TRENDS OF NON-PERFORMING ASSETS IN PUBLIC, PRIVATE &FOREIGN BANKS

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INTRODUCTION

Development of an economy depends upon the banking structure of the nation. To maintain an efficient banking structure, every country have an apex body known as Central Bank which maintain &control working of every bank of a nation.Central Bank is bank for government. It also regulates money supply in economy & hence regulates the cyclical fluctuations. Central Bank took various preventive & precautionary measures to continuously improve the banking condition to enhance the capital formation & investment conditions.Therefore, analysis of banking sector is considered as a barometer to measure the speed of development of an economy.

Indian Banking Reforms

After Nationalization of banks (1980) Indian banking sector undergone huge downfall due to decline in technology, financial repression, and poor risk management. It resulted in low profitability & poor asset quality. Due to which, country fall in deep economy trap. To handle this crisis, various suggestions were invited. In 1991 some recommendations in reports known as the Narasimham Committee, suggesting banking reforms & introduced the concept of Non-Performing Assets (NPA).NPA is one of the best tools to judge the health of the banking sector.

Meaning of NPA

As per the RBI "NPA was defined as a credit facility in respect of which the interest &/or installment of principal has remained `past due` for a specific period of time." NPA reflects the risk perception, cost of capital which affects the profitability &liquidity of a bank. From some previous years rising NPA have regularly been reported in INDIA which describes ill health of banks. The problem of NPA emerges from the lending of banks which is the prime source of income to the bank. Indian banking industry holds the fifth rank worldwide in NPA concern. Due to the fallen growth rate, profit margin of industries fell & corporates proved unable to repay their hefty loans. According to the "Narasimham Committee Report (1991), those assets (overdraft/ cash credit) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs. As per the revised guidelines issued by RBI in 2004 the outstanding period of 180 days is shortened to 90 days. NPA is broadly classified into two categories-
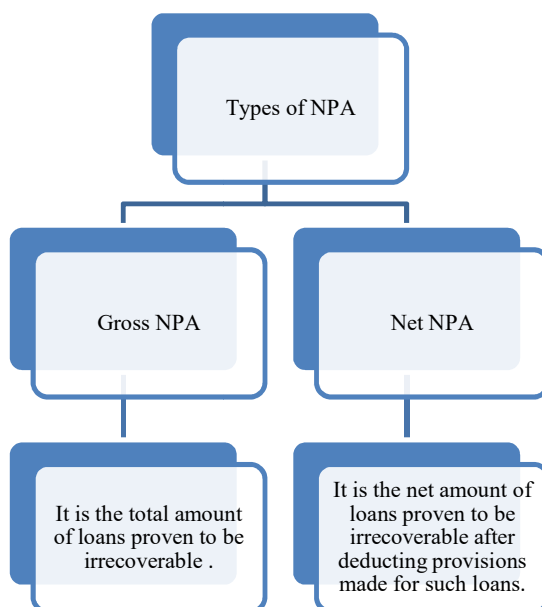
Types of Non-Performing Assets (Source RBI)
Classification of Assets

Type of assets	Features	Provision
Standard asset	Assets which are performing well & no any type of serious risk of non-repayment & arrear. It is also known as Performing Asset.	0.25%
Sub-standard asset	Asset which has been non-performing for a period of more than 90 days but less than 120 days.	15%
Doubtful asset	An asset is called doubtful asset when sub-standard asset remain unpaid more than 12 months but not declared those asset loss asset.	25% (asset unperformed for 1 year) 40%(asset unperformed for 1-3 year) 100%(asset unperformed for not more than 3 years)
Loss asset	Asset which has identified totally as bad& no chance of recovery& not yet deleted from the books.	100% provision.

Literature review

Banks are suffering from lower profitability. Rising NPAs is the root cause of lower profitability of banks. Many researchers studied to analyze the several factors governing NPA-

Bodla, B.S and Verma R., (2006) Conducted the study on multiple profitability determinants of Public Sector Banks. It was based on temporal data from 1991-92 to 2003-04. Paper discussed the explanatory power of several variables, discussed the degree of relationship of variables with Net Profit. Paper was concluded by discussing the variables responsible for expenses & losses and found that NPA was the major cause of losses to the banks.

Sibal, S.K., (2007) analyzed NPA performance in Public Sector Banks, Private Sector Banks & foreign Banks by analyzing the performance of gross & net NPAs with total assets & total advances. It was based on temporal data from 2001-02 to 2005-06. Paper was concluded by discussing the management tools & techniques to handle the NPAs.

Siraj K.K. & Pilani, (2011) studied the post effect of Global Crisis performance of Indian Commercial Banks. Data from 1999-2000 to 2010-2011 were taken. It was identified that provisions & contingencies made against NPA in 2010-11 were higher than the provisions& contingencies made in 2007-08. NPA increased in number after the Global Crisis. Foreign Banks & Nationalized Banks were the most affected banks. Except for SBI& its associates all other banks reduce its CDR after 2007. As a result of it, banks were forced to invest in less risky (low return) portfolio.

Puntambekar G.L& Mehar B.K, (2016)explored the performance of specific banks in concern to NPAs by using Z test. The study was based on secondary data ranging from 2005 to 2013. It was analyzed that public Banks had the highest number of assets proved NPA .paper was concluded by pointing that the SARFAESI Act recovered many loans.

Mittal, Raj Kumar, and Suneja, Deeksha, (2017) conducted the study on identifying the causes of NPA& to analyze the trend of NPA in Public &Private Banks. Paper was made on the data available for the period from 2005-06 to 2015-16. It was analyzed that NPA figures have increased in Public and Private Banks but Public Banks NPAs are 10 times more than the Private Banks. Paper was concluded by pointing out the causes of rising NPAs.

Gupta M. and Saluja R., (2018) Paper examined the management of NPA after introducing the SARFAESI. It was found that INDIAN BANK acquired FIRST RANK and titled as "MOST VALUED LENDER" in Public Banks by reducing its NPA by almost 10% in very less time.

Objective of the study
- To examine the trends in the Non-Performing Assets of the commercial Banks.
- To examine the amount allocated as advance which has proved NPA.
- To examine the Sector wise classification of banks.
- To suggest the preventive measures to reduce the NPAs.

Research Methodology

In the present study, research is confined to measure the quantum of NPAs in respect to the total assets &total advances in all public, private & foreign banks in the Indian economy. The study is based on Net Profits (as %of total assets), Gross Profits (as% of total assets) revealed by RBI in "Report on Trends & Progress of Banking in India". Data from 2013 to 2017 is selected for the study.

Methods of Data Collection

The study is based on secondary data through research journals & website of RBI &other related Banks.

Tools Used

Percentage method & trends ratio is calculated to analyze the set objectives.

Analysis
Table 1: Trend Ratio of Public, Private &Foreign Banks

Year	Public sector banks		Private sector banks		Foreign banks	
	Ratio	Trend ratio	Ratio	Trend ratio	Ratio	Trend ratio
2013-14	2.9	100	1.1	100	1.5	100
2014-15	3.2	110.34	1.3	118	1.4	93
2015-16	5.9	203.4	1.8	163.6	1.9	126.7
2016-17	7.0	241.3	2.6	236.4	1.7	113.3
2017-18	8.9	306.8	3.0	273.0	1.5	100

(Source: Database on INDIAN ECONOMY published by RBI)

Table 1 reflects trends of Gross NPA of public, private& foreign banks with respect to Total Assets of these banks. It showed the poorest condition of public sector banksas compared to private banks and foreign banks. Data of 2017-18 tells that foreign banks recovered some of its NPAs.
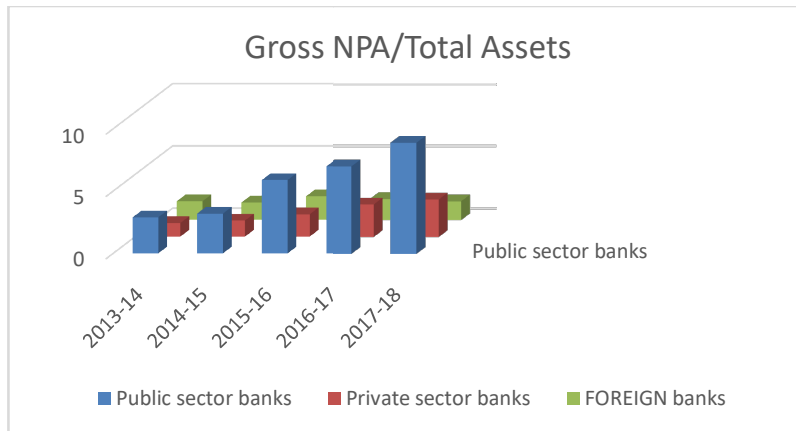

Figure 1.1

Figure 1.1 shows the upwards trends in Gross NPAs with respect to TOTAL ASSETS of public banks, private banks&foreign banks. The trend analysis shows increment in Gross NPAs in all the three banksbut foreign banks started improving its ratio &brought the ratio lower to 1.5 back again. Public Sector Banks& Private Sector Banks give a clear indication of ill health of banks. The Public sector bank showed a huge hike ofalmost 300% in Gross NPAs. As per ratio analysis, private banks are not in a good situation but better than the public sector banks.

Table – 2:Ratio Analysis of Public,Private &ForeignBanks with respect to Net NPA's as percent of Total Assets

Year	Public Sector Banks		Private Sector Banks		Foreign Banks	
	Ratio	Trend Ratio	Ratio	Trend Ratio	Ratio	Trend Ratio
2013-14	1.6	100	0.4	100	0.4	100
2014-15	1.8	112.5	0.5	125	0.2	50
2015-16	3.6	225	0.8	200	0.3	75
2016-17	3.9	243.75	1.3	325	0.3	75
2017-18	4.5	281.25	1.5	375	0.17	42.5

(Source: Data published at **RBI**site)

Table 2examined the Net NPAs with respect to Total Assets. Table analyzed the trend of increasing Net NPA & found that Private Banks have the highest ratio among all the three banks, whereas foreign banks reduced its Net NPAs by 57.5% from 2013-14 to 2017-18.
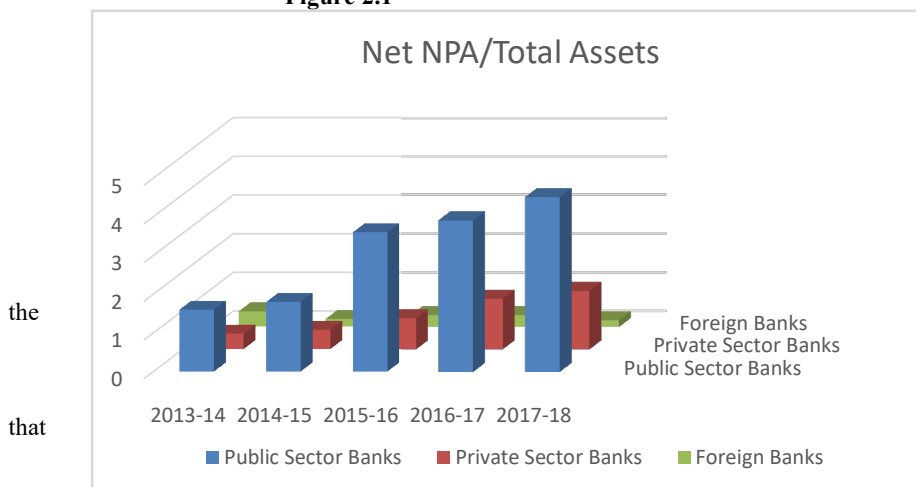
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Figure2.1 specifies ratio& trend analysis between NET NPA&Total Assets. Trend analysis shows NPA of

public&private sector banks has been increased in proportion to total assets with every passing year, whereas Foreign Banks had very less NPA in contrast to its total assets from 2013-14 &it improved its ratio & reached to a negligible amount of NPAs in the year 2017-18.

Table 3 Ratio Analysis of Public, Private &Foreign Banks with respect to Gross NPA as a percent of Total Advances

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2014-15	5.67	2.2	3.3
2015-16	9.9	2.9	4.3
2016-17	11.7	4.2	4.1
2017-18	15.7	4.8	3.9

(Source: Data published at RBI site)

Table 3 represents the Gross NPAs of public, private & foreign banks with respect to Total Advances. It clarifies that NPAs increased every year & ratio of Public sector banks encountered the highest NPAs among all three types of banks.
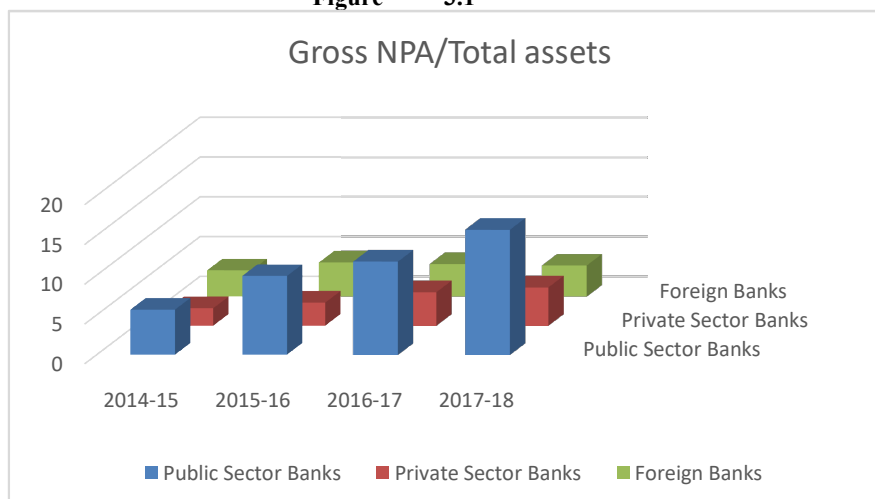
Figure   3.1

Figure 3.1 shows the ratio of Gross NPA with Total Advances of Public Sector Banks, Private Sector Banks& Foreign Banks. The shows a gloomy picture of all the three banks because the ratio has encountered a sharp rise in all the three banks. Public sector ratio has almost increased by 175%from 2014-15 figures, Public sector banks gross NPAs has been increased by around 200%(in contrast to 2104-15) and foreign banks are still better than these two banks but the condition is not good. Gross NPA of foreign banks has been increased by 18% of the ratio in 2014-15.

Table 4 Ratio Analysis of Public, Private & foreign Banks Net NPA as a percent of Total Advances

Year	Public sector Bank	Private Sector Bank	Foreign Banks
2014-15	3.2	0.9	0.5
2015-16	5.9	1.4	0.75
2016-17	6.5	2.2	0.6
2017-18	8.0	2.4	0.4

(Source: Data published at RBI site)

Table 4 depicts the proportion of Net NPAs with total advances of Public, Private, and Foreign Banks. Analysis of table tells that Foreign Banks tool various actions & reduced its NPAs whereas Public & Private Banks have been failed in controlling their NPAs.

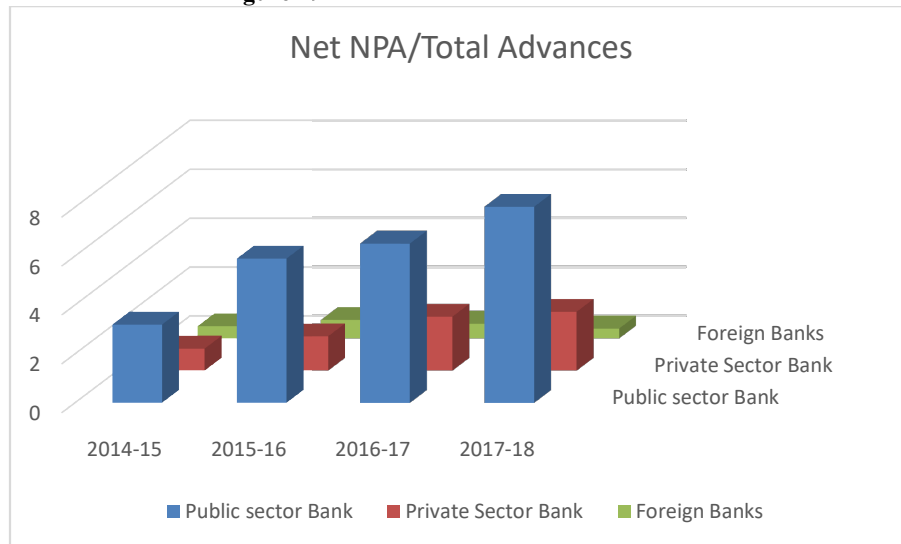**Figure 4.1**

Net NPA/Total Advances

Figure 4.1 represents the proportion of Net NPA with respect to total advances. As it is apparent from the ratios that condition of NPAs has worsened in public & private banks. In public sector banks from 3.2(2014-15) NPA has been reached to 8.0(2107-18) which is almost 250% of the ratio in 2014-15. On the other hand, foreign banks have undergone many fluctuations & brought the ratio low by20% of the ratio in 2014-15.

Table 5

Sector wise classification of NPA's

Bank Group	Years	Priority Sector			Non-Priority Sector
		Agriculture	Small Scale	Others	
Public Sector Banks	2016-17	8.5	11.8	3.7	75.9
	2017-18	8.9	9.7	3.6	77.8
Private Sector Banks	2016-17	7.2	8.7	2.2	82.0
	2017-18	7.6	7.8	2.6	82.0

Table 5 represents the NPA of lended amount of Public & Private banks in Priority & Non-Priority sectors. It has been seen that both banks has reduced their NPAs in priority sector. In Non-Priority sector Public Banks found increase in NPAs by 1.8% whereas Private Banks maintained the same ratio.

Figure   5.1
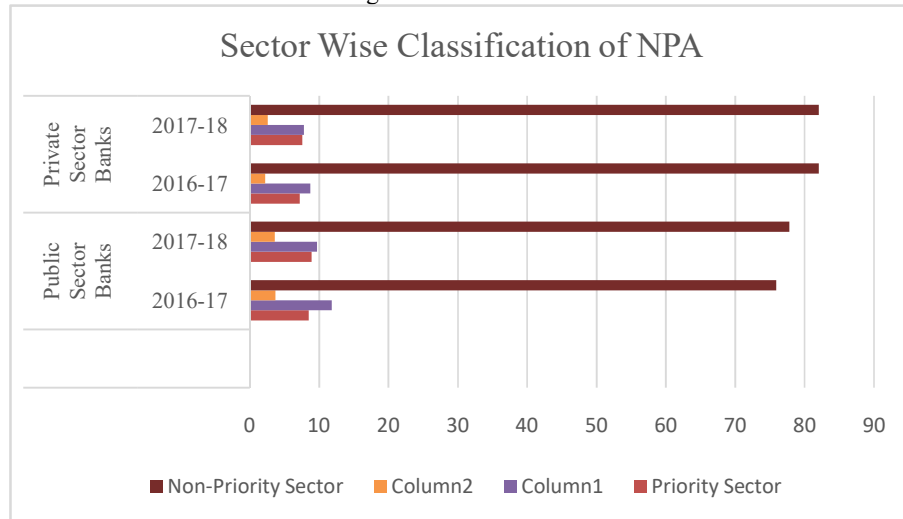
NPAs of public & private sector banks are bifurcated into two main categories-priority sector & non-priority sector. Priority Sector is further classified into three categories- agriculture sector,small scale & others. A major part of NPA has arisen from the non-priority sector. The public sector has encountered an overall rise in NPA in the non-priority sector & fall in priority sector whereas NPAs in private sector is found stable in the non-priority sector & has some fluctuations in the priority sector.

PREVENTIVE MEASURES OF NPA
It is better to try to keep a bad thing from happening than it is to fix the bad thing once it has happened. It has become a nerve-wracking problem for every type of banks. It not only affects the profitability of banks but also affects the capital adequacy of banks. There has been many provisions, forums, institutions & recommendations issued to manage the NPA. Institutions such as
- Lok Adalats,
- Debt Recovery Tribunal,
- Asset Liability Management,
- Corporate Debt Restructuring Body,
- Enactment of SARFAESI 2002
- Opening of Special Mention Accounts

Doinga commendable job in handling NPA recoveries. **Joint Lenders Forum** a new measure to revitalize distressed economy has mentioned by RBI in guidelines issued in 2014, a forum formed by a grouping of various lender banks to take serious actions towards defaulters exceeding loan of RS.100 crore. Collective action by government, banks& borrowers can improve the situation.

Findings of the study
(a) Public sector Banks holds the highest percentage of GrossNPAs with respect to total assets.
(b) Private sector banks showed a massive increase in Net NPA with respect to total assets. Whereas, foreign showed a good decline in Net NPA with respect to total assets.
(c) NPAs with respect to total advances showed an increase in public &private banks but foreign banks showed a good decline in its NPA/Total advances.
(d) Small scale industries in priority sector have proven more incapable of repaying the loans.
(e) Priority sector advances proved less NPA as compared to Non-priority sector.
(f) Overall Foreign Banks has reduced their NPAs.

Limitations
- The main limitation of the study is study is made on three broad classification of banks ignoring individual performance of banks.
- The time period taken is a short period of four years.
- The reasons for performing poorly in the recovery of NPAs are not identified.

Conclusion
NPAs have a negative effect on the economy, it only hampers the profitability of banks but also affect the capital adequacy & increases the expenses of banks & could be a reason for the loss of interest of the general public. Analysis of the trend of NPAs in commercial banks shows a gloomy picture & demands serious actions. Reforms &

measures taken are not proving successful in reducing the NPAs. Category wise analysis shows Public Sector Banks have the highest level of NPAs whereas Foreign Banks have the least NPAs. Sector-wise classification priority sector of both public & private banks holds a minor portion of NPAs. Introduction of JLF may have the possibility to improve the situation.

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