A Study on Non-Performing Assets in IDBI Bank

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Abstract: *A stable and sound banking system is required for a healthy growth of an economy. But ballooning non-performing assets problem is the biggest impediment that chokes Indian lenders' effective operations. Non-performing assets (NPAs) have emerged as a major headache for the government and the Reserve Bank of India (RBI). In the year 2017 over 90 percent of these sticky assets are on the books of government-owned banks with IDBI Bank being in the top list with the highest amount of non-performing assets. This study aims to study the trend of Total advances, Net profit, Gross NPA, Net NPA of IDBI during the last five years and to provide solutions to reduce NPAs. During the last 5 years (2012-13 to 2016-17), the Gross and Net NPA has shown an increasing upward trend, but the Total Advances and Net Profits have decreased over the years. The NPAs have grown dynamically and has resulted in a huge Net Loss to the Bank on a consistent basis over the 5 years of study. This reflects the mismanagement of the Bank in taking necessary steps to reduce its NPAs. Suggestions have been made to help in managing NPAs.*

Keywords: *Total Advances, Net Profits, Gross NPA, Net NPA, IDBI Bank*

I. INTRODUCTION

Non-Performing Asset also known as NPA, has been a major factor in destroying the profitability of the Public sector Banks in India. The government has so far failed to infuse the required capital for state-run banks. Recently the central government strengthened the RBI by giving it more powers to deal with NPAs of banks. A clearer policy to deal with NPA is expected from the central bank in the monetary policy committee meet.

Public sector banks (PSBs), which accounted for 90 percent of the total gross NPAs of the banking sector, has seen their gross NPAs jumping past Rs 7 lakh crore in June 2017 quarter.

IDBI Bank with 24.11 percent tops the list. That means every Rs 24 out of Rs 100 lent by the bank has not come back. Indian Overseas Bank follows with 23.6 percent gross NPAs and UCO Bank with 19.87 percent. Out of 21 state-run banks, 17 lenders recorded over 10 percent gross NPAs as percentage of their advances as of 30 June 2017.

NPA rule says simply this: when interest or other due to a bank remains unpaid for more than 90 days, the entire bank loan automatically turns a non performing asset [1]. The recovery of loan has always been problem for banks and financial institution. To come out of these first we need to think is it possible to avoid NPA, if not then we need to identify the factors responsible for it and managing those factors. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the ‗90 *days" overdue"* norm for identification of NPAs, from the year ending March 31, 2004.

Non-Performing Asset-Concept

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A Non-performing Asset (NPA) is a loan or an advance where;

i. interest and/ or instalment 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 (OD/CC),
iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
iv. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.
vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

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Categories of NPAs

Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the realisability of the dues:

i. **Substandard Assets**
ii. **Doubtful Assets**
iii. **Loss Assets**

Substandard Assets

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the sub-standard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Types of NPAs

A. **Gross NPA**

Gross NPA is the amount outstanding in the borrowal account, in books of the bank which is considered irrecoverable for which banks have made provisions and is still held in the bank's books of account. Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non-standard assets like as sub-standard, doubtful, and loss asset. It can be calculated with the help of following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

B. **Net NPA**

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to make certain provisions against the NPAs according to the central bank guidelines. It can be calculated by following:

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

Causes of NPA

i. **Default** - One of the main reason behind NPA is default by borrowers.
ii. **Economic conditions** - The Economic condition of a region affected by natural calamities or any other reason may cause NPA.
iii. **No more proper risk management** - Speculation is one of the major reason behind default. Sometimes banks provide loans to borrowers with bad credit history. There is a high probability of default in these cases.
iv. **Mismanagement** - Often ill-minded borrowers bribe bank officials to get loans with an intention of default.
v. **Diversion of funds** - Many times borrowers divert the borrowed funds to purposes other than mentioned in loan documents. It is very hard to recover from this kind of borrowers.

II. REVIEW LITERATURE

i. 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.
ii. 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.
iii. 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.

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iv. 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.

Objectives

i. To study NPA trend in last 5 years of IDBI Bank
ii. To compare and highlight the trend of Total Advances, Net Profit, Gross NPA & Net NPA of IDBI Bank over the period of 5 years.
iii. To suggest the various measures for proper management of NPA

III. RESEARCH METHODOLOGY

In the present study, an attempt has been made to measure, evaluate and compare the performance of IDBI Bank in view of NPA. The study is based on secondary data that has been collected from annual reports of the respective banks, magazines, journals, documents and other published information. The study covers the period of 5 years i.e. from year 2012-13 to year 2016-17. Ratio Analysis was applied to analyse and compare the trends in banking business and financial performance. Mean and Compound Growth Rate (CGR) have also been deployed to analyse the trends in banking business profitability. The data is presented with the help of tables and graph.

Limitations of the study

1. The study is limited to IDBI Bank
2. The data collected is of only for 5 years of NPAs.
3. NPAs are changing from time by time by the performance of the bank, but study does not concentrate on future consequences.

IV. COMPARATIVE DATA AND GRAPH OF IDBI BANK FOR THE 5 YEARS PERIOD IN STUDY

Table1: Data of Total Advances, Net Profit, Gross NPA and Net NPA

Year	Total Advances (in Crores)	Net Profit	Gross NPA		Net NPA	
			(in Crores)	(%)	(in Crores)	(%)
2012-13	1,96,306	1,882	6,450	3	3,100	2
2013-14	1,97,686	1,121	9,960	5	4,902	2
2014-15	2,08,377	873	12,685	6	5,993	3
2015-16	2,15,893	-3,665	24,875	11	14,643	7
2016-17	1,90,826	-5,158	44,753	21	25,206	13

Table2: Growth Percentage of Total Advances, Net Profit, Gross NPA and Net NPA

Year	Total Advances (%)	Net Profit (%)	Gross NPA (%)	Net NPA (%)
2012-13	9	-7	42	7
2013-14	1	-40	54	58
2014-15	5	-22	27	22
2015-16	4	-520	96	144
2016-17	-12	41	80	72
CGR	6	-354	883	766

Table3: Data of Comparison of Total Advances to Gross NPA and Net NPA

Year	Total Advances (in Crores)	Gross NPA	Gross NPA/Total Advances	Net NPA	Net NPA/Total Advances
		(in Crores)	(%)	(in Crores)	(%)
2012-13	1,96,306	6,450	3	3,100	2
2013-14	1,97,686	9,960	5	4,902	2
2014-15	2,08,377	12,685	6	5,993	3
2015-16	2,15,893	24,875	12	14,643	7
2016-17	1,90,826	44,753	23	25,206	13

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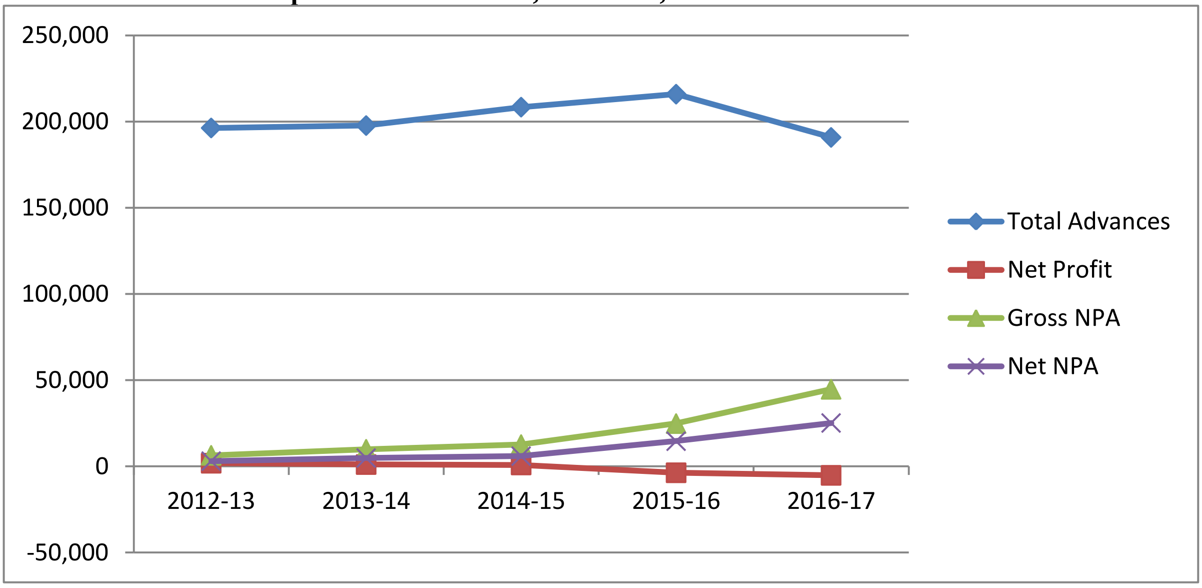
Table4: Data of Comparison of Net Profit to Gross NPA and Net NPA

Year	Net Profit	Gross NPA	Gross NPA/Net Profit	Net NPA	Net NPA/Net Profit
		(in Crores)	(%)	(in Crores)	(%)
2012-13	1,882	6,450	343	3,100	165
2013-14	1,121	9,960	888	4,902	437
2014-15	873	12,685	1452	5,993	686
2015-16	-3,665	24,875	-679	14,643	-400
2016-17	-5,158	44,753	-868	25,206	-489

Graph of Total Advances, Net Profit, Gross NPA and Net NPA



V. ANALYSIS AND FINDINGS

The table and graph shows the trend of the Total Advances with NET Profit, Gross NPA & Net NPA of IDBI Bank. From the table we can see that the Total Advances have been growing since 2012-13 up to 2015-16 at an average growth rate of 4.75%. However, in the year 2016-17 there has been a decline in Total Advances by -12%. This may be due to increased restrictions to decrease NPAs.

The Net Profit of IDBI Bank can be seen to have declined drastically. In the year 2012-13 its Net Profit was Rs. 1,882 crores and its profits has drastically declined since then at a rate of -40% in the year 2013-14, -22% in the year 2014-15 and -520% in the year 2015-16 which amounted to Rs. -3,665 crores which is the biggest loss over the 5 years of study. The compound growth rate of -354% shows how much loss has been caused due to improper management of NPAs.

The Gross NPA shows as upward trend since 2012-13 from Rs. 6,450 crores to Rs. 44,753 crores in the year 2016-17 at compound growth rate of 883%. When compared to Total Advances it can be seen that it has been in an increasing trend from 2% in 2012-13 to 13% in 2016-17. This shows that there has been an increase in the number of defaulter which has grown from 2/100 to more than 1/10 in the year of study. When compared to Net Profits it can be seen that it has been in an increasing trend from 343% in 2012-13 to -868% in 2016-17. This shows that profitability has been affected due to NPAs.

The Net NPA shows as upward trend since 2012-13 from Rs. 3,100 crores to Rs. 25,206 crores in the year 2016-17 at compound growth rate of 766%. When compared to Total Advances it can be seen that it has been in an increasing trend from 3% in 2012-13 to 23% in 2016-17. This shows that there has been an increase in the number of defaulter which has grown from 3/100 to more than 1/5 in the year of study. When compared to Net Profits it can be seen that it has been in an increasing trend from 165% in 2012-13 to -489% in 2016-17. This shows that profitability has been affected due to NPAs.

From the above tables we can see the declining performance of IDBI Bank. We can see that total advances has been growing since 2012-13 but has been reduced in 2016-17 due to measures taken by the bank in reducing its NPAs. It can be seen that Net Profits are decreasing continuously since 2012-13 which shows that bank is performing poorly and is significantly decreasing on a consistent basis. Both Gross NPA & Net NPA are sharply increasing which shows performance is declining due to mismanagement of banks.

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Suggestions

Management of NPAs begins with the consciousness of a good portfolio, which warrants a better understanding of risks. The management has to decide a strategy keeping in view the regulatory norms, the business environment, its market share, risk profile, and available resources. The strategy should be reflected in management approved policies and procedures to monitor implementation. The essential containments of sound NPA management are:

- Quick identification of NPAs
- Their containment at a minimum level and
- Ensuring minimum impact of NPAs on financials

Two strategies for better management of NPAs are

- Preventing slippage of standard assets in NPA category by
  i. Proper analysis at pre-disbursement stage.
  ii. Fixation of unrealistic repayment schedule.
  iii. Proper follow up and supervision to ensure advances do not turn to NPAs post disbursement.
  iv. Personal visit and face to face discussion with a wilful defaulter.
  v. Classification of assets should be exercise quarterly.
  vi. Provisions of doubtful debts should be made with reference to secured and unsecured portion.
- Reducing NPAs through cash recovery, up gradation of assets, compromise and settlements.

VI. CONCLUSION

Non-Performing Assets have always created a big problem for the banks and perhaps is the most threatening to the fundamental efficiency of the bank. It is not a problem just to banks, but also the economy too. The management of Non-Performing Assets is a difficult task for every bank in the banking industry. The very important reason and necessity for management of NPA is due to their multi-dimensional effects on the operations, performance and position of bank. The result of study on the level of non-performing assets of IDBI Bank shows that level of NPAs both gross and net is on an average in an increasing upward trend for the 5 year period in study.

The non-performing asset is a major problem and hurdle faced by banking industry. Wilful defaults, improper processing of loan proposals, poor monitoring and so on are the causes for accounts becoming NPAs. NPAs affect the position as well as performance in several ways such as interest income, profits, and provisions against NPAs and so on. 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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