THE IMPACT OF NON PERFORMING ASSETS WITH SPECIAL REFERENCE TO PRIVATE AND PUBLIC SECTORS BANKS IN INDIA

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ABSTRACT:

Non Performing Assets reflect the performance of banks. Higher level of Non Performing Assets indicates higher probability of a large number of credit defaults which affect the profitability and net worth of the banks and also less the value of the asset. The impact of the NPAs is not only on the banks but also on the Indian economy. In fact high level of Non Performing Assets in Indian banks is nothing but a reflection of the nation of health of the industry and trade. It is necessary to manage NPAs to improve the financial health in the banking system. Today, the Indian banking industry is dealing with the very big amount of NPAs which is fifth largest in the world. As on June 30, 2018, the gross Non Performing Assets of the banking sector were 11.52% of the total assets while the net Non Performing Assets were 5.92%. As on March 31, 2018, the gross Non Performing Assets were at 11.68% and net Non Performing Assets were 6.21%. Thus there is slight improvement in Non Performing Assets this year. This paper considers the aggregate data of public sector and private sector and attempts to compare analyze and interpret the Non Performing Asset management from the year 2013 -2018. On the conceptual side, it gives an overview of Non Performing Asset, Types of Non Performing Asset, causes and impact on banks. On the calculation side, it covers various NPA related ratios, use of Least square method for estimating Gross NPAs in the year 2019-20. The findings reveals the percentage of Gross Non Performing Asset to Gross advances is increasing for public sector banks, ratio of Loss Advances to Gross Advances are higher in Private sector banks, the Estimated Gross NPA for 2014 is also more in public banks as compared to private banks in India.

Keywords: Non Performing Asset , Public Banks, Private Banks

Introduction:

Strong banking sector is essential for strong economy because it channels the savings into the investment. A brittle banking sector will ultimately give way to the insubstantial economy. Once a bank started to get losses and if the fundamentals and management are not corrected, the problem may become chronic and destabilize the confidence of the depositors. when the depositors start withdrawing their money from the banks, the banking system will collapse. It is because of this reason that Non Performing Asset must always remain within the sustainable limit and the current level of NPAs is threatening the stability. Today, the Indian banking industry is dealing with the very big amount of NPAs which is fifth largest in the world. As on June 30, 2018, the gross Non Performing Assets of the banking sector were 11.52% of the total assets while the net Non Performing Assets were 5.92%. As on March 31, 2018, the gross Non Performing Assets were at 11.68% and net Non Performing Assets were 6.21%. Thus there is slight improvement in Non Performing Assets this year.

Meaning of Non Performing Assets:

The Non-Performing Asset concept is restricted to advances, loans and investments. As an asset generates the income which was expected from it and does not shows any unusual risk other than normal commercial risk, it is called performing asset, and when it fails to generate income which was expected from it treated as "Non Performing Asset". In other words, a loan asset becomes a Non Performing Asset when it ceases to generate income i.e. commission, fees, interest or any other dues for the bank for more than 90days.

The RBI has issued guidelines to banks for classification of assets into four categories:

1) Standard Assets
2) Sub-Standard Assets
3) Doubtful Assets
4) Loss Assets:

Standard Assets:

A standard asset is a performing asset. Standard assets generate continuous income and repayments. Such assets carry a normal risk and are not Non Performing Asset in the real sense. Standard assets are not consider as Non Performing Asset but it does not carry more than normal risk attached to business. Thus in general all the current loans, agricultural and non-agricultural loans may be treated as standard assets (Srivastava and Bansal, 2013). It should have minimum of 25% provision on global portfolio but should not on domestic portfolio. These are the loans which do not have any problem are less risky.

Sub-Standard Assets:

All those assets (advances and loans) which are considered as NPA for a period of 12 months. These are assets which come under the category of Non Performing Asset for a period of less than 12months (Rajput, Gupta and Chauhan, 2012). The general provision of 10% of total outstanding principal plus over all outstanding interest should be made on sub - standard assets. Non Performing Asset may be classified as sub-standard on the basis of the following criteria:

- An asset which has remained overdue for a period not exceeding three years which is related with both agricultural and non-agricultural loans should be treated as sub-standard.
- In the case of all types of term loans, where installments are overdue for a period not exceeding three years, the overall outstanding in term loan should be treated as sub-standard.
- An asset, where the terms and conditions of the loans regarding payment of interest and repayments of principal amount was rescheduled, after commencement of production, it is called sub-standard assets and it should remain at least two years of satisfactory performance under the rescheduled terms. It means the classification of an asset should not be upgraded only as a result of renegotiated unless there is satisfactory compliance with the conditions.

Doubtful Assets:

All the assets which are considered as non-performing for the period of more than 12 months is called Doubtful Assets. For these assets the banks are required to provide 100% for the unsecured portion and additional provision of 20% to 50% on advances, if doubtful for 3 and above 3 years are related with both agricultural and non-agricultural loans. There are also a trouble of weakness in the collection of the outstanding dues or liquidation in such an account in full.

Loss Assets:

All Non performing assets which cannot be recovered. These assets are identified by the Auditor or by the Central Bank but the amount has not been written off fully or partly. Such loss assets will include overdue loans in such cases:

- where decreases or execution petitions have been time barred or documents have lost which are legal proof to claim the debt,
- where the members and their guarantors are declared insolvent or have died leaving no tangible assets,

- where the members have left the area of operation of the society leaving no property and their sureties have also no means to pay the sufficient dues,
- Due amount which cannot be recovered in case of liquidated societies.

Types of NPA:

1) Gross NPA:

Gross NPAs are the sum total of all loan assets that are classified as Non Performing Assets as per RBI Guidelines as on Balance Sheet date. Gross Non Performing Assets reflects the quality of the loans made by banks. It consists of other than standard assets like as sub-standard, doubtful, and loss assets. It may be calculate with the help of following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

2) Net NPA:

Net Non Performing Assets are those type of NPAs in which the bank has deducted the provisions related with NPAs. Net NPA shows the real burden of banks. Since in India, bank balance sheets contain a large amount of NPAs and the process of recovery and written off of the loans are very time consuming, The banks have to make certain provisions against the NPAs according to the Reserve bank of India guidelines.

It can be calculated by following:

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

Provisioning norms for NPAs:

After a proper classification of loan assets the banks are required to make minimum provision against each of the Non performing Assets account for possible loan losses as per prudential norms. The minimum amounts of provision are required to be made against loan assets are varied for different types of assets.

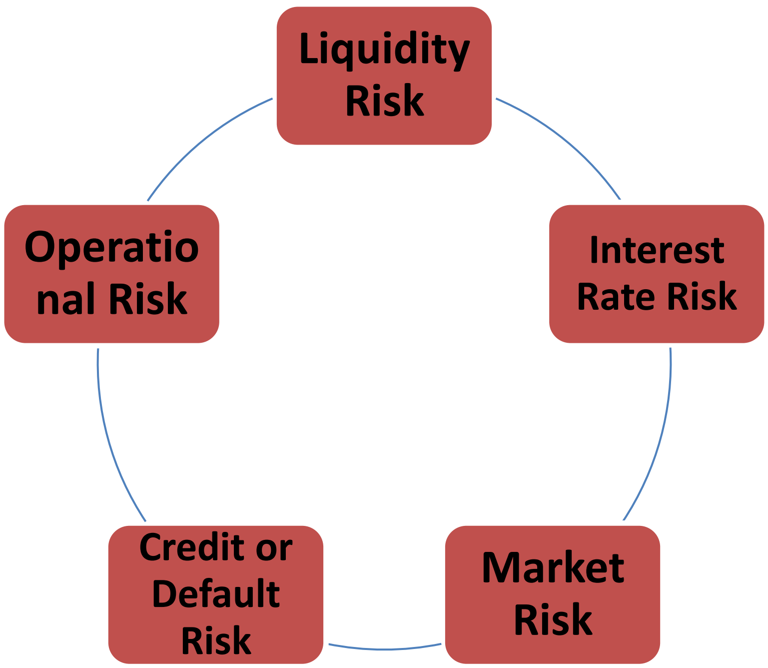
The details of the provisioning requirements as per the Central Bank guidelines are furnished below:

- In terms of RBI circular No RBI/2004/254/DBOD No. BP.BC.NO 97/21.04.141/2003-04 dated 17.06.2004, the Reserve Bank of India has decided that w.e.f March31, 2005, a general provision of 10 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities which are available.

- NPAs under Substandard Assets category The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 percent, i.e a total of 20 percent on the outstanding balance. The provisioning requirement for unsecured doubtful assets is 100 percent.
- In terms of RBI Circular No. 2004/261/DBOD BP.BC.99/21.04.048/2003-2004 dated 21.06.2004, Reserve Bank decided to introduce graded higher provisioning according to the age of NPAs in doubtful category for more than three years, with effect from March 31, 2005.
- Consequently the increase in provisioning requirement on the secured portion would be applied in a phase manner over a three year period in respect of the existing stock of NPAs as classified as 'doubtful for more three years as on March 31, 2004. All advances which is more than three years is consider as doubtful assets.

Type of Risks:

The major risks in banking business or banking risks as commonly referred, are listed below:



Impact of NPAs on Banks

1. Sometimes NPAs reduce the value of shares below their book values in capital market.

2. It may also reduces the ROI as impact of reduction in profitability in low return on investment which adversely affects the current earning of bank.

3. Credibility of banking system is also affected greatly due to higher level of Non Performing Assets because it shakes the confidence of general public in the soundness of the banking

system. The increased NPAs shows liquidity issues which is likely to lead run on bank by depositors. Thus, the increased of NPAs not only affects the performance of the banks but also affect the whole economy.

4. NPAs also reduce the income of interest as it is to be accounted only on Receipt basis.

5. It affects the Capital adequacy or distributed the Capital adequacy Ratio as Non Performing Assets entered into its calculation.

SCOPE OF THE STUDY:

As far as the scope of the study is concerned, the study covers A Comparative Analysis of NPA Management between Public sector banks and Private sector banks which are operating in the country. The period of the study is five years spanning from 2013 to 2018.

OBJECTIVES OF THE STUDY:

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

2. To analyze and interpret various NPA related ratios for aggregates of Public Sector and Private Sector banks in India from 2008-2018.

3. To use Least Square method for projecting the amount of NPA in the year 2019 for Public Sector and Private Sector Banks in India and interpret the same.

4. To test that is there any significant differences between ratio of Gross NPA to Gross Advances for aggregates of Public Sector and Private Sector banks in India from 2008-2018.

METHODOLOGY OF STUDY:

The Analysis in the paper is done on the total i.e. aggregate data starting from 2008 to 2018 for making comparison between Public sector Banks and Private Sector Banks on the overall basis. It helped us to get the findings and conclusions -sector wise.

Population:

Banking industry is taken for the study, where aggregate data related to NPA for Public sector Banks and Private Sector Banks are used.

Research Design:

Descriptive research design is used for the study

Data Collection:

Data used in the paper is secondary, which is compiled from Reserve Bank of India (RBI) website, and other related websites.

Data Analysis Tools:

Tools include Ratio analysis, application of Least Square Method and use of SPSS.

Time:

Period of the Paper 5years Aggregate data from 20013 to 2018 is used for the data analysis tools in the study

4. ANALYSIS AND INTERPRETATION:

Ratios Related to Non Performing Asset (NPA)

Firstly the study examined the trend of gross advances and gross NPAs and the ratio of gross NPAs to Gross Advances of both New Private sector banks and public sector banks. It is revealed from the table – 1 that shows the rising trend from 2005-06 to 2017-18 of both the banks.

Table1: Total Gross NPA to Total Gross Advances (Rs In Billions)

Year	NEW PRIVATE SECTOR BANKS			PUBLIC SECTOR BANKS		
	Total Gross Advances	Gross NPAs	Percent Share	Total Gross Advances	Gross NPAs	Percent Share
2005-06	3151.01	75.99	2.4	11347.24	421.17	3.7
2006-07	4182.41	91.45	2.2	14644.93	389.68	2.7
2007-08	5236.99	129.22	2.5	18190.74	406.00	2.2
2008-09	5751.67	167.87	2.9	22834.73	459.18	2.0
2009-10	5795.35	173.07	3.0	25193.31	573.01	2.3
2010-11	7232.05	179.05	2.5	30798.04	710.42	2.3
2011-12	8716.41	182.10	2.1	35503.89	1124.88	3.2
2012-13	11512.46	203.82	1.8	45601.69	1644.61	3.6

2013-14	13602.53	241.84	1.8	52159.20	2272.64	4.4
2014-15	16073.39	336.90	2.1	56167.18	2784.68	5.0
2015-16	19726.59	558.53	2.8	58219.52	5399.56	9.3
2016-17	22667.21	919.15	4.1	58663.73	6847.33	11.7
2017-18	27259.00	1259.00	4.6	61417.00	8956.00	14.58

(Sources: WWW.rbi.org.in)

Interpretation: The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 2005-06 to 2017-18. The amount of advances of has increased from Rs. 3151.01 Billion in 2005-06 to Rs. 27259.00 Billion in 2017-18 of Private sector bank and in public sector bank has increased from Rs. 11347.24 billion in 2005-06 to 61417.00 in 2017-18. The amount of gross NPA has increased from Rs. 75.99 billion in 2005-06 to Rs. 1259.00 billion in 2017-18 of private sector bank and in public sector bank has increased from rs. 421.17 to 8956.00 in 2017-18. Similarly, NPA percentage is also showing the up and down trends highest percent share is 14.58 of public sector bank in 2017-18 and lowest percent share is 1.8 of private sector bank. Thus private banks shows efforts to manage gross NPA by its decreasing percent.

Table 2: Total Net NPA to Total Net Advances (Rs In Billions)

Year	NEW PRIVATE SECTOR BANKS			PUBLIC SECTOR BANKS		
	Total Net Advances	Net NPAs	Percent Share	Net Advances	NET NPA	Percent Share
2005-06	3129.62	31.70	1.0	11062.88	145.66	1.3
2006-07	4147.51	40.28	1.0	14401.46	153.25	1.1
2007-08	5184.02	56.47	1.1	17974.01	178.36	1.0
2008-09	5753.28	74.12	1.3	22592.12	211.55	0.9
2009-10	6324.41	65.06	1.0	27013.00	296.43	1.1
2010-11	7975.44	44.32	0.6	33044.33	360.55	1.1

2011-12	9664.03	44.01	0.5	38773.08	593.91	1.5
2012-13	11432.40	59.94	0.5	44728.45	900.37	2.0
2013-14	13429.35	88.62	0.7	51011.37	1306.35	2.6
2014-15	15843.12	141.28	0.9	54762.50	1599.51	2.9
2015-16	19393.39	266.77	1.4	55935.77	3203.76	5.7
2016-17	22195.63	477.80	2.2	55572.32	3830.89	6.9

(Source: http://www.rbi.org.in)

Interpretation: The above table shows the amount of Net Advances, Net NPA and the percentage of Net NPA during the period of 2005-06 to 2016-17. The amount of advances has increased from Rs. 3129.62 billion in 2005-06 to 2215.63 billion in 2016-17 of private sector banks and in public sector banks advances increased from 11062.88 in 2005-06 to 55572.32 in 2016-17. The percent share is less of new private banks in India as compare to Public sector banks of India.

Table 3: Sub Standard Advances to Total Gross Advances of Public sector bank (Rs in Billions) As on 31st March

Year	**Total Gross Advances**	**Standard Advances**	**Percent share**	**Sub-Standard Advances**	**Percent share**
2008	18191	17786	97.8	**173**	**1.0**
2009	22828	22378	98.0	203	0.9
2010	27335	26735	97.8	288	1.1
2011	33465	32718	97.8	350	1.1
2012	39428	38255	97.0	623	1.6
2013	45601	43957	96.4	815	1.8
2014	52159	49887	95.6	958	1.8
2015	56167	53382	95.0	1054	1.9
2016	58275	52875	90.7	2005	3.4
2017	58664	51816	88.3	1713	3.0
2018	61417	52461	85.4	2146	3.5

(Source: http://www.rbi.org.in)

Interpretation: The above table shows the amount of Standard advances and the percentage of standard advances over the Gross advances during the period of 2005-06 to 2017-18. The amount of advances has increased from Rs. 17786 billion in 2005-06 to 52461 billion in 2017-18.The Ratio of sub- standard advances to Gross Advances is showing increasing trend for Public sector Banks (except in 2009&17).

Table 4:Sub Standard Advances to Total Gross Advances of Private sector bank (Rs in Billions) As on 31st March

Year	Total Gross Advances	Standard Advances	Percent share	Sub-Standard Advances	Percent share
2008	5259	5129	97.5	73	**1.4**
2009	5850	5681	97.1	106	1.8
2010	6442	6265	97.3	89	1.4
2011	8118	7936	97.8	45	0.6
2012	9814	9629	98.1	52	0.5
2013	11592	11384	98.2	64	0.6
2014	13613	13371	98.2	86	0.6
2015	16087	15750	97.9	108	0.7
2016	19742	19184	97.2	186	0.9
2017	22604	21685	95.9	311	1.4
2018	27259	26000	95.4	318	1.2

(Source: www.rbi.org.in)

Interpretation: The above table shows the amount of Standard advances and the percentage of standard advances over the Gross advances during the period of 2005-06 to 2017-18. The amount of advances has increased from Rs. 5129 billion in 2005-06 to 26000 billion in 2017-18.The Ratio of sub- standard advances to Gross Advances is showing increasing and decreasing trend for Private sector Banks.

The Ratio of sub- standard advances to Gross Advances is showing increasing trend for Public sectors against decreasing trend for Private sector Banks. Still the situation for Private Banks is better than Public sector Banks, considering the ratio nearby 0.6 from three consecutive years starting from 2011.

Table 5. Doubtful Advances to Total Gross Advances (Rs in Billions) As on 31st March

Year	PUBLIC SECTOR BANKS			PRIVATE SECTOR BANKS		
	Doubtful Advances	Total Gross Advances	Percent share	Doubtful Advances	Total Gross Advances	Percent share
2008	192	18191	1.1	45	5259	0.9
2009	206	22828	0.9	50	5850	0.9
2010	254	27335	0.9	66	6442	1.0
2011	332	33465	1.0	104	8118	1.3
2012	490	39428	1.2	108	9814	1.1
2013	761	45601	1.7	112	11592	1.0
2014	1216	52159	2.3	114	13613	0.8
2015	1630	56167	2.9	176	16087	1.1
2016	3232	58275	5.5	311	19742	1.6
2017	4904	58664	8.4	518	22604	2.3
2018	6277	61417	10.2	886	27259	3.2

(Source: http://www.rbi.org.in)

Interpretation: The Ratio of Doubtful advances to Gross Advances for Public and Private Sector Banks is showing increasing trend, while the ratio started decreasing since 2011 to 2014 in case of Private Banks. Overall the situation of Private sector Banks is better against Public sector Banks.

Table 6. Loss Advances to Total Gross Advances (Rs in Billions) As on 31st March

Year	PUBLIC SECTOR BANKS			PRIVATE SECTOR BANKS		
	Loss Advances	Total Gross Advances	Percent share	Loss Advances	Total Gross Advances	Percent share
2008	40	18191	0.2	12	5259	0.2
2009	41	22828	0.2	13	5850	0.2
2010	58	27335	0.2	22	6442	0.3
2011	65	33465	0.2	29	8118	0.4
2012	60	39428	0.2	29	9814	0.3
2013	68	45601	0.2	32	11592	0.3
2014	99	52159	0.2	42	13613	0.3
2015	100	56167	0.2	52	16087	0.3
2016	163	58275	0.3	62	19742	0.3
2017	213	58664	0.4	90	22604	0.4
2018	533	61417	0.9	54	27259	0.2

(Source:http://www.rbi.org.in)

Interpretation: The Ratio of Loss Advances to Gross Advances is showing stabilized for Public Banks and private banks. Overall it is observed the ratio of loss advances to Gross advances is lesser in Public Banks against other Banks.

Table 7 Use of Least Square Method for Predicting Gross advances for 2019-20

PUBLIC SECTOR BANKS					PRIVATE SECTOR BANKS				
Year	**Y Gross advances (Rs. Billions)**	**X= year - 2016**	**XY**	**X^2**	**Year**	**Y Gross advances (Rs. Billions)**	**X= Year- 2016**	**XY**	**X^2**
2014-15	52159	-2	-104318	4	2014	13613	-2	-27226	4
2015-16	56167	-1	-56167	1	2015	16087	-1	-16087	1
2016-17	58275	0	0	0	2016	19742	0	0	0
2017-18	58664	1	58664	1	2017	22604	1	22604	1
2018-19	61417	2	122834	4	2018	27259	2	54518	4
10080	**Σy= 286682**	**0**	**Σxy = 21013**	**Σx^2= 10**	**10080**	**Σy= 99305**	**0**	**Σxy = 33809**	**Σx^2 = 10**

<u>Public sector bank</u> : a= ΣY/N
n=5
a=286682/5=57336.4

b= $\Sigma xy/\Sigma x^2$
b= 21013/10 =2101.3

y= a+b$_x$

<u>Private sector bank</u> : a= ΣY/N
n=5
a= 99305/5 =19861

b= $\Sigma xy/\Sigma x^2$
b= 33809/10=3380.9

y= a+b$_x$

x= 2019-2016=3 **x= 2019-2016=3**

y= 57336.4+2101.3 X 3= 63640.3 **y= 19861+ 3380.9 X 3 = 30003.7**

Public sector bank : y2019= 63640.3 billion
Private sector bank : y2019= 30003.7 billion

Interpretation: From the use of least square method the Gross advances for Public sector Banks will rise by Rs. 63640.3 Billion for the year 2019-20, which was 61417 **Billion for the year 2018-19 and the Gross advances for Private sector Banks will rise by Rs. 30003.7 Billion for the year 2019-20, which was 27259.0 Billion for the year 2018-19.**

Table 8 Use of Least Square Method for Predicting Gross NPAs for 2019-20

PUBLIC SECTOR BANKS					**PRIVATE SECTOR BANKS**				
Year	**Y Gross NPAs (Rs. Billions)**	**X= year - 2016**	**XY**	**X^2**	**Year**	**Y Gross NPAs (Rs. Billions)**	**X= year - 2016**	**XY**	**X^2**
2014	241.84	**-2**	**-483.68**	**4**	2014	2272.64	**-2**	**-4545.3**	**4**
2015	336.9	**-1**	**-336.9**	**1**	2015	2784.68	**-1**	**-2784.7**	**1**
2016	558.53	**0**	**0**	**0**	2016	5399.56	**0**	**0**	**0**
2017	919.15	**1**	**919.15**	**1**	2017	6847.33	**1**	**6847.33**	**1**
2018	27259	**2**	**54518**	**4**	2018	8956	**2**	**17912**	**4**
10080	**ΣY =** 29315.42	**0**	**ΣXY = 54616.6**	**Σ^{x2}= 10**	**10080**	**ΣY = 26260.21**	**0**	**ΣXY = 17429.4**	**ΣX^2 = 10**

Public sector bank : a= ΣY/N
n=5
a=29315.42/5=5863.04

Private sector bank : a= ΣY/N
n=5
a= 26260/5 =5252

$b= \Sigma xy/\Sigma x^2$ **$b= \Sigma xy/\Sigma x^2$**

b= 21013/10 =2101.3 **b= 33809/10=3380.9**

$y= a+b_x$ **$y= a+b_x$**

y= 5863.04+2101.3 X 3= 12166.94 **y= 5252+3380.9 X 3= 15394.7**

Public sector bank : y2019= 12166.94 billion	
Private sector bank : y2019= 15394.7 billion	

Interpretation: From the use of least square method the Gross advances for Public sector Banks will rise by Rs. 12166.94 Billion for the year 2019-20, which was 27259 **Billion for the year 2018-19 and the Gross advances for Private sector Banks will rise by Rs. 15394.7 Billion for the year 2019-20, which was** 8956 **Billion for the year 2018-19.**

FINDINGS:

1.The Ratio of Gross NPA to Gross Advances is decreasing for Private Sector Banks, which was 3.25 in 2009 , and has decreased to 1.91 and it is in better situation than Public sector Banks.

2. The Ratio of Sub- standard advances to Gross Advances is nearby 0.6 from three consecutive years starting from 2011 to 2013 for Private Banks and is better than Public Banks.

3. The Ratio of Doubtful advances to Gross Advances was having increasing trend for the Public Banks, still on the overall basis ratio was not greater than 10.2 for Public Banks and 3.2 for Private Banks on the upper side.

4. The Ratio of Loss Advances to Gross Advances is showing stabilized for Public Banks and private banks. Overall it is observed the ratio of loss advances to Gross advances is lesser in Public Banks against other Banks.

5. From the use of least square method the Gross advances for Public sector Banks will rise by Rs. 12166.94 Billion for the year 2019-20, which was 27259 Billion for the year 2018-19 and the Gross advances for Private sector Banks will rise by Rs. 15394.7 Billion for the year 2019-20, which was 8956 Billion for the year 2018-19.

6. From the use of least square method the Gross advances for Public sector Banks will rise by Rs. 63640.3 Billion for the year 2019-20, which was 61417 Billion for the year 2018-19 and the Gross advances for Private sector Banks will rise by Rs. 30003.7 Billion for the year 2019-20, which was 27259.0 Billion for the year 2018-19.

Conclusion:

The condition of the Indian Scheduled commercial banks is under enormous stress due to uncontrollable increases in the overall levels of Gross and Net Non Performing Assets. Public Sector Banks are very much affected by the problem of growing Non Performing Assets as compared to Private Sector Banks of India. The Punjab National Bank- Neerav Modi/ Mehul Chowksi owned Geetanjali jewels Fraud has highlighted that such scams or frauds which lead to creation of very large value of Non Performing Assets on the banks loan book definitely caused multilevel damages like Reducing capital adequacy due to provisions made for bad assets, reduced Profitability, Possible loss to depositors in case bank becomes insolvent and loss of market capitalization causing loss to investors.

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