



A study of trends of Non-Performing assets in Public sector banks during Post-Reform period

Dr. Tanmaya Kumar Pradhan, Asst. Professor, Dept. of Economics, NM Institute of Engineering and Technology, Sijua, Patrapada, Khandagiri, Bhubaneswar, Orissa-751019

Abstract:

Non-Performing Assets have been substantially reduced since regulations were tightened in 1993, but improvement has recently slowed down and the levels of NPA remain high compared to international standards. According to RBI norms, NPA has been defined as a credit facility in respect of which interest has remained past due for a period of four quarters. An amount under any credit facility is past due when it has not been paid within 30 days from the due date. It examines the trends of NPA, trends in Gross advances and Gross NPA, bank-wise NPA, quantum of NPA in public sector banks. The study is based on the secondary data. The data has been analyzed by percentage method. The rate of decline in Gross NPA has been extremely low during the last decade. There has been a marked improvement in the asset quality with the percentage of Gross NPA to Gross advances reduced in the post reform period.

KeyWords: NPA, GROSS NPA, NNPA, GNPA RATIO

1. Introduction

With the introduction of Prudential Norms relating to Income Recognition, Asset Classification and Provisioning, banks have realized the impact of non-payment risk associated with credit portfolio on the profitability of the banks. Containing the Non-Performing Assets has been in focus ever since the banking sector reforms were initiated in 1992 and all banks have been making efforts to limit the NPA levels and reduce the impact on their profitability. NPA reduce the income level of banks and make it impossible for them to quote finer Prime Lending Rates (PLR). Higher level of NPA forced the banks to charge higher PLR and PLR related interest rates. This will attract high-risk borrowers which, in turn, may result in higher level of non-performing advances in future. Thus the risk of non-performance and non-payment in the credit portfolio needs to be controlled for improving the management efficiency of banks. A periodic review of the Credit Risk involved in the loan plays a vital role in controlling the Non-Performing Assets. Continuous monitoring enables the bank to assess the financial position of the borrower and thereby timely action can be taken before the NPA become loss assets.

2. Objectives:-

- (i) To study the trends of NPA in public sector banks during post reform period.
- (ii) To examine the quantum of NPA in public sector banks.
- (iii) To analyze the bank- wise NPA in public sector banks from 2007 to 2009.
- (iv) To determine the trends in Gross advances and Gross NPA in public sector banks.

3. Methodology:-

The study is based on the secondary data. The scope of the study is limited to 13 years data. The data has been analyzed using percentage method. The study is related to public sector banks.

An analysis of the NPA of public sector banks over the period from 2001 to 2009 (Data given in the Table No.3.1)

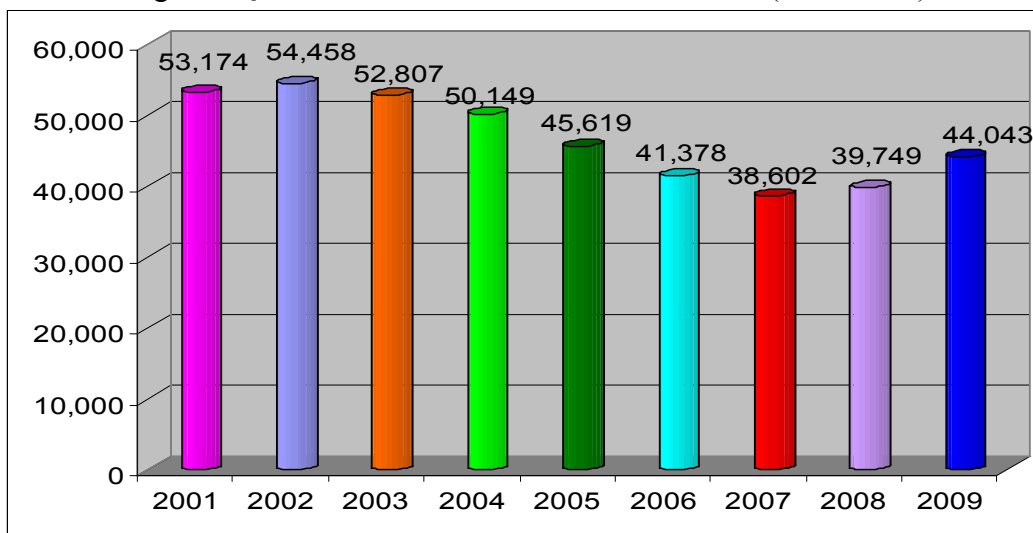


Table 3.1 Quantum of NPA in Public Sector Banks (Amount in Crores)

| Year | Category | | |
|------|---------------------------------|------------------------|---------------------------|
| | State Bank & its Associates (A) | Nationalized Banks (B) | Public Sector Banks (A+B) |
| 2001 | 20,191 | 32,983 | 53,174 |
| 2002 | 19,096 | 35,363 | 54,458 |
| 2003 | 16,959 | 35,849 | 52,807 |
| 2004 | 15,159 | 34,990 | 50,149 |
| 2005 | 14,809 | 30,812 | 45,619 |
| 2006 | 13,193 | 28,185 | 41,378 |
| 2007 | 12,556 | 26,046 | 38,602 |
| 2008 | 15,221 | 24,528 | 39,749 |
| 2009 | 17,874 | 26,169 | 44,043 |

Source: Department of Banking Supervision, Reserve Bank of India @ www.rbi.org

Fig.3.1. Quantum of NPA in Public Sector Banks (2001-2009)



As is evident from the above figure, the quantum of NPA in public sector banks was remaining almost unchanged from 2001 to 2003. From 2004 onwards there was a declining trend till 2007: but the trend is reversed since 2008.

A declining trend with minor deviations is observed in the quantum of NPA during the last nine years. This is an encouraging trend attributed to the banking sector reforms. But it is evident that the rate of fall is extremely low. Persistent efforts on the part of the commercial banks will, however expedite the rate of decline in future.

4. Composition of NPA

After the global financial turmoil in 2008, Indian banks began the New Year 2009-10 with a lurking fear that their Non Performing Assets would go up with their portfolios coming under severe stress.

There was already a visible strain on consumer, credit card and vehicle loan portfolios and many banks have taken conscious decision to scale down their advances to risky sectors. Some banks have also revised their credit growth targets downwards as the year has come to a close.



The ongoing financial crisis has had its toll on export-related sectors like IT, textile and SMEs. This has indirectly impacted banks' asset quality. There was, therefore, a pressing need to ensure adequate risk-management mechanisms to overcome this challenge.

Indian banks witnessed a sharp jump in their gross NPA for the first time in six years in FY 08, compelling many of them to enhance their existing risk assessment tools. Gross NPA of commercial banks in FY 08 escalated by Rs 6,136 crore, according to figures released by the Reserve Bank.

Though there was no need to be unduly alarmed, banks need to follow certain standard parameters to ensure the quality of their lending portfolios. Despite pressures emanating from global financial markets, Indian banks witnessed a healthy 25% to 29% average growth in credit disbursements, primarily in housing, auto and infrastructure loans.

4.1 NPA Trend in Public Sector Banks

Data regarding the trends of NPA in public sector banks during the post reform period have been reviewed. Data beyond 2006 were not available. Therefore the analysis is confined to the data pertaining to the period 1993-94 to 2005-06.

Table 4.1. Trends of Non Performing Assets in Public Sector Banks during post-reform period

| FY | GNPA (Rs. In Crores) | GNPA Ratio (%) | NNPA (Rs. In Crores) | NNPA Ratio (%) |
|---------|-------------------------|----------------|-------------------------|----------------|
| 1993-94 | 410.4 | 24.78 | 196.9 | 14.46 |
| 1994-95 | 383.9 | 19.45 | 175.7 | 10.67 |
| 1995-96 | 416.6 | 18.01 | 183.0 | 8.9 |
| 1996-97 | 473.0 | 15.70 | 223.4 | 8.1 |
| 1997-98 | 508.2 | 14.40 | 237.6 | 7.3 |
| 1998-99 | 587.2 | 14.70 | 280.2 | 7.6 |
| 1999-00 | 604.1 | 12.70 | 300.7 | 6.8 |
| 2000-01 | 637.4 | 11.40 | 324.6 | 6.2 |
| 2001-02 | 708.6 | 10.40 | 355.5 | 5.5 |
| 2002-03 | 687.2 | 8.80 | 296.9 | 4.0 |
| 2003-04 | 617.9 | 7.20 | 244.0 | 2.8 |
| 2004-05 | 583.0 | 5.20 | 214.4 | 2.6 |
| 2005-06 | 518.2 | 3.30 | 185.3 | 1.2 |

Source: Research Journal of Social Science, Vol.3, No. 4-12, 2008

Table above (4.1) and the corresponding figure show the trend in Gross and Net NPA from FY 1993-94 to FY 2005-06. As would be observed, there has been sharp and significant decline in GNPA and NNPA during the post reform period (FY 1993-94 to FY 2005-06). The more significant feature of the decline is that the gap between GNPA and NNPA has also narrowed down.

The following table depicts bank-wise NPA for the period from 2007 to 2009.

Table 4.2. Bank-wise NPA in 2007

| Bank Name | Amount in Rs. Crores | | |
|--|----------------------|---------------|----------------|
| | Gross NPA | Gross Advance | GNPA Ratio (%) |
| (i) State Bank of India and its Associates | | | |
| State Bank of Bikaner & Jaipur | 463 | 20766 | 2.2 |
| State Bank of Hyderabad | 351 | 28402 | 1.2 |



| | | | |
|-------------------------------|------|--------|-----|
| State Bank of India | 9998 | 342077 | 2.9 |
| State Bank of Indore | 294 | 15487 | 1.9 |
| State Bank of Mysore | 384 | 16783 | 2.3 |
| State Bank of Patiala | 524 | 29056 | 1.6 |
| State Bank of Saurashtra | 128 | 11132 | 1.2 |
| State Bank of Travancore | 540 | 25059 | 2.2 |
| (ii) Other Nationalized Banks | | | |
| Allahabad Bank | 1094 | 41914 | 2.6 |
| Andhra Bank | 397 | 28233 | 1.4 |
| Bank of Baroda | 2092 | 84714 | 2.5 |
| Bank of India | 2100 | 86791 | 2.4 |
| Bank of Maharashtra | 820 | 23462 | 3.5 |
| Canara Bank | 1493 | 98973 | 1.5 |
| Central Bank of India | 2572 | 53489 | 4.8 |
| Corporation Bank | 625 | 30422 | 2.1 |
| Dena Bank | 744 | 18258 | 4.1 |
| IDBI Bank Ltd | 1232 | 65251 | 1.9 |
| Indian Bank | 546 | 29502 | 1.9 |
| Indian Overseas Bank | 1120 | 47928 | 2.3 |
| Oriental Bank of Commerce | 1454 | 45395 | 3.2 |
| Punjab & Sind Bank | 291 | 11948 | 2.4 |
| Punjab National Bank | 3391 | 98206 | 3.5 |
| Syndicate Bank | 1560 | 52839 | 3.0 |
| UCO Bank | 1506 | 47471 | 3.2 |
| Union Bank of India | 1873 | 63658 | 2.9 |
| United Bank of India | 817 | 22640 | 3.6 |
| Vijaya Bank | 564 | 24644 | 2.3 |
| (iii) Other Commercial Banks | | | |
| Axis Bank | 411 | 37022 | 1.1 |
| HDFC Bank | 645 | 47387 | 1.4 |
| ICICI Bank | 4126 | 198193 | 2.1 |
| ING Vysya Bank | 126 | 11989 | 1.1 |
| Karnataka Bank | 387 | 9810 | 3.9 |
| South Indian Bank | 321 | 8156 | 3.9 |
| Yes Bank | 0 | 6290 | 0.0 |

Source: Department of Banking Supervision, RBI (December 2008), posted at www.rbi.org

Table 4.3. Bank-wise NPA in 2008

| (iv) Bank Name | Amount in Rs. Crores | | |
|--|----------------------|---------------|----------------|
| | Gross NPA | Gross Advance | GNPA Ratio (%) |
| State Bank of India and its Associates | | | |
| State Bank of Bikaner & Jaipur | 437 | 25304 | 1.7 |
| State Bank of Hyderabad | 312 | 35901 | 0.9 |
| State Bank of India | 12837 | 422181 | 3.0 |
| State Bank of Indore | 265 | 18356 | 1.4 |
| State Bank of Mysore | 359 | 21305 | 1.7 |
| State Bank of Patiala | 521 | 36724 | 1.4 |
| State Bank of Saurashtra | 179 | 12309 | 1.5 |
| State Bank of Travancore | 571 | 28440 | 2.0 |



| (v) Other Nationalized Banks | | | |
|------------------------------|------|--------|-----|
| Allahabad Bank | 1011 | 50312 | 2.0 |
| Andhra Bank | 372 | 34556 | 1.1 |
| Bank of Baroda | 1981 | 107672 | 1.8 |
| Bank of India | 1931 | 114793 | 1.7 |
| Bank of Maharashtra | 766 | 29798 | 2.6 |
| Canara Bank | 1416 | 107655 | 1.3 |
| Central Bank of India | 2350 | 74287 | 3.2 |
| Corporation Bank | 584 | 39664 | 1.5 |
| Dena Bank | 573 | 23381 | 2.4 |
| IDBI Bank Ltd | 1565 | 83608 | 1.9 |
| Indian Bank | 487 | 40228 | 1.2 |
| Indian Overseas Bank | 997 | 61058 | 1.6 |
| Oriental Bank of Commerce | 1280 | 55327 | 2.3 |
| Punjab & Sind Bank | 136 | 18409 | 0.7 |
| Punjab National Bank | 3319 | 120932 | 2.7 |
| Syndicate Bank | 1769 | 65197 | 2.7 |
| UCO Bank | 1652 | 55627 | 3.0 |
| Union Bank of India | 1657 | 75879 | 2.2 |
| United Bank of India | 761 | 28152 | 2.7 |
| Vijaya Bank | 512 | 32019 | 1.6 |
| (vi) Other Commercial Banks | | | |
| Axis Bank | 486 | 59899 | 0.8 |
| HDFC Bank | 904 | 64032 | 1.4 |
| ICICI Bank | 7580 | 229892 | 3.3 |
| ING Vysya Bank | 116 | 14663 | 0.8 |
| Karnataka Bank | 380 | 11102 | 3.4 |
| South Indian Bank | 188 | 10597 | 1.8 |
| Yes Bank | 11 | 9432 | 0.1 |

Source: Department of Banking Supervision, RBI (December 2008), posted at www.rbi.org

Table 4.4. Bank-wise NPA in 2009

| (Amount in Rs. Crores) | | | |
|--|-----------|---------------|----------------|
| (vii) Bank Name | Gross NPA | Gross Advance | GNPA Ratio (%) |
| State Bank of India and its Associates | | | |
| State Bank of Bikaner & Jaipur | 490 | 30088 | 1.63 |
| State Bank of Hyderabad | 486 | 43938 | 1.11 |
| State Bank of India | 16346 | 549297 | 2.98 |
| State Bank of Indore | 301 | 21747 | 1.39 |
| State Bank of Mysore | 368 | 25870 | 1.42 |
| State Bank of Patiala | 573 | 43961 | 1.31 |
| State Bank of Saurashtra | 182 | 14306 | 1.27 |
| State Bank of Travancore | 549 | 32976 | 1.67 |
| (viii) Other Nationalized Banks | | | |
| Allahabad Bank | 1078 | 59443 | 1.81 |
| Andhra Bank | 368 | 44428 | 0.83 |
| Bank of Baroda | 1843 | 144845 | 1.27 |
| Bank of India | 2471 | 144732 | 1.71 |
| Bank of Maharashtra | 798 | 34817 | 2.29 |



| | | | |
|-----------------------------|------|--------|------|
| Canara Bank | 2168 | 139037 | 1.56 |
| Central Bank of India | 2317 | 86740 | 2.67 |
| Corporation Bank | 559 | 48927 | 1.14 |
| Dena bank | 621 | 29185 | 2.13 |
| IDBI Bank Limited | 1436 | 103915 | 1.38 |
| Indian Bank | 459 | 51831 | 0.89 |
| Indian Overseas Bank | 1923 | 75810 | 2.54 |
| Oriental Bank of Commerce | 1058 | 69065 | 1.53 |
| Punjab & Sind Bank | 161 | 24698 | 0.65 |
| Punjab National Bank | 2767 | 156098 | 1.77 |
| Syndicate Bank | 1595 | 82495 | 1.93 |
| UCO Bank | 1540 | 69669 | 2.21 |
| Union Bank of India | 1923 | 98265 | 1.96 |
| United Bank of India | 1020 | 35727 | 2.85 |
| Vijaya Bank | 699 | 35875 | 1.95 |
| (ix) Other Commercial Banks | | | |
| Axis Bank | 890 | 82120 | 1.08 |
| HDFC Bank | 1984 | 100239 | 1.98 |
| ICICI Bank | 9649 | 223621 | 4.32 |
| ING Vysya Bank | 209 | 16754 | 1.25 |
| Karnataka Bank | 443 | 12123 | 3.66 |
| South Indian Bank | 261 | 11965 | 2.18 |
| Yes Bank | 85 | 12447 | 0.68 |

Source: Department of Banking Supervision, RBI (December 2008), posted at www.rbi.org

Instead of comparing the gross NPA of banks it is quite appropriate to compare their GNPA Ratio which is arrived at by taking the percentage of gross advance turned into NPA due to non recovery. During 2009 SBI had recorded highest GNPA Ratio among all public sector banks. Next to SBI was United Bank of India (2.85%). In the preceding year GNPA Ratio was 3.0% for SBI and 2.7% for United Bank of India.

Among other scheduled banks ICICI recorded highest GNPA Ratio at 4.32% and Karnataka Bank at 3.66%.

The performance of Andhra Bank and Indian Bank was found to be very encouraging. The GNPA Ratio were less than 1% for these two banks.

On the whole the performance of public sector bank appeared to be better than schedule banks in respect of NPA.

4.2 Trends in Gross Advances & Gross NPA

In this section a comparison has been made among three groups of banks with regard to their gross NPA in 2007, 2008 and 2009. The following two tables provide an analysis of data relating to gross advance and gross NPA of these three groups, namely SBI, Other Nationalised Banks and Private Scheduled Banks. It is evident that the performance of nationalized banks, other than SBI is the best among the three groups. They have been supporting an increasing rate of advance with a much lower rate of growth of NPA. The lending activity of private scheduled banks have been adversely affected in 2009 due to the growing NPA during 2008. More than sixty percent increase in NPA has reduced the growth of advance from 25.34% to 14.92% in 2009. The performance of SBI is found to be stable.



Table 4.5 Gross Advances of Banks

| (Amount in Crores) | | | | | |
|--------------------------|---------|---------|-------------------------------|---------|-------------------------------|
| III. BANKS | 2007 | 2008 | % increase over the last year | 2009 | % increase over the last year |
| 1 | 2 | 3 | 4 | 5 | 6 |
| State Bank of India | 342077 | 42218 | 23.42 | 549297 | 30.1 |
| Other Nationalised Banks | 1122423 | 1396893 | 24.45 | 1748488 | 25.16 |
| Other Scheduled Banks | 318847 | 399617 | 25.34 | 459269 | 14.92 |

Source: Department of Banking Supervision, RBI(December 2008 & 2009), Posted at www.rbi.org

The above analysis shows that performance of private sector banks was much better than that of public sector banks.

1) Table 4.6 Growth of Gross NPA

| (Amount in Crores) | | | | | |
|--------------------------|-------|-------|-------------------------------|-------|-------------------------------|
| IV. BANKS | 2007 | 2008 | % increase over the last year | 2009 | % increase over the last year |
| 1 | 2 | 3 | 4 | 5 | 6 |
| State Bank of India | 9998 | 12837 | 28.4 | 16346 | 27.34 |
| Other Nationalised Banks | 28945 | 27763 | -4.18 | 29753 | 7.16 |
| Other Scheduled Banks | 6016 | 9665 | 60.66 | 13521 | 39.9 |

Source: Department of Banking Supervision, RBI(December 2008 & 2009), Posted at www.rbi.org

Banks witnessed a huge credit demand from their corporate clients who found their foreign funding sources drying up in the aftermath of the global meltdown which originated with the sub-prime-crisis in America in mid-2007. As per the data available in the website of RBI the growth of credit in the industry in 2008 was in the range of 25% to 29% on account of working capital requirements of small, medium and large-sized industries.

It is evident that the percentage increase in Gross advances had been more than the percentage increase in Gross NPA during the last three years.

5. Findings:-(i) In respect of management of NPA the performance of Andhra Bank and Indian Bank was found to be encouraging.

(ii) The rate of decline in Gross NPA has been extremely low during the last decade.

(iii) There has been a marked improvement in the asset quality with the percentage of Gross NPA to Gross advances reduced in the post reform period.

(iv) Although the quantum of NPA is on the declining, complete elimination of NPA is impossible.

(v) The declining percentage of NPA bears a testimony to the fact that efficiency of commercial banks has been increasing.

6.CONCLUSION:

The impact of reform on NPA was found to be positive. The quantum of NPA has been substantially reduced since 1993. Still then there is nothing to be complacent. Lasting solution to the problem of NPA can be achieved only by rational credit assessment & proper risk management mechanism. Continuous declining trend is not found in the quantum of NPA in public sector banks during the last decade. The rate of decline also varies from year to year. Therefore, in addition to strengthening the ongoing reform measures banks should take little more care in assessing the creditworthiness of the borrowers and taking measures for checking mismanagement of funds by them.



References for Journals

1. poongavanam.S(2011).Non Performing assets:Issues, Causes and remedial Solution Asian Journal Of Management Research Volume 2 Issue 1.
2. Mahipal Singh Yaadav, Swami Vivkananda. Impact of Non Performing Assets on Profitability and Productivity of Public Sector Banks in India. AFBE Journal,Academic paper (pp.232-239).
- 3.Malyadri.P, Sirisha.S(2011,October). A Comparative Study of Non Performing Assets in Indian Banking Industry. International Journal of Economic Practices and Theories, Vol.1.No.2.
- 4.Chaudhary K and Sharma M (2011,June).Performance of Indian Public Sector Banks and Private Sector Banks :A Comparative Study. International Journal of Innovation, Management and Technology.
- 5.Table B6: Bank-wise Non-Performing Assets (NPAs) of Scheduled Commercial Banks-RBI Annual Report 2007.
6. Table B6: Bank-wise Non-Performing Assets (NPAs) of Scheduled Commercial Banks-RBI Annual Report 2008.
7. Table B7: Bank-wise Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks-2009.
8. Table B7: Bank-wise Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks-2010.
9. Table B7: Bank-wise Gross Non Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks-2011.
10. A.V. Aruna Kumari (2002), "Economic Reforms and Performance of Indian Banking: Across Structural Analysis", Indian Economic Panorama, A Quaterly Journal of Agriculture,Industry, Trade and Commerce ,Special Banking Issue, pp. 19-21.
11. Reserve Bank of India, master circular on Prudential norms on income recognition. Asset classification and provisioning.
12. Bhasin, N. (2008), Banking Developments in India 1947 to 2007, New Delhi, Century Publications.
13. Malyadri, P. (2003), NPA's in Commercial Banks –An Overview, Banking Finance, Monthly, January 2003, Vol. XVI, pp.6-9.
14. Rajaraman, I & Vashistha, G. (2002), ' Non-Performing Loans of Indian Public Sector Banks – Some Panel Results', Economic and Political Weekly.
15. Vasanthi, G. (2006), effect of Non-Performing Assets on Operational Efficiency of Central Co-Operative Banks, Indian Economic Panaroma, 16, pp33-39.
16. Bloem, A.M., & Goerter, C.N (2001), The Macroeconomic Statistical Treatment of Non-Performing loans, Discussion Paper, Statistics Department of the IMF.
- 17.Taori,K.J.(2000,Aug). Management of NPAs in Public Sector Banks. Banking Finance, August Issue. (pp.98-101).
- 18.Sergoi, M. (1996). Non-Performing bank loans: Cyclical patterns and sectoral risk. Review of Economic Conditions in Italy. Rome : Jan-June 1996.Issue.1.
19. Mohan, Rakesh (2003). Transforming Indian Banking : In Search of a Better Tomorrow, Reserve Bank of India. Reserve Bank of India Bulletin, Speech article, January,2003.
20. Mor, N. & Sharma, B. (2003). Rooting Out Non-Performing Assets. Fifth Annual Conference on Money and Finance in the Indian Economy. Indira Gandhi Institute of Development Research (IGIDR).Mumbai, January 30-February 1, 2003.
21. Misra, B.M. & Dhal, S. (2010,Jun). Procyclical management of non-Performing loans by the Indian public sector banks. BIS Asian Research Papers. June, 2010.
22. Pal Ved & Malik N.S. (2007), A Multivariate Analysis of the financial characteristics of Commercial Banks in India. The Icfai Journal of Bank Management. VI (3).
23. WELLS Fargo & Co.(2003), ' Big Banks Report Strong Gains, Led by Wells Fargo, Bank One'', Wall Street Journal –Eastern Edition, Vol.242, Issue 80, p.C5