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# A Comparative Study of NPA Management in Private Sector Banks

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**ABSTRACT**

Banking sector is very important for today's economy. Growth of country is depend upon working system of banking sector. NPA is one of the important factor which affect the working of bank. The purpose of the study is to understand the working of NPA in apex Private Sector banks and how to reduce NPA. Gross NPA ratio is indicating that the bank is adding a fresh stock of bad loans Net NPA reflects the performance of banks. Loans and advances usually represent the largest asset of most of the bank. It monitors quality of the bank's loan portfolio

**KEYWORDS** Gross NPA, Net NPA, Performance evaluation, ICICI, HDFC, Axis bank, Federal bank, Kotak Mahindra bank

## INTRODUCTION TO BANKING SECTOR

### Introduction to Banking Sector

The Banking sector in India has always been one of the most preferred avenues of employment. In the current decade, this has emerged as a resurgent sector in the India. Today, banks have diversified their activities and are getting into new products and services that include opportunities in credit cards, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity, etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through their subsidiaries.

The banking section will navigate through all the aspects of the Banking System in India. It will discuss upon the matters with the birth of the banking concept in the country to new players adding their names in the industry in coming few years.

### Growth of Indian Banking Sector

With India experiencing a cycle of growth, the Rs 64 trillion (US$ 1.25 trillion)-Indian Banking industry is poised to grow exponentially as the sector reflects the health of an economy. Indian banks have proved their mettle time and again as their regulations align with international standards, while they remain conventional in their approach. The Reserve Bank of India (RBI), the regulator, continuously monitors the macroeconomic environment to formulate its policies and directions.

### 1.3 ICICI Bank Ltd.

**ICICI Bank**[1] is India's second-largest bank with total assets of Rs. 4,062.34 billion (US$ 91 billion) at March 31, 2011 and profit after tax Rs. 51.51 billion (US$ 1,155 million) for the year ended March 31, 2011. The Bank has a network of 2,752 branches and 8,003 ATMs in India, and has a presence in 19 countries, including India.

ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management.

The Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established branches in Belgium and Germany.

In 2000, ICICI Bank became the first Indian bank to list on the New York Stock Exchange with its five million American depository shares issue generating a demand book 13 times the offer size.

In 2011 ICICI Bank is the first and the only Indian brand to be ranked as the 45th most valuable global brand by BrandZ Top 100 Global Brands Report.

For the second year in a row, Ms. Chanda Kochhar, Managing Director & CEO, is in the Power List 2012 of 25 most influential women professional in India, by India Today.

Ms. Chanda Kochhar, Managing Director & CEO, is amongst the nine Indian women to be named in the Forbes magazine's inaugural 'Asia Power Businesswomen list'

### 1.4 HDFC Bank Ltd.

**HDFC Bank Limited**[2] is an Indian **financial services** company that was incorporated in August 1994. HDFC Bank is the fourth largest bank in India by assets and the second largest bank by **market capitalization** as of February 24, 2012. The bank was promoted by the **Housing Development Finance Corporation**, a premier housing finance company (set up in 1977) of India. HDFC Bank has 1,986 branches and over 5,471 ATMs, in 996 cities in India, and all branches of the bank are linked on an online real-time basis. As of 30 September 2008 the bank had total **assets** of Rs.1006.82 billion.[3] For the fiscal year 2010-11, the bank has reported net profit of ₹3,926.30 **crore** (**US$**783.3 million), up 33.1% from the previous fiscal. Total annual earnings of the bank increased by 20.37% reaching at ₹24,263.4 **crore** (**US$**4.84 billion) in 2010-11

HDFC Bank was incorporated in 1994 by Housing Development Finance Corporation Limited (HDFC), India's largest housing finance company. It was among the first companies to receive an 'in principle' approval from the **Reserve Bank of India (RBI)** to set up a bank in the private sector. The Bank started operations as a scheduled commercial bank in January 1995 under the RBI's liberalization policies.In 2008 HDFC Bank acquired **Centurion Bank of Punjab** taking its total branches to more than 1,000. The amalgamated bank emerged with a base of about Rs. 1,22,000 crore and net advances of about Rs.89,000 crore. The balance sheet size of the combined entity is more than Rs. 1,63,000 crore.

**Mission**

HDFC Bank's mission is to be a World-Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite.

As on 30th June, 2010 the authorized share capital of the Bank is Rs. 550 crore. The paid-up capital as on said date is Rs. 459,69,07,030/- (45,96,90,703 equity shares of Rs. 10/- each). The HDFC Group holds 23.63 % of the Bank's equity and about 17.05 % of the equity is held by the ADS Depository (in respect of the bank's American Depository Shares (ADS) Issue). 27.45% of the equity is held by Foreign Institutional Investors (FIIs) and the Bank has about 4,33,078 shareholders.

### 1.5 Axis Bank Ltd.

Axis Bank[3] was the first of the new private banks to have begun operations in 1994, after the Government of India allowed new private banks to be established. The Bank was promoted jointly by the Administrator of the specified undertaking of the Unit Trust of India (UTI - I), Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and other four PSU insurance companies, i.e. National Insurance Company Ltd., The New India Assurance Company Ltd., The Oriental Insurance Company Ltd. and United India Insurance Company Ltd.

The Bank as on 31st March, 2012 is capitalized to the extent of Rs. 413.20 crores with the public holding (other than promoters and GDRs) at 54.08%.

Bank has a very wide network of more than 1281 branches (including 169 Service Branches/CPCs as on 31st March, 2011). The Bank has a network of over 7591 ATMs (as on 30th September, 2011) providing 24 hrs a day banking convenience to its customers. This is one of the largest ATM networks in the country.

The Bank has strengths in both retail and corporate banking and is committed to adopting the best industry practices internationally in order to achieve excellence. The Bank's Registered Office is at Ahmedabad and its Central Office is located at Mumbai. At the end of December 2011, The Bank has a very wide network of more than had a network of 1,493 domestic branches and extension counters and at end of March 2012 there were 10,000 ATMs situated in 971 cities and town. The Bank has loans now (as of June 2007) account for as much as 70 per cent of the bank's total loan book of ₹20 trillion.

In the case of Axis Bank, retail loans have declined from 30 per cent of the total loan book of ₹258 billion in June 2006 to around 23 per cent of loan book of ₹412.8 billion (as of June 2007). Even over a longer period, while the overall asset growth for Axis Bank has been quite high and has matched that of the other banks, retail exposures grew at a slower pace.

The Bank today is capitalized to the extent of ₹4.099 billion with the public holding (other than promoters and GDRs) at 53.63%. It is also listed in the top 100 most trusted brands of India in the Brand Trust report.

### 1.6 Federal Bank Ltd.

**Federal Bank Limited**[4] is a major Indian commercial bank in the private sector, headquartered at Aluva, Kochi and Kerala. As of March 13, 2012, it has 938 branches spread across 24 states in India and 803 ATMs around the country(across 108 metro centers, 224 urban centers, 384 semi-urban locations and 87 rural areas).The bank is planning to expand its branch network to 1000 by march 2012.

The history of Federal Bank dates back to the pre-independence era. Though initially it was known as the Travancore Federal Bank, it gradually transformed into a full-fledged bank under the able leadership of its Founder, Mr. K P Hormis. The name Federal Bank Limited was officially announced in the year 1947 with its headquarters nestled on the banks on the river Periyar. Since then there has been no looking back and the bank has become one of the strongest and most stable banks in the country.

**Vision:**

Become the dominant "numero uno" bank in Kerala and a leading player in target markets.

Be the 'trusted' partner of choice for target (SME, Retail, NRI) customers.

Be a customer-centric organization setting the benchmarks for service.

Be a role model for corporate governance and social responsibility.

**Mission:**

*Shareholders:* Achieve a consistent annual post-tax return of at least 20% on net worth.

*Employees:* Develop in every employee a high degree of pride and loyalty in serving the Bank.

*Customers:* Meet and even exceed expectations of target customers by delivering appropriate products and services, employing, as far as feasible, the single-window and 24-hour-seven-day-week concepts, leveraging strengthened branch infrastructure, ATMs, and other alternative distribution channels, cross-selling a range of products and services to meet customer needs varying over time.

**Future:**

We are the fourth largest bank in India in terms of capital base and can easily boast of a Capital Adequacy Ratio of 17.23 %, one of the highest in the industry. This along with the existence in a highly regulated environment has helped the bank to tide over the recession with minimum impact to its financial stability. We believe in extending our reach to our customers by making our services available to all, 24x7.

**1.7 Kotak Mahindra Bank Ltd.**

**Kotak Mahindra Bank**[5] is an Indian financial service firm established in 1985. It was previously known as Kotak Mahindra Finance Limited, a non-banking financial company. In February 2003, Kotak Mahindra Finance Ltd, the group's flagship company was given the license to carry on banking business by the Reserve Bank of India (RBI). Kotak Mahindra Finance Ltd. is the first company in the Indian banking history to convert to a bank. Today it has more than 20,000 employees and Rs. 10,000 crore in revenue

It bought stressed assets from a number of banks, at full loan value of Rs 1,000 crore in 2005. In January 2011, the bank reported a 32% rise in net profit to Rs188 crore for the quarter ended December 2010 against Rs. 142 crore the corresponding quarter last year. Kotak Mahindra bank also reached the top 100 most trusted brands of India in The Brand Trust Report published by Trust Research Advisory in 2011.

In 1986 Kotak Mahindra Finance Limited starts the activity of Bill Discounting.

In 1987 Kotak Mahindra Finance Limited enters the Lease and Hire Purchase market

In 1991 The Investment Banking Division is started. Takes over FICOM, one of India's largest financial retail marketing networks.

In 2001 Launches Insurance Services.

In 2006 Bought the 25% stake held by Goldman Sachs in Kotak Mahindra Capital Company and Securities

CNBC Financial Advisor Awards; Best Performing Equity Broker, 2008 & 2009

IBA Banking Technology Awards; Best Customer Relationship Achievement - Winner 2008 & 2009

IR Global Ranking; Best Corporate Governance Practices - Ranked among the top 5 companies in Asia Pacific, 2009

In 2011 Kotak Mahindra Bank Ltd entered into a Business Cooperation arrangement with CIMB Group Sdn Bhd, Malaysia.

Kotak Mahindra views Corporate Social Responsibility as an investment in society and in its own future. Kotak uses the power of its human and financial capital to help in transforming communities into vibrant, desirable places for people to live.

## 2. NON-PERFORMING ASSETS

### 2.1 Introduction to NPA

**The three letters "NPA" Strike terror in banking sector and business circle today.** NPA is short form of "Non Performing Asset". The dreaded NPA rule says simply this: when interest or other due to a bank remains unpaid for more than 90 days, the entire bank loan automatically turns a non performing asset. The recovery of loan has always been problem for banks and financial institution. To come out of these first we need to think is it possible to avoid NPA, no cannot be then left is to look after the factor responsible for it and managing those factors.A **Non-performing asset** (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue' norm for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),

The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and

Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

As per Reserve Bank of India's guidelines, income on loans is to be recognised on receipt basis (as against accrual basis) and if it has not been received for a specified period, the same asset is to be treated as non-performing.

### 2.2 Reasons for an account becoming NPA

There are number of reasons for an account becoming an NPA for banks, it can be classified into internal factors and external factors

**Internal factors**

Funds borrowed for a particular purpose but not use for the said purpose.

Project not completed in time.

Poor recovery of receivables.

Excess capacities created on non-economic costs.

In-ability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets.

**Business failures.**

Diversion of funds for expansion\modernization\setting up new projects\ helping or promoting sister concerns.

Willful defaults, siphoning of funds, fraud, disputes, management disputes, misappropriation etc.

Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delaying settlement of payments\ subsidiaries by government bodies etc.,

- External factors
- Sluggish legal system –
- Long legal tangles
- Changes that had taken place in labour laws
- Lack of sincere effort.
- Scarcity of raw material, power and other resources.
- Industrial recession.

Shortage of raw material, raw material\input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents.

Failures, non-payment over dues in other countries, recession in other countries, externalization problems, adverse exchange rates etc.

Government policies like excise duty changes, Import duty changes etc.

**2.3. Factors for rise in NPAs**
The banking sector has been facing the serious problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks. The NPAs in PSB are growing due to external as well as internal factors.

- External Factors
- Ineffective recovery tribunal
- Willful Defaults
- Natural calamities
- Industrial sickness
- Lack of demand
- Change on Govt. policie**s**
- Internal Factors
- Defective Lending process
- Inappropriate technology
- Improper SWOT analysis
- Poor credit appraisal system
- Managerial deficiencies
- Absence of regular industrial visit
- Re loaning process

**3. LITRATURE REVIEW**
**(Srinivas, dec-13)**This paper is undertaken to study the reasons for advances becoming NPA in the Indian commercial banks & give suitable suggestion to overcome the problem. The crash of the banking sector may have an unfavorable blow on the other sector. A banker shall be very cautious in lending, because banker is not lending money out of his own capital. A major part of money lent comes from deposits received from public and govt. share.

**(Dr. G. Vadivalagan, 2013)**There seems to be no unanimity in the proper policies to be followed in resolving the problem. There is also no consistency in the application of NPA norms. The problem of NPA is not limited to only Indian public sector banks but it prevails in the entire baking industry.

**(H.S., January 2013)**The research paper identifies the effect of a set of micro economic variables likeage, sex, education and marital status etc. of Indian farmers on the management of their credit. Credit mgt. includes planning, organisation, controlling, directing & co-coordinating the credit sanctioning policies in order to decrease the non performing asset. The main objective of the study is to know what are the difficulties faced by our Indian farmers in playing back the borrowed amount with regular payment of interest.

**(Saddu, 2011)**An attempt is made in the paper that what is NPA? The factors contributing to NPA, the magnitude of NPA, reason for high NPA & their impact on Indian banking operations. Besides capital to risk weight age assets ratio of public & private sector banks, mgt of credit risk & measures to control the menace of NPA are also discussed.

**4. RESEARCH METHODOLOGY**
**Research Design**
**Descriptive Research** is used for the purpose of research in this study.

**Sources of Data**
Secondary Data is used for analysis in the study. The data about NPAs & its composition, distribution in various sectors, classification of loan assets, profits (net & gross) & advances of different banks is taken from various sources like:

**Reserve Bank of India**
ACE Equity Software
Research Paper on NPA

Websites of selected banks in research

The sources of data for this Report also include the literature published by the selected public and private sector banks in India and also the Reserve Bank of India. Also the various magazines dealing with the current banking scenario and research paper have also been a source of information. The booklet on Recovery Policy published by the Asset Recovery Department of Bank of India has been of great help.

**5. ANALYSIS OF DATA**
**Table1:Ratio of Gross & Net NPA to Total Advances of Three years**

| Name of Bank | 2012-13 | | 2013-14 | | 2014-15 | | AVERAGE | |
|---|---|---|---|---|---|---|---|---|
| | GROSS NPA% | NET NPA % | GROSS NPA% | NET NPA % | GROSS NPA% | NET NPA % | GROSS NPA% | NET NPA % |
| ICICI Bank | 3.22 | 0.77 | 3.03 | 0.97 | 3.78 | 1.61 | 10.03 | 3.35 |
| HDFC Bank | 0.97 | 0.20 | 1.00 | 0.30 | 0.90 | 0.20 | 2.87 | 0.70 |
| Axis Bank | 1.06 | 0.32 | 1.22 | 0.40 | 1.34 | 0.44 | 3.62 | 1.16 |
| Federal Bank Ltd. | 3.00 | 1.00 | 3.00 | 1.00 | 2.00 | 1.00 | 8.00 | 3.00 |
| Kotak Mahindra Bank Ltd. | 1.00 | 1.00 | 1.00 | 0.30 | 0.90 | 0.20 | 2.90 | 1.50 |

**CHART-1 GROSS NPA RATIO OF SELECTED BANKS**

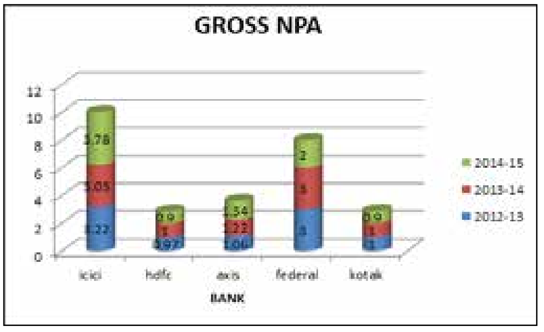
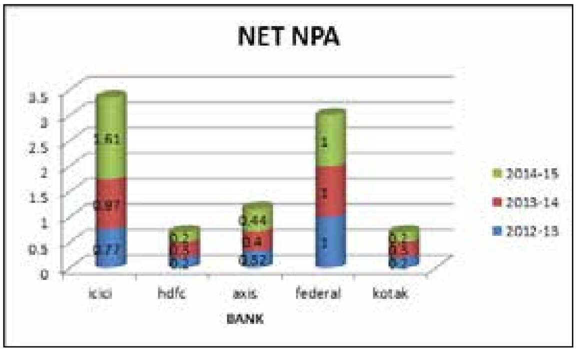



**CHART-2 NET NPA RATIO OF SELECTED BANKS**




From table 1, Here ICICI bank has highest Average GROSS NPA & NET NPA where as HDFC bank has lowest Average GROSS NPA & NET NPA. From the observation HDFC'S performance better than the other bank.

**6. LIMITATION OF THE STUDY**
- The study on management of Non-performing Assets is limited to the selected private banks in India.
- The basis for identifying non-performing assets is the one that has been mentioned in the report but some minor changes may have been carried out through the Reserve Bank of India circulars, which are received on a daily basis by the bank.
- Since non-performing assets are a critical issue, bank officials are not willing to part with all the information on them.
- Non-performing assets is a vast topic and to

do full justice to all the aspects of non-performing assets is an impossible task for me

## 7.CONCLUSION

- From the whole study on NPA Management in Banks, there were much more things that came to know during this period regarding operations of banks in it lending and credit policy. At the end we can conclude is:
- It is not possible to eliminate totally the NPAs in the banking business but can only be minimized. It is always wise it follow the proper policy appraisal, supervision and follow-up of advances to avoid NPAs.
- The banks should not only take steps for reducing present NPAs, but necessary precaution should also be taken while lending money to avoid future NPAs.

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