# NPA: A Study of Analyzing Trends in Banking Sector

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**Abstract:** Banking system is the life blood of all economic activity in any country. The banking is always deemed to be most important area of economy to be function effectively and efficiently. But because rising Non Perforating Asset (NPA) in Banking sector pulls down the performance and efficiency of banking sector immensely. In this research paper, efforts have been made to study the various reasons of occurrence of NPA and also to study the trends of NPA in banking sector during the period 2007 to 2016. Variable used in the study are Gross NPA, Net NPA, Additions in NPA, Reductions in NPA and Provisions made are analyzed with the help of statistical technique Single Factor Anova.

**Key Words:** Banking Sector, Gross NPA, Net NPA, Anova.

## Introduction

The banking system plays vital role in the development of an economy. Without a sound and effective banking system no economy can be healthy and developed economy. In India banking sector private and public sector banks occupy a major position. They are the oldest form of banking institution performing different volume of operations all over the country. Now a day's banking or not only performing basic banking functions such as accepting money and advancing loans but also providing variety of other services like merchant banking, leasing house finance, mutual fund, venture capital, working capital management, project counselling and issue management. Lending money also involved risk because of lack of uncertainty of repayment. In the recent time banks have become a very conscious while advancing loans to the people because of rising percentage of NPA. A high level of NPA means increasing the number of credit default which adversely affect the value of Assets and net worth of banking get also declined. Increasing the rate of NPA requires of making provision which will help them to affect control and manage NPA.

Based on Narsimhan Committee report I & II on banking reforms RBI introduced Prudential banking norms to address credit monitoring policy on bank for making speedy and timely recovery of loans and dues by banks. Government of India launched "recovery of debts due to banks and financial institution act" in 1993 and in 2002 "securitisation and reconstruction of financial assets and enforcement of security interest act" was also and forced.

But present position of NPA shows that act enforced by government of India are not serving the purpose for which they were performed. There by maybe various reasons behind it like banks attitude toward financing and recovery of loans and lack of knowledge about rules and regulations related to the advancing of loan and also violating directions issued by RBI.

## Non- Performing Assets- Concept

A loan or lease on which principle and interest their on is **past due** for a specified period of time is known as NPA.

## Definition of NPA by (RBI)

An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. Due to the improvements in the payment and settlement systems, recovery climate, up gradation of technology in the banking system, etc., it was decided to dispense with 'past due' concept, with effect from March 31, 2001. Accordingly, as from that date, a Non-performing Asset (NPA) shall be an advance where

i. interest and/or installment of principal remain overdue for a period of more than 180 days in respect of a Term Loan,
ii. the account remains 'out of order' for a period of more than 180 days, in respect of an Overdraft/Cash Credit (OD/CC),

iii. the bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted,
iv. interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
v. any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue' norm for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

i. interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
ii. the account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
iv. interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and any amount to be received remains overdue for a period of more than 90 days in respect of other accounts. [1]

## ASSET CLASSIFICATION

**Categories of NPAs**: Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

**a) Sub-standard Assets:** A sub-standard asset was one, which was classified as NPA for a period not exceeding two years. With effect from 31 March 2001, a sub-standard asset is one, which has remained **NPA for a period less than or equal to 18 months**. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected**.**

**b) Doubtful Assets:** A doubtful asset was one, which remained NPA for a period exceeding two years. With effect from 31 March 2001, an asset is to be classified as doubtful, if it has remained **NPA for a period exceeding 18 months**. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

**c) Loss Assets:** A loss asset is one 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. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. [2**]**

## Literature Review

- **Priyanka Mohnani and Monal Deshmukh** conducted a research study on **April, 2013** on "A Study Of Non Performing Assets On Selected Public And Private Sector Bank" in which they explained that NPA is one kind of obstacle in the success of bank and affects the performance of banks negatively so for that the management of NPA in bank is necessary, management should also follows measures such as: Framing responsibly well documented loan policies and Rolls, Position of overruled accounts is reviewed weekly, Credit appraisal and monitoring, A committee is to be constituted at head office to review a regular accounts for controlling and managing NPA effectively.[3]
- **Dr. Sonia Narula and Monika Singla** conducted a research study on **January, 2014** on "Empirical Study on Non Performing Assets of Bank" in which they focused on NPA of Punjab National Bank said that Gross NPA

and net NPA of PNB are increasing every year, There is an adverse effect on the liquidity of bank, Bank is unable to give loan to the new customer due to lack of funds which arise due to NPA.[4]

- **Sulagna Das and Abhijit** Dutta conducted a research study on "A Study on NPA of Public Sector Banks In India" in **November 2014** in which they tried to analyse cause of NPA of public sector banks. They also emphasized on the significant difference of the NPA in different Nationalised banks of India in reference to priority and non priority sector leading. [5]
- **Mayur Roy and Ankita Patel** conducted a research titled "A Study Of Non Performing Assets Management With Reference To Public Sector Bank Private Sector Bank And Foreign Banks In India" in **March 2015**, in which their study focused on types and causes of NPA in banks they also analysed and interpret various NPA related ratios for public banks private banks and foreign banks in India from 2009 to 13.They found that ratio of gross NPA to gross advance and ratio of substandard advance to gross advance of private sector banks are better than public and foreign banks ratio of doubtful advances to gross advanced are up for all banks and ratio of loss advanced is stable for public banks.[6]
- **Vivek Rajbahadur** Singh in his study titled "A Study Of Non Performing Assets Of Commercial Banks And Its Recovery In India" in March 2016, in which he concluded that NPA level of Nationalised banks are very high as compare to foreign banks. The Bank management should increase the speed of recovery process. The government should also make more provisions for Speed settlement of pending cases and should reduce the mandatory lendings to priority sector as it is main problem creating area.[7]
- **M.Kondala Rao and P.Arthi** conducted a study in **July 2017** on "Non Performing Assets - A Study of South Indian Banks (SIB)". Their study indicated that NPA are rising as far as South Indian bank is concerned. Bank should take strict control to avoid NPA. The proper recovery system should be developed. And loan portfolio of the clients should be timely reviewed by the banks. [8]

## Research and Time Gap in Literature

Gap in research/ need of the research: From the above review of literature it has been observed that no study has been conducted from the period 2007 to 2016.

## Statement of the problem/ Need of the study

The study tries to discuss the reason of NPA in Indian banking sector and also analysing the problem related to NPA and trying to find out solutions to the problem analysed there on. The main subject matter of this research paper is trend in the movement of NPA using following variables used:

- Gross NPA
- Net NPA
- Additions to NPA
- Reduction to NPA
- Provisions to word NPA

## Research Methodology

The analysis in the study is done on data from 2007 to 2016 for getting the movement of NPA related to different banks in India. **Population:** All Indian banking industry is taken for study, where data related to NPA from State Banks and its associates, nationalized banks, private bank and foreign bank are used. **Research Design:** Descriptive Research Design is used for the study. **Collection of Data:** Secondary data is used for the study. RBI report on Trends and progress of Banking from RBI websites are compiled for getting statistical tables , research journals, research paper articles and study already done on NPA in banking sectors have also been studied for getting conceptual knowledge. **Data Analysis Tool:** ANOVA Single factor is used for analysis **Time span of the study**: 10 years aggregate data related to NPA from 2007-2016 is used for the study.

**Objective of the Study:**

- To study the causes of NPA
- To analyse the trend in the movement of NPA in various Bank groups.
- To suggest measures for the efficient and effective management of NPA.

## Analysis of data

### Gross NPA

**Testing of Hypothesis**
In order to test the significance of differences in gross NPA among different bank groups in India, the following hypothesis is tested using ANOVA single factor.

**H0: Null Hypothesis:** There is no significant difference in the Gross NPA among different commercial banks during the study period.

**H1: Alternative hypothesis:** There is significant difference in the Gross NPA among different commercial banks during the study period.

**ANOVA Single Factor- Gross NPA**

| *Source of Variation* | *SS* | *Df* | *MS* | *F* | *F crit* | *Result* |
|---|---|---|---|---|---|---|
| Between Groups | 6.05E+12 | 3 | 2.02E+12 | 4.78 | 2.86* | Significant |
| Within Groups | 1.52E+13 | 36 | 4.21E+11 | | | |
| Total | 2.12E+13 | 39 | | | | |

*** Significant at 5 % level**

It is clear from the table that there is significant difference in the Gross NPA among different commercial banks under study because the calculated value of F is higher than the critical value of F. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence, there is significant difference in Gross NPA of banks under study.

### Net NPA

**Testing of Hypothesis**
In order to test the significance of differences in Net NPA among different bank groups in India, the following hypothesis is tested using ANOVA single factor.

**H0: Null Hypothesis:** There is no significant difference in the Net NPA among different commercial banks during the study period.

**H1: Alternative hypothesis:** There is significant difference in the Net NPA among different commercial banks during the study period

**ANOVA Single Factor- Net NPA**

| *Source of Variation* | *SS* | *Df* | *MS* | *F* | *F crit* | *Result* |
|---|---|---|---|---|---|---|
| Between Groups | 2.23E+12 | 3 | 7.43E+11 | 4.72 | 2.86* | Significant |

| | | | | | | |
|---|---|---|---|---|---|---|
| Within Groups | 5.66E+12 | 36 | 1.57E+11 | | | |
| Total | 7.89E+12 | 39 | | | | |

*** Significant at 5 % level**

It is clear from the table that there is significant difference in the Net NPA among different commercial banks under study because the calculated value of F is higher than the critical value of F. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence, there is significant difference in Net NPA of banks under study.

## Additions in NPA

### Testing of Hypothesis

In order to test the significance of differences in Additions NPA among different bank groups in India, the following hypothesis is tested using ANOVA single factor.

**H0: Null Hypothesis:** There is no significant difference in the Additions NPA among different commercial banks during the study period.

**H1: Alternative hypothesis:** There is significant difference in the Additions NPA among different commercial banks during the study period

**ANOVA Single Factor- Additions in NPA**

| *Source of Variation* | *SS* | *Df* | *MS* | *F* | *F crit* | *Result* |
|---|---|---|---|---|---|---|
| Between Groups | 3.05E+12 | 3 | 1.02E+12 | 4.87 | 2.86* | Significant |
| Within Groups | 7.5E+12 | 36 | 2.08E+11 | | | |
| Total | 1.05E+13 | 39 | | | | |

*** Significant at 5 % level**

It is clear from the table that there is significant difference in the Additions in NPA among different commercial banks under study because the calculated value of F is higher than the critical value of F. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence, there is significant difference in Additions in NPA of banks under study.

## Reductions in NPA

### Testing of Hypothesis

In order to test the significance of differences in Reductions NPA among different bank groups in India, the following hypothesis is tested using ANOVA single factor.

**H0: Null Hypothesis:** There is no significant difference in the Reductions NPA among different commercial banks during the study period.

**H1: Alternative hypothesis:** There is significant difference in the Reductions NPA among different commercial banks during the study period

**ANOVA Single Factor - Reductions in NPA**

| *Source of Variation* | *SS* | *Df* | *MS* | *F* | *F crit* | *Result* |
|---|---|---|---|---|---|---|
| Between Groups | 3.12E+11 | 3 | 1.03E+11 | 15.76 | 2.86* | Significant |
| Within Groups | 2.37E+11 | 36 | 6.59E+09 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | 5.49E+11 | 39 | | | | |

*** Significant at 5 % level**

It is clear from the table that there is significant difference in the Reductions in NPA among different commercial banks under study because the calculated value of F is higher than the critical value of F. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence, there is significant difference in Reductions in NPA of banks under study.

**Provisions for NPA**

**Testing of Hypothesis**

In order to test the significance of differences in Provisions NPA among different bank groups in India, the following hypothesis is tested using ANOVA single factor.

**H0: Null Hypothesis:** There is no significant difference in the Provisions NPA among different commercial banks during the study period.

**H1: Alternative hypothesis:** There is significant difference in the Provisions NPA among different commercial banks during the study period

**ANOVA Single Factor- Provisions for NPA**

| *Source of Variation* | *SS* | *Df* | *MS* | *F* | *F crit* | *Result* |
|---|---|---|---|---|---|---|
| Between Groups | 4.18E+11 | 3 | 1.4E+11 | 4.35 | 2.87* | Significant |
| Within Groups | 1.15E+12 | 36 | 3.2E+10 | | | |
| Total | 1.57E+12 | 39 | | | | |

*** Significant at 5 % level**

It is clear from the table that there is significant difference in the Provisions for NPA among different commercial banks under study because the calculated value of F is higher than the critical value of F. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence, there is significant difference in Provisions for NPA of banks under study.

**Findings and Conclusion:**

From the study it is revealed that an increased in fresh NPA (additions to NPA) every year, indicates the deficiencies in the credit appraisal process which is followed by banks. Therefore, to manage NPA, it is necessary that loan proposals should not be judged on the social and economic background of the promoter, but it should be objectively evaluated on the merit basis of the project involved.

Addition to NPA shows the efficiency of credit risk management, Reduction to NPA depicts the efficiency of recovery measures, applied by RBI. To analyze the overall efficiency, Net Addition to NPA and Gross Non Performing Generation Rate may be utilized.

At present, many recovery measures like SARFAESI Act are available for recovering NPAs of banks. Regulatory norms normally delay the time taken for recovery which ultimately affects the realizable value of NPAs. There should be efforts from the regulatory authorities to improve the recovery management process, so that the NPA accounts can be realized without much erosion in its value.

In order to minimize the risks of NPA and to improve the operational efficiency, it is important for banks that they should be given more autonomy to incorporate more efficient and effective credit appraisal and evaluation system. Banks should be encouraged to integrate the best practices in banking and benchmark their practices with other banking institutions in India and abroad. Such benchmarking will enable the banks to understand their relative strengths and weaknesses, and enable them to implement measures to mitigate the weaknesses.

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