Section A-Research paper
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Comparative Study on Non -Performing Assets (NPAs) in Scheduled Commercial, Public Sector, Private Sector and Foreign Banks in India

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ABSTRACT

The banking industry in India has seen a complete transformation during the post-reform era. For Indian banks, new difficulties have arisen as a result of increasing competition. Consequently, criteria for measuring banks' performance have also been altered. The non-performing assets (NPAs) of India's Scheduled Commercial, Public Sector, Private Sector, and Foreign Banks are the primary focus of this paper's empirical approach to the examination of profitability indicators. One of the biggest problems for Indian banks is non-performing assets. The performance of banks is reflected by NPAs. Because of the existence of NPAs, the banks' ability to make money and profitability are significantly impacted. High NPA levels imply numerous credit defaults which have an impact on the bank's profitability and net worth. NPA has a significant impact on both public and private sector banks. In this paper, an effort has been made to assess the operational performance of the chosen Scheduled Commercial, Public Sector, Private, and Foreign Banks in India as well as to examine how effectively the banks can manage NPA. When compared to the other studied banks, the size of the NPA was relatively higher in Scheduled Commercial banks, but they have managed to keep the number at a feasible level.

Key Words: NPA (Non- Performing Assets), Indian banking sector, Financial System and Profitability.

1. INTRODUCTION

In India, banking began in the latter decade of the 18th century. Banks from both the public and private sectors make up the majority of the banking industry. Any financial system must have banks as a key component. The Indian Financial System is supported by banks. For the past five years, the Indian banking system has been seriously threatened by the rising NPAs. Not only India but the entire world has been severely affected by the COVID pandemic. Rising NPAs in India has hurt both the public and private sector banks. By determining whether there are any bad loans, such as when an asset is unable to generate returns for a defined amount of time, its performance in the banking industry may be easily assessed (NPA). The majority of banks are currently dealing with problems including bad loans and an uptick in widespread fraud. Following the Covid-19 wave throughout sectors, borrowers' ability to repay their debts significantly increased, and stressed assets also saw a steep increase. Due to a rise in credit defaulters in the nation, the economy's financial health is deteriorating.

Building financial stability in the country is the banks' top priority. The lack of adequate monitoring and verification has led to an increase in the number of credit defaulters. Taking advantage of legal loopholes, large corporations took off with bank funds. Recent events have seen several banks reach the point of insolvency as a result of improper money management. The credit department of a bank is the subject of the phrase "NPAs."

2. NON-PERFORMING ASSETS (NPAs) - MEANING

Performing assets are those that generate recurring revenue. Non-performing assets are those that don't generate regular income. The word "NPA" can be defined as a bank's assets that don’t contribute to the revenue-generating for the bank. When an asset, including one that has been leased, ceases generating income for the bank for a predetermined period, it is considered non-performing. NPAs are further categorised by the RBI according to the criteria into standard, sub-standard, doubtful, and loss assets. The current financial health of the banking system in any nation is expressed by NPA. Bank performance is viewed as inadequate if the NPA is high.

3. CLASSIFICATION OF NPAs

Banks categorize their NPAs into three categories, based on the period for which the asset is considered NPA:

Standard Assets

Standard assets produce consistent revenue and make payments as they become due. Therefore, a performing asset is a standard asset. These assets have a standard level of risk and are not, necessarily NPAs. As a result, Standard Assets don't need any particular provisions.

Substandard Assets

An asset will be considered substandard if it is NPA for up to 12 months. This came into force on March 31, 2005. These assets will have mentioned credit discrepancies that can endanger the liquidity of the banks and the banks can sustain some losses if these errors are not sorted timely. The present value of the property attached is not sufficient enough for the bank to cover its dues.

Doubtful Assets

A Doubtful Asset is one if it stays in the substandard category for a time- period of up to one year from March 31, 2005. Credit will be considered a Doubtful Asset if it has conformity to all the features of substandard assets and the said vulnerabilities create complete collection or liquidation that are based on situations and values – highly suspicious and inappropriate

Loss Assets

A loss asset can be described as one where a definite loss of funds is marked by the lending institution itself or internal/external auditors or RBI oversight. Still, the value is not fully realized i.e. such property will remain unqualified and of such low value that it is not warranted to continue like a bankable asset. However, some can be of disposable or recoverable amounts. The banks have not written it off completely and it might realize some value later.

4. Gross NPA and Net NPA

Gross NPA is an advance that has been held in the bank's books of accounts but is thought to be irrecoverable since provisions have been made. When calculating Net NPA, Gross NPA is reduced by factors like unpaid interest, partial payments, and accounts held in suspense.

5. Reasons for NPAs in Banks

An account does not instantly turn into an NPA. It provides alerts far enough in advance for action to be taken to stop the account from falling into the NPA category. An account turns into an NPA for reasons that can be attributed to both the borrower and the lender as well as circumstances beyond their control.

According to an internal study by the RBI, the following factors most significantly affect NPAs:

Internal Factors

- Funds being redirected for modernization, diversification, or expansion.

- Beginning new ventures.
- Assisting with or advancing associate concerns.
- Time/financial overruns throughout the implementation process.
- Ineffective management
- Strained labour relations.
- Poor technology and technological issues.
- Obsolescence of products, etc.
- Credit problems, Evaluations, follow-up and monitoring, inaccurate SWOT analysis on the part of banks.

External Factors

- A lack of input or power.
- Price Escalation
- Changes in exchange rates.
- Modifications to laws governing taxes, import and export tariffs, and environmental control measures, among other things.
- Willful defaulters are prominent because they are aware that the lenders' legal options are cumbersome and slow.
- The industry's sickness also causes a progressive deterioration of liquidity, and units begin to default on their loan repayment obligations.
- High industrial bad debts are a result of political influence being used by the debtors to manipulate.

6. NPAs' impact on Banking Operations

The amount of return on assets, as well as the size of a bank's balance sheet, both serve as indicators of its efficiency. Banks do not receive interest income as a result of NPAs. Banks must set aside money from their present profits to cover NPAs at the same time. The following are some negative impacts of NPAs on return on assets:

- Bank interest income will decrease, and it should only be recorded on a receipt basis.
- The provision of questionable debts and the subsequent write-off of those obligations as bad debts hurt banks' profits.
- There is a decreased return on investment (ROI).
- The inclusion of NPAs in the capital adequacy ratio calculation affects it.
- The cost of capital will increase.

- The gap between assets and liabilities will worsen.
- It controls how the money is recycled.

7. OBJECTIVES OF THE STUDY

- Identify the trends at NPA levels.
- Highlight the NPA's position on selected Banks
- Evaluate the comparative position of NPA in study banks.
- Analyse the variation of the NPA ratio in selected PSBs & Private banks.

8. REVIEW OF LITERATURE

- **S Vibhute et al (2021).** Analysed the trend in the movement of non-performing assets held by public sector banks in India from 2000 to 2011 to assess the efficiency of NPA management in the post-millennium period. Non-performing assets are not solely a consequence of loans and advances; they are also impacted by other bank performance metrics and macroeconomic factors. This study explained the macroeconomic variables and bank performance's moderating and mediating effects on the incidence of NPA in addition to the trend in the movement of NPA.
- **Yasmeen Naaz, (2021)** examined the impact of non-performing assets (NPAs) on public sector banks' profitability (PSUs). The most important problem that the banks are currently dealing with is non-performing assets (NPAs), which not only pose a risk to the banks but also the entire financial system. The operating performance of a bank is impacted by increasing non-performing assets (NPAs), which in turn affects the bank's profitability, liquidity, and solvency. For banks to perform better and become more profitable, NPAs must be curbed and regulated. The main public sector banks that are coping with the growing NPAs are taken into consideration in this study's attempt to evaluate the relationship between NPAs and bank profitability.
- **Raghuram Rajan** also mentioned a few variables as the causes of rising NPAs in India (**The Hindu 2016a**). He concedes that the slowdown in the Indian economy as a whole is substantially the rising NPA (The Hindu 2016b). In addition, he lists five other causes for the increase in NPAs, including slow statutory and other approvals, particularly for projects that are currently being implemented, aggressive lending standards during the economic boom, lack of credit risk appraisal, lack of loan monitoring in banks, and lack of professional skills in project appraisal, which leads to the acceptance of exorbitant costs and aggressive projections. Additionally, he

stated that loan fraud, corruption, and wilful default were often the main causes of the NPA problem.

- **Sahoo (2015)** states that three factors—the business environment, borrowers, and banks—would together be responsible for the growth of NPAs. Some aspects of the business environment that could increase NPAs include the recession and the absence of a legal framework for recovery. From the perspective of the borrowers, elements such as poor project or activity selection, limited resources, ineffective management, deliberate default, project discontinuation because of management, or labour issues would contribute to the increase of NPAs. The accumulation of NPAs in the banking sector is also fuelled by internal bank factors such as substandard credit evaluation, a lack of credit monitoring, and ineffective NPA management.
- **Priyanka Mohnani and Monal Deshmukh (2013)** made an effort to assess the operational effectiveness of the chosen PSBs and private banks in India and to examine how effectively public and private sector banks can manage non-performing assets (NPA). When compared to the private banks under examination, the size of the NPA was relatively bigger in the public sector banks, but they have now managed the number at the lower end. In comparison to the PSB under investigation, ICICI Bank still has a greater NPA figure.
- **Ahmed and Jaynal Ud-din (2011)** explored that the income and proficiency of banks are hindered by high levels of NPAs and reducing the NPAs is becoming the single largest challenge in the domestic banking sector.
- **Prashanth K Reddy (2002)** focuses on a global comparative analysis of non-performing assets in India. Similarities and differences in corrective approaches are drawn, and it is concluded that resolving NPAs requires a thorough understanding of macroeconomic variables and systemic issues impacting banks and the economy. In his review of the characteristics of non-performing assets in the Indian banking sector, Dong He (2002) also covers the key design elements that are necessary for the Assets Reconstruction Companies to effectively resolve such NPAs.

9. RESEARCH METHODOLOGY

The comparison of NPAs among Scheduled Commercial, Public Sector, Private Sector, and Foreign Banks has been the main emphasis of the current study. This study covers from 2008-2009 to 2020-2021. The data for 2020 to 2021 is shown as a report.

The Reserve Bank of India's annual report, which includes "Trend & Progress of Banking in India," statistics tables about Indian banks, and a report on money and finance, were used to gather secondary data for the study.

Data from the internet and other sources were also used, along with articles and studies on NPA that were published in various business journals, magazines, newspapers, and publications. Major guidelines periodically provided by RBI were thoroughly examined. Along with this assets quality of banks and recommendations were also assessed. To analyze and interpret the data for the current study, measures of central tendency, frequency distribution, standard deviations and coefficients of variation tests were used. After considering the aforementioned objective.

10. ANALYSIS AND INTERPRETATION OF THE STUDY

The data is related to the NPA of all Scheduled commercial, Public, Private and Foreign Banks in India and their comparison is done on this basis. It is clear from the table that there has been a marginal decrease in NPAs of private and foreign banks. There are fluctuations in the

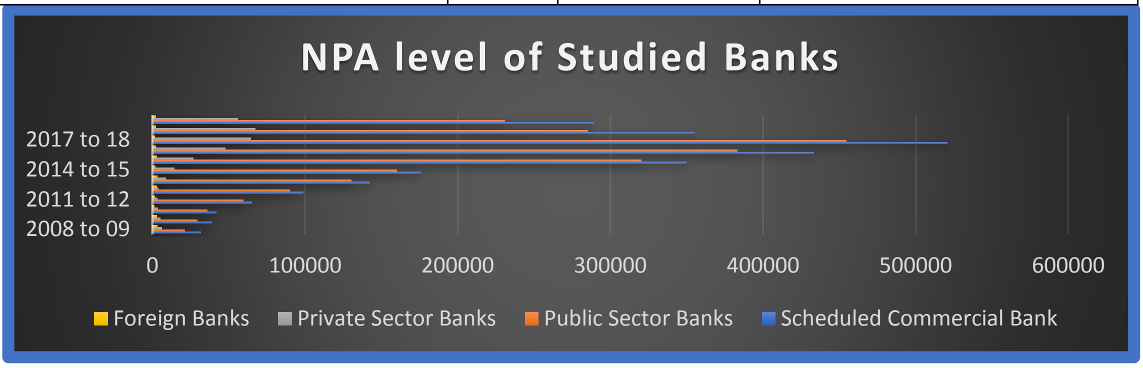
Tables and figures

Year	Scheduled Commercial Bank	%	Public Sector Banks	%	Private Sector Banks	%	Foreign Banks	%
2008 to 09	31564	1.1	21155	0.9	6252	1.4	2997	1.8
2009 to 10	38723	1.1	29375	1.1	5234	1.1	2977	1.8
2010 to 11	41799	1.0	36055	1.1	3400	0.6	1312	0.7
2011 to 12	65205	1.3	59391	1.5	3000	0.4	1412	0.6
2012 to 13	98693	1.7	90037	2.0	3900	0.4	2663	1.0
2013 to 14	142421	2.1	130394	2.6	8862	0.7	3160	1.1
2014 to 15	175841	2.4	159951	2.9	14128	0.9	1762	0.5
2015 to 16	349814	4.4	320376	5.7	26677	1.4	2762	0.8
2016 to 17	433121	5.3	383089	6.9	47780	2.2	2137	0.6
2017 to 18	520838	6.0	454473	8.0	64380	2.4	1548	0.4
2018 to 19	355068	3.7	285122	4.8	67309	2.0	2051	0.5
2019 to 20	289531	2.8	230918	3.7	55746	1.5	2084	0.5

Source: Reports on Trend & Progress of Banking in India

Analysis of Mean, Standard Deviation & Coefficient of Variation

BANKS	Mean	SD	Coefficient of Variables
Scheduled Commercial Banks	2.74	1.7307	0.631258359
Public Sector Banks	3.43	2.4125932	0.702697049
Private Sector Banks	1.25	0.68821244	0.550569952
Foreign Banks	0.86	0.48702872	0.567412101



11. SUMMARY OF FINDINGS

- It is clear from the table that, from 2008 to March 2009 the Scheduled Commercial Banks and Public Sector Banks the ratio of NPA increased. In the case of Private and Foreign Banks, the ratio of NPA has decreased. From 2017 to March 2018 the ratio of NPA reached a high level in the case of Scheduled Commercial Banks and Public Sector Banks. From 2018 to March 2019 the NPA ratio of Private Sector Banks has increased to a high level. In the year of 2013 to March 2014, Foreign Banks' NPA ratio reached a high level. 2019- 2020 all studied banks' NPA amount has reduced except for foreign banks.
- Despite the epidemic and the ensuing decline in economic activity, the consolidated balance sheet of scheduled commercial banks (SCBs) grew in size during 2020–21. Credit growth has so far shown early signs of a comeback in 2021–2022. At the end of September 2021, deposits increased by 10.1% compared to 11.0% a year earlier.
- SCBs' capital to risk-weighted assets (CRAR) ratio improved, rising from 14.8% at the end of March 2020 to 16.3% at the end of March 2021 and then to 16.6% at the end of September 2021, in part due to higher retained earnings, recapitalization of public sector banks (PSBs), and capital raising in the market by both PSBs and private sector banks (PVBs).

- The gross non-performing assets (GNPA) ratio for SCBs decreased from 8.2% at the end of March 2020 to 7.3% in March 2021 and then further to 6.9% at the end of September 2021.
- The return on assets (RoA) of SCBs increased from 0.2% at the end of March 2020 to 0.7% at the end of March 2021 thanks to stable income and falling spending.
- The pre-announced expiry dates for several of the policy actions the RBI took in response to the COVID-19 outbreak occurred in 2021–2022. As a result, some liquidity measures have been scaled back, and other regulatory measures, such as the postponement of the net stable funding ratio (NSFR) implementation, restrictions on bank dividend payouts, and the postponement of the implementation of the final tranche of the capital conservation buffer, have been realigned to avoid extended forbearance and risks to financial stability while providing targeted assistance to needy sectors.
- From the above analysis of Mean, Standard Deviation & Coefficient of Variation, it is clear that the percentage variability in NPA of Public Sector banks is 0.702697049, which is more than scheduled commercial banks, private sector and foreign banks.

12. CONCLUSION AND RECOMMENDATION

The core activity of the banking industry is intermediation, or accepting deposits and directing them into lending activities. The deposits that the bank receives from depositors are known as the bank's "Liabilities," and the loans that the bank gives borrowers are known as the bank's "Assets," which are the loans and advances that the bank expects to be repaid by the borrowers. Commercial Banks are exposed to the risk of a borrower defaulting on the payment of either principal or interest in the traditional banking operation of lending supported by client deposits. The term "Credit Risk" is used in the banking industry to describe this risk, and accounts that do not receive interest payments or principal repayments are referred to as non-performing assets. Every bank has some Non-Performing Assets in its advance portfolio since their existence is a necessary component of banking. Any financial institution, however, is concerned about the high level of NPA.

The following recommendation can be followed by the banks/ financial institutions to reduce the NPA:

- Creating proper loan policies and rules with adequate documentation.

- Recovery efforts can begin in the month of default and swift legal action should follow.
- The status of past-due accounts can be examined on a weekly basis to prevent new accounts from becoming NPAs. credit monitoring and evaluation.
- The proper auditing of credit and inspection can be done.
- The borrowers can provide balance confirmation certificates every six months.
- To examine questionable accounts, a committee is formed at the corporate headquarters

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