

Assets Classification and Trends of Nonperforming Assets of Commercial Banks in India

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Abstract: *In a fast changing banking environment of today the very survival of a banking organization depends on level of the income generated through optimum use of assets after paying the cost of funds for acquiring them and other administrative costs involved therein. Once the assets cease to contribute the income, they are termed as Nonperforming assets, which not only have cost of funds involved but also require to be operated as per prudential norms. One of the major problems being faced by banks and financial institutions in India is that of bad debts termed as "Nonperforming assets" (Nonperforming Assets). There are many reasons for the sorry state of affairs and major among them are 1) political interference, 2) poor enforcement, 3) archaic laws and procedures, 4) corruptions at various levels and competition in various banking institutions. 5) Flow of funds etc. After considering the importance of strategic affairs in Indian banking industry, it is felt necessary to carry out a study entitled "Management of Nonperforming Assets of selected Commercial banks in India".*

Keywords: Non-performing Assets, cost of funds, administrative costs, Flow of funds

1. Introduction

The concept of Non-Performing Assets (NPAs) has been developed over the years, in the Indian banking system. In seventies, such accounts were termed as 'hard-core', 'out of order', 'stick', 'overdue' etc. But the practices to identify such accounts were not uniform in Indian banking system. After recognizing this fact, the Reserve Bank had advised the banks to classify their advances under a 'uniform grading system' in 1985, for the credit administration according to the status of a particular account.

In simple terms it can be said that 'Non-Performing Assets (NPA) means the asset, which is not performing or not earning income for the bank as per the expectations'. As long as an asset generates the income expected from it, it is treated as a 'performing asset' and when it fails to generate income, it becomes 'non - performing asset'. NPAs have many ill effects on the overall banking business and their performance. Increasing NPAs means that, the funds locked are not being used properly or are not producing adequate returns. If a bank has high NPAs, then it may not be able to earn enough to pay depositors interest or repay their principal. Will eventually affect the 'Health' of the bank and adversely affect business model of bank.

The research was done to find how well the bankers are managing the Nonperforming Assets in banks as well as to suggest the bankers to achieve their goals and objectives.

2. Objectives

1. To study the asset classification and trends of Non-performing Assets in selected commercial banks in India
2. To give necessary suggestions to the Commercial banks in India.

3. Hypothesis

H₀₁: There is no significant difference between gross nonperforming assets as percentage of Gross Advances in public sector banks and private sector banks.

H₀₂: There is no significant difference between co-efficient of variation of gross NPAs and net NPAs of public sector banks and private sector banks.

H₀₃: There is no significant difference between Gross advances and asset classification proportion of public sector banks and private sector banks.

4. Use of Tools and Techniques

Relevant statistical tools have been utilized as per the need of the study. So the study follows Trend analysis, Percentages, mean and standard deviation, Pearson's correlation coefficient, Chi-test, Regression analysis and sample test- t

Asset Quality of Commercial Banks

It is clearly seen from table 1.2 that there has been significant improvement in the asset quality of the commercial banking sector in India in study period i.e. from 2009 to 2014. Gross NPAs as percentage to gross advances of all commercial banks have steadily increased from 2.39% at the end of the March 2009 to 3.42% at the end of March 2014. It reflects that banks have made substantial progress in more advances which reflected more NPAs from their balance sheets over the period of time.

A comparative trend analysis of Non-Performing Assets of commercial banks in India is tabulated in the table. However, the asset quality has deteriorated during 2014 with sharp increase in gross NPA of commercial banks. There is sudden increase in NPA from 2.94% in 2013 to 3.42% in 2014. The sudden increase in NPA could be because of the slowdown in the domestic economy as well as inadequate

appraisal and monitoring of credit proposals. (RBI, 2012). Growth rate of gross NPA has increased at higher rate and at the same time Growth rate of advances has also increased. This can be one of the causes for sudden increase of NPA in Commercial banks.

The deterioration in asset quality was more noticeable in case of public sector banks. As compared to other bank groups the gross NPA of public sector banks has increased at a higher rate during 2013-2014. (Table 1.2) However Public sector banks record only 0.659% Standard deviation of GNPA in absolute terms during the 6 years of study period

Table 1.1: Gross Non-Performing Assets in Sample Banks (Amt Rs. Billion)

Year	SCBs		Public Sector Bank		Private Sector Bank	
	GNPA Amount	GNPA % Advance	GNPA Amount	GNPA % Advances	GNPA Amount	GNPA % Advances
2009	556.95 (100)	2.39	396.00 (72)	2.33	129.78 (23)	2.75
2010	682.16 (100)	2.45	440.32 (65)	2.10	168.9 (24)	3.25
2011	818.08 (100)	2.51	572.93 (70)	2.28	173.87 (21)	2.97
2012	941.21 (100)	2.36	710.80 (75)	2.32	179.75 (19)	2.45
2013	1371.02 (100)	2.94	1124.89 (82)	2.17	183.21 (13)	2.08
2014	1838.54 (100)	3.42	1558.90 (85)	3.84	199.92 (11)	1.91
	Mean	2.678		2.506		2.568
	Standard deviation	0.42		0.659		0.51
‘t’ value				0.893		

Source: Trends and Progress Report of Banking in India for the year 2009-14

Note1: Figures in parenthesis shows the percentage share of respective banks GNPA

The following table represents the relationship between two sample mean proportions of public sector and private sector banks are t value between public and private sector is 0.893. Table value at 5 DF at 0.05 Significance level is 2.015, hence accept H_0

Trend of Gross NPAS to Gross Advances Ratio

This ratio is always mentioned in terms of percentage which indicates the proportion of the NPA in the advances in gross. The lower is the percentage better is the advancing policy.

Table 1.2: Gross Non-Performing Assets as Percentage of Gross Advances

Name of the Bank	2008	2009	2010	2011	2012	2013	2014	2015 est.
SCBs	2.39	2.45	2.51	2.36	2.94	3.42	3.51	3.62
Public sector	2.33	2.10	2.28	2.32	3.17	3.84	3.95	4.17
Private Sector	2.75	3.25	2.97	2.45	2.08	1.91	1.82	1.55

Source: Department of Banking Supervision 2008-2014

The magnitude of NPAs have a direct impact on banks profitability as legally they are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets as per RBI guidelines. However, the magnitude of NPAs in public sector commercial banks may be had from the table 1.2 and 1.3 exhibiting its position gross and net NPAs in percentage term indicates there will be increase in the GNPA of Public sector banks where as declining trend in the private sectors bank. It is not healthy situation for the public sector banks. And the trend analysis explains, forecast for 2015 of selected commercial banks is increased to 3.62 i.e. a 97 % increase in the percentage of Gross NPA to Gross Advances.

Table 1.3: Net Non-Performing Assets as Percentage of Net Advances

Name of the Bank	2008	2009	2010	2011	2012	2013	2014	2015 est.
SCBs	2.9	2	1.2	1.01	1.00	1.1	1.12	0.43
Public sector	2.98	2.06	1.3	1.05	0.99	0.93	1.10	0.31
Private Sector	2.84	1.85	1.01	0.97	1.09	1.29	1.03	0.52

Source: Department of Banking Supervision 2008-2014.

It has been observed that the percentage of net NPAs to total advances declined from 2.98 per cent in March 2008 to 1.10 per cent in March 2014 and further 0.431 per cent in March 2015. This significant reduction of net NPAs may be due to the definitional changes of NPAs with the introduction of ‘net NPA’ concept by RBI.

Asset Classification of Selected Commercial Banks

Advances in each of the four asset categories (standard, substandard, doubtful and loss) of the Public Sector Banks during 2008 to 2014 are given in the table 1.4; the proportion of standard assets of Public Sector Banks has decreased from 97.67 per cent in end-March 2008 to 96.16 per cent in end-March 2013. The substandard assets remained constant increase in the year 2008 to 2012 but from the year 2013 and 2014 there was a decline in the ratio which is a better sign.

The doubtful assets trend moved quite opposite to the standard assets trend through the study in case of loss assets also the trend was same like doubtful assets trend only i.e. there was a continuous decrease in the ratio till the 2014 except in the year 2010 and there was a slight increase in the year 2014 as in the case of substandard assets and doubtful assets. It is also observed in the table that through the study period except in the year 2014 out of the three categories of assets that form NPAs the doubtful assets had a major share in contributing to gross NPAs whereas in the year 2014. It is observed from the table 1.5 that the year 2008 to 2014, the proportion of standard assets increased from 97.25 percent to 98.09 percent, but it has fallen in 2014.

Table 1.4: Asset Classification of Public Sector Banks
(Amount in billions)

Year	Std	%	Sub-Std	%	Doubtful	%	Loss	%	Gross NPAs	%	Gross Advance
2008	16,564.5	97.67	168.46	42.55	190.8	48.18	36.72	9.27	396.00	2.33	16,960.5
2009	20,546.0	97.90	195.21	44.35	207.0	47.02	38.03	8.64	440.32	2.10	20,986
2010	24,551.4	97.72	276.85	48.32	246.79	43.08	49.28	8.6	572.93	2.28	25,124.3
2011	29,888.7	97.68	336.12	47.29	319.55	44.96	55.14	7.76	710.80	2.32	30,599.5
2012	34,379.0	96.83	603.76	53.68	470.75	41.85	50.37	4.48	1,124.89	3.17	35,503.8
2013	38,999.8	96.16	765.89	49.13	734.85	47.14	58.15	3.73	1,558.90	3.84	40,558.7
2014	39564.5	97.20	768.46	47.41	790.8	48.78	61.72	0.19	1620.98	3.95	40685.4
Mean		91.23		47.53		45.86		6.10		2.85	
Std Dev		0.62		3.56		2.63		3.38		0.78	
t' value*		0.86		0.06		0.05		0.004		0.001	

Source: Department of Banking Supervision

Note: * Table value 1.943 at 5 degrees of freedom at 5% level of Significance

The proportion of substandard assets was fluctuating during the study period. In case of doubtful assets there was a continuous increase the ratio from the year 2008 to 2011 after this period there were fluctuations in the trend but in the year 2014 as compared to 2013 there was a slight decrease in the ratio. In case of loss assets, the first two

years of the study period the ratio was stable, later on from 2011 to 2014 there was a declining trend, but in the year 2011 there was a slight increase in the trend. From the year 2008 to 2013 again there was a gradual decline in the proportion of loss assets. In the year 2014 there was a slight increase in the ratio.

Table 1.5: Asset Classification of Private Sector Banks *(Amount in billions)*

Year	Std	%	Sub-Std	%	Doubtful	%	Loss	%	Gross NPA	%	Gross Advance
2008	4,597.2	97.25	72.81	56.14	44.53	34.33	12.4	9.56	129.7	2.75	4,727.00
2009	5,031.8	96.75	105.2	62.29	50.18	29.71	13.4	7.94	168.9	3.25	5,200.77
2010	5,677.2	97.03	86.78	50.0	65.43	37.65	21.6	12.43	173.8	2.97	5,851.10
2011	7,149.7	97.55	44.00	24.49	107.4	59.74	28.3	15.75	179.7	2.45	7,329.53
2012	8,628.9	97.92	51.33	28.02	103.2	56.31	28.7	15.67	183.2	2.08	8,812.16
2013	10,266.	98.09	58.5	29.26	110.7	55.37	30.6	15.31	199.9	1.91	10,466.6
2014	11,597	86.83	58.95	28.64	114.6	55.65	32.4	15.74	205.8	1.8	11803
Mean	93.79		2.8		2.83		0.54		6.16		
Stdev	4.03		0.6		0.17		0.05		0.55		
t value	0.90		1.68		5.58		7.5		0.01		

Source: Department of Banking Supervision

In case of doubtful assets and loss assets the trend was fluctuating during the study period. Further, it is observed from the above table that out of the total gross NPA ratio, the major share was contributed by substandard from 2009 later on there were fluctuations in share of assets.

increase in the ratio in the year 2011, later on from the year 2012 there was a continuous decrease in the ratio up to 2014. In case of substandard assets there was a continuous fluctuating from 2008 to 2014. Doubtful assets are continuously fluctuations in the ratio from 2008 to 2014. And same as the doubt full asset the loss assets also constantly fluctuating.

It is noticed from the above table 1.6 that, in the year 2008 the standard assets of selected commercial banks registered at 97.6 percent and decreased to 94.8 percent but there was a

Table 1.6: Asset Classification of Sample Banks *(Amount in billions)*

	Std	%	Sub-Std	%	Doubtful	%	Loss	%	Gross NPAs	%	Gross Advance
2008	22,760	97.6	260.8	46.83	243.04	43.64	53.02	9.52	556.95	2.39	23,317
2009	27,202	97.5	359.2	52.66	267.30	39.18	55.64	8.16	682.16	2.45	27,884
2010	31,831	97.4	412.9	50.47	326.64	39.93	78.51	9.59	818.08	2.51	32,649
2011	38,981	97.6	398.7	42.36	448.04	47.60	94.40	10.03	941.21	2.36	39,922
2012	45,292	97	675.8	49.29	596.23	43.49	98.92	7.21	1,371.02	2.94	46,663
2013	51,872	96.5	853.2	46.41	873.05	47.49	112.24	6.10	1,838.54	3.42	53,711
2014	52,760	94.8	854.1	45.91	893.04	48.01	113.02	6.07	1860.16	3.38	54,620
Mean		96.91		47.70		44.19		8.09		2.77	
Stdev		1.02		3.38		3.68		1.67		0.46	
t' value		5.48		3.77		0.04		2.84		3.85	

Source: Department of Banking Supervision

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