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A STUDY ON THE PORTFOLIO OF NON PERFORMING ASSETS IN INDIAN PRIVATE SECTOR BANKS

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Abstract

The study was conducted to establish framework for measuring and managing non-performing assets for Indian Private Banks. The Portfolio of all non-performing assets was considered for study. The study emphasizes on management on non-performing asset in the perspective of private sector banks in India under strict asset classification norms. The study traces movement of the non-performing assets present in private sector banks of India by analysing the financial performance of the bank with respective key performance indicator. The study is conducted for the period of five years from 2010-11 to 2014-15 for the Indian private sector banks. The results reveals that the movement of Non – performing assets of Indian Private sector banks showed an increasing trend from 2010-2011 to 2013-2014 but in 2014-2015 the level of NPA is reduced slighter which is a good indicator of the bank's performance. This study also recommends an efficient loan appraisal system and emphases on the need for effective credit risk management policies in the current scenario.

Key words: Private sector banks, Non performing assets, asset classification

INTRODUCTION

During the last two decade the banking sector has experienced a major transformation in its operating environment. Both external and domestic factors have affected its structure and performance. Despite the increased trend towards bank disintermediation observed in many countries, the role of banks in India remains central. In financing economic activity in general and difference segments of the market in particular. The sound and profitable banking sector is better able to withstand negative shocks and contributed to the stability of the financial system. The Indian banking industry is now graduating beyond the traditional boundaries. It has entered new areas such as wealth management, private banking, door step banking, financial inclusion, mobile banking and investment advisory services. Prudent regulatory policies (framed by RBI) have ensured that Indian banks emerge unscathed from the global credit crisis. India is among the few countries which have implemented Basel II framework. However, the banks are now facing the number of challenges such as frequent changes in technology required for modern banking, stringent prudential norms, increasing competition, raising customer expectation, increasing pleasure on profitability, asset liability management, liquidity and credit management, raising operating expenditure, striking spread and most importantly worrying level of non-performing assets (NPA).

The banking industry has undergone a sea change after the first phase of economic liberalisation 1991 and on aspects like credit management, interest rate deregulation, reduction in reserve requirement, barriers to entry and risk based supervision. But progress on structural institution aspects has been much slower and is a cause for concern. The sheltering of weak institution while liberalising operational rules of the game is making implementation of operation changes difficult and ineffective. Changes required to tackle the NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided that 90 days overdue norms for identification of NPAs from the year ending 31.03.2004 should be adopted. NPA is classified into 3 categories.

1. Sub-Standard asset – A loan asset that has been remained non performing for a period less than or equal to 12 months.
2. Doubtful asset – A loan asset that has remained in sub-standard category for a period less than or equal to 12 months.
3. Loss asset – A loss asset where loss has identified but the amount has not been identified.

Earlier as mentioned above, we had only four category of asset but now as now another step towards mitigating as NPA account, another category has been introduced, the details of which is discussed below.

Overdue – Any amount due to the bank under any credit facility is overdue if it is not paid on the due date fixed by the bank.
Out of order status – Any account should be treated as out of order if

- The outstanding balance remains continuously in excess of the sanctioned limit.
- If the outstanding balance in the principal operating account is less than the sanctioned limit, but there are no credits continuously for 90 days as on the date of balance sheet.
- Credits are not enough to cover the interest debited during the same period.

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RESEARCH METHODOLOGY

The study is based on secondary data where a major portion of the data is extracted from the annual reports of the private sector banks in India from 2011-2015 and statistical tables relating to banks in India as published by RBI. Secondary data was collected from reports, journals and websites for the latest happenings in the banking sector in India. The study mainly focuses on the composition and management of non – performing assets in private sector banks. The following private sector bank has been considered for the study.

Axis bank Ltd	Karnataka bank Ltd
Catholic Syrian Bank	Karur Vysya bank Ltd
City Union bank Ltd	Kotak Mahindra bank Ltd
DCB bank Ltd	Lakshmi Vilas bank Ltd
Dhanalaxmi bank	Nainital bank Ltd
Federal Bank Ltd	Ratnakar bank Ltd
HDFC bank Ltd	South Indian bank Ltd
ICICI bank Ltd	Tamilnad Mercantile bank Ltd
IndusInd bank Ltd	Yes Bank
Jammu & Kashmir bank Ltd	

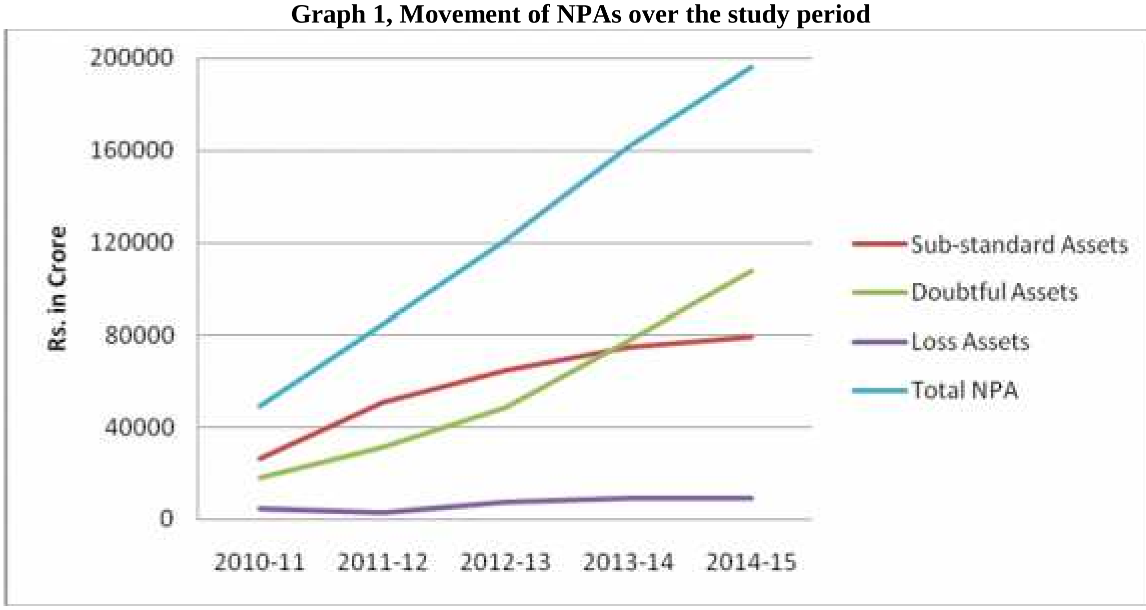
Observation and Analysis

Table 1, Portfolio of NPA in Indian Private sector banks

Year	Standard	Sub-standard Assets	Doubtful Assets	Loss Assets	Total NPA
2010-11	715236	7569.97	6866.55	2506.35	16914
2011-12	978322	5521.84	10376.1	3042.06	18931.1
2012-13	1053917	6000.42	10764.7	3223.68	19987.8
2013-14	959387	7641.24	11038.6	4210.52	22941.3
2014-15	1464487	10326.7	16327.4	5382.42	32039.2

Source: Banks Annual Reports and CMIE

Graph 1, Movement of NPAs over the study period



Source: Banks Annual Reports and CMIE

The above graph shows that there is sharp rise in the level of NPA over the study period. The percentage of total NPA to sub standard assets is found to be 44.76 % and 29.17 % in 2010-11 and 2011-12 and showed a inconsistent growth thereon till 2013-14. Again it saw a slight decline with 32.23% in 2014-15. It is observed that the percentage of total NPA to sub standard assets is high in 2010-11 and low in 2011-12 over the study period.

Table 2,Percentage of NPA components to Total NPA in Public sector banks

Year	% of Sub-standard Assets to Total NPA	% of Doubtful Assets to Total NPA	% of Loss Assets to Total NPA	% of Total NPA
2010-11	44.76	40.60	14.82	100
2011-12	29.17	54.81	16.07	100
2012-13	30.02	53.86	16.13	100
2013-14	33.31	48.12	18.35	100
2014-15	32.23	50.96	16.80	100

Source: Banks Annual Reports and CMIE

From table 2, in case of doubtful assets, it is more as compared to the sub-standard and loss assets. There is also inconsistent growth in percentage of doubtful assets to total NPAs from 2010-11 to 2011-12. In 2010-11 the percentage of doubtful assets to total NPA is 40.6% and 54.81% in 2011-12. Then it showed the declining trend where it is 53.86% in 2012-13 and decreased to 48.12 in 2013-14. But in 2014-15, the percentage of doubtful assets to total NPA is 50.96%. Hence the movement of the percentage of doubtful assets to total NPA is inconsistent over the period of study.

In case of loss assets, the movement showed the same pattern as sub standard and doubtful assets. From 2010-11, the percentage of loss assets to total NPA showed an increase trend till 2013-14. In 2010-11 it is found to be 14.82% and increased to 16.07% in 2011-12, and remained stable in 2012-13 with 16.13% and increased to 18.35% in 2013-14. But in 2014-15 the percentage dropped to 16.8% which is a good indicator of efficiency of banks.

CONCLUSION

From the result obtained banks must achieve better portfolio equilibrium and must establish efficient risk management information system. NPA management is a challenge in today's competitive market. Bank must develop an early warning system which combines strategic planning, competitive intelligence and management action. The reputation of a bank is very important for corporate clients. A corporation seeks to develop a relationship with a reputable banking entity with a proven track record of high quality service and demonstrated history of safety and sound practices.

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