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Analysis of NPAs and Investment Expenditure in Public Banks of India from 2001- 2016

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Abstract

The Indian banking sector has been facing serious hurdle to growth as Non- Performing Assets (NPAs). The NPAs growth has an inverse relationship with the performance of banks. Non- performing assets are the most negative aspect in the performance of scheduled commercial banks in India. With the recommendations of Narasimham committee and Verma committee, some steps have been taken to solve the problem of old NPAs in banking industry. However, in reality problem of abundant of NPAs is still there. This research paper aims to analyze the trend of NPAs and Investment pattern in Public sector banks in India. Paper found out that banking policies are unable to tackle the problem of NPAs and these are continuously increasing with time in terms of net amount of NPAs. Profitability is inversely related to NPAs so if the organizations are interested in earning more profits. Moreover, Investment expenditure is increasing day by day as more funds are needed to meet the increasing requirements.

Keywords: Public Banks, Investment, Non-Performing Assets.

Introduction

In the process of economic growth financial services sector plays a vital role. Banking sector is one of the most important parts of the financial services sector. Employment generation and income generation are the main keys for economic development. The process of economic development in the growing economy is accompanied by structural changes which lead to income generation and changing employment pattern. These structural changes indicate a shift from primary sector to manufacturing and to services sector. The structural changes in India were started in 1950-51 by the beginning of economic planning. With the new strategies of economic planning GDP share of primary sector is continuously decreasing and share of secondary and tertiary sector is increasing. From last two decades there is widespread transformation taking place in Indian economy. The period of last two decades has witnessed various macroeconomic transformations. The monetary and banking policies and external situation have influenced the evolution of Indian banking in different ways.

Review of Literature

Banking is a prime mover in the economic development of a nation and research is so essential to improve its working results. The management without any right policy is like "building a house on sand". It means an effective management always needs a thorough and continuous search into the nature of the reasons for, and the consequences of organization. In line with this, some related earlier studies conducted by individuals and institutions are reviewed to have an in-depth insight into the problem and exploring the reformation of banking policy. The main theme and essence of few relevant studies are presented below.

Jayaraman and srinivasan (2014) in their paper entitled, “Performance Evaluation of Banks in India – A Shannon-DEA Approach’’ explained about the performance of the banks in India using cost, revenue and profit models of DEA and comes out with a comprehensive efficiency index for banks, by combing the efficiency scores of various DEA models, using the Shannon entropy. For this purpose the author used secondary data from RBI for 2005-12. The author found that the banks included in this study are sound in terms of total assets, manpower, branch network etc., and they have been ranked based on their performance, which depends on optimal utilization of select variables.

Ray and Das (2010) in their paper entitled, “Distribution of cost and profit efficiency: evidence from Indian banking” studied the cost and profit efficiency of Indian banks using DEA during the post reforms period. The authors found out that public sector banks are more efficient compared to private sector banks. Apart from this, small banks (with assets up to Rs.50 billion) are operating below the efficiency frontier.

Srivastava (2013) in the paper entitled “A Study on Non-Performing Assets of Indian Banks” explained about the co-relation between Gross NPAs and Gross Advances in respect of Non Performance Assets and the magnitude and trends of NPAs of different banks in India. The author found out that there is a slight improvement in the asset quality reflected by decline in the diverse NPAs percentage. But even then the quantum of NPAs is alarming with public sector banks in India, since NPAs being as an important parameter for assessing financial performance of banks the mounting volume of NPAs will decrease the financial health in terms of profitability liquidity and economies of scale in operation.

Sengupta and Vardhan (2017) in their paper, “Non-performing assets in Indian Banks: This time it is different” explained about the banking environment in India and the crises of banking sector. Further they described about the return on equity and return on assets of scheduled commercial banks in India. In the subsequent section of the paper authors explained about the policies of government and explained about Committees such as the Narasimham Committee II (1998) and the Nayak Committee recommendations. In the last part of the paper authors suggested some policy measures to improve performance of banks in India and strongly favored the enactment and implementation of the Insolvency and Bankruptcy Code (IBC), 2016.

Objectives of The Study

As NPAs is major concern of these days for banking institutions. More the NPAs less the profitability of banks and on the other side with less NPAs leads to more profitability of the banks.

The main objectives of the study are as following:

1. To study the trend in non-performing assets of public sector banks.
2. To analyze the investment expenditure public sector banks in India.

Data and Methodology

This paper is based on secondary data which is collected from annual reports of RBI from 2000-01 to 2015-16. Various ratios have been calculated like ratio of gross advances and NPAs, Ratio of total assets and NPAs. Apart from this, data is tabulated yearly to analyze the trend in non-performing Assets, Investment expenditure, operating expenditure and other expenditure from 2000-01 to 2015-16.

Table No. 1 Trend of Non-performing Assets of public sector banks in India (Amount in billions)

Year	As Percentage of Gross Advances	As Percentage of Total Assets	Net Amount
2000-01	12.40	5.30	279.77
2001-02	11.10	4.90	279.58
2002-03	9.40	4.20	248.77
2003-04	7.80	3.50	193.35
2004-05	5.50	2.70	169.04
2005-06	3.60	2.10	145.66
2006-07	2.70	1.60	151.45
2007-08	2.20	1.30	178.36
2008-09	2.00	1.20	211.55
2009-10	2.20	1.30	293.75
2010-11	2.40	1.40	360.00
2011-12	3.30	1.90	592.05
2012-13	3.60	2.40	899.52
2013-14	4.40	2.90	1303.62
2014-15	5.00	3.20	1599.51
2015-16	9.30	6.00	3203.76
Average	5.43	2.87	631.86

Source: Annual Reports of RBI.

The ratio of NPAs to advances reflects the quality of a bank’s loan portfolio. A distinction is often made between gross NPAs and net NPAs. Net NPAs, which is obtained by deducting from gross NPAs items like interest due but not recovered, part payment received and kept in suspense account, etc. is internationally accepted as the perfect indicator of financial health of banks. The above table explains about the trend of non- performing assets from 2000-01 to 2015-16. The Ratio of NPAs and advances of have decreased from 12.40 percent in 2001-02 to 9.30 percent in 2015-16. The ratio of NPAs to total assets has increased from 5.30 percent in 2001-02 to 6.00 in 2015-16.The net amount of NPAs has increased by eleven times in 2015-16 as compare to 2000-01. So, government and banking policies are unable to tackle the problem of NPAs and these are continuously increasing with time.

Table No.2 Trend of Expenditure of Nationalized banks in India

(Amount in billions)

Year	Investment Expenditure	Operating Expenditure	Other expenditure
2000-01	62.36	24.93	12.71
2001-02	60.48	26.95	12.57
2002-03	58.76	23.36	17.88
2003-04	53.57	23.19	23.24
2004-05	47.09	23.60	29.31
2005-06	48.25	25.96	25.79
2006-07	51.96	25.30	22.74
2007-08	55.74	21.84	22.42
2008-09	62.50	56.81	20.69
2009-10	61.08	17.10	21.82
2010-11	57.56	18.87	23.57
2011-12	64.13	15.37	20.50
2012-13	65.72	15.11	19.17
2013-14	74.11	16.39	9.60
2014-15	74.40	16.40	9.20
2015-16	72.89	17.28	10.10
Average	60.66	23.03	18.83

Source: Annual Reports of RBI.

The above table shows investment expenditure of public sector banks from 2000-01 to 2015-16. In the first part of the table investment expenditure is shown which is increasing from 62.36 billion in 2000-0 to 72.89 billions 2015-16 because more funds are needed to meet the increasing requirements of infrastructure, staff and modern technology. The next part of the table deals with operating expenditures of the nationalized banks. Operating expenditure is day-to-day expenditure which is needed on daily bases to meet the expenses. This expenditure is decreased from 24.93 billion to 17.28 billion in 2015-16. There is certain other expenditure which occurred in banking sector these are explained in third section of the paper it decreased from 12.71 billion to 10.10 billion in 2015-16.

Table No.3 Trend of Expenditure of SBI and Associates in India

(Amount in billions)

Year	Investment Expenditure	Operating Expenditure	Other Expenditure
2000-01	58.49	24.33	17.18
2001-02	58.17	27.25	14.58
2002-03	59.32	21.19	19.49
2003-04	55.67	21.34	22.99
2004-05	48.95	23.35	27.70
2005-06	46.40	25.05	28.55
2006-07	47.66	26.79	25.25
2007-08	52.79	24.92	22.29
2008-09	58.67	19.08	22.25
2009-10	56.92	21.73	21.35
2010-11	51.92	22.58	25.50
2011-12	55.02	20.28	24.70
2012-13	58.05	20.21	21.74
2013-14	65.60	23.18	11.22
2014-15	67.10	22.25	10.65
2015-16	67.96	22.03	9.01
Average	56.79	22.85	20.28

Source: Annual Reports of RBI.

The above table shows investment expenditure of SBI and associates banks from 2000-01 to 2015-16. In the first part of the table investment expenditure is shown which is increasing from 58.49billion in 2000-0 to 67.96billions 2015-16 because more funds are needed to meet the increasing requirements of infrastructure, staff and modern technology. The next part of the table deals with operating expenditures of the nationalized banks. Operating expenditure is day-to-day expenditure which is needed on daily bases to meet the expenses. This expenditure is decreased from 24.33billion to 22.03billion in 2015-16. There is certain other expenditure which occurred in banking sector these are explained in third section of the paper it decreased from 17.18 billion to 9.01billion in 2015-16.

Conclusion

Banking policies are unable to tackle the problem of NPAs and these are continuously increasing with time in terms of net amount of NPAs. However, NPAs are decreasing as percentage to gross advances. Moreover, if we talk about NPAs as percentage to total assets these are increased during study period. Investment expenditure is increasing day by day as more funds are needed to meet the increasing requirements of infrastructure, staff and modern technology. Apart from this, the very important component of expenditure is operating expenditure which is occurred to meet the daily requirements of funds is also increasing in the study period. Profitability is inversely related to NPAs so if the organizations are interested in earning more profits there should be minimum NPAs and the banking sector has to take some serious actions to resolve the problem of NPAs in Indian banking sector.

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