



A study of Non Performing Assets of Selected Public Sector Banks in India

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Abstract

Mounting Non-Performing Assets is a serious issue of Banking Sector in India. And it is very much important to manage and control the amount of NPA for healthy growth of banks, which leads to stable Financial System in the country. The financial performance of bank is affected by level of NPAs. Because the profit and liquidity of bank is direct connected with status of NPAs. High level of NPAs consumes high provisions which reduce the amount of profit and decrease the shareholder's value. The Indian banking industry has faced the problem after nationalization, regarding increase in NPA, profitability, low productivity, etc. This study is focused on a performance of selected Public Sector Banks working in India based on their level of NPA. Because the profit and liquidity of bank is direct connected with status of NPAs. High level of NPAs consumes high provisions which reduce the amount of profit and decrease the shareholder's value. The researcher tried to do ratio analysis of SBI, SBM, SBT, SBB&J, BOB, BOI, Canara Bank and PNB. It was found from the study that amount of NPAs is rising during the study period in selected Public Sector banks. Hence, the concerned bank authority has to focus on decreasing NPAs of the banks because it directly related with profitability and liquidity.

Keywords: *Bank's Performance, NPA, Public sector banks in India, Ratio analysis*

Introduction

Mounting Non-Performing Assets is a serious issue of Banking Sector in India. And it is very much important to manage and control the amount of NPA for healthy growth of banks, which leads to stable financial system in the country. The financial performance of bank is affected by level of NPAs. Because the profit and liquidity of bank is direct connected with status of NPAs. High level of NPAs consumes high provisions which reduce the amount of profit and decrease the shareholder's value.

Overall in the global banking industry the trend shows decreasing or deteriorating in return on assets, return on equity and increasing in the NPA. The Indian banking industry has faced the problem since nationalization, regarding increase in NPA [Viz., 3.4(2012), 4.0(2013), 4.3(2014), 5.9(2015) and 9.2(2016)]¹, profitability, low productivity, etc. The level of the NPA is great concern and need to attend for policy planners. So, it is quite obvious to study the level of NPA of the Banking Sector. The level of NPAs reflects the performance of banks. After the globalization in India, the competition between banks has been rising and it is not limited to the Public Sector V/s Private Sector, but it is also among the public sector Banks. So it is very much needed to make a study of Public Sector Banks. This study is focused on a performance of selected Public Sector Banks working in India based on their level of NPA.

Meaning of Non Performing Assets (NPA)

Non Performing Asset is defined as the loans which are in risk of being default. If a borrower cannot pay interest on principal amount for 90 days or more, in case of loan than loan is considered to be non performing asset. This kind of loan account can be termed as Non Performing loan account. NPAs influence the rotation of credit, liquidity of cash flow and profitability of the Bank. The rising NPAs lead to high provision for bed debt which reduces the level of profit. These are loans and advances whose time period for payment of interest and principle has exceeded 90 days. The higher the NPA show weak performance of the Bank.

There are 2 types of NPA (Non Performing Assets).

1. Gross NPA

According to RBI guidelines, Gross NPA is the total of all loan assets that are recognize as NPAs on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non standard assets like as sub-standard, doubtful, and loss assets.

2. Net NPA

It defined as, $\text{Net NPA} = \text{Gross NPA} - (\text{Balance in Interest Suspense account} + \text{DICGC/ECGC claims received and held pending adjustment} + \text{Part payment received and kept in suspense account} + \text{Total provisions held})$ (Source: Reserve Bank of India).

There are three categories of NPA,

1. *Substandard assets*: the assets which have been classified as NPA for the period not exceeding to two years.
2. *Doubtful assets*: The asset which was remaining NPA for more than two years are classified as doubtful assets.
3. *Loss assets*: The assets which have no existence and identified as loss assets by the bank auditors.

The interest applied on the account is not booked as an income of the branch and there for interest is not earned on all NPA accounts of the Banks. Hence the profit of the bank is not increased. Further bank has to make additional provision for all NPA accounts, according to their ages. The high NPA of the Bank is losing the image and goodwill among the public.

Literature Review

Bala Subramaniam (2016) said that the position of NPAs is high with all banks currently and the banks would be possible to bring down their NPA. This can be achieved by good quality credit evaluation measures, competent internal control systems along with their efforts to improve asset quality in their balance sheets. However, strong profitability is a big challenge to commercial banks, particularly in a highly cut throat competitive environment and opening up of banking business to NBFC and foreign banks in general.

Bhatia (2015) concluded that the NPAs are as a significant parameter to evaluate the performance and financial situation of banks. This paper is highly focused on find out the basic factors which impact NPAs of banks. A model consisting of two types of

factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behaviour of NPAs of the three categories of banks is observed.

Gupta (2014) the study conclude that each bank should have its own separate credit rating agency which should assess the financial ability of the borrower before than credit facility. An efficient committee can be created for the management of NPA comprising of financial experts who have wide knowledge in this field. Banks can hire professionals to identify the genuine borrowers & can identify their profile. The NPA can be considered as a vital rating factor for any bank; it should continuously watch the borrowers A/C to prevent Non Performing Assets. The credit rating agencies should evaluate the financial situation of the clients at regular intervals.

Mehta. L, Malhotra. M (2014), recognize that NPA is a big threat for the Banks in India. Non-performing assets have to be managed properly for the stable and healthy environment of Indian banks. In this study they discussed the positive impact of priority sector lending's on NPAs. Recession was identifying as a one of the reason for the constant raise in the NPAs.

Sat pal (2014), this research paper is trying to justify the actual meaning of NPAs and the factors affecting in creation NPAs. The study also reveals reasons for high NPAs and their impact on Indian banking operations.

Ahmad, Z., Jegadeeshwaran, M. (2013), this research paper is about the NPA, and causes for NPA. Secondary data was used for a period of five years and analysis was done by mean, CAGR, ANOVA and ranking banks. The rank of banks was given as per their performance in managing the NPA“ s. The efficiency in managing the NPA by the Public Sector banks was tested.

Research Gap

Review of literature in depth indicates that very few studies have been conducted from the period 2011-12 to 2015-16 in context of the above cited theme.

Research Methodology

Objective of the study

The main objective of the study was to analyze the trend of NPA (Non Performing Assets) of selected Public Sector Banks in India.

Universe of the Study

It consists of all Public Sector Banks (25) working in India during the study period.

Selection of bank

The researcher has considered selected eight public sector banks. The sample Banks of the study are State Bank of India, State bank of Bikaner & Jaipur, State Bank of Travancore, State Bank of Mysore, Bank of Baroda, Bank of India, Punjab National Bank and Canara Bank. The selected banks have an average market capitalization of 5 billion rupees or more during the last six months (prior to FY: 2011-12)

Financial Ratios

The researcher has adopted NPA ratio to justify the objectives of the study. Gross NPA- Total Advance Ratio and Net NPA - Total Advance Ratio has been selected to analyze the trend of NPAs of the selected for the period of 2011-12 to 2015-16. Here study is dependent on the secondary data collected from annual reports of sample banks.

Data Analysis and Interpretation

The below mentioned tables shows the percentage of Gross NPA to Total Advance and Net NPA to Total Advance of selected banks with an average and S.D. for the study period from 2011-12 to 2015-16.

1. State Bank of India

Table: 1 SBI

State Bank of India	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	5	5	5	4	7	5.2	1.01
Net NPA/Total Advance (%)	2	2	3	2	4	2.6	0.89

Inference: Gross NPA to Total Advance ratio shows initially steady and then after decreasing and suddenly rising trend during the study period. The lower ratio expresses very good sign of credit efficiency of a bank. This result shows weak performance of SBI. Net NPA to Total Advance ratio shows mix trend during the study period. This result shows moderate performance of SBI.

2. Bikaner & Jaipur

Table: 2 SBBJ

State Bank of Bikaner & Jaipur	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	3	4	4	3	5	3.8	0.84
Net NPA/Total Advance (%)	2	2	3	3	3	2.6	0.55

Inference: Gross NPA to Total Advance ratio shows mix trend during the study period. Thus, result shows less credit efficiency of SBBJ. Net NPA to Total Advance ratio shows rising and steady trend during the study period. This result shows the moderate performance of SBBJ in credit. These ratios should be lower for high profitability.

3. State Bank of Travancore

Table: 3 SBT

State Bank of Travancore	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	3	3	4	3	5	3.6	0.89
Net NPA/Total Advance (%)	2	1	3	2	3	2.2	0.84

Inference: The Gross NPA to Total Advance ratios shows mix trend during the study period. This result shows moderate efficiency of SBT. The Net NPA to Total Advance ratios shows mix trend during the study period. This result also shows moderate performance of SBT.

4. State Bank of Mysore

Table: 4 SBM

State Bank of Mysore	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	4	5	6	5	7	5.4	1.14
Net NPA/Total Advance (%)	2	3	3	2	4	2.8	0.84

Inference: The Gross NPA to Total Advance ratios shows an increasing trend during the first three years and then decreases and again rising in the last year of the study period. This result shows less efficiency of SBM. The Net NPA to Total Advance ratios reveals mix trend during the study period. This result shows again weak performance of SBM. These ratios should be in decreasing trend for stable growth of profit.

5. Punjab National Bank

Table: 5 PNB

Punjab National Bank	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	3	4	5	7	13	6.4	3.98
Net NPA/Total Advance (%)	2	2	3	4	9	4	2.92

Inference: The Gross NPA to Total Advance ratio shows an increasing trend during the study period. This result shows weak performance of PNB. The Net NPA to Total Advance ratio reflects an increasing trend during the study period. The lower ratio expresses very good sign of credit efficiency of a bank. This result shows not good efficiency of PNB. The credit efficiency of bank can improve by less amount of gross and net NPA so these ratios should be low.

6. Bank of Baroda

Table: 6 BOB

Bank of Baroda	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	2	2	3	4	10	4.2	3.35
Net NPA/Total Advance (%)	1	1	2	2	5	2.2	1.64

Inference: The Gross NPA to Total Advance ratio shows an increasing trend during the study period. This result shows poor efficiency in managing loan account by BOB. The Net NPA to Total Advance ratio shows an increasing trend during the study period. The lower ratio expresses very good sign of credit efficiency of a bank. This result shows weak performance regarding NPA of BOB.

7. Bank of India

Table: 7 BOI

Bank of India	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	2	3	3	5	13	5.2	4.49
Net NPA/Total Advance (%)	1	2	2	3	8	3.2	2.77

Inference: The Gross NPA to Total Advance ratio shows an increasing trend during the study period. This result shows weak efficiency of BOI. The Net NPA to Total Advance ratio shows an increasing trend during the study period. This result reveals poor performance of BOI. The lower ratio expresses very good sign of credit efficiency of a bank. But BOI is not proving its efficiency regarding NPAs.

8. Canara Bank

Table: 8 CANB

Canara Bank	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Gross NPA/Total Advance (%)	2	3	2	4	9	4	2.92
Net NPA/Total Advance (%)	1	2	2	3	6	2.8	1.92

Inference: The Gross NPA to Total Advance ratio shows fluctuating but the rising trend during the study period. This result shows weak efficiency of CANB. The Net NPA to Total Advance ratio shows an increasing trend during the study period. This result shows not good performance of CANB. Canara Bank has managed the level of NPAs to maintain good profitability.

Suggestion

Mentioned are suggestions for improvement in level of NPAs of selected Banks for the study. The banks have to improve these ratios through developing a separate cell at each branch may be set up especially for the recovery of bank’s dues. Banks should gear up their evaluation systems, monitoring method. The credit history of the borrower should be analyzed. In case of new borrowers, proper analysis of the financial statements of the last five years is to be done carefully. Normally the legal procedure is very lengthy and sluggish in case of NPAs. It takes too much time to Banks in considering the NPAs and starting the procedure of recovery for the same. So, the legal procedure should be shortened and immediate steps should be taken after recognizing the chances of NPAs.

Moral & ethical values of bank’s employees can be inculcated by training, which leads to lowering NPAs in Public Sector Banks indirectly. While it is very much necessary to implant moral and ethical values in the borrowers but it does not fall under the function of Banks.

The main conclusion of the study is that amount of NPAs is rising during the study period in selected Public Sector banks. And increasing of NPAs is affects the profit of bank, shareholder’s wealth and the overall performance of bank. Thus PSBs have to try maintaining lowest NPAs. The method for diluting NPAs as mentioned in the study should be of great concern for the bank authority. Hence, the concerned bank

authority has to focus on decreasing NPAs of the banks because it directly related with profitability and liquidity.

Conclusion

The lower ratio expresses very good sign of credit efficiency of a bank. State Bank of Travancore is doing well in case of Gross NPA to Total advance ratio with lowest average of 3.6 % compare to other Public Sector Banks. And Bank of Baroda and State Bank of Travancore are doing well in case of Net NPA to Total advance ratio with lowest average of 2.2 % compare to other Public Sector Banks. As per data mention in this study, NPAs is one of major issue in Public Sector banks. Thus, the trend of NPAs is increasing continuously in all selected banks during the study period.

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ⁱ India’s Top Banks 2017 Report by Dun & Bradstreet