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COMPARATIVE ANALYSIS OF NON PERFORMING ASSETS IN SELECTED BANK

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Abstract:

The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institution. Today, all the banks are facing the problem of non performing assets whether it is publice sector bank or private sector bank. Non performing assets have been single largest cause of irritation of banking sector in India. When the borrowers stops paying interest or principal on loan, the lender will lose money. Such a loan is known as non performingassets (NPA). Indian banking industry is seriously affected by non performing assets. This research paper considers data of public sector bank of last five years. The research paper attempts to evaluate various ratios of non performing assets on the basis of secondary data. This research paper gives conceptual idea about meaning of non performingassets; various ratios related to non performing assets and lastly, compare non performing assets in public sector bank.

Key Words: Non Performing Assets, Gross Non Performing Assets, Net Non Performing Assets, Public Sector bank.Private bank

INTRODUCTION OF BANKING IN INDIA

The Reserve Bank of India acts a centralized body monitoring any discrepancies and shortcoming in the system. Since the nationalization of banks in 1969, the public sector banks or the nationalized banks have acquired a place of prominence and has since then seen tremendous progress. The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast track approach. The unleashing of products and services through the net has galvanized players at all levels of the banking and financial institutions market grid to look anew at their existing portfolio offering. Conservative banking practices allowed Indian banks to be insulated partially from the Asian currency crisis. Indian banks are now quoting al higher valuation when compared to banks in other Asian countries (viz. Hong Kong, Singapore, Philippines etc.) that have major Problems Linked To Huge Non Performing Assets (Npas) And Payment Defaults.

Definition Of Public Sector Bank: Public Sector Banks (PSBs) are banks where a majority stake (i.e. more than 50%) is held by a government. The shares of these banks are listed on stock exchanges.

INTRODUCTION OF NON PERFORMING ASSETS:

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into picture. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. In recent times the banks have become very cautious in extending loans, the reason being mounting nonperforming assets. Non-performing assets had been the single largest cause of irritation of the banking sector of India. Earlier the Narasimha committee-I had broadly concluded that the main reason for the reduced profitability of the commercial banks in India was given importance to priority sector lending. The committee had highlighted that priority sector lending was leading to the building up of non-performing assets of the banks and thus it recommended it to be phased out. Subsequently, the Narasimha committee-II also highlighted the need the zero non-performing assets for all Indian banks with international presence. A major portion of the money lent comes from the deposits received from the public. These deposits are mostly repayable on demand. Therefore while sanctioning credit the banker should appraise the project reasonably or else it leads to the non-repayment of loans and advances. Most of the banks today in India are facing the default risk wherein some part of the profit is reserved for covering the non-performing assets.

Definition:

A non performing asset (NPA) is a loan or an advance where;

An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.
A non performing asset (NPA) is a loan or an advance where;
 interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
 the account remains 'out of order' as indicated at paragraph 2.2 below, in respect of an Overdraft/Cash Credit (OD/CC),
 the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
 the installment of principal or interest there on remains overdue for two crop seasons for short duration crops,
 the installment of principal or interest there on remains overdue for one crop season for long duration crops,
 The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
 in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Types of NPA

Types Of Non Performing Assets :

I. Gross Non Performing Assets
II. Net Non Performing Assets

I. Gross Non Performing Assets

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the real NPAS and the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

Gross NPAs Ratio = Gross NPAs /Gross Advances ×100

II. Net Non Performing Assets

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA is obtained by reducing the provisions from Gross NPAs and shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be

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calculated by following:
Net NPAs = Gross NPAs – Provisions on Gross Advances

Categories Of Non Performing Assets:

Categories of NPAs Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the reliability of the dues:
I. Substandard Assets

II. Doubtful Assets

III. Loss Assets

I. Substandard Assets:

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

II. Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, 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.

III. Loss Assets:

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

RESEARCH METHODOLOGY:

This study is very useful to the banks to know their non performing assets as compared to other banks. Today all the banks are facing the problem of non performing assets. This analysis of non performing assets is very useful to know their non performing assets and causes of non performing assets. The main source of income of any bank is the interest on loan. if any borrowers is not paying any interest amount and principle amount then it creates non performing assets. Non performing assets are directly affecting to the income and profitability. So this study will help the banks to improve their performance in terms of profitability. This study is very useful to the public sector bank and private bank to know their performance in managing their non performing assets as compared to other and improve their performance.

Review of Literature

It is observed in the study that during the period of the study, NPAs of private sector banks and Public sector banks have cut down even though advances increased. It is positive sign for banking sector as quality of assets of banks is improved. It is concluded in the study that above mentioned results have been achieved because of the strict norms and initiative of regulatory bodies. (Malyadri, 2011)

It is revealed in the study that NPAs was increasing year by year in selected bank for the period of the study.The selected banks for the study were of Public sector banks and it is concluded that there is gradually increment in NPAs of public sector banks in India. (Gupta, 2018)

Study revealed the truth that in India all banks from any sectors are facing the problem of NPAs. It is also evealed that NPAs of public sector is comparatively higher that private sector banks. (A, 2013)

Research problem:

The main source of income of bank is interest on loan. The performance of any bank is dependent on the income or profitability. But today the major problem in any bank is non performing assets. So non performing assets is affecting to the performance of bank because profitability is dependent on the interest on loan , and if bank is not able to recover interest amount and principal amount then it creates non performing assets. Profitability is directly depended on non performing assets. This research study is based on analysis of non performing assets in public sector bank and private sector bank.

Source of Data:

The data collected for the preparation of this paper is secondary,the sources of data used for this paper annual reports and literatures published by indian banks and research bank of india various articles,magazines and journals.

Data Collection and Analysis:

NET PROFIT(In Crores)			
YEAR	SBI	PNB	AXIS
2010	9166.05	3905.36	2514.53
2011	7370.35	4433.50	3388.49
2012	11707.29	4884.20	4242.21
2013	14104.98	4747.67	5179.43
2014	10891.17	3342.58	6217.67
2015	13101.57	3061.58	7357.82
2016	9950.65	-3974.14	8223.66
2017	10484.10	1324.80	3679.28
2018	-6547.45	-12282.82	275.68

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GROSS NPA (In Crores)			
YEAR	**SBI**	**PNB**	**AXIS**
2010	19534.89	3214.41	1318
2011	25326.29	4379.39	1599.42
2012	39676.46	8719.62	1806.30
2013	51189.39	13465.79	2393.42
2014	61605.35	18880.06	3146.41
2015	56725.34	25694.86	4110.19
2016	98172.80	55818.33	6087.51
2017	112342.99	55370.45	21820.4448
2018	223427.46	86620.05	34248.64

LOANS ADVANCED(In Crores)			
YEAR	**SBI**	**PNB**	**AXIS**
2010	631914.15	186601.20	104343.12
2011	756719.45	242106.67	142407.83
2012	867578.89	293774.76	169759.54
2013	1045616.55	308725.21	196965.96
2014	1209828.72	349269.13	230066.76
2015	1300026.39	380534.80	281083.03
2016	1463700.42	412325.80	338773.72
2017	1571078.38	419493.15	373069.35
2018	1934880.19	433734.72	439650.30

Results and Discussions:

The study of tree banks have been conducted;two of them are public and another is private bank.first is net profits made by these banks,second one is gross NPA of these banks,and last one,the third one is loans advanced by these banks. As seen in table SBI bank with largest profit in the year of 2010 and then it decresed to 2011and then kept incresing till the year 2013and it was very good position. The same scenario was with PNB and axis bank.it was frist time when in year 2016 PNB suffered a net loss of Rs.-3974.14 crores.subsequently the net profit of other bank also started decreasing.

The net profitibilty of a bank depends on the gross NPAs of the banks,and the recovery of the loans advanced by the banks.axis bank is one of the most prominent private sector bank.

Conclusions:

The non performing assets have been very big problem for the banking sectir in india.this doesn't only affected the banking sector in India but also affected the Indian economy.the percentage of NPAs to the loans have been increasing rapidly in boththe private and public banks.

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