

# 11. A Comparative Study of Non-PERFORMING ASSETS (NPA) of five Private Sector Banks in India

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## Abstract

In today's era banking sector has gaining the value in the economy day by day. Generally banks are one of the pillars of any of the economy of countries. In normal terms banks are providing the funds to their customers in the form of loans and advances. If anyone wants to check how efficiently banks are running their business then he should check it out the amount of Non-Performing Assets (NPA) in that bank. Higher the NPA lower the efficiency, Lower the NPA high level of progress and potentiality.

This paper having the centre idea about the connectivity of profitability and NPA. For the study purpose, five private sector banks has been taken over here and the data of NPA and Profitability for the year 2013-2017 is taken.

To increase the performance of the bank, the NPA need to reduce and controlled by the bank.

**Keywords:** Non-performing assets, Private sector bank.

## 1. Introduction

The banking system is the heart of the financial system. The major function of the financial System is the mobilisation of the public savings and its allocation in different sectors of the Economy as an investment. The conversion of financial savings in to investment is known as the process of capital formation in the economy. How this process of financial intermediation (i.e. collecting scattered savings and using it in to productive purposive) is carried out shall reflect the efficiency of the financial institutions and their role in socio-economic transformation of the nation.

The Narasimham Committee (1991) on "Financial System Reforms" introduced the concept of non-performing assets. The status on non-performing assets constitutes the best indicator of judging the health of the banking industry. The problem of NPAs is linked with the lending Procedure of banks as these are an inevitable burden on the banks. A bank gives out money upfront and earns income over a time on the promise of a borrower to repay. When loans

are not repaid, the bank loses both its income stream, as well as its capital. The major problem today faced by all the commercial banks is the increasing risk of non-performing assets, which possess challenge to their ultimate survival.

## **2. The specific objectives of the present study are**

1. To find out the quantum of NPAs in private sector banks in India.
2. To analyse the impact of NPAs on banks' performance.
3. To analyse the reasons for mounting NPAs in banks in India.
4. To suggest ways to reduce the level of NPAs in banks in India.

## **3. Research Methodology**

The study is primarily analytical and descriptive based on secondary data collected from bank website and RBI website, Publications, Journals, Reports and websites of public and private sector banks in India. The time period covered for the study is from 2013 to 2017.

To analyse the growth in NPAs among the five leading private sector banks in India., Bar graphs have been used to demonstrate the increase and decrease of NPA.

## **4. Statement of Problem**

One of the important functions of Banks is to maintain the quality of assets, which requires proper selection of borrower, appraisal of his/her project, adequate credit, close monitoring, supervision and follow up. In spite of this there is always risk of accounts becoming non-performing. so, there is need to devise suitable strategy for accounts, which have gone bad and or classified as non-performing assets.

The focus of this study is on reducing the level of NPA's and further reducing the holding cost by adopting appropriate strategy for recovery, compromise and written off.

## **5. Literature review**

According to Reserve Bank of India (RBI) explains the definition of NPAs, "an asset makes non-performing when it stops to generate income for the bank. Recently an asset was measured as non-performing asset (NPA) stand on the concept of 'Past Due'. A non-performing asset was examined as credit in respect of which interest of principal has remained 'past due' for a particular time". Siraj and Sudarsanan Pillaisays that "NPA is a virus affecting banking sector.

The study concluded that NPA still remains a major threat and the incremental component explained through additions to NPA poses a great question mark on efficiency of credit risk management of banks in India". Debarsh and sukanyagoyal (2012) 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". In the seminal study on 'credit policy, systems, and culture', Reddy (2004) raised various critical issues pertaining to credit delivery mechanism of the Indian banking sector.

Reddy (2004) critically examined "various issues pertaining to terms of credit of Indian banks. In this context, it was viewed that 'the 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". The problem of NPAs is related to several internal and external factors facing the borrowers (Muniappan, 2002).

"The internal factors are diversion of funds for diversification 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". **Types of NPA**

#### **Gross NPA**

Gross NPA is an advance which is considered written off, for bank has made provisions, and which is still held in banks' books of account. Gross NPA (non-performing asset) refers to overall quantity of loans that have gone bad debts. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss asset.

"Gross NPAs Ratio = Gross NPAs / Gross Advances"

#### **Net NPA**

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. "Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions"

#### **Assets Classification**

**The NPAs have been classified under four categories:**

**(i) Standard Assets:** 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 NPAs in the real sense.

**(ii) Sub-standard Assets:** All those assets which are considered as non-performing for a Period of 12 months.

**(iii) Doubtful Assets:** Those assets which are considered as non-performing for period of more than 12 months.

**(iv) Loss Assets:** All those assets which cannot be recovered. These assets are identified by the Central Bank or by the auditors.

### Causes of NPA

**Lending Practices of Banks:** In 2008 the financial crisis has been happened because of bad lending practices of banks. The banks should strictly follow rules and regulations while lending loans. They should properly follow the credit policy of banks.

**Business Risk:** The organization may sometimes face problems with its own operational environment which may result in losses for the company.

**Environmental Risk:** Sometimes there may be environmental problems like cyclones, drought which does not give the required output to the farmers and Agri based businesses

## 6. Data Analysis and interpretations

### Percentage of gross NPA and net NPA of all five banks

#### Kotak Mahindra Bank

Year	Profitability (%)	Gross NPA (%)	NetNPA(%)
2017	19.27	2.59	1.26
2016	12.75	2.36	1.06
2015	19.19	1.85	0.92
2014	17.13	1.98	1.08
2013	16.91	1.55	10.4

Source: Annual report and data analysed.

The above table depicts the percentage of Profitability, Gross NPA and Net NPA during the period of 2013-2017. The percentage of profitability has increased from 16.91 to 19.27 in 2013-17 respectively. From the above percentage it has observed the amount of gross NPA and net NPA has inverse relationship with the Profitability. Similarly, NPA percentage is also showing the rising trend from 1.55 in 2013 to 2.59 in 2017

#### ICICI Bank

Year	Profitability	Gross NPA(%)	Net NPA(%)
2017	18.09	7.89	4.89
2016	18.44	5.21	2.67
2015	22.76	3.78	1.61
2014	22.20	3.03	0.97
2013	20.77	3.22	0.77

Source: Annual report and data analysed

The above table shows the amount of the percentage of Profitability, Gross NPA and Net NPA during the period of 2013-2017. The percentage of profitability has decreased from 20.77 in 2013 to 18.09 in 2017. From the above percentage it has observed the amount of gross NPA and net NPA has been increasing from 3.22 and 0.77 in 2013 respectively and 7.89 and 4.89 in 2017

respectively. The inverse relationship of Gross NPA and Net NPA is observed with the Profitability. Similarly, NPA percentage is also showing the rising trend from 2013 to 2017.

**Dena Bank**

Year	Profitability	Gross NPA(%)	Net NPA(%)
2017	-8.48	16.27	10.66
2016	-8.78	9.98	6.35
2015	2.46	5.45	3.82
2014	5.52	3.33	2.35
2013	9.1	2.19	1.39

Source: Annual report and data analysed

From the above table it can be interpreted that Bank has not made enough provisions for their gross and Net NPAs. From the table we can see that of 5 consecutive years under study, in 2013 to 17 the rise in NPA which is not a good sign for bank. The bank needs to make sufficient provision in order to reduce the level of NPA.

**Axis Bank**

Year	Profitability	Gross NPA(%)	Net NPA(%)
2017	8.26	5.04	2.11
2016	20.06	1.67	0.70
2015	20.73	1.34	0.44
2014	20.29	1.22	0.40
2013	19.05	1.06	0.32

Source: Annual report and data analysed

It can be noted that the percentage of profitability has decreased from 9.1 in 2013 to -8.48 in 2017. From the above percentage it has observed the amount of gross NPA and net NPA has been increasing from 2.19 and 1.39 in 2013 respectively and 16.27 and 10.66 in 2017 respectively. The inverse relationship of Gross NPA and Net NPA is observed with the Profitability. As the NPA is increased the profitability showed the negative trend.

**Yes Bank**

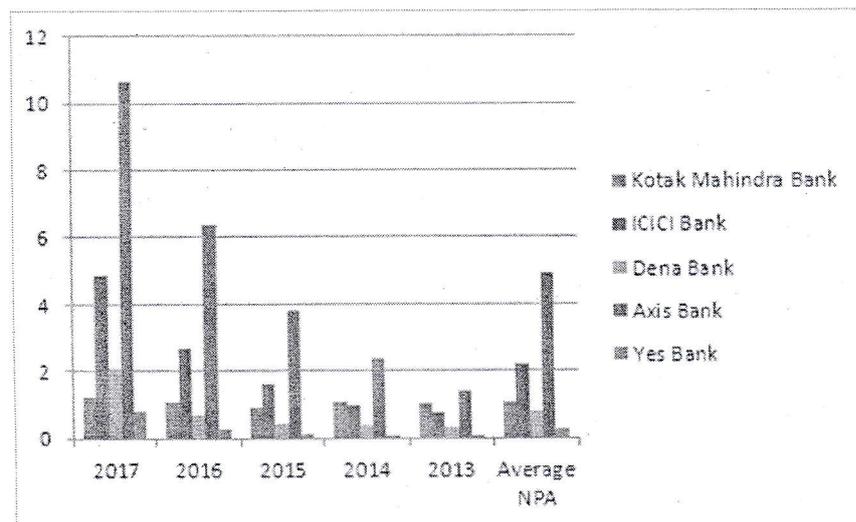
Year	Profitability	Gross NPA(%)	Net NPA(%)
2017	20.27	1.52	0.81
2016	18.076	0.76	0.29
2015	17.032	0.41	0.12
2014	16.02	0.31	0.05
2013	15.68	0.20	0.01

Source: Annual report and data analysed

From the above table it is found that the percentage of NPA is increasing but the increase in Profitability is also in the same proportions. From this we can say that bank is taking a controlled action against NPA.

### Calculation of NPA

Bank Name	2017	2016	2015	2014	2013	Average NPA
Kotak Mahindra Bank	1.26	1.06	0.92	1.08	1.04	1.072
ICICI Bank	4.89	2.67	1.61	0.97	0.77	2.182
Dena Bank	2.11	0.70	0.44	0.40	0.32	0.794
Axis Bank	10.66	6.35	3.82	2.35	1.39	4.914
Yes Bank	0.81	0.29	0.12	0.05	0.01	0.256



The above figure shows the trend of Gross NPA and Net NPA in percentages for the period of 2013 to 2017. The x-axis represent the years i.e. as the period of (2013- 2017) whereas y-axis represent the amount of NPA (%). We can observe here that the Gross and Net amount of NPA has been showing an upward trend beginning from 2013 to 2017.

### 7. Limitations of the study

1. The study is limited to five private sector banks only.
2. The data collected is of only for 5 years of NP
3. NPAs are changing from time by time by the performance of the bank, but study does not concentrate on future consequences.

### 8. Conclusion

The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income

from interest on funds lent. This study shows that extent of change in NPA always has a huge impact over the profitability of the banking sector. NPA shows the overall performance of banking sector. It is one of the serious problems of the banks now days. It is always impossible to make the NPA ration to the zero, but it is defiantly possible to reduce the NPA ratio. It only requires proper management, enough pre cautions and timely follow up of loan repayment from customers.

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