UNEARTHING THE EPIDEMIC OF NON-PERFORMING ASSETS: A STUDY OF PUBLIC AND PRIVATE SECTOR BANKS

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ABSTRACT

Banking institution is an important segment of the tertiary sector and act as backbone of the economic development. The banking sector makes it possible to finance the agriculture, industries and commercial activities of the country. Currently Indian banking system is not in a good health. The symptoms of the diseases are raising Non-Performing assets (NPAs). At the macro level NPAs choked off the supply line of credit to the potential borrowers, thereby having a deleterious effect on the capital formation and also affect the efficiency, solvency and stability of Indian banking system. This paper deals with the concept of Non-performing assets and the present paper analyze the classification of loan assets of public and private sector banks and also analyze the comparison of loan assets of Public sector and private sector banks. The study concluded that NPAs still threat for the banks and public sector banks have higher level of NPAs as compare to Private sector banks.

Keywords: *Non-Performing Assets, Assets classifications, Public sector banks, Private sector banks*

INTRODUCTION

Non Performing Assets means an assets which ceases to generate income for the Banks is called a Non Performing Assets (NPAs). When a borrower could not pay interest and / or instalment on a loan, which remain overdue. With a view to moving towards international best practices and to ensures greater transparency, it has now been decided by RBI to adopt 90 days norms to classify a loan as non-performing assets as against 180 days, from the year ending March31, 2004.

(i) Interest and / or instalment of principle remain overdue for a period of more than 90 days in respect of term loan.

(ii) The account remain 'out of order' for a period more than 90 days, in respect of an overdraft / cash credit (OD / CC)

(iii) The bill remains overdue more than 90 days in the case of bill purchased and discounted.

(iv) Interest and / or instalment or principle remains overdue for two harvest seasons but for period not exceeding two half years in the case of an advance granted for agriculture purposes.

(v) Any amount to be received remains overdue for a period of more than 90 days in the respect of other accounts.

A loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission or any other dues for the bank for more than 90 days. Non Performing Assets have negative impact on banking stability and growth. NPAs have a deteriorating impact on banks profitability because of provisioning of doubtful debts and writing off of bad debts. Return on investment is also reduced. The capital goes up; capital adequacy ratio is disturbed as NPAs enter into its circulation.

NPA Basics

All loans assets are classified with the effect from 1992-93 into four categories based on the criteria of well defined credit weaknesses and the volume of entire available securities for realization of Banks dues. The four categories are as follow:

Standard Assets Standard assets are those assets which do not disclose any problem and which

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do not carry more than normal risk. These are performing assets. Banks receives the principle and the interest payment, systematically from the borrowers.

Sub-Standard Assets : These are those assets which has been classified as NPA for a period not exceeding two years. With effect from 31 March 2001, a sub-standard assets is one, which has remained NPA for a period less than or equal to 18 month.

Doubtful Assets : These are those assets which have remained NPA for a period exceeding two years. With effect from 31 March 2001, an asset is to be classified as doubtful, if it remained NPA for a period exceeding 18 month.

Loss Assets : A loss assets are one where loss has been identified by the Banks or by the internal and external auditors or by the RBI inspectors but the amount has not been written fully off wholly.

THE BANKING SECTOR

Public sector banks are those banks in which government of India has full or major shareholdings. Conversion of the existence imperial bank of India into SBI in 1955 has followed by the establishment of its seven subsidiary banks and Nationalization of 14 major commercial banks on July 1969. There are 27 Public Sector Banks operating in India.

Private sector banks are those banks which are owned by private sector. The private sector banks play a strategic role in the growth of joint sector bank in India. HDFC was the first bank to receive a principle approval from RBI to set up bank in the private sector. With the financial sector reform adopted in1991 new private sector banks has been permitted to be set up. According to Narashiman committee New Private Sector banks are allowed to be established in India. Today there are 31 Private sector banks are operating in India.

Banks plays an important role in mobilization and allocation of resources in an economy. The sound financial position of a bank is the guarantee not only to its depositors but equally important for whole economy of the nation. Banking system which constitutes the core of the financial sector plays a critical role in transmitting monetary policy impulses to entire economic system. Indian banking system plays a crucial role in the socio- economic development of a country. Financial sector set in motion in 1991 have greatly changed the face of Indian economy. Liberalization in the Indian Banking Sector was much appreciated. Both Public Sector Banks and Private Sector Banks shown a very good performance as far as financial operation are concerned. But at the same time Non-Performing Assets have increased because in the banks have very caution in extending loans. The problem of NPAs is very serve and very important in determine banks profitability. It affects the efficiency, solvency and stability of Indian Banking System.

REVIEW OF LITERATURE

Pal, Ved and Malik, N. (2007) conducted their study on the difference between the financial position of Public sector banks, Private sector banks and Foreign sector in India based on efficiency, risk and profitability. Multinomial regression was used and result revealed that foreign banks proved to be high performer in generating business with a given level of resources and they are better equipped with managerial practices and in terms of skills and technology. Foreign banks were more consistent with market system as reflected in terms of net interest margin. The Public sector banks emerged as next best performer after foreign banks. The Private sector banks emerged with better use of resources as compared to Public sector banks.

Kamalpreet and Singh Balraj (2011) conducted study on "Non Performing Assets of Public sector banks and Private sector banks (A comparative study)" concludes that problem of NPAs is affecting the banking but also not only affecting the banking but also the whole economy. Indian banking sector is facing a serious problem of NPAs. The extent of NPAs is comparatively higher in Public sector banks. To improve the efficiency and profitability, the NPAS have to be taken scheduled. Various steps have been taken by government to reduce the NPAs. This has led to decline in the level of NPAs of the Indian banking sector. But a lot more needs to be done. The NPAs level of our banks is still high as compared to the international standards. It is highly impossible to have zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard. One cannot ignore the fact that a part of the reduction in NPAs is due to the writing off bad loans by the banks. They suggested that Indian banks should take care to ensure that they give loans to creditworthy customers as prevention is always better than cure.

G.V Bhavani Parsad and D. Veena (2011) conducted a study on "NPAs in Indian Banking Sector- Trend and Issues" evaluate a performance of the Scheduled commercial banks since 2000. The study is diagnostic and tools like average, percentage mean and standard deviation used to analyze the data. The study concluded that New Private sector banks and Foreign Sector banks started with clean slate and latest technologies, the Public Sector banks and old Private Sector banks had to overcome the old system and employee resistance and introduce the new system and process and norms to catch up with the competition.

Pacha Malayadri and S.Sirisha (2011) study conducted on topic "A Comparative Study of Non Performing Assets in Indian Banking Industry" The Indian Banking System has undergone significant transformation following financial sector reforms. The study based on secondary data retrieved from reports on trend and progress of banking in India. The study observed that there is increase in advances over the period of the study. But decline in the ratio of NPAs indicates improvement in the assets quality of Indian Public sector banks and Private sector banks. It is found on the basis of analysis that there is significant improvement in the management of Nonperforming assets of Public sector banks in India. The study finally observes that the prudential norms and other initiatives taken by the regulatory bodies has pressurized banks to improve their performance, and consequently resulted in trim down of NPAs as well as improvement in the financial health of the Indian Banking system.

P.Malyadri and S.Sirisha (2012) conducted a study on "Assets quality and NPAS of Indian Commercial banks" concludes that assets quality shown a improvement and declining level of gross NPAs ratio. Various factors improved such as risk management practise, Recovery of efforts contributed to decline in the NPAs. The study observed that policy makers also taken various measures to bring down the level of NPAs in Indian Commercial banks. Public sector banks have higher level of NPAs in comparison to Private sector and foreign sector banks.

OBJECTIVES OF THE STUDY

The objectives of the present research paper are:

- To analyze the classification of loan assets of Public and Private sector banks.
- To make the comparison of loan assets of Public and Private sector banks.

The present study pertains to the period of 6 years from 2007 to 2012. The period is selected for the study because complete data for the entire period are available. Data used in the study are secondary in nature and collected from various publications like, Banking Statistics, RBI Report on trend and progress in banking in India, journals, annual report etc.

Table 1: Classification of Loan Assets Of Public Sector Banks- (2007-2012) (amt in Cr.)

Year	Standard assets	Sub-standard assets	Doubtful assets	Loss assets	Total Advances
	Amount (%)	Amount (%)	Amount (%)	Amount (%)	Amount
2007	1425519 (97.3)	14275 (1.0)	19873 (1.4)	4826 (0.3)	1373777
2008	1656728 (97.7)	16870 (0.9)	19068 (1.1)	3668 (0.2)	1696334
2009	2055906 (97.9)	19521 (0.9)	20708 (1.0)	3803 (0.2)	2103763
2010	2455065 (97.7)	27685 (1.1)	24679 (1.0)	4928 (0.2)	2519331
2011	2988790 (97.7)	33612 (1.1)	31955 (1.0)	5514 (0.2)	3079804
2012	3437900 (96.8)	60376 (1.7)	47075 (1.3)	5037 (0.1)	3550388

Sources: Report on trend and progress of banking in India

ANALYSIS

Table 1 present the data of classification of loan assets of Public sector banks during the year 2007 to 2011. The amount of standard assets to total advances showed an increasing trend during the year 2007 to 2011 i.e. 97.2 percent to 97.7 percent. Later in the year 2012 it has showed a declining trend in the standard assets i.e. 96.8 percent. The ratio of sub standard assets to total advances has showed an increasing trend it was 1.0 percent in 2007 and 1.7 percent in 2012. The ratio of doubtful assets to total advances has shown a declining trend 1.4 percent in 2007 and 1.3 in 2012. The ratio of loss assets to total advances has also shown declining trend 0.3 percent in 2007 to 0.1 percent in 2012. Total advances of public sector banks increases from Rs. 1373777 in 2007 to Rs. 3550388 in 2012. It was observed from the above table that in the year 2012 NPAs has started to increase slightly in case of sub standard assets and the quality of standard assets has declined slightly certain point. Further it was observed there was fluctuation in term of assets and also need to check the NPAs of Public sector banks.

Table 2: Classification of Loan Assets of Private Sector Banks- (2007-2012) (in Rs. cr.)

Year	Standard assets	Sub-standard assets	Doubtful assets	Loss assets	Total Advances
	Amount (%)	Amount (%)	Amount (%)	Amount (%)	Amount
2007	382630 (97.6)	4368 (1.1)	3930 (1.0)	941 (0.2)	391869
2008	459369 (97.3)	7280 (1.5)	4452 (0.9)	1244 (0.3)	472345
2009	502768 (96.8)	10526 (2.0)	5017 (1.0)	1345 (0.3)	519655
2010	567192 (97.0)	8676 (1.5)	6542 (1.1)	2166 (0.4)	584576
2011	714338 (97.5)	4398 (0.6)	10735 (1.5)	2839 (0.4)	732610
2012	862131 (97.9)	5128 (0.6)	10314 (1.2)	2872 (0.3)	880445

Sources: Report on trend and progress of banking in India

It is observed from the above table the year 2007 to 2009 the amount of standard assets to total advances decreased from 97.6 percent to 96.8 percent and then starts increasing in the year 2010 i.e. 97.0 percent. The amount of standard assets improved 97.8 percent in 2012. The portion of sub standard assets to total advances was fluctuating during the study period and it was highest in the year 2009 i.e. 2.0 percent and then started declining and getting stable in 2011 and 2012 (0.6 percent). In the case of doubtful assets to total advances there was also a fluctuation .The doubtful assets was lowest in 2008 i.e. 0.9 percent and then started increasing 1.0 percent in 2009 to 1.5 percent in 2011. In the year 2012 it has slightly declined 1.2 percent. In case of loss assets the ratio was stable 0.3 percent in 2008 and 2009. Later on 2012 and 2011 it was also stable 0.4 percent. In the year 2012 loss assets again declined. The amount of the total advances increases `391869 in 2007 to `880445 in 2012. Further it was observed from the above table private sector was improving and shown an improvement in 2012 but still there is fluctuating in the share of assets of private sector banks.

To make the comparison of loan assets of Public and Private sector banks.

Table 3: Comparison of standard assets of Public and Private sector banks (2007-2012)

	Standard assets (amt in %)		Substandard assets (amt in %)		Doubtful assets (amt. in %)		Loss assets (amt. in %)	
Years	Public sector banks	Private sector banks	Public sector banks	Private sector banks	Public sector banks	Private sector banks	Public sector banks	Private sector banks
2007	97.3	97.6	1.0	1.1	1.4	1.0	0.3	0.2
2008	97.7	97.3	0.9	1.5	1.1	0.9	0.2	0.3
2009	97.9	96.8	0.9	2.0	1.0	1.0	0.2	0.3
2010	97.7	97.0	1.1	1.5	1.0	1.1	0.2	0.4
2011	97.7	97.5	1.1	0.6	1.0	1.5	0.2	0.4
2012	96.8	97.9	1.7	0.6	1.3	1.2	0.1	0.3

Sources: Report on trend and progress of banking in India

Table 3 depicts the comparison of loan assets between public sector and private sector banks. The amount of standard assets of public sector banks improved from 2007 to 2009 and then started getting stable in 2010 and 2011 i.e. 97.7 percent and in year 2012 it has declined 96.8 percent on the other hand amount of standard assets of private sector banks has shown decreasing trend from 2007 to 2009 and starts improving in 2010. If we compare standard assets the private sector is improving in term standard assets. The ratio of sub standard assets in case of public sector banks was stable in year 2008 and 2009 i.e. 0.9 percent and started increasing 1.1 percent in 2010 to 1.7 percent in 2012 and on the other hand private sector banks was fluctuating during the study period but the ratio of sub standard assets of private sector banks is showing improvement 2.0 percent in 2009 to 0.6 percent in 2012. In case of doubtful assets public sector banks remains stable from 2009 to 2011 i.e. 1.0 percent and then started increasing 1.3 percent in 2012 on the other hand private sector was showing almost mix trend but in year 2012 it start decline 1.2 percent compare to previous year 2011. In case of loss assets public sector banks again remain stable from 2008 to 2011 i.e. 0.2 percent and then started decline as in case of private sector banks the ratio of loss assets stable in 2008 and 2009 i.e. 0.3 percent and then again start getting stable 0.4 percent in 2010 and 2011. And in 2012 it again starts declined slightly 0.3 percent. Further it was observed that position of private sector bank is better as compare to public sector banks but in term of loss assets the position of public sector banks is better as indicated above in the table.

CONCLUSION

Banking plays an important role in mobilization and allocation of resources in an economy. Due to entry of new private sector banks and foreign sector banks the Indian banking sector face several challenges. There was home grown challenge was non-performing assets. The study found on the basis of comparison of public sector and private sector banks that private sectors improving due to decline in NPAs ratio. It was due to recovery management done in NPAs. But again in the year 2012 the standard assets of public sector again started declined. It was signal of threat for banking system of India on the other hand the position of private sector banks is better. It was concluded that there is need to check the NPAs of public sector banks so that Indian banking system become efficient.

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