

## Trends analysis of NPA`s public sector banks

\*Miss. Vijayta

### **INTRODUCTION**

A non-performing asset (NPA) is a debt obligation that accrues when the borrower does not make predetermined interest payments and principal repayments to the lender for a time extending the specified period. The non-performing asset is one that does not yield any income to the lender. Usually, after a prolonged period of non-payment, the lender will force the borrower who is at default to sell the assets that were pledged as collateral. If no assets were pledged, the lender might [write-off](#) the asset as a [bad debt](#). Banks usually categorize loans as nonperforming after 90 days of non-payment of interest or principal. If a borrower pays the interest but is unable to repay the principal, even then the loan would be termed as nonperforming. Nonperforming assets also known as nonperforming loans imposes burden on lenders in the form of reduced cash flows and significant amount of provisions to cover loss from bad loans.

A nonperforming asset (NPA) refers to a classification of [loans](#) or [advances](#) that are unpaid. A loan is in arrears when [principal](#) or [interest](#) payments are late or missed. A loan is in default when the debtor is unable to meet his obligations. While 90 days is the standard prescribed time, it may be shorter or longer depending on the terms and conditions of each individual loan. Carrying a significant amount of NPAs on the balance sheet over a period of time is an indicator to regulators that the financial health of the bank is at risk.

Types of Non-Performing Assets (NPA)

Generally term loans are the most common category of loans that become NPAs as the time involved is long. However, there are other forms of nonperforming assets as well which have been discussed as under

- [Overdraft and cash credit](#) (OD/CC) accounts left out-of-order for more than 90 days
- Agricultural advances whose interest or principal instalment payments remain overdue for two crop/harvest seasons for short duration crops or overdue one crop season for long duration crops
- Expected payment on any other type of account is overdue for more than 90 days

### **LITERATURE REVIEW**

Karunakar et. al (2008) carried out a descriptive study explaining the meaning of NPA, determinants of NPA, the growth pattern of NPA, the reasons contributing to high growth of NPA. It has been suggested that it is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms because after granting of loans, credit recovery becomes cumbersome.

Collins and Wanjau (2011) attempted to establish the effects of interest rate spread on the level of Non Performing Assets in commercial banks in Kenya in the year 2008 by using a descriptive research design. Both primary and secondary data have been collected and analysed with the help of both quantitative and qualitative techniques. It has been concluded that interest rate spread affects the performing assets in banks by augmenting the cost of loans. Also, Credit risk management technique affects the value of a bank's interest rates spread.

Balasubramaniam (2012) analysed the option introduced by RBI to implement Basel III norms in the banking sector w.e.f. January 2013. The study has thrown light on the management of NPAs along with the trend analysis of NPAs. It has been found that with increase in the NPAs of the banks under study their profitability faces a setback. Various other challenges pertaining to the performance of banking sector and financial stability of the economy emerge as conclusion of the country have been discussed by means of this paper .

Swamy (2012) analysed the determinants of default risk of banks. The analysis has been carried on by making use of panel data techniques. The objective of the study is to examine the impact of macroeconomic and endogenous factors on non-performing assets for the period from 1997-2009. It has been found that the lending rates are not so important for creation of NPAs. Bank Assets are negatively correlated because large banks have better risk management procedures which led to lower level of NPAs.

Narula and Singla (2014) carried out a study on the non-performing assets of Punjab National Bank and --

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\*M.Phil ,Research Scholar Kalinga University,Raipur(C.G.)

the impact of NPA on profitability & to see the relation between total advances, Net Profits, GROSS & NET NPA for 2006-12. It has been found that there is mismanagement of NPAs by PNB. Surprisingly, it was found that there is a positive relation between Net Profits and NPA of PNB as with increase in profits, NPAs are also increasing due to mismanagement on the part of Bank.

### **OBJECTIVES OF THE STUDY**

To analyse the growth pattern of Gross NPAs to Gross Advances Ratio (%) of top 5 Public sector banks for a period of 10 years ranging from 2009-2018.

### **SCOPE OF THE STUDY**

This study is empirical in nature. Here, we have thoroughly studied the growth pattern of NPAs of public sector banks in India. Top five public sector banks have been selected on the basis of their gross assets.

BANK	TOTAL ASSETS
SBI	3046499.14
PNB	651795.99
BANK OF BARODA	633993.82
CANARA BANK	570558.91
BANK OF INDIA	483764.84

SOURCE: [www.moneycontrol.com](http://www.moneycontrol.com)

### **RESEARCH METHODOLOGY**

#### **DATA COLLECTION**

For this study, secondary data has been collected through different articles, research papers and reports published about NPAs. Data on Gross NPAs to Gross Advances Ratio (%) of top 5 Public sector banks for a period of 10 years ranging from 2009-2018 has been fetched from the DATABASE OF INDIAN ECONOMY (DBIE) of RBI.

#### **STATISTICAL TOOLS & TECHNIQUES**

To analyze the data, AAGR and CAGR have been used. These operations have been carried on the data with the help of MS-Excel.

### **DATA ANALYSIS**

#### **STATE BANK OF INDIA**

STATE BANK OF INDIA				
year	Gross NPAs to Gross Advances Ratio (%)	Annual growth rate	AAGR	CAGR
2009	2.55576425		0.191463956	0.156166
2010	2.824388078	0.105105089		
2011	3.116842213	0.103546017		
2012	4.364225502	0.400207391		
2013	4.424499391	0.013810902		
2014	4.961435754	0.12135528		
2015	4.275813619	-0.138190268		
2016	6.383196649	0.492861293		
2017	9.109472609	0.427101985		
2018	10.90748129	0.197377912		

SOURCE: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>

It can be observed from the above table the growth rate of Gross NPAs to Gross Advances Ratio (%) was positive for all the years except for the year 2015. For all the years NPAs of the bank increased however in the year 2015 it decreased from the NPAs as recorded in the year 2014. The AAGR is 0.19 representing the trend of annual growth be positive and equal to 0.19 whereas the CAGR is 0.15 representing the compounded growth by taking the values of the year 2009 as initial values.

#### **PUNJAB NATIONAL BANK**

PUNJAB NATIONAL BANK
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year	Gross NPAs to Gross Advances Ratio (%)	Annual growth rate	AAGR	CAGR
2009	1.772893965		0.334355988	0.263468
2010	1.707013118	-0.037160061		
2011	1.794840941	0.051451171		
2012	3.147286367	0.753518261		
2013	4.271544809	0.357215172		
2014	5.249626452	0.228976093		
2015	6.547759855	0.2472811		
2016	12.89776951	0.9697988		
2017	12.53429873	-0.028180902		
2018	18.37909563	0.46630426		

SOURCE: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>

It can be observed from the above table the growth rate of Gross NPAs to Gross Advances Ratio (%) was positive for all the years except for the year 2017. For all the years NPAs of the bank increased however in the year 2017 it decreased from the NPAs as recorded in the year 2016. The AAGR is 0.33 representing the trend of annual growth be positive whereas the CAGR is 0.26 computed after giving due consideration to the volatility.

#### **BANK OF BARODA**

BANK OF BARODA				
year	Gross NPAs to Gross Advances Ratio (%)	Annual growth rate	AAGR	CAGR
2009	1.272344708		0.345495741	0.254248
2010	1.64389542	0.29202048		
2011	1.621772991	-0.013457321		
2012	1.889380376	0.165009152		
2013	2.398529901	0.26947963		
2014	2.94176784	0.226487874		
2015	3.718769637	0.264127504		
2016	9.992433804	1.687026834		
2017	10.45717622	0.046509432		
2018	12.25850936	0.172258084		

SOURCE:

<https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>

It can be observed from the above table the growth rate of Gross NPAs to Gross Advances Ratio (%) was positive for all the years except for the year 2011. For all the years NPAs of the bank increased however in the year 2011 it decreased from the NPAs as recorded in the year 2010. The AAGR is 0.34 representing the trend of annual growth be positive whereas the CAGR is 0.25.

#### **CANARA BANK**

CANARA BANK				
year	Gross NPAs to Gross Advances Ratio (%)	Annual growth rate	AAGR	CAGR
2009	1.559276598		0.311179546	0.224759
2010	1.533783528	-0.016349293		
2011	1.470856784	-0.041027135		
2012	1.748403555	0.188697346		
2013	2.566314264	0.467804304		
2014	2.494870169	-0.027839184		

2015	3.893138048	0.560457172		
2016	9.400692389	1.414682519		
2017	9.626089185	0.023976616		
2018	11.84214549	0.230213565		

SOURCE: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>

It can be observed from the above table the growth rate of Gross NPAs to Gross Advances Ratio (%) saw decline in two consecutive years i.e. 2010 and 2011 and then again in the year 2014. The AAGR is 0.31 whereas the CAGR is 0.22.

### **BANK OF INDIA**

BANK OF INDIA				
year	Gross NPAs to Gross Advances Ratio (%)	Annual growth rate	AAGR	CAGR
2009	1.707215759		0.369078953	0.255225
2010	3.314652519	0.941554547		
2011	2.63801085	-0.204136531		
2012	2.905138629	0.101261061		
2013	2.991880578	0.02985811		
2014	3.154628046	0.054396378		
2015	5.390285297	0.708691236		
2016	13.06891787	1.424531755		
2017	13.21638391	0.011283722		
2018	16.57691781	0.2542703		

SOURCE: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>

It can be observed from the above table the growth rate of Gross NPAs to Gross Advances Ratio (%) was positive for all the years except for the year 2011. For all the years NPAs of the bank increased however in the year 2011 it decreased from the NPAs as recorded in the year 2010. The AAGR is 0.36 representing the trend of annual growth be positive whereas the CAGR is 0.25.

### **CONCLUSION**

The government has taken various steps under to deal with the menace of Non-performing assets. This has been done by recognising the NPAs in a transparent manner, resolving and recovering value from stressed accounts, recapitalising PSBs, and by implementing various reform measures in banks and financial system. Steps have been taken to expedite and enable resolution of NPAs of Public Sector Banks, like the Insolvency and Bankruptcy Code (IBC), Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act and stressed asset management verticals etc. After analysing the above data, it is sorry to conclude that these measures have not been fully successful to tackle with the problem of NPAs as the figures are evident that NPAs are still soaring high. It has been suggested that these corrective measures should be accompanied by precautionary measures being adopted by banks at the time of granting of loans.

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**WEBLINKS**

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