

A CRITICAL ANALYSIS OF TOP 5 NATIONALISE BANKS NPA

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ABSTRACT:

The banking industry plays a critical role in the Indian economy. Measuring and maintaining the asset quality of banks is important for the development of the banking sector. Nowadays, the asset quality in banks, especially the Public Sector Banks is constantly deteriorating and thus causing intolerable stress to the banking sector, regulators, and Indian economy. The objective of the present study is to understand the level of Non-performing Assets (NPA), and how it influences the profitability of the banks. For this purpose, the study considered Gross and Net NPA of 10 Public & Private sector banks from April 2014 to March 2018. The study identified that both the public and private sector banks gradually increase their Gross & Net NPA during the period. The study found that there is a significant positive relationship between Gross NPA and Net NPA of public and private sector banks. The study also found a significant negative relationship between NPA with Return on Assets (ROA) of public & private sector banks. The impact of ownership (public and private sector banks) significantly influences the Gross and Net NPA. The Gross NPA has a significant negative influence on ROA whereas, Net NPA has a positive influence on ROA of both public and private sector banks. So the study recommends to the regulators and respective bank officials to take the necessary steps to reduce the NPA and improve the recovery mechanism.

INTRODUCTION:

When the study of top five nationalize banks you have to take care about the various and several reasons for increasing the top five nationalize bank NPA Money or assets provided by banks to companies as loans sometimes remain unpaid by borrowers. This late or non-payment of loans is defined as NonPerforming Assets (NPA). They are also termed as bad assets In India, the monitors the entire banking system and, as defined by the country's central bank, if for a period of more than 90 days, the interest or installment amount is overdue then that loan account can be termed a Non-Performing Asset.

In the starting when the financial reforms were undertaken by the government on the based on the Narasimham committee report I and II, Reserve bank of India introduced some prudential norms to address the credit monitoring policy which were being pursued by the bank and other NBFC 's to strengthen the recovery of loans and dues by the banks and the other financial institutions , government of India in the year 1993, promulgated the 'recovery of debts due to banks and other financial institutions act' and the securitization and reconstruction of financial assets and enforcement of security interest act' in the year 2002.

KEYWORD:

Asset Quality, Banking Industry, Gross Non- Performing Assets, Net Non-performing-assets, Non-Performing Assets, Return on Assets.

OBJECTIVES:

- 1. To analyze the top 5 nationalized bank nonperforming assets.**
- 2. To understand effects of nonperforming assets on various sectors.**

- 3. To briefly understand the reasons of arising NPA of nationalized banks.**
- 4. To study the causes and effects of NPAs in Banking Sector.**

SCOPE OF THE STUDY:

The aim of the study is that to understand the NPA of top 5 Nationalized bank and analyze the study of problems due to NPA and also I Studied that affects on the various sectors because of rising NPA's.

RESEARCH METHODOLOGY:

The interpretation of secondary data forms part of the primary data. Data was collected from various websites of respective banks and telephonic communication an discussion with branch manager.

REVIEW OF LITERATURE :-

I have collected this information from this research paper – Varuna Agarwala and Nidhi Agarwala from the Department of Commerce, Vidyasagar University, Midnapore, West Bengal, India. This research paper helps me to analyze and interpreting the causes of NPA.

Kriti, Mrinal Patwari, Ron G. Koshy (BBA F&A B, Department of Professional Studies, Christ University, Bangalore, Karnataka) from this research paper I have collect sectors of NPA.

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Dr.G.Syamala Rao Associate Professor, Department of Management Studies. I collect factors and types from this research paper.

LEGAL FRAMEWORK OF THE STUDY:

As per Reserve Bank of India (RBI) data on global operations, aggregate gross advances of Public Sector Banks (PSBs) increased from Rs. 18,19,074 crore as on 31.3.2008 to Rs. 52,15,920 crore as on 31.3.2014. As per RBI inputs, the primary reasons for spurt in stressed assets have been observed to be, inter-alia, aggressive lending practices, wilful default / loan frauds / corruption in some cases, and economic slowdown. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of NPAs. As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Further, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of PSBs, as per RBI data on global operations, rose from Rs. 2,7,016 crore as on 31.3.2015, to Rs. 8,95,601 crore as on 31.3.2018, and as a result of Government's 4R's strategy of recognition, resolution, recapitalization and reforms, have since declined by Rs. 89,189 crore to Rs. 8,06,412 crore as on 31.3.2019.

AS PER BANKING REGULATIONS ACT 1949:

The Insolvency and Bankruptcy Code, 2016 (IBC) has been enacted, which has provided for the taking over management of the affairs of the corporate debtor at the outset of the corporate insolvency resolution process. Coupled with debarment of wilful defaulters and persons associated with NPA accounts from the resolution process, this has effected a fundamental change in the creditor-debtor relationship. Further, the Banking Regulation Act, 1949 has been amended to provide for authorization to RBI to issue directions to banks to initiate the insolvency resolution process under IBC. As per RBI’s directions under the aforesaid amended provision in the Banking Regulation Act, 1949, banks have been filed cases under IBC before the National Company Law Tribunal in respect of RBI specified borrowers.

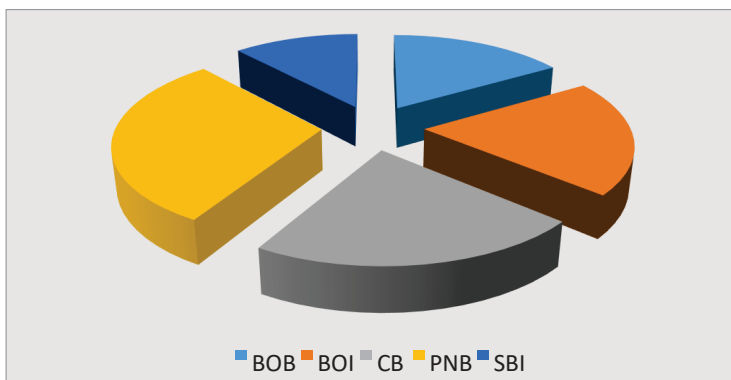
Over the last four years, Government has taken comprehensive steps under its

4R’s strategy of recognizing NPAs transparently, resolving and recovering value from stressed accounts, recapitalizing PSBs, and reforms in banks and financial ecosystem to ensure a responsible and clean system.

INTERPRETATION:

On the basis of the given data, I studied and analyzed top 5 nationalized bank NPA and discussing the various factors affects due to NPA as well as the problem arise.

PRIMARY DATA:



BANK NAME	TREND OF NPA
<u>1.SBI</u>	FLUCTUATING
<u>2.BOB</u>	SLOWLY INCREASING
<u>3.PNB</u>	FLUCTUATING
<u>4.BOI</u>	FLUCTUATING
<u>5.CB</u>	FLUCTUATING

• I asked open ended question to the despondence is that **Previously an asset be called NPA after 180 days, but now it is being changed to 90 days In Indian content .Do you agree with it?**

All of them said ‘YES’ to the particular question.

- I asked them about the reasons of assests becoming the Non performing assets

They replied their responds in different reasons,

Reasons are;

SBI Manager said, lack of knowledge of area handling.

BOB and CB manager said, Lack of timely activites is the main problem.

PNB manager said that, Managerial deficiency during work.

BOI manager said, loans are not refunded on time.

They replied on my question, **Do you think any one the strategy below mentioned is helpful to reducing NPA ?**

A. securitization of asset (debt)

B. legal recovery

BANK NAME	RESPONSE
SBI	legal recovery
BOB	securitization of asset (debt)
PNB	legal recovery
BOI	legal recovery
CB	legal recovery

- **Problems faced by banks because of increasing NPA**
 1. No lender suffer a borrowing the profit margins
 2. Balance sheet Syndrome
 3. Higher interest rate by the banks to maintain the profit margin
 4. Redirecting funds from goods projects to the bad ones
 5. As instruments got stuck, it may result in unemployment
- **Remedies applied to reducing NPA**
 1. sell the assets before the loans become nonperforming assets.
 2. The immediate solution is to sell NPA
 3. Display the defaulter name list publicly
 4. Debt recovery

SECONDARY DATA:

SECTOR AFFECT BECAUSE OF NPA are:

1. Agriculture Sector:-

A loan granted for short duration crops will be treated as **NPA**, if the installment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long

duration crops will be treated as **NPA**, if the instalment of principal or interest thereon remains overdue for one crop season. Agriculture is the backbone of our country, which contributes to 50% of the workforce and 18% of GDP. The Government of India allocated Rs. 1.39 lakh crore for agricultural development during the current fiscal. The government planned to spend Rs. 18000 crores on short term loans, but one of the major drawbacks of lending to agricultural sector is its conversion into NPA. Till June 2019, the Public sector banks had accumulated NPA of 1.04 lakh crore during the current fiscal and had a raise of 20% . According to RBI, an asset is declared NPA if it is not serviced for more than 90 days.

NPA under MUDRA scheme has rose to 126% Y-o-Y from Rs. 7277.31cr to rs. 16481.5cr, an increase of Rs. 9204.14cr. More than 30.57 lakh accounts have been declared as NPAs. Though the value of this is not much but the raise every year is the matter of concern. With public sector banks not willing to lend and NBFCs' regulations becoming more stringent, it is becoming difficult for the agricultural sector to raise money. Since the sector requires credit facility and the NBFCs are not been given the same credit line by the RBI as they used to enjoy couple of years ago, the investment has decreased over the years. This affects the output and hence the GDP of the country.

2. Economical sector:-

NPA plays an important role in every economic condition and also the main cause of the increase in the current account deficit. Interest rates, Loan, Housing Loans, CRR, SLR all are directly affected by the system.

The Corporates also **affect the impact** of higher NPA.

Stress in banking sector causes less money available to fund other projects, therefore, negative impact on the larger national economy.

Higher interest rates by the banks to maintain the profit margin redirecting funds from the good projects to the bad ones.

As investments got stuck, it may result in it may result in unemployment.

3. Banking sector:-

The rapid increase in Non-Performing Assets (NPAs) has become a grave concern for the Indian banking sector. Increased credit risk, deteriorating asset quality, low profitability and inefficient credit growth is subduing the performance of the sector at a large level. The issue of NPAs has surged in the last four to five years.

NPAs have an impact on a bank's financials – net interest margins, profitability, return on assets, dividend payout etc. It also has an overall impact on credit flow and growth of the economy.

While there is no official 'acceptable' limit for an NPA, it is considered manageable if the banking industry in any country has bad loans within 3%.

Compared with most BRICS members, India fares quite poorly: China's NPAs stand at 1.75%, Brazil's at 3.69%, South Africa's at 2.83%, while India's NPAs are at approximately 9.85%.

The non-recovery of loans **effects** not only further availability of credit but also financial soundness of the **banks**. Profitability: **NPAs** put detrimental **impact** on the profitability as **banks** stop to earn income on one hand and attract higher provisioning compared to standard assets on the other hand.

No transparent policies for awarding large contracts; and majority were given to related parties Inflated / fictitious invoices and documents submitted by borrowers to avail loans Control weaknesses were exploited by various stakeholders of the borrower company, Inflated stock statements submitted to bank showing higher debtor and stock levels Round-tripping of funds between various working capital limits with member banks and diversion of funds

INDUSTRY SECTOR:-

Banks' non-performing assets in large industry and services declined 31 per cent in over two years to about Rs 4.36 lakh crore in June this year, Parliament was informed on Monday.

On whether the non-performing assets (NPAs) of big industries and corporate houses have increased sharply as compared to small businesses due to nonrepayment of loans to banks during the last three years. the Reserve Bank of India (RBI) has mandated banks to not accept collateral security in case of loans up to Rs 10 lakh to the micro and small enterprises, among others. The minister said various steps have also been taken to provide relief during the pandemic to these units, including the launch of pre-approved loans under emergency credit line guarantee scheme, relief to banks in their cash reserve ratio requirement from February to July 2020 for incentivizing lending to MSMEs, automobiles and residential housing, among others.

In a separate question on bad loans from domestic operations of the public sector banks (PSBs) that were generated in five specific categories, the minister said the NPAs from these categories stood at over Rs 6.44 lakh crore by end of March 2020.

EFFECTS OF NPA:-

The following are the some of the major problems faced by banks due to NPA's:

- 1) Effect of Profitability of Banks: As NPA's cease to generate income for the banks it will reduce the net interest income of the banks. As NPA's goes on increasing, the net income of the banks will decrease .The cumulative loss of public sector banks crossed a whopping Rs 87,357 crore in the 2017-18 fiscal.
- 2) Increase in provisions of banks: RBI has introduced prudential norms for income recognition and asset classification for Indian banks and financial institutions, to ensure proper

provisioning and transparency in the published accounts. with the prudential norms of RBI, banks need to provide provision on Non Performing Assets. The provisions are made by banks on the basis of classification of assets into Non-Performing Assets. This provision led to substantial provisioning of Rs 5.1 lakh crore in between March 2015 to march 2018.

- 3) Liquidity position: NPA's affects the liquidity position of the banks, thereby creating a miss-match between assets and liquidity and force the banks to raise resources at high cost. The increased NPAs may pose liquidity issues which is likely to lead run on bank by depositors.
- 4) Effect on MSMEs: The disbursement of loans mainly with the large scale firms, this made banks reluctant to issue loans to small scale industries. So MSME suffer from lack of funds from the banks and has to borrow from other sources which would increase their cost of capital.
- 5) Shareholders' confidence: Normally, shareholders are interested to enhance value of their investments through higher dividends and market capitalization which is possible only when the bank posts significant profits through improved business. The increased NPA level is likely to have adverse impact on the bank business as well as profitability thereby the shareholders do not receive a market return on their capital and sometimes it may erode their value of investments. Example: Share price of Punjab National Bank.
- 6) Burden to Government: Since the Government is the majority shareholder in the public sector banks, it has to provide equity capital, if the banks are struggling. As NPA's are increasing PSB's are struggling, so the government needs to provide capital to the banks.
- 7) Higher cost of capital: It shall result in increasing the cost of capital as banks will now have to keep aside more funds for the smooth working of its operations. To generate income and meet the expenses the banks will increase the interest rates.
- 8) Declining productivity: Loans given by the banks are the assets to the banks. Since the Assets (NPA's) of the banks ceases to generate income for the bank there will be decrease in the income which leads to decrease in productivity of the bank's assets.
- 9) Asset (Credit) contraction: The increased NPAs put pressure on recycling of funds and reduces the ability of banks for lending more and thus results in lesser interest income. It contracts the money stock which may lead to economic slowdown.
- 10) Public confidence: Credibility of banking system is also affected greatly due to higher level NPAs because it shakes the confidence of general public in the soundness of the banking system.

11) Ultimate burden on society: It will ultimately affect the consumer who now will have to fetch out more money for paying higher interest. It will lead to lower growth and higher inflation because of the higher cost of capital

Factors for NPA are:-

1) Internal Factors and 2) External Factors

Internal Factors:

1. Funds borrowed for particular purpose are not utilized for the same
2. Defective lending process: There are three principles that are followed by the commercial banks in lending process i.e. principle of safety, principle of liquidity, principles of profitability. Principle of safety means that the borrower is in position to pay back the loan. Therefore the banker should take utmost care in ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is competent of carrying it out successfully, he should be a person of integrity and good character.
3. Inappropriate technology: Due to improper technology and management information system, market driven decisions on real time basis cannot be taken. So all the branches of the banks should be upgraded with current scenario.
4. Improper SWOT analysis: The inappropriate strength, weakness, opportunity and threat analysis is another reason for increase in NPA's so the bank should examine the profitability, viability, long term acceptability of the project while financing.
5. Poor credit appraisal system: Due to poor credit appraisal the bank gives advances to those who are not able to repay it back. As a result the NPA's of the bank increases. So the bank should maintain proper credit appraisal system.
6. Managerial deficiencies: The banker should always select the borrower very cautiously and should take tangible assets as security to safeguard its interests. The banker should follow the principle of diversification of risks which means that the banker should not grant advances to a few big firms only or to concentrate them in few industries or in few cities.
7. Absence of regular follow up: The irregularities in spot visit also increase the NPA's, the absence of regular visit of bank officials to the customer point decreases the collection of interest and principal on the loan.
8. Incomplete and faulty documentation: There should thorough verification by the officials on the documents submitted by the borrowers.

External Factors:

1. Ineffective recovery tribunal: The government has set of number of recovery tribunals, which works for recovery of loans and advances, due to their carelessness and ineffectiveness in their work the bank suffers the consequence of non-recovery, thereby reducing their profitability and liquidity.

2. Willful Defaults:- The Indian Public Sector Banks are worst hit by these defaults. It is a default in repayment obligation. Ex: Kingfisher Airlines Ltd. Is one among many of those willful defaulters. Others are Beta, Naphtali, Winsome Diamonds & Jewelry Ltd., Rank Industries Ltd., X L Energy Ltd. etc.
3. Natural calamities: This is the measure factor, which is creating alarming increase in NPA's of the PSBs. Basically our farmers depends on rainfall for cropping due to irregularities of rainfall the farmers are unable to attain the production level and thus they are unable to repay the loans. So the banks has to make large amount of provisions in order to pay those loans
4. Industrial sickness: Inappropriate project handling, ineffective management, lack of adequate resources, lack of advanced technology, day to day change in government policies produce industrial sickness therefore the banks that finance those industries end up with a low recovery of their loans, by reducing their profit and liquidity.
5. Lack of demand: Entrepreneurs in India could not predict their product demand and starts production which ultimately piles up their product. Thus, making them unable to payback the money they borrow to operate these activities. Therefore the banks record the non recovered part as NPA's and has to make provision for it.

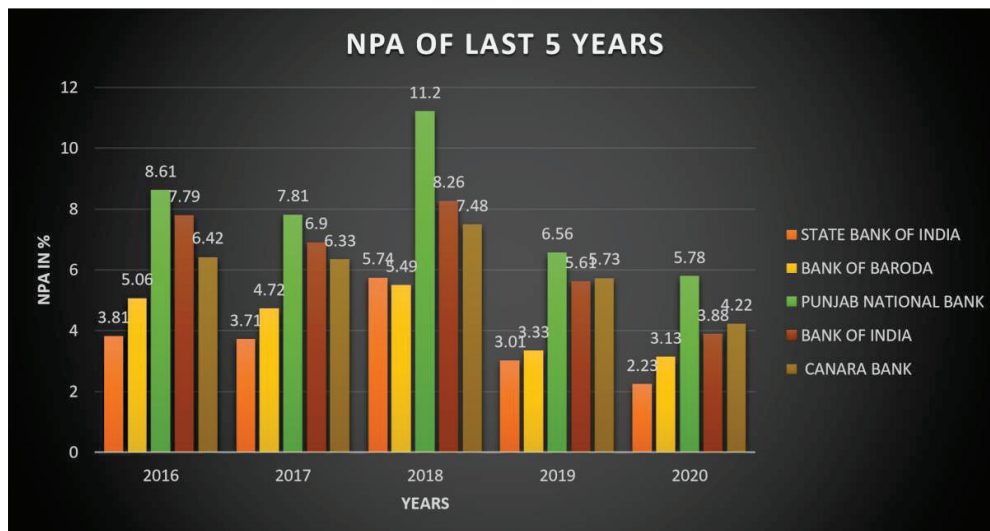
TYPES OF NPA:-

Gross NPA and Net NPA Gross NPA:

1. Gross NPA (non-performing asset) refers to overall quantity of loans that have gone bad debts. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss asset. Gross NPA is a non standard asset, on which bank has made provisions, and which is still held in banks' books of account.

2. "Gross NPAs Ratio = Gross NPAs / Gross Advances" Net NPA:

Net NPAs are those advances which are obtained after deducting the provisions from Gross NPA. Net NPA shows the actual burden of banks. The banks have to make certain provisions against the NPA's according to the RBI guidelines. "Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions"



[ANALYSIS OF TOP 5 NATIONALISED BANK DATA]

- In the year of 2016, Net NPA of **STATE BANK OF INDIA** is 3.81% and its fluctuated following down in 2017 is to 3.71%. In 2018 NNPA raises to 5.74% , NNPA is following down in the Year of 2019 is to 3.01% & also in the year of 2020 its following Down to 2.23%.
- In the year of 2016, Net NPA of **BANK OF BARODA** is 5.06% and its fluctuated following down in 2017 is to 4.72%. In 2018 NNPA raises to 5.49% , NNPA is following down in the Year of 2019 is to 3.33% & also in the year of 2020 its following Down to 3.13%.
- In the year of 2016 ,Net NPA of **PUNJAB NATIONAL BANK** is 8.61% and its fluctuated following down in 2017 is to 7.81%. In 2018 NNPA raises to 11.24% , NNPA is following down in the Year of 2019 is to 6.56% & also in the year of 2020 its following Down to 5.78%.
- In the year of 2016, Net NPA of **BANK OF INDIA** is 7.79% and its fluctuated following down in 2017 is to 6.90%. In 2018 NNPA raises to 8.26% , NNPA is following down in the Year of 2019 is to 5.61% & also in the year of 2020 its following Down to 3.88%.
- In the year of 2016, Net NPA of **CANARA BANK** is 6.42% and its fluctuated following down in 2017 is to 6.33%. In 2018 NNPA raises to 7.48% , NNPA is following down in the Year of 2019 is to 5.37% & also in the year of 2020 its following Down to 4.22%.

□ CONCLUSION

While studying top nationalized banks NPA I found that since 2016 to 2020 non performing assets are fluctuating day by day because of the not repayment of loans and other things as well it was not good for banks and it was not good for our nation as well

because NPA are affect the various sectors that's why we have to find out a solution for the non performing assets problem in a future because this was a major and core issue of our nation.

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