



ORIGINAL RESEARCH PAPER

Commerce

AN ANALYSIS ON NON-PERFORMING ASSETS OF SELECTED PUBLIC SECTOR BANKS

KEY WORDS:

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ABSTRACT

Indian financial sector includes banking and non-banking institutions. Banking institutions have the major role of accepting long term deposit and lending money to the borrowers. A strong financial system is essential for strengthening the economy and fulfilment of its objective. The NPA is one of the biggest problems that the Banks are facing today. The present study is more relevant, as the banks have higher Non-Performing assets. More preventive measures should be taken to control it, as we cannot stop it at an immediate term. Banks also redistribute losses to other borrowers by charging higher interest rates, lower deposit rates and higher lending rates repress savings and financial markets, which hampers economic growth. This study focuses on trend analysis regarding Non – Performing Asset in selected public sector banks

1.1 INTRODUCTION

A strong banking sector is important for flourishing economy. Financial system plays a vital role in the development of an economy which is the key factor towards a country's development. The three letters "NPA" strike terror in banking sector and business circle today. NPA is a short form of "Non-Performing Assets". The Narasimham Committee (1991) on "Financial System Reforms" introduced the concept of non-performing assets. The status on non-performing assets constitute the best indicator of judging the health of the banking industry. It's a known fact that banks and financial institutions face the problem of NPA. The problems of non-performing assets is becoming more and more unmanageable. A Non-Performing Asset was defined as credit facility in respect of which the interest and/or instalment of principle has remained 'past due' for a specified period of time.

1.2 STATEMENT OF THE PROBLEM

Banking sector in India has undergone a sea change during the past decades. There is a cut-throat competition in the banking sector. The performance of banks have been matched vigilantly post us sub-prime crisis. In particular, financial performance of the banks are subjected to pressures from regulatory body Reserve Bank of India and macro-economic conditions such as GDP, inflation rate, interest rate and intense competition from peers etc.. Apart from external factors, there are some banks specific variables which affect the performance. Non – Performing Assets is the predominant factor which erodes not only the current profit but also swallows future profits in the form of huge provisions.

1.2.1 METHODOLOGICAL DESIGN

Research is a systematic method finding solutions to a problem. It gives a structured picture for the management process like decision making and planning in accordance with data collection. It may be understood as all those method or techniques that are used for conduction of research. Methodology gives true path to find solution to a certain problem.

1.2.2 RESEARCH DESIGN

Research design is a frame work or blue print for conducting the research. It is a logical and systematic planning and directing a piece of research. The research must prepare a detailed plan before research is under taken. Descriptive research is used by the researcher in this study. Descriptive research is to identify the cause of something that is happening.

1.2.3 SECONDARY DATA

Secondary data was collected by the researcher from the company's website, various journals, magazines, books, previous research data, and collected directly through company.

1.2.4 NEED OF STUDY

The non-performing assets that are not able to generate income

for the bank are the great threat for the banking institution. Rather than generating profit for the bank, NPA drains off the income earned by the other performing asset by the way of paying interest to the real owner of the resources. It affects the overall profitability of the bank adversely by affecting the return on equity and return on asset.

Thus, the need of study of the NPA is must essential due to these reasons. These reasons are critical for any bank at present. Thus, the need of the study of the NPA is must essential due to these reasons. These reasons are critical for any bank at present. It is must to realize these matters to take remedial measures against NPA.

1.2.5 Objective of study

- To study the concept and significance of NPA.
- To study the impact of NPA on Canara bank.
- To know the recovery of NPAs through various channels

1.2.6 Limitation of the study:

- Lack of availability of confidential data.
- NPAs are changing with the time. The study is done in the present environment without foreseeing future developments

2.1 Banking Industries – Profile

2.1 Bank of Baroda

Bank of Baroda (BoB) is an Indian International, public sector banking and financial services company. It is owned by Government of India and headquartered in Vadodara (earlier known as Baroda) in Gujarat, India. It has a corporate office in Mumbai.

2.2 Indian Bank

Indian Bank is an Indian state-owned financial services company established in 1907 and headquartered in Chennai, India. It has 20,924 employees, 2851 branches with 2857 ATMs and 693 cash deposit machines and is one of the top performing public sector banks in India. Total business of the bank has touched Rs.3.64 lakh Crores as on 31 March 2018. Bank's Information Systems & Security processes certified with ISO27001:2013 standard and is among very few Banks certified worldwide.

2.3 Vijaya Bank

Vijaya Bank is a public sector bank with its corporate office in Bangalore, Karnataka, India. It is one of the nationalised banks in India. The bank offers a wide range of financial products and services to customers through its various delivery channels. The bank has a network of 2031 branches (as of March 2017) throughout the country and over 4000 customer touch points including 2001 ATMs.

2.4 Canara Bank

Canara bank is an Indian state-owned bank headquartered in

Bangalore, Karnataka. It was established in 1906, making it one of the oldest banks in the country. The bank was nationalised in 1969. As of 30 October 2017, the bank had a network of 6639 branches and more than 10600 ATMs spread across all over India. The bank also has offices abroad in London, Hong Kong, Moscow, Shanghai, Doha, Bahrain, Dubai, Tanzania and New York.

2.5 Union Bank of India

Union Bank of India is one of the largest government-owned banks of India; the government owns over 90% of its share capital. It is listed on the Forbes 2000, and has assets of USD 13.45 billion. UBI has around 4,300 branches. Four of these are overseas in Hong Kong, Dubai, Antwerp, and Sydney. UBI also has representative offices at Shanghai, Beijing and Abu Dhabi. Lastly, UBI operates in the United Kingdom through its wholly owned subsidiary, Union Bank of India (UK).

3.1 Review of Literature

Ashok Khurana and Mandeep Singh (2010), stated that issue of mounting NPAs is a challenging to public to public sector banks. The study found that the asset wise classification of PSBs is in right direction and there is significant variation in the recovery of NPAs in the different sector. The research observed that PSBs should not be loaded with the twin object of profitability and social weal fair.

Sandeep and Parul Mital (2012) analysed the comparative position of nonperforming assets of selected public and private sector banks in India to find their efficiency through comparative study. Data has been collected from various secondary sources for period of 10 years and analysed with descriptive statistics and ANOVA. All the banks are making polices trying for the containment of NPA S for improving their asset quality and profitability. PNB and HDFC banks are found superior in management of NPA S comparative to SBI and ICICI and private sector banks are much comfortable and efficient comparative to public sector banks.

Goyal and Piyush (2017) focuses on his study is to analyze the non-performing assets, net NPAs furthermore, net NPAs of 8 banks in India and to see the connection between net benefit, net NPAs also and gross NPAs. The point of the examination was to break down the gainfulness of banks the NPA should be lessened and controlled. This paper manages understanding the idea of NPAs, its size and real foundations for a record getting to be non-performing and techniques for overseeing NPA in Indian banks. The best marker for the soundness of the keeping money industry in a nation is its level of Nonperforming resources (NPAs)

4.1 Overview of NPA

Non-performing assets (NPA) are those assets which does not generate income periodically. The non-repayment of loans and advances by the customers to the bank are considered as bad loans.

4.2 Asset Classification for Provision

- Performing asset
- Non-performing asset
- Standard Asset
- Doubtful Asset
- Lost Asset

4.3 Position of NPA

- India ranked at 5th position among the countries with highest NPA With 9.9 percent ratio. India has the highest level of non-performing assets (NPA) among BRICS countries and is ranked fifth on a list of countries with the highest levels of NPAs, a report by CARE Ratings revealed.
- Greece has the highest NPA of 36.4 in the world.
- The NPA list is topped by countries known as PIIGS (Portugal, Italy, Ireland, Greece and Spain), excluding Spain.
- Other countries like Italy (NPAs 16.4 percent), Portugal (15.5), Ireland (11.9), Russia (9.7) and Spain (5.3) are also facing huge NPA crisis.
- Spain ranked at the 7th spot below India and Russia.

- India's NPA ratio is 400 points higher than that of Spain's.

4.4 Statics on NPA

The bad loan crisis at Indian state-owned banks continues to worsen. According to RBI, "The overall gross NPAs in the system has grown to 10.2% as the Sep 2017 which was the level predicted for March 2018 in the previous Financial Stability Report (FSR) from 9.6% six months earlier". The Bad loans are expected to hit 11.1% of all loans by Sep 2018.

- NPA of Public Sector Banks reach Rs 7.34 lakh crore - According to the Reserve Bank of India data, the bad loans of Public sector banks (PSBs) stood at Rs 7.34 lakh crore by the end of second quarter this fiscal, a bulk of which came from corporate defaulters.
- As on September 30, 2017 - The gross non-performing assets of the public sector and private sector banks were Rs 7,33,974 crore, Rs 1,02,808 crore, respectively.
- SBI had the highest amount of NPAs - Among the major public-sector banks, State Bank of India (SBI) had the highest amount of NPAs at over Rs 1.86 lakh crore followed by Punjab National Bank (Rs 57,630 crore), Bank of India (Rs 49,307 crore), Bank of Baroda (Rs 46,307 crore), Canara Bank (Rs 39,164 crore) and Union Bank of India (Rs 38,286 crore).
- ICICI Bank had the highest amount of NPAs - Among private sector lenders, ICICI Bank had the highest amount of NPAs on its books at Rs 44,237 crore by the end of September, followed by Axis Bank (Rs 22,136 crore), HDFC Bank (Rs 7,644 crore) and Jammu and Kashmir Bank (Rs 5,983 crore).

4.5 Recovery Methods

4.5.1 General Method

Through normal persuasion and correspondence to the borrowers to pay their dues to the bank. This may be an earliest method bank may not be task effective. This is because the General tendency of the borrowers is to put repayment of loans last to other priorities. Even on persuasions in most of the cases only a part remittance may result that is in no way benefits both to the borrower and the bank.

4.5.2 Debts Recovery Tribunal (DRT)

Where the outstanding is large and over Rs.10 Lakhs the Banks may approach DRT for recovery of their dues. This being a legal procedure involves not only delay, but also not cost effective.

4.5.3 SARFAESI ACT

Sarfaesi act was set up in 2002. Sarfeasi act covers both movable and immovable property(asset). Sarfeasi act is also applicable to agriculture.

5.1 Analysis and interpretation

Ratios	Years	BOB	IB	VB	CB	UBI
GNPA	2014	2.9%	3.7%	2.4%	2.5%	1.1%
	2015	3.7%	4.5%	2.8%	0.4%	5.0%
	2016	10.5%	6.8%	6.7%	9.7%	9.0%
	2017	11.1%	7.7%	2.5%	10.0%	11.7%
	2018	13.2%	7.6%	6.4%	12.4%	11.6%
NNPA	2014	1.5%	2.3%	1.5%	2.0%	2.4%
	2015	1.9%	2.6%	1.9%	2.7%	2.8%
	2016	5.2%	4.3%	4.9%	6.7%	5.4%
	2017	5.0%	46.0%	1.8%	6.6%	6.7%
	2018	5.8%	0%	4.4%	7.8%	8.6%
CDR	2014	69.7%	75.3%	65.5%	71.5%	0.86%
	2015	69.3%	74.3%	68.6%	69.6%	4.1%
	2016	66.8%	72.3%	70.9%	67.6%	7.0%
	2017	63.6%	69.9%	71.0%	69.0%	8.9%
	2018	72.2%	75.1%	73.8%	72.2%	8.1%
BTA	2014	-0.27%	-0.30%	-0.09%	-0.35%	-0.23%
	2015	-0.18%	-0.22%	-0.13%	-0.36%	-0.36%
	2016	-0.23%	-0.36%	-0.07%	-0.36%	-0.31%
	2017	-0.37%	-0.46%	-0.48%	-0.73%	-0.48%
	2018	-0.27%	-0.42%	-0.28%	-0.53%	-0.38%

BII	2014	-4.6%	-3.7%	-1.1%	-4.4%	-2.8%
	2015	-3.0%	-2.7%	-1.5%	-4.5%	-4.3%
	2016	-3.5%	-4.5%	-0.8%	-4.5%	-3.9%
	2017	-6.15%	-6.3%	-6.0%	-10.3%	-6.7%
	2018	-4.4%	-6.2%	-4.0%	-7.9%	-5.6%
ROA	2014	0.68%	0.6%	0.3%	0.49%	4.7%
	2015	0.47%	0.52%	0.3%	0.49%	4.8%
	2016	-0.8%	0.34%	0.26%	-0.53%	0.33%
	2017	0.19%	0.64%	0.48%	0.19%	1.2%
	2018	-0.33%	0.49%	0.40%	-0.68%	-1.0%
ROE	2014	12.6%	8.3%	7.0%	8.2%	9.9%
	2015	8.5%	6.7%	7.1%	8.4%	9.7%
	2016	-13.4%	4.3%	5.1%	-8.9%	6.6%
	2017	3.3%	8.1%	9.2%	3.3%	2.3%
	2018	5.6%	6.8%	6.8%	11.8%	-20.9%
NIM	2014	1.8%	2.3%	1.5%	1.8%	2.2%
	2015	1.8%	2.3%	1.6%	1.7%	2.2%
	2016	1.8%	7.2%	1.8%	1.7%	2.0%
	2017	1.9%	2.3%	2.2%	1.6%	1.9%
	2018	2.1%	2.4%	2.4%	1.9%	1.9%
IDR	2014	20.4%	28.9%	34.2%	30.1%	31.4%
	2015	64.2%	27.1%	35.2%	30.6%	29.6%
	2016	20.9%	29.7%	33.3%	29.6%	36.0%
	2017	21.5%	37.0%	33.3%	30.3%	30.1%
	2018	27.5%	34.2%	25.1%	27.4%	30.3%
IITA	2014	4.2%	6.0%	5.6%	5.7%	6.1%
	2015	4.3%	6.2%	6.0%	5.8%	6.2%
	2016	4.4%	5.8%	6.0%	5.6%	5.8%
	2017	3.9%	5.2%	5.6%	5.0%	5.0%
	2018	4.0%	4.6%	5.0%	4.7%	4.6%
PCTA	2014	0.72%	0.92%	0.50%	0.88%	0.9%
	2015	0.91%	1.0%	0.57%	0.77%	1.0%
	2016	2.1%	1.1%	0.8%	1.8%	1.0%
	2017	1.3%	1.1%	1.0%	1.3%	1.5%
	2018	2.0%	1.4%	1.3%	2.2%	2.6%

5.2 EViews

5.2.1 Unit Root Test

GROSS NON-PERFORMING ASSETS					
RBI	BoB	IB	VB	CB	UBI
0.0471	0.0135	0.0421	0.0001	0.7280	0.3599

NET NON-PERFORMING ASSETS					
RBI	BoB	IB	VB	CB	UBI
0.0401	0.0423	0.0230	0.0158	0.9908	0.9968

Significance level 0.05 - Unit Root Test less than or equal to 0.05 represents that null hypothesis is accepted and above 0.05 null hypothesis is rejected.

5.2.2 Johansen Cointegration

Gross Non-Performing Assets

GNPA of Bank of Baroda and RBI - Both the tests indicates 1 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

GNPA of Indian Bank and RBI - Both the tests indicates 2 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

GNPA of Vijaya Bank and RBI - Both the tests indicates 1 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

GNPA of Canara Bank and RBI - Both the tests indicates 1 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

GNPA of Union Bank of India and RBI - Both the tests indicates no cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

Net Non-Performing Assets

NNPA of Bank of Baroda and RBI - Both the tests indicates 2

cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level

NNPA of Indian Bank and RBI - Both the tests indicates 1 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

NNPA of Vijaya Bank and RBI - Both the tests indicates 2 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

NNPA of Canara Bank and RBI - Both the tests indicates 2 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

NNPA of Union Bank of India and RBI - Both the tests indicates 1 cointegration equation at 0.05 level. The test denotes rejection of the hypothesis at the 0.05 level.

5.2.3 Granger Causality

The test represents 2 variables(x,y). The results denote y granger causes x or x granger cause y.(bi-directional causality). If only one exists it denote unilateral causality and if both donot exist then the variables are independent to each other.

Eg : Table showing Granger Causality test

Null Hypothesis	Obs	F-Statistic	Prob
Indian Bank's NNPA does not Granger cause RBI's NNPA	8	0.61584	0.5969
RBI's NNPA does not Granger cause Indian Bank's NNPA		16.9569	0.0232

6.1 SUGGESTIONS

- Now a day's banks face NPA as a major problem. Banks can take further more serious steps to recover the NPA amount.
- Banks must improve or change the method of recovering the NPA amounts.
- Banks should provide loans according to the credit worthiness of the person and not according to the assets.
- Banks must take steps against NPA at the initial stage.
- Keeping Public interest in mind, banks should provide an one time settlement scheme, it can save banks both time and money. Unnecessary litigations can also be avoided. Recovery camps should be organised on regular basis
- After granting loan, banks should observe the capacity of the company continuously and should be able to assess whether it is about to bankrupt. In this way, banks can sell the assets before the loans become NPA.
- It's better to display the defaulters' name list publicly. This will cause fear and acts as a deterrent.
- Banks can use the unclaimed deposits of the defaulters.

7.1 CONCLUSION

The present study focuses on the bank specific determinants of Non-Performing Assets and Profitability of public sector in India. The study has employed multiple regression analysis using time series data for the study period 2014 – 2018
The Ratios shows the how successful a bank is investing its funds, solid performance of the bank, asset quality, growth of the bank, how bank protects itself better against its bad loans etc. The determination of ratios shows that banks has both positive and negative significance.

Eviews results shows that Banks should try to decrease NPA as it becomes difficult for the growth of the bank in future. Further more serious steps should be taken by the banks and RBI to reduce NPA.