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POSITION OF NON PERFORMING ASSETS IN IDBI BANK

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ABSTRACT

The Banking industry is one of the basic instruments of economic growth. It must be on a sound footing as it constitutes an important link in various socio-economic activities. A strong banking sector is important for flourishing economy. The failure of the banking sector in any country may have an adverse impact on other sectors.

Non Performing Assets (NPAs) are one of the major concerns for banking sector in India. Non Performing Assets also called NPAs is the term used in banking and finance sector. Basically this term (NPAs) is used in loan department of the bank. The assets of bank which do not perform any role in getting profit to the organisation, such assets are called Non Performing Assets. NPAs reflect the performance of banks in any country. The more NPAs reflect the lower the performance of bank. The issue of NPAs has been discussed at length of financial system all over the world. The problem of NPAs is not only affecting the banks but also the entire economy of any country. In this paper, an effort has been made to analyze the concept of NPAs, components of loan assets the commercial banks in India with especial reference to the public sector, private sector and the foreign bank. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that the commercial banks have significantly improved their working performance in the areas of NPAs.

Keywords: Non Performing Assets (NPAs), Benchmarks, Rating grades, IDBI Bank

I. INTRODUCTION

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into picture. The primary function 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. In recent times the banks have become very cautious in extending loans, the reason being mounting Non Performing Assets. Non Performing assets had been the single largest cause of irritation of the banking sector of India. Earlier the Narasimha committee-I had broadly concluded that the main reason for the reduced profitability of the

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commercial banks in India was given importance to priority sector lending. The committee had highlighted that priority sector lending was leading to the building up of Non Performing Assets of the banks and thus it recommended it to be phased out. Subsequently, the Narasimha committee-II also highlighted the need the zero Non Performing Assets for all Indian banks with international presence. A major portion of the money lent comes from the deposits received from the public. These deposits are mostly repayable on demand. Therefore while sanctioning credit the banker should appraise the project reasonably or else it leads to the non-repayment of loans and advances. Most of the banks today in India are facing the default risk wherein some part of the profit is reserved for covering the Non Performing Assets.

II. STATEMENT OF PROBLEM

Credit risk is associated with lending highly. Based on the income expenditure, net interest income, net interest income, NPAs and capacity adequacy one can comment on the profitability and the log run sustenance of the bank. Now-a-days, banks have special employees to deal with and handle Non Performing Assets, which is an additional cost to the bank. Bank is facing problem of Non Performing Assets as it adversely affects the value of bank in terms of market credit. It will lose its goodwill, brand image and credit which have negative impact on the people who are putting their money in the banks.

The bank will face the problem of NPAs because of poor recovery of advances granted by the bank and several other reasons. When the loan is not recovered by the bank effectively and efficiently it will become NPA to the bank and it may affect banks' net profit. So the researcher focuses on the cost of Non Performing Assets in banks with special reference to IDBI Bank and it deals with steps to reduce the Non Performing Assets (NPAs).

III. REVIEW OF LITERATURE

1. **Jaynal Ud-din Ahmed (2011)** in his study concluded that the earning capacity and profitability of banks has been adversely affected by the high level of NPAs and the reduction of NPAs in banks is posing the biggest challenges in the Indian economy.
2. **Sandeep and Parul Mital (2012)** analysed the comparative position of Non Performing Assets of selected public and private sector banks in India to find their efficiency through comparative study.
3. **Balasubramaniam C.S. (2013)** highlighted the level of NPAs is high with all banks currently and the banks would be expected to bring down their NPA. This can be achieved by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets.
4. **Olekar and Talawar (2014)** studied NPA management with reference to Karnataka central cooperative bank ltd., where they described conceptual data about NPA and on the other hand, they calculated few NPA related ratios and used trend projection method to predict next year advances for the bank. Their finding includes the considerable reduction of NPA for the bank and some suggestions for recovery of NPA.
5. **Yadav, Sushma (2015)** analysed the rising trends and preventive measures of Non Performing Assets in Indian Banking Sectors. The secondary data compiled from Report on Trends and Progress of Banking in India, 2004-10 which has been analyzed by statistical tool such as percentages and compound Annual Growth rate. This study reveals that the NPAs overall Indian banking level.

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6. SIRAJ. K. K & PROF. (DR). P. SUDARSANAN PILLAI says that NPA is a virus affecting banking sector. It affects liquidity and profitability, in addition posing threat on quality of asset and survival of banks. The study concluded that NPA still remains a major threat and the incremental component explained through additions to NPA poses a great question mark on efficiency of credit risk management of banks in India.

IV. OBJECTIVES OF THE STUDY

1. To analyze the position of Non Performing Assets in IDBI Bank
2. To understand the concept of NPAs Rating grades.
3. To suggest measures to control the menace of Non Performing Assets.

V. SCOPE OF THE STUDY

The present study of Non Performing Assets is confined and restricted to the boundary of IDBI bank and data is analyzed since2005-06 up to 2014-15.

VI. SOURCES OF DATA

The data collected is mainly secondary in nature. The sources of data include the literature published by Indian Bank and the Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

VII. NPA MANAGEMENT RATING MODEL

RBI has suggested a NPA management rating model for measuring the efficiency of a bank in NPA management. RBI has set certain benchmarks for rating, which are compared with certain parameters. The performance of the bank is compared with that of the previous year to know the improvement or deterioration in the quality of NPA management adopted by the bank or the branch. If there is an improvement in the quality of NPA management an award of +1 is given. On the contrary, for deterioration in the NPA management quality minus 1 is awarded. Similarly, for parameters which conform to the established benchmarks, a positive grade is allotted and for those, which do not conform, a negative grade is allotted. The marks obtained on different parameters are added to find out the total marks obtained. Based on the total marks, a suitable grade is awarded.

VIII. STANDARDISED BENCHMARKS

The ranges are given in the Table 1 and Table 2 and the institutions and banks are graded on the basis of numbers or percentages.

Table 1 Comparison with Previous Year Performance

SI.No	Parameters	Positive(+1)	Negative (-1)
1	Gross NPA	Decrease	Increase
2	Net NPA	Decrease	Increase
3	Gross NPA Ratio	Decrease	Increase
4	Net NPA Ratio	Decrease	Increase

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5	Slippage Ratio	Decrease	Increase
6	Provision Ratio	Increase	Decrease
7	NPA Reduction Ratio-mix	Increase	Decrease
8	Cash up Gradation Ratio	Increase	Decrease
9	Depositor's Safety Ratio	Increase	Decrease

Source: www.rbi.org.in

The above Table 1 is helps to compare the previous year performance of the Non Performing Assets ratios.

Table 2 Standardised Benchmarks by RBI

SI.No	Parameters	Positive(+1)	Negative (-1)
1	Gross NPA Ratio	5% and less	More than 5%
2	Net NPA Ratio	2.5% and less	More than 2.5%
3	Problem Asset Ratio	2% and less	More than 2%
4	Depositor's Safety Ratio	More than 80%	80% and Less
5	Provision Ratio	60% and more	Less than 60%
6	Slippage Ratio	Less than 5%	More than 5%
	NPA mix:		
7	Sub Standard Ratio	35% and less	More than 35%
8	Doubtful Asset Ratio	60% and less	More than 60%
9	Loss Asset Ratio	5% and less	More than 5%
10	NPA Reduction Ratio	30% and more	Less than 30%
11	NPA Accretion Ratio	Less than 100%	100% and more

Source: www.rbi.org.in

The above standardized benchmarks are given by RBI. It is an indicator to identify the grades of Non Performing Assets.

IX. RATING GRADES

The rating grade for a bank is indicated in the following Table 6.3 both in terms of number as well as percentages. On the basis of the grades or ratings, the bank has to plan for specific action for the improvement of NPA management. The general suggestion made by RBI is that banks with A+ rating can be given more autonomy and control. Banks with A and B rating can go for credit expansion and diversification, but banks fixed with C, D, E, or F grades should concentrate fixing accountability and adopt credit restrictions whichever are suitable. The rating grades are shown in Table 3

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Table 3 Grade for NPA Management Quality

SI.No	Ranges or Percentages	Grade	Rating
1	+24 to +30 or +81% to +100%	A+	Excellent
2	+16 to +23 or +51% to +80%	A	Very good
3	+8 to +15 or +26% to +50%	B	Good
4	0 to +7 or 0% to +25%	C	Average
5	-10 to -1 or -30% to -1%	D	Poor
6	-20 to -11 or-70 % to -31%	E	Very poor
7	-30 to -21 or -100% to -71%	F	Very Very poor

Source: www.rbi.org.in

Finally, the Table 3 helps to determine the grades and rating of the Non Performing Assets through ranges or percentages prescribed by RBI to analyse the NPA management quality.

X. ANALYSIS AND FINDINGS

In this juncture a year-wise break up for the financial performance is required to identify the rating of NPAs in the span of 10 years. The rating and grades are used to know the position of Non Performing Assets of the IDBI Bank by considering the 11 ratios. The details regarding the selected 11 ratios are presented in Table 4 and Table 5

Table-4 Ratios Selected For Rating Grades of NPAs

Year	Ratio					
	Gross NPA	Net NPA	Problem Assets	Depositors Safety	Provision	Slippage
2005-06	20.41	10.41	12.60	30.27	33.02	82.00
2006-07	18.99	11.22	11.86	2.63	44.84	40.76
2007-08	18.92	13.17	11.97	34.91	32.59	23.75
2008-09	13.82	9.18	8.33	20.13	33.56	20.34
2009-10	15.33	10.18	9.12	43.21	22.86	15.95
2010-11	17.60	10.68	10.99	43.50	25.97	19.90
2011-12	25.21	16.12	15.68	32.15	24.32	31.45
2012-13	32.86	15.79	19.99	41.03	25.43	23.68
2013-14	49.15	24.80	30.28	43.94	32.66	45.81
2014-15	59.00	28.76	35.63	0.91	39.21	21.71

Sources Computed from IDBI Annual Report.

Table-5 Ratios Selected For Rating Grades of NPAs

Year	Ratio				
	Sub Standard	Doubtful Asset	Loss Assets	NPA Reduction	NPA Accretion
2005-06	2.55	7.07	--	177.82	94.94
2006-07	0.09	0.47	--	66.11	114.29
2007-08	8.42	4.61	--	39.70	153.57

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2008-09	11.69	13.68	--	40.26	110.22
2009-10	13.58	20.27	--	13.02	534.77
2010-11	6.53	24.35	--	10.37	677.77
2011-12	22.93	18.75	--	17.44	322.61
2012-13	7.23	23.66	0.01	13.04	325.73
2013-14	7.00	23.08	0.00	22.05	259.86
2014-15	5.79	19.45	--	26.61	180.71

Sources Computed from IDBI Annual Report.

The selected NPAs ratios are the key indicator to identify the rating grades of NPAs of IDBI Bank. The ratios related to NPAs rating model as per the provision of RBI, the rating, grades and ranges are given for all the 26 parameters. The results are given in Table 6

Table-6 Rating Grades in IDBI Bank

S.No	Ratio	Mean	Ratio	Comparison	Gross NPA	Number of Parameter	Range
1	Gross NPA	27.13	-10	-3	-7	3	-20
2	Net NPA	15.03	-10	-7	-7	3	-24
3	Problem Asset	16.64	-10	-	-7	2	-17
4	Depositor's Safety	29.27	-10	1	-	2	-9
5	Provision	31.48	-10	5	-7	3	-12
6	Slippage	32.51	-10	3	-	2	-7
7	Sub Standard Asset	8.58	10	-	-7	2	3
8	Doubtful Asset	15.54	10	-	-7	2	3
9	Loss Asset	0.01	2	-	-7	2	-5
10	NPA Reduction	42.64	-2	1	-7	3	-8
11	NPA Accretion	52.54	-8	5	-	2	-3
					Total	26	-99

Source: As computed.

It is observed from the table 6 that out of 26 parameters considered for NPA management, the bank has 6 positive and -105 negative marks. Comparing this with the rating model specified by RBI, the bank falls under -30 to -21 (-100 per cent to -71%) rating graded F (1.3), which shows a very very poor level of NPA management in the IDBI Bank.

XI. SUGGESTIONS

IDBI Bank has realized that a higher level of Non Performing Assets in their credit portfolio is dangerous and will affect on their profitability which is already under strain. Quality of loan assets is the most important factor for the basic viability of the banking system. Lower level of Non Performing Assets helps the IDBI Bank in consolidating their position and gives credence to efficiency of the management. IDBI Bank can control this

problem of reducing the Non Performing Assets taking two measures namely; Preventive Measures, Corrective Measures

Preventive Measures: It is required to arrest the fresh inflow of Non Performing Assets. IDBI Bank need to ensure that only genuine proposals are accepted and projects having inherited weakness are to be rejected at the first instances. It needs to upgrade the credit appraisal skills which are highly inadequate. Economic viability, technical feasibility, quality of management and financial position of the borrower should be evaluated properly. Pre – credit and post – credit appraisals are to be done by IDBI Bank more objectively. Close monitoring of borrower accounts, site visits, factory visits, etc are to be done regularly. Rehabilitation of viable sick units is essential. Consultancy and technical services must be provided to the borrower units wherever necessary.

Corrective Measures : Corrective measures are required to recover the money out of assets, which have already fallen into NPA category. Normally, after sanctioning and disbursement of loans the bank should have an effective follow-up, monitoring and supervision over the credit. IDBI Bank is necessary to adopt proper credit monitoring mechanism, with periodical inspection of the units along with regular flow of information from them pertaining to their financial liquidity, annual accounts, stock reports, etc., comparative risk analysis and compliance of terms and conditions of sanction. IDBI Bank is needed to make sincere efforts to recover the amount from assets which have already slipped into NPAs category.

Legal Measures : The following are the important tribunals, committees and agencies for recovering the Non Performing Assets initiated by Reserve Bank of India.

a. Debt recovery Tribunals (DRT) b. Corporate Debt Restructuring (CDR) c. Asset Reconstruction Company India Limited (ARCIL) d. Credit Information Bureau (CIB) e. Lok adalats f. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

XII. CONCLUSION

IDBI Bank is maintaining a proper database of their NPA portfolio on well – designed formats to provide meaningful inferences which would help them in evolving effecting strategies as well as account specific action plans for reduction in Non Performing Assets. The Non Performing Assets have always created a big problem for the banks and perhaps the most threatening to question the fundamental efficiency of the bank. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank. It is also a well known fact that the basis for the accumulation of huge NPAs is not because of negative trade cycles, but is an outcome of faculty credit delivery system and the adoption of impractical operational methodologies. In order to tackle this challenge in the environment, the IDBI bank needs to adopt a very objective approach to allocate its funds in the most efficient way and thereby reduce the burden of NPAs in future.

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