

A Study on Management of Non-Performing Assets of Public Sector Banks

¹T. Praveen Kumar & ²Dr. S. Durga Rao

¹Research Scholar, Dept. of Management Studies, SV University, Tirupati – 517502 (India)

²Retd. Professor, Dept. of Management Studies, SV University, Tirupati – 517502 (India)

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Corresponding Author

Email: praveenkumar1108[at]gmail.com

ABSTRACT

In India, the Non-Performing Assets (NPAs) are constantly made a major issue for the banks. Decreased NPAs all around gives the inclination that banks have fortified their credit examination forms consistently and improvement in NPAs incorporates the need of plans, which chop down the general advantage of banks. This investigation analyzes the collected measures of NPAs from different kinds of banks in India. The information has been investigated by measurable instrument as Analysis of Variance (ANOVA).

1. Introduction

Banks are vital for each contemporary economy, as far as turnover, yet additionally as the main financier of the national economy. A cutting edge bank gives valuable administrations to a country. Quality of Asset was not primary worry in Indian banking segment till 1991, however was essentially centered around execution targets, for example, opening bounty networks/branches, rural zones advancement, loaning to priority sector, higher work generation, and so on. While the essential functions of banks is to loan assets as advances to different segments, for example, farming, individual credits, housing advances and industry and so on.

The Indian commercial banks at present don't have any hardware to guarantee that their credits and advances are, truth is told, going into profitable use in the bigger public interest. Because of a high extent of non-performing assets or remarkable because of banks from borrowers they are causing gigantic losses.

In India, the Non-Performing Assets are always created a great problem for the banks. Decreased NPAs normally gives the sense that banks have reinforced their credit appraisal methods during the years and development in NPAs includes the need for provisions, which cuts the overall profitability of banks.

Non- Performing Assets:

An asset is identified as a non-performing asset when it stops to produce income for the lender.

NPA is a loan/Advance where:

- i. Interest/installment of the principal amount unpaid for a period of more than Ninety days.
- ii. Interest/installment of principal remains unsettled for two harvest seasons.
- iii. Non-submission of stock statement for three continuous quarters in case of cash credit.

Categories of NPAs:

Banks are necessary to classify NPAs further into the subsequent 3 categories based on time period for which the assets had remained NPAs:

A. Sub-standard Assets: An asset, which has kept on Non-Performing Assets for a period from 90 days above and equal or less than to twelve months.

B. Doubtful Assets: An asset, which is unsettled for the period of more than one year.

C. Loss Assets: The assets, which are considered as non-recoverable by the bank, internal auditor or outside auditor/central bank inspectors.

Recovery Management:

Extensively characterized, management of asset is the board is the procedure whereby NPAs are first recognized and sorted out into one of four classes of activity (recovering, selling, writing off and restructuring of such assets) as per their individual attributes and after that settled. Management of asset is the executives strategies are any institutional plans or methods that encourage this procedure.

A few measures are intended to expand the NPAs recoveries in the Indian banking sector. The RBI and Central government have made strides for controlling rate of fresh NPAs and making a lawful and regulatory condition to encourage the recovery of existing NPAs of banks. They are:

LokAdalats:

The Indian Banks Association (IBA) has been issuing standards to part associations for taking up of cases for settlement through LokAdalats. LokAdalats can settle banking disputes including tinier amounts. Financial institutions and Banks should seek after going with principles for execution.

- i. As until now, cases including a sum up to Rs.5 lakh might allude to LokAdalats. The matter of raising the sum up to Rs.10 lakh has been taken up with the proper expert.
- ii. So as to have a positive effect on the decrease of NPAs, the plan may incorporate all NPA accounts, both suits documented and non-suit recorded records, which are in "doubtful" and "loss" classification, with an

exceptional parity of Rs.5 lakh (Rs. 10 lakh when the point of confinement is improved).

iii. A pronouncement ought to be looked for from the LokAdalat for the principal sum and interest asserted in the suit, and after the full installment of announcement sum, a release endorsement ought to be issued by the bank/budgetary establishment.

Debt Recovery Tribunals (DRTs): The present procedure for recovery of the amount outstanding due to the financial institutions and banks has hindered a huge segment of their assets in inefficient assets, the estimation of which weakens with the progression of time. The Financial System Committee headed by M. Narasimham has well-thought-out the setting up the Special Tribunals with exceptional powers for arbitration of such issues and expedient recovery as basic to the effective norm of the financial sector reforms. Shri T. Tiwari Committee had furthermore suggested putting in of Special Tribunals for recovery the debts of the financial institutions and banks. The Recovery of Debts because of financial institutions Bill had been passed in two houses of Parliament got the approval from the President on 27th August, 1993. It proceeded the composed record as the debt recovery as a result of Banks and cash foundations Act, 1993.

SARFAESI Act 2002: Securitization is viewed as a powerful apparatus for development of capital adequacy. Securitization can likewise help in diminishing the hazard emerging out of credit presentation standards and the imbalances nature of credit exposure, which can help in the support of healthy assets. The SARFAESI Act be going to promote Securitization, pool together NPAs of banks to acknowledge them and make implementation of Security Interest Transfer. The SARFAESI Act - 2002 is viewed as a supporter, at first, for banks in handling the hazard of NPAs without moving toward the courts.

2. Review of Literature

Satpal (2014) presented a paper on "A Comparative Study of Non-Performing Assets in Public and Private Sector Banks in the New Age of Technology", in this paper we know the situation of NPA of every commercial banks classifications in private, public and foreign banks and to make a relative investigation of NPAs of both public and private banks. This investigation shows that the degree of NPA is extremely high in the public banks when contrasted with the private sector banks.

P. Malyadri and S. Sirisha (2012) presented a research paper on "Asset Quality and Non-Performing Assets of Indian Commercial Banks". In this investigation, they assess the efficiency in managing of NPAs of various kinds of banks (public, private and foreign banks) utilizing NPA ratios. The advantage nature of banks in India has been improving in the course of recent years as reflected in the declining NPA to advances ratio. In this investigation the class savvy examination showed that the commercial banks standard asset is increasing every year, this proves have prevailing with regards to decreasing NPA throughout the years during 1998-99, NPAs of private sector bank witnessed significant increase

in the Gross NPA ratio. A comparable pattern was found on account of the foreign bank group.

Laveena and Hitesh Kumar (2016) evaluated a paper on "Management of Non – Performing Assets on Profitability of Public and private sector banks". This investigation depends on various patterns of NPAs. The present paper, the progression of NPAs is more in the public banks and low in private sector banks. Furthermore, they felt that there was a need to make genuine move to recover the NPA. The low NPA ratio performs well since it influences bank profitability, cooperative attitude and cycling of banking framework.

Dr. V.N. Sailaja and Dr. N. BinduMadhvi (2016) presented a paper on topic "A Comparative Study on NPAs in Public Sector and Private Sector Banks in India". In this paper they investigated the patterns in NPAs of Indian public sector and private sector banks. There is an increase in the advances over the timeframe. Net NPAs to net advances additionally expanded amid the examination time frame in public sector banks. Gross NPA to total assets ratio also increased year by year during the whole investigation time frame in public sector banks. Where as in private sector banks, it declined from 2012 to 2015.

MayurRao and Ankita Patel (2015) presented a paper on "A Study on Non-Performing Assets Management with Reference to Public Sector Banks, Private Sector Banks and Foreign Sector Banks in India". In this paper they endeavor a comparative analysis of NPAs in the public, private and foreign sector banks. It covers different NPA related proportions. This examination finished up the ratio of GNPA to gross Advances for public banks, private sector and foreign banks does not have huge contrast among 2009 to 2013.

Research Gap:

As observed from the review of literature, few studies have been carried out regarding the trends in the sector wise loan assets of the NPAs in Indian Public Sector Banks. In this way, it becomes very important to know the recent trends of the sector wise NPAs and recovered NPAs of the Indian public sector banks.

3. Research Methodology & Objectives

The present research has been conducted on the basis of secondary data. It was collected from the RBI website for the period of seven years i.e., 2011 to 2017. The statistical tool such as One-way ANOVA has been used for the study.

Objectives:

- To compare the trends of NPAs in sector wise of Public Sector Banks.
- To compare the performance of recovery channels of commercial Banks.

Hypotheses:

- H1: There is no significant difference of NPAs of different sectors in Public Sector Banks.
- H0: There is a significant difference of NPAs of different sectors in Public Sector Banks.

H2: There is no significant difference in the recovered amount through recovery channels in Commercial Banks.

H0: There is a significant difference in the recovered amount through recovery Commercial Banks.

4. Data Analysis & Interpretation

Table 1: Sector-wise NPAs of Nationalized Banks in India.

(Amount in ` Billion)

Year	Sector-wise		
	Priority Sector	Non Priority Sector	Public Sector
2011	246.20	194.10	2.42
2012	324.24	355.55	10.68
2013	408.34	599.01	9.48
2014	537.50	935.67	1.30
2015	709.34	1337.67	2.59
2016	969.03	3210.85	17.63
2017	1257.29	3811.93	147.20

Source: Annual Reports of RBI

This table shows the sector-wise NPAs of nationalized banks for seven years from 2011 to 2017. It shows that the NPAs of priority sector increased from FY 2011 till FY 2017. In case of NPAs in Non-priority sector, they continued to increase

from FY 2011 to FY 2017. It is observed that the public sector NPAs decreased from FY 2012 to FY 2014 and from FY 2014 onwards it is continuous to increase extensively from 1.3 in FY 2014 to 147.2 in FY 2017.

Table 2: ANOVA Test

Amount of NPA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7581001.742	2	3790500.871	5.140	.017
Within Groups	13273262.963	18	737403.498		
Total	20854264.705	20			

The above table shows the result of ANOVA analysis and whether it is statistically significant difference between the amounts of NPAs through various sectors namely priority sector, Non priority sector and public sector. It is found that the

significant level is .017 (p = .017), which is below the table value and hence there is statistically significant difference in terms of amount accrued through various sectors.

Table 3: Multiple Comparisons among Sector-wise NPA

Turkey post hoc

(I) Sector-wise	(J) Sector-wise	Mean Difference (I-J)	Std. Error	Sig.
		Lower Bound	Upper Bound	Lower Bound
Priority Sector	Non Priority Sector	-856.12000	459.00622	.178
	Public Sector	608.66286	459.00622	.400
Non Priority Sector	Priority Sector	856.12000	459.00622	.178
	Public Sector	1464.78286*	459.00622	.013
Public Sector	Priority Sector	-608.66286	459.00622	.400
	Non Priority Sector	-1464.78286*	459.00622	.013

A Turkey post hoc test shown that the accrued amount through Non Priority Sector and Public Sector NPAs found significantly different from each other. And there is no

significant difference between Priority and Non Priority Sector NPAs in Nationalized banks.

Table 4: Sector-wise NPAs in SBI & its Associates in India.
(Amount in ` Billion)

Year	Sector-wise			Total
	Priority Sector	Non Priority Sector	Public Sector	
2011	155.67	148.26	0	303.93
2012	233.56	232.71	15.88	482.15
2013	264.42	361.30	2.06	627.78
2014	261.49	536.68	0	798.17
2015	256.76	478.32	0	735.08
2016	289.06	930.62	17.18	1236.86
2017	352.13	1425.98	7.46	1785.57

Source: Annual Reports of RBI

This table shows the sector-wise NPAs of SBI & its Associates for six years from 2011 to 2017. It depicts that the NPAs of priority sector increased from FY 2011 till FY 2017, and it observed fall in FY 2013 and it continuous to fall till FY 2015. The NPAs of Non-priority sector, it continuous to increase

from FY 2011 to FY 2017 except in the year 2015. It remains witnessed that the NPAs public sector banks were less in the FY 2013 and FY 2017 and high in the FY 2012 and FY 2016.

Table 5: ANOVA test

Amount involved

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1190652.216	2	595326.108	8.737	.002
Within Groups	1226546.773	18	68141.487		
Total	2417198.989	20			

The above table shows the result of ANOVA analysis and whether there is a statistically significant difference between the amounts accrued from various sectors namely priority sector, Non-priority sector and public sector. It is found that

the significant level is .002 ($p = .002$), which is below the table value and hence therefore there is a significant difference in terms of amounts accrued from various sectors.

Table 6: Multiple Comparisons among Sector-wise NPAs

Turkey post hoc

(I) Sector Wise	(J) Sector Wise	Mean Difference (I-J)	Std. Error	Sig.
Priority Sector	Non Priority Sector	-328.68286	139.53135	.073
	Public Sector	252.93000	139.53135	.194
Non Priority Sector	Priority Sector	328.68286	139.53135	.073
	Public Sector	581.61286*	139.53135	.002
Public Sector	Priority Sector	-252.93000	139.53135	.194
	Non Priority Sector	581.61286*	139.53135	.002

A Turkey post hoc test shown that the accrued amounts of NPAs through Non-Priority Sector and Public Sector found significantly different from each other. And there is no

significant difference between Priority Sector and Public Sector NPAs in SBI & its Associates banks.

Table 7: NPAs Recovered by various recovery channels
(in Billions)

Year	LokAdalats	DRT	SARFAESI Act
2012-13	4	44	185
2013-14	14	53	253
2014-15	10	42	256
2015-16	32	64	132
2016-17	38	164	78

Table 8: ANOVA test
Recovered Amount

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	67357.733	2	33678.867	11.463	.002
Within Groups	35257.200	12	2938.100		
Total	102614.933	14			

The above table shows the result of ANOVA analysis and whether there is a statistically significant difference between the amount of recovery through various channels namely LokAdalat, DRTs and SARFAESI Act. It is found that the

significant level is .002 ($p = .002$), which is below the table value (3.88) and hence, there is a significant difference in terms of amount recovered through various recovery channels.

Table 9: Comparison among Recovery Channels
Turkey post hoc

	(J) Recovery Mechanism	Mean Difference (I-J)	Std. Error	Sig.
LA	DRT	-53.80000	34.28177	.296
	SARFAESI	-161.20000*	34.28177	.001
DRT	LA	53.80000	34.28177	.296
	SARFAESI	-107.40000*	34.28177	.022
SARFAESI	LA	161.20000*	34.28177	.001
	DRT	107.40000*	34.28177	.022

A Turkey post hoc test shown that the recovered amount through LokAdalats and SARFAESI Act channels found significantly different from each other. And there is no significant difference between LokAdalats and DRTs in public sector banks.

5. Conclusion

The NPAs have made a great problem to Indian banking sector. It's an issue for the banks as well as. This study shows the extent of NPA accrued by various sectors like Priority Sector, Non Priority Sector and Public Sector. This study clearly denotes that there is statistically significant difference in terms of amounts accrued from various sectors in nationalized banks

as well as in SBI & its Associates. A Turkey post hoc test revealed that the accrued amounts of NPAs from Non-Priority Sector and Public Sector found significantly different from each other in nationalized banks as well as in SBI & its Associates. This study shows the extent of NPA recovered by various channels like LokAdalats, DRT, and SARFAESI Act 2002. This study shows that the recovery of NPAs and number of cases referred to these channels clearly denotes that SARFAESI Act 2002 and DRT do not have larger variations of recovering the amount of NPAs. A Turkey post hoc check exposed that the percentage of recovered amount through LokAdalats and SARFAESI Act channels found significantly different from each other.

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