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NON-PERFORMING ASSETS LEVELS AND VARIATIONS IN INDIAN BANK GROUPINGS (A CASE STUDY)

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Abstract-
The Banking industry is essential to an economy; as finance is consider being the lifeblood of an economy. It makes easier to carry out a variety of tasks, such as lending of money, making advances and ensuring resources are used effectively to foster the economic growth and development. Due to increase in NPAs, banking industry's efficiency has been falling in the current environment. A significant proportion of NPAs could not be advantageous for the bank or the economy. Large NPAs indicate that a bank has too many loans that are no longer working or aren't generating any interest income for the bank because these are the NPAs. Banks has two options either they can continue to record NPAs in their books in the hopes of recovering them or making preparations for them, or they can completely write off the loans as bad debt. NPA is only one of many criteria to evaluate a bank though. If additional borrowers default their loans, the level of NPAs will continue to rise. The study looks at NPA trends throughout the previous six years (2017 -2022) and compares the performance levels of different types of bank groupings, including both commercial and government sector banks, in terms of NPAs.
Keywords- Reserve bank of India, NPAs, Government sector banks, Commercial sector banks, and Special mention account, Doubtful assets.

I. INTRODUCTION

A non-performing asset is one that no longer brings in income or returns for the lender as well as for the banks. Therefore, the goal of the banks should be to create standards to represent transparency in the balance sheet and to follow best practices from throughout the world. Taken a loan from the bank and unable to pay it back due to a lack of funds, digestive issues, and other factors. Therefore, loans for which the consumer is unable to repay the bank the full amount are considered as non-performing assets.

An asset classification (loans and advances) is divided into three parts:

1. Standard Asset: If a customer pays their instalment amount on time and without missing a payment, they are regarded to be a normal asset by banking regulations.
2. Regular Asset: If the customer pays their instalment amount timely without 0 percent delay or without even delayed by one day such asset is considered as regular asset.
3. Stressed Asset: If the customer pays their instalment amount but delayed by one day such asset is classified as stressed asset. The stressed asset is also sub divided into three types of assets namely:

- SMA-0: Special mention account under which the amount unpaid for a period of thirty days or one month.
- SMA-1: If the amount unpaid for period of sixty days or two months.
- SMA-3: If the amount unpaid for period of ninety days or three months and such asset moves to the non-performing asset category.

Non-performing assets is further classified as:

1. Sub-Standard Asset: An asset for which the amount not paid for a duration of less than twelve months for which such asset is termed as sub-standard asset.
2. Doubtful Asset: An asset for the duration of more than twelve months unable to pay back the amount. In that situation bank doubts that the amount of loan will be unable to recover it back due to which such asset as declare by the bank as loss asset to RBI. Doubtful asset is also further sub divided into three categories namely:

- DA-1: Doubtful asset on which amount remained unpaid for a duration of one year.
- DA-2: An asset for which the amount remained unpaid for duration of two to three year period.
- DA-3: An asset for which the amount remained unpaid for duration of more than three year period.

3. Loss Asset: An asset for which the amount of loan recovery is impossible is termed as loss asset.

To improve the growth prospects and the profitability aspects in the banking sector the regulatory system which comprises of RBI, Ministry of finance, government sector and the financial sector takes the foremost steps to improve the regulatory system regarding the NPAs. (Mohammed Arif Pasha & Srivenkataramana, 2014)[1]

Since 1991 after liberalisation the banking sector undergone and observe the drastic change in the banking industry in India. Banking sector is regarded as one of the backbone for the financial sector that saves from the deposits to meet out the deficits in case of urgency situation. To address both the short and long term needs of any business unit, the government offers loans and advances. Non-performing asset refers to an asset or a loan which is considered as default risk. The asset is regarded as non-performing when the borrower is unable to pay the principle and interest within ninety days.(Jayakkodi & Rengaajan, 2016)[2]

After the involvement of private sector banks the banking sector was considered to be the major sector of an economy.(Malyadri et al., 2011)[3]

According to RBI as stated in June ’2021 should focus upon the non-performing asset classification recognition. The central banks had earlier issued a circular to banks in august 2011, instructing them to put in place suitable IT systems for identifying NPAs and producing relevant data and returns. All accounts will subject to automatic recognition, according to RBI. Number of their size, industry or kind of limit, all borrowed accounts, including temporary overdrafts, will be included in the automatic IT based asset classification system. Investments made by the bank will likewise be protected by the system. According to RBI, this compliance would be evaluated as part of bank’s supervisory evaluation. Additionally, enforcement action will be taken against the offending bank in the event of non-compliance. Efficiency and transparency will increase thanks to system based asset classification . The players (investors, depositors, regulators etc) will be able to have more confidence in the controls and reporting in this crucial sector.

II. REVIEW OF LITERATURE

1.(Dagur, 2022)[4] It has been noted that large-scale scams and poor loans are problems that the public sector banks are dealing with. After the second wave of COVID-19, borrowers found it challenging to repay the loans, which led to stressed assets. For the three years of the investigation, secondary data was gathered. The government helped the borrowers by giving them the benefits of a pause on loan repayment, a freeze on asset classification, and additional liquidity to help them pay back their loans. To increase the effectiveness of operations in the banking sector and reduce risk, banks should concentrate on credit performance, asset quality, and capital adequacy ratio.

2.(Arora & Ostwal, 2022)[5] The comparative study done by the researcher on the commercial and government sector banks related to non-performing assets with the study, it was determined that government sector banks have larger non-performing assets than commercial sector banks.

3.(Rajawat, 2022)[6] The banking industry is dealing with a problem with mounting non-performing assets, which is affecting the sector's development. The level of NPAs in India’s government and commercial sector banks served as the foundation for the researcher’s suggestion for reducing NPAs.

4.(Vibhute et al., 2021)[7] The study examined non-performing asset trends at public sector banks between 2001 and 2012. It was determined that the macroeconomic variables as well as the performance indicators had an impact on the non-performing assets.

5.(Bharti, 2017)[8]It has been noted that the profitability and efficiency of the banks in India have suffered after they were nationalised. The banking industry in India is also facing issues on a worldwide scale, which caused the assets of the banks to turn into bad loans and fail to generate income for the banks, turning them into non-performing assets. The study is supported by secondary data, and ten years of research have gone into it. It looked at the different NPA levels of public, private, and foreign banks. Regulators must therefore develop tight policies based on new technology in this area.

6.(Bhaskaran et al., 2016)[9]In India, the researcher conducted a comparison of the government and commercial sector banks for the duration of ten years. The association between the net advances and NPAs was determined using regression analysis. It was concluded that the commercial sector banks are prominently functioning to diminish the amount of NPAs.
7.(Jayakkodi & Rengaajan, 2016)[2]Failure in the banking sector, which is crucial in determining how the economy grows, had a detrimental effect on the overall system. Large number of NPAs impacts the banks earnings and the net value. Study is conducted upon the secondary data and the data is analysed using the ratio and the correlation. The researcher revealed that commercial sector banks are more-well known than government sector banks.
8.(Mohammed Arif Pasha & Srivenkataramana, 2014)[1]The study looked at developments in NPAs in the banking industry over five-year period. In any business customer plays an important role and the survival of any organisation depends upon the customers. Thus, in today's world its customers play an important role as customers can avail many options as a committed customer plays an important role in a service organisation also.
9.(Sontakke & Tiwari, 2013) [10]The study looked at the NPAs structure in the banking industry. For a five-year period, it tracked the trends of non-performing assets. It came to a conclusion about the actions to be made to lower bank non-performing assets.
10.(Malyadri et al., 2011)[3]Provisions were introduced to improve the efficiency of the banking sector financially. Basis of the study was secondary data analysing the trends and the progress of the banking industry. For study government and the commercial sector banks data has been considered for duration of seven years. The data is analysed with the percentage and compound annual growth rate. Study concluded government sector banks observed the perception has been achieved if compared it with the private sector banks.
11.(UN, 2003)[11]A key challenge for the financial industry has been non-performing assets. Provisions need to be framed for the proper improvement of non-performing assets. The secondary data was used for the study of commercial and the government sector banks in India. The researcher came to a conclusion about the causes of trends and also provided the suitable suggestions for the improvement of the same.
12. (Batra1 & Batra2, 2020)[12] The researcher focused upon the trends for the period 2005 to 2018. The study was done upon the three banks groups. ANOVA was used to find out the trends among the public and private sector banks.

III. RESEARCH GAP

The above mention studies were conducted on the trends analysis to observe the differences and the variations among the different bank groupings. The current study till the year 2023 was done to analyse the variations and differences between the government and the commercial sector banks groupings latest scenario to observe the non-performing assets analysis between them using SPSS statistical tool.

IV. OBJECTIVES

1. To examine the gross non-performing assets rising and falling trends of private and public sector banks in India.
2. To observe trend average compound annual growth rate (CAGR) and standard deviation.
3. To identify which bank group is outperforming the others in terms of trend analysis.

V. RESEARCH ANALYSIS METHOD

The banks group wise secondary data of commercial and government sector banks for the six year period from 2017 – 2022 is gathered from the RBI website and the banks official website. The average gross non-performing assets are used to analyse the loss assets of various bank groupings. One database on gross NPAs is compiled and displays data for various years for each bank. To enable comparison of research data over a six year period, the second database displays the total gross non-performing assets of banks in the public and private sector banks. This data is gathered for five banks in the public and private sectors. To observe the trends descriptive analysis was done using the SPSS.

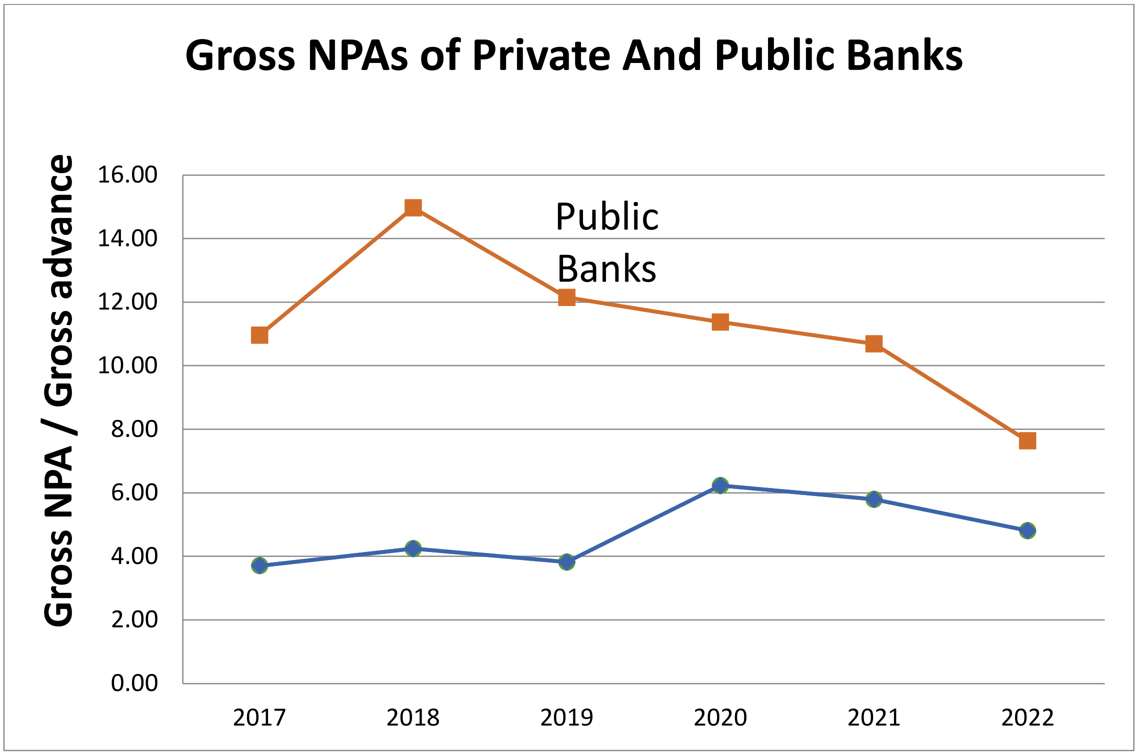
VI. DATA ANALYSIS AND INTERPRETATION

Table 1 shows the average gross NPAs of private (commercial) and public (government) sector banks for 2017-2022.

	Private Banks	**Public Banks**
Year	**Avg. GNP**	**Avg. GNP**
2017	3.71	10.96
2018	4.25	14.97
2019	3.82	12.15
2020	6.23	11.38
2021	5.79	10.69
2022	4.81	7.63
Average	4.77	11.3
CAGR	5.3%	-7.0%
Standard Deviation	1.04	2.37

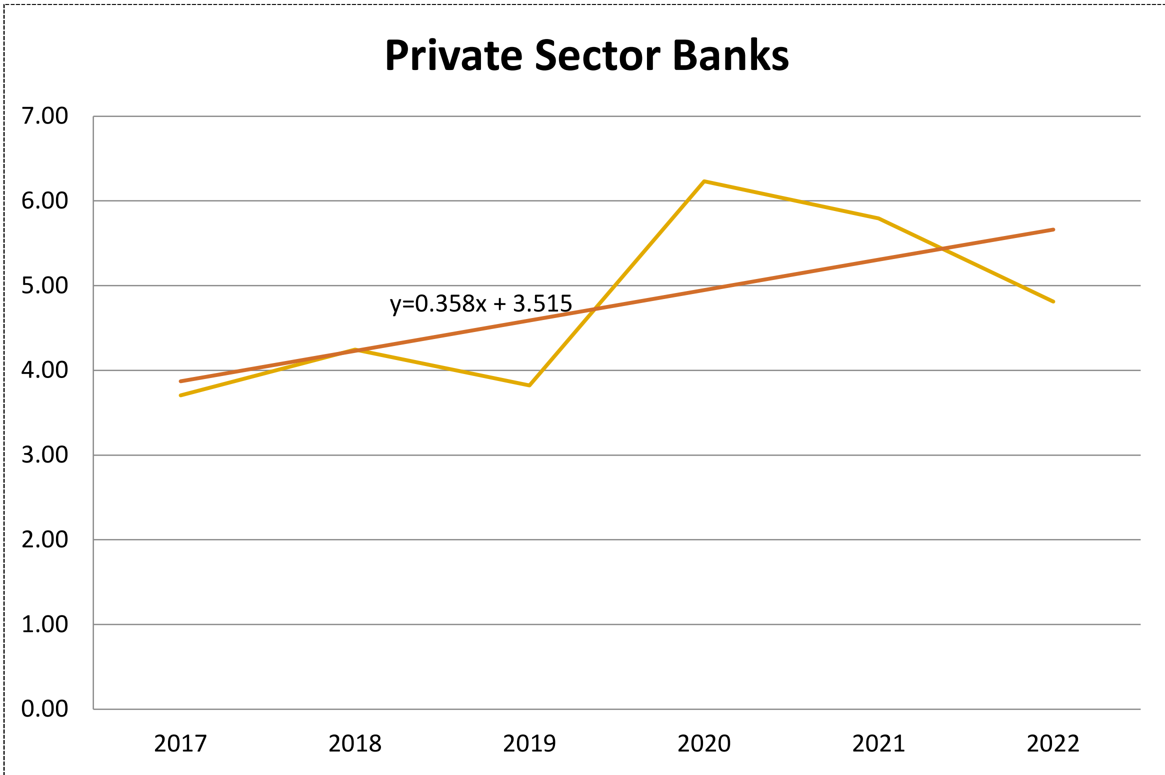
Thus, from the above table it can be concluded average NPAs of public sector banks are highest at 11.3% than the private sector banks is lowest at 4.77%.With a standard deviation of 2.34%, public sector banks have the biggest NPA variance over the time compared to private sector banks, which have the standard deviation of 1.04%.The Compound annual growth rate of NPAs for the government sector banks is negative to 7%p.a, as opposed to 5.3% p.a, for private sector banks. Thus, it can be concluded that the returns on investment of government sector banks is negative as opposed to commercial sector banks. Due to which long term returns can be expected from the private sector banks in fulfilling the realistic goals in regards to revenue profits or other financial metrics. CAGR can be calculated with the final value divided by the initial value multiplied by the number of years and subtracted by 1.

Graph 1: shows the line graphs of gross NPAs of public and private sector banks.



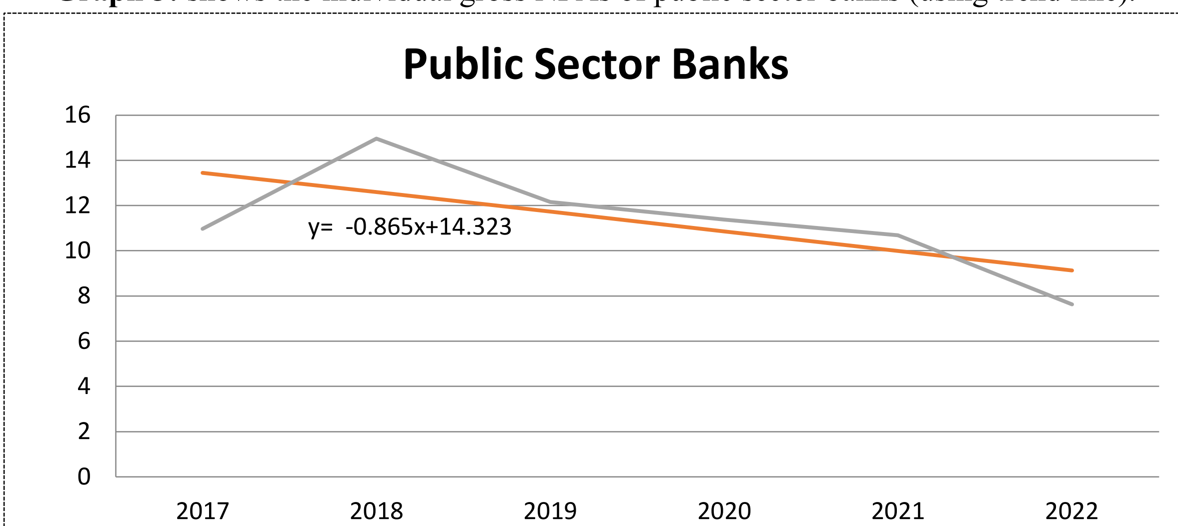
The time series data is presented on a graph, it can be seen if the variable under investigation (gross non-performing assets) under study has grown or shrunk over time and to observe the trends to predict which sector of bank group observed which kind of trend. With the above graph it can be concluded using the time series data that the public sector bank group observed rapid increasing trend if compared with the private sector bank group. It is used to predict the future values based on the previous observed value.

Graph 2: shows the individual gross NPAs of private sector banks (using trend line).



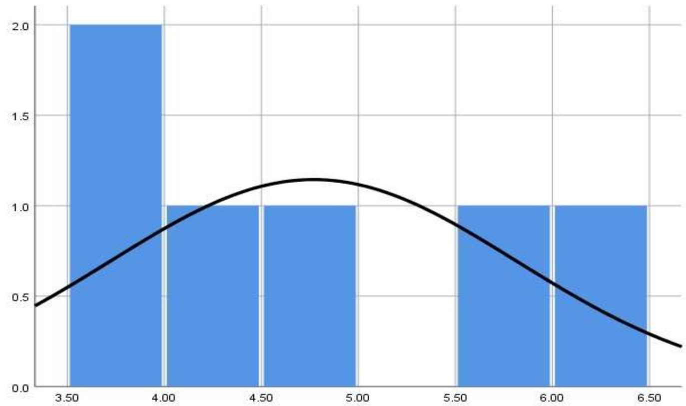
According to the aforementioned graph, private sector banks NPAs are increasing at a slower rate of .35 percent annually. For the year 2017 & 2018 it is observed that the percentage is risen between 3% and 4%. In 2019 downward trend has been observed whereas in 2020 growing trend has been observed. In the year 2021 declining trend has been observed.

Graph 3: shows the individual gross NPAs of public sector banks (using trend line).



The above graph demonstrates that the NPAs of public sector banks are growing at a higher pace of 0.86%p.a as compared to private sector banks. For the year 2017 & 2018 it is observed that the percentage is risen between 10% and 15%. In 2019 downward trend has been observed whereas in 2020 decreasing trend has been observed. In the year 2021 and 2022 decreasing trend has been observed in gross non-performing assets.

Graph 4: shows the bar graph of private sector banks.

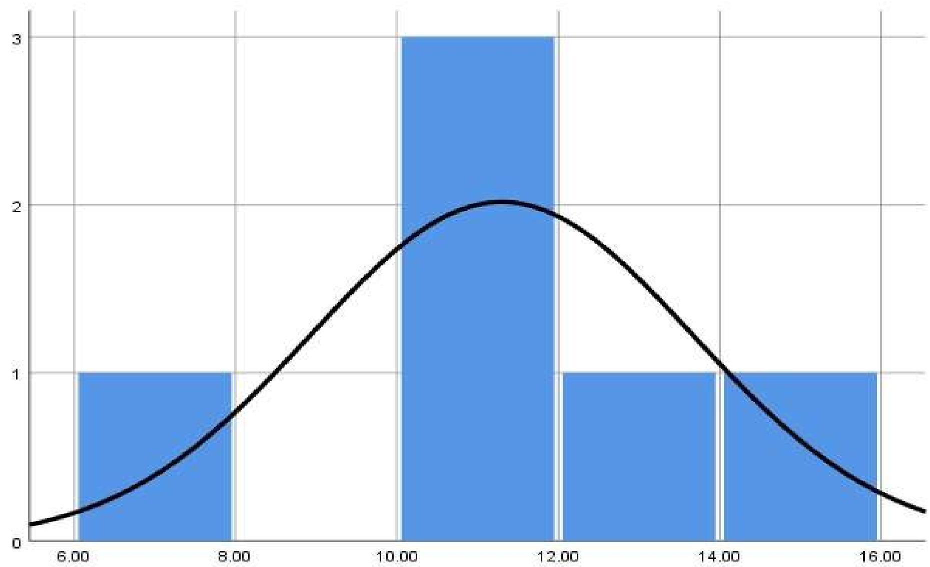


N	Valid	6
	Missing	0
Mean		4.77
Median		4.53
Std. Deviation		1.05
Skewness		.53
Kurtosis		-1.79
Minimum		3.71
Maximum		6.23

The aforementioned graph was created using SPSS. The average mean is 4.77%, meaning that throughout a six year period, roughly 4.77% of the loans made by private sector banks were at this rate. Another indicator of central tendency is the median, which is equals to 4.53%. The maximum observation for private sector banks non-performing assets ratio is 6.23%, it is now 3.71%. The data's standard deviation from the mean is roughly 1.05%.

Graph 5: shows the bar graph of public sector banks.

Public Sector Banks :



N	Valid	6
	Missing	0
Mean		11.30
Median		11.17
Std. Deviation		2.37
Skewness		.014
Kurtosis		1.77
Minimum		7.63
Maximum		14.97

With the aid of SPSS, the aforementioned graph was created .The average is 11.30%, which is greater than that of banks in the private sector. The maximum interest rates are 14.97% or about 8% more than those offered by private sector banks. The data's standard deviation from the mean is larger than average at about 2.37%.

VII. INTERPRETATION

The results of the current analysis demonstrate that banks average non-performing assets are generally increasing over the years 2017 to 2022. The public sector banks average non-performing assets over the time period were significantly greater than those of the private sector bank group. Standard deviation and their yearly growth rate both show that non-performing assets are more variable for public sector banks. This holds true for both kind of data – the annual aggregate of banks in category and the detailed bank by bank data used in each year.

VII. CONCLUSION

Compared to public sector bank group, the private sector banks are performing better in terms of non-performing assets. It might be because of their increased emphasis on efficiency and profitability, according to the business strategy they use. Due to their private ownership, staffs are held more accountable and efficiency in credit analysis is highly valued. More adaptable organisational structures exist there. They are able to adopt appropriate hiring practices and employee performance evaluation procedures in terms of their human resource policies as well, which is helpful for keeping non-performing assets at a low level. Therefore it is crucial to review the public sector bank model so that the threat posed by non-performing assets can be eliminated. To ensure lesser non-performing assets, they must be able to adopt the organisational structure and operating procedures of private sector banks.

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