A COMPARATIVE STUDY OF PERFORMANCE AND MANAGEENT OF NPA'S IN PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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Abstract: This paper tries to make an attempt to compare NPA's in private sector banks and public sector banks. The criterion is how they manage their NPA maintenance for good performance. The banking system depends on the NPA's. These directly have an impact on the profitability, liquidity and solvency position of the bank. Higher NPA indicates inefficiency of the bank and lower NPA indicates better performance and management of funds. To increase the performance of the bank, the NPAs need to be reduced and controlled by the banks.

Keywords: Non-Performance Assets, Public Sector Bank, Private Sector Bank.

Introduction: Banking industry is the major sector of the economy that has achieved renewed focus after financial sector reforms and the entry of private sector banks. This sector is the foundation for modern economic development. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposits involves no risk, since it is the banker who owes a duty to repay the deposit whenever it is demanded, on the other hand lending always involves much risk because there is no certainty of repayment. Non-Performing Assets had been the single largest cause of frustration of the banking sector.

Non-Performing Asset: The concept of NPA is that it is an asset which ceases to yield income for the bank and that any income accrued from such asset shall not be treated as income. In other words, the assets of the banks which don't perform (that is – don't bring any return) are called Non-Performing Assets (NPA) or bad loans. A non-performing asset is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan.

Implications of the NPAs on Banks: The most important implication of the NPA is that a bank can neither credit the income nor debit to loss, unless either recovered or identified as loss. If a borrower has multiple accounts, all accounts would be considered NPA if one account becomes NPA.

How to reduce NPA? - Non Performing Assets can be reduced by taking some major steps by the banks. Some steps are as follows by which bank can reduce NPA -
SARFAESI ACT 2002: **The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002** (SARFAESI) empowers Banks / Financial Institutions to recover their non-performing assets without the intervention of the Court. The Act provides three alternative methods for recovery of non-performing assets, namely:
i. Securitisation
ii. Asset Reconstruction
iii. Enforcement of Security without the intervention of the Court.

Lok Adalats: Lok Adalat is for the recovery of small loans. According to RBI guidelines issued in 2001, they cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered.

Compromise Settlement: It is a scheme which provides a simple mechanism for recovery of NPA. It is applied to advances below Rs. 10 Crores.

Credit Information Bureau: A Credit Information Bureau help banks by maintaining a data of an individual defaulter and provides this information to all banks so that they may avoid lending to him/her.

Debt Recovery Tribunals: The debt recovery tribunal act was passed by Indian Parliament in 1993 with the objective of facilitating the banks and financial institutions for speedy recovery of dues in cases where the loan amount is Rs. 10 lakhs and above.

Review of Literature:

1. Sandeep and Parul Mital (2012) analysed the comparative position of non performing assets of selected public and private sector banks in India to find their efficiency through comparative study. Data has been collected from various secondary sources for period of 10 years and analysed with descriptive statistics and ANOVA. All the banks are making polices trying for the containment of NPA‟S for improving their asset quality and profitability. PNB and HDFC banks are found superior in management of NPA‟S comparative to SBI and ICICI and private sector banks are much comfortable and efficient comparative to public sector banks.
2. Bhatia (2007) in his research paper entitled, "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment", explores an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private, and foreign sector banks in India. The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This paper aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behavior of NPAs of the three categories of banks is observed.
3. **Singh B** in his study on Non-performing asset in public and private sector bank comparative study, studies that NPAs are considered to an important parameter to judge the performance and financial health of bank. The level of NPAs is one of the drivers of financial stability and growth of banking sector.

The Objectives of this Paper Are:

1. To study NPA trend in last 5 years of private and public sector banks.
2. To make a comparative study of NPAs, of public sector and private sector
3. To suggest the various measures for proper management of NPA in banks.

Methodology of Study: The analysis in this paper is done on the total i.e. aggregate data starting from 2011-12 to 2015-16 for making comparison between public sector banks and private sector banks on the overall basis. This helped us to derive the findings and conclusions.

Population: Banking industry is taken for the study, where aggregate data related to NPA for Public sector Banks and Private sector banks is used.

Research Design: Descriptive research design is used for the study.

Data Collection: Data used in this paper is secondary, which is compiled from Reserve Bank Of India (RBI) website and from review of Literature.

Data Analysis Tools: Tools include Ratio analysis and Application of Least Square Method.

Time: Period of the Paper: 5 years aggregate data from 2011-12 to 2015-16 is used for the study.

Analysis and Interpretation:

Table1: Total Gross NPA to Total Gross Advances (Rs. In Billions) as on 31st March

Bank Name	Year	Gross NPA's	Total Gross Advances	Percent Share
Public Sector Banks	2011-2012	1,172.62	35,503.89	3.3
	2012-2013	1644.61	45,601.69	3.6
	2013-2014	2272.64	52,159.20	4.4
	2014-2015	2784.68	56,167.18	5.0
	2015-2016	5399.56	58,183.48	9.3
Private Sector Banks	2011-2012	187.68	8,716.41	2.2
	2012-2013	210.71	11,512.46	1.8
	2013-2014	245.42	13,602.53	1.8
	2014-2015	341.06	16,073.39	2.1
	2015-2016	561.86	19,726.59	2.8

(Sources: RBI Journal)

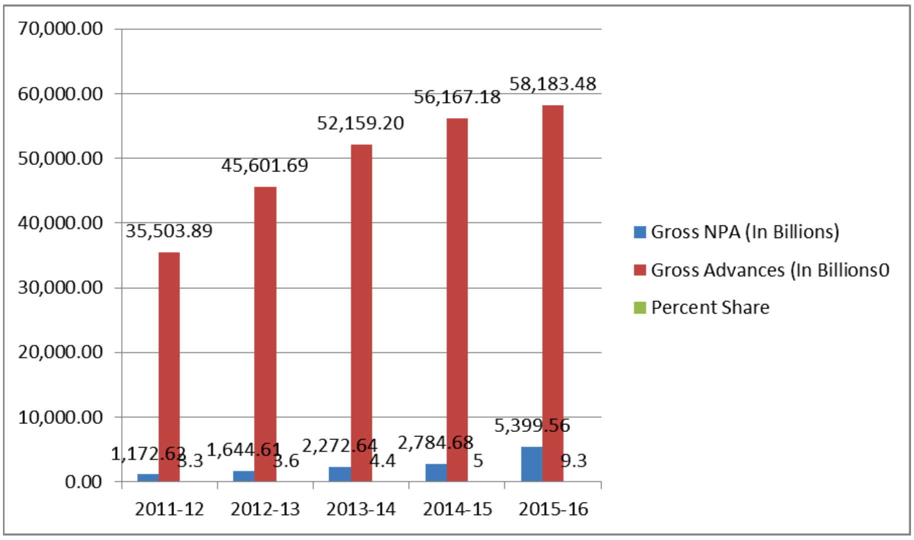

Figure I: Gross NPA, Gross Advances and Percent share of Public Sector Banks

Interpretation: In the figure 1, the ratio of Gross NPA to Gross Advances for Public Sector Bank is increasing and NPA Percent share was highest in the year 2015-16.

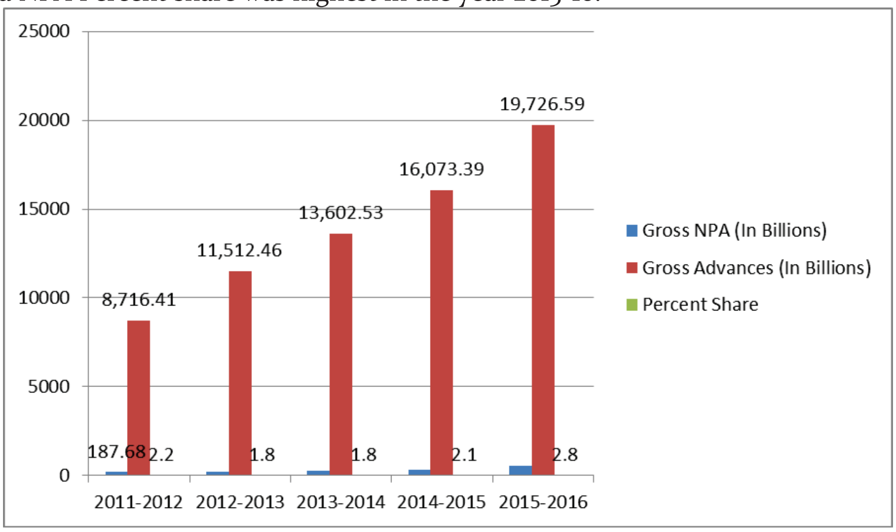

Figure 2: Gross NPA, Gross Advances and Percent share of Private Sector Banks

Interpretation: In the figure 2, the ratio of Gross NPA to Gross Advances shows decreasing ratio of Private Sector Banks from 2012-2014 and increasing ratio from 2014-2016, showing the efforts taken by Private Banks when compared to public sector banks.

Least Square Method:

Use of Least Square Method for predicting Gross NPA for 2016-17
Public Sector Banks

Year	Y Gross NPAs (Rs. Billions)	X (Year-2013-14)	XY	X^2
2011-12	1172.62	-2	-2345.24	4
2012-13	1644.61	-1	-1644.61	1
2013-14	2272.64	0	0	0
2014-15	2784.68	1	2784.68	1
2015-16	5399.56	2	10799.12	4
	13,274.11		9,593.95	10

N=5
Straight Line Equation y= a+bx
b= ∑XY/ ∑X^2
= 9,593.95/10
= 959.395
a= ∑Y/n
= 13,274.11/5
= 2,654.822
Y= 2,654.822+ 959.395x
Y for 2016-17= 2,654.822+ 959.395(3)
= Rs. 5,533.007 in Billions

Interpretation: From the use of least square method the Gross NPA for Public Sector Bank will rise to Rs. 5,533.007 for the year 2016-17, which was Rs. 5,399.56 Billion for the year 2015-16.

Use of Least Square Method for predicting Gross NPA for 2016-17
Private Sector Banks

Year	Y Gross NPAs (Rs. Billions)	X (Year-2013-14)	XY	X^2
2011-12	187.68	-2	-375.36	4
2012-13	210.71	-1	-210.71	1
2013-14	245.42	0	0	0
2014-15	341.06	1	341.06	1
2015-16	561.86	2	1123.72	4
	1,546.73		878.71	10

N=5
Straight Line Equation y= a+bx
b= ∑XY/ ∑X^2
= 878.71/10
=87.871
a= ∑Y/n
=1546.73/5
= 309.346
Y= 309.346+ 87.871x

Y for 2016-17= 309.346+ 87.871(3)
= Rs. 572.959 in Billions

Interpretation: From the use of least square method the Gross NPA for Private Sector Bank will rise to Rs. 572.959 for the year 2016-17, which was Rs. 561.86 Billion for the year 2015-16.

Findings:
- The ratio of Gross NPA to Gross Advances is decreasing for private sector Banks for first 2 years, which was 2.2 in 2011-12, and has decreased to 1.8 in 2013-14 and it is in better situation from Public Sector Banks.
- From the least square method, the estimated NPA for the year 2016-17 is Rs. 5,533.007 in Billions for Public Sector Banks, for Private sector Banks it rise to Rs. 572.959 in Billions for the year 2016-17. The highest NPA is predicted for Public Sector Banks in the year 2016-17

Conclusion: The Non-Performing Assets is a very important aspect of every banking sector. If NPA is not managed properly, it will have a serious effect on the profitability of the banks and also on the economy of the country. The problem of recovery is not with the small loan, but with the large borrowers especially in the year 2015-16. For solving that strict policies should be followed by the Government and bankers otherwise it completely damages the profitability of the banker and also it is not good for developing countries like India.

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