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ASSETS QUALITY OF PRIVATE SECTOR BANKS IN INDIA.

Introduction:

The banking sector is the driving mechanism of the economic growth for the emerging market economics such as India. Financial constancy and safety are the important and vital components of the banking sector. Banking in modern economics is all about risk management because the economic repercussions of a bank breakdown could be disastrous on the entire financial system. The Non-performing Asset (NPA) otherwise recognized as Non-performing Loans (NPL) is directly related to the financial performance of a bank and is the adding factor to the credit risk of the banking system. A enhance in the NPA of a bank suggests that there is a high probability of a large number of credit defaults. This in turn affects the net-worth of the bank failures are directly associated with weak management of credit risk.

The problem of NPA is not only affecting the banks but also the entire economy. When loans and advances made by banks turn out as destructive then they will become Non-performing Assets. NPA is an asset or an account of a borrower that the bank classified as sub standard or doubtful asset. The Indian banking sector has come a long way with regards to managing the NPA since the deregulation of the banking sector in the early 1990s. During the past two decades the Non-performing assets of the public sector banks have come down from 14% in the early 1990s to 3% in 2004. The private sector banks also have shown a similar progress in this regard.

Broadly speaking, NPA is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the definition of NPAs has changed over time. According to the Narasimham Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 Days) should be considered as NPAs. Subsequently, this period was reduced, and from March 1995 onwards for which the interest has remained unpaid for 90 days was considered as NPAs. Non-performing Assets indicate the quality of banks assets. Therefore, it is necessary to study the Non-performing Assets of Private sector banks in India during last 10 years.

The rest of the paper has been divided into five sections. Section II provides a brief review of studies related to Non-performing Assets of Private sector banks. Section III provides the objectives of the study. Section IV describes the methodology adopted in this research. Section V describes data analysis and results of recent Assets Quality of Private Banks. Section VI describes the conclusion of the paper.

LITERATURE REVIEW

RBI has constituted various committees – Narsimham Committee (1990), Narsimham Committee (Jan, 1993), RBI guidelines (Jan. 1993), RBI license norms (Feb. 2005) etc. have found significance performance and growth of Private sector banks in India. They have also found that high rate of overdue in Private sector banks.

Somanadevi Thaigarajan (2011) studied about NPA management of private sector banks in India. Descriptive analysis has been made for the data analysis. She found that private sector banks have been managing the credit risk effectively during the past decade. Although the NPA level had decreased from all time high in the 1990s to all time low in 2008, the gradual increase of the NPA during the past two years in posting concern for many analysts.

OBJECTIVES

The objectives of the study are:

(1) To Study the Non-Performing Assets of Private Sector Banks in India.

(2) To suggests the ways to improve the assets quality of Private Sector Banks in India.

METHODOLOGY

Secondary data has been used. Ratio analysis technique has been used for the analysis of Non-Performing Assets (NPA). Therefore study period have been taken from Following formulas have been used for the data analysis.

(1) Gross NPAs to Gross Advances Ratio $= \frac{\text{Gross NPAs}}{\text{Gross Advance}} \text{ x } 100$

(2) Net NPAs to Total Advances Ratio $= \frac{\text{Net NPAs}}{\text{Gross Advance}} \text{ x } 100$

(3) Net NPAs to Net Advances Ratio $= \frac{\text{Net NPAs}}{\text{Net Advance}} \text{ x } 100$

Net Advances = Gross Advances – Provisions for NPAs

Net NPAs = Gross NPAs - Provisions for NPAs

ANALYSIS AND RESULTS

Non-Performing Assets of Private Sector Banks

Assets quality of any banks can be measured on the basis of Non-Performing assets. Non-Performing Assets of Private Sector Banks were analyzed and it is presented in Tables 1.

Non-Performing Assets

The highest Non-Performing Assets in terms of absolute was in the year 2014-15 and the lowest in terms of absolute was in the year 1996-97. Gross NPAs of these banks were amounted to 2.17 billion in 1996-97 and by the year 2002-03, Gross NPAs increased to 72.32 billion but it decreased to 40.52 billion in 2005-06. Non-Performing Assets of these banks once again increased to 341.06 billion in 2014-15.

Table 1

Non-Performing Assets of Private Sector Banks

Year	No of Reporting Banks	Gross NPAs in Billion)	Gross NPAs to Total Advances Ratio	Net NPAs to Total Assets Ratio	Net NPAs to Net Advances Ratio
1997	08	2.17	2.6	1	2
1998	08	3.92	3.5	1.1	2.6
1999	08	8.71	6.2	1.6	4.5
2000	08	9.46	4.1	1.1	2.9
2001	08	16.17	5.1	1.2	3.1
2002	08	68.11	8.9	2.1	4.9
2003	08	72.32	7.6	0.7	1.5
2004	08	59.83	5	0.8	1.7
2005	08	45.82	3.6	0.8	1.9
2006	08	40.52	1.7	0.4	0.8
2007	08	62.87	1.9	0.5	1
2008	08	104.4	2.5	0.7	1.2
2009	08	138.54	3.1	0.8	1.4
2010	08	140.17	2.9	0.6	1.1
2011	08	145	2.7	0.3	0.6
2012	08	145.68	2.2	0.2	0.4
2013	08	158.61	1.8	0.3	0.4
2014	08	245.42	1.8	0.4	0.7
2015	10	341.06	2.1	0.5	0.9

Sources: RBI, "Report on Trend and Progress of banking in India" various issues.

Gross NPAs to Gross Advances Ratio

The highest Gross NPAs to Gross Advances ratio was in the year 2001-02 and the lowest in terms of absolute were in the year 2005-06. In 1996-97, Gross NPAs to Gross Advances Ratio of these banks was 2.6% and by the year 2001-02, it increased to 8.9%. However, this ratio sharply decreased to 1.8% in 2013-14. This ratio increased to 2.1% in 2014-15.

Net NPAs to Total Assets Ratio

In 1996-97, Net NPAs to Total Advances Ratio of these banks was 1% and by the year 2001-02, it is increased to 2.1%. However, this ratio sharply decreased to 0.2% in 2011-12. Though, it was increased during last two years and it was 0.5% at the end of the 2014-15.

Net NPAs to Net Advances Ratio

In 1996-97, Net NPAs to Net Advances Ratio of these banks was 2% and by the year 2001-02, it is increased to 4.9%. However, this ratio sharply decreased to 0.4% in 2012-13. Though, it was increased during last two years and it was 0.9% at the end of the 2014-15.

SUMMARY AND CONCLUSIONS

The Private banking sector is a plays an important role in enlarging the reach of institutional credit both from geographic and socio-economic perspective. Some very amazing results have come out through the study of Private sector banks in India. These are enumerated below.

Gross NPAs as well as Net NPAs ratios also declined during the same period implying improvement in asset quality for the Private sector banks. Overall Assets quality of Private sector banks improved during the study period. Although during the last two years, due to the recession in the market non-performing assets have increased. Most of the Private sector banks weak due to lack of fund management and lack of well-functioning Asset reconstruction.

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Prof. Chirag Jiyani
Govt. Commerce College,
Naroda , Ahmedabad