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Evaluation Of Non Performing Assets Of Five Private Banks

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Abstract
It's a known fact that the banks and financial institutions in India face the problem of swelling non-performing assets (NPAs) and the issue is becoming more and more unmanageable. In order to bring the situation under control, some steps have been taken recently. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was passed by Parliament, which is an important step towards elimination or reduction of NPAs. Our Indian economy is struggling with higher and elevated NPAs and largely it was the steel and power sectors that got impacted the most. The major challenge which the banks - public sector more and some of the private sector banks (in India) - they have been facing is the asset quality challenge. For the last three years, it has been going on but as of now we are now on top of the situation on the NPA problem. Thorough this research paper an attempt has been made to understand the reason behind the increasing NPAs and to find if the correlation exists between the NPAs and
Net Frotits or five seiectea leading private banks in India. The study covers the time duration from FY 2013-14 to FY 2017-18,

Keywords: *NPA, Indian Banks, Private Sector Banks, Gross NPA, correlation.*

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I. Introduction

Around the total money of RSA 8,040 crores were given to the well known busness tycoon, Vijay Mallya in year 2004, during the tenure of the UPA government. This same loan was declared as NPA to banks in year 2009. Now Diamond merchant Nirav Modi and Vijay Mallya are altogether accountable for whooping Rs. 20,000 crores in bank NPAs.Definitely, its among one od the reasons which killed our entire banking system in a developing economy like India.

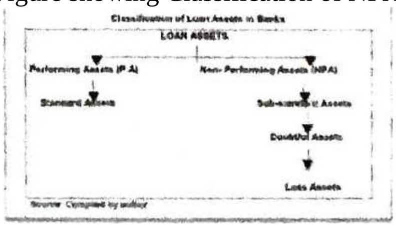
NPAs refer to loans which are in risk of default. Reserve Bank of India (RBI) defines NPAs as below-

"An asset, including a leased asset, becomes non-performing when it ceases to generate income forthe bank. A 'non-performing asset' (NPA) was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained 'past due' for a specified period of time".

Classification of NPAs

Assets classification: Assets of a bank are classified in terms of its repayment status. Standard assets, substandard assets, doubtful assets and loss assets are classifications of asset quality.For a bank, classification of assets into different categories should be done taking into account credit weaknesses and the extent of dependence on collateral security for realization of dues. Figure No. 1

Figure showing Classification of NPAs



Earlier a sub-standard asset was one, which was classified as NPA for a periodnot exceeding two years. With effect from 31 March 2001, a sub-standard assetwas one, which has remained NPA for a period less than or equal to 18months. With effect from 31 March 2005 the norms have been further tightenedand a substandard asset would be one, which has remained NPA for a periodless than or equal to 12 months.

In such cases, the current net worth of the borrower/ guarantor or the currentmarket value of the security charged is not enough to ensure recovery of thedues to the banks in full. In other words, such an asset will have well definedcredit weaknesses that jeopardise the liquidation of the debt and arecharacterised by the distinct possibility that the banks will sustain some loss, ifdeficiencies are not corrected.

Earlier a doubtful asset was one, which remained NPA for a period exceedingtwo years. With effect from 31 March 2001, an asset is to be classified asdoubtful, if it had remained NPA for a period exceeding 18 months. From March 31, 2005, the norms have been further tightened, and an assetwould be classified as doubtful if it remained in the sub-standard category for 12months.

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknessesmake collection orliquidation in full, — on the basis of currently known facts,conditions and values — highly questionable and improbable.

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.

Reasons for high NPA in Banks-

When there is Economic downturn.

Improper support from Reserve Bank of India /NABARD in meeting the needs ofthese banks, which are of financial nature.

Corruption, nepotism,favouritism etc.

Unnecessary intervention by political parties.

Improper and ineffective proposal appraisal system.

Poor credit risk management/ Financial Management.

Direct lending under subsidy schemes. Wilful default is another trend which we have seen in recent times.

Bad financial condition of the borrower. Lack of proper pre-appraisal and follow up.

Improper selection of borrowers/ activities or no check on credibility of the borrower.

Inadequate working capital leading to operational issues. Underfinancing/untimely financing.

Delay in completing the business project. Poor debt management by the borrower, leading to financial crisis.

In-ability of the companies to raise capital through the issue of equity orother debt instrument from capital markets.

Business failures due to changing business environment.

Failures to identify problems in advance/ SWOT analysis.

Needs of funds for expansion/ modernization/setting up new projects/helping or promoting new business.

Negligence on the part of the banks viz. in credit appraisal, monitoringand follow-ups, delay in settlement of payments/subsidiaries bygovernment bodies etc.

Lengthy legal process and realization of securities.

II. Objectives Of The Study

To know the concept of Non-Performing

Assets(NPAs)

To understand the criteria for identification and classification of Non- Performing Assets (NPAs) inbanks.

To study the impact of NPAs on five selected Private Banks.

To examine the causes and remedial measures to arrest NPAs.

To study the correlation between Gross NPA and Net Profits of the banks.

III. Limitations Of The Study

The important limitations of this research paper are as follows-

The study of NPAs limited to the Private Banks in India for the period beginning from Financial Year 2013-14 to FY 2017-18. only top performing private banks were chosen for this study.

IV. Research Methodology

The present study is based on top performing private banks in India only. The classification and norms are based on the guidelines issued by RBI on the subject. Apart from this, the secondary data have been collected from published material from the various sources of publication, i.e. RBI annual reports, monthly bulletins of RBI, articles, websites of banks, books, articles published in financial newspapers and internet.

Tools and Techniques:

Keeping in a view the objectives of the study, some appropriate statistical technique such as Pearson's Correlation was used at relevant places. Proportionate method was also incorporated for analysis of the data. Moreover, data analysis is presented through tables and figures. The insights about the statistical tools used in the research study are as follows:

Correlation is a bivariate analysis that measures the strength of association between two variables and explains the direction of the relationship. In terms of the strength of relationship, the value of the correlation

coefficient falls between +1 and -1.

Vashisht (1987), in his thesis work titled,

"Performance Appraisal ofCommercial Banks in India", evaluated the performance of public sector bankswith regard to six indicators, viz. branch expansion, deposit, credit, prioritysector advances, DRI advances, and net profit over the period 1971-83. Theresearcher has used composite weighted growth index to rank the banks asexcellent, good, fair and poor. In order to improve the performance, he hassuggested developing marketing strategies for deposit mobilization, profitplanning and SWOT analysis.

Krishna (1996), in his article titled, "Profitability Analysis: An Overview", hasdefined the profitability analysis in detail. According to the researcher, it is a rateexpressing profit as a percentage of total aspects or sales or any other variableto represent assets or sales. What should be used in the numerator and thedenominator to compute the profit rate depends upon the objective for which it isbeing measured.

Jyoti Sharma(2010), In her article titled NPA Management A MajorChallenge for Banks conclude that a variety of avenues are available to Banksand financial institutions in India to recover funds blocked in NPA and to usethem for productive purposes. However, practically it is observed that they facemany hurdles in this task consequent to borrowers taking benefit of loopholes inthe existing statutes. Therefore,

there is a need to remove such problems faced bythe Banks and financial institutions by changing thecurrent legal framework.

Kaur K. and Singh B. (2011) in their study on Non-performing assets of public and private sector banks (a comparative study) stated that NPAs are judged as an important parameter to understand the performance and financial trend of banks in India.

Pharate Prof. S. R. observed that a large proportion of NPAs is stuck with the giant account
holders as compared to the small

Borrowers, wfiicfi hints towards the wiltui default. Healso enunciated that that our legal system is sympathetic towards the borrowers and bent against the interest of banks, which is needed to be reviewed to sort the issue of NPA.

Chatterjee Mukherjee and Das (2012) have concluded that banks should find dut the original reasons/purposes of the loan required by the borrower. Proper identification of the guarantor should be checked by banks including scrutiny of his / her wealth.

V. Profile Of Private Banks

Table No. 1.

Ranking of Private Banks on the basis of their respective Net Profit.

Company (ænk Narre)	Net Profit (in Cr.)
HDFC Bank	
ICICI Bank	6,777.42
YB Bank	4,224.56
Kotak Mahin&a	4,084.30
Ahs Bank	27568

Source: Compiled by the author.

Table number 1 represents the ranking of all five privatebanks in India as per the net profit of each bank. Clearly, HDFC Bank tops the ranking with [i]17,486.73 crores as compared to other four banks. The net profit is given in crores.

Following is the brief profiles of the banks-

A. ICICI Bank- ICICI Bank is India's largest private sector bank with total assets of Rs. 11,242.81 billion at March 31, 2018 and profit after tax of Rs. 67.77 billion (US$ 1.0 billion) for the year ended March 31, 2018.

ICICI Bank currently has a network of 4,867 Branches and 14,367 ATMs across India. ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary.

B. Yes Bank- YesBank, it is fourth largest private sector Bank, is an outcome of the professional entrepreneurship of its Founder Rana Kapoor and his highly competent top management team, to establish a fiigfi quality, customer centric, service driven, bank catering to the "Sunrise Sector of India".YES Bank is the only Greenfield Bank license awarded by the RBI in the last two decades, associated with the finest pedigree investors. YES Bank, a "Full Service Commercial Bank", has steadily built a Corporate, Retail & SME Banking franchise, with a comprehensive product suite of Financial Markets, Investment Banking, Corporate Finance.

C. Axis Bank- Axis Bank is the third largest private sector bank in India, the Bank was promoted in 1993, jointly by Specified Undertaking of Unit Trust of India (then known as Unit Trust of India). The Bank offers the entire spectrum of financial services to customer segments covering Large and Corporates, MSME, Agriculture and Retail Businesses. With its 3,882 domestic branches (including extension counters) and 12,660 ATMs across the country as on 30th September 2018, the network of Axis Bank spreads across 2,211 cities and towns, enabling the Bank to reach out to a large crosssection of customers with an array of products

and services.

D. Kotak Mahindra Bank- Kotak Mahindra Bank is an Indian private sector bank headquartered in Mumbai, Maharashtra, India. In February 2003,RBl issued the licence to Kotak Mahindra Finance Ltd., the group's flagship company, to carry on banking business. Kotak Mahindra Bank has a network of 1,369 branches across 689 locations and 2,163 ATMs in the country (as of 31 March 2017).ln 2018, it is the second largest private bank in India by market capitalization after HDFC Bank. In 2015, Kotak Bank acquired ING Vysya Bank in a deal. E. HDFC Bank- The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the RBI to set up a bank in the private sector, as part of RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of [7] HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. In 2008, the amalgamation of Centurion Bank of Punjab with HDFC Bank was formally approved by RBI to complete the statutory and regulatory approval process. The amalgamation brought the significant value to HDFC Bank in terms of increased branch network, geographic reach, and customer, and a bigger pool of skilled manpower.

VI. Data Analysis

Table No. 2

Gross NPAs of Private Banks in India

						NPA			Xo-ok	
							A14641	i 22		L98
		i78	31A4					134	1237.23	L85
	72093		74&S8		432.8		S087S1	167		236
			201RS6	152	5.85		21,20 48	5.04	357861	
				L2B	sa€_g7	13	34.2064	6 77	332S38	222
		4- mE7		096%	S.GZQ		B.7NSS	3.208	2507.E	22

Source: Annual reports of banks.

Table no. 2 shows the GNPA and GNPA % of all the five selected banks from period FY 2013-14 to FY 2017-18. Gross NPAs % is calculated by dividing the Gross NPA by Gross Advance.Table shows the increasing trend in Gross NPAs of all the banks. Steps should be taken by banks to reduce the increase in the trends of the gross NPAs. Although, GNPAs % of HDFC Bank decreased in FY 2014-15 as compared to the PY. In FY 2017-18, the GNPAs % of Kotak Bank decreased to 2.22 % as compared to the PY. Table No. 3

Net NPAs of Private Banks in India

Table no. 3 depicts the trend of Net NPAs and Net NPAs % in all selected banks from FY 2013-14 to FY 2017-18. Net NPAs % is calculated by dividing Net NPA by Net Advance. The % of Net NPAs of Kotak Bank is showing good trend as compared with other banks.

Table No. 4
Correlation between Gross NPAs and Net NPAs of Five Private Banks in India

Year	ICICI Bank		Yes Bank		HDFC Bank		Axis Bank		Kotak Bank	
	Gross NPA	Net Profit	Gross NPA	Net Profit	Gross NPA	Net Profit	Gross NPA	Net Profit	Gross NPA	Net Profit
2013-14	10,505.84	9,810.48	174.93	1,617.78	2,989.28	8,478.40	3,146.41	6,217.67	1,059.44	1,502.52
2014-15	15,094.69	11,175.35	313.4	2,005.36	3,438.38	10,215.92	4,110.19	7,357.82	1,237.23	1,865.98
2015-16	26,720.93	9,726.29	748.98	2,539.45	4,392.83	12,296.23	6,087.51	8,223.66	2,838.11	2,089.78
2016-17	42,551.54	9,801.08	2,018.56	3,330.09	5,885.66	14,549.66	21,280.48	3,679.28	3,578.61	3,411.50
2017-18	54,062.51	6,777.42	2,626.80	4,224.56	8,606.97	17,486.75	34,248.64	275.68	3,825.38	4,084.30
Coefficient of Correlation	-0.79		0.984618964		0.977938449		-0.95451974		0.906754772	

Source: compiled by the author

Table no. 4 depicts the correlation between gross NPA and Net profits of all five private banks from FY 2013-14 to FY 2017-18. Pearson's correlation coefficient is the test statistics that measures the statistical relationship, or association, between two continuous variables.Two banks have the negative correlation, i.e., ICICI Bank (-) 0.79 and Axis Bank (-) 0.954. Yes Bank, HDFC Bank and Kotak Bank have 0.984, 0.977 and 0.906 correlation respectively. Here negative correlation refers that, if the Gross NPA increases, it will decrease the Net profit of the bank, because it is quite obvious that recovery of loans will increase the net profit of the banks. Figure no. 2 below represents the correlation of all five private banks in India.
Correlation of Five Private Banks
Source: Compiled by author

VII. Conclusion And Suggestive Measures

Effective corporate governance in corporate bodies itself maybe helpful in reducing NPA.This is an actual loss and should be the last resort, but it will improvethe bank's balance sheet. .
Selling NPAs is another measure which can be adopted by banks.Sell NPAs to securitization companies on cash basis, it may get lessmoney by doing it but remember something is better than nothing.
Proper training to staff for effective supervision, follow up andrisk management. Managers under credit monitoring andrecovery department should have dynamism in their work.
Better recovery measures and technology to reduce NPA.
During the initial credit appraisal process, the banks shouldclassify its customers into different risk categories depending on their quality ofmanagement, a SWOT analysis, etc.
Proper information of the loan defaulters should be circulated among banks.
Need for a mechanism to identify hidden NPAs.
Use of basic audit system to know the intent of the borrower.
Use of technology and data analysis to identify early tell-tale signs or warning signals.

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