

Performance of Non-Performing Assets in Commercial Banks - An Analytical Study



Finance

KEYWORDS : Gross NPA, Net NPA, Public and Private Sector Banks, Standard Assets, Substandard Assets

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ABSTRACT

In the liberalized economy, Banking and Financial sector get high priority. The banks in India are facing the problem of Non-Performing Assets (NPAs). The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. Moreover the non-performance or non-receipt of interest and principal blocked banks money in the form of funds and is not available for further use of banking business and thus the profit margin of the banks goes down. In this connection bank must aware of the problems and recovery legislations of NPAs. This study explored meaning of various NPA indicators; Gross NPA, Net NPA, Additions to NPA, Reductions to NPA and Provisions towards NPA. It is necessary to trim down NPAs to improve the financial health in the banking system. This paper attempts to analyze the performance of different banks. To compare the performance of public sector, private sector and foreign banks selective indicators were taken into considerations. These Indicators were Gross NPAs and Gross Advances.

INTRODUCTION

The Indian Banking sector accounts a major portion of financial intermediation and acknowledged as main vehicle for monetary policy signals, credit channel and facilitator for payment systems. Commercial banks are the major player to develop the economy. In terms of ownership, commercial banks can be grouped into nationalized banks, the State Bank of India and its associate banks, regional rural banks and private sector banks (the old/new domestic and foreign). Like any other business, success of banking is assessed based on profit and quality of asset it possesses. Since nationalization of banks in 1969, Scheduled Commercial Banks have been asked to extend credit to weaker sector, with a view to provide an opportunity to the poor and underprivileged section of Indian society to improve their standard of living. Even though bank serves social objective through its priority sector lending, mass branch networks and employment generation, maintaining asset quality and profitability is critical for banks survival and growth. A major threat to banking sector is prevalence of Non-Performing Assets (NPAs). In present scenario NPAs are at the core of financial problem of the banks. Concrete efforts have to be made to improve recovery performance. The main reasons of increasing NPAs are the target-oriented approach, which deteriorates the qualitative aspect of lending by banks and willful defaults, ineffective supervision of loan accounts, lack of technical and managerial expertise on the part of borrowers.

REVIEW OF LITERATURE

Krishnamurthi, C.V.(2000) observed that the rising Non Performing Assets is serious diseases for the public sector banks. It shows that the gross Non Performing Asset of public sector banks are mounting very heavily. The non performing asset curses lie between a gross of Rs.39,253 crores in 1992 -93 to Rs.45,463 crores in 1997-98.

Munniappan (2002) studied the diseases of Non Performing Asset into two factors. One is internal factor in respect of portfolio of funds for expansion, modernization and diversification, accept new projects etc. Second is external factor in respect of recession in economy, other countries suffered from non performing assets assessment, input/power shortage, price up and downs uncertain natural calamities etc.

Gupta, S and Kumar, S (2004) defined that redeeming features of banking sector reforms is the continuing downfall in gross and net NON PERFORMING ASSET as a proportion of total assets for all bank groups. NON PERFORMING ASSETS needs resolution otherwise it can break the backbone of entire economic system with financial system.

Banerjee, B. and Dan, A.K (2006) analyzed that NON PERFORMING ASSETS are one of the most crucial problem which is faced by bank to require attention for improvement in the manage-

ment of PSBs are increasing very speedily at present scenario due to following reason.

one is government has got to bail out banks with monetary fund provisions sporadically and ultimately taxpayers bear the value. Second is cash borrowed for investment, for not utilized properly, affects the creation of assets and therefore the growth of economy is vulnerable. The author has urged many strategic measures to manage Non performing assets of Public sector banks.

Ramu (2009) states main cause of mounting Non Performing Assets in public sector banks is malfunctioning of the banks. Narasimham Committee identified the Non Performing Assets as one of the possible effects of malfunctioning of Public Sector Banks.

G.V. Bhavani Prasad and Veera D (2011) examined that the reason behind the falling revenues from traditional sources is 78% of the total Non Performing Assets accounted in Public Sector Banks.

Hosmani.P, & Hudagi Jugdish (2011) found that a slight improvement in the asset quality reflected by downsize in the Non Performing Asset percentage. On Performing Asset is an improvement scale for assessing financial performance of Indian banks. The mounting value of Non Performing Assets will adversely affected to financial position in term of liquidity, profitability and economic of scale in operation. Bank has to take timely necessary steps against degradation of good performing assets.

Manish B Raval (2012) studies to understand the major composition of Non Performing Assets in Indian Banks and compared the three compositions i.e. Priority sector, Non Priority sector and others sector of Non Performing Assets between Nationalized and SBI and its associates. The researcher stated that there is no significant difference between three compositions of Non Performing Assets to total Non Performing Assets in nationalized banks and SBI and its associates.

Dr. A. Dharmendran (2012) examine the position & growth of standard assets, substandard assets, loss assets, gross nonperforming assets provision for non performing assets & net non performing assets with the help of percentage analysis method & compound growth rate for all the state Co-operative banks in India.

NON - PERFORMING ASSETS - CONCEPT

NPA (Non Performing Assets) is related to banking and finance term. When, bank or finance company unable to recover its lent money from borrower in 90 days than that amount which have not been recovered will be treated as NPA. It represents

bad loans, the borrowers of which failed to satisfy their repayment obligations. NPA may be classified into Gross NPA and Net NPA. Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA. An asset is classified as non-performing asset (NPAs) if the borrower does not pay dues in the form of principal and interest for a period of 180 days. However with effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days.

Classification of Loan Assets

Standard Assets: Standard assets generate continuous income and repayments as and when they fall due. So a standard asset is a performing asset. Such assets carry a normal risk and are not NPAs in the real sense. Hence, no special provisions are required for Standard Assets.

Sub-Standard Assets: A sub-standard asset was one, which was considered as non-performing for a period of 12 months.

Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful assets.

Loss Assets: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value

OBJECTIVES OF THE STUDY

1. To analyze the classification of loan assets in commercial banks;
2. To analyze the gross and net NPAs in commercial banks

RESEARCH METHODOLOGY

The present study is aims to analyze the NPAs of Indian Commercial Banks. For the purpose of the study data has been collected from secondary sources. The secondary data has been collected from annual report of 'Reserve Bank of India' publication including 'Trend & Progress of banking in India', statistical tables related to banks in India and report on currency and finance. Major guidelines issued by RBI from time to time were studied in depth, Articles and papers relating to NPA published in different business journals, magazines, newspaper, periodicals were studied and data available on internet and other sources has also been used.

SCOPE OF THE STUDY

The study is confined to examine the state of Non-Performing assets in Commercial banks operating in India. All commercial banks have been taken in to account, a period of 6 years has been considered from 2008-2013. Further the analysis is constrained by the quality of data, changing definition & composition as regard to Gross NPA & Net NPA & is concerned.

RESULT ANALYSIS

Table - 1 Classification of Loan Assets of All Scheduled Commercial Banks Sector Banks -2008 to 2013 (Rs. in Billions)

Year	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		Total NPAs		Total Assets
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2007-08	22,760.54	97.61	260.89	1.12	243.04	1.04	53.02	0.23	556.95	2.39	23,317.50

	2008-09	2009-10	2010-11	2011-12	2012-13	Average
Standard Assets	27,202.08	31,831.81	38,981.07	45,292.36	51,872.97	36,323.47
% to Total Assets	97.55	97.49	97.64	97.06	96.58	97.32
Sub-standard Assets	359.22	412.93	398.77	675.87	853.25	493.49
% to Total Assets	1.29	1.26	1.00	1.45	1.59	1.29
Doubtful Assets	267.30	326.64	448.04	596.23	873.05	459.05
% to Total Assets	0.96	1.00	1.12	1.28	1.63	1.17
Loss Assets	55.64	78.51	94.40	98.92	112.24	82.12
% to Total Assets	0.20	0.24	0.24	0.21	0.21	0.22
Total NPAs	682.16	818.08	941.21	1,371.02	1,838.54	1,034.66
% to Total Assets	2.45	2.51	2.36	2.94	3.42	2.68
Total Assets	27,884.24	32,649.89	39,922.28	46,663.37	53,711.51	37,358.13

Source: Department of Banking Supervision, RBI

Table - 1 depicts the classification of loan assets of all scheduled commercial banks in India during 2008 to 2013. The amount of standard assets showed an increasing trend during the stated period. In the initial year 2007-08 the ratio of standard assets to total assets stood at 97.61 per cent. It slightly decreased to 96.58 per cent in 2012-13. The ratio of sub-standard assets to total assets showed an increasing trend, it was 1.12 per cent in 2007-08 and it reduced 1.0 per cent in 2010-11. Later on it slightly increased to 1.59 per cent in 2013. The ratio of doubtful assets to total assets showed an increasing trend recording the 1.04 per cent in 2007-08 and 1.63 per cent in 2012-13. The ratio of loss assets to total assets showed a decreasing trend from 0.23 per cent in 2007-08 to 0.21 per cent in 2012-13. Though, the amount of NPAs increased from Rs. 556.95 crore in 2007-08 to Rs. 1838.54 crore in 2012-13. Its percentage to total assets has been increased from 2.39 to 3.42. It shows the effectiveness of follow-up actions of commercial banks in monitoring NPAs. The total assets of the commercial banks is increased from Rs. 23,317.50 crore in 2007-08 to Rs. 53,711.51 crore in 2012-13. It may be concluded that the percentage of standard assets in total assets remains at 97 to 98 per cent. It shows that loan portfolio of commercial banks is performing productively and lending is recovered and revenue is generated.

Table - 2 Percentage of Gross and Net NPAs to total assets in commercial banks (Rs. in Billions)

Years	Non-Performing Assets			
	Gross NPAs		Net NPAs	
	% to Total Assets	% to Gross Advances	% to Total Assets	% to Gross Advances
2007-08	1.30	2.30	0.60	1.00
2008-09	1.30	2.30	0.60	1.10
2009-10	1.40	2.40	0.60	1.10
2010-11	1.40	2.50	0.60	1.10
2011-12	1.70	3.10	0.80	1.40

Source: Statistical Tables Relating to RBI

Table- 2 presented the percentage of gross and net NPAs to total assets and advances. It reveals that the increasing trend in Gross NPAs and Net NPAs during the study period. It shows that there is no significant improvement in NPAs recovery by scheduled commercial banks. It may be observed that the gross NPAs to total assets and to gross advances is increased from 1.30 per cent in 2007-08 to 1.70 per cent in 2011-12 and 2.3 per cent to 3.10 per cent respectively. In case of Net NPAs to total assets it is constant as 0.60 per cent from 2007-08 to 2010-11 and it is increased to 0.80 per cent in 2011-12. Similarly, in case of Net NPAs to gross advances it shows increasing trend from 1.00 per cent in 2007-08 to 1.40 per cent in 2011-12. It may be concluded that the commercial banks has failed to recover the NPAs.

CONCLUSION

The problem of NPAs is a live danger to the Indian Commercial Banks, because it destroys the healthy financial conditions of them. The recessionary pressures faced by the banking sector is an important reason for the growth of NPA indicators, it should be managed to maintain a healthy and viable banking environment. Instead steps should be taken to convert Non-Performing Assets into Now-Performing Assets. As far as old NPAs are concerned, a bank can remove it on its own or sell the assets to Asset Management Companies (AMCs), to clean up its balance sheet. For preventing fresh NPAs, the bank itself should adopt proper policies. It is better to avoid NPAs at the budding stage of credit consideration by putting in place of rigorous and appropriate credit appraisal mechanisms.

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