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A STUDY ON NON-PERFORMING ASSETS IN NEW GENERATION BANKS WITH SPECIAL REFERENCE TO AXIS BANK

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Abstract:
Non-performing Asset is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. NPA is a virus affecting the banking sector. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The Indian banking sector has been facing serious problems of raising Non Performing Assets (NPAs). T growth has a direct impact on profitability of banks. It involves the necessity of provisions, which reduces the overall profits and shareholders' value. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high l nothing but a reflection of the state of health of the industry and trade. It is necessary to trim down NPAs to improve the financial health in the banking system.

Keywords: Gross NPA, Net NPA, Public banks and Private Sector

Introduction:

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. Non (NPA) is one of the major concern and problem for banks in India. NPAs reflect the degree of risk and high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves reduced income from assets and the necessity of provisions, which reduces the overall profits and shareholders' value. The level of nonperforming assets is at the alarming rate in Indian banking comparatively to other countries. This level is much higher case of public sector banks compare to private sector bank because their directional credit to priority sector projects and social development projects. The public sector banks play an immense role in the development and growth from the very inception. banks which were operating on social model by mobilizing the huge resources and directing them to social and priority sectors for social and economic development of the country. Due to their socio-economic role, there was high level of the liberalization in 1991, they faced high level competition from private and foreign banks. Due to this fierce competition and challenge on their survival, they were forced to improve the performance and weakness. NPA's in their portfolio. This study aims to check what is the position and level of nonperforming assets of nationalized banks which is core and heart of public sector banking in India and which handles the major portion of banking business in India.

Non-Performing Assets Meaning

A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

1. ***Substandard assets****:* Assets which has remained NPA for a period less than or equal to 12 months.

2. ***Doubtful assets****:* An asset would be classified as doubtful if it has remained in the substandard

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category for a period of 12 months.

*3. **Loss assets**:* As per RBI, "Loss 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."

Types of NPA

- **Gross NPA:** Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account Gross NPA reflects the quality of the loans made by Banks. It consists of all the nonstandard assets like as sub the help of following ratio: Gross NPAs Ratio = Gross NPAs / Gross Advance
- **Net NPA:** Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write o time consuming, the provisions the banks have to make against the NPAs according to the Central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following.

Net NPAs = Gross NPAs – Provisions / Gross Advances Asset Classification: Categories of NPAs: Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has realize-ability of the dues:

Standard Assets: Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year. If asset fails to be in category of standard asset that is amount due more than90 days then it is NPA and NPAs are further required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-Sub-Standard Assets: With effect from 31 March 2005, a substandard 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. In other words, such an asset will have well defined credit weaknesses that jeopardies the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss.

Doubtful Assets: With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values – highly questionable and improbable.

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 an asset is not warranted although there may be some salvage or recovery value.

Review of Literature:

1. K.V. Ramesh, Sudhakar. A., (2012) investigated the NPA management in public sector banks a case study of canara bank and state bank of India to a mentioned banks. Data was collected for a period of ten years between 2000 to 2010.It is concluded that if the proper management of the NPAs is not undertaken it would be affects the business of the banks. The NPAs would affect but standards, regulatory and supervisory system and bank specific factors like credit appraisal system, credit recovery procedures risk management system and the motivational level of employees. It is found that there i appropriate systems internally to reduce and eliminate at the earliest.

2. Srivastava V, Bansal deepak (2012) did a “a study of trends of non in private banks in India” to find out when the private sector banks in India. The data were collected for a period of five years from 2007-2012 from various secondary sources and analysed by average and comparative percentage analysis. It was found banks in India but there is slight improvement in the asset quality reflected by decline in the NPA percentage. The banks should take timely action against degradation of good performing assets.

3. Chaudhary and Sharma (2011) in their research paper on Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study stated that it is right management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA.

4. Malyadri and Sirisha (2011) The Indian banking system has undergone significant transformation following financial sector reforms. It is adopting international best practices with a vision to strengthen the banking sector. Several prudential and provisioning norms have been introduced, and these are pressurizing banks to improve e NPAs to improve the financial health in the banking system. In the background of these developments, this study strives to examine the state of affair of the Non-performing Assets (NPAs) of the public sector banks and private sector weaker sections. The study is based on the secondary data retrieved from Report on Trend and Progress of Banking in India. The scope of the study is limited to the analysis of NPAs of the public sector banks and the period seven years. It examines trend of NPAs in weaker sections in both public sector and private sector banks. The data has been analysed by statistical tools such as percentages and Compound Annual Growth Rate. The study observed that the public sector banks have achieved a greater penetration compared to the private sector banks.

5. Bhatia (2007) in his research paper entitled, Non-Private and Foreign Sector Banks: An Empirical Assessment, explores an empirical approach to the analysis of Non-Performing Assets of public, private and foreign sector banks in India. The NPAs are considered as an important parameter to judge the performance and financial health of banks. This paper aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, like macroeconomic factors and bank specific parameters, is developed and the behaviour of NPAs of the three categories of b observed.

6. Vijaykumar and Aravanan (2007) his research paper examines the performance of a bank using a Non Performing Assets measures. The NPA measure includes selected ratios which capture the bank performance. Where, these ratios were assigned according to the performance direction of the ratio. This study is undertaken using a hypothetical data for a bank and the performance measuring model is explained clearly.

Objectives of the Study

(1) To know the trend in last 5 years lending practice of private and public sector banks.
(2) To make a comparative study of NPAs of public sector and private sector banks.

Research Methodology:

Research design used to carry out this study is descriptive statistical data and the main aim of the report is to describe the factors affecting the problem mentioned and making comparison between banks performance in context of NPA. The present study is an analytical study. For convenience method of sampling is used. The banks for the purpose of study are chosen asper convenience only. The sample consists of two Public sector banks Bank of Baroda and two Private done on the basis of data for the period of 5 years from the financial year 2011 secondary data is collected mainly from the sources available at internet like the RBI website, websites of the banks etc. Data is presented with the help of charts and tables etc.

Conclusion

The NPAs have always created problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds landed. This study shows that extent of NPA is comparatively very high in public sectors banks as compared to private banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict should be followed for solving this problem. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. Banks needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

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