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A STUDY ON NON PERFORMING ASSETS OF PUBLIC SECTOR BANKS IN INDIA

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ABSTRACT

Non Performing Assets (NPAs) are important and challenging issue in the banking sector. Non Performing Assets are like a blunt weapon in banking sector. It does not generate any income, whereas, the bank is required to make provisions such as assets. The problem of NPA is not limited to only any particular nation's banks, but it prevails in the entire banking industry in the world. There are many researchers have been focused on the issues regarding the NPAs. The present study is based on the secondary data which have been collected from the report of RBI and website. The study purpose public sector banks has been taken over here and the data of NPA. The scope of the study is limited to the analysis of NPA of the public sector banks for only five years from 2010 to 2015.

...blic 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	[illegible]	Ra[illegible]kar Bank	0.31%
Oriental Bank of Commerce	[illegible]	[illegible]	0.32%
Andhra Bank	[illegible]	Axis [illegible]	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%
...ited Bank of India	8.50%	City Union Bank	1.31%

KEY WORD : *Non Performing Assets, Public Sector Banks.*

1. INTRODUCTION :

The managing an account division assumes a fundamental job in the financial advancement of our nation. It is forms the hub of the financial sector of an economy. In the starting when the financial reforms were undertaken by the Government of India based on the Narasimham committee report I and II Reserve Bank of India introduced some prudential norms to address the credit monitoring policy, which were being pursued by the banks and other NBFCs. To strengthen the recovery of loans and dues by the banks and the other financial institutions Government of India in the year 1993, promulgated the 'recovery of debts due to bank and other financial institutions act' and the 'Securitisation and reconstruction of financial assets and enforcement of security interest act' in the year 2002. But statistics shows NPA level is ever increasing day by day, and the said act, which was introduced by the Government of India is not serving the purpose they were actually formed the reason behind it can be the banks approach the attitude towards financing and recovery of loans especially from the small and medium enterprises and also the lack of knowledge about the law and its practice in banking and also violations of the RBI directors / circulars, which are essential to follow by every bank and financial institutions.

In the financial year 2013, the non performing assets had gone upto Rs. 95825 crores, according to the CRISIL report, the gross NPA will increase from 3.3% on 03.2013 to 4% by 03.2014. An important questions is to be answered by the banks and other financial institutions about the recovery of the dues, and banks approach towards focusing on the 'efficiency and fairness' and also become understanding when dealing genuine difficulties in managing the fraud. A strong banking and financial sector is important for banking and financial sector is important for a developing economy and the failure of which may have adverse effect on all the sectors.

2. NON PERFORMING ASSETS

The concept of NPA is revolved around the loans and the advances. Generally loans are the performing assets of the banking sector. So when the customer is not repaying loans in the stipulated time period it can be known as the NPA.

So in a nutshell, “NPA means loans which are undue or defaulted for the specified period of time generally for 90 days”.

3. CLASSIFICATION OF NPA

Generally banks classify the NPA in the three categories. i.e.

i) Substandard assets:- These are the loans which are not recovered for more than 90 days but less than 12 months.
ii) Doubtful assets:- Assets which are overdue for eh period of more than 12 months.
iii) Loss assets:- Assets which are non recoverable and now not to possible of the recovery of such type of loans.

4. IMPACT OF NPA OVER THE BANKING PROFITABILITY :-

i) For most and noteworthy impact of NPA is reduction in the profitability of banking sector, which they could generate in form if interest.
ii) NPA also create negative impact over the liquidity of banks.
iii) Moreover NPA inversely affects the balance sheet of banks.
iv) It also adversely affect the image of the banks.

5. CAUSES OF NPA:-

i) Default by the customer
ii) Industrial crises
iii) Economic recession
iv) Credit mismanagement
v) Lack of Portfolio management
vi) Absence of written policies
vii) Improper follow up management
viii) Lack of Loan provisioning standards
ix) Internal and external reasons.

6. LITERATURE REVIEW:-

Kaur K. and Singh B. (2011) in their study on Non- Performing assets of public and private sector banks (a comparative study) studied that NPA’s are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector.

Dr. Biswanath Sukal (2017) In the research paper named “Non Performing asset (NPA). A comparative study of selected private sector banks. Done the study on comparison of NPA of private sector banks. In initial part he explained about the concept of NPA. Classified the loans in favour different parts i.e. standard assets, sub standard assets, doubtful assets and loss assets. The key aim of the papers is to compare the gross NPA and Net NPA of HDFC bank, ICICI Bank and Axis Bank.

7. OBJECTIVE OF THE STUDY:-

i) To know more about Non Performing assets
ii) To study the status of Non Performing Assets of Nationalized Banks in India.
iii) To study the impact of NPAs on Bank.
iv) To make appropriate suggestions to avoid future NPAs

8. RESEARCH METHODOLOGY:-

The Present research paper is studding the impact of NPA over the profitability for that secondary sources of data have been used which is obtained from published report of RBI and other articles and Journals.

9. LIMITATION OF THE STUDY:-

The important limitations are as follows:-

- The study of non performing assets limited to the Indian Nationalized Bank.
- The basis for identifying non – performing assets is taken from the Reserve Bank of India publications.
- NPA's are changing with the time. The study is done in the present environment without foreseeing future development.

10. SCOPE OF THE STUDY:-

The study has the following scope:-

- The study could suggest measures for the banks to avoid future NPAs and to reduce existing NPAs.
- The study may help the government in creating and implementing new strategies to control NPAs.
- To study will help to select appropriate techniques suited to manage the NPAs.
- Develop a time bound action plan to check to growth of NPAs.

Table – 1 Non Performing Asset Ratio of the PSBs in India (2010 – 2015)

Banks	2010-11	2011-12	2012-13	2013-14	2014-15
SBBJ	0.83	1.92	2.27	2.76	2.54
SBOH	0.87	1.30	1.61	3.12	2.26
SBI	1.63	1.82	2.10	2.57	2.12
SBOM	1.38	1.93	2.69	3.29	2.16
SBOP	1.21	1.35	1.62	3.17	3.88
SBOT	0.98	1.54	1.46	2.78	2.04
AB	0.79	0.98	3.19	4.15	3.99
ANB	0.38	0.91	2.45	3.11	2.93
BOB	0.35	0.54	1.28	1.52	1.89
BOI	0.91	1.47	2.06	2.00	3.36
BOM	1.32	0.84	0.52	2.03	4.19
CB	1.10	1.46	2.18	1.98	2.65
CBOI	0.65	3.09	2.9	3.75	3.61
COB	0.46	0.87	1.19	2.32	3.08
DB	1.22	1.01	1.39	2.35	3.82
IDBI	1.06	1.61	1.58	2.48	2.88
IB	0.53	1.33	2.26	2.26	2.50
IOB	1.19	1.35	2.50	3.20	5.71
OBC	0.98	2.21	2.27	2.82	3.32
PSB	0.56	1.19	2.16	3.35	3.55
PNB	0.85	1.52	2.35	2.85	4.05
SB	0.97	0.96	0.76	1.56	1.90
UCO	1.84	1.96	3.17	2.38	4.30
UBOI	1.19	1.70	1.61	2.33	2.71
UNBOI	1.42	1.72	2.87	7.18	6.11
VB	1.52	1.72	1.30	1.55	1.91

Source – RBI Report – RBI Annual Report - A profile of Banks 2014-15

The above table depicts the amount of the Non-Performing Assets Ratio of the public sector banks in India during the period 2010-11 to 2014-15 above table indicated that the NPAR percentage has increased from 19.01% for total banks in 2010-11 to 83.46% in 2014-15.

11. IMPACT OF NON-PERFORMING ASSET:-

- The issue of NPAs in the Indian managing an account framework is one for the fore most and the most considerable issues that had effect the whole keeping money framework. Higher NPA proportion trembles the certainty of financial specialists, investors, loan specialists and so on. It additionally causes poor reusing of assets. Which thus will have pernicious impact on the organization of credit. The non – recuperation of advances impacts further accessibility of acknowledge as well as monetary soundness of the banks.
- Profitability :- NPAs put hindering effect on the gainfulness as banks stop to procure salary on one hand and draw in higher provisioning contrasted with standard resource then again on a normal banks are giving around 25% to 30% extra arrangement a gradual NPAs which has coordinate bearing on the benefit of the banks.
- Asset (credit) Contraction :- The expanded NPAs put weight on reusing of assets and lessens the capacity of banks for loaning more and along these lines results in lesser premium pay. It gets the Money Stock which may prompt monetary log jam.
- Liability Management ;- In the light of high NPAs. Bank will in general lower the loan fees on stores on one hand and prone to exact higher financing costs on advances to continue NIM. This may move toward becoming obstacle in smooth money related intermediation process and hampers banks. Business just as financial development.
- Capital Adequacy :- according to based standards bank are required to keep up sufficient capital on hazard – weighted resources on an on going premise. Each expansion in NPA level adds to hazard weighted resources which warrant the banks to shore up their capital base further. Capital has a price tag ranging from 12% to 18% since it is a scarce resource.

  • Shareholders certainty :- Normally, investors are intrigued to upgrade estimation of their ventures through higher profits and market capitalization which is conceivable just when the bank posts noteworthy benefits through enhanced business.

  • Public certainty:- Credibility of saving money framework is likewise influenced extraordinarily because of more elevated amount NPAs since it shakes the certainty of overall population in the soundness of the managing an account framework. The expanded NPAs may present liquidity issues which is probably going to lead kept running on bank by investors. In this manner, the expanded frequency of NPAs not just influence the economy in general.

12. SUGGESTION:-

- Recovery camps
- Preference of claims
- Compromise proposals
- Technical write off
- One time Settlement Scheme
- Suit filing
- Debt recovery tribunals
- Lok Adaltes
- Securitization Act

13. CONCLUSION:-

According to RBI, terms loans on which interest or installment of principal remains overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset. The average NPAR of the PSBs in India for the last 5 years was 1.75% Higher ratio reflects the rising bad quality of loans. It helps identify the quality of assets that a bank possesses. Banks need to bring down fresh additions to NPAs to improve the quality of their asset portfolio. Hence the success of a bank depends on methods of managing NPAs. However the problem of the public sector banks these days are the increasing level of the non performing assets. The non performing assets of the public sector banks have been increasing regularly year by year. The finding of this study show that the NPA has a negative and significance impact on banks Financial Performance in the period under study.

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