



Chief Editor

Dr. A. Singaraj, M.A., M.Phil., Ph.D.

Editor

Mrs.M.Josephin Immaculate Ruba

Editorial Advisors

1. **Dr.Yi-Lin Yu**, Ph. D
Associate Professor,
Department of Advertising & Public Relations,
Fu Jen Catholic University,
Taipei, Taiwan.
2. **Dr.G. Badri Narayanan**, PhD,
Research Economist,
Center for Global Trade Analysis,
Purdue University,
West Lafayette,
Indiana, USA.
3. **Dr. Gajendra Naidu.J.**, M.Com, LL.M., M.B.A., Ph.D. MHRM
Professor & Head,
Faculty of Finance, Botho University,
Gaborone Campus, Botho Education Park,
Kgale, Gaborone, Botswana.
4. **Dr. Ahmed Sebihi**
Associate Professor
Islamic Culture and Social Sciences (ICSS),
Department of General Education (DGE),
Gulf Medical University (GMU), UAE.
5. **Dr. Pradeep Kumar Choudhury**,
Assistant Professor,
Institute for Studies in Industrial Development,
An ICSSR Research Institute,
New Delhi- 110070.India.
6. **Dr. Sumita Bharat Goyal**
Assistant Professor,
Department of Commerce,
Central University of Rajasthan,
Bandar Sindri, Dist-Ajmer,
Rajasthan, India
7. **Dr. C. Muniyandi**, M.Sc., M. Phil., Ph. D,
Assistant Professor,
Department of Econometrics,
School of Economics,
Madurai Kamaraj University,
Madurai-625021, Tamil Nadu, India.
8. **Dr. B. Ravi Kumar**,
Assistant Professor
Department of GBEH,
Sree Vidyanikethan Engineering College,
A.Rangampet, Tirupati,
Andhra Pradesh, India
9. **Dr. Gyanendra Awasthi**, M.Sc., Ph.D., NET
Associate Professor & HOD
Department of Biochemistry,
Dolphin (PG) Institute of Biomedical & Natural Sciences,
Dehradun, Uttarakhand, India.
10. **Dr. D.K. Awasthi**, M.SC., Ph.D.
Associate Professor
Department of Chemistry, Sri J.N.P.G. College,
Charbagh, Lucknow,
Uttar Pradesh. India

ISSN (Online) : 2455 - 3662
SJIF Impact Factor :3.395 (Morocco)

EPRA International Journal of
**Multidisciplinary
Research**

Volume: 2 Issue: 8 August 2016



Published By :
EPRA Journals

CC License





STATUS OF NPA JUGGERNAUT- A STUDY ON THE TREND OF NON-PERFORMING ASSETS OF TWO PUBLIC SECTOR BANKS IN INDIA

Ms. Rajashree Dutta Purkayastha¹

¹Research Scholar and Junior Consultant
Dept. of Business Administration,
JN School of Management Studies,
Assam University, Silchar,
Assam, India.

Ms. Sunanda Deb²

²Student
Dept. of Business Administration,
JN School of Management Studies,
Assam University, Silchar,
Assam, India.

Prof. A L Ghosh³

³Head
Dept. of Business Administration, JN School
of Management Studies, Assam University,
Silchar, Assam, India.

ABSTRACT

Financial stability of an economy is largely dependent on the stability of its banking system. A bank acts as a form of intermediary by mobilising various kinds of deposits from Public and channelizing them into the banking system by way of granting loans and advances to the productive sectors. Granting of credit for economic activities is considered to be the prime duty of banks. Lending is generally encouraged because it has the effect of funds being transferred from the system to productive purposes, which results in economic growth. However, lending also carries a risk called credit risk, which arises from the failure on the part of the borrower to repay the money. Indian banking system, although strong enough to withstand stress, is facing the heat of mounting level of NPA, specially in the context of Public sector banks. In a period, when all the banks are struggling to negotiate with the problem of NPA, this paper is an attempt to identify the tip of the iceberg of the mounting bad loans in the last few years.

KEY WORDS: Bank, NPA, Trend, Public Sector,

INTRODUCTION

Indian banking sector is largely characterized by its regulatory framework and escalating bad loans. Although there has been a constant effort to tackle Non Performing Assets of banks, but no significant improvement is yet visible. Since last one decade, Indian Banking sector is struggling with this threat of NPA. State Bank of India being the biggest and strongest player in banking fraternity is no exception. United bank of India is also facing the worst heat of NPA. United Bank of India tops list with highest bad loans among PSUs in the year 2015.

This paper made an attempt to throw some light on the trend of NPA of the aforesaid two banks with the help of the variables under study.

OBJECTIVE OF THE STUDY

(i) To study the trend of Non-Performing Assets of two public sector banks in India.

LITERATURE REVIEW

Karunakar, Vasuki and Saravanan (2008) in their paper stated that the problem of losses and lower profitability of Non-Performing Assets (NPA) and liability mismatch in banks and financial sector depend on how various risks are managed in their business. An attempt is made in the study to examine NPA, the factors contributing to NPA, the magnitude of NPA, reasons for high NPA and their impact on Indian banking operations. The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism.

Misra and Dhal (2010) analyzed the procyclicality of bank indicators with a focus on the non performing loans (NPAs) of India's public sector banks. The analysis demonstrates that banks NPAs are influenced by three major sets of factors, i.e., terms of credit, bank specific indicators relating to asset size, credit orientation, financial innovations (non-interest income) and regulatory capital requirement and the business cycle shocks. The study found that the terms of credit variables such as interest rate, maturity and collateral and bank specific variables had significant effect on the banks' non-performing loans in the presence of macro-economic shocks.

Debarsh and Sukanya (2012) emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform based on Core Banking Solution, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the RBI. Non-performing Asset is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirement for doubtful debts. Various banks from different categories together provide advances to different sectors like agricultural, SSI, priority sector, public sector and others, which require pre-sanctioning appraisal and post-disbursement control to contain the increasing non-performing assets in the Indian Banking. The reduction of non-performing asset is necessary to improve profitability of banks and comply with the capital adequacy norms as per the Basel Accord.

In another study, Siraj (2014) observed that The Indian banking sector has undergone significant transformations during post-liberalization period. Though, the measures taken showed significant improvement in the NPA management, the banking sector still holds sizeable NPA in their balance sheet. The recession pressures have put significant stress on the quality of the loan portfolio. The public sector banks hold more than 75% of total advances in Indian banking sector. Therefore, any deterioration in asset quality of public sector banks has significant impact on the performance of Indian banking sector.

In a study on NPA and terms of credit of PSBs in India, Ranjan and Dhal (2003) evaluated the effect of terms of credit, bank size induced risk preferences and macroeconomic shocks on NPA of banks. The study based on panel regression models identified that the terms of credit variables exercise a significant effect on the banks NPA in the presence of bank size and induced preferences and macroeconomic shocks. With regard to the terms of credit variables, changes in the cost of credit in terms of expectation of higher interest rate induce a rise in NPAs. The study further identified that variables like the horizon of maturity of credit,

better credit culture, favourable macroeconomic and business conditions can lead to lowering NPAs

Chaudhary and Sharma(2011) in their paper tried to compare the Performance of Indian Public Sector Banks and Private Sector Banks and find out trends in NPA level . They concluded that it is right time to take suitable and stringent measures to get rid of NPA problem. An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement

Vradi, Vijay, Mauluri, Nagarjuna (2006), in their study concluded that in modern world performance of banking is more important to stable the economy, in order to see the efficiency of Indian banks we have see the four indicators i.e., profitability, productivity, assets, quality and financial management for all banks.

SIRAJ. & PILLAI concluded that NPA still remains a major threat and the incremental component explained through additions to NPA poses a great question mark on efficiency of credit risk management of banks in India

Reddy. (2002) in his study says that financial sector reform in India has progressed rapidly on aspects like interest rate deregulation, reduction in reserve requirements, barriers to entry, prudential norms and risk-based supervision. But progress on the structural-institutional aspects has been much slower and is a cause for concern. The sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective. Changes required to tackle the NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective. This paper deals with the experiences of other Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries.

Ramakrishna and Kurian (2014) emphasized that the stability and viability of commercial banking is critical for economic growth and development. Non-performing asset management is a vital function to ensure that profitability is not compromised. This paper studies the core parameters in this context which are Gross Advances, Gross Non-performing assets, Net Advances and Net Non-performing asserts. The study has been done in respect of Foreign Banks and Public Sector Banks. The analysis is focused on comparing the performance of these two

categories of banks with respect to Non-performing assets. Financial data for the years 2007-2012 has been used for this purpose.

RESEARCH METHODOLOGY

The research is an analytical research where the facts or information are extracted from already available sources and are analysed to make critical evaluation.

Nature of Data:-

The data are collected basically through the secondary sources.

Sources of data:-

For the study, secondary data has been collected using annual report of SBI and UBI publication including statistical table related to banks in India. Articles and papers relating to NPA published in different business journals, magazines, newspapers, periodicals were studied and data available on internet have also been used. Major guidelines issued by RBI from time to time were studied in depth.

Research Design:-

In this study descriptive research has been adopted with the view of it being perfectly suitable to serve the purpose of drawing an authentic and convincing conclusion to the research and thus making it a successful one.

Data analysis technique:-

All relevant data were compared, analyzed systematically and presented in proper format. Certain parameters have been taken to make a distinct study. Statistical tool CAGR has been used to calculate the growth rate and then Trend Line has been used.

Scope of the Study:-

This research evaluates the trend in the movement of NPA of public sector banks (PSBs) in India during the period of post financial crisis i.e., from 2009-2010 to 2014-2015. Also, the study focuses on two public sector banks i.e., State Bank of India and United Bank of India

ANALYSIS AND INTERPRETATION

To analyze the trend of NPA in State Bank of India and United Bank of India.

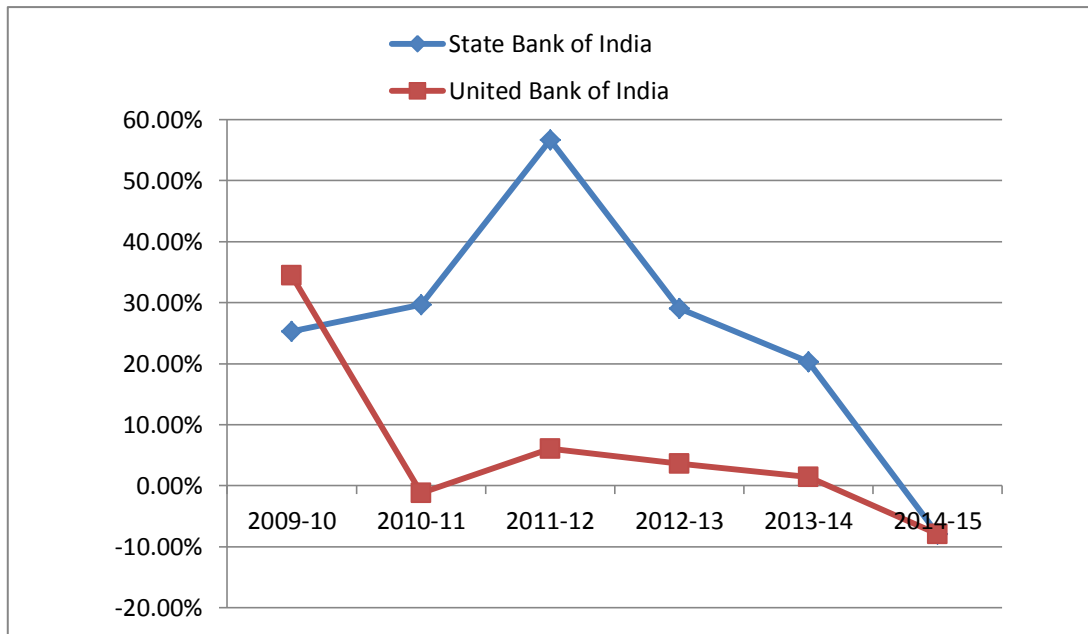
The emphasis in this section is to critically analyze the trend in the movement of NPA of SBI and UBI and to compare it with. The variables that are used in this context are:

- 1) Gross NPA.
- 2) Net NPA.
- 3) Gross NPA as a percentage to Gross Advance.
- 4) Net NPA as a percentage to Net Advance.
- 5) Gross NPA as a percentage to Total Asset.
- 6) Net NPA as a percentage to Total Advance

Table 3.1.1 Gross NPA of SBI and UBI during 2008-2009 to 2014 -15

FINANCIAL YEAR	STATE BANK OF INDIA		UNITED BANK OF INDIA	
	Gross NPA (Crores)	CAGR	Gross NPA (Crores)	CAGR
2008-09	15,589		1,020	
2009-10	19,535	25.31%	1,372	34.51%
2010-11	25,326	29.64%	1,356	-1.17%
2011-12	39,676	56.67%	2,176	6.05%
2012-13	51,189	29.02%	2,964	3.62%
2013-14	61,605	20.35%	7,118	1.40%
2014-15	56,725	-7.92%	6,553	-7.94%

Gross NPA Trend of SBI and UBI during 2008-09 to 2014-15.



In case of State Bank of India, the Gross NPA grew at an increasing growth rate of 25.31%, 29.64% and 56% in the year 2009-10, 2010-11 and 2011-2012 respectively before showing a decreasing growth in the next two year years. Gross NPA of United Bank of India recorded a high growth rate of 34.51% from Rs. 1,020 crore in the

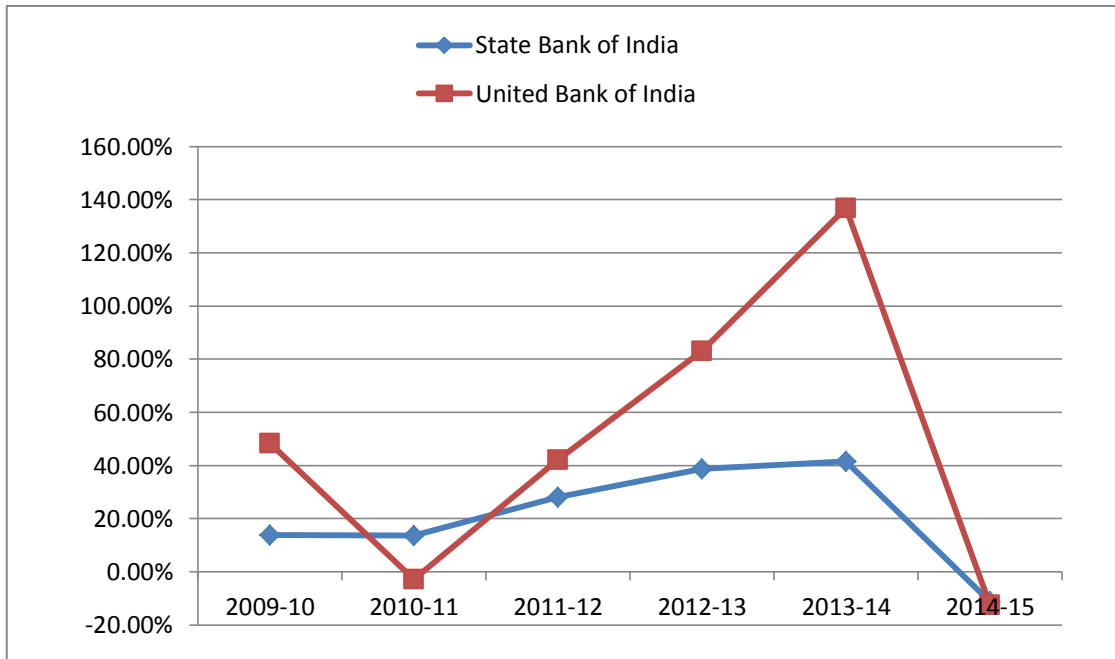
year 2007-08 to Rs.1,372 crores in 2008-09 to again decline at a rate of -1.17% to Rs.1,356 crores. In the next three consecutive years Gross NPA increased again but at a declining growth rate. Last financial year, i.e., 2014-15 has been great for both SBI and UBI as Gross NPA declined at a rate of -7.92% and -7.94% respectively.

NET Non Performing Assets (NET NPA)

Table 3.1.2.Net NPA of SBI and UBI during 2008-2009 to 2014 -15

YEAR	STATE BANK OF INDIA		UNITED BANK OF INDIA	
	Net NPA (Crores)	CAGR	Net NPA (Crores)	CAGR
2008-09	9,552		525	
2009-10	10,870	13.80%	779	48.38%
2010-11	12,347	13.59%	757	-2.82%
2011-12	15,819	28.12%	1,076	42.14%
2012-13	21,956	38.80%	1,970	83.09%
2013-14	31,096	41.63%	4,664	136.75%
2014-15	27,591	-11.27%	4,081	-12.50%

Net NPA Trend of SBI and UBI during 2008-09 to 2014-15.



The Net NPA of B both SBI and UBI has been presented in the Table 3.2. The Net NPA of SBI has shown a steady growth during the period 2009-2010 to 2013-14 at the rate of 13.80%, 13.59%, 28.12%, 38.80% and 41.63% finally amounting to Rs.31, 096 crores in the year 2013-14.

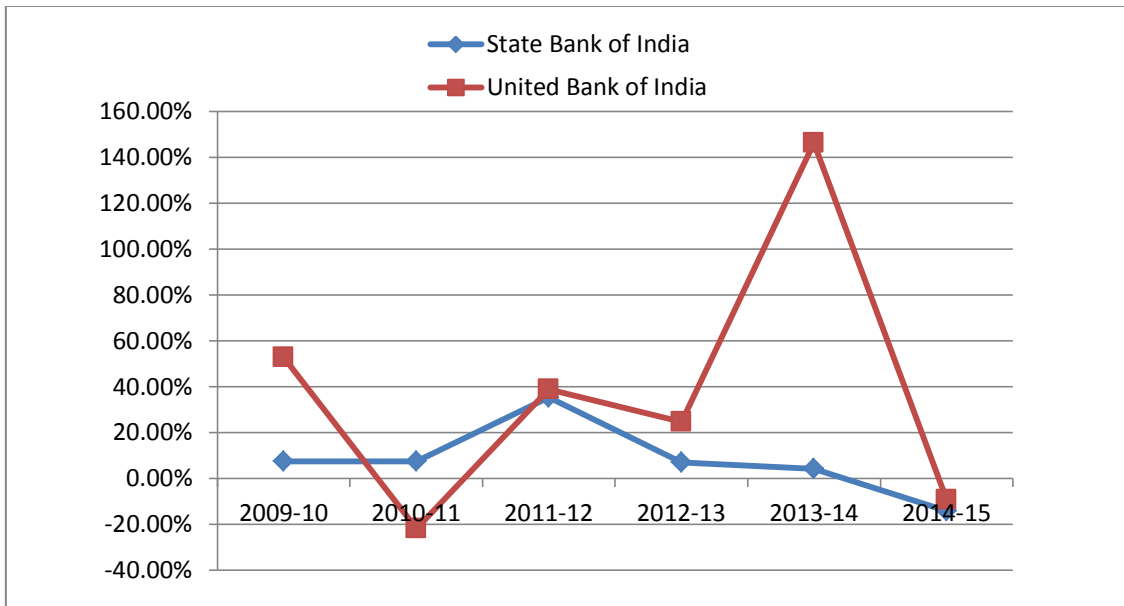
Even though the Net NPA of UBI showed a decline in the second year, it registered a steep growth of 42.14%, 83.09% and 136.75% in the next three year. As in case of Gross NPA, 2014-15 has been good in terms of Net NPA too as both SBI and UBI registered a decline of 11.27% and 12.50% respectively.

3.1.1. Gross NPA as per cent of gross advance

Table 3.1.3.Gross NPA % of SBI and UBI during 2008-2009 to 2014 -15

YEAR	STATE BANK OF INDIA		UNITED BANK OF INDIA	
	Gross NPA as a % of Gross Advance	CAGR	Gross NPA as a % of Gross Advance	CAGR
2008-09	2.84		2.1	
2009-10	3.05	7.39%	3.21	52.86%
2010-11	3.28	7.54%	2.51	-21.80%
2011-12	4.44	35.37%	3.41	38.86%
2012-13	4.75	6.98%	4.25	24.63%
2013-14	4.95	4.21%	10.47	146.35%
2014-15	4.25	-14.14%	9.49	-9.36%

Fig. 3.1.3. Gross NPA % Trend of SBI and UBI during 2008-09 to 2014-15.



Gross NPA % of SBI has been growing over the period of 2009-2010 to 2013-14, registering the highest growth rate of 34.37% in the year 2011-12. There after the Gross NPA % showed a downward trend -14.14% decline in the year 2014-15.

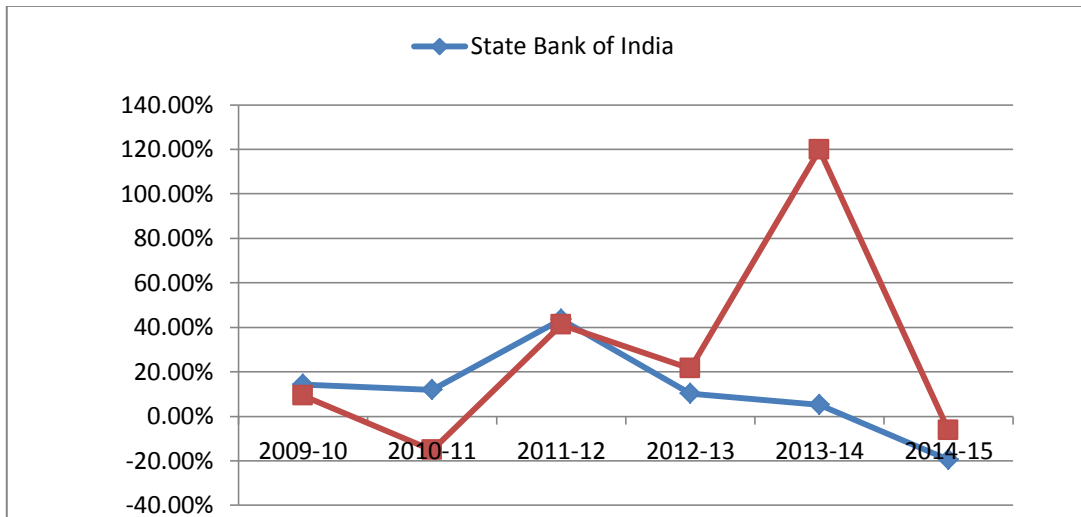
Gross NPA % of UBI moved haphazardly over the period is of concern. In the year 2013-14 it registered a record growth rate of 146.35% and then again declining in the next year at the rate of -9.36%.

3.1.2. Gross NPA as percent of total assets

Table 3.1.4. Gross NPA as % of Total Assets of SBI and UBI during 2008-2009 to 2014 -15

YEAR	STATE BANK OF INDIA		UNITED BANK OF INDIA	
	Gross NPA as a % of Total Assets	CAGR	Gross NPA as a % of Total Assets	CAGR
2008-09	1.62		1.63	
2009-10	1.85	14.19%	1.78	9.20%
2010-11	2.07	11.89%	1.51	-15.17%
2011-12	2.97	43.48%	2.13	41.06%
2012-13	3.27	10.10%	2.59	21.60%
2013-14	3.44	5.20%	5.69	119.69%
2014-15	2.77	-19.48%	5.33	-6.33%

Fig. 3.1.4. Gross NPA as % of Total Assets Trend of SBI and UBI during 2008-09 to 2014-15.



A table showing Gross NPA as % of Total Asset of SBI and UBI is presented in Table 3.4. In case of SBI, the Gross NPA as a % to Total Asset has increased from 1.62% in the year 2008-09 to 3.44% in the year 2013-14. It registered the highest growth rate of 43.48% in the year 2011-12 and since then the trend has been declining resulting in a -19.48% decline in the year 2014-15.

UBI recorded Gross NPA as % to Total Asset of 5.33% in the year 2014-15 as compared to 1.63% in the year 2008-09. But the growth rate has been quite uneven over the period with highest growth rate of 119.69% in the year 2013-14 though bank was able to bring it down in the following

year registering a decline of -6.33 %. It can be noticed that the performance of State Bank of India as regard to this variable has been a little better than the United Bank of India.

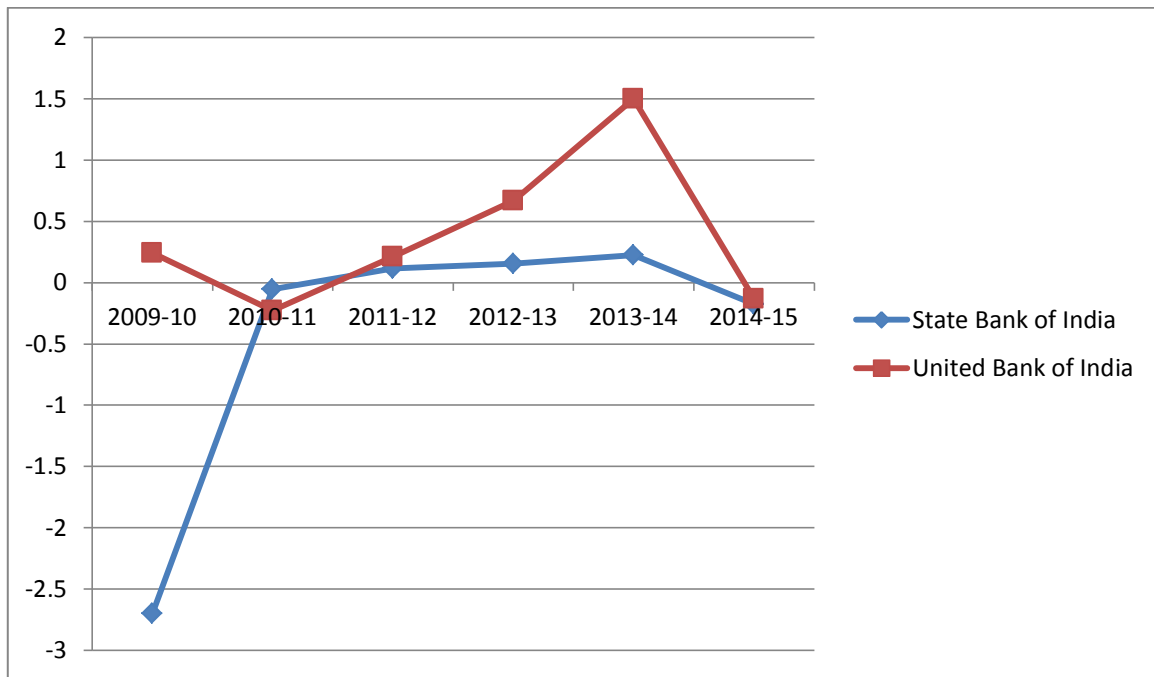
3.1.3. Net NPA As Per Cent Of Net Advance

Net Advances represent outstanding loans and advances, outstanding after providing for doubtful debts. The share of Net Non Performing Assets in Net Advances is significant in the sense that a higher quantum of non-performing Assets in comparison with the total Net Advances.

Table 3.1.5. Net NPA as % of Net Advance of SBI and UBI during 2008-2009 to 2014 -15

YEAR	STATE BANK OF INDIA		UNITED BANK OF INDIA	
	Net NPA as a % of Net Advance	CAGR	Net NPA as a % of Net Advance	CAGR
2008-09	1.76		1.48	
2009-10	1.72	-2.7	1.84	24.32%
2010-11	1.63	-5.23%	1.42	-22.83%
2011-12	1.82	11.66%	1.72	21.13%
2012-13	2.1	15.38%	2.87	66.86%
2013-14	2.57	22.38%	7.18	150.17%
2014-15	2.12	-17.50%	6.22	-13.37%

Fig. 3.1.5. Net NPA as % of Net Advance Trend Line of SBI and UBI during 2008-2009 to 2014 -15



The rate of Net NPA ratio of SBI has been declining in the year 2009-10 and 2010-11 and then again started growing at a rate of 11.66%, 15.38% and 22.38% in the following three years. But it again declined at the rate of 17.50% in the year 2014-15.

The Net NPA as % to Net Advance of United Bank of India registered a record decline of -22.83% in 2009-10 and a record growth of 150.70% in 2013-14 which again declined in the year 2014-15

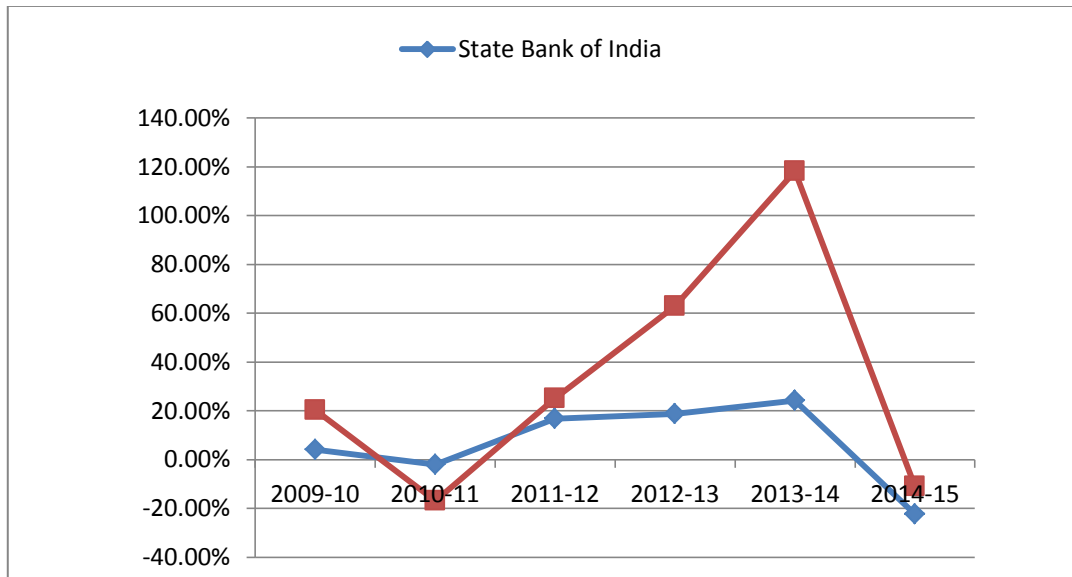
It can be observed from Table 3.4 , that except for the year 2009-10, the united Bank of India has been able to maintain a lower ratio of Net Non Performing Asset initially but it was overshadowed by State Bank of India from the year 2012-13.

3.1.4. Net NPA As Per Cent Of Total Assets

Table 3.1.6.Net NPA as % of Total Assets of SBI and UBI during 2008-2009 to 2014 -15

YEAR	STATE BANK OF INDIA		UNITED BANK OF INDIA	
	Net NPA as a % of Total Assets	CAGR	Net NPA as a % of Total Assets	CAGR
2008-09	0.99		0.84	
2009-10	1.03	4.04%	1.01	20.24%
2010-11	1.01	-1.94%	0.84	-16.83%
2011-12	1.18	16.83%	1.05	25.00%
2012-13	1.4	18.64%	1.71	62.86%
2013-14	1.74	24.29%	3.73	118.13%
2014-15	1.35	-22.41%	3.32	-10.99%

Net NPA as % of Total Assets Trend Line of SBI and UBI during 2008-2009 to 2014 -15



Total Assets represent a sum of all forms of investment made by the Bank. The Non Performing Assets pose a threat of potential loss. The ability to maintain a lower rate of Net Non performing Assets to Total Assets is a manifestation of the banks level of performance.

The SBI's Net NPA as % to Net Assets almost doubled i.e., from .99% in 2008-09 it came up to 1.74% in 2013-14 and then declined to 1.35% in 2014-15. Whereas, Net NPA as % to Net Assets of UBI recorded a tremendous growth in the last six years. From 0.84% in 2008-09 it came up to 3.32 in 2014-15 with highest percentage recorded in 2013-14.

From the Table 3.6 it can be observed that, growth trend of both the banks have been similar throughout. Even then, State Bank of India has been able to maintain a better share of its Net NPA to Total Assets as compared to UBI.

CONCLUSION

It is been observed that in spite of various measures being taken to cut the menace of NPA, Public sector banks are still at a tumult with regard to curb the growth of NPA. More stringent approach has to be taken from all directions to keep the banking sector at ease.

REFERENCES

1. Aggarwal, S and Mittal, P (2012), "Non-Performing Asset: Comparative Position of Public and Private Sector Banks in India", *International Journal of Business and Management Tomorrow*, Vol. 2, No.1, 2012.
2. Chaudhary, K and Sharma, M (2011), *Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study*, *International Journal of Innovation, Management and Technology*, Vol. 2, No. 3, June 2011.

3. K.K. Siraj & P. Sudarsanan Pillai, *Effeciency of NPA Management in Indian SCBs – A Bank Group Wise exploratory Study*, *Journal of Applied Finance and Banking*, Vol.3, No.2, 2013, 123-137.
4. Kajal Choudhary and Monica Sharma, *Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study*, *International Journal of Innovation, Management and Technology*, Vol.2, No.3, June 2011.
5. Ranjan, Rajiv & Sarat Chandra Dhal, (2003), *Non Performing Loan and Terms of Credit of Public Sector Banks in India: An Empirical Assessment Reserve Bank of India Occasional Paper*, Vole 24, No.3, Winter 2003
6. Misra, BM and Dhal, S (2010), *Pro-cyclical Management of Banks' Non- Performing Loans by the Indian Public Sector Banks*, *RBI Occasional Papers*, Online: <http://www.bis.org/repofficepubl/arpresearch201003.08.pdf>
7. Dash, MK., and Kabra, G. (2010): "The Determinants of Non-Performing Assets in Indian Commercial Banks: an Econometric Study", *Middle Eastern Finance and Economics*, Issue 7 (2010).
8. Neural, S and Singla, M, (2014), *Empirical Study on Non Performing Assets of Bank*, *International Journal of Advance Research in Computer Science and Management Studies*, Volume 2, Issue 1, January 2014
9. Siraj, K.K. and Pillai, P.S. (2011), *Asset Quality and Profitability of Indian Scheduled Commercial Banks During Global financial crisis*, *International Research Journal of Finance and Economics*, Issue 80, 2011.
10. Reddy, P.K, (2002), *A Comparative Study of Non Performing Assets in India in the Global Context – similarities and dissimilarities, remedial measures*, IIM Ahemadabad, India.

11. Lokare, S.M, (2014), **Re-emerging Stress in the Asset Quality of Indian Banks: Macro-Financial Linkages**, RBI Occasional Papers
12. Chaudhary, K and Sharma, M (2011), **Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study**, International Journal of Innovation, Management and Technology, Vol. 2, No. 3, June 2011