International Journal of Research in Engineering, IT and Social Sciences
ISSN 2250-0558, Impact Factor: 6.452, Volume 6 Issue 04, April 2016

A Study of Non Performing Assets of Public Sector Banks in India

Laveena
Assistant Professor, Chitkara University and Research Scholar, I.K Gujral PTU

Kulbir Singh Guleria
Student, Chitkara University

Abstract

A strong banking sector has always been important factor for economy to flourish. Once the banking sector fails it always has negative effect on the other sectors. Non-performing assets have always been one of the major concerns in India.

Banks performance is reflected by its NPA level.The large number of NPA erodes the value of any assets in banks and it also suggests that number of credit defaults in the banks have increased and net worth of banks have decreased. The growth in NPA level increases the levels you have to set for provisions which overall decreases the shareholders' value and profits too.

In all over world problem of increasing Non Performance Assets has been discussed many times. In India heath of industry and state can be easily defined by as to how the level of NPA are increasing in this country. Whole economies are being affected by this problem of NPA.

This paper deals in such NPA problems and understanding the causes of it and also discuss about magnitude and causes of NPA problem over the last 3 years and discuss about its effect on economy.

Keywords: Non-performing assets, banking sector, high level, credit Defaulter

Introduction

Non-Performing Asset is defined as the loans which are in jeopardy of being default. If a borrower has failed to pay interest on principal payment for 90 days or more in case of a loan, than that loan is considered to benon-performing asset (NPA).This kind of thing can be termed as Non-Performing Loan.NPAs affect the smooth flow of credit and profitability as higher NPAs mean higher provisioning which reduces s the profit. These are loans and advances whose time period for payment of interest and principle has exceeded 90 days. In this case the account of person is marked as out of order. If the loan is granted to a person for agricultural purpose the instalment period for interest might remain due for two harvest seasons. Non-performing assets tells us about the banks as the institutions of finance and companies judge their non-performing assets through NPA and higher the NPA means bad performance of the institute of finance.

NPA as Defined by RBI

Any asset and it also includes leased asset can become Non Performing Asset when income stops to be generated from it for the bank.It is an advance or loan where;

i. For 90 days' time interest or instalment of principle amount may remain overdue.
ii. The account an overdraft or cash credit with respect of it may remain out of order as it is indicated below.
iii. In case the bills are purchased or discounted then they remain overdue for more than 90days period.
iv. The instalment for two of the crop seasons for short duration of crops remain overdue whether it is principal or interest. The instalment for long duration crops therefore remains overdue whether its interest or principal amount.
v. The instalment therefore remains overdue for one crop season for long duration crops of principal or interest.
vi.In respect of a securitization transaction that has been undertaken like in terms of guidelines on securitization on dated February 1, 2006. For more than 90 days the amount of which like of liquidity facility will remain outstanding.

Reason/Causes of NPA

Many reasons have been found that have led to NPA. Few of them are Market failures, Wilful defaults, poor follow up, poor supervision, diversion of funds etc.

These are the fewreasons for as to how the account may become NPA:
 Internal factors
 External factors

Internal Factors

1. If funds are borrowed for a different purpose but used for different purpose
2. If project could not be completed in given time.
3. Recovery of receivables has not been appropriate and up to mark.
4. If non-economic cost create excess opportunities.
5. Capitals which help in equity issue or other debt instruments are allowed.
6. Business failures.
7. Funds for expansion, modernization, helping and promoting are diverse into any other cause.
8. Some people do wilful defaults, fraud, delay in settling payments etc.
9. There can be deficiencies by part of banks too like in credit appraisal, wrong follow ups, payments delayed

External Factors

1. Sluggish legal system.
a. Long legal tangles.
b. Labour laws changes that may have happened.
c. Sometimes efforts are not sincere.
2. Industrial recession.

3. Sometimes resources are scarce too like power and raw materials and other sources.
4. There can be natural calamities like floods or earthquakes, recession in industries, raw material shortage
5. Failures, non-payment or sometimes there can be recession or inflation at its height in other countries which make the task more difficult.
6. Import duties in countries or rise in excise duties imposed by government.

Causes of Account Becoming NPA

Those to Borrower

1. Failure to bring required capital
2. Unwanted expenses
3. May have longer gestation period.
4. Project can be too ambitious to actually carry out in reality.
5. Overtrading
6. Inventories are not balanced
7. Planning should be proper.
8. Working capital management has to be proper.
9. One should be expert in his respective field.
10. Sometimes there is dependence only on single customers.
11. Mismanagement
12. How funds are distributed.
13. Management quality is poor.
14. Heavy borrowings
15. Poor credit collection
16. Quality is not nice.

Causes Attributable to Banks

1. The borrower had been selected wrong.
2. Creditability is poor
3. Unhelpful in supervision
4. Too inflexible attitude
5. Systems overloaded
6. If unit inspection is not done or if it is done wrong.
7. If motivation is not done properly.
8. Delay in sanctions
9. No one takes responsibility of work.
10. Sudden credit squeeze of banks
11. Burrower should commit that he would give back the credit he took from banks.
12. Lack of personal and technical zeal

Other Causes

1. Infrastructure should be registered.
2. In today's world technology is changing very fast.
3. Government unhelpful attitude
4. Sometimes consumer preferences change as time changes.
5. Credit policies
6. Taxation laws
7. Civil commotion
8. Political hostility
9. Sluggish legal system
10. Changes that relate to banking amendment act should be kept in mind.

Review of Literature

Many research papers have been made to analyse NPA problem and come to any solution. This research paper has also conducted such a study to analyse this problem of NPA and come to any verified solution to medic this problem. A study on public and private sector banks shows that a gap between expectations of consumers and perceptions of service delivered is highest in public sector banks and lowest in private sector banks. Also it was found that public sector banks are better than private sector banks.

Rajeev, M., Mahesh, H.P., (2010): This exploratory paper examines the Indian trends of NPAs from various dimensions and explains how recognition of the problem continuous monitoring, can reduce it to a greater extent.

Rajput, N.,Arora, A.P., and Kaur, B. (2011): This study attempts to trace the movement of the NPAs presence in public sector banks of India, by analyzing the financial performance in managing NPA.

Ahmad, Z., Jegadeeshwaran, M. (2013): The current paper is written on the NPA, and causes for NPA. Secondary data was collected for a period of five years and analysed by mean, CAGR, ANOVA and ranking banks. The banks were ranked as per their performance in managing the NPA‟ s. The efficiency in managing the NPA by the nationalised banks was tested.

Bhatia, B.S., Waraich, S., Gautam, V. (2013): This study was made on District Central Cooperative Bank of Punjab, the study tried to analyse the impact of some new product lines on non performing advances in cooperative banks and trends in NPA against loan schemes. Lastly a comparative analysis was made between bank wise and component wise to find out the lacunas and suggest measures for improvement in managing NPA.

Ranjan, R., Dhal, S.C. (2013): This paper explores an empirical approach to the analysis of the Indian commercial banks' nonperforming loans by regression analysis

Dutta.A(2014): This paper studied the growth of NPA in the public and private sector banks in India, and analysed sector wise non-performing assets of the commercial banks. For the purpose of the study data has been collected from secondary sources such as report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance, RBI Economic Surveys of India.

Joseph, A. L. (2014): This paper basically deals with the trends of NPA in banking industry, the internal, external and other factors that mainly contribute to NPA rising in the banking industry and also provides some suggestions for overcoming the burden of NPA.

Ibrahim, M.S., and Thangavelu, R.(2014): In this paper, the author has analysed the concept of NPAs, components of loan assets in public sector, private sector and other foreign banks, by an exploratory and diagnostic approach with the help of secondary data.

Arora, N., Ostwal, N.(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 threat for the banks and financial institutions and public sector banks have higher level of NPAs in comparison to Private sector banks.

Mehta.L, Malhotra.M (2014) evaluated that NPA is a main threat for the Banks in India. Non-performing assets must be managed properly for the healthy environment of Indian banks.in their research paper they discussed the positive impact of priority sector lending's on NPAs. Recession was considered as a one of the reason for the continuous increase in the NPAs.

Sat pal (2014): An attempt has been made in this paper to find out the actual definition of NPA and the factors contributing to the formation NPAs, reasons for high NPAs and their impact on Indian banking operations.

Tripathi, L. K., Parashar, A., Mishra, S. (2014): The present study, with the help of multiple regression model attempts to investigate the impact of priority sector advances, unsecured advances and advances made to sensitive sectors by banks like SBI group and other nationalised banks on Gross NPAs of banks.

Statement of Problem

The study tries to discuss the reasons of npa in public sector and private sector banks in India.

Objectives of Study

1. To compare performance of public sector banks with private sector banks in INDIA.
2. To find out the NPA level.
3. To suggest various measures of NPA management.

Research Methodology

The present study is done on the SBI associated banks and public sector banks .Net non-performing assets = gross npa – (balance in interest suspense account + dicgc/ecgc claims received and held pending adjustment + part payment received and kept in suspense account + total provisions held) (rbi.org.in).

Public Sector Banks

Public sector banks are the banks in which government has major holdings. Public Sector banks are divided into 2 groups: Nationalized banks and State bank Of India and its associates. There are 19 National and 8 State Bank of India associates.

Public Sector Banks dominate 75% of deposits and 71% of advances in the banking industry. Public Sector Banks dominate commercial banking in India. These can be further classified into:

1) State Bank of India
2) Nationalized banks
3) Regional Rural Banks

Performance

The bottom line has been under pressure for two years. Net profit declined 13.3 per cent to Rs 1,005 crore in 2014-15 from Rs 1,159 crore in 2013-14. It was Rs 1,581 crore in 2012-13.
Another indicator of efficiency, the return on assets, has also been weak for two years. It was 1.02 per cent in FY13, a rare feat among PSBs. However, this came down to 0.67 per cent in FY14 and to 0.54 per cent in FY15, show finance ministry data.

The rise in NPAs has impacted the margins, as the bank had to reverse part of the interest income booked for loans which turned into these. The net interest margin fell to 2.6 per cent for FY15, from 2.7 per cent in FY14 and three per cent in FY13.

NNPA values of SBI and Associates:

BANKS	2011	2012	2013	2014	2015
1 State Bank of India	1.72	1.63	1.82	2.10	2.25
2 State Bank of Bikaner and Jaipur	.78	.83	1.92	2.27	2.29
3.State Bank of Hyderabad	.55	.87	1.30	1.61	1.84
4 State Bank of Mysore State Bank	1.02	1.38	1.93	2.69	2.91
5 State Bank of Patiala	1.04	1.21	1.35	1.62	1.92
6 State Bank of Travancore	.91	.98	1.54	1.46	1.89

Source: rbi.org.in

NNPA values of Other Public Sector Banks:

	2010	2011	2012	2013	2014	2015
Allahabad Bank	.66	.79	.98	3.19	3.55	3.84
Andhra Bank	.17	.38	.91	2.45	2.68	3.20
Bank of Baroda	.34	.35	.54	1.28	1.84	2.26
Bank of India	1.31	.91	1.47	2.06	2.56	2.89
Bank of Maharashtra	1.64	1.32	.84	.52	1.54	1.62
Canara Bank	1.06	1.10	1.46	2.18	2.54	2.87
Central Bank of India	.69	.65	3.09	3.90	4.20	4.48

Source: rbi.org.in

Corporation Bank	.31	.46	.87	1.19	1.55	1.81
Dena Bank	1.21	1.22	1.01	1.39	1.78	2.14
IDBI Bank Limited	1.02	1.06	1.61	1.58	1.87	2.18
Indian Bank	.23	.53	1.33	2.26	2.56	2.91
Indian Overseas Bank	2.52	1.19	1.35	2.50	2.84	3.11
Oriental Bank of Commerce	.87	.98	2.21	2.27	2.59	2.78
Punjab and Sindh Bank	.36	.56	1.19	2.16	2.56	2.88
Punjab National Bank	.53	.85	1.52	2.35	2.44	2.70

Source: rbi.org.in

Syndicate Bank	1.07	.97	.96	.76	.71	.89
UCO Bank	1.17	1.84	1.96	3.17	3.47	3.89
Union Bank of India	.81	1.19	1.70	1.61	1.87	2.45
United Bank of India	1.84	1.42	1.72	2.87	2.91	3.58
Vijaya Bank	1.40	1.52	1.72	1.30	1.41	1.87

Source: rbi.org.in

Interpretation from Table

From above table we can interpret that public sector banks have their increase in NPA. This is major concern for banking sector.

Ways to Reduce NPA

SARFAESI ACT 2002: the securitization and reconstruction of financial assets and enforcements of security interest act 2002 empowers the banks and other financial institutions to recover the non-performingassets without court's intervention.

Non-Performing Asset can be recovered by 3 methods:

1. Securitization
2. Enforcement of security without intervention of court
3. Asset Reconstruction

In case borrower fails to comply and return what he borrowed bank can use following measures:

1. Appoint any person to manage the same
2. Take possession of security
3. Sale or lease the right over the security.

LOK ADALATS: These can be used for recovery of small loans like 5 lakh or less.

CREDIT INFORMATION BUREAU: This helps the banks by maintaining data of an individual and provides this information to all banks.

COMPRISE SETTLEMENT: this scheme helps to provide simple mechanism for recovery of NPA.

Conclusion

NPAs have always been a big problem for the banks in India. To improve the problem of the economy the NPAs should be scheduled. The NPA level of the banking system is still at a high compare to the international standards. The Indian banking system should take care of their credit worthiness of the customers as the prevention is the better than care. It's better to take-care of the things previously than the taking steps after the damage. It is time to get rid of this problem of NPA. An efficient management system should be made to counter this problem.2. Bank staff that is responsible for giving out loans etc. should be trained in appropriate manner regarding what are necessary steps to give out loans or advances, for example legal documentation, charge of securities and taking measures in preventing that may turn into NPA.3. Public banks must focus to compete with private sector banks in every field so that they may also register their competition.4. Banks must pay proper attention regarding the borrower that has come for loan and analyse his/her financial statements thoroughly to avoid any complications in future that may lead to NPA.

References

Ahmad, Z., Jegadeeshwaran, M. (2013) Comparative Study on NPA Management of Nationalised Banks. Retrieved from International Journal of Marketing, Financial Services and Management Research, ISSN 2277- 3622, Vol.2, No. 8, August (2013).

Arora, N, Ostwal, N(2014), Unearthing the Epidemic of Non-Performing Assets: A Study of Public and Private Sector Banks. Retrieved from SMS Varanasi, Vol. X, No. 1; June 2014.

Bhatia1, B.S., Waraich, S, Gautam, V (2013) Critical Evaluation Of Non-Performing Advances In Dccbs of Punjab. Retrieved from Abhinav International Monthly Refereed Journal of Research in Management and Technology, ISSN – 2320-0073 Volume II, July" 13

Ibrahim, M.S., Thangavelu, R (2014), A Study on the Composition of Non-Performing Assets (NPAs) of Scheduled Commercial Banks in India. Retrieved from Journal of Finance and Bank Management, March 2014, Vol. 2, No. 1.

Joseph, A.L., Prakash, M (2014) A Study on Analysing the Trend of NPA Level in Private Sector Banks and Public Sector Banks. Retrieved from International Journal of Scientific and Research Publications, Volume 4, Issue 7, July 2014 1 ISSN 2250-3153.

Mehta, L.,Malhotra. M.(2014).Empirical Analysis of Non perfroming Assets Related to Private Banks of India. *International Journal of Management Excellence,3*(1) ,386-391.doi:10.17711/ijme.v3il.156

Rajeev, M., Mahesh, H.P. (2010) Banking Sector Reforms and NPA: A study of Indian Commercial Banks (Working Paper 252).

Rajput, N., Arora, A.P., Kaur, B (2012) Management Of Non-Performing Assets A Study Of Indian Public Sector Banks. Retrieved from IJMIE Volume 2, Issue 4, April 2012, ISSN: 2249-0558.

Ranjan, R, Dhal, S.C. (2003) Non-Performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment. Retrieved from Reserve Bank of India Occasional Papers, Vol. 24, No. 3, Winter 2003.

Satpal (2014),A Comparative study of Non-Performing Assets in Public and Private Sector Banks in the New Age of Technology. Retrieved from International Journal of Current Engineering and Technology, Vol.4, No.4 (Aug 2014), E-ISSN 2277 – 4106, P-ISSN 2347 – 5161.

Sharma, K. C. (2007). Modern Banking: - History, Growth and development. Deep & deep Publishing house, New Delhi.