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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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LOAN ASSETS CLASSIFICATION OF SCHEDULED COMMERCIAL BANKS IN INDIA

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ABSTRACT
Indian banking sector is facing a serious problem of NPA. The extent of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPA has to be scheduled. Various steps have been taken by government to reduce the NPA. It is highly impossible to have zero percentage NPA. But at least Indian banks can try competing with foreign banks to maintain international standard. The study observed that there is increase in advances over the period of the study. It is found on the basis of analysis that there is considerable development in the management of nonperforming assets in India. The study finally viewed that the prudential norms and other schemes has rushed banks to improve their performance and accordingly resulted into orderly down of NPA as well as enhancement in the financial strength of the Indian banking structure.

KEYWORDS
loan asset classification, commercial banks.

INTRODUCTION
The formal banking system in India comprises the Reserve Bank of India (RBI), Commercial Banks, Regional Rural Banks and the Co-operative banks. In the recent past, private non-banking finance companies also have been active in the financial system, and are being regulated by the RBI. The Scheduled Commercial Banks (SCBs) consist of 28 Public Sector Banks (PSBs), 31 Private Sector Banks (Pvt.SBs), and 31 Foreign Banks. They have a combined network of over 53,000 branches and 17,000 Automatic Teller Machines. According to a report by International Credit Rating Agency (ICRA) Limited, a rating agency, the PSBs hold over 75 per cent of total assets of the banking industry, with the private and foreign banks holding 18.2 per cent and 6.5 per cent respectively. Almost 80 per cent of the businesses are still controlled by PSBs. They are still dominating the commercial banking system. Shares of the leading PSBs are already listed on the stock exchanges. The PSBs will play an important role in the industry due to its number of branches and foreign banks facing the constraint of limited number of branches. Hence, in order to achieve an efficient banking system, the obligation is on the Government to encourage the PSBs to be run on professional lines. The RBI has given licences to new Pvt.SBs as part of the liberalisation process. The RBI has also been granting licences to industrial houses. Many banks are successfully running in the retail and consumer segments but are yet to deliver services to industrial finance, retail trade, small business and agricultural finance. Foreign banks have been operating in India for decades with a few of them having operations in India for over a century. The number of foreign bank branches in India has increased significantly in recent years since RBI issued a number of licenses - well beyond the commitments made to the World Trade Organisation. The presence of foreign banks in India has benefited the financial system by enhancing competition, resulting in higher efficiency.

STATEMENT OF PROBLEM
Increased competition, new information technologies and thereby declining processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations have all played a major role for PSBs in India to forcefully compete with Private and Foreign Banks. It has become very mandatory to study and to make a comparative analysis of services of SCBs. This analysis explores an empirical approach to the analysis of loan assets classification of SCBs in India. As per the guidelines issued by RBI loan assets of banks are classified in to four categories i.e. standard assets, sub-standard assets, doubt full assets, and loss assets. Standard assets being the good quality of loan assets on the other hand sub-standard assets, doubtful assets, and loss assets put together constitutes non-performing assets.

REVIEW OF LITERATURE
Rao (2002) concluded that the Indian banking system has transformed itself from banking to the international banking. Regulations are forcing the banks to adopt better operational strategies and upgrade their skills. The system requires a combination of new technologies, well-guarded risk and credit appraisal, treasury management, product diversification, internal control, external regulation as well as skilled human resources to achieve the heights of the international excellence to play its role critically in meeting the global challenges.

Reddy and Reddy (2003) are of the view that the new challenges faced by the banks are forcing to attempt all new things with the same old rigid structure and system. What required is more managerial and administrative freedom to the management with commensurate and result oriented accountabilities. They stressed that the banks should move towards professional banking with requisite freedom to operate freely in the market within the regulatory and prudential framework prescribed by the Reserve Bank of India.

Muniappan (2003) focused on two areas - firstly, challenges faced by the banks and secondly, the management of these challenges. Every aspect of the functioning of the banking industry, be it profitability, NPA management, customer service, risk management, HRD, etc. has to undergo the process of transformation of aligning with the international best practices. He concluded that the future of Indian banking system needs a long term strategy, which would broadly cover areas like structural aspects, business strategies, prudential control systems, integration of markets technology issues, credit delivery mechanism, information sharing, etc.

Arora and Kaur (2006) stated that banking sector in India has given a positive and encouraging response to the financial sector reforms. Entry of new private banks and foreign banks has shaken up public sector banks to competition. Changing financial scenario has opened up opportunities for the banks to expand their global presence through self-expansion, strategic alliances, etc. Banks are diverting their focus on retail banking so as to attain access to low cost funds and to expand into relatively untapped potential growth area.

Sinha (2006) considered the three alternative paradigms - values at risk, expected shortfall and expected excess loss, which may be used to determine the regulatory capital. Furthermore, it outlined the Indian banking scenario in respect of capital adequacy for the period 1996-97 to 2002-03. The results also showed that Tier I capital of Indian commercial banks is positively related to operating efficiency and has negative relationship with NPA ratio. But no definite relationship between the CAR and bank size could be determined from the analysis.

Karunakar, Vasuki and Saravanan (2008) said that economic reforms initiated by the then finance minister and present prime minister of India Dr. Manmohan Singh would have been remained incomplete without the overhaul of Indian banking sector. The problem of losses and lower profitability of Non-Performing Assets (NPA) and liability mismatch in banks and financial sector depend on how various risks are managed in their business. An attempt is made in the study to examine what is NPA? What are the factors contributing to NPA, the magnitude of NPA, reasons for high NPA and their impact on Indian banking operations? The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism.

Misra and Dhal (2010) analyzed the pro-cyclicality of bank indicators with a focus on the non performing loans (NPAs) of India‟s public sector banks. The analysis demonstrates that banks NPAs are influenced by three major sets of factors, i.e., terms of credit, bank specific indicators relating to asset size, credit orientation, financial innovations (non-interest income) and regulatory capital requirement and the business cycle shocks. The study found that the terms of credit variables such as interest rate, maturity and collateral and bank specific variables had significant effect on the banks' non-performing loans in the presence of macro-economic shocks.

From the above review of literatures, the researcher comes to a conclusion that there is a need to study the loan asset classification of scheduled commercial banks in India.

OBJECTIVES OF STUDY

The main objectives of this analysis are as follows:

- To find out trends in loan assets classification
- To find gross non-performing assets on total advances

ANALYSIS AND RESULTS

The following ratios are calculated to identify the loan assets classification of SCBs in India during the study period from 2006 to 2012.

- Ratio of Standard Assets to Total Advances
- Ratio of Sub-Standard Assets to Total Advances
- Ratio of Doubtful Assets to Total Advances
- Ratio of Loss Assets to Total Advances
- Ratio of Gross Non-Performing Assets to Total Advances

RATIO OF STANDARD ASSETS TO TOTAL ADVANCES

A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets. Table 1 shows the ratio of standard advances to total assets of commercial banks in India during the study period.

TABLE -1: RATIO OF STANDARD ASSETS TO TOTAL ADVANCES

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2006	96.10	97.40	97.90
2007	97.20	97.60	98.10
2008	97.70	97.30	98.10
2009	97.90	96.80	95.70
2010	97.70	97.00	95.70
2011	97.70	97.50	97.50
2012	96.80	97.90	97.30
Mean	97.30	**97.36**	97.19
SD	00.67	**00.31**	01.16
CV	00.69	**00.32**	01.19

Source: Off-site returns (domestic) of banks, Dept. of Banking Supervision, RBI

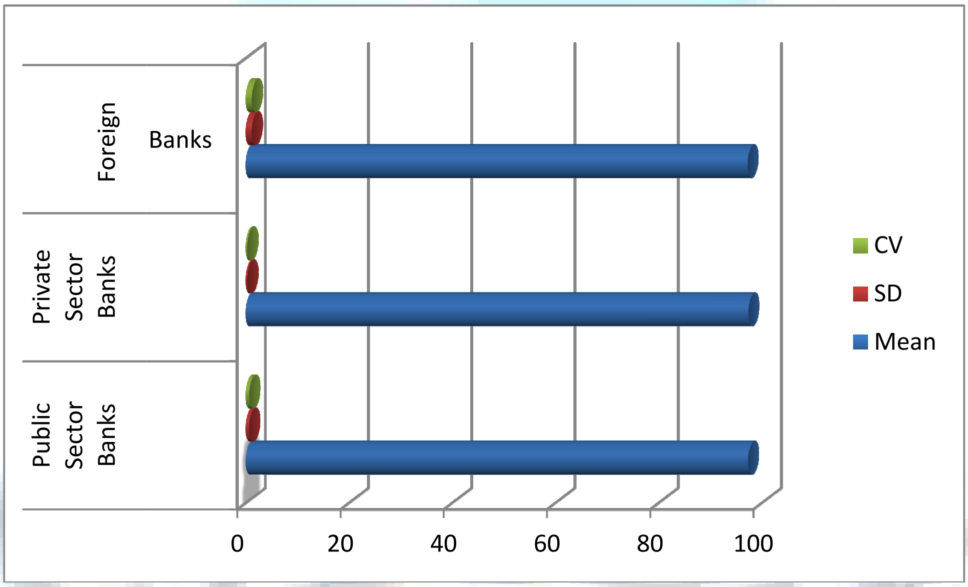


Table 1 shows the ratio of standard assets to total advances of public sector banks, private sector banks and foreign banks during the study period. For PSB, this ratio ranges between 96.1 per cent in 2006 and 96.80 per cent in 2012 with an average of 97.30 per cent. The minimum and maximum percentage of this ratio is registered as 96.10 per cent in 2006 and 97.90 per cent in 2009 respectively. It maintains equal percentage of 97.70 during 2008, 2010 and 2011. The ratio of standard asset to total advances of Pvt.SBs varies between 97.40 per cent in 2006 and 97.90 per cent in 2012 which is the maximum percentage during the study period. It has the highest average of 97.36 per cent while comparing with other sector banks. The Pvt. SBs achieved a minimum of 96.8 per cent during 2009. While observing the data relating to foreign banks, this ratio lies between 97.90 per cent in 2006 and 97.30 per cent in 2012 with the lowest average of 95.70 per cent during 2009 and 2010 and a maximum of 98.10 per cent during 2007-08.

The ratio was more heterogeneous in terms of dispersion for Foreign Banks (C. V. 1.19 per cent) followed by PSBs (C.V. 0.69 per cent) and less consistent for Pvt.SBs (C.V. 0.32 per cent).

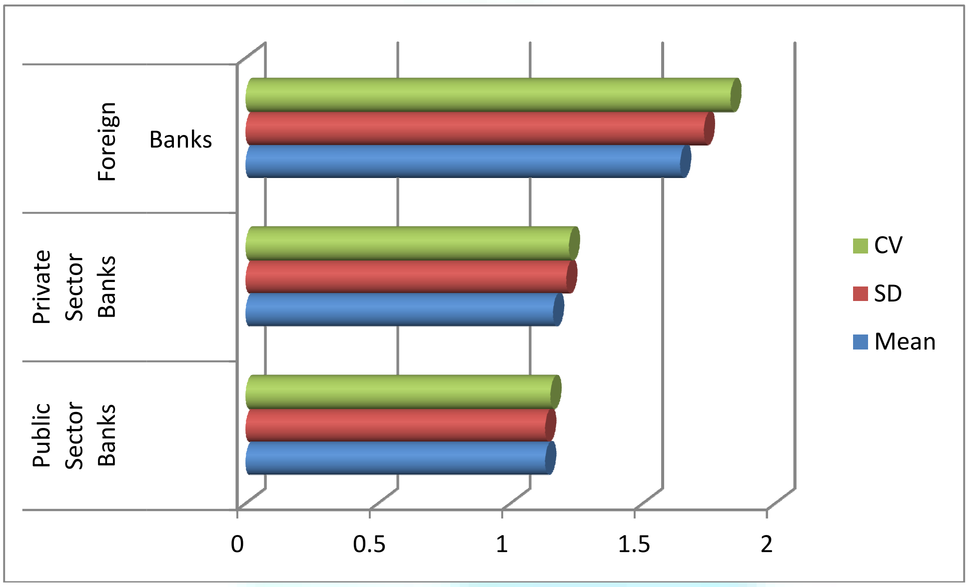
RATIO OF SUB-STANDARD ASSETS TO TOTAL ADVANCES

All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets. Table 2 shows the ratio of sub-standard assets to total advances of commercial banks in India during the study period.

TABLE -2: RATIO OF SUB-STANDARD ASSETS TO TOTAL ADVANCES

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2006	1.10	0.80	1.00
2007	1.00	1.10	1.10
2008	1.00	1.50	1.20
2009	0.90	2.00	3.50
2010	1.10	1.50	2.90
2011	1.10	0.60	0.90
2012	1.70	0.60	0.90
Mean	1.13	1.16	**1.64**
SD	**1.13**	1.21	1.73
CV	**1.15**	1.22	1.83

Source: Off-site returns (domestic) of banks, Dept. of Banking Supervision, RBI



It is clear from the above Table 2 that the ratio of sub-standard assets of PSBs to total advances varies between 1.10 per cent in 2006 to 1.70 in 2012 with lowest average of 1.13 per cent during the study period. This ratio is constant (1.1 per cent) during 2006, 2010 and 2011. This percentage is minimum of 0.90 per cent in 2009 and maximum of 1.70 per cent in 2012. While observing this ratio for Pvt.SBs, it has an average of 1.16 per cent during the study period. This ratio lies between 0.60 per cent in 2011 and 2012 and 2 per cent in 2009. The average of Foreign Banks is the highest among the three bank groups. The highest ratio of 3.50 per cent in 2009 and lowest ratio of 0.90 in 2011 and 2012 are registered for Foreign Banks.

The ratio was more variant in terms of dispersion for Foreign Banks (C. V. 1.83 per cent) followed by Pvt.SBs (C.V. 1.22 per cent) and more consistent for PSBs (C.V. 1.15 per cent).

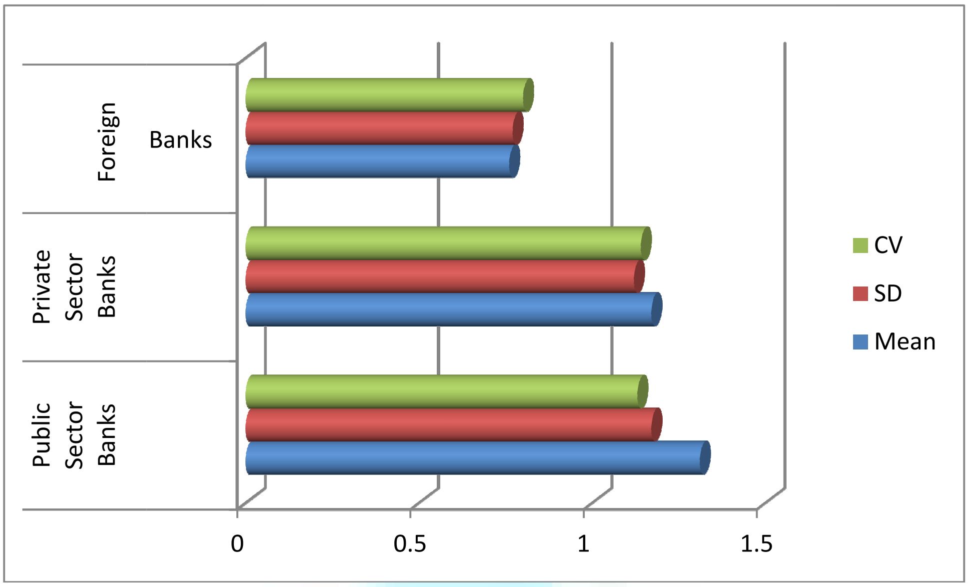
RATIO OF DOUBTFUL ASSETS TO TOTAL ADVANCES

All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets. Table 3 shows the ratio of doubtful assets to total advances of commercial banks in India during the study period.

TABLE -3: RATIO OF DOUBTFUL ASSETS TO TOTAL ADVANCES

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2006	2.30	1.50	0.70
2007	1.50	1.00	0.50
2008	1.10	0.90	0.50
2009	1.00	1.00	0.60
2010	1.00	1.10	0.90
2011	1.00	1.50	1.10
2012	1.30	1.20	1.00
Mean	**1.31**	1.17	0.76
SD	1.17	1.12	**0.77**
CV	1.13	1.14	**0.80**

Source: Off-site returns (domestic) of banks, Dept. of Banking Supervision, RBI



It is obvious that the ratio of doubtful assets of PSBs to total advances varies between 2.30 per cent in 2006 and 1.30 per cent in 2012, 1.50 per cent and 1.20 per cent for Pvt.SBs and 0.70 per cent and 1 per cent for Foreign Banks respectively. The PSBs have a maximum average of 1.31 per cent followed by 1.17 per cent by Pvt. SBs and 0.76 per cent by Foreign Banks during the study period. The PSBs maintains this ratio as 1 per cent continuously for three years starting from 2009 to 2011. The maximum ratio of 2.30 per cent is achieved by PSB and 1.50 per cent by Pvt. SBs during 2006 and 2011 and 1.10 per cent is achieved by Foreign Banks during 2011.

The ratio was less consistent in terms of dispersion for PSBs (C. V. 1.13 per cent) followed by Pvt.SBs (C.V. 1.14 per cent) and more consistent for Foreign Banks (C.V. 0.80 per cent).

RATIO OF LOSS OF ASSETS TO TOTAL ADVANCES

All those assets which cannot be recovered are called as Loss Assets. These assets can be identified by the Central Bank or by the Auditors. Table 4 shows the ratio of loss of assets to total advances of commercial banks in India during the study period.

TABLE - 4: RATIO OF LOSS OF ASSETS TO TOTAL ADVANCES

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2006	0.50	0.30	0.50
2007	0.30	0.20	0.40
2008	0.20	0.30	0.20
2009	0.20	0.30	0.20
2010	0.20	0.40	0.50
2011	0.20	0.40	0.50
2012	0.10	0.30	0.80
Mean	0.24	0.31	**0.44**
SD	**0.21**	0.32	0.43
CV	**0.19**	0.33	0.43

Source: Off-site returns (domestic) of banks, Dept. of Banking Supervision, RBI

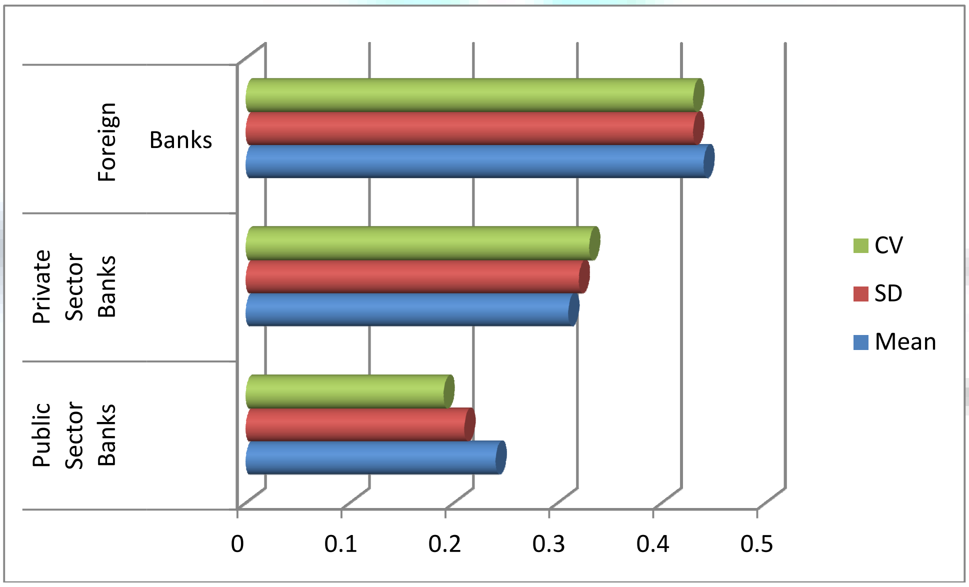


Table 4 clearly states that the ratio of loss of assets of PSBs in India varied between 0.50 per cent in 2006 to 0.10 per cent in 2012 with an average of 0.24 per cent which is the lowest among all the banks. From 2008 to 2011, this ratio remains constant as 0.24 per cent. For Pvt.SBs, this ratio ranges between 0.30 per cent in 2006 and in 2012. The highest ratio of 0.40 per cent is registered in 2010 and 2011 and the lowest of 0.20 per cent in the year 2007. This ratio in Foreign Banks is increased to 0.80 per cent in 2012 from 0.50 per cent in 2006 with a maximum of 0.44 per cent average during the study period. It has a maximum ratio of 0.80 per cent in 2012 and 0.20 per cent as minimum ratio during 2008 and 2009.

The ratio was less consistent in terms of dispersion for Foreign Banks (C. V. 0.43 per cent) followed by Pvt.SBs (C.V. 0.33 per cent) and more consistent for PSBs (C.V. 0.19 per cent).

RATIO OF GROSS NPAS ON TOTAL ADVANCES

A distinction is often made between Gross NPA and Net NPA. Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account etc., from Gross NPA. Table 5 shows the ratio of gross NPAs on total advances of commercial banks in India during the study period.

TABLE -5: RATIO OF GROSS NPAs ON TOTAL ADVANCES

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
2006	3.90	2.60	2.10
2007	2.80	2.40	1.90
2008	2.30	2.70	1.90
2009	2.10	3.20	4.30
2010	2.30	3.00	4.30
2011	2.30	2.50	2.50
2012	3.20	2.10	2.70
Mean	2.70	2.64	**2.81**
SD	**2.53**	2.65	2.92
CV	**2.49**	2.68	3.06

Source: Off-site returns (domestic) of banks, Dept. of Banking Supervision, RBI

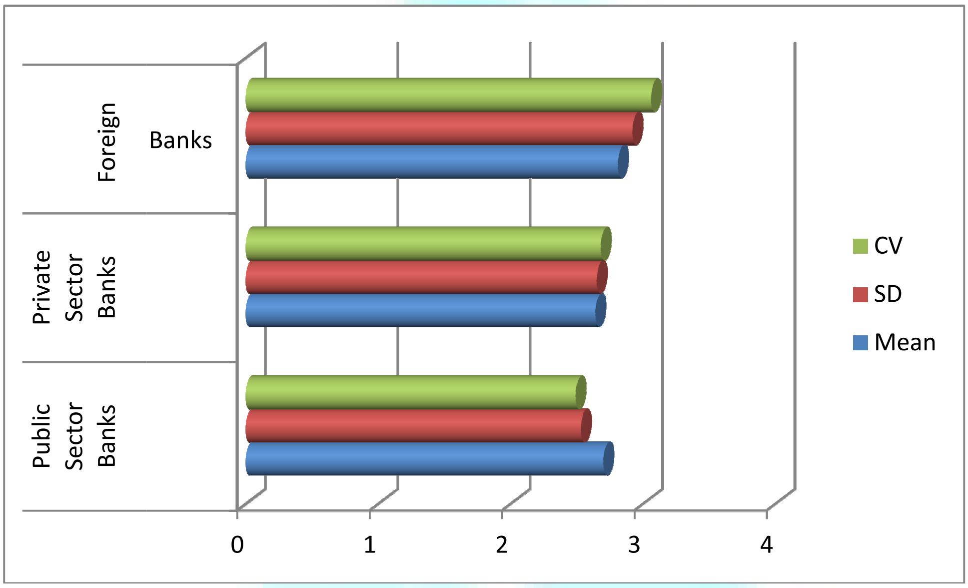


Table 5 presents the ratio of gross Non-performing Assets on total advances of PSBs in India which is decreased to 3.20 per cent in 2012 from 3.90 per cent in 2006. The average of this ratio is 2.70 per cent which is next to highest among the three groups. The maximum percentage of this ratio is 3.90 per cent in 2006 for PSB, 3.20 per cent in 2009 for Pvt.SBs and 4.30 per cent in 2009 and 2010 for Foreign Banks. The Foreign Banks are registered with 2.81 per cent as average which is the maximum among all the groups. The ratio of gross non-performing assets on total advances of Foreign Banks varied between 1.90 per cent in 2007 and 2008 and 4.30 per cent in 2009 and 2010.

The ratio was less consistent in terms of dispersion for Foreign Banks (C. V. 3.06 per cent) followed by Pvt.SBs (C.V. 2.68 per cent) and more consistent for PSBs (C.V. 2.49 per cent).

FINDINGS

While assessing the impact of loan assets classification of SCBs in India, the researcher has observed that the Foreign Banks have highest average in Ratio of Sub-Standard Assets, Loss of assets and gross NPA on Total advances. In case of sub-standard assets, Loss of assets and gross NPA on Total advances, the PSBs have minimum percentage of standard deviation and co variation and so they are more consistent. When the overall position was assessed; it is found that PSBs Banks group has secured the first place and the second place was taken by Foreign Banks.

CONCLUSION

Indian banking sector is facing a serious problem of NPA. The extent of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPA has to be scheduled. Various steps have been taken by government to reduce the NPA. It is highly impossible to have zero percentage NPA. But at least Indian banks can try competing with foreign banks to maintain international standard. The study observed that there is increase in advances over the period of the study. It is found on the basis of analysis that there is considerable development in the management of nonperforming assets in India. The study finally viewed that the prudential norms and other schemes has rushed banks to improve their performance and accordingly resulted into orderly down of NPA as well as enhancement in the financial strength of the Indian banking structure.

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