**Problem of Rising NPA in Banking Sector of INDIA: Comparative Analysis of Public, Private & Foreign Banks.**

**INTRODUCTION**

 The health of an economy can be estimated by looking at the health of its banking sector. Introduction of financial reforms in 1991changed the working of banks. The banking sector is the backbone of an economy. Reforms of 1991 brought up 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. 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-

**Gross NPA**

Gross NPA are those loans issued which are proven bad &have to be written off but still exist in books of accounts. Gross NPA is total of all those advances whose principal &/ or interest amount is outstanding from the previous 90 days excluding any provisions made by the bank to face such contingency.

**Net NPA**

Net NPA are those advances which are proven bad& for which bank has not maintained any provisions.

Net NPA=Gross NPA- Provisions made for bad debts.

**Classification of assets**

* **Standard Asset**
* **Sub-Standard Asset**
* **Doubtful Asset**
* **Loss Asset**

**Standard Asset**

Standard Asset is that assets which are performing well & no any type of serious risk of arrear or repayment are linked with these assets, known as Performing Asset. Generally, these assets are not considered as NPA, hence a general provision of only 0.25% is maintained at Global Portfolio.

**Sub-Standard Asset**

Sub-Standard Asset is that asset which has been non-performing for a period of more than 90 days but less than 120 days. A general provision of 15 percent is to be maintained on total outstanding without considering any allowance for ECGC guarantee cover.

**Doubtful asset**

 An asset would fall in the category of doubtful if it has remained in sub­standard category for a period more than 12 months& not declared as Loss Asset.AS per RBI` A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable`. General provisions required to maintain vary on the period for which asset remain doubtful-

|  |  |
| --- | --- |
| **Period for which asset remains Doubtful** | **Provision percentage on overdue Amount** |
| Up to 1 year | 25 |
| 1 to 3 years  | 40 |
| More than 3 years | 100 |

 **Loss Assets**

An asset which has identified totally as bad & chances for recovery of arrear or principal amount is totally zero & have to be written off completely but if it still exists in the books, it is mandatory to establish 100%provisions against these asset

**IMPACT OF NPA**

When an asset becomes NPA it not only affects the bank but also adversely affect the economy as well-

**PROFITABILITY**

Expenses made in NPA management & inability to recover the interest & principal amount not only affect the goodwill &current profits of banks but also hamper the future profitability of banks.

**LIQUIDITY**

Blocking of money & decreased profits results into an inability to meet short term cash needs of banks & proves a reason for an inability to meet working capital requirement.

**CREDIT RISK**

NPA is the only reason for bad goodwill & brand equity of a bank because of the inefficiency of getting returns on its advances & failure in getting its principal amount.

 **DECLINE IN GROWTH RATE**

 Infrastructure & food processing industry possess the biggest chunk of NPA. It is the prime reason for the decline in employment opportunity & poor infrastructural growth. Hence, affect the economy and encountered a decline in growth rate.

**Involvement of Management**

Increasing NPA demands extra attention to management in order to control NPAs. Due to which banks have to borne extra expenses in appointing additional staff to work on increasing NPAs.

**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): The study was conducted 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): The study was conducted on 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): Analyzed 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): The study was conducted 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 Sector wise classification of banks.
* To examine the trends in the Non-Performing Assets of the commercial Banks.
* To suggest the preventive measures to reduce the NPAs.
* To examine the amount allocated as advance which proved NPA.

**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 2014 to 2017 is selected for the study.

**Methods of Data Collection**

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

**Tools Used**

Percentage method & trends ratio is calculated to analyze the situation.

**Analysis**

Table 1

|  |  |  |  |
| --- | --- | --- | --- |
| **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 |

This table shows the ratio & trends in Gross NPAs/TOTAL ASSETSs of public banks, private banks & foreign banks. The trend analysis shows increment in Gross NPAs in all the three banks, but foreign banks started improving its ratio &bring 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 shows a huge hike of almost 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

**Net NPA/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 |

Table II specifies the ratio& trend analysis between NET NPA &Total Assets. Trend analysis shows that 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.

Table 3

**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 |

Table IV 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

**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 |

Table III represents the proportion of Net NPA with 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.

**Sector-wise NPA**

|  |  |  |  |
| --- | --- | --- | --- |
| **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 |

NPAs of public & private sectors are brought under two major bifurcations, viz., 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.

**Findings of the study**

1. Public sector Banks holds the highest percentage of Gross NPAs with respect to total assets.
2. 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.
3. 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.
4. Small scale industries in priority sector have proven more incapable of repaying the loans.
5. Priority sector advances proved less NPA as compared to Non-priority sector.
6. 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.

**MANAGEMENT OF NPAs**

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

Doing a 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.

**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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