

A study on Non-Performing Assets of Public Sector Banks in India

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ABSTRACT

Increasing amounts of Non-performing assets is a big problem for Indian banking sector. The amounts of Non-performing assets in public sector banks are touching new heights every year. Reserve Bank of India and Government of India takes some actions to restrict NPAs but yet to do many things in this regards. The researcher tries to study on net NPAs of selected public sector banks in this research. Presently, many public sector banks in India are running in a loss due to huge amounts of non-performing assets. This issue makes the present research very alive and very important.

1. Introduction

Indian banking sector facing critical problem of non-performing assets from last two decades. Banking sector plays a very important role for the development of a nation. Developing countries requires more funds for investment in infrastructures and other requirements. A sound banking system can fulfill the requirement of Government and other sectors properly. Indian banking sector performs its duty nicely since long times. Financial system of India contains public sector banks, private sector banks, foreign banks, co-operative banks, non-banking financial companies and many other small financiers of the nation. Banks in India provides huge amounts of loans and advances to its customers for their requirements. Many customers are not pay back loan amount and interest to the bank regularly. It creates non-performing assets.

2. Review of Literature:

Review of literature gives the information to the researcher about the previous researches on the selected topic and subject. The researcher reviewed many research papers and articles for this study. Some of important literature reviews are mentioned below:

1. Avneet Kaur (2012) studied the performance of selected public sector banks in India in his research paper titled 'An Empirical Study on the Performance Evaluation of Public Sector Banks in India'. He tried to study the pattern of income and expenditure of public sector banks in India for the period of 2000 to 2010. He also tried to analyze the Non-Performing Assets of public sector banks in this research paper and find out that there is no significant difference between the growth rates, total income and net profit of public sector banks in India.
2. Cheenu Goel and Chitwan Bhutani Rekhi (2013) examine the relationship among banks equity, assets and deposits size to profitability in their research paper 'A Comparative Study on the Performance of Selected Public Sector and Private Sector Banks in India'. They studied the profitability of selected public sector banks and also studied the factors that affected to profit earning of banks. They used different ratios

and coefficient correlation for data analysis and concluded that public sector banks are not as profitable as other sector banks. New banks are more efficient than old banks. They suggested in the last that Return on Assets and Return on Equity are the key factors for increasing in performance of banks.

3. Gour Bandyopadhyay (2013) studied NPA levels of selected banks in his research paper 'Modeling NPA Time Series Data in selected Public Sector Banks in India with semi parametric approach'. In this paper, penalized spine, a very popular semi parametric technique has been fitted to GNPA data sets for six selected PSBs and it has been observed that these semi parametric models are very much relevant and useful as it enhances the precision level of the models in respect of parameter GNPA in six selected PSBs in India. The study finds that NPA in PSB in India can be adequately captured by semi-parametric regression.
4. Sulagna Das and Abhijit Dutta (2014) compared the NPAs of public sector banks in India for the year 2008 to 2013 in their research paper 'A study on NPAs of Public Sector Banks in India'. At the end of their research, they find out that there is a significant mean variation between the NPAs of public sector banks during the study period.

3. Meaning of Non-Performing Assets:

Many authors give the definition of non-performing assets according to their own ideas and concepts. Reserve Bank of India also gives the definition of non-performing assets. Most of all the definitions clearly say that an asset would be treated as NPA if it stops to earn money for the bank.

All the debtors of banks not repay the loan amount and interest to the bank regularly. It gives to the birth of non-performing assets. If a borrower fails to repay the loan or interest amount to the bank in ninety days, then it called NPA.

In other words, the assets which stops earning interest for the bank is called non-performing assets. These types of

assets stop earning interest for the banks. It creates burden on the bank.

Increasing amounts of NPAs effects on financial performance of a bank. It may create a huge problem for bank's profitability.

4. Objectives of the study:

The main objectives of the study are as under:

1. To find out the trends of Non-Performing Assets of selected Public Sector Banks in India.
2. To compare the Non-Performing Assets of selected Public Sector Banks in India.

5. Research Methodology:

Research methodology is depending on the nature of topic and the types of data which the researcher wants to collect and works on it. Research methodology also depends on the researcher's attitude.

The present study is descriptive and the researcher tries to understand the concept of NPAs and compares net NPA ratio of selected public sector banks in India.

Sample:

There are so many types of banks in India like, public sector banks, private sector banks, co-operative banks, foreign banks etc. The researcher wants to make study on public sector banks in India. There are 18 public sector banks in India as on 1st April 2019. The researcher has select 10 public sector bank as a sample for the present study. The list of the selected public sector banks is as mentioned below:

1. State Bank of India (SBI)
2. Punjab National Bank (PNB)
3. Bank of Baroda (BOB)
4. Bank of India (BOI)
5. Canara Bank (CB)
6. Union Bank of India (UBI)
7. Indian Bank (IB)
8. Uco Bank (UB)

9. Central Bank of India (CBI)

10. Indian Overseas Bank (IOB)

Data Collection:

The present study is mainly based on secondary data. The researcher has collected necessary secondary data from the websites of selected banks and Reserve Bank of India. Many other publications are also used for collecting various types of information for the study. Required data regarding non-performing assets of public sector banks for the period of 2009-10 to 2018-19 have been collected from annual reports and websites of public sector banks.

Time Period of the study:

The researcher tries to analyse the non-performing assets of public sector banks for the period of last ten years. Therefore, the time period of the present study is 2009-10 to 2018-19. Ten years of period is sufficient to analyse the data and check the trend of NPAs of public sector banks in India.

6. Non-Performing Assets in Public Sector Banks:

After the implementation of Liberalisation, Privatisation and Globalisation, many private banks are started in India and some foreign banks also entered in India for banking business. There is a full competition in Indian financial market between various types of banks like public sector, private sector, foreign banks, co-operative banks etc. Indian banks are providing more loan and advances to the customers for stay alive in the banking business. Loan and advances given by banks without proper investigation creates a huge burden on public sector banks in India. The numbers of defaulters are increasing every year and it increases amount of NPAs. The amount of non-performing assets in Indian banking sector are growing up very fast in last two decades.

Net NPA Ratio: Net NPA ratio can be calculated by the help of net NPA and net Advances of banks. Net Advances can be found by deducting provisions from advances of a bank.

$$\text{Net NPA Ratio} = \frac{\text{Net NPA}}{\text{Gross Advances} - \text{Provisions}} \times 100$$

Table No. 1
Net NPA Ratio of selected Public Sector Banks (%)

Bank	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Avg.	Rank
SBI	1.72	1.63	1.82	2.10	2.57	2.12	3.81	3.71	5.73	3.01	2.82	3
PNB	0.53	0.85	1.52	2.35	2.85	4.06	8.61	7.81	11.24	6.56	4.64	7
BOB	0.34	0.35	0.54	1.28	1.52	1.89	5.06	4.72	5.49	3.33	2.45	1
BOI	1.31	0.91	1.47	2.06	2.00	3.36	7.79	6.90	8.26	5.61	3.97	6
CB	1.06	1.11	1.46	2.18	1.98	2.65	6.42	6.33	7.48	5.37	3.60	4
UBI	0.81	1.19	1.70	1.61	2.33	2.71	5.25	6.57	8.42	6.85	3.74	5
IB	0.23	1.00	1.00	2.00	2.00	2.50	4.20	4.39	3.81	3.75	2.49	2
UB	1.17	1.84	1.96	3.17	2.38	4.30	9.09	8.94	13.10	9.72	5.57	9
CBI	0.69	0.55	3.09	2.90	3.75	3.61	7.36	10.20	11.10	7.73	5.10	8
IOB	2.52	1.19	1.35	2.50	3.20	5.68	11.89	13.99	15.33	10.81	6.85	10
Avg.	1.04	1.06	1.59	2.22	2.46	3.29	6.95	7.36	9.00	6.27	4.12	-

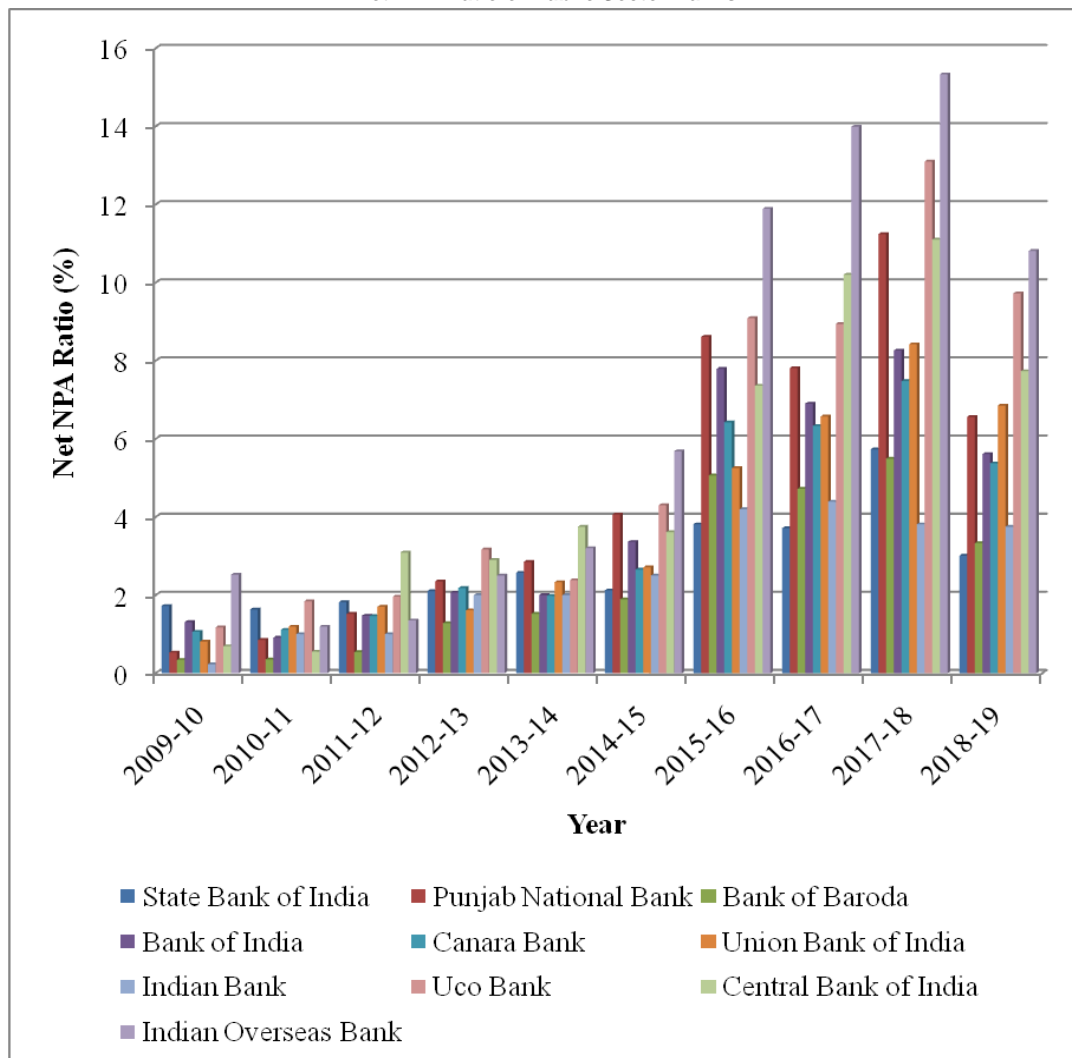
(Source: Annual Reports of selected public sector banks)

The above table displays the data regarding net NPA ratio of selected public sector banks in India for the period of last ten years. Lower ratio of net NPA indicates good performance and higher ratio of net NPA indicates poor performance of banks.

We can see the year wise increasing net NPA ratio of public sector banks in India from the table no.1. All selected public sector bank's net NPA ratio are lower in 2009-10. The

average net NPA ratio of all selected public sector banks was 1.04 % in 2009-10 and reached at 6.27 % in 2018-19. Indian Overseas Bank's net NPA ratio for the year 2017-18 is 15.33 % which is highest among all the selected public sector banks for the study period of time. Bank of Baroda's net NPA ratio for the year 2009-10 is 0.34% which is lowest among all the selected public sector banks for the study period of time.

Chart No. 1
Net NPA Ratio of Public Sector Banks



From the above chart we can see the increasing level of net NPAs every year. Net NPAs of public sector banks increasing year by year and reaches at new heights. Bank of Baroda is on first rank in the table of net NPA ratio. Bank of Baroda's average net NPA ratio is 2.82 % for the study period of time which is lowest among all the selected public sector banks in India. Indian Overseas Bank is on the last position in the table of net NPA ratio. Indian Overseas Bank's average net NPA ratio for the study period is 6.85 % which is highest among all the selected public sector banks in India.

Top three banks whose performance in net NPA ratio is better than other banks are Bank of Baroda, Indian Bank and State Bank of India. Bottom three banks whose performance is

very poor in net NPA ratio are Indian Overseas Bank, Uco Bank and Central Bank of India.

7. Conclusion:

NPA ratios in Indian banks are too higher than other countries of the world. Banks never like to have non-performing assets in financial statements. However, net NPA ratio between 1 to 2 % is acceptable as per the international banking standards. Net NPA ratios in Indian public sector banks are too higher than international standards. Public sector Bank's non-performing assets are increasing year by year in India. Almost all the selected public sector banks' net NPA ratio is higher than international standard. Public sector banks and Reserve Bank of India should think seriously on this matter and take necessary actions to decrease the NPA ratio.

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