing loans undertaken in the present study.

In view of the importance of NPAs management in banks and in the process of reducing NPAs, large number of studies has been carried out by researchers, on the concept, type, impact, reasons and measures for NPAs in banking industry. Several research studies have been made by academicians, research institutions, Government, working groups and committees appointed by the RBI related to the commercial banks in general and also specific studies pertaining to individual banks focusing on NPAs. Research Students from various institutions and universities have also made significant contribution to this literary wealth.

H.S. (2013) in her study A study on causes and remedies for non-performing assets in Indian public sector banks with special reference to agricultural development branch, state bank of Mysore has studied that bankers can avoid sanctioning loans to the non-creditworthy borrowers by adopting certain measures. There should be careful appraisal of the project which involves checking the economic viability of the project. A banker must consider the return on investment on a proposed project. If the calculated return is sufficiently higher than the credit amount he can sanction the loan. Secondly, he can constantly monitor the borrower in order to ensure that the amount sanctioned is utilized properly for the purpose to which it has been sanctioned. This involves the post sanction inspection by the banker.

Gupta (2012) in her study A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks had concluded that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before than credit facility. An effective committee can be formed for management of NPA comprising of financial experts who have wide knowledge in this field. Banks can appoint professionals to identify the genuine borrowers & can analyse their profile. NPA can be considered as a crucial rating factor for any bank; it should continuously monitor the borrowers A/C to prevent NPA. The credit rating agencies should regularly evaluate the financial condition of the clients. Special accounts should be made of the clients where monthly loan concentration report should be made.

Prasad and Veena (2011) in their study on NPAs Reduction Strategies for Commercial Banks in India stated that the NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits. The NPAs have destructive impact on the return on assets in the following ways. The interest income of banks reduced it is to be accounted only on receipt basis. The current profits of the banks are eroded because the providing of doubtful debts and writing it off as bad debts and it limits the recycling funds.

Karunakar (2008) , in his study Are non - Performing Assets Gloomy or Greedy from Indian Perspective,has studied the important aspect of norms and guidelines for making the whole sector vibrant and competitive. The problem of losses and lower profitability of Non- Performing Assets

(NPA) and liability mismatch in Banks and financial sector depend on how various risks are managed in their business. The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. It is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms.

Balasubramaniam (2001) in Non-performing assets and profitability of commercial banks in India: assessment and emerging issues said that the level of NPAs is high with all banks currently and the banks would be expected to bring down their NPA. This can be achieved by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets. However, maintaining profitability is a challenge to commercial banks especially in a highly competitive era and opening up of banking business to NBFC and foreign banks in general.

Nature of the Study:

The nature of this research can be termed as descriptive research and also qualitative research. Because of, "Descriptive research includes surveys and fact- finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. In social science and business research, researcher quit often uses the term ex-post factor research for descriptive research studies. The main characteristic of this method is that the researcher has no control over the variables; researcher can only report what has happened or what is happening."

Overview of NPA classification in india

Standard Asset	It does not create any problem while paying interest/installments of the principal. It usually carries more than normal risk attached to the business.
Sub- standard asset	NPA for a period less than or equal to 12 months.
Doubtful Asset	NPA for a period exceeding 12 months.
Loss Asset	An asset where loss has been identified by the bank or internal or external auditors or by the RBI inspection.

Factors contributing to NPA:

According to a recent study conducted by the RBI, the underlying reasons for NPA in India can be classified into two heads, namely: I. Internal Factors II. External Factors

Internal Factors

The following internal factors contribute to NPA in the order of prominence:

- Diversion of funds for expansion / diversification/ modernisation or for taking up new projects.
- No satisfaction regarding credit worthiness of borrowers.
- Non- compliance to lending norms o Lack of post credit supervision .
- Lack of appropriate margins
- In adequacy of documents.
- Excessive overdraft lending.

External Factors:

The external factors that contribute to NPA's are the following:

- Recession in the economy as a whole o Input or power shortage
- Price escalation of inputs o Exchange rate fluctuation
- Accidents and natural calamities
- Changes in government policies relating to excise and import duties, o Government loan waiver scheme

RESEARCH METHODOLOGY

In this research paper a researcher has select some bank like privet and public sector bank used last five year information with NPA.

Objectives of the Study

Objective is a base for any work. No work is started without any objective. The present research work has been undertaken keeping in view the following objectives.
(1) To study the significant of NPAs.
(2) To study the practices of selected banks.

Hypothesis:

H1: There is significant difference in Gross NPA, Net NPA of selected Private sector Banks.
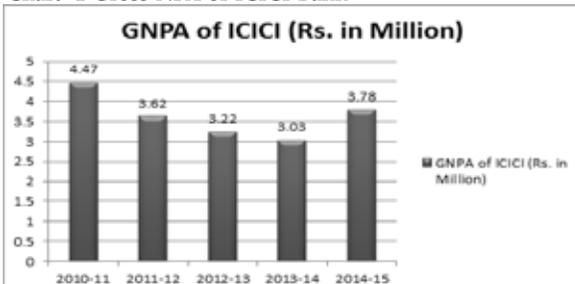H2: There is significant difference in Gross NPA, Net NPA of selected Public sector Banks.

Gross NPA of ICICI Bank
Table No:1 Gross NPA of ICICI Bank

YEAR	GNPA of ICICI (Rs. in Million)	Inc/dec (%)
2010-11	4.47	100.00
2011-12	3.62	80.98
2012-13	3.22	72.04
2013-14	3.03	67.79
2014-15	3.78	84.56
Avg	3.624	

Chart -1 Gross NPA of ICICI Bank

GNPA of ICICI (Rs. in Million)

Above Table No 1 indicate the Gross NPA of ICICI Bank during the study period. We can see that in the year 2010-11 Gross NPA was 4.47 million and it is continuously showed decreasing trend up to the year 2013-14. In the year 2014-15 it has increased and was at Rs.3.78 million at the end. The average Gross NPA was Rs. 3.324 million. Maximum Gross NPA was Rs. 4.47 million and minimum was Rs. 3.03 million during the study period.
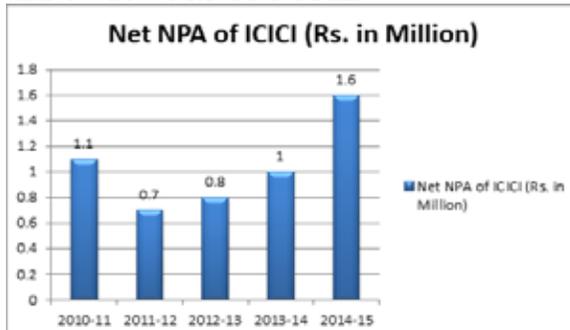
Net NPA of ICICI Bank
Table No: 2 Net NPA of ICICI Bank

YEAR	Net NPA of ICICI (Rs. in Million)	Inc/dec (%)
2010-11	1.1	100.00
2011-12	0.7	63.64
2012-13	0.8	72.73
2013-14	1	90.91
2014-15	1.6	145.45
Avg	1.04	

Chart No: 2 Net NPA of ICICI Bank
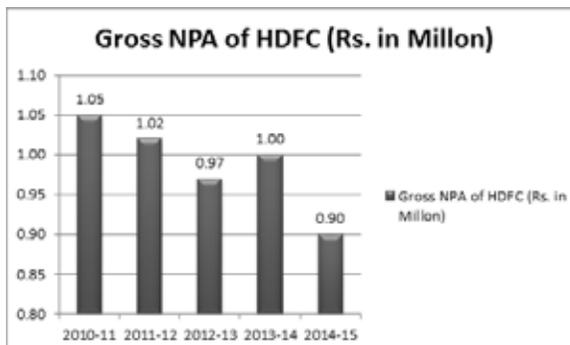

Net NPA of ICICI (Rs. in Million)

Above Table No2 indicate the Net NPA of ICICI Bank during the study period. We can see that in the year 2010-11 Net NPA was 1.1 million and it is decreasing trend in the year 2011-12, then continuously showed increasing up to 2014-15. It has increased and was at Rs.1.6 million at the end. The average net NPA was Rs. 1.04 million. Maximum net NPA was Rs. 1.6 million and minimum was Rs. 0.7 million during the study period.

Gross NPA of HDFC Bank
Table No:3 Gross NPA of HDFC Bank

YEAR	Gross NPA of HDFC (Rs. in Millon)	Inc/dec (%)
2010-11	1.05	100.00
2011-12	1.02	97.14
2012-13	0.97	92.38
2013-14	1.00	95.24
2014-15	0.90	85.71
AVG.	0.988	

Chart No: 3 GROSS NPA OF HDFC Bank
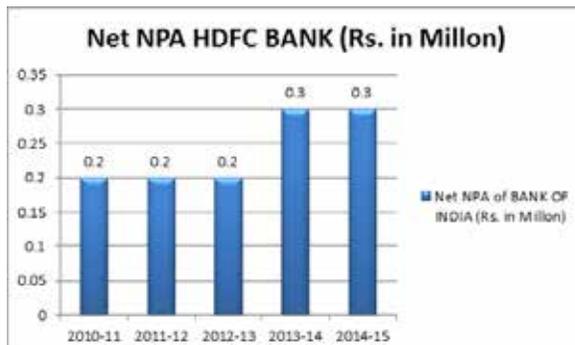

Gross NPA of HDFC (Rs. in Millon)

Above Table No 3 indicate the Gross NPA of HDFC Bank during the study period. We can see that in the year 2010-11 Gross NPA was 1.05 million and it is continuously showed decreasing trend up to the year 2013-14. In the year 2013-14 it has increased at Rs.1 million at the end. then in the year 2014-15 decreasing gross NPA 0.90 million. The average Gross NPA was Rs. 0.988 million. Maximum Gross NPA was Rs. 1.05 million and minimum was Rs. 0.90 million during the study period.

Net NPA of HDFC Bank
Table No: 4 Net NPA of HDFC Bank

| YEAR	Net NPA of HDFC BANK (Rs. in Millon)	Inc/dec (%)
2010-11	0.2	100
2011-12	0.2	100
2012-13	0.2	100
2013-14	0.3	150
2014-15	0.3	150
AVG.	0.24	

Chart No: 4 Net NPA of HDFC Bank

Above Table No 4 indicate the Net NPA of HDFC Bank during the study period. We can see that in the year 2010-11 Net NPA was 0.2 million and it is continuously showed stable up to 2012-13.then increasing and stable in the year 2013-14 and 2014-15 It has increased and was at Rs.0.3 million at the end. The average net NPA was Rs. 0.24 million. Maximum net NPA was Rs. 0.3 million and minimum was Rs. 0.2 million during the study period.

GROSS NPA of BOB Bank
Table No: 5 GROSS NPA of BOB Bank

YEAR	Gross NPA of BANK OF BARODA (Rs. in Millon)	Inc/dec (%)
2010-11	1.36	100.00
2011-12	1.53	112.50
2012-13	2.4	176.47
2013-14	2.94	216.18
2014-15	3.72	273.53
AVG.	2.39	

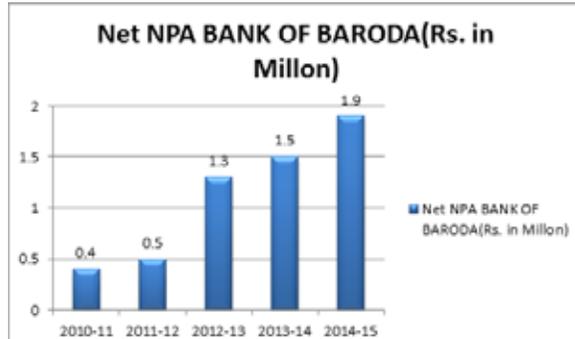**Chart No: 5 GROSS NPA of BOB Bank**
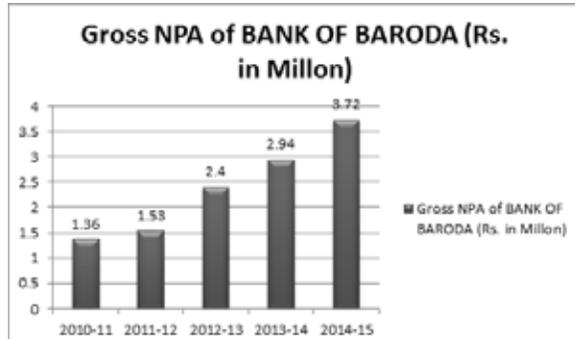
Above Table No 5 indicate the Gross NPA of BOB Bank during the study period. We can see that in the year 2010-11 Gross NPA was 1.36 million and it is continuously showed increasing trend up to the year 2014-15 gross NPA 3.72 million. The average Gross NPA was Rs. 2.39 million. Maximum Gross NPA was Rs. 3.72 million and minimum was Rs. 1.36 million during the study period.

Net NPA BANK OF BARODA Bank
Table No: 6 Net NPA of BOB Bank

	Net NPA BANK OF BARODA(Rs. in Millon)	Inc/dec (%)
2010-11	0.4	100
2011-12	0.5	125
2012-13	1.3	325
2013-14	1.5	375
2014-15	1.9	475
AVG.	1.12	

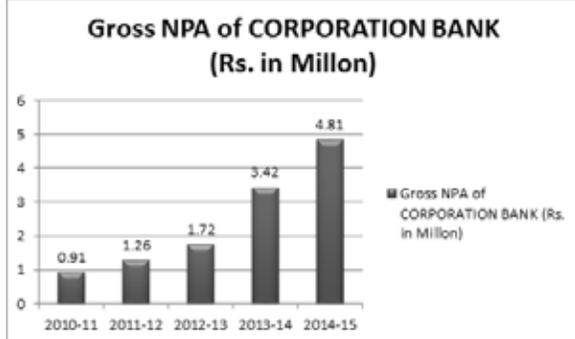**Chart No: 6 Net NPA of BOB Bank**

Above Table No 6 indicate the Net NPA of BOB Bank during the study period. We can see that in the year 2010-11 Net NPA was 0.4 million then continuously showed increasing up to 2014-15. It has increased and was at Rs.1.9 million at the end. The average net NPA was Rs. 1.12 million. Maximum net NPA was Rs. 1.9 million and minimum was Rs. 0.0.4 million during the study period.

GROSS NPA of CORPORATION BANK
Table No: 7 GROSS NPA of CORPORATION Bank

YEAR	Gross NPA of CORPORATION BANK (Rs. in Millon)	Inc/dec (%)
2010-11	0.91	100.00
2011-12	1.26	138.46
2012-13	1.72	189.01
2013-14	3.42	375.82
2014-15	4.81	528.57
AVG.	2.424	

Chart No:7 GROSS NPA of CORPORATION Bank

Above Table No 7 indicate the Gross NPA of CORPORATION Bank during the study period. We can see that in the year 2010-11 Gross NPA was 0.91 million and it is continuously showed increasing trend up to the year 2014-15 gross NPA 4.81 million. The average Gross NPA was Rs.
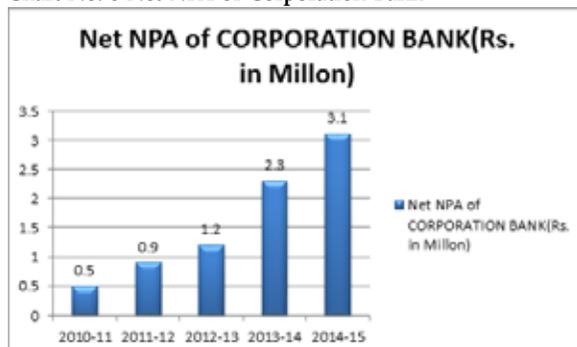
2.424 million. Maximum Gross NPA was Rs. 4.81 million and minimum was Rs. 0.91 million during the study period.

NET NPA OF CORPORATION BANK
Table No: 8 NET NPA OF CORPORATION Bank

YEAR	Net NPA of CORPORATION BANK(Rs. in Millon)	Inc/dec (%)
2010-11	0.5	100
2011-12	0.9	180
2012-13	1.2	240
2013-14	2.3	460
2014-15	3.1	620
AVG.	1.6	

Chart No: 8 Net NPA of Corporation Bank

Above Table No indicate the Net NPA of CORPORATION Bank during the study period. We can see that in the year 2010-11 Net NPA was 0.5 million then continuously showed increasing up to 2014-15. It has increased was at Rs.3.1 million at the end. The average net NPA was Rs. 1.6 million. Maximum net NPA was Rs. 3.1 million and minimum was Rs. 0.5 million during the study period.

Limitations of the Study:
Every live and non-live factor has its own limitation, which restrict the usability of that factor. Each study cannot be free from limitations. Some limitations likewise, the limitation of time areas, economic, efforts, scope as well as the method of the study. Some limitations for present research work as under:

(1) Scope of this study is wider but sample size is limited to only some banks. From banks, Private sector banks and public sector banks.
(2) This research study based on secondary data collected from annual reports of various banks and related websites. The limitation of the secondary data and its finding depend entirely on the accuracy of such data.

CONCLUSION:
the study and at last suggestions for improvement in accounting practices in bank.

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