JOURNAL OF CRITICAL REVIEWS

ISSN-2394-5125 VOL 06, ISSUE 07, 2019

ASSET QUALITY PATTERNS OF PUBLIC SECTOR BANKS IN INDIA- A STUDY WITH REFERENCE TO NON-PERFORMING ASSETS

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Abstract:
The main asset of the bank is perceived by "Loans & Advances", as the loans gives interest with principle amount to the banks. Loans are considered as one of the major functions of the bank laid beside deposits. This function becomes necessary for a bank to register as a "Commercial Bank". Loans are such a product for the commercial bank upon which the profit is based. In simple words bank provide loans to the public, charge some interest rate to get it back and this is how makes profit. When a person or an entity fails to pay back within the time period that amount will be declared as non performing assets (NPAs). All SCBs follow rules and regulation of RBI before classifying it as NPAs. The classification of Asset is Standard Assets, Sub-Standard Assets, Doubtful Assets and Loss Assets. The present study aims to study the asset quality held with public sector banks exclusively and to compare its performance with all other SCBs in India

Introduction:
The main Asset of the bank is perceived by "Loans & Advances", as the loans gives interest with principle amount to the banks. Loans are considered as one of the major functions of the bank laid beside deposits. This function becomes necessary for a bank to register as a "Commercial Bank". Loans are such a product for the commercial bank upon which the profit is based. In simple words bank provide loans to the public, charge some interest rate to get it back and this is how makes profit. When a person or an entity fails to pay back within the time period that amount will be declared as non performing assets (NPAs). All SCBs follow rules and regulation of RBI before classifying it as NPAs. The classification of Asset is as follows:
Standard Assets, Sub-Standard Assets, Doubtful Assets and Loss Assets
The Standard assets are classified with the all type of installments & interest amount that are being received. Sub-standard assets are classified as NPAs for a period not exceeding 12 months. In this category the installment or interest due has not been paid for over 90 days. In simple words, these accounts cease to generate any interest or installment. The percentage of provisions under this category is 10%. Doubtful assets are those assets which are remained NPAs for a period exceeding 12 months. This account may continue in this category till its security does not fall below 10% or banks' auditors may classify it in the next category. The provisions under this category laid in three forms by RBI keeping in view of the period of NPA remains in this account. They are: up to 1 yr 25%, up to three yr 40% & more than three 100% Lastly NPAs which have no chance of recovery, though the amount has not been written off wholly are called as Loss Assets. "Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for" (rbi.org.in).

Review of Literature
Mohammad Miyan (2017) discussed the NPAs in Public Sector Banks & Private Sector Banks & the significant difference of NPAs and its management with reference to priority sector & non-priority sector lending. The study is descriptive in nature for the period of five years i.e 2011-12 to 2015-16. It was found that mean Net NPA CAGR for Public Sector Banks was equal to 90.8% & 26.5% of Private Banks. It was found that the management of private sector banks is much competent than the Public sector banks.

M. Rajesh & T. Siva kumar (2017) studied about the Non-Performing Assets of Banks In India & their Issues and Challenges. The study is based on secondary data & limited for a period of 2003-04 to 2014-15. The study concludes that the banking industry was in a transition phase. On the one hand, the Public Sector Banks are in trouble with excessive manpower, excessive NPAs and excessive governmental equity. While on the other hand the private sector banks are consolidating themselves through adoption of latest technology and systems.

ISSN-2394-5125 VOL 06, ISSUE 07, 2019

Biswanath Sukul (2017) made an attempt to study the status of NPAs in Private Sector Banks. The study highlights the trend of the GNPA and NNPA of HDFC, ICICI and Axis Bank. The study was secondary in nature & limited to 5 years (2011-12 to 2015-16). It was found that the situation of HDFC Bank and Axis Bank were good but ICICI Bank was fearful as the ratio of net NPAs found to be increasing in the study period.

Meena Kamal Sharma et al (2016) conducted a study on NPA of Public sector Banks which is based on the secondary data. The study was limited to ten years, i.e. from 2005-2014. The study used statistical tools such as percentages and Compound Annual Growth Rate (CAGR) for analyzing the data. The study observed that the public sector banks have highest NPA in the year 2013-14 compared to 2004-05.

Vivek rajbahadur singh (2016) studied NPAs trend & recovery of NPAs in Indian scheduled Commercial for the period of 2000 to 2014, including Public sector banks, private sector banks and foreign banks. It was revealed that the money locked up in NPAs had an impact on profitability of the bank & it is very high in public sectors banks. It was also found that the problem of recovery is not with small borrowers but with large borrowers.

Ankit Garg (2016) focused to understand the concept of NPA, its causes and impact on profitability. The results of study reveal that the problem of NPAs impacts profitability, Liquidity and results in credit loss. It was revealed that Public Sector Banks had NPA gross value greater than Rs. 50 million as on 31st march 2003. Rehabilitation has been considered in only about 13% of the cases & Settlement has been considered only in 9% of the cases.

Pradhan Tanmaya Kumar (2013) compared the NPAs of Old Private Sector Banks and Foreign Banks. The scope of the study is limited to five years data 2007-2011. It was found that Gross NPA of both the sector Banks continues to rise except the year 2008. Similarly, Gross Advances of both Old Private Sector Banks and Foreign Banks continues to rise through out the year 2007 to 2011 except the year 2010 in Foreign Banks. The study also studied the measures taken by RBI to implement Capital Adequacy Ratio.

Samir & Deepa Kamra (2013) analyzed the position of NPAs in selected banks namely SBI, PNB & CBI in terms of values, gross and net NPAs. It was found that during 2000-01 to 2009-10 the proportion of NPAs in Priority Sector to the total NPAs of the SBI has significantly increased from 44% to 50% percent. The proportion of NPAs in Priority Sector to the Total NPAs of the PNB has significantly increased from 41% to 76%. Central Bank of India’s proportion of NPAs in Priority Sector to the Total NPAs of CBI had increased from 48% to 67%. It was also observed that DRTs, OTS, SARFAESI etc marked well in solving NPAs.

Importance of the study

The assets of any company represent its financial health to meet the liabilities of an entity hence same with bank but in banks loans are the main assets from which bank earnings is possible. In past few years there are many news of the banks have came into picture that had shown frauds & merger & acquisitions of public sector banks especially. The merging method is applied to avoid the liquidation of the banks as it may result in impacting whole economy of the country. These frauds are still into picture which lead this study to know the Asset quality of the Public Sector Banks.

Objectives:

To study the Asset Quality Pattern of Public Sector Banks in terms of Total Assets, Gross NPA & Net NPA.

Research Methodology:

The present study aims to study the asset quality held with public sector banks exclusively and to compare its performance with all other SCBs. For this purpose all Public Sector Banksi. e 21 banks have been taken for the period of 5 years 2014 to 2018. The study is completely based on secondary data. The data for this study have been sourced from RBI website, journals & books. For analyzing the Asset quality of the banks, CAGR (compound annual growth rate) have been applied.

Table 1: Total Assets, GNPA & NNPA of all public sector banks for the period of 31-03-2014 to 31-03-2018 (Amout in Rs. Crores)

Sl no.	Bank Name	Total Assets	CAGR	Gross NPAs	CAGR	Net NPAs	CAGR
1	Allahabad Bank	1177108.31	-3%	79061.19	35%	47655.85	21%
2	Andhra Bank	1017743.79	-9%	69972.11	48%	36058.43	39%
3	Bank Of Baroda	3460744.75	-2%	167857.5	48%	75073.54	40%
4	Bank Of India	3037685.99	-2%	199323.8	48%	102716.9	38%
5	Bank Of Maharashtra	758948.89	-3%	55269.7	59%	33636.67	52%
6	Canara Bank	2793288.74	-6%	133918.5	58%	85729.84	48%
7	Central Bank Of India	2502627.91	11%	95558.77	18%	54993.85	21%

8	Corporation Bank	1462196.07	7%	59794.37	36%	36336.64	25%
9	Dena Bank	1051655.96	16%	83776.54	115%	46463.95	99%
10	IDBI Bank Limited	867841.91	-23%	104262.9	5%	56703.57	5%
11	Indian Bank	1675112.48	7%	67104.97	70%	37336.23	65%
12	Indian Overseas Bank	1049973.75	-7%	115223.5	30%	68716.23	26%
13	Oriental Bank Of Commerce	1315483.94	4%	58646.68	9%	37378.51	4%
14	Punjab &Sind Bank	1057408.05	18%	102782.4	141%	60193.44	124%
15	Punjab National Bank	1157317.51	-41%	379191.16	85%	204292.85	83%
16	State Bank Of India	5996226.53	-37%	380035.87	22%	194727.53	28%
17	Syndicate Bank	1486014.64	-6%	68253.58	54%	39229.56	49%
18	UCO Bank	1177320.08	3%	90885.02	47%	46116.05	41%
19	Union Bank Of India	2080177.26	-8%	129847.71	51%	69443.57	46%
20	United Bank Of India	663366.05	-4%	50646.03	23%	31764.35	22%
21	Vijaya Bank	757873.18	-6%	24364.01	40%	16338.3	41%

Source*: Data compiled from RBI reports*

The above table containing data of 21 public sector banks depicting the picture of Assets and Non performing Assets classified into two i.e. GNPA & NNPA.

Total Assets growth rate have been observed positive with seven banks viz., Central Bank Of India, Corporation Bank, Dena Bank, Indian Bank, Oriental Bank Of Commerce, Punjab And Sind Bank & UCO Bank. The other banks have shown negative CAGR but it does not implied that the banks are poor as it is considered that "A decrease in an asset is offset by either an increase in another asset" (https://bizfluent.com)

Gross NPAs rate increased with 100% and above for Dena Bank (115%) & Punjab & Sind Bank (141%). PNB & Indian bank showed increment rate near to 90%. The increment rate of CAGR with 40% to 60% is found with the following banks viz., Bank Of Maharashtra, Canara, Syndicate Bank &Union Bank of India. Andhra, BOB, BOI & UCO Bank. With the least increment rate of GNPA is found with IDBI (5%) followed by Oriental Bank of Commerce (9%). Apart from these banks other banks have followed the rate around 20% to 30%.

The highest increment rate of Net NPAs is found with Punjab National Bank and Sind Bank that accounts 125% rate of CAGR. This trend is followed by Dena Bank & PNB that accounts in between 80% to 100%. Indian bank & Bank of Maharashtra found next to these two banks with 50%. The other banks found with 20% to 40% of CAGR. The least rate of increment of Net NPAs is observed in two banks viz., Oriental Bank of Commerce &IDBI Bank Limited. However, the exact percentage change cannot be concluded as CAGR shows the compound growth rate over a specified time period (5 yrs).

Findings, Conclusion and Suggestions

It was found from the study that those banks have shown positive increment rate in terms of total assets have been merged in the year 2019. The merger and acquisition have taken place to reduce NPA burden that could be hard for managing by individual banks otherwise banks may gone bankrupt in future and this is how the number of banks is now reduced to 12. Capital infusion was also made by the government to improve banking financial health still it would not help in halting merging of banks. Banks with positive increment rate have also shown higher compound rate in terms of Gross and Net NPAs this means proper utilization of assets was not made by the banks.

Asset utilization and returns on assets should be documented beforehand so that better management will process. Banks should focus on reducing Gross NPAs efficiently otherwise It may result into higher Net NPAs. Fraudulent must be listed by every bank so that consortium loans and advances become more secured. Approval should be made by the supervisory authority to introduce new assets into the banks.

This particular study is exclusively done on public sector banks with the aim of analyzing Asset Quality for the period of five years (2014-2018). It has been concluded that the compound growth rate for Total Assets of Corporate Bank, Dena Bank, Indian Bank, Oriental Bank of Commerce, Punjab & Sindh Bank and UCO Bank are increased with positive rate. The GNPA found highest with Dena Bank (115%), Punjab & Sindh Bank (141%) and Punjab National Bank (90%) followed by Bank of Mahrashtra, Canara Bank, Syndicate Bank and Union Bank of India. The Net NPA rates also have been found higher for these banks. The least rate of GNPA and NNPA is recorded by Oriental Bank of Commerce and IDBI Bank however, the rate of Total Assets also found less for these two banks i.e., 4% and -23% respectively.

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Notes

- *https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=9009#CT38*
- *https://cagr-calculator.com/cagr-calculator/*
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