

Empirical Study on Non Performing Assets of Indian Commercial Banks

PIYUSH GUPTA¹, ANOOP PATEL² AND NIDHI KHANNA³

¹RESEARCH SCHOLAR, FACULTY OF COMMERCE
BANARAS HINDU UNIVERSITY, VARANASI 221005

²RESEARCH SCHOLAR, FACULTY OF COMMERCE
BANARAS HINDU UNIVERSITY, VARANASI 221005

³RESEARCH SCHOLAR, FACULTY OF COMMERCE
BANARAS HINDU UNIVERSITY, VARANASI 221005

E-mail: ¹piyushbhu125@gmail.com, ²anooppatel109@gmail.com, ³nidhikhanna48@gmail.com

Abstract—In the present era banking sector acts as a back bone of the economy. The actual position of the bank can be understood by the amount of non-performing assets shown in the balance sheet of the banks. Now a day, non-performing assets raise the big question on the efficiency of the banks. As per Reserve Bank of India, an assets, including a leased asset become non-performing when it ceases to generate income for the bank. Every bank is suffering by the problem of non-performing assets. Non-performing asset does not only show the failure of borrower but it also depicts the inefficiency of an economy. There is movement of fund in an economy from surplus units to deficit units, it works as a cycle. If any channel in the movement of funds ceases, it interrupts the whole of economy. Non-performing assets disclose the profitability of bank. The more is the non-performing assets, the lower the profitability of bank and vice-versa. Currently it has become the burning issue for the banks and the banks have to focus on it. The total Gross Non-Performing Assets of schedule commercial banks increase from Rs.3,23,464 crore, as on march 31, 2015 to Rs.10,35,528 crore, as on march 31, 2018. The focal point of this paper is to know the trend of non-performing assets in banks and to know whether there is any relationship between profitability and NPA. For the purpose of study five banks have been taken name, Industrial credit and investment corporation of India(ICICI), Punjab National Bank(PNB), Allahabad Bank, Vijaya Bank and Oriental Bank of Commerce(OBC) for the year 2013-14 to 2017-18. For the analysis of data correlation, regression and data representation techniques are used.

Keywords: Non-performing assets, surplus units, deficit units, economy, profitability, fund.

INTRODUCTION

For any country, banking system plays the significant role in the growth of an economy as it provides credit to the needy. Credit is an essential part for the development of country as it encourages the various sectors of businesses. Bank performs two main functions, accepting the deposits and providing the loans to needy. Bank accepts the deposit in two ways, Time deposit and Demand deposit. Bank attracts the public through different schemes and collects the big amount of money which

is called capital formation. Bank does not retain this huge money with itself, it mobilizes into the hand of needy i.e. borrowers. This cycle of accepting deposits and providing loans move continue until and unless it suffers with any problems. When the borrowers become unable to pay the amount of debt on the date of its maturity, it is termed as non-performing assets(NPA) in bank's balance sheet. Non-performing assets forces the bank to maintain the provisions against profitability which hamper the efficiency of banks. "Gross Non-Performing Assets in Indian banks are expected to rise to Rs.9.5 lakh crore by March 2018 from Rs. 8 lakh crore in March last year." said by ASSOCHAM-CRISIL in joint study. India got ranked 5th in bad loans in the world. Business Today in New Delhi, Dec.28, 2017- At 9.9% ratio, India has been ranked fifth on the list of countries with highest NPA and is one the top among the BRICS nations- Reported by CARE Rating revealed. Bank is under the great burden of non-performing assets of over Rs.7.33 lakh crore as of January 2017, now it has increased to Rs. 10,35,528 crore as on march 31st, 2018. To tackle the crisis of NPA, government has announced the recapitalization of these public sector banks by infusing around Rs. 2.11 lakh crore.

MEANING

Non-performing assets are the credit facilities in the forms of loans provided to the person in respect of which the interest or the installment of principal is due from past 90 days. Non-performing assets are also known as bad loans for the banking sector. When any asset does not able to generate income from the lender, then it is termed as "Non Performing Assets." When the loan taken by the person is failed to recover and exceeds a period of 90 days from the date of taking loan it automatically changes from loan to non-performing assets. Non-performing assets are problematic assets for any financial institutions because they do not generate any income.

An asset is termed as Non Performing Assets when the given below statements are fulfilled:

1. When the interest or installment of principal remains overdue for more than the period of 90 days in case of any loan
2. The account remains “out of order” for a period of more than 90 days in case of Bank Overdraft or Cash Credit.
3. The bills remain overdue for a period of more than 90 days in respect of bill purchased and discounted.
4. Non- submission of stock statements for 3 continuous quarters in case of cash credit facility.

There are further classification of Non Performing Assets, they are:

1. **Standard Assets:** A standard asset is one in which the borrower fails to make repayment on maturity.
2. **Sub-Standard Assets:** The assets which are classified as non-performing assets for a period of not exceeding 12 months, is termed as sub-standard assets.
3. **Doubtful Assets:** When any asset remains in the category of sub-standard assets for a period of 12 months, then it is termed as doubtful assets.
4. **Loss Assets:** when the bank, auditor or the bank inspectors identify the loss, which has not been written off, wholly or partly; when it is confirmed that loan is not going to be recovered in future, then it is called as loss assets.

REVIEW OF LITERATURE

Rajput Namita and Gupta Monika et al.,(2012) explained that there is high degree of negative relation between non-performing assets ratios and profitability of the banks. Bank can enhance its profit by declining the trend of NPA. And the result will help in improving the quality of assets. Non-performing assets also collapse the economic system of the country if there is wrong disbursement of credit. **Garg A(2015)** focused on the relationship between non performing asset and profits for public and private sector banks. He suggested that there is no significant relation between profit of public and private sector bank, but not in case of foreign banks. Problems of NPA can't be eliminated completely from banks as bank invests in the risky projects for higher profit but the magnitude of NPA may control. **Dhara K Abhani(2017)** gave his opinion on the impact of NPA on profitability of banks. Profitability is highly influence by non performing asset. So the bank has to take proper action before providing loan to the needy so that there should good chance of recovery from customers of borrowed amount. **Joseph Ashly Lynn and Prakash M(2014)**, they studied about the trend of NPA in private sector banks and public sector banks and how effectively they manage their NPA. The study has shown that non-performing assets are pouring the capital of the bank and

now it has become the political issues. Public sector banks should take more care in averting any account becoming non performing asset. **Vishwanathan N.S.(2016) Deputy Governor of RBI**, examined the quality of assets of Indian banks and suggested that a bank should have proper risk management. It is dynamic so it has to be changed from time to time. Regulators have to put a framework for risk management to the bank. **Selvarajan B. and Vadivalagan G.(2013)** presented the study related with the management of non performing of assets in priority sector of Indian bank and Public Sector Banks. The result showed that in lending activities Indian bank's lending to priority sector is more than that of public sector banks as a whole. Indian Bank is better than Public Sector Banks as a whole in NPA management. Bank must take action from time to time to ensure future growth of the bank. **Balasubramaniam C.S.(2001)** expressed the view related to the performance of banking sector and financially stability of the economy and observed that a high level of NPA would be expected to bring down by good credit appraisal procedures, effective internal control system by improving the quality of assets. **Pasha Mohammed Arif and Srivenkataramana T.(2014)** in their study on NPA of Indian commercial banks concluded that for controlling the increasing trend of NPA, bank should give the focus on the root of causes of NPA so that the corrective action can be taken timely. **Singh Vivek Rajbahadur(2016)** has said that NPA is a problem for Indian sector banking for several years. Public sector banks have huge NPA as compared to private sector banks. Although government has taken number of action but it is not enough to control the NPA, it has to take some serious action to tackle the problems of NPA. **Narula Sonia and Singla Monika(2014)** stated in their study, “Empirical Study of NPA of Bank” that there is direct correlation between net profit, NPA and net advances because of mismanagement of bank. Bank is not able to give loans to the needy due to lack of funds which has blocked in the form of NPA.

STATEMENT OF THE PROBLEM

The higher the NPA, the lower is the profitability. Now a days, non-performing assets of schedule commercial banks is increasing at high pace. It affects the liquidity, solvency and profitability position of the banks which may raise the big question on the future of banks in India. A high level of NPA in banks arose out of the lending of priority sector at the permit of politicians. The central bank and government should frame such type of policy where there is no interference of politician on the activity of bank.

OBJECTIVES

1. To study the framework of NPA in Indian Banking Sector.
2. To know the relation between NPA and profit of the selected banks.
3. To analyze the performance of selected banks.

HYPOTHESIS

On the basis of above objective and literature review following hypothesis are:

H₀₁- There is no significant relation between NNPA and profit of the selected banks of India

H₀₂- There is no change in the trend of NPA in India.

RESEARCH DESIGN

The current study is descriptive in nature as its main aim is to describe the reason of NPA. The study is design to know the NPA level in bank as well as selected banks. The study may help the government as well as the banks to manage the NPA and develop the economic condition of the banks. The study is done on the basis of availability of secondary data. The data were collected from annual reports of the banks, magazines, research papers, newspapers, articles, journals and different websites of banks. The duration of the study selected for observing the movement of NPAs is from 2013-14 to 2017-18.

CAUSES

- 1. Default:** One of the main factor of non-performing assets is default by borrower. When a borrower of bank intentionally made default in payment of interest or principal amount creates the situation of NPA.
- 2. Lack of proper risk management:** Speculation is one of the major reason of default in payment of interest or principal amount. Sometime bank may provide loan to the borrower without proper checking of the creditworthiness of borrower. So there is high probability of default of borrower.
- 3. Diversion of fund:** Sometimes the borrowers divert the borrowed fund to the purpose of other than mentioned in the loan documents or it can be said the use of borrowed fund may divert by borrower from productive to unproductive purpose.
- 4. Industrial crisis:** Large number of industries in India got the loan from banks. If they are in good condition then they can pay easily otherwise in case of crises condition, it is difficult to survive for the industries and they become default in payment to the bank.
- 5. Lenient lending:** Lenient lending policy of the bank is also one of the main cause for rising of NPA in India where the banks are not very much interested in checking the financial status and credit ratings of the corporate sector, may result in increase of NPA.

IMPACT

1. Due to no generation of income by lending, the funds of the banks and the financial institutions are blocked and for further lending, money is not available.

2. As we know, the Non-Performing Assets do not generate any interest because of which there is no profit earned by the banks. Hence, the profits come down.
3. When there is high level of non-performing assets in any bank or financial institutions, the goodwill, image and the prestige of the banks or financial institutions starts getting affect which further results in no profit or create bad image of the bank.
4. The balance sheet of the banks and financial institution shows an unpleasant balance due to these non-performing assets, which creates problem for them in further taking or borrowing of loans or funds.
5. When any bank or financial institution has a very high level of NPAs, that means that the managerial activities or the management of the bank or institution is very weak and is not able to recover those loan dues.
6. Non-performing assets in the books of accounts increase the administrative, managerial, legal and the recovery costs.
7. If the NPAs of any bank or financial institutions is at higher level, then; the creditors of these institution who sold their goods to the institution on the basis of credit, instantly demand cash.
8. The stakeholder of the institution or banks gets disappointed just because they do not get high rate of profit on their shares due to rising rate of non-performing assets.
9. The more NPAs are there of any institution shows the ineffective or inefficient managerial control over the due loan. The management should take effective steps to recover those loans.

PRESENT STATUS OF NON-PERFORMING ASSETS IN INDIA

The non-performing assets in the banks and financial institutions of India is getting rise day-by-day. As the Reserve Bank of India(RBI) has stated that – Banks will continue to face deterioration in their non-performing assets or bad loans due to current economic conditions in the fiscal year. The Gross NPA plus the reconstructed standard advances in the banking sector remained higher at 12.1% of gross advances at the end of the month- March, 2018.The annual report prepared by the Reserve Bank of India of 2017-18 has stated that-“Going forward, the stress tests carried out by the Reserve Bank suggests that under the baseline assumption of the current economic situation prevailing, the GNPA ratio of scheduled commercial banks (SCBs) may increase further in 2018-19.” The total gross NPA of schedule commercial banks has been increased primarily as a result of this transparent recognition of these NPA from Rs.3,23,464 crore, as on march 31, 2015 to Rs.10,35,528 crore, as on march 31, 2018. In order to control the NPA, Reserve Bank of India(RBI) has

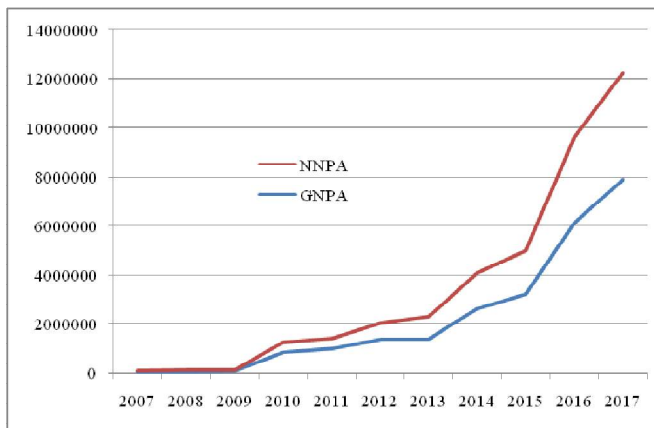
also put some of the revised and harmonized or pleasant guidelines for resolution of stressed assets named as NPAs during the year of replacing the earlier guidelines and terms. Through the sources familiar with the report of Standing Committee of Finance, Reserve Bank of India needed to find out that what is the reason behind the non-application of early signals of NPAs were not captured before the Assets Quality Review. This reported of RBI was adopted by the committee headed by congress leader M. Veerappa Moily in that date and was likely to be placed in the Parliament in the winter session.

ANALYSIS AND INTERPRETATION

TRENDS OF NPA IN INDIA FROM 2007 TO 2017

YEAR	GROSS NPA	NET NPA
2007	56309	24734
2008	68328	31564
2009	84747	39126
2010	847009	391266
2011	979732	417993
2012	1369033	652048
2013	1375533	926940
2014	2643811	1426559
2015	3240152	1758414
2016	6119473	3498145
2017	7917907	4331244

Source: RBI, Statistical Tables



The result depicts that there is slow growth of gross NPA and net NPA from 2007 to 2009 but after that it started to increase at very high pace. High level of NPA shows the inefficiency of bank's management that it is not able to recover its funds from borrowers.

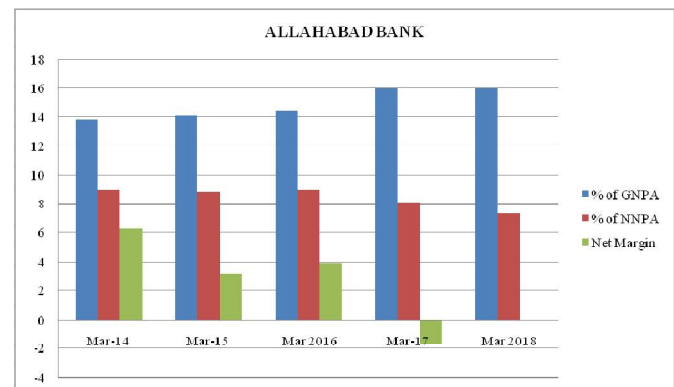
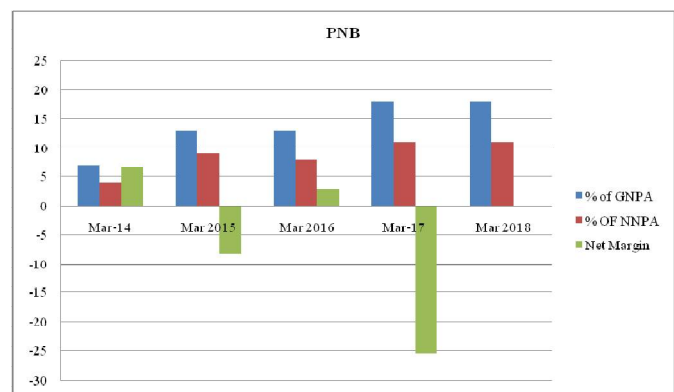
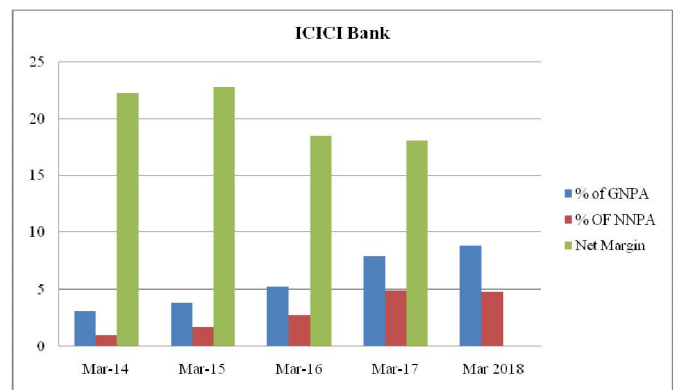
% of GNPA OF SELECTED BANK FROM 2013-14 TO 2017-18

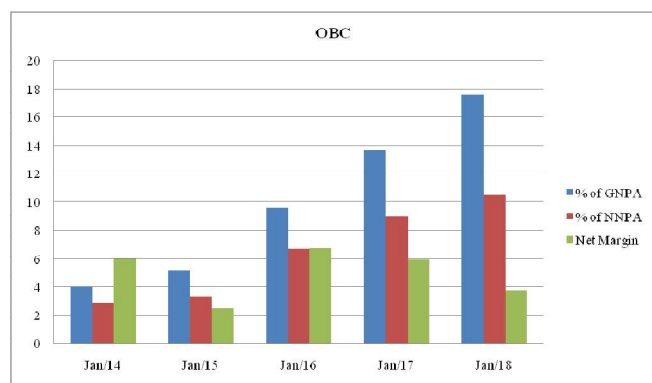
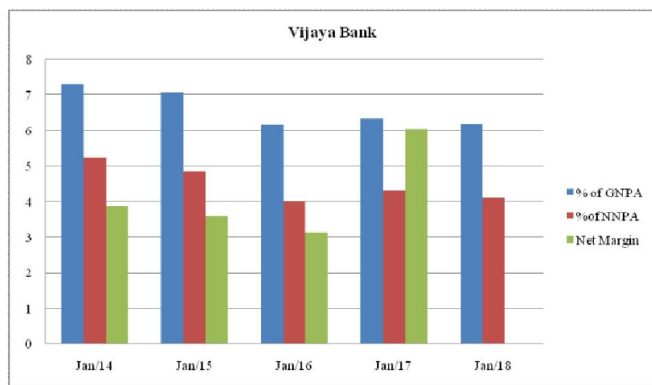
GNPA	Mar 2013-14	Mar 2014-15	Mar 2015-16	Mar 2016-17	Mar 2017-18
ICICI Bank	3.03	3.78	5.21	7.89	8.84
PNB	7	13	13	18	18

Allahabad Bank	13.85	14.10	14.38	15.96	15.97
Vijaya Bank	7.30	7.06	6.17	6.34	6.19
OBC	3.99	5.18	9.57	13.73	17.63

% of NNPA OF SELECTED BANK FROM 2013-14 TO 2017-18

NNPA	Mar 2013-14	Mar 2014-15	Mar 2015-16	Mar 2016-17	Mar 2017-18
ICICI Bank	0.97	1.61	2.67	4.89	4.77
PNB	4	9	8	11	11
Allahabad Bank	8.96	8.84	8.97	8.04	7.32
Vijaya Bank	5.24	4.86	3.99	4.32	4.10
OBC	2.82	3.34	6.70	8.96	10.48





ICICI BANK

Descriptive Statistics

	Mean	Std. Deviation	N
NNPA	15237.5080	11082.67216	5
NET_PROFIT	9458.1160	1616.22289	5

Correlations

		NNPA	NET_PROFIT
NNPA	Pearson Correlation	1	-.706
	Sig. (2-tailed)		.183
	N	5	5
NET_PROFIT	Pearson Correlation	-.706	1
	Sig. (2-tailed)	.183	
	N	5	5

As per the results, derived from the application of correlation on the five years data of the ICICI Bank, there exist a strong negative correlation between the NNPA and profit of the bank. Value of Pearson correlation is -0.706, that clearly depicts the existence of strong negative correlation between the NNPA and Net profit of the bank. We can conclude that increase in NPA will decrease the profit of bank by 70.6%.

PUNJAB NATIONAL BANK

Descriptive Statistics

	Mean	Std. Deviation	N
NNPA	28424.4920	15732.02730	5
NET_PROFIT	-115.8920	6872.00073	5

Correlations

		NNPA	NET_PROFIT
NNPA	Pearson Correlation	1	-.733
	Sig. (2-tailed)		.159
	N	5	5
NET_PROFIT	Pearson Correlation	-.733	1
	Sig. (2-tailed)	.159	
	N	5	5

As per the results found from the application of correlation on the five years data of the Punjab National Bank, there exist a strong negative correlation between the NNPA and Profit of the bank. Value of Pearson correlation is -0.733, shows that the negative correlation between the NNPA and profit of the bank.

ALLAHABAD BANK

Descriptive Statistics

	Mean	Std. Deviation	N
NNPA	9531.1680	3543.19320	5
NET_PROFIT	-787.6540	2299.87428	5

Correlations

		NNPA	NET_PROFIT
NNPA	Pearson Correlation	1	-.646
	Sig. (2-tailed)		.239
	N	5	5
NET_PROFIT	Pearson Correlation	-.646	1
	Sig. (2-tailed)	.239	
	N	5	5

The result shows that there is negative relation between NNPA and net profit of Allahabad Bank. Value of Pearson correlation is -.646, expresses that there is moderate degree of negative correlation between net non-performing assets and net profit of the bank.

VIJAYA BANK

Descriptive Statistics

	Mean	Std. Deviation	N
NNPA	3387.6800	1858.45625	5
NET_PROFIT	542.9240	180.12459	5

Correlations

		NNPA	NET_PROFIT
NNPA	Pearson Correlation	1	.648
	Sig. (2-tailed)		.237
	N	5	5
NET_PROFIT	Pearson Correlation	.648	1
	Sig. (2-tailed)	.237	
	N	5	5

As per the given calculation, it can be said that there is positive correlation between NNPA and net profit of the Vijaya Bank. Value of Pearson correlation is .648 which shows that presence of moderate degree of positive correlation between NNPA and Net profit of the bank.

ORIENTAL BANK OF COMMERCE

Descriptive Statistics			
	Mean	Std. Deviation	N
NNPA	9410.7000	4939.51182	5
NET_PROFIT	-1034.6480	2823.62985	5

Correlations			
		NNPA	NET_PROFIT
NNPA	Pearson Correlation	1	-.757
	Sig. (2-tailed)		.138
	N	5	5
NET_PROFIT	Pearson Correlation	-.757	1
	Sig. (2-tailed)	.138	
	N	5	5

As per the results, derived from the use of correlation on the five years data of the Oriental Bank of Commerce, there exist a strong negative correlation between the net non-performing assets and net profit of the bank. Value of Pearson correlation is $-.757$, that clearly shows the existence of strong negative correlation between NNPA and profit of the bank.

LIMITATIONS

1. The investigation is limited to the extent of availability of the data.
2. The time of the investigation is limited for five years only
3. The study is limited to the selected banks.

CONCLUSION

“The stress in the banking sector, which mirrors in the corporate sector, has to be dealt with in order to revive credit growth”- **RAGHURAM RAJAN**

Currently NPA is a big head ache for the bank. It does not influence only to the bank but it can destroy the whole of the economy. There is continuous movement of fund from society to bank and bank to society. NPA breaks the chain of movement of fund and every sector of the economy suffers by this situation. So the government and central bank of the

country should be in the nature of proactive and eliminate problem as soon as possible. According to CRISIL, the number of defaults is the lowest in the first half of 2018-19 compared with the corresponding period of FY 2014, FY 2015, FY 2016, FY 2017 and FY 2018.

Banks are trying to minimize its NPA as the result depicts by RBI Report. In the baseline scenario, the GNPA ratio may decline from 10.8% in sept.2018 to 10.3% in mar 2019 and 10.2% in sept.2019, RBI said its biannual Financial Stability Report(FSR).

REFERENCE

- [1] Mishra M. Ujjwal and Pawaskar Jayant R, “A Study on Non-Performing Assets and its Impact Banking Sector” Journal for Research, Vol 03, Issue 01, March 2017
- [2] Rajput Namita, Gupta Monika, et al, “Profitability and Credit Culture of NPAs: An Empirical Analysis of PSBs” International Journal of Marketing, Financial Services and Management Research” vol.1, Issue 09, September 2012
- [3] Dhara K Abhani, “Empirical Study of impact on NPA over the profitability of leading private sectorbanks” International Journal of Applied Research, IISN-Print-2394-7500
- [4] Garg A, “Statistical Investigation and Comparative Assessment of the Non-Performing Assets of Indian Commercial Banks” International Journal of Management, Business, Research, 2015
- [5] Ashly Lynn Joseph, Dr. M Prakash, “A Study of Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks” Internatioanl Journal of Scientific and Research Publications, Vol.4, July 2014.
- [6] Selvarajan B, Vadivalagan G, “A Study on the Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks(PSBs)” Global Journal of Management and Business Research, vol 13, Issue 1
- [7] Singh Vivek Rajbahadur, “A Study of Non-Performing Assets of Commercial Banks and it’s recovery in India” Annual Research Journal of SCMS, Vol. 4, Mar 2016
- [8] Pasha Mohammad Arif, Srivenkataramana T, “Non-Performing Assets of Indian Commercial Banks: A Critical Evaluation” An International Journal from MP BirlaInstitute of Management, vol 8, 2014
- [9] Kakkar Rajendra, “NPA Management- Role of Asset Reconstruction Companies” IBA Bulletin, Vol 4, 2004.

<https://economictimes.indiatimes.com>
www.pnbindia.in
www.financialexpress.com
www.rbi.org.in
www.ndtv.com