Management of Non-Performing Assets in Indian Banks
– A Comparative Study

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Abstract

In current times the banks have become very careful in extending loans due to fear of increasing non-Performing assets. If the borrowers unable to pay the loan amount as well as interest amount within ninety days, then the mortgage assets of borrowers become non-performing assets. Such assets fail to create revenue or any income for the commercial banks. Profitability is directly depended on non-performing assets. This research study is based on analysis of non- performing assets in public sector bank and private sector bank. The gross non-performing assets to gross advances ratio of ICICI Bank is increasing year by year. Then the ICICI bank required more attention to manage their non-performing assets. The State Bank of India non-performing assets are decreasing by implementing Stressed Assets Resolution Group (SARG) for given that focus on resolution of non-performing assets with segment specific approach. The net non-performing assets to net advances ratio is increasing year by year. Then the ICICI bank required more attention to manage their non-performing assets. Any increase in the percentage of net non-performing assets to net advances ratio has a negative impact on the profitability of the banks which leads to the poor performance of the banks. The State Bank of India net non-performing assets to net advances ratio is low it means State Bank of India had make satisfactory provisions against non-performing assets.

Key Words: NPA, Gross NPAs/ Advances Ratio and Net NPAs/ Advances Ratio

Introduction:

The banking sector has undergone a deep change after the first phase of economic liberalization in the year 1991 and hence credit management. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide

networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. In current times the banks have become very careful in extending loans due to fear of increasing non-Performing assets. If the borrowers unable to pay the loan amount as well as interest amount within ninety days, then the mortgage assets of borrowers become non-performing assets. Such assets fail to create revenue or any income for the commercial banks.

Activity for authorization of safety interest can be started provided that got resource is named Non-performing resource. Non-performing resource implies a resource of the borrower which has been characterized by the commercial bank or monetary establishment as unacceptable, dice, or misfortune resource, as per the bearing or rules concerning with resources order given by Reserve Bank of India. Amounts payable in an unapproved office are treated as "delinquent" if they are not paid 30 days after the due date. That decided to abolish "delinquency charges" due to improvements in installment payments and billing limits, a clawback environment, and some innovations in the financial. These non-performing assets reduce the profitability of commercial banks in the country, as the public or private sector bank gains a negative image and the account holders lose their trust in them.

Classification of NPAs: The banks classify non-performing assets into three primary categories, which are as follows:

- **Sub-standard assets:** The asset that has been in the non-performing assets for only twelve months or lesser, these types of assets called as Sub-standard assets.

- **Doubtful assets:** Any asset that is in the state of non-performing for more than twelve months is a doubtful asset of non-performing assets.

- **Loss assets:** The loss assets are the identified as non-payment for a longer period. As the name suggests, in the lost assets of the commercial banks, an auditor or any examiner identifies the loans that will never be return the amount and should be fully written off.

Impact of NPAs on Banks

The most basic impacts of non-performing assets on the banks of India are as follows:

- The enlarging in non-performing assets reduces the profitability of the banks due to their lack of credibility. These non-performing assets also harshly affect the capitals base of the public sector banks. Due to the regular rise of non-performing assets of any public and private sector bank, the condition develops into chronic, and the banks face severe crises while trying to stabilize again.

- The account holders lose their trust or confidence in the banks and want to withdraw their money. This enormously affects the banking system and the bank teeters on the verge of collapse.

- The banks are compulsory to decrease their interest rate on saving deposits to increase the margin as a result of high non-performing assets.

- The high non-performing assets on banks create a negative impact on both the functioning and credibility of the banks.

Causes of Rising of NPAs in Indian Banks

The major causes that give rise to non-performing assets in the banking sector are as follows:

- The Indian economy was blooming in the early 2000s, due to which the commercial banks provided a considerable amount of loans to companies and businessmen. However, these companies were not able to carry out their financial functions and were not able to pay their loan principal amount. This led to the rising costs and the recession of 2008.

- The relaxed lending norms to the corporate business houses contribute greatly to the increase of non-performing assets in the Indian banking sector. The commercial banks provide unsecured loans without proper evaluation, which greatly contributes to the growth of non-performing assets.

- There were bans on projects of mining, which greatly affected the industries such as the steel and iron sector. Their working capital and operations cost was higher than their income, thus, they were unable to pay back their loans amount to the banks. This mainly affects the public or private sector banks of India.

- The priority sector lending contributes to the growth of non-performing assets by giving loans for education, agriculture, MSMEs and housing. The education loans alone contribute about 20 percent of the non-performing assets of the State Bank of India.

Significance of the Study:

The main source of income of bank is interest on loan. The performance of any bank is dependent on the income or profitability. But today the major problem in any bank is non-performing assets. So non- performing assets is affecting to the performance of bank because profitability is dependent on the interest on loan, and if bank is not able to recover interest amount and principal amount then it creates non-performing assets. Profitability is directly depended on non-performing assets. This research study is based on analysis of non- performing assets in public sector bank and private sector bank.

Objectives of the Study:

The main objective of the study is to compare the non-performing assets of select public (State Bank of Indian) and private (Industrial Credit and Investment Corporation of India (ICICI) sector bank.

Research Methodology:

This study follows descriptive research method which includes fact finding and analytical in nature. The study will confine to non-performing assets management in select public sector bank of State Bank of India and private sector ICICI bank in India. This study covers the last ten financial years period raging from the 1st April 2011 to 31stMarch 2012 to 1st April 2020 to 21stMarch 2023. This study used Gross Advances Ratio, Net Advances Ratio and Total Assets Ratio.

Gross Non-Performing Assets and Advances

Loans are given by banks are considered as assets in their balance sheet and it help in generating income. These assets can be divided into performing and non-performing assets. An asset which generates a periodical income is referred to as performing assets. Whereas, the assets which fail in paying return are termed as Non-Performing Assets or NPAs. In this connection, there is need to study the trends in Gross Non-Performing Assets. Table – 1 presents the Gross Non-Performing Assets.

Table –1: Gross Non-Performing Assets and Advances

(` in Crores)

Financial Year	ICIC Bank		State Bank of India	
	Gross NPAs	Gross Advances	Gross NPAs	Gross Advances
2011-12	9,475	261342	39,676	8,91,437
2012-13	9,608	297626	51,189	10,748,49
2013-14	10,506	345911	61, 605	12,40,338
2014-15	15,095	396361	56,725	13,29,161
2015-16	26,221	448522	98,173	15,06,066
2016-17	42,159	481175	1,12,343	16,25,144
2017-18	53,240	537812	2,23,427	20,47,453
2018-19	45,676	618989	1,72,750	22,93,454
2019-20	40,829	416217	1,49,092	24,22,845
2020-21	40,841	504867	1,26,339	25,39,393

Source: ICICI and SBI Bank Annual Reports 2020-21.

The data in Table - 1 indicates that the last ten years of ICICI banks Gross Non-Performing Assets and Gross Advances of last ten year i.e., from the financial year 2011-12 to 2020-21. The worth of ₹ 9,475 crores non-performing asset were recorded in the financial year 2011-12 and it has increased to ₹ 40,841 crores in the financial year 2020-21. The highest worth of non-performing assets was recorded ₹ 53,240 crores in the financial year 2017-18. There are ₹ 261342 crores worth of gross advances were recorded in the financial year 2011-12 and it has increased to ₹ 50, 4867 crores in the financial year 2020-21. The highest gross advances were recorded ₹ 6, 18,989 crores in the financial year 2018-19.

There are ₹ 39,676 crores non-performing assets recorded in SBI for the financial year 2011-12 and it has increased to ₹ 1, 26,339 crores in the financial year 2020-21. The highest non-performing assets were recorded in the financial year 2017-18 i.e., ₹ 2, 23,427 crores and lowest is recorded in the financial year

2011-12. In the situation of COVID-19, though it is unsurprising to have a large surge in non-performing assets level during the financial year 2020-21, State Bank of India is agreeable all pre-emptive actions by enlargeable support to its borrowers to face the new challenges and continue as performing assets. There are, 8, 91, 437 crores non-performing assets recorded in the financial year 2011-12 and it has increased to, 25, 39,393 crores in the financial year 2020-21. It is clearly indicates that the significant growth in gross advances of state bank of India. During the financial year 2020-21, despite the determinedly challenging macroeconomic surroundings and COVID-19 pandemic, the State Bank of India developed its business with deposits growing by 13 per cent and advances by 15.06 per cent on year on year.

Gross NPAs/ Gross Advances Ratio:

Gross Non-Performing Assets to Gross Advances Ratio is required to study the percentage of gross advances turned into gross non-performing assets of the ICICI Bank. If the ration is increasing year by year has a negative impact on the bank profitability and it indicating that the poor performance of the banks. Hence, there is need to study Gross Non-Performing Assets to Gross Advances Ratio. For this purpose, the researcher collected relevant data and presented in Table – 2.

Table – 2: Gross NPAs/Gross Advances Ratio

Financial Year	ICICI Bank GNPA/GADV	SBI GNPA/GADV
2011-12	3.63	4.45
2012-13	3.23	4.76
2013-14	3.04	4.97
2014-15	3.81	4.27
2015-16	5.85	6.52
2016-17	8.76	6.91
2017-18	9.90	10.91
2018-19	7.38	7.53
2019-20	9.81	6.15
2020-21	8.09	4.98

Source: ICICI and SBI Bank Annual Reports 2020-21.

The data in Table – 2 reveals that the gross non-performing assets by advances of ICICI ratio of last ten years i.e., from the financial year 2011-12 to 2020-21. It is observed from the above data the gross non-performing assets to gross advances ratio for ICICI banks for the period of ten years. It is indicate that the gross non-performing assets to gross advances ratio recorded 3.63 in the financial year 2011-12 and it increased to 8.09 in the financial year 2020-21. The lowest gross non-performing assets to gross advances ratio is 3.04 recorded in the financial year 2013-14. The highest gross non-performing assets to gross advances ratio is 9.81 recorded in the financial year 2019-20. It is concluding that the gross non-performing assets to gross advances ratio of ICICI Bank is increasing year by year. Then the ICICI bank required more attention to manage their non-performing assets.

The SBI Bank gross non-performing assets by advances ratio of last ten years i.e., from the financial year 2011-12 to 2020-21 presented in above table. The non-performing assets by advances ratio 4.45 recorded in the financial year 2011-12 and increased to 10.91 in the financial year 2017-18. From the financial year 2017-18, the non-performing assets by advances ratio is decreased to 4.98 in the financial year 2020-21. The lowest non-performing assets by advances ratio 4.45 is recorded in the financial year 2011-12 and the height non-performing assets by advances ratio 10.91 is recorded in the financial year 2017-18. The above analysis indicates that the SBI Bank gross non-performing assets to gross advances ratio is decreasing year on year from the last three financial years. It is observed that the State Bank of India is minimizing their non-performing assets in the study period and SBI also require more and more attention to manage the non-performing assets.

Net Non-Performing Assets and Advances

Further, there is need to study the gross non-performing assets and advances to know the actual position of Non-Performing Assets in bank. The Table 3 presents the Net Non-Performing Assets and Advances.

Table – 3: Net Non-Performing Assets and Net Advances

('∘ Crores)

Financial Year	ICIC Bank		State Bank of India	
	Gross NPAs	Gross Advances	Gross NPAs	Gross Advances
2011-12	1,861	2,53,728	15,819	8,67,579
2012-13	2,231	2,90,249	21,956	10,45,617
2013-14	3,298	3,38,703	31,096	12,09,829
2014-15	6,256	3,87,522	27,591	13,00,026
2015-16	12,963	4,35,264	55,807	14,63,700
2016-17	25,217	4,64,232	58,277	15,71,078
2017-18	27,824	5,12,395	1,10,855	19,34,880
2018-19	13,450	5,86,647	65,895	21,85,877
2019-20	99,232	6,45,290	51,871	23,25,290
2020-21	91,177	7,33,729	36,810	24,49,498

Source: *ICICI and SBI Bank Annual Reports 2020-21.*

The data in Table -3 shows that the last ten years of ICICI banks net non-performing assets and net advances of last ten year i.e., from the financial year 2011-12 to 2020-21. The worth of ₹ 1,861 crores net non-performing asset were recorded in the financial year 2011-12 and it has increased to ₹ 91,177 crores in the financial year 2020-21. The height net non-performing assets worth of ₹ 99,232 crores recorded in the financial year 2019-20. There are ₹ 2, 53,728 crores worth of net advances were recorded in the financial year 2011-12 and it has increased to ₹ 7, 33,729 crores in the financial year 2020-21. It is also observed that the ICICI Bank net non-performing assets are increased from 2011-12 to 2017-18 and decreased in the financial year 2018-19. Non-performing assets again increased in the financial year 2019-20. Then ICICI bank required additional care to collect the non-performing assets. The net advances are regularly increasing year by year.

The SBI worth of ₹ 15,819 crores net non-performing asset were recorded in the financial year 2011-12 and it has increased to ₹ 36,810 crores in the financial year 2020-21. The height net non-performing assets worth of ₹ 1, 10,855 crores recorded in the financial year 2017-18. There are ₹ 8, 67,579 crores worth of net advances were recorded in the financial year 2011-12 and it has increased to ₹ 24, 49,498 crores in

the financial year 2020-21. It is also observed that the net non-performing assets are increased from 2011-12 to 2017-18 and it has decreased from the financial year 2018-19 to 2020-21. The State Bank of India non-performing assets are decreasing by implementing Stressed Assets Resolution Group (SARG) for given that focus on resolution of non-performing assets with segment specific approach.

Net NPAs/ Net Advances Ratio:

Net Non-Performing Assets to Net Advances Ratio is required to study the percentage of net advances turned into net non-performing assets of the ICICI Bank. If the ration is increasing year by year has a negative impact on the bank profitability and it indicating that the poor performance of the banks. Hence, there is need to study net Non-Performing Assets to net Advances Ratio. For this purpose, the researcher collected relevant data and presented in Table – 4.

The data in Table – 4 reveals that the net non-performing assets by advances ratio of last ten years i.e., from the financial year 2011-12 to 2020-21. It is observed from the above data the net non-performing assets to net advances ratio for ICICI banks for the period of ten years. It is indicate that the net non-performing assets to net advances ratio recorded 0.73 in the financial year 2011-12 and it increased to 12.43 in the financial year 2020-21. The lowest net non-performing assets to net advances ratio is 0.73 recorded in the financial year 2011-12.

Table – 4: Net NPAs/Net Advances Ratio

Financial Year	ICIC Bank NNPA/NADV	SBI Bank NNPA/NADV
2011-12	0.73	1.82
2012-13	0.77	2.10
2013-14	0.97	2.57
2014-15	1.61	2.12
2015-16	2.98	3.81
2016-17	5.43	3.71
2017-18	5.43	5.73
2018-19	2.29	3.01

2019-20	15.38	2.23
2020-21	12.43	1.50

Source: *ICICI and SBI Bank Annual Reports 2020-21.*

The highest net non-performing assets to net advances ratio is 15.38 recorded in the financial year 2019-20. It is concluding that the net non-performing assets to net advances ratio is increasing year by year. Then the ICICI bank required more attention to manage their non-performing assets. Any increase in the percentage of net non-performing assets to net advances ratio has a negative impact on the profitability of the banks which leads to the poor performance of the banks. The SBI bank net non-performing assets by advances ratio of last ten years i.e., from the financial year 2011-12 to 2020-21 presented in the above table. It is observed that the net non-performing assets to net advances ratio recorded 1.82 in the financial year 2011-12 and it decreased to 1.50 in the financial year 2020-21. The highest net non-performing assets to net advances ratio is 5.73 recorded in the financial year 2017-18. It is concluding that the net non-performing assets to net advances ratio is decreasing year by year. The State Bank of India net non-performing assets to net advances ratio is low it means State Bank of India had make satisfactory provisions against non-performing assets.

Findings of the study:

- The gross non-performing assets and advances of ICICI are showing growing trend and it indicates that the bank is required special attention to be given to issue the loans and collections. The gross non-performing assets to gross advances ratio of ICICI Bank is increasing year by year. Then the ICICI bank required more attention to manage their non-performing assets.

- The SBI Bank gross non-performing assets to gross advances ratio is decreasing year on year from the last three financial years. It is observed that the State Bank of India is minimizing their non-performing assets in the study period and SBI also require more and more attention to manage the non-performing assets.

- The ICICI Bank net non-performing assets are increased from 2011-12 to 2017-18 and decreased in the financial year 2018-19. Non-performing assets again increased in the financial year 2019-20. Then ICICI bank required additional care to collect the non-performing assets. The net advances are regularly increasing year by year.

- The State Bank of India non-performing assets are decreasing by implementing Stressed Assets Resolution Group (SARG) for given that focus on resolution of non-performing assets with segment specific approach.

- The net non-performing assets to net advances ratio is increasing year by year. Then the ICICI bank required more attention to manage their non-performing assets. Any increase in the percentage of net non-performing assets to net advances ratio has a negative impact on the profitability of the banks which leads to the poor performance of the banks.

- The State Bank of India net non-performing assets to net advances ratio is low it means State Bank of India had make satisfactory provisions against non-performing assets.

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