CHAPTER - VII
FINDINGS AND SUGGESTIONS

The researcher has undertaken a study on “Non-Performing Assets In Indian Banking Industry”. Following are the major findings of the study:

1. From the analysis of Gross NPAs/Gross Advances for the State Bank of India and its Groups it is understood that it ranges from the minimum of 2.00 to the maximum of 20.06. This ratio is minimum for State Bank of Saurashtra and maximum for State Bank of Travancore. It is also found out that 4 banks are having bank-wise average more than 10 percent of Gross NPAs/Gross Advances. This must be viewed very seriously by the banks. It is inferred that as far as the SBI and its Groups are concerned, State Bank of Patiala has got the minimum average ratio of 7.98 and the State Bank of Mysore has got the maximum average ratio of 11.59. It is also understood that State Bank of India, State Bank of Hyderabad, State Bank of Mysore and State Bank of Travancore are above the average level of 10.17. Therefore the remaining banks in the State Bank Group are said to be better in terms of their Gross NPAs/Gross Advances.

2. The analysis of Gross NPAs/Gross Advances for the Nationalised Banks indicates that it ranges from the minimum of 1.90 and the maximum of 39.12. This ratio is minimum for Andhra Bank and the maximum for Indian Bank. It is found out that 11 banks are having bank-wise average more than 10 percent of Gross NPAs/Gross Advances. This must be viewed very seriously by the banks. It is inferred that as far as the Nationalised Banks are concerned Corporation Bank has got the minimum average ratio of 5.55 and Indian Bank has got the maximum average ratio of 21.66. It is also understood that Allahabad Bank, Bank of Baroda, Bank of Maharashtra, Central Bank of India, Dena Bank, Indian Bank, Punjab and Sind Bank, UCO Bank and United Bank of India are above the average level of 11.78. Therefore the remaining Nationalised banks are said to be better in terms of their Gross NPAs/Gross Advances.
3. As far as the analysis of Gross NPAs/Gross Advances for the Private Sector Banks are concerned, it is noted that it ranges from the minimum of 0.24 and the maximum of 41.00. This ratio is minimum for Centurion Bank Ltd. and maximum for SBI Commercial & International Bank Ltd. It is found out that 15 banks are having bank-wise average more than 10 percent of Gross NPAs/Gross Advances. This must be viewed very seriously by the banks. It is inferred that as far as the Private sector banks are concerned, Kotak Mahindra Bank Ltd. has got the minimum average ratio of 0.84 and SBI Commercial & International Bank Ltd. has got the maximum average ratio of 27.77. It is also understood that Bank of Madura Ltd., Bank of Rajasthan Ltd., Bareilly Corporation Bank Ltd., City Union Bank Ltd., Ganesh Bank of Kurundwad Ltd., Lord Krishna Bank Ltd., SBI Commercial & International Bank Ltd., Tamilnad Mercantile Bank Ltd., The Benares State Bank Ltd., The Catholic Syrian Bank Ltd., The Dhanalakshmi Bank Ltd., The Nedungadi Bank Ltd., The Ratnakar Bank Ltd., The Sangli Bank Ltd., The South Indian Bank Ltd. and The United Western Bank Ltd. are above the average level of 9.71. Therefore the remaining Private Sector banks are said to be better in terms of their Gross NPAs/Gross Advances.

4. It is clear from the analysis of Gross NPAs/Gross Advances for the Foreign Banks that it ranges from the minimum of 0.06 and the maximum of 100.00. This ratio is minimum for Bank of America NT &SA and maximum for Bank Internasional Indonesia. It is found out that 21 banks are having bank-wise average more than 10 percent of Gross NPAs/Gross Advances. This must be viewed very seriously by the banks. It is inferred that as far as the Foreign Banks are concerned K.B.C Bank N.V has got the minimum average ratio of 0.16 and Bank Internasional Indonesia has got the maximum average ratio of 67.00. It is also understood that, The Abu Dhabi Commercial Bank Ltd., Bank Internasional Indonesia., Bank of Bahrain and Kuwait B.S.C, Bank of Ceylon, Barclays Bank PLC, Calyon bank, Credit Agricole Indosuez, Dresdner Bank AG, ING Bank N.V, Mashreq Bank psc, Oman International Bank S.A.O.G., Oversea – Chinese Banking Corporation Ltd., Siam Commercial Bank, State Bank of Mauritius Ltd., Sumitomo Bank Ltd. (Sumitomo Mitsui Banking
Corporation), The Bank of Tokyo-Mitsubishi Ltd. and The British Bank of Middle East are above the average level of 13.77. Therefore the other Foreign banks are said to be better in terms of their Gross NPAs/Gross Advances.

Considering the findings of Gross NPAs/Gross Advances, it is consolidated that the State Bank of Mysore has got the maximum average of Gross NPAs/Gross Advances. Therefore it is suggested that this bank has to take effective steps to reduce the Gross NPAs with respect to Gross Advances. It has to take some more caution in granting the loans and advances. Probably the character, capacity and general conditions of the borrower should be analysed carefully while granting the loans. Similar steps have to be taken by the Indian Bank, SBI Commercial and International Bank Ltd., and Bank Internasional Indonesia among Nationalised banks, Private sector banks and Foreign banks respectively.

In the Frequency Distribution Table, it is found out that, maximum number of banks comes under the classification of ‘8.01 percent and above’ level when compared to the rest of the levels during 1996-97 to 2003-04. This shows the slackness on the part of the management of the concerned banks. It has been reduced during the period 2004-05 to 2005-06.

From the ANOVA Table, it is concluded that, there is difference between the Sectors/Banks with respect to Gross NPAs/Gross Advances. To find out which Sector/Bank differs significantly from others, Post- Hoc Test is applied. When comparing Foreign banks with other sectors, the Significant Value in the Post-Hoc Table indicates that, Foreign banks differ significantly from State Bank of India and groups and Private sector banks. When comparing Foreign banks with Nationalised banks, the difference is there but not significant.

From the analysis of Net NPAs/Net Advances for the State Bank of India and its Groups, it is very clear that it ranges from the minimum of 0.36 and the maximum of 12.21. This ratio is minimum for State Bank of Hyderabad and maximum for State Bank of Travancore. It is found out that there are no banks having bank-wise average more than 10 percent of Net NPAs/Net Advances.
This need not be viewed seriously by the banks. It is inferred that as far as the SBI and its Groups are concerned State Bank of Patiala has got the minimum average ratio of 4.31 and the State Bank of Mysore has got the maximum average ratio of 6.54. It is also understood that State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Indore, State Bank of Mysore and State Bank of Travancore are above the average level of 5.59. Therefore the remaining banks in the State Bank Group are said to be better in terms of their Net NPAs/Net Advances.

6. From the study of Net NPAs/Net Advances for the Nationalised Banks it is understood that it ranges from the minimum of 0.20 and the maximum of 26.01. This ratio is minimum for Punjab National Bank and maximum for Indian Bank. It is found out that only 2 banks are having bank-wise average more than 10 percent of Net NPAs/Net Advances. This must be considered seriously by the banks. It is inferred that as far as the Nationalised Banks are concerned, Corporation Bank has got the minimum average ratio of 2.00 and Indian Bank has got the maximum average ratio of 11.85. It is also noted that Allahabad Bank, Central Bank of India, Dena Bank, Indian Bank, Punjab & Sind Bank, UCO Bank and United Bank of India are above the average level of 6.03. Therefore the remaining Nationalised banks are said to be better in terms of their Net NPAs/Net Advances.

7. According to the analysis of Net NPAs/Net Advances for the Private Sector Banks, it is noted that it ranges from the minimum of 0.11 and the maximum of 23.38. This ratio is minimum for Kotak Mahindra Bank Ltd. and maximum for SBI Commercial & International Bank Ltd. It is found out that only 3 banks are having bank-wise average more than 10 percent of Net NPAs/Net Advances. This must be viewed seriously by the banks. It is inferred that as far as the Private sector banks are concerned Kotak Mahindra Bank Ltd. has got the minimum average ratio of 0.22 and SBI Commercial and International Bank Ltd. has got the maximum average ratio of 14.68. It is also understood that Bank of Madura Ltd., Bank of Rajasthan Ltd., Bareilly Corporation Bank Ltd., City Union Bank Ltd., Development Credit Bank Ltd., Ganesh Bank of Kurundwad Ltd., Lord Krishna Bank Ltd., SBI Commercial & International
Bank Ltd., The Benares State Bank Ltd., The Catholic Syrian Bank Ltd., The Dhanalakshmi Bank Ltd., The Federal Bank Ltd., The Nedungadi Bank Ltd., The Ratnakar Bank Ltd., The Sangli Bank Ltd., The South Indian Bank Ltd. and The United Western Bank Ltd. are above the average level of 5.67. Therefore the remaining Private Sector banks are said to be better in terms of their Net NPAs/Net Advances.

8. From the analysis of Net NPAs/Net Advances for the Foreign Banks, it is clear that it ranges from the minimum of 0.01 and the maximum of 69.57. This ratio is minimum for The Bank of Tokyo-Mitsubishi Ltd. and the maximum for Bank Internasional Indonesia. It is found out that 13 banks are having bank-wise average more than 10 percent of Net NPAs/Net Advances. This must be viewed very seriously by the banks. It is inferred that as far as the Foreign banks are concerned K.B.C Bank N.V. has got the minimum average ratio of 0.08 and Oman International Bank S.A.O.G. has got the maximum average ratio of 38.14. It is also understood that, The Abu Dhabi Commercial Bank Ltd., Barclays Bank PLC, Bank Internasional Indonesia, Bank of Bahrain and Kuwait B.S.C, Bank of Ceylon, Comerz Bank AG, Credit Agricole Indosuez, DBS Bank Ltd., Dresdner Bank AG., ING Bank N.V, Mashreq Bank psc, Oman International Bank S.A.O.G., Oversea-Chinese Banking Corporation Ltd., Siam Commercial Bank, State Bank of Mauritius Ltd., Sumitomo Bank Ltd. (Sumitomo Mitsui Banking Corporation), The British Bank of Middle East and The Sanwa Bank Ltd. (UFJ Bank Ltd.) are above the average level of 7.02. Therefore other Foreign Banks are said to be better in terms of their Net NPAs/Net Advances.

It is found that the State Bank of Mysore, from SBI groups, the Indian Bank from Nationalised banks, SBI Commercial and International Bank Ltd., from Private sector banks and finally Oman International bank S.A.O.G. from Foreign banks have got the maximum average ratio of Net NPAs/Net Advances. Therefore they have to concentrate on NPA management. To the extent possible they have to take steps to reduce the NPAs.
By Consolidating the Frequency Distribution of Net NPAs, it is found out that on an average 40 banks fall under the category of ‘Up to 5 percent’ throughout the period of study and 34 banks fall under the category of 5.01 percent to 10 percent from 1996-97 to 2001-02.

From the Analysis of Variance Table, it is concluded that there is difference between the banks with respect to Net NPAs/Net Advances. To find out which Bank/sector differs significantly from others, Post-Hoc Test is applied.

When comparing Foreign banks with other sectors, the Significant Value in the Post Hoc Table indicates that Foreign banks differ significantly from SBI and its groups, Nationalised banks and Private sector banks.

It is a welcome trend. It shows the planned efforts of the employees concerned.

9. From the analysis of Gross NPAs/Total Assets for the State Bank of India and its groups, it is understood that it ranges from the minimum of 0.95 and the maximum of 9.97. This ratio is minimum for State Bank of Saurashtra and maximum for State Bank of Travancore. It is found out that SBI and its groups are having bank-wise average less than 10 percent of Gross NPAs/Total Assets. This may not be taken very seriously by the banks. It is inferred that as far as the SBI and its groups are concerned, State Bank of Patialia has got the minimum average ratio of 3.88 and the State Bank of Mysore has got the maximum average ratio of 5.84. It is also understood that State Bank of Hyderabad, State Bank of Mysore and State Bank of Travancore are above the average level of 4.67. Therefore the remaining banks in the State bank group are said to be better in terms of their Gross NPAs/Total Assets.

10. From the analysis of Gross NPAs/Total Assets for the Nationalised Banks, it is understood that it ranges from the minimum of 1.07 and the maximum of 19.39. This ratio is minimum for Andhra Bank and maximum for Indian Bank. It is found out that no banks are having bank-wise average more than 10 percent of Gross NPAs/Total Assets. This may not be viewed seriously by the banks. It is inferred that as far as the Nationalised Banks are concerned,
Corporation Bank has got the minimum average ratio of 2.53 and Indian Bank has got the maximum average ratio of 9.54. It is also understood that Allahabad Bank, Bank of Baroda, Central Bank of India, Dena Bank, Indian Bank, Punjab and Sind Bank, Punjab National Bank, UCO Bank and United Bank of India are above the average level of 5.14. Therefore the remaining Nationalised banks are said to be better in terms of their Gross NPAs/Total Assets.

11. From the analysis of Gross NPAs/Total Assets for the Private Sector Banks it is noted that it ranges from the minimum of 0.04 and the maximum of 17.27. This ratio is minimum for The Jammu and Kashmir Bank Ltd. and the maximum for The Nedungadi Bank Ltd. It is found out that SBI Commercial & International Bank Ltd. is having bank-wise average more than 10 percent of Gross NPAs/Total Assets. This must be viewed seriously by that bank. It is inferred that as far as the Private sector banks are concerned, Kotak Mahindra Bank Ltd. has got the minimum average ratio of 0.45 and SBI Commercial and International Bank Ltd. has got the maximum average ratio of 12.45. It is also understood that Bank of Madura Ltd., Bank of Rajasthan Ltd., Bareilly Corporation Bank Ltd., City Union Bank Ltd., Development credit Bank Ltd., Ganesh Bank of Kurundwad Ltd., Lord Krishna Bank Ltd., SBI Commercial & International Bank Ltd., Tamilnad Mercantile Bank Ltd., The Benares State Bank Ltd., The Catholic Syrian Bank Ltd., The Dhanalakshmi Bank Ltd., The Federal Bank Ltd., The Lakshmi Vilas Bank Ltd., The Nedungadi Bank Ltd., The Ratnakar Bank Ltd., The Sangli Bank Ltd., The South Indian Bank Ltd. and The United Western Bank Ltd. are above the average level of 4.32. Therefore the remaining Private sector banks are said to be better in terms of their Gross NPAs/Total Assets.

12. From the analysis of Gross NPAs/Total Assets for the Foreign Banks, it is clear that it ranges from the minimum of 0.03 and the maximum of 45.09. This ratio is minimum for Bank of America NT & SA and maximum for Oman International Bank S.A.O.G. It is found out that there are 7 banks having bank-wise average more than 10 percent of Gross NPAs/Total Assets. This must be viewed very seriously by the banks. It is inferred that as far as the Foreign banks are concerned K.B.C Bank N.V. has got the minimum average ratio of
0.03 and Oman International Bank S.A.O.G. has got the maximum average ratio of 31.44. It is also understood that, Bank Internasional Indonesia, Bank of Bahrain and Kuwait B.S.C., Bank of Ceylon, Calyon Bank Ltd., Credit Agricole Indosuez, Dresdner Bank AG, Fuji Bank Ltd. (Mizuho Corporate Bank Ltd.), ING Bank N.V., Mashreq Bank psc, Oman International Bank S.A.O.G., Siam Commercial Bank, State Bank of Mauritius Ltd., Sumitomo Bank Ltd. (Sumitomo Mitsui Banking Corporation), The Bank of Tokyo-Mitsubishi Ltd., The British Bank of Middle East and The Sanwa Bank Ltd. (UFJ Bank Ltd.) are above the average level of 5.61. Therefore the other Foreign Banks are said to be better in terms of their Gross NPAs/Total Assets.

Considering the findings of Gross NPAs/Total Assets it is consolidated that State Bank of Mysore has got the maximum average ratio of Gross NPAs/Total Assets. Therefore it is suggested that this bank has to take effective steps to reduce the Gross NPAs when compared to Total Assets. It has to take some more caution in granting loans and advances. Similar steps have to be taken by the Indian Bank from Nationalised banks, SBI Commercial and International Bank Ltd., from Private sector banks and Oman International Bank S.A.O.G. from Foreign banks.

An interesting finding is that the maximum average ratio of Gross NPAs/Gross Advances are greater than the maximum average ratio of Gross NPAs/Total Assets for the first three banks. Therefore these banks have to take necessary steps to reduce the Gross NPAs.

In the Frequency Distribution Table of Gross NPAs/Total Assets more than 30 banks come under the classification Nil, ‘Up to 2.00 percent’ and 2.01 percent to 4.00 percent from 2003-06. During the same period the number of banks are in the decreasing trend for 4.01 to 6.00 percent, 6.01 to 8.00 percent and ‘8.01 and above’ categories. The credit goes to the hard work and planned efforts of the staff concerned.

In the Analysis of Variance Table, it is concluded that there is difference between the Sectors/Banks with respect to Gross NPAs/Total Assets. When
compared Foreign banks with other sectors, the Significant Value in the Post Hoc Table indicates that, Foreign banks differ significantly from Private sector banks. When compared with SBI and groups and Nationalised banks, the differences are there but not significant.

13. From the analysis of Net NPAs/Total Assets for the State Bank of India and its Groups it is very clear that it ranges from the minimum of 0.19 and the maximum of 5.53. This ratio is minimum for State Bank of Hyderabad and the maximum for State Bank of Travancore. It is found out that there are no banks having bank-wise average more than 10 percent of Net NPAs/Total Assets. This need not be viewed seriously by the banks. It is inferred that as far as the SBI and its Groups are concerned, State Bank of India and State Bank of Patiala have got the minimum average ratio of 1.97 and the State Bank of Mysore has got the maximum average ratio of 3.08. It is also understood that State Bank of Indore, State Bank of Mysore and State Bank of Travancore are above the average level of 2.42. Therefore the remaining banks in the State Bank Group are said to be better in terms of their Net NPAs/Total Assets.

14. From the analysis of Net NPAs/Total Assets for the Nationalised Banks it is understood that it ranges from the minimum of 0.13 and the maximum of 10.19. This ratio is minimum for Andhra Bank and maximum for Indian Bank. It is found out that there are no banks having bank-wise average more than 10 percent of Net NPAs/Total Assets. This may not be taken seriously by the banks. It is inferred that as far as the Nationalised Banks are concerned Corporation Bank has got the minimum average ratio of 0.87 and Indian Bank has got the maximum average ratio of 4.37. It is also noted that Allahabad Bank, Bank of India, Central Bank of India, Dena Bank, Indian Bank, Punjab & Sind Bank, UCO Bank and Union Bank of India are above the average level of 2.42. Therefore the remaining Nationalised banks are said to be better in terms of their Net NPAs/Total Assets.

15. From the analysis of Net NPAs/Total Assets for the Private Sector Banks it is noted that it ranges from the minimum of 0.02 and the maximum of 10.23. This ratio is minimum for The Jammu & Kashmir Bank Ltd. and maximum for SBI
Commercial & International Bank Ltd. It is found out that there are no banks having bank-wise average more than 10 percent of Net NPAs/Total Assets. This may not be viewed seriously by the banks. It is inferred that as far as the Private sector banks are concerned Kotak Mahindra Bank Ltd. has got the minimum average ratio of 0.13 and The Nedungadi Bank Ltd. has got the maximum average ratio of 7.78. It is also understood that Bank of Rajasthan Ltd., City Union Bank Ltd., Development Credit Bank Ltd., Ganesh Bank of Kurundwad Ltd., Lord Krishna Bank Ltd., SBI Commercial & International Bank Ltd., The Benares State Bank Ltd., The Catholic Syrian Bank Ltd., The Dhanalakshmi Bank Ltd., The Federal Bank Ltd., The Lakshmi Vilas Bank Ltd., The Nedungadi Bank Ltd., The Ratnakar Bank Ltd., The South Indian Bank Ltd., The United Western Bank Ltd. and The Vysya Bank Ltd. (ING) are above the average level of 2.56. Therefore the remaining Private sector banks are said to be better in terms of their Net NPAs/Total Assets.

16. From the analysis of Net NPAs/Total Assets for the Foreign Banks it is clear that it ranges from the minimum of 0.01 and the maximum of 22.42. This ratio is minimum for Standard Chartered Grindlays Bank Ltd. and maximum for Siam Commercial Bank. It is found out that only 2 banks are having bank-wise average more than 10 percent of Net NPAs/Total Assets. This may be viewed by the banks. It is inferred that as far as the Foreign banks are concerned K.B.C Bank N.V. has got the minimum average ratio of 0.01 and Siam Commercial Bank has got the maximum average ratio of 10.69. It is also understood that Bank Internasional Indonesia, Bank of Bahrain and Kuwait B.S.C, Bank of Ceylon, Credit Agricole Indosuez, DBS Bank Ltd., Dresdner Bank AG., ING Bank N.V., Mashreq Bank psc, Oman International Bank S.A.O.G., Oversea-Chinese Banking Corporation Ltd., Siam Commercial Bank, Societe Generale, State Bank of Mauritius Ltd., Sumitomo Bank Ltd. (Sumitomo Mitsui Banking Corporation), The Bank of Nova Sotia, The Bank of Tokyo-Mitsubishi Ltd., The British Bank of Middle East and The Sanwa Bank Ltd. (UFJ Bank Ltd.) are above the average level of 2.53. Therefore other Foreign Banks are said to be better in terms of their Net NPAs/Total Assets.
Considering the findings of Net NPAs/Total Assets it is consolidated that State Bank of Mysore has got the maximum average ratio of Net NPAs /Total Assets. Therefore it is suggested that this bank has to take effective steps to reduce the Net NPAs when compared to remaining banks of SBI group. It has to take some more caution in granting loans and advances. Similar steps have to be taken by the Indian Bank from Nationalised banks, Nedungadi Bank Ltd., from Private sector banks, Siam Commercial Bank from Foreign banks.

In the Frequency Distribution table of Net NPAs/Total Assets, it is found out that, the total number of banks are less in number under the classification of 4.01 to 6 percent, 6.01 to 8 percent and above’ during the period of study. This indicates better performance of the banks concerned.

In the ANOVA Table it has been concluded that, there is no difference between the Sectors/ Banks with respect to Net NPAs/Total Assets.

17. From the analysis of Gross Profit/ Loss /Total Assets for the State Bank of India and its Groups, it is very clear that it ranges from the minimum of 1.26 and the maximum of 4.08. This ratio is minimum for State Bank of India and maximum for State Bank of Indore. It is found out that SBI and its groups are having bank-wise average less than 5 percent of Gross Profit with respect to Total Assets. This must be viewed very seriously by the banks. It is inferred that as far as the SBI and its groups are concerned, State Bank of India has got the minimum average ratio of 1.93 and the State Bank of Patiala has got the maximum average ratio of 2.72. It is also understood that State Bank of Hyderabad, State Bank of Indore and State Bank of Patiala are above the average level of 2.35. Therefore the above mentioned banks in the State bank groups are said to be better in terms of their Gross Profit/Total Assets when they are compared with the remaining banks.

18. From the analysis of Gross Profit/Loss/Total Assets for the Nationalised Banks it is understood that it ranges from the Gross Loss of -1.08 and the maximum Gross Profit of 3.74. The Gross loss is for Indian Bank and the maximum Gross profit is for Oriental Bank of Commerce. It is found out that all the Nationalised
banks are having bank-wise average less than 5 percent of Gross Profit with respect to Total Assets. This must be taken very seriously by the banks. It is inferred that as far as the Nationalised banks are concerned Indian Bank has got the minimum average ratio of 0.64 and Corporation Bank has got the maximum average ratio of 2.76. It is also noted that Allahabad Bank, Andhra Bank, Bank of Baroda, Bank of India, Canara Bank, Corporation Bank, Dena Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank of India and Vijaya Bank are above the average level of 1.63. Therefore the above mentioned Nationalised banks are said to be better in terms of their Gross Profit/Total Assets.

19. From the analysis of Gross Profit/Loss/Total Assets for the Private Sector Banks it is no doubt that it ranges from the Gross Loss of -1.17 and the maximum Gross Profit of 5.31. This Gross loss is for Ganesh Bank of Kurundwad Ltd. and the maximum Gross profit is for SBI Commercial and International Bank Ltd. It is found out that all Private sector banks are having banks-wise average less than 5 percent of Gross Profit with respect to Total Assets. This must be viewed very seriously by the banks. It is inferred that as far as the Private sector groups are concerned, The Benares State Bank Ltd. has got the minimum average ratio of 0.09 and Tamilnad Mercantile Bank Ltd. has got the maximum average ratio of 3.04. It is also understood that Bank of Madura Ltd., Bank of Punjab, City Union Bank Ltd., Global Trust Bank, HDFC Bank Ltd., ICICI Banking Corporation Ltd., IndusInd Bank Ltd., Karnataka Bank Ltd., Kotak Mahindra Bank Ltd., SBI Commercial and International Bank Ltd., Tamilnad Mercantile Bank Ltd., The Federal Bank Ltd., The Jammu & Kashmir Bank Ltd., The Karur Vysya Bank Ltd., The Lakshmi Vilas Bank Ltd., The United Western Bank Ltd. and UTI Bank Ltd. (Axis Bank) are above the average level of 1.86. Therefore the above mentioned banks in the Private sector group are said to be better in terms of their Gross Profit/Total Assets.

20. From the analysis of Gross Profit/Loss/Total Assets for the Foreign Banks it is clear that it ranges from the Gross Loss of -27.32 and maximum Gross Profit of 15.15. The Gross loss is for The Bank of Tokyo-Mitsubishi Ltd. and the maximum Gross profit is for the Barclays Bank PLC. It is found out that there
are only 7 banks having bank-wise average more than 5 percent of Gross Profit/Total Assets. This must be viewed very seriously by the banks. It is inferred that as far as the Foreign banks are concerned, Bank Internasional Indonesia has got the minimum average ratio of -2.18 and Sonali Bank has got the maximum average ratio of 6.38. It is also understood that ABN-AMRO Bank N.V., American Express Bank Ltd., Arab Bangladesh Bank Ltd., Bank of America NT&SA, Bank of Ceylon, Barclays Bank PLC, Cho Hung Bank, Citibank N.A, Deutsche Bank AG., JP Morgan Chase Bank(The Chase Manhattan Bank), Krung Thai Bank Public Co.Ltd, Standard Chartered Bank, State Bank of Mauritius Ltd., Sonali Bank, The Bank of Nova Scotia and The Sanwa Bank Ltd. (UFJ Bank Ltd.) are above the average level of 2.95. Therefore the above mentioned Foreign banks are said to be better in terms of their Gross Profit/Total Assets.

Considering the performance of Gross Profit/Loss/Total Assets with respect to SBI and Groups, the State Bank of Patiala has got the highest performance. In the case of Nationalised Banks, Corporation Bank has got the highest performance. As far as the Private sector banks are concerned, Tamilnad Mercantile Bank Ltd. has hold the highest performance and finally with respect to Foreign Banks, Sonali Bank has placed the top most position.

With regard to the Frequency Distribution Table of Gross Profit/Loss/Total Assets, it has been found out that more number of banks are under the classification 1.01 to 2 percent and 2.01 to 3 percent during the entire period of study. Under the category of 3.01 to 4 percent and ‘4.01 percent and above’ lesser number of banks are quoted during 1998-99, 2000-01, 2004-05 and 2005-06. Over all position of the banks calls for more determined efforts to rectify the problem.

In the Analysis of Variance Table, it has been concluded that, there is difference between the banks with respect to Gross Profit/Loss/Total Assets. To find out which sector differs significantly from others, Post- Hoc Test is applied. When Comparing Foreign Banks with other Sectors, the Significant Value in the Post Hoc Table indicates that Foreign Banks differ significantly from Nationalised
banks and Private sector banks. When comparing the Foreign banks with SBI and its groups, the difference is there but not significant.

21. From the analysis of CAR for the State Bank of India and its Groups it is very clear that it ranges from the minimum of 8.17 and the maximum of 18.14. This ratio is minimum for State Bank of Travancore and the maximum for State Bank of Saurashtra. It is found out that State Bank of India and its groups have got bank-wise average not less than 9 percent of CAR. It is inferred that as far as the SBI and its groups are concerned, State Bank of Travancore has got the minimum average ratio of 11.02 and the State Bank of Saurashtra has got the maximum average ratio of 13.79. It is also understood that State Bank of India, State Bank of Hyderabad, State Bank of Patiala and State Bank of Saurashtra are above the average level of 12.24. Therefore the above mentioned banks in the State Bank Group are said to be better in terms of their Capital Adequacy Ratio.

22. From the analysis of CAR for the Nationalised Banks it is understood that it ranges from the minimum of 1.41 and the maximum of 20.12. This ratio is minimum for Indian Bank and the maximum for Corporation Bank. It is found out that all the Nationalised banks have got bank-wise average not less than 9 percent of Capital Adequacy Ratio. It is inferred that as far as the Nationalised Banks are concerned, UCO Bank has got the minimum average ratio of 9.40 and Corporation Bank has got the maximum average ratio of 15.42. It is also noted that Andhra Bank, Bank of Baroda, Corporation Bank, Oriental Bank of Commerce, United Bank of India, Vijaya Bank and IDBI Ltd. are above the average level of 11.70. Therefore the above mentioned banks are said to be better in terms of CAR.

23. From the analysis of CAR for the Private Sector Banks it is noted that it ranges from the minimum of -1.99 and the maximum of 30.59. This ratio is minimum for The Nedungadi Bank Ltd. and maximum for SBI Commercial & International Bank Ltd. It is found out that 30 banks have got bank-wise average not less than 9 percent of CAR. It is inferred that as far as the Private sector banks are concerned Bareilly Corporation Bank Ltd. has got the
minimum average ratio of 3.26 and SBI Commercial and International Bank Ltd. has got the maximum average ratio of 25.09. It is also understood that Bank of Madura Ltd., Bharat Overseas Bank Ltd., Bank of Punjab Ltd., City Union Bank Ltd., Development Credit Bank Ltd., HDFC Bank Ltd., ICICI Banking Corporation Ltd., IndusInd Bank Ltd., Karnataka Bank Ltd., Kotak Mahindra Bank Ltd. Nainital Bank Ltd., SBI Commercial and International Bank Ltd., Tamilnad Mercantile Bank Ltd.,The Jammu & Kashmir Bank Ltd.,The Karur Vysya Bank Ltd., Times Bank Ltd. and Yes Bank Ltd. are above the average level of 12.31. Therefore the above mentioned banks are said to be better in terms of CAR.

24. From the analysis of CAR for the Foreign Banks it is clear that it ranges from the minimum of -13.33 and the maximum of 885.56. This ratio is minimum for Siam Commercial Bank and maximum for Commercial Bank of Korea Ltd. It is found out that 47 banks have got bank-wise average not less than 9 percent of CAR. It is inferred that as far as the Foreign banks are concerned, Banque Nationale De Paris has got the minimum average ratio of 8.88 and Commercial Bank of Korea Ltd. has got the maximum average ratio of 504.78. It is also understood that Antwerp Diamond Bank, Arab Bangladesh Bank Ltd., Bank Internasional Indonesia, Bank Muscat S.A.O.G., Chinatrust Commercial Bank, Cho Hung Bank, Commercial Bank of Korea Ltd., Hanil Bank, K.B.C. Bank N.V., Krung Thai Bank p.l.c, Oversea-Chinese Banking Corporation Ltd., Sonali Bank, The Sanwa Bank Ltd. and The Toronto-Dominion Bank are above the average level of 47.84. Therefore the above mentioned banks are said to be better in terms of CAR.

Considering the performance of Capital Adequacy Ratio, State Bank of Saurashtra has got the highest performance among SBI and its Groups. In the case of Nationalised Banks, Corporation bank has got the highest performance. As far as the Private Sector Banks are concerned, SBI Commercial and International Bank Ltd. has backed the highest performance and lastly Commercial Bank of Korea Ltd. from Foreign Banks has ranked the top.
In the Frequency Distribution Table of CAR, it has been found out that more than 20 banks are under the classification of 12.01 to 18 percent and ‘18.01 percent and above’ during the period of study 1997-98 to 2005-06. This indicates the better performance of the concerned banks due to the planned efforts of the employees concerned.

In the Analysis of Variance Table, it is concluded that, there is difference between the banks with respect to Capital Adequacy Ratio. To find out which sector/Bank differs significantly from others, Post-Hoc Test is applied.

When Comparing Foreign banks with other Sectors, the Significant value in the Post-Hoc Table indicates that Foreign banks differ significantly from SBI and its groups, Nationalised banks and Private sector banks.

25. From the analysis of Net Profit/Loss/Total Assets for the State Bank of India and its Groups it is very clear that it ranges from the minimum of 0.16 and the maximum of 2.43. This ratio is minimum for State Bank of Saurashtra and maximum for State Bank of Saurashtra. It is found out that SBI and its Groups are having bank-wise average less than 2 percent of Net Profit/Loss with respect to Total Assets. This must be viewed very seriously by the banks. It is inferred that as far as the SBI and its Groups are concerned, State Bank of Travancore has got the minimum average ratio of 0.71 and the State Bank of Patiala has got the maximum average ratio of 1.14. It is also understood that State Bank of Bikaner & Jaipur, State Bank of Indore, State Bank of Patiala and State Bank of Saurashtra are above the average level of 0.91. Therefore the above mentioned banks in the State bank groups are said to be better in terms of their Net Profit/Total Assets.

26. From the analysis of Net Profit/Loss/Total Assets for the Nationalised Banks it is understood that it ranges from Net Loss of -3.64 and the maximum Net profit of 1.73. This ratio is minimum for Indian Bank and the maximum for Corporation Bank. It is found out that Nationalised banks are having bank-wise average less than 2 percent of Net Profit/Loss with respect to Total Assets. This must be taken very seriously by the banks. It is inferred that as far as the
Nationalised Banks are concerned Indian Bank has got the minimum average ratio of -0.66 and Corporation Bank has got the maximum average ratio of 1.39. It is also noted that Allahabad Bank, Andhra Bank, Bank of Baroda, Canara Bank, Corporation Bank, Indian Overseas Bank, Oriental Bank of Commerce, Punjab National Bank, Syndicate Bank, Union Bank of India and Vijaya Bank are above the average level of 0.62. Therefore the above mentioned Nationalised banks are said to be better in terms of their Net Profit/Total Assets.

27. From the analysis of Net Profit/ Loss/Total Assets for the Private Sector Banks it is no doubt that it ranges from Net Loss of -6.65 and the maximum Net Profit of 3.67. This ratio is minimum for SBI commercial and International Bank Ltd. and the maximum for SBI Commercial and International Bank Ltd. It is found out that Private sector banks are having bank-wise average less than 2 percent of Net Profit/Loss with respect to Total Assets. This must be viewed very seriously by the banks. It is inferred that as far as the Private sector groups are concerned, Centurion Bank Ltd. has got the minimum average ratio of -0.07 and The Karur Vysya Bank Ltd. has got the maximum average ratio of 1.76. It is also understood that Bank of Madura Ltd., Bank of Punjab Ltd., Bharat Overseas Bank Ltd., City Union Bank Ltd., Global Trust Bank Ltd., HDFC Bank Ltd., ICICI Banking Corporation Ltd., IDBI Bank Ltd., IndusInd Bank Ltd., Karnataka Bank Ltd., Kotak Mahindra Bank Ltd., Nainital Bank Ltd., Tamilnad Mercantile Bank Ltd., The Jammu & Kashmir Bank Ltd., The Karur Vysya Bank Ltd., The Lakshmi Vilas Bank Ltd. and UTI Bank Ltd. are above the average level of 0.77. Therefore the above mentioned banks in the Private sector group are said to be better in terms of their Net Profit/Total Assets.

28. From the analysis of Net Profit/ Loss/Total Assets for the Foreign Banks it is found out that it ranges from Net Loss of -33.38 and the maximum Net Profit of 9.37. This ratio is minimum for Siam Commercial Bank and the maximum for Barclays Bank PLC. It is found out that there are only 6 banks having bank-wise average more than 2 percent of Net Profit/Loss/Total Assets. This must be viewed very seriously by the bankers. It is inferred that as far as the Foreign Banks are concerned, Dresdner Bank AG. has got the minimum average ratio of
-4.78 and The Toronto-Dominion Bank has got the maximum average ratio of 3.46. It is also understood that ABN-AMRO Bank N.V., American Express Bank Ltd., Antwerp Diamond Bank, ANZ Grindlays Bank Ltd., Arab Bangladesh Bank Ltd., Bank of America NT&SA, Bank of Ceylon, Banque Nationale De Paries, Barclays Bank PLC, Chase Manhattan Bank (JPMorgan Chase Bank), Cho Hung Bank, Citibank N.A., Commercial Bank of Korea Ltd., Credit Lyonnais, DBS Bank Ltd., Deutsche Bank AG., Hanil Bank, Hongkong Bank, HSBC Ltd., Krung Thai Bank Public Co.Ltd., Sonali Bank, Standard Chartered Bank, Standard Chartered Grindlays Bank Ltd., State Bank of Mauritius Ltd., The Bank of Nova Scotia, The Development Bank of Singapore Ltd., The Sanwa Bank Ltd. (UFJ Bank Ltd.) and The Toronto-Dominion Bank are above the average level of 0.42. Therefore the above mentioned Foreign banks are said to be better in terms of their Net Profit/Total Assets.

Considering the performance of Net Profit/Loss/Total Assets with respect to SBI and Groups, the State Bank of Patiala has got the highest performance. In the case of Nationalised Banks Corporation Bank has got the highest performance. As far as the Private Sector banks are concerned, The Karur Vysya Bank Ltd. has hold the highest performance and finally from Foreign banks The Toronto-Dominion bank has placed the top most position.

In the Frequency Distribution Table of Net Profit/Loss/Total Assets more number of banks are available from Nil category to 1.01 to 1.50 percent from 1996-97 to 2005-06. Over all position is unsatisfactory and warrants initiation of strong action to improve Net Profit/Total Assets ratio.

In the Analysis of Variance Table, it is concluded that there is no significant difference between the Sectors/ Banks with respect to Net Profit/Loss/Total Assets.
SUGGESTIONS FOR REDUCING NPAs

Reduction of NPAs can be done through proper analysis of all “C”s namely Capacity, Character and Conduct about a Customer/Organisation before sanctioning the loans. They may get the reliable information about the loan applicants from concerned bureau.

“MANAGEMENT OF NON-PERFORMING ASSETS” has been one of the focus areas of the bank with the objective being to achieve the global benchmarks. Towards this goal, the bank has to focus on:

- Identification and monitoring of Special Mention Accounts as per the RBI guidelines in order to check the slippages of standard assets to NPA category by making prompt review and taking quick corrective action.
- Restructuring of impaired standard accounts as well as of viable non-performing assets, both under the CDR scheme evolved by RBI as well as under the Bank’s own scheme, for containing NPAs.
- Upgradation of assets at the whole bank level.
- High-value accounts and BIFR cases, especially in doubtful and loss categories through the 9 Specialised Rehabilitation and Recovery Branches.

RECOMMENDATIONS

With the tighter RBI norms for asset classification, the NPA stock will increase by a substantial amount. Though a number of measures have been introduced in the recent past including the CDR mechanism, One time settlement schemes, enactment of SARFAESI Act, etc., a lot is desired in terms of effectiveness of these measures. An important element is detection of NPAs and for this strengthening of EWS is the key. Some of the areas the researcher has identified are discussed below:

CREDIT RISK MANAGEMENT

It is recommended that a credit risk management framework as part of the Integrated Risk Management in which regard, RBI has issued detailed instructions, be put in place in banks. This entails recording the credit risk assumed at the time of granting credit and periodically reviewing it. It focuses on matching credit risk with
capital/provisions to cover expected losses from default. RBI has in its Guidance note on Credit Risk Management advised that banks should have the following in place:

- Dedicated policies and procedures to control exposures to designated higher risk sectors.
- Sound procedures to ensure that all risks associated with requested credit facilities are promptly and fully evaluated by the relevant lending and credit officers.
- Systems to assign a risk rating to each customer/borrower to whom credit facilities have been sanctioned.
- A mechanism to price facilities depending on the risk grading of the customer and to attribute accurately the associated risk weightings to the facilities.
- Efficient and effective credit approval process operating within the approval limits authorized by board of directors.
- Procedures and systems which allow for monitoring financial performance of customers and for controlling outstandings within limits.
- Systems to manage problem loans to ensure appropriate restructuring schemes. A conservative policy for the provisioning of non-performing advances should be followed.
- A process to conduct regular analysis of the portfolio and to ensure ongoing control of risk concentrations.

### INTERNAL CHECKS AND SYSTEMS FOR EARLY IDENTIFICATION OF NPAs

The spirit of these systems should be to “reveal not conceal” NPA problems. Continuous monitoring by credit officers is the first line of defence in identifying problem loans.

- This should be followed by scheduled loan reviews.
- External examination is the last line of defence.
- The concept of Relationship Manager should uniformly exist for all corporate accounts in all branches in the banking system. Relationship Managers should also be responsible for obtaining all information necessary not only for credit
approval process but also for credit monitoring process. These Managers need to be aware of warning signs that prelude business failure.

- Increasing the frequency of preparing KYC/credit reports. Currently these are prepared initially at the time of sanction of credit facilities and updated on an annual basis in many banks. These need to be updated more frequently, at least every quarter.

- Loan covenants should facilitate access to all financial information of the borrower upon request by the bank. In cases where the borrower does not comply with loan covenants, the loan grading must be immediately reviewed and matter should be reported to the head office.

- Improving management information systems to facilitate detection of Early Warning Signals. Key reports which would assist credit officers in detection of problem accounts include:

  Monthly loan concentration reports to show the portfolio concentration by industry and borrower segments.

  Monthly account activity reports to identify any unusual transactions, no transactions, etc.

  Daily Credit line reporting to identify customers who have exceeded their credit limits.

  Weekly Overdue loan payment report to show number of days payments are overdue of an account.

  Monthly Large loans report giving details of loans above an agreed threshold limit.

  In cases where the default is due to deeper malady, a techno economic viability study of the business is essential before deciding the future course of action.

  It is also necessary to gradually migrate to international norms for classification and provisioning of NPA. An indicative classification and provisioning norms in some Asian countries is given below:
<table>
<thead>
<tr>
<th>Classification</th>
<th>Ageing</th>
<th>Provisioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass</td>
<td>Upto 30 days past due</td>
<td>1%</td>
</tr>
<tr>
<td>Special Mention</td>
<td>30-90 days past due</td>
<td>2%</td>
</tr>
<tr>
<td>Sub-Standard</td>
<td>90-180 days past due</td>
<td>20%</td>
</tr>
<tr>
<td>Doubtful</td>
<td>180-365 days past due</td>
<td>50%</td>
</tr>
<tr>
<td>Loss</td>
<td>More than 365 days past due</td>
<td>100%</td>
</tr>
</tbody>
</table>

**SPECIAL INVESTIGATIVE AUDIT**

In cases where the lenders suspect diversion of funds, mismanagement, genuineness of promoters intent, etc. It is recommended that a special investigative audit of all financial/business transactions and books of accounts of the Borrower Company be carried out in order to determine the real factors which contributed to the sickness. It would be useful to appoint a consultant as early as possible to examine these aspects.

**STRATEGIC OPTION ANALYSIS**

It is recommended that prior to determining the appropriate restructuring for an NPA/potential NPA, a strategic option analysis be conducted or outsourced, as appropriate, based on a proper approach.

**NEGOTIATED SETTLEMENT**

Banks should consider entering into negotiated settlements in such NPAs where restructuring option is not feasible and to avoid legal delays and where time is of essence.

It is recommended that transparent procedures be put in place to ensure effectiveness of compromise settlements entered into by banks with borrowers to
ensure that vigilance issues do not arise at a later stage. For this a committee approach for approval of settlements is appropriate. A committee of senior level staff in a bank should be authorized to approve compromise settlements and decision taken should be binding on all staff.

ARC MARKET IN INDIA

It is critical that a legal, taxation and procedural hurdles be done away with at the earliest to ensure development of ARC market in India.

Practical issues such as valuation of NPA need to be addressed.

The researcher recommends a possible approach to selling of NPAs, which involves a bidding process that would lead to price discovery in a transparent and objective manner.

EFFECTIVE MONITORING OF RESTRUCTURED LOANS

Unless proper monitoring of restructured accounts is carried out, there is every possibility of the loans slipping into NPA category again. It is recommended that restructured accounts with credit exposure above a certain amount be monitored by an independent monitoring agency.

An important tool in monitoring is development of a Trust and Retention Mechanism.

IMPROVEMENT IN LEGAL FRAMEWORK

Legal action must be initiated once the bank is convinced and have reached the conclusion that rehabilitation or any other restructuring alternative is not possible. Banks may take recourse to criminal proceedings along with civil suits where misleading information has been furnished by the borrower. Also in the case of valueless guarantees and diversion of funds, banks should initiate criminal proceedings. In case where revival/rehabilitation is to be considered, the lenders should retain the right to exercise control over ownership/management. This can be done by pledge of promoter’s shareholding to the lenders with a right to change ownership if certain covenants/stipulations are not met.
SPECIAL WORKOUT UNITS

Banks are currently maintaining stressed assets management groups in Head offices. Some banks have also setup dedicated Rehabilitation and Recovery branches to handle complicated and complex assets. To improve the efficacy of various outfits, the skills, knowledge, practical experience and negotiating skills of each Credit officer should match with the level of complexity or difficulty of the various borrowers being managed. Desirable skills include:

- Credit/Banking Skills
- Financial Skills
- Technical Knowledge
- Communication ability
- Negotiation Skills
- Legal Skills
- Accounting Skills
- Information Technology Skills

JOINT RESPONSIBILITY

For the successful implementation of various lending schemes of the banks, the support of district administration and government agencies are essential. The proposals forwarded through government agencies are genuine, production oriented, need based and in accordance with the norms, RBI and Government should jointly define the responsibilities of such sponsoring agencies and there must be an outside audit on the performance of such agencies in this respect, the recovery of advances should be made by the joint responsibility of the sponsoring agency and lending bank. Details of such model of joint responsibility should be worked out the earliest.

RECOVERY CAMP

The recovery camp should be organized frequently in rural areas and government should ask local revenue authorities to extend full co-operation to the branches in organizing such a recovery camps, as they have got commanding relation over the local agricultural borrowers. They can arrange the borrowers presence at the village panchayat office to save the time and energy of recovery officials to locate or identify the borrowers. Because, tracing a borrower is a difficult task in the part of
recovery officials. If the banks want to give a demonstrative effect especially in rural areas, the banks should stop finance in those Service area village where more than the 50 percent borrowers are defaulters.

**IMPROVEMENT OF EFFICIENCY**

In order to improve the efficiency, comprehensive computer based information, the monitoring system should be designed and introduced at the earliest. Moreover, banks have to spend a lot of energy and time for the preparation of various statements, departments at higher authorities and many a time that the data required by the higher authorities is nothing but duplication. To overcome these difficulties, computer based system at the higher authority level should be evolved and banks should be asked to send one Master Statement which should cover all required data at the end of every month, to reduce the burden and avoid duplication, so that field staff can utilize their time in monitoring advances.

**TRAINING**

Regular training needs to be imparted to staff at appropriate levels on an ongoing basis. The objective of the training is to keep abreast of:

- Ongoing and proposed regulatory changes and their implications on the bank’s efforts for NPA management/recovery.
- International experience in NPA management, various tools/techniques used for NPA recovery and their appropriateness in the Indian environment.

The training programmes to be conducted for bank staff at various levels should contain courses on:

- Orientation
- Account Monitoring
- Regulatory Framework
- Resolution Framework

**SCOPE FOR FUTURE RESEARCH**

1. Impact of NPA on the profitability of Commercial Banks.
2. A comparative analysis of NPA levels of Commercial Banks in India with American Banks.

CONCLUSION

Though significant progress has been made in NPA management, much still needs to be done in areas such as credit risk management, identification and correction of NPA problem in a time bound manner. The banks could also introduce some of the practices followed internationally for NPA resolution, which may be relevant in the Indian conditions. The recommendations made in the foregoing if implemented, should go a long way in bringing about an effective improvement in the handling of non-performing assets and consequent upgradation of the asset quality.

The banks should strengthen Internal Vigilance and Disciplinary Machinery for the prevention of frauds, manipulations and other undesirable activities, unethical practices and unprincipled lending. The services of detective agencies on selective basis should be engaged for ascertaining details of other assets of the borrowers/guarantors which were not charged to the bank earlier.

Education to borrowers for using audio-visuals as technique for their awareness creation has importance for cultivating timely repayment habits will help in bringing down the NPAs.

Good performance in recovery should be rewarded by issuing merit certificates.

ALL THE BANKS ARE STRIVING THEIR BEST TO PREVENT, REDUCE AND BRING DOWN NPAS TO THE ZERO LEVEL.