A STUDY ON NON PERFORMING ASSETS IN PUBLIC AND PRIVATE -SECTOR BANKS

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INTRODUCTION

A banking sector is termed an important part of a flourishing economy. The failures made in the banking sector have also made an effective impact on the various other sectors. Non-performing sets of assets are termed as one of the important concerns made for various other banks in India. NPA also tries to reflect the performance of the banks. There is a high level of NPAs that also suggests the high probability of a huge number of the credit defaults made and that also affects the profitability and the net-worth value of various banks and it also erodes the real value of the asset.

There is a drastic increase in the NPA growth which also involves the necessity of the provisions made, which also reduces the overall set of profits and even the share of the shareholders' value. The problem of NPAs is termed, which is not only is affecting the various banks but is also the entire economy. The level of NPAs in the Indian banks is termed for doing nothing but it only creates a reflection of the other state made by the health of the industry and the trade.

However, even lending and also carries a risk which is called as a credit risk, which even arises from the failure of the borrower. Non-recovery made of the loans along with the interest also forms the major hurdle in the process of the credit cycle. Though there is a complete elimination made of such losses which are not possible, even the banks can always aim to keep these losses at a very low level. Study includes a comparative financial analysis Both Private Sector Banks, Public Sector Banks, Non-Banking Financial Institutions and Scheduled Urban Co-operative Banks also carries a study to define the impact of NPA's over there profitability the study also signifies and it also includes the views made of the borrowers, facilitators who are even directly or indirectly being connected with the banks and the financial institutions.

NON PERFORMING ASSETS :

Non performing Assets (NPA) can be defined as

1) An asset, which is also including a leased asset, also becomes non performing when it ceases to generate the income from the bank.

2) A non performing asset (NPA) is also termed as a loan or an advance made where;

· Interest or say another installment of principal also remains as an overdue for a span of a period of more which is more than approximately 90 days in respect of the term loan,

· The account also remains 'out of the order' as it also indicates at paragraph 2.2 below, by an Overdraft/ or Cash Credit (OD/CC),

· The bill also remains as an overdue for a span of the period which is more than 90 days in the case of these bills which are purchased and even being discounted,

· The installment made of the principal or the interest thereon also remains overdue for the 02 crop seasons for the short duration crops,

· The installment of the principal or the interest thereon also remains as an overdue for 01 crop season for the longer span of duration crops,

· The original amount of the liquidity facility also remains outstanding for approximately 90 days, by the securitization transaction which is been undertaken in actual terms of the guidelines on securitization which is dated February 1, 2006.

· In respect of the derivative transactions, there is an overdue receivable which is representing as the positive mark to the market value made of a derivative contract, if all these remain unpaid for the particular span of the period say, 90 days from the actual due date made for the payment.

3) Banks are been classified as an account like NPA only if the real interest is made due and is being charged which is during any quarter which is not being serviced fully within 90 days from the end of the quarter.

Categories of NPAs :

Banks are also required to classify the non-performing set of assets which are further divided into the following 03 categories that are based on the duration for which these assets have remained as non-performing and the reliability of such dues:

i. Substandard set of Assets

ii. Doubtful set of Assets

iii. Loss Assets

1) **Substandard Assets:** Since March 31, 2005, a substandard asset which would be termed as one, which has also remained as NPA for the duration of which is less than or is equal to 12 months. Such an asset will also have a well-defined credit weakness that is jeopardizing the liquidity of the debt incurred and have been characterized by the varied set of possibilities made by the banks that will sustain some of the losses made if the deficiencies are not termed as corrected.

2) **Doubtful Assets:** Since March 31, 2005, an asset which as classified as the doubtful, it has also remained as the substandard category made for 12 months. A loan was classified as doubtful and has made all the weaknesses which are inherent in the assets that were also being classified as the sub-standard, which is calculated with the added characteristics along with the weaknesses have made the collection or the liquidation in full, - it is termed based on the known facts, current set of conditions and the real values – that is highly questionable and even improbable. This category is further being classified as

D1 - When the account remains NPA for 3rd year.

D2 - When the account remains NPA for the 4th and 5th year.

D3 - When the account remains NPA for 6th year onwards

3) **Loss Assets:** A loss asset is termed as one where the loss has easily been identified by the bank or the internal or external set of auditors or the RBI inspection made but the actual amount that has not been easily written off wholly. In simple words, such a set of assets is termed to be considered as uncollectible and of such very little value that even its actual continuance as a bankable asset which is not termed as warranted although they are made some of the salvage or the recovery value. As per RBI guidelines, provisions for NPA are to be made as under:-

a) 10% of sub-standard assets

b) 20% for doubtful assets

c) 100% for loss asset. NPA is termed as those set of loans that are given by a various set of banks or the financial institutions that the borrowers default in the actual making of the payment done by the principal amount or the interest.

When a bank is not being able to recover such loans that are given or are made by not getting the regular interest on such a set of loans, the flow of these funds in the banking industry is also affected. Also, the earning capacity is been adversely affected. This has made the direct and even immediate impact made on the bank's profitability and its efficiency. Under these the prudential norms, these banks are not allowed to book any of this income made from NPA. Also, they have to make all the necessary provisions made for NPA which may also affect the profitability that affects adversely. Lower the profitability made of the banking sector will affect the growth and expansion of it. NPA is also termed as a double-edged sword.

On one hand, these banks cannot even recognize the interest income made on the NPA and the other hand, it is termed as the drain of the bank's profitability. Moreover, these profits are earned and are required to be diverted for the provisions made on the NPA. The high level of NPA is termed as dangerous to the very existence made on the banks. The problem of NPAs is not affecting these banks but also it is affecting the entire economy. The level of these NPAs in Indian banks is termed as nothing but it is a mere reflection made on the state of the health of the industry and its trade. Granting of the credit for the economic activities is the prime duty made of the banking.

Apart from these, raising of these resources that are carried through fresh deposits, borrowings and even recycling of funds have also received back from the borrowers that also constitutes a huge part of the funding made with the credit dispensation activity. These loans affect the bank's profitability on a larger scale. Banking in India Banking in India has come into existence in the last decades of the 18th century. The oldest bank and its existence made in India is none other than the State Bank of India, where a government-owned bank also traces its actual origin and brings it back to June 1806 and that it is termed as the largest commercial bank in the whole country.

Central banking is termed as the responsibility made of the RBI, since 1935 formally it also took over these sets of responsibilities from them, later Imperial Bank of India, also is relegating it to the various commercial banking functions. After India's independence in 1947, the Reserve Bank was also considered as nationalized bank and was given as the broader set of powers. In 1969 the government was nationalized with the 14 largest commercial banks; the government was nationalized with the 06 next largest in 1980.

Currently, India has made 88 were scheduled as the commercial banks (SCBs) - 27 public sector banks (that is with the Government of India which is holding a stake), 31 of the private banks (those who do not have the government stake; they also have made be public which is listed and it has been traded on the stock exchanges) and even 38 foreign banks. They also have made a combined network of over 53,000 other branches and other 17,000 ATMs. According to this report by ICRA Limited, there is a rating agency, where the public sector banks also hold over 75% of the total assets made of the banking industry, with the private along with the foreign banks which are holding 18.2% and 6.5% respectively.

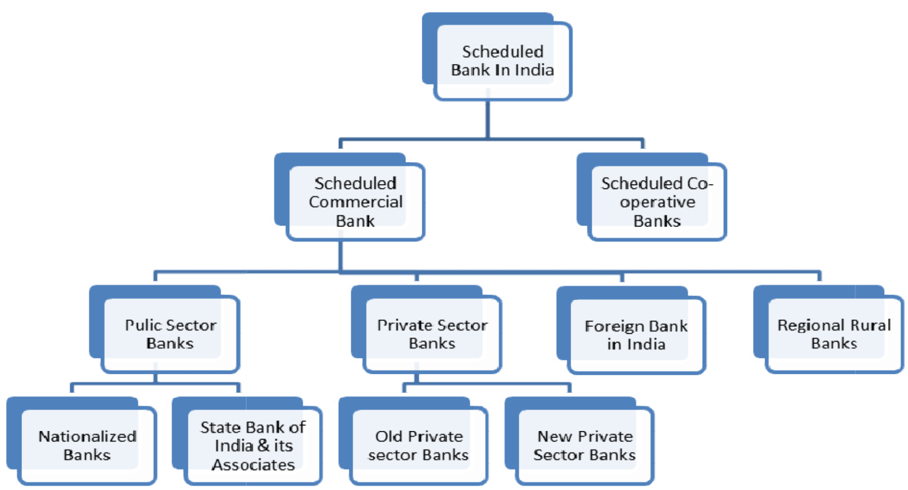
Liberalization :

In the early 1990s, the Narasimha Rao government as a huge has made an embankment on a policy of the liberalization which is also licensing a small number of private banks. These also came to be termed as New Generation tech-savvy banks, and it also was included as the Global Trust Bank which later was even amalgamated with the Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank This move, was made along with the drastic growth in the economy of India which was revitalized and the banking sector in India, which has been seen with the drastic growth and with the strong contribution made from all the other 03 sectors.

Currently, this banking sector in India is termed and fairly in mature terms of supply, has a huge product range and has made a reach-even though where the reach in rural India is still and it also remains as the challenges made for the private sector and even the foreign banks. In terms of the quality of the assets and capital adequacy, even Indian banks are also been considered to have clean, strong and even transparent balance sheets which are also relative to another set of banks in the comparable set of economies in its region.

The Reserve Bank of India is also termed as an autonomous body, with minimal pressure from the government. The actual and the stated policy of the Bank on the Indian Rupee is also termed to manage the volatility but is actually without any fixed exchange of rate made and this has also mostly been termed as true. With the drastic growth made in the Indian economy, it is also expected to be as strong as for quite some time and especially in the services sector with the huge demand made for the banking services, especially on retail banking, even mortgage aninvservices that are being expected to be as strong.

BIFERGATION OF BANKS IN INDIA :



Public Sector Banks :

These are termed as those banks which are nationalized banks and in which the huge population has made the share capital or shares of the banks are acquired by the RBI or the Government of India. Hence the ownership of the bank that is directly transferred into the actual hands of the shareowners of the banks i.e., the shareholders, and the management of these banks is guided and commanded by the Board of directors and management elected by the shareholders and the government. There is a total of 29 public sector banks in India (As on 26-09-2009). of these 19 are nationalized banks, 7 belong to SBI & associates group and 1 bank (IDBI Bank) is classified as another public sector bank.

Private Sector Banks :

These banks that are termed as the Private banks are essential and is comprised of two types:

1. Old
2. New.

3. The old private sector banks also comprise of those, which were being operated before the Banking Nationalization Act was passed in 1969. On the other account of their small size, and the regional operations, these banks were not termed as nationalized.

These banks also face the intense rivalry made from the new private banks along with the foreign banks. These banks that termed as the segment which includes:

1. Bank of Madura Ltd. (now a part of ICICI Bank),
2. Bharat Overseas Bank Ltd.,
3. Bank of Rajasthan,
4. Karnataka Bank Ltd.,
5. Lord Krishna Bank Ltd.,
6. The Catholic Syrian Bank Ltd.,
7. The Dhanalakshmi Bank Ltd.,
8. The Federal Bank Ltd.,
9. The Jammu & Kashmir Bank Ltd.,
10. The KarurVysya Bank Ltd.,
11. The Lakshmi Vilas Bank Ltd.,

12. Nedungadi Bank Ltd.
13. Vysya Bank.

These are termed as the new set of private sector banks were also established when these Banking Regulation Act were amended in 1993.

Financial institutions have also promoted various several other of these banks. After these initial licenses, the RBI has also granted no more licenses. Currently, these are the set of banks are on a huge expansion spree, which is spreading it into semi-urban areas and the satellite towns. The leading banks that are been included along with this segment also include:

1. Bank of Punjab Ltd.,
2. Centurion Bank Ltd.,
3. Global Trust Bank Ltd.,
4. HDFC Bank Ltd.,
5. ICICI Banking Corporation Ltd.,
6. IDBI Bank Ltd.,
7. IndusInd Bank Ltd.
8. UTI Bank Ltd.

REVIEW - II VARIOUS COMMITTEE REPORTS ON NPA

1. **Narasimhan Committee - Reform I (1991)**The development of the financial sector is a major achievement and it has also contributed significantly to the increase in our savings rate, especially in the household sector. The terms made of reference were to analyze the existing structure of the financial system and its various components and to make recommendations for improving the efficiency and the effectiveness of the system with particular reference to the economy of operations, accountability, and profitability made of the commercial banks and the financial institutions.

2. **Khan Committee on Financial Reforms (1997)** RBI that has been constituted a 07 member Working Group on 15th Dec. 1997 which is under the Chairmanship of Shri S.H. Khan, Chairman and the Managing Director of IDBI, which is keeping in actual view of the need for the actual evolving of an efficient and competitive financial system. The terms of this reference

which were to review the Role, Structure, and Operations of DFIs and Commercial Banks in the emerging operating environment and suggest changes and to examine whether DFIs could be given increased access to short term funds and the regulatory framework needed for the purpose.

3. **Tarapore Committee on Capital A/c Convertibility (1997)** The Union Finance Minister, Shri P. Chidambaram, is his real Budget Speech for 1997-98 had also been indicated that the regulations made that are governing the foreign exchange transactions that need to be modernized and also be replaced by a new-law consistent with the real set of objects of the progressively liberalizing the capital account transactions. The committee that has been made on the Capital Account Convertibility under the Chairmanship of Shri S.S. Tarapore has been appointed.

4. **Pannier Selvam Committee on NPA (1998)** Banking Division has also been constituted a 03 Member Committee which is under the chairmanship of the Shri A.T. Pannier Selvam, Chairman, IBA, and the Chairman & the Managing Director, Union Bank of India. The actual terms of reference were also assigned to the above Committee which was the real causes of NPAs, there are various factors for the slump in the recovery of loans; to measures to be taken for effective recovery of bank dues and reduction of NPAs and banks wise study on factors responsible for the NPAs and banks specific suggestions for recovery.

5. **Narasimhan Committee - Reform II (1998):** Various Reform of various Indian banking sectors is now prevailing under the way following the recommendations made of the Committee made on the Financial System (CFS), which has been reported in 1991.

6. **RBI Panel on DRT's (1998):** The RBI had to set up the Working Group in March 1998 made to review the real functioning of the Debt Recovery Tribunals which is under the Chairmanship of Shri N.V. Deshpande.

7**. Special Report on NPA by RBI (July 1999)** There are some other aspects made and the issues that are relating to NPAs in the Commercial Banks, RBI have also prepared a brief report in the Department of the Banking Supervision.

Shri A.Q.Siddiqui, Chief General Manager, was the person in charge of this upcoming project whereas, Shri A.S. Rao and R.M. Thakkar, both the Deputy General Managers, also assisted in this project. This study has been brought out by using of the RBI inspection reports made on the Banks, information data has also been obtained from both the public sector banks and the private sector banks and also from those who have collected it from the files on the borrowable accounts and have maintained in banks for analyzing the comparative position on NPAs and their recoveries made in the banks. This causes the sickness of weak performance and it consequently also affects the account which is turning NPA in respect of the Public sector banks and the private sector banks.

Conculation :

The most threatening issue faced by banking sector in the current scenario is Non performing Assets.However, the level of NPAs can be reduced through an efficient monetary mechanism and also by applying various controlling measures.The liquidity,profitability, overall quality of the assets and successful survival of the banks is directly affected due to NPAs.There is harmful effect on the profitability of the banks due to huge rates on NPAs in both public and private banks.

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