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COMPARATIVE STUDY ON NON PERFORMING ASSETS OF SELECTED BANKS: WITH SPECIAL REFERENCE OF ICICI BANK AND SBI BANK

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ABSTRACT

Non Performing Assets is the indicators of banking health in a country. A strong banking sector is important for a flourishing economy. NPA is an important tool to measure the financial performance of a bank. NPA involves the necessity of provisions, any increase in any provision decrease the overall profitability of banks. In this research paper, an attempt to evaluate the operational performance to NPA and Profit of the selected two different sector bank i.e., Sate Bank of India and ICICI Bank. We used secondary data. In the paper, it has been try to analyze how efficiency public sector and private banks have been managing NPA with various financial tools and techniques. The object of present study is to assess the non – performing assets of Sate Bank of India and ICICI Bank and its impact on profitability & to see the relation between total advances, Net Profits, GROSS & NET NPA. The study uses the annual reports of both Bank for the period of five years from 2008-09 to 2012-13. The data has been analyzed by using tables and coefficient of correlation. In analysis we find that here is strong positive correlation between profit and NPA in public sector banks and negative correlation in private banks. Private Banks npa's are controlled and highly manageable. When banks profit increase due to increases of Loan and Advances, other side NPA also increases. It means banks are facing problems of NPA management.

KEYWORDS

Gross Non Performing Assets, Net Profit, Net Non Performing Assets and Total Advances.

INTRODUCTION

A strong banking industry is important for developed economy. The banking industry has reformed after the first phase of economic liberalization in 1991 and with new credit management. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans, education loan etc., but in recent times the banks have become very cautious to distribute the loans. The reason is the huge amounting of nonperforming assets (NPAs). Nowadays these are one of the major concerns for every banks of India. NPAs reflect the performance of banks. A high level of NPAs creates low profitability or a large number of credit defaults that affect the profitability and net-worth of banks. It also erodes the value of the asset. The NPA growth involves the necessity of provisions, which decrease the overall profits.

LITERATURE REVIEW

Emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform based on Core Banking Solution, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the RBI. Non-performing Asset is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. The reduction of non-performing asset is necessary to improve profitability of banks. Stated by Debarsh and sukanya Goyal.

An article on NPA Management by B.M. Nandwana the deputy General Manager of Recovery department of Central Bank of India impact of NPA on Indian Banks. It gives the information regarding the norms of RBI and other code of conduct which bank have to follow to manage its NPA.

OBJECTIVES OF THE STUDY

1. To compare the Total Advances, Net Profit, Gross NPA & Net NPA of SBI And ICICI Bank
2. To study the impact of NPA on overall performance of selected banks.
3. To evaluate the efficiency in managing NPA between selected banks.
4. To study the relationship between Net profit and Net NPA of Banks.
5. To make suggestions for better NPA management in selected Banks.

SCOPE OF THE STUDY

The present study of Non-performing assets is confined and restricted to the boundary of commercial banks, especially in private and public sector bank. We have discussed here only single aspect that, how NPA effects on profitability of banks.

HYPOTHESES OF STUDY

According to above objectives, the researcher have been framed the following hypotheses.

H1 = NPA's affected banks profit.

H2 = Private banks npa management is strong as compare to public banks.

RESEARCH DESIGN

1. The Sample:-The matter of the study consist all the public sector and private banks. Here, researcher has been selected two different sector banks i.e., SBI and ICICI for this comparative study.
2. The data collection and period of the study:-The study has been carried out for a five year, i.e., during 2008 – 09 to 2012 – 13. The reason behind selecting this period was availability of data for both sample banks under study.The study is based on secondary data; the data has been collected from the published annual report of the sample banks.
3. Tools and techniques:- As per the nature of study tools and techniques adopted by researcher are average and Correlation, for testing the hypotheses.

MEANING OF NPA

Banks basic function is "Advances". When this loan and Advances not recover as form of principal and interest payments, then Banks usually classify as nonperforming assets. If any commercial loans which are not recovered till than 90 days overdue and any consumer loans which are not recovered more than 180 days overdue are called NPA. More generally, and is not producing income. In India, an asset is classified as a Non-Performing Asset (NPA) if interest or installments of principal due remain unpaid for more than 180 days. However, with effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days. If any advance or credit facilities granted by a bank to a borrower become non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances/credit facilities having performing status.

DEFINITION OF NPA

A non-performing asset (NPA) was defined as a credit facility in respect of which the interest and or installment of principle has remained past due for a specific period of time. An amount due under any credit facility is treated as past due, when it has not been paid within 30 days from the due date. Due to improvement in the payment and settlement systems, recovery climate, up gradation of technology in the banking system, etc. it was decided to dispense with past due concept, with effect from March 31, 2001.

Definition given by the Narasimham Committee 'The Committee has defined Non-performing assets as an advance where as on the date of Balance Sheet: 1. In respect of terms loans, interest remains past due for a period of more than 90 days. 2. Overdrafts and cash credits accounts remain out of order for more than 90 days. 3. Bills purchased and discounted remain over due and unpaid for period of more than 90 days. An amount is considered past due when it remains outstanding for 30 days and beyond the due date.'

The following are the RBI guidelines for NPA classification and provisioning:

STANDARD ASSETS

Standard assets, which are not NPAs, but involve business risks, require a minimum of 0.25% provision on global portfolio but not on domestic portfolio.

SUB – STANDARD ASSETS

These are those accounts which have been classified as NPAs for a period less than or equal to 18 months. The general provision of 10% of total outstanding principal plus entire outstanding interest should be made on sub - standard assets.

DOUBTFUL ASSETS

These are those accounts which have remained as NPAs for a period exceeding 18 months. On these assets the banks are required to provide 100% for the unsecured portion and additional provision of 20% to 50% advances, if doubtful for 3 and above 3 years.

LOSS ASSETS

Loss asset is a credit facility where the bank's internal or external auditors or the RBI inspectors have identified as loss but the amount hasn't been written off, wholly or partly. Provisions required are 100 percent of the outstanding balance of the loss assets. Standard assets are treated as performing assets and the remaining categories of assets such as sub standard, doubtful and loss assets are known as Non Performing Assets.

DATA ANALYSIS AND INTERPRETATION

Economy of any country based on banking sector and the base of banking sector is Advances and its recovery. For fulfillment of research following table reflected the data of SBI And ICICI bank. In banking when advances increasing, profit increases and gross and net npa also increases. If npa increases it decreased the profit of banking. If we add npa's in profit we find that profit highly increase.

TABLE 1: SBI BANK (Figures in crores)

Year	Total Advances	Net Profit	Gross NPA	Net NPA
2008-09	5,42,503.20	9,121.56	15,588.60	9,552.02
2009-10	6,31,914.15	9,166.39	19,534.89	10,870.17
2010-11	7,56,719.44	8,264.85	25,326.29	12,346.90
2011-12	8,67,579.00	15,343	39,676	51,189
2012-13	10,45,617.0	17916	15,819	21,956
Total	3844332.79	59,811.80	115,944.78	105,914.09
Average	768866.558	11962.36	23188.956	21182.818
ave.profit % on adv.	1.555843452			
Ave. npa's % on ave. profit			193.8493408	91.34873515

TABLE 2: ICICI BANK (Figures in crores)

Year	Total Advances	Net Profit	Gross NPA	Net NPA
2008-09	2,18,310.85	4,126.63	9649.31	4553.94
2009-10	1,81,205.6	5,207.47	9,480.65	3,841.11
2010-11	2,16,365.90	7,781.91	10,034.26	2,407.36
2011-12	2,53,727.66	11,650.69	9,475.33	1,860.84
2012-13	2,90,249.43	16,408.48	9,607.75	2,230.56
total	1159859.44	45,175.06	48247.3	14893.81
ave.	231971.888	9035.0114	9649.46	2978.762
ave.profit % on adv.	3.894873417			
Ave. npa's % on ave. profit			106.8007507	30.86972743

INTERPRETATION OF RESULT

The table is comparing Total advances with NET Profit, Gross NPA & Net NPA. With the help of this table we can say about banking performance of SBI and ICICI Bank. We can analysis that on one side total advances given by banks and Net Profits are increasing continuously since 2008-09. Averagely Sbi increases its Average profit on Advances is 1.55% but with this the gross and net npa increases on profit app.193% and 91%. ICICI Bank also increases profit on advances is 3.8% but Gross npa and net npa on profit is app. 106% and 31%. Which shows that bank is performing very well. But Gross NPA & Net NPA is also increasing which shows performance is declining due to NPA mismanagement of banks.

IT EFFECTS ON**LIQUIDITY**

Money is blocked so normal operations will be effected.

CREDIT LOSS

In case of bank is facing problem of NPA then it will be decreased the market value of the bank. Management should take proper and prompt decision on this matter. No doubt this NPA directly effect on the Return on investments of the banks.

CORRELATION OF NPA AND NET PROFIT

On the above table we calculate the correlation between net NPA and net profit. The analysis concluded that in SBI net profit and Net npa correlated with .67 and same in the ICICI Bank it is -.88 .it shows in the SBI , simply means that as profits increase NPA also increase. It is because of the mismanagement on the side of bank. NPA is directly related to Total Advances given by bank and banks main source of income is interest earned by bank. On other side ICICI Bank shows negative relation, it means net profit increases, but NPA is not increases in same side.

Any bank should select the customers with very carefully, because the good customers can increase the Advances and increase the Profit, due to lack NPA.

FINDING AND CONCLUSION

- Total advances given by ICICI and SBI Bank, and Net Profits are increasing continuously since 2009.
- Private Banks NPA Management is very strong.
- Nationalized bank need to create sound NPA policies.
- Positive correlation shows NPA's increments & profits declining are due to wrong choice of clients by Banks.
- Nationalized Bank is unable to give loans to the new customers due to lack of funds which arises due to NPA
- Indirectly this NPA creates adverse affect on Indian GDP.

SUGGESTIONS

- Customers financial evaluation should be more accurate.
- NPA management must be strong
- Varieties of Loan and advances must be in loan portfolio.

This research is based on secondary data .We just made the conclusion on the bases of analyzing the data collected through Annual reports of past 5 years.

SCOPE OF FURTHER STUDIES

Research paper gives opportunity to researcher to do research on Non performing assets's other aspects of banking sectors.

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