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NPA of Public and Private Sector Banks of India (A study of SBI, BOB, PNB, HDFC, ICICI and AXIS Bank)

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ABSTRACT

*Indian financial system has been threatened by the fast-rising non-performing a**ssets of banks for the past ten** years. Standard & Poor Global Ratings has recently predicted that the number of NPAs for Indian banks will remain high at 11.5 %. Any bank's NPA can be used to measure its performance. There is no doubt that the recent Covid Pandemic has badly affected not only India, but the entire world. Private and public sectors in India have been experiencing an increasing problem with NPAs. As a result of this study, it has been determined that public sector banks are more negatively affected than private sector banks. Study focuses on the trends and differences between selected Indian public and private sector banks in terms of non-performing assets.*

INTRODUCTION

The Indian financial system heavily depends on the banking industry in India. It serves as a conduit between the lender and borrower. Banking in India has been crucial in encouraging the general public to save money. It assisted in directing people's funds toward investments. Indian banking has outperformed and assisted in the growth of the nation's financial sector during the past three decades. However, the Indian banking industry has seen numerous revolutionary transformations, such as the nationalisation of 14 significant private banks in 1969. India's banking industry now consists of Foreign banks, Private sector banks, and Public sector banks. Banks are extremely important in the development of the financial system in any economy. Banks are extremely important in the development of the financial system in any economy. Failure of banks indicates that the economy is failing, and it has many negative effects that cut across all industries. A robust and healthy financial system boosts economic confidence, which helps to drive up investment and the nation's GDP. The number of NPAs in Indian banks has increased during the past five years. A high amount of NPAs affects the bank's profitability and liquidity (Das & Uppal, 2021). Banks' ability to create credit is also impeded by rising NPAs. Increased NPAs continue to have a negative effect on the economy, causing investment to decline and a loss of confidence in the market, which in turn lowers GDP. The NPA of public sector banks has been shown to be higher than that of private sector banks (Joseph & Prakash, 2014; Miyan, 2017). Increased bank NPA levels have also hurt their profitability (Wadhwa, 2020). Even though the Indian government established many quick debt recovery mechanisms, including Debt Recovery Tribunals around the nation, their performance has been subpar, as shown by the data that NPA levels have increased despite the Debt Recovery Tribunals (Alamelumangai & Sudha, 2019). Introducing the Sarfaesi Act, 2002 as a tool to speed up the loan recovery process for the Indian banks brought about a revolutionary transformation in the banking industry. In the loan recovery process, the Sarfaesi Act of 2002 has performed significantly better than DRTs. Insolvency Bankruptcy Code was passed in 2016 to address the NPA Problem of the Indian Banking Sector and provide a time-bound solution for the NPA Recovery procedure, addressing the flaws of the DRTs and Sarfaesi Act, 2002.

Non-Performing Assets (As per the RBI Announcement)

A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remainedoverdue for a period of 90 days.

Classification of NPAs (As per the RBI Guidelines)

- Substandard Assets: - An Asset which remains as NPA for less than or equal to 12 months.
- Doubtful Assets: - An asset which remain as NPAs for more than 12 months.
- Loss of Asset: - An Asset where loss is identified by the bank or RBI. Asset whose value isuncollectible, but there may be little value remaining in it.

***Major Causes of NPAs*.**

External Factors

- Ineffective Recovery Tribunal
- Natural Calamities
- Poor Industrial Growth
- Willful defaults
- Changes made in the Government Policies.

Internal Factors

- Poor lending process
- Insufficient technology
- Poor Credit Appraisal System
- Inefficient Management.

LITERATURE REVIEW

Sevarajan and Vadivalagan (2013) studied management of Non-Performing Assets in priority sector with reference to Indian bank and other public sector banks for the period 2001-2011 found NPAs is more in priority sector compared to other PSBs in Indian Banks.

Shabbir et al (2014) discussed the trend of Priority Sector Advances and of NPAs (Non-Performing Assets) in Public, Private and Foreign Banks from 2001 to 2011.

Laveena (2014) examined the trend of NPAs over the past 8 years and the relationship between NPAs and profitability of public sector banks.

Jain et al (2015) analysed priority sector lending for banks in India through primary survey and recommended certain limit in different priority sector.

Mishra (2016) intended to explore a brief comparison between priority and non-priority sectors NPAs with respect to public sector banks in India based on secondary source of information.

NPAs are more prevalent in the priority sector compared to other PSBs in Indian banks, according to Sevarajan and Vadivalagan's (2013) study of the management of non-performing assets in the priority sector with reference to Indian banks and other public sector banks for the years 2001–2011.

Priority Sector Advances and NPAs (Non-Performing Assets) in Public, Private, and Foreign Banks from 2001 to 2011 were examined by Shabbir et al. in 2014.

Laveena (2014) looked at the evolution of NPAs during the previous eight years and the connection between NPAs and public sector bank profitability.

Jain et al. (2015) used primary survey data to analyse priority sector lending for banks in India and proposed specific limits in certain priority sectors.

Rakesh Mishra (2016) wanted to investigate and compare priority and non-priority issues briefly.

According to Gupta and Kesari (2016), the recession in the global economy and its effects on the Indian economy were the main factors contributing to the rise in NPAs.

According to Khosla and Kumar's (2017) research, the Indian banks were experiencing a loss of benefit and were dealing with an NPA problem totaling more than Rs. 90,000 crores. The country's exceedingly awkward common rules made it impossible to work with in order to recover the terrible credits.

Regulatory forbearance, according to Sengupta and Bhardhan (2017), might potentially make the banking crisis worse by giving banks incentives to put off recognising NPAs and delaying taking action. A bank should decide whether to restructure a loan on a commercial basis and should not automatically be granted regulatory exemptions.

Suneja and Mittal (2017) the The article primarily examines the quantity of non-performing loans (NPAs) in the Indian banking industry before analysing the reasons behind rising NPAs. The study also comes to the conclusion that public sector banks have higher NPA levels than private sector banks.

Miyan (2017) conducted a comparative analysis of a few private and public sector banks using GNPA, ROA, and NNPA as performance indicators. 5 years of data, from 2011 to 2016, were analysed. It was discovered that PSU banks' performance lagged much below those of banks in the private sector. To identify the significant difference, the T-test was performed.

In order to investigate possible preventive strategies to curb the increasing NPAs, Boddu (2019) analyses the Loans and Advances, NPAs of both public and private sector banks in India. Banks are able to reduce India's NPA level with the use of appropriate preventative measures. A reduced number of NPAs aids banks in strengthening their position, boosting depositor confidence, and expanding their market share.

Sahoo and Majhi's (2020) paper examines the effect of the SARFASEI Act, the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, and Lok Adalat on the recovery process for non-performing assets (NPAs).

OBJECTIVE OF THE STUDY

- To identify trends in the level of NPAs
- To understand where private and public sector banks stand on non-performing assets over the past ten years.
- To compare the NPA levels of selected Indian private and public sector banks.
- To make a few suggestions for lowering bank NPA levels.

Measures to control Non-Performing Assets (NPA) – Government of India and RBI

As the Non-Performing Assets is not a new phenomenon, there have been many efforts on the part of the Government of India and RBI to sort out the problem.
Below table gives the list of measures taken to control Non-Performing Assets (NPA)

Measures	Details
Debt Recovery Tribunal (DRT) – 2013	• It was created to shorten the time needed to resolve problems. • Regulated by the 1993 Recovery of Debt Due to Banks and Financial Institutions Act • There aren't enough people, thus situations are left open for longer.
Credit Information Bureau (2000)	This procedure is intended to prevent NPAs by exchanging data about willful defaulters.
ARC (Asset Reconstruction Companies)	Recovery of value from stressed loans was accomplished without using the courts, which took a lot of time.
Corporate Debt Restructuring (2005)	Give the corporation extra time to repay its debts while simultaneously lowering the interest rates to lessen the burden of debts on the business.
5:25 Rule (2014)	• These loans to infrastructure and core industries are also known as Flexible Restructuring of Long-Term Project Loans. • Long-term project refinancing is involved.
Joint Lenders Forum (2014)	It is carried out to prevent situations in which loans are obtained from one bank in order to pay off loans from other banks.
Mission Indradhanush (2015)	By applying the ABCDEFG formula, it is the most extensive reform effort made to enhance the performance of the Public Sector Banks.

Strategic Debt Restructuring (SDR) – 2015	If a company that has borrowed money from a bank is unable to repay it, the bank may convert all or a portion of the loan into equity shares.
Asset Quality Review (2015)	This is a type of preventive intervention that involves the early identification of assets that may end up being stressed in the future.
Insolvency and Bankruptcy Code (2016)	• A one-stop shop for insolvency resolution. • Works to safeguard small investors.

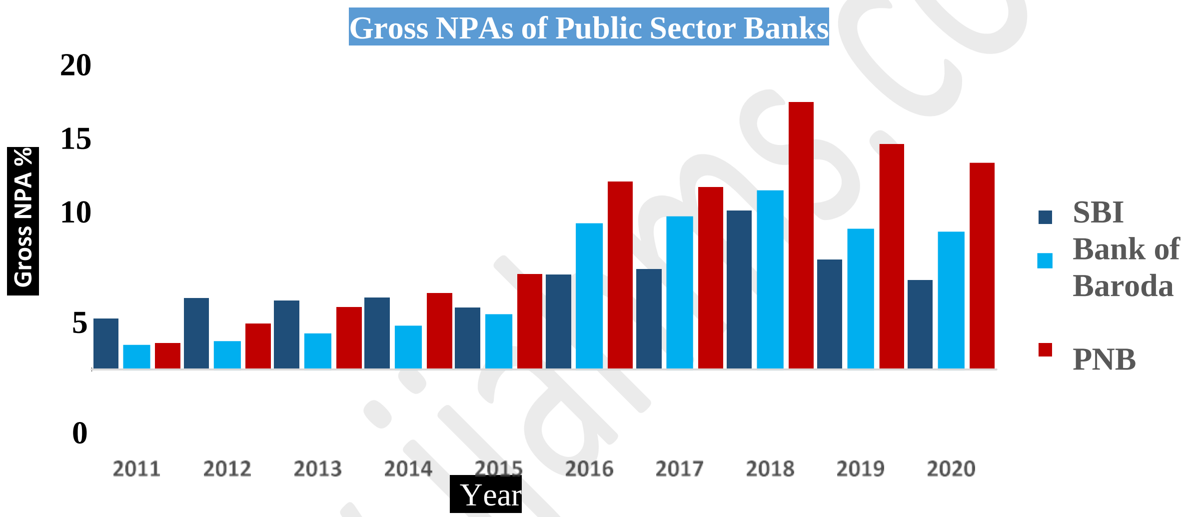

Figure 1. Gross NPAs of Public Sector Banks
Source: RBI Reports

- There is Considerable rise in the level of NPAs of all the above banks since 2016.
- Gross NPAs of Punjab National Bank has reached the highest to level of around 18 % in the year2018.
- Since 2018 Slight decline in the Gross NPAs percentage could be seen in all the above banks.

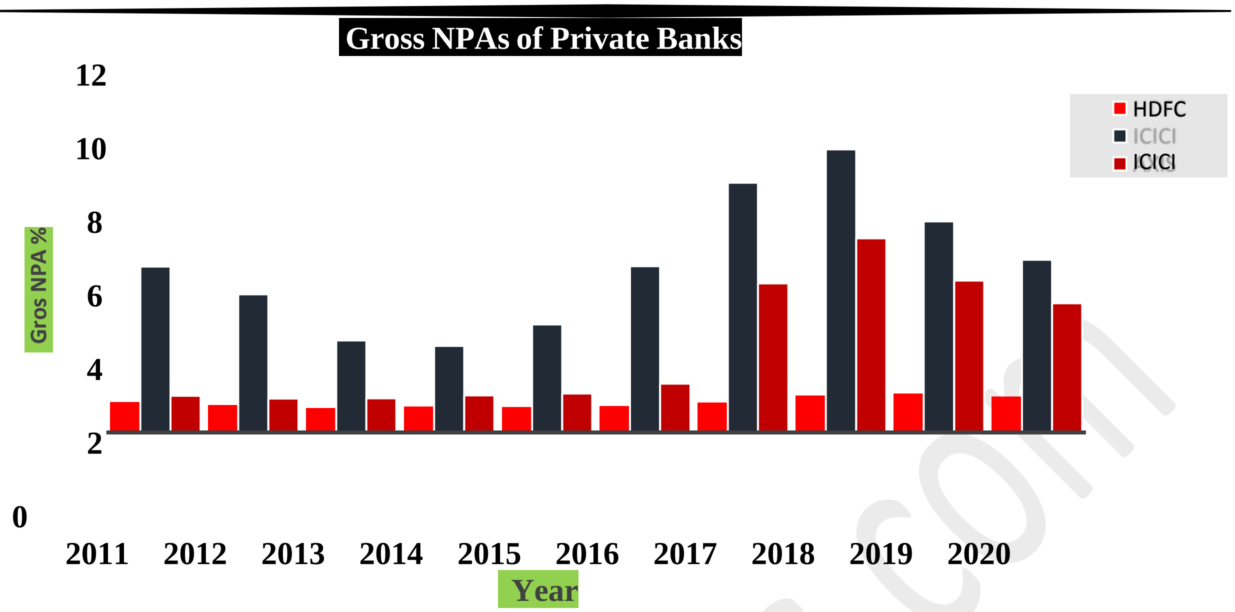

Figure 2. Gross NPAs of Private Banks
Source: RBI Reports

- Since 2016, the level of NPAs for all the banks mentioned above has increased significantly.
- The ICICI Bank's gross non-performing assets (NPAs) rose to a peak of almost 10% in 2018.
- In all of the aforementioned institutions, there has been a little drop in the gross NPAs % since 2018.
- From 2011 to 2020, the Gross NPAs of HDFC Banks have been comparatively constant.

Gross NPA % of Public Sector Banks Trend Up to 2020

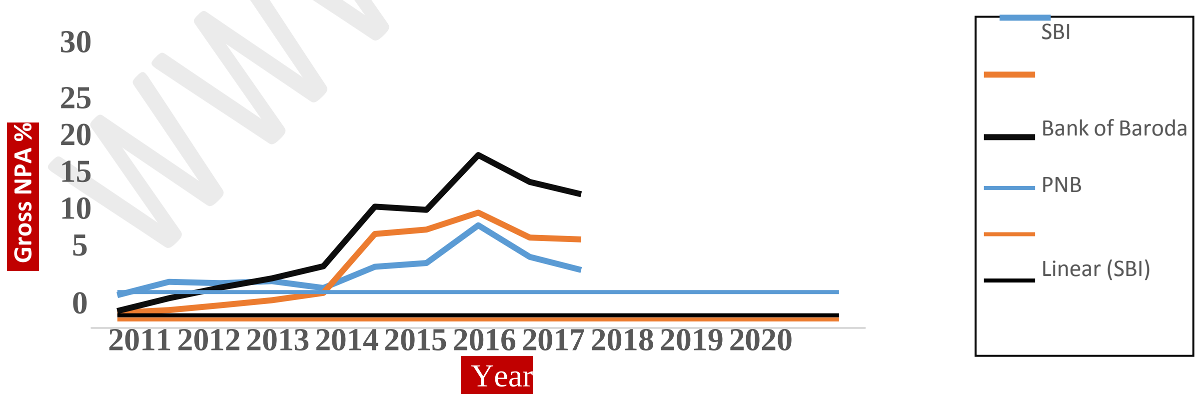

Figure 3. Gross NPA % of Public sector Banks Trend up to 2020
Source: RBI Reports

PNB and BOB's NPAs showed a rising tendency through the year 2020, however SBI bank's NPAs remained stable through that same year.

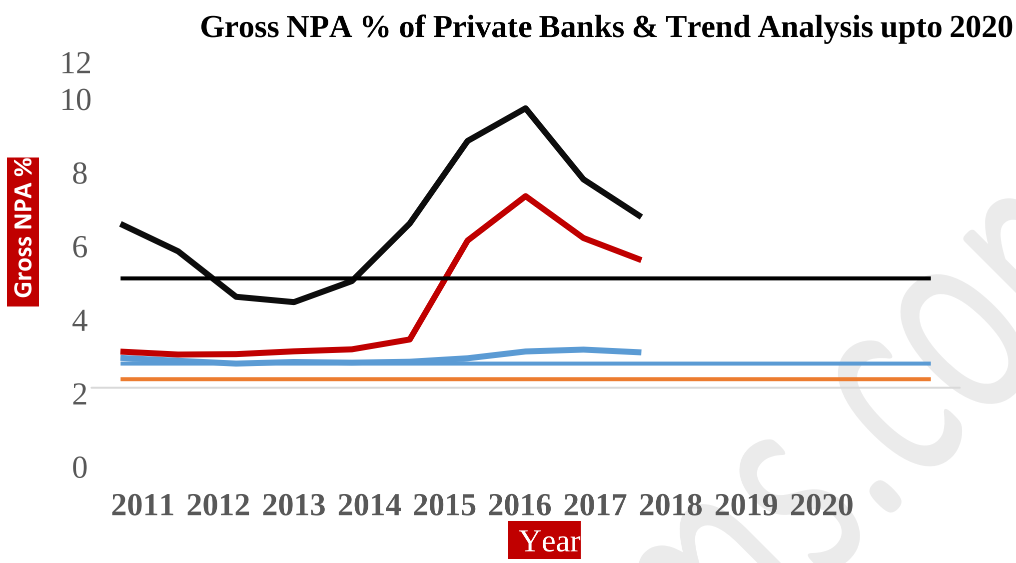

Figure 4 Gross NPA % of Private Banks & Trend analysis up to 2020
Sources : RBI Reports

HDFC ICICI AXIS
Linear (HDFC) Linear (ICICI) Linear (AXIS

The level of NPAs at ICICI and Axis banks could be regarded as increasing up to 2020, whereas the level at HDFC Bank is likely to remain stable up to the future year 2020.

Finding

- The analysis clearly shows that all of the aforementioned banks, including private and public sector banks, are dealing with a major NPA problem.
- Rising NPA levels are affecting these banks' profitability and liquidity.
- Due to rising NPAs, the state of public sector banks is particularly bad in compare of public sector banks.
- The bank with the lowest NPAs is HDFC Bank. The level of NPAs has been consistent over time.

Suggestions

- Before approving any loan, consider the borrower's CIBIL score.
- Disseminating data about defaulters throughout society.

- Constantly monitoring the borrower's financial situation by the lender to ensure prompt payment or prevent significant losses.
- Recovering bad loans quickly through the use of a system like the Insolvency & Bankruptcy Code, 2016.
- Increasing lending to the economy's expanding sectors.

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