Project Report

"AN ANALYTICAL STUDY OF NPA OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS"

Submitted to

Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur

In partial fulfillment for the award of the degree of

Bachelor of Business Administration

Submitted by

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Under the Guidance of

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Academic Year 2019 – 2020

G.S. College Of Commerce & Economics, Nagpur

Academic Year 2019 – 20

CERTIFICATE

This is to certify that **MONALI ARUN BHAD** has submitted the project report titled "**AN ANALYTICAL STUDY OF NPA OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS'',** towards partial fulfillment of **BACHELOR OF BUSINESS ADMINISTRATION** degree examination. This has not been submitted for any other examination and does not form part of any other course undergone by the candidate.

It is further certified that he has ingeniously completed his project as prescribed by Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur.

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G.S. College Of Commerce & Economics , Nagpur

Academic Year 2019 – 20

DECLARATION

I here-by declare that the project with title "AN ANALYTICAL STUDY OF NPA OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS" has been completed by me in partial fulfillment of BACHELOR OF BUSINESS ADMINISTRATION degree examination as prescribed by Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur and this has not been submitted for any other examination and does not form the part of any other course undertaken by me.

MONALI BHAD

Place:

Date:

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With immense pride and sense of gratitude, I take this golden opportunity to express my sincere regards to Dr. N.Y. Khandait, Principal, G.S. College of Commerce & Economics, Nagpur.

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I will fail in my duty if I do not thank the Non-Teaching staff of the college for their Co-operation.

I would like to thank all those who helped me in making this project complete and successful.

MONALI ARUN BHAD

Place:

Date:

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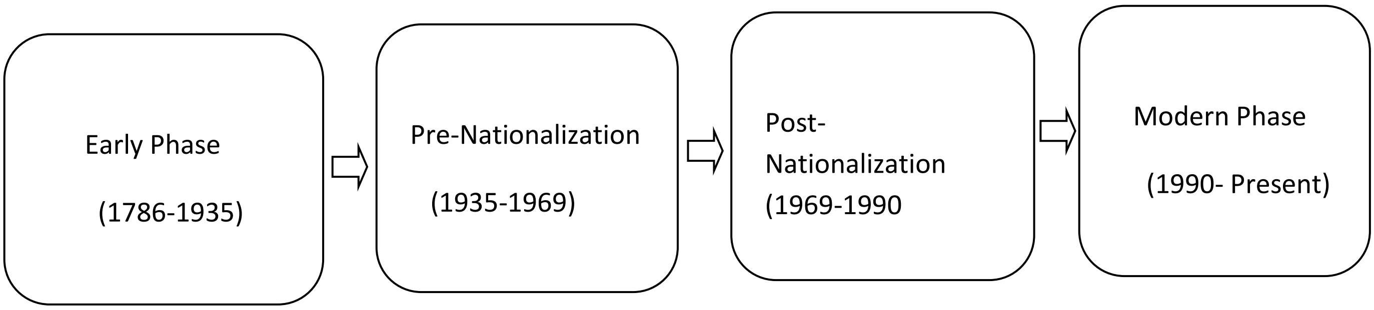
INTRODUCTION

HISTORY OF BANKING IN INDIA:

The first bank in India, through conservative, was established in 1786. From 1786 till today the journey of Indian banking system can be segregated into four distinct:

- Early historical and formative phase: 1786-1935
- Pre-independence phase: 1935-1969
- Post-independence regulated phase: 1969-1990
- Modern phase: 1990- present



Early phase (1786 to 1935):

Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which was started in 1986, and Bank of Hindustan, both of which are now defunct. The oldest bank in existence in India is the state Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. The East India Company established Bank of Bengal, Bank of Bombay and Bank of Madras as independent units and called it Presidency Banks. The three banks merged in 1925 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India. Foreign banks too started to arrive, particularly in Calcutta, in 1860s.

Pre-nationalization phase (1935 to 1969):

Breakthrough happened in this phase was Reserve Bank of India. Reserve Bank of India (RBI) was created with the Central task of maintaining monetary stability in India. This phase of Indian banking was even full and was a phase of restructuring, regulation. However, despite these provisions, control and regulations, banks in India except the State Bank of India, continued to be owned and operated by private persons.

Post -nationalization phase (1969-1990):

Nationalization of 7 banks in India was an important phenomenon. On July 19, 1969 the erstwhile government of India nationalized 14 major private banks. Nationalization of banks in India was happening first time. From 1955 to 1960, State Bank of India and other seven subsidiaries were nationalized under SBI Act of 1955.

List of nationalized banks in 1969:

1) Central bank of India
2) Bank of Maharashtra
3) Dena Bank
4) Punjab National Bank
5) Syndicate Bank
6) Canara Bank
7) Indian Bank
8) Indian Overseas Bank
9) Bank of Baroda
10) Union Bank
11) Allahabad Bank

12) United Bank of India
13) UCO Bank
14) Bank of India

Nationalization took place in two phases, with first round 1969 covering 14 banks followed by another in 1980 covering seven banks.

Modern phase (1990- present):

The first type of reforms mainly based on Narasimhan Committee recommendations and the principles.

- Out of the 27 public sector banks (PSBs), 26 PSBs achieved the minimum capital to risk asset ratio (CRAR) of a percent by March 2000. To enable the PSB to operate in a more competitive manner, the government adopted a policy of providing autonomous status to these banks, subject to certain benchmarks of new liberalized Indian economy.
- The Reserve Bank advised banks in February 1999 to put in place an ALM system, effective from April 1, 1999 and set up internal asset liability management committees (ALCOs) at the top management level to Overseas its implementation. Banks were expected to cover at least 60 percent of their liabilities and assets in the interim and 100 percent of their business by April 1, 2000.
- Interest rate deregulation has been an important component of the reform process. The interest rates in the banking system have been largely deregulated except for certain specific classes; these are savings deposit accounts, non-resident Indian (NRI) deposits, small loans up to 2 lakhs and export credit.
- The share of the public sector banks in the aggregate assets of the banking sector has come down from 90 percent in 1991 to around 75 percent in 2004. The share of wholly Government-owned public sector banks has declined from about 90 per cent to 10 per cent of aggregate assets of all scheduled commercial banks during the same period. Diversification of ownership has led to greater market accountability and improved efficiency. Current market value of the share capital of the Government in public sector banks has increased manifold and as such, what was perceived to be a bailout of public sector banks by Government seems to be turning out to be a profitable investment for the Government.

Current Banking Structure:

Scheduled Banks:

Scheduled Banks in India constitute those banks, which have been included in the second schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 52(6)(a) of the Act. As on 30 June 1999, there were 300 scheduled banks in India having a total network of 64, 918 branches. The scheduled commercial banks in India comprises of State Bank of India and its associates (8), Nationalized banks (19), foreign banks (45), Private sector banks (32), co-operative banks and regional rural Banks.

Non-scheduled Banks:

Non-scheduled banks in India means a banking company as defined in clause (c) of section 5 of the Banking Regularity Act, 1949 (10 of 1949), which is not a scheduled bank.

LIST OF PUBLIC SECTOR BANKS IN INDIA 2020:

1. Bank of Baroda
2. Bank of India
3. Bank of Maharashtra
4. Canara Bank
5. Central Bank of India
6. Indian Bank
7. Indian Overseas Bank
8. Punjab National Bank
9. State Bank of India
10. UCO Bank
11. Union Bank of India

LIST OF PRIVATE SECTOR BANKS IN INDIA:

1. Axis Bank
2. Bandhan Bank
3. CSB Bank
4. City Union Bank
5. DCB Bank
6. Dhanlaxmi Bank
7. Federal Bank

8. HDFC Bank
9. ICICI Bank
10. IndusInd Bank
11. IDFC FIRST Bank
12. Jammu & Kashmir Bank
13. Karnataka Bank
14. Karur Vijaya Bank
15. Kotak Mahindra Bank
16. Lakshmi Vilas Bank
17. Nainital Bank
18. RBL Bank
19. South Indian Bank
20. Tamilnadu Mercantile Bank
21. YES Bank
22. IDBI Bank

Introduction to NPA:

Meaning of NPA:

Non-performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, or doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by RBI.

In banking, NPA are loans given to doubtful customers who may or may not repay the loan on time. There are two types of assets Viz. performing assets & non-performing assets. Performing loans on which both the principle & interest are secured and their return is guaranteed.

Non- performing asset means the debt which is given by the bank is unable to recover. Non-performing asset is a result of asset liability mismatch. It means if any bank give loan to the customer if the interest for that loan is not paid by the customer till 90 days then that account is called as NPA account.

A loan that is not meeting its stated principles and interest payments is considered to be bad. Banks usually classify as non-performing assets any commercial loans which are more than 90 days and any consumer loan more than 180 days overdue. More generally, an asset which is not producing income becomes non-performing.

DEFINITION:

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A non performing asset (NPA) was defined as a credit facility in respect of which the interest and/or installment of principle has remained 'past due' for a specific period was reduced w.e.f. 31.03.1993 in a phased manner as under:

w.e.f. 31.03.1993: four quarters

w.e.f. 31.03.1994: three quarters

w.e.f. 31.03.1995: two quarters

w.e.f. 31.03.2001: 180 days

w.e.f. 31.03.2004: 90 days

90 days delinquency norms are not applicable to agriculture segment with the effect from March 31, 2004. NPA shall be a loan or an advance where:

- **Term loan:** interest and/or installment of principal remain overdue for a period of more than 90 days.

- **Cash credit/overdraft:** the account remains 'out of orders' for a period of more than 90 days.
- **Bills:** the bill remains overdue for a period of more than 90 days due date of payment.
- **Other loans:** Any amount to be received remains overdue for a period of more than 90 days.
- **Agriculture account:** In the case of agriculture advances, where repayment is based on income from crop.

NPA as defined by RBI:

Any asset and it also includes leased asset can become Non-performing asset when income stops to be generated from the bank. It is an advance or loan where:

- For 90 days' time interest or installment of principle amount may remain overdue.
- The account an overdraft or cash credit with respect of it may remain out of order as it is indicating below.
- In case the bills are purchased or discounted then they remain overdue for more than 90 days period.
- The installment for two of the crop seasons for short duration of crops remains overdue whether it is principle or interest. This installation for long duration crops therefore remains overdue whether it is interest or principle amount.
- The installation therefore remains overdue for one crop season for long duration crops of principle or interest.
- In respect of a securitization transaction that has been undertaken like in terms of guidelines on securitization on dated February 1, 2006. For more than 90 days the amount of which like of liquidity facility will remain outstanding.

A debt obligation where the borrowers not paid any previously agreed upon interest and principle repayment to the designated lender for an extended period of time. The non-performing asset is therefore not yielding any income to the lender in the form of principle and interest payments.

Classification of assets:

1. Standard asset:

A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for standard Assets.

2. Sub-standard Asset:

All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-standard assets. A non-performing asset may be classified as Sub-standard on the basis of the following criteria:

a) An asset which has remained overdue for a period not exceeding 3 years in respect of both agriculture and non-agriculture loans should be treated as Sub-standard.
b) In case of all types of term loans, where installments are overdue for a period not exceeding 3 years, the entire outstanding in term loan should be treated as Sub-standard.
c) An asset, where the term and conditions of the loan regarding payment of interest and payment of principle have been renegotiated or rescheduled, after commencement of production, should be classified as Sub-standard and should remain so in such category for at least one-year satisfactory performance under the renegotiated or rescheduled terms.

3. Doubtful Asset:

All those assets which are considered as non-performing for a period of more than 12 months are called as Doubtful assets. A non-performing asset may be classified as doubtful on the basis of following criteria. An asset which has remained overdue for a period exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as doubtful.

4. Loss Asset:

All those assets which cannot be recovered are called as loss Assets. Loss assets are those where loss identified by the banks/auditors/RBI/NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset is not worthwhile, should be treated as a loss asset. Such loss assets will include overdue loans in case **a**. Where decrease or execution petitions have been time barred or documents are lost or no other

Legal proof is available to claim the debt, **b.** Where the members and their sureties are declared insolvent or have died leaving no tangible assets.

Provisions on types of assets:

Sr. no	Types of assets	Provisions
1.	Standard assets	0.25% for all standard asset advance
2.	Sub-standard assets	10% for all sub-standard asset advance
3.	**Doubtful assets**	
	-Up to one year	100% of unsecured advance and 20% of secured advance
	-one to three year	100% of unsecured advance and 30% of secured advance
	-more than three year	100% of unsecured advance and 100% of secured advance
4.	Loss asset	100% of unsecured advance and 100% of secured advance

Types of NPA:

1. Gross NPA
2. Net NPA

1. Gross NPA:

Gross NPA are the sum total of all loans assets that are classified as NPA as per RBI guidelines as on balance sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like substandard, doubtful, and loss assets.

It can also be calculated with the help of following ratio:

$$\textbf{Gross NPA, Ratio} = \frac{\textbf{Gross NPA}}{\textbf{Gross Advance}}$$

2. Net NPA:

Net NPA are those types of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high.

It can be calculated by following:

$$\textbf{Net NPA} = \frac{\textbf{Gross NPA - Provisions}}{\textbf{Gross Advance- Provisions}}$$

Reason for an account becoming NPA:

1. Internal factors
2. External factors

1. Internal factors:

- Funds borrowed for a particular purpose but not use for said purpose.
- Project not completed in time.
- Poor recovery of receivable
- Excess capacities created on non-economic costs

- In-ability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets
- Business failures
- Diversion of funds for expansion/setting up new project/helping or promoting sister concerns.
- Willful defunct, siphoning of funds, fraud, disputes, miss-appropriations, etc.

2. External factors:

- sluggish legal system
  - Long legal tangled
  - Changes that had taken place in labor laws
  - Lack of sincere efforts
- scarcity of raw materials, power and other resources
  - Industrial recession
  - Shortage of raw material, power shortage, excess capacity.
  - Failures, overdue in other countries, recession in other countries, externalization problems, adverse exchange rate etc.
  - Government policies like excise duty changes, import duty changes etc.

The RBI had summarized the finer factors contribution to higher level of NPAs in the Indian banking sector as:

- Diversion of funds, which is for expansion, diversification, modernization undertaking new projects and for helping associates concerns. This is also coupled with recessionary trends and failures to top funds in capital and debt markets.
- Business failures (such as product, marketing etc.), which are dues to inefficient management system, strained labor relations, inappropriate technology/technical problems, product obsolescence etc.
- Recession, which is due to input/power shortage, price variation, accidents natural calamities etc. the externalization problems also lead to growth of NPAs in Indian banking sector.
- Time/cost overrun during implementation stage.
- Government policies such as changes in excise duties, pollution control orders etc.
- Willfully defaults, which are because of siphoning-off funds fraud/misappropriation, promoters/directors' disputes etc.

- Deficiency on the part of banks, delays in release of limits and payments/subsidiaries by the Government of India.

IMPACTS OF NPA:

1. Profitability:

NPA means booking of money in terms of bad assets. This occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earnings project/asset. So NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low Rate of interest, which adversely affect current earning of bank.

2. Liquidity:

Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shortest period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money. Routine payments and dues.

3. Insolvent of management:

Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities which have to give good returns. Now a day's bank has special employees to deal and handle NPAs, which is additional cost to the bank.

4. Credit loss:

Bank is facing problem of NPA then it adversely affects the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

EARLY SYMPTOMS:

By which one can recognize a performing asset turning in to non-performing asset

Four categories of early symptoms:

1)Financial:

- Non –payment of the very first installment in case of term loan.
- Bouncing of cheque due to insufficient balance in the account.

- Irregularity in installments.
- Irregularity of operations in the accounts.
- Unpaid overdue bills.
- Declining current ratio.
- Payments which do not cover the interest and principle amount of that installment.
- While monitoring the accounts it is found that partial amounts is diverted to sister concern or parent company.

2)Operational and physical:

- If information is received that the borrower has either initiated the process of winding up or not doing the business.
- Overdue receivables.
- Stock statements not submitted on time.
- External non-controllable factor like natural calamities in the city where borrower conduct his business.
- Frequent changes in plan.
- Non-payment of wages.

3)Attitudinal changes:

- Use for personal comfort, stocks and shares by borrower.
- Avoidance of contact with bank.
- Problem between partners.

4)Others:

- Changes in government policies.
- Death of borrower.
- Competition in the market.

PREVENTIVE MEASUREMENT FOR NPA:

- **Early recognition of the problem:**
  Invariably, by the time banks start their efforts to get involved in a revival process, it is too late to retrieve the situation both in terms of rehabilitation of the project and recovery of banks dues. Identification of weakness in the very beginning that is: when the account starts showing first sign weakness regardless of the fact that it may have become NPA, is imperative. Assessment of the potential of revival may be done on the basis of a techno-economic viability study. Restructuring should be attempted where, after objectives assessment of the promoter's intention, banks are convinced of a turnaround within a scheduled timeframe.

- **Identifying borrowers with genuine intent:**
  Identifying borrowers with genuine intent from those who are non-serious with no commitment or stake in revival is a challenge confronting banker. Here the role of front line official at the branch is a paramount as they are ones who have intelligent inputs with regard to promoter's sincerity, and capability to achieve turnaround. Based on this objective assessment, banks should decide as quickly as possible whether it would be worthwhile to commit additional finance. In this regard banks may consider having "special investigation" of all financial transaction or business transaction, books of account in order to ascertain real factors that contribute to sickness of the borrower. Banks may have penal of technical experts with proven expertise and track record of preparing techno-economic study of the project of the borrower.
  Borrower having genuine problems due to temporary mismatch in fund flow or sudden requirement of additional fund may be entertained at a branch level, and for this purpose a special funding through the controlling offices in deserving cases, and help avert may accounts slipping into NPA category.
- **Timeliness and adequacy of response:**
  Longer the delay in response, greater the injury to the account and the asset. Time is a crucial element in any restructuring or rehabilitation activity. The response decided on the basis of techno-economic study and promoter's commitment, has to be adequate in term of extent of additional funding and relaxations etc. Under the restructuring exercise. The package of assistance may be flexible and banks look at exit option.
- **Focus on cash flows:**
  While financing, at the time of restructuring the banks May not be guided by the conventional fund flow analysis only, which could yield a potentially misleading picture. Appraisal for fresh credit requirements may be done by analyzing funds flow in conjunction with the cash flow rather than only on the basis of funds flow.

- **Multiple financing:**

  During the exercise for assessment of viability and restructuring, a pragmatic and unified approach by all the leading banks/FIs as also sharing of all relevant information on the borrower would go a long way toward overall success of rehabilitation exercise, given the probability of success/failure.

  In some default cases, where the unit is still working, the bank should make sure that it captures the cash flows and ensure that such cash flows are used for working capital purpose.

  In a forum of lenders, the priority of each lender will be willing to wait for a longer time to recover its dues; another lender may have much shorter timeframe in mind. So let it is possible that the letter categories of lenders may be willing to exit, even at cost by a discounted settlement of the exposure. Therefore, any plan for restructuring/rehabilitation may take this aspect into account.

- **Corporate debt restructuring:**

  Mechanism has been institutionalized in 2001 to provide a timely and transparent system for restructuring of the corporate debt of ₹20 crores and above with the banks and FLs on a voluntary basis and outside the legal framework. Under this system, banks may greatly benefit in terms of restructuring of large standard account and viable sub-standard accounts with consortium /multiple banking arrangements.

- **Management effectiveness:**

  The general perception among borrower is that it is lack of finance that leads to sickness and NPAs. But this may not be the case all the time management effectiveness is tackling adverse business conditions is a very important aspect that affects borrowing unit's fortunes. A bank may commit additional finance to an align unit only after basic viability of the enterprise also in the context of quality of management is examined and conformed. Where the default is due to deeper malady, viability study or investigative audit be done- it will be usefully to have consultant appointed as early as possible to examine this aspect. A proper techno-economic viability study must thus become the basis on which any future action can be considered.

LITERATURE REVIEW

Literature review:

Many published articles are available in the area of non-performing assets and a large number of researchers have studied the issue of NPA in banking industry. A review of the relevant literature has been described as under:

H. S. (2013) in her study. A study on causes and remedies for Non-performing assets in Indian public sector banks with special reference to agricultural development branch, State Bank of Mysore has studied that bankers can avoid sanctioning loans to the non-credit worthy borrowers by adopting certain measures. There should be careful appraisal of the project which involves checking the economic viability of the project. A banker must consider the return on investment on a proposed project. If the calculated return is sufficiently higher than the credit amount, he can sanction the loan. Secondly, he can constantly monitor the borrower in order to ensure that the amount sanctioned is utilized properly for the purpose to which it has been sanctioned. This involves the post sanction inspection by the banker.

Kumar (2013) in his study on a comparative study of NPA of old private sector banks and foreign banks has said that non-performing asset (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issued challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing Assets (NPAs). The quality of loan portfolio is very crucial for the health and existence of the banks. High level of (NPAs) has many implications on profitability, productivity, liquidity, solvency, capital adequacy and image of the bank.

Selvarajan and vadivalagan (2013) in a study on management of Non-performing Assets in priority sector reference to Indian bank and Public Sector Banks (PSBs) their research paper has studied that the growth of Indian Bank's lending to priority sector is more than that of the Public Sector Banks as a whole. Indian Bank has slippages in controlling of NPAs in the early years of the decade. Therefore, the management of banks must may special attention towards the NPA management and take appropriate steps to arrest the creation of new NPAs, besides making recoveries in the existing NPAs. Timely action is essential to ensure future growth of the Bank.

Rai (2014) in her study on study on performance of NPAs of Indian commercial banks said that till recent past, corporate borrowers even after defaulting continuously never had the fear of back taking action to recover their dues. This is because there was no legal framework to safeguard the real interest of the banks. However, with the introduction of RARFAECI Act, banks can issue notices to defaulters to repay their loans. Also, the Supreme Court has recently given banks the freedom to sell mortgaged assets of the borrower, if they do not respond to the legal proceedings initiated by lender. This enables banks to get sticky loans thereby improving their bottom lines.

OBJECTIVE OF THE STUDY

Objective of the study:

- To understand the concept of non-performing assets of public sector and private sector banks.
- To study the impact of non-performing assets on the profitability of public sector and private sector banks.
- To study the various recovery channels for non-performing assets.
- To evaluate the efficiency in managing non-performing assets of public sector and private sector banks via comparative ratios.

RESEARCH METHODOLOGY

Research methodology:

Relevance of study:

The outcomes analyzed from this study would be beneficial to various sectors such as:

- **Banks:** This study would definitely benefit the banks on a way directs them as to which sector should be given priority for lending money.
- **Further Researcher:** The major beneficiaries from the project would be the researchers as this study would enhance their knowledge about the topic. They get an insight of the present scenario of this industry in the financial sector of the economy.
- **Students:** To get the understanding of NPA concept as a whole.

Research design:

A research design is frame work or blue print conducting research procedure. It is necessary for obtaining information to solve the problem. Research designed to assist the decision maker in determining, evaluating and selecting the best course of action to take in a given situation. Descriptive studies are usually the best methods for collecting information that will demonstrate relationship and describe the world as it exists. Descriptive studies are designed primarily to describe what is going or what exist.

The research design that will be used is Descriptive Research.

- Involves gathering data that describe events and then organizers, tabulated, depicts, and describe the data.
- Uses description as a tool to organize data into patterns that emerge during analysis.
- Often uses visual aids such as graphs and charts aid the reader.

Source of data:

Secondary data refers to the data which has already been generated and is available for use. The data about NPAs and its composition, classification of loan assets, is taken from the official website of Reserve Bank of India and some other banking sites. In this research study the researcher has to take all public sector banks and all private sector banks from the authorized published data of RBI for the study.

Period of study:

This study covers the period of 5 years from 2014 to 2018.

Data analysis:

The collected information has been tabulated, analyzed and interpretation has been arrived on the basis of statistical analysis. Data processing and analysis has been done by both manually and by using computer. Tabular method, ratio analysis and correlation analysis tools have been used. In this research various ratios are calculated in excel worksheet and correlation analysis have been done through SPSS statistics analysis tool.

Scope of study:

- The present study of the non-performing assets is confined restricted to the boundary of public sector and private sector banks of India.
- To understand the causes and effects of NPA.
- To analyze the past trends of NPA of public and private in different sectors.
- Banks can improve their financial position or can increase their income from credits with the help of this project.
- This can also be applicable to know the reason of increase in NPA.

Limitations of study:

- The study is based on secondary data only.
- This data is based on historical accounting concept, which ignores the impact of inflation.
- NPAs are changing with the time. The study is done in the present environment without foreseeing future developments.

HYPOTHESIS

Hypothesis:

- **H0** - There is no significant correlation between NPA and loan recovered of public sector and private sector banks.
- **H1** - There is a correlation between NPA and loan recovered of public sector and private sector banks.

DATA ANALYSIS AND INTERPRETATION

Data analysis and interpretation:

To analyze the data, first of all we need to study about what data analysis and interpretation is. It is the process by which sense and meaning are made of the data gathered in qualitative research, and by which the emergent knowledge is applied to client's problems. This data often takes the form of records of group discussion and interviews, but it is not limited to this, through processes of revisiting and immersion in the data, and through complex activities of structuring, reframing or otherwise exploring it, the researcher look for patterns and insights relevant to the key research issues these to address the client's brief.

In this chapter some comparative analysis has been done to achieve the objectives of the study.

This accomplished through various ratio analysis and correlation between net profits and net NPAs.

Comparative ratio

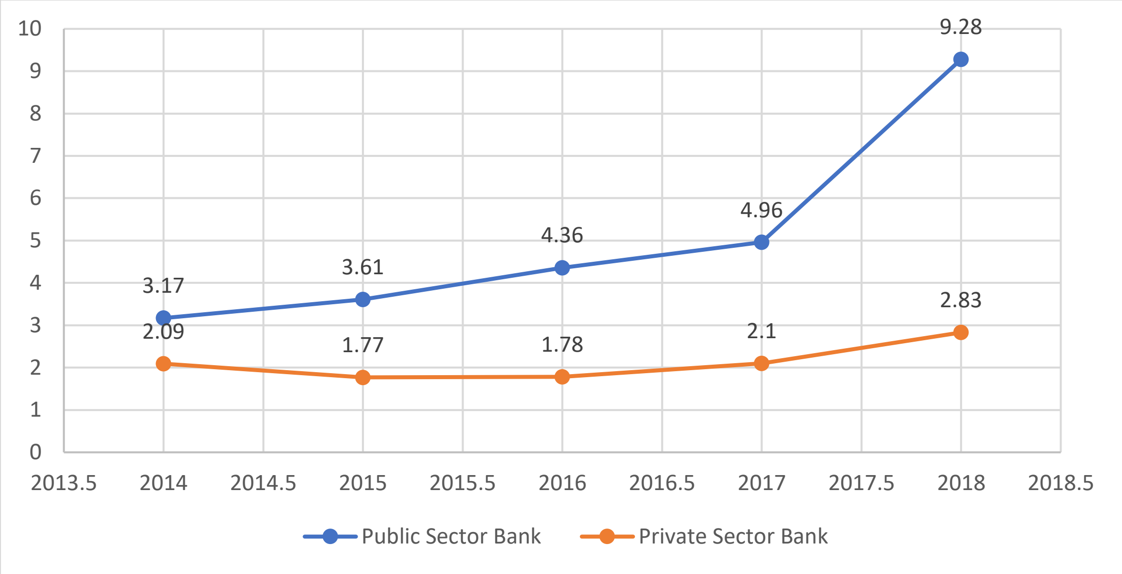
Gross NPA's Ratio (%)

$$\text{Gross NPA ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}} * 100$$

Gross NPAs to Gross Advance Ratio (%)

Year	Public Sector Bank	Private Sector Bank
2014	3.17	2.09
2015	3.61	1.77
2016	4.36	1.78
2017	4.96	2.10
2018	9.28	2.83

Graph:



Interpretation:

- The analysis indicates the Gross NPA ratio of Public Sector Banks and Private Sector Banks from 2014- till 2018. As we know very well that higher this ratio, more dangerous position it is for the banks.
- From the above chart we can clearly understand that the rate of growth of gross NPA of Public Sector Banks is increasing since 2014 to 2018 i.e., 3.17% to 9.28% but in Private Sector Banks initially it decreases in 2015 from 2.09% to 1.77% and after that it also start increasing which raise up to 2.83% in 2018.
- But we can say that increase in gross NPA ratio of Public Sector Bank is very alarming which has increased from 3.17% to 9.28% whereas Private Sector Bank it rises from 2.09% to 2.83% in 2018.

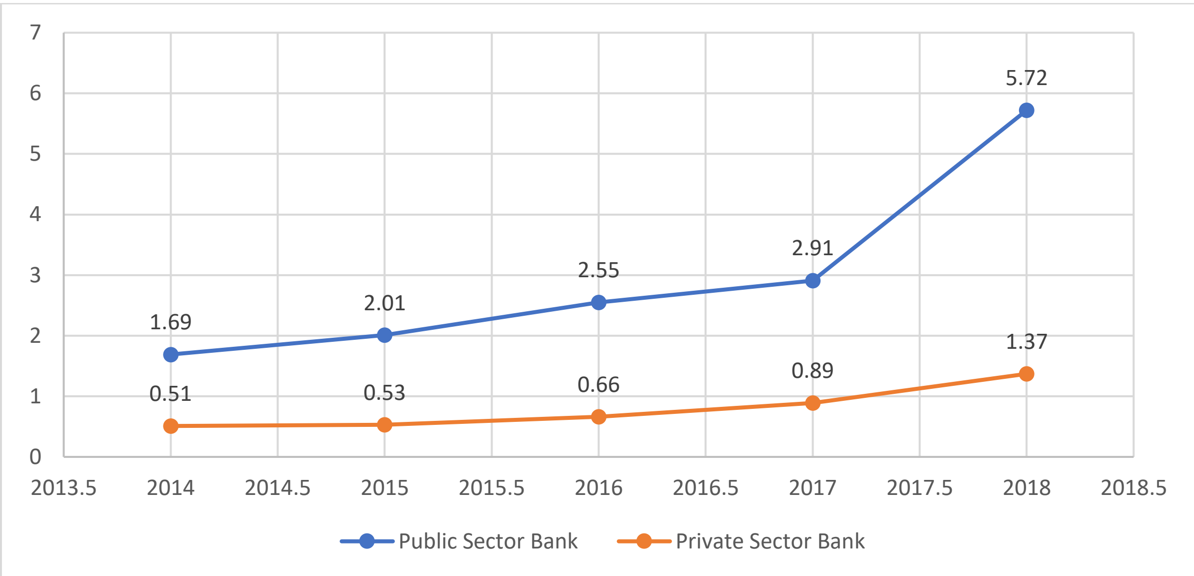
Net NPA Ratio (%)

$$\text{Net NPA Ratio} = \frac{\text{Net NPA}}{\text{Net advance}} * 100$$

Net NPA to Net Advance Ratio (%)

Year	Public Sector Bank	Private Sector Bank
2014	1.69	0.51
2015	2.01	0.53
2016	2.55	0.66
2017	2.91	0.89
2018	5.72	1.37

Graph:



Interpretation:

- The analysis indicates the Net NPA Ratio of Public Sector Banks and Private Sector Banks from 2014 till 2018. As we know very well higher this ratio, more dangerous position it is for the banks.
- From the above charts we can clearly understand that rate of growth of Net NPA of Public and Private Sector Banks is increasing since 2014 to 2018 which is 1.69 to 5.72 and 0.51 to 1.37 respectively.
- But we can say that increase in NPA Ratio of Public Sector Banks is very alarming which has increased by 4.03% whereas in Private Sector banks rise by 0.83% only from year 2014 to 2018.

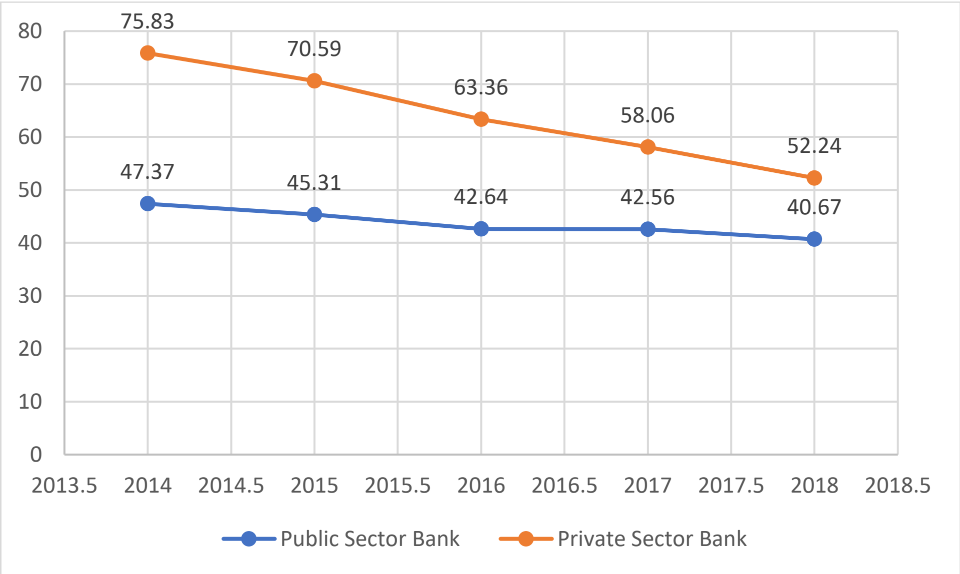
Provision Ratio:

$$\text{Provision Ratio} = \frac{\text{Provisions}}{\text{Gross NPA}} * 100$$

Provision to Gross NPA ratio (%)

Year	Public Sector Bank	Private Sector Bank
2014	47.37	75.83
2015	45.31	70.59
2016	42.64	63.36
2017	42.56	58.06
2018	40.67	52.24

Graph:



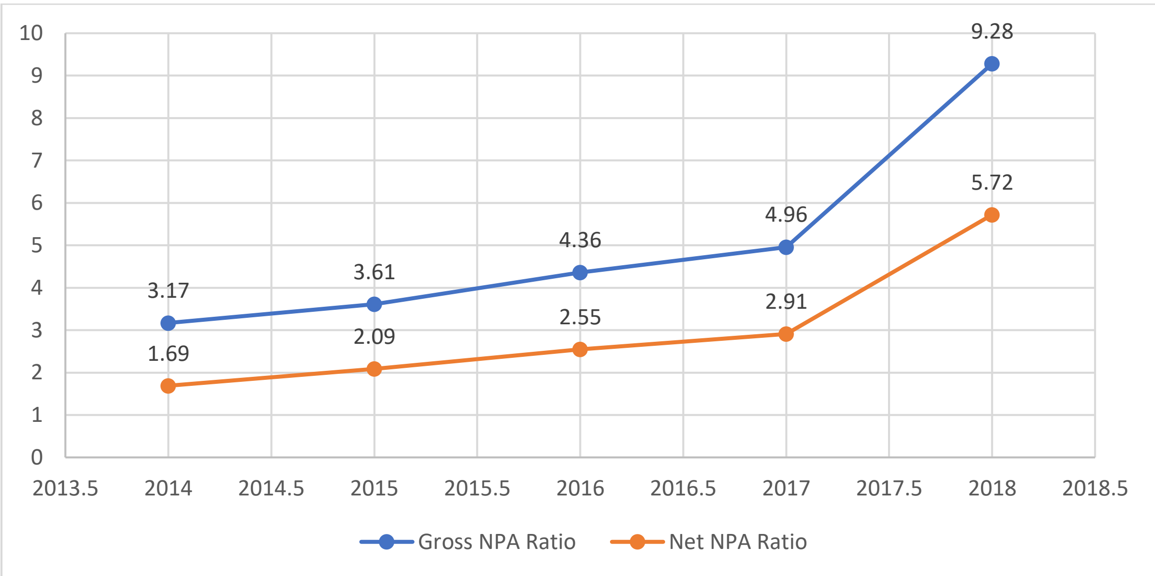
Interpretation:

- The analysis indicates the provisions ratios of Public Sector Banks and Private Sector Banks from 2014 till 2018. As we know well that higher this ratio, more safe position for banks.
- From the above chart we can clearly understand that due to the increasing rate of Gross NPA's of Public and Private Sector Banks, provisions made by these banks are decreasing since 2014 to 2018 which is 47.37% to 40.67% and 75.83% to 52.24% respectively.
- We can say that if provisions are decreasing and Private Sector Banks are having less NPA's as compared to Public Sector Banks even then they are making more provision to be on the safer side.

Comparison of Gross NPA ratio and Net NPA of Public Sector Bank:

Year	Gross NPA Ratio	Net NPA Ratio
2014	3.17	1.69
2015	3.61	2.01
2016	4.36	2.55
2017	4.96	2.91
2018	9.28	5.72

Graph:



Interpretation:

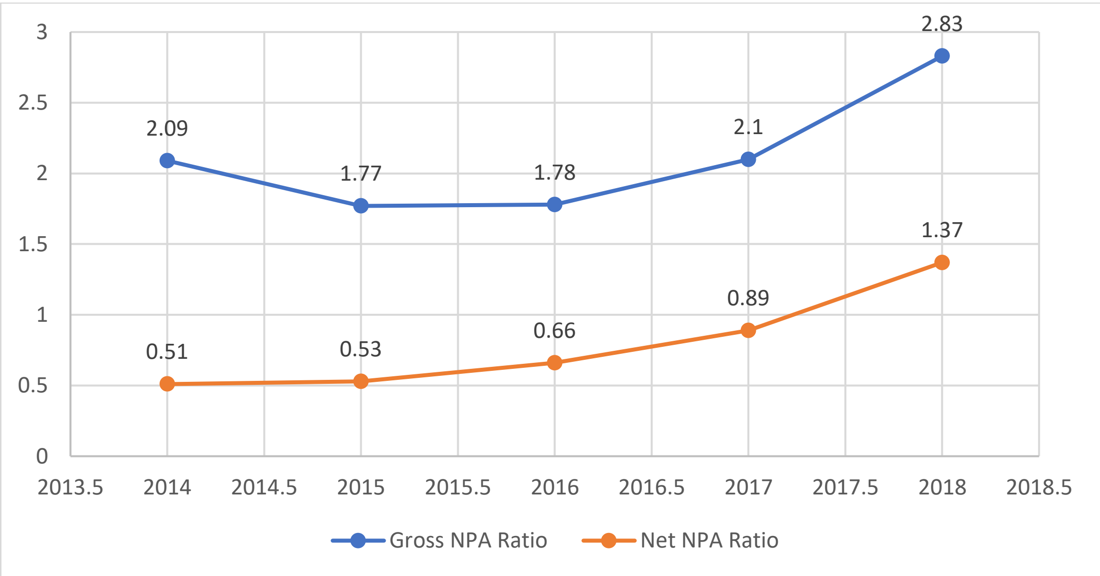
- This analysis indicates the relationship between the Gross NPA ratio and Net NPA Ratio. These both are showing increasing trends from 2014 to 2018 in Public Sector Banks.
- Above chart shows that Gross NPA's are more as compared to Net NPA which means more provisions are made by Pubic Sector Banks so as to reduce the risk of non-recovery.

Comparison of Gross NPA Ratio and Net NPA of Private Sector Bank:

Private Sector Bank:

Year	Gross NPA Ratio	Net NPA Ratio
2014	2.09	0.51
2015	1.77	0.53
2016	1.78	0.66
2017	2.10	0.89
2018	2.83	1.37

Graph:



Interpretation:

- The analysis indicates the relationship between Gross NPA Ratio and Net NPA ratio. These both are showing increasing trend from 2014 to 2018 in Private Sector Banks.

Comparison of Loan Asset of Banks:

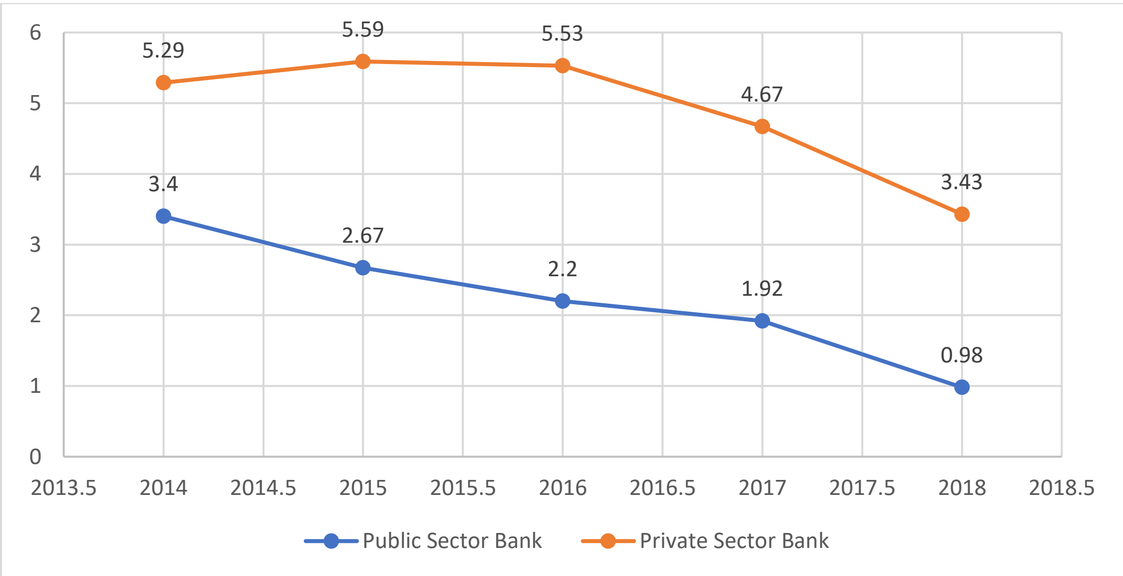
Standard Asset Ratio (%)

$$\text{Standard asset Ratio} = \frac{\text{Total Standard Asset}}{\text{Gross NPA}} * 100$$

Standard Asset Ratio (%)

Year	Public Sector Banks	Private Sector Banks
2014	3.40	5.29
2015	2.67	5.59
2016	2.20	5.53
2017	1.92	4.67
2018	0.98	3.43

Graph:



Interpretation:

- This analysis indicates the standard Asset Ratio of Public Sector Banks and Private Sector Banks from 2014 till 2018. As we know well that higher this ratio, more advantageous it is for the banks.

- From the above chart we can clearly understand that the standard Asset Ratio Public and Private Sector Banks is decreasing constantly from 2014 to 2018 and has fallen down to 3.43% from 5.29% for Private Sector Banks and to 0.98% from 3.40% for Public Sector Banks.
- So, we can determine that Private Sector Banks are in beneficial position than the Public Sector Banks.

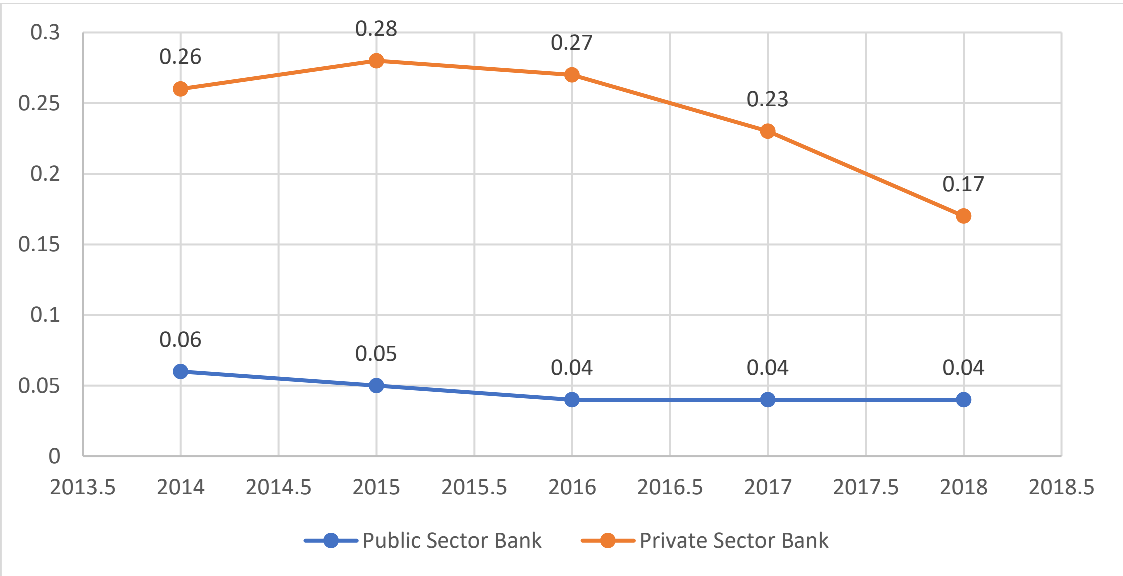
Sub-Standard Asset Ratio (%)

$$\text{Sub-standard Asset Ratio} = \frac{\text{Total Sub-standard Asset}}{\text{Gross NPA}} * 100$$

Sub-standard Asset Ratio:

Year	Public Sector Bank	Private Sector Bank
2014	0.06	0.26
2015	0.05	0.28
2016	0.04	0.27
2017	0.04	0.23
2018	0.04	0.17

Graph:



Interpretation:

- This analysis indicates the sub-standard Asset Ratio of Public Sector Banks and Private Sector Banks from 2014 till 2018. As we know well that lower this ratio, more advantageous it is for the banks.

- From the above chart we can clearly understand that the sub-standard Asset Ratio of Public Sector Banks is decreasing constantly from 2014 to 2018 and has fallen down to 0.04%from 0.06% and for Private Sector banks to 0.17% from 0.26%.
- So, we can determine that Public Sector Banks are in beneficial position than the Private Sector Banks.

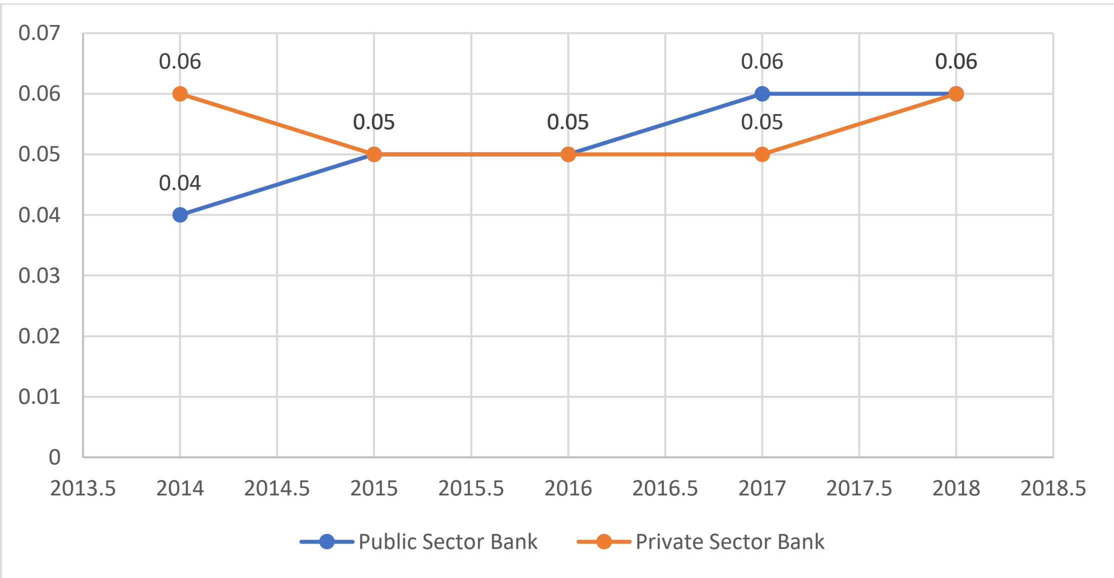
Doubtful Asset ratio:

$$\text{Doubtful Asset Ratio} = \frac{\text{Total Doubtful Asset}}{\text{Gross NPA}} * 100$$

Doubtful Asset Ratio

Year	Public sector Bank	Private Sector Bank
2014	0.04	0.06
2015	0.05	0.05
2016	0.05	0.05
2017	0.06	0.05
2018	0.06	0.06

Graph:



Interpretation:

- This analysis shows the doubtful asset ratio of Public Sector Banks and Private Sector Banks from 2014 till 2018. As we know very well lesser this ratio, more advantageous it is for the banks.

- From the above chart we can say clearly understand that the Doubtful Asset Ratio of Public Sector Banks is increasing slightly and Private Sector Banks is showing constant trend from 2014 to 2018.
- Since the ratio for both have magical difference, therefore the only thing which differentiates the banks is that this ratio for public sector is increasing and for private sector it is constant. So, private sector banks gain advantages from this ratio.

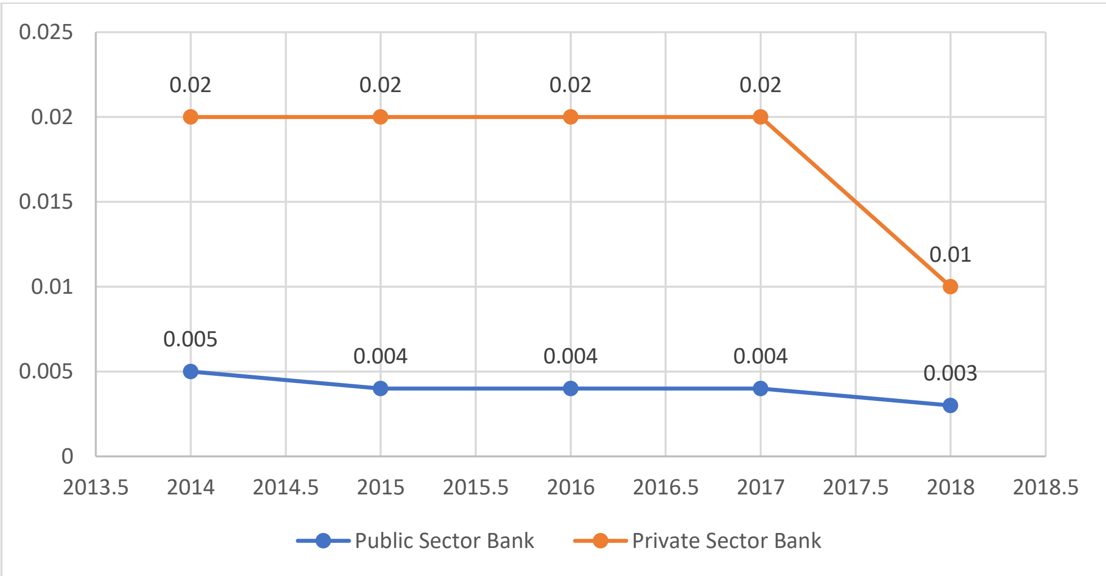
Loss Asset Ratio (%):

$$\text{Loss Asset Ratio} = \frac{\text{Total Loss Asset}}{\text{Gross NPA}} * 100$$

Loss Asset Ratio

Year	Public Sector Bank	Private Sector Bank
2014	0.005	0.02
2015	0.004	0.02
2016	0.004	0.02
2017	0.004	0.02
2018	0.003	0.01

Graph:



Interpretation:

- The analysis indicates the loss asset ratio of Public Sector Banks and Private Sector Banks from 2014 till 2018. As we know very well that lower this ratio, more advantageous it is for banks.
- From the above chart we can clearly understand that the Loss Asset Ratio of Public and Private Sector Banks is decreasing constantly from 2014 to 2018 and has fallen down to 0.01% from 0.02% for Private Sector Banks and to 0.003% from 0.005% for Public Sector Bank. So, we can determine that Public Sector Banks are in beneficial position than the Private Sector Banks.

Impact of Non-performing asset on profitability:

Correlation between Net profit and Net NPA of Public Sector Bank

		Net profit of Public Sector Bank	Net NPA of Public Sector Bank
Net profit of Public Sector Banks	Pearson correlation	1	-0.978**
	sig (2-tailed)		0.004
	N	5	5
Net NPA of Public Sector Banks	Pearson correlation	-0.978	1
	sig (2-tailed)	0.004	
	N	5	5

Correlation between Net profit and Net NPA of Private Sector Bank

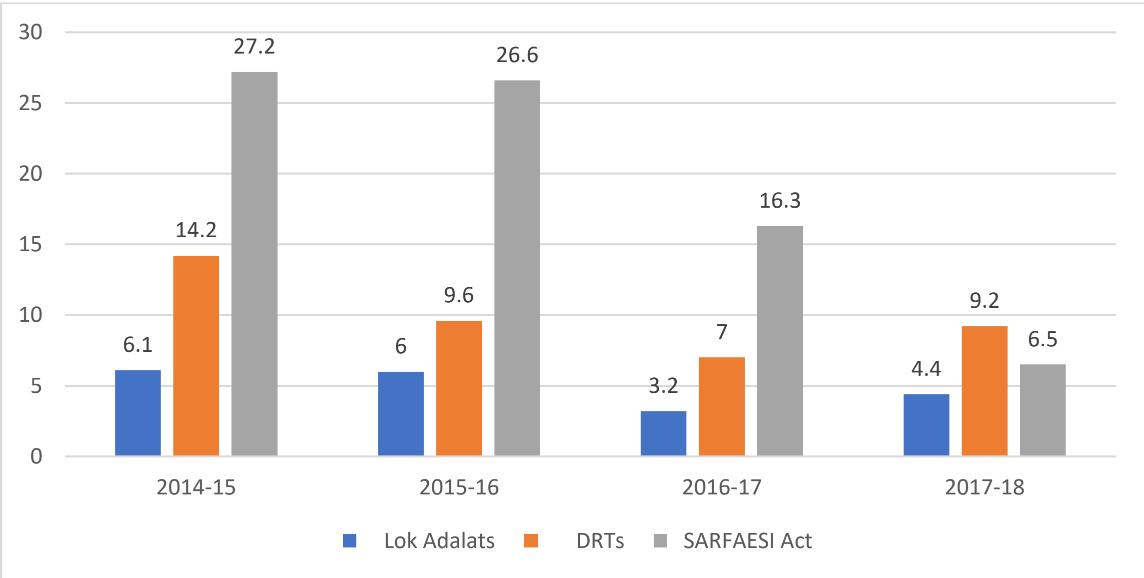
		Net profit of Private Sector Bank	Net NPA of Private Sector Bank
Net profit of Public Sector Banks	Pearson correlation	1	0.869
	sig (2-tailed)		0.056
	N	5	5
Net NPA of Public Sector Bank	Pearson correlation	0.869	1
	sig (2-tailed)	0.056	
	N	5	5

NPA recovered analysis:

Percentage of Net Amount recovered (%)

Year	Lok Adalats	DRTs	SARFAESI Act
2014-15	6.1	14.2	27.2
2015-16	6	9.6	26.6
2016-17	3.2	7	16.3
2017-18	4.4	9.2	6.5

Graph:



Interpretation:

- Above chart clearly showing NPAs of schedule commercial banks recovered through various channels during the study period of 2014 to 2016.
- SARFAESI act is most effective channel in 2017-18. But it is in fewer amount as compared to in year 2014-15.

FINDINGS
SUGGESIONS
CONCLUSIONS

Findings:

- The percentage change in Gross NPA to Gross Advance Ratio and Net NPA to Net Advance ratio over the years is increasing day by day in and out.
- It states that private sector bank makes more provision in gross NPA and gross advances as compare to public sector banks.
- Public sector banks have managed to decrease the standard assets over the years but the private sector banks have an increasing trend in their standard assets.
- The sub-standard assets of both the banks are decreasing.
- Doubtful asset of public sector banks is increasing but they are constant with private sector banks.
- Loss assets of both banks are showing decreasing trend.
- There is a positive relation between NPA and profit of private sector banks which is due to wrong choice of clients by banks.
- There is an adverse effect on the liquidity of banks.
- Banks are backing out of giving loan to the new customers due to lack of funds which arises due to NPA.
- Ineffective recovery, willful defaults and defective lending process are the important factor which are responsible for the rise of NPAs in banks
- NPA reduce the earning capacity of bank and badly affect the profitability of banks.

SUGGESTIONS:

- The public sector banks should focus more on recovery of doubtful assets
- Private sector bank should increase their income from sources other than interest as rise in NPA due to default in interest income may affect the profit drastically.
- All the bank should keep stringent check on advances being made during the time.
- RBI should revise existing credit appraisal and monitoring systems.
- Bank should improve upon and strengthen their loan recovery methods.
- Good management needed on side of banks to decrease the level of NPA.
- Proper selection of borrowers and follow ups required to get timely payments.
- Advances provided by banks need pre-sanctioning evaluation and post disbursement so that NPA can decrease.
- Personal visits should be made after sanction and disbursal of credit and further close monitoring of the operation of account of borrowed units should be done periodically.
- Credit appraisal and post loan monitoring are crucial steps which need to be concentrated by all the banks.
- They are must be regular follow-up with the customers and it is duty of banker to ensure that there is no diversion of funds this process can be taken up at regular interval.

CONCLUSION:

- The NPA is one of the biggest problem that the Indian banks are facing today if there proper management of NPA is not undertaken it would hamper the business of the banks if the concept of NPA is taken very lightly it would be dangerous for Indian banking sectors the NPA would destroy current profit interest income due to large provision of NPA and would affect the smooth functioning of recycling of funds.
- Banks also redistribute losses to other borrowers by charging higher interest rates lower deposit rates and higher lending rates repress saving and financial market which hamper economic growth.
- Although public sectors banks have good sub-standard asses than compared with private sector banks but private sector banks are more efficient than public sector banks with regard to all the other factor which give them a good upper hand.
- The non performing asset have always created a big problem for the bank in INDIA it is just not only problem for the bank but for the economy too.
- The money locked up in NPA has a direct impact on the profitability of the banks as Indian banks are highly dependent on the interest on the funds lent. This study shows that the extent of NPA is comparatively very high in public sector banks. Although various steps have been taken by the government to reduce the NPAs like S4A (Scheme for Sustainable Structuring of Stressed Assets) and INDRADHANUSH scheme but still a lot needs to be done to curb this problem. The NPA level of our banks is still high. It is not at all possible to have zero NPAs. The management should speed up the recovery process.
- Hence, after doing all the analysis (H1). There is correlation between NPA and loan recovered of public sector banks and private sector banks for 5 years is accepted.

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- Managing non-performing assets in bank.

4) Magazines
- Investors
- Business India

Appendices:

Public Sector Bank

Year	Gross NPA as (amount in million)	Gross advances (amount in millions)	Gross NPA to Gross advance Ratio (%)
2013	710474	30798042	2.31
2014	1124892	35503892	3.17
2015	1644616	45601686	3.61
2016	2272639	52159197	4.36
2017	2784680	56167175	4.96
2018	5399563	58183484	9.28

Year	Net NPA (amount in million)	Net advances (amount in millions)	Net NPA to Net advance Ratio (%)
2013	360546	30448113	1.18
2014	592052	34971052	1.69
2015	899516	44856586	2.01
2016	1303615	51190172	2.55
2017	1599511	54982006	2.91
2018	3203758	55987678	5.72

Year	Provisions (amount in million)	Gross NPA (amount in million)	Provision to Gross NPA Ratio (%)
2013	349929	710474	49.25
2014	532840	1124892	47.37
2015	745100	1644616	45.31
2016	969025	2272639	42.64
2017	1185169	2784680	42.56
2018	2195806	5399563	40.67

Year	Net NPA (Amount in million)	Net profits (amount in million)
2014	592052	495138
2015	899516	505827
2016	1303615	370189
2017	1599511	375400
2018	3203758	-179930

Classification of assets (amount in billions)

Year	Standard Assets	Sub-standard assets	Doubtful assets	Loss assets
2014	38255	623	490	60
2015	43957	815	761	68
2016	49887	958	1216	99
2017	53382	1054	1630	100
2018	52875	2005	3232	163

Private Sector Banks:

Year	Gross NPA (amount in million)	Gross advances (amount in millions)	Gross NPA to Gross advance ratio (%)
2013	179049	7232054	2.48
2014	182102	8716413	2.09
2015	203817	11512463	1.77
2016	241835	13602528	1.78
2017	336904	16073394	2.10
2018	558531	19726588	2.83

Year	Net NPA (amount in million)	Net advances (amount in million)	Net NPA to Net advance ratio (%)
2013	44322	7097327	0.62
2014	44012	8578323	0.51
2015	59944	11368590	0.53
2016	88615	13449308	0.66
2017	141283	15877773	0.89
2018	266774	19434831	1.37

Year	Provisions (amount in million)	Gross NPA (amount in million)	Provision to Gross NPA ratio (%0
2013	134728	179049	75.25
2014	138090	182102	75.83
2015	143873	203817	70.59
20160	153220	241835	63.36
2017	195620	336904	58.06
2018	291757	558531	52.24

Year	Net NPA (amount in million)	Net profits (amount in million)
2014	44012	227180
2015	59944	289954
2016	88615	337571
2017	141283	387347
2018	266774	413137

Classification of assets (amount in billion)

Year	Standard asset	Sub-standard asset	Doubtful asset	Loss asset
2014	9629	52	104	29
2015	11384	64	112	32
2016	13371	86	114	42
2017	15750	108	176	52
2018	19184	186	311	62

Recovery through sources:

NPAs recovered by SCBs through Lok Adalats (amount in billions)

Year	No. of cases referred	Amount involved	Amount recovered	% of amount recovered
2013-14	840691	66	4	6.1
2014-15	1636957	232	14	6
2016-17	2958313	310	10	3.2
2017-18	4456634	720	32	4.4

NPAs recovered by SCBs thorough DRTs (amount in billions)

Year	No. of cases referred	Amount involved	Amount recovered	% of amount recovered
2013-14	13408	310	44	14.2
2014-15	28258	553	53	9.6
2016-17	22004	604	42	7
2017-18	24537	693	64	9.2

NPAs recovered by SCBs through SARFAESI (amount in billions)

Year	No. of cases referred	Amount involved	Amount recovered	% of amount recovered
2013-14	190537	681	185	27.2
2014-15	194707	953	253	26.6
2016-17	175355	1568	256	16.3
2017-18	173582	801	132	16.5