A STUDY ON NON-PERFORMINGASSETS OF INDIAN BANKING SECTOR

Dr. Y Nagaraju *

Karuna M **

Abstract :

Development of sound and healthy financial institutions, especially Banks, is an important condition for maintaining a stable financial system of the country. Non-performing Assets is a serious threat faced by every Nation's Banking Industry. Commercial banks face the risk of default from the borrowers which is known as credit risk for the bank. Neither the borrowed principal amount nor the interest will be paid back by the borrower to the banks. Over a period these are borrowed and unpaid loans become NPAs. Accumulation of NPAs not only has had severe influence on efficiency of banking industry but also has limited the growth of GDP. Rising NPA level has become a great problem for bank as bank credit is the catalyst to the economic growth of the country. Mounting NPA has an adverse effect on Profitability of banks, requires huge provisions and banks incurs huge carrying cost on non-income yielding assets. This paper explains the Sector wise Non-Performing assets of few selected Public sector banks, Private sector banks and foreign sector banks.

Keywords: *Priority sector, Total Advances, Public and Private Banks, Private loans.*

1. Introduction

The winds of Globalisation have indeed swept the banking system at structural and Organisational level. There has been a multi-fold increase in the demand for banking services arising due to the increasing complexities of modern life. These changes have made way for entry of a number of private and foreign players. These, in turn have thrown up numerous opportunities as well as challenges for banking companies.

Banking plays a key role in deciding the best business practices in developing new markets and clients and creates new products for E-commerce and the Net based technologies. Faster technological developments have transformed human life into a virtual mode, a reality that allows people to make purchase and Payment, without risking themselves to errors and frauds.

Universal Banking system operates through Single Window making a high way for banking services at transnational levels. With the development of Internet, Banking system has revolutionised with new business models to offer 24x7 online services to cater to new

***Dr. Y Nagaraju,** Professor & Co-ordinator, CBSMS, Jnana Bharati Campus, Bangalore University, Bangalore

****Karuna M,** Research Scholar**,** CBSMS, Bangalore University**,** Bangalore
Email Id: karuna.latha568@gmail.com

business customers like online bankers, online brokers and wealth managers. Mobile Banking and Internet Banking has washed away the traditional branch based banking to offering its customers core banking solutions and Low cost delivery channels, thus creating a bridge between the banks and Information portals. Universal Banking, Virtual Banking and Green Banking are newly developed Banking practices because of constant growth in Banking sector.

Due to Regulated deposit lending rates and restrictions of competition banking has always been remained a protected industry in many economies, especially in emerging economies. Factors like Increase in shareholder value, the problems of South-east Asian economies, The recessionary trends in Japanese economy, the financial sector problems encountered in Latin American economies and more recently in some Central European economies, disintermediation pressures arising from a liberalized market place and macroeconomic pressures and banking crises in 1990s and 2007 have all resulted in developing a new varieties of doing banking business. Therefore, developing economies introduced structural reforms, stricter prudential and supervisory norms, greater transparency and increased accountability to ensure greater stability and enhance competitiveness.

1.2 Concept of NPA

According to RBI guidelines with effect from 31st March 2004, a Non performing asset has been classified according to the market segments, which shall be a loan or an advance, where:

1. Interest and/or an installment of principal remain overdue for a period of more than 90 days in respect of a Term loan.
2. The account remains "out of order" for a period of more than 90 days, in respect of overdraft/cash credit.
3. The bill remains "out of order" for a period of more than 90 days in the case of bills purchased and discounted.
4. Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two and half years in the case of advance overdue for a period of more than 90 days in respect of other accounts.

1.3 Gross NPA and Net NPA

Gross NPAs are the total outstanding of all the borrowers which are classified as non-performing assets (viz., sub-standard, doubtful and loss asset). Net NPAs are the Gross NPA minus gross accounts.

Standard Assets: Such an asset is not a Non-Performing Asset. In other words, it carries not more than normal risk attached to the business.

Sub-Standard Asset: It is classified as Non-performing Asset for a period not exceeding 18 months.

Doubtful Asset: Asset that has remained Non-Performing Asset exceeding 18 months is a doubtful asset.

Priority sector lending: It refers to agriculture and allied activities, micro and small enterprises, housing loan for economically weaker section and educational loan.

1.4 Reasons for mounting NPA

- **Speculation**: Bank provide loans to high risk projects to earn more income

- **Default:** Willful default by the borrowers
- **Fraudulent activities:** Fraudulent activities like advancing loans to ineligible persons, advances without security or references
- **Diversion of funds:** Most of the funds are diverted for unnecessary expansion and diversion of business.
- **Internal reasons:** Inefficient management, labour problems, marketing failure inappropriate technology resulting in poor performance by banks.
- **External reasons:** External reasons like a recession in the economy, infrastructural problems, price rise, delay in release of sanctioned limits by banks, delay in settlement of payment by government and natural calamities.

1.5 Management of NPA

- Early diagnosis of the problems and analysis of the reasons for irregularity, with appropriate strategies for time bound action to prevent slippage as NPA.
- To set Industry wise exposure limits to diversify profile and minimize risk.
- To monitor Loan portfolios on an ongoing basis.
- To set up Account tracking centres to prevent accounts slipping into NPA category.
- SMS alert/ Personal contact/ sending notices/ Tele calling to be followed by banks on defaults for overdue installments/ irregularity in accounts.
- Provision for One-time settlement with borrowers.
- Banks sometimes should go for Debt asset swaps.
- Sale of assets to Asset Reconstruction companies in selected cases.

2.0 Review of literature

N Lalitha (2013) in her research work "Non-Performing assets: Status & Impact, A Comparative study of Public & Private Sector Banks" mainly focuses on management practices followed by Banks in reducing NPA. 12 indicators were selected in assessing the performance of selected banks. Willful Default, Diversion of funds, deficiency in credit appraisal standards and lack of supervision and follow up were the main causes for increase in NPA. There was a decline in Gross NPA and Net NPA among the all four banks.

Ipseeta Satpathy and B. C. M. Patnaik (2012) in in their research on "Portfolio of NPA: By classification of Banks" studied the various portfolio of NPAs with special reference to Standard Assets, Sub-standard Assets, Doubtful Assets and Loss Assets for the period from 2001-02 to 2007-08. Public Sector Banks, Scheduled Commercial Banks and Foreign Banks were selected for the research purpose. It was observed that there is inconsistent growth in percentage of substandard assets to total NPAs in Public Sector Banks, doubtful assets it is more as compared to substandard assets,

Adolphus J.Toby (2011) in his paper "Modelling Financial Fragility and Bank Profitability" analysed the relationship between Non Performing loan ratio or Provisions to

Return on Total Assets prior to Global Financial crisis. The data for analysis was collected from 49 countries spread over 7 continents. The period of study was 2002-2007. It was found that banks with below average NPLRs achieved above average ROTA, a positive relationship between 1) NPLR and ROTA 2) NPLP and ROTA. Practising under-provisioning and over-provisioning could create a hindrance in ascertaining the bank's profitability. Banking sector reforms should mainly focus on strict compliance with prudential guidelines thus strengthening banking system.

Aditi Ahooja (2011) in her thesis titled "A Study of Indian Banking Sector-Performance analysis since Liberalization" used financial ratios to compute performance of individual banks and Durbin Watson test was applied to overcome the concern for autocorrelation. For comparative analysis independent t-test is performed. The performance of 20 banks were taken as sample based on categorization of paid up capital after Liberalization. Public sector Banks had faced the problem of Non-performing assets due to the management problems, cost of operation has increased due to the introduction of employee stock ownership plans, further major public sector are not technology receptive which has been affecting the business of banks.

Wei Zhang (2010) in the research titled "The role of Banks in Transition economies: A Case study of China with an Emphasis on Non-Performing Loans" evaluates the factors which caused increase in NPL in Chinese Banks and suggested few measures to resolve this issue. Field work was done followed by interview. He interviewed 6 managers from each bank selected. He found that political interference in bank lending is not a major issue in explaining why managers select inefficient projects. He also emphasised on the importance of effective internal risk assessment system and credit rating system for reducing the likelihood of non-repayment of debts.

Rajini Saluja and Roshan Lal (2010) in their research conducted proved that Piling of NPAs were the huge matter of concern for banking industry. NPAs will affect the economic growth of the country. There is a huge difference in NPAs of Public sector banks and foreign banks where NPAs are more in Public sector banks. More NPAs were found in non-priority sector than in priority sector. Legal and Non-Legal measures were taken to reduce NPA level at different sector.

Sharma (2009) in his study found that public sector banks have shown improved performance across various indicators. Quality of assets improved considerably over the period of time and the NPAs were more in Private sector banks as compared to Public sector banks.

Ritu Goyal and Rajindar Kaur (2008) under the study conducted on New Private sector Banks, analysed the performance by using various ratios of Balance sheet and Profit and loss account. Among those parameters NPA was also one of the Parameter which observed that there is a significance difference amongst the mean ratios of the banks in 12 out of 16selected parameters.

2.1 Statement of the Problem

The Non-Performing Assets problem is one of the foremost and the most formidable problems that have shaken the entire banking industry in India like an earthquake. Like a canker worm, it has been eating the banking system from

within, since long. It has grown like a cancer and has infected every limb of the banking system. At macro level, NPA's have choked off the supply line of credit to the potential borrowers, thereby having a deleterious effect on capital formation and arresting the economic activity in the country. At the micro level, the unsustainable level of NPA's has eroded the profitability of banks through reduced interest income and provisioning requirements, besides restricting the recycling of funds leading to serious asset liability mismatches. Hence, the profitability is left with better understanding and effective monitoring of Non-Performing Asset in selected banks. It disturbs the interest income of the banks and therefore provision from profits is required for such assets (Siva Kumar and Sundar K).Bearing this account and the negative impact of NPA on banks advances and profitability this study taken to find feasible solutions for the above issue.

2.2 Objectives of the Study

1. To study the status of Non-performing Assets of selected Commercial Banks.
2. To comprehend the percentageof NPA of sector-wise against the total Advances of the banks.
3. To make appropriate suggestions to banks in order to avoid future NPAs.

3. Research Methodology

The study mainly depends on Secondary data collected from 15 banks comprising of five Banks from each sector i.e Public banks, Private banks and Foreign Banks are taken to compare the Non-performing assets of the banks from 2009-2016.

Type of banks	Name of the selected banks				
Public sector banks	Canara Bank	Bank of Baroda	Bank ofIndia	Punjab National Bank	State Bank Of India
Private sector banks	Axis Bank	HDFC Bank	ICICI Bank	Kotak Mahindra Bank	Yes Bank
Foreign sector banks	Citi Bank	Deutsche Bank	DBS Bank	Standard Chartered	HSBC Bank

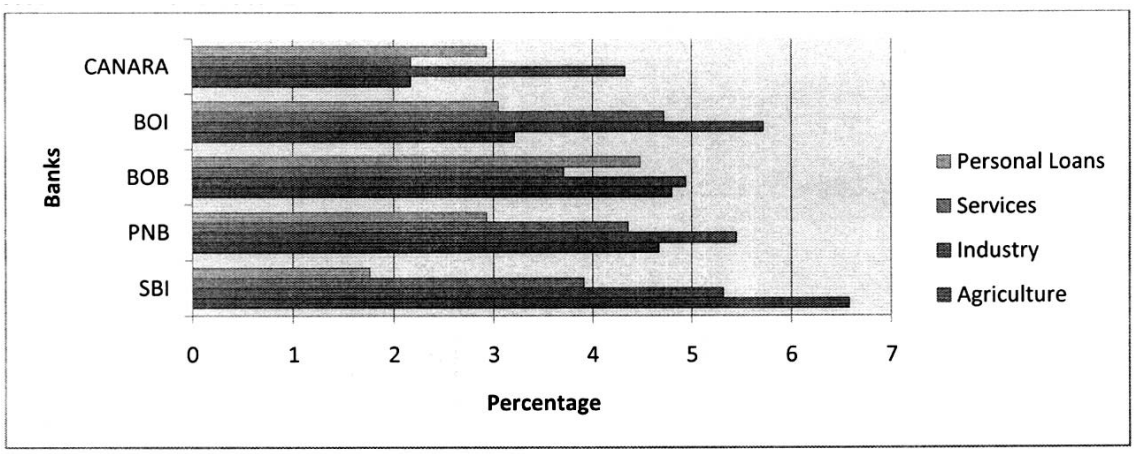
4.Analysis and Interpretation

4.1 Table showing sector-wise Percentage of NPA to total Advances of selected Public sector Banks from 2009-2016

Banks	SBI			PNB			BOB			BOI			CANARA		
Sectors	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV
Agriculture	6.58	3.44	52.27	4.67	1.19	25.48	4.80	2.69	56.04	3.21	1.68	52.33	2.17	0.51	23.50
Industry	5.32	4.24	79.69	5.45	5.17	94.86	4.94	6.14	124.29	5.72	5.59	97.72	4.33	5.40	124.71
Services	3.91	2	51.15	4.36	3.22	73.85	3.71	2.62	70.61	4.72	2.69	56.99	2.17	2.46	113.36
Personal Loans	1.76	1.01	57.38	2.93	1.03	35.15	4.48	1.54	34.37	3.05	1.58	51.80	2.93	2.48	84.64

Source: Computed from Annual reports of Selected Banks

4.1 Graph of compiled sector-wise Percentage of NPA to total Advances of selected Public sector Banks from 2009-2016



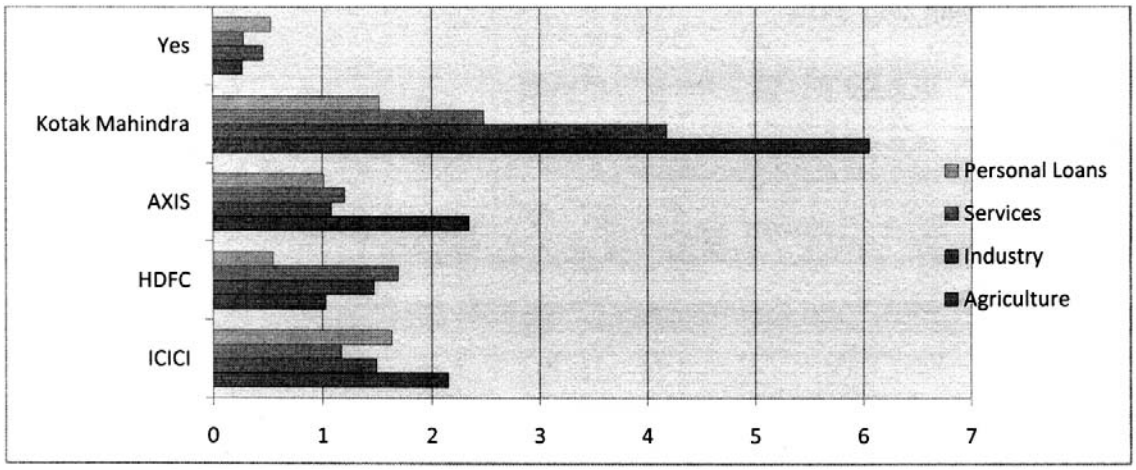
Above graph 4.1 shows sector-wise Percentage of NPA to total advances of selected Public sector banks. It proves that State Bank of India has highest average Percentage of NPA to total advances in agricultural sector accounting to 6.58%. Bank of India has highest average Percentage of NPA to total advances in the Industry accounting to 5.72% and Services accounting to 4.72%, and Bank of Baroda has highest average Percentage of NPA to total advances in Personal loans accounting to 4.48%. Canara Bank has least average percentage of NPA to total advances in all the sectors except Personal Loans, and State Bank of India has least average percentage of NPA to total advances in Personal loans registering of 1.76%. Canara Bank shows consistent performance in NPA in agricultural sector constituting to 23.50%, State Bank of India in Industry sector accounting to 79.69% and Service sector to 51.15% and Bank of Baroda shows consistent performance in NPA in Personal Loan amounting to 34.37%.

4.2 Table of compiled sector-wise Percentage of NPA to total Advances of selected Private sector Banks from 2009-2016 (value in Percentage)

Banks	ICICI			HDFC			AXIS			KOTAK MAHINDRA			YES		
Sectors	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV
Agriculture	2.15	1.03	47.90	1.03	0.37	35.92	2.34	0.11	4.7	6.05	3.79	62.64	0.27	0.68	251.85
Industry	1.49	1.09	73.15	1.47	0.27	18.36	1.08	0.39	36.11	4.18	4.35	104.06	0.46	0.31	67.39
Services	1.17	0.59	50.42	1.69	1.11	65.68	1.2	0.87	72.5	2.48	2.42	97.58	0.28	0.15	53.57
Personal Loans	1.63	1.10	67.48	0.55	0.24	43.63	1.01	0.54	53.46	1.52	1.26	82.89	0.53	0.66	124.52

Source: Computed from Annual reports of Selected Banks

4.2 Graph of sector-wise Percentage of NPA to total Advances of selected Private sector Banks



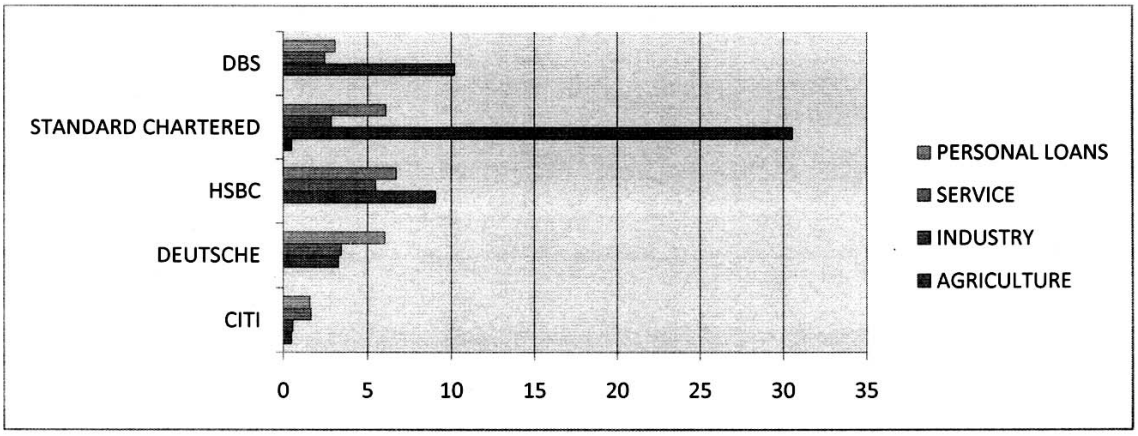
Above graph 4.2 shows sector-wise Percentage of NPA to total advances of selected Private sector banks. It proves that Kotak Mahindra Bank has highest average Percentage of NPA to total advances in agricultural sector accounting to 6.05%, Industry accounting to 4.18% and Services accounting to 2.48%. ICICI bank has highest average Percentage of NPA to total advances in Personal loans accounting to 1.63%. Yes bank has least average percentage of NPA to total advances in all the sectors. HDFC bank shows consistent NPA in agricultural sector accounting to 35.92%, Industry sector 18.36% and Personal loan 43.63% and ICICI Bank shows consistent NPA in Service sector by 50.42%.

4.3 Table of compiled sector-wise Percentage of NPA to total Advances of selected Foreign sector Banks from 2009-2016 (value in percentage)

Banks	CITI			DEUTSCHE			HSBC			STANDARD CHARTERED			DBS BANK		
Sectors	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV	Mean	SD	CV
Agriculture	0.48	0.75	156.25	0	0	0	0	0	0	0.48	0.46	95.83	0	0	0
Industry	0.57	0.92	161.40	3.26	2.71	83.12	9.05	2.78	30.71	30.54	25.92	84.87	10.19	13.34	130.91
Services	1.64	1.53	93.29	3.44	4.81	139.82	5.47	2.94	53.74	2.83	0.89	31.44	2.45	3.07	125.30
Personal Loans	1.57	0.84	53.50	6.02	6.39	106.14	6.69	6.67	99.70	6.07	6.20	102.14	0	0	0

Source: Computed from Annual reports of Selected Banks

4.3 Graph of compiled sector-wise Percentage of NPA to total Advances of selected Foreign sector Banks from 2009-2016



Above graph 4.3 shows sector-wise Percentage of NPA to total advances of selected foreign sector banks. It proves that Standard Chartered Bank has highest average Percentage of NPA to total advances in agricultural sector accounting to 0.46%, Industry sector accounting to 4.18% and Services accounting to 30.54%, HSBC accounts to 5.47% of Service sector and 6.69% of Personal Loan sector. Citi bank shows least average percentage of NPA to total advances in all sectors. Standard Chartered bank shows consistent NPA in agricultural sector accounting to 95.83% and Service sector 31.44%, HSBC bank shows consistency in Industry sector by 30.71% and Citi Bank shows consistent NPA in Personal loans by 53.50%.

5.1 Findings

- Through the analysis it is seen that State bank of India for the past 8 years has lent loans and advances to agriculture sector which has convertedinto NPA. A mean of 6.58 is seen and a 52.27% of CV. While, Canara Bank has managed to keep its NPA to a minimum of SD 0.51 with a 23.50% of CV.
- Analysis also shows that for the advances given to industrial sector by Punjab National Bank there is increased NPA, SD of 4.24 and the same also holds good for Bank of Baroda at 4.94 SD while Bank of India SD is 5.72 and that of Canara Bank it is 4.33SD.
- It is seen that the personal loans funded by the selected public sector banks has least amount of NPA. Many of the banks recover advances provided by the banks, it's a small portion of the borrowers who delay in the return process.
- Among the private sector banks, the NPA is low among ICIC, HDFC, AXIS and YES bank, while Kotak Mahindra bank has substantial NPA. The credit risk is very high in case of the bank.
- YES bank is significant and a budding bank which has maintained lowest credit risk and a low amount of Non-performing assets during the period..

- ICICI and Kotak Mahindra have lent advances to agriculture sector but are not favored and unable to collect back the dues from the borrowers.
- It is comprehended that personal loans provided to the borrowers are recovered exclusively by HDFC and YES bank and the NPA is bare minimum.
- Among the foreign banks during the given period we are able to comprehend that Deutsche bank and HSBC bank haven't lent any funds to agriculture sector and so there is Zero NPA.
- The personal loans are very high and the Mean of 6.02 for Deutsche bank with SD of 6.39 with CV of 106.14% is depicted during the period.
- It is found that that the Industrial sector personal loans provided are not recovered where in the Mean of 30.54 has SD of 25.92 6.39 with CV of 84.87% is seen for Standard Chartered Bank during the period.

5.2 Suggestions

- The central bank of India should devise plans for the banks where in the banks can overcome the effect of bad loans.
- A scheme should be initiated where banks can understand and recognize the bad assets and to dispose such assets effectively.
- Also proper recapitalization has to be initiated for all banks that are facing the problem of maximum NPA.
- The bankers should visit the sites of industries; service delivery, should be checked on a regular basis to avoid the future default the firm may likely to make.
- Feasibility of projects and survival of the firm in the long run should be made mandatory before the loans are sanctioned.

5.3 Conclusions

The Management of NPAs is very important task for all the banks. It is necessary to manage NPA because of its adverse effect on operations, Performance and market position. Analysis shows sector wise study of NPA to total advances in Priority and Non-Priority sector. Indian banking industry is dominated by Public sector banks and as such NPAs are also more in all the sectors as compared to Private and Foreign banks. It is found that agricultural sector has more NPA because of Priority sector lending and thus management of NPA in this sector is very important. Proper Credit appraisal and frequent monitoring of Loan assets will help bank to reduce its NPA.

References

- Aditi Ahooja, "A Study of Indian Banking Sector - Performance Analysis since Liberalization", Ph.D Thesis, Department of Humanities & Social Science, National Institute of Technology, Kurukshetra, Haryana. 2011.
- Adolphus J. Toby, Modelling Financial Fragility and Bank Profitability in an International Context, International Journal of Business Insights & Transformation. Apr-Sep 2011, Vol. 4 Issue 2.
- Ipseeta Satpathy, B.C.M Patnaik: "Portfolio of NPAA: By classification of banks. BVIMR management edge, voL.5, No. 1 (2012).

- Lalitha, N. Non-performing assets: status & impact: a comparative study of public & private sector banks. Andhra University, Department of Commerce & Management Studies. Shodhganga. 13 May 2013.
- Rajini Saluja, Roshan Lal. Comparative analysis on Non-performing Assets (NPAs) of Public Sector, Private Sector and Foreign Sector Banks in India. International Journal of Research in Commerce and Management. 2010; 1(7).
- Ritu Goyal and Rajinder Kaur (2008), "Performance of New Private Sector Banks in India", The Indian Journal of Commerce, Vol.61, No.3, July-September.
- Sharma, "Performance Analysis of the Indian Banking Sector", 2009.
- Wei Zhang The role of banks in transition economies: a case study of China with an emphasis on non-performing loans, A Doctoral Thesis. Submitted in partial fulfillment of the requirements for the award of Doctor of Philosophy of Loughborough University. 2011.