Non-Performing Assets In Indian Banks: A Comparative Analysis Between Public And Private Sector Banks

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Abstract
With the progress of time, banking as an industry has come forward extending its helping hands to benefit individuals, firms, companies and other business institutions and the ever-increasing trends in deposit and credit speaks the volumes for the performance of Indian banks, but with the process of financing, comes the inevitable risk of Non Performing Asset. In this paper an attempt has been made to portray the picture of gross and net non-performing assets in Indian banking sector for the time frame 2004-05 to 2013-14 respectively and with simple statistical tools this paper shows a comparison between the gross and net non-performing assets of public and private sector banks to find out the efficiency of each sector in dealing with non-performing assets.

Keywords: Non-Performing Assets, Gross Non-Performing Assets, Net Non-Performing Assets, Public Sector Banks, Private Sector Banks

Introduction
The development of a country depends on the sound development of its financial structure and banking sector is one of the most important constituents of the financial structure. A bank is an establishment which is indulged in mainly accepting all kinds of deposits from the public and grants loans and advances or credit to the different segments of the society. Traditionally and still today, banks transact their business by accepting deposits from the public and channelize them to the productive sectors by giving loans. A major portion of bank’s income comes from these loans. Since banks have to repay the amount of money to those who have deposited their money in the banks, deposits constitute liabilities and as the loan given to the borrowers are to be received back from them; they are termed as assets, so assets are banks’ loans and advances. In the traditional banking business of lending financed by deposits from customers, banks had to face the risk of default by the borrower in the payment of either principal or interest. This risk is termed as Credit Risk and accounts where payment of interest and/or repayment of principal are not forthcoming are treated as Non-Performing Assets.

Meaning of Non-Performing Assets (NPAs)
Non-performing asset is defined as an asset which does not earn any income to the bank. It is an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by Reserve Bank of India (Gynedi, 2014).
Prior to 31st March, 2004 a non-performing asset was defined as a credit facility in respect of which the interest or instalment of principal has remained past due for a specified period of time which was four quarters. Due to the improvements in payment and settlement system, recovery climate, upgradation of technology in the banking system etc., it has been decided to dispense with past due concept. However, with effect from March 31, 2004, a non-performing asset (NPA) is a loan or an advance where; (Khanna, 2012)

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’ 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 instalment 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 w.e.f 30.09.2004 following further amendments were issued by the Apex Bank:
- A loan granted for short duration crops will be treated as Non-Performing Asset if the instalment of principal or interest thereon remains overdue for two crop seasons.
- A loan granted for long duration crops will be treated as Non-Performing Asset if the instalment of principal or interest thereon remains overdue for one crop season.
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
- If any advance or credit facilities granted by banks to a borrower become nonperforming, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status. As per the prudential norms suggested by the Reserve Bank of India (RBI), a bank cannot book interest on a Non-Performing Asset on accrual basis. In other words such interests can be booked only when it has been actually received.

### Classification of non-performing assets

The non-performing assets of a bank are classified as gross non-performing asset and net non-performing asset respectively. Both aforesaid concepts are explained below: (Malviya, 2014)

**Gross non-performing assets (GNPAs):** Gross Non-Performing Assets are the sum total of all loan assets and resources that are classified as Non-Performing Assets as per RBI guidelines as on Balance Sheet date. Gross Non-Performing Assets is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks’ books of account. Gross Non-Performing Assets reflects the quality of the loans made by Banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be ascertained with the help of following formula:

\[
\text{Gross Non-Performing Assets Ratio} = \frac{\text{Gross Non-Performing Assets}}{\text{Gross Advances}}
\]

**Net non-performing assets (NNPAs):** Net Non-Performing Assets are those type of Non-Performing Assets in which the bank has deducted the provision regarding non-performing assets. Net Non-Performing Assets show the actual burden of banks. Since in India, bank balance sheets contain a huge amount of Non-Performing Assets and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the non-performing assets according to the Central bank guidelines, are quite significant. It can be ascertained with the help of following formula:

\[
\text{Net Non-Performing Assets} = \text{Gross Non-Performing Assets} - \text{Provisions} / \text{Gross Advances - Provisions}
\]

### Objectives of the study

This study has made a humble attempt to know the extent of non-performing assets in Indian commercial banks by considering public and private sector and so its objectives are:

I. To examine the trend of Gross and Net NPAs of public and private sector banks in India from 2004-05 to 2013-14.

II. To compare the extent of Gross and Net NPAs of Public and private sector banks in India from 2004-05 to 2013-14.

### Review of Literature

Some of the notable studies in the context of non-performing assets undertaken in different time frames are as follows:

**Gaba & Rani (2014)** in their paper has tried to analyze the performance of public sector banks in priority sector, non priority sector, public sector on the basis of non-performing assets and have suggested that to control non-performing assets good credit appraisal and performance evaluation method should be adopted, enquiry should be made and strict procedure should be adopted and they
derive a conclusion that there is a need to concentrate on non priority sector for reducing non-performing assets. 

**Gynedi (2014)** in her research paper talked about non-performing assets of India at length. According to her, the rise in non-performing asset is due to mismanaged lending practices of banks, a surge in lending and investment related policy inertia in a low growth, high inflation environment and has stated that a deep bond market and financial instruments focused in infrastructure projects are better equipped to deal with investment and attention needs to be focused on improving them. 

**Arya (2013)** has made an analysis of non-performing assets of Public Sector Banks, Private sector Banks and Foreign Banks respectively and his study has suggested that small banks that have issue of non-performing assets can be merged with big banks so that survivability in the competitive environment can be made possible. His study has also stressed on the fact that legal system should be strengthened and strict guideline for credit analysis should be maintained so that the continuity of income and earnings by the different groups of banks is not barred. 

**Karunakar et al (2008)** in their study have made an attempt to study and examine the factors that are contributing to rising non-performing assets, the magnitude of non-performing assets, reasons for high non-performing assets and their impact on Indian banking operations are also studied. The study suggested that the lasting solution to the problem of non-performing assets can be achieved only with proper credit assessment and risk management mechanism. 

**Iyengar (2007)** has discussed the impact, consequences and the strategies relating to non-performing assets. The paper states that effective market intelligence, periodic dialogue with the borrower, continuous watch over management of borrowing company are the preventive measures; while discussing with the customers about the problems, visiting business premises, collecting information of the account holders discreetly are the corrective measures that can be taken by banks to keep a check on the extent of non-performing assets.

**Research Methodology**

The present study is descriptive in nature and is based on secondary data which are collected from the annual reports of Reserve Bank of India (RBI) and also from websites of different public and private sector banks operating in India. Also monthly, quarterly reports of RBI and their different press releases are considered for the study. The study has covered a period of 10 years starting from 2004-05 to 2013-14. As important changes have taken place regarding the different time frame for classifying NPAs in 2004, so the study has chosen the above mentioned time period. To know the extent of NPAs in the Public Sector and Private Sector banks in India, both gross and net NPAs have been taken into consideration. Foreign banks operating in India are not considered for the proposed study. 

**Data Analysis**

Table 1: Gross and Net NPAs (as %age of gross and net advances) of Public sector banks

<table>
<thead>
<tr>
<th>Year</th>
<th>%age Gross NPAs</th>
<th>%age Net NPAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>5.50</td>
<td>2.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.60</td>
<td>1.30</td>
</tr>
<tr>
<td>2006-07</td>
<td>2.70</td>
<td>1.10</td>
</tr>
<tr>
<td>2007-08</td>
<td>2.20</td>
<td>1.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>2.00</td>
<td>0.94</td>
</tr>
<tr>
<td>2009-10</td>
<td>2.20</td>
<td>1.09</td>
</tr>
<tr>
<td>2010-11</td>
<td>2.40</td>
<td>1.20</td>
</tr>
<tr>
<td>2011-12</td>
<td>3.30</td>
<td>1.70</td>
</tr>
<tr>
<td>2012-13</td>
<td>3.60</td>
<td>2.00</td>
</tr>
<tr>
<td>2013-14</td>
<td>4.70</td>
<td>2.70</td>
</tr>
</tbody>
</table>
The above table depicts the percentage of Gross NPA at 5.5% in the year 2004-05, 2005-06 it decreased to 3.6%, in 2006-07 cut down sharply to 2.7%, and it decreased to 2.00% in the year 2008-09. This scenario was seemingly favourable till 2007, thereafter the gross NPAs started rising and got worse as years passed. In 2009-10 the gross NPAs began to rise again at 2.2%, gradually by 3.30% in the year 2011-12 and later in 2013-14 it increased at 4.70%. The percentage of Net NPA was at 2.00% in the year 2004-05, in the year 2005, 2006, 2007, 2008 there was continuous decrease steadily from 1.3% to 0.94%. From the year 2009-2010 it started to rise gradually at 1.09% and it increased to 2% in the year 2012-13 and recently it raised to 2.70% in the year 2013-14.

Table 2: Gross and Net NPAs (as % of gross and net advances) of Private sector banks

<table>
<thead>
<tr>
<th>Year</th>
<th>%age Gross NPAs</th>
<th>%age Net NPAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>6.00</td>
<td>2.70</td>
</tr>
<tr>
<td>2005-06</td>
<td>4.40</td>
<td>1.70</td>
</tr>
<tr>
<td>2006-07</td>
<td>3.10</td>
<td>1.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>2.30</td>
<td>0.70</td>
</tr>
<tr>
<td>2008-09</td>
<td>2.36</td>
<td>0.90</td>
</tr>
<tr>
<td>2009-10</td>
<td>2.32</td>
<td>0.82</td>
</tr>
<tr>
<td>2010-11</td>
<td>1.97</td>
<td>0.53</td>
</tr>
<tr>
<td>2011-12</td>
<td>1.80</td>
<td>0.60</td>
</tr>
<tr>
<td>2012-13</td>
<td>1.90</td>
<td>0.70</td>
</tr>
<tr>
<td>2013-14</td>
<td>1.90</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Table 2 indicates trends in the ratio of Gross NPAs and Net NPAs of private sector banks. Higher percentage reflects rising bad quality of assets. The gross NPAs ratio of private banks placed at 6.60% in the year 2004-2005. Thereafter the gross NPAs have shown a decreasing trend for the past eight years and reached to level of 1.8% in the year 2011-12. But the trend reversed after 2012 when gross NPAs rose and remained constant for two years. In absolute terms Non-Performing assets continued to decline over the decade except for the year 2012 and 2013. The above table depicts the percentage of Net NPA at 2.70% in the year 2004-05 and declined gradually to 1% in the year 2006-07 and further to 0.6%. But the trend reversed after 2012 when Net NPAs rose from 0.7% and remained constant for the next two years.

Based on the information in table 1 & 2, the following graphs and their analysis are prepared:

**Graph 1: Gross NPAs and Net NPAs of Public sector banks**

From the graph it can be seen that gross NPAs show a declining trend. Though the decline is gradual but after 2008-09, there is increase in NPAs. Net NPAs also shows a declining trend but up to 2008-09
and again there is increase in NPAs. From 2004-05 till 2008-09, there is good decrease in NPAs which shows that the banks were able to tackle the problem of NPAs by taking different measures. But beginning from 2009-10 there is growth in the %age of net NPAs. In both cases, the graph reveals that up to 2008-09, there is decline in the %age of NPAs but then it starts to rise. Considering the starting period of the study, though there is increase in gross NPAs after 2008-09 but still the extents are less for each year in comparison to the base year.

**Graph 2: Gross NPAs and Net NPAs of private sector banks**

From the graph it can be seen that gross and net NPAs show a declining trend. In case of gross NPAs, up to 2007-08, the decline is gradual but then again in 2008-09, there is increase in the extent of gross NPAs. Also it can be seen that in 2012-13 and 2013-14, there is no change in the %age of gross NPAs. Net NPAs show a continuous declining trend. Private sector banks show a good sign of effective measures which they might have taken as in case of gross NPAs, the gap between the extents in each successive year are very large. From 6% in 2004-05, gross NPAs reach 1.9% in 2012-13 which shows their diligence in tackling loan defaulters.

**Graph 3: Gross NPAs of public and private sector banks**

In the above graph is it seen that beginning from 2004-05 till 2009-10, gross NPAs of public sector banks are less than that of their counterparts. But from 2010-11, private sector shows a better sign of asset handling. Also the trend shows that the decline is more rapid for private banks as compared to public banks. From 5.5 % in 2004-05, public sector banks reached only 4.7 % in 2013-14 whereas for private sector banks the %age reached 1.9% from 6% in 2004-05. So in the initial periods though public sector banks were better off than private sector banks, but the picture completely changed in the later parts of the study which suggests the private banks are becoming more and more aware and agile in reducing NPAs with the help of different measures.
With the help of the above graph a comparison is made between the extent of net NPAs of public and private sector banks in India. Both banks show a declining trend but it is more gradual for private sector banks. Public sector banks show a trend of decrease only up to 2012-13 and then it increases to 2.7%. Comparison of each individual year shows that private sector banks are better than public sector banks in most of the years in reducing the %age of NPAs. Public sector banks show a lower %age of NPAs only in the years 2004-05 and 2005-06 as compared to private sector banks. Within a span of ten years, from 2.7%, it reached 0.7% of Net NPAs for private sector banks whereas from 2% in 2004-05, it increased to 2.7% in 2013-14 for public sector banks.

**Findings of the study**
Graph 1 and 2 shows a healthy picture as for both banks there is decline in gross and net NPAs. For private sector banks, there is rapid decline in gross NPAs and it is much greater than that of net NPAs. For public sector it is not that rapid and also in contrast to 2004-05, NPAs increased in 2013-14. Graph 3 and 4 shows a mixed picture of public and private sector banks as far as handling the issue of NPAs is concerned. Where public sector banks are better off in case of gross NPAs, private banks are ahead in case of net NPAs. But both sectors show decline in the extent of both gross and net NPAs.

The Government of India and RBI has taken a number of measures in tackling the problem of NPAs and the above comparison shows that both sectors are implementing the measures because of which with each year there is decline in the extent of NPAs.

**Conclusion**
Non-Performing Assets has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lend. This study shows that extent of NPAs is comparatively high in public sectors banks than in private banks. Although various steps have been taken by the government to reduce NPAs but still a lot needs to be done to curb this problem. The bank management should speed up the recovery process. The government should also make more provisions for faster settlement of pending cases and should find a way to keep banks away from political influences while granting loans. The problem of NPAs needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

**References**

**Books**

**Journals**

Website