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A Study on the Portfolio of Non-Performing Assets in Indian Public Sector Banks

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Abstract
Non-performing assets (NPAs) have become the biggest issue for the Indian banking sector. Nonperforming assets have been detrimental to the efficient performance of Indian banks. Their continued amelioration in absolute terms proved the survival of Indian banks very difficult. As on March 2015, the total NPA of Indian public sector banks stand at Rs.196072 crore against the standard asset Rs. 5838443crore which is 3.3 percent of total NPAs. This study attempts to analyse the various portfolio of NPAs of Indian Public sector banks with special reference to standard assets, sub-standard assets, doubtful assets and loss assets for the period 2010-11 to 2014-15. The data have been collected from the annual reports of the individual banks and CMIE database. It is observed that the NPA level shows an inconsistent rise over the study period. And the banks must ensure that they give loans to credit worthy customers and needs to concentrate on the area of nonperforming assets.

Keywords: NPA, standard assets, sub-standard assets, doubtful assets and loss assets.

1. Introduction
One of the strong pillars of Indian economic system is a banking structure with stability, solidarity and diversity with which, it could face many challenging circumstances including the global financial crisis 2008. In the past 64 years, Indian banking scenario has dramatically changed. The Banking Regulation Act of 1949 and the subsequent amendments pave the way for stabilization of the whole banking system. Banking system in Indian is dominated by nationalized banks. The nationalization of 14 privately owned banks in India took place on 19th July 1969 by then Prime Minister Mrs. Indira Gandhi, with another instalment of nationalization of 6 banks on 15.04.1980. The major objective of nationalization was to ensure mass banking system as against class banking with banking infrastructure aimed at hilly tracts and terrains of the country. Notwithstanding the criticisms against the nationalized banks on the grounds of operational efficiency, these banks played a useful role in monetizing a vast part of rural India and also in mobilizing the savings of the common people.

India has followed a financial intermediation based system where banks, financial institutions and other intermediaries have played a significant role. In the recent years, other than the conventional credit, banks have been investing in commercial paper, corporate bonds and debentures, preferences and equity shares of corporate, and bills discounted by financial institutions. A greater borrowing from the banking system has increased the ‘counter party risk’ associated with the loan transactions. The Basel committee of banking supervision was formed in 1945 to identify a framework which can save the economy of the member nations. Initially the G-7 and oil rich nations were the members of this committee. The sudden collapse of Russia and appearance of BRIC nations compelled Basel committee to include India as a member nation in 1984. Implementation of Basel accord took place in 1992 when rays of privatization, liberalization and globalisation entered in India.

The present NPA problem in Indian banking system stems from the fact that the commercial sector has primarily depended on the banking system for its financing needs. An NPA on the balance sheet of an institution deteriotes its health in several ways. Firstly there is the problem of moral hazard. Banks have a tendency to roll over non-performing loans. The borrower is provided with more loans to pay interest on past loans and repay whatever

Amount is possible. This is called as 'ever greening'. It is the surest way of postponing the problem to buy time and creating a much larger problem in future.
Secondly there is a problem of adverse incentive. A bank with say 25% of NPA will have to earn on 75% of its assets to meet its expenses and to make a profit. It will have a tendency to go for more risky ventures promising higher rates of return, since 75% of the loan portfolio will have to pay for 100% of the liabilities. And risky ventures always have a greater probability of becoming 'non-performing, thus completing a self-fulfilling cycle.
Thirdly, there is a huge opportunity cost because of NPAs. Assuming Rs. 1, 00, 000 crore locked up due to NPAs started earning interest, say at 10%, it would immediately increase the interest yield of nationalised bank by anything between 1.6% and 1.8%. This increased yield could then translate into minimum interest rates for the bank's clients.

Overview of NPA Classification in India

Sub-standard Asset	Sub-standard asset would be one, which has remained NPA for a period less than or equal to 12 months
Doubtful Asset	If the asset has remained in sub-standard category for a period of 12 months
Loss Asset	If the asset where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.
Standard Asset	It does not create any problem while paying interest for the principal. It usually carries more than normal risk attached to the business.

2. Literature Review

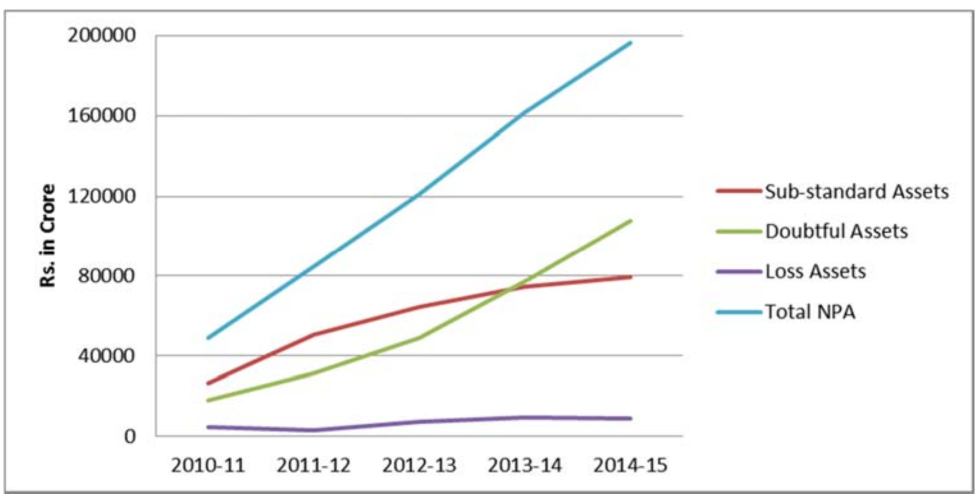
Various studies have been conducted on the Indian public sector banks in context of NPA. Rangasamy and Syed Ibrahim analysed the components of loan assets with special reference to public sector banks in 2014 and concluded that the banks need to improve their working performance in the area of NPA. In 2013, Tariq Zafar, S M Khalid and Adeel Maqbool provided the strategic overview of the problem of NPAs and highlighted its magnitude and real cause behind managing NPAs in Indian public sector banks. Veerakumar in 2012 concluded that the bank management must speed up recovery of good loans and bad loans through various modes to decelerate growth of NPAs. Malyadri and Sirisha in 2011 conducted a study on NPA that revealed that public sector banks have achieved a greater penetration compared to the private sector banks.

3. Analysis and Interpretation

Table 1: shows the portfolio of NPA in Indian Public sector banks

Year	Standard Assets	Sub-standard Assets	Doubtful Assets	Loss Assets	Total NPA
2010-11	4818105	26338	17796	4780	48914
2011-12	5333825	50822	31177	2964	84963
2012-13	4890330	64533	48828	7466	120827
2013-14	5647942	74773	77495	9273	161541
2014-15	5838443	79286	107722	9064	196072

Source: Banks Annual Reports and CMIE



Source: Banks Annual Reports and CMIE

Graph 1: Movement of NPAs over the study period

The above graph shows that there is sharp rise in the level of NPA over the study period. The percentage of total NPA to standard assets is found to be 1.02% and 1.6% in 2010-11 and 2011-12 and showed an inconsistent growth thereon. It is observed that the percentage of total NPA to standard assets has increased to 2.5 % in 2012-13. In 2014-15 it is found to be 3.4% which is the maximum percentage over the study period.

Table 2: Percentage of NPA components to Total NPA in Public sector banks

Year	% of Sub-standard Assets to Total NPA	% of Doubtful Assets to Total NPA	% of Loss Assets to Total NPA	% of Total NPA
2010-11	54	36	10	100
2011-12	60	37	3	100
2012-13	53	40	6	100
2013-14	46	48	6	100
2014-15	40	55	5	100

Source: Banks Annual Reports and CMIE

From table 2, in case of sub-standard assets, it is more as compared to the doubtful assets. It is also inconsistent growth in percentage of sub-standard assets to total NPAs in Public sector banks upto 2011-12, i.e. 54% of total NPAs in 2010-11 and 60% of total NPAs that amounts to Rs. 50822 crore in 2011-12 which was very high as compared to the other years under the period of study. From 2012-13, it declined to 53% of total NPAs and after that it continued showing the declining trend i.e. 46% of total NPAs in 2013-14 and 40% of total NPAs 2014-15 which was very low during the study period that amount to Rs. 79286.

Table 2 also reveals that there is a inconsistent growth in percentage of doubtful assets to total NPAs over the period of study. In 2010-11, percentage of doubtful assets to total NPAs is 36% that amounts to Rs.17796 crore. It increased to 37% in 2011-12. Highest growth rate in percentage of doubtful assets was observed in the year 2013-14 that amounts to Rs.74773 crore. It further increased to 55% of total NPAs in the year 2014 that amounts to Rs. 107722 crore.

Further in case of percentage of loss of assets, the trend was same as it was for the sub-standard assets. It was found to be maximum in 2010-11 i.e. Rs 4780 crore which is 10% of the total NPAs. In the very next year, it declined to 3% of total NPAs i.e. Rs. 31177 crore which is the minimum during the study period. The increase in total NPA level during 2011-12 is found to be the reason for this rise. In 2012-12 and 2013-14, it is found to be stable which is 6% of total NPAs that amount to Rs. 9273 crore and Rs. 9064 crore respectively.

4. Conclusion

The pressing problem that banks all over the world are facing in recent times is spiralling of non-performing assets. NPAs adversely affect lending activity of banks as non-recovery of loan instalment and the interest on the loan harms the usefulness of loan disbursement process. Increase of non-performing assets in recent years remain an area of concern and should be addressed with earnest efforts during the periods of disbursements of loans and recovery of the same. Though the Public sector banks, over the years have been able to control non-performing assets due to stringent norms of RBI, enhancement in monitoring and recovery procedures is required to improve the overall management of non-performing assets. A systematic framework with a clear objective, flexibility and adequate financial support is required to resolve the distressed situation and for the strategy to succeed, adequate legal provisions and supporting regulatory, environment are the prerequisites.

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