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INDIAN BANKING SECTOR & NON-PERFORMING ASSETS

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ABSTRACT *Indian public sector banks, that control three fourth of the assets of the Rs.83 trillion local banking industry are finding it very tough to recover their loan account from defaulting borrowers. Rising bad loans increases pressure on their profit & capital base and also reduce their ability to grow in a highly competitive environment. Gross bad loans of Indian banks grew at Rs.2.43 trillion at the end of December, 2013, approximate 36 per cent rise from last year. Which is only half of the total stressed asset pile. About Rs.4 trillion of loans are being restructured under the corporate debt restructuring mechanism and under bilateral restructuring. Together, such loan constitutes 11 per cent of the total advances of Indian banks.1 According to RBI data, stressed advances in the banking system increased to 10.7 per cent of total advances in September 2014 from 10 per cent in March 2014. "At 12.9 per cent of total advances in September last year, PSBs continued to record the highest level of stressed advances; private banks recorded 4.4 percent" RBI said in its latest Financial Stability Report.2 So, PSBs continued to record the highest level of stressed advance.*

INTRODUCTION:

The slowing Indian economy and high interest rates had hit the banks hard. For some time now, analysis of Quarterly results of banking sector has been highly dominated by increasing concern about their asset quality. Their asset quality has taken a big beating in the past two years. For majority banks, especially for public sector banks, bad loans, Loan restructuring pipeline and outlook on asset facility remains to be bearish. This problem comes at a time when the banking system was being struggling to comply with base III norms, which with reference to capital adequacy ratio. Though recently deadline to comply base-III norms has been extended but even though Question of equity capital remains. The government's decision to deny capital to less efficient public sector banks, at least for now, will force them to curtail growth ambitions, clean up their books and pay higher coupon rate on bonds. In the future, it may stage a set of consolidation in the public sector banks.

YOY credit growth for the banking industry at the end of January last year was 14.7 percent against 16 per cent a year ago. If the banking sector has to expand credit at 20 per cent or so per year over the next five year and even if sector meets the adequacy standard today, which most banks do, but even though it will have to grow its equity capital at the same rate to maintain adequacy. The RBI has given banks many concessions by making changes to prudential norms, that enabled banks to provide less for all standard assets and postpone recognition of losses for certain sector specific loans.

Despite concession, large cap banks have seen non-performing assets rise from 2.7 percent of loans in FY09 to 4 percent of loans in FY14. Fresh edition of NPAs have risen from 2 percent of loans in FY09 to 2.7 percent in FY 14. The deterioration in balance sheet has led to a drop in earning quality. Return on assets has dropped from 1.2 percent to 0.9 percent for large-cap banks.[3] Higher the share of profit being taken away by bad assets and provisioning the less internal capital is available to grow equity. So consequently growth showed is supported by bringing in external funds. In private sector banks, relatively it is easy but in public sector banks which carry a high share of bad assets, the government has to either dilute its stake or find resources within the budget to increase capital without ceding control.

Recent Performance of BANKS:

The problem of bad loans is rapidly increasing. Gross non-performing assets (GNPA) of 26 PSBs, at Rs.1.64 lakh crore at the end of March 2013 was equivalent to 43 per cent of the PSBs' net worth. At the end of December 2013 the GNPAs had Increased 38 percent to Rs.2.28 lakh crore. That's an increase of about Rs.64000 crore. By comparison, GNPAs, account for just 10 per cent of the net worth of the 19 private sector banks.[4]

The recent December-2014 quarter was once again a disappointing quarter for public sector banks, with big incremental slippages adversely affecting their profit and capital. According to data compiled by Capitaline, bad loans of Rs. 24,000 crore were added to an already heavy pocket of stressed assets, and PSBs share in it was staggering Rs. 21,466 crore. In the first nine month of the current financial year, gross NPAs worth Rs. 51,252 crore were added. The portfolio of bad loans among listed banks was Rs. 4,85,000 crore by the end of December 2014, according to Capitaline data.[5]

PSB have the Highest NPAs, while Private Banks dominate with Least NPAs:

Table-1: Private Sector Bank
October – December Quarter – 2013

Sr.No.	Name	Gross NPA %	Net NPA %
1	ICICI Bank	3.05	0.94
2	AXIS Bank	1.25	0.42
3	HDFC Bank	1.00	0.30
4	INDUSIND Bank	1.18	0.31
5	YES Bank	0.39	0.08
(Source : Capitaline & BS Report)			

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Table-2: Public Sector Bank

Sr.No.	Name	Gross NPA %	Net NPA %
1	SBI	5.7	3.2
2	PNB	5.0	2.8
3	OBC	3.9	2.9
4	UNION Bank	3.9	2.3
5	BOB	3.3	1.9
6	BOI	2.8	1.8
7	CANARA Bank	2.8	2.4
(Source : Banks, Bloomb-erg = BS Report)			

Table-3
ASSETS QUALITY CHECK OF TOP PUBLIC SECTOR BANKS **(RS. CRORE)**

BANK	GNPAs				Q-O-Q Change			Chg over Q4FY14
	Mar'14	Jun'14	Sep'14	Dec14	Q1FY15	Q2FY15	Q3FY1515	
Bank of India	11,869	12,532	14,127	16,694	664	1,595	2,567	4,825
Bank of Baroda	11,876	12,087	13,058	15,453	211	971	2,395	3,577
UCO Bank	6,621	6,346	7,447	9,531	-275	1,100	2,084	2,909
Bank of Maha-rashtra	2,860	3,761	4,351	6,187	901	589	1,836	3,327
Punjab National Bank	18,880	19,603	20,752	22,211	723	1,149	1,460	3,311
GNPA: Gross Non-Performing Assets	Source: Capitaline; complied by BS research Bureau, Business Standard Dt. 16-02-2015.							

Above Tables clearly shows that entire banking sector has been affected in the context of Non-Performing Assets (Bad Loans) but comparatively public sector banks affected severely.

The capital requirement is magnified as bad assets of public sector banks have been very high. Banks do not earn any interest on bad assets on one hand and on other they need to set aside money for provision. Public sector banks need significant external capital is a result of an increase in bad loan. Same estimates suggest that the combination of bad loans and restructured loans of the banking industry now exceeds 10% of their loans. In absolute terms, the amount will be around Rs.5.8 trillion, as the total loans of the banking industry at the end January was close to Rs.58 trillion.[6] However, one also need to consider the fact that the real bad loans could be more than the declared figures. Worries related to non-performing assets are far from over. There could be some front loading of restructuring assets during the fourth quarter of current year, as the regulatory forbearance that banks enjoy now, won't be available from April 1, 2015, because RBI has mandated that banks have to make provisions for restructured assets in line with sub-standard assets- 15 percent compared with the current 5 percent.

CONCLUSION:

Indian Rating and research Pvt. Ltd. formerly known as Fitch India, said "it expects Indian Banks' Stressed assets to grow to 14% of total loans by March 2015." According to various banking experts, reasons of the current bad loan pile of Government banks are, lapses in the due diligence process (at the time of granting loans), easy approach towards defaulters, slowing Indian economy etc.

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