



A STUDY OF NON-PERFORMING ASSETS AND ITS IMPACT ON PROFITABILITY OF SELECTED INDIAN PUBLIC AND PRIVATE SECTOR BANK

DR. KAMLESH J. BHAVNANI

M.com, PhD, GSET, PGDIPR

(Kamlesh191982@gmail.com)

(M 9328072772)

ABSTRACT

A major threat of banking sector is prevalence of Non-Performing (NPAs). The accumulation of huge non-performing assets in bank has assumed great importance. The debt of the problem of bad debts was first realized only in early 1990s. In fact the problem started much earlier, which became evident from continued recapitalization of many PSBs increased by the end of the 1980s. This led to the setting up of the Narasimham committee(1991) which in fact identified NPA problem, Narasimham committee(1991) made it mandatory on the banks to publish annually the magnitude of NPAs are those categories of assets(advances, bills discount, overdraft, cash credit etc.) For which any amount remains due for a period of 180 days.

KEY WORDS: Non-Performing Assets, Profitability, Canara Bank, Karur Vysya Bank

INTRODUCTION

Banking industry is a major sector of the Indian economy. The word NPA is not something new to the bankers. It is regular but disguised loan asset. As everyone knows, a portion of assets may become NPA. An asset becomes nonperforming when it ceases to generate income for the bank. The severity of the incidence of nonperforming assets in Indian public sector banks, noted in the early 1990s, raised a severe hue and cry in various quarters. In fact the problem started much earlier, which became evident from continued recapitalization of many PSBs

since 1985-86. chartered by the root cause, malfunctioning of the PSBs increased by the end of the 1980s. In India the concept of NPA came in to the reckoning after reforms in the financial sector were introduced on the recommendation of the Narsimham committee (1991). The NPA issue has received considerable attention in the post reforms period. The problem of NPA has received considerable attention after the liberalization of the financial sectors in India.

What is Non-performing Asset?

An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the bank.

A '**Non-performing Asset**' (NPA) was defined as a credit facility in respect of which the interest and/or installment of principal has remained past due' for a specified period of time. The specified period was reduced in a phased manner as under-

W.e.f.31.03.1993	four quarters
W.e.f.31.03.1994	three quarters
W.e.f.31.03.1995	two quarters
W.e.f.31.03.2001	180 days
W.e.f.31.03.2004	90 days

- ❖ Accordingly, with effect from March 31, 2004 a non-performing asset (NPA) shall be a loan or an advance where:-
- ❖ Interest and/or installment of a principal remains overdue for a period of more than 90 days in respect of **term loan**.
- ❖ The account remains '**out of order**' for a period of more than 90 days, in respect of an overdraft/ cash credit (OD/CC).
- ❖ The bills remain overdue for a period of more than 90 days in the case of bills purchased and discounted.
- ❖ Interest and/or installment of principal remains overdue for **two harvest seasons** for a period not exceeding two half years in the case of an advance granted for agricultural purposes and
- ❖ Any amount to be received remains overdue for a period of more than 90 days in respect of other account.

ASSET CLASSIFICATION

Standard Asset: It does not create any problem while paying interest/ installments of the principal. It usually carries more than normal risk attached to the business.

Sub-standard asset: NPA for the period less than or equal to 12 months.

Doubtful asset: NPA for the period exceeding 12 months.

Loss asset: An asset where loss has been identified by the bank or internal or external auditors or by the RBI inspection

REASONS OF STUDY/ NPAS

Multiplicity of factors is responsible for ever increasing size of NPAs in banks. A few prominent reasons for assets becoming NPAs are as under.

- Speculation (Investing in high risk assets to earn high income)
- Lack of co-ordination between banks, Default borrowers.
- Fraudulent practices, Poor credit appraisal system.
- Changes in economic policies.
- Reckless advances to achieve the budgetary targets.
- No transparent accounting policy and poor auditing practices.

PROBLEM IDENTIFICATION

The Present study being empirical and comparative has been undertaken to examine the NPAs. Its impact on profitability of public & private sector banks. Multiplicity of factors like poor credit appraisal system, not having proper monitoring, to reach their goals, advances are given fecklessly, poor auditing practices, poor marketing practices, poor recovery system are responsible for ever increasing size of NPAs in banks. Thus the main aim of the research study is to examine that how the NPAs has affected the profitability, competitive functioning of banks and finally the philosophy of the bankers in respect of their disposition towards credit delivery and credit expansion.

REVIEW OF LITERATURE

The problem of NPA was first brought into focus by the **Narasimham Committee** on financial system (1991), set up with the initiation of liberalization process in the country. Narasimham Committee clearly defined that an asset may be treated as Non-performing Asset (NPA), if interest or installments of principal or both remain unpaid for a period of more than **180 days**. However, with effect from March 2004, default status is given to a borrower account if dues not paid for a period of **90 days**.

According to the **prudential norms**, an asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

RBI guidelines defined that NPAs consist of substandard assets, doubtful assets and loan assets. Any asset usually turns as NPA when it fails to yield income during a certain period. **The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act (2002)** defined Non-Performing Assets as an asset or account of a borrower, which has been classified by a bank or financial institution as substandard, doubtful or loss assets in accordance with the direction or guidelines relating to asset classification issued by the RBI

(Rajan R. , 2014) Governor of RBI pointed "Rising NPAs in PSU banks are a concern...Here in India, especially in PSBs, not in private banks, we have growing NPAs. Hopefully, it will stabilize. It has become somewhat an issue".

(Ministry, 2014) "The finance ministry has put the lending of state-run banks under close watch after a spike in non-performing assets (NPAs) that has forced many of them to slow down credit."

(Shah R., 2014) Rashesh Shah, Chairman & CEO, Edelweiss Group, "Because of high interest rates, inflation and NPA issues, the entire banking industry is under stress from an investor's point of view, but there are lots of private sector banks which are good quality companies, which will do well as and when this cycle gets over"

(Sinha, 2013) CBI Director Ranjit Sinha pointed that "Non Performing Assets (NPA) is not alarming"

(Prabhakar B.A., 2013) B A Prabhakar State-run Andhra Bank's chairman and managing director "The entire banking sector in the country is now facing nonperforming assets (NPA)-related problems due to the slowdown in the economy for the last 3-4 years"

(Radhika R, 2011) Radhika R. and Jaya Sree observed that NPAs cease to generate any income for the bank and hence become the major concern of banks in India. NPAs have direct impact on net profit and also on the performance of the banks. The authors further attempted to establish relationship between net profits and total advances. The impact of NPAs on net profit and impact of total advances on NPAs is also examined

(Sikarwar, 2010) Roopak Kumara Gupta and Ekta Sikarwar observed that the Commercial banks, especially the dominant public sector banks, have been facing competition from the banks in the private sector.

(Singh D. J., 2009) Jasbir Singh Deswal concluded that NPA of PSB has been continuously decreasing in all times.

(Karthikeyan, 2008) Rajendran P. and Karthikeyan K. stated that high level of Non-performing assets will also affect the productivity of the banks by increasing the cost of funds and by reducing the efficiency of the bank employees.

(Parimalam, 2007) Amlan and Parimalam studied the trend of NPA in the banking Industry in general and priority sector in particular and present the ways to manage them efficiently.

(Sanjeev, 2006) Sanjeev in his study used a non-parametric linear programming-based technique.

OBJECTIVES OF THE STUDY

Objective is a base for any work. The objectives determine the future and outcome of the research. No work is started without any objectives. The present

research work has also some objectives. The present research work has been undertaken keeping in view the following objectives:

- To analyze the impact of Non-Performing assets on the profitability of Canara bank and Krur Vysya bank.
- To evaluate the impact of Non-Performing assets on profitability with other variables.

RESEARCH METHODOLOGY

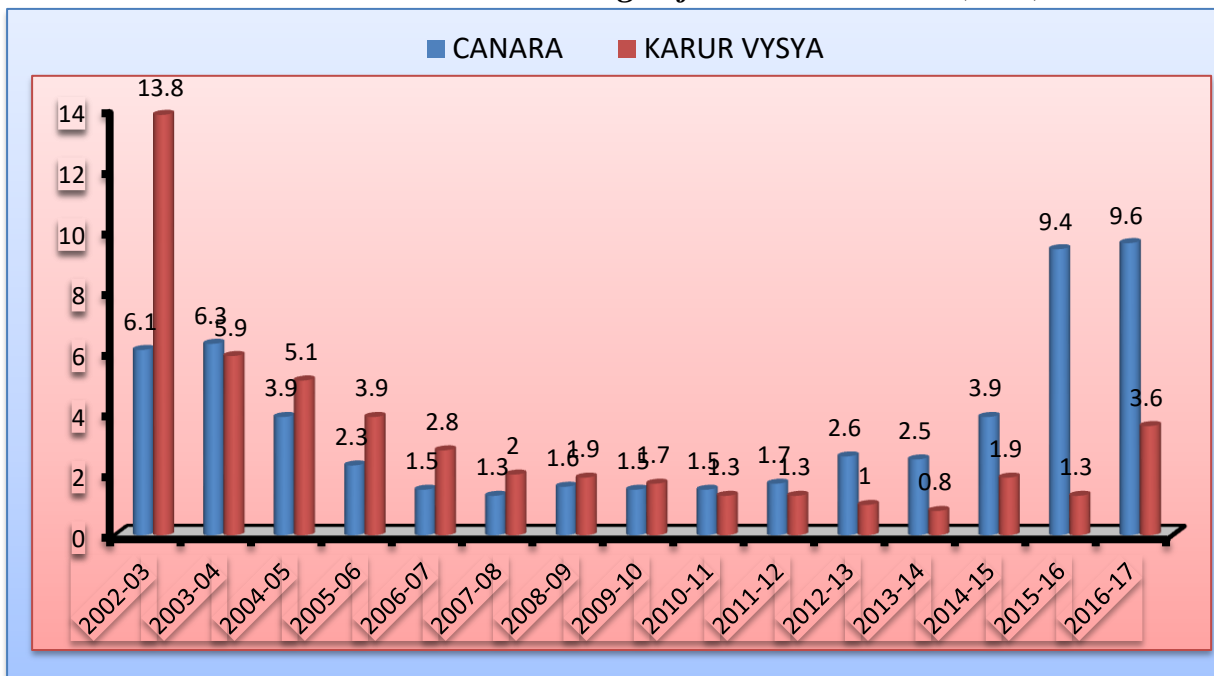
The study is analytical in nature and the present study uses most recent available published secondary data for the year 2002-03 to 2016-17. The scope of the study is limited to fifteen (15) years data. The data has been analyzed using ratios. The study is related to one bank from Public sector banks and one bank from Private sector in India. Accordingly, **Canara Bank** from the Public sector while **Karur Vysya Bank** from the Private sector has been selected and performance figures of these two banks have been used for the comparative analysis. The increase in the profitability of a bank is always preceded by the composition of assets and liability. Hence, the following ratios are calculated to identify the relation of NPA to profitability in selected banks. (1)Gross NPAs As Percentage of Gross Advances, (2)Net NPAs As Percentage of Net Advances, (3)Gross NPAs As Percentage of Total Assets, (4)Net NPA As Percentage of Total Assets.

Table: 1Gross NPAs as Percentage of Gross Advances (In Percentage)

YEAR	CANARA	KARUR VYSYA
2002-03	6.1	13.8
2003-04	6.3	5.9
2004-05	3.9	5.1
2005-06	2.3	3.9
2006-07	1.5	2.8
2007-08	1.3	2.0
2008-09	1.6	1.9
2009-10	1.5	1.7
2010-11	1.5	1.3
2011-12	1.7	1.3
2012-13	2.6	1.0
2013-14	2.5	0.8
2014-15	3.9	1.9
2015-16	9.4	1.3
2016-17	9.6	3.6
MEAN(AVERAGE)	3.71	3.22
SD	2.75	3.19

CV	0.74	0.99
Source: RBI Report on Trend & Progress of Banking in India, Relevant Issues		

Chart No. 1 Gross NPAs as Percentage of Gross Advances (In %)



The above table 1 and chart 1 showed the ratio of Gross NPA to Gross Advances of two banks: Canara bank and Karur Vysya bank. It is apparent from the table 1 and chart no.1 that gross NPA ratio of Canara bank was increased by 6.1 percent 2002-03 to 9.6 percent in 2016-17 but in Karur Vysya bank’s ratio was decreased from 13.8 percent in 2002-03 to 3.6 percent in 2016-17. The ratio was more consistent in terms of dispersion for Canara bank (C.V 0.74) and less consistent for Karur Vysya bank (C.V 0.99). The average of this ratio for these two banks during the study period stood at 3.71percent of Canara bank and 3.22 percent of Karur Vysya bank. It is found on the basis of analysis of data that the assets quality of Canara bank is not so improved consistently as in Karur Vysya bank in the past few years as reflected in ratio.

Table: 2 Net NPAs as Percentage of Net Advances (In Percentage)

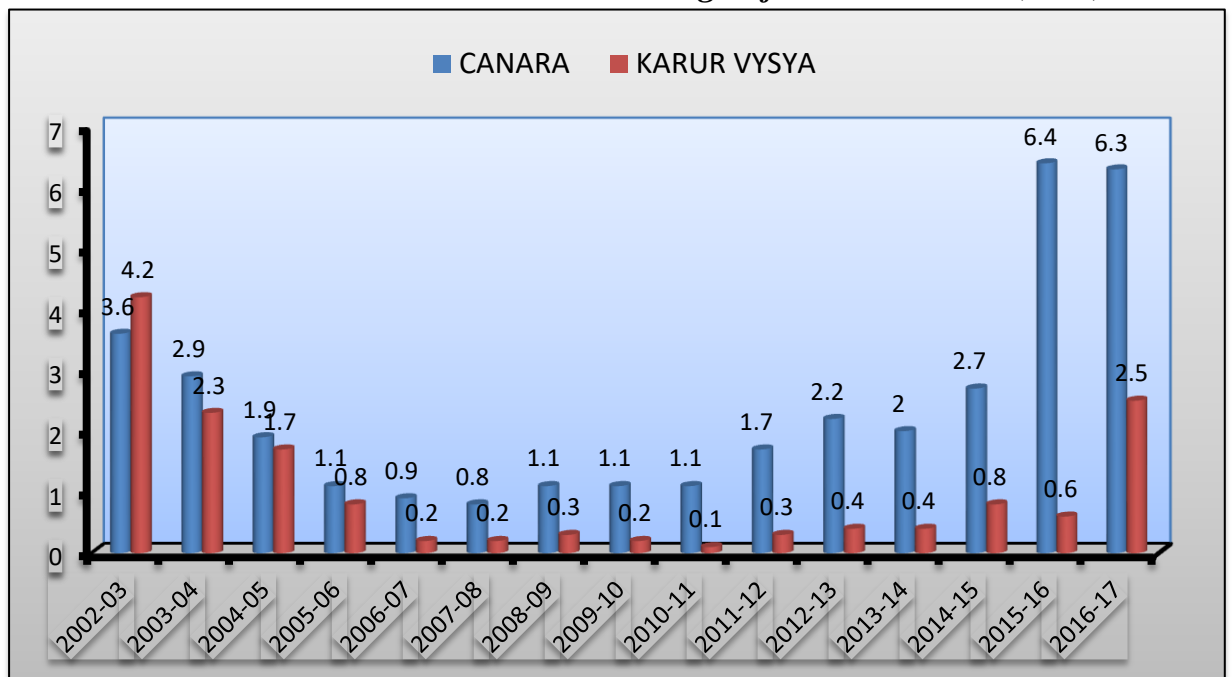
YEAR	CANARA	KARUR VYSYA
2002-03	3.6	4.2
2003-04	2.9	2.3
2004-05	1.9	1.7
2005-06	1.1	0.8
2006-07	0.9	0.2
2007-08	0.8	0.2

2008-09	1.1	0.3
2009-10	1.1	0.2
2010-11	1.1	0.1
2011-12	1.7	0.3
2012-13	2.2	0.4
2013-14	2.0	0.4
2014-15	2.7	0.8
2015-16	6.4	0.6
2016-17	6.3	2.5
MEAN(AVERAGE)	2.39	1.00
SD	1.74	1.14
CV	0.73	1.14

Source: RBI Report on Trend & Progress of Banking in India, Relevant Issues.

The given table 2 and chart 2 showed the ratio of Net NPA to Net Advances of two banks: Canara bank and Karur Vysya bank. It is apparent from the table 2 and chart no. 2 that Net NPA ratio of Canara bank was increased by 3.6 percent 2002-03 to 6.3 percent in 2016-17 but in Karur Vysya bank's ratio was decreased from 4.2 percent in 2002-03 to 2.5 percent in 2016-17. The ratio was more consistent in terms of dispersion for Canara bank (C.V 0.73) and less consistent for Karur Vysya bank (C.V 1.14). The average of this ratio for two banks during the study period in stood at 2.39 percent of Canara bank and 1.00 percent of Karur Vysya bank. During the study period in Canara bank this ratio was maximum 6.4 percent during 2015-16 and minimum 0.8 during 2007-08. This ratio was minimum was 0.1 percent during 2010-11 and

Chart No. 2 Net NPAs as Percentage of Net Advances (In %)



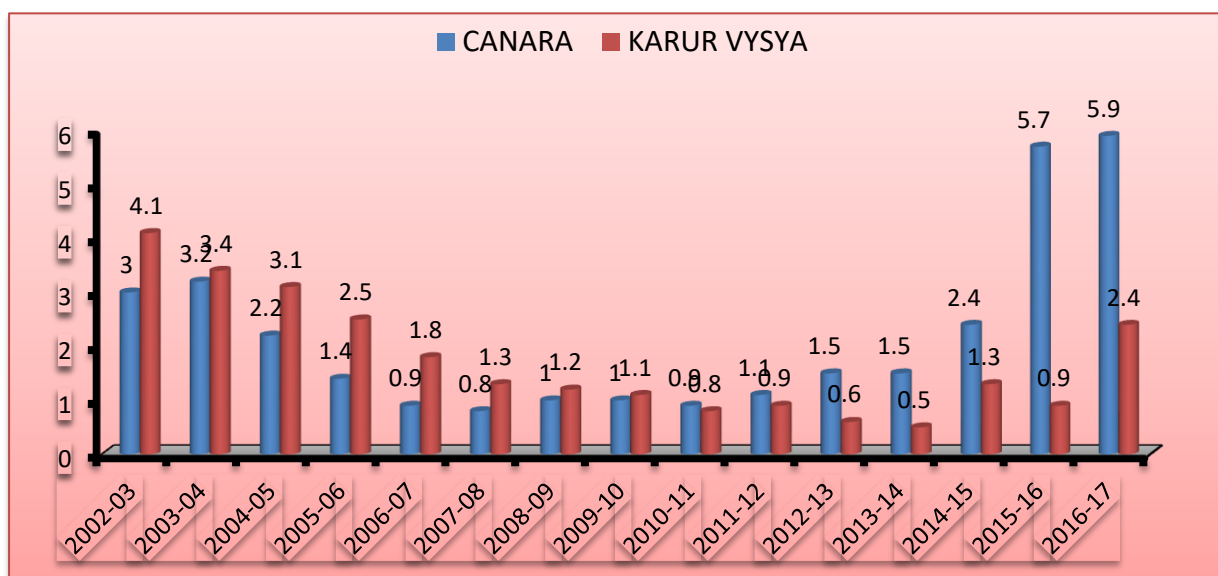
maximum 4.2 percent during 2002-03 in Karur Vysya bank. It is found on the basis of analysis of data that the assets quality of Canara bank is not so improved consistently as in Karur Vysya bank in the past few years as reflected in ratio.

Table: 3 Gross NPAs as Percentage of Total Assets (In Percentage)

YEAR	CANARA	KARUR VYSYA
2002-03	3.0	4.1
2003-04	3.2	3.4
2004-05	2.2	3.1
2005-06	1.4	2.5
2006-07	0.9	1.8
2007-08	0.8	1.3
2008-09	1.0	1.2
2009-10	1.0	1.1
2010-11	0.9	0.8
2011-12	1.1	0.9
2012-13	1.5	0.6
2013-14	1.5	0.5
2014-15	2.4	1.3
2015-16	5.7	0.9
2016-17	5.9	2.4
MEAN(AVERAGE)	2.17	1.73
SD	1.60	1.07
CV	0.74	0.62

Source: RBI Report on Trend & Progress of Banking in India, Relevant Issues.

Chart No. 3 Gross NPAs as Percentage of Total Assets (In %)



The above table 3 and chart 3 showed the ratio of Gross NPA to Total Assets of two banks: Canara bank and Karur Vysya bank. IT is apparent from the table 3 and chart no. 3 that Gross NPA to Total Assets ratio of Canara bank was increased by 3.0 percent 2002-03 to 5.9 percent in 2016-17 but in Karur Vysya's ratio was decreased from 4.1 percent in 2002-03 to 2.4 percent in 2016-17. The ratio was less consistent in terms of dispersion for Canara bank (C.V 0.74) and more consistent for Karur Vysya bank (C.V 0.62). The average of this ratio for two banks during the study period stood at 2.17 percent of Canara bank and 1.73 percent of Karur Vysya bank. During the study period in Canara bank this ratio was maximum 5.9 percent during 2016-17 and minimum 0.8 during 2007-08. This ratio was minimum was 0.8 percent during 2010-11 and maximum 4.1 percent during 2002-03 in Karur Vysya bank. It is found on the basis of analysis of data that the assets quality of Canara bank is not so improved consistently as in Karur Vysya bank in the past few years as reflected in ratio.

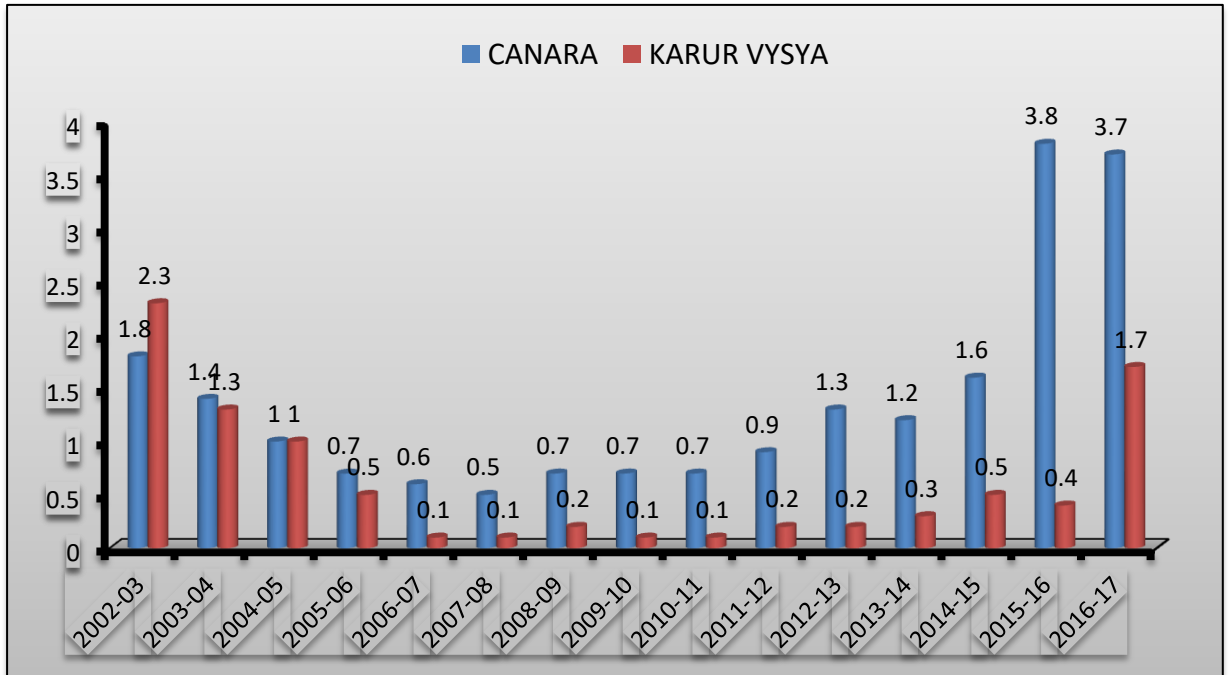
The given table 4 and chart 4 showed the ratio of Net NPA to Total Assets of two banks: Canara bank and Karur Vysya bank. IT is apparent from the table 4 and chart no.4 that Net NPA to Total Assets ratio of Canara bank was increased by 1.8 percent 2002-03 to 3.7 percent in 2016-17 but in Karur Vysya's ratio was decreased from 2.3 percent in 2002-03 to 1.7 percent in 2016-17. The ratio was more consistent in terms of dispersion for Canara bank (C.V 0.74) less consistent for Karur Vysya bank (C.V 1.08). The average of this ratio for two banks during the study period stood at 1.01 percent of Canara bank and 0.65 percent of Karur Vysya Bank.

Table: 4 Net NPAs as Percentage of Total Assets (In percentage)

YEAR	CANARA	KARUR VYSYA
2002-03	1.8	2.3
2003-04	1.4	1.3
2004-05	1.0	1.0
2005-06	0.7	0.5
2006-07	0.6	0.1
2007-08	0.5	0.1
2008-09	0.7	0.2
2009-10	0.7	0.1
2010-11	0.7	0.1
2011-12	0.9	0.2
2012-13	1.3	0.2
2013-14	1.2	0.3
2014-15	1.6	0.5
2015-16	3.8	0.4
2016-17	3.7	1.7

MEAN(AVERAGE)	1.37	0.6
SD	1.01	0.65
CV	0.74	1.08
Source: RBI Report on Trend & Progress of Banking in India, Relevant Issues.		

Chart No. 4 Net NPAs as Percentage of Total Assets (In %)



During the study period in Canara bank this ratio was maximum 3.8 percent during 2015-16 and minimum 0.5 during 2007-08. This ratio was minimum was 0.1 percent during 2006-07 and maximum 2.3 percent during 2002-03 in Karur Vysya bank. It is found on the basis of analysis of data that the assets quality of Canara bank is not so improved consistently as in Karur Vysya bank in the past few years as reflected in ratio.

FINDINGS

While assessing the impact of Non-performing Assets on the profitability, the researcher has observed that ratio of Gross NPA to Gross Advances is 3.71 percent by Canara bank, Ratio of Net NPA to Net Advances of Canara bank has secured 2.39 percent, Ratio of Gross NPA to Total Assets of Canara bank is found to be 2.17 percent and Ratio of Net NPA to Total Assets of Canara bank with 1.37 percent, which are more than Karur Vysya Bank’s ratios when overall position was assessed; it is found that Canara bank has also improved their assets quality year by year. But compare to Karur Vysya bank, Canara bank has to improve their assets quality.

SUGGESSTION FOR REDUCING NPAS

- It is the onus on the concerned bank which has given the loan to tackle the problem of NPA.
Therefore the recommendation of Narasimham committee which suggest that the asset management companies or assets recommendation fund must redress the NPA to be reviewed
- A Strong banker-Borrower relationship should be improved. Forceful recovery by the banks, which is against corporate. Debt recovery will be much easier in a friendly atmosphere.
- Supporting the Borrowers in developing his entrepreneurial skills will establish a good relation between the borrowers. But also help the bankers to maintain a track if their resources.
- Public sector banks should be allowed to come up with their own method to address the problem of NPAs. It includes surrendering and reducing the principle and interest on such loans, extending the loans, or settling the loan accounts. They should be fully authorized and apply all the privileged policies granted to the asset management companies.
- Another way to manage the NPAs by the banks is compromise Settlement Schemes or One Time Settlement Schemes or One time settlement Schemes. Under these situations, it is necessary to bring more simplicity in such deals so that any mistake could be removed.

CONCLUSION

Indian banking sector is facing a serious problem of NPA. The extent of NPA is comparatively higher in Canara bank. To improve the efficiency and profitability, the NPA has to be scheduled. Various steps have been taken by government to reduce the NPA. It is highly impossible to have Zero percentage NPA. But at least Indian banks can try competing with foreign banks to maintain international standard. The study observed that there is increase in advances over the study period. However, the decline in ratio of NPAs indicates improvement in the assets quality of Canara bank and Karur Vysya bank. It is found on the basis of analysis that there is considerable development in the management of NPAs in India. The study finally viewed that the prudential norms and other schemes have rushed banks to improve their performance and accordingly resulted into orderly down of NPAs as well enhancement in the financial strength of the Indian banking Structure.

REFERNCES

- Karthikeyan, R. P. (2008). "Impact of NPAs on Micro Banking Variables". *Sothern Economist* (May Issue), pp. 5-8.
- Ministry, T. F. (2014). stayed "Article on State Run Banks". *NPA in Banks* . Times of India.

Parimalam, A. S. (2007). "NPA Malaise in India Commercial Banks". *Facts For You* , Vol. No. 27 (Issue No. 11), pp. 38-42.

Prabhakar B.A. (2013). article on "Slowdown in Economy of Andhra Bank due to NPA". (*August Issue*) .

Radhika R, J. S. (2011). "Non-Performinh Assets: A Study of Scheduled Commercial Banks in India ". *International Journal for Research in Commerce and Management* , Vol. No. 1 (Issue No. 1).

Rajan, R. G. (2014). "Financial Dependence and Growth". *American Economic Review* , Vol. No. 88 (Issue No. 2), pp. 559-586.

Sanjeev, G. M. (2006). "Data Envelopment Analysis (DEA) for Measuring Technical Efficiency of Banks". *Vision: Journal of MDI* , Vol. No. 10 (January-March (Issue No. 1)), pp. 13-27.

Shah R. (2014). Non-Performing Assets. (E. Now, Interviewer) [http://ETnow/business/india/npa/Rashesh Shah-Chairman &CEO-Edelweiss Group-an-interview-with-ET-Now at March/2014](http://ETnow/business/india/npa/Rashesh%20Shah-Chairman%20&CEO-Edelweiss%20Group-an-interview-with-ET-Now%20at%20March/2014).

Sikarwar, R. K. (2010). "Financial Performance of Indian New Private Sector and Public Sector Banks: Comparison". *BVIMSR's Journal of Management Research* , Vol. 2 (April (Issue No. 1)), pp.101-111.

Singh D. J., A. S. (2009). "Non-Performing Assets in Public Sector Banks and Their Resolving Method in India : An Analysis". *Monthly Public Opinion Surverys* (January Issue).

Sinha. (2013). NPA. [http://www.thehindu.com/news/national/corporate-majorscontribute-to-bulk-of-npas-of-banks-cbi-chief/article 5044941](http://www.thehindu.com/news/national/corporate-majorscontribute-to-bulk-of-npas-of-banks-cbi-chief/article5044941.ece). ece @ *The Hindu Business Line/29-08-2013/2:01:50 PM* .

<http://www.canarabank.com/english/about-us/AnnualReport.asp>

http://www.kvb.co.in/global/shareholders/annual_reports.htm

[http://www.bankreport.rbi.org.in/annual report/Report on Trend & Progress of Banking in India, Relevant Issues](http://www.bankreport.rbi.org.in/annual%20report/Report%20on%20Trend%20&%20Progress%20of%20Banking%20in%20India,%20Relevant%20Issues)