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NPAs IN BANKS: A SYNDROME PROBING REMEDY

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ABSTRACT

The financial quarter is undergoing a phase of makeover & convergence and there has been an escalating blur of boundaries amidst the role of banks and financial institutions, which is likely to set up spirited pressures in the prospecting future. Non Performing Assets (NPAs) as a syndrome are not new but are casting adverse impact on financial spine of banking structure during the recent past years and are cause for concern. Past researchers have emphasized that for any credit system to sustain its operations on a viable basis, it is necessary to enforce strong credit discipline among its clients. This paper is an exploration on Non-Performing Assets (NPAs) of public & private sector banks in India and it tries to discover the relationship between NPAs and financial health of banks in grin of rating agencies.

KEY WORDS

Bank Rating Agencies, CAMEL's Rating, NPAs, Spearman's Correlation

(I) INTRODUCTION

Subsequent to nationalization, the preliminary assent that banks were specified was to swell their branch network, increase the savings rate and extend credit to the rural and SSI sectors. This term of office has been attained commendably. Since the early 90's the spotlight has budged towards improving quality of assets and better risk management. Pressing issue today under the quality of asset is amplifying NPAs in banks. Increasing in NPAs is putting their bad effect so Reserve Bank of India in its analytical report stated that reduction in NPAs should be treated as a national priority. RBI has fixed the standards of NPAs level for the banks so that banks could perform well. As far as financial institutions are concerned it is necessary to update their risk management practices with prevalent legislation & regulatory environment. By keeping these aspects in mind the Basel committee on banking supervision published the Basel accord in 1988. It defined the parameters of risk management and capital adequacy for FSPs like Bank. As soon as it noticed the growth of banking sector, the need felt to update the accord & in 1999 Basel II was proposed. To evaluate the banks globally these rating agencies will incorporate the new accord Basel II and it will result in establishing a more competitive and safer banking system.

The banking environment is continuously changing. The rules and regulation which were formulated in past are vanishing resulting in rising risk within banking system. There are certain credit rating agencies such as CRISIL, ICRA, CAMELS, FITCH, CRAMEL etc. which rate the banks according to their performance, profitability, NPA status and ratio structure. From investors point of view it is very necessary for a bank to get good rating because the source of funds for banks are deposits so ultimately it establishes direct relationship. In case if a bank losses its credibility investors starts withdrawing their money to avoid future losses. So this study entails the impact of NPAs on profitability of banks. In this research correlation of banks is established with profitability and credit rating agencies as these agencies play a very important role by assessing credit viability of depositors as well as lenders in banks.

(II) PSYCHIATRY OF NPAs

The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPA is one of the drivers of financial stability and growth of the banking sector. NPA is like a credit facility in respect of which the interest has remained due for past two quarters or more. This research aims to find out the fundamental factors which impact NPAs. In view of past researchers Flannery MJ (1998)[1] and Gilbert RA & MD Vaughn (1998)[2], two factors are responsible for this – macroeconomic factors and Bank specific parameters. In macroeconomic factors like GDP and excise duty are included. Banks parameters are Credit deposit ratio (CDR), Capital Adequacy ratio (CAR), Loan exposure to priority sector and liquidity risk. Movement of NPAs for banking sector can be explained by these parameters.

ARCIL[3] expressed in its report that all Indian banks have maintained their NPAs less then 3%.Among various factors it is experienced that there are fairly conflicting views among all respondents. Bankers feel that lack of entrepreneurship and improper evaluation of credit worthiness of customer are the most significant reasons for the generation of NPAs. Many difficulties can be observed with increase in NPAs of banks. Owners do not receive a market return on their capital. In the worst case, if the bank fails, owners lose their assets. In modern times, this may affect a broad pool of shareholders. Depositors do not receive a market return on savings. In the worst case if the bank fails, depositors lose their assets or uninsured balance. Banks also reallocate losses to other borrowers by imposing higher interest rates. Lower deposit rates and higher lending rates bottle up savings and financial markets, which obstructs economic augmentation. Non performing loans symbolize bad investment. They misallocate credit from superior projects, which do not obtain funding, to abortive or challenged projects. Bad investment ends up in misallocation of capital and, by extension, labor and natural resources. The economy performs underneath its production potential.

Non performing loans may overrun the banking system and squeezes the money stock, which may lead to economic abbreviation. This run over effect can channelize through illiquidity or bank collapse; (a) when many borrowers fail to recompense interest, banks may experience liquidity shortages. These shortages can squash payments athwart the country, (b) illiquidity constraints bank in paying depositors e.g. cashing their paychecks. Banking fright follows. A run on banks by depositors as part of the national money stock breaks down. The money stock squeezes and economic contraction follows (c) undercapitalized banks surpasses the banks capital base. Lending by banks has been highly politicized. It is widespread that loans are given to various industrial houses not on commercial concerns and feasibility of project but on political considerations; some politician would ask the bank to extend the loan to a particular corporate and the bank would coerce. In normal circumstances banks, before sanctioning any loan, would make a scrupulous study of the definite need of the party concerned, the diagnosis of the business in which it is engaged, its trail, the eminence of management and so on. Since this is not focused judiciously, many of the loans become NPAs. The loans for the weaker sections of the society and the relinquishment of the loans to farmers are another dimension of the politicization of bank lending. Most of the depositor's money has been dribbled away by the banks at the instance of politicians, while the same depositors are being made to pay through taxes to cover the losses of the bank. Due to all these problems stumbling up in banking system NPAs have become blazing issue in banks and calls for further exploration.[1]

[2](III) ARCHITECTURE OF CRISIL RATING

There are different credit rating agencies which provide ratings for banks like Camels, Crisil, ICRA and Fitch. In this paper rating given by Crisil is taken to establish the correlation of rating agencies with NPAs and profitability figures as Crisil incorporates all the major parameters essential to rate Indian banks following CRAMELs architecture. The objective of Crisil's analysis is to form an opinion on the types of risk that may affect the relative ability of banks and financial institutions to service the interest and principal payments on rated instruments in a timely manner. This exercise incorporates a review of overall economy, the financial sector and the banking industry. Crisil factors in the size of an entity in the financial sector and looks at its positioning in the industry. It rates financial institutions on basis of six major parameters of CRAMELs model. C in the model stands for Capital Adequacy, R for resource raising ability, A for asset quality, M for management and systems evaluation, E for earnings potential, L for liquidity/ Asset Liability management[4].

CRISIL BANK LOAN RATING

A CRISIL BLR is CRISIL's judgment on the virtual degree of risk connected with timely disbursement of interest and repayment of principal on a specified bank facility. CRISIL assigns BLRs on the same long-term and short-term rating scales as it does its other credit ratings. BLRs can be used by banks to determine risk weights for their loan exposures, in keeping with the RBIs April 2007 Guidelines for implementation of New Capital Adequacy scaffold.

BENEFITS OF A CRISIL BANK LOAN RATING

The new guiding principle from RBI crafts an inducement for banks to use BLRs, by giving noteworthy reprieve in the capital that banks must clutch against their corporate loan exposures. The maximum relief of 80 per cent is offered for 'AAA' and 'P1+' rated exposures, but there is considerable relief for exposures that are rated below the highest category as well.

A CRISIL BLR will facilitate borrowers to attain more specific risk-based pricing on bank loans. Borrowers may also profit when the capital stashes that the banks enjoy are reflected in loan pricing. In the long run, as many subordinate borrowers obtain BLRs, and the market comprehends the risk allied with such lower ratings, access to markets for lower rated corporates is likely to pick up radically.

BLRs will help build up a secondary market for loans, and will grant a uniform scale for evaluating credit risk of bank loans. Over time, they will have a say incalculably to the growth of a Credit Default Swap market, where ratings on the underlying reference commitments are obligatory.

SYMBOLS FOR BLRS

CRISIL BLRs are assigned on a scale that is analogous to CRISIL's rating scale for long-term and short-term debt ratings. The scale ranges from 'AAA' to 'D' for a long-term rating (with maturity over 365 days), and from 'P1+' to 'P5' for a short-term rating (maturity of up to 365 days). CRISIL may apply '+' (plus) or '-' (minus) signs for ratings from 'AA' to 'C' on the long-term scale, and from 'P1' to 'P3' on the short-term scale, to reflect comparative standing within the category. Additionally, CRISIL may assign rating outlooks for BLRs from 'AAA' to 'B'. Ratings on 'Rating Watch' will not carry outlooks. A rating outlook indicates the direction in which a rating may move over a medium-term horizon of one-to-two years. A rating outlook can be 'Positive', 'Stable', or 'Negative'. A 'Positive' or a 'Negative' outlook is not necessarily a precursor to a rating change.[5] CRISIL's principle for conveying BLRs integrates all the features of the functional standards for rating bonds and debentures.

(IV) LITERATURE REVIEW

A synoptic review of the literature brings to the fore insights into the determinants of NPL across countries. As per the recent study undertaken by K.Subramanian (2010), In the Indian situation, the adoption of the market based model to administer NPAs has weakened the links of banks to economic growth. It is unclear from where the extra-ordinary push for promoting economic growth will come. Till then we have to live years of low growth and lamentation. Study undertaken by Bharati Ram (2009) states that according to an April 2009 report by Crisil, the specialized credit rating organization focused on microfinance in India, it is estimated that the Gross Non-Performing Assets (GNPA) of the banking sector are likely to touch 5 per cent by the end of March 2011 from a level of 2.3 per cent in end-March 2008 [2]. Crisil estimates that 'most' of the NPAs would come from the corporate sector which includes the small and medium enterprises. Reasons given by Crisil for the rise in NPAs include the slowdown in demand and lack of funding of lengthy working capital cycles. Interestingly, the Indian Finance Ministry has disagreed with the rating agency's forecasts. Another considered view is that banks' lending policy could have crucial influence on nonperforming loans (Reddy, 2004). He critically examined various issues pertaining to terms of credit of Indian banks. In this context, it was viewed that 'the

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[1] Flannery, M.J. 1998. "Using Market Information in Prudential Bank Supervision: A Review of the U.S. Empirical Evidence." *Journal of Money, Credit and Banking* 30, pp. 273-305.

[2] Gilbert, R.A., and M.D. Vaughn. 1998. "Does the Publication of Enforcement Actions Enhance Market Discipline?" Manuscript, Research Department, Federal Reserve Bank of St. Louis.

[3] Asset Reconstruction Company India Limited (2009).

[4] Crisil Rating: Rating Criteria for Banks and Financial Institutions

[5] http://www.crisil.com/credit-ratings-risk-assessment/bank-loan-ratings.jsp#symbols

element of power has no bearing on the illegal activity. A default is not entirely an irrational decision. Rather a defaulter takes into account probabilistic assessment of various costs and benefits of his decision'.Mohan (2003) conceptualized 'lazy banking' while critically reflecting on banks' investment portfolio and lending policy. The Indian viewpoint alluding to the concepts of 'credit culture' owing to Reddy (2004) and 'lazy banking' owing to Mohan (2003a) has an international perspective since several studies in the banking literature agree that *banks' lending policy is a major driver of non-performing loans* (McGoven, 1993, Christine 1995, Sergio, 1996, Bloem and Gorters, 2001). Furthermore, in the context of NPAs on account of priority sector lending, it was pointed out that the statistics may or may not confirm this.There may be only a marginal difference in the NPAs of banks' lending to priority sector and the bank's lending to private corporate sector. Against this background, the study suggests that given the deficiencies in these areas, it is imperative that banks need to be guided by fairness based on economic and financial decisions rather than system of conventions, if reform has to serve the meaningful purpose. Experience shows that policies of liberalisation, deregulation and enabling environment of comfortable liquidity at a reasonable price do not automatically translate themselves into enhanced credit flow. Although public sector banks have recorded improvements in profitability, efficiency (in terms of intermediation costs) and asset quality in the 1990s, they continue to have higher interest rate spreads but at the same time earn lower rates of return, reflecting higher operating costs (Mohan, 2004). Bhattacharya (2001) rightly points to the fact that in an increasing rate regime, quality borrowers would switch over to other avenues such as capital markets, internal accruals for their requirement of funds. Under such circumstances, banks would have no option but to dilute the quality of borrowers thereby increasing the probability of generation of NPAs. In another study, Mohan (2003) observed that lending rates of banks have not come down as much as deposit rates and interest rates on Government bonds. While banks have reduced their prime lending rates (PLRs) to some extent and are also extending sub-PLR loans, effective lending rates continue to remain high. This development has adverse systemic implications, especially in a country like India where interest cost as a proportion of sales of corporates are much higher as compared to many emerging economies. The problem of NPAs is related to several internal and external factors confronting the borrowers (Muniappan, 2002). The internal factors are diversion of funds for expansion/ diversification/ modernisation, taking up new projects, helping/promoting associate concerns, time/cost overruns during the project implementation stage, business (product, marketing, *etc.*) failure, inefficient management, strained labour relations, inappropriate technology/technical problems, product obsolescence, etc., while external factors are recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities. In the Indian context, Rajaraman and Vasishtha (2002) in an empirical study provided an evidence of significant bivariate relationship between an operating inefficiency indicator and the problem loans of public sector banks. In a similar manner, largely from lenders' perspective, Das and Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency indicators. Sergio (1996) in a study of non-performing loans in Italy found evidence that, an increase in the riskiness of loan assets is rooted in a bank's lending policy adducing to relatively unselective and inadequate assessment of sectoral prospects. Interestingly, *this study refuted that business cycle could be a primary reason for banks' NPLs*. The study emphasised that increase in bad debts as a consequence of recession alone is not empirically demonstrated. It was viewed that the bank-firm relationship will thus, prove effective not so much because it overcomes informational asymmetry but because it recoups certain canons of appraisal. In a study of loan losess of US banks, McGoven (1993) argued that 'character' has historically been a paramount factor of credit and a major determinant in the decision to lend money. Banks have suffered loan losses through relaxed lending standards, unguaranteed credits, the influence of the 1980s culture, and the borrowers' perceptions. It was suggested that bankers should make a fairly accurate personality-morale profile assessment of prospective and current borrowers and guarantors. Besides considering personal interaction, the banker should:
(i) try to draw some conclusions about staff morale and loyalty,
(ii) study the person's personal credit report,
(iii) do trade-credit reference checking,
(iv) check references from present and former bankers, and
(v) determine how the borrower handles stress. In addition, banks can minimise risks by securing the borrower's guarantee, using Government guaranteed loan programs, and requiring conservative loan-to-value ratios. Bloem and Gorter (2001) suggested that a more or less predictable level of non-performing loans, though it may vary slightly from year to year, is caused by an inevitable number of '*wrong economicdecisions* by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, *etc.*). Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, or they may spread the risk by taking out insurance. Enterprises may well be able to pass a large portion of these costs to customers in the form of higher prices. For instance, the interest margin applied by financial institutions will include a premium for the risk of nonperformance on granted loans. At this time, banks' non-performing loans increase, profits decline and substantial losses to capital may become apparent. Eventually, the economy reaches a trough and turns towards a new expansionary phase, as a result the risk of future losses reaches a low point, even though banks may still appear relatively unhealthy at this stage in the cycle. Gupta's study (1983) on a sample of Indian companies financed by ICICI concludes that certain cash flows coverage ratios are better indicators of corporate sickness. Bhatia (1988) and Sahoo, Mishra and Soothpathy (1996) examine the predictive power of accounting ratios on a sample of sick and non-sick companies by applying the multi discriminant analysis techniques. In both the studies, the selected accounting ratios are effective in predicting industrial sickness with a high degree of precision.

Literature reviews mentioned in this paper are having some Gaps due to which issue of NPAs require further investigation. Past researchers emphasized on the macro economic factors, lending policies and judgment criteria for the NPAs of Banks but they failed to describe about the impact on profitability of banks and about credit rating agencies which rate the Bank and the interlinkage with NPA & profitability. Hence this study is an effort to study the interlinkage between all these variables collectively.

(V) RESEARCH METHODOLOGY

THE PURPOSE OF STUDY

The study covers period from March 2008 to March 2009. This time period was chosen because last year a dramatically low performance of banks was seen due to the economic slowdown which was percolated to the entire world due to set back of US economy which again was the outcome of large NPAs in banks. Even Indian economy has witnessed the ripple jerks of this dreadful setback. Hence it becomes all the more important for Indian banks to treat NPAs with great caution of caution. The study focuses on impact of NPAs on profitability of banks and correlation of both these factors with rating agencies so as to find out the feasibility of both these factors in the decision making process pertaining to investment in banks by public and credit rating institutions.

RESEARCH DESIGN

Research undertaken is exploratory in nature and covers five banks under sample (two private and three public banks) - ICICI Bank, HDFC Bank, IDBI Bank, SBI Bank and BOB. Judgmental sampling is used for selecting the banks for which primary data is collected through structured questionnaire. In all 150 respondents of Ajmer, Jaipur and Delhi (50 respondents from each city) were surveyed to find out their preference level w.r.t. banks.

Data pertaining to NPAs, Profitability figures, Public and Institutional rating is collected through secondary sources: Books, Journals and websites. Spearman's rank correlation coefficient is used as hypothesis testing tool.

EMPIRICAL ANALYSIS

A) ANALYSIS OF THE QUESTIONNAIRE

Out of 150 respondents surveyed, 33 respondents were investing in ICICI Bank, 27 in HDFC Bank, 18 in IDBI Bank, 36 in SBI Bank, 18 in BOB and 15 in others. 66% (99) investors replied that they took investment decision on the basis of profitability of bank. NPAs were rarely used for bank selection purpose as only 6% (9) investors considered NPAs while making bank choice. As per the analysis it is inferred that hardly anybody considered rating given by rating agencies while selecting bank as only 4% (6) investors replied that they considered ratings of rating agencies for bank selection. 108 (72%) respondents were found to be satisfied with the services provided by their banks and major factors responsible for their satisfaction were Goodwill and Customer Care services of their bank.

Reference: Annexure 5

B) TESTING OF HYPOTHESIS

Ho1:- There is no impact of increase in NPAs on profitability of Banks.

1) Ranking of Banks according to NPAs

s. no	Name of Banks	NPA (2008) (In Cr.)	NPA (2009) (In Cr.)	NPA Valuation (%)	Ranking
1	ICICI	3490.55	4553.94	30.46	4
2	HDFC	298.52	627.62	110.24	5
3	IDBI	1082.91	949	-12.37	1
4	SBI	7424.33	9552.02	28.66	3
5	BOB	493.55	451.15	-8.6	2

Source-http://www.icicibank.com/Pfsuser/aboutus/resultsann/2009_04_FY2009_PR2.pdf
http://www.hdfcbank.com/common/pdf/corporate/HDFC_Bank_Annual_Report_0809_I.pdf
http://www.bankofbaroda.com/download/Bob-AR-http://www.statebankofindia.com/webfiles/uploads/files/AR0809/108-160.pdf
http://www.idbibank.com/idbi/fin_april_09.asp

S. No.	Name of Bank	NPA ranking	Profitability Ranking	Rank difference (di)	$(di)^2$
1	ICICI	4	5	-1	1
2	HDFC	5	2	3	9
3	IDBI	1	4	-3	9
4	SBI	3	3	0	0
5	BOB	2	1	1	1
				$\sum(di)^2$	20

Reference: Annexure 1 & 2

Spearman's rank correlation coefficient[3] :
1- [6* 20/ 5 (5^2-1)]
1 – [120/120]
CV = 0
Table Value [4]
TV = ± 0.90

Interpretation: Calculated value r = 0 is inside the limit of the acceptance region, null hypothesis is accepted. So by this it can be inferred that it's not always necessary that when NPA increases / decreases, Profitability also fluctuates in the same proportion. As per the study undertaken profitability of Banks is least affected by NPAs.

[3] Spearman's Rank Correlation Coefficient (**r**) **= 1 - [6 $\sum(di)^2$ / n (n^2 – 1)]**
[4] Table value at 5% significance level for n =5 seen in Spearman's rank correlation coefficient table.

Ho2:- Rating agencies have no interlinkage with NPAs of Banks.

(a) Public rating & NPAs correlation

S. No.	Name of Bank	Public Rating	NPA Ranking	Rank difference (di)	(di)2
1	ICICI	2	4	-2	4
2	HDFC	3	5	-2	4
3	IDBI	4	1	3	9
4	SBI	1	3	-2	4
5	BOB	5	2	3	9
				$\sum(di)^2$	30

Reference: Annexure 1 & 3

Spearman's rank correlation coefficient[6]

1- [6* 30/ 5 (5^2-1)]

1 – [180 / 120]

CV= **- 0.5**

Table value[7]

TV = ± 0.90

Interpretation: Calculated value r = - 0.5 is inside the limit of the acceptance region, null hypothesis is accepted. So it can be inferred from the foregoing analysis that public rating is not based on NPAs of banks and is based on other factors.

(b) CRISIL rating & NPAs correlation

S. No.	Name of Bank	CRISIL Rating	NPA Ranking	Rank difference (di)	(di)2
1	ICICI	5	4	1	1
2	HDFC	1	5	-4	16
3	IDBI	4	1	3	9
4	SBI	1.5	3	-1.5	2.25
5	BOB	1.5	2	-0.5	0.25
				$\sum(di)^2$	28.50

Reference: Annexure 1 & 4

Spearman's rank correlation coefficient[6]

1- [6* 28.50/ 5 (5^2-1)]

1 – [171 / 120]

CV= **- 0.425**

Table value[7]

TV = ± 0.90

Interpretation: Calculated value r = - 0.425 is inside the limit of the acceptance region, therefore null hypothesis is accepted. From the analysis undertaken It can be inferred that CRISIL rating and NPAs of banks are not interlinked hence parameters taken by Rating agencies are other than NPAs.

Ho3:- Banks rating by external agencies is not affected by its financial strength (Profitability)

(a) Public rating & Profitability correlation

S. No.	Name of Bank	Public Rating	Profitability Ranking	Rank difference (di)	(di)2
1	ICICI	2	5	-3	9
2	HDFC	3	2	1	1
3	IDBI	4	4	0	0
4	SBI	1	3	-2	4
5	BOB	5	1	4	16
				$\sum(di)^2$	30

Reference: Annexure 2& 3

Spearman's rank correlation coefficient[6]

1- [6* 30/ 5 (5^2-1)]

1 – [180 / 120]

CV= - **0.5**

Table value[7]

TV = ± 0.90

Interpretation: Calculated value r = - 0.5 is inside the limit of the acceptance region; So null hypothesis is accepted on the ground that rating agencies do not rate on the basis of profitability only, they may take other parameters as capital base for rating banks.

(b) CRISIL rating & Profitability correlation

S. No.	Name of Bank	CRISIL Rating	Profitability Ranking	Rank difference (di)	(di)2
1	ICICI	5	5	0	0

2	HDFC	1	2	-1	1
3	IDBI	4	4	0	0
4	SBI	1.5	3	-1.5	2.25
5	BOB	1.5	1	0.5	0.25
				$\sum(di)^2$	3.50

Reference: Annexure 2 & 4

Spearman's rank correlation coefficient[6]

1- [6* 3.50 / 5 (5^2-1)]

1 – [21 / 120]

CV= 0.825

Table value[7]

TV = ± 0.90

Interpretation: Calculated value r = 0.825 is inside the limit of the acceptance region; Hence null hypothesis is accepted. From the foregoing analysis it becomes apparent that even Crisil does not rate banks on the basis of profitability figures only. It's not always necessary that if profitability of banks is more then its rating will be high.

Ho4:- Public Rating is not based on rating given by external agencies.

Public Rating & Crisil Rating correlation

S. No.	Name of Bank	Public Rating	Crisil Rating	Rank difference (di)	(di)2
1	ICICI	2	5	-3	9
2	HDFC	3	1	2	4
3	IDBI	4	4	0	0
4	SBI	1	1.5	-.5	.25
5	BOB	5	1.5	3.5	12.25
				$\sum(di)^2$	25.5

Reference: Annexure 3 & 4

Spearman's rank correlation coefficient[6]

1- [6* 25.5/ 5 (5^2-1)]

1 – [153 / 120]

CV= - **0.275**

Table value[7]

TV = ± 0.90

Interpretation: Calculated value r = - 0.275 is within the acceptance region; therefore null hypothesis is accepted that public rating is not based on the rating given by credit rating agencies. There are other factors also which are stressed upon by public while giving their preference w.r.t. banks.

(VI) CONCLUSION

In conclusion it can be inferred that only lower profitability or higher NPAs taken in isolation do not reflect the performance and future direction of success or failure of a bank in real and absolute terms. Public do not rate banks on the basis of any one factor such as NPAs or Profitability or rating given by credit rating agencies solely. For public Goodwill and Customer care services provided by banks pay a pivotal role while choosing bank for investment. Performance of banks is gauged by various factors in conjunction which again is reflected in rating given for banks by rating agencies. It's not always necessary that increase in NPAs will reduce profits of banks. It is quite possible that other factors affecting profitability are favorable during the period of lofty NPAs. But NPAs are like termites of banking system which slowly-slowly erode away the profit figures of banks if not controlled judiciously. Therefore proper and timely cure of this syndrome is fundamental requisite for sound health of banks.

Rating agencies take many other factors for rating banks apart from NPAs and Profitability figures. A prudent investor does not take the decision of choosing a bank only on the basis of any single parameter. Eventually it can be inferred that importance of these two factors cannot be overlooked but instituting investment decision in banks only on their basis can be a misnomer and can produce disingenuous and vague outcome. Therefore all the factors including level of NPAs, Profitability figures and rating given by rating agencies taken collectively charts out a best investment strategy in banks.

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ANNEXURES

Appendix # 1

1) Ranking of Banks according to NPAs

s. no	Name of Banks	NPA (2008) (In Cr.)	NPA (2009) (In Cr.)	NPA Valuation (%)	Ranking
1	ICICI	3490.55	4553.94	30.46	4
2	HDFC	298.52	627.62	110.24	5
3	IDBI	1082.91	949	-12.37	1
4	SBI	7424.33	9552.02	28.66	3
5	BOB	493.55	451.15	-8.6	2

Source-http://www.icicibank.com/Pfsuser/aboutus/resultsann/2009_04_FY2009_PR2.pdf
http://www.hdfcbank.com/common/pdf/corporate/HDFC_Bank_Annual_Report_0809_I.pdf
http://www.bankofbaroda.com/download/Bob-AR-http://www.statebankofindia.com/webfiles/uploads/files/AR0809/108-160.pdf
http://www.idbibank.com/idbi/fin_april_09.asp

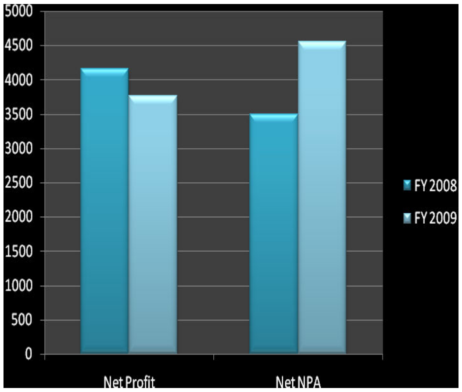
Appendix # 2

2. Ranking of Banks according to Profitability

A) ICICI BANK

	ICICI BANK	Fig. in cr.
	FY 2008	FY 2009
Net Profit	4157.73	3758.13
Net NPA	3490.55	4553.94

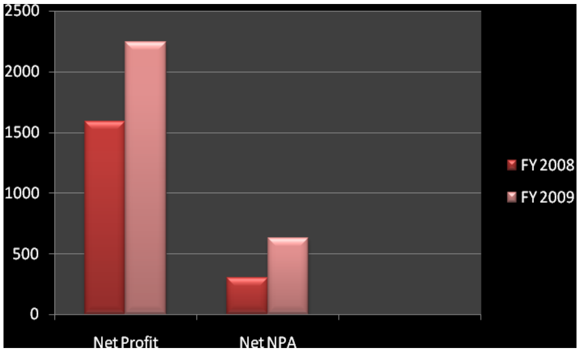
Source – http://www.icicibank.com/Pfsuser/aboutus/resultsann/2009_04_FY2009_PR2.pdf
http://www.icicibank.com/Pfsuser/aboutus/resultsann/2008-01-Q3-FY2008-PR-2.pdf



B HDFC BANK

		Fig. In Cr.
	FY 2008	**FY 2009**
Net Profit	**1590.18**	**2244.94**
Net NPA	**298.52**	**627.62**

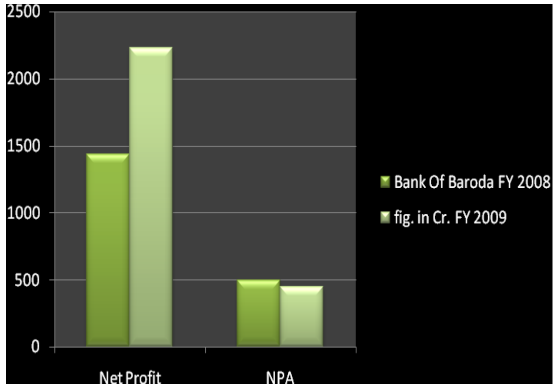
Source – http://www.hdfcbank.com/common/pdf/corporate/annual_report_07_08.pdf
http://www.hdfcbank.com/common/pdf/corporate/HDFC_Bank_Annual_Report_0809_I.pdf



C BANK OF BARODA

	Bank Of Baroda	**Fig. in Cr.**
	FY 2008	**FY 2009**
Net Profit	**1435.52**	**2227.2**
NPA	**493.55**	**451.15**

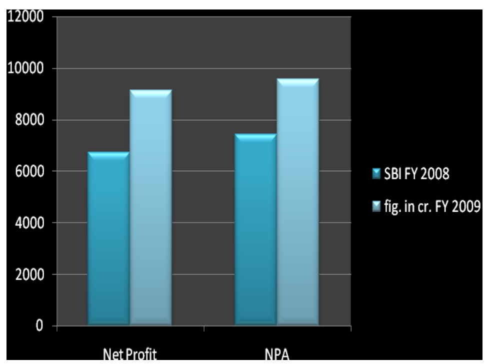
Source - http://www.bankofbaroda.com/download/Bob-AR-08062009.pdf
http://bob.myiris.com/newsCentre/bobNews.php?dir=2009/11/13/20091113163022200.htm



D STATE BANK OF INDIA

	SBI	Fig. in cr.
	FY 2008	**FY 2009**
Net Profit	**6729.12**	**9121.22**
NPA	**7424.33**	**9552.02**

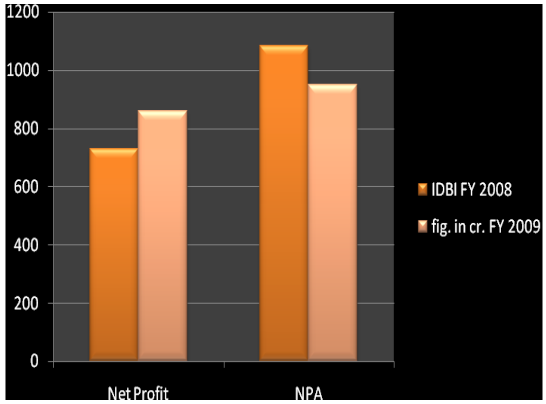
Source - http://crpd.sbi.co.in/uploads/forms/Main_Account_20080610.pdf
http://www.statebankofindia.com/webfiles/uploads/files/AR0809/108-160.pdf



E IDBI Bank

	IDBI	Fig. in cr.
	FY 2008	**FY 2009**
Net Profit	**729.46**	**859**
NPA	**1082.91**	**949**

Source – http://www.idbibank.com/idbi/fin_mar_08.asp
http://www.idbibank.com/idbi/fin_april_09.asp



	Name of Banks	Net Profit 08(In Cr.)	Net Profit 09(In Cr.)	Profitability (%)	Ranking
1	ICICI	4157.73	3758.13	-9.61	5
2	HDFC	1590.18	2244.94	41.17	2
3	IDBI	729.46	859	17.76	4
4	SBI	6729.12	9121.22	35.55	3
5	BOB	1435.52	2227.2	55.15	1

Appendix # 3

3 Ranking of Banks according to online Public rating by rating agencies Banking System - Top Banks In India

Abn Amro Bank | Allahabad Bank | American Express Bank | Andhra Bank | Bank Of India | Canara Bank | Central Bank Of India | Citibank | Corporation Bank | HDFC Bank | HSBC Bank | ICICI Bank | Indian Overseas Bank | Oriental Bank Of Commerce | Punjab National Bank | State Bank Of India (SBI) | Standard Chartered Bank | IDBI | United Bank Of India | Axis bank

http://finance.indiamart.com/investment_in_india/top_banks_india.html

Five Indian banks listed among top 1,000 world banks ranking (July 3, 2009)

The trade magazine 'The Banker' a part of the Financial Times group that has been carrying the rankings since 1970, has compiled a list of the world's top 1,000 banks for the year 2009; the five Indian banks have been able to make their position in the list. Banks capital is the core measure to know about bank's financial strength that includes largely of shareholders' capital. The two of Indian banks – State Bank of India is positioned at 64th position and ICICI Bank Ltd is figured at 81st position among the top 100 by tier I capital. While Punjab National Bank, HDFC Bank Ltd and Bank of India are positioned at 239, 242 and 263, respectively in the list to be published in the July issue of 'The Banker'. http://finance.indiamart.com/investment_in_india/top_banks_india.html

S. No.	Name of Banks	Public Rating	Ranking
1	ICICI	12	2
2	HDFC	10	1
3	IDBI	18	4
4	SBI	16	3
5	BOB	N.A.	5

http://finance.indiamart.com/investment_in_india/top_banks_india.html

Appendix # 4

4 Ranking of Banks according to rating by rating agencies (Crisil)

S. No.	Name of Banks	Crisil Rating	Ranking
1	ICICI	AAA/Negative/Reaffirmed	5
2	HDFC	AAA/stable/Reaffirmed	1
3	IDBI	AA/Stable	4
4	SBI	AAA/Stable	1.5
5	BOB	AAA/Stable	1.5

Sources: http://www.crisil.com/Ratings/RatingList/RatingDocs/icici-bank-1_16jul09.htm
http://www.crisil.com/Ratings/RatingList/RatingDocs/hdfc-bank_24oct08.htm
http://bob.myiris.com/newsCentre/bobNews.php?dir=2009/11/13/20091113163022200.htm
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Appendix # 5

Questionnaire

Q1) In which bank do you invest?
Q2) Have you taken bank's profitability into consideration while selecting your bank?
Yes/ No
Q3) Did you focus on the level of Non Performing Assets of bank while choosing your bank?
Yes/ No
Q4) Was Rating given by bank rating agencies considered by you during bank selection?
Yes/No
Q5) Are you satisfied with services provided by your bank?
Yes/ No
Q6) State any two factors for your satisfaction w.r.t. your bank.

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At the very outset, International Journal of Research in Commerce and Management (IJRCM) appreciates your efforts in showing interest in our present issue under your kind perusal.

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Hoping an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Editor