



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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**NON-PERFORMING ASSETS: A STUDY OF SCHEDULED COMMERCIAL BANKS IN INDIA**

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**ABSTRACT**

*Non-performing assets are assets which cease to generate any income for the bank. These have become the major concern of banks in India. NPA's have direct impact on net-profit and also on the performance of the banks. The recognition of income norms for banks also posed a serious concern to commercial banks. The present article studies the trends in non-performing assets of Indian banks and makes a comparison of public sector banks, old Private sector banks, new private sector banks and foreign banks. The article further attempts to establish relationship between net-profit and NPA's and total advances. The impact of NPA's on net-profit and impact of total advances on NPA's is also examined.*

**KEYWORDS**

NPA, Assets, Income, Bank.

**INTRODUCTION**

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. R.B.I (2006) A non-performing asset (NPA) is a loan or an advance where ;i) interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan, ii) the account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC),iii) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,(iv) the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,(v) the installment of principal or interest thereon remains overdue for one crop season for long duration crops. Banks should, classify an account as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter. 'Out of Order' status An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'. 'Overdue' Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

The non-performing loans of developing countries (IMF 2009) showed that NPA's of Developing countries were more when compared to developed countries. The non-performing loans of developing countries were highest for Thailand followed by Philippines and Malaysia. Prasanth K Reddy (2002) studied the experiences of Asian countries in handling NPA's and suggested mechanisms to handle the problem by drawing experiences from other countries. Benardo Maggi(2010) modeled the effect of the non-performing loans on the cost structure of the commercial banking system and proposed a measure based on the costs for managing and monitoring the loans. Enrico Geretto(2009) examined the main characteristics of the Chinese banking industry and analyzed the main performance indicators of the system with reference to non-performing loans(NPL).

Lampros(2004) on the dynamics in Asian non-performing loans mainly dealt with the management of NPL and identified the reasons for the same. SumantBatra(2004) studied the factors contributing for NPA's in India and suggested for control of NPA's. Ashwini Puri(2004) studied the factors for successful resolution of NPA in Asian markets which include Assets Management Company(AMC), enforcement of creditors rights with minimum intervention of courts and foreign ownership of AMC. Salman Ali Sheik (2004) focused on current situation of NPL's, desired situation and strategies to reach the desired situation. Cesar I. Villanueva (2004) studied the strategies to over-come N.P.A'S in Philippines. S.D. Naik (2003) opined that RBI feels that the banks have been neglecting their primary function of credit creation in favour of "narrow banking" for short-term gains. While this could be appropriate in times of easy liquidity, the macro-economic performance of the banking system in the long term would hinge on its ability to fund industrial and other enterprises.

The present article studies NPA's sector-wise and makes a comparison between public sector banks, old private sector banks, new private sector banks and foreign sector banks. Finally the article attempts to understand the relationship between NPA's and net-profit and total advances.

**OBJECTIVES OF THE STUDY**

- To understand the NPA's sector-wise.
- To make a comparative study of NPA's of public sector banks, old private sector banks, new private sector banks and foreign sector banks.
- To understand the relationship between NPA's, net-profit and advances.

**METHODOLOGY**

The present study is aimed at analyzing the NPA's of Indian banks. For the purpose of the study data has been collected from secondary source. The main source of information has been RBI reports and bulletins. The study covers five years from 2004-05 to2008-09.The data collected is tabulated and present graphically. The study further uses correlation and regression analyses.

**NON-PERFORMING ASSETS SECTOR-WISE**

Banks mainly lend to three sectors they include priority sector, public sector and non-priority sector. The lending composition of Indian banks during the last two years is depicted in the following table.



TABLE NO: 1 SECTOR-WISE NPA'S- BANK GROUP-WISE (AMOUNT IN RS.CRORES)

Sector	Public sector		Old Private Sector		New Private Sector		All SCB's	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
A. Priority Sector	25,287 (0.8)	24,318 (0.7)	1,338 (0.7)	1,233 (0.50)	2,080 (0.3)	2,407 (0.3)	28,705 (0.7)	27,958 (0.5)
i)Agriculture	8,268 (0.3)	5,708 (0.2)	243 (0.1)	263 (0.10)	1,225 (0.2)	1,178 (0.2)	9,735 (0.2)	7,149 (0.21)
ii)Small scale industries	5,805 (0.2)	6,984 (0.2)	359 (0.2)	307 (0.1)	292 -	363 -	6,456 (0.2)	7,654 (0.2)
iii)Others	11,214 (0.4)	11,214 (0.3)	737 (0.4)	663 (0.3)	563 (0.1)	866 (0.1)	12,514 (0.3)	13,155 (0.3)
B. Public Sector	299 -	474 -	- -	- -	- -	75 -	299 -	549 -
C .Non-Priority Sector	14,163 (0.5)	19251 (0.5)	1,219 (0.6)	1,839 (0.8)	8,339 (1.1)	11,334 (1.4)	23,721 (0.6)	32,423 (0.6)
Total (A+B+C)	39749 (1.3)	44,042 (1.2)	2,557 (1.3)	3,072 (1.3)	10,419 (1.40)	13,815 (1.7)	52,725 (1.2)	60,930 (1.2)

Source: RBI Report on Trends and progress of Banking in India 2008-09. Figures in brackets indicate percentage to total assets of the respective bank group. The analyses of the table shows that though there was increase in NPA's in terms of rupees , the percentage of NPA's to total advances was almost the same. The reason for this was the one-time loan restructuring measures adopted by RBI. The observation of the table further showed that NPA's of all Scheduled Commercial Banks (SCB's) for non-priority sector was more when compared to other sectors during the year 2008-09.

FIG 1:

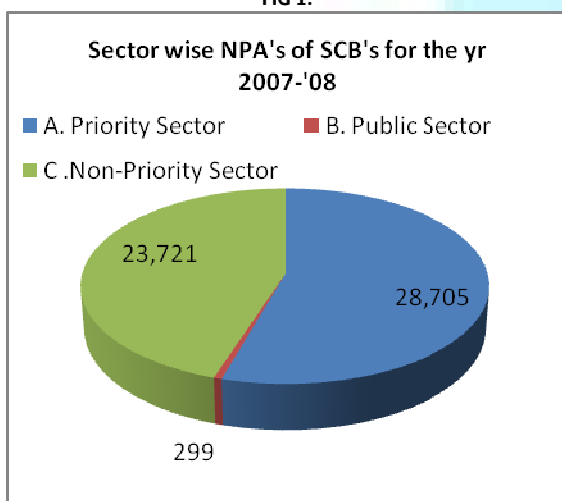
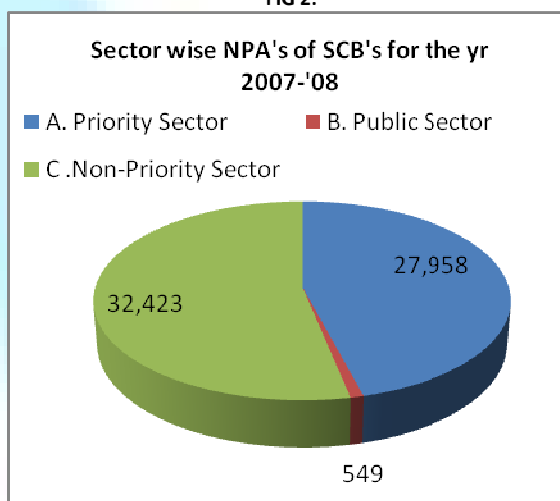


FIG 2:



The figures shown above indicate that NPA's for priority sector and non-priority sector were more. Public-sector loans had least NPA's.

**NON-PERFORMING ASSETS AS PERCENTAGE OF TOTAL ASSETS OF SCHEDULED BANK**

A comparison of NPA's of public sector banks, old private sector banks, new private sector bank and foreign sector banks is shown in the following table.

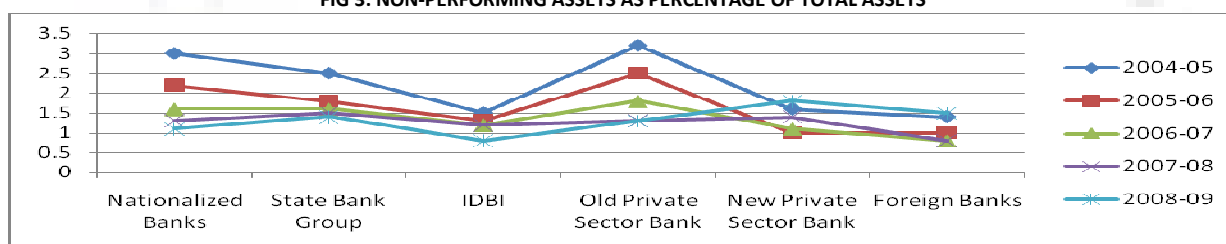
TABLE NO: 2 NON-PERFORMING ASSETS AS PERCENTAGE OF TOTAL ASSETS

Name of the Bank	2004-05	2005-06	2006-07	2007-08	2008-09
Nationalized Banks	3.0	2.2	1.6	1.3	1.1
State Bank Group	2.5	1.8	1.6	1.5	1.4
IDBI	1.5	1.3	1.2	1.2	0.8
Old Private Sector Bank	3.2	2.5	1.8	1.3	1.3
New Private Sector Bank	1.6	1.0	1.1	1.4	1.8
Foreign Banks	1.4	1.0	0.8	0.8	1.5

Source: RBI Report on Trends and progress of Banking in India 2008-09.

The analyses of the above table shows, that there was a decline in the NPA's for nationalized banks, SBI group, IDBI and old private sector bank. The NPA's as a percentage of total assets for nationalized banks decreased from 3% to 1.1%. SBI group NPA's decreased from 2.5% to 1.4%. IDBI NPA's were 0.8% in 2008-09 as compared to 1.5 during 2004-05. The old private sector banks also registered a decline from 3.2% to 1.3%. The new private sector banks initially showed a decrease but later increased from 2007-08. Foreign banks though showed decline registered an increase during 2008-09. During the year 2008-09 NPA's were highest for new private sector banks followed by foreign banks. Nationalized banks and IDBI had the least NPA's during 2008-09.

FIG 3: NON-PERFORMING ASSETS AS PERCENTAGE OF TOTAL ASSETS



The analyses of the above graph shows, that there has been a declining trend in NPA's. The NPA's for the year 2004-05 were highest for all the banks. During 2005-06 all the banks showed a decline. However, the old private banks had more NPA's. During the year 2006-07 also old private banks had highest NPA's. The NPA's during 2007-08 were more new private sector banks. Finally in the year 2008-09 new private banks and foreign banks registered an increase.

**NON-PERFORMING ASSETS AS PERCENTAGE OF ADVANCES**

The analyses of Non-Performing Assets as percentage of Advances shows the quality of advances made. A comparison of NPA's of public sector banks, old private sector banks, new private sector bank and foreign sector banks is shown in the following table.

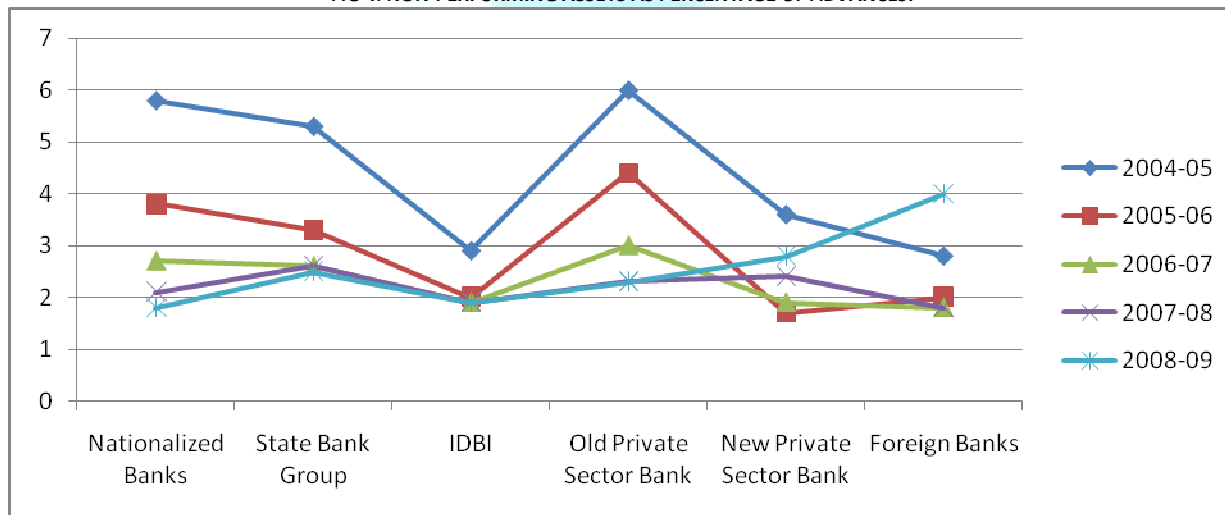
**TABLE NO: 3: NON-PERFORMING ASSETS AS PERCENTAGE OF ADVANCES (AMOUNT IN RS. CRORES)**

Name of the Bank	2004-05	2005-06	2006-07	2007-08	2008-09
Nationalized Banks	5.8	3.8	2.7	2.1	1.8
State Bank Group	5.3	3.3	2.6	2.6	2.5
IDBI	2.9	2.0	1.9	1.9	1.9
Old Private Sector Bank	6.0	4.4	3.0	2.3	2.3
New Private Sector Bank	3.6	1.7	1.9	2.4	2.8
Foreign Banks	2.8	2.0	1.8	1.8	4.0

Source: RBI Report on Trends and progress of Banking in India 2008-09.

Non-Performing Assets as a percentage of advances showed a declining trend for nationalized banks, state bank group, IDBI and old private sector banks. The NPA's of nationalized banks declined from 5.8% to 1.8% during the period of study. The State bank group also noted a declining trend. The NPA's of SBI group declined from 5.3% to 2.5%. The figure of IDBI NPA's also indicated declining trend. The NPA's of IDBI were 2.9% in 2004-05 which reduced to 1.9% in 2008-09. The old private sector banks NPA's showed remarkable decline from 6% to 2.3%. In the case of new private sector banks initially, there was reduction but from 2007-08 onwards there was increase in NPA's. The NPA's for foreign sector bank initially registered a decline but in the year 2008-09 there was remarkable increase in NPA's.

**FIG 4: NON-PERFORMING ASSETS AS PERCENTAGE OF ADVANCES:**



The NPA's as percentage of advances also showed a decrease. However, for new private banks and foreign banks there was increase in NPA's.

**CORRELATION OF NPA'S AND NET-PROFIT**

Correlation explains the relationship between the two variables NPA's and net-profit. The correlation between NPA's and net-profit for all the category of banks has been negative it was -0.33. This indicates that increase in NPA's will lead to decrease in profits. For the purpose of calculation net-profit and NPA's of five years from 2004-05 to 2008-09 are taken. This is shown in the following table.

**TABLE NO: 4: NET-PROFIT AND NPA'S OF SCHEDULED BANKS (AMOUNT IN RS.CRORES)**

Year	Net-profit	NPA's
2004-05	20958	59373
2005-06	24582	51097
2006-07	31203	50486
2007-08	42726	52725
2008-09	52771	60930

Source: RBI Report on Trends and progress of Banking in India from 2004-05 to 2008-09.

**CORRELATION OF NPA'S AND TOTAL ADVANCES**

The correlation between NPA's and total advances was positive for all the category of banks. The correlation had been 0.194. The formula used for correlation is as follows.

$$r = \frac{N\sum dx dy - (\sum dx)(\sum dy)}{\sqrt{(N\sum dx^2 - (\sum dx)^2)(N\sum dy^2 - (\sum dy)^2)}}$$

The calculation was done based on NPA's and total advances taken from 2004-05 to 2008-09. The NPA's and advances for the period are depicted in the following table.

**TABLE NO: 5: TOTAL ADVANCES AND NPA'S OF SCHEDULED BANKS (AMOUNT IN RS.CRORES)**

Year	Total Advances	NPA's
2004-05	1152682	59373
2005-06	1551378	51097
2006-07	2012510	50486
2007-08	2507885	52725
2008-09	3000906	60930

Source: RBI Report on Trends and progress of Banking in India from 2004-05 to 2008-09.



**IMPACT OF NPA'S ON NET-PROFIT**

The impact of NPA's on net-profit is studied by using the regression analyses. The independent variable is NPA's. The formula for regression used was as follows.

$$r \frac{\partial x}{\partial y} = \frac{N \sum dx dy - \sum(dx) \sum(dy)}{N \sum dy^2 - (\sum dy)^2}$$

The regression line of y on x is

$$Y = -27.798 + .121x$$

Where Y= Net-profit and X= NPA's

This regression equation shows that NPA's have negative impact on net-profit of scheduled commercial banks.

**IMPACT OF TOTAL ADVANCES ON NPA'S**

The regression analyses for impact of total advances on NPA's showed that there is positive impact on NPA's. Where, NPA's are independent variable. The regression equation for same is

$$Y = 59906 + 29.32x$$

Where Y = NPA's and X= Total advances.

Increase in total advances will increase NPA's.

**CONCLUSION**

There was overall decline in the NPA's. The NPA's were more for non-priority sector during the year 2008-09. The NPA's for public sector loans were least. The analyses category-wise showed that NPA's were more for new private sector banks and foreign banks. The NPA's as percentage of total assets for nationalized banks, IDBI, SBI group and old private sector banks witnessed decline. NPA's as percentage of advances also showed decline. However, for new private sector and foreign banks there was a slight increase in NPA's. The study further observed a negative relation between net-profit and NPA's. Indicating that with increase in NPA's net-profit will decline. The study observed positive correlation between NPA's and total advances. This shows that with increase in total advances NPA's will increase. The impact analyses proved that NPA's had negative impact on net-profit whereas for NPA's and total advances there was positive impact. The study finally observes that banks were performing well in managing their NPA's. The main reasons could be attributed to prudential norms and RBI guidelines, securitizations and changes in law.

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