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NPA MANAGEMENT BY PUBLIC & PRIVATE SECTOR BANKS IN INDIA

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Abstract : The banking sector in India has undergone a significant transformation following the financial sector reforms since 1992. With the entry of new private banks, the Indian banking sector has become more comparative and dynamic. The reduction in non-performing assets of private banks led to an improvement in their productivity, efficiency and profitability during 2011-12, 2012-13 and 2013-14, which reflects the positive impact of banking sector reforms. The analysis points out that despite an increase in gross and net NPAs in absolute terms, all the banks groups witnessed a fall in their NPAs in percentage terms. The private sector banks showed an appreciable improvement in their asset quality, reflected by the ratio of Gross NPAs to gross advances during the reference period. A sector wise analysis of NPAs reveals that the percentage share of priority sector in total NPAs of all bank groups (except of private sector banks) went up during the reference period.

Keywords : Capital Adequacy Ratio, Linear Growth Rate, Non-performing Assets, Priority sector, Provisioning norms.

INTRODUCTION

Financial Sector is the backbone of the economy of a country. It focus a significant influence on the size and composition of macroeconomic variable of national income, output, employment, saving and investment. The financial sector in India is dominated by banking sector which account for the large amount of the asset of the organized financial institutions. The Indian banking sector is predominantly in the public sector and private sector which accounts for more than 77% of the banking business and nearly 88% of the total branches of the scheduled commercial banks [SCBs].

After the nationalized in July 1969 and April 1980, the public sector banks (PSBs) in India have achieved phenomenal and unparallel growth in their geographical spread and functional coverage. The thrust of government’s economic policiesenunciated during the post nationalization period has coupled with balanced regional development of the economy. But, this led to inefficient resources allocation and constraints eroding the financial health of the banks. Their operational efficiency has been unsatisfactory, characterized by low productivity, profitability, mounting non-performing assets (NPAs) and relatively low capital base. In order to infuse efficiency in the banking sector, the financial sector reforms as a part of the boarder programme of structural economic reforms were initiated in 1991. The thrust of these reforms was on increasing productivity, efficiently and profitability of banks by creating competitive environment and removing external constraints.

BANKING SECTOR REFORMS

The outline sketch of the banking sector reforms in India was prepared by a high powered Committee on Financial System (CFC) chaired by SH. M Narasimham. The committee, which submitted its report in November 1991, made important recommendations to infuse efficiency and dynamism in the financial sector. The banking sector reforms in India are classified into two phases - the first phase covering the period from 1991-92 to 1997-98 and the second phase from the year 1997-98 onwards.

In the first generation reforms, in order to improve the financial performance and health of banking sector, prudential norms relating to income recognition, asset classification, provisioning and capital adequacy were introduced in April 1992. Banks were advised to classify their advances into four categories viz. (i) standard assets (ii) sub-standard assets (iii) doubtful assets and (iv) loss assets.

The pre-emption of banks' resources in the form of SLR and CRR was one of the major factors affecting their profitability. It had reached at the peak level of 53.5% in the early 1990s. The SLR was reduced from the highest level of 38.5% in February 1992 to 25% in October 1997, resulting in releasing the funds to be used by banks as per their requirements.

In the next order, the deregulation of interest rates was started w.e.f. April 1992 under which banks were given freedom to determine their own deposit and lending rates depending upon their own commercial judgement. The deregulation of interest rates aimed at encouraging competition among banks on the one hand and ensuring operational efficiency on the other. Further, banks were provided with more functional autonomy in May 1992 when they were given more freedom to open or close their branches in different types of area. An important land mark in annals of banking sector reforms was the introduction of capital adequacy norms. A capital adequacy ratio of 4% to be achieved by march 1993, 8% by March 1996 and 10% by March 2010, with the provision of penalty for defaulting banks which fail to maintain capital to risks asset ratio (CRAR). In order to create a competitive environment, consistence with the policy of LPG the private sector and foreign banks (FBs) were liberally allowed to enter the Indian Banking sectors under the first generation reforms.

All these measures resulted in a significant improvement in the financial performance of banks in India. But, it was still felt to strengthen the banking sectors by bringing it at par with the international standards. This task was again assigned to Shri M. Narasimham under whose chairmanship the Committee on Banking Sectors Reforms (CBSR) was formed. This committee submitted its report in April 1998. It reviewed the progress under banking sectors reforms after 1991 and designed a road map for further strengthening the financial system in India. The committee devised a phased programme for banks to strengthen the prudential norms, credit delivery system, improving their CAR, providing financial inclusion and improving the customer services. The Narasimham committee-II strongly recommended the need for zero non-performing assets for all Indian banks with international presence, it blamed the poor credit decisions, behest-lending and cyclical economic factors to be responsible for the huge NPAs of the banks.

NON-PERFORMING ASSETS : MEANING AND TYPE

An asset becomes non-performing when it ceases to generate income for the bank. It is defined as a loan or advance where interest and /or principle amount remains overdue for a period of more than 90 days in respect of a term loan. The NPAs are classified as Gross NPA (GNPA) and Net NPA (NNPA). The GNPA is an advance which is considered irrecoverable, for bank has made provisions, and which is still held in bank's book of account. On the other hand, NNPA is obtained by deducting from GNPA the items like interest due but not recovered, provisions made for NPAs, part payment received and kept in suspense account etc. The non-performing assets are further classified into the following three categorized bases upon the period for which they remain NPA.

CATEGORIES OF NPA'S

NPA Category	Norms Effective from 31/03/2005
(i) Substandard Asset	A substandard asset is one which remains NPA for a period of less than or equal to 12 months. In this case current net worth of the borrower/guarantor or market value of the security is not adequate enough to ensure recovery of the dues to the bank
(ii) Doubtful Asset	An Asset becomes doubtful if it remains in the standard category for more than 12 months
(iii) Loss Asset	A loss asset is one where the loss has been identified by the bank/auditors/RBI inspection but the amount has not been written off wholly

NPA PROVISIONING NORMS EFFECTIVE FROM MAY 4, 2011

Category of Assets	Provisioning Rate (%)
(i) Standard Assets : * Direct Advances to Agriculture and SMEs * Advances to Commercial Real Estate (CRE) sector * All other loans and advances not included above	 0.25 1.00 0.40
(ii) Sub-Standard Assets : ? Secured Exposures ? Unsecured Exposures ? Unsecured Exposures in respect of infrastructure loan accounts where certain safeguards such as Escrow accounts are available	
(iii) Doubtful Assets – unsecured portion : Doubtful Assets – secured portion : ? For Doubtful upto to 1 year ? For Doubtful > 1 year and upto 3 years ? For Doubtful > 3 years	100 25 40 100
(iv) Loss Assets :	100

RESEARCH METHODOLOGY :

In the banking sectors reforms, the Indian banking sector has become strong, competitive and dynamic but it is faced with the new challenges also. The management of huge and mounting NPAs is one of the major challenges faced by Indian banking sector. In this backdrop the present paper seeks to analyze the comparative performance of different bank groups in managing their non performing assets. The scope of the study has been confined to the public sector and private sector banks only. It is because these banks dominate the Indian banking industry in terms of their business and branch network. Hence, their study could appropriately determine the emerging trends of the whole banking sector in the country. The reference period for the study is from April 2011 to March 2014. Because for these latest years the required data was available. The study is based on secondary dated compiled from the RBI publications – Basic Statistical Return, RBI Bulletin, Report on Currency and Finance, Trends and Progress of Banking in India and Statistical Tables Relating to Banks in India and banking annual Volume VI issue one of Business standard December, 2014 issue.

TABLE-1 PUBLIC SECTOR BANKS – RETURN ON NET WORTH (RoNW %)

Name of the Bank	F Y 2011-12	F Y 2012-13	F Y 2013-14	Average
Allahabad Bank	21.6	11.8	10.9	14.77
Andhra Bank	19.3	16.2	5.1	13.53
Bank of Baroda	20.6	15.1	13.4	16.37
Bank of India	15.0	12.9	11.2	13.03
Bank of Maharashtra	11.2	16.8	6.4	11.47
Canara Bank	17.0	13.2	10.4	13.53
Central Bank of India	5.0	8.3	0.0	4.43
Corporation Bank	19.5	16.1	5.7	13.77
Dena Bank	20.7	17.6	9.8	16.03
IDBI Bank	13.4	10.2	5.4	9.67
Indian Bank	19.9	15.7	10.3	15.3
Indian Overseas Bank	11.1	4.9	4.5	6.83
Oriental Bank of Commerce	10.7	11.5	9.2	10.47
Punjab & Sind Bank	14.0	9.2	7.4	10.2
Punjab National Bank	21.0	16.5	10.2	15.9
SB of Bikaner and Jaipur	18.6	16.4	14.5	16.5
SB of Hyderabad	22.0	17.7	12.7	17.47
SB of Mysore	11.3	11.6	7.1	10
SB of Patiala	18.0	13.2	7.8	13
SB of Travancore	13.9	14.9	6.5	11.77
State Bank of India	15.7	15.4	10.0	13.7
Syndicate Bank	17.9	22.8	16.7	19.13
UCO Bank	19.4	6.6	16.8	14.27
Union Bank of India	14.8	15.0	10.4	13.4
United bank of India	14.4	7.5	-29.1	-2.4

TABLE-2 PRIVATE SECTOR BANKS – RETURN ON NET WORTH (RoNW %)

Name of the Bank	F Y 2011 -12	F Y 2012-13	F Y 2013-14	Average
Axis Bank	20.3	18.5	17.4	18.73
Catholic Syrian Bank	5.0	5.6	4.2	4.93
City Union Bank	24.9	22.3	18.9	22.03
DCB Bank	5.3	8.8	12.4	8.83
Dhanlaxmi Bank	0.0	0.3	0.0	0.1
Federal Bank	14.4	13.9	12.6	13.63
HDFC Bank	18.7	20.3	21.3	20.1
ICICI Bank	11.2	13.1	14.0	12.77
IndusInd Bank	19.2	17.8	17.5	18.17
ING Vysya Bank	14.3	14.6	11.4	13.43
Jammu and Kashmir Bank	21.2	23.6	22.3	22.37
Karnataka Bank	9.8	12.8	10.5	11.03
KarurVyasya Bank	20.8	19.0	13.4	17.73
Kotak Mahindra Bank	14.6	15.6	13.8	14.67
Lakshmi Vilas Bank	12.7	10.1	6.2	9.67
Nainital Bank	17.9	13.5	15.6	15.67
Ratnakar Bank	5.9	6.7	5.1	5.9
South Indian Bank	21.6	20.5	16.6	19.57
Tamilnad Mercantile Bank	20.9	24.1	14.0	19.67
Yes Bank	23.1	24.8	25.0	24.3

TABLE-3PUBLIC SECTOR BANKS – GROSS NON PERFORMING ASSETS (GNPA IN %)

Name of the Bank	F Y 2011-12	F Y 2012-13	F Y 2013-14	Average
Allahabad Bank	1.8	3.9	5.7	3.8
Andhra Bank	2.1	3.7	5.3	3.7
Bank of Baroda	1.5	2.4	2.9	2.27
Bank of India	2.3	3.0	3.2	2.83
Bank of Maharashtra	2.3	1.5	3.2	2.33
Canara Bank	1.7	2.6	2.5	2.27
Central Bank of India	4.8	4.8	6.3	5.3
Corporation Bank	1.3	1.7	3.4	2.13
Dena Bank	1.7	2.2	3.3	2.4
IDBI Bank	2.5	3.2	4.9	3.53
Indian Bank	2.0	3.3	3.7	3
Indian Overseas Bank	2.7	4.0	5.0	3.9
Oriental Bank of Commerce	3.2	3.2	4.0	3.47
Punjab & Sind Bank	1.6	3.0	4.4	3
Punjab National Bank	2.9	4.3	5.3	4.17
SB of Bikaner and Jaipur	3.3	3.6	4.2	3.7
SB of Hyderabad	2.6	3.5	5.9	4
SB of Mysore	3.7	4.5	5.5	4.57
SB of Patiala	2.9	3.3	4.8	3.67
SB of Travancore	2.7	2.6	4.3	3.2
State Bank of India	4.4	4.8	4.9	4.7
Syndicate Bank	2.5	2.0	2.6	2.37
UCO Bank	3.5	5.4	4.3	4.4
Union Bank of India	3.0	3.0	4.1	3.37
United bank of India	3.4	4.3	10.5	6.07
Vijaya Bank	2.9	2.2	2.4	2.5

TABLE-4PRIVATE SECTOR BANKS – GROSS NON PERFORMING ASSETS (GNPA IN %)

Name of the Bank	F Y 2011 -12	F Y 2012 -13	F Y 2013 -14	Average
Axis Bank	0.9	1.1	1.2	1.07
Catholic Syrian Bank	2.4	2.3	3.8	2.83
City Union Bank	1.0	1.1	1.8	1.3
DCB Bank	4.4	3.2	1.7	3.1
Dhanlaxmi Bank	1.2	4.8	6.0	4
Federal Bank	3.3	3.4	2.5	3.07
HDFC Bank	1.0	1.0	1.0	1
ICICI Bank	3.6	3.2	3.0	3.27
IndusInd Bank	1.0	1.0	1.1	1.03
ING Vysya Bank	1.9	1.8	1.8	1.83
Jammu and Kashmir Bank	1.5	1.6	1.7	1.6
Karnataka Bank	3.3	2.5	2.9	2.9
KarurVyasya Bank	1.3	1.0	0.8	1.03
Kotak Mahindra Bank	1.6	1.5	2.0	1.7
Lakshmi Vilas Bank	3.0	3.9	4.2	3.7
Nainital Bank	1.6	3.1	2.5	2.4
Ratnakar Bank	0.8	0.4	0.8	0.67
South Indian Bank	1.0	1.4	1.2	1.2
Tamilnad Mercantile Bank	1.3	1.3	2.5	1.7
Yes Bank	0.2	0.2	0.3	0.23

TABLE-5 PUBLIC SECTOR BANKS – NET NON PERFORMING ASSETS (NPA IN %)

Name of the Bank	F Y 2011 -12	F Y 2012 -13	F Y 2013 -14	Average
Allahabad Bank	1.0	3.2	4.2	2.8
Andhra Bank	0.9	2.5	3.1	2.17
Bank of Baroda	0.5	1.3	1.5	1.1
Bank of India	1.5	2.1	2.0	1.87
Bank of Maharashtra	0.8	0.5	2.0	1.1
Canara Bank	1.5	2.2	2.0	1.9
Central Bank of India	3.1	2.9	3.8	3.27
Corporation Bank	0.9	1.2	2.3	1.47
Dena Bank	1.0	1.4	1.4	1.27
IDBI Bank	1.6	1.6	1.6	1.6
Indian Bank	1.3	2.3	2.3	1.97
Indian Overseas Bank	1.4	2.5	2.5	2.13
Oriental Bank of Commerce	2.2	2.3	2.3	2.27
Punjab & Sind Bank	1.2	2.2	2.2	1.87
Punjab National Bank	1.5	2.3	2.3	2.03
SB of Bikaner and Jaipur	1.9	2.3	2.3	2.17
SB of Hyderabad	1.3	0.0	0.0	0.43
SB of Mysore	1.9	2.7	2.7	2.43
SB of Patiala	1.4	1.6	1.6	1.53
SB of Travancore	1.5	1.5	1.5	1.5
State Bank of India	1.8	2.1	2.1	2
Syndicate Bank	1.0	0.8	0.8	0.87
UCO Bank	2.0	3.2	3.2	2.8
Union Bank of India	1.7	1.6	1.6	1.63
United bank of India	1.7	2.9	2.9	2.5
Vijaya Bank	1.7	1.3	1.3	1.43

TABLE-6PRIVATE SECTOR BANKS – NET NON PERFORMING ASSETS (NPA IN %)

Name of the Bank	F Y 2011 -12	F Y 2012 -13	F Y 2013 -14	Average
Axis Bank	0.3	0.4	0.4	0.37
Catholic Syrian Bank	1.1	1.1	2.2	1.47
City Union Bank	0.4	0.6	1.2	0.73
DCB Bank	0.6	0.8	0.9	0.77
Dhanlaxmi Bank	0.7	3.4	3.8	2.63
Federal Bank	0.5	1.0	0.7	0.73
HDFC Bank	0.2	0.2	0.3	0.23
ICICI Bank	0.7	0.8	1.0	0.83
IndusInd Bank	0.3	0.3	0.3	0.3
ING Vysya Bank	0.2	0.0	0.3	0.17
Jammu and Kashmir Bank	0.2	0.1	0.2	0.17
Karnataka Bank	2.1	1.5	1.9	1.83
KarurVyasya Bank	0.3	0.4	0.4	0.37
Kotak Mahindra Bank	0.6	0.6	1.1	0.77
Lakshmi Vilas Bank	1.7	2.4	3.4	2.5
Nainital Bank	0.0	0.0	0.0	0.0
Ratnakar Bank	0.2	0.1	0.3	0.2
South Indian Bank	0.3	0.8	0.8	0.63
Tamilnad Mercantile Bank	0.4	0.7	1.2	0.77
Yes Bank	0.1	0.0	0.1	0.07

Table 1 brings into light that the average return on net worth (RoNW) of Syndicate Bank for last 3 financial years is highest among the various public sector banks, whereas United Bank of India has reported the negative RoNW.

Table 2 indicates that Jammu and Kashmir bank as well as City Union Bank has shown highest RoNW of average of more than 22% for last 3 financial years, whereas Dhanalaxmi Bank has reported 0.1% as the lowest RoNW among the Private Sector Banks.

On Comparison of above table 1 & 2 it indicates thatRoNW of private sector banks is much better and qualitative as compare to public sector banks.

On analyzing table 3 it appears that the Gross NPA (GNPA) of public sector banks was comparatively higher. The Corporation Bank has lowest GNPA of 2.13% whereas that of United Bank of India has highest average GNPA of 6.07% during last 3 financial years i.e 2011-12 to 2013-14. Table 4 indicates that the lowest average GNPA among various private sector banks is that of Yes Bank having 0.23% whereas ICICI bank has highest average GNPA of 3.27% during the last three financial years.

On the observation of table 5 it appears that the Net NPA in % is comparatively less than that of GNPA in %. The average of highest Net NPA is reported by Central Bank of India as 3.27% Whereas State Bank of Hyderabad has reported 3 years lowest average Net NPA of 0.43%.

On observation of table 6 as regards comparing the average Net NPA of private sector banks, ING Vyasya and Jammu & Kashmir Bank has reported the lowest average Net NPA of 0.17% during the last 3 financial years.

SUGGESTION FOR BETTER NPA MANAGEMENT

The commercial banks deal in other people's money. In order to be viable and sustain for long, it is essential for them to increased their productivity, efficiency and profitability. It further requires to curtail their non performing assets and to keep them at the lowest possible level. The management of NPAs is a challenging task before the banks. It requires various preventive and remedial measures to be under taken. First and foremost, pre-delivery credit appraisal of credit power supervision and follow up on the part of banks is necessary to avoid the misuse and diversion of funds by the borrowers. A reduction in the stipulated targets under directed credit schemes would also be helpful in curtailing their NPAs. It has been observed that a large proportion of NPAs is stuck with the big account holders as compared to the small borrowers, which hints towards the willful default. In fact, our legal system is sympathetic towards the borrowers and bent against the interest of banks, which is needed to be reviewed. Finally, in addition to debt recovery tribunals, special recovery cells are needed to be set up at regional and zonal levels for the speedy recovery of over dues.

CONCLUSIONS

The banking sector in India has undergone a significant transformation following the financial sector reforms since 1992. With the entry of new private sector and foreign banks, the Indian banking sector has become more competitive and dynamic. An improvement in productivity, efficiency and profitability, led by the reduction in the NPAs of private sector banks and to some extent public sector banks it reflects the positive impact of banking sector reforms on their financial health. The analysis points out that despite an increase in gross and net NPAs in absolute terms, all the banks groups witnessed a fall in their NPAs in percentage terms. The public sector banks showed an appreciable improvement in their asset quality, reflected by the ration of GNPAs to return on net worth during the reference period. The private sector banks also showed an improving performance in reducing their non performing assets. A sector wise analysis of NPAs reveals that the percentage share of public sector in total NPAs of all bank groups went up during the reference period.

In nutshell, it can be concluded that though the public sector bank in India have become more dynamic and competitive, they still have to be more strong and geared to meet the challenges posed by the liberalization, privatization and globalization. They are expected to manage their NPAs quite efficiently in conformity with Basel-II norms and other international best practices. In fact the recent legal reforms have allowed the banks to auction properties (residential and commercial) of defaulters and enabling them to ensure faster recovery of their non-performing assets. But, still in order to minimize their NPAs they have to improve their credit appraisal and delivery system, adopt more effective methods of recoveries and to be bold enough to take legal action against the big defaulters.

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