An Empirical Analysis of Non-Performing Asset in Selected Banks of India

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Abstract

The profitability of the Indian banking industry is directly impacted by the non-performing assets. It is one of the main issues facing India's banking sector. The execution of several committees' recommendations and the government of India's ongoing attempts have had a favourable influence on the economy by lowering the NPA of the Indian banking sector. Due to strategic planning by the Reserve Bank of India and the finance departments, it began gradually decreasing as a percentage of net advances after 2018. The purpose of this paper is to evaluate the effects of NPA on bank profitability and the techniques used by banks to reduce NPA. The study is based on secondary data that was collected from a variety of bank audited reports, yearly reports from the RBI, websites, etc. It has been determined that the NPA is gradually shifting into a declining mode following the adoption of RBI directives and modification of NPA management strategy.

Key-words: NPA, RBI, Strategic Planning, Policy, etc.

Introduction

The foundation of the Indian financial system is the banking industry. It serves as a go-between for lenders and borrowers. The sound state of the entire economy is ensured by the banking system's proper operation. Credit is created by the lending and depositing of loans. The funds obtained in interest and principal repayments from the loan holders are recycled to purchase new resources. The flow of credit creation in the financial sector is hampered by non-performing assets (NPA). Additionally, it has an impact on the banks' profits and reputation. NPA is one of the most important and crucial metrics used to evaluate the financial performance of any banking organisation. According to the RBI data, gross non-performing assets represent 12.1% of gross advances as of March. [i]

The primary source of income for a bank is interest on loans; if a loan or asset fails to bring in income for the bank, it is referred to be a non-performing asset. The Reserve Bank of India has implemented a number of measures, including Debt Recovery Tribunals (DRTs), SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, and the Insolvency and Bankruptcy Code (2016), to lessen the burden of non-performing assets on banks. According to RBI releases, loans and advances where the interest and principal were past due for a period of 90 days or more are considered non-performing assets. Substandard Assets are assets that have been classified as non-performing assets for 12 months or less. Loss Assets are those where the bank has detected a loss and the asset's value is unrecoverable, whereas Doubtful Assets are assets that have been NPA for longer than 12 months.

Literature Review

Javheri and Gawali (2022) analysed the NPA performance and trend data of banks in the public and private sectors. The study went into detail about how an increase in NPA hinders the banks' capacity to operate profitably and liquidly. Throughout the year, HDFC Bank's NPA performance has been consistent.

Agarwala and Agarwala (2019) outlined the non-performing assets in the Indian banking sector and emphasised the Gross NPA's growth pattern. The study was carried out between 2010 and 2017, a period in which all banks, large and small, faced grave problems as a result of subpar asset management.

Bhardwaj & Chaudhary (2018) investigates the state of commercial banks' non-performing assets and their recovery in India. The study, which included scheduled commercial banks in India from 2001 to 2014, identified a number of reasons why the NPA proportion increased, including a weak recovery framework, flawed lending practises, and wilful defaults.

Chaudhary & Sharma (2011) the study's primary objective is to compare NPA data from private and public sector banks. According to the trend analysis of NPA, private sector banks perform better than public sector banks; public sector banks must improve their management information systems and provide appropriate training to compete with private sector banks.

Objectives of the Study

- To determine the NPA trend line from 2016 to 2021.
- To be appraised of the current NPA situation for banks in the public and private sectors.
- To compare the NPA ratios of certain public and private sector banks.

Research Methodology

According to the literature review, all banks, whether public or private; the issue of non-performing assets affects both. However, the NPA trend had changed after 2020, when the Reserve Bank of India exerted considerable effort. The current study was carried out in order to comprehend the impact of NPA on selected private and public sector banks as well as its trend. The study was conducted between 2016 and 2021 using secondary data from RBI reports, individual bank annual reports, and other sources. MS-Excel and SPSS were used to conduct the tabular analysis of the data.For analysis top four leading private sector and public sector banks as per market capitalization are:[ii]

1. HDFC Bank – 8076.44 billion
2. ICICI Bank – 6250.86 billion
3. Kotak Mahindra Bank – 3714.03 billion
4. Axis Bank – 2505.85 billion

Top four leading public sector banks are:[iii]

1. State Bank of India – 45.34 Lakh Crore
2. Punjab National Bank – 12.6 Lakh Crore
3. Bank of Baroda – 11.5 Lakh Crore
4. Canara Bank – 11.53 Lakh Crore

Data Analysis

The status of gross NPA against the gross advances in terms of percentage of selected bank as on March 2021 are shown in table 1.

Table 1:
Gross NPA to Gross Advances Ratio (in percentage)

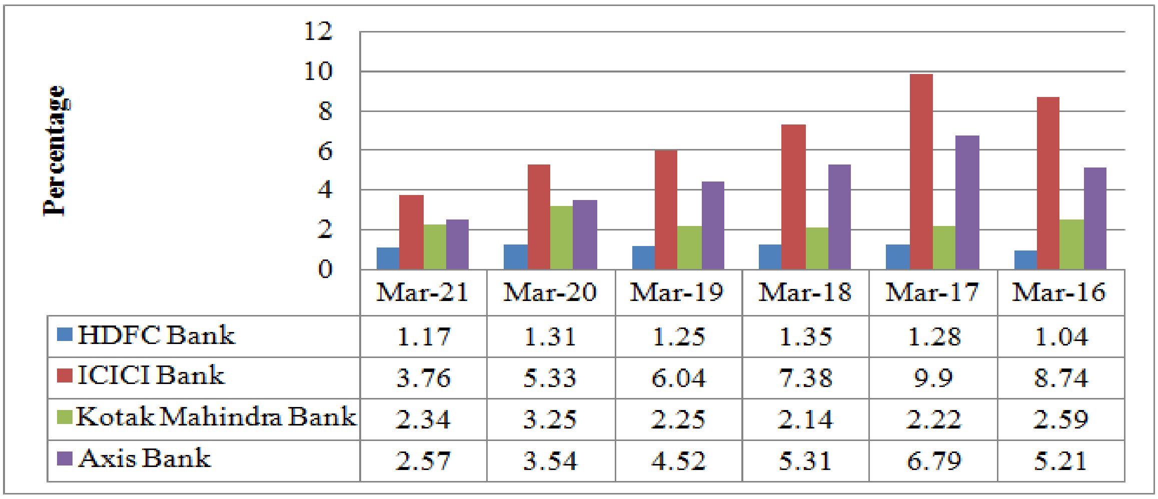
Name of Bank	Gross NPA (in cr.)	Gross Advances (in Cr.)	Gross NPAs To Gross Advances Ratio (%)
HDFC Bank	16100.97	1380514.22	1.17
ICICI Bank	33294.92	885676.34	3.76
Kotak Mahindra Bank	6469.74	276028.21	2.34
Axis Bank	18565.63	721519.54	2.57
State Bank of India	112023.37	2818670.91	3.97
Punjab National Bank	92448.04	785104.36	11.78
Bank of Baroda	54059.39	818120.5	6.61
Canara Bank	54436.38	741147.15	7.34

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

As of March 2021, the public sector's PNB has the highest NPA percentage (11.78 percent), while the private sector's ICICI bank has the highest NPA percentage (3.76 percent). It can be deduced from the aforementioned data that public sector banks have a higher NPA percentage than private sector banks do.

Figure1:

Ratio of gross NPA against gross advances from March 2016 to March 2021 of private sector banks.



	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
HDFC Bank	1.17	1.31	1.25	1.35	1.28	1.04
ICICI Bank	3.76	5.33	6.04	7.38	9.9	8.74
Kotak Mahindra Bank	2.34	3.25	2.25	2.14	2.22	2.59
Axis Bank	2.57	3.54	4.52	5.31	6.79	5.21

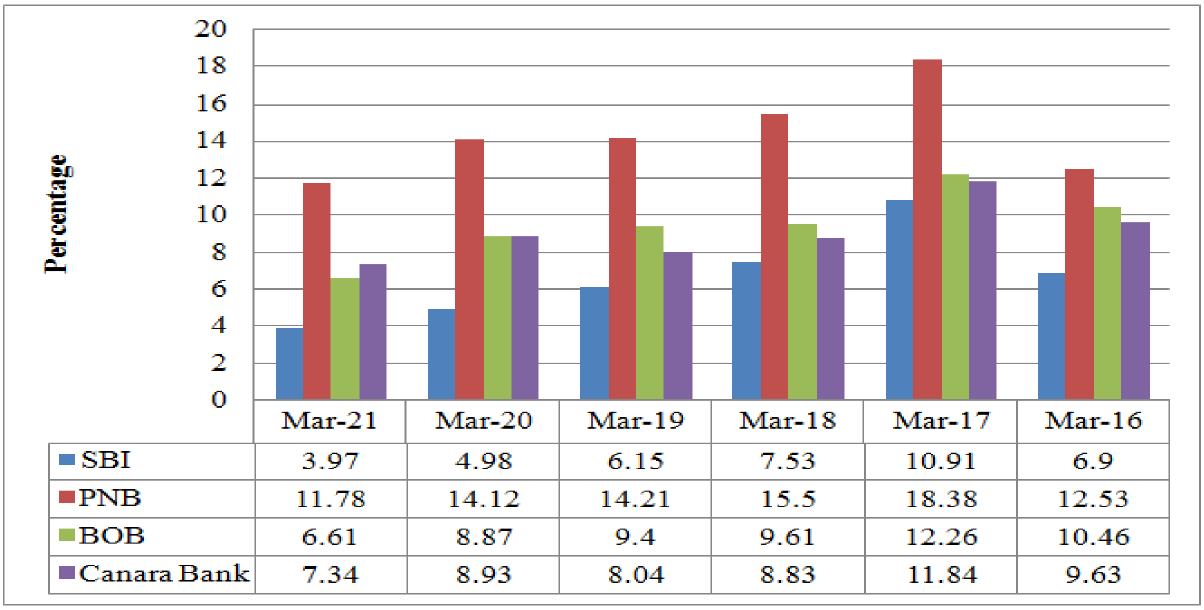
Source: https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics

The gross NPA ratio of HDFC Bank is significantly lower than that of the other three selected private sector banks, according to statistics from ICICI Bank, while that of Kotak Mahindra Bank and Axis Bank is higher. The GNPA ratio has been on the decline from 2016 to 2021, which is a positive indicator of a healthy economy for the banking sector.

Figure 2:

Ratio of gross NPA against gross advances from March 2016 to March 2021 of public sector banks.

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



	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
SBI	3.97	4.98	6.15	7.53	10.91	6.9
PNB	11.78	14.12	14.21	15.5	18.38	12.53
BOB	6.61	8.87	9.4	9.61	12.26	10.46
Canara Bank	7.34	8.93	8.04	8.83	11.84	9.63

According to the data presented in figure 2, SBI and BOB have had a significant drop in gross non-performing assets (GNPA), while PNB and Canara Bank experienced a very low percentage decline from 2016 to 2021. The data also shows that the Punjab National Bank has a very high GNPA compared to other public sector banks.

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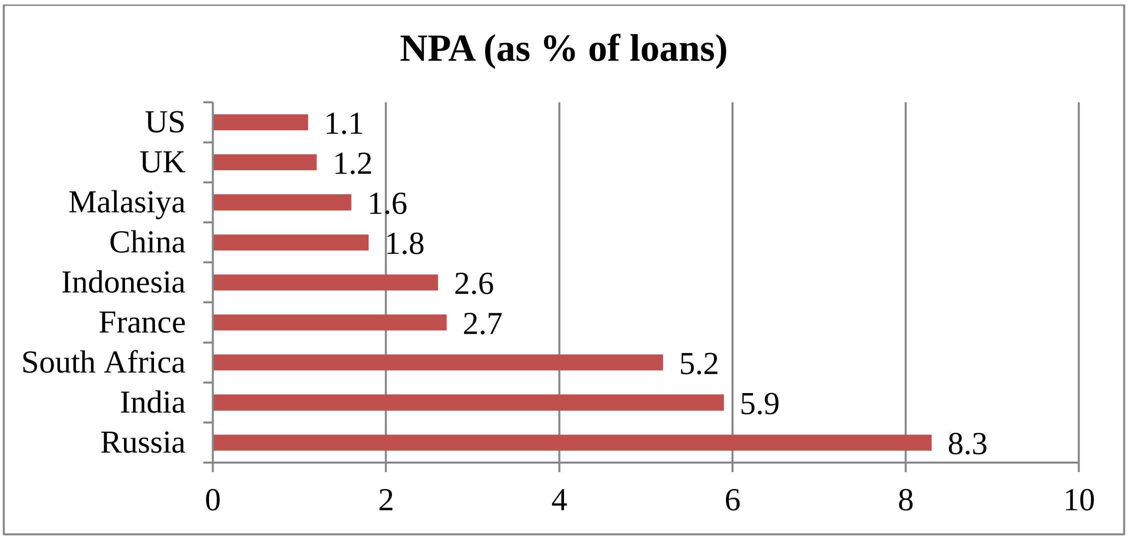
Figure 3:

Ranking of India in global market for NPA

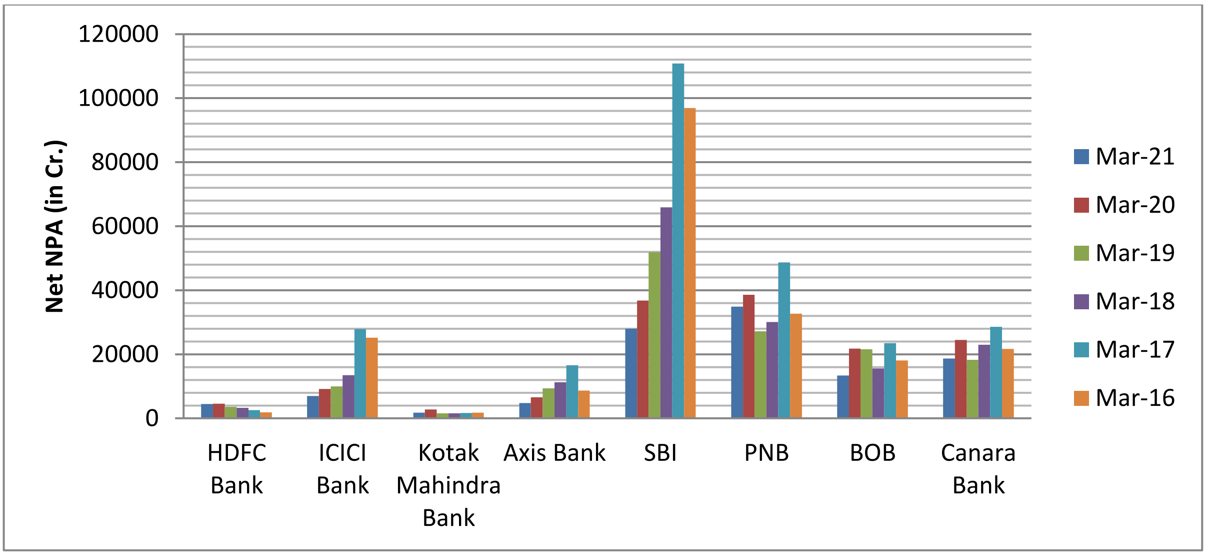


Source: CareEdge

Figure 3 representing the Gross NPA ratio position for financial year 2022 of India at global level where Russia is on top position with 8.3% whereas India is on second position with 5.9%. The gross NPA ratio is on declining trend but still RBI need to put efforts for lowering the Gross NPA ratio.

Figure 4:

Net NPA (in amount) of Public and Private Sector Bank



Source: https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!4

Figure 4 showing the data of Net NPA from 2016 – 2021. The net NPA amount of SBI was very high in public sector bank category whereas in private sector bank, ICICI bank net NPA amount is high. The overall net NPA amount showing declining trend over the last 6 years.

Findings and Conclusion

The gross NPA ratio has decreased by 5% sequentially from 9% in 2017 to 9% in September 2022 with the RBI's tireless efforts. Strong recoveries, improved asset quality, a lower slippage ratio, and other strategies were the primary drivers of this decline trend. As of March 2021, India's current non-performing loan ratio was 7.3%, down from 8.2% the previous year and 11.18% in 2018.

There is a decrease in slippage ratio, which is the most significant factor in the reduction of NPA; it can be calculated by dividing the fresh accretion of NPA by the standard advances standing at the beginning of the period.The current slippage ratio is 2% approx in September 2022 while in the year 2015 it was around 5%.[iv]

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