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A Study on Non-Performing Assets in Selected Public and Private Sector Banks in India

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ABSTRACT

Banks were considered as a backbone to the Indian economy. The growth of banking plays a key role in the economic development and social uplifting of the nation. The economic development of the country is largely linked in channelizing funds from surplus units to deficit units. An efficient banking system of nations has significant positive externalities, which increase the efficiency of economic transactions. The Indian banking sector has been facing serious problems of raising nonperforming assets and frauds. Non-performing assets inevitable burden on the banking sector and adversely affect the liquidity, profitability and solvency of the banks. The failure of the banking sector in any country may have an adverse impact on other sectors like agriculture, small scale units etc. In this paper, an effort has been made to analyze the concept of non-performing assets, comparison between selected publics sector banks and private sector banks. This study identifies and concludes that the commercial banks have significantly improving their performance in the area of non-performing assets.

KEY WORDS: Bad loan, Gross non-performing assets, Net non-performing assets, Recapitalization, Turnaround.

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INTRODUCTION

In second half of financial year 2016-2017 the Reserve Bank of India and the banking sector was busy replacing physical currency after the demonetization. As a result, tackling the burning problem of bad loans in banks' balance sheets was postponed. In June 2017, the Reserve Bank of India moved swiftly and identified 12 large defaulters accounting for a quarter of the total bad loans in the banking sector and to be referred to the insolvency tribunal. In August, quarter set of two dozen plus companies were shortlisted for resolution. Lenders, the National Company Law Tribunal and Insolvency and Resolution Professionals are working hard to meet deadlines and close cases. The government also came out with an Rs.2.11 trillion package for Public sector banks, which will give them much needed capital to come out of the bad loan mess.

Meanwhile, banks are struggling in their core activity, as long growth has been week. At five percent year-on-year increase, advances growth was at sixty- year low in financial year 2017. Retail loans are growing rapidly but corporate loans are a problem.[1]

LITERATURE REVIEW

Many studies have been conducted by researchers on Non-performing assets in banking Industry. The literature obtained by investigator, in the form of research articles, Reserve Bank of India, the research studies, articles of researchers, and magazines and websites in the related area, is briefly reviewed in this part.

Kirnan N.K.[2]. in this article the researcher tries to Seek a solution to the problem of NPA in the small Scale industries under the present circumstances of banking and insurance working together under the same roof.

Avinash V.Raikar[3]in his research paper on the topic, "Co-operative Credit Institutions in India: An Overview. "examined the similarities and dissimilarities, remedial measures.

Pacha Malyadri, S. Sirisha[4] held that the proper policies adopted by the banks regarding disbursement of the loan, good chain of recovery, continuous and systematic way of working has also made the NPAs to diminishing rates"

Bhatia .S. and Verma. S[5]Non-Performing Assets (NPAs) in short term co-operative credit structure. He observed that the banks have to evolve recovery strategies and plan for recovery management. He concluded that if they fail to improve the recovery, the huge burden of NPAs is really breaking the backbone of the short term co-operative credit structure in India.

Kaveri .V.S.[6] in their study concluded that accounting norms have been modified substantially and mechanisms are in place for reduction of bad debts.

Mayilsamy,R[7]studied Non-performing assets in Indian banking sector and concluded that public sector banks accounted for 78 percent of total non-performing assets and this due to falling revenues from traditional sources.

MS. Asha Singh [8] in his research paper title "Performance of Non-Performing Assets in Indian Commercial Banks" analyzes Non-performing assets in weaker sections of public Sector banks and private sector banks specifically in India. The study observed that there is increase in advances over the period of the study. It concluded that public sector banks should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.

Srinivas K T[9] presented a research paper on "A study on Non- Performing Assets of Commercial Banks in India: A Threat to Indian Scheduled Commercial banks. In this paper he analyzed to gain insights into the position of Non-performing assets in priority sector advances by scheduled commercial Banks.

Seema Gavade-Khompi[10] in their study concluded that Non-Performing assets is a major problem and hurdle faced by banking sector. And also assessed the various causes for accounts for becoming non-performing assets are willful defaults, improper processing of loan proposals, poor monitoring and so on.

SCOPE OF THE STUDY

As far as the scope of the study is concerned, the study covers the composition of Non-Performing assets of selected public and private sector banks are operating in the country.

OBJECTIVES OF THE STUDY

1. To study the status of Non-Performing Assets in selected public and Private sector banks.
2. To make a comparative analysis on Non-Performing assets ofselected public and Private sector banks.
3. To study the impact of Non-Performing Assets on Banks performance.
4. To make recommendations and measures to manage Non-Performing assets.

Hypothesis

Null Hypothesis (H_0): There is no significant difference between the Non-Performing assets of Selected Public and Private Sector banks.

Alternative Hypothesis (H_A): There is a significant difference between the Non-Performing assets of Selected Public and Private Sector banks.

RESEARCH METHODOLOGY

Methodology describes the research route to be followed, the tools to be used, sample of the study for the data to be collected and the tools of analysis.

Tools for data collection

This study is completely based on secondary data. The data required for the study has been collected from annual reports of respective banks, Journals, Magazines, Previous research works and Reserve bank of India website.

Tools for data analysis

Data gathered from financial statement is analyzed by using the statistical techniques of Mean, Standard Deviation and Two-way Analysis of Variance (ANOVA).

Period of the study

This study covers a period of three years i.e. 2015, 2016 and 2017 financial years.

LIMITATIONS OF THE STUDY

- ✓ This study of nonperforming assets in selected public and private sector banks are based on secondary data.
- ✓ The study is confined only to the selected financial indicators and the study is confined for the period of two years.
- ✓ In the present study only the selected public and private sector banks have been considered.

Table: 1
Gross non-performing assets, Net non-performing assets and Return on Assets of Selected Public and Private Sector Banks

Year	Indicator	State Bank of India	Punjab National Bank	ICICI Bank	Axis Bank
2015 2016 2017	Gross Non-Performing Assets (%)	4.25 6.50 6.90	6.55 12.90 12.53	3.78 5.21 7.89	1.34 1.67 5.04
2015 2016 2017	Net Non-Performing Assets (%)	2.12 3.81 3.71	4.06 8.61 7.81	1.61 2.98 5.43	0.46 0.74 2.27
2015 2016 2017	Return on Assets (%)	0.68 0.46 0.41	0.53 -0.61 0.19	1.86 1.49 1.35	1.83 1.72 0.65

Source:Banking Annual, January 2018, Volume 9, Issue1

Hypotheses:

Null Hypotheses

H_{0A} = $\mu_1 = \mu_2 = \mu_3$ i.e. Gross Non-Performing assets do not differ significantly between the banks.

H_{0B} = $\mu_1 = \mu_2 = \mu_3$ i.e. Gross Non-Performing assets do not differ significantly between the years.

Alternative Hypotheses

H_{AA}at least two of the means are different i.e. Gross Non-Performing assets differ significantly between the banks.

H_{BB} at least two of the means are different i.e. Gross Non-Performing assets differ significantly between the years.

Table: 2
Two-Way ANOVA
Gross Non-Performing Assets in Selected Public and Private Sector Banks

Source of Variation	**Sum of Squares**	**Degree of Freedom**	**Mean Square**	**F-ratio**	**Critical Value**
Between Banks	98.06	3	32.68	16.29	4.57
Between Years	34.54	2	17.27	8.61	5.14
Error	12.03	6	2.00		
Total	144.64	11			

Critical value $\mu_1 = 3$ and $\mu_2 = 6 = 4.57$ at 5% level of significance.

Critical value of $\mu_1 = 2$ and $\mu_2 = 6 = 5.14$ at 5% level of significance.

Inference

From the output we know that the calculated value of test statistic F_A = 16.29 is greater than the critical value of 4.57. Hence we reject null hypothesis at 5% level of significance and alternative hypothesis is accepted. We concluded that gross non-performing assets differ significantly between the banks.

The calculated value of the test statistic F_B= 8.61 is greater than critical value 5.14. Hence we accept alternative hypothesis at 5% level of significance and reject null hypothesis. We conclude that the gross non-performing assets differ significantly between the years.

Hypotheses:

Null Hypotheses

$\mathbf{H_{0A}}$ = μ_1= μ_2= μ_3 i.e. Net Non-Performing assets do not differ significantly between the banks.

$\mathbf{H_{0B}}$ = μ_1= μ_2= μ_3 i.e. Net Non-Performing assets do not differ significantly between the years.

Alternative Hypotheses

$\mathbf{H_{AA}}$at least two of the means are different i.e. Net Non-Performing assets differ significantly between the banks.

$\mathbf{H_{BB}}$ at least two of the means are different i.e. Net Non-Performing assets differ significantly between the years.

Table:3
Two-Way ANOVA
Net Non-Performing Assets in Selected Public and Private Sector Banks

Source of Variation	Sum of Squares	Degree of Freedom	Mean Square	F-ratio	Critical Value
Between Banks	16.01	2	8.00	6.88	5.14
Between Years	49.78	3	16.59	14.26	4.76
Error	6.98	6	1.16		
Total	72.77	11			

Critical value μ_1= 2 and μ_2 = 6 = 5.14 at 5% level of significance.

Critical value of μ_1= 3 and μ_2 = 6 = 4.76 at 5% level of significance.

Inference

From the output we know that the calculated value of test statistic F_A = 6.88 is greater than the critical value of 5.14at 5% level of significance. Hence we reject null hypothesis and accept alternative hypothesis. We concluded that net non-performing assets differ significantly between the banks.

The calculated value of the test statistic F_B = 14.26 is greater than critical value 4.76 at 5% level of significance. Hence we accept alternative hypothesis and reject null hypothesis. We conclude that net non-performing assets differ significantly between the years.

RESULTS AND DISCUSSION

- It is found that the gross non-performing assets have shown improvement over the period of the study in Public sector banks compared with private sector banks.
- It is observed that the Net non-Performing assets have increased during the period of study especially in selected Public sector banks compared with selected private sector banks.Hence, it may affect the operational efficiency of the banks.
- From the analysis it is clear that Public sector banks suffered with more non-performing Assets compared with private sector banks.
- The private sector banks are practicing more measures to minimise the non-performing assets than public sector banks.
- It is found thatthe gross non-performing assets differ significantly between the banks.
- It is clear that the gross non-performing assets differ significantly between the years.
- From the hypothesis test it is found that the net non-performing assets differ significantly between the banks.
- It is found thatthe net non-performing assets differ significantly between the years.

RECOMMENDATIONS

- The government and management of banks should strengthen the insolvency tribunals to speedy recovery of thenon-performing assets.
- The public sector banks should impart training to the officials the art of lending and adopt well equipped mechanism to recover loans and advances as public sector banks suffering more with non-performing assets than private sector banks.
- The management of banks should recruit insolvency and resolutions professionals to recover non-performing assets.

- The banks should use data analytics, artificial intelligence to know the full status and track record of the clients and customers.
- The management of banks should introduce and practice turnaround plans to identify the important causes for non-performing assets and take measures to recover loans and advances.
- The government and bank managements should improve governance in banking sector to create credibility and loyalty especially in public sector banks.
- The government should also seriously think about recapitalisation scheme for long term existence of the public sector banks.

CONCLUSION

The non-performing assets are a serious problem and danger to the Indian banking and financial system because it destroys the entire financial positions of the banks and economy. The customers and public would not have credibility and loyalty on banking sector due to willful defaulters is increasing. The government, Reserve Bank of India and management of banks should make more reforms in financial sector especially in banking to control and avoid the bad loans and advances.

SCOPE FOR FUTURE RESEARCH

The present study resolves around the area of non-performing assets in selected public and private sector banks in India. There is a scope for further research on the remaining public and private sector banks and foreign banks. There also a scope to research on impact of non-performing assets on banks' financial performance.

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