Non Performing Assets: A Comparative Study of Public, Private and Foreign Banks

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Abstract
The Indian economy is reeling under economic pressures and stresses of Non Performing Assets of banking sector. The burgeoning level of Non Performing Assets is a matter of concern for all stakeholders. Banks face many types of risk and worse of them is credit risk. Risk is inherited into banking system and it comes from the basic function of lending funds. An attempt has been made in this research paper to present a comparative view of Non Performing Assets of public, private and foreign banks. Moreover, the reasons for high level of Non Performing Assets and factors jolting the banks have also been pointed out.

Key Words : Non Performing Assets, Public banks, Private banks

Introduction
Nonperforming assets have been a perennial source of trouble for the troika, Indian banking system regulator RBI, Government of India and banking industry. The presence of Nonperforming asset in the balance sheets of the bank forces to wipe out some of the capital base to remain afloat. Nonperforming assets are a dire problem in the primary and secondary sector since few years. The reasons can be weak monsoon on which our primary sector is highly dependent and slowdown of the global as well as national economy. In addition to this weak demand, imbalanced macro factors, policy logjams, reforms slowdown etc. also contribute in exaggeration of problem. The guidelines, policies and efforts of Reserve bank of India, Banks and Government have proved to be of little use in curbing this financial mess.
Many legislations have been passed by legislatures to curb this problem like the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act have provisions for the banks to take legal recourse to recover their dues, Strict KYC norms, improvements or stringent credit appraisal methods etc. Banks have also been given the freedom to resell if a bad loan remains nonperforming asset for at least two years. The bank can also resell the same to the Asset Reconstruction Companies such as Asset Reconstruction Company (India) (ARCIL). Commercial banks are continuously engaged in writing off the Nonperforming assets from their balance sheet to improve their deteriorating asset quality. The use of sophisticated methods and techniques of risk management haven't proved to be successful in keeping the nonperforming assets under the tolerance level and permissible limits. The problem of nonperforming asset makes a spiralling effect on the banking industry. The present study has been undertaken to explore the figures and facts in the public, private and foreign banks regarding nonperforming assets. The study is a contribution towards understanding the reasons behind the veil which are soaring the nonperforming asset figures of Indian banking industry.

Conceptual Framework

The credit facility given to a customer in respect of which the interest and/or instalment of EMI is due for a specified period of time. NPA is used by financial institutions that refer to loans that are on verge or cusp of default. If the borrowers do not make interest or principle payment for 90 days against the credit facility availed then the loan is considered to be a non performing asset. Nonperforming assets create many problems by causing stress on the income and financial health of a financial institution. If these remained unrecovered these are written off. The following technical aspects and criteria's can be applied to the different categories of assets to classify them in the category of non-performing.

Table 1: Criteria for Assets To Be Classified as Non Performing

S. No.	TYPE OF LOAN	CONDITION FOR NPA	TIME PERIOD
1	Term loan	Instalment of principal and/or interest amount(EMI) remains overdue	More than 90 days
2	Overdraft/cash credit (OD/CC)	Account remains out of order	More than 90 days
3	Bills purchased and discounted	Bill remains overdue	More than 90 days
4	An advance granted for agricultural purposes	Interest and/or instalment of principal remains	Overdue for two harvest seasons but for a period not exceeding two half years
5	Other accounts	Amount to be received remains overdue	More than 90 days
6	In case of cash credit facility	In case of cash credit facility	For 3 continuous quarters
7	(Cash credit/over draft/EPC/PCFC)	No active transactions in account	More than 90 days

Classification of Non Performing Assets Sub Standard Assets

The government of India is making stringent norms and has classified a sub-standard asset (w.e.f. 31 march 2015) would be one, which has remained NPA for a period less than or equal to 12 months.

Doubtful Assets

An asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

Loss Assets

A loss asset is one where loss has been identified by the bank or 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.

Review Of Literature

Many researchers and academicians have propounded many studies and research paper on this theme few of them are as follows

TOOR N.S. (1994) opined that recovery of non-performing assets should be done without litigation and process of compromise and direct talks should be given the preference. He favoured proactive approach through constant monitoring to detect and take out the early signs of stress and sickness. Kaveri (2001) in her study recommended various suggestions and strategies to bring down the level of NPA in a bank. Dong He (2002) focused on the importance of Assets Reconstruction Companies in resolving problem of NPAs. He also recommended their wider role in tackling NPAs. 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. Muniappan (2007) through his study focussed on various reasons that led to high level of NPAs and linked it to various internal and external factors confronting the borrowers. Debarsh and Sukanya Goyal (2012) emphasized that NPAs should dealt with strict norms and recommended use of latest technological, improvement in recovery procedures and strict adherence to regulatory framework of the RBI for bringing down the level of NPAs in PSBs. Srinivas, K.T. (2013) in his research paper undertook the study on reasons for Loans becoming NPAs and gave suggestions and measures to overcome them.

Objectives & Research Methodology

The present study has been pursued with the under mentioned objectives:

* To find out the trends of Non Performing Assets.
* To highlight and compare the Non Performing Assets level of scheduled commercial banks.

In order to compare the non performing assets public, private and foreign banks, the data has been collected from the various secondary sources like annual report of banks and Reserve Bank of India, magazines, journals and newspapers etc. The collected data has been analysed and conclusions have been drawn out.

Data Analysis

Table 2 depicts that NPAs share of public sector banks is increasing among the bank groups (i.e. share in gross NPAs as compared to share in advances). After 2009 there has been a major increase in gross NPAs of public sector banks. Public Sector Banks accounted for 85 per cent of the NPAs, private sector accounted for near about 10% and foreign banks for 4.5% in 2013. The table presents the share of public sector bank in total bank credit from year 2003 to 2013, which remained close to 75% but the NPAs went hay way change in upward direction during the same period. It is to mention that on both fronts bank credit and NPAs the private sector banks and public sector banks remained steady. The data shows that the performance of new private sector banks has improved tremendously; figures of NPAs went down from 14.2% to 6.8% during the period of 2003 to 2013.

Table 2: Share of Public Sector Banks in Gross Npas Among all Banks Group (in %)

Table : 1Share of GNPA among Bank Groups (in per cent)

Bank Group	March 2003	March 2007	March 2008	March 2009	March 2013	September 2013
PSBs	75.4	76.6	71.1	64.5	84.8	86.1
	(74.0)	(72.8)	(72.5)	(75.2)	(76.2)	(75.3)
Old Pvt Banks	6.2	5.9	4.6	4.5	2.8	2.8
	(6.2)	(4.7)	(4.5)	(4.3)	(4.6)	(5.0)
New Pvt Banks	14.2	12.5	18.7	20.3	8.0	6.8
	(12.8)	(16.2)	(16.4)	(15.0)	(14.8)	(14.7)
Foreign Banks	4.2	4.9	5.6	10.7	4.3	4.3
	(6.9)	(6.4)	(6.5)	(5.6)	(4.5)	(5.0)

Source: *op.cit. Two Decades of Credit Management*
Note: *Figures in brackets represent the share in total bank credit*

Table 3 highlights the Gross Non Performing Assets and Net Non Performing Assets of public sector banks. Non-performing assets are in continuous increasing trend over the period from 1993 to 2013 barring few financial years. In year 2002, total of Gross NPAs in public sector banks stood at Rs.564.73 billion and from thereon, it continuously came down to level of Rs.389.68 billion, which are 2.7% of Gross NPAs as a percentage of Gross advances and total assets at the end of March 2007. Afterwards, the trend reversed in 2008 when NPAs increased significantly from Rs 404.52 billion to 1644.62 billion in year 2013.

Table 3: Gross and Net Npas of Public Sector Banks
Since 1992-93 To 2012-13 (Amount in Rs Billion)

Table : 2
Gross and Net NPAs of Public Sector Banks since 1992-93 to 2012-13
(Amount in Rs. billion)

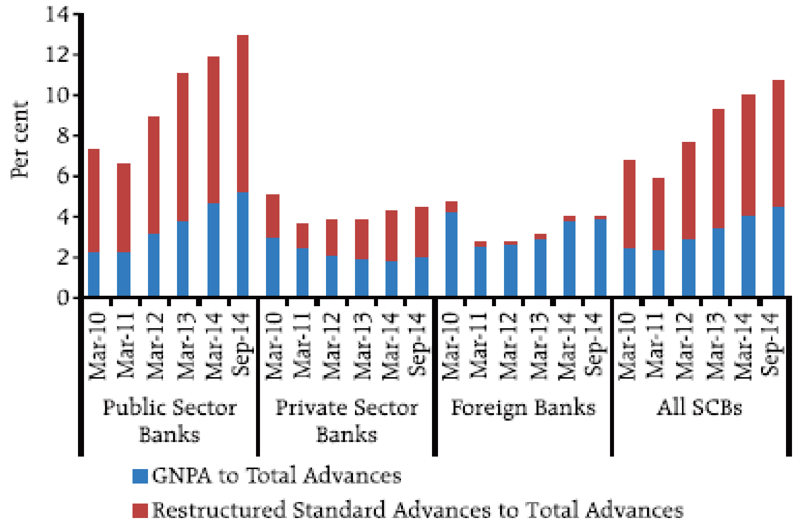
						(Per cent)
Year	**Gross NPAs Amount**	**Gross NPAs as percentage of Gross Advances**	**Gross NPAs as percentage of Total Assets**	**Net NPAs Amount**	**Net NPAs as percentage of Net Advances**	**Net NPAs as percentage of Total Assets**
1993	392.5	23.2	11.8	–	–	–
1994	410.4	24.8	10.8	–	–	–
1995	383.8	19.5	8.7	–	10.7	4.0
1996	416.6	18.0	8.2	–	8.9	3.6
1997	435.77	17.8	7.8	202.85	9.2	3.6
1998	456.53	16.0	7.0	212.32	8.2	3.3
1999	517.10	15.9	6.7	242.11	8.1	3.1
2000	530.33	14.0	6.0	261.87	7.4	2.9
2001	546.72	12.4	5.3	279.77	6.7	2.7
2002	564.73	11.1	4.9	279.58	5.8	2.4
2003	540.90	9.4	4.2	248.77	4.5	1.9
2004	515.37	7.8	3.5	193.35	3.1	1.3
2005	483.99	5.5	2.7	169.04	2.1	1.0
2006	413.58	3.6	2.1	145.66	1.3	0.7
2007	389.68	2.7	1.6	151.45	1.1	0.6
2008	404.52	2.2	1.3	178.36	1.0	0.6
2009	449.57	2.0	1.2	211.55	-0.9	0.6
2010	599.26	2.2	1.3	293.75	1.1	0.7
2011	746.00	2.4	1.4	360.00	1.2	0.7
2012	1124.89	3.2	1.9	593.00	1.5	1.0
2013	1644.62	3.6	2.4	900.00	2.0	1.3

Source: (i) RBI. Handbook of Statistics on the Indian Economy, 2005-06, 2013-14 http://dbie.rbi.org.in

(ii) Rajiv Ranjan and Dhal, Sarat Chandra, Non Performing Loans and Terms of Credit, RBI Occasional Paper, Volume 24, No.3 Winter 2003

Table 4 presents the asset quality of schedule commercial banks. The Gross Non-performing advances (GNPAs) are highest in case of public sector banks followed by foreign and private sector banks. Restructured standard advances were 10 percent and 10.7 per cent of the total advances in March and September 2014. Public Sector Banks stressed that advances are of highest level at 12.9 per cent of their total advances in September 2014 followed by private sector banks at 4.4 per cent and foreign banks 4 percent.

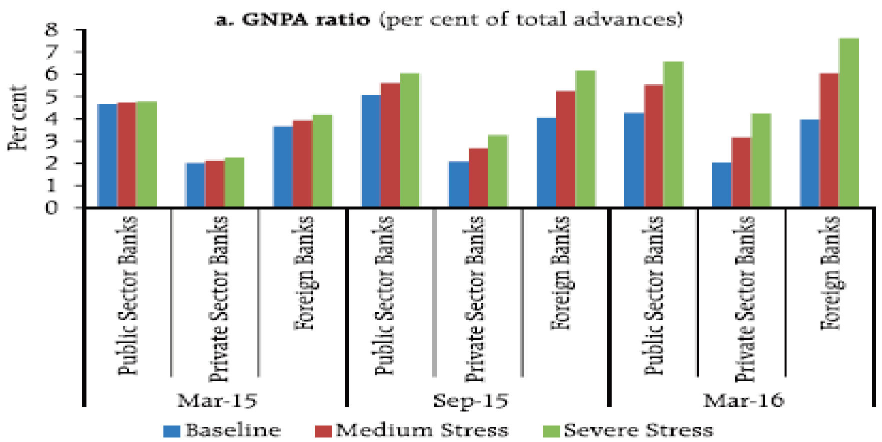
Table 4: Asset Quality of Schedule Commercial Banks



Source: RBI Supervisory Returns

Table 5 is prediction of Gross Non performing, signals of improvement in the overall macroeconomic scenario in upcoming financial years and pace of economy which suggest that the GNPA ratio of all SCBs may decline to 4.0 per cent by March 2016 down by half percent from March 2015 levels. In case of severe stress conditions in the economy these may touch the level of 6.3 per cent by March 2016.

TABLE 5: GNPA PROJECTIONS BANKS GROUP WISE



Source: RBI Supervisory return and staff calculations

Conclusions and Suggestions

The high rate of industrial loans and problems with credit appraisal system are two main reasons of soaring Non Performing Assets of public sector banks. Many also relate the problem of high level of NPAs with the economic slowdown but if this was the reason how come the private banks brought them to the down level in similar period? The answer lies in the fact that they took tough call by writing off the bad loans and tightening of their credit appraisal system. It is to mention that the Non Performing Assets of public sector banks are due to deficiencies in their credit appraisal and loan recovery system. Gross NPAs have soared to high levels in these banks as a percentage of their advances over the last 5 years. The inadequate provisions against restructured and nonperforming assets has also made significant dent on profits.

Further the restructuring of assets has worsen the things as the corporate borrowers quite easily gets their loan restructured and negotiate lenient terms with PSBs. They pass their inefficiency and over borrowing consequence to these banks citing slowdown of economy. Concentration of loans cites to poor risk management and inadequate appraisal system.

The private sector banks too have of better credit appraisal systems and proper risk management system like public sector banks but in addition to this they have diversified their portfolio by lending to retail sector. There major concentration was not only towards project and priority sector lending. The RBI in its Financial Stability Report, December 2013 has identified five sectors - Infrastructure, Iron and Steel, Textiles, Aviation, and Mining as the stressed sectors. Public Sector Banks have high exposures to the 'industry' sector in general and to such 'stressed' sectors in particular. Increase in NPAs of public sector banks is mainly accounted by slowdown of economic growth and aggressive lending by banks in the past especially during good times. As public sector banks dominate, the Indian banking sector and increase in the NPAs of PSBs is matter of concern. The steps should be taken to improve the situation. There is a need to improve recovery system effectiveness in case of public sector banks. The working of debt recovery tribunals and asset reconstruction companies also required to be improved. The recovery should be focused on efficiency and fairness. Therefore, we suggest that there is a need to upgrade credit appraisal system, investment in better talent, use of technology to share credit information & creating appropriate provisioning to absorb financial stresses so as to push public sector banks, investing cycle and improving infrastructure.

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