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Non Performing Assets (NPA's) in Public and Private sector Banks

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Abstract: Granting of credit facilities for economic activities in the primary task of banking. A part for raising resources through fresh deposits, borrowings, etc recycling of funds received back from borrowers constitutes a major part of funding credit dispensation activities, Non- recovery of installments as also interest on the loan portfolio negates the effectiveness of this process of the credit cycle. Non recovery also affects the profitability of banks besides being required to maintain money owned funds by way of capital and creation of reserves and provisions to act as cushion for loan losses. While complete elimination of such losses is not possible for bank management.

In India the NPAs, which are considered to be at higher levels than those in other countries have of late, attracted the attention of public as also international financial institution this has gained further prominence in the wake of transparency and disclosure measures initiated by the RBI during recent year. The study focused secondary data in title of "NPAs in public and private sector banks position in India" towards we can find out the causes and impact.

I-Introduction: In the wake of the financial reforms undertaken by the Government of India based on the Narasimhan Committee report I and II, prudential norms were introduced by Reserve Bank of India to address the credit monitoring process being adopted and pursued by the banks and financial institutions. To strengthen further the recovery of dues by banks and financial institutions, Government of India promulgated The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

An account is declared as NPA based on the recovery of installments and interest on loans and advances and other aspects as per RBI norms. The updated
Norms to declare the account as NPA are as follows as per RBI guidelines:-
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 instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC), if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- The instalment 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.
- 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. The said guidelines further elaborate certain other aspects of Prudential Norms on Income Recognition, Asset Classification and provisioning pertaining to Advances and loans.

A close look at the way the banks and financial institutions declare the accounts as NPA shows that the very fundamental principles as envisaged by RBI in their preamble are being overlooked which states, "the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards **greater consistency and transparency** in the published accounts."

Further, RBI also expects, "The policy of income recognition should be **objective and based on record of recovery rather than on any subjective considerations**. Likewise, the classification of assets of banks has to be done on the basis of **objective criteria which would ensure a uniform and consistent application of the norms."** RBI again exhorts the banks and financial institutions**, "**Banks are urged to ensure that while granting loans and advances, **realistic repayment schedules may be fixed on the basis of cash flows with borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in advances."** Thus it is evident that the crux of the problems of recovery of loans in the banks and financial institutions lay on the aforesaid facts as stated by RBI in their guidelines.

Non Performing Asset (NPA) – Meaning

NPAs refer to loans which are in risk of default. Reserve Bank of India (**RBI**) defines NPAs as below:

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

As per guidelines issued by the RBI, banks classify an account as NPA only if the interest due and charged on that account during any quarter is not serviced fully within 90 days from the end of the quarter.

Basis of Classification of Non Performing Asset (NPA)

Banks are required to classify NPAs into the following **3 categories** based on how long do they remain non-performing.

The three categories are – Substandard Assets, Doubtful Assets and Loss Assets.

1. **Substandard Assets** – If an account remains as NPA for a period less than or equal to 12 months
2. **Doubtful Assets** – An asset would be classified as doubtful if it has remained in the substandard category for 12 months.

Loss Asset – A loss Asset is one where loss has been identified by the bank's internal or external auditors or upon an RBI inspection

Standard and substandard assets in NPAs

Loans and advances extended by banks comprise their asset base. However, depending on the performance of such loans they are classified as performing or non-performing asset (NPA) assets according to the norms provided by Reserve Bank of India. The classification is aimed to bring about transparency and consistency of a higher degree in the published accounts. Standard asset for a bank is an asset that is not classified as an NPA. Read What are Non-Performance Assets or NPAs? The asset exhibits no problem in the normal course other than the usual business risk. Sub-standard asset is an asset class drawn within the broader and much-known non-performance asset category of banks on the basis of term for which the asset class has not performed and extent of dues realization from collateral security with banks. In general, NPAs are the assets that have ceased to generate income for the banks. Further, on the basis of some other criterion stipulated for different kind of accounts, assets of the bank are classified as NPAs. More specifically, according to RBI circular, sub-standard asset is an asset that has continued to remain an NPA for a period less than or equal to 1 year. With well-specified credit weaknesses, the liquidation of the debt would be difficult and banks would necessarily have to sustain some losses if deficiencies with respect to interest and principal amount payment are not corrected. Another instance where a loan account or an asset class of the bank is categorized as a sub-standard asset is when the terms and conditions pertaining to the loan account are re-negotiated or revised. And depending on the satisfactory performance basis the revised terms, the account has to be classified within the sub-standard asset category for a minimum of 12 months. Thus, mere revision of terms of the account with no proper compliance does not result in the up-gradation of the asset category.

II Objective

To identify NPAs position in public and private sector banks
To understand relationship between gross NPA's and gross advance towards sector wise.
To understand recovery channels of NPA's through various channels

III Research Methodology:

the present study is aims to analysis the NPA's of public and private sectors. For the purposes of the study data has been collected from secondary sources for last two years. The main source of information has been through RBI reports.

IV Data analysis and interpretation:

Table No: 4.1 Bank-Group-wise and priority Sector-Gross NPAs as a per cent of Gross Advances (2013-2014)

Bank Group	**Priority Sector**		
	Gross Advances	**Gross NPAs**	**Gross NPAs as Per Cent of Total**
Public Sector Banks			
2013	**12,790**	**669**	**42.9**
2014	**15,193**	**792**	**36.5**
Nationalised Banks**			
2013	8,891	405	42.2
2014	10,711	530	37.7
SBI Group			
2013	3,899	264	44.0
2014	4,482	261	34.4
Private Sector Banks	**Gross Advances**	**Gross NPAs**	**Gross NPAs as Per Cent of Total**
2013	**3,157**	**52**	**26.0**
2014	**3,831**	**61**	**27.0**

Table No. 4.2 Bank-Group-wise and Non- Priority Sector- Gross NPAs as a per cent of Gross Advances (2013-2014)

Bank Group	Non-Priority Sector		
	Gross Advances	Gross NPAs	Gross NPAs as Per Cent of Total
Public Sector Banks			
2013	**27,769**	**890**	**57.1**
2014	**30,712**	**1,375**	**63.5**
Nationalised Banks**			
2013	19,170	554	57.8
2014	21,249	877	62.3
SBI Group			
2013	8,599	335	56.0
2014	9,463	499	65.6
2013	7,309	148	74.0
2014	8,287	167	73.0

Interpretation: From above table 4.1 and 4.2 it's inferred the bank group-wise and sector-wise gross NPAs as a per cent of gross advances reveal that, public sector banks and private sector banks have recorded higher increase in their NPAs in the priority sector than in the case of non-priority sector in the recent period. Conversely

Table NO: 4.3 - Bank-Group-wise and Sector-wise Gross NPAs as a per cent of Gross Advances

Year/ month	Priority Sector			Non-Priority Sector		
End-March	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks
2001	17.2	12.7	4.7	10.9	12.2	6.0
2002	15.6	13.5	11.0	9.5	10.4	10.9
2003	13.1	11.3	4.6	8.0	8.1	11.1
2004	10.3	9.7	2.4	6.8	6.7	5.9
2005	7.8	7.7	1.1	4.5	5.2	3.5
2006	5.6	5.9	0.9	2.8	3.7	2.2
2007	4.6	4.5	1.5	1.8	2.5	2.4
2008	4.2	3.2	1.8	1.3	1.7	3.4
2009	3.5	2.7	1.8	1.4	2.2	4.4
2010	3.6	2.9	2.1	1.6	2.0	3.8
2011	4.0	2.5	1.8	1.5	1.7	3.0
2012	4.9	2.4	1.6	2.3	1.5	2.5

Interpretation: From the table 4.1 its inferred that the bank group-wise and sector-wise gross NPAs as a per cent of gross advances reveal that, public sector banks and old private sector banks have recorded higher increase in their NPAs in the priority sector than in the case of non-priority sector in the recent period. Conversely, new private sector banks have witnessed greater increase in non-priority sector NPAs as compared to the priority sector.

Table No. 4.4 NPAs of SCBs Recovered through Various Channels

NPAs of SCBs Recovered through Various Channels						
(Amount in ` Billion)						
Year	**No.**	**Recovery Channel**	**Lok Adalats**	**DRTs**	**SARFAESI Act**	**Total**
2012-13	1	No. of cases referred	840,691	13,408	190,537	1,044,636
	2	Amount involved	66	310	681	1,058
	3	Amount recovered*	4	44	185	232
	4	3 as per cent of 2	6.1	14.1	27.1	21.9
2013-14	1	No. of cases referred	1,636,957	28,258	194,707	1,859,922
	2	Amount involved	232	553	946	1,731
	3	Amount recovered*	14	53	244	311
	4	3 as per cent of 2	6.2	9.5	25.8	18

Notes : 1. * : Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years.
2. DRTs : Debt Recovery Tribunals.

Interpretation: From above table 4.4 it's inferred the recovery of NPAs by SCBs through various channels like Lok Adalats, DRTs and SARFAESI act. All total recovery in 2013-14 is 18 % which is lesser than recovery rate i.e. 21.9 % in 2012-13. Most of the NPA recovered in 2013-14 through Debt-Recovery Tribunal (DRT), while that of 2013-14 is recovered through "The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) ordinance 2002"

Table No: 4.5 – Non Performing Asset (NPA) Public Sector Banks | Private Sector Banks

Public Sector Bank	NPAs (Q3 FY2015)	Private Sector Bank	NPAs (Q3 FY2015)
Corporation Bank	3.27%	**Yes Bank**	**0.10%**
Dena Bank	3.33%	HDFC Bank	0.26%
Central Bank of India	3.58%	Ratnakar Bank	0.31%
Oriental Bank of Commerce	3.68%	IndusInd Bank	0.32%
Andhra Bank	3.70%	Axis Bank	0.44%
Punjab National Bank	3.82%	Karur Vysya Bank	0.73%
Allahabad Bank	3.89%	Kotak Mahindra	0.83%
UCO Bank	4.25%	South Indian Bank	1.04%
Indian Overseas Bank	5.52%	ICICI Bank	1.12%
United Bank of India	**8.50%**	City Union Bank	1.31%

Interpretation: From above table 4.5 its inferred that the Private sector Banks, **Yes Bank** is the **best** performer, followed by HDFC, IndusInd, and Axis. At the other end, for Public sector Banks, **United Bank of India** is the **worst** performer followed by Indian Overseas Bank, UCO Bank, and Allahabad Bank.

Some of the other public sector banks which have significant amount of NPAs include IDBI Bank (3.05%), SBI (2.80%), Bank of India (2.50%), Canara Bank (2.42%) and Syndicate Bank (2.38%).

V Analysis & Recommendation

The banking sector's asset quality woes further worsened in the last one year, with gross non-performing asset (GNPA) ratio inching to 4.45 per cent as on March 15 this year, as compared to 4.1 per cent in March 2014, according to the latest data released by the Reserve Bank of India (RBI).

Asset quality for public sector banks will remain a concern with gross non-performing assets (NPAs) expected to remain at elevated level of about 4.4 per cent in the current fiscal despite the revival in the economy, says a report.

PSU banks' gross NPAs are to be at 4.4-4.7 per cent as on March 31, 2015, as against 4.4 per cent as on March 31, 2014 and 4.6 per cent as on June 30, 2014, said the ICRA report.

"Overall, the Gross NPAs of the banking sector (PSBs and private banks) could be at 4-4.2 per cent as in March 2015, as against 3.9 per cent as in March 2014 and 4 per cent as in June 2014,"

Stressed assets ratio, which is GNPA plus restructured standard advances for the system, stood at 10.9 per cent, as at the end of March, 2015 as compared to 10 per cent in March, 2014 and 10.7 per cent in September 2014.

"The level of distress is not uniform across bank groups and is more pronounced in respect of public sector banks,"

GNPAs for public sector banks as on March 2015 stood at 5.17 per cent, while the stressed assets ratio stood at 13.2 per cent, which is nearly 230 bps more than that for the system.

The central bank had taken various steps in the last one year to tackle the problem of rising bad loans. For early recognisation of stress in the system, banks have been asked to form joint lenders' forum (JLF) to initiate the resolution mechanism. The deputy governor admitted that the implementation of JLF framework needs further improvement on the ground level.

The central bank also warned that poorly managed banks' capital adequacy ratio could slip below the minimum regulatory requirement if they are unable to improve their performance.

Public sector banks, where the problem of asset quality is far more acute, are facing challenges to raise capital.

According to the latest data released by Mundra, the capital adequacy ratio of the banking system has been steadily declining and at the end of March 2015, it stood at 12.70 per cent as against 13.01 per cent in March 2014.

"Our concerns are larger in respect of the PSBs where the CAR (capital adequacy ratio) has declined to 11.24 per cent from 11.40 per cent over the last year," he said.

The rate of generation of fresh non-performing assets (NPAs) remained elevated for PSBs (3.5 per cent), and as result, their gross NPAs increased by 20 basis points to 4.6 per cent in the first quarter; the NPAs of private banks also increased by 20 basis points to 2 per cent for the same quarter.

VI Conclusion:

From the study it's quite evident that the NPAs have a negative influence on the achievement of capital adequacy level funds mobilization and development policy, credibility productivity and overall economy. . The minimum capital adequacy ratio that banks have to maintain is nine per cent.

The government has taken a decision to infuse capital in banks that show better efficiency in terms of return on equity and return on assets.

Increasing bad loans have been a concern for the RBI for many years. The NPA problem is far graver for PSBs compared to their private sector peers.

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