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A study of assets quality of selected public & private sector banks in India

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Abstract
Asset quality is one of the most critical areas in determining the overall financial performance of a bank. Asset quality is related to the left-hand side of the bank balance sheet. Bank management is concerned with the quality of their loans since that provides earnings for the bank. Loan quality and asset quality are two terms with basically the same identical meaning.
The quality of assets is an important parameter or component to gauge the financial strength of the bank. The prime motto behind measuring or gauging the assets quality is to ascertain the component of non-Performing Assets (NPA) as a percentage of the total assets. This indicates the models of advances which the bank has made to generate interest income. Thus, assets quality shows or indicates the type of the debtors the bank is having.

Keywords: Assets Quality**,** Total Investment to Total Assets, Net NPA to Net Advances, Net NPA to Total Assets

(1) Introduction
The quality of assets is an important parameter or component to gauge the financial strength of the bank. The prime object or motto behind measuring or gauging the assets quality is to ascertain the component of non-Performing Assets (NPA) as a percentage of the total assets. This indicates the models of advances which the bank has made to generate interest income. Thus, assets quality shows or indicates the type of the debtors the bank is having in its balance sheet. Before measuring the Asset Quality Test, it is essential to study the types of NPA which are as follows:
Types of NPA:
(A) Gross NPA
(B) Net NPA
(A)Gross NPA:
Gross NPAs are the sum total of all loan assets which 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.
(B) Net NPA:
Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is 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.
So, not only assets, but the quality of assets is also to be seen in the context of sustainability, competitiveness, healthy growth, income from core assets etc. for the banking sector. For the purpose of present study, following assets quality criteria or ratio is considered for this parameter:
(1) Total Investment to Total Assets
(2) Net NPA to Net Advances
(3) Net NPA to Total Assets

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(2) Research Methodology

The present study is concerned with the Indian banking system. For this study, five public sector nationalized banks and five private sector banks have been selected. The study is based on secondary data for a period of five years, 2007-08 to 2011-12. The required data have been collected from the various issues of Banking Statistics, published by the Reserve Bank of India on RBI website.

To compare the performance of selected banks, ratio analysis as an accounting tool while F-Test ONE WAY ANOVA as a statistical tools is used.

The following ratios are analysed to examine the Assets quality of the study (Banks):

A. Total Investment To Total Assets Ratio
B. Net NPA to Net Advance Ratio
C. Net NPA to Total Assets Ratio

(A) Total Investment to Total Assets Ratio

Total investments to total assets indicate the extent of deployment of assets in investment as against advances (Total Assets). The ratio is applied as a tool to measure the percentage of total assets locked up in investments, which, by conventional definition, does not form part of the core Income of the bank. A higher level of investment indicates lack of credit off-take in the economy. The ratio is calculated by dividing total investments by total assets of the bank. A higher ratio indicates that the bank has conservatively kept a high cushion of investment to guard against probable NPAs. However, this also affects its profitability adversely. While a low ratio indicates that bank is more focused on its core activities, i. e. Advances.

Formula: Total Investment to Total Assets Ratio= Total Investment/Total Assets*100

Table 1: Total Investment to Total Assets Ratio

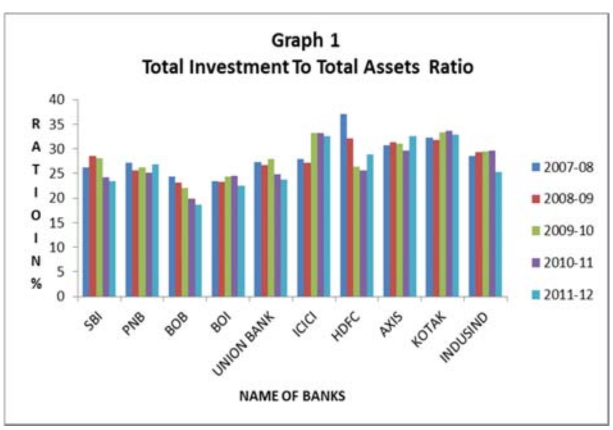
Name Of Bank	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL	AVG.	RANK
SBI	26.26	28.61	28.08	24.16	23.38	130.49	26.10	4
PNB	27.13	25.67	26.2	25.15	26.78	130.93	26.19	5
BOB	24.43	23.14	21.98	19.92	18.6	108.07	21.61	1
BOI	23.38	23.33	24.4	24.45	22.56	118.12	23.62	2
UNION BANK	27.28	26.71	27.88	24.75	23.78	130.4	26.08	3
ICICI	27.88	27.17	33.27	33.15	32.63	154.1	30.82	8
HDFC	37.09	32.09	26.35	25.57	28.84	149.94	29.99	7
AXIS	30.76	31.36	30.99	29.66	32.63	155.4	31.08	9
KOTAK	32.29	31.73	33.42	33.67	32.84	163.95	32.79	10
INDUSIND	28.5	29.27	29.41	29.69	25.3	142.17	28.43	6

(**Source:** www. RBI Org. in.)

Analysis

Total Investment to Total Assets is one of the key ratios of Asset Quality of the banking industry. In the present study BOB is leading with lowest average of 21.61 % which is followed by BOI with 23.62 % while highest average ratio is shown by KOTAK BANK with 32.79%. As Private Sector Banks are more utilizing their assets for investment from total assets in compare to Public Sector Banks. That may be due to Public sector Banks are for the long run in the industry in compare to Private Sector Banks. Hence total assets utilization for the investment is shown higher by Private Sector Banks.

Graphical Analysis



By observation of the graph of selected banks, it shows the ratios of five years for Total Investment to Total Assets. Average of the ratio for the research period that lowest ratio is shown by BOB (21.61 %) which is followed by BOI (23.62%) and highest ratio is shown by KOTAK BANK (32.79%) during research period. As Private Sector Banks are more utilizing their assets for investment from total assets in compare to Public Sector Banks?

Statistical Analysis

H_0: All the selected Banks have equal Total Investment to Total Asset Ratio

H_1: All the selected Banks have unequal Total Investment to Total Asset Ratio

Table 2: "F"-Test One Way Anova for Total Investment to Total Assets Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
B.S.S.	569.84296	9	63.31588	12.24388	2.124029
W.S.S.	206.84904	40	5.171226		
T.S.S.	776.69200	49			

"F" test indicates that the Calculated value of F = 12.24388 and tabular value of F = 2.124029 at 5 % level of significance. The Calculated value of F is greater or more than table value of F (Fc > Ft). So, the null hypothesis has been rejected and alternative hypothesis has been accepted. It means all the selected banks have unequal or different Total Investment to Total Assets Ratio.

(B) Net NPA to Net Advances Ratio

It is the most standard measure of assets quality. In this ratio, Net NPAs are measured as a percentage of Net Advances. Net NPAs are calculated by deducting net of provisions on non performing assets and interest in suspense account from Gross NPAs. Lower the ratio better is the advance (Asset) quality.

Formula

Net NPA to Net Advance Ratio= Net NPA/Net Advance*100

Table 3: Net NPA to Net Advances Ratio

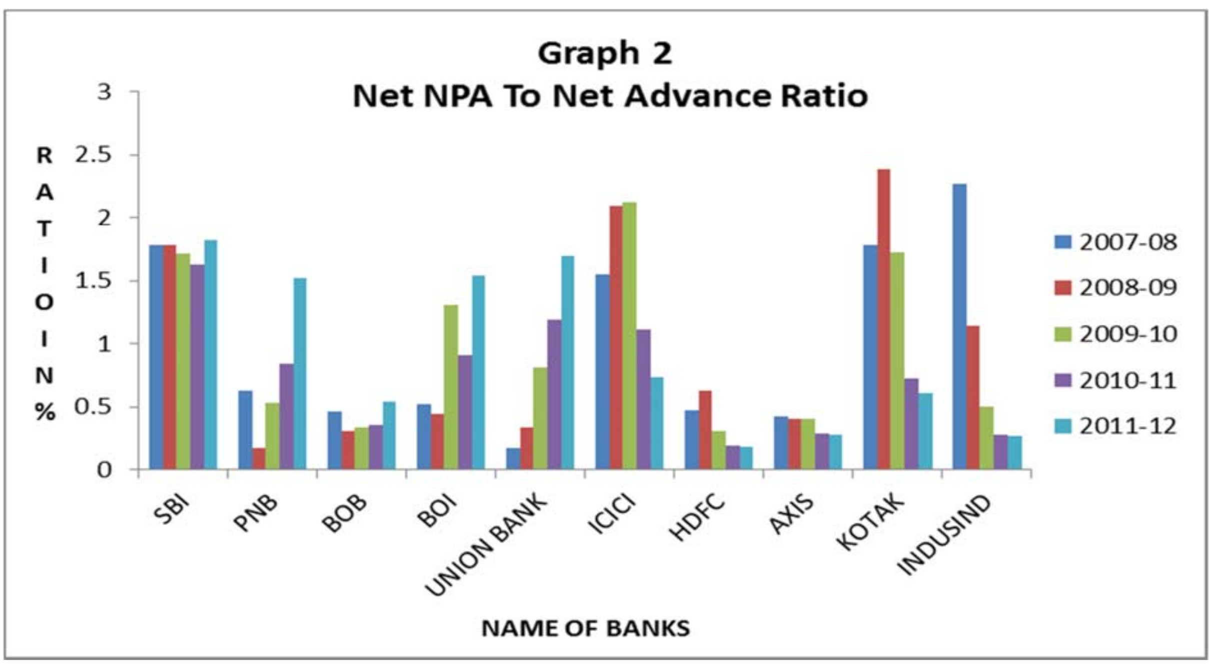
Name Of Bank	2007-08	2008-09	2009-10	2010-11	2011-12	Total	AVG.	Rank
SBI	1.78	1.78	1.72	1.63	1.82	8.73	1.75	10
PNB	0.63	0.17	0.53	0.84	1.52	3.69	0.74	4
BOB	0.46	0.31	0.34	0.35	0.54	2	0.4	3
BOI	0.52	0.44	1.31	0.91	1.54	4.72	0.94	7
UNION BANK	0.17	0.34	0.81	1.19	1.7	4.21	0.84	5
ICICI	1.55	2.09	2.12	1.11	0.73	7.6	1.52	9
HDFC	0.47	0.63	0.31	0.19	0.18	1.78	0.36	1.5
AXIS	0.42	0.4	0.4	0.29	0.28	1.79	0.36	1.5
KOTAK	1.78	2.39	1.73	0.72	0.61	7.23	1.45	8
INDUSIND	2.27	1.14	0.5	0.28	0.27	4.46	0.89	6

(Source: www.RBI org. in.)

Analysis

As per the above calculation it is found that Net NPA to Net Advances is lowest in AXIS Bank and HDFC BANK with Average of 0.36 % which is followed by BANK OF BARODA with Average 0.40 % while Highest Ratio found by SBI with Average of 1.75 % likewise ICICI Bank also having high Average Ratio of 1.52 % in compare to other research unit during research period.

Graphical Analysis



By observation of the graph of selected banks, it shows the ratios of five years for NET NPA TO NET ADVANCE. Average Ratio of SBI is showing higher with average of 1.75% which is followed by ICICI Bank with average of 1.52 % while lowest average ratio shown by HDFC and AXIS Bank with 0.36%.

Statistical Analysis

H_0: All the selected Banks have equal Net NPA to Net Advances Ratio

H_1: All the selected Banks have unequal Net NPA to Net Advances Ratio

Table 4:"F"-Test One Way Anova for Net NPA to Net Advances Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
B.S.S.	11.318418	9	1.257602	4.84886644	2.124029
W.S.S.	10.3744	40	0.25936		
T.S.S.	21.692818	49			

"F" test indicates that the Calculated value of F = 4.84886644 and tabular value of F = 2.124029 at 5 % level of significance. The Calculated value of F is greater or more than table value of F (Fc > Ft). So, the null hypothesis has been rejected and alternative hypothesis has been accepted. It means all the selected banks have unequal or different Net NPA to Net Advances Ratio.

(C) Net NPA to Total Assets Ratio

This ratio indicates the efficiency of the bank in assessing credit risk and, to an extent, recovering the debts. The ratio is arrived by dividing the Net NPAs by Total Assets. Total assets considered are net of revaluation reserves. Lower ratio indicates better quality of advances (better utilization of assets) & performance of the Bank.

Formula:

Net NPA to Total Assets Ratio= Net NPA/Total Assets*100

Table 5: Net NPA to Total Assets Ratio

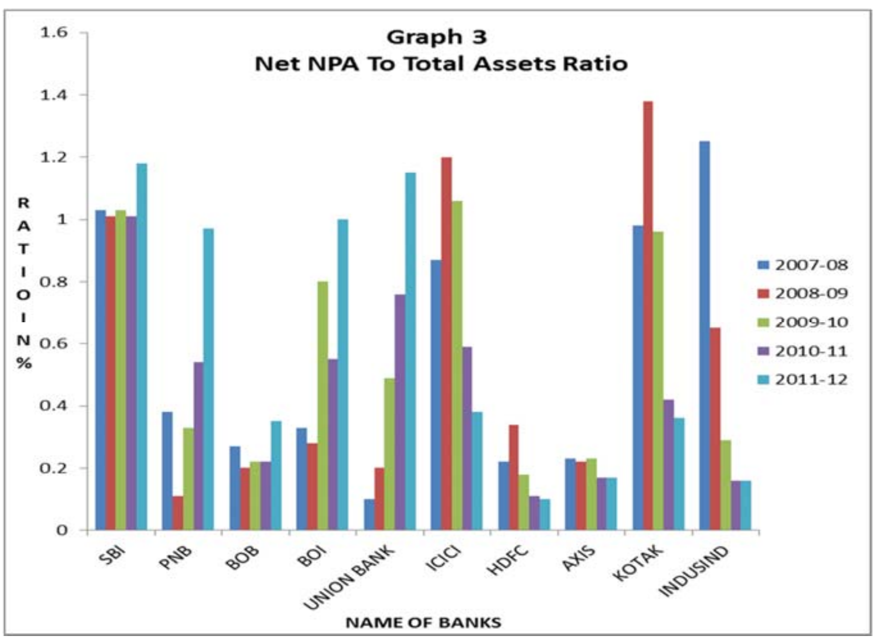
Name Of Bank	2007-08	2008-09	2009-10	2010-11	2011-12	Total	AVG.	Rank
SBI	1.03	1.01	1.03	1.01	1.18	5.26	1.05	10
PNB	0.38	0.11	0.33	0.54	0.97	2.33	0.47	4
BOB	0.27	0.2	0.22	0.22	0.35	1.26	0.25	3
BOI	0.33	0.28	0.8	0.55	1	2.96	0.59	7
UNION BANK	0.1	0.2	0.49	0.76	1.15	2.7	0.54	6
ICICI	0.87	1.2	1.06	0.59	0.38	4.1	0.82	8.5
HDFC	0.22	0.34	0.18	0.11	0.1	0.95	0.19	1
AXIS	0.23	0.22	0.23	0.17	0.17	1.02	0.20	2
KOTAK	0.98	1.38	0.96	0.42	0.36	4.1	0.82	8.5
INDUSIND	1.25	0.65	0.29	0.16	0.16	2.51	0.50	5

(Source: www.RBI org. in.)

Analysis

As per the above calculation it is found that Net NPA to Total Asset is lowest in HDFC Bank with Average of 0.19 % which is followed by AXIS BANK with Average 0.20 % while Highest Average Ratio found by SBI with Average of 1.05 % likewise ICICI & KOTAK Bank also having high Average Ratio of 0.82 % in compare to other research unit during research period.

Graphical Analysis



By observation of the graph of selected banks it shows ratios of five years for Net NPA to Total Assets. Average ratio of SBI is showing higher with 1.05% which is followed byICICI & KOTAK Bank with Average of0.82% while lowest ratio shown by HDFC with of 0.19 %, followed by AXIS BANK with average of 0.20%.

Statistical Analysis

H_0: All the selected Banks have equal Net NPA to Total Assets Ratio

H_1: All the selected Banks have unequal Net NPA to Total Assets Ratio

Table 6: "F"-Test One Way Anova for Net NPA to Total Assets Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
B.S.S.	3.733818	9	0.41486867	4.55779428	2.124029
W.S.S.	3.64096	40	0.091024		
T.S.S.	7.374778	49			

"F" test indicates that the Calculated value of F = 4.55779428 and tabular value of F = 2.124029 at 5 % level of significance. The Calculated value of F is greater or more than table value of F (Fc > Ft). So, the null hypothesis has been rejected and alternative hypothesis has been accepted. It means all the selected banks have unequal or different Net NPA to Total Assets Ratio.

(3) Conclusion

From this study, it is concluded That Total Investment to Total Assets, Net NPA to Net Advances and Net NPA to Total Assets of each selected banks are not having an equal assets quality during research period. Hence, it is concluded that Total Investment and Net NPA are far variable to total Assets and Net Advances Respectively While Net NPA to Total Assets is also variable factor. So, from this result, it can be said that assets quality of the selected banks is different during research period.

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