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AN EMPIRICAL STUDY ON NON-PERFORMING ASSETS WITH SPECIFIC REFERENCE TO HDFC BANK LTD

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Abstract

Banking sector plays an important role in the development of an economy. Any problem in this sector will often extend to real sector. Assets quality was not a prime concern of the banks till 1991. Banks mainly focused on expansion, development of rural areas, priority sector lending etc. But now the prime challenge is mounting pressure of NPAs. NPAs engulf the public sector banks as well as private sector also. It not only affects the banking sector but the whole economy as well. Banks often lean into the risk free investment that is not conducive for the growth of economy. The level of non-performing assets (NPAs) best indicates the soundness of the banking sector of a country. The assessment of private sector banks reveals that the growth rate of NPAs is low as compared to the nationalized banks. Schumpeter, the first modern economist considered banks to be the most important of all the financial intermediaries in the financial system of a country. But in recent times the banks have become very cautious in providing loans, the reason behind is the non-performing assets. Non-Performing Assets are defined as the loans which have ceased to generate any income for a bank whether in the form of interest or principal amount. The main source of data for this study is the past records prepared by the bank. It is to determine that the NPA's of the bank since its inception and to identify the ways in which the performance especially the non- performing assets of HDFC BANK can be improved.

***Keywords**: Non-performing assets, private sector banks, HDFC Bank, banking sector, financial system.*

INTRODUCTION

The banking sector is a keystone of any financial system. The smooth functioning of the banking sector ensures the healthy condition of an entire economy. In the process of accepting deposits and lending, loans banks create credit. The funds received from the borrowers by way of interest on loan and repayments of principal are recycled for raising resources. However, building up of non-performing assets (NPAs) disrupts this flow of credit. It hampers credit growth and affects the profitability of the banks as well. NPAs are the leading indicators to judge the performance of the banking sector. As per Reserve Bank of India (RBI) reports on November 2018, the gross amount of poor quality loans is in excess of Rs 9 lakh crores, which shows the severe impact it has on lending practices of banks and their liquidity positions. This growth is a result of quadrupling during the past five years, which shows the poor practice of banks with regard to lending. The main source of income of banks is through the interest earned on loans and advances and repayment of the principal. If such assets fail to generate income, then they are classified as non-performing assets (NPA). According to the Reserve Bank of India, NPA is defined as a credit facility in respect of which the interest and/or installment of principal is "past due" for a specified period. Generally, if the loan payments have not been made for a period of 90 days, the asset is classified as non-performing asset. On the basis of how long the asset has been non-performing; banks are required to sort the non-performing assets in one of the following categories:

- Sub-standard asset: If an asset has been non-performing for less than 12 months;
- Doubtful asset: If an asset has been non-performing for more than 12 months; and
- Loss assets: Assets where losses have been identified by the bank, auditor or Inspector and have not been fully written off.

The generation of poor loans in the books of banks is not a favourable event for the banking industry as it affects the size and soundness of the balance sheet. There is an unfavorable impact on the level of return on assets as well. Large amount of profits have to be provisioned against the doubtful and bad loans, which reduces profitability. Banks are even burdened with the increasing level of carrying costs of NPA accounts, which could have been used for any other profitable purpose. The financial institutions are also desired to maintain a certain capital adequacy level to strengthen their net worth. Though this issue is bad news for the banking industry, in recent times from the newspaper reports, it is evident that this problem has taken a serious toll on the banking space. The RBI has been taking measures to control the NPA menace. Some legal measures such as debt recovery tribunals (DRTs), Lok Adalats, the SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act and the Insolvency and Bankruptcy Code, 2016 have been introduced for the resolution of NPAs. Recapitalization of public sector banks, setting up of stressed asset management verticals are some other steps taken by the RBI. In recent years, a few concepts like special mention accounts (SMA) and creating categories such as SMA 0, SMA 1 and SMA 2 have been added. Moreover, the regulator has also imposed restriction on eleven public sector banks by imposing the prompt corrective action (PCA) on them. Because of these developments, the present paper aims to find out which banks have contributed to the growing menace and what has been the trend in the banking industry with regard to these poor quality loans.

LITERATURE REVIEW

The issue of NPAs has been a major area of concern for the lenders and the policymakers. Various research studies have been made to understand the causes contributing to the rise in NPAs, measures that should be taken to resolve the issue in its nascent stage and reforms that have come into effect to reduce the piling up of NPAs. Some of the relevant studies are arranged in a chronological sequence. Karunakar et al. (2008) discuss the various factors that boost NPAs, their size, their effect on Indian banking operations and suggest measures to control the curse on the banking industry. Use of suitable credit assessment and risk management methods is the key to solve the problem of NPA accumulation. Rajeev and Mahesh (2010), in their article deal with the issue of NPAs after the global financial crisis. They suggest that mere recognition of the problem and self-monitoring can help to manage the NPA problem to a great extent. Self-help groups can also play an important role in the recovery of the loans. Barge (2012) examines that early monitoring and management of lent funds is the necessity of the hour. The study suggests several measures like better supervision of end use of funds, information about the credit history of the borrower and assisting the borrowers to develop entrepreneurial skills to ensure that the asset does not convert into a non-performing asset. Gupta (2012) makes a comparative study of the position of NPAs of State Bank of India (SBI) and associates and other public sector banks. The researcher concludes that for evaluation of the solvency of borrowers each bank should set up a separate credit rating agency. It also suggests the need for a committee comprising of financial experts to supervise and monitor the issue of NPAs. Shalini (2013) has analysed the causes and suggested remedies for reducing NPAs in Indian public sector banks with special reference to the agricultural sector. The analysis of the different problems faced by the Indian farmers deduces the conclusion that banks should follow some measures before lending the loan. Prior collection of reports regarding the goodwill of the farmers, post sanction inspection, educating the farmers regarding the effects and consequences of defaulting are some of the suggested measures. Singh (2013) in the investigation on the position of Indian commercial banks with regard to NPAs finds that these poor quality loans are a major problem for the public sector banks, which show a consistent rise over the years. The main contribution comes from the loans directed at the micro sector and for poverty alleviation programmes. Bhaskaran et al. (2016) in their paper have compared the NPAs of public sector banks and private sector banks over a period of ten years (2004-2013). From their study, it is evident that private sector banks are performing better than public sector banks in reducing the level of NPAs. The authors propose that banks should be proactive in adopting structured NPAs management policy where prevention of NPAs receives priority. Thomas and Vyas (2016) in a recent study on loan recovery strategy of Indian banks suggest two measures, preventive and corrective. The paper also discusses several corrective measures – legal, regulatory and non-legal that are to be taken to recover the nonperforming loans. Singh (2016) in another recent study on NPAs and recovery status find that the problem is more severe for the public sector banks compared to the private sector banks. The academic review points to the need to have strict lending policies for speedy recovery of loans. Meher (2017) in the post-demonetization period looks into the impact of the government's notebandi decision on the NPA of Indian Banks. Sengupta and Vardhan (2017) have compared the two banking crisis episodes post-liberalisation- one that took place in the late 1990s and the other that commenced after the 2008 global financial crisis that raised the issue of NPAs. The authors are of the view that strong governance, proactive banking regulations and a strong legal framework for resolution of NPAs would assist in solving the problem of NPAs. On the other hand, regulatory forbearance would adversely affect the banking crisis. Mittal and Suneja (2017) have analysed the level of NPAs in the banking sector in India and the causes that have led to the rise in NPAs. They have proposed that though the government has taken a number of steps to reduce the problem of NPAs, bankers should also be proactive in adopting well-structured policies to manage NPAs. The loan should be sanctioned after considering the return on investment of a proposed project and the credit-worthiness of the customers. Sahni and Seth (2017) study the different causes responsible for rising NPAs and the impact it has on the operation of banks. The authors have mentioned several preventive and curative measures to control the NPAs. Dey (2018) in a very recent research paper looks at the recovery aspect of recovery of poor loans of the Indian commercial banks. The author finds the role of DRTs to be much better compared to the recovery through Lok Adalats and SARFASEI Act. Kumar et al. (2018) make an interesting study to find out the main reasons behind accumulating NPAs. They find the main reasons to be industrial sickness, change in government policies, poor credit appraisal system, willful defaults and defect in the lending process.

RESEARCH GAP

Thus, an overview of the above literature shows that there are quite a few studies in the field of non-performing assets in the banking industry. However, there are no studies that look at the data till 2017, which is important and pertinent because the major piling up has been taking place after 2011 in the aftermath of the financial crisis of 2008. Moreover, the major focus of the paper is not only on groups of banks but also individual banks. This is done to identify those banks, which have been contributing more to the NPA menace in the banking space. Hence, the article is not only relevant but also addresses a contemporary issue like NPAs. The research adds new knowledge to the banking literature, which will help readers to comprehend the position of banks in a better way. Besides a study on non-performing assets with specific reference to HDFC Bank Ltd has not been conducted till date.

FACTORS FOR RISE IN NPAS

The factors behind the rising NPAs may be of two types, one internal factors and other external factors.

Internal factors: Internal factors include:

- Poor credit appraisal selects those who are not able to repay the loan.
- Absence of regular industrial visit decreases the collection of interest and principals.
- Lack of post credit supervision
- Absence of sufficient securities
- Socio-political pressure on credit decision
- Compulsory lending to priority sectors
- Re-loaning to defaulters
- Lack of effective NPA management

External factors: External factors include:

- Natural calamities
- Adoption of obsolete technology by the borrowed firm
- Labour problems of borrowed firm
- Lack of demand of the product of borrowed firm
- Diversification of loans and not being used for the particular purpose
- Willful default / fraud
- Political pronouncements like debt relief
- Lack of conducive legal system for loan recovery

Impacts of NPAs

The growing NPAs have tremendous effect on the bank itself as well as the whole economy. The consequences are:

- Profitability of the banks hampered severely by the presence of NPAs. It's a two way sword. Banks do not earn any income from it rather they have to provide for it.
- Rising NPAs change the banker's sentiment towards lending which may hinder the credit expansion to productive purpose.
- Banks may incline towards risk free investment which is not conducive for the growth of economy.
- Banks may increase rate of interest to compensate the loss on NPAs, which in turn affects the viability of many running units.
- NPAs will reduce the earning capacity of assets and badly affects the return on investment (ROI).
- Higher provisioning requirement on mounting NPAs adversely affects the Capital

adequacy ratio (Capital to Risk Adjusted Assets Ratio).
- The Economic value addition (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital.
- NPAs cause to decrease the value of share sometimes even below their book value in the capital market.

TYPES OF NPA

NPAs may be classified into two groups, namely Gross NPA and Net NPA. Gross NPA: Gross NPA is the advance which is considered irrecoverable, for which bank has made provisions and which are still held in bank's books of account. In other words, it is the sum total of all non-standard assets i.e. sub-standard assets, doubtful assets and loss assets. Net NPA: Net NPA shows the actual burden of banks. The RBI defines net NPA as: Net NPA= Gross NPA – (Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held).

$$\text{Gross NPA Ratio (\%)} = \frac{\text{Gross NPA}}{\text{Gross Advances}} * 100$$

Net NPA

These are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPAs and the process of recovery and write off loans is very time consuming, the provisions the banks have to make against the NPAs according to the central banks guidelines are significant. That is why the difference between Gross NPA and Net NPA is quite high. It can be calculated by following**.**

$$\text{Net NPAs Ratio} = \frac{\text{Gross NPAs-Provision}}{\text{Gross Advance}} *100$$

CLASSIFICATION OF ASSETS

The NPAs are classified into 4 categories namely:
- Standard Assets
- Sub-standard Assets
- Doubtful Assets
- Loss Assets

These are being classifies by the banks based on the period for which the asset has remained non-performing and the reliability of the dues.

STANDARD ASSETS

Such an asset is not a non-performing asset. In other words, it carries not more than normal risk attached to the business. Which has remained NPA for a period of less than or equal to 12 months.

SUB –STANDARD ASSETS

An assets become NPA is first classified as sub-standard asset and which remains as NPA for a period less than or equal to 12 months (earlier 18 months)In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to such an assets will have well defined or weakness that endanger the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

DOUBTFUL ASSETS

A standard asset becomes a doubtful if it has remained as a substandard for a period exceeding 12 months (before 18 months). A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub- standard with the added characteristics that the that the weakness makes collection or liquidation in full on the basis of currently known facts, conditions and values highly questionable and improbable.

LOSS ASSETS

An asset, which is considered as irrecoverable by the banks of internal or external auditor or the R.B.I. inspection, is treated as loss account but the amount has not been written off wholly. In classification or assets interest above categories should be done taking interest account the degree of well-defined or weakness and the extent of deepened on collateral security for realization of dues.

Banks should establish appropriate internal system to eliminate the tendency to delay or postpone the identification of NPA especially in the respect of high value accounts. The banks may even fix minimum cut off point to decide what would constitute a high value account depending their respective business levels.

In terms of RBI guidelines as and when an asset become an NPA such advances would be first classified as sub-standard one for a period that should not exceed 18 months and subsequently as doubtful assets.

It should be noted that the above classification is only for the purpose of computing the amount of provision that should be made with respect to bank advances and certainly not for the purpose of presentation of advances in the bank balance sheet.

UP GRADATION OF LOAN ACCOUNT CLASSIFIED AS NPA

In case of any borrower pays the arrears, interest and principal classified as NPA the account should no longer be treated as non-performing and may be classified as 'Standard' account.

CLASSIFICATION TO BE BASED ON BORROWERS-WISE AND NOT FACILITY WISE

The classification as NPA of the accounts should be based on the borrower wise and not based on the facility wise. That is if a borrower is having more than one facility (like two or more accounts) in the same bank. The borrowers all the facilities should be treated as NPAs and not particular facility or part thereof which has become irregular.

Note: If the borrower is availing limits from more than one branch all the limits of the borrowers in all the branches to be treated as NPA

MAIN REASONS FOR ACCOUNTS BECOMING NPA'S

- Units closed
- Borrower absconding
- Sale of assets
- Diversion of funds
- Willful default

- Non-renewal of the limits
- Interest/Installments not paid
- Non-repayment of loans due to natural calamities such as drought, floods earthquakes etc.
- Lack of verification
- Economic factor
- Natural calamities
- Financial factor
- Business failures

OFTEN STATED REASONS FOR NPAS IN INDIA

- Corruption
- Judicial system flaws
- Nonexistence fear of penalties
- Inefficient credit appraisal systems
- Lack of technology, methodology and data support for scientific credit appraisal

WAYS TO REDUCE NPAS

- Personal contact.
- Frequent follow-up by bank officials.
- Issue of periodical deposits.
- Adjustments of his/her O/S deposits.
- Apply of scientific for appraisal before the loan is disbursed and monitor it closely in real time.
- Conduct recovery Champaign
- Break up recovery to branch level network
- Take every NPA case as a separate issue and analyze the need for further funding from an economic point of view
- Implement a system for selecting a good borrower.

EFFECTS OF NPAS

As the number of accounts become NPAs this will lead to additional provisions which has to be made and these provisions are made out of profits earned by the bank. Ultimately it leads to reduction in profits.

PREREQUISITES TO CONTROLLING NPAS

A. **Governance**.
   - Defined and transparent procedures.
   - Improved reporting standards.

B. Greater focus on restructuring:
   - The quality and speed of asset resolution is key
   - Taking ownership of NPAs and proactive management.
   - Working with debtors to improve cash-flow of assets underlying NPAs.

C. Greater powers and institutional capabilities
   - For, example power to separate bad management from the debtor and to liquidate debtors, which cannot be expeditiously restructured.
   - Training, knowledge transfer.
   - Leadership

D. **Incentives and disciplines for banks**
   - Enhanced accountability of banks and bank managers.
   - Ensure banks put in place risk analysis and credit management systems
   - Ultimate burden not transferable to AMCs.

E. **Greater protection of creditor's rights**:
- Credible liquidation procedures and efficient secured transaction processes.
- Triggers and incentives for insolvency
- Strong and credible regulators, free political pressure.

F. **The road to recovery**:
- Early detection
- Speed
- Voluntary reference
- Facilitation and quick arbitration

STEPS TAKEN BY THE BANK TO REDUCE NPAS
- Bank is planning to go for securitization of huge transaction accounts
- Extensive follow up with advocates/civil courts/DRTs for speedy disposal of cases.
- Officials from various offices visit borrowers/ branches for discussions/ review of NPAs.
- Liberal policy adopted for compromise in account with balances below 50000 and those that are more than 10 years old.
- Risk management systems put in place.
- Apply of scientific for appraisal before the loan is disbursed and monitor it closely in real time.
- Axis bank has regularly conducted recovery campaigns.
- Break up recovery to branch level network
- Take every NPA case as a separate issue and analyze the need for further funding from an economic point of view.
- Axis bank has implemented a system for selecting a good borrower.
- Axis bank has followed all credit exposures are classified as per RBI guidelines into performing and non-performing assets
- Provisions are made on substandard and doubtful assets at rates prescribed by RBI. Loss assets and unsecured portion of doubtful assets are provided/ written off as per the extent RBI guidelines.

OBJECTIVES OF THE STUDY
1. To understand the meaning and classification of non-performing assets.
2. To understand the causes of NPA at HDFC bank.
3. To study the RBI provisions related to Non-performing assets.
4. To analyze sector Wise NPA.
5. To study the performance and future challenges at HDFC bank related to NPA.
6. To understand the trend of NPA over years at HDFC bank

DURATION OF THE RESEARCH STUDY
The study was conducted between June 2020 to July end 2020 during covid pandemic in India.

LIMITATIONS OF THE RESEARCH STUDY
- The study is limited to only HDFC BANK LTD.
- It was impossible to seek information from bank staff as the study conducted during the pandemic.
- Information available in the secondary sources was limited.
- Getting sufficient data during this Covid-19

DATA ANALYSIS AND INTERPRETATION

FINANCIAL POSITIONS OF HDFC BANK LTD., 2018 & 2019 (in 000)

PARTICULARS	For the year ended 31-3-2018	For the year ended 31-3-2019	Growth %
CAPITAL AND LIABLITIES			
Capital	5,190,181	5,446,613	4.94
Reserves and surplus	1,057,759,776	1,486,616,908	40.54
Deposits	7,887,706,396	9,231,409,284	17.03
Borrowings	1,231,049,700	1,170,851,238	-4.89
Other Liabilities and provisions	457,637,181	551,082,863	20.41
Contingent liability	8,754,882,292	10,247,151,183	17.04
TOTAL	**19,394,225,526**	**22,692,558,089**	**17.00**
ASSETS			
Cash and balances with RBI	1,046,704,730	467,636,184	-55.32
Balances with banks and money at call and short notice	182,446,097	345,840,208	89.55
Investments	2,422,002,416	2,905,878,784	19.97
Advances	6,583,330,908	8,194,021,167	24.46
fixed assets	36,072,045	40,300,043	11.72
other assets	368,787,038	491,739,520	33.33
Contingent liability	8,754,882,292	10,247,151,183	17.04
TOTAL	**19,394,225,526**	**22,692,567,089**	**17.00**

- Total Share capital increased from Rs.5190181 thousand as at March 31, 2018 to Rs. 5446613 thousand as at March 31, 2019 registered growth of 4.94 %.
- Total Reserves and surplus increased from Rs. 1057759776 thousand as at March 31, 2018 to Rs. 1486616908 thousand as at March 31, 2019 registered growth of 40.54 %
- Total Deposits increased from Rs.7887706396 thousand as at March 31, 2018 to Rs. 9231409284 thousand at March 31, 2019 registered growth of 17.03 %.
- Negative growth in total Borrowings from Rs. 1231049700 thousand as at March 31, 2018 to Rs. 1170851238 thousand at March 31, 2019 registered growth of -4.89%.
- Other liabilities and provisions increased from Rs. 457637181 thousand as at March 31, 2018 to Rs. 551082863 thousand at March 31, 2019 registered growth of 20.41%.
- Total Contingent Liabilities increased from Rs. 8754882292 thousand as at March 31, 2018 to Rs. 22692558089 thousand at March 31, 2019 registered growth of 17.04%.
- Negative growth in Cash and Balance with RBI from Rs. 1046704730 thousand at March 31, 2018 to Rs. 467636184 thousand at March 31, 2019 registered growth of -55.32 %.
- Balances with banks and money at call and short noticeincreased from Rs. 182446097 thousand at March 31, 2018 to Rs.345840208 thousand at march 31, 2019 registered growth of 89.55%.
- Total Investments increased from Rs.2422002416 thousand at March 31, 2018 to Rs. 2905878784 thousand at March 31, 2019 registered growth of 19.97%.
- Total Advances increased from Rs. 6583330908 thousand at March 31, 2018 to Rs. 8194021167 thousand at March 31, 2019 registered growth of 24.46%.
- Total Fixed Assets increased from Rs. 36072045 thousand at March 31, 2018 to Rs. 40300043 thousand at March 31, 2019 registered growth of 11.72%.
- Total Other Assets increased from Rs. 368787038 thousand at March 31, 2018 to Rs. 491739520 thousand at March 31, 2019 registered growth of 33.33 %

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FINANCIAL POSITION OF THE HDFC BANK LIMITED FROM (2010-2014) (in000)

Particulars	2010	2011	2012	2013	2014
CAPITAL AND LIABLITIES					
Capital	4577433	4652257	4693377	4758838	4798101
Reserves and surplus	210618369	249111291	294550358	357382646	429988169
Deposits	1674044394	2085864054	2467064459	2962469846	3673374777
Borrowings	129156925	143940610	238465086	330065972	394389918
Other Liabilities and provisions	206159441	289928565	374318690	348641671	413444042
Contingent liability	4790515044	5751224839	8652928262	7201224293	7231549138
TOTAL	**7015071606**	**8524721616**	**12032020232**	**11204543266**	**12147544145**
ASSETS					
Cash and balances with RBI	154832841	251008158	149910945	146273990	253456277
Balances with banks and money at call and short notice	144591147	45680191	59466318	126527699	142380101
Investments	586076161	709293656	974829094	1116135953	1209510703
Advances	1258305939	1599826654	1954200292	2397206432	3030002712
fixed assets	21228114	21706480	23471940	27030813	29388180
other assets	59551495	146010773	217216401	190144086	251246034
Contingent liability	4790515044	5751224839	8652928262	7201224293	7231549138
TOTAL	**7015100741**	**8524750751**	**12032023252**	**11204543266**	**12147533145**

FINANCIAL POSITION OF THE HDFC BANK LIMITED FROM (2010-2014) (in 000)

Particulars	2015	2016	2017	2018	2019
CAPITAL AND LIABLITIES					
Capital	5012991	5056373	5125091	5190181	5446613
Reserves and surplus	615081174	721721274	889498416	1057759776	1486616908
Deposits	4507956425	5464241920	6436396563	7887706396	9231409284
Borrowings	452135582	530184746	740288666	1231049700	1170851238
Other Liabilities and provisions	324844559	367251338	567093181	457637181	551082863
Contingent liability	9752339539	8533181145	8178695893	8754882292	10247151183
TOTAL	15657370270	15621636796	16817097810	19394225526	22692558089
ASSETS					
Cash and balances with RBI	275104536	300583087	378968755	1046704730	467636184
Balances with banks and money at call and short notice	88209982	88605293	110552196	182446097	345840208
Investments	1516417540	1638857691	2144633366	2422002416	2905878784
advances	3654950312	4645939589	5545682021	6583330908	8194021167
fixed assets	31217343	33431573	36267379	36072045	40300043
other assets	339131018	381038418	422298200	368787038	491739520
Contingent liability	9752339539	8533181145	8178695893	8754882292	10247151183
TOTAL	15657370270	15621636796	16817097810	19394225526	22692567089

COMPARATIVE STUDY OF NPA POSITION
Position of Gross NPA / Net NPA
FROM THE YEAR 2010 TO 2014

Sl.no	Particulars	2010	2011	2012	2013	2014
1	Gross Advance	1278924519	1574031932	1973859489	2363406900	3058840648
2	Gross NPAs	18167600	16943400	19993900	23346400	29892800
3	Gross NPAs % to Gross Advances	1.43	1.05	1.02	0.97	0.98
4	Total Deductions					
5	Total Provisions held (BDRR Bal)	14247100	13979300	16470600	18656900	21692500
6	Net NPAs	3920500	2964100	3523300	4689500	8200300
7	Net Advances	1264677419	1560052632	1957388889	2344750000	3037148148
8	Net NPAs as % of net Advances	0.31	0.19	0.18	0.2	0.27

FROM THE YEAR 2015 TO 2019

Sl.no	Particulars	2015	2016	2017	2018	2019
1	Gross Advance	3587662100	4746331743	5628265185	6562609500	8322455374
2	Gross NPAs	34383800	43928300	58856600	86069700	112241600
3	Gross NPAs % to Gross Advances	0.93	0.94	1.05	1.3	1.36
4	Total Deductions					
5	Total Provisions held (BDRR Bal)	25421000	30724600	40416700	60059500	80096400
6	Net NPAs	8962800	13203700	18439900	26010200	32145200
7	Net Advances	3585120000	4715607143	5587848485	6502550000	8242358974
8	Net NPAs as % of net Advances	0.25	0.28	0.33	0.4	0.39

ANALYSIS OF NPAs

STANDARD ASSET RATIO

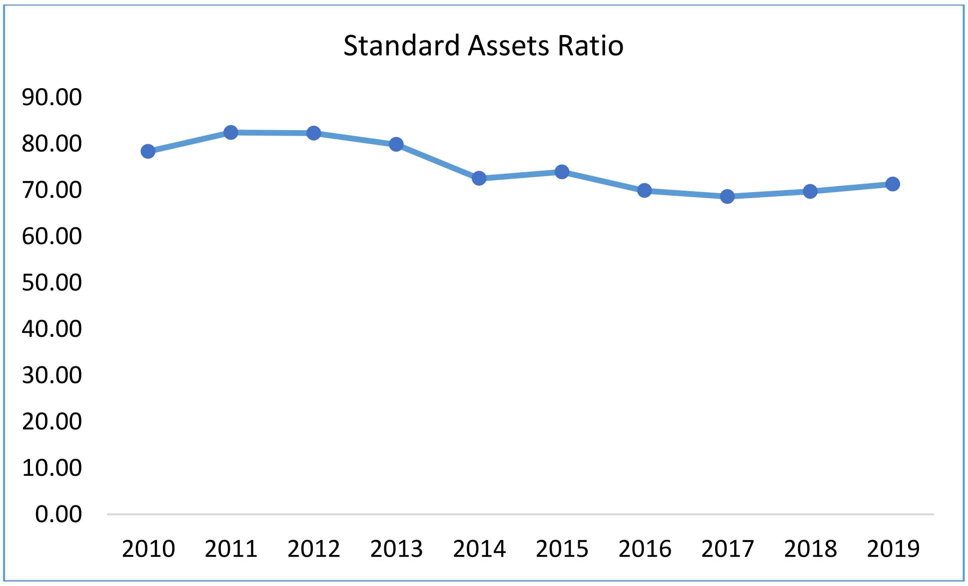
If the borrower regularly pays his dues regularly and on time; bank will call such loan as its "standard assets". The ratio is calculated as

Formula

Standard Assets = Total Standard Assets / Gross NPAs *100

Years	STANDARD ASSETS (in 000)	Gross NPA(in 000)	Percentage
2010	14232852.9	18167600	**78.34**
2011	13965320.7	16943400	**82.42**
2012	16454129.4	19993900	**82.29**
2013	18638243.1	23346400	**79.83**
2014	21670807.5	29892800	**72.49**
2015	25418457.9	34383800	**73.85**
2016	30693875.4	43928300	**69.87**
2017	40376283.3	58856600	**68.60**
2018	59999440.5	86069700	**69.71**
2019	80016303.6	112241600	**71.28**

Source: Annual Report



INTERPRETATION

In the data analysis represents from the above table and graph shows the NPAs ratio for the

2010 was78.34, it increases in the year 2011 to 82.42 which was marked to be the highest of 10 years. There was a decrease in the year 2017 i.e 68.60 which was the lowest of 10 years and from there the ratio is in increasing trend. In the present year 2018-19 it ceases to be increased to 71.28.

ADDITIONAL RATIOS:

1. PROBLEM ASSETS RATIO

A ratio in the banking industry that denotes the percentage of problem assets to sound ones. In the banking and credit markets, a problem asset is one of two things; it can be a commercial loan that is at least 90 days past due, or a consumer loan that it at least 180 days past due. This type of assets is also referred to as a nonperforming asset (loan). The problem assets ratio is ultimately a measure of the health of the banking and lending industries and the economy. A higher ratio means a greater number of problem loans and vice-versa.

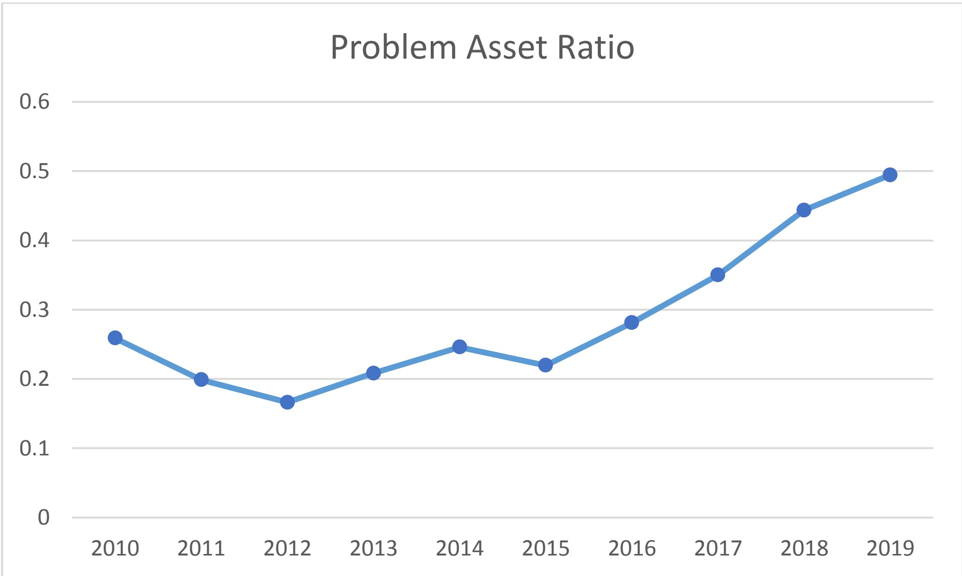
FORMULA

Problem **Assets Ratio**

Problem Assets Ratio = Gross NPA / Total Assets*100

Years	Total Assets (Rs in 000)	Gross NPA	Percentage
2010	7015100741	18167600	0.2589
2011	8524750751	16943400	0.1987
2012	12032023252	19993900	0.1661
2013	11204543266	23346400	0.2083
2014	12147533145	29892800	0.246
2015	15657370270	34383800	0.2196
2016	15621636796	43928300	0.2812
2017	16817097810	58856600	0.3499
2018	19394225526	86069700	0.4437
2019	22692567089	112241600	0.4946

Source: Annual Reports



INTERPRETATION

The problem asset ratio shows the proportion of Gross NPA to total assets and the table and graph given above shows that the percentages of problem assets ratio of selected years which, not stable. It was in increasing trend from 2015 and it was highest in the year 2019. But it is not well to the bank earnings as it indicates that bad debts were maximum in 2019. The lowest of

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the above set of years was 2012.There was huge decrease in the year 2011, 2012 till 2013.

1. SHAREHOLDERS RISK RATIO

The shareholder risk ratio indicates how much of a company's assets have been generated by issuing equity shares rather than by taking on debt. The lower the ratio result, the more debt a company has used to pay for its assets. The ratio, expressed as a percentage, is calculated by dividing Net NPA by the total assets of the company. The result represents the amount of the assets on which shareholders have a residual claim.

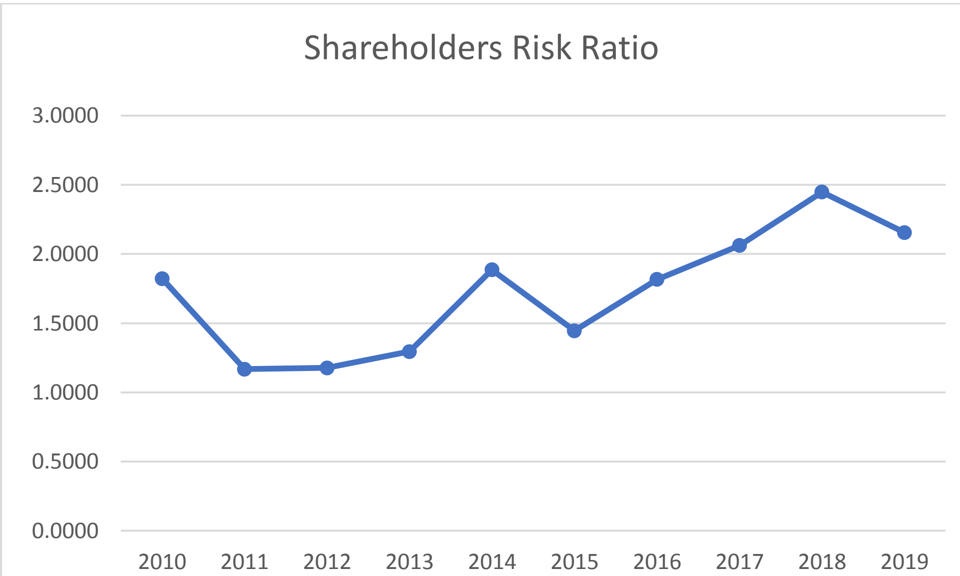
FORMULA

Shareholders Risk Ratio =Net NPA / Total Capital and free Reserves*10

SHAREHOLDERS RISK RATIO

Years	Net NPA's (in 000)	Total capital and free reserves (in 000)	Percentage
2010	3920500	215195802	1.8218
2011	2964100	253763548	1.1681
2012	3523300	299243735	1.1774
2013	4689500	362141484	1.2949
2014	8200300	434786270	1.8861
2015	8962800	620094165	1.4454
2016	13203700	726777647	1.8167
2017	18439900	894623507	2.0612
2018	26010200	1062949957	2.4470
2019	32145200	1492063521	2.1544

Source: Annual Reports



INTERPRETATION

The table and graph shows that the shareholders risk ratio decreasing from year 2010 to 2011. It was the lowest of 10 years in 2011 i.e. 1.1681% and from there it increases till the year 2018 and it reaches the maximum that is 2.4470% and it decreases for the year 2019. From the annual reports , it is evident that equity share capital in the year 2018 was 1062949957 thousand as against 1492063521 in the year 2019. As soon as the equity capital increases the shareholders risk ratio decreases.

1. **TOTAL PROVISION RATIO**

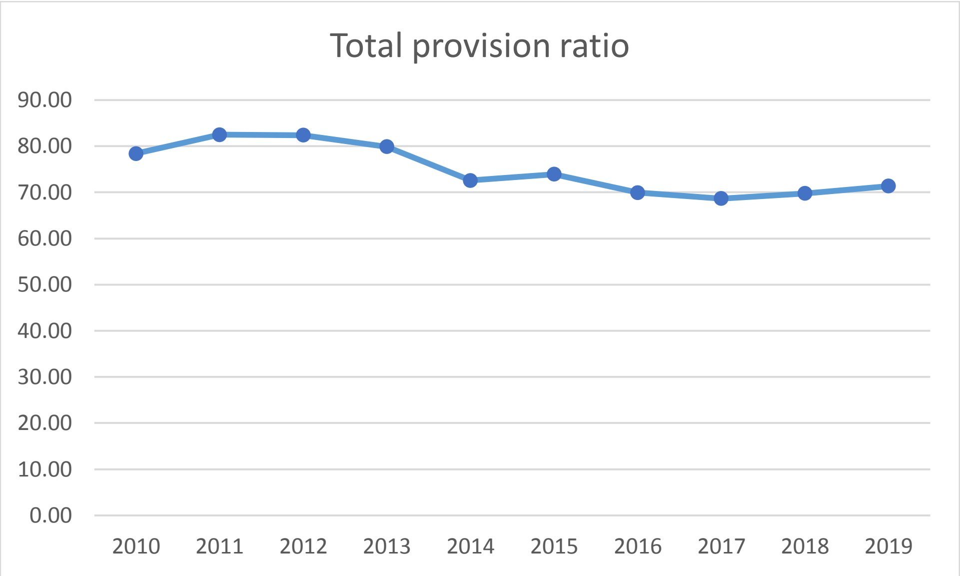
The Total provision ratio gives an indication of the provision made against bad loans from the profit generated. A higher ratio means the bank can withstand future losses better, including unexpected losses beyond the loan loss provision.

Formula

Total Provision = Total provisions /Gross NPA*100

TOTAL PROVISION RATIO (in 000)

YEAR	Total Provisions	Gross NPAs	Percentage
2010	14247100	18167600	78.42
2011	13979300	16943400	82.51
2012	16470600	19993900	82.38
2013	18656900	23346400	79.91
2014	21692500	29892800	72.57
2015	25421000	34383800	73.93
2016	30724600	43928300	69.94
2017	40416700	58856600	68.67
2018	60059500	86069700	69.78
2019	80096400	112241600	71.36



INTERPRETATION

The Total Provision ratio in the year 2010 was 78.42%. The provisions were continuously increasing from 2010 and reached maximum in the year 2012 i.e. 82.38. In the year 2014 it decreased to 72.57%. However, the graph seems to be unstable from the year 2014 to 2017. It reached the lowest for the year 2017 i.e. 68.67%. HDFC Bank has increased the provisions against NPA for the year 2018 and 2019 when compared to 2017 as the bank increases the provision it can withstand the bad debts.

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COMPARATIVE NPA RATIOs OF HDFC BANK:

GROSS NPA RATIO (%)

This ratio is the proportion of gross NPA to gross advances of any bank/ financial institution. It is used to measure the overall quality of bank's loan book. Gross NPA ratio is calculated by using the below formula:

$$\text{Gross NPA Ratio (\%)} = \frac{\text{Gross NPA}}{\text{Gross Advances}} * 100$$

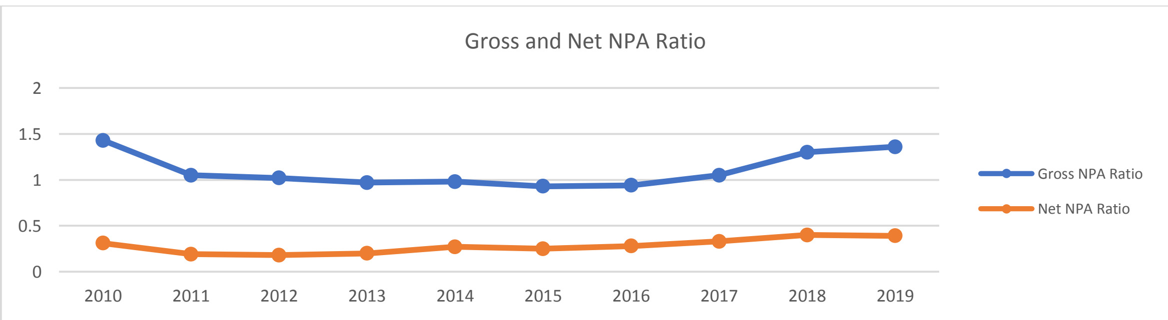
NET NPA RATIO (%)

Net NPA percentage denotes the proportion of advances which turned into NPA after adjusting for the provisions already made by the bank /financial institution. It is found by dividing Net NPA by Net Advances.

$$\text{Net NPA (\%)} = \frac{\text{Net NPA}}{\text{Net Advances}} * 100$$

COMPARATIVE NPA RATIOS

Year	**Gross NPA ratio %**	**Net NPA ratio %**
2010	1.43	0.31
2011	1.05	0.19
2012	1.02	0.18
2013	0.97	0.20
2014	0.98	0.27
2015	0.93	0.25
2016	0.94	0.28
2017	1.05	0.33
2018	1.30	0.40
2019	1.36	0.39



INTERPRETATION

The above table and graph shows that both gross and net NPA have an increasing trend from the year 2010 to 2019. Gross NPA ratio was highest in the year 2010, i.e., 1.43% and was least in 2015, i.e., 0.93%. Higher the ratio, poorer is the quality of banks assets. Net NPA ratio was highest in the year 2018, i.e., 0.40% and lowest in 2012, i.e., 0.18%. As the provisions were maximum in the year 2012, the Net ratio was least in that year.

Findings of the research study:

- It is found that cash and balances with RBI were 1046704730 in the year 2018 and decreased to 467636184 in the current year. The reason being that HDFC Bank decreased its loan funds to provide loans to industry and businesses. If the cash balances with RBI reduces than the bank has more money left for its disposal or to lend it to their customers.
- The problem assets ratio was initially decreasing, but from the year 2013 the ratio increased and reached its peak in the year 2019. The problem assets ratio in the year 2019 was maximum because the gross NPA was also maximum in the same year. This happened because the quality of assets of HDFC Bank was deteriorating.
- The shareholders risk ratio decreased from year 2010 to 2011. It was the lowest of 10 years in 2011 i.e. 1.1681% and from there it increased till the year 2018 and it reaches the maximum that is 2.4470% which means the risk of shareholders was maximum in 2018 and it decreased for the year 2019. From the annual reports, it is evident that equity share capital in the year 2018 was 1062949957 thousand as against 1492063521 in the year 2019. As soon as the equity capital increases the shareholders risk ratio decreases.
- The total provision ratio was highest in the year 2011, in this year HDFC bank had provisions of 13979300 thousand made against the Gross NPAs of ₹16943400 thousand, which meant bank was capable of handling bad loans up to 82.51%. From then it keeps on decreasing up to the year 2017. The ratio was lowest in the year 2017 itself. In the year 2019 HDFC bank had maintained provisions of 80096400 thousand against Gross NPAs of 112241600, i.e., 71.36% only. It is not a good sign for the financial health of the company because the potential of handling risk of the bank decreases when provisions decreases.
- The Standard assets ratio for the 2010 was 78.34; it increases in the year 2011 to 82.42. There was a decrease in the year 2017 i.e. 68.60 which was the lowest of 10 years and from there the ratio is in increasing trend. In the present year 2018-19 it ceases to be increased to 71.28.
- Both gross and net NPA have an increasing trend from the year 2010 to 2019. Gross NPA ratio was highest in the year 2010, i.e., 1.43% and was least in 2015, i.e., 0.93%. Higher the ratio, poorer is the quality of banks assets. Net NPA ratio was highest in the year 2018, i.e., 0.40% and lowest in 2012, i.e., 0.18%. As the provisions were maximum in the year 2012, the Net ratio was least in that year.
- NPA play a major role in assessing the performance of the bank as it involves profitability.

SUGGESTIONS

➢ The bank must focus on recovery from those borrowers who have the capacity to repay but are not repaying initiation of coercive action a few borrows may help.

- 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 account such as, if arrears of interest and principal are paid by the borrower in case of loan accounts classified as NPA's, the account should no longer be treated as NPA and may be classified as 'standard' accounts.
- The banks quality of assets is decreasing and it seems that much attention has to be given by the management to the proportion of Gross NPA to Total assets of the bank. Based on the study conducted the following are some of areas where bank need to take attention.
- Provisions ratio has decreased since the last 4 years which can be a risk to banks assets. As a result bank needs to increase provisions to avoid risk. Problem assets have increased since the last 5 years which is not a good sign for banks future growth so, considering this bank needs to take attention over here and has to decrease problem assets. The recovery mechanism of the bank has to 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.
- Bank needs to take precautions regarding the credit assessment's, and should take measures in pre and post sanction of the loans to avoid slippages of standard assets to NPA. Precautions may be such as seek advices from Credit Information Bureau such as CIBIL; these are agencies which maintain records of individual defaulters.
- In order to avoid non-performing assets it is suggested that names of the defaulters should be sent inter banks.
- There should be complete exposure of defaulters in case of both the banks.
- Government should define and implement a strong legal structure regarding non-performing accounts.
- Willful defaulters should be treated very strongly in case of Punjab National Bank, as the position is worse here.
- Recovery of Nonperforming assets is a matter of concern for Punjab National Bank, as the recovery rate is very slow. It is suggested that more and more account should be sold to recovery agencies by Punjab National Bank.

CONCLUSION

From the research study conducted he bank has been following well established systems, policies and procedures with respect to NPAs and recovery. The bank should adopt some additional procedures for the recovering the NPAs with respect some additional strategies and policies to face the challenges of the competitors to improve quality of services of lending and recovery. In some the present, NPA assigned has been very useful in getting firsthand experience with respect to the management of NPA in the banks, with an insight into one of the important segments of recovery.

Preventing fresh flow of NPAs is an important as the recovery of the existing heavy stock of NPAs. There cannot be can quick fix or small solution to solve the NPA problem once the recovery reforms are carried out, market for stressed assets are developed, this Securitization Act will surely help the banks in the reduction of NPAs to the great extent. Exchange of credit information among banks would be of immense help to avoid possible NPAs. The banking system ought to be so geared that a defaulter at one place is recognized as a defaulter by the system. The system has to provide a mechanism to ensure that the unscrupulous borrower is unable to play one bank against the other. Only time will say how successful has the RBI been in controlling the NPA growth in the sector. It is necessary to pull the trigger hard as these poor loans are having a severe impact on the liquidity position of banks and even the banks have been asked to go slow with regard to lending, which is ultimately having an impact on the economic growth, which has been slow during the past few quarters.

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