Abstract

Non-performing assets or commonly known as NPAs these days have become a businesslike issue for the banking institutions. Banking institutions, with the basic function of lending money to different business houses, individuals etc. for the fulfillment of their needs as well as for the growth and development of the economy are facing extreme problems in order to get back the amount lend as the money lend is converting into NPAs to a large extent. NPA plays a very crucial role in assessing the performance of banking institutions and has become an approach to analyze the profitability of private and public sector banks. Net worth and profitability is also declining due to hike in the problem of NPAs in banking sector. This paper mainly focuses on a comparative study of NPA in public and private sector banking institutions and it also focuses on the main reasons of continuously increasing NPA’s. This study is also concerned about the measures that banking institutions must take to reduce or recover their NPA.

Keywords: Non-performing assets, Banking Institutions, Net worth, Profitability

Introduction

After nationalization, the Indian banking sector has made symbolic development in three aspects- branch expansion, deposit mobilization and loan maximization but among the above three management and monitoring of loans took a back seat. The origination of banking in India took place in the last decade of the 18th century and private sector and public sector banks are the essential part of banking system in India. At the present scenario, the Indian banking system is not only employed in their conventional business of accepting and lending money but have expanded their activities into advanced fields of operations like merchant banking, leasing, housing finance, mutual funds and venture capital.
Banking institutions, now a days are introducing and offering a great sum of inventive and innovative schemes for mobilizing deposits. In extension, a lot of beneficial services are also being provided by banking institutions to their customers such as issuing drafts, traveller’s cheques, gift cheques, accepting valuables for safe custody and modern banking facilities. Banking has undergone critical changes since the process of liberalization and reform of the financial sector were set in motion in 1991. The underlying aim to bring reforms and changes in financial sector is to make the system more combative, able, beneficial and fruitful. For an economy to flourish, a firm and solid banking sector is very necessary. There is a lot of injurious impact on other sectors due to the breakdown of banking sector. Non-performing asset (NPA), now a days has become one of the leading concerns for banks in India. Sky high NPAs of banking institution advocate high possibility of a large number of credit blunders that affect the profitability and net worth of banks and also corrode the value of the asset.

A Non-performing asset can be elucidated as a credit facility in respect of which the interest and/or installment of principle has remained ‘past due’ for a specific period of time. It refers to a classification for loans on books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest.

“An asset should be classified as non-performing, if the interest and/or principle amount has not been received or remained outstanding for one quarter from the day such income/ installment have fallen due.”

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the ‘90 days’ over dues norm for identification of NPAs from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004; a NPA is a loan or an advance where:

- Interest and/or installment of principle remain overdue for a period of more than 90 days in respect for a term loan;
- The account remains ‘out of order’ in respect of an overdraft or cash credit;
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;
- The installment of principle or interest thereon remains overdue for two crop seasons for short duration crops;
- The installment of principle or interest remains overdue for one crop season for long duration crops.
Types of Non-Performing Assets

- **Gross NPA**: As per RBI guidelines, Gross NPA are the sum total of all loan assets that are classified as NPAs as on Balance Sheet date. The nature of the loans made by banks is reflected by its Gross NPA. It consists of all the non-standard assets such as sub-standard, doubtful and loss assets. It can be calculated with the help of following ratio:

  \[
  \text{Gross NPA} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}
  \]

- **Net NPA**: All those type of NPAs in which the bank has deducted the provision regarding NPAs are called Net NPA. It can be calculated by following:

  \[
  \text{Net NPA} = \frac{\text{Gross NPAs} - \text{Provisions}}{\text{Gross Advances} - \text{Provisions}}
  \]

Types of Assets

- **Standard Assets**: If the borrower routinely pays his dues regularly and on time; bank considers such loan as its “Standard Asset”. All those assets for which the bank is receiving interest as well as the principal amount of the loan regularly from the customer are referred to as Standard Assets. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.

- **Sub-standard Assets**: If any loan or advance remains non-performing for a period of 12 months, it is called as Sub-standard assets.

- **Doubtful Assets**: With effect from 31 March 2005, if any asset remains NPA for a period exceeding 12 months, it is to be classified as doubtful.

- **Loss Assets**: All those assets which cannot be recovered are called as Loss assets.

Causes of NPA

(1) **Internal Factors**

- **Inappropriate Technology**: Proper management information system and financial accounting system is not implemented in the banks, which lead to poor credit collection. Thus it leads to increase in NPAs.

- **Managerial Deficiencies**: A careful study should be done while selecting borrowers and should take tangible assets as security to safeguard its interest.

- **Absence of Regular Industrial Visits**: The irregularities in spot visit also increases NPAs.
Re-loaning Process: Non remittance of recoveries to higher financing agencies and reloaning of the same have already affected the smooth operation of the credit cycle. Due to the reloaning to the defaulters and to those who fails to repay, NPA is increasing day by day.

(2) External Factors

- **Ineffective Recovery Tribunals**: The government of India has debt a large number of recovery tribunals which are responsible for recovery of loans and advances but due to their negligence and ineffectiveness in their work, the suffers the consequences of non-recovery.

- **Natural Calamities**: Natural Calamities is creating alarming rise in NPAs. India is frequently hit by major Natural Calamities that enables the borrowers to repay the loan.

- **Industrial Sickness**: Improper project handling, ineffective management, lack of adequate resources, lack of advanced technology, day to day changing government policies give birth to industrial sickness. Hence, the banks that finance those industries ultimately end up with a low recovery of their loans.

- **Lack of Demand**: Entrepreneurs in India lacks the ability to foresee the demand of their product and starts production which ultimately piles up their product thus making them unable to pay back the money they have borrowed to operate their production activities.

**Impact of Non-performing Assets on Operations of Bank**

- **Profitability**: NPA or bad debts occurs due to the banks inability to identify the genuineness of the client borrowing the money. Due to this fact, the money that is being lent by the banks never returns back to the banks and thus leads to decline in the profits.

- **Liquidity**: Due to rising NPAs, the bank at a massive extent is facing the problem of shortage of money in hand to lend to honest borrowers which in turn is reducing the total profits of the bank.

- **Involvement of Management**: A lot of management’s time is lost in managing and recovering the NPAs which would have spent in other meaningful activities so as to get good returns. Above that, specialized persons are to be hired by the bank to manage the NPA which also involves a huge amount of cost.
• **Credit Loss:** A bank bearing an ample amount of NPA also has to suffer a reduced market value, brand image and goodwill and also generates a negative impact on the minds of customers keeping their money in bank.

**Review of Literature**

Das and Dutta (2014), mainly focuses on finding out whether there is any significant difference in the NPA occurrence between various public sector banks in between the financial year 2008-2013.

Satpal (2014), was conducted a study to understand the position of NPA of all commercial banks categories in public sector, private sector, scheduled commercial banks and foreign banks. The study ended with the conclusion that NPA is a big problem faced by financial institutions and that banks should adopt effective recovery techniques to reduce NPA.

Mohnani, Deshmukh highlighted the position of NPA of selected PSB’s and Private Banks such as ICICI, HDFC, PNB and SBI. Measure of Central Tendency, Frequency Distribution, Standard Deviation, and Coefficient of Variation are being to compare the PSB’s and Private banks.

Sukul (2017), compared and highlighted the trends of Gross NPA and Net NPA of HDFC Bank, ICICI Bank and Axis Bank and also to find out correlation between Net profit and Net NPA. For the same, Karl Pearson’s Coefficient of correlation was used.

**Objectives**

The objectives of the study are:

• To understand the concept of NPA and RBI guidelines regarding NPA.
• To study the major reasons of accumulating NPA in the present scenario.
• To analyze the impact of NPA on operations and functioning of banking institutions.
• To study the comparative position of NPA in selected private and public sector banks.
• To assess and highlight the NPA position of selected private and public sector banks.
• To know the measures taken by banking institutions to recover their increasing NPA.

**Research Methodology**

Descriptive research is being used to accomplish this study as it comprises of statistical data and the central focus of the study is to make the comparison between the position of NPA in the selected private sector and public sector banks. The banks selected for this
study are as per the convenience. The sample contains one bank each of private sector as well as public sector banks.

Private Sector: Axis Bank

Public Sector: Punjab National Bank

The study is carried out on the basis of data for the period of 5 years from financial year 2011-12 to financial year 2015-16. The data collected is all secondary from various sources such as annual reports of banks, bank’s websites, press releases etc. In the present study, Gross NPA Ratio, Net NPA Ratio and Total Provisions Ratio are being used to analyze and interpret the data. The data is presented with the help of graphs, charts and tables.

DATA ANALYSIS

Comparing NPA of Private sector bank (AXIS BANK) and Public sector bank (PNB) on the basis of ratios.

- Comparison on the basis of gross NPA ratio:

  Gross NPA = Gross NPAs / Gross Advances

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross NPA PNB</th>
<th>Gross NPA AXIS</th>
<th>Gross Advances PNB</th>
<th>Gross Advances AXIS</th>
<th>Gross NPA Ratio (%) PNB</th>
<th>Gross NPA Ratio (%) AXIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>8720</td>
<td>1806</td>
<td>297610</td>
<td>121081</td>
<td>2.93</td>
<td>1.49</td>
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<tr>
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<td>2393</td>
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<td>131470</td>
<td>4.27</td>
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<td>3146</td>
<td>359620</td>
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<td>5.25</td>
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<td>25695</td>
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<td>2.42</td>
</tr>
<tr>
<td>2015-16</td>
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<td>6087</td>
<td>432698</td>
<td>200253</td>
<td>12.89</td>
<td>3.04</td>
</tr>
</tbody>
</table>

From Table 1, it can be analyzed that the Gross NPA of PNB that is a Public Sector Bank is much greater than Axis Bank which is a Private Sector Bank as the Private Banks are more efficient in handling and managing their NPA.
Comparison on the basis of Net NPA ratio:

\[
NPA = \frac{\text{Gross NPAs} - \text{Provisions}}{\text{Gross Advances} - \text{Provisions}}
\]

**Table 2: Calculation of Net NPA of PNB and Axis Bank**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross NPA</th>
<th>Gross Advances</th>
<th>Provisions</th>
<th>NET NPA Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>PNB</td>
<td>AXIS</td>
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</table>

From the above table 2, it can be stated that the Net NPA Ratio of PNB and Axis Bank when compared showed that the PNB has higher level of Net NPA and this is due to the reason that Public Sector Banks do not possess advanced technologies of credit appraisal.

Comparison on the basis of total provisions ratio:

\[
\text{Total Provisions Ratio} = \frac{\text{Total Provisions}}{\text{Gross NPAs}}
\]

**Table 3: Calculation of Total Provisions of PNB and Axis Bank**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross NPA</th>
<th>Provisions</th>
<th>Total Provisions Ratio (%)</th>
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<td>PNB</td>
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<td>2015-16</td>
<td>55818</td>
<td>6087</td>
<td>15313</td>
</tr>
</tbody>
</table>

Table 3 reveals that it can be concluded that the provisions that every banking institution makes for its future contingencies is much greater in case of Public Sector Banks as compared to Private Sector Banks.
Facts and Findings

- Net and the Gross NPA is increasing at a great speed in Public Sector banks than in Private Sector banks.
- Public Sector banks are less efficient at managing and monitoring their NPA in respect to Private Sector banks.
- Provisions made by banks for contingencies are very less in case of Axis Bank in comparison to Punjab National Bank.
- In spite of increasing NPAs of both the banks, the Operating Profits of the banks are continuously increasing.

Conclusion

- The problem of NPA is a serious issue and is dangerous to banks as it destroys the sound financial position and reduces the profitability.
- The customers and public losses their trust on the banks having higher rate of NPA level.
- NPA in alarmingly rising in Public Sector banks in comparison to Private Sector banks.
- Banks should accurately examine the intent of the customers to whom they are lending money to reduce NPA.
- Banks should conduct post money sanction assessment and check that the money is being used for productive purposes.
- The banks should adopt proper credit appraisal techniques in order to reduce their NPAs.
- Banks should recognize the problem at early stage and adopt proper recovery methods with legal actions.

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