

Non-Performing Assets: A Comparative Study of Private Sector Banks

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ABSTRACT

The banking sector of an economy is prime importance for its financial and economic development. It forms the hub of the financial sector and plays a critical role in transmitting monetary policy drive to the entire economy. The strength of banking sector is vital for the development of an economy, But today Banking sector facing the problems of increasing Non performing assets day by day. The banks have to take initiatives to bring down the Non performing assets. If NPAs are not properly managed, it adversely effect banking business. For the stability of banking industry it is essential that the performance of individual banks are checked to judge the performance of banks. Higher Non Performance assets indicates the inefficiency of the banks and lower Non Performing assets indicates of the better performance and funds management. To increase the performance of the bank, the NPA need to reduced and controlled by the banks. This paper makes an attempt to study the trends of selected Private banks, HDFC and AXIS Banks and data taken for the period of 2012-18 to calculate Gross NPA, Net NPA, the impact of NPAs and the recent measures taken by the government to decrease the NPAs.

1. Introduction

Economic growth of a country is depends upon its banking system and financial services. Banks play a prominent role in boosting the economy to a progressive stage. Bank, is defined as an organization which accepts the deposits and lending of last resort. Banks are acting as middleman to transfer the funds from savers to investors. At present, the role of banks has changed and banking sector has evolved as the heart of economy. Indian Banking system has went through exponent growth. With the expansion of banking sector there is a twin increase in the problem of non-performing assets of banks. The increasing NPAs have been a cause of concern for the entire banking industry. As a result of the inefficient credit appraisal and inappropriate recovery mechanics, number of banks have been under the burden of bad debts. The increasing trends of Non performing assets of Indian Banking system arises due to defective lending policy and making obsession lending to priority sector by banks. Faulty credit management like defective credit in recovery system, lack of expertise in workplace, wrong selection of borrowers/activities, unscientific repayment schedule and misutilisation of loans by the users cause the growth of the Non performing assets. There are many causes responsible for non performing assets like Untimely communication to the their client about due date and lack of bum legal mechanism, weak credit assessment system and recession in market etc. in the banking industry. If non performing assets not controlled timely then it affect financial strength of assets and return on investment (ROI). The cost of capital will increases, the assets liability mismatch will broaden, increase provisioning requirement of NPAs adverse affect on profitability. Economic value added by banks will get upset because EVA is equal to the net operating profit minus cost of capital. Due to NPAs decrease the value of share sometimes even below the book value and adversely affect the risk facing ability of banks, Basel II norms, Consolidation, mergers and acquisitions, technology changes Risk

management, government reforms, overseas expansion, consumer protection and skilled manpower etc. are the major challenges are faced by the Indian banking system during last decades due to competitive environment and adoption to the international best practices. The Indian banks are now facing intense competition from the foreign banks who are strike the Indian domestic market after adoption of economic reforms. Despite of the expansion in public and private sector banks, specially in advancing loan in liberalist way the number of defaulters is increasing day by day. Thus it is crucial to have examine the management of NPAs in banks.

2. Objectives

1. To Study on comparative analysis of Non – Performing Assets in Selected Private Sector Banks in India.
2. To study the trend of Gross NPA and Net NPA of Selected Private Sector Banks in India.
3. To list the causes of the occurrence of NPA in the banks.

3. Research Methodology

The present study is based on secondary data. The data has been collected from various web sources, annual reports of selected banks, information bulletins and journals. For analyzing the data collected calculation of gross non performing assets (GNPA) percentage, gross non –performing asstes (GNPA) percentage, net non-performing assets (NNPA) percentage, return on investment (ROI) and MEAN, STANDARD DEVIATION tables have been made. Various parameters related to non performing assets of private sector banks are compared and analyzed i.e HDFC and AXIS Banks.

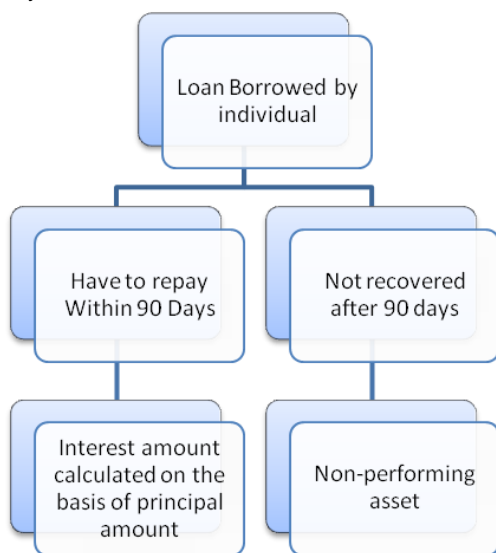
4. Limitations of the Study

1. The study is observed from the financial year FY2012 to FY2018.

- 2. The data is only based on the secondary data set and focused only on the limited financial statement.
- 3. The study is focused only on two banks such as Axis Bank, HDFC Bank only.

Non-performing asset is defined as a credit facility in respect of which the interest and installment of principal has remained 'past due' for a specified period of time. In other words, an asset is marked as non performing when it stop to generate income for the lender. The amount which is lender to individual have to be written by 90 days or recover within 90 days of the cash received. In case, the amount which is not recovered within 90 days it is termed as Non-Performing Assets .

The Non-Performing Assets are classified as doubtful assets, substandard assets. The doubtful assets are to recovered within 12 months and the substandard assets are amount considered as the doubtful assets which are not received by the bank.



5. Review of literature

Meher Bharat Kumar (2017) —Impact of Demonetization on NPA Position of Indian Banks. In this paper researcher examined that the affect of demonetization on the Indian banks. Demonetization has affected whole of the economy. But the maximum impact of demonetization was on the banking industry. During demonetization 17 lakh crores comes into banks. It also prevents the diviation of funds which is a main reason of wilful defaulters. Demonetization has short term and long term impact on the non performing assets of Indian banking sector. The positive impact of demonetization on NPAs are possible to determine the excess deposited funds, possible to provide sufficient funds to their clients, chances of recovery still from wilful defaulter and provide adequate amount of loan to primary sector. At the end researcher concluded that demonetization has positive impact on NPAs but there are many challenges for banks due to demonetization which need to handle properly.

Dhawan Sanjeev (2016) —Asset Reconstruction Companies: A Cure for Non-Performing Assets – An Indian

Context: —The author emphasized several recovery measures adopted by Indian banking industry. During the recent time banks in India are found to be keen to sell non performing assets to Asset Reconstruction Companies. Sale of NPAs to Asset Reconstruction Companies is expected to pick up in the coming years. But there are number of challenges of their working. These relate to liquidity management to honour redemption of Security Receipts timely, improving loan recovery with the existing legal framework, cost control etc. To face these type of challenges Reserve Bank of India and Government of India has taken various steps, much needs to be done to make Asset Reconstruction Companies more stronger to tackle properly.

|| **Vaibhavi Shah and Sunil Sharma(2016)** in their studies titles as A Comparative study of NPA IN ICICI and HDFC banks made an try to examine the non-performing assets of ICICI and HDFC bank. Both the banks belong to the private sector of the Indian Banking industry, comparing the NPAs and thus overall growth of the banks. The researchers intended to know the functioning of the bank in lending and credit policy and it also advised the steps that should be taken to reduce NPA for the banks. They also give the concept of NPA and explain the reasons of increassses NPAs. They examined the gross and the net NPA of both the banks. Five years data taken into consideration i.e 2010-11 and 2014-15 . Gross NPA for ICICI Bank was better as it managed to maintain its NPA near to 3% according to international standards. On the other hand, HDFC bank performance was even better as its gross NPA values near to 1% and net values of NPA were less than 1%. Both the banks doing good job.

DEBARSH AND SUKANYA GOYAL (2012) The researcher main emphasized on proper management of non-performing assets in the public sector banks in India under strict asset classification norms, use of latest technology, platform based on Core Banking Solution, recovery procedures in the context of tight regulatory framework of the RBI. Non-performing Asset is an important paramedic tool for analysis of financial performance of a banks as it control in falling margin and increasing provisioning requirements for doubtful debts. The reduction of NPA is necessary to improve financial strength of banking sector.

S. Poongavanam (2010) Non Performing Assets: Issues, Causes and Remedial Solution|| S. Poongavanam||. In this research paper an attempt to study several causes of ringing an asset into non performing asset, these are social, political, social and industrial as well as from borrower side and banking side. He studies various regulative issues dominating in India as well as in forign countries. He pointed out the various remedial solution available for NPAs like Lok Adalats, Industrial Reconstruction Bank of India , Debt recovery Tribunal , Corporate debt restructuring, SARFAESI Act. At last researcher concluded that there were a number of changes in Indian banking sector after liberalization and credit management is very important for the efficient working of banking sector. Now Banks has very timid towards granting loans so that NPA level has controlled..

Table 1: Gross and Net NPA (Amount in crores)

YEAR	HDFC				AXIS			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2010	1816	1.09	392	0.31	1318	0.98	419	0.4
2011	1694	1.05	296	0.2	159	1.01	41	0.26
2012	1999	1.02	352	0.2	1806	0.94	472	0.25
2013	2334	0.97	468	0.2	2393	1.06	704	0.32
2014	2989	1.00	820	0.30	3146	1.22	1025	0.40
2015	3438	0.9	896	0.20	4110	1.34	1317	0.44
2016	4393	0.94	1320	0.28	6083	1.67	2522	0.70
2017	5886	1.05	1844	0.33	21280	5.04	8626	2.11
2018	6483	1.07	1956	0.38	26104	6.82	9622	2.73

Source: www.moneycontrol.com, www.hdfc.com, www.axisbank.com

Interpretation of the table

Table no. 1 shows the cooperative values of net GNPA for both the banks- HDFC and AXIS bank. By analyzing data the GNPA level of HDFC bank has shown a stable trend over the years but increase during 2017-18. Axis bank shows a mixed trend of GNPA level with some downfall in the year 2011 and 2013 and with gradual increase during 2013-16 but a sharp rise in 2017-18 is seen. This is due to some poor credit administration policies of the bank. The NNPA of Axis bank shows an upward trend with increases in 2017-18. However, the NNPA levels of HDFC bank have been moderate throughout.

Table 2: Return on Assets (ROA) of Private Sector Banks

YEAR	HDFC	AXIS
2012	1.80	1.68
2013	1.90	1.70
2014	2.00	1.78
2015	2.00	1.83
2016	1.92	1.72
2017	1.88	0.65
2018	1.96	0.62

While examining table no. 2, the HDFC banks have shown an upward trend over the years but AXIS bank exhibit almost stable ROI during 2012 -2015 but it decreases in 2017 - 2018 a fall in the ROA that is not a sound indicator.

Table 3 : MEAN AND STANDARD DEVIATION (NNPA)

	HDFC	AXIS
MEAN	779.44	1717
STANDARD DEVIATION	515.69	2693.12
SD/MEAN	0.66	1.57

Interpretation of the table

The table no. indicates that private sector banks of HDFC mean and standard is less as compared to AXIX Bank . This shows Assets quality management of AXIS bank is far better compared to HDFC bank in terms of standard deviation of NPAs against unit Mean NPA.

6. Causes of NPA:

1. Main reason of increasing NPAs are liberal lending norms especially when their financial status and credit rating is not examined in right way.
2. Public Sector lending 80% of the given to industries and it is this part of the credit distribution that forms a great lump of NPA.
3. Public sector lending and granting loans to agriculture has a significance share to the increasing NPAs of the banks.
4. unwisely project handling, inefficient management, frequent changes in govt. Policies create industrial sickness.

7. Suggestions :

1. Despite of various RBI norms and government regulation there is increasing growth in NPAs in both banks. So suitable steps should taken by banks, government and RBI to reduce the level of NPAs from banks, like:
 - Preparing the base of banks more strong.
 - Responsibility accounting of credit officer whose loan account becomes NPAs
 - Making rigid laws for the defaulters.
 - Reserve bank of india should take suitable actions to remove political pressures from banks. So that Banks should focus on quality loan .
2. The various factors responsible for NPAs like economic, legal, inefficient management like lack of training and follow-up and aggressive lending policies. Government should take suitable steps so that defaulters will not able to break away due to legal inefficient system.
3. Industrial and service sector contributes maximum in NPAs, banks should take precautions while granting loan .
4. The main target of private banks while dealing in NPAs is up gradation of existing NPA accounts, but care of further decline from standard assets to doubtful assets is more important because when standard assets shift to doubtful class they further increase the NPAs of banks..
5. Private Banks wait till the assets arrived to doubtful stage and then they transfer it to recovery

department but they should transfer the asset to the recovery department when it arrived to the standard stage.

6. Private Banks should rely on recovery of NPAs with the help of SARFAESI act is the most effective.
7. Private sector banks should provide proper incentives to their employees so that they feel motivated and perform better job.

8. Conclusion

The non-performing assets is one of the crucial and severe concept of the banking system if the non performing assets is not observed properly then it become a serious impact on the financial strength of the bank and also on the

economy of the nation. The money belocked to NPA i.e principle and interest that is the primary source of bank.

The study shows that the NPA of the position of HDFC is better in Gross NPA and net NPA than AXIS bank but assets quality management of AXIS Bank is better. Banks should focus on mending the credit recovery policies, the focus is on better strategy formulation and implementation in best possible manner. The banks should take into consideration while advancing loans the creditworthiness of customers by examining their risk-bearing capability. The government should also make tight norms for the settlement of NPAs as the existence of NPAs destroy the profitability, asset quality of the banks and, it also affects the financial strength of the banking sector of India.

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