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Non-Performing Assets of Public Sector Banks for the Financial Year 2022

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ABSTRACT- NPA are seen to be essential components in establishing a bank's profitability. However, banks' profitability is currently falling as NPAs grow. NPA is the main problem that the financial institution and the company are facing. The performance of banks and other institutions is being harmed by mounting NPAs. To reduce the effect of NPA losses on the banks, however, banks must continue to make provisions for NPAs. Compared to other sector banks, NPAs in public sector banks are rising faster. According to an analysis of the aforementioned research from FY'22, SBI, the largest public sector bank, should be more concerned about its low Gross NPA compared to its Gross Advance, whereas CENTRAL BANK OF INDIA should be more concerned about its high Gross NPA.

KEYWORDS- Public Sector Banks, NPA, Performing Assets, Non-Performing Assets

JEL CLASSIFICATION: E4, E40, E44, E51

I. INTRODUCTION

Performing assets are those on which regular income generates but on non-performing assets regular income does not generate.

Bank is a financial institution which provides loan or advance to the public to make the profit or income. These credits are assets for banks. But credit or given loan or advanced become bad when interest or principal amount remain overdue for the period of 90 days in case of MESE 180 days. These bad loan or advanced known as NPA (Non-Performing Assets) for the banks. Credit is essential for the economic growth and NPA affect the smooth flow of cash in economy.

NPA are considered as important parameters to measure the bank profitability. But now the profitability of banks is decreasing due to growing their NPAs. The financial company and institution are facing major problem of NPA. Growing NPAs are affecting the performance of banks and institutions. And on the other hand, Banks have to maintain provision for NPAs so that banks would be less affected due to the loss NPAs. Public Sector banks are facing more NPAs than Private Sector Banks.

Non-performing assets are one of the major problems of banking sector. Dr.Raghu Ram Rajan the ex-governor of RBI has identified the NPAs problem as a major challenge facing the India Banking Sector. The problem which was largely hidden earlier as bank used to do window dressing of their account statement has how come to the forefront after Dr. Raghu Ram Rajan exported the bank to clean up their assets books by March 2017. Regulatory this led to 29 public sector banks writing off Rs. 1.14 lack corer of bad debt between 2013-15. As of June 2016, the total amount of Gross NPAs for public and private sector Bank is around Rs. 6 Lack crore. And Top twenty Public sectors Banks NPA is 1.54 lack crore. The gross nonperforming assets of banks stood at Rs.10.25 lakh Crore as on 31th March 2018.

II. DEFINITION OF NPA

As per RBI Guideline "An asset including leased assets becomes nonperforming when it ceased to generate income for banks."

Table 1: Type of Loan

Name of loan	Parameters
Term of loan	Interest or Installment of principal remains overdue beyond 90 days.
Overdraft Cash Credit	Remain overdue beyond 90 days
Bill Purchase/Discounted	Remain overdue beyond 90 days.
Crop loan (short duration crop)	Installment of principal or Interest remain overdue for the period of 2 crop season.
Crop loan (long duration crop)	Interest or installment of principal remains overdue for 1 crop.
Securitization transaction	Amount of liquidity facility remain outstanding beyond 90 days.
Derivative transactions	overdue receivable responding positive marks tomarket value of derivative contract which remains unpaid beyond 90 days form due date of payment.
Securities transaction	Liquidity facility remain outstanding for more than 90 days.

A. ***Out of Order Status-*** If the outstanding balance remains continuously in excess of the sanctioned drawing power. Those accounts would be treated as out of order. But there are no credit continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period those account would be treated as 'out of order'.

B. ***Overdue-*** Any amount due to bank under the credit facility is 'overdue'. If it is not paid on the date which by bank.

C. ***Window Dressing-*** When bank increase their credit amount artificially to show the balancesheet more favourable that is window dressing. It is by bank and financial companies. It can be use only for short & period of time.

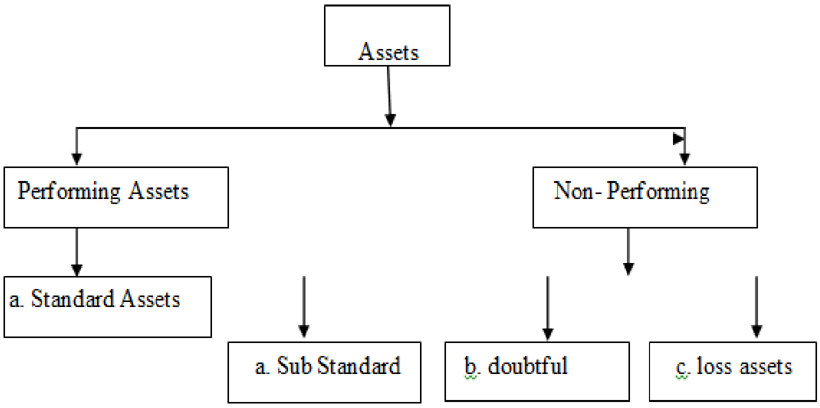

Figure 1: Classification of Assets

- **Performing Assets**
  - **Standard Assets-** Standard assets are those assets which are generating regular income to banks is called standard assets.
  - **Doubtful Assets-** If the amount on given loan is overdue more than 12 months. The assets would be classified as doubtful assets.
  - **Loss Assets-** Doubtful assets which are considered as non-recoverable by banks internal or external inspector or Reserve Bank of India.

- **Non-Performing Assets**
  - **Sub-Standard Assets-** If the amount of given loan by bank is overdue for the period ofmore than 90 days but less than 12 months.

III. PROVISION NORMS FOR NPA

Provision is made on the basic of assets classified which classified into four categories i.e. standard, sub-standard doubtful and loss assets(see the below table 2).

Table 2: Provisioning Norms of NPAs

	Category	Period	NPA	Provision
A.	Standard	-	Non NPA	0.25%, 1%, 2% & 0.40% on gross amount in phasedmanner.
B.	Sub standard		NPA Up to12 months	Secured exposure – 15% Unsecured exposure – 25% Unsecured exposure in respectof infrastructure loan 25%
C.	Doubtful	Up to one year One to Three year	NPA Up to24 Months	100% on unsecured portion &25% on realizable value ofassets.
				100 % on unsecured portion &40% on realizable value ofassets.
		Over threeyear	NPA above 45 months	100 %
D	Loss	-	-	100%

IV. TYPES OF NPAs

NPA are classified two types -

A. Gross NPA
B. Net NPA

A. Gross NPA

Gross NPA is the total amount of bad loan given by bank and classified as NPA on a balance sheet as per RBI guideline.
Gross NPA is total amount of NPA before deducting the provision.

Gross NPA = Total Amount of NPA

Gross NPA = Gross NPA / Gross Advance *100

B. Net NPA

Net NPA is the amount of NPA after deducting the provision of NPA.

Net NPA = Gross NPA- (Bal. of interest suspense a/c + DIGC/ECGC claimed received)

Net NPA Ratio= Net NPA * 100/Net Advance

Scenario 1: Gross NPA: - 100 crore,Provision aside: - 10 crore

At the end bank manages to collect 85 crore only. Now,

Actual NPA is 15 crore – provision is 10 crore = Net NPA = 5 crore

V. REASONS OF NPA

A. Miss Management

Banks do not proper management & strategies for the management ofNPAs.

B. Absence of Structured and monitoring Policies

Reason of growing NPAs is banks do not have policy to cover their NPAs. And growing NPAs is more major challenge of public sector banks than private sector banks. Hence, it is necessary to present structuring and monitoring policies in banks for NAPs

C. Default

Borrower default to pay the Interest or principal value so that it creates NPAs in banks.

D. Lack of Inspection

Many time banks provide credit to the borrower without proper inspection of project and securities due to outsider reasons which may leads the NPAs for banks.

VI. IMPACT OF NPAs

Growing NPAs has become the major problem of banks. And challenging the entire banking system. NPAs not only affect the bank's profitability & liquidity but also affects the economy of that country and bank investor.

A. ***Profitability-*** Bank is a financial institution which provide credit and accepts the deposit tomake profit. Non recovery of payment on borrowed reduces the bank profitability.

B. ***Liquidity Management-*** In increasing NPAs Banks has to tend lower interest rate on deposit and not likely to raise rate on advanced which affect the liquidity of banks.

C. ***Public Confidence-*** High level of NPAs in Bank increase the risk of investor of ROI form which public. Confidence also affected from NPAs.

VII. REMEDIES TO RECOVER NPA

- **Securitization & Reconstruction of Financial Assets & Enforcement of Security Interest Act 2002 (SARFAESI Act),** The "Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act" The SARFAESI Act enables banks and other financial institutions to recoup loans from defaulting borrowers by selling commercial or residential assets at auction.
- ARC A specialized financial entity called an asset reconstruction company acquires non- performing assets (NPAs) from banks and other financial institutions so that those latter might straighten out their balance sheets. ARCs acquire subprime loans from banks, in other words, which is their line of work.
- The Recovery of Debts and Bankruptcy Act (RDB Act), passed in 1993, created the Debts Recovery Tribunals (DRTs) and Debts Recovery Appellate Tribunals (DRATs) with the particular purpose of ensuring quick adjudication and recovery of debts owed to banks and financial institutions.
- 39 Debt Recovery Tribunals (DRTs) and 5 Debt Recovery Appellate Tribunals (DRATs) are now in operation around the nation. A Presiding Officer and a Chairperson, respectively, lead each DRT and DRAT.
- One of the alternative dispute resolution processes is Lok Adalat, a forum for the amicable resolution of legal issues and cases that are pending in court or in the preliminary stages of litigation. The Legal Services Authorities Act, 1987 conferred legal standing for Lok Adalats. According to the aforementioned Act, the award (judgment) given by the Lok Adalats is regarded to be a decree of a civil court, is final and enforceable against all parties, and no legal recourse against such an award exists.
- A set of principles known as the Prompt Corrective Action (PCA) framework allows the RBI to assess banks when they deviate from predetermined standards for three different factors: capital ratios, asset quality, and profitability.

VIII. REVIEW OF LITERATURE

B. Senthil Arasu, P. Sridevi, P. Nageswari, R. Ramya (2019). The Indian economy is heavily dependent on the banking sector. For the banking industry to flourish, measuring and maintaining the asset quality of banks is crucial. The asset quality of banks today, particularly public sector banks, is continually declining, putting an unbearable amount of stress on the banking industry, regulators, and the Indian economy. Understanding the amount of non-performing assets (NPA) and how it affects the profitability of the banks is the goal of the current study.

Numer P, Devika P (2019): The fastest-growing sector of the Indian economy is banking, and one of the biggest problems it now faces is the rise in non-performing assets (NPAs), which raise credit values and reduce bank profits, causing banks to lose long-term investments.

Vivek Rajbahadur Singh (2016). For Indian banks, non-performing assets have long been a major issue. The economy is also affected, so it isn't simply the banks that are having issues. As Indian banks are heavily reliant on interest revenue from loans, the money trapped in NPAs has a direct influence on the bank's profitability. This analysis demonstrates that the extent of NPA in public sector banks is comparably quite high. Although the government has made a number of initiatives to limit the volume of NPAs.

IX. MAIN CONCERN OF STUDY

- To know about Non Performing Assets (NPA)
- To know about remedies to recover NPA.
- To know about the NPA of public sector banks.

X. RESEARCH METHODOLOGY

- **Sample Size**, for concern of study Scheduled commercial banks has taken as sample.
- **Period of Study**, The entire study is based on secondary which has been taken from various journal, books, publications, and websites.
- **Tools and Techniques**, To analyze the relevant data Ratio and Bar Graf has been used.
- **Data Analyses**

Table 3: Gross NPA to Gross Advance of Public Sector Banks for FY 2022

Banks	Gross NPAs	Gross Advances	Gross NPAs To Gross Advances Ratio (%)
BANK OF MAHARASHTRA	7779.68	107653.8	7.23
CANARA BANK	60287.84	675155.1	8.93
CENTRAL BANK OF INDIA	29276.96	176913	16.55
INDIAN BANK	38455.35	390317	9.85
INDIAN OVERSEAS BANK	16323.18	139596.7	11.69
PUNJAB AND SIND BANK	9334	67811.17	13.76
PUNJAB NATIONAL BANK	104423.4	739407.4	14.12
STATE BANK OF INDIA	126389	2539393	4.98
UCO BANK	11351.97	118404.8	9.59
UNION BANK OF INDIA	89788.2	653684.3	13.74
PUBLIC SECTOR BANKS	**616615.6**	**6770363**	**9.11**

(Source; https://dbie.rbi.org.in)

As per the above table 3, it can be seen that among all the public sector banks CENTRAL BANK OF INDIA has the highest Gross NPA ratio to its Gross advance in the FY 22'while PUNJAB NATIONAL BANK, PUNJAB AND SIND BANK and UNION BANK OF INDIA has second and third largest amount of Gross NPA to its Gross Advance ratio which indicate the lack of profitability and working efficiency of these banks. Whereas, providing the largest amount of Gross Advance SBI has the lowest Gross NPA to its Gross Advance which makes enable SBI to earn more profit than other public banks.

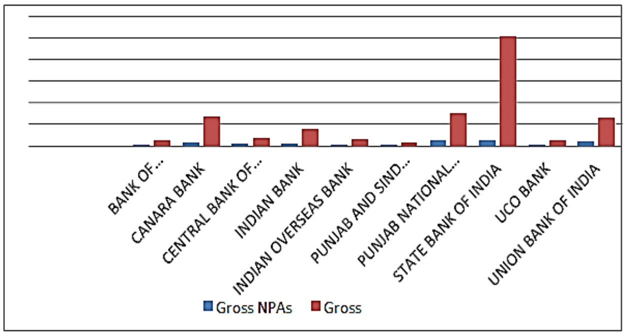

Figure 2: Gross NPA to Gross Advance of Public Sector Banks

As per the above figure 2, it is absorbed that State Bank of India has lowest NPA to its total Gross Advance while has the highest NPA of its total Gross Advance.

XI. FINDING AND SUGGESTION

On analyzing the Gross NPA to Gross Advance ratio of public banks, it is found that among all public sector banks CENTRAL BANK OF INDIA comes on first by having the highest NPA while SBI stand on last position to keep the lowest NPA ratio to Gross Advance in the FY'22.

Based on above findings, it would be suggested that most of public sector banks should be concern about their rising NPAs amount with their Gross Advance.

XII. CONCLUSION

NPA are regarded as crucial factors in determining a bank's profitability. However, as NPAs rise, banks' profitability is now declining. The biggest issue that the financial institution and corporation are dealing with is NPA. Bank and institution performance is being impacted by rising NPAs. On the other hand, banks must continue to make provisions for NPAs in order to minimize the impact of NPA losses on the banks. NPAs in public sector banks are more increasing than other sector banks. On analyzing the above study of FY' 22, it indicates that among all the public sector CENTRAL BANK OF INDIA should be more concern about its high Gross NPA whereas, largest public sector bank SBI has lowest Gross NPA compare to its Gross Advance.

CONFLICTS OF INTEREST

The authors declare that they have no conflicts of interest.

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