Empirical Analysis of Non Performing Assets Related to Private Banks of India

Laveena[1], Meenakshi Malhotra[2]

[1,2]Chitkara University, Rajpura

Lave81@gmail.com

meenakshi.28jul@gmail.com

Abstract- *In present scenario, Indian banks are struggling with challenges related with NPA's. Some years before these banks were in Flourishing heights.but health of these banks deteriorated because of non performing assets. Many Indian banks have been controlled their non performing assets up to a level, but some banks still have been failed to control their NPA's status, as a result, NPA hitting the profitability of these banks. Through this research paper we have examined the trend of NPA's over the past 8 years and the relationship between NPA's and profitability of private sector banks. According to the Reserve bank of India priority sector lending must be promoted so that those sectors who can't approach the organized market for lending purposes and can't afford the higher commercial rate of interest, can get loans in an easy way. RBI specified the percentage of loans to priority sectors out of the total money lent by the banks. This paper examines the NPA in Priority Sector Lending and the impact of priority sector lending on the gross NPA of private sector banks. The result showed the significant impact of priority sector lending on gross NPA of private Sector banks. This study revolves between the period 2005 and 2012.*

Key words: *NPA, private sector banks, Profitability, priority sector*

1. INTRODUCTION

For a sound economy, one should have a sound banking system. One of the important parameters for judging the performance of the banking system is the NPAs. According to the guidelines of The Reserve bank of India any asset categorized as loss asset, substandard, doubtful assets from the banks or any other financial institution to be considered as nonperforming asset. NPA is generally termed as dormant assets means these assets does not bring any substantial income to its owners. NPA causes serious strain on the profitability as, on the one hand banks cannot book income on such accounts and in a second way, charge for funding cost is required and provision required for the profits. In order to keep debtors friendly we keep the provision of NPAs. In the Indian context, the lending policy and credit policy have crucial influence on non performing loans (Reddy, 2002 and Karunakar et al., 2008). Banks are now using target-oriented approach. Due to which quality is not given any importance and emphasis is on the quantity. Other reasons are ineffective supervision of borrower's accounts, less managerial and technical experience on the part of borrowers. NPAs can be further divided into two types Gross NPAs and Net NPAs. First, non performing assets in Gross form means all assets in a nonstandard form such as substandard asset. Doubtful assets and loss assets. all these types of assets show qualitative aspect of loans provided by banks to different sectors..Standard assets are those in which the banks are receiving timely payment of principal and interest amount of the loan from the borrower.but when

asset is not in standard category means the amount due more than 90 days, then these are categories as sub standard assets,doubtful asset &loss assets.if any assets remained non performing upto 12 months (less than or equal to) it is considered as substandard assets when we discuss doubtful assets it means any assets remained sub standard assets up to 12 months and borrower's current net worth and current security value is insufficient to recover the loan amount by the banks . Second, net non performing assets means NPAs minus provision for NPA.These are the actual burden on Indian banks. In balance sheet of Indian Banks the amount and level of NPAs are very high.and it's a time bound process to recover and reduce the loans.The guidelines issued by the Central Banks of India related to provision against NPA are very helpful to control level of non performing assets.

2. REVIEW OF LITERATURE

Bidani (2002) conveyed that the banks show efficiency to control their non performing asset level to some extent, but because of conversion of standard assets into non performing asset categories their position is continuously crumbling. There are some important reasons responsible for this situation.these reasons are-slow economic and industrial growth, the slump in capital market, financial indiscipline, Willful defaults by the borrowers, overburdened and slow judiciary, competition from multinational companies, less support from banks in needy situations. Kumar (2005) Focussed that by scheduling the non performing asset level efficiency and profitability of banks can be improved. The highest

percentage of nap is observed in public sector banks as compared to private sector banks. Attaining Zero level NPAs of the banks is very tough even if they followed the steps given by the Indian government but to compete with foreign banks as regard to international standards, Indian banks have to work hard to control NPAs. Bhatia (2007) after considering the NPA level of private, public and foreign banks with a Model, comprising two factors (Bank parameters and macroeconomic factor) conveyed that to evaluate the financial health and work performance of the Indian Banks NPA is addressed as very important factor.financial soundness and growth of Indian banking sector affected by the percentage of NPA level in the banks. Balasubramaniam C.S. (2012) evaluated the NPA could be reduced by good credit appraisal procedures, effective internal control systems, and with the help of efforts to mobilize funds in order to comply with provisioning norms and capital adequacy requirements. Veerakumar (2012) concluded that the problem of NPAs must be handled in such a manner that would not ruin the financial status and image of the SCBs. Number of steps circulated by the Government of India & the reserve bank of India to control non performing asset level of Scheduled commercial banks in India The remedial measures helped to reduce NPAs below 3% of total advances (average 2.5%) as recommended by the Narasimham Committee Report. Bihari (2012) highlighted that the steps for conversion of non-performing assets in performing assets. These following steps are helpful to reduce and control NPA level: -banks must be aware of Right kind of borrower at the time of selection, banks must have adequate finance at the time of need and this must be disbursed within time, they have to see the funds used in the right manner, loans must be recovered timely to reduce NPA level. Rai (2012) discussed the various modes to speed up recovery of good loans and bad loans. She carried out evaluation of performance of NPAs of Indian Commercial banks. She also stressed upon the importance of following the legal regulations by citing the reference to the Supreme Court verdict. Shyamal (2012) studied that the prudential norms and other schemes had rushed banks to improve their performance and accordingly resulted in orderly down of the NPA as well as an enhancement in the financial strength of the Indian banking structure. Patidar & Kataria (2012) described and compared the NPAs of public sector and private sector banks stated the that Priority Sector lending has significant impact on Total NPA in Public Sector Banks, whereas in Private Sector Banks Priority Sector lending has no significant impact on Total NPA. Kaur & Saddy (2011) Compared the private banks and public banks in regard to non performing assets and concluded that the extent of the NPA is comparatively higher in public sector banks. As compared to private sector banks. Government induced so many steps to reduce & control NPA level to the maximum possible extent, so that position of Banks with regard to profitability and efficiency can improve in future This has led to decline in the level of NPAs of the Indian banking sector.

3. RESEARCH METHODOLOGY

The present study has focused on the performance of NPAs in private banks, i.e., old and new private sector banks, by collecting data of last eight years. The study is based on secondary data. The RBI publications like, "Report on Trend and Progress of Banking in India-2002 to2012)", "Annual Report of RBI", and "Reports on Currency and Finance" are the major sources for this study. The data collected has been analyzed and interpreted by various statistical tools like ratios, averages, percentages, coefficient of variation, correlation and regression test. The study is confined to a period of 8 years, i.e., from 2004-05 to 2011-12.

4. OBJECTIVES OF THE STUDY

The present study focused mainly on the below mentioned objectives

a. To analyze and study the movement of non performing assets during 2004-2012.

b. To Relate the effect of non performing assets on the profitability position of private sector banks in India

c. Effect of priority sector lending on total NPAs of Public sector Banks.

5. RESULTS AND DISCUSSION

5.1 NPA INDICATORS DURING 2004- 2012

According to the table 1 in Annexure the trends of gross advances as compared to nonperforming assets are in continuing increasing form, which indicates the performance of these private banks goes in better way.now they have a great opportunity to manifest themselves. The amount of gross NPA decline in the year 2004-05 and it shows the increasing trend from the year 2005-2009 . The Restructured Standard Advance to Total Standard Advances does not show a positive situation. There are mixed trends of increases and decrease as in old private sector banks it was higher in 2010, by taking corrective measure it decreased in 2011 but again due to negligence it increases. The analysis from the tabular data in Table 2 in Annexure clearly shows the rise of standard assets over the years compensating the fall of others. But sub standard asset percentage is higher in the year 2009.this amount is highest of the year. In 2009 percentage of standard assets has been reduced due to interest and principal amount unpaid during the financial crisis in the year 2009.

To Create an alliance in regards to profitability and non performing assets of the private sector.

Ho: There is no alliance between profitability and non performing assets of private sector banks.

According to 2-tailed test correlation is significant at the 0.05 level.This hypothesis is tested with the help of the Pearson Correlation test.value as per this the coefficient of correlation is obtained was.778. Since the significance value was below 0.05, therefore it shows a high degree of correlation between the two variables. The table is shown in the Annexure.

Impact of priority sector lending on NPA

H0: There is no significant impact on Priority Sector Lending on Total NPA of Banks?

To find the significant impact of Priority Sector Lending on the Total NPA of Banks, following methodology is used:

$$NPA_{i,t} = \alpha_0 + \alpha_1 PSL_{i,t} + \mu_{i,t}$$

Where,

$NPA_{i,t}$ = NPA of Bank i at time t.

α_0 = Intercept of Regression Equation.

α_1 = Slope of the Regression Equation.

$PSL_{i,t}$ = Priority Sector Lending of i bank at time t.

The Table is shown in the Annexure. The coefficient of determination is 0.887; therefore, about 88.7% of the variation in the gross NPA data is explained by priority sector lending. Since *p*-value is less than 0.05, we shall reject the null hypothesis.

6. CONCLUSION

From the above analysis, it is evident that NPA is a major threat to Indian Banks. Continuous progress to recover NPA showed by NPA indicators. But because of high pressure of Recession Facing by Indian Banks NPA is continued growth .So it's necessary to control NPA level, it must be managed properly to set an efficient & healthy environment of Indian banks. The profitability of the private banks to a large extent is dependent on NPA's. The distribution of NPA plays an important role. The result showed the significant impact of priority sector lending on gross NPA of private Sector banks

7. SUGGESTIONS

In today scenario, Indian Private Banks are facing so many problems out of which NPA is a major problem. To improve the efficiency and profitability of Indian Banks proper control and management of non performing assets is required. So it is essential to take serious actions should be taken to control these, otherwise it will become dangerous for the Indian Banking system. The current Effects of NPAs are very harsh its not only affects the interest and profits, but also affects the recycling process of the Cash and funds. The harmful effect of increasing the level of the NPA is that it also affects the lending rates and deposit rate in negative way means to reallocate the losses banks charges high interest and low deposit interest rates

which badly affect Growth of the economy. So it's important to target Nonperforming assets Growth and try to find ways, measures and strategies to control and regulate the level of NPA to a maximum extent.

8. REFERENCES

[1] Balasubramaniam, C.S (2012)"Non Performing Assets And Profitability Of Commercial Banks In India: Assessment And Emerging Issues", National Monthly Refereed Journal Of Research In Commerce & Management, June, volume no. 1, issue no. 7, pp. 41-52

[2] Bhatia (2007), "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment ", Icfai Journal of Bank Management, Vol. 6, No. 3, pp. 7-28.

[3] Bidani S.N (2002): " Managing Nonperforming Assets in Banks"Vision Book Private LTD., New Delhi 2002.

[4] Bihari J.K (2012): " A Study on NPA Management in Indian Banking Industry" Asian Journal of Research in Business Economics and Management, Vol.2, No.6, June 2012

[5] Das, S & Bose, S.K (2005):"Risk Modeling-A Markovian Approach", The Alternative, Vol. 4. No.1.March 2005, pp. 22-27.

[6] Kaur Harpreet and Pasricha J.S (2004) "Management of NPAs in Public Sector Banks" Indian Journal of Commerce, Vol. 57, No. 2

[7] Krishna A.R. (2008) "An Analysis of NPA in Indian Commercial Banks", Journal of Commerce and Trade Vol. 3. No. 2. October 2008

[8] Patidar, S& Katatia, A (2012): " An Analysis of NPA in priority sector lending: A comparative study between public Sector Banks and Private Sector Banks of India" Bauddhik, Vol.3, No.1, Jan- April 2012

[9] Rai, K (2012): " Study on performance of NPAs of Indian commercial Banks"Asian Journal of Research in Business Economics and Management, Vol.2, issue N0.12, pp. 16-26, June 2012

[10] Shyamala A (2012): "NPAs in Indian Banking Sector: Impact on Profitability"Indian Streams Research Journal,Vol 1,No.V,pp.1-7,June 2012

ANNEXURE

Table 1: Private Banks' Gross NPA's to Total Advances (Rs. In Crores.)

Year	Gross Adv.	Gross NPAs (Amt.)	% to Gross Adv.
2004-05	1,97,832	8,782	4.44
2005-06	3,17,690	7,811	2.46
2006-07	4,20,145	9,256	2.2
2007-08	5,25,845	12,983	2.47

2008-09	5,85,065	16,983	2.9
2009-10	6,44,517	17,639	2.74
2010-11	8,11,843	18,240	2.25
2011-12	8,80,445	18,314	2.08

Graph: 1 Private Banks' Gross NPA's to Total Advances (Rs. In Crores.)
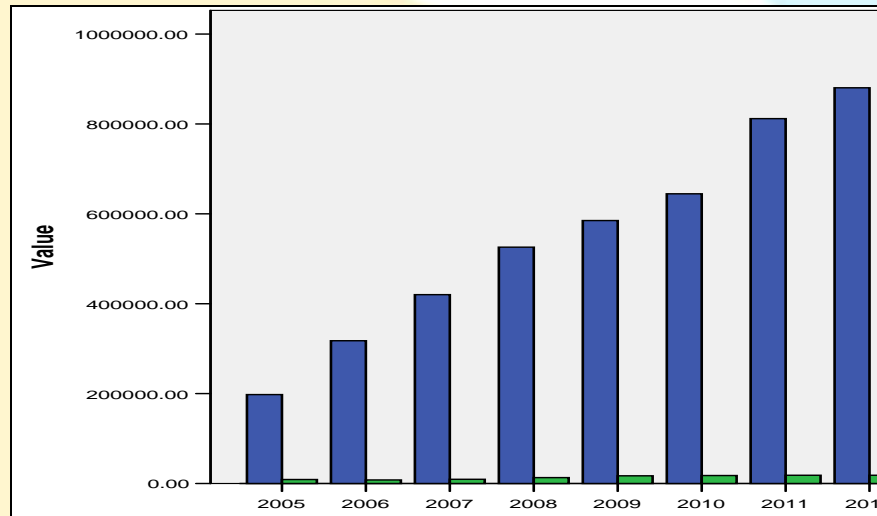

Table 2: Gross and Net NPAs to Gross Advances (A Comparative Study from 2010-12)

Bank	Year	Gross NPAs to Gross Advances	Net NPAs o Net Advances	Restructured Standard Advance to Total Standard Advances
New Private Sector banks	2010	3.22	1.18	1.68
	2011	2.62	0.6	0.65
	2012	2.18	0.44	1.08
Old Private Sector Banks	2010	2.31	0.82	3.62
	2011	1.97	0.53	2.95
	2012	1.8	0.59	3.49

Source: RBI Annual Report, 2011-12

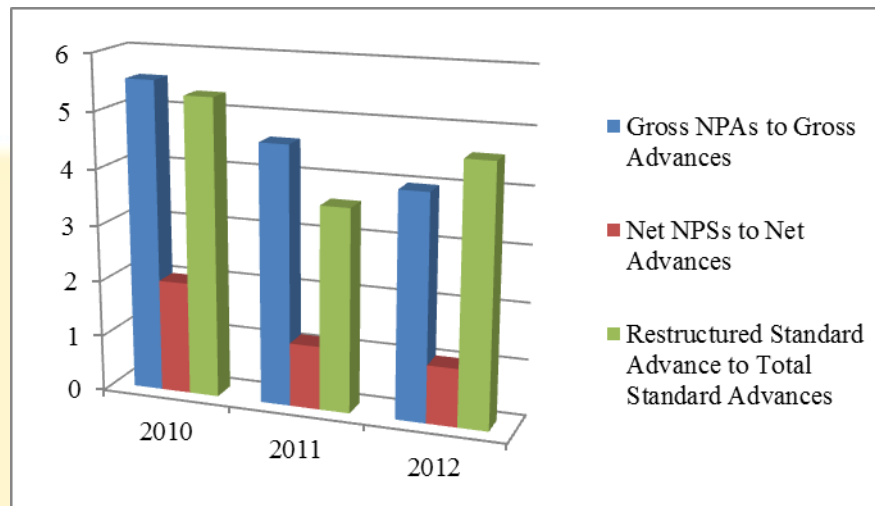Graph 2: Gross and Net NPAs to Gross Advances (A Comparative Study from 2010-12)

Table 3: Loan Assets of Private Banks 2007 to 2012 (Amount in Rs. Billion)

Bank group/ Year	Standard Assets		Substandard Assets		Doubtful Assets		Loss Assets		Gross NPAs		Total Advances
	Amt.	% Share	Amt.	% share	Amt.	% Share	Amt.	% share	Amt.	% Share	Amt.
Private sector banks											
2007	3826.30	97.6	43.68	1.1	39.30	1.0	9.41	0.2	92.39	2.4	3918.69
2008	4593.69	97.3	72.80	1.5	44.52	0.9	12.44	0.3	129.76	2.7	4723.45
2009	5027.68	96.8	105.26	2.0	50.17	1.0	13.45	0.3	168.88	3.2	5196.55
2010	5671.92	97.0	86.76	1.5	65.42	1.1	21.66	0.4	173.84	3.0	5845.76
2011	7143.38	97.5	43.98	0.6	107.35	1.5	28.39	0.4	179.72	2.5	7323.10
2012	8621.31	97.9	51.28	0.6	103.14	1.2	28.72	0.3	183.15	2.1	8804.45

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI.

TABLE 4

Correlations			Gross Profit	Gross NPA
Gross Profit	Pearson Correlation		1	0.778116*
	Sigh. (2-tailed)			0.022967
	N		8	8
Gross NPA	Pearson Correlation		0.778116*	1
	Sigh. (2-tailed)		0.022967	
	N		8	8

* Correlation is significant, according to 2-Tailed tests at the 0.05 level

TABLE 5

Private Sector Banks (Amount in Rs. Billion)			
	Priority Sector	Non-Priority Sector	Total
2004-05	22	66	88
2005-06	23	56	78
2006-07	29	64	92
2007-08	35	96	130
2009-10	48	126	174
2010-2011	49	131	180
2011-2012	51	132	183

Model Summary

TABLE 6:

Model	R	R^2	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	. 942 (a)	.887	.868	16.61751	.887	46.929	1	6	.000

A Predictors: (Constant), PSL