Research Paper

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"A Study of Non Performing Assets (Npa's) of Public Sector Banks in India- an Intersectoral Comparison"

Management

KEYWORDS : Non-Performing Asset, public sector banks, priority and non priority sector.

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ABSTRACT

Indian banking industry plays a crucial role in the socio economic development of the country. This role is performed by banks by extending credit to several deficit sectors for their expansion and development. This process of credit creation leads to credit risk which in turn leads Non-Performing Assets (NPA's).While the prime function of banks is to lend funds to various sectors such as agriculture, industry, personal loans, etc., but in recent times the banks have become very vigilant in extending loans. With the introduction of income recognition, asset classification and provisioning norms in the banking sector, managing NPAs has emerged as one of the major challenges facing public sector banks in India. In today's competitive scenario banks are judged not only on the basis of number of branches and volume of deposits but also on quality of assets. Non-performing assets form a major part of Banks portfolio and hence are an inexorable burden on the banking industry. The objective of this research is to study trends and position of NPAs of public sector banks across different sectors i.e. priority and non priority sectors, to identify and study the reasons for occurrence of NPAs, to examine the steps taken for recovery of NPAs and to suggest measures for efficient management of NPA's.

INTRODUCTION

In India banking was defined under Section 5(A) as "any company which transacts banking, business" and the banking business purpose is defined under Section 5(B),"accepting deposits of money from public for lending or investing, to be repaid on demand through cheque/draft or otherwise". In the process of doing the primary functions, they also perform other types of business referred to as Utility Services for their customers (Banking Regulation Act, 1949). Government of India in 1969 and 1980 nationalized 14 and 6 major banks respectively. After the merger of New Bank of India with Punjab National Bank during the epoch of Financial Sector Reforms, the number of PSBs became 27, which are under present study. Public sector banks are those in which majority of equity holding is with government. It includes nationalized banks, state bank group and other public Sector Bank (IDBI) and Bhartiya Mahila Bank that is recently added in the list. Non-performing assets (NPAs) is one of the key concern and dilemma for banks in India. NPAs indicate the degree of risk, quality of assets of bank and its profitability. A high level of NPAs suggests high panorama of a large number of credit defaults that destroy the profitability and net-worth of banks and erodes the value of the asset. The growth of NPA involves condensed income from assets and the requirement of provisions, which lessen the overall profits of the bank. The level of NPAs is escalating at the alarming rate in Indian banking system comparatively to other countries. This degree is much higher in case of banks of public sector due to their directional credit to priority sector and social development projects.

II. CONCEPTUAL FRAMEWORK OF NPAs

The concept of NPAs instigate when Reserve Bank of India introduced 'prudential norms, on the suggestions of the Narashimam Committee in 1992-93. According to the prudential norms given by RBI," An asset is judged as "non-performing" if interest or installments of principal due is not paid for more than180 days (from March31, 2004, it has been decided to embrace the 90 days overdue norm for identification of NPAs.)

RBI has alienated the Priority Sector into the following classes. The main categories under Priority Sector Lending scheme are Agriculture, Small Scale Industries, Small business/Service enterprises (small business, retail trade, professional and self employed, small road and water transport operations), State sponsored organizations for SC/ST, Educational Loan, Housing Loan, Consumption Loan, Micro credit, Loans to software industry, Food and agro procession sector, Venture capital, Export credit. Presently the broad categories of priority sector include agriculture (direct and indirect), small enterprises (direct and indirect), retail trade, micro credit, state sponsored organizations for scheduled castes/scheduled tribes, education, housing, weaker sections and export credit of foreign banks.

III. REVIEW OF LITERATURE

"Managing Non-Performing Assets (NPAs) by banks remains a zone of concern as they are an inescapable trouble for each banking industry. The problem of NPAs has been studied over the years to bring imminent into the problem of NPAs, its cause and solution. Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of banks.

Rajendar, K. (2009) analyzed the management of the NPA in PSBs in India using data available for 1999-00 to 2006-07. Deductions based on analysis showed a diminishing pattern in NPA evidenced by net NPA ratios. The findings support various reform measures particularly SARFAESI Act 2002, ARCs, Lok Adalats, One Time Settlement (OTS) and DRTs. **Meenakshi Rajeev,H P Mahesh (2010)** studied banking sector reforms and NPAs in Indian Commercial banks to examine the trends of NPAs in India from different dimensions and to describe how immediate recognition and self monitoring has been able to reduce it to a great extent. The study analyzed the different facets of NPAs like NPAs in India comparative to other countries, NPAs of Indian banks as per the different sectors and recovery of naps through various channels. It was found that NPAS in the contributory factor for crisis in the economy and root ground of the recent global financial crisis. It was observed that NPAs in priority sector is still higher than that of the non priority sector due to socio economic objectives of banks. **Malyadri(2011)** in his research paper title " A comparative Study on NPAs in Indian banking Industry" analyze NPA in weaker segments of public Sector banks and private sector banks specifically in India . The study observed that there is increase in advances over the period of the study. However, the basis of analysis that there is significant improvement in the management of NPAs of the public sector banks in India. It was recommended that public sector banks should try to improve technology and should devise customer friendly policies to face competition at national and international level. **Patidar and Kataria (2012):** The study analyzed the percentage share of NPA as components of priority sector lending, the comparative study was conducted between SBI and Associates, Old Private Banks and New Private Banks and Nationalized Banks of the benchmark category, to find out the significant difference of the NPA and also to discover about the significant impact of Priority Sector Lending on the Total NPA of Banks using statistical tools like regression analysis and ratio analysis. **Arora and Ostwal (2014):** The present paper analyses the classification and comparison of loan assets of public and private sector banks. The study concluded that NPAs are still a danger for the banks and financial institutions and in comparison to private sector banks; public sector banks have higher level of NPAs.

IV. RESEARCH OBJECTIVES

- To study the trends and position of NPAs of public sector banks in priority and non priority sector.
- To study sector wise projections GNPAs in the upcoming years.
- To identify the reasons for occurrence of NPAs in public sector banks.
- To examine the steps taken by RBI for recovery of NPA accounts.
- To suggest measures for efficient management of NPAs in public sector banks.

V. RESEARCH METHODOLGY

The methodology for this research is designed considering the above facets. In order to accomplish the stated objectives, the researcher utilized a combined approach that embraces features of both descriptive and analytical research designs. The method typically used is secondary data analyzed in a quantitative manner. Statistics on NPA of public sector banks in agriculture sector during the period (from 2009-10 to 2013-14) were utilized in order to study the position and trends in movement of NPA, its relationship with bank's performance, and efficiency of management of NPA.

Data Sources: Data is gathered from the secondary sources to achieve in order to achieve the stated objectives. It includes:

- Annual reports of the bank
- RBI Report on Trend and Progress of Banking in India
- Manual of instructions on loans and advances
- Research Papers and Published Articles

VI. DATA ANALYSIS & INTERPRETATION

1) Analysis of trends in NPAs - Bank Group-wise **Table1: Trend of NPAs Bank group wise (Amount in billion)**

Notes: 1. *: Includes IDBI Bank Ltd.
2. **: Calculated taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns.

Item	Public sector banks	Nationalised banks*	SBI Group
1	2	3	4
Gross NPAs			
Closing balance for 2011-12	1,178	696	482
Opening balance for 2012-13	1,178	696	482
Addition during 2012-13	1,198	772	425
Recovered during 2012-13	648	429	219
Written off during 2012-13	78	17	60
Closing balance for 2012-13	1,650	1,022	627
Gross NPAs as per cent of Gross Advances**			
2011-12	3.3	2.8	4.4
2012-13	4.1	3.6	5.0
Net NPAs			
Closing balance for 2011-12	593	391	202
Closing balance for 2012-13	900	619	281
Net NPAs as per cent of Net Advances			
2011-12	1.5	1.1	1.8
2012-13	2.0	2.0	2.0

Source: RBI Bulletin

NPAs remained an immense strain for the banking sector. The gross NPA ratio at the aggregate level stood at 3.6 per cent at end-March 2013 up from 3.1 per cent at end-March 2012. The drop in asset quality was most apparent for the SBI Group with its NPA ratio reaching a high of 5 per cent at end-March 2013. With the gross NPA ratio reaching about 3.6 per cent by end-March 2013, the nationalized banks were positioned next to the SBI Group.

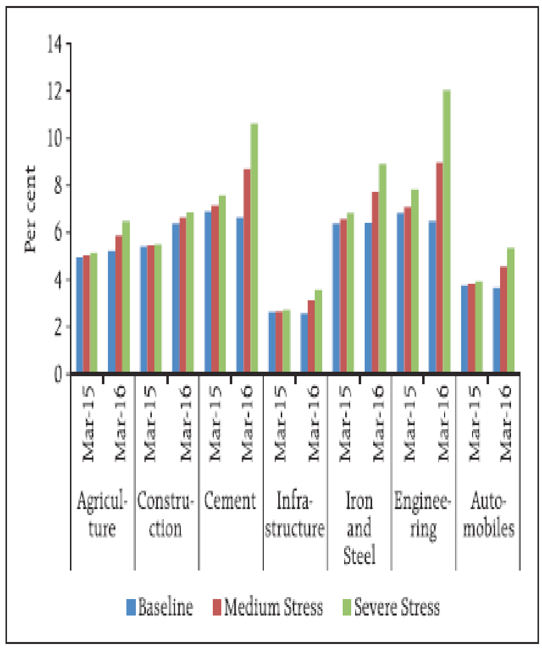
2) Analysis of sector-wise NPAs (Amount in ` billion)

Bank group	Priority sector		Of which						Non-priority sector		Total NPAs	
			Agriculture		Micro and Small Enterprises		Others					
	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent
Public sector banks												
2012	562	50.0	227	20.2	174	15.5	161	14.3	563	50.0	1,125	100.0
2013	669	42.9	280	18.0	284	18.2	103	6.7	890	57.1	1,559	100.0
Nationalised banks**												
2012	323	48.4	129	19.3	134	20.0	60	9.1	345	51.6	668	100.0
2013	405	42.2	156	16.3	178	18.6	70	7.3	554	57.8	959	100.0
SBI Group												
2012	239	52.3	98	21.4	41	9.0	100	22.0	218	47.7	457	100.0
2013	264	44.1	124	20.7	106	17.6	35	5.8	335	55.9	599	100.0

Source: RBI Bulletin

Although the NPA ratio in the priority sector was consistently higher than the NPA ratio in the non-priority sector, decline in asset quality in 2012-13 was primarily on account of the non-priority sector.

3) Projected sectoral GNPAs (Percent to total advances)



Source: RBI supervisory returns and staff calculations.

A macro stress test of sectoral credit risk showed that under a severe stress scenario, among seven select sectors the engineering sector is expected to register the highest GNPA ratio at 12.0 per cent by March 2016 followed by the cement sector (10.6 percent).

The elasticity of the Indian banking system against macroeconomic shocks was tested through a series of macro stress tests for credit risk at the system, bank group and sectoral levels. These tests encompass assumed risk scenarios incorporating a baseline and two adverse macroeconomic scenarios representing medium and severe risks.The adverse scenarios were derived based on up to 1standard deviation (SD) for medium risk and 1.25 to 2 SD for severe risk (ten years historical data).

VII. REASONS FOR OCCURRENCE OF NPAs IN PUBLIC SECTOR BANKS

NPA may occur due to causes featuring to the borrower, the lender and for reasons afar the control of both.

Internal Factors: These factors are bank specific and exist within the bank. These are inefficient management, strained labor relations, poor credit Appraisals, monitoring and follow up, improper SWOT analysis on the part of banks.

External Factors: These factors are market specific and exist in the economy. These are recession, input or power shortage, price escalation, accidents and natural calamities, changes in government policy Willful defaulters have been there because they knew that legal recourse available to the lenders is time consuming and slow.

VII .STEPS TAKEN FOR RECOVERY OF NPAs

A number of measures have been taken by RBI in order to recover and covers NPAs.Some of them are as follows:

- Credit Information Bureau- The institutionalization of information sharing arrangement is now possible through the newly formed Credit information Bureau of India Limited (CIBIL) which was set up by SBI, HDFC, and two foreign technology partners in the year 2001. This will avert those who take benefit of lack of system of information sharing amongst leading institutions to borrow huge amount against same assets and property, which has in no measures contributed to the incremental of NPAs of banks.
- Circulation of Information of Defaulters- RBI has put in place a structure for periodical circulation of details of willful defaulters of banks and financial institutions. RBI also circulates a list of borrowers (with outstanding aggregate rupees one crore and above) against whom banks and financial institutions in recovery of funds have filed suits as on 31 st March every year. This serves as a vigilance list while considering a request for new or additional credit limits from defaulting borrowing units and also from the directors, proprietors and partners of these entities.
- Debt Recovery Tribunals (DRTs) – (1993) These tribunals were set up for suits of the value of recovery over Rs. 10 lakhs, while High Courts and District Courts would take up cases of lesser values. The government has altered the Debt Recovery Tribunal (procedures) rules, 2003 to facilitate better administration of the act including plural remedies for banks like power to attach defendant's property before judgment etc. -SARFAESI Act and the debt recovery tribunals (DRTs) have proved to be most effective in terms of amount recovered among the various channels of recovery for dealing with bad loans.)

IX. RECOMMENDATIONS & SUGGESTIONS FOR MANAGING NPAs

From the above analysis, following recommendations came out which may contribute towards lessening the mounting non-performing assets in banks;

- Banks should develop appropriate recovery programs for appraising and classifying the over dues, monitoring accounts, keeping regular contact with borrowers and fixing recovery targets.
- Computer based banking system has helped the bank management to resolve some of the intrinsic troubles. Computerization can further help the management in getting requisite information in order to take suitable decisions while granting loans/advances.
- Management of credit is crucial for proper functioning of banks. Preparation of credit planning, appraisal of credit proposals, timely sanction and disbursements, post sanction follow-up and need based credit are the some areas of credit management that needs improvement in order to reduce the NPAs.
- When the RBI grants new banking license, there should be a clause that for the first 10 years there cannot be any loan write-offs. Later, write off amounts must be borne by the shareholders, which is to be certified by external auditors. A separate statement should be made so that all stakeholders are awake to what level their profits were affected due to the write-off.
- Banks should be permitted to come up with their own measures to deal with the problem of NPAs. This may include waiving and reducing the principal and interest on such loans, or extending the loans, or settling the loan accounts.

X. CONCLUSION

The non performing asset is a major problem and hurdle faced by banking industry. Banker can constantly examine the borrower in order to make sure that the amount sanctioned is utilized properly for the reason to which it has been sanctioned. The banker should get both the formal and informal reports about the credit worthiness of the customer. If corrective actions are not taken on time then as per the projections NPAs will increase in the coming financial years. So, reduction of NPAs in should be considered as national priority item to make the Indian Banking system more sturdy, vibrant and geared to meet the challenges of globalization.

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