NON-PERFORMING ASSETS: A COMPARATIVE ANALYSIS AMONG PUBLIC SECTOR AND PRIVATE SECTOR BANKS

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ABSTRACT: *The major concern for banks in India is Non-performing assets. Performance of the banks is reflected through NPA. Larger NPA reflects credit non-payments that affect the profitability and net worth of banks which erodes the value of the asset. Liquidity and profitability of the banks is affected by high level of NPAs which additional affects the quality and survival of banks. Serious problem has been faced by banking sector of India due to high and large NPAs. Profitability of any bank is directly impact by NPAs. Profit and shareholders value is reduced because NPAs involve necessary provision. Whole Indian economy is affected by the problem of NPAs. NPAs are the reflection of health and trade of Indian banking sector. To improve the financial condition of Indian banking sector it is very necessary to trim down the NPAs. This paper is an attempt to know about NPA and the factors contributing to NPAs, reasons for high level of NPAs and their impact on Banking operation of India, and the magnitude of NPAs.*

Key Words: *Net NPAs, Gross NPA, Net profit, Public Sector Banks and Private Sector Banks*

INTRODUCTION:

Non-performing assets (NPA) has drastically rising during the lastfew years and it is veryserious risk to the banking industry in our nation and this crisis is sending troubling signs on the operations and the credit capacity of the banks that are affected due to these NPAs. Recently there have been few positive measures undertaken in the banking industry to reduce the level of debts and the Government of India has been forming lot of committees namely Narasimhan Committee Reports in this contemporary period to identify the evil impacts of this upcoming danger in the form bad debts. The effects of these NPAs are mostly borne by the Nationalized Banks, because of their scale of lending and also, they are required to lend for the prioritized sectors like agriculture and the MSMEs where the chances of losses are high. If the Public banks and private sector banks in India does not take corrective measures at the right time then it will lead to bankruptcy of the banks.

Non- Performing Assets:

A Non-Performing Asset refers to the arrangement for non-repayment of credits that are mentioned in the books of the companies that have provided the advancesand are unable to get back the installments or the principal for the loans that are provided. Assets are classified as Non-performing assets when the premium installments or the principal amount have not been givenwithin a time period of 90 days.

Types of NPA

NPA may be classified into

a. Gross NPA: Gross NPA is advance that is taken into account irretrievable, that bank has createdprovisions, and that remains control in banks' books of account.

b. Net NPA: Net NPA is obtained by deducting things like interest due however not recovered, half payment received and unbroken overstrung account from Gross NPA.

Classifications of NPAs:

Grouping of assets is just to compute the measure of credits that should have been recovered and it should surely not with the end goal of introduction of advances in the banks' accounting report. Characterization of NPAs dependents on the timeframe during which the assets has been remaining as non-performing is as per the following:

1. Standard Assets

Standard Assets are those during which the bank is receiving interest similarly because the principle quantity of the loan often from the client. Here it’s conjointly vital that during this case the arrears of interest and therefore the principal quantity of loan don’t exceed ninety days at the tip of economic year.

If quality fails to be in class of ordinary quality that's quantity due quite ninety days then it's NPA and NPAs are any have to be compelled to classify in sub classes. Banks are needed to classify non-performing quality any into the subsequent three classes supported the amount that the asset has remained non-performing and therefore the dependableness of the dues.

2. Sub-standard Assets

Sub-standard Assets are those assets which has been classified and remained as an NPA for a time period of not less than or equivalent to a year

3. Doubtful Assets

Doubtful Assets are those assets that has been classified as non-performing and stayed as a sub-standard class for major time period of a year

4. Loss Assets

Loss Assets are classified as those assets that have been recognized by the bank or by the external agencies like RBI, investors, etc. assessments and these assets are considered to be never recoverable and are considered as losses.

2. LITERATURE REVIEW

There are numerous published articles that are accessible in the area of Non-performing assets and a lot of researchers have examined the issue of NPA in Banking and its influence of various sectors and in the overall economy. A survey of the pertinent writing has been portrayed.

(Kumar.P.T, 2013) has published a research journal on "A Comparative investigation of NPA of Old Private Sector Banks and Foreign Banks" has mentioned that the NPAs has become a very serious threat for the banking most importantly in the last few years. During the 1990s the operations of the banks were ineffective but at present a lot of changes have been undergone for increasing the efficiency.

(Bhatia, 2007) he identifies that NPAs are considered to be a critical factor to pass judgments on the operations and financial soundness of the banks. If these NPAs are not controlled within the stipulated time then it will severely impact the financial wellbeing of the banks and also their lending capacities.

(Karunakar.M, 2008), has done an investigation on "Are non - Performing Assets Gloomy or Greedy from Indian Perspective", and has tries to identify the psychology behind these increases and decrease in the NPAs. He also tries to identify the dangers of different sectors and which sectors are safer to provide credit and which industry is not safe. He mentions that the solution for the issue of NPAs can be addressed by using proper credit appraisals by the banks and also to initiate actions for the recovery of these NPAs.

(Balasubramaniam.C.S 2002) in his research article has mentioned that the NPAs at present is very high among the banks and it should be reduced as soon as possible. The recovery of these bad debts is possible only if proper credit examinations are done by the banks and verify the credibility of the borrowers. Banks tend to show the NPAs at a lower level so as to enhance resource quality in their monetary records. So, the banks should disclose the real level of NPAs without any manipulations and if they are proper them at least the corrective actions will be good.

(Ashlyl Lyon Joseph, 2014) have completed a research on "Breaking down the NPA Level in PSB and Private Sector Banks". This investigation tries to discover drift in NPAs, the various factors that adds to the NPA and to propose the required steps for appropriate administration of NPA in banks. On investigating about the implications of NPAs on the nature of banks, they discovered that these bad debts are depleting the lending capacity, also the share capital of the banks and debilitating their monetary quality. To address this issue an immediate requirement of proactive measures that needs to be undertaken particularly PSBs should have a sensible and all around organized NPA the executive's approach where anticipation of arrangement of NPA gets a most extreme need.

(Pillai, 2013) have concentrated on distinguishing the presence of relative proficiency of various bank branches in dealing with their NPA. In the research variables like Gross Nannette NPA, other items included to the NPA, Reductions to NPA and the Provisions that are set aside to meet the upcoming NPAs and this is been assessed and the required development on the management of NPA in banks over the course of years. The researcher had likewise contrasted and chosen miniaturized scale execution pointers of banks. The examination is vital because of its basic clarification of the achievement of NPA the board in the period from 2001-11.

(Singh.S, 2006) has analyzed the returns of the stocks of two Indian commercial banks namely SBI and ICICI Bank amid the time of monetary strife. The investigation has found out that in the ICICI Bank the cost of stocks was increasingly influenced by the ongoing emergency contrasted with that of SBI. The fundamental explanation behind the generally less effect of the threatening issue on SBI share costs, this is because a larger organization will be able to sustain with more NPAs.

(Shveta Singh and Anita Makkar, 2014) through their research they have tried to identify the exact relationship among the unpredictability of the stock returns and the emergency actions that needs to be taken to address this issue and due to this issue, there is also reduction in the value of the stocks of the banks. The list of banks used for this study comprises both public sector and private sector banks that are listed in the BSE. The time period of the information on stock lists was from January 1, 2004 to December 31, 2012. The investigation identified that the news of subsidence in the US securities exchange has influenced the Indian securities market. From this research they have identified that the relationship between the stock returns of the banks and the volatility during the pre and post excess of NPAs it is contrasting in nature.

3. OBJECTIVES OF THE STUDY:

- To analysis the impact of Non-Performing Assets on profitability of Public Sector and Private Sector Banks.
- To study the various recovery channels for Non-Performing Assets.

4. HYPOTHESIS OF THE STUDY:

Hypothesis considered for the analysis are Net profit and Net Non-performing assets

- H_0- there is no linear relationship between Net profit and Net NPA
- H_1- there is linear relationship between Net Profit and Net NPA
- If significant value is less than 0.05 we reject H_0 and accept H_1 and;
- If significant value is more than 0.05 we reject H_1 and accept H_0

5.RESEARCH METHODOLOGY:

Scope of the study:

The present study of the non-performing assets is confined restricted to the boundary of public sector and private sector bank of India.

- To perceive the cause & effects of NPA.
- To analyse the past trends of NPA of public in numerous sector.
- Banks will improve their monetary position or will increase their financial gain from credit with the assistance of this project
- This may also be applicable to grasp the explanations of increase in NPAs.

Sample size and sampling techniques:

This research is quantitative research. Any piece of information published books, newspapers, magazines, online entries, and journals are referred to as secondary information. Based on the research area, the aforementioned materials have rich information touching on every environment and covering every topic. For the purpose of ensuring validity and reliability of the information used, it is necessary to consider suitable criteria for selecting secondary data. Financial data of Gross and Net NPAs of public and private sector banks for 5 years from 2014- 2108 has been used for analysis.

Data Collection Methods:

Data collection occurred through moneycontrol.com and RBI website. This collection effort mainly used the internet to examination for and electronically collects data.

General methodology adopted for the study:

The gathered data has been tabulated, analysed and interpretation touched based on statistical analysis. Information handling and examination have been done both physically and by utilizing PC. Tabular method, ratio analysis and correlation analysis tools have been used. In this research various ratios are calculated in excel worksheet and correlation analysis have been done through SPSS statistical analysis tool.

6.ANALYSIS AND RESULTS:

1. IMPACT OF NON-PERFORMING ASSETS ON PROFITABILITY

Correlation between Net Profit & Net NPA of Public Sector Bank

		Net NPA of Public Sector Bank	Net Profit of Public Sector Bank
Net NPA of Public Sector Bank	Pearson Correlation	1	.864
	Sig. (2-tailed)		.336
	N	3	3
Net Profit of Public Sector Bank	Pearson Correlation	.864	1
	Sig. (2-tailed)	.336	
	N	3	3

Correlation between Net Profit & Net NPA of Private Sector Bank

Correlations

		Net NPA of Private Sector Bank	Net Profit of Private Sector Bank
Net NPA of Private Sector Bank	Pearson Correlation	1	-.240
	Sig. (2-tailed)		.846
	N	3	3
Net Profit of Private Sector Bank	Pearson Correlation	-.240	1
	Sig. (2-tailed)	.846	
	N	3	3

Relation between Net Profit and Net NPA

Pearson's correlation has been used to form relation between net profit and net NPA. Pearson's correlation show .864 for public sector banks and for private sector banks .846.

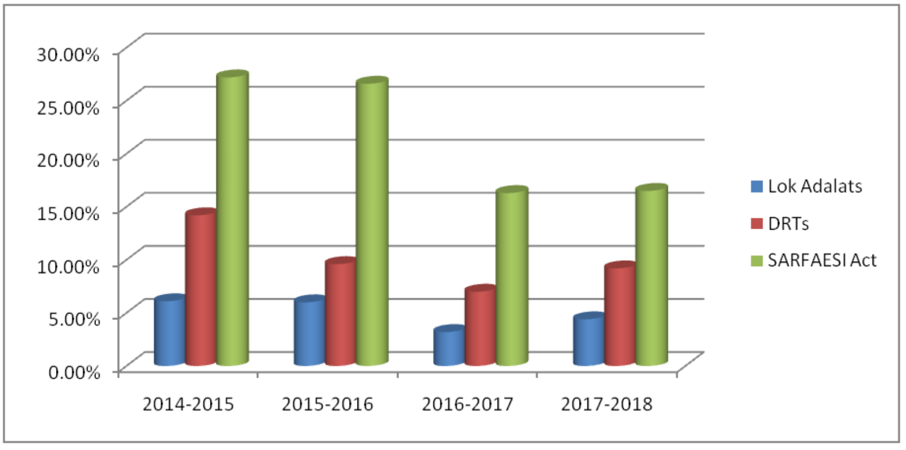
Interpretation:

It is visible that correlation of private sector bank is equal to 0.846 which means that there is a positive relation between Net Profits and Net NPA of Private sector Banks. IT simply tells that as profits increase NPA also increase this has happened due to mismanagement from the end of bank. Total Advance is directly related to NPA and banks majorsource of income is interest. Due to increase in total advances the interest and profits of the banks has also increased. There are two types of customer good and bad. Profits of the banks are increased by payment of instalment on time by good customers and bad customers are defaulters which do not pay instalment and are the cause of NPA. This is the only and one reason for the positive relation between Net Profit and Net NPA. Good management by the banks in case of public sector where correlation is -0.864 which shows that NPA amount decrease and profit of the bank will increase and more amount not becoming NPA and there is negative correlation between Net Profit and NPA.

2. NPA RECOVERY ANALYSIS

Percentage of Net Amount Recovered

Percentage of NPA Amount Recovered			
Years	**LokAdalats**	**DRTs**	**SARFAESI Act**
2014-2015	6.10%	14.20%	27.20%
2015-2016	6%	9.60%	26.60%
2016-2017	3.20%	7%	16.30%
2017-2018	4.40%	9.20%	16.50%



Recovery Rate

Interpretation:

- The above graph indicates schedule commercial banks have recovered NPAs through various channel during the period of study which is 2014-2018.
- SARFAESI Act proved to the most effective channel for recovery of NPA.

7. CONCLUSION:

The conclusion of the study is that rising Non- performing assets has a very significant impact on the profitability of both public and private sector banks. Bad loans are reducing the lending capacity of the banks and weakening their financial strength. The NPAs affect the Public sector banks the most because of the excessive disparities among the administration. Private sector banks are comparatively more stable in the level of NPAs and also the asset quality is better. For newly established banks NPAs is not a major threat to its share value as the banks are in the growing stage and the level of NPAs will be less. Every bank and the regulators in the banking industry need to robust change in their operations and also there is a need for political will from the Government of India to take the corrective measures and reduce the level of NPAs especially the Public sector banks. The public money in large is in large stake with the Public sector banks and the presentation of Public banks is of utmost importance and if the Public banks fail the money of the public is lost.

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