An Evaluative Analysis of Non-Performing Assets in the Indian Banking Sector

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Abstract

Purpose: The health of a country's banking industry is reflected in the amount of non-performing assets (NPAs). This research analyses the contribution of various banks to NPAs from 2019 to 2023 and evaluates the impact of categories of nationalized banks and private sector banks.

Approach/Methodology/Design: The research has considered Indian banks. The study relies on secondary data obtained from the official website of the Reserve Bank of India, covering the time from 2019 to 2020. The mean has been employed as a statistical method for determining the average growth rate of gross non-performing assets (NPAs). Additionally, further improvement of the outcome is accomplished by comparing the increase in gross NPAs of individual banks with the average growth rate.

Findings: The evaluation of private sector banks indicates that the pace of increase of non-performing assets (NPAs) is relatively low compared to the banks that have been taken under state ownership. The state-owned banks were unable to properly address the problem of non-performing loans, resulting in a significant increase in such debts has been very elevated.

Originality: The study has significant value from two perspectives. Firstly, it illuminates the status of the various banks concerning non-performing assets. Furthermore, the provided information has value for investors, since substandard loans remain pertinent to their interests. The reason for this is because it significantly affects the profitability of banks and, therefore, their prospects.

Key terms: Public banks, non-performing assets. Private banks, etc.

Document classification: Research paper

JEL Classification: M4, M0, G17

Introduction

The banking industry is the backbone of any financial system, crucial for economic stability. Non-performing assets (NPAs) hinder credit expansion and bank profitability. NPAs have soared in recent years, indicating systemic issues in lending practices. NPAs are loans where interest or principal repayments are overdue for more than 90 days, adversely affecting banks' financial health and hindering the economy. Based on how long a result of the asset's non-performance, banks must arrange non-performing assets as sub-standard assets, which means assets have not performed for less than a year; If an asset has not produced results for longer than a year, it is considered a questionable asset, assets with losses detected by the bank, auditor, or other inspector and haven't been entirely dropped.

Certain legal actions include tribunals for debt collection (DRTs), the SARFAESI (Securitization and Reconstruction of Financial Assets), and Lok Adalats and Enforcing Security Interest) Act as well as the 2016 Insolvency and Bankruptcy Code have been put forth to resolve NPAs. bank recapitalization in the public sector, The RBI has also taken measures such as establishing stressed asset management departments. In recent years, several ideas such as the creation of categories and special mention accounts (SMA) for example, SMA 0, SMA 1, and SMA 2 have been included. In addition, the regulator has also taken swift remedial action, therefore restricting eleven public sector banks. (PCA) on them. In light of these changes, this research seeks to determine which rising threat and current financial trends are partly attributable to the bank sector on these substandard loans.

Literature Review

Numerous studies have explored the causes and consequences of NPAs, proposing reforms and strategies for mitigating them.

Karunakar et al. (2008) talk about the different elements that increase the amount of non-performing assets (NPAs), their impact on Indian banking operations, and recommend actions to curb the financial sector's ill fate. Utilizing appropriate risk and credit evaluation an examination of non-functioning resources. The solution to the issue of NPA buildup lies in management techniques.

The problem of NPAs after the global financial crisis is covered in Mahesh (2010)'s contends that just identifying the issue and keeping an eye on oneself might aid in managing the scope of the NPA issue. Additionally, self-help organizations may be quite significant in loan recovery.

Barge (2012) investigates the early control and observation of the need of the hour is money. The research recommends several actions, including improved monitoring of the final application of money, details about the borrower's credit history, and helping the debtors acquire business acumen to guarantee that the asset does not become an asset that is not performing.

Gupta (2012) compares and evaluates the location of State Bank of India (SBI) non-performing assets (NPAs), its affiliates, and other public sector banks. The researcher concludes that each bank should establish an independent credit rating company. It also implies the need for a committee made of expertise in finance to oversee and keep an eye on the NPA problem.

The NPAs of Bhaskaran et al. (2016) were compared in their article. governmental and private sector banks throughout 10 years (2004–2013). From their analysis, it is clear that private banks are outperforming state banks. banks in lowering the NPA percentage. The authors advise banks to take the initiative in implementing an organized approach to NPA management that places a high focus on NPA prevention.

In 2017, Sengupta and Vardhan contrasted the two post-liberalization banking crisis episodes: one that occurred in the other that started during the global financial crisis of 2008 that elevated the late 1990s and the NPA problem. Strong governance and proactive banking are the writers' opinions rules and a robust legal framework for NPA resolution would help to resolve the issue with non-performing assets. Nevertheless, regulatory forbearance would negatively impact the crisis in banks.

Banerjee and colleagues (2018) have investigated the state of the gross and net non-performing assets (NPAs) of both public and private sector banks impact on the banks' quality of assets. intentional loan defaults and inadequate credit handling regulations, authorizing loans without evaluating the borrowers' ability to assume risk are the primary causes of the NPA pile. Better strategy should be the banks' priority. formulation and correctly implementing it as well. Tight regulations from the state might aid in the NPA ratio's reduction.

Mukhopadhyay (2018) spoke about in his article resolving the NPA crisis in India. He has proposed that to fix the issues with NPAs: Rather than adhering to a single model, the RBI should adopt an inventive and adaptable a different strategy that should be used for each impacted bank on an individual basis.

Sharma (2020) highlights how the banking industry may be used as a tool for economic progress and evolution. In particular, the study addresses how banks are plagued by rising non-performing assets. about public sector banks. The author outlines some precautions that reduce the amount of non-performing assets. Appropriate legal guidelines and prompt execution of This may open the door for India to develop a robust financial industry.

In a recent study, Dey (2021) This study examines the recovery process for the bad loans issued by Indian banks that deal in commerce. According to the author, DRTs play a much greater function than rehabilitation using the SARFASEI Act and Lok Adalats.

The Research Gap

The paper's emphasis is on individual banks as well as bank organizations. This is carried out to determine which banks are most responsible for the banking industry's NPA problem. As such, the paper tackles a current subject like Not Paying Accounts. Readers will benefit from the research's addition of fresh information to the banking literature. to have a better understanding of the status of banks regarding the NPA of almost all banks who have maximum coverage in the banking Sector.

The study's objectives

The research aims to achieve the following:

- To calculate the average growth rate for several nationalized and private bank groups and individual banks; additionally
- To provide observations about the Gross NPA growth trend.

Research Design

The study employs secondary data from the RBI website spanning 2019 to 2023. The geometric mean is used to calculate average growth rates, comparing individual bank NPAs to the sector average. The trend line has been calculated to compare both nationalized and private-sector banks.

Type of data and source: Secondary data gathered from the RBI website forms the basis of the research.

Interest-bearing variable: Gross NPAs.

Research methods: In this paper, the geometric mean is used as a statistical technique. The growth rates of each bank were then compared to the average growth rate and the trend line was calculated.

Evaluation of Private sector banks

The following section discusses the private sector banks' evaluation of gross non-performing assets (NPAs) on an individual basis. An analysis of the gross non-performing asset (NPA) situation of the private sector banks reveals that the growth rate (determined by applying the Geometric Mean) is relatively low in the early years of the research period (with the lowest being 3% in 2022–2013. In the private sector, the total percentage of non-performing assets (NPAs) increased to the highest at 6.01% over the 2019–2020 period. The "asset quality review" that the RBI carried out in 2015 could have contributed to this unexpected increase. The under-reporting of non-performing assets (NPAs) in private sector banks was brought to light by the RBI investigation. In the latter years of the research period, major lenders such as Axis Bank, Yes Bank, and ICICI Bank show a substantial increase rate of non-performing assets (NPAs). Between 2019 and 2023, IDBI Bank had a notable increase in gross non-performing assets (NPAs) of about 20.78% followed by Karur Vysya Bank at 6.71% and Yes Bank at 10.31% (Table I).

Table 1: Evaluation of Private sector banks (Part-I)

Year	2023	2022	2021	2020	2019	Average
Axis Bank	2.02	2.82	3.7	4.86	5.26	3.73
Bandhan Bank	4.87	6.46	6.81	1.48	2.04	4.33
CSB Bank	1.26	1.81	2.68	3.54	4.87	2.83
City Union Bank	4.4	4.7	5.1	4.1	3	4.2
DCB Bank	3.19	4.32	4.09	2.46	1.84	3.18
Dhanlaxmi Bank	5.19	6.32	0.09	5.9	7.47	4.99
Federal Bank	2.36	2.8	3.41	2.84	2.92	2.87
HDFC Bank	1.12	1.17	1.32	1.26	1.36	1.25
ICICI Bank	2.81	3.6	4.96	5.53	6.7	4.72
IndusInd Bank	1.98	2.27	2.67	2.45	2.1	2.294
IDFC FIRST Bank	2.51	3.7	0.04	2.6	2.43	2.256

(Part-II)

Year	2023	2022	2021	2020	2019	Average
Jammu & Kashmir Bank	6.04	8.67	9.67	10.97	8.97	8.864
Karnataka Bank	3.74	3.9	4.91	4.82	4.41	4.356
Karur Vysya Bank	2.27	5.96	7.85	8.68	8.79	6.71
Kotak Mahindra Bank	1.78	2.34	3.25	2.25	2.14	2.352
IDBI Bank	6.38	20.16	22.37	27.53	27.47	20.78
RBL Bank	3.37	4.4	4.34	3.62	1.38	3.422
South Indian Bank	5.14	5.9	6.97	4.98	4.92	5.582
Tamilnad Mercantile Bank	1.39	1.69	3.44	3.62	4.32	2.892
YES Bank	2.17	13.93	15.41	16.8	3.22	10.31
Average	3.198	5.346	5.655	6.014	5.278	5.098

Source: Compiled from RBI Report 2019-23

Evaluating results about the average. When comparing the growth rates of non-performing assets (NPAs) of individual private sector banks to the average growth rate of banks in the private sector overall, we see that the majority of banks have growth rates that are lower than the average, which stands at 5.09%. HDFC's performance is noteworthy since it has the lowest value, unlike other banks in the industry, it indicates a general decrease in the quantity of bad loans. It suggests that the bank has an effective NPA management procedure. However, IDBI Bank, one of the major names in the sector, had the greatest growth rate, followed by YES Bank, Jammu Kashmir Bank, Karur Vysya, and so on.

Growth more than average (5.09 %)	Growth less than average (5.09%)
Yes Bank	RBL Bank
IDBI Bank	South Indian Bank
Karur Vysya Bank	Tamilnad Mercantile bank
Jammu & Kashmir Bank	Kotak Mahindra
	Karnataka Bank
	IDFC First Bank
	ICICI Bank

	HDFC Bank
	IndusInd Bank
	Federal Bank
	Dhanlaxmi Bank
	DCB Bank
	City Union Bank
	CSB Bank
	Bandhan Bank
	Axis bank

Source: Compiled from Table 1

Performance assessment of nationalized banks

As per the computation, the position of Gross NPAs concerning the growth rate during the period 2019-2023 is poor. If we look into specific banks and look at the growth rate during the study period we find the banks, that show the maximum rate are Bank of India, Central Bank of India, Indian Overseas Bank, Punjab National Bank, Punjab & Sind Bank, UCO bank and Union bank which show the highest NPA more than average i.e. 10.52%. The overall position of the nationalized banks taken together shows that the NPA growth rate has risen at a high pace after the financial crisis started showing its effect in 2010.

Table 2: Performance assessment of Top nationalized banks

Year	2019	2020	2021	2022	2023	Average
Bank of Baroda	9.61	9.4	8.87	0.07	3.79	6.348
Bank of India	15.84	14.78	13.77	9.98	7.31	12.336
Bank of Maharashtra	16.4	12.81	7.23	3.94	2.47	8.57
Canara Bank	8.83	8.21	8.93	7.51	5.35	7.766
Central Bank of India	19.29	18.92	16.55	14.84	8.44	15.608
Indian Bank	7.11	6.87	9.85	8.47	5.95	7.65
Indian Overseas Bank	21.97	14.78	11.69	9.82	7.44	13.14
Punjab and Sind Bank	11.83	14.18	13.76	12.17	6.97	11.782

Punjab National Bank	15.5	14.21	14.12	11.78	8.74	**12.87**
State Bank of India	7.53	6.15	4.98	3.97	2.78	**5.082**
UCO Bank	25	16.77	9.59	7.89	4.78	**12.806**
Union Bank of India	14.98	14.15	13.74	11.11	7.53	**12.302**
Average	**14.491**	**12.603**	**11.09**	**8.463**	**5.963**	**10.522**

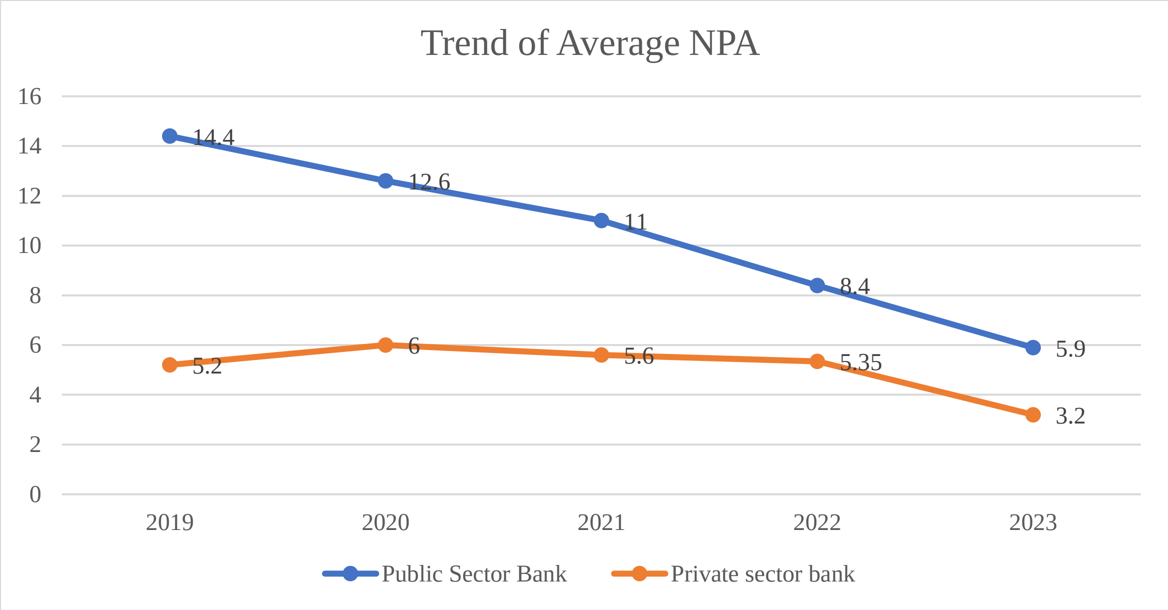
Source: Compiled from RBI Report 2019-23

Performance of banks against average. The table below shows the categorisation of the banks into two categories, which are "more than average" and "less than average"

Growth more than average (10.22%) (%)	Growth less than average (10.22%) (%)
Bank of India	Bank of Baroda
Central Bank of India	Bank of Maharashtra
Indian Overseas Bank	Canara Bank
Punjab National Bank	Indian Bank
Punjab & Sind Bank	SBI
UCO Bank	
Union Bank	

Source: Computed by the researchers

If we compare the growth rate of banks with the average growth rate of the nationalized banking group taken together, it is evident that more than 50% of the bank's NPA is more than the mean rate of 10.22%. Some of the prominent names include the Bank of India, Central Bank of India, Indian Overseas Bank, Punjab National Bank, Punjab & Sind Bank, UCO Bank, and Union Bank, NPA rose by more than the average, and Banks like SBI, Indian bank, Bank of Baroda and Canara bank we find that there has been a less NPA than the average mean. After the RBI came up with the concept of prompt corrective action and looked at the problem with more diligence, some positive results (though not satisfactory) were seen in 2022-2023.



Compiled from Table 1 and Table 2.

The data provided represents the non-performing asset (NPA) growth rates for both public-sector banks and private-sector banks over a certain period. Let's interpret the trends observed in the data:

Public Sector Banks:

1. **14.4%**: This indicates a significant growth rate in NPAs for public sector banks. It suggests that these banks experienced a considerable increase in non-performing assets during the period under consideration.
2. **12.6%**: While slightly lower than the previous figure, 12.6% still represents a substantial NPA growth rate for public sector banks.
3. **11%**: Again, this figure signifies a notable increase in NPAs within the public sector banking segment.
4. **8.4%**: While the growth rate appears to be declining compared to the previous figures, it's still relatively high, indicating persistent challenges in managing NPAs.
5. **5.9%**: This figure represents a lower NPA growth rate compared to the previous years, suggesting a possible improvement in NPA management strategies.

Private Sector Banks:

1. **5.2%**: Private sector banks exhibit a lower NPA growth rate compared to public sector banks, indicating relatively better asset quality management.
2. **6%**: The NPA growth rate for private sector banks is slightly higher compared to the previous figure, but still within a manageable range.
3. **5.6%**: Similar to the previous observation, private sector banks maintain a relatively stable NPA growth rate.
4. **5.35%**: This figure suggests a moderate increase in NPAs for private sector banks, which may require attention to prevent further escalation.
5. **3.2%**: Private sector banks demonstrate a lower NPA growth rate compared to public sector banks, indicating potentially more effective risk management practices.

Trend Analysis:

- Public sector banks generally exhibit higher NPA growth rates compared to private sector banks throughout the observed period.
- While there are fluctuations in NPA growth rates for both sectors, public sector banks consistently show higher rates compared to private sector banks.
- The data suggests that public sector banks may face greater challenges in managing NPAs compared to their private sector counterparts.
- Private sector banks, although not immune to NPA issues, tend to maintain lower NPA growth rates, possibly due to more efficient risk management practices or stricter lending criteria.

In summary, the data highlights the ongoing challenges faced by both public and private sector banks in managing non-performing assets, with public sector banks generally experiencing higher NPA growth rates compared to private sector banks.

Conclusion and suggestions

The aggregate results indicate a concerning state of affairs for the banking industry at large. The issue is apparent not just with small-sized banks but also with well-known brands in the banking industry, according to an examination of the increase rate in the NPA level. Thus, the crisis has engulfed the whole industry. The RBI's criteria compel banks to put aside a certain amount based on the quality of their assets, which makes them less profitable. This is why having weak assets is an issue for the banks. As a result, it affects both the wealth of the shareholders and the profitability level of these institutions. Therefore, it is appropriate that the RBI has been developing strict guidelines to regulate the expansion of these assets. When it comes to the recovery of assets belonging to creditors whose cases have been filed with the National Company Law Tribunal, the Insolvency and Bankruptcy Code of 2016 is crucial. In reality, the RBI's data indicates that the NPA growth rate is entering a reducing phase, which is a good trend. However, more work remains to be done. It will take time to determine how effective the RBI has been in limiting the sector's NPA rise. It is imperative to act quickly because these bad loans are severely affecting banks' liquidity positions and even the banks themselves have been asked to reduce lending. This will ultimately affect the economy's growth, which has been sluggish over the last few quarters.

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