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Non Performing Assets (NPA) in Banking Sector: A Critical Evaluation

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ABSTRACT
One of the major challenges before the Indian Banking system is to address the NPA issue properly. Needless to say that the NPA issue if not addressed properly, may affect the profitability of banks and growth prospects in future. According to CARE Ratings' analysis of the first quarter, 2017 for 38 banks, it has been found that Public sector banks are facing more problems than the private sector banks and foreign banks. To mention a few, top 20 public sector banks are with the highest Gross Non-performing Assets (GNPA) ratios. IDBI Bank (with gross NPA ratio of 24.11 per cent of gross advances) and Indian Overseas Bank (23.6 per cent) have NPA ratios of over 20 per cent. Among PSBs, Indian Bank has the lowest GNPA ratio of 7.21 per cent, the credit rating agency said. Eight PSBs banks — IDBI Bank, Indian Overseas Bank, UCO Bank, Bank of Maharashtra, Central Bank of India, Dena Bank, United Bank of India, and Corporation Bank — had a GNPA ratio of over 15 per cent as of June 2017. YES Bank is the only bank in the sample of 38 banks with a GNPA ratio of less than 1. State Bank of India (SBI) accounted for the largest share of about 22.7 per cent (or ₹1,88,068 crore) in the total NPAs of 38 banks (aggregating ₹8,29,338 crore) as of June-end 2017. In this paper, an attempt has been undertaken to make a critical evaluation of NPA management of private, public and foreign sector banks operating in India through a comparative analysis by running ANOVA based on the secondary data collected from 'RBI Bulletin' and 'Statistical Handbook on Indian Economy' and to give fruitful suggestions for effective management of NPA.

Key Words: NPA, GNPA ratio, Public Sector banks, Private Sector banks, Foreign Banks.

I. INTRODUCTION:

According to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset. In other was the assets of the banks which don't perform (that is - don't bring any return) are called Non Performing Assets (NPA) or bad loans. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan. GDP slowdown -Between early 2000's and 2008 Indian economy were in the boom phase. During this period Banks especially Public sector banks lent extensively to corporate. However, the profits of most of the corporate dwindled due to slowdown in the global economy, the ban in mining projects, and delay in environmental related permits affecting power, iron and steel sector, volatility in prices of raw material and the shortage in availability of. This has affected their ability to pay back loans and is the most important reason behind increase in NPA of public sector banks.

Narasimham Committee mandated that identification and reduction of NPAs to be treated as national priority because NPAs direct towards credit risk that a bank faces and its efficiency in allocating resources. Profitability and earnings of banks are affected due to NPA numbers. if we glance on the numbers of non-performing assets we may come to know that in the year 1995 the NPAs were Rs. 38385 crore and has reached to 154000 crore in 2011 in public sector banks and comparatively in the year 2001 the NPAs were Rs.6410 crore and reached to Rs. 17972 crore in 2011 in the private sector banks.

According to CARE ratings there are 20 banks with the highest gross non-performing asset (GNPA) ratios. According their report IDBI Bank (with gross NPA ratio of 24.11 per cent of gross advances) and Indian Overseas Bank (23.6 per cent) have NPA ratios of over 20 per cent. Among PSBs, Indian Bank has the lowest GNPA ratio of 7.21 per cent. Eight PSBs banks — IDBI Bank, Indian Overseas Bank, UCO Bank, Bank of Maharashtra, Central Bank of India, Dena Bank, United Bank of India, and Corporation Bank — had a GNPA ratio of over 15 per cent as of June 2017.YES Bank is the only bank in the sample of 38 banks with a GNPA ratio of less than 1.State Bank of India (SBI) accounted for the largest share of about 22.7 per cent (or ₹1,88,068 crore) in the total NPAs of 38 banks (aggregating ₹8,29,338 crore) as of June-end 2017.SBI, Punjab National Bank, Bank of India, IDBI Bank, and Bank of Baroda accounted for 47.4 per cent (totalling

₹3,93,154 crore) in the total NPAs as of June-end 2017.Among the top 20 banks, according to GNPAs in absolute terms, 18 are PSBs and only two are private sector banks — ICICI Bank and Axis Bank. These two private sector banks have a combined share of 7.9 per cent in total NPAs.CARE Ratings said in the April-June quarter (Q1) of FY18, NPAs of a sample of 38 banks increased by a sharp 34.2 per cent on a year-on-year basis. Also, the NPA ratio increased to 10.21 per cent in June 2017 from 8.42 per cent in June 2016, which is the highest in the last six quarters.On a quarter-on-quarter basis, the increase in NPAs has been the highest in Q1 FY18 witnessing an increase of about 16.6 per cent to reach ₹8,29,338 crore as of June 2017.

One of the main reasons of rising NPA is the relaxed lending norms especially for corporate honchos when their financial status and credit rating is not analyzed properly. Also, to face competition banks are hugely selling unsecured loans which attributes to the level of NPAs.

5 sectors Textile, aviation, mining, Infrastructure contributes to most of the NPA, since most of the loan given in these sector are by PSB, They account for most of the NPA.

Public Sector banks provide around 80% of the credit to industries and it is this part of the credit distribution that forms a great chunk of NPA. When kingfisher was marred in financial crisis, SBI provided it huge amount of loan which it is not able to recover from it.

Generally it is found that the reason of rise in NPA in Public sector banks was Priority sector lending, However according to the findings of Standing Committee on Finance NPAs in the corporate sector are far higher than those in the priority or agriculture sector. However, even the PSL sector has contributed substantially to the NPAs. As per the latest estimates by the SBI, education loans constitute 20% of its NPAs.

Banks did not conducted adequate contingency planning, especially for mitigating project risk. They did not factor eventualities like failure of gas projects to ensure supply of gas or failure of land acquisition process for highways.

Restructuring of loan facility was extended to companies that were facing larger problems of over-leverage& inadequate profitability. This problem was more in the Public sector banks.

Companies with dwindling debt repayment capacity were raising more & more debt from the system.

II. LITERATURE REVIEW:

Baiju S and Thatil (2000) has analysed that the NPA's in Commercial banks from year 1993-98 and found that the NPA of New private banks and foreign banks is low than the public sector banks.

Joshi(2000) pointed out the reason of high NPA. He has found out that the interest is earned is less than the interest paid on deposited amount.

Parekh(2002) found that the gross NPA's of public, private and foreign banks have rising NPA. So he suggested all the banks to adopt sophisticated Risk Management practices.

Goswami(2003) has taken NPA as one of the factor while deciding to put money in the bank. The declining NPA's of Indian banks has promoted S&P to revise its outlook on the Indian banking system.

Subarao (2003) has critically evaluated the existing NPA realization system. He found that the problem of NPA's should be handled with strict enforcement of prudential norms & requirements of transparency.

Ranjan and Dhal (2003) explored an empirical approach to the analysis of commercial banks' on performing loans (NPLs) in the Indian context. They evaluated as to how banks' non-performing loans are influenced by three major sets of economic and financial factors, i.e., terms of credit, bank size induced risk preferences and macroeconomic shocks. The empirical results from panel regression models suggest that terms of credit variables have significant effect on the banks' non-performing loans in the presence of bank size induced risk preferences and macroeconomic shocks. Moreover, alternative measures of bank size could give rise to differential impact on bank's nonperforming loans. In regard to terms of credit variables, changes in the cost of credit in terms of expectation of higher interest rate induce rise in NPAs. On the other hand, factors like horizon of maturity of credit, better credit culture, favorable macroeconomic and business conditions lead to lowering of NPAs. Business cycle may have differential implications adducing to differentiaresponse of borrowers and lenders.

Jain Vibha (2007) examined the status of NPAs in scheduled commercial Banks in India. The study found that there is more acute problem of gross and net NPA is found in Indian Public sector Banks. The new private sector banks and foreign banks have also shown an increasing trend of gross and net NPAs during 1997- 2003.It conclude that new private sector and foreign banks failed to prevent this problem but public sector and old private sector banks succeed in reducing it over a period of time.

Usha Arora, Bhavna Vashisht and Monica Bansal (2009) analyzed and compared the performance (in terms of loan disbursement and NPAs) of credit schemes of selected banks for the five years period. They found a positive relationship between total loan disbursement and total NPA outstanding of the selected banks.

Jatna, Ramu (2009) states the main cause of mounting NPAs in Public Sector Banks is malfunctioning of banks.

Narsimhan committee identified the NPAs as one of the possible effects of malfunctioning of Public Sector banks.

III. DATA COLLECTION AND ANALYSIS:

Sources of Data: The data collected is mainly secondary in nature. The data mainly collected from RBI Bulletin, Handbook of statistics on Indian Economy, IBA Bulletin, Websites and Magazines.

Time Period: The study is based on time-series data for public, private and foreign sector banks in India of years from the year March ended 2004-05 to March end 2015-16.

Statistical Tools and Techniques:

Ratio analysis has been used for analyzing the trend of NPAs of all banks in India. Pie diagram has been used to make comparative analysis of NPAs of all sectors banks. Four ratios used are; Gross NPAs to Gross Advances (%), Gross NPAs to Total Assets (%), Net NPAs to Net Advances (%), Net NPAs to Total Assets (%). The terms used in the study have been computed as; Gross NPAs = Sub-standard assets+ Doubtful Assets+ Loss Assets; Net NPAs = Gross NPAs – Provision for NPAs; Gross Advances= All loans and advances made by Banks; Net Advances = Gross Advances –Provisions for NPAs.

Testing of Hypothesis:

A. NPA as Percentage of Gross Advances

Null Hypothesis(Ho): There is no significant difference of % Gross Advance between Public, New Private and Foreign banks**.**

Alternative Hypothesis(H1): There is a significant difference of % Gross Advance between Public, New Private and Foreign banks.

Table1:NPA as Percentage of Gross Advances

Year	Public Sector Bank	New Private Sector Bank	Foreign Bank
2004-05	5.5	3.6	2.8
2005-06	3.6	1.7	1.9
2006-07	2.7	1.9	1.8
2007-08	2.2	2.5	1.8
2008-09	2.0	3.1	3.8
2009-10	2.2	2.9	4.3
2010-11	2.4	2.7	2.5
2011-12	3.3	2.2	2.8
2012-13	3.6	1.8	3.1
2013-14	4.4	1.8	3.9
2014-15	5.0	2.1	3.2
2015-16	9.3	2.8	4.2

Source: Handbook of Statistics on Indian Economy (RBI)

ANOVA

Data

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12.317	2	6.159	3.396	.046
Within Groups	59.842	33	1.813		
Total	72.159	35			

Interpretation: The Data Analysis table shows that the significance level is .046 which is less than .05. It shows that there a significance difference in NPA as Percentage Gross Advances between three banks.

B. NPA as Percentage of Gross Total Assets

Null Hypothesis(Ho): There is no significant difference of % Gross Total Assets between Public, New Private and Foreign banks**.**

Alternative Hypothesis(H1): There is a significant difference of % Gross total Assets between Public, New Private and Foreign banks**.**

Table 2:NPA as Percentage of Gross Total Assets

Year	Public Sector Bank	New Private Sector Bank	Foreign Bank
2004-05	2.7	1.6	1.4
2005-06	2.1	1.0	1.0
2006-07	1.6	1.1	0.8
2007-08	1.3	1.4	0.8
2008-09	1.2	1.7	1.5
2009-10	1.3	1.6	1.6
2010-11	1.4	1.3	1.0
2011-12	1.9	1.1	1.1
2012-13	2.4	1.1	1.3
2013-14	2.9	1.1	1.5
2014-15	3.2	1.3	1.4
2015-16	6.0	1.8	1.9

Source: Handbook of Statistics on Indian Economy (RBI)

ANOVA

Data

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.961	2	4.480	3.631	.038
Within Groups	40.716	33	1.234		
Total	49.676	35			

Interpretation: The Data Analysis table shows that the significance level is .038 which is less than .05. It shows that there a significance difference in NPA as % Gross Total Assets between three banks.

C. NPA as Percentage of Net Advances

Null Hypothesis(Ho): There is no significant difference of NPA as % of Net Advances between Public, New Private and Foreign banks**.**

Alternative Hypothesis(H1): There is a significant difference of % of Net Advances between Public, New Private and Foreign banks

Table 3: NPA as Percentage of Net Advances

Year	Public Sector Bank	New Private Sector Bank	Foreign Bank
2004-05	2.1	1.9	0.8
2005-06	1.3	0.8	0.8
2006-07	1.1	1.0	0.7
2007-08	1.0	1.2	0.8
2008-09	0.9	1.4	1.8
2009-10	1.1	1.1	1.8
2010-11	1.2	0.6	0.6
2011-12	1.5	0.6	0.6
2012-13	2.0	0.7	1.0
2013-14	2.6	0.7	1.1
2014-15	2.9	0.9	0.5
2015-16	5.7	1.4	0.8

ANOVA

Data

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7.517	2	3.759	5.202	.011
Within Groups	23.842	33	.722		
Total	31.359	35			

Interpretation: The Data Analysis table shows that the significance level is .011 which is less than .05. It shows that there a significance difference in NPA as % Gross Total Assets between three banks.

D. NPA as Percentage of Net Total Assets

Null Hypothesis(Ho): There is no significant difference of NPA as % of Net Advances between Public, New Private and Foreign banks**.**

Alternative Hypothesis(H1): There is a significant difference of % of Net Advances between Public, New Private and Foreign banks.

Table 4: **NPA as Percentage of Net Total Assets**

Year	Public Sector Bank	New Private Sector Bank	Foreign Bank
2004-05	1.0	0.8	0.4
2005-06	0.7	0.4	0.4
2006-07	0.6	0.5	0.3
2007-08	0.6	0.7	0.3
2008-09	0.6	0.8	0.7
2009-10	0.7	0.6	0.7
2010-11	0.7	0.3	0.3
2011-12	1.0	0.3	0.2
2012-13	1.3	0.3	0.4
2013-14	1.6	0.4	0.4
2014-15	1.8	0.5	0.2
2015-16	3.5	0.9	0.3

ANOVA

Data

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.212	2	2.106	8.148	.001
Within Groups	8.528	33	.258		
Total	12.740	35			

Interpretation: The Data Analysis table shows that the significance level is .001 which is less than .05. It shows that there a significance difference in NPA as %Net Total Assets between three banks.

Suggestions:

After having discussed and analysed the critical aspects pertaining to NPA management, a few suggestions are given below to further streamline the process of sanctioning loans and bring down the NPA to minimum.

- Public sector banks need to assess the viability case by case. Viable accounts need to be given more finance for turnaround and unviable accounts should either be given to Asset Reconstruction Company or else the banks may take due steps to take over the units.
- Banks should be guided by Credibility, Character and Capital of the borrowers in letter and spirit while sanctioning loans .
- Banks need to improve their credit risk management throughperiodic credit appraisal, credit monitoring and efficient system of fixing accountability for non recovery of loans and appropriate disciplinary actions should be initiated against the responsible officials.
- With a view to further streamlining the lending activity and proper NPA management, the

banks may also take initiative of establishing Asset Reconstruction Company (ARC) with due approval from the Reserve Bank of India (RBI) to recover loans.

- At the time of sanctioning loans, the Banks should undertakethorough analysis of credit worthiness of borrowers and focus on contingency planning.
- Credit monitoring being a crucial issue, the banks should develop a system of early detection of problem so that necessary steps can be taken immediately for early recovery

IV. CONCLUSION:

The NPA of private and foreign sector bank is less than public sector banks.It is also confirmed from the ANOVA test undertaken to find out the difference. From the above analysis it is also observed that there is a substantial difference of managing NPA between public sector, New Private sector and Foreign banks pertaining to three different aspects such as Percentage Gross Advances, Percentage Gross Total Assets, Percentage Net Gross Advances, Percentage Net Total Assets. So far as the inefficiency and ineffectiveness of managing NPA in Public sector banks are concerned, the reasons are many and diverse. However to site a few Loan Melas to disburse loans conducted by public sector banks under the pressure of Govt. sacrificing the quality of loaning process may be treatedas most important. This has to be followed by strict monitoring and periodic assessment should be taken in the various steps taken by Govt. such as One Time Settlement, Compromise Scheme, Lok Adalats, Debt Recovery Tribunals, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, Corporate Reconstruction Companies, Credit information on defaulters and role of credit information bureaus etc for sound and effective management of NPA.

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