



ORIGINAL RESEARCH PAPER

Commerce

A STUDY OF TREND OF NPA OF PUBLIC SECTOR BANKS IN INDIA

KEY WORDS: Non- Performing Assets, Banking Sector, Economy , Performance.

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ABSTRACT

A solid banking sector is necessary for healthy economy. The failure of the banking sector may have an adverse impact on other sectors of the country too. The issue of Non-Performing assets has been discussed at length for financial system all over the world. Non-performing assets are one of the main issues for banks in India now. NPAs highlights the performance of the banks. A high degree of NPAs suggests high probability of a large number of credit defaults that affect the profitability, productivity , performance and net worth of banks and also erodes the value of the asset and image of banks. The NPA growth involves the necessity of provisions, which reduces the overall profits and Shareholder's value. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. This paper makes an attempt to study the term NPA and classification of NPA. The main objective of study is to understand the trend of NPAs in Public sector banks in India. There is great need to establish an effective recovery system that helps banks to strengthen their performance. Private sector Banks have effective and better loan recovery system that makes their NPA ratio low compare to their counterparts Public sector banks. Public sector banks have to follow steps taken by Private sector to recovery of loan immediately.

INTRODUCTION :

The banking sector is the lifeline of any modern economy. development of a country is integrally linked with the development of banking. "Bank" is utilized as a part of the feeling of a business bank. It is of Germanic starting point however a few people follow its cause to the French word "Banqui" and the Italian word 'Banca'. It alluded to a seat for continuing, loaning, and trading of cash or coins in the commercial center by cash banks and cash changers. Keeping money exercises were adequately imperative in Babylonia in the second thousand years b.c. Comparative managing an account sort courses of action could likewise be found in old Egypt.

In the current year, the banking Industry has been under going fast changes which is reflecting in major important changes. Innovation in information technology is the most noteworthy ranges which have changed quickly. It has quickened the publishing of monetary data which bringing down the expenses of numerous financial activities . In the last few years Banking sector has introduced some new items: Credit Cards, ATM, Tele-Banking, Electronic Fund Transfer (EFT), Real Time Gross Settlement (RTGS), Internet Banking, Mobile Banking and so forth. These new improvements increase the proficiency of banks by diminishing transaction cost.

As there are pros and cons of everything, the banking business has to face various risk, such as liquidity risk, interest risk, market risk, operational risk and management risk. Apart from these risks the very important risk is loan recovery or credit risk which arises from the failure of borrower to fulfill its contractual obligations either during the course of a transaction or on a future obligation. The sound financial position of a bank depends upon the recovery of loans. The failure of the banking sector may have an adverse impact on other sectors.

The word NPA is not something new to the bankers. Non-performing assets are one of the major concerns for banks in India. The magnitude of NPA is comparatively higher in public sectors banks. 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. So to improve the efficiency and profitability of banks the NPA need to be reduced and controlled.

Non-performing Assets are threatening the stability and demolishing banks profitability through a loss of interest income, write-off of the principal loan amount itself.

OBJECTIVES OF THE PAPER :

- 1. To present the Basic understanding of Non – Performing Assets.

- 2. To Study the trend of Increasing NPA in public sector banks.

RESEARCH METHODOLOGY :

The present study is concerned with NPA of Indian Banks in general. Secondary data is collected from the Annual Report published by various Commercial Banks , RBI Bulletin, Research Articles published in national and international journals, References books, various libraries, Government and NGOs Websites, etc.

IMPORTANCE OF STUDY ;

The banking sector has played a catalyst and commendable role in supporting the government to achieve its social and economic objectives through deposit mobilization, mass branch networking, priority sector lending, employment generation etc. Achieving such societal objectives resulted in imposing extensive regulations by the government which in turn hampered the productivity of Indian banking.

The banking sector reforms in India during focused on improving the efficiency of the banking sector by incorporating prudential norms for income recognition, asset classification and provisioning and through integrating international standards. The alarming level of NPAs is recognized as one of the major explanations for implementing structural changes and reform measures in the banking sector.

More than two decades had completed since the banking sector initiated measures to uplift the banking sector in line with international standards and to improve productivity and efficiency of banks. Many researches on NPA illustrated the relationship between asset quality and financial distress and considered management of NPA as a major prerequisite to counter the recessionary pressures and foster economic development

It is evident that the NPAs still pose a significant threat to the banking sector. This research is an Attempt to Examine The Non-Performing Assets Of Public Sector Banks (PSBs) in India

WHAT IS NON-PERFORMING ASSETS ?

The word NPA is not something new to the bankers. It is regular but disguised loan asset. As everyone knows, a portion of assets may become NPA. An asset becomes non-performing when it ceases to generate income for the bank.

All loan advances of banks are assets. The loan or lease, which is not meeting its stated interest or principal repayment of the secured debt to the designated lender, is called as a Non-Performing Asset.

“Non-Performing Assets are those assets that cease to generate

income for banks.” Dr.Rajesham and Dr.K.Rajender

• **Classification of Non-Performing Assets**

- Standard:** Bank receives the principal and interest repayment, systematically from the borrower. Another important aspect is that the arrears of the principal as well as the interest does not surpass more than 90 days on the closing of the FY (Financial Year). An assets which is generating regular income to the bank called standard assets.
- Sub-Standard:** An asset which is overdue for a period of more than 90 days but less than 12 months are called Sub-Standard
- Doubtful:** A doubtful asset is one which has remained as a NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently-known facts, conditions and values – highly questionable and improbable.
- Loss:** Assets which are doubtful and considered as non-recoverable by bank, internal or external auditor or central bank inspectors called loss.

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.

• **REVIEW OF LITERATURE**

Many published articles are available in the area of non-performing assets and a large number of researchers have studied the issue of NPA in banking industry. A review of the relevant literature has been described here.

1. In the Research Paper Titled: Analysis of non-performing assets of Public Sector Banks “ by Neha rani, Dr. Dinesh gaba.

The research paper is 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. The whole study is carried out with the objective of identifying term NPA and comparing the NPAs of nationalized bank. The whole study is carried out by secondary data collection method and used diagrams and tables for analysis and interpretation. The whole study is concluded with the decreasing in the NPA.

2. In the Research Paper Titled: banking sector reforms and NPA: a study of Indian commercial banks by meenakshi rajeev, h p mahesh

The research paper study the issue of non-performing assets (NPA), the root cause of the recent global financial crisis, has been drawing the attention of the policy makers and academicians alike. This exploratory paper examines the trends of NPAs in INDIA from various dimensions and explains how mere recognition of the problem and self-monitoring has been able to reduce it to a great extent. It also shows that public sector banks in INDIA, which function to some extent with welfare motives, have as good a record in reducing NPAs as their counterparts in the private sector. A clear picture of the research paper reflect that the magnitude of NPA emerges from the absolute values, it does not reveal the complete picture mainly because the absolute level of NPA depends on total advances. A country with a large population or gdp may have large advances and, in turn, larger NPA as well. Thus, apart from the absolute value, it is also important to look at what proportion of the total loan has become non-performing.

3. In the research paper titled: non-performing assets of Indian commercial banks : a critical evaluation by mohammed arif pasha & t. Srivenkataramana

This research paper involves analysis of trend of nonperforming assets of all commercial banks in INDIA. The study is conducted on 5 years data from 2008 to 2013. The objective behind this research is to study the performance of commercial banks and find the assets quality. At the end of the paper it provides some measures for NPA management the NPA both gross and net of public sector banks shows a marked rising trend during the 5 year period 2008-13. Against which the private banks & foreign banks display a falling trend, indicating a concerted effort by these banks to reduce the NPA. The paper provides some techniques for NPA management like developing a reliable and up to date information system, monitoring the assets continuously and making serious efforts for recovery of NPAs. Public sector banks may follow some of the effective steps taken by their private sector counterparts for NPA management. It further provides scope of bank wise norms & practice of NPA management.

4. In the research paper titled: a study of non performing assets of public sector banks in INDIA by laveena & kulbir singh guleria

The research paper aims to study the problem of NPA of public sector banks in INDIA. It also focused on the causes of NPA and how NPA affect the Indian economy. At the end its suggest some measures for NPA management. The whole study was conducted on state banks of INDIA & its associates plus nationalized banks. The study is based on the data of 2011 to 2015. The methodology of study is analysis of data net NPA of all bank in comparative manners of all the years. The study concluded that Indian banking systems are suffering from high ratio of NPA compare to international standards. At the end of paper its gives suggestions that securitization , sale or lease the right over security to reduce NPA level. Indian banking system must provides training to their staff before granting loans .

5. In the research paper titled : a study on NPA of public sector banks in INDIA by sulagna das & abhijit dutta.

The current paper is focused the burning issues like non performing assets in public sector banks by using the secondary data, from RBI website, tried to analyze the net non-performing asset data of 26 public sector banks of 6 years, (2008-2013) by using annova statistics, and with the help of spss software. This paper also focuses on the reason behind the NPA and its impact on banking operations. The paper classify the assets of bank into three category like substandard assets, doubtful assets and loss assets. The objective behind this study is to find out the difference of NPA occurrence between various public sector banks. The finding of the study is that all banks have similar level of NPA during this period irrespective of their operations.

6. In the research paper titled : non performing assets and profitability of commercial banks in INDIA: assessment and emerging issues by c.s.balasubramaniam

The full paper is divided in to four parts and focusing on emerging issue of NPA in commercial banks of INDIA. The paper classifying assets of bank into four category like standard, sub standard, doubtful and loss assets. The paper also states that a high NPA have direct impact on liquidity and profitability of banks. It used the secondary data of RBI websites from 2001-02 to 2009-10. The paper also reveals some of new resolutions to manage the NPA of banks like introduction of srfaesi (securitization and reconstruction of financial assets and enforcement of security interest) act, one time settlement schemes, setting up of the corporate debt restructuring (cdr) mechanism, strengthening of debt recovery tribunals (drts). The finding of paper shows positive trend towards NPA. Due to the strict efforts of RBI and its new guideline is substantially reduce NPA level of all banks in recent years.

7. In the research paper titled : a study of non-performing assets of commercial banks and it's recovery in INDIA by vivek rajbahadur singh.

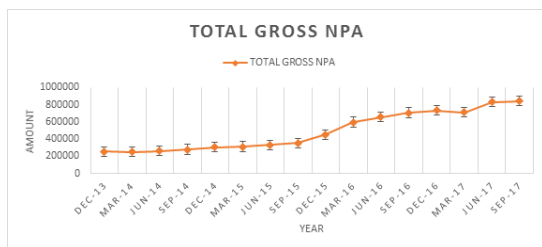
The objective behind this research is to study the status of NPA and impact of NPA on banks. It also reveals the recovery of NPA through different channel. The paper is based

on the secondary data available on RBI websites and different websites of banks. It shows the trend of NPA of 14 years starting from 2000 to 2014. The finding shows that gross NPA and net NPA of scheduled commercial banks have increased. The total number of cases referred to lok adalat was 1,86,535 in 2008 and reached to 16,36,957 in 2014. Sarfaesi act is the most effective channel of recovery of NPA except it drt & lok adalat is also effective to recover bad loans. The major reason behind high NPA is ineffective recovery, wilful defaults and defective lending process.

• NPA OF PUBLIC SECTOR BANKS.

Trend of Total Gross NPA

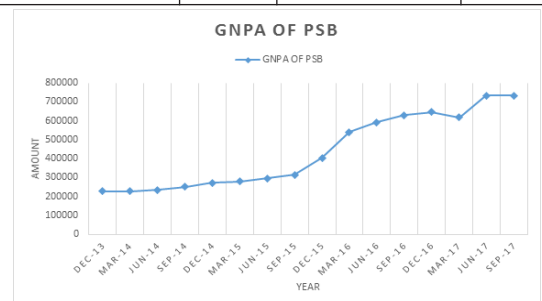
YEAR	TOTAL GROSS NPA	YEAR	TOTAL GROSS NPA
DECEMBER 2013	252275	DECEMBER 2015	451141
MARCH 2014	250643	MARCH 2016	595636
JUNE 2014	260582	JUNE 2016	654227
SEPTEMBER 2014	278458	SEPTEMBER 2016	705812
DECEMBER 2014	303055	DECEMBER 2016	732976
MARCH 2015	310847	MARCH 2017	711312
JUNE 2015	331127	JUNE 2017	829336
SEPTEMBER 2015	351109	SEPTEMBER 2017	840250



Interpretation : Indian banks are now a days suffering from a very high rate of NPA. Now all banks have to adopt some strict steps to reduce NPA otherwise it will become a do or Die situation of all banking sector in India. In December 2013 the total gross NPA of all banks was 252275 crores which was increased upto 303055 crore in December 2014. In December 2015 it was 451141 crore of all banks in India, December 2016 it was 732976 and in September 2017 it was 840250.

Trend of Total Gross NPA of Public Sector Banks.

YEAR	GNPA OF PSB	YEAR	GNPA OF PSB
DECEMBER 2013	228244	DECEMBER 2015	404667
MARCH 2014	227264	MARCH 2016	539955
JUNE 2014	234583	JUNE 2016	592245
SEPTEMBER 2014	251010	SEPTEMBER 2016	630320
DECEMBER 2014	272706	DECEMBER 2016	646199
MARCH 2015	278468	MARCH 2017	619210
JUNE 2015	296321	JUNE 2017	733136
SEPTEMBER 2015	314231	SEPTEMBER 2017	733974

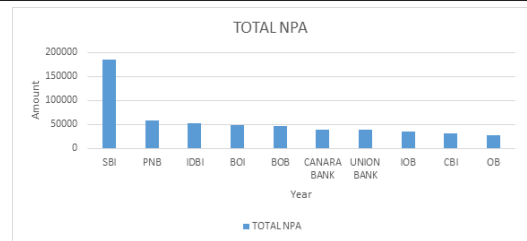


Interpretation : The Performance of Indian public sector banks is worse than the private sector banks. Due to strict lending and recovery policy of private sector banks their share in NPA is considerably low. On the other hand the share of Public sector banks is increasing day by day. In December 2013 the gross NPA of all Public sector banks was Rs.228244 crores which was increased up to Rs.272706 crore in December 2014. In December 2015 it was Rs.404667 crore of all public sector banks in India, December

2016 it was Rs.646199 and in September 2017 it was Rs.733974 crores.

Public Sector Banks with Highest amount of NPA

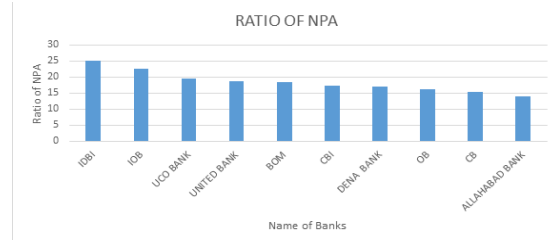
BANKS	TOTAL NPA
SBI	186115
PNB	57630
IDBI	51368
BOI	49307
BOB	46307
CANARA BANK	39164
UNION BANK	38286
IOB	34709
CBI	31641
OB	26432



Interpretation : All the public sector banks in India are suffering from highest level of NPA. Due to the motive of welfare Public sector banks are unable to make an impact on borrower for strict recovery as a result all public sector banks have highest level of NPA. Among all PSB, State bank of India secured the first position with total NPA amount of Rs.186115 crore, Following by Punjab National Bank with Rs. 57630 Crore, IDBI with Rs.51368 Crore, Bank of India with Rs.49307 Crore, Bank of Baroda Rs.46307 Crore, Canara bank with Rs.39164 crore, Union bank with Rs. 38286, Indian overseas bank with Rs.34709 crore, central bank of India with Rs. 31641, oriental bank of commerce with Rs.26432 crore.

Public Sector Banks with Highest Ratio NPA

BANKS	RATIO OF NPA
IDBI	25
IOB	22.7
UCO BANK	19.7
UNITED BANK	18.8
BOM	18.5
CBI	17.3
DENA BANK	17.2
OB	16.3
CB	15.3
ALLAHABAD BANK	14.1



Interpretation : Highest Ratio of NPA shows poor recovery policy of banks. Among all banks Public Sector Banks are suffering more from high level of NPA. IDBI Bank has the highest NPA Ratio of 25%, followed by Indian overseas Banks with NPA Ratio of 22.7%, UCO banks with 19.7%, United Bank with 18.8%, Bank of Maharashtra with 18.5%, Central bank of India with 17.3%, Dena Bank with 17.2%, Oriental bank of commerce with 16.3%, Canara Bank with 15.3%, Allahabad with 14.1%.

• CONCLUSION :

The NPAs have made a major issue for the banks in India. It is quite recently issue for the banks as well as for the economy as well. The

cash locked up NPAs directly affects functioning and profitability of the bank. Although different steps have been taken by government to diminish the NPAs yet a great work should be done to control this issue. The NPAs level of our banks is still high when contrasted with the Private Banks. It isn't at all conceivable to have zero NPAs. The bank administration should accelerate the recovery procedure. The issue of recovery isn't with little borrowers yet with vast borrowers and a strict strategy ought to be taken after for tackling this issue. The administration has to make more arrangements for speedier settlement of pending cases. So the issue of NPA for Public Sector needs more genuine efforts compare to Private sector as private sector banks have relatively low level of NPA. Finally NPAs will cut off the benefit of banks which isn't useful for the developing Indian economy by any means.

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