

Non-Performing Assets in Indian Banks: A Comparative Study

Dr. Rana Zehra Masood^{1*} Dr. Asif Pervez²

¹ Assistant Professor, Department of Commerce, Aligarh Muslim University, Aligarh (U.P) India

² Post-Doctoral Fellow, Department of Commerce, Aligarh Muslim University, Aligarh (U.P) India

Abstract – Non-Performing Assets have been rising swiftly in India, especially in Public Sector Banks which has been affecting the profitability of Banking Sector mostly Public Sector Banks in India. NPAs affect credit lending capacity of Banks which results in low profit for Banks. As the banking sector is the backbone for an economy, rising NPAs is a threat for the Indian economy. This paper tries to understand Non-Performing Assets and reasons behind high NPAs. In this paper, we compare Gross NPA, Growth rate of Gross NPA and Return on Assets of Public Sector Banks, Private Sector Banks and Foreign Banks in India.

Keywords: Non-Performing Assets, Return on Assets, Public Sector Banks, Private Sector Banks, Foreign Banks.

-----X-----

INTRODUCTION

Banks are backbone for a financial system. Banks help in channelizing household savings which provides credit for the business in the country but when the principal or the interest of a loan is not given to the banks for a specified period of time, generally 90 days, it would be considered as a Non-Performing Asset (NPA). An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank (RBI). A substantial increase in non-performing assets (NPAs) of Indian banking system, especially Public Sector Banks (PSBs), is alarming for the Economy, and the Reserve Bank of India, Central Government and Commercial Banks are trying to control the alarming rise in NPAs. As per RBI provisional data on global operations, as on 31.3.2019, the aggregate amount of gross NPAs of PSBs and Scheduled Commercial Banks (SCBs) were Rs. 8,06,412 crore and Rs. 9,49,279 crore respectively. NPAs are spread-out across the economy in which major sectors are infrastructure, iron and steel, textiles, aviation and mining. The infrastructure and steel sectors are major cause of stress in Banking Sector (Mohan and Ray, 2017). As per report of parliamentary standing committee on Finance (2016), willful defaulters constituted 21% of total NPAs. Rising NPAs results in lowering of profit margins and lesser return for the shareholder (Government in case of public sector banks). It causes Stress in banking sector and has a negative impact on the national economy. Ultimately, it halts

the investment-led development process. Several steps have been taken by the Government of India on legal, financial, policy level reforms to tackle the problem of increasing NPAs. Some of the important measures taken are recovery through LokAdalats, SARFAESI Act, 2002, Corporate Debt Restructuring – 2005, Sustainable structuring of stressed assets (SSA) – 2016 and Recent Insolvency and Bankruptcy code Act, 2016.

Categories of Non-Performing Assets (NPAs)

Categories of NPA	Criteria
Non-Performing Assets	Principle or Interest remained overdue for 90 days
Substandard Assets	Assets as NPAs for 12 months or less
Doubtful Assets	Substandard assets for 12 months or less
Loss Assets	Loss identified by the bank or the RBI, loan has not been not completely written off

REVIEW OF LITERATURE

Sengupta and Vardhan (2017), the NPA problem assumed serious proportions from 2013 onward. They suggested the banks to tighten their credit dispensation mechanism. Kumar (2013) argued that Non-Performing Assets have become a nuisance and headache for the Indian banking sector for the past several years. Singh (2013) found that the origin of the problem lies in the system of credit risk management by the banks and suggested the bank to have adequate preventive measures in fixing pre- sanctioning appraisal responsibility and an effective post-disbursement supervision. Gupta (2012) suggested

that each bank should have its own independent credit rating agency to evaluate the financial capacity of the borrower. Rai (2012) found there was no legal framework to safeguard the real interest of banks. Chatterjee et. al. (2012) suggested the banks to find out the original reasons/purposes of the loan required by the borrower along with Proper identification of the guarantor including scrutiny of his/her wealth. Kaur and Singh (2011) argued that NPAs are considered as an important parameter to judge the performance and financial health of banks. Prasad and Veena (2011) concluded that NPAs have destructive impact on the return on assets. Chaudhary and Sharma (2011) advocated the development of an efficient management information system training of bank staff involved in sanctioning the advances. According to Karunakar (2008) lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism.

OBJECTIVES OF THE STUDY

1. To study the current status of NPAs in Indian Commercial Banks
2. To Compare the level of NPAs in Public, Private and Foreign Sector Banks
3. To Compare the growth rate of NPAs in Public, Private and Foreign Sector Banks
4. To Compare the Profitability of Public, Private and Foreign Sector Banks

HYPOTHESES OF THE STUDY

1. There is no Significant difference in the Gross NPA ratios Among Public, Private and Foreign Banks
2. There is no Significant difference in the Gross NPA Growth rate among Public, Private and Foreign Banks
3. There is no Significant difference in the Return on assets among Public, Private and Foreign Banks

METHODOLOGY OF STUDY

The study is based on data collected from secondary sources, mostly from Reserve Bank of India and from Various Journals, Books and research papers. Non-Performing Assets in Scheduled Commercial Banks which includes Public Sector Banks, Private Sector Banks and Foreign Banks are considered for the present study. Public Sectors Banks include both, Nationalized Banks and SBI & its Associates Banks. The paper discusses the concept of NPA and it highlights the trends and current status of NPAs in Indian Banking Sector. Time Period of the study is eleven years that is from 2008 to 2018. Data have

been analyzed and interpreted with the help of Tables and graphs. ANOVA was used to test the null hypothesis to compare the level of NPAs, growth rate of NPAs and Profitability of the Public, Private and Foreign Banks.

DATA ANALYSIS & INTERPRETATION

In this section of the study, Current status of Gross NPA, Gross Advances, Growth rate and return on assets of Public, Private And Foreign Banks have been analyzed with the help of tables and graphs.

Public Sector Banks

Table 1: Non-Performing Assets and Return on Assets of Public Sector Banks

Year	Gross NPA (Rs Crore)	Gross Advances (Rs Crore)	Gross NPA ratio	Growth rate of NPA (%)	ROA (%)
2008	406000	18190740	2.23	4.174685	-0.84
2009	459176	22834734	2.01	13.09759	-0.10
2010	573009	25193309	2.27	24.79059	-0.07
2011	710474	30798042	2.31	23.99011	0.46
2012	1124892	35503892	3.17	58.32977	0.50
2013	1644616	45601686	3.61	46.20209	0.80
2014	2272639	52159197	4.36	38.18664	0.88
2015	2784680	56167175	4.96	22.53066	0.96
2016	5399563	58219511	9.27	93.90249	0.97
2017	6847323	58663734	11.67	26.81253	1.03
2018	8956013	61416982	14.58231	30.79583	1.00

Sources: <https://dbie.rbi.org.in/>

The **table 1** depicts the amount of Gross Advances, Gross NPA, and growth of Gross NPA and Return on Assets of Public Sector banks during the period of study. The amount of Gross NPA has increased from Rs. 406000 crores in 2008 to Rs. 8956013 crores in 2018. The amount of Gross advance has increased from Rs. 18190740 in 2008 to Rs. 61416982 crores in 2018. The Gross NPA ratio shows an increasing trend over the period of study. It has been highest in the year 2018 (14.6) followed by 2017 (11.67) and 2016 (9.27). 2016 showed the highest growth rate of 93.90 % in the growth of NPA in Public Sector Banks. However, it declined to 30.8 % in 2018.

Graph 1: Gross NPA and ROA of Public Sector Bank



Private Sector Banks

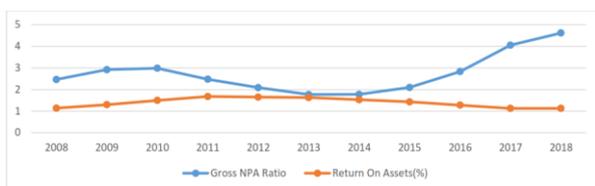
Table 2: Non-Performing Assets and Return on Assets of Private Sector Banks

Year	Gross NPA (Rs Crore)	Gross Advances (Rs Crore)	Gross NPA ratio	Growth rate of NPA (%)	ROA (%)
2008	129220.0	5236990	2.467448	41.30126	1.14
2009	167874.4	5751668	2.918707	29.9136	1.30
2010	173067.1	5795349	2.98631	3.093236	1.50
2011	179049.3	7232054	2.475774	3.456578	1.68
2012	182102.0	8716413	2.089185	1.704949	1.65
2013	203816.7	11512463	1.770401	11.92448	1.63
2014	241835.0	13602528	1.777868	18.65317	1.53
2015	336903.5	16073394	2.096032	39.31131	1.43
2016	558531.2	19726588	2.831362	65.78373	1.28
2017	919146.5	22667207	4.054961	64.56493	1.13
2018	1258629.0	27258907	4.617312	36.93453	1.13

Sources: <https://dbie.rbi.org.in/>

The **table 2** depicts the amount of Gross Advances, Gross NPA and growth of Gross NPA and Return on Assets of Private Sector Banks during the period of study. The amount of Gross NPA has increased from Rs. 129220 crores in 2008 to Rs. 1258629 crores in 2018. The amount of Gross advance has increased from Rs. 5236990 in 2008 to Rs. 27258907 crores in 2018. The Gross NPA ratio shows an increasing trend from 2013 to 2018. It has been highest in the year 2018 (4.6). 2016 showed the highest growth rate of 65.8 % in the growth of NPA in Private Sector Banks. However, there has been a decline in the growth rate of Gross NPA from 2016 to 2018.

Graph 2: Gross NPA and ROA of Private Sector Banks



Foreign Banks

Table 3: Non-Performing Assets and Return on Assets of Foreign Banks

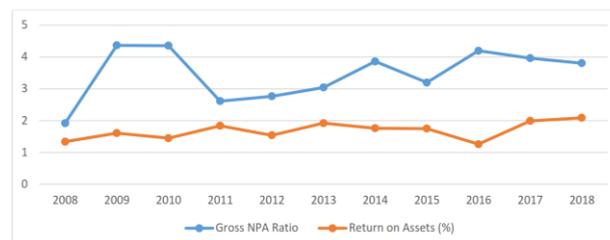
Year	Gross NPA (Rs Crore)	Gross Advances (Rs Crore)	Gross NPA ratio	Growth rate of NPA (%)	ROA (%)
2008	30840	1606580	1.919606	28.55356	1.34
2009	72486.94	1660116	4.366377	135.042	1.61
2010	71105.3	1632130	4.356595	-1.90605	1.45
2011	50445.4	1929719	2.614132	-29.0554	1.84
2012	62689	2267773	2.764342	24.27099	1.54
2013	79255.6	2604049	3.043552	26.42665	1.92
2014	115677.6	2995755	3.861384	45.95511	1.76
2015	107577.9	3366090	3.195931	-7.00196	1.75
2016	157979.9	3765043	4.195966	46.85166	1.26
2017	136210.5	3436112	3.964087	-13.7799	1.99
2018	138296.6	3633047	3.806627	1.53152	2.09

Sources: <https://dbie.rbi.org.in/>

The **table 3** depicts the amount of Gross Advances, Gross NPA, growth of Gross NPA and Return on Assets of Foreign Banks during the period of study. The amount of Gross NPA has increased from Rs. 30840 crores in 2008 to Rs. 138296.6 crores in 2018. The amount of Gross advance has increased from Rs. 1606580 crores in 2008 to Rs. 3633047 crores in 2018. The Gross NPA ratio shows a fluctuating trend during the study period. It has been highest in the year 2016 (4.2). 2016 showed the highest growth rate of 46.85 % in the growth of gross NPA in Foreign Banks. However, there has been a decline in the growth rate of Gross NPA from 2016 to 2018.

Assets of foreign banks during the period of study. The amount of Gross NPA has increased from Rs. 30840 crores in 2008 to Rs. 138296.6 crores in 2018. The amount of Gross advance has increased from Rs. 1606580 crores in 2008 to Rs. 3633047 crores in 2018. The Gross NPA ratio shows a fluctuating trend during the study period. It has been highest in the year 2016 (4.2). 2016 showed the highest growth rate of 46.85 % in the growth of gross NPA in Foreign Banks. However, there has been a decline in the growth rate of Gross NPA from 2016 to 2018.

Graph 3: Gross NPA and ROA of Foreign Banks



All scheduled Commercial Banks

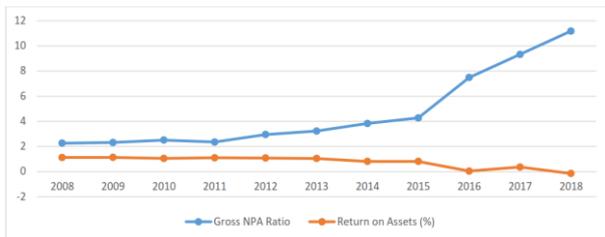
Table 4: Non-Performing Assets and Return on Assets of All Scheduled Commercial Banks

Year	Gross NPA (Rs Crore)	Gross Advances (Rs Crore)	Gross NPA ratio	Growth rate of NPA (%)	ROA (%)
2008	566060.0	25034310	2.261137	12.05337	1.12
2009	699537.5	30246518	2.312787	23.5801	1.13
2010	817181.1	32620788	2.505093	16.81734	1.05
2011	939968.8	39959815	2.352285	15.02576	1.1
2012	1369683	46488078	2.94631	45.71579	1.08
2013	1927688	59718199	3.227974	40.73972	1.04
2014	2630152	68757479	3.825259	36.44074	0.81
2015	3229161	75606658	4.271001	22.77471	0.81
2016	6116074	81711142	7.484994	89.40134	0.04
2017	7902680	84767053	9.32282	29.21164	0.36
2018	10361872	92662096	11.18243	31.11845	-0.15

Sources: <https://dbie.rbi.org.in/>

The **table 4** depicts the amount of Gross Advances, Gross NPA, growth of Gross NPA and Return on Assets of All Scheduled Commercial Banks during the period of study. The amount of Gross NPA has increased from Rs. 566060 crores in 2008 to Rs. 10361872 crores in 2018. The amount of Gross advance has increased from Rs. 25034310 crores in 2008 to Rs. 92662096 crores in 2018. The Gross NPA ratio shows an increasing trend during the study period. It has been highest in the year 2018 (11.2). 2016 showed the highest growth rate of 89.40 % in the growth of gross NPA of Scheduled Commercial Banks. However, there has been a decline in the growth rate of Gross NPA from 2016 to 2018.

Graph 4: Gross NPA and ROA of All Scheduled Commercial Banks



Hypotheses Testing

In the present section, the null hypotheses have been tested with the help of Analysis of Variance (ANOVA) and results have been interpreted accordingly.

Null Hypothesis 1:

There is no significant difference in the Gross NPA ratios among Public, Private and Foreign Banks

SUMMARY				
Groups	Count	Sum	Average	Variance
Public Sector	11	60.44231	5.494755455	18.88440524
Private Sector	11	30.08536	2.735032727	0.820227832
Foreign Sector	11	38.088599	3.462599909	0.651774433

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	45.0086255	2	22.5043127	3.31654484	0.04997	3.31582950
Within Groups	203.564075	30	6.78546916			
Total	248.572700	32				

Interpretation

The Null hypothesis states no significant difference among the Gross NPA Ratios of public, private and foreign banks in India during the study period. The P value of F statistic is 0.049; hence the null hypothesis is rejected indicating a significant difference in the Gross NPA of three sectors of Banks during the study period.

Null Hypothesis 2:

There is no significant difference in the Gross NPA Growth rate among Public, Private and Foreign Banks.

SUMMARY

Groups	Count	Sum	Average	Variance
Public Sector	11	5.59	0.508181818	0.367916364
Private Sector	11	15.4	1.4	0.04594
Foreign Sector	11	18.55	1.686363636	0.072765455

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	8.306672727	2	4.153336364	25.60511803	3.2558E-07	3.315829501
Within Groups	4.866218182	30	0.162207273			
Total	13.17289091	32				

Interpretation

The Null hypothesis states no significant difference among the Gross NPA Growth Rate of public, private and foreign banks in India during the study period. The P value of F statistic is less than 5%, hence the null hypothesis is rejected at 5% level of significance, indicating a significant difference in the Gross NPA Growth Rate of three sectors of banks during the study period.

Null Hypothesis 3:

There is no significant difference in the Return on assets Among Public, Private and Foreign Banks

SUMMARY

Groups	Count	Sum	Average	Variance
Public Sector	11	382.8129	34.8011804	604.454765
Private Sector	11	316.6417	28.7856157	540.611392
Foreign Sector	11	256.8881	23.3534709	1973.59238

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	721.399323	2	360.699661	0.34697578	0.70962150	3.31582950
Within Groups	31186.5854	30	1039.55284			
Total	31907.9847	32				

Interpretation

The Null hypothesis states no significant difference among the Return on Assets Ratios of public, private and foreign banks in India during the study period. The P value of F statistic is 0.71; hence the null hypothesis is accepted at 5% level of significance, indicating an insignificant difference in the Return on Assets Ratios of three sectors of banks during the study period.

FINDINGS OF THE STUDY

1. The Gross NPA ratio of Public Sector Banks shows an increasing trend over the period of study. In 2016, 93.90 % growth was showing gross NPA of Public Sector Banks. However, it declined to 30.8 % in 2018.
2. The Gross NPA ratio shows an increasing trend from 2013 to 2018 in Private Sector Banks. 2016 showed the highest growth rate of 65.8 % in the growth of NPA in Private Sector Banks. However, there has been a decline in the growth rate of Gross NPA from 2016 to 2018.
3. The Gross NPA ratio shows a fluctuating trend during the study period in foreign banks. 2016 showed the highest growth rate of 46.85 % in gross NPA in Foreign Banks. However, there has been a decline in the growth rate of Gross NPA from 2016 to 2018.
4. The Gross NPA ratio shows an increasing trend during the study period in all scheduled Commercial Banks. 2016 showed the highest growth rate of 89.40 % in the growth of gross NPA of Scheduled Commercial Banks. However, there has been a decline in the growth rate of Gross NPA from 2016 to 2018.
5. Significant difference was found in the Gross NPA of three sectors of Banks during the study period.
6. Significant difference was found in the Gross NPA Growth Rate of three sectors of banks during the study period.
7. However, an insignificant difference was found in the Return on Assets Ratios of three sectors of banks during the study period.

CONCLUSION

Non-Performing Assets create problem for the Banking Sector of an economy. NPAs directly affect profitability of the banks. From the analysis of data, it can be concluded that NPA is comparatively very high in Public Sectors Banks. However, Government of India is taking various measures to recover the NPAs, but they are still very high. The large borrowers are the main defaulters of loans and interest on loans. Growing NPAs will hinders the growth of Indian Economy.

RECOMMENDATIONS OF THE STUDY

1. Public Sectors Banks should revise their current credit appraisal and monitoring

methods as well as their loan recovery method.

2. Fast settlement system for pending cases of recovery from defaulter should be made.
3. Banks should first try for Compromise Settlement with the defaulter and then LokAdalats and finally Debt Recovery Tribunals should be sought.
4. Mandatory lending to priority sector should be reduced.
5. If the reason is beyond the control of the defaulter, bank can restructure the loan accordingly.
6. Banks should arrange for Training & Development of staff to develop the skills for credit assessment.

LIMITATIONS OF THE STUDY:

1. The study is limited to the Indian Commercial Banks only.
2. The study is limited for a period of eleven years from 2008 to 2018.
3. The study is done in the present environment, NPAs changes with time.

REFERENCES

1. Chatterjee, C., Mukherjee, J. & Das, R. : "Management of nonperforming assets - a current scenario, *International Journal of Social Science & Interdisciplinary Research*, Vol.1 Issue 11.
2. Chaudhary, K. & Sharma, M. (2011). Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study", *International Journal of Innovation, Management and Technology*, Vol. 2, No. 3. dbie.rbi.org.in
3. Gupta, B. (2012). A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks", *SIT Journal of Management*, Vol. 2, No. 3, pp. 175-189.
4. Kaur, K. & Singh, B. (2011). Non-performing assets of public and private sector banks A comparative study", *South Asian Journal of Marketing and Management Research*, Vol. 1, Issue 3.
5. Kumar, P.T. (2013). A Comparative study of NPA of Old Private Sector Banks and

Foreign Banks”, *Research Journal of Management Sciences*, ISSN 2319–1171 Vol. 2(7), pp. 38-40.

6. Mohan R., & Ray, P. (2017). Indian Financial Sector: Structure, Trends and Turns, IMF Working Paper.
7. Prasad, G.V.B. & Veena, D. (2011). NPAs Reduction Strategies for Commercial Banks in India”, *IJMBS*, Vol. 1, Issue 3.
8. PRS Legislative research: Parliamentary Standing Committee Report Summary – Non-performing assets of Financial Institutions.
9. Rai, K. (2012). Study on performance of NPAs of Indian commercial banks”, *Asian Journal Of Research in Banking and finance*, Vol. 2, Issue 12.
10. RBI press release (2017) “RBI identifies Accounts for Reference by Banks under the Insolvency and Bankruptcy code (IBC).
11. Sengupta R. & Vardhan H. (2017). Non-performing assets in India: This time it is different, *Economic and Political Weekly*.
12. Singh, J. (2013). Recovery of NPAs in Indian commercial banks.” *International Journal of Transformation in Business*, Vol. 2, Issue 3.
13. Singh, V. R. (2016). A Study of Non-Performing assets of commercial banks and its recovery in India”, *Annual Research Journal of SCMS*.

Corresponding Author

Dr. Rana Zehra Masood*

Assistant Professor, Department of Commerce,
Aligarh Muslim University, Aligarh (U.P) India