Journal of Advances and Scholarly Researches in Allied Education

Vol. X, Issue No. XX, Oct-2015, ISSN 2230-7540

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AN INTERNATIONALLY INDEXED PEER REVIEWED & REFEREED JOURNAL

Journal of Advances and Scholarly Researches in Allied Education
Vol. X, Issue No. XX, October-2015, ISSN 2230-7540

Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks

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Abstract – NPAs in the Indian banking sector have become a major concern for the Indian economy. NPA has a direct impact on the profitability, liquidity and solvency position of the bank. Higher NPA indicates inefficiency of the bank and lower NPA indicate better performance and management of funds. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. This paper basically deals with the trends of NPA in banking industry, the factors that mainly contribute to NPA raising in the banking industry and also provides some suggestions how to overcome this burden of NPA on banking industry[1].

Keywords: NPA, Public Banks, Private Banks

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INTRODUCTION

The Banking system remains, as always the most dominant segment of the financial sector. Without a sound and effective Banking system in India it cannot have a healthy economy. The Banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology or any other external and internal factors. Indian Banks continue to build on their strength under the regulators watchful eye and hence has emerged stronger. For the past three decades India's Banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian Banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process. The government's regular policy for Indian Bank since 1969 has paid rich dividends with the nationalization of 14 major private Banks of India. Not long ago, an account holder had to wait for hours at the Bank counters for getting a draft or for withdrawing his own money. Today, he has a choice [1].

REVIEW OF LITERATURES:

Several studies have been carried out to measure the banking sector performance (efficiency) using the frontier analysis method (Abbasoglu et. al, 2007; Carbo et. al, 2002). The frontier analysis separates the institutions those perform better relative to a particular standard from the institutions those performances are poor. Such separations can be done by using a parametric or non-parametric frontier analysis. Most of the studies which look at the efficiency of Indian commercial banks concentrate on cost, profit, income or revenue efficiencies [Das Abhiman, Ashok Nag and Subhash Ray, 2005]. Among them few studies use data related to either only pre-reform period or only post-reform period. Furthermore many of them use data for a single time period which makes it difficult to compare the efficiency in a dynamic setup.

NPA (non-performing assets) is related to banking and finance term. When bank or finance company is unable to recover its lent money from borrower in 90 days than that amount which have not been recovered will be treated as NPA. It represents bad loans, the borrowers of which failed to satisfy their repayment obligations. The below mentioned table indicated the Indian banking sector at a glance:

Table 1: Indian Banking Sector at a Glance

Sr. No	Items	Amount Outstanding (As at End-March) 2013	2014	Percentage Variation 2012-13	2013-14
	Indian Banking Sector at a Glance (Amount in ` Billion)				
1	**Balance Sheet Operations**				
1.1	Total Liabilities/assets	95,900	109,635	15.2	14.3
1.2	Deposits	74,297	85,331	15.1	14.9
1.3	Borrowings	10,104	11,008	19.7	9.0
1.4	Loans and advances	58,798	67,352	15.9	14.5
1.5	Investments	26,131	28,829	17.0	10.3
1.6	Off-balance sheet exposure (as percentage of on-balance sheet liabilities)	138.3	122.0	-	-
1.7	Total consolidated international claims	3,312	3,777	17.9	14.0
2	**Profitability**				
2.1	Net profit	912	809	11.5	-11.3
2.2	Return on Asset (RoA) (Per cent)	1.04	0.81	-	-
2.3	Return on Equity (RoE) (Per cent)	13.84	10.68	-	-
2.4	Net Interest Margin (NIM) (Per cent)	2.6	2.5	-	-
3	**Capital Adequacy**				
3.1	Capital to risk weighted assets ratio (CRAR) @	13.88	13.02	-	-
3.2	Tier I capital (as percentage of total capital) @	74.1	77.5	-	-
3.3	CRAR (tier I) (Per cent) @	10.29	10.09	-	-
4	**Asset Quality**				
4.1	Gross NPAs	1,941	2,642	35.8	36.1
4.2	Net NPAs	987	1,427	51.4	44.6
4.3	Gross NPA ratio (Gross NPAs as percentage of gross advances)	3.2	3.8	-	-
4.4	Net NPA ratio (Net NPAs as percentage of net advances)	1.7	2.1	-	-
4.5	Provision Coverage Ratio (Per cent)**	47.6	44.3	-	-
4.6	Slippage ratio (Per cent)	2.8	3.8	-	-
5	**Sectoral Deployment of Bank Credit #**				
5.1	Gross bank credit	49642	56572	13.6	14.0
5.2	Agriculture	5899	6694	7.9	13.5
5.3	Industry	22302	25229	15.1	13.1
5.4	Services	11519	13370	12.6	16.1
5.5	Personal loans	8976	10367	14.7	15.5
6	**Technological Development**				
6.1	Total number of credit cards (in million)	20	19	10.8	-1.7
6.2	Total number of debit cards (in million)	331	394	19.1	19.0
6.3	Number of ATMs	114,014	160,055	19.2	40.4
7	**Customer Services***				
7.1	Total number of complaints received during the year	70,541	76,573	-3.2	8.6
7.2	Total number of complaints addressed	69,704	78,745	-4.4	13.0
7.3	Percentage of complaints addressed	92.7	95.9	-	-
8	**Financial Inclusion**				
8.1	Credit-deposit ratio (Per cent)	79.1	78.9	-	-
8.2	Number of new bank branches opened	7,757	10,738	-	-
8.3	Number of banking outlets in villages (Total)	268,454	383,804	47.7	43.0

Notes : 1. * : The number of complaints received and addressed are inclusive of RRBs and co-operatives. Total number of complaints addressed during the year are from the complaints received during the year as well as those pending at the beginning of the year.

2. ** : Based on off-site returns. @Figures for 2014 are as per the Basel III framework.

3. Percentage variation could be slightly different as figures have been rounded off to million/billion.

4. # : Data are provisional and relate to select banks which cover about 95 per cent of total non-food credit extended by all scheduled commercial banks.

Source [2]

Public Sector Banks (PSBs) in India have performed rather poorly over the past 3-4 years. For the most part this has been on account of Non-Performing Asset (NPA) related worries which have so far been brushed under the carpet. The current level of NPAs as disclosed by most public sector banks is far from reality and made possible because of the flexibility enjoyed by PSBs in terms of disclosure requirements.

Non-Performing Asset (NPA)

NPAs refer to loans which are in risk of default. Reserve Bank of India (**RBI**) defines NPAs as below:

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

As per guidelines issued by the RBI, banks classify an account as NPA only if the interest due and charged on that account during any quarter is not serviced fully within 90 days from the end of the quarter.

Basis of Classification of Non-Performing Asset (NPA)

Banks are required to classify NPAs into the following **3 categories** based on how long do they remain non-performing.

The three categories are – Substandard Assets, Doubtful Assets and Loss Assets.

1. **Substandard Assets** – If an account remains as NPA for a period less than or equal to 12 months

2. **Doubtful Assets** – An asset would be classified as doubtful if it has remained in the substandard category for 12 months.

3. **Loss Asset** – A loss Asset is one where loss has been identified by the bank's internal or external auditors or upon an RBI inspection.

Implication of High NPAs for Banks

Banks with high level of NPAs effectively have lesser funds to advance i.e. lesser funds on which they can potentially earn interest income. Other negative impact of high NPAs:

- High level of provisioning [See Footnote] (banks are required to keep aside a portion of their operating profit as provisions, higher NPAs will increase the amount of provision thereby impacting the profitability);

- Burden on maintaining capital adequacy ratio;

- Increased pressure on Net Interest Margin (NIM);

- Reduce competitive position

Key Ratios for Asset Quality

Gross Non-Performing Assets (GNPAs): Gross NPA is the sum of all loan assets that are classified as NPA as per RBI guidelines. Gross NPA Ratio is the ratio of gross NPA to gross advances (loans) of the bank.

Non-Performing Assets (NPA) ratio: Net NPAs are calculated by deducting provisions from gross NPAs. The net NPA to advances (loans) ratio is used as a measure of the overall quality of the bank's loan book.

Net non-performing assets = Gross NPAs – Provisions

NPA ratio = Net non-performing assets / Advance

Non-Performing Asset (NPA) | Public Sector Banks | Private Sector Banks

Public Sector Bank	**NPAs (Q3 FY2015)**	**Private Sector Bank**	**NPAs (Q3 FY2015)**
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%

Source [3]

For Private sector Banks, **Yes Bank** is the **best** performer, followed by HDFC, IndusInd, and Axis. At the other end, for Public sector Banks, **United Bank of India** is the **worst** performer followed by Indian Overseas Bank, UCO Bank, and Allahabad Bank.

Some of the other public sector banks which have significant amount of NPAs include IDBI Bank (3.05%), SBI (2.80%), Bank of India (2.50%), Canara Bank (2.42%) and Syndicate Bank (2.38%).

Increasing bad loans have been a concern for the RBI for many years. The NPA problem is far graver for PSBs compared to their private sector peers.

Increasing bad loans have been a concern for the RBI for many years. The NPA problem is far graver for PSBs compared to their private sector peers.

The reforms in the banking industry started in the early 1990s have been continued till now (Bansal, 2004). The Narasimham Committee, 1991 had recommended several reforms in banking sector with the change wind of financial sector reforms (Sekhar, 2007) the winds of change gained momentum in the last few years, such as globalization of Indian economy and opening up of financial services under WTO. It is expected that the banking sector will undergo mergers and acquisitions (M&A),

consolidation, globalization of operations, development of new technology, best corporate governance practices and universalization (Sekhar, 2007), the impact of economic liberalization on the performance of Indian banking sector in the last decade and also the impact of banking sector reforms on the Indian banking sector.

CONCLUSION:

NPAs are draining the capital of the banks and weakening their financial strength. It is also as much a political and a financial issue. The banks and financial institutions should be more proactive to adopt a pragmatic and structured non-performing 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 [1].

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