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Comparative Analysis of Non-Performing Assets amongst various Banking Sector of India

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Abstract
In earlier time when the financial reforms were under taken by the Government of India based on the Narasimham Committee report 1 & 2, Reserve Bank of India proposed some prudential norms to address the credit monitoring policy, which were being followed by the banks and other NBFCs. The Indian banking sector has been playing a vital role in the economic growth for near about 200 years. Banking sector enables transferring of financial resources from households to investors and thus boosts economic growth. Moreover, the banks also create money supply by the process of bank credit which is a passage of monetary policy transmission as well. These loans and advances given by banks to investors in hope of future income are treated as assets for the banks.

***Key Word**: Public sector Banks, Private sector Banks, Non- Performing Asset, Standard Asset, Doubtful Asset, Sub-standard Asset, Loss Asset, Fiscal year.*

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I. Introduction

Non-Performing Assets: The Assets which generate income are called performing assets but those do not generate income are called non-performing assets. An arrear covenant where the borrower has not paid any prior settled upon interest and principal repayments to the designated lender for an encompassing period of time. Consequently the non-performing asset does not yield any income in the form of principal and interest payments to the lender. A non-performing asset is elucidated as a credit facility in respect of which interest or installment of principal has remained past due for a stipulated period of time.

NPAs are an inescapable burden on the banking industry. Banks need to observe their standard asset periodically in order to prevent any account becoming an NPA. Today the success of the bank relies on the best possible administration of NPAs and keeping them inside the resilience level.

Types of Loans and its characteristics:

Nature of facility	Parameters
Term Loan	Interest and installment of principal remain overdue beyond 90 days.
Overdraft/cash credit	Remains ‘out of order’ as indicated above.
Bill purchased/ Discounted	Remain overdue beyond 90 days
Crop loans (Short duration crops)	Installments of principal or interests there on overdue for two crops season.
Crop loans (Long duration crops)	Installments of principal or interests there on overdue for one crop season.
Securitization transactions	Amount of liquidity facility remains outstanding beyond 90 Days.
Derivative transactions	Overdue receivables representing positive mark-to-market value of derivative contract which remains unpaid beyond 90 days from specified due date for payment.

Categories of Assets:

1. Standard Assets: - Asset which doesn't uncover any issue and which doesn't pass on more than standard peril associated with the business.
2. Substandard Assets: - Asset which has remained NPA for a period of less than or equal to 12 months.
3. Doubtful Assets: - An asset would be classified as doubtful if it has remained in the sub-standard category for a period of 12 months.
4. Loss Assets: - A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. Such an asset is seen as uncollectible and of such minimal worth that its term as a bankable asset isn't advocated disregarding the way that there may be some salvage or recovery regard.

Provisional Norms: Provisioning is made on every kind of asset i.e. Standard, Sub-standard, Doubtful and loss assets.

1. **Standard Assets:** -
    a. Direct advance to agriculture or Micro and Small Enterprise (Not medium): 0.25% of outstanding;
    b. Individual Housing Loans: 0.25% of outstanding;
    c. Commercial Real Estate: 1% of outstanding; Corn Real Estate — Residential Housing: 0.75%
    d. Housing Loans with teaser interest rates: 2% of outstanding;
    e. Restructured loans classified as Standard Assets: 5% of outstanding
    f. All others: 0.4% of outstanding.
2. **Sub Standard Assets: -**
    a. Direct Secured substandard: 15% of outstanding balance without considering securities available.
    b. Unsecured substandard: if the loan was unsecured from the beginning: 25% of outstanding balance.
    c. If unsecured substandard for infrastructure: 20% of outstanding balance.
    d. Unsecured exposure means exposure where the realizable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, ab-initio, of the outstanding exposure.
3. **Doubtful Assets: -**
    a. Direct Unsecured portion: Outstanding minus Realizable value of security (RVS): 100 %
    b. Secured portion: RVS: 25% to 100% depending on the period tor which account is doubtful.

Age of Doubtful Asset	**Provision as %of secured portion**
Doubtful up to 1 year; D1	25% RVS (Realizable Value of Security)
Doubtful for more than 1 year to 3years; D2	40% RVS
Doubtful for more than 3 years; D3	100% RVS

4. Loss Assets: 100% of the outstanding amount.
5. Provisioning pertaining to fraud accounts: in case of threats for recovery due to frauds committed by borrowers: 100% of the outstanding amount is to be provided over four quarters.
6. If loan is guaranteed by ECGC, CGFT or CGFLHS, provision on unsecured portion of Doubtful asset after deducting guarantee cover.
7. Provision on advance against FD, NSC, LIP, KVP as per their asset classification.
8. Overall provisions: Provisioning coverage ratio, including floating provisions, should not be less than 70%.
9. Provisioning coverage ratio is the ratio of provisioning to gross NPAs.
10. Provision on Standard account to be kept as part of Other Liabilities in S.thedule-5 of bank's balance sheet.
11. Provision on Standard accounts to be done on Global balance and for NPA accounts on Gross Balance.
12. For Doubtful accounts, provision to be done separately for secured portion and unsecured portion of total balance in the account.
13. In case of standard and sub-standard assets, provision is on outstanding balance without bifurcating the balance into secured or unsecured.
14. Floating provisions can be deducted from Gross NPAs or treated as part of tier II capital but not both.
    Source: http://www.rbi.org.in

II. Research Design

Scope of the Study:
1. The assessment could prescribe measures for the banks to avoid future NPAs and to lessen existing NPAs.
2. The assessment may help the government in making and executing new techniques to control NPAs.
3. The assessment will help with picking proper techniques fit to manage the NPAs and build a time bound action plan to monitor the growth of NPAs

Purpose of the Study: The fundamental reason for the assessment is to comprehend and examine the NPA level of private and public sector Banks by considering some private part Banks. To comprehend what are the elements that add to NPA. To recommend a few measures so as to lessen the degree of NPA. This assessment would likewise thusly impact the Banks to recognize the issues relating to the record and to keep away from the event of any record transforming into NPA.

Statement of the problem: The substance of the Banks will be undermined depending on the level of NPA. In case banks have various records that are going out to NPA, the nearness of the bank would be irksome. The banks which have higher NPA can lose the conviction of the customer and moreover it would impact the liquidity, profitability and solvency position of the bank.

Limitations:
1. The study is limited to the degree of the availability of data.
2. The duration of the study is limited for four years.
3. The study of non-performing assets limited to the Indian Banks.
4. NPAs are time variant. The study is done in the present condition without predicting future advancements.

III. Research Methodology

The study is intended to be done with the assistance of auxiliary information for the reason to and comprehend the NPA level of private and public sector Banks.

Source of data: Secondary data was collected from the reports, articles, journals, documents, printed literatures, certain web sites and other online data bases etc.

Factors contributing to NPA:
According to the recent study conducted by RBI, the factors contributing to NPA are divided into three segments
1. Internal factors
2. External factors
3. Other factors

Internal factors:-
1. Diversion of fund for modernization, diversification, expansion, or for taking up new projects.
2. Time or cost overrun during the project implementation stage.
3. Slackness in credit management and monitoring.
4. In efficiency in bank management.
5. Business failure due to product failure, failure in marketing etc.
6. In appropriate technology or problems related to modern technology.
7. Diversion of fund for assisting or promoting associate concerns.

External factors: -
1. Recession in the economy as a whole.
2. Exchange rate fluctuations
3. Input or power shortage
4. Change in government policies
5. Price escalation of inputs.

Other factors: -
1. Sudden slamming of capital market and failure to raise sufficient assets.
2. Poor observing of credits and inability to perceive early notice signals appeared by standard resources.
3. Granting of advances to specific parts of the economy based on government orders instead of business goals.
4. Mismatching of assets for example utilizing advances allowed for present moment for long haul exchanges.
5. Liberalization of the economy and the resulting pressures from progression like a few rivalries, decrease of duties and so forth.
6. Presence of willful defaulters who are borrowers who have deliberately defaulted on their obligation administration commitment understanding that the lawful asset accessible to loan supervisors is delayed in accomplishing results

Table no 1:Gross NPA of Banks Group-wise

It is evident from the above table that we are provided with group wise data of gross NPA of all banks. It is visible that the PSBs saw a rise in NPAs in the first three fiscal years while there was a slight drop in 2019 from 8956 to 7395. Meanwhile PVBs' gross NPA experienced constant growth through all the years from 562(FY 2016) to 1836(FY 2019). The stats of FBs show no promising growth but only downfall in its GNPAs.

If we look at the overall scenario, we can see that the combined GNPAs of all the banks rose from 2016 to 2018 while it declined in 2019.

Table no 1

(All figures are in Billion)

Bank-group/ Year	**PSB**	**PVB**	FB	ALL SCBs
FY 2016	5,400	562	158	6119
FY 2017	6,847	932	136	7,918
FY 2018	8,956	1,293	138	10,397
FY 2019	7,395	1,836	122	9364

Source: http://www.rbi.org.in

Table no 2:Net NPA of Banks Group-wise

The above table enlightens us with the Net NPA of All the banks in a group wise manner. Both PSBs and PVBs saw a climb in the NPA in the first three fiscal years but the net NPA of PSBs dropped drastically in 2019 from 4545 to 2851 while NPA of PVBs continued to grow. If we take a glance in FBs, the NPA fell down from 2016 to 2018 and increased in the final fiscal year from 15 to 20. So we can draw conclusion that the Net NPA of all the banks increased in first 3 fiscal years and declined in 2019.

Table no 2

(All figures are in Billion)

Bank-group/ Year	**PSB**	**PVB**	**FB**	**ALL SCBs**
FY 2016	3,204	267	28	3,498
FY 2017	3,831	478	21	4,331
FY 2018	4,545	642	15	5,207
FY 2019	2,851	673	20	3,550

Source: http://www.rbi.org.in

Table no 3:Classification of Loan Assets of PSBs

Table 3 shows the classification of loan assets of Public Sector Banks. It is quite evident that the standard assets have constantly been on decreasing side from fiscal year 2016 to fiscal year 2018 while it saw a rise in fiscal year 2019. There is no regular trend seen for sub-standard assets. Doubtful assets have drastically increased from fiscal year 2016 to fiscal year 2018 seeing a major drop in the fiscal year 2019. The same goes with the loss assets except the fact that in the fiscal year 2019, the loss assets actually rose from 465 in 2018 to 662 in 2019. Thus we can conclude that the Public Sector Banks as a composition performed comparatively well in fiscal year 2019.

Table no 3

(All Amount are in Billion)

Assets/Fiscal Years	**Standard Asset**		**Sub-Standard Asset**		**Doubtful Asset**		**Loss Asset**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
FY 2016	52,875	90.7	2,005	3.4	3,232	5.5	163	0.3
FY 2017	51,816	88.3	1,731	3	4,904	8.4	213	0.4
FY 2018	46,021	84.5	2,053	3.8	5,936	10.9	465	0.9
FY 2019	50,868	87.8	1,374	2.4	5,064	8.7	662	1.1

Source: http://www.rbi.org.in

Table no 4:Classification of Loan Assets of PSBs

Table4 shows the classification of loan assets of Private Sector Banks. From the table we see that standard assets have been on increasing side throughout the four years. On the other hand a similar trend has been seen for sub-standard assets and doubtful assets as they both increased constantly from the fiscal year 2016 to 2019, except for the fiscal year 2018. If we go through the doubtful assets, there has been a substantial increase throughout the four years.

Table no 4

(All Amount are in Billion)

Assets/Fiscal Years	**Standard Asset**		**Sub-Standard Asset**		**Doubtful Asset**		**Loss Asset**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
FY 2016	19,184	97.2	186	0.9	311	1.6	62	0.3
FY 2017	21,748	95.9	310	1.4	519	2.3	90	0.4
FY 2018	24,505	96	272	1.1	699	2.7	52	0.2
FY 2019	31,035	95.2	424	1.3	1,046	3.2	95	0.3

Source: http://www.rbi.org.in

Table no 5:Classification of Loan Assets of FBs

Table 5 shows the classification of loan assets of Foreign Banks. In FY 2016 loss assets was 0.9% amounting to 36 billion whereas in the FY 2017 it was 0.4% which amounts to 14 billion. Then it saw a slight increase of 0.1% in the fiscal year 2018 from FY 2017 while it witnessed a substantial decrease in FY 2019.

Table no 5

(All Amount are in Billion)

Assets/Fiscal Years	**Standard Asset**		**Sub-Standard Asset**		**Doubtful Asset**		**Loss Asset**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
FY 2016	3,606	95.8	60	1.6	60	1.6	36	0.9
FY 2017	3,304	96	40	1.2	83	2.4	14	0.4
FY 2018	3,495	96.2	38	1.1	84	2.3	16	0.5
FY 2019	3,947	97	32	0.8	79	2	11	0.3

Source: http://www.rbi.org.in

IV. Resultand Discussion

Suggestions to reduce NPAs

Advances provided by banks should be done pre-endorsing assessment and post payment control with the goal that NPA can diminish. Great administration required on the side of banks to diminish the degree of NPA. Proper assortment of borrowers and follow-ups required to get convenient instalment. There are some legal measure in order to recover NPAs:-

1. Preference of Claims: - Banks should quickly and properly claim compensation from organizations like Deposit Insurance and Credit Guarantee Corporation calledDICGC, Export Credit Guarantee Corporation calledECGC, Credit Guarantee Fund Trust for small scaleindustries, Insurance Companies and so on and conjureGovernment/other individual certifications to recover loans dues and decrease Non-performing assets.
2. Technical WriteOff:- Regularly banks choose discountinglittle credits which have gotten awful and the recuperation isn't at all conceivable in those records under any conditions by virtue of the realities that the borrower may have been lapsed; he has no way to reimburse the advance at any expense and there might be colossal misfortunes in regard of the properties and so forth. This is for the sole reason for adjusting such non performing accounts.
3. One Time Settlement Scheme: - To minimize the total sumof non-performing assets, the Indian government and Reserve Bank of India have been periodically announcing one-time compensation schemes over the past few years.While borrowers are alive and when borrowers are farmers, small traders, etc., and they find it very difficult to pay their dues for different reasons such as poor health and falling into their business projects, however, they are inclined to repay their debts to the banks, this form of activity is of great benefit to borrowers and lending institutions.The banks are definitely in a position to lose any portion of their loan amount when they carry out a one-time portion of their loan amount when they carry out a one-time settlement scheme.
4. LokAdalat's:- It is a legal forum for the prompt settlementof credit duties on agreement between the bank andborrower's settlement by the LokAdalat.
5. Recovery camps: - Bank workers collectively approach thedefaulting borrowers for repayment at a suitable location and time for both parties. Small loans are better suited for these. Normally, in rural and semi-urban areas, borrowers who had used small loans would be more in number than urban and metro centers. Instead, the banks are looking for regions rather than metro and urban centers. As such, instead of conducting the recovery camps at their branches, banks typically perform such recovery camps in locations such as panchayat board offices, court houses, government department houses etc. these recovery camps so that borrowers find it easy to attend the recovery camps. In some cases, the bank branch manager, along with certain branch officers, goes to each of the borrowers' house visits and collects the installments due in respect of their loans. This form of recovery camp would be effective if the borrowers state the date of the recovery camps are served with an advance notice.
6. Compromise proposal: - Compromise routes are followed bybanks, where borrowers face serious problems and regular recovery is not feasible.These plans should be considered taking into account the history of the borrowed account, the protection available, the net borrower / guarantee interest, time value of offer made etc.
7. Securitization Act: - the Secularization and financial assetsand enforcement of security interest–SARFAESI Act 2002 seeks to enable banks as protected investors to take ownership, handle and sell shares without court / tribunal interference.This also attempts at securitization or reconstruction business asset rehabilitation.

V. Conclusion

NPAs drain the banks' capital and weaken its financial power. It is as much a political issue as it is a financial one. The banks and financial institutions should be more constructive in pursuing a realistic and systematic strategy of non-performing asset management where priority is given to prevention of non-performance assets.Public-sector banks are more on the NPA basis relative to private-sector banks. Public sector banks must be more cautious in preventing any account being an NPA by effectively taking adequate preventive steps.

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