Comparative Analysis of NPAs and Credit Deployment of Scheduled commercial Banks of India

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ABSTRACT

In India, the banks are being segregated in different groups. Each group has their own benefits, own dedicated target markets, limitations in operating in India. Generally the public sector banks are blamed for higher NPAs in their books. Also the priority sector lending is generally the pain area of banks as they constitute a large part of stressed assets of a bank's balance sheets. The study analysis the advances and NPAs of all public and private banks in priority sector, non-priority sectors and bank group wise. The gap between public and private banks in terms of advances and NPAs means which one has higher or lower for past last years are answerable. We could find out correlation between NPAs and priority sector lending of banks in INDIA

Research has been done on bank group wise and sector wise data has been gathered mainly from RBI website and then analyze that at different parameters.

Findings of research indicate that although NPAs of public sector banks are higher than those of private sector banks, yet both of the bank groups have shown a declining tendency. NPAs are not restricted to priority sector only and non-priority advances are also having a high degree of correlation with NPAs

Keywords – Banking, Credit deployment, NPAs, Priority sector lending, Public Sector banks

Introduction:

Credit deployment is an essential function of banks. Banks deploy credit as per their credit policy. Credit policy of banks basically provides direction to the use of funds, controls the size and composition of the loan portfolio and also influences credit decisions of the banks. A systematic credit policy helps banks in attaining its goals and at the same time time serving public at large.

Credit deposit ratio is an indicator of progress of banks. It indicates the level of credit deployment of banks in relation to deposits mobilized by them. This ratio indicates the bank's ability to expand its business or lending with the limited source of capital. This ratio has to be optimal based on the bank's business objective and regulatory guidelines. Too much lending compared to the deposit increases the nonperforming assets and credit risks while too less lending compared to deposits indicate the bank's inability to expand the business in spite of having adequate liquidity. Keeping excess cash more than what is required by norms (SLR and CRR) is not desirable for bank from business point of view.

NPAs i.e. nonperforming assets denote the low quality loans which have very high chances of being default. Because of lower quality banks may lose the whole money lent to the customers as loans in this category. NPA is calculated from the net nonperforming assets and the total loans given to the customer's high NPA ratio denotes the high value of low quality loans while lower NPA ratio denotes the low value of low quality loans. For a bank its always desired to have very low NPA ratio. Lower the NPA is, better the bank's loan portfolio or future business outlook.

Industry (US$ 1.22 trillion) has made outstanding advancement in last few years, even during the times when the rest of the world was struggling with financial meltdown. India's economic development and financial sector liberalization have led to a transformation of the Indian banking sector over the past two decades.

Priority Sector Lending:

Adequate and cheap credit is a boon for the economic development of a country. Economic progress can easily be achieved by providing credit to farmers, industries, traders and business. The banks play a very crucial role in the process of economic development of any country that is why the availability of banking infrastructure is considered as pre condition for rapid and balanced development of the country. The impact of banking system on economic growth can be seen by enhancing resources to those sectors which are employment intensive and have greater contribution to GDP (Gross Domestic Product) of the country. The government of India through Reserve Bank of India (RBI) mandates certain type of lending on the banks operating in India to those sectors which are neglected by the banks and cannot afford to pay high rate of interest due to their weak position. This type of sectors fall under the category of priority sectors and lending to those sectors are called priority sector lending. Financing of small scale industry, small business, agricultural activities, export activities & small transport operators fall under this category. In course of time, other priority sectors were also included such as retail trade, professional and self-employed persons, education, housing loans for weaker sections and consumption loans.

Categories under priority sector

(i) Agriculture
(ii) Micro and Small Enterprises
(iii) Education Loans
(iv) Housing Loans
(v) Others

Review of literature:

Surge in bank credit in the last couple of years has been an encouraging phenomenon in India's banking sector. This reflects as much the turnaround in the economy as the improved balance sheets of the banks themselves. However, though overall credit growth has been of a high order, the expansion of agricultural credit and credit to small-scale industries sector has not kept pace with it. Retail credit, which is growing from a very low base, has expanded rapidly during this period. While consumption-led growth can help improve the growth rates in the economy, it would also result in increasing risks. (roy, 2006)

Serious regional and sectoral inequalities are developing in the deployment of commercial credit in India. With bank nationalisation there was a rapid expansion of the banking network into rural and semi-urban areas, and an increase in the share of agriculture and small industry and transport and trade in the total credit deployed. The banking sector reforms have changed this trend. The new private banks and foreign banks are increasing their presence in the emerging business of loans for personal and professional services. (Narayana, 2000)

Non Performing Assets are a serious strain on the profitability, as banks cannot book income on such accounts, while their funding cost and provision requirements are charged on their profits. The cost of the intermediation by the banks has raised brows for controlling the interest rates and identification of benchmarks for the identification and resolution of NPAs. (NAMITA RAJPUT, 2012)

Banks' non-performing loans are influenced by three major sets of economic and financial factors, i.e., terms of credit, bank size induced risk preferences and macroeconomic shocks. The empirical results suggest that terms of credit variables have significant effect on the banks' non-performing loans in the presence of bank size induced risk preferences and macroeconomic shocks. In regard to terms of credit variables, changes in the cost of credit in terms of expectation of higher interest rate induce rise in NPAs. On the other hand, factors like horizon of maturity of credit, better credit culture, favorable macroeconomic and business conditions lead to lowering of NPAs. (Rajan & Dhal, 2003)

Non-performing assets are one of the major concerns for banks in India. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPAs growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. Kaur, Saddy et.al. (2011

Credit –deposit ratio is a barometer of progress of a financial institution like commercial banks. It indicates the level credit deployment of banks in relation to deposits mobilized by them. A high credit-deposit ratio indicates that larger portion of deposits is used to earn maximum interests. The credit flowing into any economy depends on its absorption capacity which in turn is determined by the physical infrastructure, but banks still need to take much more active measures in increasing the credit flow by opening more branches in the unbanked areas, and relaxing some of their stringent credit norms. Deepak Kumar (2013).

Objectives

- To compare the credit deployment of private and public banks with respect to priority sector and non-priority sector advances.
- To find out the correlation between NPA and priority sector lending of banks in INDIA.

Need of study:

By the study we got to know about advances and NPAs of all public and private banks in priority sector, non-priority sectors and bank group wise. The gap between public and private banks in terms of advances and NPAs means which one has higher or lower for past last years are answerable. We could find out correlation between NPAs and priority sector lending of banks in INDIA.

Research design:

Research design is descriptive and empirical. Research data was secondary in nature which has been collected from RBI website, government statistics website. Trend analysis of NPAs, advances of all private, public in both priority and non-priority sectors was done will require some formulae of following:

Research is based upon census study and will be covering all banks in both priority and non-priority sectors in INDIA. It includes credit deployment of all banks including private and public banks which will analyze trend analysis of advances, NPAs for last 5 years i.e. 2010-2014 in both priority and non-priority sectors as well as bank group wise.

Results and findings:

- According to this data NPAs of public banks are more than private banks in each year in priority sector. NPAs of public banks decreases with deep steep but still are more than private banks in non-priority sector.
- Even in between 2010-2012 NPAs of public banks are much more than private banks.
- This data shows Private sector banks are decreasing although and also less than of public banks
- Data shows that public banks advances are more than private banks in all trends.
- If individually we observe the both increase and decrease of trend of both banks are almost same.
- In non-priority sector advances of private banks are almost stable.
- Advances of public banks in non-priority sector decreased deeply then going stable as private banks**.**
- In private banks trend shows stability in terms of bank group wise advances.
- In case of bank group wise NPAs private banks are lagging behind public banks.
- Private banks NPAs are going almost stable but that of public banks they increase then decreases
- Correlation is neutral type between advances and NPAs of public banks in case of priority sector.
- Correlation is almost perfect in between advances and NPAs of public banks in case of non-priority sector
- Correlation is so much strong between advances and NPAs of private banks in case of priority sector
- Correlation is very strong between advances and NPAs of private banks in non- priority sector
- Correlation between public sector total NPAs and public banks priority sector advances is strong enough.
- Correlation between public sector total NPAs and public banks priority sector advances is very much strong

Conclusion –

The present environmental situation has proved to be a difficult one for Indian banks in a difficult situation. On one side, the increasing completion and government pressure if persuading them to lend more. On the other hand the regulatory pressure to reduce the size of mounting NPAs is huge. The present study tries to explore the phenomenon that only priority sector is responsible for NPAs by exploring the various aspects of credit deployment by various types of banks during last few years.

Data Analysis and Findings

Table: 1 priority sector NPAs

Year	Priority Sector NPAs		Non P:riority Sector NPAs	
	Public Sector Banks(Rs. bn)	Private Sector Banks(US$-bn)	Public Sector Banks(Rs. bn)	Private Sector Banks(US$-bn)
2010	3048	4792	57448	12592
2011	41245	4823	71015	13300
2012	3558	4678	1589	10897
2013	669	52	**890**	148
2014	792	61	1375	167

Table: 2 Priority sector advances

Year	**Priority sector advances**		**Non-priority sector advances**	
	Public Sector Banks(Rs. bn)	Private Sector Banks(US$-bn)	Public Sector Banks(Rs. bn)	Private Sector Banks(US$-bn)
2010	15780	10367	1240598	12789
2011	16378	7846	1461977	10035
2012	10954	7995	109468	9378
2013	12790	3157	27769	7309
2014	15193	3831	30712	8287

Table 3. Bank group wise advances

Year	public banks(amt-bn)		private banks(amt-bn)	
	Gross	Net	Gross	Net
2010	22834.73	22592.12	1303.52	1285.04
2011	27334.58	27013	1563.57	1541.36
2012	30798.04	33056.32	1872.96	1846.47
2013	35503.89	38773.07	2329.18	2300.79
2014	45601.69	44727.74	2731.2	2699.37

Table 4: Bank group wise NPAs

Year	public banks(amt-bn)		private banks(amt-bn)	
	Gross	Net	Gross	net
2010	6449.57	211.55	30.72	11.59
2011	5599.26	293.75	36.22	12.71
2012	7046	360	36	9
2013	12489	593	42	13
2014	12644	900	52.1	20

Table 5: Correlation between public banks' advances and NPAs for priority sector

Year	public banks Priority NPA	public banks priority advances
2010	3048	15780
2011	41245	16378
2012	3558	10954
2013	669	12790
2014	792	15193
Correlation	0.511690121	

Table 6: Correlation between public banks' advances and NPAs for non-priority sector

Year	public banks non-priority NPAs	public banks non-priority advances
2010	57448	1240598
2011	71015	1461977
2012	1589	109468
2013	**890**	27769
2014	1375	30712
Correlation	0.998772244	

Table 7: Correlation between private banks' advances and NPAs for priority sector

Year	private banks priority sector NPAs	private banks priority sector advances
2010	4792	10367
2011	4823	7846
2012	4678	7995
2013	52	3157
2014	61	3831
Correlation	0.943153467	

Table 8: Correlation between private banks' advances and NPAs for non-priority sector

Year	private banks non-priority NPAs	private banks non-priority advances
2010	12592	12789
2011	13300	10035
2012	10897	9378
2013	148	7309
2014	167	8287
Correlation	0.797548409	

Table 9: Correlation between public sector total NPAs and public banks priority sector advances

Year	public banks total NPA	public banks priority sector advances
2010	60496	15780
2011	112260	16378
2012	5147	10954
2013	1559	12790
2014	2167	15193
Correlation	0.713103988	

Table 10: Correlation between private sector total NPAs and private banks priority sector advances

Year	private sector total NPAs	private priority sector advances
2010	17384	10367
2011	18123	7846
2012	15575	7995
2013	200	3157
2014	228	3831
Correlation	0.942853	

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