

NPA MANAGEMENT IN PUBLIC SECTOR BANKS AND PRIVATE SECTOR BANKS IN INDIA: A COMPARATIVE STUDY

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Abstract : In this paper an attempt has been made to know the rules/criteria for identification of NPA, to compare the performance of Public and Private Sector Banks, to review performance of these banks and to find out growth rate & market share of selected banks for study. The banks having highest NPA as on March 31, 2015 has been selected from both the sectors. for the purpose of study. The need to research on this topic is felt from the critical problem of banks in non repayment of loans which results into a burden to banks called Nonperforming Assets. We have used ratio analysis as well as various statistical techniques such as average, Pearson's correlation analysis. The study concluded that the average growth rate of NPA is lowest in case of public sector banks as compared to private sector banks.

Key words : Non Performing Assets, public sector banks, private sector banks

Introduction

An **asset**, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A '**Non-Performing Asset**' (NPA) was defined as a credit facility in respect of which the interest and/ or installment of principal has remained "past due" for a specified period of time. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the "90 days overdue" norm for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be 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" for a period of more than 90 days, 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,
- Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts

As a facilitating measure for smooth transition to 90 days norm, banks have been advised to move over to charging of interest at monthly rates, by April 1, 2002. However, the date of classification of an advance as NPA should not be changed on account of charging of interest at monthly rates. Banks should, therefore, continue to

classify an account as NPA only if the interest charged during any quarter is not serviced fully within 180 days from the end of the quarter with effect from April 1, 2002 and 90 days from the end of the quarter with effect from March 31, 2004.

As per reserve bank of India guidelines, income on loan is to be recognized on receipt basis and if it has not been received for a specified period, the same assets is to be treated as nonperforming.

The basis for doing so it given below.

1. Term loan: Term loan account will be treated as NPA if interest or installment of principle is in arrears for any two quarters out of four quarters, through the default may not be continuously for two quarters during the year. The default may be considered by applying the concept of past due i.e. if not paid within 30 days from the due date.

2. Cash credit and overdrafts: A cash credit or overdrafts account will be treated as NPA if the account remains out of order for a period of two quarters. An account should be treated as "out of order" if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In case where the principle operating account is less than the sanctioned limit/drawing power but there are no credits continuously for six month as on the date of balance sheet or credit are not enough to cover the interest debited during the same period, these accounts should also be treated as "out of order".

3. Bills purchase and discounted: The bills purchase/discounted account should be treated as NPA if the bill remains overdue and unpaid for a period of two quarters.

4. Other accounts: Any other credit facility should be treated as NPA if any amount to be received in respect of that facility remains past due for the period of two quarters. An amount should be considered past due, when it remains outstanding for 30 days beyond the due date.

Review Of Literature:

The banking literature, the problem of non-performing assets has been revisited in several theoretical and empirical studies.

Kohli (1997) analyzed the impact of directed credit under priority sector on the profitability of commercial banks in India. She brought into light the matters related to the directed credit which was not solely responsible for the deterioration in the profitability and the poor quality of the portfolio of the financial institutions. The researcher, however, has called for the re-appraisal of the credit policy of India on the lines of the policies implemented in East-Asian countries.

S.P.Talwar (1998) has observed that the current banking Scenario and the need for the policy change, opines that a major concern addressed by the banking sector reform is the improvement of the financial health of banks. The Introduction of prudential norms is better financial discipline by ensuring that the banks are alert to the risk profile of their loan portfolios.

Mishra.T.P. (2003) has revealed the high rise in gross and Net NPA of the banking sector in the recent past as the exponential rate giving an indication, that the ongoing recession was taking a heavy toll on corporate audit discipline. This was further supported by recovery climate, legal system, approach of the lenders towards lending and many other factors. Despite myriad problems

and existing set up, banks had to perform well and achieve the target for NPA reduction affixed as per international standard.

Das and Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency indicator.

Chengalrayulu & Ramkrishnaiah (2006) taking 26 public sector banks and 21 private banks which made comparative study of ICICI banks and Andhra bank which shows NPA of ICICI is higher than Andhra bank.

Names (2008) have observed that NPAs have always created a big problem for the Banks in India. It is just not only a problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. This study shows that the extent of NPA is comparatively very high in public sector banks as compared to private banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks.

Ramu. N. (2009) has observed that the main cause of mounting NPAs in public sector banks is malfunctioning of the banks. Narasimham Committee identified the NPAs as one of the possible effects of malfunctioning of public sector banks.

Khurana & Singh (2010) have revealed that there is significant improvement in the assets quality as reflected by decline in the diverse NPA ratio as well as assets wise classification of NPAs of these banks. Assets quality of banks has registered with noteworthy improvement with top most reduction in the NPAs level in non-priority sector. The

study observed that 7 out of 8 new private sector banks have significantly reduced NPA to net advanced ratio and now fall in the category of less than 2 per cent class. This study is conducted on the secondary data declared by various private sector banks.

Samir & Kamra (2013) found that non-performing assets (NPAs) is affecting the performance of credit institutions both financially and psychologically. The non-performing assets have become a major cause of concern. Management has become all the more important for improving the bottom-line of the banking sector. It becomes essential to master the expertise for monitoring exposure levels, industry scenarios and timely action in respect of troubled industries. Skills of NPA management, include working out negotiated settlements, compromises constituting active settlement advisory committees, restructuring and rehabilitation, effective recourse to suitable legal remedies are to be supplemented with most suitable legal reforms by banks to recover dues well in time so that the financial soundness of the banking sector will not be undermined. Non-performing assets (NPAs) is affecting the performance of credit institutions both financially and psychologically. The non-performing assets have become a major cause of concern. Imbibing the credit management skills has become all the more important for improving the bottom-line of the banking sector.

Paatila (2014) has found that banking industry has undergone a major change after the first phase of economic liberalization; hence the importance of credit management has emerged. In recent time banks are very cautious in extending loans, because of mounting NPA. This article highlights the reasons for an assets

becoming NPA and remedial measures to be taken.

Objectives Of The Study:

Primary Objective

A comparative study on NPA Management in public and private sector banks in India.

□ Secondary Objectives

- To understand the concept of non-performing assets and to identify the different criteria for identification of NPA in Indian banks.
- To compare sector wise NPAs in public and private sector banks.
- To review performance of public and private sector banks in non-performing assets.

Research Methodology:

We have used Descriptive research in this study. Secondary data is used for analysis in the study. The data about NPAs & its composition, distribution in various sections, classification of loan assets, profit and advances of different banks is taken from various sources like - Reserve bank of India, Research paper on NPA, Websites of selected banks etc. The source of data for this study includes the literature published by the selected public sector banks in India and also the reserve bank of India. Also the various magazines dealing with the current

banking scenario and research paper have also been a source of information. All the banking institution operating and running its business in India are the population of the study for NPA Management. Banks include all the public and private sector banks. We have used Non-probability sampling method for selecting the sample of banks. Here, top five banks from public and private sector having highest NPA in rupees is selected for this study. As per non-probability sampling method, we have selected five public sector banks - State banks of India, Punjab national banks, Bank of India, Central bank and Canara Bank as well as five private sector banks - HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Axis Bank and Indus Ind Bank. In the present study, we have used ratio analysis as well as various statistical techniques such as average, Pearson's correlation analysis. The study on management of non-performing assets is limited to the selected Public sector and Private sector banks in India. The basis for identifying non-performing assets is the one that has been mentioned in the report but some minor changes may have been carried out through the reserve bank of India circulars, which are received on a daily basis by the bank.

DATA ANALYSIS AND INTERPRETATION:**NPA in Public Sector Banks (PUSB)****Table - 1 NPA in Public Sector Banks (PUSB)**

(Figure in Rs. Millions)

Year	SBI		BOB		PNB		Central Bank		Canara Bank		Total		Other PUSB		Total PUSB	
	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%
2011	123469	34	7909	2	20386	6	8470	2	23299	6	183533	51	177013	49	360546	100
2012	158189	27	15436	3	44542	8	46000	8	33863	6	298030	50	294022	50	592052	100
2013	219565	24	41920	5	72365	8	49880	6	52781	6	436511	49	463005	51	899516	100
2014	310961	24	60348	5	99170	8	66500	5	59655	5	596634	46	706981	54	1303615	100
2015	275906	17	80695	5	153965	10	68070	4	87401	5	666037	42	936045	58	1602082	100

From the above table it becomes clear that the major share in NPA is with SBI during all the years of the study while lowest share in NPA is with BOB during all the years of study period. Further, the study also reveals that from 2011 to 2013 selected banks and other public sectors banks have proportion of almost 50% and 50% in NPA. However, from 2014 to 2015, the proportion changed to 45% and 55%.

NPA in Private Sector Banks**Table - 2NPA in Private Sector Banks**

(Figure in Rs. Millions)

Year	HDFC Bank		ICICI Bank		KotakMahindra		Axis Bank		IndusIndBank		Total		Other PUSB		Total PUSB	
	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%
2011	2964	7	24074	54	2112	5	4104	9	728	2	33981	77	10341	23	44322	100
2012	3523	8	18608	42	2374	5	4726	11	947	2	301786	69	13834	31	44012	100
2013	4690	8	22306	37	3114	5	7041	22	1368	2	385181	64	21426	36	59944	100
2014	8200	9	32980	37	5736	6	10246	12	1841	2	590022	67	29613	33	88615	100
2015	8963	6	62555	44	6091	4	13167	9	2105	1	928808	66	48402	34	141283	100

From the above table it becomes clear that the major share in NPA is with ICICI Bank during all the years of the study while lowest share in NPA is with IndusInd Bank during all the years of study period. Further, the study also reveals that in the year 2011 selected banks and other private sectors banks have proportion of almost 77% and 23% in NPA. However, from in the year 2015, the proportion changed to 66% and 34%.

Growth Rate of NPA
Table -3 Growth Rate of NPA

	SBI	BOB	PNB	Central Bank	Canara Bank	HDFC Bank	ICICI Bank	Kotak Mahindra	Axis Bank	IndusInd Bank
2011	--	--	--	--	--	--	--	--	--	--
2012	0.28	0.95	1.18	4.43	0.45	1.19	0.77	1.12	1.15	1.30
2013	0.39	1.72	0.62	0.08	0.56	1.33	1.20	1.31	1.49	1.44
2014	0.42	0.44	0.37	0.33	0.13	1.75	1.48	1.84	1.46	1.35
2015	-0.11	0.34	0.55	0.02	0.47	1.09	1.90	1.06	1.29	1.14
Average	0.196	0.69	0.544	0.972	0.322	1.072	1.07	1.066	1.078	1.046

From the above table, it becomes clear that lowest average growth rate of NPA is observed in SBI (0.196), while highest average is observed in case of Axis bank (1.078). The above table also reveals that average growth rate of NPA is lowest in case of public sector banks as compared to private sector banks.

Gross NPA from Advances
Table - 4 Gross NPA from Advances
(Figure in Rs. Millions)

Bank		2015	2014	2013	2012	2011	Average Gross NPA to Gross Advance Ratio
SBI	NPA	567253	616054	511894	371560	230735	4.47
	Adv	13354237	12451224	10785571	7578886	6624441	
	% of Adv	4.25%	4.95%	4.75%	4.90%	3.48%	
BOB	NPA	162615	118759	79826	38818	27862	2.51
	Adv	4372804	4036994	3328113	2054536	1718015	
	% of Adv	3.72%	2.94%	2.40%	1.89%	1.62%	
PNB	NPA	256949	188801	134658	86899	43794	4.20
	Adv	3924222	3596458	3152440	2761077	2439988	
	% of Adv	6.55%	5.25%	4.27%	3.15%	1.79%	
Central Bank	NPA	118731	115000	84562	72735	23945	4.76
	Adv	1949672	1833212	1762337	1506499	1313900	
	% of Adv	6.09%	6.27%	4.80%	4.83%	1.82%	
Canara Bank	NPA	130400	75702	62602	38901	29818	2.43
	Adv	3349473	3034310	2439358	2224944	2027240	
	% of Adv	3.89%	2.49%	2.57%	1.75%	1.47%	
HDFC Bank	NPA	32658	27754	20481	18149	16603	0.93
	Adv	3678878	3049632	2413061	1909689	1567053	
	% of Adv	0.89%	1.29%	0.85%	0.95%	1.06%	
ICICI Bank	NPA	150947	105058	96078	92926	98160	4.13
	Adv	3989620	3472115	2984163	1923338	1691818	
	% of Adv	3.78%	3.03%	3.22%	4.83%	5.80%	
Kotak	NPA	12372	10594	7581	6142	6035	1.79

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Mahindra	Adv	667949	535170	489186	394519	297187	
	% of Adv	1.85%	1.98%	1.55%	1.56%	2.03%	
Axis Bank	NPA	38669	30014	23714	17202	15870	1.26
	Adv	2840087	2324988	1989007	1459049	1241198	
	% of Adv	1.36%	1.29%	1.19%	1.18%	1.28%	
IndusInd Bank	NPA	5629	6207.9	4578	3471	2659	0.99
	Adv	691406	555385.8	446416	353164	263587	
	% of Adv	0.81%	1.12%	1.03%	0.98%	1.01%	

From the above table, it becomes clear that Average Gross NPA to Gross Advance Ratio is highest (4.76) in case of Central bank while it is lowest (0.93) in case of HDFC bank. Further, the study also concluded that average gross NPA to Gross Advance Ratio is lower in almost all the private sector banks as compared to selected public sector banks. So, we can say that collection as well as recovery policy of private sector bank is better as compared to public sector banks.

Pearson's Correlation Analysis of NPA
Table -5 Pearson's Correlation Analysis of NPA

	SBI	BOB	PNB	Central Bank	Canara Bank	HDFC Bank	ICICI Bank	Kotak Mahindra	Axis Bank	IndusInd Bank
SBI	1									
BOB	0.92	1								
PNB	0.85	0.98	1							
Central Bank	0.89	0.86	0.85	1						
Canara Bank	0.84	0.98	1.00	0.85	1					
HDFC Bank	0.94	0.97	0.95	0.84	0.92	1				
ICICI Bank	0.61	0.84	0.90	0.56	0.88	0.83	1			
Kotak Mahindra	0.94	0.96	0.93	0.83	0.91	1.00	0.82	1		
Axis Bank	0.89	0.99	0.99	0.83	0.98	0.98	0.90	0.97	1	
IndusInd Bank	0.95	1.00	0.97	0.89	0.97	0.98	0.81	0.97	0.99	1

From the above table, it becomes clear that the proportion of NPA are same in case of Canara Bank and PNB as well as in case of Kotak Mahindra and HDFC bank as correlation between them is 1.

Conclusions

The study reveals that in case of public sector banks, the major share in NPA is with SBI during all the years of the study while lowest share in NPA is with BOB

during all the years of study period. As soon as private sector is concerned, the major share in NPA is with ICICI Bank during all the years of the study while lowest share in NPA is with Indus Ind Bank

during all the years of study period. Further, the study also reveals that in the year 2011 selected banks and other private sectors banks have proportion of almost 77% and 23% in NPA. The study also concluded that the average growth rate of NPA is lowest in case of public sector banks as compared to private sector banks. The study also concluded that average gross NPA to Gross Advance Ratio is lower in

almost all the private sector banks as compared to selected public sector banks. So, we can say that recovery policy of private sector bank is better as compared to public sector banks. Further, the study also reveals that the proportion of NPA are same in case of Canara Bank and PNB as well as in case of Kotak Mahindra and HDFC bank.

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