



A STUDY OF NON PERFORMING ASSETS OF PUBLIC SECTOR BANKS IN INDIA

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Abstract

Idea of performances of banking sector can be gained by studying bad loans, which are not producing returns for certain time. This kind of bad loans is called NPA. In this growing era of economy and uncertainty public sector banks are having major risk of having bad loans. It is commonly found that public sector banks are not performing well as compared to private sector banks. The study shows NPA is very high of public sector banks. This research paper tries to deal with factors of NPA, causes and measures of NPA and impact of NPA and make an attempt to analyze public sector bank's NPA's situation in past few years.

Keywords: NPA, Public sector bank, Bad loan.

Introduction

In India mainly loan lender institutes are public sector banks, private sector banks and other financial institutes. In public sector banks government has 50% or more stakes, so government has considerable ownership Stakes and have an influence in policy and regulation of Banking rules of public sector banks. After nationalization of banks the banks that got nationalized are generally fall under public sector banks. Public sector bank's liberal policy and regulation make more exposure to risk of bad loans, loans which are not going to repay by borrower.

Nonperforming Assets:

Basic idea of NPA

Main function of bank is to give loan to borrowers and gain interest with capital from it. But when borrower fails to repay installment of interest or principal for certain period of time, it is called Nonperforming assets.

According to RBI: once the borrower has failed to make interest or principal payments for 90 days the loans are considered to be a nonperforming assets.

Classification of NPA

NPA is broadly classified under following three types of categories,



1. Substandard assets: All assets which are nonperforming for period up to 12 (twelve) months are substandard assets
2. Doubtful assets: All assets which are nonperforming for period of 12 (twelve) months and more are called doubtful assets.
3. Loss assets: All assets which cannot be recovered are called as loss assets. As per RBI, "Loss 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."

Impact of NPA

- Due to NPA bank does not have position to lend funds for productive activities which are essential for growth of economy.
- Due to NPA overall balance sheet of bank get influenced and banks have to get higher profit margin, in practice to gain more profit banks are forced to change interest rates and increase of rates and it's consequences can be evident as a result.
- Due to limitation of investment, rise of unemployment can be resulted.

Causes of NPA

Various causes are listed below

- Loans are given to big companies who are running in losses and are about to close.
- Loans are given under any corrupt practice of employ work in bank or financial institute leads to NPA.
- Some pressure of political body or person or government official on bank to give loan to any relative firm or institute brings bad loan.
- Lack of investigation prior to sanctioning loan may cause bad loan.
- Loan sanctioning without proper analyzing repaying capacity of loan borrower.
- If loans are taken for different purpose and used for different purpose this might cause NPA.
- Failure of business or production house or failure in agriculture etc, take borrower in stage of not paying loan and can cause bad loan.
- Delay in construction in real estate increase cost of project and can cause NPA.
- Recession can be a cause.

Measures to reduce NPA

Government and RBI are constantly working on and taking steps to reduce NPA, some of measures taken and should be taken to control NPA are listed below

- Formation of Debt recovery tribunals, for loan of 10 lakh and above
- Introduction of lok-adalat , for loan upto 5 lakhs ,credit information bureau which deal



with NPA.

- Asset quality review in banks.
- In public sector banks Mission Indradhanush is surely found reliable.
- SAMADHAN scheme for asset management and debt change structure.
- SARFAESI act,2002 for loan amount greater than 1 lakh.
- Credit information bureau, for generation of CIBIL score that restrict or warn bank to sanction new loan to defaulters.
- For infrastructure and core industries 5:25 rule and flexible restructuring long term loan.

Objective of study

- To analyze scenario of Nonperforming asset in public sector banks.
- To correlate performance of public sector bank with NPA.
- To study past few years of record of NPA to understand profitability of public sector banks.
- To figure out requirement of preventive steps for NPA.
- To figure out need and scale of management of Assets in studied public sector banks

Limitation of study

- This study is done on selective public sector banks of india.
- A deep study is done only on nonperforming assets, performing assets are not studied for this research.
- This study is time dependent, and performance of bank and NPA are studied with data available till date of research.

Research methodology

This study take consideration of top public sector banks based on highest bad loans/NPA. data collected for research is collected from secondary sources like moneycontrol.com and article of Times of India.

Data of NNPA of various public sector banks for past few years

BANKS	2021	2020	2019	2018	2017
Bank of Baroda	3.09	3.13	3.33	5.49	4.72
Bank of India	3.35	3.88	5.61	8.26	6.90
Bank of Maharashtra	2.48	4.77	5.52	11.24	11.76

Source: moneycontrol.com



Canara bank	3.82	4.22	5.37	7.48	6.33
Central bank of India	5.77	7.63	7.73	11.10	10.20
Indian bank	3.37	3.13	3.75	3.81	4.39

Source: moneycontrol.com

Indian overseas bank	3.58	5.44	10.81	15.33	13.99
Punjab national bank	5.73	5.78	6.56	11.24	7.81
Punjab and Sind bank	4.04	8.03	7.22	6.93	7.51

Source: moneycontrol.com

State bank of india	1.50	2.23	3.01	5.73	3.71
Union bank of india	4.62	5.49	6.85	8.42	6.57
Uco bank	3.94	5.45	9.72	13.10	8.94

Source: moneycontrol.com

Interpretation of table

From above data, it's clearly seen that NNPA is decreasing year by year. but according to report of The Times of India gross NPA of public sector bank is doubled in past seven years, as mentioned in rajya sabha by minister of state of finance. Above data shows Bank like SBI have better control over managing assets while bank like central bank of India, Punjab and sindh bank of India, PNB have comparatively poor asset management which leads to higher NPA of these banks, and overall poor performance of these banks. Data of SBI suggest a proper asset management in public sector bank can cause visible positive impact on bank's performance and more preventive steps should be taken in poor performing banks of public sector.

Moreover, private sector banks in India is doing good asset management as NNPA of HDFC bank is 0.40%, axis bank's NNPA is 1.05% and NNPA of ICICI bank is 1.14% for year of 2021 as per data of money control. These data show as SBI is doing very good in public sector bank then after key private sector banks are still considerably good in managing NNPA.

Conclusion

NPA is major concern found in Indian bank and overall Indian economy. Data of NPA suggest majority of public sector banks lacks in proper management of assets and resulting higher NPA and reduction of profitability of banks. Moreover, public sector banks are found behind in terms of performance as compared to private sector banks of India. Time is come to take more preventive action and to bring transparency in sanctioning loan with some of strict regulation with consideration of interest and capital installment payment assurance and in order



to secure assets and profitability, bank should also keep accessibility of loan to genuine consumers. Public sector banks should bring some constructive reforms to compete with private sector banks. Bank should take proper investigation like financial situation, loan repaying capacity etc prior issuing loan to borrower in order to avoid bad loans/NPA.

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