A STUDY OF NON-PERFORMING ASSETSOF INDIAN BANKS

Ajay Khurana
University school of Business, Chandigarh University, Gharuan

Damini Chopra
University school of Business, Chandigarh University, Gharuan

ABSTRACT

Non-performing assets (NPAs) area major concernarea for banks in India.health of the banking industry is determined by the amount of non-performing assets. Public sector banks have displayed excellent performance and have been performing better than private sector banks with respect to financial operations. However, the only problem in these banks is the increasing level of nonperforming assets year after year. On the contrary, there is a decline in the NPAs of private sector banks. The reduction in NPAs indicates that banks have strengthened their credit appraisal process over the years. The problem of increase in NPAs puts light on the necessity of creating provisions which dampens the overallsprofitability of the banks; therefore, the NPAs are required to be cut down and controlled.

Therefore, the report starts with the concept of Non Performing assets and its treatment in India. It explains the reasons for increase of NPAs in public sector banks.

Key Words : Non-performing assets(NPA), Gross NPA, Net NPA, standard assets, substandard assets, doubtful assets, loss assets.

INTRODUCTION

A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days. While 90 days of nonpayment is the standard, the amount of elapsed time may be shorter or longer depending on the terms and conditions of each loan.

The primary objective of banking is to provide credit facilities for the purpose of economic activities. Raising of funds through borrowings, fresh deposits, etc. reinvesting of funds paid back by borrowers constitutes a large part of funding credit dispensation activities. The efficiency and effectiveness of credit cycle is affected by the Non-recovery of installments (EMI). Non-recovery of funds not only affects the bank's profitability but banks need to maintain more owned funds in order to fulfill capital requirements and creation of reserves. It will act as cushion for the losses due to non-payment. When banks are not able to eliminate these losses completely then the management of bank always tries to reduce the losses to a minimum. The level of non-performing advances differentiates between what a good and a bad performing bank is. Increasing NPAs might also have widespread repercussions. For protecting the system, the face saving exercise is performed by the Government or by the banking industry on the behalf of Government or central bank of the country by putting pressure on the exchequer.

In India, the NPAs are considered to be at higher levels in comparison to other countries, which have, of late, fetched the attention of public and also of international financial institutions. This has gained importance in the wake of transparency and disclosure measures instituted by the RBI in recent years.

LITERATURE REVIEW

Many researchers have done their study on the issue of regarding NON PERFOMING ASSET in banking industry.

Krishnamurthi, C.V. (2000) studied that the increase in NON PERFORMING ASSETS in Public Sector Banks has been becoming a serious disease these days. As per his study, Public Sector Banks's Gross for Non-Performing assets are increasing heavily day by day. The NON PERFOMING ASSET curses lie between a gross of Rs.39.254crores in 1992 -93 to Rs. 45,464crores in1997-98.

Munniappan (2002) gave two factors while studying NON PERFOMING ASSET, Internal as well as External. Internal factor includes expansion of portfolio of funds, new projects, modernization as well as diversification and external factor with respect to recession while other countries suffered from NPAs assessment, input or power shortage, slowdown in prices (up/down) and due to other contingencies like uncertain natural calamities etc.

Das & Ghosh (2003) considered PUBIC SECTOR BANKS and studied about the non-performing loans of banks of India. He continues his study by considering some indicators like as assets size, technical efficiency of asset, and macroeconomics conditions of economy and credit growth.

Gupta, S and Kumar, S (2004) gave the reason behind the continuous downfall in gross and net Non-Performing Assets. He observed that the redeeming feature is the reason for the same because of proportion of total assets for all banking groups. NON PERFOMING ASSETS require resolution otherwise it would be easy for them to break the backbone of entire economic system with respect to financial system.

Banerjee,B. and Dan,A.K (2006) observed these days one of the most crucial problem which is facing by Bank is the issue of Non-Performing Assets. In order to improve the management of PSBs, attention is required. They are increasing at a very rapid rate due to following reasons: The first reason is that the government has to give financial assistance to them. The another one is that they are borrowing cash in order to do investment, for not utilized properly, affects the creation of assets and therefore the growth of economy is vulnerable. In this study, the author has given so many strategic measures in order to manage Non playing assets of Public banks.

Jatna, Ranu (2009) analysed that the reason behind the mounting of NPAs in public sector banks is due to the malfunctioning of the banks. Narasimham Committee also observed that the NPAs is

the main reason or factor which is responsible for the malfunctioning of PUBLIC SECTOR BANKS.

Dong he (2002) has focused his study while considering the nature of NON PERFOMING ASSET in Indian banking system. He gives that the issue of NPAs will be resolved with the reconstruction of Assets.

Prof G.V.Bhavani Prasad and Veera D (2011) analyzed that due to Non performing Assets the revenues for tradition sources have been falling and its percentage is 78% accounted in PUBLIC SECTOR BANKS.

Dr.P.Hosmani&HudagiJugdish(2011) found that improvement occurs in the percentage of asset quality is reflected by downsize in the NON PERFOMING ASSET . NON PERFOMING ASSET is used as a measurement scale for the purpose of assessing the financial performance of Indian Banking System. When the value of NON PERFOMING ASSETS rises, it has an adverse effect on the financial position and financial viability of bank with respect to liquidity, profitability and can achieve the economies of scale in operations. For the degradation of Good Performig Assets. Bank needs to take timely actions against them.

Manish B Raval (2012) studied in order to understand about the major composition of NON PERFOMING ASSETS in Indian Banks. He compared different sectors like Priority and non-priority sector, Non Performing Assets of Nationalised banks, SBI and its associates. The researcher took hypothesis that there is no significant difference between three compositions of NON PERFOMING ASSETS to total NON PERFOMING ASSETS in nationalized banks and SBI and its associates.

OBJECTIVES OF THE STUDY

- To study the concept of NPAs in Indian perspective.
- To assess the efficiency while managing NPA of different categories of banks (private, public and foreign banks) with the use of NPA ratios and to compare NPA with net profits.
- To study the reasons for NPAs and need to correct it

DATABASE AND METHODOLOGY

RESEARCH DESIGN:

- Descriptive research is being used in this study
- Extraction, Compilationand tabulation of data
- Presentation of data using Pie Charts, Line Diagram etc
- Suitable Statistical Techniques for analysis of data

DATA COLLECTION SOURCES

Secondary data has been used i.e. data which was generated in the past and is available for the use. The data here has been taken from RBI website.

HYPOTHESIS DEVELOPEMENT

a) H_0 - There is no significant association between NPA and profits of public sector banks for years 2004-05 to2012-1

H_1 - There is a significant association between NPA and profits of public sector banks for the year 2004-05 to 2012-13

b) H_0 - There is no significant association between NPA and profits of old private sector banks for years 2004-05 to2012-13

H_1 - There is significant association between NPA and profits of old private sector banks for the year 2004-05 to 2012-13

c) H_0 - There exists no significant association between NPA and profits of new private sector banks for years 2004-05 to2012-13

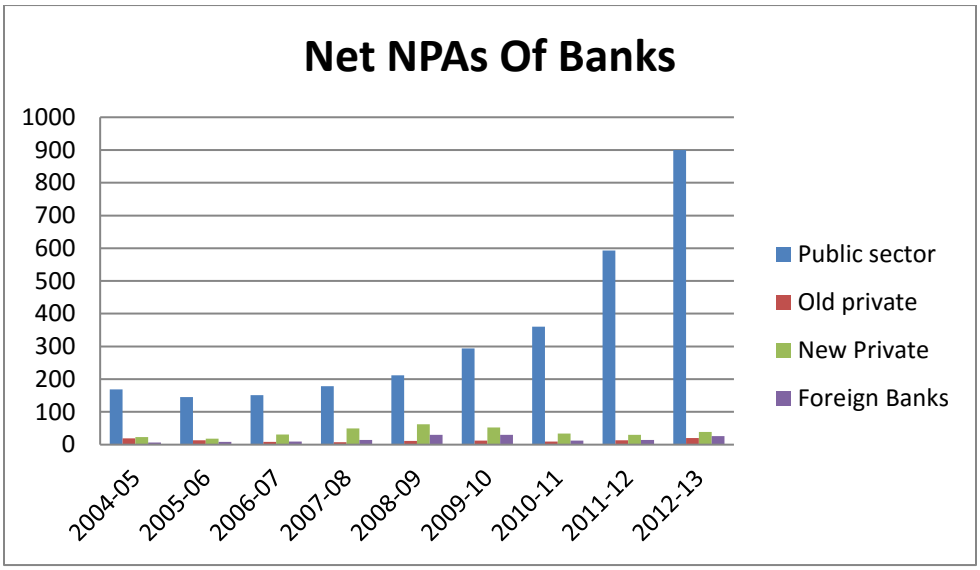
H_1 - There exists significant association between NPA and profits of new private sector banks for the year 2004-05 to 2012-13

d) H_0 - There is no significant association between NPA and profits of foreign banks for years 2004-05 to2012-13

H_1 - There is significant association between NPA and profits of foreign banks for the year 2004-05 to 2012-13 .

ANALYSIS AND INTERPRETATION

1. NET NPAs OF BANKS FROM 2005-2013



INTERPRETATION:

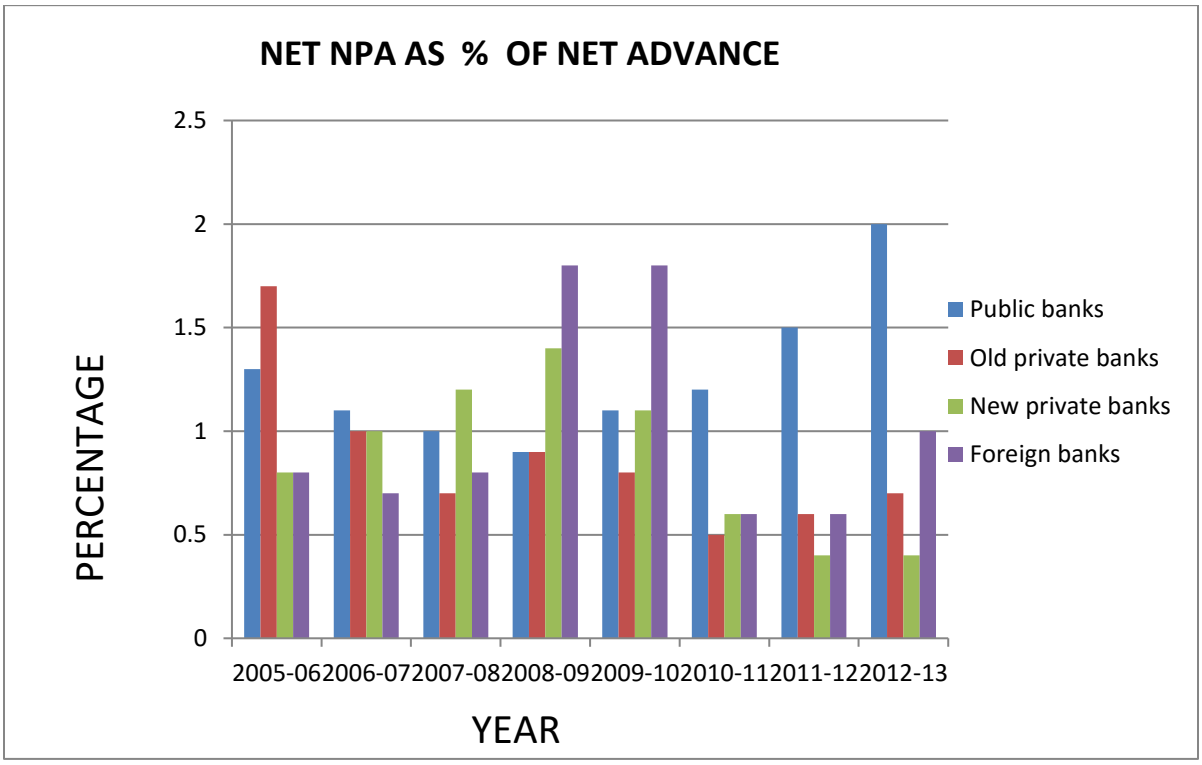
- Out of the data given is observed that in case of public banks and newly formed private sector banks there is declining trend till 2005-06, which is till 2007-08 in old private sector banks. The implementation of securitization act, 2002 leads to decline in the trend.

- This leads to continuous increase of NPAs in public and old private banks, but little fluctuating in new private banks.

- In case of foreign banks declining trend was till 2004-05 only hence we can see increasing trend from 2004-05 in case of foreign banks.

- NPAs in public sector banks are growing faster. Public sector banks share disproportionate burden of the restructured accounts.

2. COMPARISON OF NET NPA AS A PERCENTAGE OF NET ADVANCE



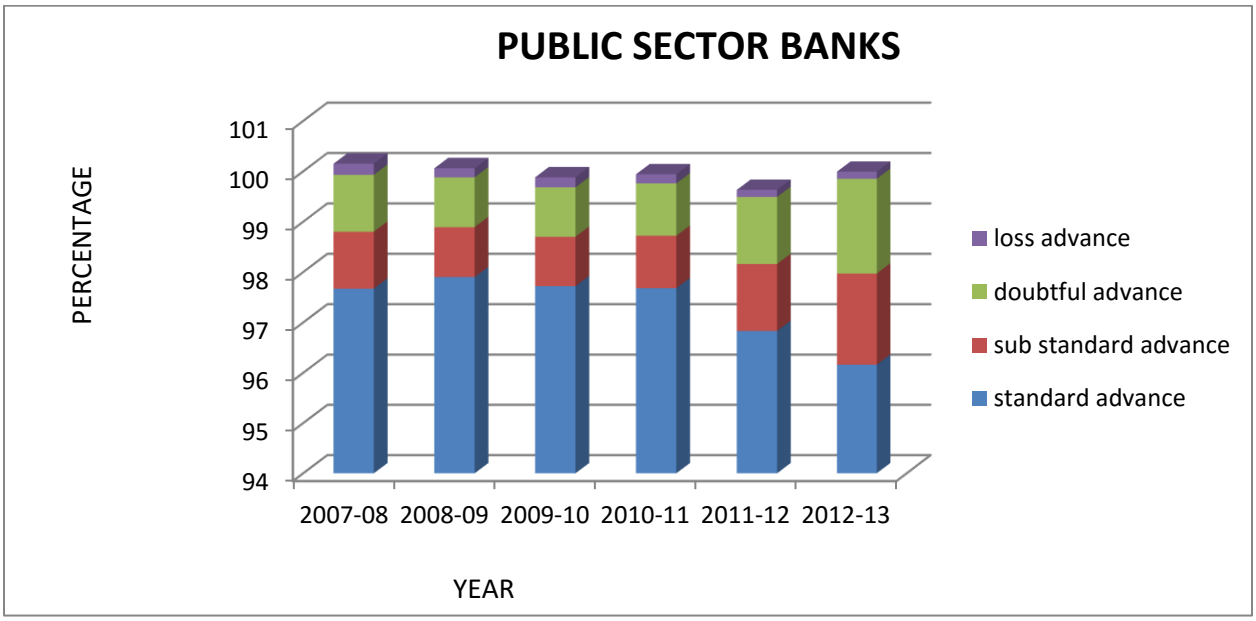
INTERPRETATION

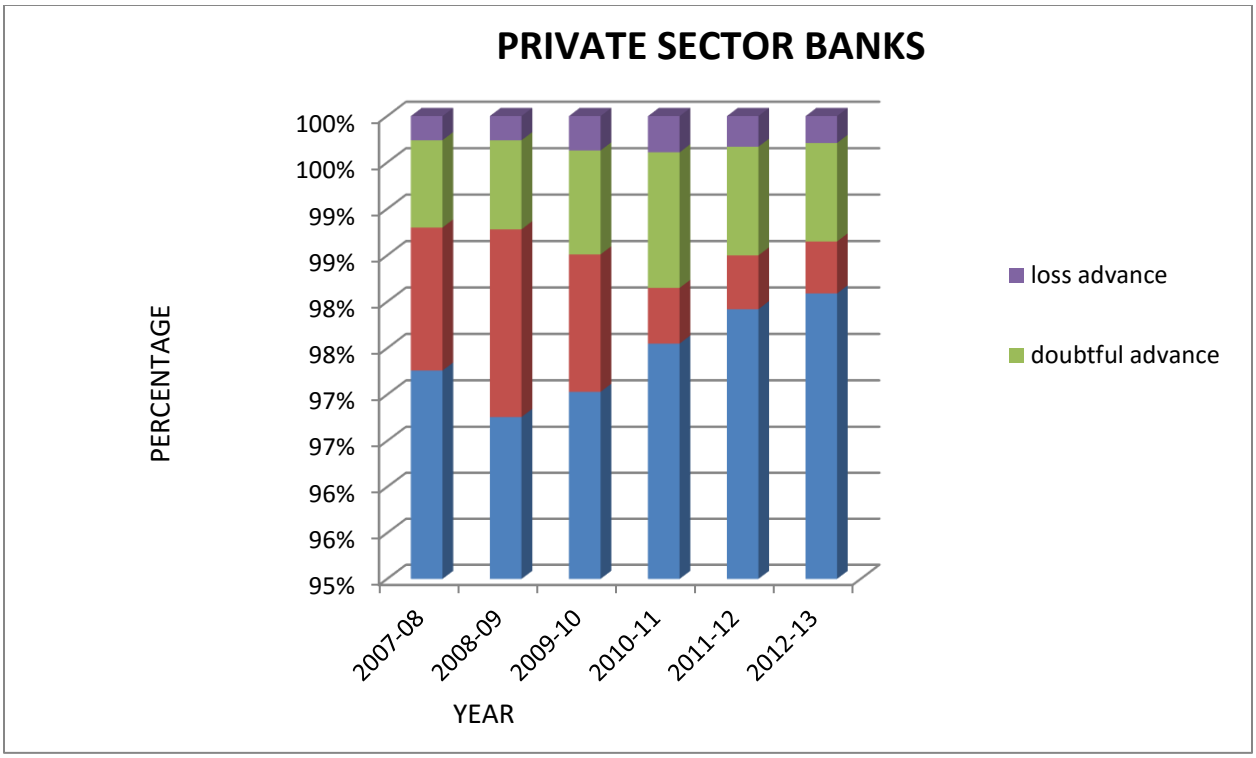
- The data of the year 2012-13 suggested that the net non performing assets of Public sector banks are increasing sharply in 2012-13 in comparison to private banks. According to official RBI reports the net NPA of public sector banks increases to 2.02 % during the period 2012-13 as compared to 1.53 % in the 2011-2012 where the net NPAs of private sector banks increased upto some extent to 0.45 % as compared to 0.42 % in the previous year. According to ASSOCHAM papers a big share of the loans are from big borrowers.

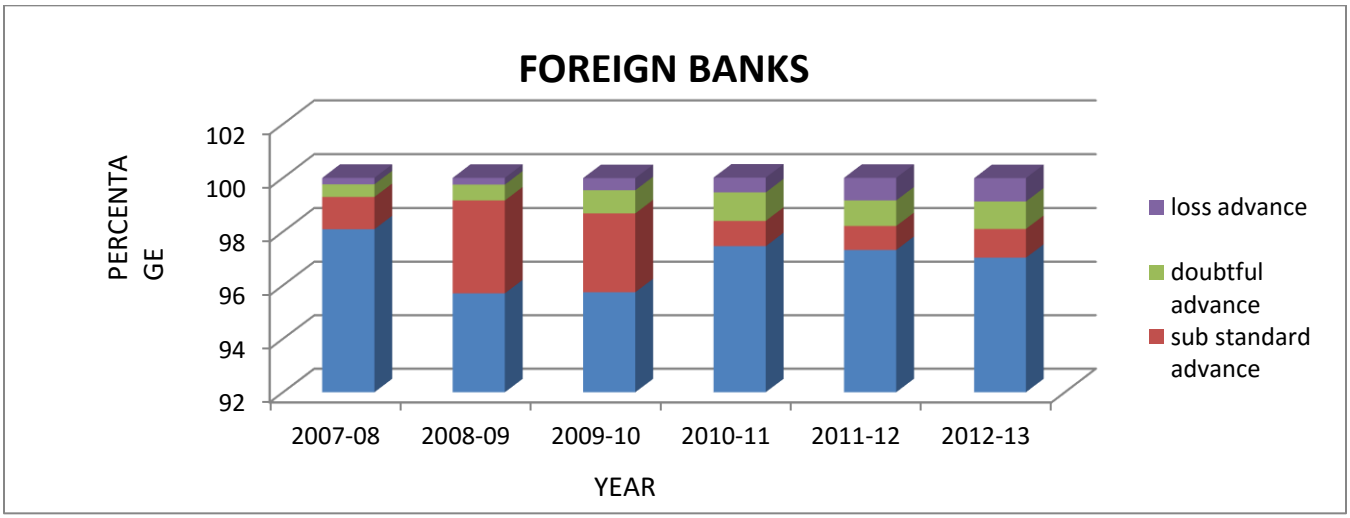
- There is anincrease of 47.86% annual growth rate in restructured accounts in public banks. The above figures show8.12 per cent and (25.48) per cent for private sector and foreign banks

respectively. The ratio between restructured standard advances and Total Gross Advances was largest in the case of Public Sector Banks at 5.73 per cent where the ratio for private and foreign banks are 1.61 per cent and 0.22 per cent respectively which is significantly lower than public sector banks respectively.

3. CLASSIFICATION OF LOAN ASSETS OF BANKS







INTERPRETATION

- The above frequency distributions states that, in case of public sector banks standard assets have been decreasing from last four years and hence there is increase in substandard and doubtful assets.

- Private sector banks have shown increase in standard assets from last three years. This validates that private banks have succeeded in improving their NPAs over the years.
- There is decrease in standard assets of foreign banks also but the percentage decrease from 2007-08 of public sector i.e 1.55% is more than the decrease in standard assets of foreign banks i.e 1.08% .

CORRELATION AND HYPOTHESIS TESTING

Net profit can be defined as income earned by the banks. The income of the banks can be segregated in two parts: interest income & income. Interest income contains Interest or discount on advances or bill, Income from investments, Interest on balances with RBI and other inter- bank funds. Corporate finance transactions, Investment Sale, brokerage, M&A deals are the main contributors to non-interest income and any other income source generated by the bank. But in the case of interest income, income generated from Interest on advances or bill is the largest contributor towards NPA. So, is there any significant correlation between NPA and Net NP has to be find out .

PUBLIC SECTOR BANKS :

H_0 - There exists no significant association between NPA and profits of public sector banks for years 2004-05 to2012-13

H_1 - There exists significant association between NPA and profits of public sector banks for the year 2004-05 to 2012-13

<u>CORRELATIONS</u>

```
/VARIABLES=NETNP NP
/PRINT=TWOTAIL NOSIG
/STATISTICS DESCRIPTIVES
/MISSING=PAIRWISE
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Descriptive Statistics

	Mean	Std. Deviatio	N
non Performing Assests	33364.56	25616.352	9
Net Profit	33038.11	13919.378	9

Correlations

		non Performing Assests	Net Profi
non Performing Assests	Pearson Correlation	1	.822**
	Sig. (2-tailed)		.007
	N	9	9
Net Profit	Pearson Correlation	.822**	1
	Sig. (2-tailed)	.007	
	N	9	9

INTERPRETATIONS: Since the "P" value is less than level of significance which is 0.5 so our Null hypothesis is rejected and concluded that there is significant correlation between Net NPA and NP. The value of correlation is 0.822 which is very high.

- **OLD PRIVATE SECTOR BANKS**

H_0 - There exists no significant correlation between NPA and profits of old private sector banks for years 2004-05 to2012-13

H_1 - There exists significant correlation between NPA and profits of old private sector banks for the year 2004-05 to 2012-13

<u>CORRELATIONS</u>

```
/VARIABLES=NETNP NP
/PRINT=TWOTAIL NOSIG
/STATISTICS DESCRIPTIVES
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/MISSING=PAIRWISE.

Descriptive Statistics

	Mean	Std. Deviation	N
NETNP	1277.2222	427.93685	9
NP	2468.3333	1599.74920	9

Correlations

		NETNP	NP
NETNP	Pearson Correlation	1	.111
	Sig. (2-tailed)		.777
	N	9	9
NP	Pearson Correlation	.111	1
	Sig. (2-tailed)	.777	
	N	9	9

INTERPRETATION: Since the "P" value is more than Level of Significance. Null hypothesis is accepted and conclude that there is no significant association between Net NPA and NP.

NEW PRIVATE SECTOR BANKS

H_0 - There exists no significant association between NPA and profits of new private sector banks for years 2004-05 to2012-13

H_1 - There exists significant association between NPA and profits earned by new private sector banks for the year 2004-05 to 2012-13

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CORRELATIONS
 /VARIABLES=NETNP NP
 /PRINT=TWOTAIL NOSIG
 /STATISTICS DESCRIPTIVES
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/MISSING=PAIRWISE.

Descriptive Statistics

	Mean	Std. Deviation	N
NETNP	3775.4444	1442.57046	9
NP	10757.7778	7107.74686	9

Correlations

		NETNP	NP
NETNP	Pearson Correlation	1	.149
	Sig. (2-tailed)		.702
	N	9	9
NP	Pearson Correlation	.149	1
	Sig. (2-tailed)	.702	
	N	9	9

INTERPRETATION : Since the "P" value is greater than 0.5so our null hypothesis is accepted and conclude that there is no significant correlation between Net NPA and NP. Correlation value i.e. 0.149 is again very weak.

- **FOREIGN BANKS**

H_0 - There exits no significant correlation between NPA and profits of foreign banks for years 2004-05 to2012-13

H_1 - There exists significant correlation between NPA and profits of foreign banks for the year 2004-05 to 2012-13 .

Descriptive Statistics

	Mean	Std. Deviation	N
NETNP	1643.7778	945.78139	9
NP	5983.7778	3096.32592	9

Correlations

		NETNP	NP
NETNP	Pearson Correlation	1	.518
	Sig. (2-tailed)		.153
	N	9	9
NP	Pearson Correlation	.518	1
	Sig. (2-tailed)	.153	
	N	9	9

INTERPRETATION :

Since the "P" value is greater than 0.5so our null hypothesis is accepted and conclude that there is no significant correlation between Net NPA and NP. Correlation 0.518 is moderate correlation.

CONCLUSIONS

- **Over the last decade, the share of Public sector banks in banking loans roseveryinsignificantlybuttheshare in gross NPAs has gone up at a disturbing rate. Whereas in the case of Private sector banks their shareshave increased at more than double rate in loans while their contribution to gross NPAs has grown at a lower rate than that of public sector banks .** The actual situation for Public sector banks could getworse because of the method of loan write off.

- On comparing NP and NPAs

- ✓ In the case of public sector banks, the average increase in NPA from 2004-05 to 2012-13 on YOY basis is 25.54% while increase in NP is 16.21%
- ✓ In the case of old private sector banks, the average increase in NPA from 2004-05 to 2012-13 on YOY basis is 7.15% while increase in NP is 41.05%
- ✓ In case of new private sector banks, the average increase in NPA from 2004-05 to 2012-13 on YOY basis is 12.71% while increase in NP is 29.44%.
- ✓ in case of foreign banks, the average increment in NPA from 2004-05 to 2012-13 on YOY basis is 32.24% while increase in NP is 30.99%

  Therefore, there is increase in NP than NPA which is less in public sector banks and in foreign sector banks but there exists a wide gap in public sector banks, whereas private banks show more increase in NP than NPAs thus representing their better position than public sector banks.

- Public sector banks have shown seen most deteriorating position in NPA ratios and value of NPAsin terms of asset classification
- It's is nothing new that the banks owned by public are in trouble. While the soaring amount of non-performing assets (NPAs) are a cause of concern for the entire banking sector, it is more significant in Public sector banks than Private sector banks. Due to Poor credit evaluation, over leveraging and the implementation of giving fresh loans for settlement ofthe old ones and leaving the mess for the successor are some of the practices that are rampant in the Public banking system. .
- **According to two days bankers' meet " GyanSangam" the need is that there would be no government interference in public sector banks ' functioning and they would be given greater independence . Banks accumulate bad loans when political interest prevails over commercial interest. To raise money, the government plans to reduce its stake to 51% in its banks. To refresh the investment cycle,rising of infrastructure and expedite thegrowth, the government has to depend on foreign investment as well as bank loans. But banks are already cartilaginous A lot of their money is blocked in industrial projects stuck for various reasons, including economic slowdown. Their stressed loans are at an alarming 12.9% of their advances in September last year, while comparative figure for private banks was just 4.4%.**
- A small borrower is always hauled up but what about well-connected industrialists? They are never shamed or blacklisted.

- As a public bank employee one can fight by go on strikes, forming unions to oppose reforms or by demanding high salaries but not to resist loans to top bankers' or politicians' favourites.

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