

TREND OF GROSS AND NET NPA IN PUBLIC SECTOR AND FOREIGN BANKS: A COMPARATIVE ANALYSIS

Aakash Kumar*
Dr. G. Vasanthi**

ABSTRACT

Banking sector plays an eminent role in the development process of any economy towards the development and the overall growth. After the nationalization of Indian banks, banking system has considerably developed with a large network of branches and wide range of financial instruments. In Indian economy banks play a specific role for the upliftment of the economy. As commercial banks are the backbone of every economy, in such circumstances it is important to check the soundness and proper working of banks. Non Performing Assets is an emerging issue in banking system all over the world. It is a burning issue of today's banking. Specifically the problem of NPA in Indian banking is becoming more critical. Present study is an attempt to check the condition of NPA in Public Sector and Foreign Banks through a comparative study of five years i.e 2011-2016.

KEYWORDS: *Foreign Direct Investment (FDI), Economy, Foreign Banks, Soundness, NPAs.*

Introduction

As more corporate are attracted towards India, and India is ranked among top five destinations for FDI among the world, Foreign Banks would have a greater advantage over other banks in India. Foreign Banks have their branches across various countries in the world hence for MNC banking with these banks become easier and good relations develop between the client and the bank in the long term which is beneficial for both. If Foreign Direct Investment (FDI) increases the credit demand in the market increase, hence more banks would be required to fulfill the demand. In case of Foreign Banks an MNC operating in India, who wants to raise funds in the foreign market. The company would prefer an MNC bank as the bank has greater access to international market. In India foreign banks are increasing their share by opening new branches and further many more new foreign banks are coming in India. In this context it is very important to measure the performance of these banks in Indian economy. It has been observed that these banks are very much interested to open their branches in cities and urban areas. They are directly involved in cream skimming. Somehow there are some positive aspects are also attached with foreign banking. These banks are highly technical advanced and their methods of operations are very fast, they are also a source of huge foreign capital. Employment and infrastructure have also grown up due to the entry of foreign banks in India. In present study one aspect of profitability is measured which is based on Non Performing Assets (NPAs). It deeply affects the efficiency and profitability of banks. In recent years it has been observed that the ratio of NPAs is rapidly increasing. In public sector banks it is matter of great trouble. Due to this problem government has decided to merge some public sector banks. In present paper a comparative study of NPAs is involved which includes the NPAs of all Scheduled Commercial Banks, Public Sector Banks and Foreign Banks.

* *Research Scholar, Department of Commerce, Annamalai University, Annamalai Nagar, Chidambaram, Tamil Nadu, India.*

** *Professor, Department of Commerce, Annamalai University, Annamalai Nagar, Chidambaram, Tamil Nadu, India.*

Objectives of the Study

Following are the Objectives of the present Study:

- To disclose the Gross and Net NPA situation in both Public Sector and Foreign Banks during the study period.
- To analyze the trend of Gross and Net NPA of Public Sector and Private Sector Banks.
- To offer valid suggestions and conclusion.

Methodology of the Study

Present study is purely based on the Secondary data which have been collected from the official website of Reserve Bank of India and the annual publication of banks. The data has been analyzed by the simple percentage, trend line and further elaborated with bar diagrams. Data belong from the year 2011-12 to 2015-16.

Causes for Growing NPAs

Repayment capacity of the borrowers is majorly based on the rate of interest, when the rate of interest is increased, the cost of funds for the borrowers also increase, which affects the repayment capacity of the borrowers. Any change in the interest rates by the banks, the borrowers finds it difficult to manage their finances, and, thus ends up as a defaulter of the said loan. This is one of the major causes that increase the NPAs in the banks. Some other internal and external factors may also increase the value of NPAs. In internal factors we may include business failure, project not being completed on time, funds are not properly utilized, poor recovery of receivables etc. In external factors we include shortage of raw material, change in government policies, non payments of dues, industrial recession etc. As per the news report in The Hindu one of the primary reasons for a bank to face a NPA is wrong lending decisions. A big portion of the loans given by banks for trade and for industries, most of the time is not analyzed rightly by the banks and therefore result in bad loans. So there is a need for the banker to learn new ways of appraisal and assessment of credit borrowers.

Classification of Non-Performing Assets or Loans

A per the prudential norms, all the banks are required to classify their advances into four broad categories, i.e. Standard, Sub Standard, Doubtful and loss assets. The Sub-Standard, doubtful and loss assets are individually or collectively known as Non-Performing Assets (NPAs). The following chart gives an overview of NPA classification and provisioning norms in banking sector.

Computation of NPA and Provisioning overdue date + 180 days = NPA date

Classification of Assets	Duration	Ratio of Provisioning
A. Standard Assets	It is not NPA. It does not disclose any problem and it does not carry more than normal risk attached to the business.	0.25%
B. Non-Performing Assets		
1. Sub-Standard Assets	NPA for a period less than or equal to 18 months.	10%
2. Doubtful Assets	NPA for a period exceeding 18 months.	
i. Doubtful I	Up to 1 Year	Secured 20% Unsecured 100%
ii. Doubtful II	Up to 1 to 3 years	Secured 30% Unsecured 100%
iii. Doubtful III	Above 3 years	Secured 50% Unsecured 100%
3. Loss Assets	Identified as loss by Bank/RBI/Auditor	100%

Source: Compiled from RBI Circular UBD, BSD.1.PCB 12/12.05.05/2001-2002 and UBD No. PCB. Cir. 17 Dated 4th September 2004

Note: Gross NPA = B1 + B2 + B3

Net NPA = Gross NPA – NPA Provision

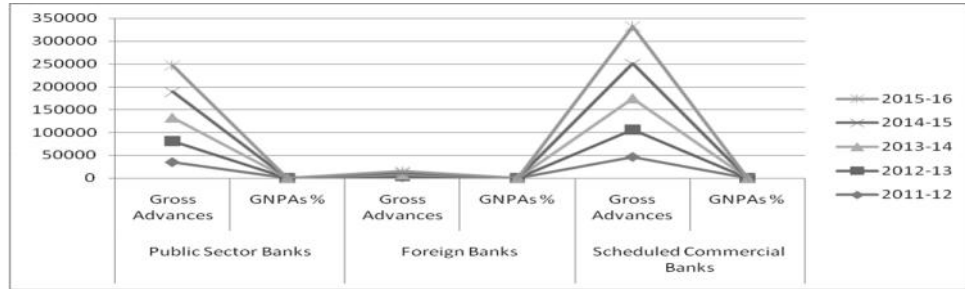
NPA analysis and Findings

Table 1: Gross Advances and Gross Non-Performing Assets

(Amount in Billion)

Years	Public Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	Gross Advances	GNPAs %	Gross Advances	GNPAs %	Gross Advances	GNPAs %
2011-12	35003.89	3.3	2267.77	2.8	46488.08	3.1
2012-13	45601.69	3.6	2604.05	3.1	59718.20	3.2
2013-14	52159.20	4.4	2995.76	3.9	68757.48	3.8
2014-15	56167.18	5.0	3366.09	3.2	75606.66	4.3
2015-16	58183.48	9.3	3763.37	4.2	81673.45	7.5

Sources: rbi.gov.in

**Table 2: Year 2010-2015 of Scheduled Commercial Banks** (Amount in Billion)

Years	Gross Advances	GNPAs	Gross % of GA
2011-12	46488.08	1423.26	3.1
2012-13	59718.20	1935.09	3.2
2013-14	68757.48	2633.72	3.8
2014-15	75606.66	3233.35	4.3
2015-16	81673.45	6119.47	7.5
Correlation	0.85992		

Table 3: Year 2010-2015 of Public Sector Banks (Amount in Billion)

Years	Gross Advances	GNPAs	Gross % of GA
2011-12	35003.89	1172.62	3.3
2012-13	45601.69	1644.61	3.6
2013-14	52159.20	2272.64	4.4
2014-15	56167.18	2784.68	5.0
2015-16	58183.48	5399.56	9.3
Correlation	0.792036		

Table 4: Year 2010-2015 of Foreign Banks (Amount in Billion)

Years	Gross Advances	GNPAs	Gross % of GA
2011-12	2267.77	62.97	2.8
2012-13	2604.05	79.77	3.1
2013-14	2995.76	115.65	3.9
2014-15	3366.09	107.61	3.2
2015-16	3763.37	158.05	4.2
Correlation	0.947312		

Findings

As per the data, the Gross advances given by the banks have increased however it shows the percentage decrease from 28.45 percent to 8.02 percent from 2011-12 to 2015-16. Public sector banks have shown a drastic increase in their Gross Advances which is 3.3 percent in 2011-12 and 9.3 percent in 2015-16. On the other hand there is no drastic change in the Gross Advances of Foreign Banks it was 2.8 percent in 2011-12 and 4.2 percent in 2015-16. The amount of Gross NPA in both the cases is increasing. The overall Gross NPA of all Scheduled Commercial Banks is 7.5 percent although the Foreign Banks Gross NPA is comparatively lower than the Public Sector Banks but it is slightly increasing. It was only 2.8 percent in 2011-12 but it is almost double (4.2) in 2015-16. Correlation of both Public sector Banks and Foreign Banks shows the positive relation between their advances and Gross NPA. It shows that both are increasing and NPA is not in control.

Table 5: Net Advances and Net Non-Performing Assets (Amount in Billion)

Years	Public Sector Banks		Foreign Banks		Scheduled Commercial Banks	
	Net Advances	NNPAs %	Net Advances	NNPAs %	Net Advances	NNPAs %
2011-12	38773.08	1.5	2298.49	0.6	50735.59	1.3
2012-13	44728.45	2.0	2636.80	1.0	58797.73	1.7
2013-14	51011.37	2.6	2911.42	1.1	67352.13	2.1
2014-15	54762.50	2.9	3275.99	0.5	73881.60	2.4
2015-16	55935.77	5.7	3635.51	0.8	78964.67	4.4

Sources: rbi.gov.in

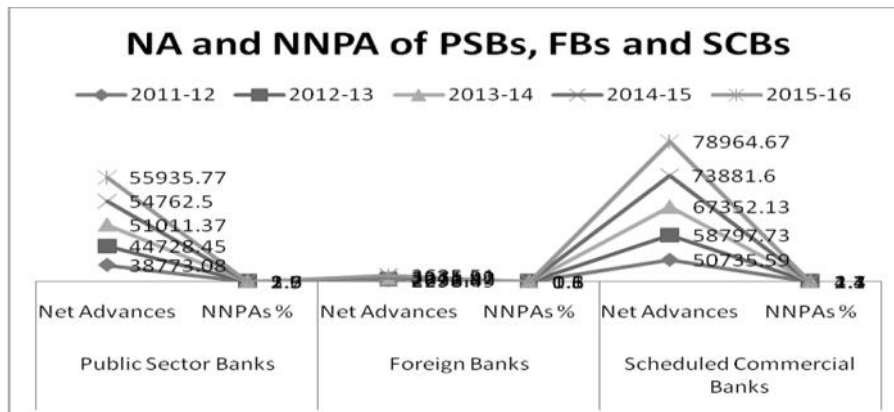


Table 6: Year 2010-2015 of Scheduled Commercial Banks

(Amount in Billion)

Years	Net Advances	NNPAs	Net % of NA
2011-12	50735.59	650.19	1.3
2012-13	58797.73	986.09	1.7
2013-14	67352.13	1423.83	2.1
2014-15	73881.60	1758.41	2.4
2015-16	78964.67	3498.20	4.4

Table 7: Year 2010-2015 of Public Sector Banks

(Amount in Billion)

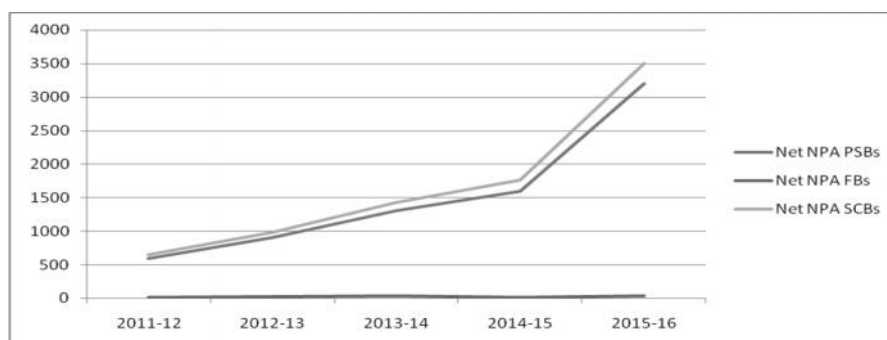
Years	Net Advances	NNPAs	Net % of NA
2011-12	38773.08	592.05	1.5
2012-13	44728.45	899.52	2.0
2013-14	51011.37	1303.62	2.6
2014-15	54762.50	1599.51	2.9
2015-16	55935.77	3203.76	5.7

Table 8: Year 2010-2015 of Foreign Banks

(Amount in Billion)

Years	Net Advances	NNPAs	Net % of NA
2011-12	2298.49	14.12	0.6
2012-13	2636.80	26.63	1.0
2013-14	2911.42	31.60	1.1
2014-15	3275.99	17.62	0.5
2015-16	3635.51	27.67	0.8

Trend of Net NPA



Findings

The Net Advances issued by the Public Sector Bank and Foreign Banks have increased over the years. In Public Sector Banks, it was 1.5 percent in 2011-12 and 5.7 in 2015-16 which is a higher change on the other hand it was not very high in Foreign Banks, it was 0.6 percent in 2011-12 and 0.8 percent in 2015-16. Public Sector Banks are in risk type situation as their NPA is increasing rapidly, it is 3203.76 billion in comparison of 592.05 billion in 2011-12. In foreign banks the rate of NPA is also increasing but the growth is slow. Over the duration of five years the overall rate of NPA has been increased by 96 percent in foreign banks while 441 percent in Public Sector Banks and overall increase in all Scheduled Commercial Banks is 438 percent.

Conclusion

Profitability and efficiency of banks are majorly based on the Stressed Assets or NPA. In recent years it has been observed that the amount of NPA is rapidly increasing in banking sector. In this study it was found that Foreign Banks are performing well in terms of NPA as they have controlled it. It is suggested to the Public sector Banks to adopt all such measures which are applying by the Foreign Banks to reduce the value of NPA in order to increase the profitability and efficiency.

References

- ⇒ Ayesha Tabassum (2015), A Comparative Review of Corporate Governance practices within Banking Sector (Private, Public and Foreign banks): An Empirical Review, Aian Journal of Multidisciplinary Studies, Volume 3 issue 8 pp 138-142.
- ⇒ Smita Ramakrishnan and Reeba kurian (2014), A Comparative Study of Foreign banks and Public Sector Banks with Reference to Non-Performing Assets, National Monthly Refereed Journal of Research in Commerce & management, Volume III, pp 1-13.
- ⇒ Ritika Gauba(2012), The Indian Banking Industry: Evolution, Transformation & the Road Ahead, Pacific Business Review International, Volume 5 Issue I, pp 85-97.
- ⇒ Uyen Dang(2011), The CAMEL Rating System in Banking Supervision: A Case Study, ARCADA
- ⇒ Rehana Kouser and Irum Saba(2012), Gauging the Financial Performance of Banking Sector using CAMEL Model: Comparison of Conventional, Mixed and Pure Islamic Banks in Pakistan, International Research Journal of Finance and Economics, <https://www.researchgate.net/publication/288145630>
- ⇒ El Mehdi Ferrouhi(2014), Moroccan Banks Analysis using CAMEL Model, International Journal of Economics and Financial Issues, Volume 4, No. 3 pp 622-627.
- ⇒ Kesar J. Baral(2005), Health Check-up of Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Banks in Nepal, The Journal of Nepalese Business Studies, Volume II no. 1 pp 41-55.
- ⇒ Golam Mohiuddin(2014), Use of CAMEL Model: A Study on Financial Performance of Selected Commercial Banks in Bangladesh, Universal Journal of Accounting and Finance, Volume 2(5), pp 151-160.
- ⇒ K.V.N. Prasad and G. Ravinder(2012), A CAMEL Model Analysis of Nationalized Bnks in india, International journal of Trade and Commerce-IIARTC, Volume 1, no. 1, pp 23-33.
- ⇒ CA Ruch Gupta(2014), An Analysis of Indian public Sector banks Using Camel Approach, IOSR Journal of Business and Management (iosr-JBM), Volume 16, issue 1, Ver. IV, pp 94-102.
- ⇒ S.S. Rajan et al(2011), Efficiency and Productivity in Indian Banking, Sri Sathya Sai Institute of Higher Learning Anantpur District, (AP), Working Paper No. 199, pp 1-23.
- ⇒ Seyed Mehadi pourkiaei and S. Mahindra kumar(2016), A Performance Analysis of Public, Private and Foreign Banks in India: A Comparative Study, Golden Research Thought, Volume 5, issue 10 pp 1-7.