A STUDY ON NPA MANAGEMENT IN INDIAN BANKS

TALABOINA SPANDANA [1] **MBA Student**
DR. K MADHU BABU [2] **HOD & ASSOCIATE PROFESSOR**
[1,2]MASTER OF BUSINESS ADMINISTRATION
[1,2]Megha Institute of Engineering and Technology for Women, Sy. No. 7, Edulabad Road, Edulabad, Ghatkesar, Telangana.

ABSTRACT

Banking in India started in the 18th century and since then major development and changes have been observed. New concepts and mediums of measuring the efficiency of the banking industries were introduced, NPA being one of them. The amount lent out by the bank to its users who are now unable to pay it back along with the principle amount and interest within a stipulated time, those become the Non-Performing Assets of the bank. The percentage of NPA maintained by the bank portrays its efficiency in functioning as in lower NPA rates show that the bank is efficient in its functioning. The following gives a fair introduction and valuable information about the performance of NPA in HDFC bank. A comparative study of HDFC and ICICI banks has been carried out to know about the efficiency of the largest private sector bank in India.

INTRODUCTION

1.1 INTRODUCTION TO THE STUDY

NPA is the most important data which needs to be compared amongst banks. NPAs of a bank can affect other ratios, operations and revenue. Correct analysis of NPA will give you a fair idea of which bank is performing better among its peers.

A bank"s primary source of income is the interest it receives on the loans it provides. When a bank loans money, they expose themselves to credit risk. It means that there are chances that the borrower might fail to repay bank‟s loan. When this happens, the loaned amount is classified as **Non-Performing Asset**.

1.2 NEED OF THE STUDY

The main aim behind making this report is to know how HDFC is operating its business and how NPAs play its role to the operations of the HDFC Bank. My study is also focusing upon existing system in India to solve the problem of NPAs and comparative analysis to understand which bank is playing what role with concerned to NPAs. Thus, the study would help the decision maker to understand the financial performance and growth of the concerned banks as compared to the NPAs.

1.3 SCOPE OF THE STUDY

Analysis on Impact of NPA on banks profitability and finding the measures to reduce the NPA with Reference HDFC bank

CHAPTER 2

REVIEW OF LITERATURE

In the past bank‟s NPAs were analyzed by many researchers in India and a good number of papers were published by them. The researcher has reviewed more than 100 papers related to the study. The details of more relevant literature reviewed by the researcher are as under

Saha, M., and Zaman, A. (2021) in their study titled Management of NPAs in banks with special reference to UBI found that with the decrease in NPA level, profitability of banks increased.

Hawaldar, I.T, Spulkar, C., Lokesh, A., Birau, R., Robegen, C. (2020) in their study analysing non-performing assets in agriculture loans. A case study in India concluded that there is no significant difference in pre and post sanction of agriculture loans and management of non-performing assets by banks. The wilful default by borrowers and more NPAs in banks are due to debt waiver policies announced by political parties.

Jethwani, B., Dave, D., Ali, T., Phansalker, S., and Ahhirao, S. (2020) in their study Indian agriculture GDP and NPA: A regression model found that the repayment of farm loan adversely affects as factors like rural population, low export value of crop and low crop production for the year. It should be understood that the farm loan waivers cannot solve the problem.

Selvam, P. and Premnath S., (2020) in their study titled "Impact of coronavirus on NPA and GDP of Indian Economy" finds that the NPAs increased during the period and suggested that government should resolve pending cases quickly and stop mandatory landings which is the real problem segment.

Sharma S., Rathore D.S., and Prasad, J. (2019) They found that both in public & private sector banks the major reason for the NPAs is miss-utilisation of bank loans and poor

Kumar, S., Singh, R., Pratibha, B. T. and Pandurang, A.K. (2019) in their study Non-Performing Assets of Banks: A Literature Review titled "priority sector lending and NPA status, impact and issues" found that NPAs of public sector banks for twelve years (2005 to 2016), the NPA percentage in priority sector increased during 2005 to 2008 and 2012 to

2016, Whereas in non priority sector NPA"s decreased from 2005 to 2009 and remain constant/stable from 2009 to 2011 and increased from 2011 to 2016. Priority & non priority NPA both contribute to the total NPAs of public sector banking.

Shiv Kumar, V. and Devenadhan, K.(2019) Done a study analyzing the factors implication of NPAs in SBI through factor analysis to be encountered. Researchers view that implication of NPAs are at a moderate level. It can be concluded that the loan asset management of SBI has put the right measures to address the bad effects of funding mismanagement and to resolve serious adverse effects of NPA.

Rana C., (2018) in his study titled "Management of NPA in context of Indian banking system concluded that NPA impacts profitability, liquidity and results in credit loss. There are two types of NPAs – gross NPA and net NPA. NPAs also impact low yield on advances, adverse Impact on capital adequacy. As a preventive measure, he suggested stopping multiple financing and early recognition of the problem.

Kaur, M. and Kumar, R. (2018) In their research titled sectoral analysis of NPA‟s during pre and post crisis period of selected commercial banks" studied that NPA‟s of priority & non priority sector, a comparison was made between public & private sector banks. They found in their study that during the pre-crisis period the level of NPA in the priority sector was higher in public & private banks, whereas after the crisis both showed a negative growth rate in NPAs. It was also evident from the study that the crisis had no impact on the banking sector as the NPA‟s were declined after the crisis period. The growth of NPA in private sector banks was higher than the public sector banks. It was discovered during the pre-crisis period NPA in non-priority sectors was decreasing in public sector banks, but the private sector banks were showing an increase in NPA‟s. NPA increased at a higher rate during the post crisis period. pre-crisis period – 2001-02 to 2007-08. post crisis period – 2008-09 to 2013-14.

Meher, B. (2018) Impact of demonetization on NPAs of Indian banks, focus on how the demonetization would influence this most pivotal issue of banking industry. The researcher found that in the short run, a positive effect of demonetization can be seen in which current NPAs of the banks decreased a bit. Suvitha, K. V., Gayathri, G. (2018) Researchers studied the various papers from 2010-2017(about 100 papers) and concluded that out of the total 100 articles analyzed, level of NPAs is higher in public sector banks than the private sector banks. The main reason for the issue is excessive landing by banks and higher demand of credit by willful defaulters.

3.1 INDUSTRY PROFILE

A loan is classified as a non-performing asset when the repayment is overdue for more than 90 days. It negatively affects bank‟s ability to generate adequate income and profitability.

A wise manager will always set aside some funds as reserves in case of such bad debts. In banking terms, this is called the Provisional Reserves. Such provisions eat into your profits because you can‟t use this money elsewhere. But this is very important for banks to safeguard themselves from huge losses.

The total defaults are classified as Gross NPAs (GNPA). The balance amount which remains after deducting the provision is classified as Net NPA (NNPA).

Meaning and Definitions of NPAs

A non-performing asset, in a narrow sense, may be defined as an asset which does not directly contribute to the corporate profits or yield any positive returns. This may be appropriate when applied to loans and advances. However, there are other assets such as cash balances held which are certainly require for business operations but do not yield any direct return. Although banks cannot completely do away with such non- performing assets from their books, they have to manage to keep them at a minimum possible level to maximize profits.[12] The term non-performing asset has been defined

by several experts, SARFAESI Act and RBI on the basis of recommendation of Narasimham Committee.

Mohan, B. and Rajesh, K. defined "A non-performing asset is one which does not generate income for the bank. In other words an advance account which ceases to yield income in a non-performing asset."

Lakshman, U.N defined NPA as "an advance where payment of interest or repayment of installment on principal (in case of term loans) or both remain unpaid for a period of
2 quarters or more and if they have become "past due". An amount under any of the credit facilities is to be treated as past due when it remains unpaid for 30 days beyond due date".

SARFEASI Act, 2002 defined NPA as "an asset or account of borrower, which has been classified by a bank or financial institutions as sub-standard, doubtful or loss assets in accordance with the direction issued the Reserve Bank of India".

As per RBI guidelines advances are classified into performing and non-performing advances (NPAs). NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI.
An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the Bank.

An NPA is a loan or an advance where:

- Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- The account remains "out-of-order" in respect of an Overdraft or Cash Credit (OD/CC).
- The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.

A loan granted for short duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for two crop seasons.

A loan granted for long duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for one crop season. The Bank classifies an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter. This is a key to the stability of the banking sector. There should be no hesitation in stating that Indian banks have done a remarkable job in containment of non-performing loans (NPL)

4.DATA ANALYSIS AND INTERPRETETION

Ratio Analysis

The Relationship between two two related item of financial statement is known as ratio. A ratio is just one number expressed in terms of another. The ratio is customarily expressed in three different ways. It may be expressed as a proportion between the two figures. Second it may be expressed in terms of percentage. Third, it may be expressed in terms of rates.

The use of ratio has become increasingly popular during the last few year only. Originally, the bankers used the current ratio to judge the capacity of the borrowing business enterprises to repay the loan and make regular interest payment. Today it has assumed to be important tool that anybody connected with the business turns to ration for measuring the financial strength and earning capacity of the business.

Gross NPA Ratio:- ratio is the ratio to gross NPA to gross advances of the bank. Gross NPA is the sum of all loan assets that are classified as NPA as per RBI guidelines. The ratio is to be counted in terms of percentage and the formula for GNPA is as follow:

$$\text{Gross NPA Ratio} = \frac{\text{Gross NPA}}{\text{Gross Advances}} * 100$$

Banks	As On march 31, 2024		
	Gross NPAs	Gross Advances	Gross NPA Ratio
	(1)	(2)	(3)
HDFC Bank	18,019.03	1,600,585.90	1.12
ICICI Bank	31,183.70	1,019,638.31	2.81

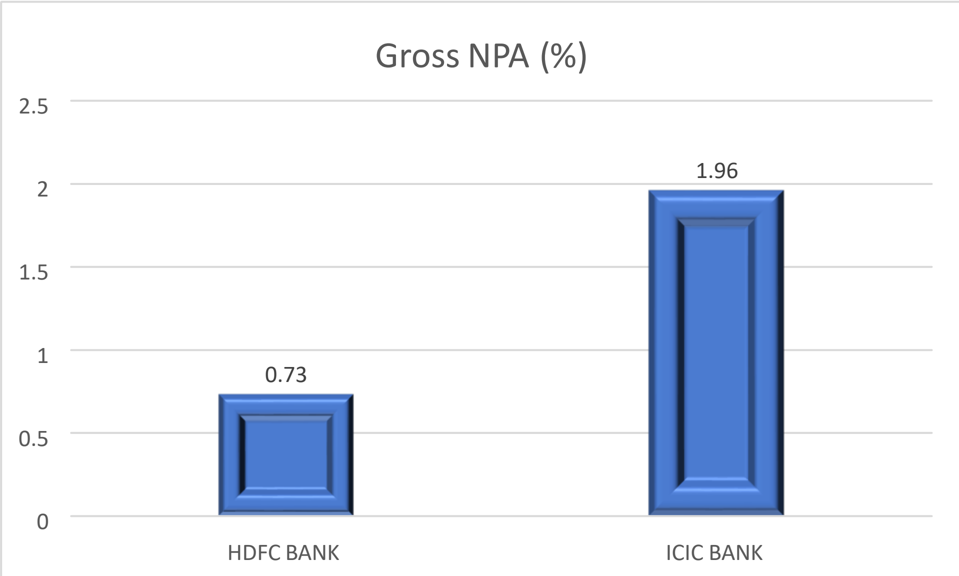
Interpretation:

The above table indicates the quality of Credit portfolio of the banks. High gross NPA Ratio indicates the low Credit portfolio of bank and vice-versa. We can see from the above table the CICI has higher gross NPA ratio of 2.81. Whereas the HDFC showed lower ratio with 1.12 in the year 2024 as compare to ICICI bank.

Graphic Representation:

Name of the Bank	**Gross NPA Ratio (%)**
HDFC Bank	1.12

ICICI Bank	2.81



Finding form the above chart:

- The table above indicates the quality of credit portfolio of the banks. High gross NPA ratio indicates the low credit portfolio of bank and vice-versa.
- We can see from the above chart that the ICICI Bank has the higher gross NPA ratio 2.81 % as compared to the HDFC Bank with 1.21%

4.2 Net NPA Ratio

The net NPA percentage is the ratio of NPA to net advances in which the provision is to be deducted from the gross advances. The provision is to be made for NPA account. The formula for that is:

$$\text{Net NPA Ratio} = \frac{\text{Gross NPA - Provision}}{\text{Gross Advances - Provision}} * 100$$

Gross NPA – Provision = Net NPA

Gross Advances – Provision = Net Advances

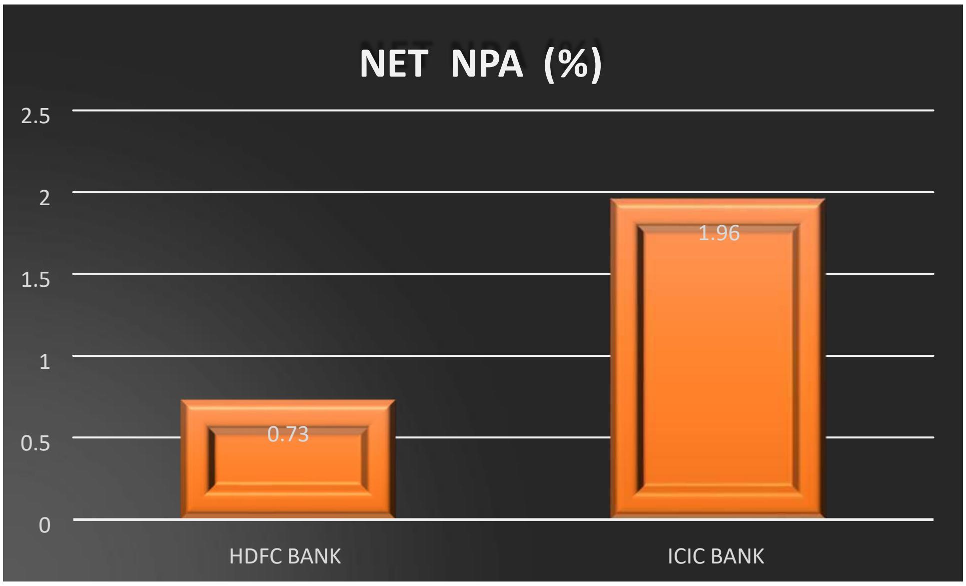
Banks	As on march 31, 2024		
	Net NPAs	Net Advances	Net NPA Ratio
	(1)	(2)	(3)
HDFC Bank	4368.43	1,574,289.63	0.27
ICICI Bank	5,155.07	1,002,448	0.48

Interpretation:

The above table indicates the quality of Non-Performing assets of the banks. High Net NPA Ratio indicates the low Credit portfolio & risk oof bank and vice-versa. We can see from the above table the ICICI has higher Net NPA ratio of 0.48%. Whereas the HDFC showed lower ratio with 0.27% in the year 2024 as compare to ICICI bank.

Graphic Representation:

Name of the Bank	**Net NPA Ratio (%)**
HDFC Bank	0.27
ICICI Bank	0.48



CHAPTER 5

FINDINGS

- ICICI Bank shows high NPAs ratio as compare to HDFC bank.
- High NPAs ratio shows low credit portfolio of ICICI bank.
- In analysis HDFC Bank low risk profile as compare to ICICI Banks in terms of NPAs.

- Study also indicates that major NPA increases because of government commended priority sectors.

- HDFC Bank has better provision as compare to ICIC

5.2 RECOMMENDATION / SUGGESTION

- Effective inspection system should be implemented.
- Large exposure on big corporate or single project should be avoided.
- Both the Banks should give stress upon credit appraisal.
- Credit officer should focus upon cash flow.
- Banks should try their best to recover NPAs.
- The problem should be identified very early so that companies can try their best to stop an asset or A/c becoming NPA.
- Banks should evaluate the SWOT analysis of the borrowing companies i.e. how they would face the environmental threat and opportunities with the use of their strength and weakness, and what will be their possible future growth in concerned to financial and operational performance.
- Each bank should have its own independent credit rating agency which should evaluate the financial capacity of the borrower before than credit facility.
- The credit rating agency should regularly evaluate the financial condition of the clients.

BIBLIOGRAPHY

Websites:-

- www.google.cp.in
- www.hdfc.co.in
- www.moneycontrol.com
- www.icici.co.in
- www.rbi.org.in