



# A study of Non Performing Asset of Indian Banking Industry with Special Reference to State Bank of India and ICICI.

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## **Abstract :**

Today, trend of Indian Banking Environment, are facing issues of managing the non performing assets. The NPA is one of the major hurdles facing by the Indian Public Sector Banks and Private Sector Banks. The performance of the banks can be evaluated by analyzing the branches of the banks and how much deposit the banks have till date. But in recent trend to analyze the banks performance one more factor we must have to consider i.e. Non Performing Assets. The Article puts a light on the current status of the level of nonperforming assets in selected public sector band and private sector band in Indian Banking Industry. The Article gives the clear picture about the NPA management of SBI and ICICI bank within the span of last 5 years. What are the reasons for increasing in NPA and what precautions the banks are taking to overcome the major issue which the banks are facing in terms of NPA.

**Keywords :** Non Performing Assets, Comparison between Public sector and Private sector Banks.

## **Introduction :**

Indian Banking industry is the most stable segment of financial sector. The Indian Banking sector stood firm in the period of recession because of which Indian economy stood firm in the crucial phase of recession. From the last two decade India's banking industry facing some inevitable burden in the form of Non Performing Assets. Today's success and good performance is depend upon the proper management of NPA and keeping it to the threshold limit decided by the individual banks.

Today the Non Performing Assets is the major issue concerns with the banks of Indian

Banking Industry. According to the CRISIL report the gross NPA will increase from 5.2% in 2017 to 6.5% in 2018. The banks were not able to recover the money from the customer to whom the have lend the money in terms of loan. A loan or lease which does not meet the stated principal amount and interest amount payment is termed as non-performing assets.

According to the definition of NPA by RBI, "An asset , including a leased asset, becomes non performing when it ceases to generate income for the bank".

*A Non Performing Assets is a loan or an advance where :*

- I. Interest or installments of principal remain overdue for a period of more than 90 days in respect of a term loan.*
- II. The account remains out of order, in respect of an overdraft/cash Credit.*
- III. If the bills remain overdue for a period of more than 90days in the case of bulls purchased and discounted.*
- IV. The installment of principal or interest there on remains overdue for two crop season for short duration crops, the installment of principal or interest thereon remains overdue for one crop season for long duration crops.*
- V. The installment of principal or interest thereon remains overdue for one crop season for long duration crops,*
- VI. The amount of liquidity facility remains outstanding or more than 90 days in respect of securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.*
- VII. Banks should, classify an account as NPA only if the interest due and charged during*



*any quarter is not serviced fully within 90 days from the end of the quarter.*

The NPV is classified in to different types for which the asset has remained non performing and the recovery is due.

There are three types of nonperforming asset:

- The assets which has been remained on performing asset for a period less than or equal to 12 months those type of assets comes under the category of Substandard Assets from March 31<sup>st</sup> 2005.
- The assets which has been remained a substandard asset for a period of 12 months, those assets comes under the category of Doubtful assets from March 31<sup>st</sup> 2005.
- The loss assets are the assets where loss has been identified by the banks internal auditors and RBI's external auditors but the amount has not been written off fully.

#### **Review of Literature :**

In the past articles, many authors have found out many reasons for NPA. Few are: Market Failure, **Wilful Defaults**, Poor follow-up and Supervision, Non-cooperation from Banks, Poor Legal framework, Lack of Entrepreneurial Skills, Diversion of funds (Santanu Das, 2010) **Zahoor Ahmad, Dr. M. Jegadeeshwaran** (2013) in their paper „Comparative Study On NPA Management of Nationalized Banks“ has analyzed, improper selection of borrower's activities, weak credit appraisal system Industrial problem, inefficiency in management of borrower, slackness in credit management and monitoring, lack of proper follow up by bank, recession in the market, and natural calamities and other uncertainties, as the reasons for the NPA. On the other hand (**Ashley Lynn Joseph, 2014**) in his paper A Study on Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Bank has identified few external, internal and other factors that are involved in the formation of NPA and those are : diversion of fund for expansion, diversification, modernization or for taking up new projects, diversion of fund for assisting or promoting associate concerns, time or cost overrun during the project implementation stage, business failure due to product failure,

failure in marketing etc, inefficiency in bank management, slackness in credit management and monitoring, and inappropriate technology or problems related to modern technology. The external factors include recession in the economy as a whole, input or power shortage, price escalation of inputs, exchange rate fluctuations, and change in government policies. Other factors include liberalization of the economy and the consequent pressures from liberalization like several competitions, reduction of tariffs etc, poor monitoring of credits and failure to recognize early warning signals shown by standard assets, sudden crashing of capital market and inability to raise adequate funds, mismatching of funds i.e. using loan granted for short term for long term transactions, granting of loans to certain sectors of the economy on the basis of government directives rather than commercial imperatives. (**Namita Rajput, et.al., 2012**) also analyzed some reasons behind the formation of NPA, and also found the impact of the NPA on banking operations and (**Satpal, 2014**) also tried to find out some external factors and some in internal factors which affects the NPA like (**Ashly Lynn Joseph, 2014**) and also found the impacts of NPA.

#### **Factors contributing to NPA**

According to the recent study conducted by “RBI”, the factors contributing to NPA are divided into 2 segments

##### **Internal factors**

- i. Diversion of fund for expansion, diversification, modernization or for taking up new projects.
- ii. Diversion of fund for assisting or promoting associate concerns.
- iii. Time or cost overrun during the project implementation stage.
- iv. Business failure due to product failure, failure in marketing etc.
- v. In efficiency in bank management.
- vi. Slackness in credit management and monitoring.
- vii. In appropriate technology or problems related to modern technology.



**External factors**

- i. Recession in the economy as a whole.
- ii. Input or power shortage.
- iii. Price escalation of inputs.
- iv. Exchange rate fluctuations
- v. Change in government policies

**Other factors**

- i. Liberalization of the economy and the consequent pressures from liberalization like several competitions, reduction of tariffs etc.
- ii. Poor monitoring of credits and failure to recognize early warning signals shown by standard assets.
- iii. Sudden crashing of capital market and inability to raise adequate funds.
- iv. Mismatching of funds i.e. using loan granted for short term for long term transactions.
- v. Granting of loans to certain sectors of the economy on the basis of government directives rather than commercial imperatives.

**Research Methodology:**

The article depicts to analyze the trend in NPA's of Public sector and Private sector banks last 5 years. The analysis of the NPA of the selected sample have been done by interpreting the values of nonperforming assets, net non performing asset and the gross non performing asset from last 5 years. The effect of NPA's on the bank, and the comparative analysis of the giant of Public Sector bank and the Private sector bank at glance. The period of study is from 2007-08 to 2016-17. The data for the study was collected from RBI, Money Control, and various journals related to banking industry.

**Data Analysis:**

The Gross NPA is the advances which are considered irrecoverable for which the bank has made some provision and which are still showing in the bank's books of accounts. The Net NPA is obtained by deducting the following from Gross NPA.

- a. Interest due but not received
- b. Claims received from credit guarantors and kept in suspense accounts pending final settlement.
- c. Part payment received and kept in suspense account.

The gross advances consist of

- a. Bills purchased and discounted
- b. Cash credit
- c. Overdrafts
- d. Loans and term loans

**1) Analysis of Gross NPA of SBI and ICICI as a percentage of advances and assets during 2013-14 to 2016-17**

Gross NPA of SBI and ICICI as a percentage of advances and assets during 2013-14 to 2016-17				
Year	GNPA/GADV		GNPA/T. Asset	
	SBI	ICICI	SBI	ICICI
2012-13	4.75	3.22	5.00	2.00
2013-14	4.95	3.03	5.00	2.00
2014-15	4.25	3.78	4.00	4.00
2015-16	6.50	5.21	7.00	6.00
2016-17	6.90	7.89	7.00	9.00

From the above observations the gross NPA to Gross Advance ratio for SBI shows the inclining trend over a period of time. In case of SBI the Gross NPA to Gross Advances ratio increased from 4.75 percent in 2012-13 to 6.90 percent in 2016-17. In case of ICICI the Gross NPA to Gross Advances ratio increased from 3.22 percent in 2012-13 to 7.89 percent in 2016-17. Both the banks were not able to recover the NPA's along with the rise in gross npa and gross advances ratio.

The gross NPA as percentage of total asset have shown a significant growth in case of SBI. The ratio showed the upward trend from 5.00 percent in 2012-13 to 7.00 percent in 2016-17. The ratio showed the good result for SBI in year 2014-15 with 4.00 percent but afterword it increased with 3.00 percent. The gross NPA as percentage of total asset have shown the increasing trend from 2.00 percent in 2012-13 to 9.00 percent in 2016-17. The ratio showed higher percentage growth within the period of time with 7.00 percent growth.

Both SBI and ICICI have the make efforts to contain the NPA's level so that the bank may face a profitability situation. Individual banks must have to design the policies to reduce the NPA issue, otherwise in future it hamper more to the banks.



## 2. Analysis of Net NPA of SBI and ICICI as a percentage of advances and assets during 2013-14 to 2016-17

Net NPA of SBI and ICICI as a percentage of advances and assets during 2013-14 to 2016-17				
Year	NNPA/NADV		NNPA/T. Asset	
	SBI	ICICI	SBI	ICICI
2012-13	2.00	1.00	2.00	1.00
2013-14	3.00	1.00	3.00	1.00
2014-15	2.00	2.00	2.00	2.00
2015-16	4.00	3.00	4.00	3.00
2016-17	4.00	5.00	4.00	5.00

It is observed from the above table that the Net NPA to Net advances ratio for SBI showing an increasing trend with 2.00 percent in 2012-13 to 4.00 percent in 2016-17 and for ICICI the Net NPA to Net advances ratio showing an increasing trend with 1.00 percent in 2012-13 to 5.00 percent in 2016-17. The ratio showed the negative effect of NPA on the banks. The asset quality of both the banks over the past five years reflected in increasing NPA to Advance ratio. The recession and the economic reforms are responsible for the increasing trend in NPA.

### 3) Sector Wise NPA's of SBI and ICICI:

#### a) SBI:

Source: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#14> (RBI Website)

The total NPA's of bank is classified into two sectors, Priority and Non Priority sector. The NPA showed the growing proportion of priority sector NPA from 2013-17. In 2015 the NPA decrease because of the agricultural debt waiver and relief schemes. The percentage of NPA for priority sector was showed decreasing trend from 44.1 percent in 2013 to 17.6 percent in 2017 respectively. But there were sharp upward trend in the NPA's of non Priority sector i.e. from 55.9% in 2013 to 82.4% in 2017 which was the reflection of the economic policies and stressed financial conditions, Demonetization etc.

#### b) ICICI :

Source: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#14> (RBI Website)

The total NPA's of bank is classified into two

sectors, Priority and Non Priority sector. The NPA showed the growing proportion of priority sector NPA from 2013-17. In 2015 the NPA decrease because of the agricultural debt waiver and relief schemes. The percentage of NPA for priority sector was showed decreasing trend from 26.0 percent in 2013 to 18.0 percent in 2017 respectively. But there were sharp upward trend in the NPA's of non Priority sector i.e. from 74% in 2013 to 82.0% in 2017 which was the reflection of the economic policies and stressed financial conditions, Demonetization etc.

#### Finding and Conclusion:

- The Non Performing assets is affecting the performance of the banks. The SBI and ICICI one is a giant from public sector and one is from private sector bank both are facing issues related to NPA and its recovery. To improve the bottom line of the banks they must have to improve the credit management skills.
- The NPA situation of Indian Banking may affect the overall banking structure if it doesn't taken care with immediate effect. Various measures took to tackle the NPA issue but nothing has hit the mark.
- The performance of SBI and ICICI in tackling the NPA's is near about same. But with the deeper study it has been found that the private sector banks i.e. ICICI were some hove efficient to recover the NPA as compared to SBI.

#### Suggestions:

- i. From the above analysis we can suggest that the banks must have to improve its recovery management because the sound recovery directly relates to the banks credit. The banks must have to improve corporate governance practices as various economic measures have been taken by the government.
- ii. The banks must have to adopt the effective computer technologies to tackle the future NPA's and manage the current one.
- iii. Various effective legal measures given by the RBI and Indian Government but still there are flaws in the legal measures and those flaws must have to improve.
- iv. All the banks are depending upon the interest



income. The banks are depend upon the lending and investment only. The banks must have to promote the fee based services and products.

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Year	Priority Sector			Non-Priority Sector			Total		
	Gross Advances	Gross NPAs	Gross NPAs as Per Cent of Total	Gross Advances	Gross NPAs	Gross NPAs as Per Cent of Total	Gross Advances	Gross NPAs	Gross NPAs as Per Cent of Total
2017	5,537.64	300.93	17.6	11,119.48	1,409.23	82.4	16,657.12	1,710.16	100.0
2016	5,319.77	292.47	25.6	11,083.79	849.36	74.4	16,403.56	1,141.83	100.0
2015	4,352.96	257.24	36.3	9,875.27	451.35	63.7	14,228.23	708.59	100.0
2014	4,481.57	261.49	34.4	9,462.78	498.81	65.6	13,944.35	760.30	100.0
2013	3,899.00	264.00	44.1	8,599.00	335.00	55.9	12,498.00	599.00	100.0

year	Priority Sector			Non-Priority Sector			Total		
	Gross Advances	Gross NPAs	Gross NPAs as Per Cent of Total	Gross Advances	Gross NPAs	Gross NPAs as Per Cent of Total	Gross Advances	Gross NPAs	Gross NPAs as Per Cent of Total
2017	6,520.04	132.93	18.0	14,528.76	605.49	82.0	21,048.80	738.42	100.0
2016	5,619.77	101.39	21.0	12,297.04	382.41	79.0	17,916.81	483.80	100.0
2015	4,427.62	72.11	22.8	9,945.77	243.65	77.2	14,373.39	315.76	100.0
2014	3,830.55	60.55	26.6	8,286.76	166.89	73.4	12,117.31	227.44	100.0
2013	3,157.00	52.00	26.0	7,309.00	148.00	74.0	10,466.00	200.00	100.0