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**An evaluation of NPA of Selected Private Sector banks in India for the period of  
2000-2010**

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**INTRODUCTION**

Banks are basically service-rendering institutions. The existence and success of banks depend on their ability to meet the various needs and wants of the customers. Private sector banks play an important role in development of Indian economy. After liberalization the banking industry under went major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed, new generation banks with used of technology and professional management has gained a reasonable position in the banking industry. The main focus of this research is to analyse the effect of NPA on Indian Private Sector banks.

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the banks have become very cautious in extending loans. An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. As per the prudential norms suggested by the Reserve Bank of India (RBI), a bank cannot book interest on an NPA on accrual basis. In other words, such interests can be booked only when it has been actually received. Therefore, this has become what is called as a 'critical performance area' of the banking sector as the level of NPAs affects the profitability of a bank

A major drag on the banking system in India is the slow progress in the management of non-performing assets (NPAs). In 2001, the ratio of NPAs to net advances stood at about 10-15 per cent. A few banks have much higher levels of NPAs than average and low capital. To support the weak public sector banks, the government injected a substantial amount of capital before the banks were allowed to tap the capital market. Detailed recommendations for restructuring of weak public sector banks (Indian Bank, UCO bank, and United Bank) were given by the RBI appointed Verma Committee (RBI, 1999). In the early 1990s, the Government of India amended the relevant legislation to provide for a reduction of its stake in the public sector banks to 51 per cent.

The problems which have assumed enormous proportion today as far as Private Sector banks concerned are ballooning NPA levels, declining margins, poor credit off-take, high overheads, and lack of good quality assets. Net NPA as a percentage of Net advances will be used to study the quality of the assets of the bank.

As at end-March 2014, SCBs comprised 27 public sector banks (State Bank of India and its six associates, 19 nationalized banks and the IDBI Bank Ltd.), 7 new private sector banks, 13 old private sector banks and 31 foreign banks. The following table shows the number of banks and branches operating in India.

<b>The Scheduled Banks in India (Private Sector)</b>	
1. Catholic Syrian Bank	11. Ratnakar Bank
2. City Union Bank	12. South Indian Bank
3. Dhanlaxmi Bank	13. Tamilnadu Mercantile Bank
4. Federal Bank	14. Axis Bank
5. ING Vysya Bank	15. Development Credit Bank
6. Jammu & Kashmir Bank	16. HDFC Bank
7. Karnataka Bank	17. ICICI Bank
8. Karur Vysya Bank	18. IndusInd Bank
9. Laxmi Vilas Bank	19. Kotak Mahindra Bank
10. Nainital Bank	20. Yes Bank

### **STATEMENT OF THE PROBLEM**

In a fast changing banking environment of today the very survival of a banking organization depends on level of the income generated through optimum use of assets after paying the cost of funds for acquiring them and other administrative costs involved therein. Once the assets cease to contribute the income, they are termed as Non Performing Assets, which not only affects the profitability of banks but also affects on the performance of private sector banks.

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One of the important functions of banks is to maintain the quality of assets, which requires proper selection of borrower, appraisal of his/ her project, adequate credit, close monitoring, supervision and follow up. In spite of this there is always risk of accounts becoming non-performing. There is therefore, need to devise suitable strategy for accounts, which have gone bad and / or classified as non-performing assets.

One of the major problems being faced by banks and financial institutions in India is that of bad debts termed as “Non Performing Assets” (NPA). There are many reasons for the sorry state of affairs and major among them are

- 1) Political interference,
- 2) Poor low enforcement,
- 3) Archaic laws and procedures,
- 4) Corruptions at various levels and competition in various banking institution,
- 5) Flow of Funds.

As after considering the importance of strategic research in Indian banking industry, it is felt necessary to carry out a study entitled “**An evaluation of NPA of selected Private sector banks in India for the period of 2000-2010.**”

### **OBJECTIVE OF STUDY**

1. To analyse the performance of PVSBS in India during the period April 2000 to 2013.
2. To examine the growth and Impact of GNPA's in private sector banks in India during the period April 2000 to 2013.
3. To forecast NPA figures for banks with special reference to PVSBS for the years 2015, 2016, 2017 and 2018.
4. To offer policy suggestions to better manage NPAs.

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**HYPOTHESES**

1. Performance of PVSBS is better than PSBs during the study period.
2. NPA levels have been historically low in the case of PVSBS as compared with PSB.
3. NPAs in PVSBS are likely to be at elevated levels post 2015.
4. High levels of NPA will significantly impact the profitability.

**DATA COLLECTION**

The research is mainly based on the secondary database but it is supported by the primary data. Secondary data have been collected through structured questionnaire, annual reports, authentic records and publications of RBI and website of individual banks and RBI website.

Primary data are collected through structured questionnaire from the officers, Managers of credit department of selected private sector banks head offices in Maharashtra. The questionnaires were undertaken from selected banks operating and having head offices in Maharashtra only. The data is collected though from officers of below mentioned banks.

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|-------------------------------|--------------------------------------|
| 1. ICICI bank                 | 10. Dhanlaxmi bank ltd.              |
| 2. Ratnakar bank ltd.         | 11. The catholic Syrian bank limited |
| 3. Ing Vysya bank             | 12. The Karur Vysya bank             |
| 4. Karnataka bank ltd         | 13. Yes bank                         |
| 5. The federal bank ltd       | 14. The Lakshmi Vilas bank ltd.      |
| 6. Jammu and Kashmir bank ltd | 15. Development credit bank ltd.     |
| 7. Indusind bank ltd          | 16. Kotak Mahindra bank              |
| 8. City union bank ltd.       | 17. HDFC bank                        |
| 9. Axis bank                  |                                      |

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The secondary data has been obtained for a period of fourteen years starting from 2001-02 to 2013-14. Secondary data were also collected from different journals on banking, Economics and Finance; Database of Indian Economy Financial Express, Publications and Websites of Industry Associations (IBA, CII and ASSOCHAM); Publications of Bank Management Institutes (NIBM, IIBF) Annual Reports of Ministry of Finance (Government of India), Publications of World Bank (IBRD); Asian Development Bank (ADB) and Board for International Settlement (BIS).

The private sector banks selected are:

1. HDFC Bank
2. ING Vysya Bank
3. Karnataka Bank
4. Developmental Credit Bank

### **STATISTICAL TOOLS UTILIZED:**

The research is based on the secondary data and for the analysis of the entire data related to NPA is financial in nature which required careful scrutiny for which relevant statistical tools have been utilized as per the need of the study-

- 1) Percentages
- 2) Comparative statements and
- 3) Regression analysis

### **PERIOD FOR STUDY:**

The period of the study is thirteen years on the basis of NPA management i.e. from 2000-13. The analysis is made for the study because the complete data for the entire period is available.

### **SCOPE AND LIMITATIONS OF THE STUDY**

For the purpose of study, Head offices of a Private Sector banks have been selected from Maharashtra. The banks have very well spread out net work with 20 head offices in Mumbai.

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These offices are taking up all type of banking business irrespective of their corporate offices locations in India, Which enables researcher to improve knowledge about the banking sector, specifically on account of NPAs. This study also enables Private sector banks to know its actual position on NPA management in last 14 years.

The scope of the study is restricted to the selected banks and the area specified in methodology. The geographical limit of the study confined to two districts of Western Maharashtra i.e. Pune, Mumbai (Head Offices of Selected Banks). Unfortunately some banks were merged into some other banks which have caused a major hurdle in data collection which has hampered the research work.

- The limitations of tools and techniques applied for the analysis are inherent in the present study.
- Deeper study could not be possible due to the RBI restrictions on disclosure of data on part of higher officials.
- Since the primary data & secondary data used in this work are collected from the officers of PVSBS and published annual reports of respective PVSBS respectively, they have inherited limitations.
- The present study is based on the selected four PVSBS. As the size of the sample selected is very small, the limitations of a small sample are applicable and statistical information of which are available for the entire period of study.

In spite of all these limitations this study throws light on the important challenging problems of the PVSBS.

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**CHAPTER SCHEME****CHAPTER 1. RESEARCH METHODOLOGY**

- 1.1 INTRODUCTION
- 1.2 STATEMENT OF THE PROBLEM
- 1.3 OBJECTIVES OF STUDY
- 1.4 HYPOTHESES OF THE STUDY
- 1.5 SAMPLE SIZE
- 1.6 DATA COLLECTION
- 1.7 TOOLS OF ANALYSIS
- 1.8 PERIOD FOR STUDY
- 1.9 SCOPE AND LIMITATIONS OF THE STUDY
- 1.10 REVIEW OF LITERATURE
- 1.11 CHAPTER SCHEME

**CHAPTER 2. INTRODUCTION**

- 2.1 INTRODUCTION
- 2.2 DEVELOPMENT BANKING IN INDIA
- 2.3 THE BANKING STRUCTURE IN INDIA
- 2.4 CLASSIFICATION OF BANKS IN INDIA
- 2.5 CHARACTERISTICS / FEATURES OF A BANK
- 2.6 PRIVATE SECTOR BANKS IN INDIA

**CHAPTER 3. PROFILE OF THE SAMPLE BANKS**

- 3.1 PROFILE OF HDFC BANK
- 3.2 PROFILE OF ING VYSYA BANK

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**3.3 PROFILE OF KARNATAKA BANK****3.4 PROFILE OF DEVELOPMENTAL CREDIT BANK****CHAPTER 4. NPAs-MANGEMENT AND IMPLICATIONS****4.1 INTRODUCTION OF NPA****4.2 PERFORMING AND NON-PERFORMING ASSETS****4.3 CLASSIFICATION OF NPAS****4.4 TYPES OF NON PERFORMING ASSETS****4.5 PROVISIONING NORMS****4.6 REASONS FOR AN ACCOUNT BECOMING NPA****4.7 IMPACT OF NPA****4.8 EARLY SYMPTOMS OF NPA****4.9 PREVENTIVE MEASUREMENT FOR NPA****4.10 PROCEDURES FOR NPA IDENTIFICATION AND RESOLUTION IN  
INDIA****CHAPTER 5. ANALYSIS AND OBSERVATIONS****5.1 INTRODUCTION****5.2 PERFORMANCE OF SELECTED PRIVATE SECTOR BANKS IN INDIA.****5.3 GROWTH OF GNPAS IN PRIVATE SECTOR BANKS IN INDIA.****5.4 IMPACT OF GNPAS IN PRIVATE SECTOR BANKS IN INDIA.****5.5 GNPA FORECAST OF SELECTED PRIVATE SECTOR BANKS IN INDIA.****5.6 SECTORAL GROWTH OF VARIOUS MACROECONOMIC FACTORS****CHAPTER 6. FINDINGS AND SUGGESTIONS****6.1 OBSERVATIONS****6.2 RECOMMENDATIONS****6.3 CONCLUSION**



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## OBSERVATIONS

Based on the analysis of the primary and secondary data and interpretations, the findings of the study related to the set objectives have been presented in the following paragraphs:

1. Performance in terms of Operating Expenses to Total Assets, Operating Expenses to Total Business & Cost Income Ratio it is seen that all three ratios have seen a significant improvement during this period, indicating improved efficiency of the banking system except HDFC Bank as its Operating Expenses to Total Assets, Operating Expenses to Total Business is increasing in 2012 & 2013.
2. Banking productivity in terms of staff costs has seen a considerable improvement during 2000-2013. While the ratios have increased over this period in case of DCB bank, the ratios have seen a considerable decline in case of HDFC and Karnataka Bank. Within operating expenses, it is observed that staff expenses have improved faster than other operating expenses.
3. Average staff expenses to total assets, Average staff expenses to total business and Average staff expenses per employee of public sector banks are significantly greater than private sector banks. Wherein other operating expenses to total assets and Average other operating expenses to total business of private sector banks are significantly greater than public sector banks.
4. Average Net income margin, Gross incomes to total assets of public sector banks are significantly greater than private sector banks. Wherein the average operating profits to total assets of private sector banks are significantly greater than public sector banks.
5. The average net income margin of HDFC Bank, ING Vysya Bank, DCB bank and Karnataka

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Bank is showing raising trend from 200 to 2013. HDFC Bank, ING Vysya Bank has more NIM as compare to DCB bank and Karnataka Bank during the reference period and this holds good for all the private sector banks.

6. Performance in terms of Gross Returns on Total Assets appears good in the case of the two private sector banks compared to the two public sector banks during the reference period and this holds good for all the private sector banks for the reference period (2000-2013).
7. There is definite evidence of productivity and efficiency gains in Indian banking. This productivity gain has led to strengthening of balance sheets of banks.
8. It is found that the operation profit and net profit of HDFC Bank, ING Vysya Bank is greater than to DCB bank and Karnataka Bank during the reference period and of private sector banks are significantly greater than public sector banks this holds good for all the private sector banks.
9. During the study period the GNPA of all the bank groups show increasing trend in absolute terms whereas in terms of percentage to gross advances, it shows declining trend. It shows very significant improvement in the GNPA ratio.
10. The analysis of data shows that Gross NPA & Net NPA of all the sectors has increased in absolute terms where as it has reduced in terms of percentage to advance. The analysis of NPAs of three bank sectors indicates that, public sector banks hold higher share of NPAs.
11. Standard advance, Sub standard Advances, Doubtful Advances and Loss Advances of all private sector banks are lower than public sector banks during the reference period. Sub standard Advances, Doubtful Advances and Loss Advances of all private sector banks declined from 2000 to 2008 but start rising from 2009 to 2013.

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- 12.** It is seen there is a positive relation between Net Profits and NPA of all commercial banks, Public sector banks and private sector banks. Coefficient of correlation of all commercial Banks is 0.8008, All Public Sector Bank is 0.894 and of all Private sector Banks is 0.3958. It simply means that as profits increase NPA also increases. In selected Private sector Banks HDFC bank, Karnataka bank and DCB bank shows a positive relation between Net Profits and NPA whereas ING Vysya bank shows a negative relation between Net Profits and NPA which means that as profits increase NPA also decreases.
- 13.** The macro stress tests on credit risk among the bank-groups suggest that under baseline scenario, GNPA ratio of selected PVSBS is expected to rise to around average 4.34% for HDFC Bank, 1.37% for DCB bank, 17.84 for Ing Vysya Bank and expected to fall to around average -11.49 for Karnataka Bank. GNPA ratio of all PVSBS is expected to rise. If the macroeconomic conditions improve GNPA is expected to fall to around average of -3.4004% as compare to all commercial banks which is all expected to fall at an average of -2.44% but if it deteriorates further, the GNPA of PVSBS may rise. GNPA of HDFC bank and ING Vysya bank is expected to rise and GNPA of DCB bank and Karnataka bank will fall from year 2015 to 2018.
- 14.** Macro stress test of sector level credit risk revealed that among the selected eleven sectors, Finance, Insurance Real Estate & Business Services and Services sectors is expected to have highest NPA ratio. However, the adverse macroeconomic shocks seem to have maximum impact on Services sectors, Electrical Water & Gas Supply and Community Social & Personal Services sectors respectively.
- 15.** All 17 banks credit managers said that borrowable accounts can be saved from NPA by Regular Industrial Visit, Restructuring in Early Stages & Reduce Exposure When the first Signs of Stress are Visible. The reason behind account becoming Non-Performing is Natural Calamities, Change on Govt Policies, Industrial Sickness, Managerial Deficiencies, and Absence of Regular Industrial Visit & Defaults on Servicing of Principal Interest. 88.2% of

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respondents are saying that for conducting the account they are facing difficulty because of Natural Calamities, Change on Govt Policies, Industrial Sickness and Inability to Generate Sufficient Liquidity to Service Debts. The strategies for recovery of dues as per private sector bank officials is Restructuring of debts and one time settlement. Only by using these strategy banks can reduce their NPAs.

- 16.** NPA account can be prevented by Proper training, regular industrial visit, Re loaning process, Lending process, Proper SWOT analysis and restructuring in early stages. Only 37.3% of respondents are saying that NPA account can be prevented by Proper training, regular industrial visit and restructuring in early stages on the other hand 62.7% respondents are saying that by Proper training, regular industrial visit, Re loaning process, Lending process, Proper SWOT analysis and restructuring in early stages NPA account can be prevented.
- 17.** Based on the observations made from the survey and information obtained during the course of non-formal interviews or discussions and questionnaire filled, it can be concluded that NPAs were caused because of willful default, diversion of funds, deficiency in the credit appraisal standards and lack of supervision and follow-up. Opinions indicate that banks were becoming averse to lending and prefer to have safe investment in Government securities. Lack of market intelligence system, need of adequate trained staff to supervise the credit portfolio, absence of exchange of credit information among banks was the major obstacles in containing NPAs.
- 18.** The study observed that banking system has recorded improvement in the asset quality of banks till 2010-2011, there after the asset quality has deteriorated in the year 2012 & 2013 after a period of sustained improvement. The data shows decreasing trend in NPA till 2011 then the trend starts increasing in 2012& 2013 in both the Gross NPAs and Net NPAs.

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**19.** The analysis of data shows that Gross NPA & Net NPA of all the sectors has increased in absolute terms where as it has reduced in terms of percentage to advance. The analysis of NPAs of Public and private sector bank indicates that, public sector banks hold higher share of NPAs as compare to Private sector bank.

### RECOMMENDATIONS

New patterns must inevitably be adopted, but they must be integrated with the old. For the sake of convenience the recommendations are grouped as recommendations to Head Offices of the Selected Banks and Recommendations to Branch Offices of the Selected Banks. The researcher has also made an attempt to give a suitable model for recognizing GNPA's of the banks.

1. The loan application form is the basic document from which creditability and credit worth of the borrower could be judged, this document be developed with due care, get filled in properly; communicating all the rules and regulations, penalties in case of non payments to the borrowers.
2. An account does not become an NPA overnight. The account sends out enough number of signals of the impending problems and banker should be alert to catch these signals for quick analysis, react on the same promptly and take corrective actions.
3. While making distinction between "Standard" and "Sub-Standard" categories of assets potential NPAs should be assessed and recovery attempts should be made carefully.
4. The Bank management (Not Branch Level) should consider the following special and specific strategies to curtail NPAs.
  - Credit Audit to Pre-empt NPAs
  - Identification of potential NPAs.

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- Problem Loan review and Reporting.
  - Monitoring of exposures during holding on operation.
  - Risk management system.
  - Strong and effective credit monitoring.
  - Open and co-operative working relationship with borrowers.
  - Effective legal framework to bring recovery suits to their logical conclusion.
  - Effective recovery system with reasonable time frame.
  - Compromise settlement should be explored as an effective non-legal option for recovery.
  - Explaining the policies and procedures adopted in making provisions towards NPAs.
  - Write-off of bad loans by Banks should be decided by the Board of Directors, depending among others on the repayment cultures and legal system.
  - Reporting the balance of uncollected interest on NPAs as a memorandum item, this would be useful if addition and deletion during the preceding specified period for reflection.
  - General provisions may be required to be reported as a separated item” Capital and Reserves”. The ‘Specific provisions’ may be required to be reported so as to facilitate arriving at “Provision –Adjusted NPAs i.e. Net NPAs”.
  - It should be a requirement that the system followed in the matter of classification of Assets, should be explained fully in the form of Foot- Notes to the accounts in the ease of NPAs.
  - Direct constant with the borrowers.
  - Involvement of staff at the branch level in recovery programmes at the rural and semi-urban branches. (Recovery is not one-man Job at rural areas).
  - Monitoring of standard Assets on a quarterly basis.
  - Branches with sizable NPAs should be identified, and skilled, Trained and motivated staff should be posted.
  - Periodical Meetings with the NPA borrowers should be convinced in order to ascertain the reasons for defaults and true financial position of the borrowers units.

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- In case of doubtful and Loss Assets, periodical review to explore the possibilities for quick write –offs in cases where these are fully provided for.
  - At branch level, the branch manager in particular should accept the responsibility for both bending and recovery of huge amounts.
5. To achieve better recovery in both the sectors separate legal departments should be developed and constant follow-up of cases be made by filling suits, appointing of good advocates and time to time reporting to management.
  6. It is recommended for both the sector the rescheduling of NPA accounts should be arranged through installments of principal along with interest. This will result in increase in standard accounts and decrease in NPA accounts.
  7. The bank should develop continuous relationship with the borrowers and prefer to give silent listening to the problems and guide them in their hard time to get proper cooperation in recovery. In case of fresh NPA attempt should be made to convert the account in standard account by extending additional credit facility, and rescheduling. This will prevent the account to become NPA.
  8. It is high time to introduce methods of evaluation of risks involved in lending and to determine category or degree of risk so as to decrease nonperforming assets. And there should be quarterly / monthly review of NPA account prior to balance sheet date to know the actual position of accounts to get an early signal of potential NPA accounts.
  9. There must be emphasis on reduction of Net NPAs as Zero Net NPA indicates good NPA management.
  10. To conduct monthly or quarterly meeting for meaningful dialogue with the borrower (NPA) consulting with the management to arrive at a possible solution.

- 11.** When chances of recovery are negligible bank should write-off an advance to reduce its income and save tax. In other words up to certain extent doubtful and loss assets should be written off.
- 12.** In order to decrease NPA, personnel of the banks must be motivated by motivational scheme and while judging the performance of staff; sufficient emphasis should be laid to the recovery of loans.
- 13.** One Time Settlement, compromise and write-off powers should be assigned to the branch manager up to a minimum limit of amount this will help to take immediate actions and resultantly NPA level will be minimum.
- 14.** Enactment / amendment of Revenue Recovery Act, comprehensive amendment in the DRT Act. Opening more DRT's and DRATs, strengthening DRT set up modifications, comprehensive amendment in sick industrial companies Act (SICA) and strengthening BIFR branches (sick unit under SICA "Erosion of Net Work" should be substituted by "debt default"), opening of special Rehabilitation and Recovery Branches (RARBs), compromise settlements, credit Risk assessment system, exploring mergers and acquisitions etc. steps should be taken to recovery of NPAs.
- 15.** Circulation of information among defaulters by banks or bank groups, strengthening Settlement Advisory Committees (SACs), proper utilization of power vested on the banks under the SRFAESI Act are empower the banks in their war against NPAs.
- 16.** The following are preventive and corrective measure for reducing the NPAs in Indian Banking system.



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- Banks should examine the viability of the project before providing financial assistance. It is required to ensure that the project will generate sufficient returns on the recourses invested in it.
  - Sanction of financial assistance after proper appraisal alone is not sufficient for recovery of advances. Disbursement of funds according to the requirements of the project, effective supervision and timely follow up, involvement of all the staff members for better recovery and update knowledge of NPA accounts are also equally essential. If proper care is taken for appraisal, supervision and follow-up of the advances, future NPAs can be avoided.
  - The service of professional should be used in credit appraisal. Towards implementing such professionalism, professionals such as Chartered Accountants, Engineers, Lawyers etc. should be required and associated at all levels of credit appraisal (and of course at other stages too).
  - However, good the credit dispensation process may be, total elimination of NPAs is not possible in banking business owing to the externalities, but their incidence can be minimized by taking necessary precautions special care should be taken for those advances which are showing irregularities and likely to become NPAs.
  - There should be operational restricting covering aspects like revamping management, staff and branch rationalization. Simultaneous steps should be taken to prevent reemergence of NPAs by stricter application of prudential norms. By the use 'Critical Amount Concept' and other strategies like Lok Adalat, CDR scheme and ARCs etc., NPAs in future can be reduced to a great extent.

**17.** In order to improve productivity and efficiency, banks need to be given more flexibility in operational matters, particularly in manpower practices. In fact, HR practices at banks need

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to undergo significant change in areas such as manpower planning, job description, performance appraisal, promotion and placement policies, performance based compensation practices, etc. Attaining greater productivity and efficiency requires not just the right technology, systems and processes, but also the manpower with the right skills and attitude, demonstrating the necessary flexibility and adaptability to be able to keep pace with the changing times. Greater emphasis has also to be laid on productivity in terms of per branch and per employee performance.

- 18.** Banks should strive to improve their pricing ability, both for liability and asset products, with the objective of ensuring that the pricing framework is transparent, nondiscriminatory and non-exploitative. The basic principle of pricing should be that the poor and the vulnerable should not be subsidizing the provision of banking services to the rich. Besides, an effective pricing framework can assist in building up balance sheet strength by encouraging good business and shedding bad business. However, for all this, banks need to develop the ability to identify risks and to build them into their pricing frameworks.
- 19.** Banks are required to increase the asset quality and sustain the improvement and have to take effective steps to reduce NPAs to achieve international level. As the advances of banks are increasing and simultaneously the NPAs are also increasing. Banks are suggested to manage their accounts properly so as to reduce the slippage of good assets into NPAs. Banks have to reduce the growth rate of new NPAs by taking some measures such as-
- Induce extensive efforts to nullify existing NPAs.
  - Effective asset management
  - Banks have to strengthen their credit appraisals and post sanction loan monitoring system to minimise the problem of increasing NPAs
  - Banks have to place a mechanism for early detection in loans reimbursement which eventually becomes NPA.

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- 20.** In order to take care of the internal deficiencies especially relating to risk assessment and pricing, banks must embark upon a dynamic method in tune with the changing economy. Most of the restructured assets are large accounts and risk assessment and pricing assume greater significance. Banks should consider the rigor and robustness of project appraisal, credit monitoring and continuous assessment of the health of the large accounts in terms of early warning signals.
- 21.** The Gross NPA line would have remained where it is, for it doesn't depend on provisioning. However, if the banks were provisioning adequately, the Net NPA line should have been hovering around zero, going both positive and negative, but mean-reverting to zero! This is because banks would periodically over and under-forecast their bad assets and provision accordingly, and then dynamically change the model.
- 22.** Lastly, the linkage between asset quality and health of the economy is well known and also discussed briefly in the earlier part of this paper. While it is neither possible nor desirable to discuss the factors responsible for economic slow-down, one must mention that the Government as policy maker (and perhaps RBI as well) must also take credit/discredit for deterioration in the asset quality. Having said, Government and RBI also can influence macro-economic environment positively and therefore, one must wait for at least months to come and remain optimistic in the near-term.

## CONCLUSION

The Indian banking system has seen important productivity improvements over the last two decades with the Private sector banks and Public sector banks. However, the pace of progress has declined, largely due to lack of desired impetus. We continue to lag behind on various productivity parameters i.e. macroeconomic parameters.

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The study found that Private sector banks overall NPA has consistently & successfully been reduced from year 2000 till 2013. The success attributes to the policies and efforts put in by Government and Banks in total. Banks should ensure that they attain greater allocation efficiency by extending access to financial services to the unbanked masses and providing the excluded poor the opportunity to leverage the financial system to improve their economic condition.

Growth of banking is dependent on professionalisation of its management, technology absorption and scrupulous adherence to regulatory framework. It is predicted that the sector will learn from its past experience and adjust to new realities since the business of banking involves a great deal of risks.

As the sanctity of ethics and values is getting eroded and challenges and risks faced by banks and borrowers are increasing because of fast changes taking place in business environment and the economy in the context of economic liberalization and globalization, the possibility of some investment failures cannot be ruled out both from banks' and borrowers' angle. In such a scenario, the presence of NPAs is unavoidable and the only way to come out of this is to have the suggested Fund built up over a period of time. This will certainly prove to be a win-win situation for all stake holders of banking including the major stake holders the Government.

As NPA's are a direct reflection of asset quality, estimating them can prove useful in overall credit management. We attempt to model the non performing assets at one of India's mid-sized banks as a function of the loans advanced by the bank. We obtained statistically significant linear and non linear models to accomplish the above. A cubic model provided the best fit for net NPA percentage and an S Curve model provided the best fit for the Gross NPA percentages as a function of advances, thereby helping us arrive at NPA estimates. Given large time lags involved in establishing problem loans as NPAs, this can help managers at banks arrive at an estimate of NPA as soon as advances are made, as opposed to relying solely on the RBI for published NPA figures. Thus bank managers can monitor and improve their asset quality

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continuously over time by monitoring amounts advanced and corresponding NPAs over a periodic basis.

Finally, it is very important in the present situation that the RBI should act as a “watch dog” in order to see that banks perform in time with the rules of inspection monitoring etc.

### **FURTHER PROSPECTIVE FOR RESEARCH**

This research is based on Primary and secondary data .We just made the conclusion on the bases of analyzing the data collected through Annual reports of private sector banks of past 14 years. We suggest the research scholars that they can further do the research on the topic related to comparison of NPA of various banks and predict factors which will affect rise in NPA so that banks could make necessary provision for the same.

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