NON PERFORMING ASSETS MANAGEMENT: A STUDY OF SELECTED PRIVATE SECTOR BANKS IN INDIA.

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Abstract: In the year 2017, a report by CARE Ratings revealed that India has been ranked fifth on the list of countries with highest NPAs, and is on top spot among the BRICS nations. Day by Day the mounting pressure of NPAs becomes the major concern of the financial and banking sector in India.
This paper considers the data of selected private sector Banks – Industrial Credit and Investment Corporation of India (ICICI Bank) and Karur Vysya Bank (KVB) and attempt to compare analyze and interprets the NPA management from the year 2008-2017. On the conceptual side, it gives an overview of NPA & types of NPA and on calculation side; it covers various ratios and also application of T test to judge the presence of any significant difference between the ratios. The finding reveals that the percentage of Gross NPA to Total Advances and Net NPA to Total Advances of KVB is less compare to ICICI and from T test it is concluded that the ratio of Gross NPA to Total Advance and Net NPA to Total Advance does not have significant difference of ICICI and KVB bank between 2008-2017.

Key Words: **Non –Performing Assets (NPA), Industrial Credit and Investment Corporation of India (ICICI Bank), Karur Vysya Bank (KVB)**

I. INTRODUCTION

In the year 2017, a report by CARE Ratings revealed that India has been ranked fifth on the list of countries with highest NPAs, and is on top spot among the BRICS nations. The Indian banking sector has been facing serious problems of raising Non- Performing Assets (NPAs). NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The NPAs growth has a direct impact on profitability of banks. At global level, one interesting observation related to the trend of NPA is done that most of the countries that fall under the higher NPA/Total Loan ratio Category are in the Asian region. (Meenakshi and Mahesh, 2010)**.** As a result the asset quality has been deteriorating day by day and the mounting pressure of NPAs becomes the major concern of the financial and banking sector. NPA problem can potentially jeopardize the real economic activity.
As per the joint study of ASSOCHAM-Crisil, Gross non-performing assets (NPA) are expected to rise to Rs 9.5 lakh crore by March, 2018 from Rs 8 lakh crore in March last year in Indian banks.

II. OBJECTIVES OF THE STUDY

1. To study the concept and types of Non Performing Assets (NPA) in Banks.
2. To analyze and interpret various NPA related ratios of selected Private sector banks in India from 2008-2017.
3. To test that is there any significant differences between ratio of Gross NPA to Advances of ICICI and KVB bank in India from 2008-2017.
4. To test that is there any significant differences between ratio of Net NPA to Advances of ICICI and KVB bank in India from 2008-2017.

III. LITERATURE REVIEW

This section provides an overview of some of the existing literature with regard to the NPA. This literature review helps me to better understanding of both research topics and of the existing gap:

Sukul (2017) studies the trend of NPAs and correlation between Net profit and Net NPA of leading private sector banks and suggests measures to minimize it.
Subhamathi (2016) examines that the public sector banks having higher NPA than the private sector banks and also finds that there is a strong correlation between NPA and Net Profit of the public sector bank and private sector bank in India.

Shah and Sharma (2016) attempt to know the operation of bank in lending and credit policy and also steps taken by bank to reduce NPA. They concluded that it is not possible to eliminate totally the NPAs in the banking business but can only be minimized by precautionary measures and suggested for setting up a special committee for the management of NPAs comprising of legal experts and persons having knowledge in finance sector.
Ramasubbian and Thangavelu (2015) attempt to study the future trend of NPA in the Indian banking industry. The secondary data has been analysis by least square method and trend series analysis. They observed improvement in the asset quality of private and foreign banks.
Mahajan (2014) Studied the trends and make a comparative analysis of NPAs of Public, Private (Old and New) and foreign sector banks of India. The study uses the annual reports for the period of fifteen years from 1998-99 to 2012-13. The study reveals that NPAs are having a declining trend over a period of study, but Non Performing Assets of public sector banks are still higher than private and foreign sector banks.

IV. THEORETICAL FRAMEWORK

Non-performing Assets are like a double edged sword. They do not generate any income, whereas, the bank is required to make provisions such as assets. (Olekar and Talawar, 2012).

A **Non-performing asset** (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time.

In India, the definition of NPAs has changed over time. With an aim of moving towards the international best practices and ensuring greater transparency, a standard criterion of '90 days' overdue norm was fixed for identification of NPA from the FY ending March, 2004 in the Indian financial system. Thus, as per present convention, a non-performing asset refers to a loan or an advance where:

- Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts

Norms for Asset Classification/ Classification of NPA

The loan accounts in Banks are classified into four categories. Out of these four categories, the following three categories are considered as NPAs:-

a) Sub-standard Assets
   With effect from 31 March 2005 the norms have been further squeeze and a sub-standard asset would be one, which has remained NPA for a period less than or equal to 12 months.
   In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.
b) Doubtful Assets
   With effect from March 31, 2005, the norms have been further squeeze, and an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.
c) Loss Assets:
   A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

However, only those advances are classified as loss assets where no security is available. In accounts where some security / ECGC /DICGC cover is available, these accounts are not reported under loss assets.

The fourth category of loan accounts, which is not included in NPA categories - is Standard Assets. Standard Asset is one which does not disclose any problems and which does not carry only normal risk attached to the business.

V. METHODOLOGY OF STUDY

Research Design
Descriptive research design is used for the study.
Data Collection

Data use in this paper is secondary, which is compiled from the annual report & website of the Indian Private Sector banks - Industrial Credit and Investment Corporation of India (ICICI Bank) and Karur Vysya Bank (KVB). Various review of literature is also referred for the study.

Data Analysis Tools

Tools include Ratio analysis and Independent t test with the use of SPSS.

Time- Period of the Paper

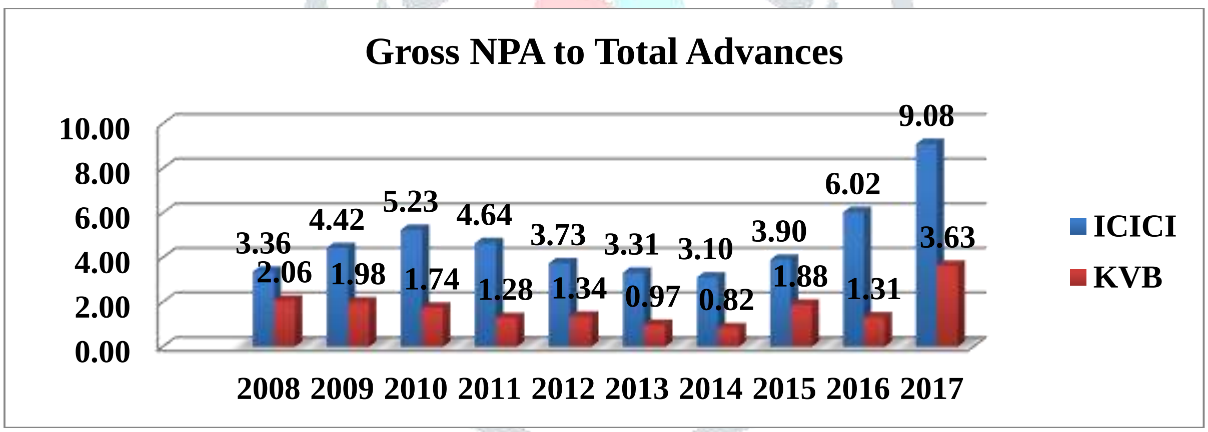
10years data from 2008 to 2017 is used for the study.

VI. ANALYSIS AND INTERPRETATION

Table 1. Gross NPA to Total Advances (Rs. in Cr) As on 31st March

Year	ICICI			KVB		
	Gross NPAs	Total Advances	Percent Share	Gross NPAs	Total Advances	Percent Share
2008	7,579.54	225,616.08	3.36	194.26	9,421.53	2.06
2009	9,649.31	218,310.85	4.42	205.86	10,409.88	1.98
2010	9,480.65	181,205.60	5.23	235.34	13,497.50	1.74
2011	10,034.26	216,365.90	4.64	228.15	17,814.46	1.28
2012	9,475.33	253,727.66	3.73	320.99	23,949.19	1.34
2013	9,607.75	290,249.44	3.31	285.86	29,480.13	0.97
2014	10,505.84	338,702.65	3.10	279.18	33,992.13	0.82
2015	15,094.69	387,522.07	3.90	677.78	36,108.94	1.88
2016	26,221.25	435,263.94	6.02	511.18	39,084.38	1.31
2017	42,159.38	464,232.08	9.08	1,483.81	40,907.72	3.63

(Source: Annual Reports)



(Source: Table 1)

Interpretation:

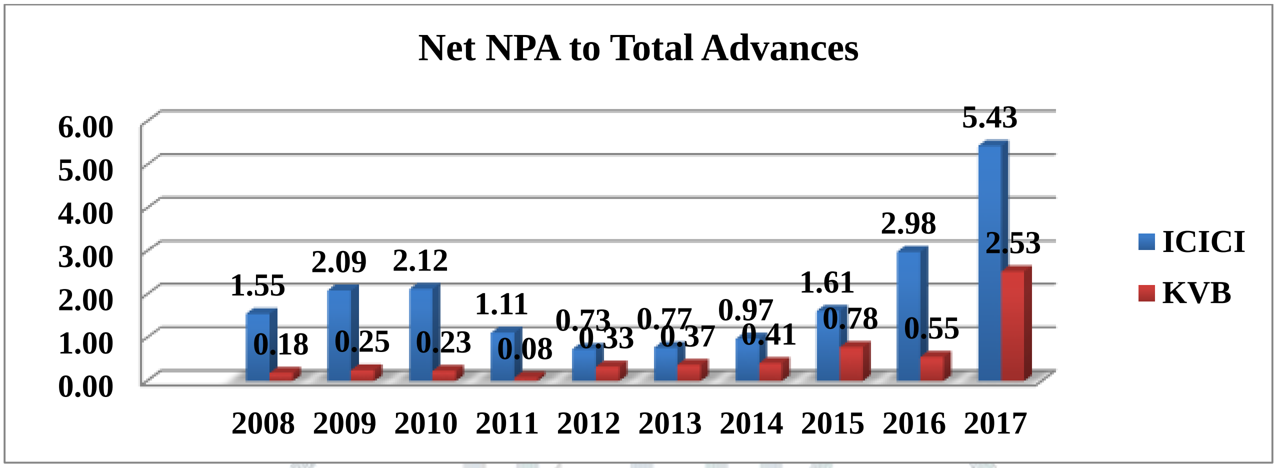
The Ratio of Gross NPA to Total Advances for ICICI and KVB Bank is increasing. It is showing fluctuating trend over the period of study. The ratio in KVB bank is less as compare to ICICI that shows the efforts taken by KVB Bank for the management of Gross NPA.

Table 2. Net NPA to Total Advances (Rs. in Cr) As on 31st March

Year	ICICI			KVB		
	Net NPAs	Total Advances	Percent Share	Net NPAs	Total Advances	Percent Share
2008	3,490.55	225,616.08	1.55	17.29	9,421.53	0.18
2009	4,553.94	218,310.85	2.09	25.82	10,409.88	0.25
2010	3,841.11	181,205.60	2.12	30.95	13,497.50	0.23
2011	2,407.36	216,365.90	1.11	13.87	17,814.46	0.08
2012	1,860.84	253,727.66	0.73	78.78	23,949.19	0.33
2013	2,230.56	290,249.44	0.77	108.74	29,480.13	0.37
2014	3,297.96	338,702.65	0.97	139.91	33,992.13	0.41

2015	6,255.53	387,522.07	1.61	280.97	36,108.94	0.78
2016	12,963.08	435,263.94	2.98	216.17	39,084.38	0.55
2017	25,216.81	464,232.08	5.43	1,033.46	40,907.72	2.53

(Source: Annual Reports)



(Source: Table 2)

Interpretation:

The Ratio of Net NPA to Total Advances for ICICI and KVB bank shows escalated increased in 2017. Both banks are showing fluctuating trend over the period of study while it can be seen that the ratio in KVB bank as compare to ICICI is less but in 2017 it hiked drastically. KVB Bank shows comparatively very good efforts toward the management of Net NPA of the bank.

Table 3. Independent Samples Test for Gross NPA to Total Advances

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
VAR00001	Equal variances assumed	2.779	.113	4.783	18	.000	2.97800	.62259	1.66998	4.28602
	Equal variances not assumed			4.783	12.407	.000	2.97800	.62259	1.62641	4.32959

Ho: The ratio of Gross NPA to Total Advances for ICICI and KVB Bank does not differ significantly from the year 2008-2017.
H1: The ratio of Gross NPA to Total Advances for ICICI and KVB Bank differ significantly from the year 2008-2017.

Interpretation:
From the t – test, it is found that the Sig. value is not less than 0.05, so null hypothesis is not rejected. That will conclude ratio of Gross NPA to Total Advances for ICICI and KVB Bank does not differ significantly from the year 2008-2017.

Table 4. Independent Samples Test for Net NPA to Total Advances

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
VAR00001	Equal variances assumed	2.343	.143	2.720	18	.014	1.36500	.50177	.31082	2.41918
	Equal variances not assumed			2.720	13.326	.017	1.36500	.50177	.28367	2.44633

Ho: The ratio of Net NPA to Total Advances for ICICI and KVB Bank does not differ significantly from the year 2008-2017
H1: The ratio of Net NPA to Total Advances for ICICI and KVB Bank differ significantly from the year 2008-2017

Interpretation:
From the t – test, it is found that the Sig. value is greater than 0.05, so null hypothesis is not rejected. That will conclude ratio of Net NPA to Total Advances for ICICI and KVB Bank does not differ significantly from the year 2008-2017.

CONCLUSION

RBI as the banking regulator, government as a major stake-holder and the banks themselves need to take steps to ensure that the current crisis is resolved rapidly and in future. This serious crises calls for building adequate regulatory capacity, comprehensive reforms in bank regulation and supervision, a strong legal framework for resolution, and policy thinking on the merits of government ownership of banks.
The analysis of the public sector banks show that both the banks are taking measures for NPA reduction practices but this is not yet satisfactory. From the analysis, it is obvious that KVB manage NPA better than ICICI. It is also concluded from the T Test that the ratio of Gross NPA to Total Advance and Net NPA to Total Advance does not have significant difference of ICICI and KVB bank from 2008-2017.

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