NPA IN SELECTED NBFCs IN INDIA

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ABSTRACT

The quality of assets is an important parameter to gauge the degree of financial strength. The prime motto behind measuring the assets quality is to ascertain the components of Non-Performing Assets (NPAs) as a percentage of the total assets. This indicates what types of advances the financial institution has made to generate interest income. The advances of a financial institution are to be disclosed in a classified manner as: Standard, sub-standard and doubtful and loss assets.

KEYWORDS: *Financial Strength, Non-Performing Assets (NPAs), Financial Institution.*
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Introduction
Standard Assets/Advance

Standard assets are those assets which are paying interest and installments at due date, further they do not carry more than normal risk. Formerly, no provisions were required. However, financial institutions will now have to make a general provision of 0.25 percent on standard assets as well.

Sub-Standard Assets/Advance

Sub-standard assets are those assets which have been classified as non-performing for a period less than or equal to three quarters. In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery fully. It has fully developed weaknesses that jeopardize the liquidation of a debt.

Doubtful Assets/Advance

Doubtful assets are those assets which remained substandard for 18 months. The provision of 100 percent of the doubtful assets is to be made by the realizable value of the security to which a financial institution has resources. The provisions for this are to be done as:

- First year of doubtful status: Deficit + 20% of security
- Second year of doubtful status: Deficit + 30% of security
- Third year of doubtful status: Deficit + 50% of security

Loss Assets/Advance

Loss assets are the ones whose loss has been identified but the amount has not been written off wholly or partly. Such an asset is uncollectible/unrecoverable and of such little value that its continuance as a bankable asset is not warranted although there may be some salvages value. Since the loss assets are to be written off, 100% provision needs to be made for loss assets. Thus, asset quality indicates the type of the debtors the financial institution is having. The following ratios are necessary to assess assets quality:

- **Gross NPAs to Advance Ratio**

It is a measure of the quality of assets in a situation, where the management has not provided for loss on NPAs. The gross NPAs are measured as a percentage of net advances. The lower the ratio, the better is the quality of advances.

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Gross NPAs to Advance Ratio = Gross NPAs / [Gross Advance] * 100

Table 1 shows the gross NPAs to advance ratio in percentage of selected Non-Banking Finance Companies under study from 2011-12 to 2017-18.

Table 1: Gross NPAs to Advance Ratio of NBFCs under Study
(2011-12 to 2017-18)

(Ratio in Percent)

Year	JM Fin	IDFC	IFCI	HDFC	SRTF
2011-12	0.00	1.53	12.19	0.80	3.10
2012-13	0.00	2.40	16.57	0.82	3.20
2013-14	0.00	2.94	10.13	0.90	3.90
2014-15	0.00	3.72	12.75	0.94	3.82
2015-16	0.00	4.55	15.48	1.05	6.20
2016-17	0.68	6.59	31.86	1.30	8.20
2017-18	1.56	9.08	40.96	1.36	9.15
Average	-	4.40	19.99	1.02	5.37
S.D.	-	2.63	11.71	0.23	2.50
C.V. (%)	-	59.79	58.59	21.97	46.52

Source: Computed from Annual Reports and Accounts of the NBFCs for the period from 2011-12 to 2017-18.

Table 1 showing that for JM Fin Ltd, Gross NPAs to Advance ratio was nil most of the time because the company having no NPA during that span if time. It was only in the year 2016-17, when the ratio got some number and stood at 0.68 percent which increased slightly up to 1.56 percent finally in 2017-18.

For IDFC, gross NPAs to advance ratio showed a continuous increasing trend during the period under study. It was 1.53 percent (lowest) in 2011-12 which increased to 2.40 percent in 2012-13, 2.94 percent in 2013-14, 3.72 percent in 2014-15, 4.55 percent in 2015-16, 6.59 percent in 2016-17 and reached finally up to 9.08 percent (highest) in the year 2017-18.

In case of IFCI, gross NPAs to advance ratio showed an increasing trend during the period under study except in the year 2013-14. It was 12.19 percent in 2011-12 which increased to 16.57 percent in 2012-13 but came down sharply to 10.13 percent in 2013-14. After that, it increased to 12.75 percent in 2014-15, 15.48 percent in 2015-16, increased rapidly to 31.86 percent in 2016-17 and reached up to 40.96 percent (highest) in the final year 2017-18.

For HDFC, gross NPAs to advance ratio showed a continuous increasing trend during the period under study. It was 0.80 percent (lowest) in 2011-12 which increased to 0.82 percent in 2012-13, 0.90 percent in 2013-14, 0.94 percent in 2014-15, 1.05 percent in 2015-16, 1.30 percent in 2016-17 and reached finally up to 1.36 percent (highest) in the year 2017-18.

In case of Sriram Transport Finance Co. Ltd (SRTF), gross NPAs to advance ratio showed an increasing trend during the period under study except in the year 2014-15. It was 3.10 percent in 2011-12 which increased to 3.20 percent in 2012-13 and reached to 3.90 percent in 2013-14. After that, it decreased slightly to 3.82 percent in 2014-15, but increased to 6.20 percent in 2015-16, 8.20 percent in 2016-17 and reached up to 9.15 percent (highest) in the final year 2017-18.

The average ratio was highest for IFCI at 19.99 percent followed by SRTF at 5.37 percent, IDFC at 4.40 percent, HDFC at 1.02 percent and lowest for JM Finance Ltd which was nil which indicate that JM Finance having nil gross NPA which is appreciable whereas IFCI having highest gross NPAs during the period under study. Standard deviation and coefficient of variation were higher for IDFC and IFCI NBFCs which should be kept in control.

Statistical Analysis: F-test

Following hypothesis has been tested for the ratio:

H_0: There is no significant difference between gross NPAs to advance ratio of the NBFCs under study.

H_1: There is significant difference between gross NPAs to advance ratio of the NBFCs under study.

Table 2 shows one way ANOVA statistics computed for the ratio of the NBFCs under study for the period from 2011-12 to 2017-18.

Table 2: One Way ANOVA for Gross NPAs to Advance Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
Between Sample	6.4194	4	1.60485	3.35	2.69
Within Sample	14.3903	30	0.47968		
Total	20.8097	34			

Decision

"F" test indicates that the calculated value of Fc = 3.35 and tabular value of Ft = 2.69 at 5% level of significance. As the calculated value of F is more than table value of F, the null hypothesis has been rejected. It means there is significant difference between gross NPAs to advance ratio of the NBFCs under study.

- **Net NPAs to Advance Ratio**

This ratio is a measure of the quality of assets in a situation where the management has not provided for loss on NPAs. Net NPAs are gross NPAs minus provisions and interest in suspense account. It monitors the quality of the financial institution's loan portfolio. The higher the ratio, the higher the credit risk. In this ratio, net NPAs are measured as a percentage of net advances.

Net NPA to Advance Ratio = (Gross NPA - Provision) /(Gross Advance - Provision)*100

Table 3 shows the net NPAs to advance ratio in percentage of selected Non-Banking Finance Companies under study from 2011-12 to 2017-18.

Table 3: Net NPAs to Advance Ratio of NBFCs under Study

(2011-12 to 2017-18)

(Ratio in Percent)

Year	JM Fin	IDFC	IFCI	HDFC	SRTF
2011-12	0.00	1.05	9.66	0.16	0.89
2012-13	0.00	1.89	12.23	0.18	0.78
2013-14	0.00	2.16	7.43	0.20	1.01
2014-15	0.00	3.21	9.55	0.28	0.80
2015-16	0.00	3.98	12.03	0.33	1.90
2016-17	0.57	5.82	27.03	0.40	2.70
2017-18	1.35	7.49	29.54	0.39	6.30
Average	-	3.66	15.35	0.28	2.05
S.D.	-	2.30	9.01	0.10	2.00
C.V. (%)	-	62.98	58.70	36.01	97.58

Source: Computed from Annual Reports and Accounts of the Banks for the period from 2011-12 to 2015-16.

Table 3 showing that for JM Fin Ltd, net NPAs to advance ratio was nil most of the time because the company having no NPA during the period from 2011-12 to 2015-16. It was only in the year 2016-17, when the ratio got some number and stood at 0.57 percent which increased slightly up to 1.35 percent finally in 2017-18.

For IDFC, net NPAs to advance ratio showed a continuous increasing trend during the period under study. It was 1.05 percent (lowest) in 2011-12 which increased to 1.89 percent in 2012-13, 2.16 percent in 2013-14, 3.21 percent in 2014-15, 3.98 percent in 2015-16, 5.82 percent in 2016-17 and reached finally up to 7.49 percent (highest) in the year 2017-18.

In case of IFCI, net NPAs to advance ratio showed an increasing trend during the period under study except in the year 2013-14. It was 9.66 percent in 2011-12 which increased to 12.23 percent in 2012-13 but came down sharply to 7.43 percent in 2013-14. After that, it increased to 9.55 percent in 2014-15, 12.03 percent in 2015-16, increased rapidly to 27.03 percent in 2016-17 and reached up to 29.54 percent (highest) in the final year 2017-18.

For HDFC, net NPAs to advance ratio showed a continuous increasing trend during the period under study except in the year 2017-18. It was 0.16 percent (lowest) in 2011-12 which increased to 0.18 percent in 2012-13, 0.20 percent in 2013-14, 0.28 percent in 2014-15, 0.33 percent in 2015-16 and reached up to 0.40 percent in 2016-17 which slightly declined to 0.39 percent in the year 2017-18.

The average ratio was highest for IFCI at 15.35 percent followed by IDFC at 3.66 percent, SRTF at 2.05 percent, HDFC at 0.28 percent and lowest for JM Finance Ltd which was nil and indicate that JM Finance having insignificant NPA which is appreciable whereas IFCI having highest net NPAs during the period under study. Standard deviation and coefficient of variation was highest for SRTF which should be kept in control.

Statistical Analysis: F-test

Following hypothesis has been tested for the ratio:

H_0:   There is no significant difference between net NPAs to advance ratio of the NBFCs under study.

H_1:   There is significant difference between net NPAs to advance ratio of the NBFCs under study.

Table 4 shows one way ANOVA statistics computed for the ratio of the NBFCs under study for the period from 2011-12 to 2017-18.

Table 4: One Way ANOVA for Net NPAs to Advance Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
Between Sample	11.1029	4	2.77572	3.32	2.69
Within Sample	25.0953	30	0.83651		
Total	36.1982	34			

Decision

"F" test indicates that the calculated value of F_c = 3.32 and tabular value of F_t = 2.69 at 5% level of significance. As the calculated value of F is more than table value of F, the null hypothesis has been rejected. It means there is significant difference between net NPAs to advance ratio of the NBFCs under study.

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