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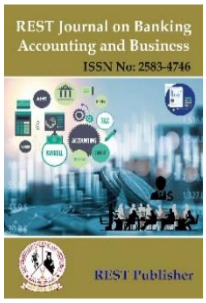


# A Study of Controlling Non-Performing Assets [NPA] with Reference to Axis Bank

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**Abstract**: *The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This research explores an empirical approach to the analysis of Non-Performing Assets (NPAs) with special reference to different banks. NPAs adversely affect lending activity of banks as non-recovery of loan instalments as also interest on loan portfolio. Non - recovery of loans also hurts the profit ability of banks. The outcome of the study would help the concerned more particularly the managers of banks to device appropriate management strategies to have NPA within the manageable limit to keep the performance of the banks in a healthier condition. To analyse and minimize the risk involved in different sectors of NPA.*

***Keywords:*** *Non-Performing Assets, financial stability, loan portfolio, risk.*

## 1. INTRODUTION

Nonperforming asset means an asset or account of borrower, which has been classified by bank or financial institution as sub –standard, doubtful or loss asset, in accordance with the direction or guidelines relating to assets classification issued by RBI. An amount due under any credit facility is treated as "past due" when it is not been paid within 30 days from the due date. Due to the improvement in the payment and settlement system, recovery climate, up gradation of technology in the banking system etc, it was decided to dispense with "past due "concept, with effect from March 31, 2001. Accordingly, as from that date, a Non performing asset shell be an advance were

- Interest and/or installment of principal remain overdue for a period of more than 180 days in respect of a term loan,
- The account remains 'out of order 'for a period of more than 180 days, in respect of an overdraft/cash credit (OD/CC)
- The bill remains overdue for a period of more than 180 days in case of bill purchased or discounted.
- Interest and/or principal remains overdue for two harvest seasons but for a period not exceeding two half years in case of an advance granted for agricultural purpose, and
- Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts

## 2. REVIEW OF LITERATURE

1. Pro-cyclical Management of Banks' Non-Performing Loans by the Indian Public Sector Banks by B M Misra and Sarat Dhal

This article deals the management of NPA's of India's public sector banks with the pro cyclicality of bank indicators.

 

The analysis explains that banks NPAs are influenced by three major sets of factors, i.e., terms of credit, bank specific indicators relating to asset size and credit orientation.

The analysis shows that the terms of credit variables such as interest rate, maturity and collateral and bank specific variables had significant impact on the banks' non-performing loans in the presence of macroeconomic shocks, using panel regression model.

**Source:** Pro-cyclical Management of Banks. On-Performing Loans by the Indian Public Sector Banks.

## 3. SCOPE OF THE STUDY

Banks usually categorize loan's as non-performing after 90 days of non-payment of interest or principal amount, which can occur during the term of the loan or for failure to pay principal at the maturity date

## 4. OBJECTIVES OF THE STUDY

1. To analyze trend in sector wise Non-Performing Assets (NPA) of AXIS bank.
2. To compare year wise and sector wise contributions towards NPA.
3. To examine the sector wise credit risk facing by AXIS bank.
4. The study is to examine and to take appropriate measures to be taken in reducing the carrying cost through recovery and negotiated settlement or to write off.
5. To study nature and cause of credit risks facing by AXIS bank.

## 5.METHODOLOGY OF THE STUDY

Sources For Collection of Data

**Primary Data:**

Through discussions and enquiry of officials of the AXIS bank.

**Secondary Data:**

Through analysis of annual reports, profit and loss account and balance sheet of bank and referred related websites of AXIS bank.

Study is undertaken regarding the NPA in AXIS Bank for period of 5 years

## 6. LIMITATIONS OF THE STUDY

The study is based on the primary data collected from the managers of banks by personal enquiry in respect of credit risk regarding advances. In respect of NPA accounts and amounts, the required information was gathered from secondary sources. In some banks, the data on accounts and amount of NPA for some years were not available. Study has made only on past five years data on NPA of the AXIS bank. Thus, the results of the study are interpreted with the above limitation in view. The findings of the study ca nnot be applied to other banks.

**ANALYSIS & INTERPRETATION OF SECONDARY DATA:**

**Analysis of trend and asset quality of gross advances and gross nonperforming assets:**

**TABLE 1.1**: Gross Advances and Gross Npa's of Private Sector Banks

| | Gross Advances(cr.) | Gross NPAs | | |
|---|---|---|---|---|
| | | Amount(cr.) | Percent to Gross Advances | Percent to Total Assets |
| **2014-15** | 71537 | 5963 | 8.4 | 3.4 |
| **2015-16** | 151258 | 14762 | 9.6 | 4.4 |

| | | | | |
|---|---|---|---|---|
| **2016-17** | 176047 | 14782 | 8.1 | 4 |
| **2017-18** | 197419 | 13581 | 5.9 | 2.8 |
| **2018-19** | 197832 | 8782 | 4.4 | 2.1 |
| **2019-20** | 319690 | 7814 | 2.5 | 1.4 |
| **2020-21** | 421045 | 9256 | 2.2 | 1.2 |
| **2021-22** | 525845 | 15983 | 2.5 | 1.4 |
| **2022-23** | 585065 | 19983 | 2.9 | 1.7 |

**Interpretation:**

The following table helps in examining trends of gross advances, gross NPAs, ratio of gross NPAs to gross advances and ratio of gross NPAs to total assets. We can also visualize the trend of private sector banks by using gross advances, gross NPAs and ratios of gross NPA to gross advances and total assets. We can clearly see from the above table that the gross advances are increasing continuously and there is an increase of over 721 percent as compared to 2014-15 and 2021-22. This clearly shows that apart from the presence of private sector banks also get a great opportunity to prove them. The amount of gross NPAs shows a mix kind of trend over a period -as till 2014-15 and from 2016-17 to 2017-18 there is a continuous increase in gross NPA amount while there is a decrease in it from a period ranging from 2014-15 to 2016-17 NPA ratios related to gross NPA also shows a mix trend over a period. But if we see the last three years' data, we can clearly see that there is an increase in gross NPA to total assets and gross NPA to gross advances which means that the asset quality is diminishing instead of improving. Thus, if we compare both public and private sector banks, we can say that public sector banks are better than private sector banks as the efficiency and asset quality of public sector banks had shown a continuous improvement if compare relatively to private sector banks.

**ANALYSIS OF TREND AND ASSET QUALITY OF NET ADVANCES ON NET NON-PERFORMING ASSETS:**

**TABLE 1.2: Net Advances and Net Npas of Private Sector Banks**

| | **Net Advances(cr.)** | **Net NPAs** | | |
|---|---|---|---|---|
| | | **Net NPAs Amount(cr.)** | **Percent to Net Advances** | **Percent to Total Assets** |
| **2014-15** | 68059 | 3700 | 5.4 | 2.3 |
| **2015-16** | 147473 | 6676 | 5.7 | 2.5 |
| **2016-17** | 168951 | 3963 | 2.8 | 2.3 |
| **2017-18** | 191054 | 4158 | 2.4 | 1.3 |
| **2018-19** | 191697 | 4215 | 2.2 | 1 |
| **2019-20** | 315962 | 3191 | 1 | 0.6 |
| **2020-21** | 417752 | 4028 | 1 | 0.5 |
| **2021-22** | 518403 | 5610 | 1.1 | 0.6 |
| **2022-23** | 575336 | 7418 | 1.3 | 0.7 |

**Interpretation:**

After the analysis of gross advances and gross NPA, the study investigates the net advances; net NPAs, ratio of net NPAs to net advances and net NPAs to total assets. If we use the same criteria for private sector banks, we can see despite of continuous increase in net advances in all years the net NPA ratio to net advances and total assets increases in last 2-3 years that is in 2017-2018 and 2021-22 while all other years' shows a decreasing trend. That means only in last 2-3 years the efficiency and asset quality of private sector banks is questionable otherwise in all other previous years the banks had shown a continuous improvement. As, if we see overall performance of the private sector banks, we can say that there is a wide improvement as the net NPA ratios changes from 5.4 to 1.3 and from 2.3 to 0.7.

Thus, after comparing both the gross and net NPA ratio, if we compare Private sector banks are much more efficient than other sector banks.

**OBJECTIVE 1:** The trend of NPA in last nine years was analyzed through secondary data. The percentages of both gross and net NPA to gross and net advances were found to increase during first two years but continuously decrease after 2014-15.

**CLASSIFICATION OF LOAN ASSETS OF NPAS OF PRIVATE SECTOR BANKS**

**TABLE: 1.3.** Classification of Loan Assets of Npas of Private Sector Banks

| | Classification of Loan Assets (Amount in Rs. Crore) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Sub-standard | | | | | |
| | Standard Assets | | Assets | | Doubtful Assets | | Loss Assets | |
| | Amount | %age | Amount | %age | Amount | %age | Amount | %age |
| **2014-15** | 65101 | 91.5 | 2585 | 3.6 | 3069 | 4.3 | 424 | 0.6 |
| **2015-16** | 139219 | 90.3 | 4738 | 3.9 | 6539 | 5.4 | 390 | 0.3 |
| **2016-17** | 161920 | 90.8 | 3703 | 2.6 | 8515 | 5.9 | 1418 | 0.8 |
| **2017-18** | 197106 | 94.2 | 3157 | 1.8 | 6391 | 3.6 | 825 | 0.5 |
| **2018-19** | 209785 | 94.3 | 2584 | 1.6 | 6013 | 3.2 | 875 | 0.4 |
| **2019-20** | 219448 | 96.1 | 2216 | 1 | 5578 | 2.5 | 900 | 0.4 |
| **2020-21** | 312051 | 97.6 | 2424 | 0.8 | 4348 | 1.4 | 939 | 0.3 |
| **2021-22** | 382628 | 97.6 | 4378 | 1.1 | 3923 | 1 | 941 | 0.2 |
| **2022-23** | 459369 | 97.3 | 7280 | 1.5 | 4452 | 0.9 | 1544 | 0.3 |

**Interpretation:**

If we analyze the loan assets of private sector banks, we can say that if we compare the first year and last year for substandard assets we can say that there is a decrease in it of health is improving but overall analysis for sub-standard assets shows that after year 2014 there is a continuous increase in the amount of sub-standard assets i.e. from 1percent to 1.8 percent. But, the doubtful assets have declined from 5.9percent in 2015 to 0.9 percent in 2019. The loss assets also have shown a decreasing trend from year 2014. Thus, we can say that except the sub-standard asset's category the other two categories of non-performing assets have improved over the period of study.

**TABLE: 1.4.** Net NPAs & Net Profit of Private Sector Banks: 2013-2022

| | Net NPA | Net Profit |
|---|---|---|
| **2014-15** | 3700 | 1452 |
| **2015-16** | 6676 | 1979 |
| **2016-17** | 3963 | 2958 |
| **2017-18** | 4158 | 3481 |
| **2018-19** | 4215 | 3533 |
| **2019-20** | 3191 | 4975 |
| **2020-21** | 4028 | 6465 |
| **2021-22** | 5380 | 9522 |
| **2022-23** | 7418 | 13868 |

**Interpretation:**

It is clearly observed from the line graph that there is continuous rise in net profit of private sector Banks over the years. The average of percentage increase in net profits of private sector banks comes to approximately 34%. On the contrary there is no continuous rise/fall in net NPA. But overall there is rise in net NPA from 2013-14 to 2020-21. The average of percentage rise in net NPA comes to almost 18%.

**TABLE: 1.5.** Classification of Loan Asset of Private Sector Banks in percentage:

| | Asset (%) | Sub-Standard Asset (%) | Doubtful Asset (%) | Loss Asset (%) |
|---|---|---|---|---|
| **2017-18** | 94.2 | 1.8 | 3.6 | 0.5 |
| **2018-19** | 96.1 | 1.0 | 2.5 | 0.4 |
| **2019-20** | 97.4 | 0.8 | 1.5 | 0.3 |
| **2020-21** | 97.6 | 1.1 | 1.0 | 0.2 |
| **2021-22** | 97.3 | 1.5 | 0.9 | 0.3 |
| **2022-23** | 96.8 | 2.0 | 1.0 | 0.3 |

**Interpretation:**

The above chart clearly states that the rise in the standard assets over the years compensates the fall in the other three types of asset s. But in the year 2018, the percentage of Sub- Standard asset is highest among all the year. In 2018 percentage of standard asset has reduced by 0.5% which is compensated by increase in Sub-Standard & doubtful assets. This increase is due to interest & principle amount unpaid due to financial crisis in 2018. The percentage of doubtful asset has reduced to a great extent amongst all. So, the private sector banks have managed to reduce the doubtful asset

**TABLE: 1.6.** Net NPA to Net Advance Ratio of Private Sector Banks:

| Years | Old Private Sector Banks | New Private Sector Banks |
|---|---|---|
| **2014-15** | 7.3 | 3.1 |
| **2015-16** | 7.1 | 4.9 |
| **2016-17** | 5.2 | 1.5 |
| **2017-18** | 3.8 | 1.7 |
| **2018-19** | 2.7 | 1.9 |
| **2019-20** | 1.7 | 0.8 |
| **2020-21** | 1 | 1 |
| **2021-22** | 0.7 | 1.1 |
| **2022-23** | 0.9 | 1.3 |

**Interpretation:**

From the above chart it is clearly observed that old private sector banks are constantly improving in terms of net NPA to net advances ratio which is represented by declining trend from 2014-15 to 2021-22. While on the other hand for new private sector banks net NPA to net advances ratio is fluctuating over the years.

**TABLE: 1.7**. Net NPAs of Old and New Private Sector Banks: 2013-14 to 2021-22

| Year | Old Private Sector Banks | New Private Sector Banks |
|---|---|---|
| **2014-15** | 2,771 | 929 |
| **2015-16** | 3,016 | 3,663 |
| **2016-17** | 2,598 | 1,365 |
| **2017-18** | 2,172 | 1,986 |
| **2018-19** | 1,859 | 2,353 |
| **2019-20** | 1,375 | 1,796 |
| **2020-21** | 891 | 3,167 |
| **2021-22** | 740 | 4640 |
| **2022-23** | 1475 | 6253 |

 

**Interpretation:**

From the above chart it is clearly observed that net NPA of old private sector banks has a declining trend over the years on the contrary new private sector banks has an upward trend. Old private sector banks which is passing from lower growth rate in recent past, starts performing better than their new counterparts. Old private sector banks are more efficient than that of new private sector banks in managing NPA.

**TABLE: 187**. Composition of NPAs of Private Sector Banks - 2014 To 2023:

| Year | Priority Sector | Non-Priority Sector | Public Sector |
|---|---|---|---|
| **2014-15** | 1835 | 4452 | 153 |
| **2015-16** | 2546 | 9120 | 31 |
| **2016-17** | 2445 | 9327 | 95 |
| **2017-18** | 2482 | 7796 | 75 |
| **2018-19** | 2188 | 6569 | 42 |
| **2019-20** | 2284 | 5541 | 4 |
| **2020-21** | 2884 | 6353 | 3 |
| **2021-22** | 3419 | 9558 | 0 |
| **2022-23** | 3640 | 16192 | 75 |

**Interpretation:**

From the above graph it is observed that Priority sector category on an average constitutes almost **34%** of the total advances made by the private sector banks. While average NPA of priority sector constitutes of **25%** of total NPA. In later years from 2011 to 2013 there is increase in NPA of priority sector. In these years more advances were given to agriculture & housing sector. In the year 2014-15, the real estate market was on boom, which encouraged people to take more loans. But after the subprime crisis there was sudden fall in real estate market & people became default to pay the loan. In case of non-priority sector, the average advances made are **60.5%** of total advance made by private sector banks. But the average NPA of non-priority sector is almost **74%** which is highest amongst the entire category. We can see the declining trend in NPA of non-priority sector from 2014-19, this as a result of securitization Act, 2011.

**TABLE: 1.8**. NPA ratios of Private Sector Banks: 2013-14 to 2020-21

| | Gross NPAs/Gross Advances | Net NPAs/Net Advances |
|---|---|---|
| **2014-15**<br>**2015-16** | 3.8 | 1.9 |
| **2016-17**<br>**2017-18** | 2.5 | 1 |
| **2018-19**<br>**2019-20** | 2.2 | 1 |
| **2020-21**<br>**2021-22** | 2.5 | 1.2 |
| **2022-23** | 2.9 | 1.5 |

**Interpretation:**

The percentage change in of gross NPA to gross advances ratio is decreasing initially & thereafter started rising from 2019-20. It has reduced by **34.2%** from 2017-18 to 2018-19. Similarly, it has reduced by **15%** from 2016-2017 to 2020-21 & thereafter increased by **18.5%** & **9%** respectively from 2019-20 to 2020-21 & 2020-21 to 2021-212. While in case of net NPA to net advances ratio, the percentage change is varying drastically. It has reduced by **47%** from 2015-16 to 2016-17. It is unchanged from 2015-16 to 2019-20. It has increased by **20%&25%** respectively from 2019-20 to 2020-21 & 2020-21 to 2021-22. The percentage change in gross NPA to gross advances ratio & net NPA to net advances ratio over the years' states that private sector banks makes more provisions in gross NPA & gross advances. The difference in gross NPA/ gross advances & net NPA/net advances is highest in 2018-19 [**60%**] & lowest in 2021-22 [**48%**]. In other years it near to **54%**, in 2017 there is highest increase in advances over previous year amongst all the year. This resulted increase in NPA which in turn increased the provisions and unrecognized interest income. Private sector banks have not succeeded to reduce NPA as against the advances made over the years as both the ratios are increasing in later years.

## 7. FINDINGS AND SUGGESTIONS

The Bank should adopt the following general strategies to control NPAs. The suggestions are as follows: Projects with old technology should not be considered for finance large exposure on big corporate or single project should be avoided. Operating staffs' credit skills should be up graduation. There is need to shift banks approach from collateral security to viability of the project and intrinsic strength of promoters. Timely sanction and or release of loans by the bank are to avoid time and cost overruns. Bank should prevent diversion of funds by the promoters. Operating staff should scrutinize the level of inventories/receivables at the time of assessment of working capital. The Credit section should carefully watch the warning signals viz. non-payment of quarterly interest, dishonor of check etc. Effective inspection system should be implemented. Identifying reasons for turning of each account of a branch into NPA is the most important factor for upgrading the asset quality, as that would help initiate suitable steps to upgrade the accounts. The bank must focus on recovery from those borrows who have the capacity to repay but are not repaying initiation of coercive action a few such borrows may help. The recovery machinery of the bank must be streamlined; targets should be fixed for field officers / supervisors not only for recovery in general but also in terms of upgrading number of existing NPAs. In the bank there should be a proper manpower planning. Bank should try to establish the branches in competitive market, so it will increase their profit. Bank has required increasing the cash and bank balances by reducing the unnecessary expenses for future

## 8. CONCLUSION

Growing NPAs is one of the biggest problems that the private Indian banks are facing today. If proper management of the NPAs is not undertaken it would hamper the efficiency of the banks. If the concept of NPAs is taken very lightly it would be dangerous for the banking sector. The NPAs destroy the current profit and interest income and affect the smooth functioning of the recycling of the funds. Banks also redistribute losses to other borrowers by charging higher interest rates. Lower deposit rates and higher lending rates repress savings and financial markets, which in turn hampers the economic growth of the country. Thus, it is highly essential for the banks to focus their attention on growth of NPAs and take appropriate measures to regulate their growth.

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