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Non-Performing Assets in Indian Banking Sector (Case of Public and Private Banks in India)

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ABSTRACT

The strength and health of the various segments in the banking sector are shown by the percentage of non-performing assets. The study's objective is to analyse the various trends in the growth rates of NPA at banks in the private and public sectors over the last five years, from 2016 to 2020. The study's goal is to determine how the banking industry is impacted by both private and public sector institutions. Banks in the public and private sector have both been included for the study's purposes. The research is supported by secondary information gathered from the annual report and official website of banks for the years 2016 through 2020.The analysis of private sector banks shows that NPA growth is higher than it is for public sector banks. Thus, the study demonstrates that the private sector banks failed to effectively address the problem of problematic loans, which contributed to the extraordinary growth in such loans. Since the study period taken before and after the financial crisis, the research is fascinating.

Keywords:

INTRODUCTION

The role of banking system in the financial and economic development of a country is significant. Because they are a necessary component of the banking system, non-performing assets (NPAs) have an immediate effect on banks' capacity to make a profit. One of the main issues for Indian commercial banks is non-performing assets. With the recommendations of the Narasimham Committee and the Verma Committee, actions have occasionally been made to address the issue of old non-performing assets (NPAs) in the balance sheets of the banks. NPAs' trend and impact on India's scheduled commercial banks have been highlighted in this study.

One of the main issues facing India's banking sector is non-performing assets (NPAs). In the bank's lending department, the phrase "non-performing assets" (NPAs) is generally employed. Non-Performing Assets are bank assets that don't contribute to the organization's ability to make a profit. NPAs are a good indicator of a bank's performance worldwide. As the quantity of non-performing assets rises, a bank's performance diminishes. The problem of NPAs is not only affecting the banks but also the entire economy of any country. (Ibrahim, M.S., and Thangavelu, R.(2014)

A bank whose name is listed in the second schedule of the Reserve Bank of India Act 1934 is referred to as a scheduled bank under section 2(e) of the RBI Act. A scheduled bank must meet the requirements outlined in section 42(6), which include the paid up capital and reserves requirement of not less than Rs. 5, 00,000 and the RBI's assurance that the bank's operations won't put the interests of its depositors at risk. A bank that is not listed in the Reserve Bank of India's (RBI) second schedule is referred to as a non-scheduled bank. (N.S.Toor, 49th edition, 2019, p.4.4)

The RBI defined a non-performing asset as a credit facility with principle and/or interest payments that were past due for a predetermined period of time (NPA).In the banking sector loans are the assets for the bank and the bank generate income from these loans. For banks assets are equivalent to loans. For banks, asset is the loan and how to earn profit by providing loan and the liability are the deposits which does not belong to bank and the amount needs to be paid back to the customers in the form of interest and whenever sum of money required to be withdrawn for the purpose of using the amount. Bank provide loan to customers on the basis of deposit. If the amount turned to be as NPAs then the bank has to think about the process to pay the interest and the amount upon the customer's deposit, due to which bank faces the situation of loss. The loan amount is considered as NPA if the amount is not paid during the duration of three months or 90 days from which the amount is due that is from the 91th day it is considered to be the NPA amount. If additional borrowers quit making loan payments, the bank's NPA level will continue to rise. If the loan balance is not repaid after one year, it is regarded as a subpar asset; if it is unpaid for longer than one year, it is regarded as a suspect asset. And the banks know that there is higher probability of doubtful debts due to which they keep separate amount of money which is known as provision kept for doubtful loan to be used to deal with the situation. Due to job cuts brought on by illness in COVID-19, people were unable to repay loans because they had income problems. As a result, both public and private sector banks experienced NPAs.

LITERATURE REVIEW

1. Kumar Sunil and Gulati Rachita (2008) in their research paper "Evaluation of technical efficiency and ranking of public sector banks in India".(An analysis from cross-sectional perspective) to impose strict rankings on these banks and evaluate the technical proficiency of the 27 governmental banks operating in India. Of the 27 banks, only seven were deemed to be effective, identifying the productive frontier according to the data, and ratings for technical effectiveness vary from 0.6232 to 0.885 on average. Thus, on average, 11.5 percent of the inputs are wasted by Indian public sector banks. The most effective bank, according to observations, is Andhra Bank, closely followed by Corporation Bank. Furthermore, compared to nationalised banks, the SBI Group's linked banks proved to be the most effective.

2. Swin kumar Rabindra,Sahoo muna,Mishra Prava Anjali(2017)In the research paper, "Non-Performing Assets of Scheduled Commercial banks In India: it's regulatory framework". The researcher discussed how a nation's economic growth is dependent on its financial system, and how the commercial bank is essential to the growth of this system. Since the primary goal of a

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commercial bank is to provide credit for purposes of growth and development, it is their responsibility to employ customer savings in areas where they are most needed. In this paper the researcher focused upon the aspects for the recovery of NPAs in the India's banking industry. The study is based upon the secondary data, RBI reports, books, Journals and the research paper and the implementation of various tools such as percentages, graphs and the tables. The period of the study is from 2008 to 2016 in which analysed the various trends on recovery of the NPA of the Indian scheduled commercial banks.With implementation,various tools it was revealed that the recovery of non-performing assets through lok adalat is negligible in compared with debt recovery tribunal where as the SARFAESI is effective and it was observed that the increased percentage as recovery of NPA during the conducted study for the specified period. Through this it can be stated that this recovery tribunal is very much effective in comparison with the other modes of recovery.

3.Chaluvadi Sashank,Raut Rakesh and Gardas B.Bhaskar(2017) in their research paper, **"**Measuring the performance efficiency of banks in a developing economy"(The case study of Indian public sector vs. private sector). For the years 2008 to 2013, they assess and quantify the operational effectiveness of 44 Indian commercial banks, of which 26 are in the public sector and 18 are in the private sector. The Indian banking industry uses the two-stage network data envelopment analysis (DEA) approach, i.e. variable return to scale and constant return to scale, to measure performance. Sensitivity analysis is also carried out to confirm the planned study's robustness**.** A comparison of public and private sector banks (PSBs and PVBs) revealed that the latter were more efficient than the former. Eight banks from PVBs are deemed to be the most efficient, while the analysis showed that two banks among PSBs are the most efficient. As opposed to that, the State Bank of Bikaner, Jaipur, and Lakshmi Vilas Bank's performance is found to be less noteworthy from the PSB and PVB categories, respectively. Indian banks will receive advice from the research on how to draw attention to the areas where they are lacking in order to improve their overall performance.

4.Dr.Symss Jacqueline, Dr.Saradhi Raveendra, Nehra Pooja(2018) in the research paper entitled, "Determinants of Non-performing Assets in Indian banking sector" The Indian financial system has been bank denominated as households and companies largely depend upon the banking system for purpose of raising the credit for purpose of meeting various needs. With this study, the researcher seeks to determine the likelihood of an increase or decrease in NPAs and offers strategies for preventing this from happening. It made an effort to pinpoint bank- and micro-specific factors that have an impact on NPAs. 20 banks in the public sector and 19 commercial banks were the subjects of the study, which covered the years 2004–2005 to 2016–17. Secondary data serve as the study's foundation. Additionally, it has been noted that both public and private sector banks' problematic loans have increased in recent years. Bigger NPAs are correlated with higher loss loan provisions.

5. Ozili K. Peterson (2018) in his research paper conducted a study titled as "Non-performing loans and financial development: new evidence" examined how financial progress affected the amount of non-performing loans (NPL). According to the research, financial intermediation and foreign bank presence are both positively correlated with NPLs. He examined the direct link between NPL and financial development in the study using a global sample. The study's goal is to determine how financial advancement affects non-performing loans.

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6. Agarwala Varuna & Agarwala Nidhi(2019) In the research paper, “A critical review of non-performing asset in the Indian banking industry” The study described the non-performing asset indicator, which often identifies a nation's banking sector's soundness. By examining the growth trends of SBI Bank and affiliates, bank nationalisation, and commercial banks between 2010 and 2017, the study seeks to understand how public and private banks contribute to non-performing assets. It also seeks to inform investors about subpar loans, which have a direct impact on bank profitability in the long run credit expansion has an impact on how profitable banks are. The study's foundation is secondary information gathered from the RBI website. Geometric means are employed as a statistical method to compare the growth rates of specific banks' gross non-performing assets to the average growth rates of other banks. With the findings, it was determined that private banks' non-performing asset growth rates were lower than those of nationalised banks and that they were unable to manage bad loans, which is why an increase in NPAs was commonly seen.

7. Sharifi Sirus,Halder and Rao Nageswara S.V.D(2019) in their research paper, **“**The relationship between credit risk management and non-performing assets of commercial banks in India.” To investigate how credit risk factors affect the effectiveness of credit risk control and the rise in non-performing assets (NPAs) at commercial banks in India. Data used in research from sources, both primary and secondary.The findings indicated that the performance of credit risk is highly impacted due to credit risk identification. The study has implications for Indian banks, which are suffering substantial losses as a result of bad lending.To examine the relationship between credit danger indicators and the improvement in non-performing assets (NPAs) at Indian industrial info pertaining to banks from both sources primary and secondary were utilised in the investigation. The results showed that credit risk identification has a significant influence on credit risk performance.

8. Kumar Abhishek, Sharma Deepika, Singh Anubhav(2020) in the research paper conducted the study entitled,” The performance of the economic sectors and their growing non-performing asset in India”. The researcher focused upon the excessive borrowings by the companies from the bank during the boom phase of the economy without the proper verification of the documents which lead to rising level of non-performing assets. It also focuses upon the recovery of non-performing asset, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act of 2002, in accordance with RDB Act (1993), through Debt Recovery Tribunals and Insolvency and bankruptcy code (IBC), 2016. Through the investigation, the researcher came to the conclusion that the public sector banks have higher NPA levels than banks in the private sector and foreign banks, and that government also unable to reduce the level of non-performing assets to zero.

9. Lalitha B.S (2020) entitled the research paper “Study of non-performing asset in selected Indian banks”. The researcher wants to know the opinion of the various employees working in the banks related to non-performing assets, the various factors that affect the NPA and the various measures taken to recover the amount of NPA. The ANOVA test was used to identify the contributing elements that have an impact on NPAs, and it was shown that insufficient borrower information and inexperienced employees are the main causes of non-performing assets in banks.

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RESEARCH GAP

The banking industry's non-performing assets have been the subject of numerous studies. Through the calculation of the gross percentage of non-performing assets at various private and public sector banks, the study's findings on the position of banks before and after the pandemic may be shown. Research data up to 2020 are being tracked in order to evaluate the average non-performing assets of various banks and identify their growing trends.

OBJECTIVES

1. To study the performance of gross non-performing asset percentage from 2015 to 2020.
2. To examine the various trends in the rise of gross non-performing assets with the growth rate.
3. To calculate the geometric mean and average gross non-performing asset percentage for India's commercial and public sector banks.

RESEARCH ANALYSIS METHOD

Studying four banks from the commercial and governmental sectors is the goal. The analysis is based on secondary sources of data including websites for banks, the RBI, and journals, research papers, news releases, and the internet. The study is descriptive in nature. To determine the average growth rate of various private and public sector banks, geometric mean are used. 4 private and 4 public sector banks selected for the purpose of the study and the banks were selected randomly.

SELECTED PRIVATE AND PUBLIC SECTOR BANKS IN INDIA		
S.NO	**PRIVATE BANKS**	**PUBLIC BANKS**
1	Yes Bank	Punjab National Bank(PNB)
2	Kotak Mahindra Bank	Central Bank of India
3	HDFC Bank	Canara Bank
4	ICICI Bank	State Bank of India(SBI)

DATA ANALYSIS AND INTERPRETATION.

Total government control over who owns public sector banks, while individuals and companies control the majority of shares in private sector banks. Savings interest rates are higher than loan interest rates in private sector banks whereas in public sector banks saving interest rates are lower than loan interest rates.

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TABLE 1: Shows the gross non-performing asset proportion over time for private banks.

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	G.M %
Yes Bank Gr.Rate %	139	170	30	200	317	154
Kotak Bank Gr.Rate %	117	26	7	18	15	32
HDFC Gr.Rate %	28	34	46	30	13	30
ICICI Bank Gr.Rate%	74	61	26	-14	-11	22

Source: official website of banks.

FIGURE 1: Year wise bar graph of gross non-performing asset of private sector banks

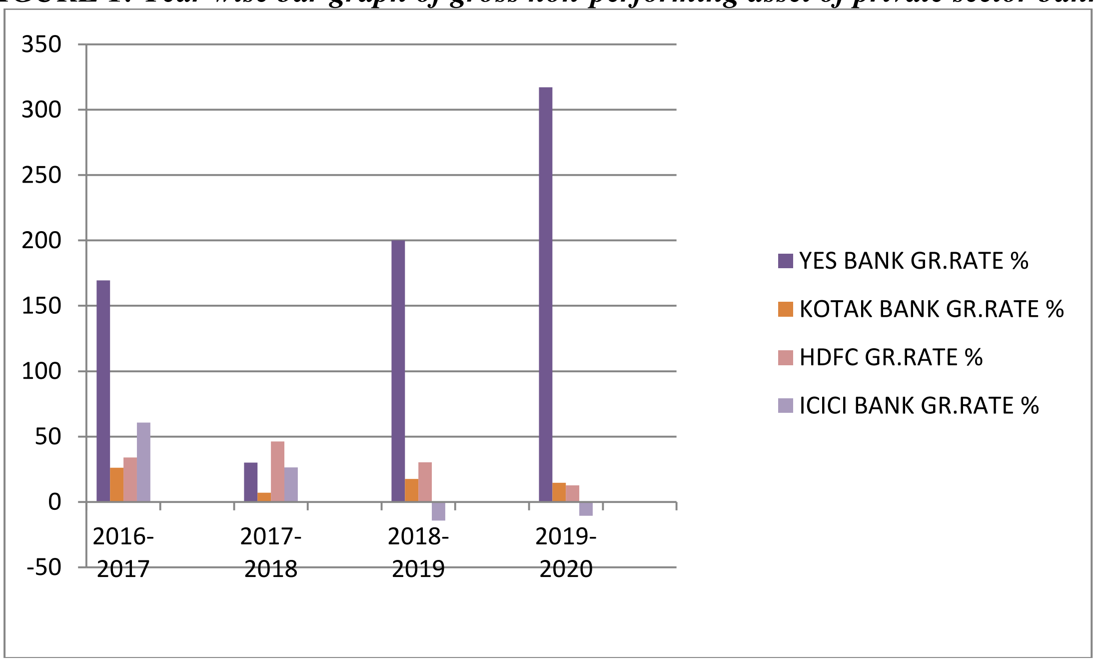

TABLE 2: Shows the gross non-performing asset proportion over time for public banks.

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Geometric Mean %
PNB Gr. Rate %	117	-1	56	-9	-6	23
Central Bank Gr.Rate %	91	20	40	-15	1	22
Canara Bank Gr.Rate %	143	8	39	-17	-6	24
SBI Bank Gr.Rate %	73	14	99	-23	-14	21

Source: official website of banks.

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FIGURE 2: Year wise bar graph of gross non-performing asset of public sector banks.

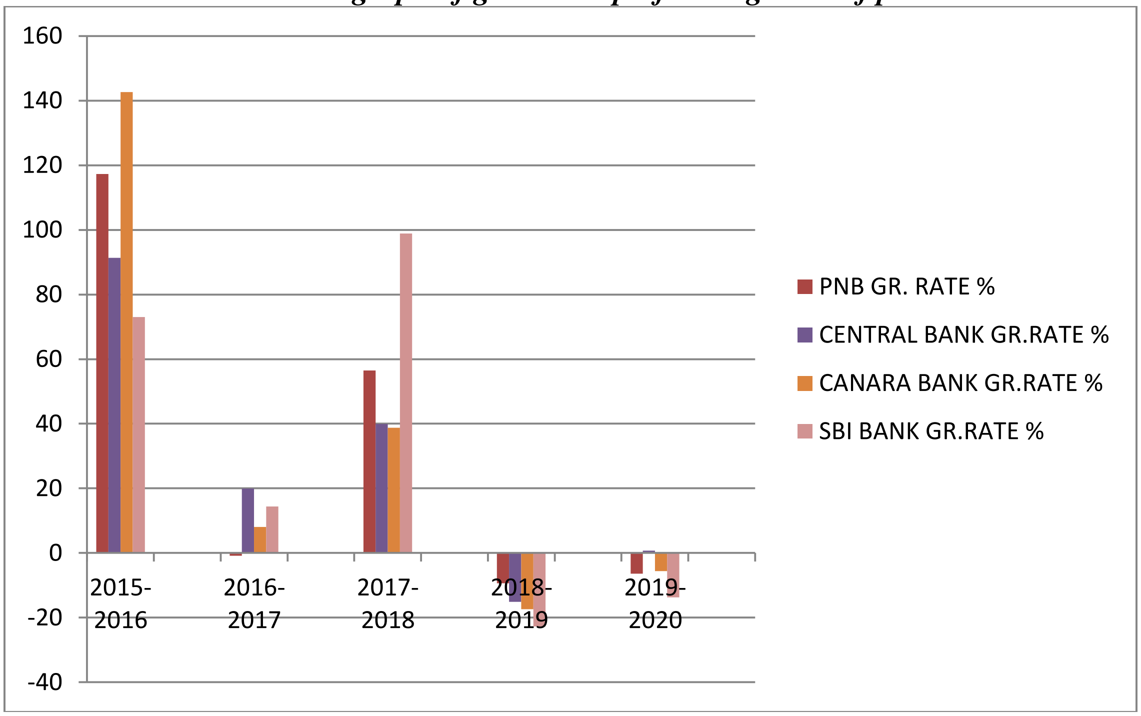

TABLE 3: Average growth rate percentage of gross non-performing asset (private and public sector banks)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Geometric Mean %
Public Bank Gr.Rate %	94%	10%	73%	-18%	-9%	22
Private Bank Gr.Rate %	70%	57%	27%	1%	32%	35

Source: Official website of banks.

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FIGURE 3: Average growth rate bar graph of gross non-performing asset (private and public sector banks)

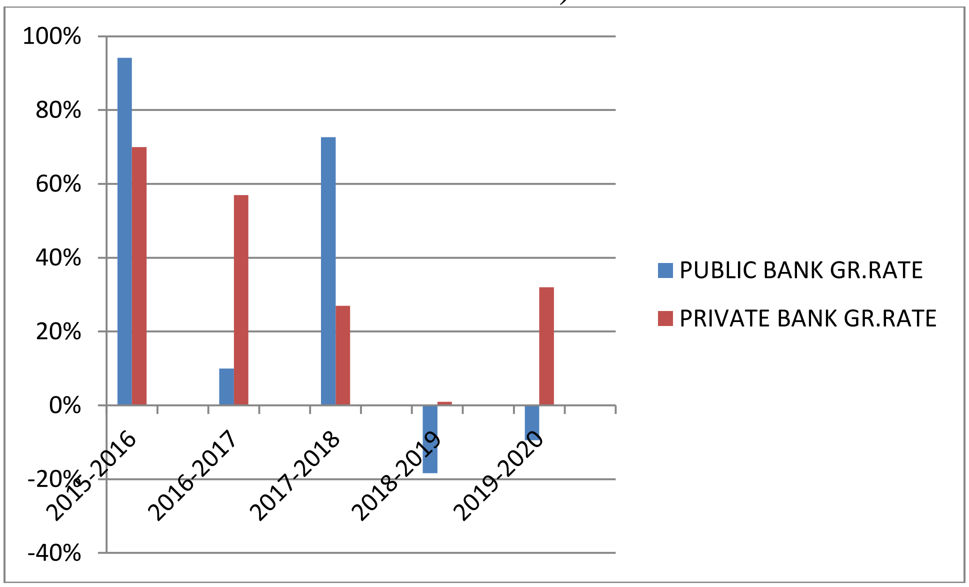
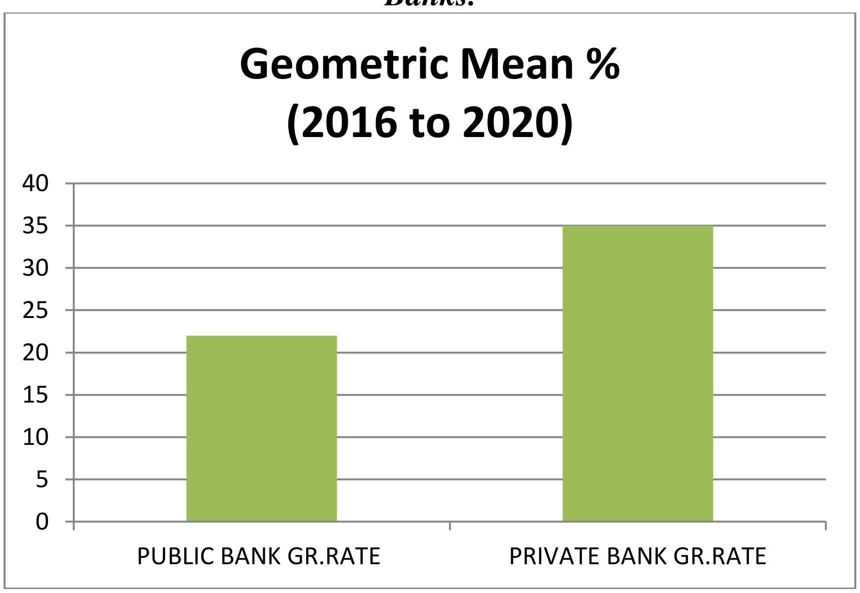


FIGURE 4: Average Geometric Mean (G.M) Percentage Bar Graph of Public and Private Sector Banks.



INTERPRETATION

In order to assess the situation from the perspective of investors, the average growth rate of private and public sector banks was considered in order to examine trends in gross non-performing assets as shown in table 3. It was found that private sector banks had more non-performing assets than public sector banks as shown in figure 4 bar graph of geometric mean. The growth rate percentage of non-

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performing assets is determined statistically using the geometric mean. By comparing the geometric mean of private and public sector banks before and after the pandemic, it is evident that private sector banks had fewer NPAs earlier than public sector banks, which have lower NPAs now than private sector. NPAs from the previous year less current year NPAs divided by base year multiplied by 100 for percent is used to calculate growth rate.

CONCLUSION

The Indian banking sector is facing a dreadful situation. With the help of growth rate of private and the public sector banks the investors will be able to take informed decision. The average gross non-performing asset of private banks is more than that of public sector banks. Thus the banks should keep separate quota of money as provision to deal with the situation of non-performing asset. Such a prior study that considered the standpoint of banking from this point does not exist. The two phrases add value to the research. First, it sheds information on how the various bank groups are doing in relation to non-performing assets. Second, since the Banks' profits and afterwards from a long-term view has an impact on the issue of bad loans, which is most pertinent to investors, the data can be helpful for investors.

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