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

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ABSTRACT:

Banking sector plays an important role in the development of economy. Any problem in this area often extends to the actual area. Until 1991, asset quality was not a major concern of banks. Banks mainly focused on expansion, rural development, priority sector lending etc. But the main challenge now is the growing pressure of NPAs. NPAs cover public sector banks as well as the private sector. This affects not only the banking sector but also the economy as a whole. Banks often tend towards risk-free investments which are not conducive to the growth of the economy.

KEYWORD:*Banking sector plays , public sector banks, private sector.*

INTRODUCTION:

A country's development can be better understood through the economic development influenced by the current economic system. The "financial system" plays an important role and mediates the flow of funds to those who save part of their income and invest in productive assets. A strong financial system is essential for strengthening the economy and for its sound and orderly development. Financial institutions (banks) are intermediaries that facilitate savings and efficiently allocate funds from deficit units to surplus units. Good financial institutions are important for the functioning of any economy. If an economy is described as an economy, financial institutions are its brain.

Private and public sector banks have a major share in banking in India. 1991 After the first phase of financial liberalization in 1992, the banking industry changed and credit management came into the picture. The primary function of banks is to provide loans and deposits to many in the agricultural, industrial, personal and housing sectors. Earning a deposit is not a risk, it is an obligation to repay the deposit whenever demanded. On the other hand, there is always a higher risk as there is no guarantee of repayment of the loan. In recent times, banks have been very cautious in lending expansion, as their objective is to increase non-performing assets. Non-performing assets are a major source of irritation for the banking sector in India. NPAs are a major concern for banks in India these days.

Non-Performing Assets (NPA's):

Non-performing assets are a major concern for banks in India. NPA is an important criterion for analyzing the financial performance of a bank as it reduces the need for low margin and provides more provision for doubtful loans. NPAs show the performance of banks. A high level of NPAs indicates that there is a high probability of a major credit default which affects the profitability and net worth of banks and reduces the value of assets. Apart from jeopardizing the asset quality and survival of banks, NPAs affect liquidity and profitability. The Indian banking sector is facing a serious problem of increasing non-performing assets (NPAs). The increase in NPAs has a direct impact on the profitability of banks. This requires provisions, which will reduce gross profit and shareholder value. The problem of NPAs is not only affecting the banks but the entire economy. In fact, the high level of NPAs in Indian banks is not a reflection of the health condition of industry and trade. Fixing NPAs is essential to increase efficiency and profitability. The government has taken various steps to reduce NPAs. Zero percent NPA is impossible. But at least Indian banks can try to compete with foreign banks to maintain international standards. What is NPA is attempted in this paper. Factors Contributing to NPA Reasons for High NPA and Implications for Indian Banking Performance, Trends and Magnitude of NPAs in Selected Indian Banks.

Banks generally have different types of assets such as cash, balances with other banks, investments, loans and advances, fixed assets and other assets. Non performing as set (NPA) concept is limited to loans, progress development and investments. As long as an asset does not generate the expected returns and is not exposed to any unusual risks other than normal business risk, the asset is considered performing and when it fails to generate the expected returns it becomes a "non-performing asset".

CLASSIFICATION OF ASSETS:

- **Standard Assets:** Standard assets are those which do not expose any problems and do not exceed the normal risks associated with the business. Such assets are considered as performing assets. A general provision of 0.25% is required to be provided on a global loan portfolio basis.
- **Sub-standard assets:** Assets that remain NPA for less than 12 months or less. The property is characterized by the possibility of some loss to the bank. A provision of 10% is required on the outstanding amount on sub-standard properties.
- **Doubtful Assets:** Doubtful assets are those which remain NPA for a period of more than 12 months and which are not considered as loss assets. Banks are required to provide 100% unsecured portion of outstanding advances after realization/recoverable amount of guarantee protection under DICGC scheme (Deposit Insurance and Credit Guarantee Corporation) and ECGC (Export Credit Guarantee Corporation) scheme.
- **Loss Assets:** Loss is an asset where a loss has been identified by the bank or internal or external auditors or RBI inspection but the amount has not been fully or partially written off. In other words, such an asset is considered uncollectible and of such low value that it is not warranted to continue as a bankable asset even if there is some collateral or salvage value. However, only those are classified as advance loss assets where no security is available. Accounts with some security/DICGC/ECGC cover available cannot be treated as loss assets. Banks should make 100% provision for loss assets.

FOLLOWING ARE THE TWO TYPES OF NPA

1. **Gross NPA:** Gross NPA is the sum of all loan assets classified as NPA as per RBI guidelines as on the balance sheet date. Gross NPA shows the quality of loans given by banks. It consists of all low-quality assets, such as non-performing, doubtful and loss assets.
2. **Net NPA:** Net NPA is the type of NPA in which the bank has reduced the NPS provision. Net NPA shows the true burden of banks. In India, bank balance sheets have a large number of NPAs and while loan recovery and write-offs are time-consuming, banks have to make certain provisions against NPAs as per Central Bank guidelines.

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	44232	1.	SBI	199638
2.	HDFC	7326	2.	IDBI	55632
3.	AXIS	22641	3.	PNB	59637
4.	IDFC	2451	4.	Central Bank	32631
5.	Vijaya Bank	7320	5.	Bank of Baroda	47829
6.	United Bank of India	12695	6.	Bank of India	53280
7.	Punjab and Sindh Bank	7651	7.	Canara Bank	39652
8.	Kotak Mahindra Bank	3926	8.	Indian Overseas Bank	39471
9.	Federal Bank	2013	9.	UCO Bank	26980
10.	Karur Vysya Bank	2047	10.	Oriental Bank of Commerce	26471

Source: RBI

The study is done by discussing RBI reports on banks (Annual Financial Report) taking information/data from banks and some bank officials. Public sector and private sector banks showed a wide gap in NPAs. Total NPAs of public sector banks are 6 times higher than private sector banks. This shows that the NPA of public sector banks is higher than that of private sector banks. Based on this, we observed that private sector banks have safer credit policy and recovery as 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 the gross and net NPA of private and public sector banks and it is observed that the gross NPA in private bank is less as compared to public sector banks. This trend has been increasing in public sector banks for five years but private sector banks have been increasing till 2012 but have been stagnant since then. The level of net NPAs in public banks is much higher as compared to private banks. The trend has been increasing in public sector banks for seven years, but in private sector banks it has increased for five but has remained almost constant since then.

CONCLUSION:

NPAs have always posed a major problem for banks in India. This problem is not only for banks but also for the economy. Closure of NPAs directly affects bank profitability as Indian banks depend more on interest income from funds received from lenders. According to this study, the level of NPAs in public sector banks is very high as compared to private banks. Although the government has taken various steps to reduce NPAs, more needs to be done to curb the problem. The number of NPAs is relatively high in public sector banks. NPAs have to be scheduled to maximize efficiency and profitability; The government has taken various steps to reduce NPAs. The government should make more provisions for speedy disposal of pending cases and this has created the problem of reducing mandatory loans to priority sectors.

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