NON - PERFORMING ASSET MANAGEMENT IN PUBLIC SECTOR, PRIVATE SECTOR AND FOREIGN BANKS IN INDIA

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ABSTRACT

Non-Performing Assets (NPA's) are one of the major areas of concern for the Indian banking industry. They do not just reflect badly in a bank's account books, they adversely impact the national economy. This study has been made to analyse the status of NPA of Public Sector, Private Sector and Foreign Banks in India using Ratio analysis. Ratio analysis is used to investigate the relationship between Gross NPA and Gross Advances, Sub-Standard Advances to Total Gross Advances, Doubtful Advances to Total Gross Advances, Loss Advances to Total Gross Advances and Ratio of Total Gross NPA to Total Gross Advances. ANOVA test has been applied to examine the difference in the ratio of Gross NPA and Total Gross Advances of Public Sector, Private Sector and Foreign Banks in India.

Keywords: *Non Performing Asset (NPA), Gross NPA, Gross Advances, Sub- Standard Advances*

INTRODUCTION

Economist says that a well-developed financial system enables smooth flow of savings and investments and hence, supports economic growth. Banking industry is a major financial sector of the economy that has achieved renewed focus after financial sector reforms and the entry of private sector and foreign banks. This sector is the foundation of modern economic development. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. In recent times the banks have become very careful in extending loans, the reason being rising non-performing assets.

A Non-Performing Asset (NPA) is a credit facility in respect of which the interest and/or instalment of principal has remained past due‟ for a specified period of time. According to the Narasimhan Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest and/or instalment of principal remains due for a period of four quarters (180 days) should be considered as NPAs. With an aim of moving towards the international best practices and ensuring greater transparency, a standard criterion of ‟90 days‟ overdue norm was fixed for identification of NPA from the FY ending March, 2004 in the Indian financial system. Thus, as per present convention, a non-performing asset refers to a loan or an advance where:

- Interest and/or instalment 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 instalment 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, and

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

REVIEW OF LITERATURE

Narula and Singla (2014) evaluated the non – performing assets of Punjab National Bank and its impact on profitability & to see the relation between total advances, Net Profits, Gross & Net NPA. They concluded that there is a positive relation between Net Profits and NPA of PNB.

Arora and Ostwal (2014) in their study on "Unearthing the Epidemic of Non-Performing Assets: A Study of Public and Private Sector Banks" find that the private sector is improving due to decline in NPAs ratio compared to Public sector banks due to recovery management done in NPAs and suggest that there is need to check the NPAs of public sector banks so that Indian banking system becomes efficient.

Srinivas K T (2013) in his study about the Non-performing assets at Commercial banks in India,highlights the various general reasons which convert advances/ assets into NPA.

Sikdar and Makkad (2013) their study provides an insight on the role of NPA in risk frame work of selected Indian commercial banks and try to put forward the means of interpreting credit risk from existing levels of bank NPAs. The study conclude that problem of NPAs can be tackled only with proper credit assessment and risk management mechanism.

OBJECTIVES OF THE STUDY

1. To analyze the status of NPA of Public Sector, Private Sector and Foreign Banks in India from 2014-2018.
2. To examine the difference in the ratio of Gross NPA and Gross Advances of Public Sector, Private Sector and Foreign Banks in India.

RESEARCH METHODOLOGY

Descriptive research design is used for the study. Data used in the research is secondary data, which was compiled from Reserve Bank of India (RBI) website. For the purpose of this study data for the years 2014 to 2018 were used for making comparison of NPAs of Public sector Banks, Private Sector Banks and Foreign Banks. Tools used for analysis include Ratio analysis and ANOVA.

RESULTS AND DISCUSSION

- **RATIOS ANALYSIS**
  - **Ratio of Total Gross NPA to Total Gross Advances**

Table 1

Total Gross NPA to Total Gross Advances(Rs. In Billions)

YEAR	GROSS NPAs	TOTAL GROSS ADVANCES	PERCENT SHARE
PUBLIC SECTOR BANKS			
2014	2273	52159	4.4
2015	2785	56167	5.0
2016	5400	58275	9.3
2017	6847	58664	11.7
2018	8956	61417	14.6
PRIVATE SECTOR BANKS			
2014	242	13613	1.8
2015	337	16087	2.1
2016	559	19742	2.8
2017	919	22604	4.1
2018	1259	27259	4.6
FOREIGN BANKS			
2014	116	2996	3.9

2015	108	3366	3.2
2016	158	3767	4.2
2017	136	3439	4.0
2018	138	3633	3.8

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

Above the Table 1 shows that the ratio of Gross NPA to Gross Advances for public sector banks and private sector banks are increasing from 4.4% to 14.6% and 1.8% to 4.6% respectively. Compared to public and private sector banks, the percentage of increase in NPAs is less in foreign banks.

Ratio of Sub-Standard Advances to Total Gross Advances

Table 2

Sub-Standard Advances to Total Gross Advances (Rs in Billions)

YEAR	SUB- STANDARD ADVANCES	TOTAL GROSS ADVANCES	PERCENT SHARE
PUBLIC SECTOR BANKS			
2014	958	52159	1.8
2015	1054	56167	1.9
2016	2005	58275	3.4
2017	1731	58664	3.0
2018	2146	61417	3.5
PRIVATE SECTOR BANKS			
2014	86	13613	0.6
2015	108	16087	0.7
2016	186	19742	0.9
2017	311	22604	1.4
2018	318	27259	1.2
FOREIGN BANKS			
2014	43	2996	1.4
2015	23	3366	0.7
2018	63	3767	1.7
2017	40	3439	1.2
2016	38	3633	1.1

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

The ratio of sub standard Advances to total Gross advances is showing increasing trend for public sectors and private sector banks (except in 2017) and decreasing trend for foreign banks (except in 2016).

Ratio of Doubtful Advances to Total Gross Advances

Table 3

Doubtful Advances to Total Gross Advances (Rs in Billions)

YEAR	DOUBTFUL ADVANCES	TOTAL GROSS ADVANCES	PERCENT SHARE
PUBLIC SECTOR BANKS			
2014	1216	52159	2.3
2015	1630	56167	2.9
2016	3232	58275	5.5
2017	4904	58664	8.4
2018	6277	61417	10.2
PRIVATE SECTOR BANKS			
2014	114	13613	0.8
2015	176	16087	1.1
2016	311	19742	1.6
2017	518	22604	2.3
2018	886	27259	3.2
FOREIGN BANKS			
2014	43	2996	1.4
2015	54	3366	1.6
2018	60	3767	1.6
2017	82	3439	2.4

2016	84	3633	2.3

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

The ratio of Doubtful advances to Gross advances for public, private and foreign sector banks is showing increasing trend, while the ratio started decreasing since 2018 in case of foreign banks overall the situation of foreign banks is better against other banks.

Ratio of Loss Advances to Total Gross Advances

Table 4

Loss Advances to Total Gross Advances (Rs in Billions)

YEAR	LOSS ADVANCES	TOTAL GROSS ADVANCES	PERCENT SHARE
PUBLIC SECTOR BANKS			
2014	99	52159	0.2
2015	100	56167	0.2
2016	163	58275	0.3
2017	213	58664	0.4
2018	533	61417	0.9
PRIVATE SECTOR BANKS			
2014	42	13613	0.3
2015	52	16087	0.3
2016	62	19742	0.3
2017	90	22604	0.4
2018	54	27259	0.2
FOREIGN BANKS			
2014	29	2996	1.0
2015	30	3366	0.9
2018	36	3767	0.9
2017	14	3439	0.4
2016	16	3633	0.5

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

The ratio of Loss advances to Gross advances is increasing from 2014 to 2018 in case of public sector banks and there is a fluctuating trend for private banks and foreign banks. It is observed that the ratio of loss advances to Gross advances in private banks is factory is satisfactory against other banks.

ANALYSIS OF VARIANCE

H_0: There is no significant difference between the Ratio of Gross NPA to Gross Advances of Public sector, Private Sector and Foreign Banks from the year 2014 to 2018

Table 5

Ratio of Total Gross NPA to Total Gross Advances

	Sum of Squares	Df	Mean Square	F	Sig
Between Groups	72.6	2	36.3	5.28	3.80
Within Groups	82.5	12	6.875		
Total	155.1	14			

From the ANOVA test, it is found that the calculated value of F = 5.28, which is greater than the table value $F_{0.05}$ =3.80, so null hypothesis is rejected. Hence there is a significant difference in the means of the three given samples. Hence it is concluded that there is a significant difference between the Ratio of Gross NPA to Gross Advances of Public sector, Private Sector and Foreign Banks for the years 2014- 2018.

FINDINGS

1. The Ratio of Gross NPA to Gross Advances is fluctuating in the study period for the banks.
2. The Ratio of Sub- standard advances to Gross Advances are satisfactory for Private sector Banks than Foreign and Public Sector Banks.
3. The Ratio of Doubtful advances to Gross Advances shows increasing trend for the Private Banks and Foreign Banks between 2014 -2016.
4. The Ratio of Loss Advances to Gross Advances is stable for Public and Private Sector Banks and greater in Foreign Banks.
5. The result of ANOVA shows that, Ratio of Gross NPA to Gross Advances for Public sector, Private Sector and Foreign Banks have significant difference from 2014 to 2018.

CONCLUSION

There are numerous provisions for NPA which are added/modified every year by the Reserve Bank of India and bank officials use this to their advantage-pretending unawareness of the latest guideline, misinterpretation of the clauses, clarification of the circular/guidelines issued by Head Office/Reserve Bank not responded, clauses on applicability in different industry not explicitly mentioned etc. Though software vendors want to update the NPA module/software based on the new additions/modifications, the interpretation of the guideline provided by different Bank officials makes it difficult to adopt common approach for building the software. The concept of effective early warning for NPA and the implementation measures by Reserve Bank or the Banks are not effective or successful. So the Reserve Bank of India need to examine the practicality of building a software for only NPA and inserting the relevant clauses when changes are done and which can work on top of any core/lending software for better control and monitoring. Banks can share the data periodically or as desired by Reserve Bank in an online manner and integrate with this NPA software run by Central Banks and any exceptions /deviations can only be approved by Central Bank.

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