Research Paper

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Banking Sector & Bad Loan (NPAs)

Commerce

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ABSTRACT

Indian public sector banks, which control three fourth of the assets of the Rs.83 trillion local banking industry are finding it very hard to recover their Loan Account from defaulting borrowers. Rising bad loans increases pressure on their capital base and 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 Banks requires to make 5 per cent provisions for new restructured loans and this provision can increase sharply if loan turns bad.

INTRODUCTION :

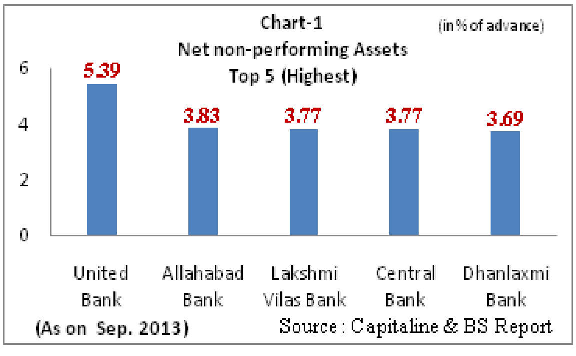
The slowing economy and high interest rates have hit the banks hard. For some time now, analysis of Quarterly results of banks has been highly dominated by growing concern about their asset quality. Their asset quality has taken a beating in the past two years. For majority banks, bad loans, Loan restructuring 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 capitaladequacy ratio. Though recently deadline to comply base-III norms has been extended but even though Question of equity capital remains.

Year on year credit growth for the banking industry at the end of January 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. 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 it 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.[2]

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



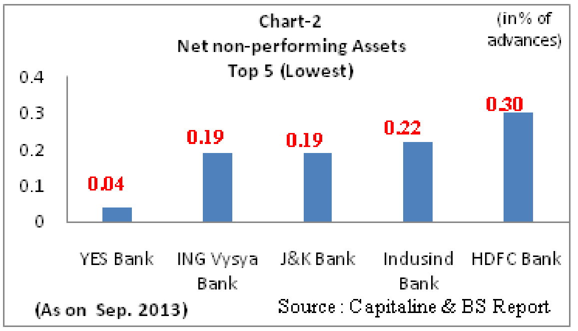


Table-1 : Private Sector Bank
October – December Quarter – 2013

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)			

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, Bloomberg = BS Report)			

Above charts & Table clearly shows that entire banking sector has been affected in the context of bad loan (Non-Performing Assets) but comparatively public sector banks affected severely.

The capital requirement is magnified as bad assets of public sector banks have been Sky Rocketing. Banks do not earn any interest on bad assets on one hand and on other they need to set aside money for provision. That impacts their profitability. 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.[3] However, one also need to consider the fact that the real bad loans could be more than the declared figures.

The capital issue is much more crucial than what we think. If the Indian Economy continuouslyremain on slow gross path for few more quarters, then the presently looking cyclical problems of bad assets may become structural Issue and could create systematic instability. Government may have to continue to bring in taxpayers' money in banks. In F.Y. 2013-14 Government had made a budgetary provision of Rs.14000 crore to recapitalize public sector banks and In the interim budget of current year it is Rs.11,200 crore, falls far short of even the minimum requirement.

CONCLUSION :

In February, 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." Reasons of the current bad loan pile of Government banks are, lapses in the due diligence process at the time of granting loans,light approach towards defaulters, slowing economy and slow delayed process of clearance for large projects etc. According to various banking experts.

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