International Journal of Research in Finance and Marketing (IJRFM)
Available online at : http://euroasiapub.org/current.php?title=IJRFM
Vol. 7 Issue 7, July - 2017, pp. 33~40
ISSN(o): 2231-5985 | Impact Factor: 6.397

RECOVERY PERFORMANCE OF INDIAN COMMERCIAL BANKS – AN ANALYSIS

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ABSTRACT: Banks have traditionally played the key role in the financial system by acting as financial intermediaries between ultimate servers and borrowers. With liberalization, competitions among commercial banks have increased to lure the customers. They are competing among themselves to attract more and more prospective applicants for loans; in their quest for attracting more and more customers for loans most of the banks have sanctioned loans without taking applicants capacity to repay loan its consideration. Non Performing Assets (NPA‟s) are one of the major areas of concern for the Indian banking industry. Non-Performing Assets are like a double edged sword. They do not generate any income, whereas, the bank is required to make provisions such as assets. (Olekar and Talawar, 2012). NPAs do not just reflect badly in a bank's account books, they adversely impact the national economy. It is the most worrying aspect as banks are expected to follow prudential norms quoted in Basel I, II and III norms. There are many research conducted on the topic of Non- Performing Assets (NPA) Management, concerning particular bank, comparative study of public and private banks etc. This paper evaluates the recovery performance of public sector and private sector banks and attempts to analyze and interpret the NPA management from the year 2007 -2015. Present study has focused on analyzing the level of NPAs in Indian commercial Banks with special reference to recovery performance of public sector and private sector banks. For the purpose of study the researcher has chosen two public sector banks and two private sector banks and analyzed the results by using simple statistical techniques.

Keywords: *Financial Intermediaries, Liberalization, Non Performing Assets, Basel Norms.*

Introduction

The economic development in the present day developed and developing economies largely depends upon the growth of sound banking system. Commercial banks can contribute to a country's economic development in various ways. Capital formation is the most important factor of economic development and banks promote capital formation. Banks motivate people to deposit their savings by providing a number of incentives to the public, such as increased interest on deposits, free and cheap remittance of funds and safe custody of valuables. With the expansion branches in different areas and giving various incentives, banks succeed in mobilizing the savings from public. Commercial Banks not only mobilize resources from those who have excess money than their expenditure, but also make the resources so mobilized available to those who have the opportunity of productive investment in various areas and fields.

Commercial banks have been playing a significant role in the economic development of the any country in the world. In India banks have been playing a vital role in the development of agriculture, particularly in green revolution and promoting small-scale industries across the country creating huge employment opportunities and export potential, growth of large number of medium and big industries above all blossoming of entrepreneurs in diverse field were the results of the expansion of activities of banks. Commercial banks being, the crux of the Indian financial system, are organized into both public and private sectors.

Commercial Banks refer to both scheduled and non-scheduled commercial banks which are regulated under Banking Regulation Act, 1949. Commercial banks include public sector banks, private sector banks and foreign Banks. Recovery Management is the process of planning, testing, and implementing the recovery procedures and standards required to restore service in the event of a component failure; either by returning the component to normal operation, or taking alternative actions to restore service. Recovery Management is the acknowledgement that failures will occur regardless of how well the system is designed. Recovery is a key to the stability of the banking sector there should be no hesitation in stating that Indian banks have done a remarkable job in containment of Non-Performing Assets (NPA) considering the overall difficult environment. Recovery management holds the key to future health and competitiveness of the Indian banks (Singh, 2012).

Objectives of Recovery management are Reduction in NPAs, Growth of Deposits and Credits. These three objectives although have cause and effect on each other, Reducing NPAs (Non-Performing Assets) is a difficult one banks to achieve as there will be somewhere defaulters of credit. Deposits and Advances are two major important functions of a bank. Deposits have grown over the years considering from the period of establishment of banks. However, credits have grown following Nationalization of Commercial banks twice.14 Banks were nationalized in 1969 and 6 banks was nationalized in 1980. With liberalization New Private sector banks and Foreign Banks have also started operating.

Non Performing Asset - Concept

A Non-Performing Asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained „past due‟ for a specified period of time. In India, the definition of NPAs has changed over time. According to the Narasimham Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest and/or installment of principal remains due for a period of four quarters (180 days) should be considered as NPAs.

With an aim of moving towards the international best practices and ensuring greater transparency, a standard criterion of ‟90 days‟ overdue norm was fixed for identification of NPA from the FY ending March, 2004 in the Indian financial system. Thus, as per present convention, a non-performing asset refers to a loan or an advance where: Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan or the account remains out of order for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC), or any amount to be received remains overdue for a period of more than 90 days in respect of other accounts. According to the RBI guidelines, as and when an asset becomes a NPA, such advances would be first classified. However, it needs to be noted that the asset classification is only for the purpose of computing the amount of provision that needs to be made with respect to bank advances.

Need for the study

Commercial Banks play a vital role in stimulating economic development. The success of economic development depends on the extent of mobilization of resources from various sources and investment of those resources in such productive use that the economy is on the move.

In the era of privatization many private banks have been allowed to enter into the commercial banking sector. The private banks, being liberal in their operations compared to the public sector commercial banks, are providing the necessary services adjusting their policies to the needs of the customers. Whereas the public sector banks are somewhat rigid in their policies thereby making the customers feel unsatisfied with their services. Of these days there has been a constant rise of willful defaulters. The non-recovery of advances given to the corporate companies in large sums is affecting the operational as well as the profitability performance of commercial banks. In view of these conditions there is a need to examine the lending policies and recovery policies of the public and private sector commercial banks.

Objectives of the study

The main objective of the present paper is to evaluate the "Recovery performance of commercial banks." Specifically to examine the recovery policies and performance of select public and private sectors banks in India.

Methodology

The present study is a case method of research. The relevant data have been collected from secondary source comprising of published reports of India, CMIE Reports, RBI Bulletin, IBA Bulletin, Reports of Economic Survey of India, Global Financial Stability Reports, Report on Trend and Progress of Banking in India, Various Journals and Magazines, daily news papers, Annual reports of Andhra Bank, Punjab National Bank from public sector and Karur Vyasya Bank and Axis Bank for private sector from the period 2007 to 2015. Some information is browsed from the related websites of internet and other banking industry agencies. The data have also been collected by holding discussions with the Bank Managers, field officers, and executives relating to recovery of advances. The collected data on various portfolios of loans of the selected banks are classified, tabulated and analyzed in a systematic manner to understand the impact of NPAs on profitability, solvency and liquidity of the select sample banks. For the purpose of the study four commercial banks, two scheduled commercial banks from public sector, two commercial banks from private sector are chosen.

RBIs Proposed Relaxation

In order to help PSBs struggling with high NPAs, RBI proposed relaxed norms on April 6th 2015. Accordingly, banks are now spared from classifying certain assets as NPAs for two more years. This will reduce the amount of loans which need to be classified as bad loans. In other words, banks can now go easy on provisioning against these bad loans. Less provisioning helps banks in not only reporting higher net profit but more importantly the banks effectively have more capital to deploy. This is because once an asset has been classified as NPA, it reduces the advance-able deposit available with the bank. Increasing bad loans have been a concern for the

RBI for many years. The NPA problem is far graver for PSBs compared to their private sector peers.

Table -1: Total Gross NPA to Total Gross Advances (Rs in Billions) As on 31st March

Bank Name	Year	Gross NPAs	Total Gross Advances	Percent Share
Public Sector Banks	2010	440.32	20,986.33	2.10
	2011	572.93	25,124.39	2.28
	2012	710.8	30,599.53	2.32
	2013	1,124.89	35,503.89	3.17
	2014	1,558.90	40,558.74	3.84
Private Sector Banks	2010	168.9	5,200.77	3.25
	2011	173.87	5,851.10	2.97
	2012	179.75	7,329.53	2.45
	2013	183.21	8,812.16	2.08
	2014	199.92	10,466.65	1.91

(Source: Annual Reports of RBI)

From the above table it can be inferred that, the Ratio of Gross NPA to Gross Advances for Public sector banks is increasing and the same ratio has been decreasing in the case of Private sector Banks. The highest gross NPAs of public sector banks recorded at Rs.1, 558.90 billion during 2013-14, whereas during the same period the gross NPAs of private sector banks was only Rs.199.92 billions. During the study period the gross NPAs of public sector banks have increased by nearly 3.5 times, whereas the private sector NPAs have increased by only 10 percent. Similarly, the total gross advances of public sector banks from Rs. 20,986.33 to Rs. 40,558.74 billions, indicating nearly two fold increase in the gross advances. The same in the case of private sector banks increased from Rs. 5,200.77 to Rs. 10,466.65 billions. But when the ratio of gross NPA to gross advances of these banks is compared, the public sector ratio has increased from 2.10 percent to 3.84 percent. The same ratio in the case of private sector banks has been declined from 3.25 percent to 1.91 percent. This shows that, the amount of NPAs in public sector banks are quite more than that of private sector banks. Hence it is suggested that, the public sector banks should adopt certain stringent measures to control its NPAs and improve its recovery performance.

Table -2: Gross NPA's Ratio (Figures in %)

Year	Public Sector Banks		Private Sector Banks	
	Andhra Bank	**Punjab National Bank**	**Karur Vysya Bank**	**AXIS Bank**
2007	1.41	3.45	2.82	0.25
2008	1.07	2.74	2.03	0.62
2009	0.83	1.60	1.95	0.84
2010	0.86	1.71	-	-
2011	1.38	1.79	1.26	1.01
2012	2.12	2.93	1.33	0.94
2013	3.71	4.27	0.96	0.75
2014	5.29	5.25	0.82	1.68
2015	5.31	6.55	1.85	1.17

(**Source:** Annual Reports of Concerned Banks)

Table- 3: Net NPA's Ratio (Figures in %)

Year	Public Sector Banks		Private Sector Banks	
	Andhra Bank	**Punjab National Bank**	**Karur Vysya Bank**	**AXIS Bank**
2007	0.17	0.76	0.23	-
2008	0.15	0.64	0.18	0.22
2009	0.18	0.17	0.25	0.24
2010	0.17	0.53	0.23	-
2011	0.38	0.85	0.07	0.26
2012	0.91	1.52	0.33	0.25
2013	2.45	2.35	0.37	0.32
2014	3.11	2.85	0.41	0.40
2015	2.93	4.06	0.78	0.44

(**Source:** Annual Reports of Concerned Banks)

The analysis of the data relating to the Gross NPA ratios and Net NPA ratios of public sector and private sector banks during the study period is shown in tables Table 3 and 4. From the analysis of the data, it can be concluded that, the Gross NPA ratios and Net NPA ratios of public sector banks are recorded more when compared to private sector banks. The Gross NPA ratio of Andhra Bank was showing a constant increasing trend with a highest ratio of 5.31% (2014 -15), similarly the Punjab National Banks the Gross NPA ratio was also showing increasing trend with little fluctuations and recorded an highest ratio of 6.55% (2014 -15). Whereas the private sector bank ie Karur Vysya Bank's Gross NPA ratio was showing a slight decreasing trend with an higher ratio of 2.82% (2006-07) and Axis bank Gross NPA ratio was also recorded moderately at lower level and in all the years and the highest ratio of 1.17% was recorded in the year 2014 -15. With this it can be concluded that the Gross NPA ratio of Axis bank was least when it was compared to other three banks performance.

Similarly the Net NPA ratios of private sector banks are recorded at lowest level when it was compared to the public sector banks net NPA's during the entire period of study. The net NPA ratios of Andhra Bank were also showing an increasing trend over the period of study with a highest ratio of 3.11% (2013-14). The Punjab National Banks the net NPA ratio was also showing increasing trend with a highest ratio of 4.06 %(2014 -15), The Karur Vysya Bank's and Axis Bank's net NPA ratio was showing little fluctuations and recorded least net NPA ratios when compared to the public sector banks and it was also observed that in all the years the ratios of these two private sector banks were recorded less than 1. This shows that the private sector banks are able to manage their NPA's in a more efficient way when compared to the public sector banks. The reason behind this would be certain political and bureaucratic influences on and the government policies such as loan wavering to certain segment of customers. It is suggested the public sector banks also should adopt stringent measures for recovering their loans and advances so that they can improve their overall performance and profitability.

Table -4: Gross NPA's to Gross Advances Ratio (Figures in %)

Year	Public Sector Banks		Private Sector Banks	
	Andhra Bank	Punjab National Bank	Karur Vysya Bank	AXIS Bank
2007	1.41	-	-	-
2008	1.07	2.74	1.25	0.83
2009	0.83	1.60	1.56	1.09
2010	0.86	1.71	0.98	1.25
2011	1.38	1.79	0.75	1.11
2012	2.12	2.93	1.78	1.06
2013	3.71	4.27	1.42	1.20
2014	5.29	5.25	-	1.34
2015	5.31	-	1.45	1.43

(Source: Annual Reports of Concerned Banks)

Table -5: Net NPA's to Net Advances Ratio (Figures in %)

Year	Public Sector Banks		Private Sector Banks	
	Andhra Bank	Punjab National Bank	Karur Vysya Bank	AXIS Bank
2007	0.17	0.76	-	-
2008	0.15	0.64	0.59	0.42
2009	0.18	0.17	0.52	0.40
2010	0.17	0.53	0.49	0.40
2011	0.38	0.85	0.38	0.29
2012	0.91	1.52	0.32	0.28
2013	2.45	2.35	0.27	0.36
2014	3.11	2.85	0.41	0.44
2015	2.93	-	-	0.46

(Source: Annual Reports of Concerned Banks)

The analysis of the data relating to the ratio of Gross NPA's to Gross Advances and Net NPA's to Net Advances of public sector and private sector banks during the study period is shown in tables Table 4 and 5. The results of the analysis shows that, the ratios of Gross NPA's to Gross Advances of public sector banks are higher than that of private sector banks. In all the years of observation, the calculated ratios in Andhra Bank and Punjab National Bank were showing an increasing trend. The calculated ratios of private sector banks was showing consistent trend with an average ratios of 1.50 for both Karur Vysya Bank and Axis Bank. The interesting point is that, in case of Andhra Banks the highest ratio of 5.29 was recorded in 2014 -15 and for Punjab National Bank the highest ratio of 5.25 observed in 2013-14. There is a wide gap between public sector banks and private sector banks Gross NPA's to Gross Advances ratios in all the years of study. It shows that, the recovery performance of public sector banks is too weak when it was compared to private sector banks; hence most of the public sector banks have negative cash flows and poor operating profits.

Similarly, there is also wide gap between Net NPA's to Net Advances of public sector and private sector banks during the study period. In both the sample public sector banks the calculated ratios were recorded at between 2.0 to 3.0, whereas the sample private sector banks ratios were recorded at less than 1.0 for all the years of study. With this it can be concluded that, private sector banks are very keen in controlling their NPA's and adopting stringing recovery policies when it was compared to public sector banks. Hence it is suggested that, it is high time for public sector banks to reorient its lending policies and norms and adopt rigid recovery procedures so as to enhance its recovery performance.

Conclusion

The problem of NPA has received considerable attention after the liberalization of the financial sector in India. Accounting norms have been modified substantially and mechanisms are in place for reduction of bad loans. The money locked up in NPAs has a direct impact on profitability of the banks, as Indian banks are highly dependent on income from their advances. The result of the study shows that NPAs in the public sector banks are still higher than that of the private sector banks. The recovery performance of public sector has to be improved by adopting Basel III norms and interns reduce the bad loans. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. Therefore it is the responsibility of Banks and Individual bank customers to utilize the loans in better and protect the sanctity of bank with no defaults or minimizing chances of occurrence of defaults by making proper use of advances taken and timely repayment of loans so as to make economy more efficient and productive.

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