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Comparative Analysis of NPAs of Old Private Sector Banks and New Private Sector Banks in India

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Abstract

India is a dominating economy in Banking sector, the asset quality of the banking system has important implications for the stability of the overall financial system. Private sector banks are split into two groups by financial regulators in India they are Old Private Sector Banks (OPBs) and New Private Sector Banks (NPBs). The private banks existed prior to the nationalization in 1969 kept their independence these Banks are closely held by certain communities. With the introduction of economic and financial sector reforms new private sector banks have come up. Private Banks holds around 19% of market share in banking sector in India. The main objective of banks is to lend loans and advances and this is the source of cash inflows in the form of interest on advances to the banks such loans are lent by using deposits from public and government share. If the advances turn to NPAs it is pathetic situation for the banks to control. The paper is an attempt to study and the comparative analysis of OPBs and NPBs in managing NPAs and its various causes and strategies used to minimize the NPAs.

Introduction

A well organized and efficient banking system is a pre-requisite for economic growth. Banks play an important role in the functioning of organized money market in order to meet the banking needs of various sections. NPA refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be non-performing assets (NPA). Non-performing assets are problematic for financial institutions since they depend on interest payments for income.

With a view to moving towards international best practices and to ensure greater transparency, it had been decided to adopt the '90 days' overdue' norm for identification of NPA, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) is 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 Overdrafts /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.

- Non submission of Stock Statements for 3 Continuous Quarters in case of Cash Credit Facility.
- No active transactions in the account (Cash Credit/Over Draft/EPC/PCFC) for more than 90 days.

Classification of Assets

Banks are required to classify Non-Performing Assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

Sub-standard assets: A sub standard asset is one which has been classified as NPA for a period not exceeding 12 months.

Doubtful Assets: a doubtful asset is one which has remained NPA for a period exceeding 12 months.

Loss assets: where loss has been identified by the bank, internal or external auditor or central bank inspectors. But the amount has not been written off, wholly or partly.

Sub-standard asset is the asset in which bank have to maintain 15% of its reserves. All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets. All those assets which cannot be recovered are called as Loss Assets.

Causes for NPAs

- The quality of the loan and the quality of the asset
- Borrowing integrity
- Intention of the borrower and the bank management
- Lapses in supervision and follow-up of loans
- Laxity in assessment and political interference
- Managerial incompetence's and lack of professionalism
- Absence of will to recover loans

Impact of NPAs on Banking Operation

The presence of large NPAs affects a banks profit in a number of ways.

- NPAs reduce interest incomes
- Creation of reserve and provisions (To act as cushions against loan losses) at the expenses of profit.
- The current profits of the banks are eroded because of providing doubtful debts and writing it off as bad debts and it limits recycling of funds.
- The capital adequacy ration is disturbed and cost on capital will go up.
- The economic value addition (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital.

Literature Review

Meenakshi Rajeev, H P Mahesh (2010) studied banking sector reforms and NPAs in Indian commercial banks to examine the trends of NPAs in India from various dimensions and to explain how immediate recognition and self monitoring has been able to reduce it to a great extent. The study analyzed the different aspects of NPAs like NPA in India comparative to other countries, NPAs of Indian banks as per the different sectors and recovery of NPAs through various channels. It was found that NPAs in the contributory factor for crisis in the economy and root cause of the recent global financial crisis. It was observed that NPAs in priority sector is still higher than that of non priority sector due to socio economic objective of bank.

Sandeep and Parul Mital (2012) analyzed the comparative position of Non-Performing Assets of selected public and private sector banks in India to find their efficiency through comparative study. Data has been collected from various secondary sources for period of 10 years and analyzed with descriptive statistics and ANOVA. All the banks are making polices trying for the containment of NPAs for improving their asset quality and profitability. PNB and HDFC banks are found superior in management of NPAs comparative to SBI and ICICI and private sector banks are much comfortable and efficient comparative to public banks.

A. S. Ramasastri and N. K.Unnikrishnan (2005) said that, NPAs are largely fallout of banks' activities with regard to advances, both at the management and implementation levels (including overall controls by the top management), the credit appraisal system monitoring of end-usage of funds. It also depends on the overall economic environment, the business cycle and the legal environment for recovery of defaulted loans. Since the overall environment is more or less same for all banks, non-performing loans of individual banks are mainly a result of management controls and systems put in place by many recovery procedures. They concluded that higher than average credit expansion can further strengthen banks if there is a good credit appraisal systems strict recovery procedures should be checked by top management.

Statement of the Problem

A well-built banking sector is significant for a prosperous economy. The crash of the banking sector may have an unfavorable blow on other sectors. A banker shall be very cautious in lending, because banker is not lending money out of his own capital. A major portion of the money lent comes from the deposits received from the public and government share. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset.

The research gaps during observation of various studies on Non- performing assets is to know the level of NPAs in OPBs and NPBs. A comparative study of OPBs and NPBs is undertaken to know the reasons for assets becoming NPAs and its effect on banks.

Objectives

- To know the main causes for NPAs
- Compare the NPAs of OPBs and NPBs
- To study the reduction strategies
- To offer suggestions based on findings of the study

Scope of the Study

The present study of Non Performing Assets is confined and restricted to the OPBs and NPBs and data analyzed since 2002 to 2013.

Data Collection

Data is gathered from secondary sources such as RBI bulletins, research papers, IBEF, websites etc.

Tools of Data Analysis

The data collected from the secondary sources relating to NPAs of OPBs and NPBs are analyzed and interpretations were made.

LIST OF OLD AND NEW PRIVATE SECTOR BANKS IN INDAI

S.No	Name of the Bank (Old)	S.No	Name of the Bank (New)
01	Catholic Syrian Bank Ltd	01	Axis Bank Ltd
02	City Union Bank Ltd	02	Development Credit Bank Ltd
03	Dhanalakshmi Bank Ltd	03	HDFC Bank Ltd
04	Federal Bank Ltd	04	ICICI Bank Ltd
05	ING Vysya Bank Ltd	05	Indus Ind Bank Ltd
06	Jammu & Kashmir Bank Ltd	06	Kotak Mahindra Bank Ltd
07	Karnataka Bank Ltd	07	Yes Bank Ltd
08	Karur Vysya Bank Ltd		
09	Lakshmi Vilas Bank Ltd		
10	Nainital Bank Ltd		
11	Ratnakar Bank Ltd		
12	South India Bank Ltd		
13	Tamilnad Mercantile Bank Ltd		

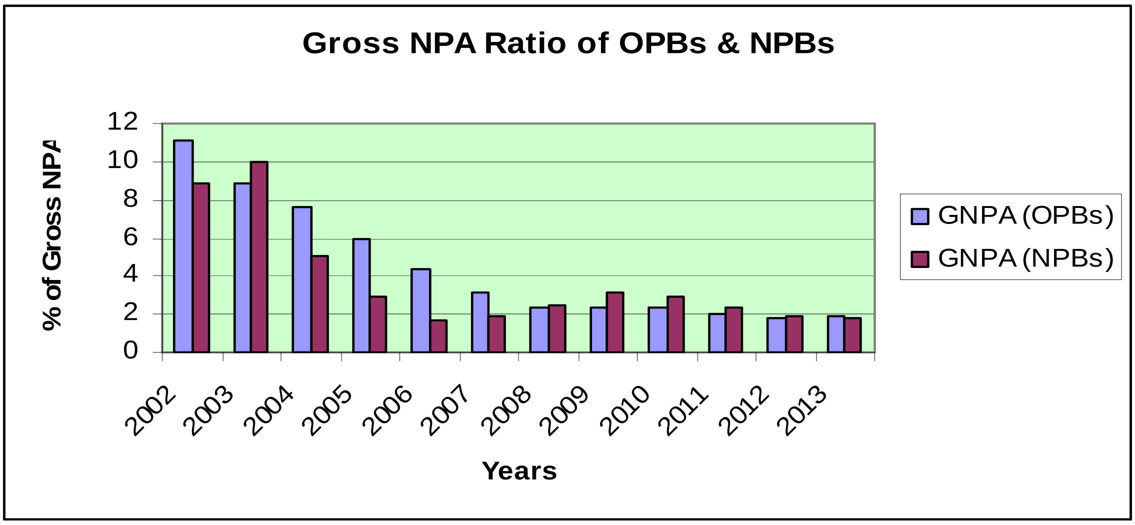
Data Analysis
Gross NPA ratio = Gross NPAs / Gross Advances

GROSS NPA RATIO OF OPBs AND NPBs

(in percent)

YEAR	GNPA (OPSBs)	GNPA (NPSBs)
Mar-02	11.1	8.9
Mar-03	8.9	10.0
Mar-04	7.6	5.0
Mar-05	6.0	2.9
Mar-06	4.4	1.7
Mar-07	3.1	1.9
Mar-08	2.3	2.5
Mar-09	2.4	3.1
Mar-10	2.3	2.9
Mar-11	2.0	2.3
Mar-12	1.8	1.9
Mar-13	1.9	1.8

Note: Gross NPA as a % of Gross Advances
Source: RBI Bulletin



Analysis and Interpretation

The above graph shows that in the year 2002 GNPA of OPBs was more compare to NPBs and it reversed in the year 2003. The introduction of prudential norms resulted in a significant rise in GNPA levels of banks. Thereafter the ratio progressively declined during the period by introduction of prudential norms for asset quality and other regulatory initiatives in the 1990s which encouraged improved risk management in banks contributing to improvement in asset quality .As interest rates were falling bank garnered substantial treasury profits which were utilized for writing off of NPAs accounts. The overall NPAs of both the banks are reducing because of good performance of the economy, rise in credit growth, abundant liquidity conditions, increased restructuring etc.

By comparing GNPA of both the banks it was found that initially in the year 2002 to 2007 NPBs are having less GNPS compare to OPBs and thereafter there is no much difference it indicates that OPBs is controlling its assets. By analyses it was found that NPBs are sound in managing their advances compare to OPBs and from 2008 to 2013 both the banks are more or less in the same ratio.

Net NPA ratio= Gross NPAs - Provisions / Gross Advances - Provisions

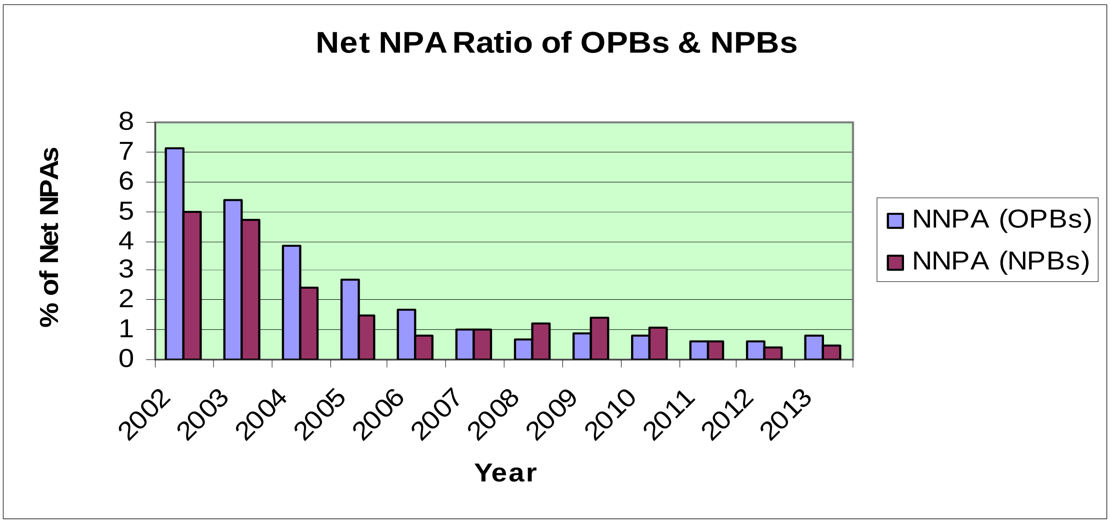
NET NPA RATIO OF OPBs AND NPBs

(in percent)

YEAR	NNPA (OPBs)	NNPA (NPBs)
Mar-02	7.1	5.0
Mar-03	5.4	4.7
Mar-04	3.8	2.4
Mar-05	2.7	1.5
Mar-06	1.7	0.8
Mar-07	1.0	1.0
Mar-08	0.7	1.2
Mar-09	0.9	1.4

Mar-10	0.8	1.1
Mar-11	0.6	0.6
Mar-12	0.6	0.4
Mar-13	0.8	0.5

Source: RBI Bulletin



Analysis and interpretation

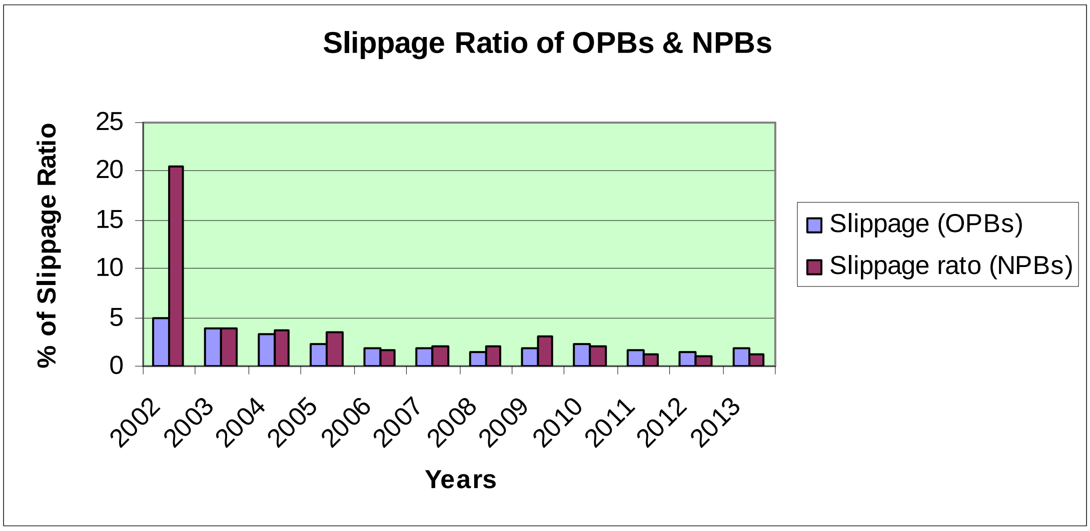
The above graph depicts that NNPAs of NPBs is less compare to OPBs from 2002 to 2007 and in 2007 both are equal and thereafter no much difference is noticed .This is because of introduction of prudential norms.

Slippage Ratio: Fresh accretion to NPAs during the year to standard advances at the beginning of the year.

SLIPPAGE RATIO OF OPBs AND NPBs

YEAR	Slippage (OPBs)	Slippage ratio (NPBs)
Mar-02	4.9	20.5
Mar-03	3.8	3.9
Mar-04	3.2	3.7
Mar-05	2.2	3.4
Mar-06	1.8	1.7
Mar-07	1.8	2.0
Mar-08	1.4	2.1
Mar-09	1.9	3.0
Mar-10	2.2	2.0
Mar-11	1.7	1.3
Mar-12	1.5	1.1
Mar-13	1.8	1.2

Source: RBI Bulletin



Analysis and interpretation

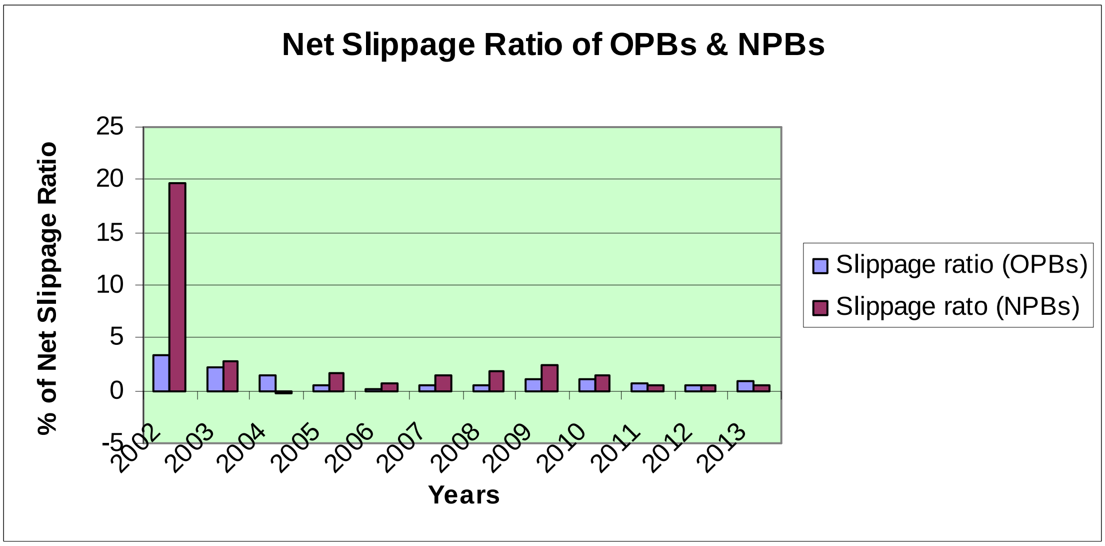
The above graph depicts that slippage ratio was more in NPBs compared to OPBs in the year 2002 this indicates that the fresh accretion to NPAs during the year to standard advances at the beginning of the year were more. Thereafter both are in the same proportion.

Net slippage Ratio: Slippage ratio net of recoveries

Net Slippage ratio of OPBs & NPBs

YEAR	Slippage ratio (OPBs)	Slippage ratio (NPBs)
Mar-02	3.4	19.6
Mar-03	2.2	2.7
Mar-04	1.4	-0.3
Mar-05	0.5	1.7
Mar-06	0.1	0.7
Mar-07	0.5	1.5
Mar-08	0.5	1.8
Mar-09	1.0	2.4
Mar-10	1.1	1.5
Mar-11	0.7	0.6
Mar-12	0.6	0.5
Mar-13	0.8	0.6

Source: RBI Bulletin



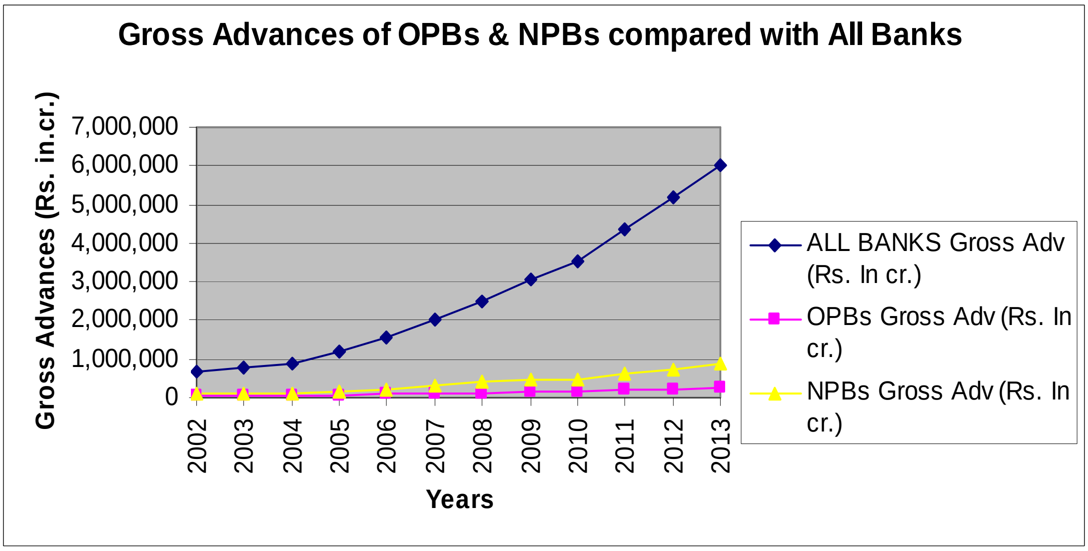
Analysis and interpretation

The above graph depicts that Net Slippage ratio was more in NPBs compared to OPBs in the year 2002 this.

This indicates that recoveries where less in that year and thereafter it is decreased and in 2004 it was negative and again it increased in the next consecutive years compared to OBPs.

SHARE IN GROSS ADVANCES OF OPBs & NPBs IN BANKING SECTOR(ALL BANKS)

Year	ALL BANKS	OPBs		NPBs	
	Gross Adv (Rs. In cr.)	Gross Adv (Rs. In cr.)	% to Gross Advances	Gross Adv (Rs. In cr.)	% to Gross Advances
Mar-02	680,925	41,738	6.1	79,201	11.6
Mar-03	780,492	48,611	6.2	99,887	12.8
Mar-04	902,026	57,908	6.4	119,511	13.3
Mar-05	1,188,674	70,412	5.9	155,577	13.1
Mar-06	1,550,826	85,154	5.5	232,536	15
Mar-07	2,013,357	94,872	4.7	325,273	16.2
Mar-08	2,508,239	113,404	4.5	412,441	16.4
Mar-09	3,038,025	130,334	4.3	454,713	15
Mar-10	3,545,534	156,392	4.4	487,713	13.8
Mar-11	4,358,191	187,296	4.3	624,484	14.3
Mar-12	5,159,649	232,918	4.5	748,500	14.5
Mar-13	5,989,182	273,120	4.6	886,023	14.8



NPAS REDUCTION STRATERGIES

Debt Recovery Tribunals (DRTs)

Narasimhan Committee Report I (1991) recommended the setting up of Special Tribunals to reduce the time required for settling cases. Accepting the recommendations, Debt recovery Tribunals (DRTs) were established. There are 22 DRTs and 5 Debt Recovery Appellate Tribunals. This is insufficient to solve the problem all over the country (India).

Securitization Act 2002

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitization Act. This act enables the banks to issue notices to defaulters who have to pay the debts within 60 days. Once the notice is issued the borrower cannot sell or dispose the assets without the consent of the lender. The Securitization Act further empowers the banks to take over the possession of the assets and management of the company. The lenders can recover the dues by selling the assets or changing the management of the firm. The Act also enables the establishment of Asset Reconstruction Companies for acquiring NPA. According to the provisions of the Act, Asset Reconstruction Company of India Ltd. with eight shareholders and an initial capital of Rs. 10 corers has been set up. The eight shareholders are HDFC, HDFC Bank, IDBI, IDBI Bank, SBI, ICICI, Federal Bank and South Indian Bank.

Lok Adalats

Lok Adalats have been found suitable for the recovery of small loans. According to RBI guidelines issued in 2001, they cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered. Lok Adalats avoid the legal process. The Public Sector Banks had recovered Rs. 40 Corers by September 2001.

Compromise Settlement

Compromise Settlement Scheme provides a simple mechanism for recovery of NPA. Compromise Settlement Scheme is applied to advances below Rs. 10 Corers.

It covers suit filed cases and cases pending with courts and DRTs (Debt Recovery Tribunals). Cases of Willful default. Recovery Tribunals are other ways for the recovery of dues. It has been observed that Banks these days are highly resorting to SARFAESI Act for the management of NPA. If the delinquencies are due to reasons beyond the control of borrower which are namely draughts, floods, or other natural calamities, the banker should suitably restructure the loans taking into account the genuine difficulty of the bank.

Conclusion

The efficiency of banks is not always reflected only by the size of its balance but also the level of return on its assets. The NPAs do not generate interest incomes for bank but at the same time banks are required to provide provisions for NPAs from their current profits. By studying and analyzing the NPAs of OPBs and NPBs it can be concluded that NPBs are having less NPAs compare to OPBs and by introduction of prudential norms for asset management in banking sector leads to decrease of NPAs of OPBs .Banks can efficiently manage their NPAs if they follow the rules strictly . Sanctioning the advances with out biases the NPAs will be eradicated and Banking sector will boom and through this India's GDP will rise and economy will grow.

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