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Non-Performing Assets: A Comparative Study of the Indian Commercial Banks

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Abstract

The strength of an economy is dependent on thestrength of its financial system. Banks, both private and public are an important component of the Indian financial system. Ahealthy banking sector has a positive influence on the economic growth (Beck and Lewin, 2004). Asset quality is one of the most crucial parameters to judge the overall financial performance of the banking sector. Asset quality reflects the potential credit risk that may affect the value of the banks and financial institutions. NPAs have become a source of grave concern for almost all the banks during the past two decades.Indian banks have recognised the fact that Non-performing assets (NPAs) affect the profitability, net worth and value of the banks negatively. Withever-increasing advances and loaning practices by the banks, the issue related to loan defaults and its recovery has been critical to the very existence and survival of the banks. Thus, this paper is an attempt to understand what has been the status of the Gross NPAs and Net NPAs in both the private sector banks and public sector banks during the last few years and to analysewhether it has any impact on the asset quality of the banks or not.

Keywords: Gross NPA, Net NPA, Asset Quality, Public and Private Sector Banks

INTRODUCTION

Indian banking sector has changed tremendously over the past few years. With the advent of the LPG (Liberalisation, Privatisation & Globalisation) era in 1991, the Indian banking industry experienced multiple and quick changes. Now the banks are becoming much more competitive in all terms to have a global presence. But in recent years, the banks are facing distressing signals on sustainability and durability due to increase in the non-performing assets (NPAs). A high-level of NPA affects the profitability and net-worth of the banks negatively, thereby eroding the value of the assets. Asset Quality is considered one the most important criterion in determining the overall condition of the bank as it reflects the quantum of existing credit risk associated with the loan and investment portfolios. Management spent a lot of their time, effort and resources in administering their assets in order to minimize the risk associated with it. Stress in banking sector causes less money available to fund other projects, thereby, having a negative impact on the larger national economy.

The definition given by RBI, NPA is a loan or an advance where…

- Interest and/ or installment of principal remain overdue for a period of more than **90 day**s in respect of a term loan.
- The account remains '**out of order**' 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.

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- The installment of principal or interest thereon remains overdue for **two crop seasons for short duration crops.**
- The installment of principal or interest thereon 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 securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.
- For 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.

Types of NPAs

It may be classified into:

A. **Gross NPAs**: It is an advance which is considered as irrecoverable, for whom the bank has made provisions and still held in the books of accounts.

B. **Net NPAs:** It is obtained by deducting from Gross NPA items like interest due but not recovered, part payment received and other income kept in suspense account.

Asset Classification Categories:

1. STANDARD ASSETS: These are the ones on which the banks are receiving the interest and the principal amount on regular basis. This is also called as "performing asset".

2. SUB-STANDARD ASSETS: These assets have remained NPA for less than or equal to 12 months and the account holder does not make the payments of three installments due for more than 90 days and up to 12 months.

3. DOUBTFUL ASSETS: These assets have all the characteristics of the sub-standard assets and their collection is difficult. It remains in the sub-standard category for 12 months.

4. LOSS ASSETS: The provisions are made by the banks to write-off these accounts at 100% as there is no chance of recovery and even if recovery is there, it is of a very little value.

Public sector banks are more stressed than their private sector counterparts with the former figuring among the top 20 banks with the highest gross non-performing asset (GNPA) ratios, according to CARE Ratings' analysis of the first quarter results of 38 banks. Eight PSBs banks — IDBI Bank, Indian Overseas Bank, UCO Bank, Bank of Maharashtra, Central Bank of India, Dena Bank, United Bank of India, and Corporation Bank — had a GNPA ratio of over 15 percent as of June 2017.YES Bank is the only bank in the sample of 38 banks with a GNPA ratio of less than 1.State Bank of India (SBI) accounted for the largest share of about 22.7 percent (or ₹1,88,068 crore) in the total NPAs of 38 banks (aggregating ₹8,29,338 crore) as of June-end 2017.SBI, Punjab National Bank, Bank of India, IDBI Bank, and Bank of Baroda accounted for 47.4 percent (totalling ₹3,93,154 crore) in the total NPAs as of June-end 2017. The gross NPA of PNB is 12.53 percent, ₹55,370.45 crores of its total lending.
At the end of March quarter, the bank's fresh slippages stood at ₹22,415 crores as against ₹42,252 crores in the same period last year. Among the top 20 banks, according to GNPAs in absolute terms, 18 are PSBs and only two are private sector banks — ICICI Bank and Axis Bank. These two private sector banks have a combined share of 7.9 percent in total NPAs.CARE Ratings said in the April-June quarter (Q1) of FY18, NPAs of a sample of 38 banks increased by a sharp 34.2 percent on a year-on-year basis. Also, the NPA ratio increased to 10.21 percent in June 2017 from 8.42 percent in June 2016, which is the highest in the last six quarters. On a quarter-on-quarter basis, the increase in NPAs has been the highest in Q1 FY18 witnessing an increase of about 16.6 percent to reach ₹8, 29,338 crores as of June 2017.

LITERATURE REVIEW

Satpal (2014) in his paper titled "*A Comparative Study of Non-Performing Assets in Public Sector Banks and Private Sector Banks in New Age of Technology*" said that levels of NPAs are higher in public sector banks as compared to private sector banks. The NPAs are not a problem for banks but for the economy as well. He also highlighted the fact that NPAs of Indian banks affect their profitability also.

Nancy Arora & Nikita Oswal (2014) in their research paper on "*Unearthing the Epidemic of NPAs: A Study of Private and Public-Sector Banks*" studied about the loan assets of the public sector and private sector banks and concluded that private sector banks showed a decline in the NPA ratio as the recovery management was performed well. They also found higher levels of NPAs of public sector banks.

Kumar (2013) in his study on "*A Comparative Study of NPA of Old Private Sector Banks and Foreign Sector Banks*" observed that during late 90's a huge accumulation of NPAs were seen which affected the performance of Indian commercial banks. It also focussed on the high-level of NPAs on the profitability, liquidity, solvency, capital adequacy etc., of the banks.

Singh (2013) in his paper "*Recovery of NPAs in Indian Commercial Banks*" emphasised that the reason for the rising NPAs is poor management of credit risk by the banks. Banks should fix pre-sanctioning appraisal and an effective post-disbursement supervision.

Gupta (2012) in her study on the paper titled "*A Comparative Study of Non-Performing Assets of SBI & Associates and Other Public Sector Banks*", observed that bank should evaluate the financial capacity of the borrower before providing any credit facility. She also suggested that proper committees must be formed for management of NPAs as NPA is a crucial rating factor for any bank.

Khanna (2012) in her paper titled "*Managing NPA in Commercial Banks*" said that mounting NPAsare a major cause of concern as ahigherlevel of NPAs means more probability of credit defaults eroding the profitability and net-worth of the banks.

Malayadri & Sirisha (2011) in their paper titled "*A Comparative Study of the Non-Performing Assets in Indian Banking Industry*" observed that there has been an increase in advances and a decline in the NPA ratio in the public sector banks and private sector banks thereby improving the asset-quality. They also concluded that the banks improved their NPA management due to prudential norms and initiatives were taken by the regulatory authorities.

Prasad & Veena (2011) in their paper on "*NPAs Reduction Strategies for Commercial Banks in India*" stated that NPAs have a destructive impact on the ROA as NPAs do not generate any net interest income. Consequently, the profits of the banks are reduced and limits the recycling of funds.

OBJECTIVES OF THE STUDY

The objective(s) of the current paper of study are as follows:

1) To study the NPA trend of selected private and public sector commercial banks.
2) To make a comparative analysis of the NPAs of selected private and public sector commercial banks.
3) To study the trend of ROA of the selected private and public-sector banks.
4) To understand the trend of Asset Quality of the private and public-sector banks.

RESEARCH METHODOLOGY

Area of study:

The present study pertains to the trend analysis of NPAs, ROA and Asset Quality over a decade.

Source of data:

The data collected is primarily from secondary sources like annual reports of the companies, RBI bulletin, journals, websites, etc.

Tools and techniques:

For the purpose of analysis, in this paper the following tools and techniques have been used:

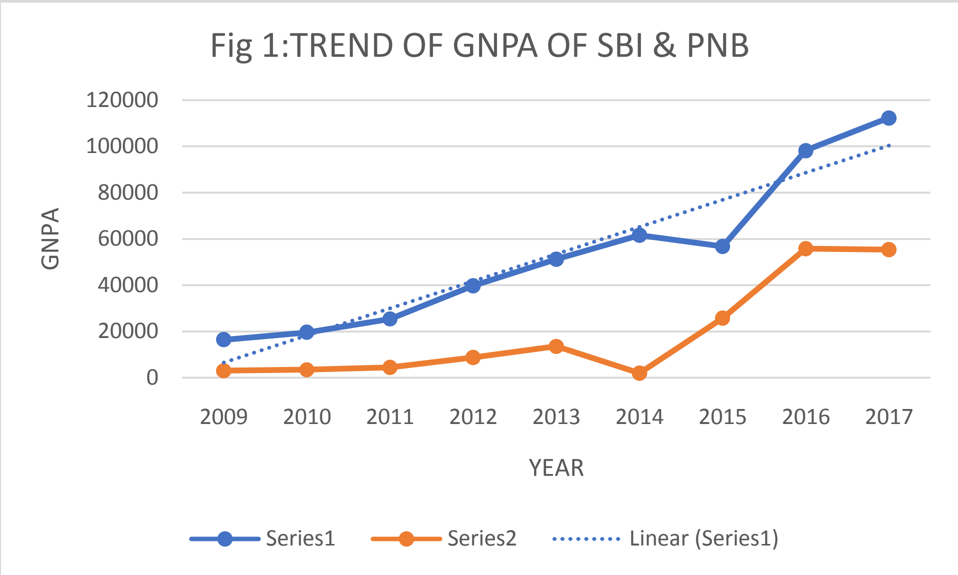
1. Trend analysis – intra-bank and inter-bank both.
2. Comparative study of Average and Standard Deviation of all the major variables pertaining to asset quality of the banks have been analysed to assess the asset quality in absolute term.

ANALYSIS AND INTERPRETATION

Table 1: Gross and Net NPA (Amount in crores)

YEAR	SBI				PNB			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2009	16346	3.01	9552	1.76	2965.33	1.55	1552.59	1.09
2010	19535	3.09	10870	1.72	3356.24	1.68	1678.52	1.12
2011	25326	3.28	12346	1.63	4379	1.79	2038.63	1.23
2012	39676	4.44	15818	1.82	8719.62	2.93	4454.23	1.52
2013	51189	4.75	21956	2.1	13465.79	4.27	7236.50	2.35
2014	61605	4.95	27590	2.57	1880.06	5.25	9916.99	2.85
2015	56725	4.25	27591	2.12	25695	6.55	15396	4.06
2016	98173	6.5	55807	3.81	55818	12.90	35423	8.61
2017	112342	6.90	58277	3.71	55370	12.58	32702	7.81

Source: www.moneycontrol.com, www.sbi.co.in , www.pnb.co.in



In the above *figure 1*, it is observed that there is an increasing trend of the GNPA for both SBI & PNB over the years from 2009 to 2017.There has been a sharp fall in the GNPA levels of PNB in 2014 and for SBI in 2016.The reason is due to better credit management and pay-off of outstanding loans. But there has been again a rise in the GNPA levels for both the banks after the said years. The GNPA level for PNB was stagnated during the year 2016-17 as seen from the graph.

In*figure 2* below, the NNPA levels are highest for SBI in 2017 and for PNB in 2016. It is seen that there has been a steep rise in the NNPA for both the banks during 2015-16 with PNB showing a downward trend after 2016.

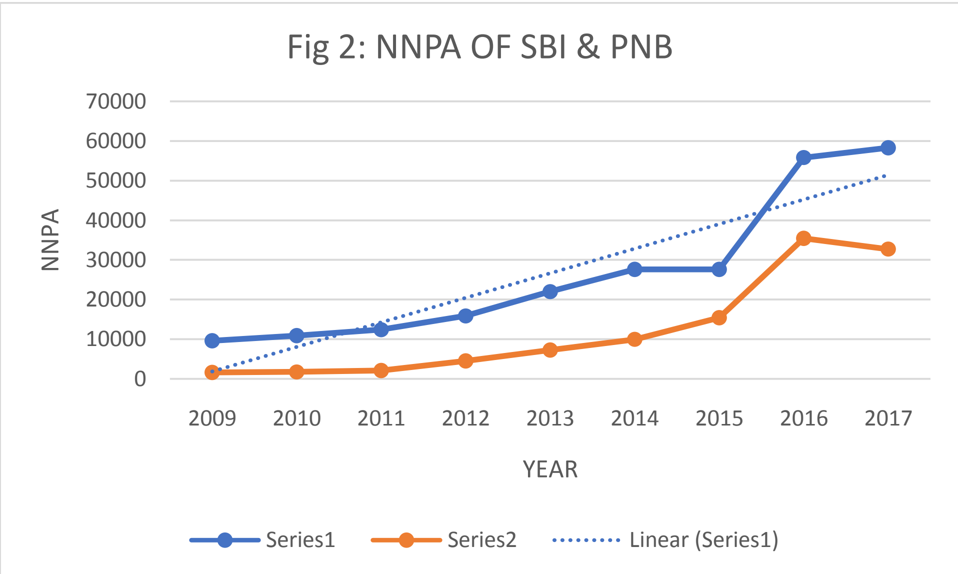
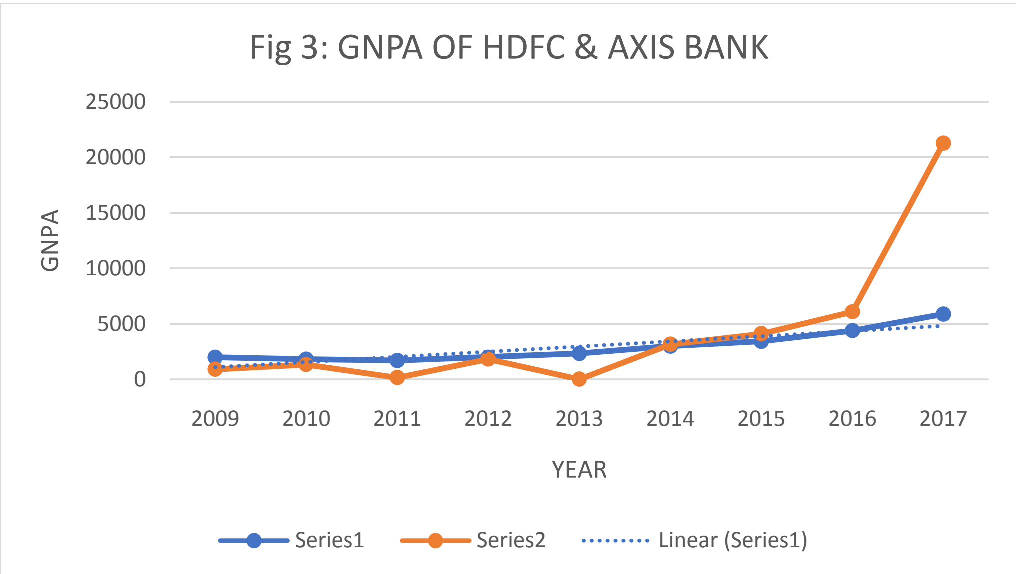


Table 2: Gross and Net NPA (Amount in crores)

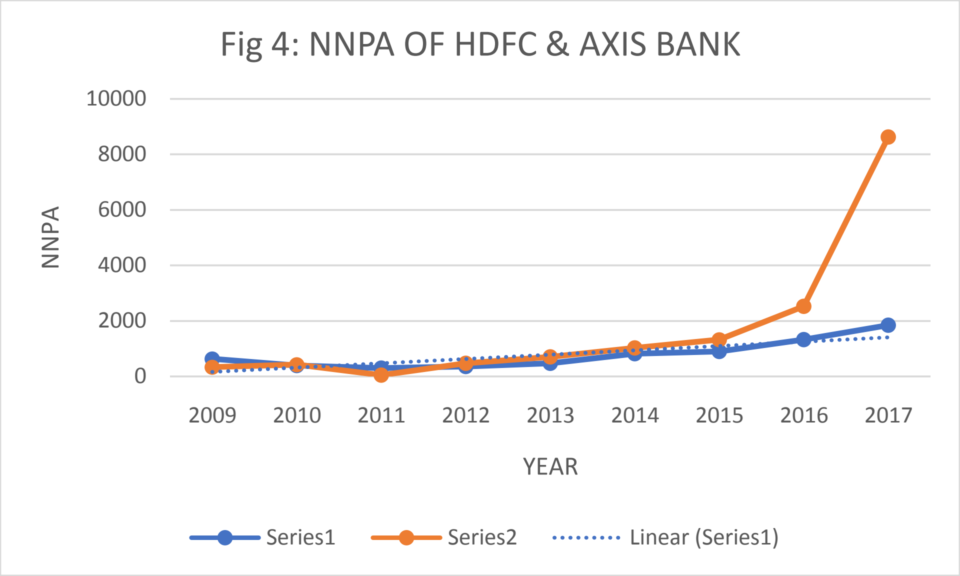
YEAR	HDFC				AXIS			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2009	1988	1.12	627	.063	897	1.15	327	0.4
2010	1816	1.09	392	0.31	1318	0.98	419	0.4
2011	1694	1.05	296	0.2	159	1.01	41	0.26
2012	1999	1.02	352	0.2	1806	0.94	472	0.25
2013	2334	0.97	468	0.2	2.393	1.06	704	0.32
2014	2989	1.00	820	0.30	3146	1.22	1025	0.40
2015	3438	0.9	896	0.20	4110	1.34	1317	0.44
2016	4393	0.94	1320	0.28	6083	1.67	2522	0.70
2017	5886	1.05	1844	0.33	21280	5.04	8626	2.11

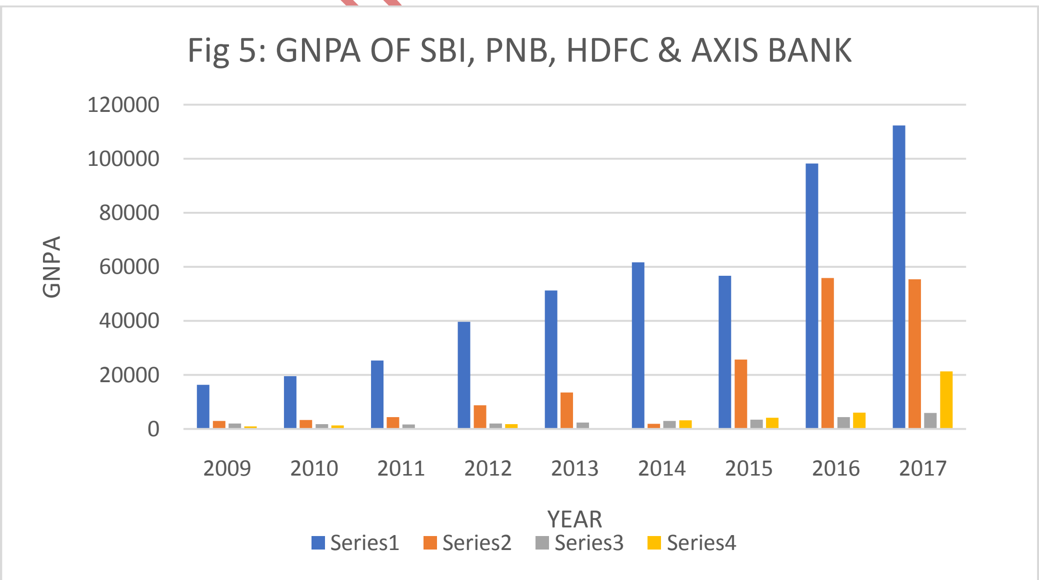
Source: www.moneycontrol.com, www.hdfc.com,www.axisbank.com

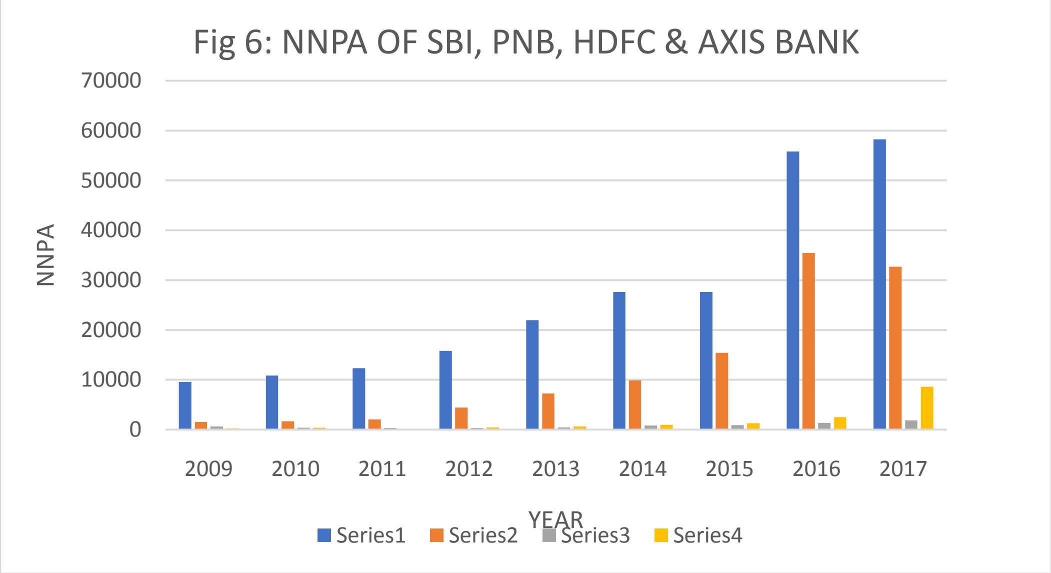


In the above *figure 3*, the GNPA level of HDFC bank has shown a stable trend over the years with aslightincrease during 201-17. Axis bank shows a mixed trend of GNPA level with some fall in the year 2011 and 2013 and with gradual rise during 2013-16 but a sharp rise in 2016 is seen. This is due to some poor credit administration policies of the bank.

In*figure 4*, the NNPA of Axis bank shows an upward trend with a steep rise in 2016-17. However, the NNPA levels of HDFC bank have been moderate throughout.



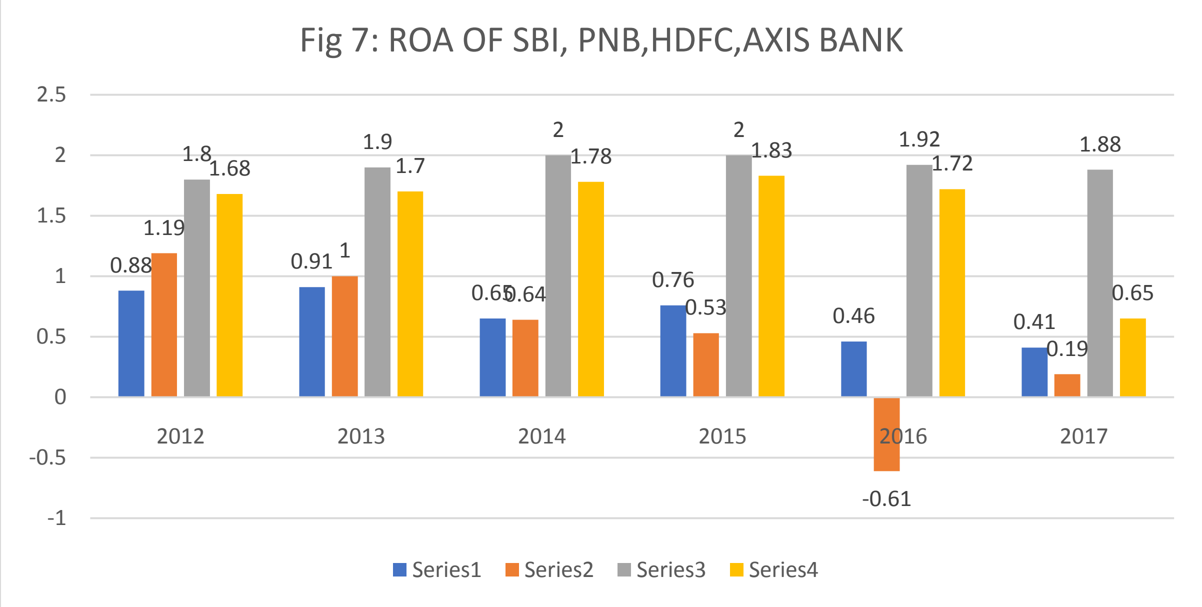




In thecontext of the *figures 5& 6* above, the GNPA & NNPA levels of SBI, PNB, HDFC & AXIS bank has shown a growing trend. The GNPA & NNPA is highest of SBI (Leader) in the year 2016-17, followed by PNB, then AXIS bank and HDFC respectively. The GNPA & NNPA levels have been the least for HDFC bank. It can be seen that the GNPA & NNPA for the private sector banks has been comparatively lower for private sector banks than public sector banks. The private sector banks have actually shown up NPAs after 2013.This implies credit management policies of private banks have been better than public banks.

Table 3: Return on Assets (ROA) of public sector and private sector banks

YEAR	SBI	PNB	HDFC	AXIS
2012	0.88	1.19	1.80	1.68
2013	0.91	1.00	1.90	1.70
2014	0.65	0.64	2.00	1.78
2015	0.76	0.53	2.00	1.83
2016	0.46	-0.61	1.92	1.72
2017	0.41	0.19	1.88	0.65

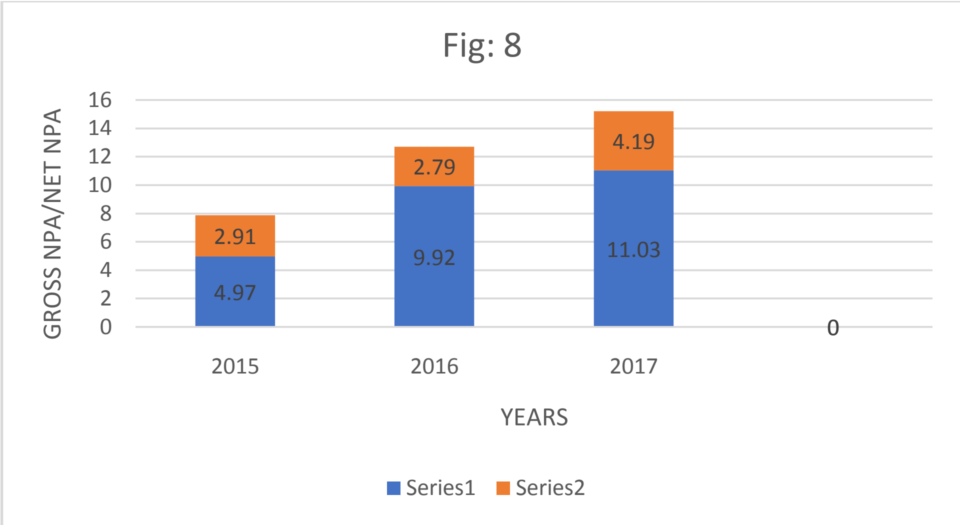


In this given *figure 7*, the ROA of the public sector banks has shown a downward trend with PNB showing a negative ROA in the year 2016 whereas the private sector banks have shown an increasing trend over the years with AXIS bank showing a fall in the ROA in the year 2017.

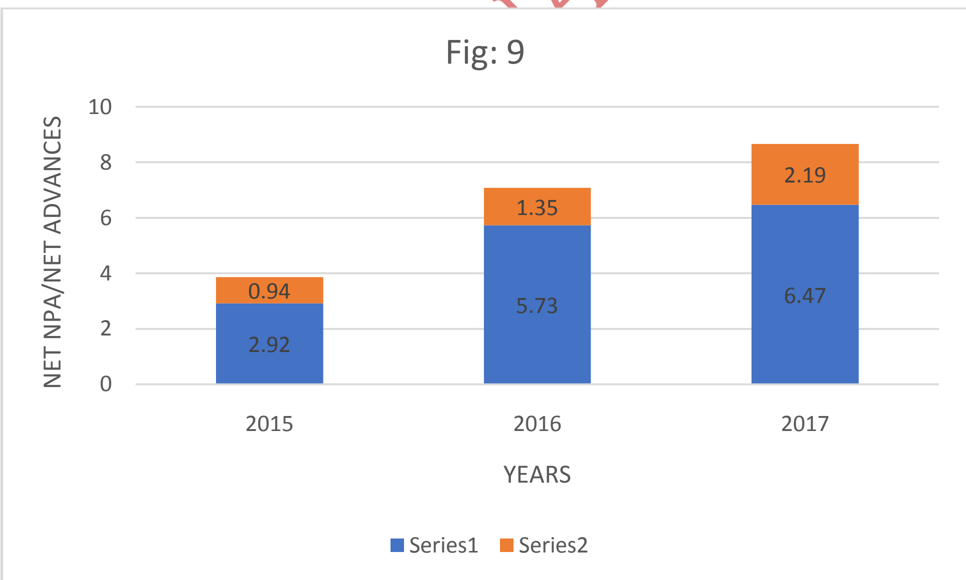
Table 4: Asset-quality of Public sector and Private sector Banks

PARAMETERS	OVERALL			PUBLIC SECTOR BANKS			PRIVATE SECTOR BANKS		
As on March 31	2015	2016	2017	2015	2016	2017	2015	2016	2017
Gross NPA /Net NPA	4.63	7.71	9.20	4.97	9.29	11.03	2.11	2.79	4.19
Net NPA /Net Advances	2.50	4.65	5.3	2.92	5.73	6.47	0.94	1.35	2.19
Net NPA / Net Worth	23.95	44.52	49.72	84.69	66.70	77.52	5.60	8.39	13.03
St. structured Advances/ Net Advances	6.27	4.65	2.49	7.35	4.13	3.02	2.30	1.63	1.08
Stressed Assets/ Gross Advances	10.54	11.11	11.58	12.16	13.26	13.90	4.58	4.39	5.24

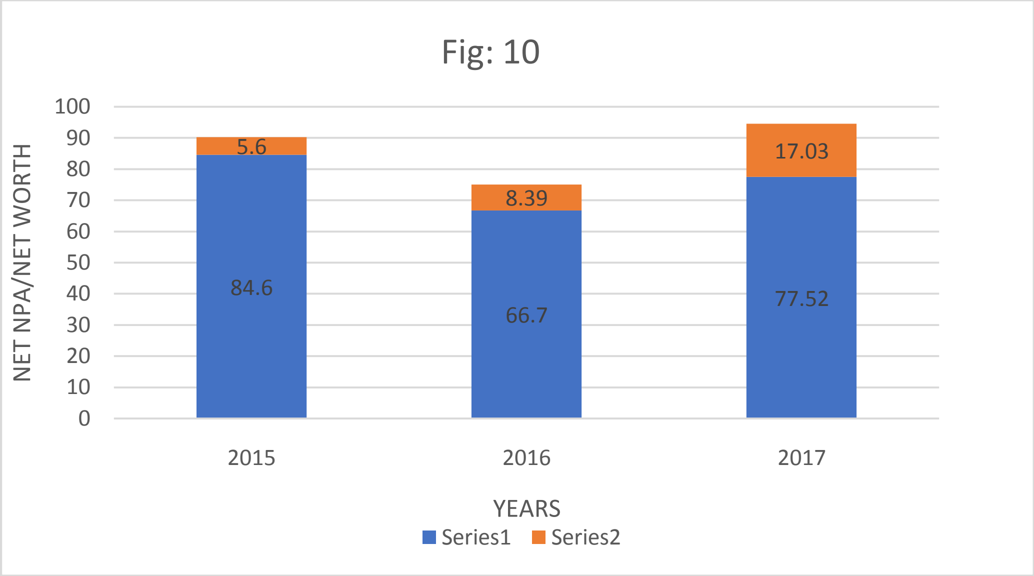
Source: CARE Ratings & Banks, June-August 2017



The above *figure 8* shows that the ratio of the GNPA & NNPA has been higher for public sector banks as compared to private sector banks and also its level has increased with time.

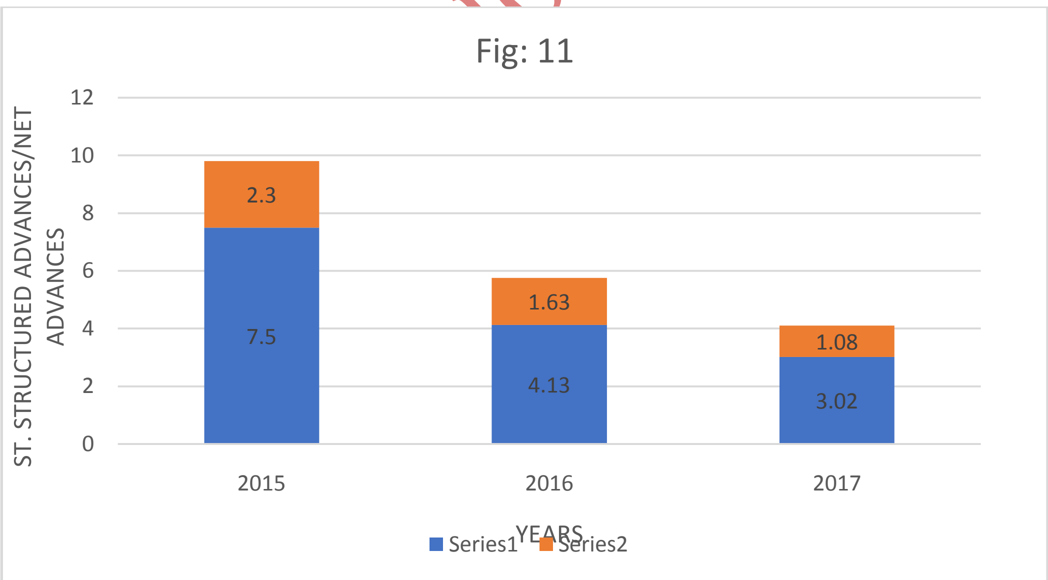


In this *figure 9*, the ratio of net NPA to the Net Advances have been more for public sector banks over the time and there has been a sharp rise in the ratio after 2015. This emphasises that with the increase in loans and advances, the levels of NPAs are also increasing. This means the credit administration policies of the public sector banks are not effective enough to reduce the occurrence of the NPAs.



The *figure10*above, theratio denotes the coverage available as % Net worth against the NPAs net of Provision. Assuming there is no recovery against NPAs, the ratio denotes how much proportion of net worth would be eroded. The ratio is higher in case of public sector banks as compared to private sector banks. It was as high as 84.6 in 2015, then fell to 66.7 in 2016 and again increased to 77.52 in 2017.

In*figure 11* below, the ratio of the standard structured assets to the net advances is showing an overall downward trend from 2015 to 2017 for both the banks. In private sector banks, the ratio was 2.3 in 2015, fell to 1.63 in 2016 and 1.08 in 2017, whereas the ratio for the public sector banks had been 7.5 in 2015 which reduced to 3.02 in 2017.the fall in the ratio has been sharper for the public sector banks as compared to private sector banks.



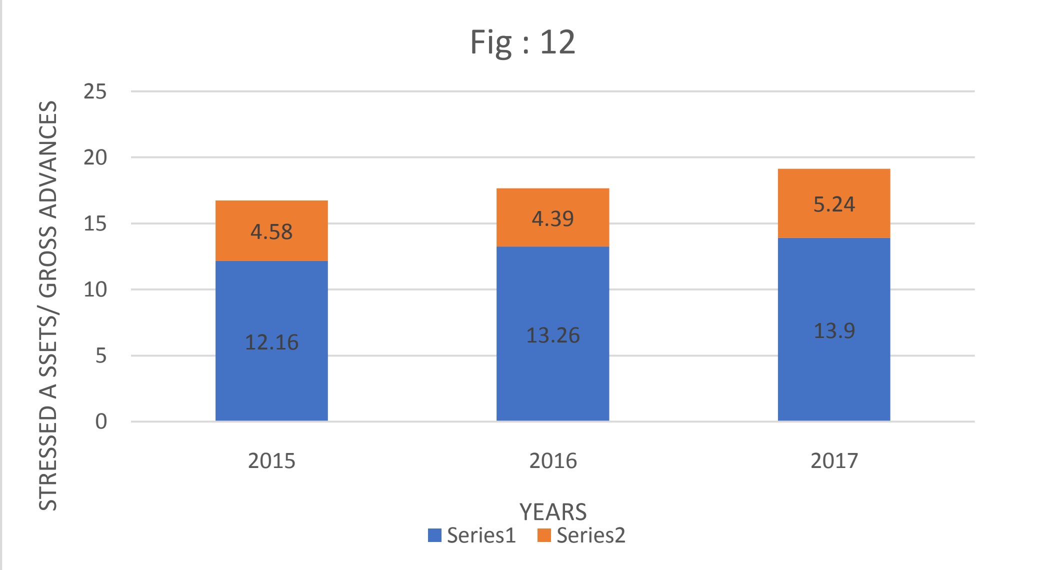


figure 12 shows that the ratio of the stressed assets to gross advances has been stable over the period of three years for both public sector and private sector banks. The increase of stressed assets is the case also for private sector banks, but their ratio of stressed assets to gross advances is far lower and their capitalization levels far greater. Stressed assets comprise of restructured loans and written off assets besides NPAs.
[Stressed assets = NPAs + Restructured loans + Written off assets]

Table 5: Mean and Standard Deviation (NNPA)

	SBI	**PNB**	**HDFC**	**AXIS**
MEAN	26645.22	12266.5	779.44	1717
STANDARD DEVIATION	18498.27	13167.11	515.69	2693.12
SD/MEAN	0.69	1.07	0.66	1.57

The above table shows that within public sector banks AQM of PNB is better as compared to SBI in terms of standard deviation of NPAs against unit Mean NPA.

Within the private sector banks, AQM of AXIS bank is far better compared to HDFC bank in terms of standard deviation of NPAs against unit Mean NPA.

LIMITATIONS OF STUDY

- The entire data analysis is based on secondary data only. Any biasedness in secondary data will lead to misleading analysis.
- The data has been collected for 2 public sector banks and 2 private sector banks, which are the representative banks of their own sector.

- The span of thestudy was limited due time and resources.

FINDINGS &CONCLUSION

Non-Performing Assetshave always beena concern for the banking sector from the last two decades due to the economic slowdown. The bank's performance in terms of profitability and expansion or growth has been affected a lot due to thepresence of Non- Performing Assets. Reasons behind increasing NPAs in both private and public sector banks are almost similar viz., intentional loan defaults, poor credit management policies, loans sanctioned with no pre-inquiry, most loans sanctioned for agricultural purposes.

The study highlights the following findings:

1. Private sector banks are better performers than public sector banks as their GNPA & NNPA are comparatively quite low than public sector banks.
2. There is an increasing trend of the GNPA for both SBI & PNB over the years from 2009 to 2017
3. There has been a sharp fall in the GNPA levels of PNB in 2014 and for SBI in 2016.
4. The NNPA levels are highest for SBI in 2017 and for PNB in 2016.
5. There has been a steep rise in the NNPA for both the banks during 2015-16 with PNB showing a downward trend after 2016
6. The GNPA level of HDFC bank has shown a stable trend over the years with aslightincrease during 201-17. Axis bank shows a mixed trend of GNPA level with some fall in the year 2011 and 2013 and with gradual rise during 2013-16 but a sharp rise in 2016 is seen.
7. The NNPA levels of HDFC bank have been moderate throughout.
8. The GNPA & NNPA is highest of SBI (Leader) in the year 2016-17, followed by PNB, then AXIS bank and HDFC respectively. The GNPA & NNPA levels have been the least for HDFC bank.
9. Credit management policies of private banks have been better than public banks.
10. The ROA of the public-sector banks has shown a downward trend with PNB showing a negative ROA whereas the private sector banks have shown an increasing trend over the years.
11. Asset quality management is better in SBI as compared to PNB whereas,in case of private banks, asset quality management of AXIS bank is good in comparison with HDFC bank.
12. Both private banks and public banks are showing an increasing trend of non-performing assets with thepassage of time.

Thus, banks should focus on bettering the credit recovery policies, the focus is on better strategy formulation and implementation as well. The banks should also make effort to provide the advances to creditworthy customers by analysing their risk-bearing capacity. The government should also make stringent provisions for the settlement or pruning of NPAs as the existence of NPAs ruin the profitability, asset quality and competitiveness of the banks and, it also affects the financial health of the overall banking industry of India.

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ANNEXURE

BANK-WISE GROSS NPAs as of June, 2017(in crores)

BANKS	**AMOUNT**
SBI	188068
INDIAN BANK	9653
PNB	57721
HDFC	7243
BANK OF INDIA	51019
VIJAY BANK	6812
IDBI	50173
PUNJAB & SIND	6693
J& K BANK	5641
ICICI	43148
KOTAK MAHINDRA	3727
CANARA BANK	37658
IDFC	2004
UNION BANK	37286
FEDRAL BANK	1868
IOB	35453
KARUR VYSYA BANK	1807
CENTRAL BANK OF INDIA	31398
SOUTH INDIAN BANK	1696
UCO BANK	25054
KARNATAKA BANK	1691
OBC	24409
YES BANK	1364
AXIS BANK	22031
INDUSIND	1272
CORPORATION BANK	21713
ALLAHABAD BANK	20132
SYNDICATE BANK	20184
RBL	458
ANDHRA BANK	19428
DHANLAXMI	354
BANK OF MAHARASHTRA	18049
DCB BANK	285
DENA BANK	12994
UNITED BANK OF INDIA	1265
LAKSHMI VILAS BANK	878
CITY UNION BANK	735
TOTAL	**8,29,338**

Source: CARE Ratings, August 2017.