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COMPARATIVE STUDY OF NON-PERFORMING ASSETS OF PRIVATE AND PUBLIC SECTOR BANKS

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ABSTRACT

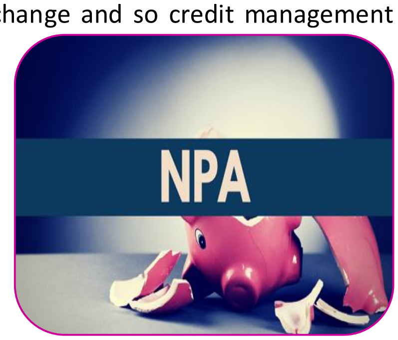
Non-performing assets are a major concern for banks in India. NPAs are an important criterion for analyzing a bank's financial performance as it reduces the need for lower margins and higher provision for questionable loans. NPAs reflect the performance of banks. A high level of NPAs indicates that there is a high probability of large credit defaults that affect the profitability and net worth of banks and reduce the value of assets. In addition to risking the quality of assets and the existence of banks, NPAs affect liquidity and profitability. The Indian banking sector is facing a serious problem of increasing non-performing assets (NPAs). The growth of NPAs has a direct impact on the profitability of banks. It requires provisions, which reduce gross profit and shareholder value. The NPA's problems are hitting not just the banks but the entire economy. In fact, the high level of NPAs in Indian banks is not a reflection of the health status of the industry and trade. To maximize efficiency and profitability, NPAs must be determined. Governments have taken various steps to reduce NPAs. It is impossible to have zero percent NPA. But at least Indian banks can try to compete with foreign banks to maintain international standards. An attempt is being made in this paper on what is NPA? Factors contributing to NPAs reasons for becoming a high NPA and its impact on Indian banking performance, trends and magnitude of NPAs in selected Indian banks.

KEYWORDS: *Non-performing assets , serious problem, selected Indian banks.*

INTRODUCTION

The development of a country can be better understood through the economic development affected by the current economic system. The "financial system" plays an important role and mediates the flow of funds to those who save a portion of their income and invest in productive assets. A strong financial system is needed for the purpose of strengthening the economy and for its healthy and orderly development. Financial institutions (banks) are intermediaries who make savings efficient and efficiently allocate funds to additional units from deficit units. Good financial institutions are important for the functioning of any economy. If an economy is described as an economy, financial institutions are like its brain.

Private and public sector banks occupy a large share of banking in India. 1991 After the first phase of financial liberalization in 1992, the banking industry has undergone a change and so credit management came into the picture. The primary function of banks is to provide loans and deposits as loans to many in agriculture, industry, personal and housing. Obtaining a deposit is not a risk of risk it is a duty to repay the deposit whenever demand is made. On the other hand, there is always a higher risk of lending because there is no guarantee of repayment. In recent times, banks have been very cautious in expanding lending, as the aim is to increase non-performing assets. Non-performing assets are one



of the major causes of irritation of the banking sector in India. NPAs are a major concern for banks in India these days.

NON-PERFORMING ASSETS (NPA'S):

Non-Performing Sets (NPAs) was first introduced in the Narsingh Committee on "Financial System Improvement" introduced in Parliament on December 1991. The committee studied the prevailing financial system, identified its short-sightedness, and carried out various suggestions and recommendations in relation to weaknesses and internationally accepted standards. Based on the recommendations of the Committee on "Financial System Reforms," the RBI developed prudential norms regarding income recognition, asset classification and provisioning and in April 1992 issued revised instructions to banks.

Banks generally have different types of assets such as cash in hand, balance with other banks, investments, loans and advances, fixed assets and other assets. The Nonperforming as Set (NPA) concept is limited to loans, advances development and investments. Unless an asset generates expected income from it and does not disclose any unusual risk other than general business risk, then that asset is considered a performance and when it fails to generate the expected income it becomes a "non-performing asset".

NPA has classified in Following Four Types:

1. **Standard Assets:** A standard asset is a performing asset. Certified assets pay regular income and repayments when they are due. Such assets carry a general risk and are not, in fact, NPAs.
2. **Sub Standard Assets:** All those assets (loans and advances) that are considered non-performing for a period of 12 months.
3. **Doubtful Assets:** Assets that are considered to be non-functional for more than 12 months
4. **Loss Assets:** All assets that are not recoverable are identified by the Central Bank or auditors.

Types of NPA:

1. **Gross NPA:** Gross NPA is the sum of all loan assets classified as NPAs as per the RBI Guidelines on the balance sheet date. Gross NPA reflects the quality of loans made by banks. It contains all the lower quality assets, such as non-quality, questionable and losable assets.
2. **Net NPA:** Net NPA is the type of NPA in which the bank has reduced the provision of NPS. Net NPA shows the real burden of banks. In India, bank balance sheets have a large number of NPAs, and while debt collection and writing are very time consuming, banks have to make some provisions against NPAs as per the guidelines of the Central Bank.

Table 1.1 Selected Private and Public Sector Bank Wise NPA's by June 2017

Private Sector Bank			**Public Sector Bank**		
Sr. No	**Bank Name**	**Amount in Cr.**	**Sr. No**	**Bank Name**	**Amount in Cr.**
1.	ICICI	43148	1.	SBI	188068
2.	HDFC	7245	2.	IDBI	50175
3.	AXIS	22101	3.	PNB	57721
4.	IDFC	2004	4.	Central Bank	31396
5.	Vijaya Bank	6815	5.	Bank of Baroda	46175
6.	United Bank of India	12167	6.	Bank of India	51022
7.	Punjab and Sindh Bank	6691	7.	Canara Bank	37658
8.	Kotak Mahindra Bank	3729	8.	Indian Overseas Bank	35453
9.	Federal Bank	1868	9.	UCO Bank	25054

10.	Karur Vysya Bank	1809	10.	Oriental Bank of Commerce	24409

Source: RBI

This study is conducted by discussing RBI reports on banks (Annual Financial Reports) with information / data from banks and some bank officials. Public sector and private sector banks showed a big difference in NPAs. The total NPAs of public sector banks are more than 6 times that of private sector banks. This shows that public sector banks have higher NPAs than private sector banks. Based on this, we have come to realize that private sector banks have a safe credit policy and recovery, compared to public sector banks.

Table 1.2 Gross and Net NPA's of Private and Public Sector Banks 2011 to 2015

Year	Private Sector Banks				Public Sector Banks			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2011	6921.15	5.17	4074.23	2.87	1489.94	5.94	253.48	1.21
2012	9803.61	6.7	6495.59	4.16	1749.39	5.71	334.83	1.34
2013	16435.63	9.94	11691.32	6.96	2014.25	5.57	639.08	1.96
2014	21154.35	11.19	14389.24	7.51	1661.29	5.14	661.03	2.31
2015	33634.52	17.32	21706.42	11.03	2075.69	5.98	895.78	3.05

Source: RBI

The above table 1.2 describes about the Gross and Net NPA's of private and public sector banks and it was observed that the gross NPA in private bank is comparatively low than public banks. This trend has been increasing in public banks for five years but private sector banks have been increasing up to 5 but have remained steady since then.

The level of net NPA is much higher in public banks than in private banks. This trend in public banks has been increasing for seven years but private sector banks have been increasing up to five but have remained almost constant since then.

CONCLUSION:

NPAs have always created major problems for banks in India. This is a problem not only for the banks but also for the economy. Closing money in NPAs has a direct impact on bank profits because Indian banks rely more on income from fund interest from the lender. According to this study, the level of NPA is much higher in public sector banks compared to private banks. Although the government has taken various steps to reduce the NPA, much still needs to be done to curb this problem. The number of NPAs in public sector banks is relatively high. In order to maximize efficiency and profitability, the NPA's schedule has to be set; various steps have been taken by the government to reduce the NPA. The government should make more provisions for expeditious disposal of pending cases and this has created the problem of reducing the compulsory debt given to the priority sector. The NPA problem requires a lot of serious effort, or else the NPAs will continue to be hit by the profits of banks, which is no good for the growing Indian economy. Conclusion section is not required. Although a conclusion can be reviewed in the main points of the paper, do not replicate the abstract as a conclusion. A conclusion may contain detailed information on the importance of the task or suggest applications and extensions.

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