A Study on Non-Performing Assets With Reference To Public Sector Banks and Private Sector Banks

***Mrs.Geetha C**
****Ms.Jayashree B N**

*Assistant professor, School of Commerce, REVA University, Kattigenahalli, Bangalore
**Assistant professor, School of Commerce, REVA University, Kattigenahalli, Bangalore

Abstract

Indian Banking industry plays a major role relating to non-performing asset .Non-Performing Assets are like a double edged sword whereas Indian banking is also facing major problem of raising NPAs which has an impact on profitability of bank, some steps have been taken to solve the problem regarding credit default affects the profitability and net worth of the bank and erodes the value of the asset. It affects on position of liquidity and profitability for survival of the banks, they don't generate any income required for the growth on banks and national economy and industry .this paper considers the aggregate value relating to public sector and private sector banks compare and interpret the management . It is basically based on analytical research with the help of secondary data, the finding relates the difference based on gross NPAs to gross advance with required for management to control and trim down the NPAs and improve in the financial stability in banking system. An attempt is made to understand management, trends and contribution in impact of NPAs in commercial banks recovery though different channels.

Keywords: Non Performing Asset (NPA), Public Banks, Private Banks, Commercial banks.

Introduction

Banking system plays an important role in the development of the sound economy bankers are the custodians and distributors of the liquid capital of the capital of the country. The most functions of the baking is mobilize the savings of the people by accepting deposit from the public ,and promoting development break the vicious circle of poverty and to retrieve the economy from underdevelopment. There in receiving deposits involves no risk, since it is the banker who owns the duty to repay the deposits, on demand whereas lending always involves much risk because there is no certainty of repayment. In India the problem of bad debts was not taken into consideration the recommendations of Narasimahan committee and has taken steps to solve the problem regarding NPAs in the bank in best way to tracking the problem. The problem of NPAs is linked with the issues of legal reforms. A **Non-Performing Asset** (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained "past due" for a specified period of time.

Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

The account remains „out of order" for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),

The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes

Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Review of Literature:-

Hosmani and Hudagi (2011) conducted study on "Unearthing the Epidemic of Non-Performing Assets with Reference to Public Sector Banks in India" an empirical and descriptive in nature which shows the magnitude and trend of Public Sector banks in India and found that there is a slight improvement in the asset quality reflected by decline in the diverse NPA percentage. The study concluded that NPA is an important parameter for assessing financial performance of banks in terms of profitability, liquidity and economies of scale in operation and banks has to take timely action against degradation of good performing assets.

Kaur and Saddy (2011) The research paper entitled "A Comparative Study of Non-Performing Assets of Public and Private Sector Banks" an attempt is made to clarify the concept of NPA, the factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations. Besides capital to risk weight age assets ratio of Public and Private sector banks, management of credit risk and measures to control the threat of NPAs are also discussed.

Malyadri and Sirisha (2011) This study examine the NPA of Public Sector banks and Private sector banks of weaker sections for the period seven years in India. The secondary data compiled from Report on Trends and Progress of Banking in India, 2004-10 which has been analyzed by Statistical tool such as percentages and compound Annual Growth rate. This study reveals that the public sector banks have achieved a greater penetration compared to the private sector banks.

Research design

Objective of the study

1. To study the concept, types, and causes of Non-Performing Assets (NPA) in Banks.
2. To test that is there any significant differences between ratios of Gross NPA to Gross advances for aggregates of Public Sector, Private Sectors
3. To know the recovery of NPAS through various channels
4. To make appropriate suggestions to avoid future NPAs and to manage existing NPAs in banks.

Limitation of the Study:-

The study is limited based on the information available with banking sector As where it is relating to banking not much of updated dated information is not made available where as only limited based on the term period based on the theme.

Methodology of the Study:-

The sources of data is secondary data collected though banking industry and banking profile and includes with receipts articles and internet and journals which is compiled from Reserve Bank of India (RBI) website, and from review of Literature.

Research Methodology:-

The Analysis in the paper is done on the total aggregate data for making comparison between Public sector Banks, Private Sector Banks on the overall basis. This helped us to derive the findings and conclusions -sector wise. Descriptive analysis is done.

Analysis:-

1. To study the concept, types, and causes of Non-Performing Assets (NPA) in Banks.

Nonperforming asset refers to activity classification for loans on the books of financial institution that is in default or are in arrears on scheduled payment of periodical or interest. debt is classified as nonperforming when loan payment have not been made for a period of 90days.where it is the standard period of time for debt to categorized as non performing the amount of elapsed time may be short or longer depending on the terms and condition set forth in each loan.

NPAs has classified into four types

1. Standard assets: A standard asset is a performing asset .standard asset generates continuous income and repayment as and when they fall due. Such asset carry a normal risk and are no NPA in the real sense .so no special provisions are required for standard asset.

2. Sub standard asset: All those asset (loans and advances) which are considered as non performing of period of 12 month are called as sub standard asset.

3. Doubtful asset: Those entire assets which are considered as non performing for period of more than 12mnonths are called as doubtful asset.

4. Loss Assets: All those assets which cannot be recovered are called as loss assets.

Causes for NPA

1. Speculation: investing in high assets to earn high income

2. Default: willful default by the borrowers

3. Fraudulent practices: is like advancing loans to ineligible person, advances without security or references, etc

4. Diversion of funds: most of the funds are diverted for unnecessary expansion and diversion of business.

5. Interest reason: many internal reasons like inefficient management in appropriation technology labour problem marketing failure etc resulting in poor performance of the companies.

External reasons is like a recession in the economy infrastructural problem prices rise, delay in release of sanction limit by banks delay in settlement of payment by government, natural calamities.

Impact of NPA

NPA impact the performance and profitability of banks. The most notable impact of NPA is change in banker's statements which may hide credit expansion to productive purpose. Reduce the earning capacity of assets and badly affect the ROI the coast of capital will go up assets and liability mismatch will NPAs adversely affect capital adequacy ratio and banks profitability. The economic value additions (EVA) by banks get upset because EVA is equal to the net operating profit minus cost of capital. NPAs causes to decrease the value of share sometimes even below their book value in the capital market, affect the risk facing ability of banks. Lower repo and reverse repo rates, industry gets to borrow more and even gets to pay lower interest rates on its borrowing.

2. To test that is there any significant differences between ratios of Gross NPA to Gross advances for aggregates of Public Sector, Private Sectors

Non Performing Asset (NPA):-Public Sector Banks, Private Sector Banks

Public Sector Bank	**NPAs**	**Private Sector Bank**	**NPAs**
Corporation Bank	3.27%	Yes Bank	**0.10%**
Dena Bank	3.33%	HDFC Bank	0.26%
Central Bank of India	3.58%	Ratnakar Bank	0.31%
Oriental Bank of Commerce	3.68%	IndusInd Bank	0.32%
Andhra Bank	3.70%	Axis Bank	0.44%
Punjab National Bank	3.82%	Karur Vysya Bank	0.73%
Allahabad Bank	3.89%	Kotak Mahindra	0.83%
UCO Bank	4.25%	South Indian Bank	1.04%
Indian Overseas Bank	5.52%	ICICI Bank	1.12%
United Bank of India	**8.50%**	City Union Bank	1.31%

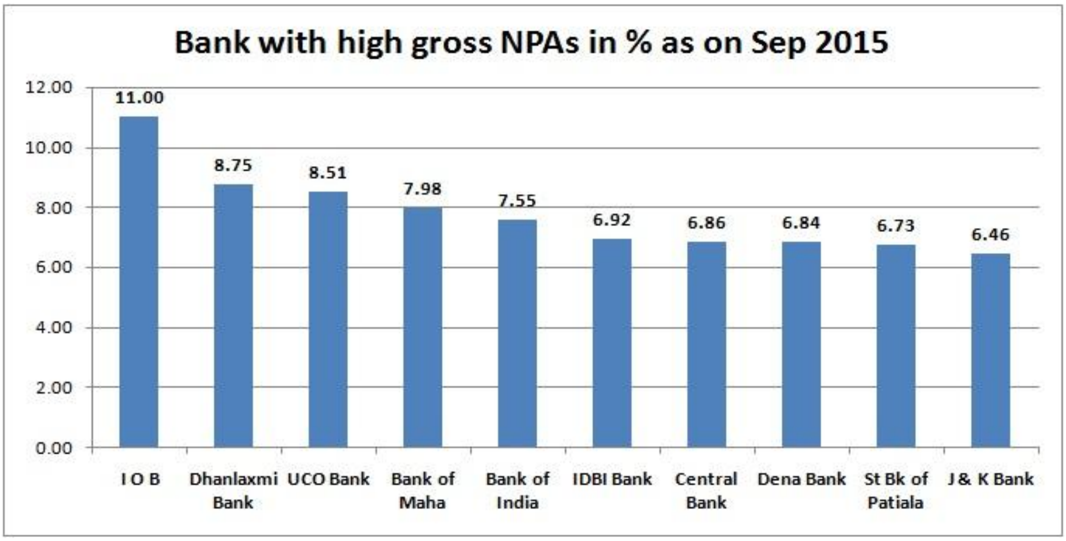
From the table we can intercept the growth of NPAs based on the gross NPAs of both private and public sector banks based on the leading factor. Where the necessary measures are taken to meltdown the default payments and steps to recover.

3. To know the recovery of NPAS through various channels

There are various measures designed to maximize the NPAs recoveries in Indian banking. Central government and RBI have taken steps for controlling incidence of fresh NPAs and creating legal and regulatory environment to facilitate the recovery of existing NPAs of banks. They are: 1. One Time Settlement Schemes This scheme covers all sectors sub standard assets, doubtful or loss assets. All cases on which the banks have initiated action under the SRFAESI Act However cases of willful default, fraud and malfeasance are not covered. As per the OTS scheme, for NPAs up to Rs. 10crores, the minimum amount that should be recovered should be 100% of the outstanding balance in the account. 2. Lok Adalats Lok Adalat institutions help banks to settle disputes involving account in “doubtful” and “loss” category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. Debt recovery tribunals have been empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. 3. Debt Recovery Tribunals (DRTs) it is essential that DRT mechanism is strengthened and vested with a proper enforcement mechanism to enforce their orders. The DRT should empowered to sell asset of the debtor companies and forward the proceed to the winding up court for distribution among the lenders.

4. Securitization and SARFAESI Act Securitization can also help in reducing the risk arising out of credit exposure norms and the imbalances of credit exposure, which can help in the maintenance of healthy assets With Basel II norms imminently being implemented by 2008, banks are required to pool up huge capital to offset the credit risk and operational risk components. Securitization, therefore, is seen to be an effective and vibrant tool for capital formation for banks in future.

Asset Reconstruction Company (ARC) Corporate Debt Restructuring (CDR) Corporate Debt Restructuring (CDR) Credit Information Bureau of India Limited (CIBIL) above by banks and institutions. The gross NPAs of the banks is gradually declined from Rs. 70861 crores in 2001- 02 to Rs. 50552 crores in 2006 – 07, later the gross NPA are increased, it reached to Rs. 84747 crores in the year 2009-10. On the other hand the recovery percentage of NPA s increased, 17%by DRTs and 14.7% by SARFAESI Act from the year 2003-04 to 81% by DRTs and 33% by SARFAESI Act in 2008- 09. Following the gross NPAs the recovery percentage decreased to 32% by DRTs and 30% by SARFAESI Act in the year 2009-10. The increase in level of NPAs and diminishing percentage of recoveries are due to Indian banks having largely followed a lagged cyclical pattern with regard to credit growth.



Suggestions and Conclusion

The data so provided helped to have an in-depth analysis about the participation of Indian Bank in lending activities to priority sector in comparison with that of the Public Sector Banks as a whole. Indian Bank is still not comfortable in the area of NPA management. Therefore, the management of Indian Bank must pay special attention towards the NPA management and take appropriate steps to arrest the creation of new NPAs, besides making recoveries in the existing NPAs.

Average percentage of Priority sector advances by Indian Bank is 37.84 of its total advances (statutory requirement is 40%). NPAs in Priority sector advances accounts to 58.71% of total NPAs of Indian Bank. Further, the mean percentage of gross NPAs to total advances in Indian Bank is 2.73. About 25 percent of total Priority Sector lending by Indian Bank has gone to weaker sections. Therefore, the bank must take steps to recovery and reduce NPAs. Efforts are necessary to prevent

The average percentage of NPAs in Other Priority Sector advances is 32.25 of the banks NPAs in total Priority Sector advances the percentage of NPAs in Other Priority Sector advances to total Other Priority Sector advances in Indian Bank is 3.61 percent, which is above the bank's average NPA position (2.73).Indian Bank has to take appropriate steps to improve recovery in Other Priority Sector advances. At most care must be taken to ensure prompt recovery without allowing any fresh NPAs. Compared to private sector banks, public sector bank is more in the NPA level. Public sector bank must take more care in avoiding any account becoming NPA by taking proper preventive measures in an efficient manner.

NPAs are draining the capital of the banks and weakening their financial strength the banks and financial institutions should be more proactive to adopt a pragmatic and structured nonperforming assets management policy where prevention of non performance assets receives priority. Compared to private sector banks, public sector bank is more in the NPA level.

Reference:

Rai, K., "Study on performance of NPAs of Indian commercial banks", Asian Journal Of

Research in Banking and finance, Vol. 2, Issue 12, 2012.

Prasad, G.V.B. & Veena, D., "NPAs Reduction Strategies for Commercial Banks in India",

IJMBS Vol. 1, Issue 3, 2011.

Mayur Raoa and Ankita Patelb " a study on non performing assets management with reference to public sector banks, private sector banks and foreign banks in India"

www.rbi.org, Report on Trend and Progress of Banking in India. Repots in financial stability

www.investopedia.com