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THE PROBLEM OF RAISING NON-PERFORMING ASSETS IN BANKING SECTOR IN INDIA: COMPARATIVE ANALYSIS OF PUBLIC AND PRIVATE SECTOR BANKS

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ABSTRACT:
The growth of the economy depends upon the efficiency and stability of the banking sector. The most important factor which measures the health of the banking industry is the size of NPAs. Non-Performing assets have direct impact on the financial performance of banks i.e. their profitability. It denotes the efficiency with which a bank is optimizing its total resources and therefore, serving an index to the degree of asset utilization and managerial effectiveness. NPAs affects the profitability of the banks in terms of rising cost of capital, increasing risk perception thereby affecting liquidity position of banks. This paper attempts to first examine the level of NPAs in the banking sector in India and then analyze the causes for increasing NPAs. The study also compares the performance of the public sector banks with the private sector banks. The secondary data collected from different sources has been used in the study. The study shows that the magnitude of NPAs is increasing in public sector banks as compared to the private sector banks. Therefore banks need to effectively control their NPAs in order to increase their profitability and efficiency.

KEYWORDS: *Public and private banks, economy, Non Performing Assets.*

INTRODUCTION

The banking activities started in the 18th century in India. Lot of private and public sector banks have started his work to provide the financial help to the needy peoples and business organisations. All the private and open segment banks have a colossal system of branches in rustic and urban territories in India. As we know that the private sector banks are those banks where the maximum part of his equity is held by private shareholders but not by the government. For example the ICICI bank, Axis bank etc] But in other side the public sector banks are those banks where the maximum part of these banks is held by the government. For example the SBI, State Bank of Patiala, OBC etc. All the private and public sector banks have a lot of value of NPA in India. The value reflects the risk and profitability of a bank. The RBI has taken many steps to improve the conditions during the recommendations of Narsimham committee in 1992 - 93. The assets which installment due remains unpaid more than 90 days that will be counted under nonperforming assets.

But if we define it in simple words than we can say that if the income is realized from the assets within 90 day that is counted underperforming assets but if it is overdue more than 90 days than it will be counted under nonperforming assets. The norms for identification of NPA adopted from the year ending 31st march, 2004.

According to the security interest act, 2002 the banks can issue the notice to the defaulters to pay the dues within 60 days and if the borrower received the notice from the banks the financial institution cannot sale the secured assets without the consent of lenders. The main purpose of sending the notice to the defaulters so that if he does not pay the due amount within given period than the secured assets will be sold by the bank.

The NPA refers to a loan or an advance where:

- If the interest and installment is overdue for a period of more than 90 days in respect of a term loan.
- If the account is out of order for a period of more than 90 days, in respect of an Overdraft/Cash Credit.
- The bill stays late for a time of over 90 days on account of bills obtained and limited.
- If any amount is remains overdue for a period of more than 90 days in respect of other accounts

The Effects of NPA:

- The high value of NPA affects the value of profit for any financial institution or bank. It is responsible in increasing the cost of capital and risk of the banks. Some point is given below to show the impact of NPA on the banks or financial Institutions in India:
- It put the impact on earning capacity of assets.
- It is responsible in increasing in cost of capital.
- It is responsible to decrease the value of share and put impact on the reputation of the banks in the capital market.
- It affects the ability of risk of banks.
- The owners do not get good return on their capital and if the banks fail to get its money then the owners lose their assets.
- If the bank fails then the depositors cannot find a market on savings and the loses his balance. The banks
- Receive the amount of loss after charging the higher interest rates.
- The NPA put the impact on the current profits of banks

Factor responsible for rise in NPA

- Absence of regular industrial visit
- Improper SWOT analysis.
- Change in Govt. policies
- Business failures.
- The RBI and NABARD banks did not give the proper support in collecting the funds of the banks.
- More Corruption and nepotism is responsible for rising in NPA.
- The proposal appraisal system is not good.
- Inefficient of credit risk management.
- Direct lending under subsidy schemes.
- Provide the loans to that people and organization which financial condition was not good.
- The selection of borrowers is not good.
- Delay in completing the project.
- Very poor debt management by the borrower.
- Time involved in the legal process and realization of securities.

LITERATURE REVIEW

Many studies have been conducted by researchers on Non-performing assets in banking Industry. The writing acquired by specialist, as research articles, Reserve Bank of India, the exploration contemplates, articles of scientists, and magazines and sites in the related territory, is quickly checked on in this part.

Kirnan N.K.. in this article the researcher tries to Seek a solution to the problem of NPA in the small Scale industries under the present circumstances of banking and insurance working together under the same roof.

Avinash V.Raikarin his research paper on the topic, "Co-operative Credit Institutions in India: An Overview. "examined the similarities and dissimilarities, remedial measures.

Pacha Malyadri, S. Sirisha held that the proper policies adopted by the banks regarding disbursement of the loan, good chain of recovery, continuous and systematic way of working has also made the NPAs to diminishing rates".

Bhatia .S. and Verma. Non-Performing Assets (NPAs) in short term co-operative credit structure. He observed that the banks have to evolve recovery strategies and plan for recovery management. He concluded that if they fail to improve the recovery, the huge burden of NPAs is really breaking the backbone of the short term co-operative credit structure in India.

Kaveri . V. in their examination presumed that bookkeeping standards have been changed considerably furthermore, instruments are set up for decrease of awful obligations.

Mayilsamy,studied Non-performing resources in Indian financial area and presumed that open part banks represented 78 percent of complete non-performing resources and this because of falling incomes from customary sources.

MS. Asha Singh 8 in his research paper title "Performance of Non-Performing Assets in Indian Commercial Banks" analyzes Non-performing assets in weaker sections of public Sector banks and private sector banks specifically in India. The study observed that there is increase in advances over the period of the study. It concluded that public sector banks should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.

Srinivas K T presented a research paper on "A study on Non- Performing Assets of Commercial Banks in India: A Threat to Indian Scheduled Commercial banks. In this paper he analyzed to gain insights into the position of Non-performing assets in priority sector advances by scheduled commercial Banks.

Seema Gavade-Khompi10 in their investigation presumed that Non-Performing resources is a noteworthy issue and obstacle looked by banking area. And furthermore evaluated the different foundations for records for getting to be non-performing resources are unyielding defaults, ill-advised handling of credit recommendations, poor observing, etc.

Scope of the Study

To the extent the extent of the investigation is concerned, the examination covers the arrangement of Non-Performing resources of chose open and private part banks are working in the nation.

OBJECTIVES OF THE STUDY

1.To study the status of Non-Performing Assets in selected public and Private sector banks.

2. To make a comparative analysis on Non-Performing assets of selected public and Private sector banks.

3. To study the impact of Non-Performing Assets on Banks performance.

4. To make recommendations and measures to manage Non-Performing assets.

RESEARCH METHODOLOGY

Procedure depicts the exploration course to be pursued, the devices to be utilized, example of the ponder for the information to be gathered and the instruments of examination.

Tools for data collection

This study is completely based on secondary data. The data required for the study has been collected from annual reports of respective banks, Journals, Magazines, Previous research works and Reserve bank of India website.

Data Analysis

Table 1: Gross and Net NPA of public sector banks

Year	INDIAN BANK				CANARA BANK				INDIAN OVERSEAS BANK			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2011	740.31	0.93	397.04	0.53	3,089.21	1.45	2,347.3	1.11	3,089.59	2.72	1,328.42	1.19
2012	1,850.77	2.03	1,196.83	1.33	4,031.75	1.73	3,386.31	1.46	3,920.07	2.74	1,907.44	1.35
2013	3,565.47	3.33	2,384.30	2.26	6,260.16	2.57	5,278.07	2.18	6,607.96	4.02	4,027.21	2.50
2014	4,562.20	3.67	2,763.64	2.26	7,570.21	2.49	5,965.46	1.98	9,020.48	4.98	5,658.12	3.20
2015	5,670.44	4.40	3,146.96	2.50	13,039.96	3.89	8,740.09	2.65	14,922.45	8.34	9,813.33	5.68
AVG	3277.83	2.89	1977.76	1.78	6798.26	2.43	5143.46	1.87	7512.11	4.54	4546.90	2.79

Table 2: Gross and Net NPA of private sector banks

YEAR	CITY UNION BANK				FEDERAL BANK				KARUR VYSYA BANK			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2011	112.48	1.21	48.42	0.52	1,148.33	3.49	190.69	0.60	228.15	1.26	13.87	0.07
2012	123.54	1.01	54.04	0.44	1,300.83	3.35	199.00	0.53	320.99	1.33	78.78	0.33
2013	173.10	1.13	96.40	0.63	1,554.01	3.44	431.94	0.98	285.86	0.96	108.74	0.37
2014	293.06	1.81	197.29	1.23	1,087.41	2.46	321.56	0.74	279.18S	0.82	139.91	0.41
2015	335.82	1.86	233.79	1.30	1,057.74	2.04	373.27	0.73	677.78	1.85	280.97	0.78
AVG	207.6	1.404	125.98	0.823	1,229.67	2.95	303.29	0.72	358.39	1.24	124.45	0.392

The public sector banks face a number of problems in the LPG era. These problems are concerned directly or indirectly with the overall rofitability of the banking industry, which leads to Non-Performing Assets (NPAs). These is a huge branch expansion, particularly during the rural areas; there is a strong opposition by bank employees union to introduce new technology due to the fear of retrenchment of employees; poor customer focus resulting in shifting of potential bank customers to new private sector banks and foreign banks.

In addition, there is the difficulty of training the existing staff of PSBs, higher age group employees resisting to the changes, continuance of the traditional outdated technology, poor and defective policies of HRM, lack of autonomy, no proper planning for mergers and acquisitions, overstaffing and political interference are also the problems faced by the PSBs.

CONCLUSION:

The major challenges that need to be improved are the change in the work culture, reduction of costs, improving customer service and upgrading the technology, delegation of powers, dispensing with sub-staff and clerks to improve front office dealings, besides reducing number of unions, providing flexibility in deployment and enhancing productivity, social commitment and maximizing profits without impinging on management's autonomy in taking commercial decisions.

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