A Study on Non-Performing Assets of Foreign Banks in India

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Abstract: Banking sector has been playing an important role in the development of our country. In India banking sector includes Foreign Banks also Banks have been facing various types of risks, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk. Apart from these risks the very important risk is loan recovery. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs). The Indian banking sector is facing a serious problem of NPA which may bring down the overall profitability of banks. The study seeks to observe the volume and trend of NPA of Foreign Banks in India in comparison to gross and net advances. For this study, data have been collected from secondary sources and simple statistical tools, tables have been applied. The results show that during the study period, i.e. from the year 2001-02 to 2012-13, percentage Non-Performing Assets to total assets and percentage of Non-Performing Assets to Gross & Net Advances of Foreign Banks in India has been decreasing.
Keywords: Non-Performing Assets (NPAs), Doubtful Assets, Loss Assets, Total Assets, Foreign Banks in India, Gross Advances, Net Advances, Gross NPA and Net NPA.

INTRODUCTION

The asset which does not generate income to the bank is called Non-Performing Asset. NPA is one of the major problems of Indian banking sector. NPA is the best indicator for the health of the banking industry. NPAs reflect the performances of banks. NPAs are the primary indicators of credit risk. NPAs are an inevitable burden on the banking industry. Hence the success of a bank depends upon methods of managing NPAs. There are various types of Non-Performing Assets like-

Gross NPA

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 nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:
Gross NPAs Ratio = Gross NPAs / Gross Advances

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 provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following:
Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

Classification of Assets
Standard Assets

Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer and the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year. From the year ending 31.03.2000, the banks should make a general provision of a minimum of 0.40 percent on standard assets on global loan portfolio basis. If asset fails to be in category of standard asset that is amount due more than 90 days then it converted to NPA and NPAs are further need to classify into the following three categories-

Sub Standard Assets

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 month. A general provision of 10 percent on total outstanding should be made without making any allowance for DICGC/ECGC guarantee cover and securities available.

Doubtful Assets

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, 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. With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for more than12 month.

Loss Assets

A loss asset is one which 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. Also, these assets would have been identified as" loss assets "by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

Provisioning Norms of Doubtful and Loss Assets

The entire asset should be written off. If the assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

REVIEW OF LITERATURE

Rajput, Arora and Kaur [1] observed on the topic "Management of Non-Performing Assets: A study of Indian Public Sector Banks" based on the secondary data collected from websites, journals, reports etc. and concluded that banks, now-a-days have been facing the growth of No-Performing Assets due to no-recovery of loan Installments. But during the periods of economic slowdown public sector banks in India have shown flexibility, management of non-performing assets through better quality of advances and recovery procedures is essential for banks to maintain their continued existence and expansion.

Das and Dutta [2] analyzed on the topic "A Study on NPA of Public Sector Banks in india" with the help of secondary data, collected from RBI website. They analyzed the 6 years, (2008-2013) net non-performing asset data of 26 public sector banks, by using Annova statistics, and with the help of SPSS software. The main objective of the study was to find out the significant differences in the mean variation of the concerned banks, if any. But the study finds that there is no significant deference between the means of NPA of the banks at five percent level of significance. Hence one can safely conclude that banks irrespective of their operations have similar NPAs in the recent years.

Srinivas [3] researched on the topic "A Study on Non-Performing Assets of Commercial Banks in India" based on secondary data for the period from 1996-97 to 2011-12 to study why assets have been converted to non-performing Assets. The paper concluded that RBI which is the apex body for controlling level of non-performing assets have been giving guidelines and getting norms for the banks in order to control the incidents of faults. Reduction of NPAs in banking sector should be treated as national priority item to make the Indian Banking system more strong, vibrant and geared to meet the challenges of globalization.

Singh [4] examined on the topic "Performance of Non-Performing Assets (NPAs) in Commercial Banks" and finds that the extent of NPAs is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be reduced. Various steps have been taken by government to reduce the NPAs. Though it is impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers.

Ganeshan and Santhanakrishnan [5] researched on the topic "Non-Performing Assets: A study of State Bank of India" after collecting data from both primary and secondary sources. They concluded that the banking industry has undergone a major change after the first phase of economic liberalization; hence the importance credit management has emerged. In recent time banks are very cautious in extending loan, because of mounting NPA.

Narula and Singla [6] investigated on "Empirical Study on Non Performing Assets of Bank" based on Annual Reports of Punjab National Bank (PNB) from 2006-07 to 2011-12. The paper concluded that there is a positive relationship between Net Profit and NPA in respect of PNBs mismanagement.

Mahajan [7] analyzed on the topic "Non Performing Assets: A Study of Public, Private & Foreign Sector Banks in India" based on time series data of Banks in India from March 1999 to March 2013 and concluded that though NPAs are having a declining trend over a period of study, but Non Performing Assets of public sector banks are still higher than private and foreign sector banks.

Rohtak and Gaba [8] analyzed on the topic "Public, Private and Foreign Banks: A Comparative Study on the Basis of NPA" based on secondary data collected from the Website of RBI for the period from 2008 to 2013 and concluded that private sector banks are performing better than other banks & foreign banks Performance is better than scheduled commercial banks and public sector banks.

Rao and Patel [9] examined on the topic "A Study on Non Performing Assets Management with Reference to Public Sector Banks, Private Sector Banks and Foreign Banks in India" based on the aggregate data of public sector, private sector and foreign banks and compared analyze and interpret the NPA management from the year 2009 -2013. The researcher found that the percentage of Gross NPA to Gross advances is increasing for public banks and after ANOVA test, they concluded Ratio of Gross NPA to Gross Advances for public sector, private Sector and foreign Banks does not have significant difference between 2009 to 2013

Research Gap
None of the studies have been made showing position and trends on NPA only of Foreign Banks in India and so the present study has been undertaken.

Objectives of the Study
- To observe the volume of Gross and Net Advances of Foreign Banks of India;
- To study the overall position of NPA of Foreign Banks in India;
- To observe the trends of NPA of Foreign Banks in India.

Historical Background of Non-Performing Assets in India

One asset becomes non-performing when it ceases to generate income of Banks. The concept of NPA was introduced by RBI to reflect a banks actual financial health in its Balance Sheet. As per recommendation of Narasimham Committee provision should be made on the basis of the classification of assets into different categories. Before March 31st 2001 there was a concept of 'Past Due' in practice. A Non-Performing Assets was defined as credit in respect of which interest and / or installment of principal has remained past due for a specific period of time. The specific period was reduced in a phased manner as under –

As on Financial Year ended	Specific Period
1993	4 quarters
1994	3 quarters
1995	2 quarters

METHODOLOGY OF THE STUDY

The data have been collected from the website of Reserve Bank of India. So the data are secondary in nature and the time period is taken from the year 2001-02 to 2012-13 for this analysis. The data so collected from the website is presented in a tabular form and analyzed by making Charts-

Table-1: Position of Gross and Net NPAs of Foreign Banks in India (Amount in ` Billion)

Year	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
Financial Year ended	Gross	Net	Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
1	2	3	4	5	6	7	8	9
2001-02	506.31	487.05	27.26	5.4	2.4	9.20	1.9	0.8
2002-03	541.84	521.71	28.45	5.3	2.4	9.03	1.7	0.8
2003-04	626.32	605.06	28.94	4.6	2.1	9.33	1.5	0.7
2004-05	770.26	753.54	21.92	2.8	1.4	6.39	0.8	0.4
2005-06	989.65	975.62	19.28	1.9	1.0	8.08	0.8	0.4
2006-07	1278.72	1263.39	22.63	1.8	0.8	9.27	0.7	0.3
2007-08	1629.66	1611.33	28.59	1.8	0.8	12.47	0.8	0.3
2008-09	1697.16	1653.85	64.44	3.8	1.5	29.96	1.8	0.7
2009-10	1674.37	1632.60	71.33	4.3	1.6	29.77	1.8	0.7
2010-11	1993.21	1955.39	50.00	2.5	1.0	12.00	0.6	0.3
2011-12	2347.10	2298.49	62.92	2.7	1.1	14.00	0.6	0.2
2012-13	2689.67	2636.80	79.70	3.0	1.3	26.00	1.0	0.4

Source: Hand Book of Statistics on Indian Economy, the Reserve Bank of India Sept, 2014.

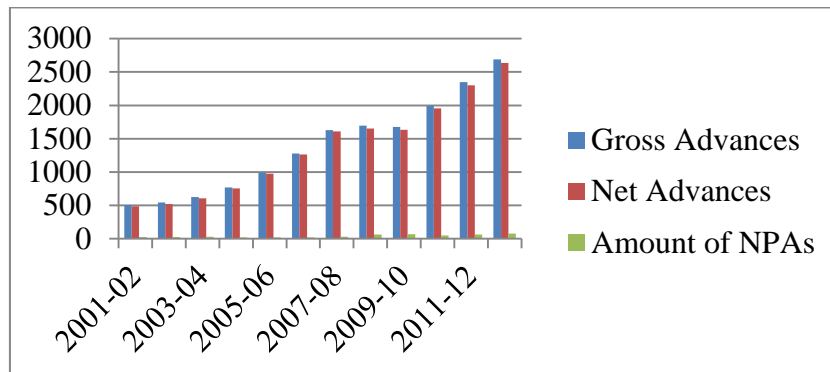From the above data the following charts have been prepared-

Fig-1: Volume of Gross Advances, Net Advances and NPAs of Foreign Banks in India.
Source: Hand Book of Statistics on Indian Economy, the Reserve Bank of India Sept, 2014.
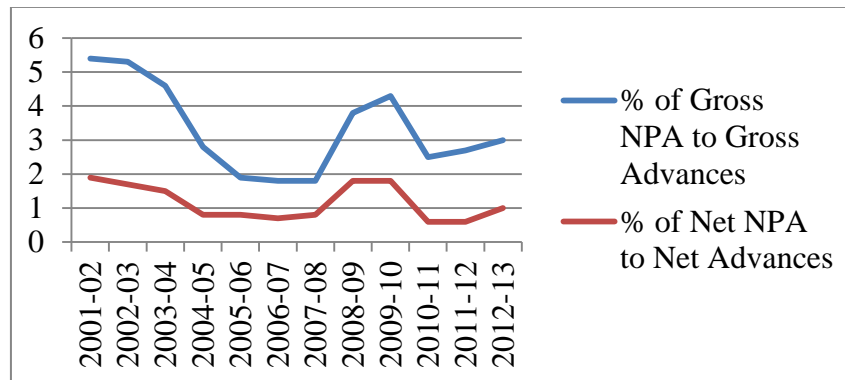

Fig-2: Trends of Gross NPA to Gross Advances & Net NPA to Net Advances of Foreign Banks in India.
Source: Hand Book of Statistics on Indian Economy, the Reserve Bank of India Sept, 2014.
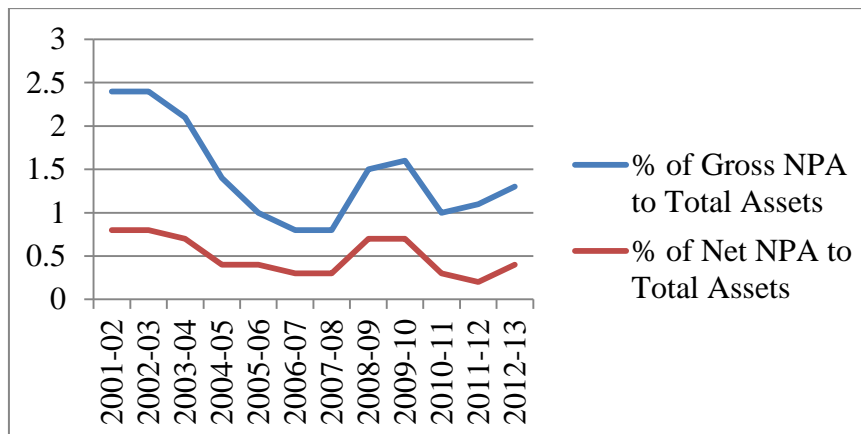

Fig-3: Trends of Gross NPA to Total Assets & Net NPA to Total Assets of Foreign Banks in India.
Source: Hand Book of Statistics on Indian Economy, the Reserve Bank of India Sept, 2014.

ANALYSIS AND INTERPRETATION

From the above Table-1, we can observe the overall position of Gross Advances, Net Advances, Gross NPA and Net NPA of Foreign Banks of India for the period from 2001-02 to 2012-13. Now we can observe the trends of Gross Advances and Net Advances from Figure 1, where it is seen that the volume of Gross and Net Advances of Foreign Banks in India have been increasing steadily from the financial year 2001-02 to 2012-13. NPAs have also been increasing steadily but the rate of growth of NPAs is lower than that of growth rate of Gross and Net

Advances. There is a clear decreasing trend of the percentage of Gross NPA to Gross Advances and Net NPA to Net Advances from the financial year 2001-02 to 2012-13 (Figure 2). Similarly percentage of Gross NPA to Total Assets & percentage of Net NPA to Total Assets have also been showing a decreasing trend over the years during the study period (Figure 3).

CONCLUDING REMARKS

From the above observation it is seen that Gross Advances as well as Net Advances of Foreign Banks in India have been increasing at a steady rate, where as Gross NPA as well as Net NPA have been showing a decreasing treads during the study period. So, it can be concluded that decreasing trends of NPA can increase the profitability of Foreign Bonks in India and may expand rapidly in the Indian economy in near future.

Scope for further Research

There are obviously further research scope like is there any relationship between NPAs and Profitability of Foreign Banks in India and comparison of NPA and Profitability of Indigenous Banks and Foreign Banks of India may the topics of further Research.

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