NPA Management: A Study Of New Private Sector Banks In India

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INTRODUCTION

The Indian Banking Industry has played a pivotal role in the socio- economic augmentation of the country. The Financial Sector Reforms initiated in 1991 have commendably changed the visage of Indian Banking. The banking industry has transmogrified in a phased manner from a regulated environment to a deregulated market economy.The RBI has accorded its approbation for the inception of new banks in the private sector acting on the recommendations of the Narasimham Committee. The banking industry, which already enjoys a privileged status as far as public sector banks are concerned, have assumed a more aggressive and cut throat competitive position on account of establishment of private sector banking. A recent survey conducted by McKinsey & Co., in association with the Indian Banks Association, revealed that new private banks have a strong competitive advantage over public sector banks on several dimensions such as use of low cost technology and operations to address the urban mass market, alignment between IT and business heads, more focus on value adding activities, better talent management, superior complexity handling, and the ability to use infrastructure optimization facilities. In spite of efficiently managing their financial resources, akin to public sector banks, these new generation banks have also become a victim of Non Performing Assets (NPAs). A Non Performing Asset is an asset or account of borrower, which has been not been serviced by the borrower, and the bank has stated the same as sub-standard, doubtful or loss asset, as per the norms and directions of the RBI. Non-Performing Assets (NPA) have emerged as an alarming threat to the Indian banking industry and their reduction has become synonymous with professional functioning and management of banks. However, NPAs should not be seen as a dilemma but as a challenge for the banking sector. The global recession coupled with consequential slow down in the domestic markets had cast their shadow on the Indian banking sector, resulting in the growth in NPAs in absolute and relative terms since 2005-06. This evoked the researchers' interest to conduct a research on the management of NPAs by the new private sector banks in India.

REVIEW OF LITERATURE

In the banking literature, the problem of non-performing assets has been revisited in several theoretical and empirical studies. A synoptic review of the relevant literature on the NPAs issues examined by different researchers is presented as follows:

K. Rajender (2009) stated that the issue of mounting NPAs is a challenge to public sector banks. The study found that the asset wise classification of PSBs is in right direction, and there is significant variation in the recovery of NPAs in the different sectors. The research observed that PSBs should not be loaded with the twin objectives of profitability and social welfare.

R. Jayachandran and T. Nagananthi (2008) conducted a study with the objective to evaluate trends in the non performing assets of State Bank of India and its Associates. The study observed that NPAs for State Bank of India and its Associate banks has significantly declined over the period of study.

Jain Vibha (2007) examined the status of NPAs in commercial banks. The study found that the problem of gross and net NPAs is more acute in Public Sector Banks. The new private sector banks and foreign banks have also registered an increase in the amount of gross and net NPAs during the period 1997-2003. It concluded that new private sector banks and foreign banks failed to prevent the fresh generation of NPAs in the period whereas, PSBs and old private sector banks were able to reduce it.

K. Kothai (2003) conducted a study on '*Non Performing Assets of Scheduled Commercial Banks in India: An*

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Analysis'. The research observed a decreasing trend in the NPAs of the SCBs over the period of study. It revealed that the level of NPAs has declined mainly due to write off of bad debts and expansion of the total advances over the period of study.

Muniappan G. (2002) evaluated the crisis of NPA in terms of internal and external factors in his book entitled *'The NPA Overhang, Magnitude, Solutions and Legal reforms'.* The author observed that internal factors that are accountable for NPAs are diversion of funds for expansion/diversification/modernization, taking up new projects, time or cost overruns, business failure, incompetent management, tense labour relations, technical troubles, product obsolescence, etc., while external factors are recession, inputs or power shortage, price escalation, accidents and natural calamities.

Rajaraman, Indira, and G. Vasistha, (2002) analysed the problem of Non-performing Loans of Public Sector Banks in the Indian context. The study found an evidence of significant bi-variate relationship between an operating inefficiency indicator and the problem loans of public sector banks.

NATURE AND SCOPE OF THE STUDY

The present study is empirical in nature. The private sector banks in India can be classified into old private sector banks and new private sector banks. As at end March 2008, there were 15 old private sector banks and 8 new private sector banks. The scope of the study is confined to examine the state of non performing assets (NPAs) in all the new private sector banks viz. Axis Bank Ltd., Centurion Bank of Punjab Ltd., Development Credit Bank Ltd., HDFC Bank, ICICI Bank, IndusInd Bank Ltd., Kotak Mahindra Bank Ltd., Yes Bank.

OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

1. To study the magnitude and trends of non performing assets in the new private sector banks.

2. To examine the asset quality of new private sector banks.

3. To assess the health of various categories of loan assets i.e., sub-standard assets, doubtful assets and loss assets.

4. To analyse the sector wise non performing assets of the new private sector banks.

5. To evaluate the capital to risk weighted assets ratio of the new private sector banks.

HYPOTHESES OF THE STUDY

1. There is no significant association between gross NPAs and gross advances of new private sector banks.

2. There is no significant association between net NPAs and net Advances of new private sector banks.

3. The average NPAs relating to various asset classes i.e. sub-standard assets, doubtful assets, and loss assets of new private sector banks are uniformly distributed.

4. The mean NPAs relating to priority sector, public sector and non-priority sector of new private sector banks do not differ significantly.

5. There is no significant reduction in the distribution of new private sector banks by ratio of Net NPAs to Net Advances.

METHODOLOGY

The study is investigative in nature. It examines the state of NPAs in the new private sector banks during the period 2003-04 to 2007-08. To achieve the objectives of the study, the relevant secondary data have been collected from Report on Trend and Progress of Banking in India, Economic Surveys of India, Global Financial Stability Reports and websites of the selected private sector banks. The collected data have been analyzed by using various ratios i.e. Gross NPAs to Gross Advances, Net NPAs to Net Advances, Gross NPAs to Total Assets, Net NPAs to Total Assets. The study examined the trends in Gross NPAs and Net NPAs, causality and association between NPAs to advances/total assets. The findings of the study are supported by statistical tools such as mean, standard deviation, correlation, coefficient of determination, adjusted coefficient of determination, regression, ANOVA, post-hoc Tukey HSD Test.

RESULTS AND DISCUSSION

The major findings based on the analysis of data are mentioned as under:

1) TREND AND QUALITY OF GROSS NON PERFORMING ASSETS

(i) Gross advances of the new private sector banks in absolute terms increased from ₹ 119511 crore in 2003-04 to ₹ 412441 crore in 2007-08. It has shown a sharp increase of 252.64 percent in the year 2007-08 over 2003-04. As a whole, gross advances of the banks in absolute terms have shown an ever-increasing trend over the selected period (Table1).

Table 1: Gross NPAs of New Private Sector Banks (Amount in ₹ Crore)

YEARS	Gross Advances	GROSS NPAs		
		Amount	Per cent to Gross Advances	Per cent to Total Assets
2003-04	119511	5961	5.0	2.4
2004-05	127420	4582	3.6	1.6
2005-06	232536	4052	1.7	1.0
2006-07	325273	6287	1.9	1.1
2007-08	412441	10426	2.5	1.4
Source: Reports on Trends & Progress of Banking in India, RBI Publication.				

(ii) Gross NPAs of the new private sector banks in absolute terms have increased from ₹ 5961 crore in 2003-04 to ₹ 10426 crore in 2007-08. It has shown an increase of 74.9 percent in the year 2007-08 over 2003-04. There is rising trend in the Gross NPAs of the new private sector during the period of study (Table1).

(iii) On the basis of analysis of data, it has been found that despite an increase in gross non performing assets in absolute terms during the year, asset quality (gross NPAs as percentage of gross advances, and gross NPAs as percentage of total assets) of new private sector banks improved consistently in the past few years as reflected in the decline in these two ratios. The gross NPA to gross advance ratio declined to 2.5 percent in the year 2007-08 from 5.0 per cent in 2003-04. Further, the gross NPAs to total assets ratio consistently declined from 2.4 per cent in 2003-04 to 1.4 percent in 2007-08 (Table1).

(iv) The Statistical test of Pearson Correlation shows that there is high degree of positive correlation between Gross Advances and Gross NPAs with R=0.757, and p- value is 0.069 (Table2). In the test, R^2 is 0.574 and adjusted R^2 is 0.431 (Table 3). On the basis of Adjusted R^2, it can be stated that only 43.1 percent of variation in Gross NPAs is explained by variation in Gross advances. Further, the values of one way ANOVA reveal that F = 4.036, and p-value is 0.138 (Table 4). Since the p-value 0.138 is higher than 0.05, hence, the null hypothesis of no significant association between Gross NPAs and Gross Advances of New Private Sector Banks is accepted.

Table 2 : Correlation Between Gross NPAs and Gross Advances

		Gross NPAs	Gross Advances
Gross NPAs	Pearson Correlation	1	.757
	Sig. (2-tailed)		.138
	N	5	5

Table 3 : Model Summary of Relationship Between Gross NPAs And Gross Advances

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757 [a]	.574	.431	1890.175

a. Predictors: (Constant), Gross Advances

Table 4 : ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14418333	1	14418332.69	4.036	.138 [a]
	Residual	10718289	3	3572762.837		
	Total	25136621	4			

[a.] Predictors: (Constant), Gross Advances [b.] Dependent Variable: Gross NPAs

2) TREND AND QUALITY OF NET NON PERFORMING ASSETS

(i) Net advances of the new private sector banks in absolute terms have increased from ₹ 115106 crore in 2003-04 to ₹ 406733 crore in 2007-08. It has shown an increase of 253.36 percent increase in the year 2007-08 over 2003-04. Net advances of the banks in absolute terms have shown a growing trend over the selected period (Table 5).

Table 5: Net NPAs Of New Private Sector Banks (Amount In ₹ Crore)

Years	Net Advances	NET NPAs		
		Amount	Per Cent To Net Advances	Per Cent To Total Assets
2003-04	115106	1986	1.7	0.8
2004-05	123655	2353	1.9	0.8
2005-06	230005	1796	0.8	0.4
2006-07	321865	3137	1.0	0.5
2007-08	406733	4907	1.2	0.7
Source: Reports On Trends & Progress Of Banking In India, RBI Publication.				

(ii) Net NPAs of the new private sector banks in absolute terms have increased from ₹ 1986 crore in 2003-04 to ₹ 4907crore in 2007-08. It has shown an increase of 147.07 percent in the year 2007-08 over 2003-04. Net NPAs of the new private sector banks in absolute terms have shown an increasing trend over the period of study (Table 5).

(iii) It is observed that there has been a significant improvement in the recovery of non performing assets (NPAs) combined with a significant increase in net advances by new private sector banks that led to a sharp decline in the ratio of net NPAs to net advances, and net NPAs to total assets. The net NPA to net advance ratio has declined to 1.2 in the year 2007-08 from 1.7 per cent in 2003-04. Further, the net NPAs to total assets ratio has also declined from 0.8 per cent in 2003-04 to 0.7 percent in 2007-08 (Table 5).

(iv) The Statistical test of Pearson Correlation shows that there is high degree of positive correlation between Net Advances and Net NPAs with R=0.849, R^2=0.720, adjusted R^2=0.627 at p-value =0.035 as evident in Table 6 and Table 7. Further, the values of one way ANOVA reveal that F = 7.718, p-value = 0.049 (Table 8). Since the p-value is 0.049 which is less than 0.05, the null hypothesis of no significant association between Net NPAs and Net Advances of New Private Sector Banks is rejected. Hence, it is safe to conclude that there is significant association between Net NPAs and Net Advances of New Private Sector Banks.

Table 6 : Correlation Between Net NPAs and Net Advances

		Net NPAs	Net Advances
Net NPAS	Pearson Correlation	1	.849
	Sig. (2-tailed)		.069
	N	5	5

Table 7: Model Summary of Relationship Between Net NPAs and Net Advances

Model	R	R Square	Adjusted R Square
1	.849[a]	.720	.627

a. Predictors: (Constant), Net Advances

Table 8 : ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4620965.5	1	4620965.454	7.718	.069[a]
	Residual	1796065.3	3	598688.449		
	Total	6417030.8	4			

a. Predictors: (Constant), Net Advances. b. Dependent Variable: Net NPAS

3) ASSET WISE CLASSIFICATION OF NPAs

NPAs of banks are classified into three categories i.e. sub-standard assets, doubtful assets, and loss assets. All the three categories of NPAs as a percentage of gross non performing assets have registered a decline over the period of study. Sub standard assets have shown a decline from 1.6 percent in 2003-04 to 1.2 percent in 2007-08. The doubtful assets have declined to 0.8 percent from 3.0 percent during the same period. The Loss assets have declined from 0.3 percent in 2003-04 to 0.2 percent in 2007-08 (Table 9). The decline in various categories of loan assets as a percentage of gross non performing assets indicates improving health of new private sector banks. The mean sub-standard assets, doubtful assets, loss assets are ₹ 3042.60 crore, ₹ 2766.80 crore, and ₹ 496 crore respectively (Table 10). The results of one way ANOVA revealed that: F=5.873, p-value=0.017 (Table 11). Since the p-value is less than 0.05, the null hypothesis of no significant difference between average sub-standard assets, doubtful assets, and loss assets is rejected. Hence, it is found that there is significant difference in the average loan assets under different categories. Further, Post Hoc Tukey HSD test for multiple comparisons between various loan assets shows that there is no significant difference between means of sub-standard assets and doubtful assets, however, these two differ significantly from loss assets (Table 12 and Table 13).

Table 9: Asset Wise Classification Of NPAs (Amount In ₹ Crore)

YEARS	CLASSIFICATION OF NPAs		
	Sub-standard Assets	Doubtful Assets	Loss Assets
2003-04	1966(1.6)	3665(3.0)	321(0.3)
2004-05	1449(1.1)	3061(2.4)	334(0.2)
2005-06	1717(0.7)	1855(0.8)	460(0.2)
2006-07	3608(1.1)	2147(0.7)	516(0.2)
2007-08	6473(1.2)	3106(0.8)	849(0.2)
*Figures in brackets are loan assets as a percentage of gross non performing assets			
Source: Reports on Trends & Progress of Banking in India, RBI Publication.			

Table 11 : ANOVA Results For Classification of Loan Assets

Classification Of Loan Assets

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	19529616	2	9764808.200	5.873	.017
Within Groups	19950244	12	1662520.333		
Total	39479860	14			

Table 10 : Descriptives For Classification of Loan Assets

Classification Of Loan Assets

	N	Mean	Std. Deviation
Sub Standard Assets	5	3042.60	2094.228
Doubtful Assets	5	2766.80	745.638
Loss Assets	5	496.00	213.994
Total	15	2101.80	1679.283

Table 12 : Post Hoc Tuskey HSD Results of Multiple Comparisons For Classification of Loan Assets

Dependent Variable: Classification of Loan Assets
Tukey HSD

(i) Groups	(j) Groups	Mean Difference (I-J)	Std. Error	Sig.
Sub Standard Assets	Doubtful Assets	275.800	815.480	.939
	Loss Assets	2546.600 *	815.480	.022
Doubtful Assets	Sub Standard Assets	-275.800	815.480	.939
	Loss Assets	2270.800 *	815.480	.041
Loss Assets	Sub Standard Assets	-2546.600 *	815.480	.022
	Doubtful Assets	-2270.800 *	815.480	.041

*· The mean difference is significant at the .05 level.

Table 13: Homogeneous Subsets of Classification of Loan Assets

a
Tukey HSD

Groups	N	Subset For Alpha = .05	
		1	2
Loss Assets	5	496.00	
Doubtful Assets	5		2766.80
Sub Standard Assets	5		3042.60
Sig.		1.000	.939

Means for groups in homogeneous subsets are displayed.
a· Uses Harmonic Mean Sample Size = 5.000.

4) SECTOR WISE CLASSIFICATION OF NPAs

Sector wise NPAs have been classified into three sectors i.e. priority sector, public sector and non priority sector. In terms of revised guidelines on lending to priority sector, broad categories of advances under priority sector include agriculture, small enterprises sector, and others i.e. retail trade, micro credit, education and housing. The study observed that sector wise mean NPAs are ₹ 483.80 crore, ₹ 235 crore, ₹ 339 crore, ₹ 21.20 crore, and ₹ 5186.40 crore for agriculture, small scale industries, others, public sector and non-priority sector respectively (Table 15). It is found that asset quality of banks registered significant improvement in reduction in the level of NPAs relating to SSI and public sector, whereas non-priority sector has the highest NPAs over the period of study, and it is followed by NPAs in the Agriculture sector (Table 14). Sector wise analysis of ANOVA with F=31.630, p-value=0.00 (Table 16), p<0.01 indicates that there is highly significant difference between the mean non performing assets of priority sector, public sector and non-priority sectors of new private sector banks. Tukey HSD procedure performed on various sectors of NPAs shows that agriculture sector, small scale industry, others and public sectors are homogeneous at p-value of

0.917. However, the mean NPAs of agriculture sector, small scale industry, others and public sectors differ significantly from the mean NPAs of the non-priority sector (Table 17 and Table 18).

Table 14: Sector-Wise Classification of NPAs of New Private Sector Banks (Amount in ₹ Crore)

YEARS	PRIORITY SECTOR			Public Sector	Non Priority Sector	Total
	Agriculture	Small Scale Industries	Others			
2003 -04	171	404	106	66	5205	5952
	(2.87)	(6.79)	(1.78)	(1.11)	(87.45)	(100)
2004 -05	161	172	73	34	4125	4566
	(3.53)	(3.77)	(1.60)	(0.74)	(90.34)	(100)
2005 -06	250	152	251	3	3463	4118
	(6.07)	(3.69)	(6.09)	(0.07)	(84.09)	(100)
2006 -07	612	155	702	3	4800	6271
	(9.76)	(2.47)	(11.19)	(0.05)	(76.54)	(100)
2007 -08	1225	292	563	0	8339	10419
	(11.76)	(2.80)	(5.40)	(0)	(80.00)	(100)

Source: Reports on Trends & Progress of Banking in India, RBI Publication. Note: Figures in parenthesis are percentages.

Table 15: Descriptives of Sector Wise Distribution of NPAs

Sector Wise Distribution of NPAs

	N	Mean	Std. Deviation
Agriculture	5	483.80	453.464
Small Scale Industries	5	235.00	110.756
Others	5	339.00	280.506
Public Sector	5	21.20	28.648
Non Priority Sector	5	5186.40	1883.163
Total	25	1253.08	2166.378

Table 16 : ANOVA Results of Sector Wise Distribution of NPAs

Sector Wise Distribution Of NPAs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	97261777	4	24315444.26	31.630	.000
Within Groups	15374819	20	768740.940		
Total	112636596	24			

5) DISTRIBUTION OF NEW PRIVATE SECTOR BANKS BY RATIO OF NET NPAs TO NET ADVANCES

It has been observed that the number of banks falling in the category of net NPAs to net advances ratio upto 2 per cent has increased from 4 to 7 over the period of the study. Hence, it can be stated that the majority of banks have been able to reduce the ratio and now fall in the category of net NPAs to net advances ratio upto 2 per cent. None of the banks have fallen in the category of net NPAs to Net Advance ratio of more than 5 percent since 2005-06 (Table 19). Analysis of statistical values reveals that the highest number of banks (approximately 6) on the average falls in the category of Net NPAs to Net Advances Ratios of up to 2 percent. (Table 20). It is found that on the basis of results of one way ANOVA with F=28.558 and p-value= 0.000 that there is highly significant difference in the average number of banks falling in the four categories of Net NPAs to Net Advances Ratios (Table 21). Further, the results obtained by

performing Tukey HSD procedure shows that on an average, 6 banks have Net NPAs to Net advances ratio in the category of up to 2 percent, and 2 banks have this ratio into the category of above 2 and up to 5 percent. (Table 22 and Table 23). It gives a comprehensible picture that the new private banks have managed to significantly trim down the Net NPAs as a proportion to Net advances in a quite impressive manner.

Table 17 : Multiple Comparisons of Sector Wise Distribution of NPAs

Dependent Variable: Sector Wise Distribution of NPAs

Tukey HSD

(I) Groups Of Sector Wise NPAs	(J) Groups Of Sector wise NPAs	Mean Difference (I-J)	Std. Error	Sig.
Agriculture	Small Scale Industries	248.800	554.524	.991
	Others	144.800	554.524	.999
	Public Sector	462.600	554.524	.917
	Non Priority Sector	-4702.600 *	554.524	.000
Small Scale Industries	Agriculture	-248.800	554.524	.991
	Others	-104.000	554.524	1.000
	Public Sector	213.800	554.524	.995
	Non Priority Sector	-4951.400 *	554.524	.000
Others	Agriculture	-144.800	554.524	.999
	Small Scale Industries	104.000	554.524	1.000
	Public Sector	317.800	554.524	.978
	Non Priority Sector	-4847.400 *	554.524	.000
Public Sector	Agriculture	-462.600	554.524	.917
	Small Scale Industries	-213.800	554.524	.995
	Others	-317.800	554.524	.978
	Non Priority Sector	-5165.200 *	554.524	.000
Non Priority Sector	Agriculture	4702.600 *	554.524	.000
	Small Scale Industries	4951.400 *	554.524	.000
	Others	4847.400 *	554.524	.000
	Public Sector	5165.200 *	554.524	.000

*. The mean difference is significant at the .05 level.

Table 18 : Sector Wise Distribution of NPAs

Tukey HSD [a]

Groups Of Sector Wise NPAs	N	Subset For Alpha = .05	
		1	2
Public Sector	5	21.20	
Small Scale Industries	5	235.00	
Others	5	339.00	
Agriculture	5	483.80	
Non Priority Sector	5		5186.40
Sig.		.917	1.000

Means for groups in homogeneous subsets are displayed.
a. Uses Harmonic Mean Sample Size = 5.000.

Table 19: Distribution of New Private Sector Banks by Ratio of Net NPAs to Net Advances (Number of Banks)

YEARS	RATIO OF NET NON PERFORMING ASSETS TO NET ADVANCES			
	Upto 2 Per Cent	Above 2 And Upto 5 Percent	Above 5 And Upto 10 Per Cent	More Than 10 Per Cent
2003-04	4	5	0	1
2004-05	5	3	1	0
2005-06	6	2	0	0
2006-07	7	1	0	0
2007-08	7	1	0	0
Source: Reports on Trends & Progress of Banking in India, RBI Publication.				

Table 20 : Descriptives For Distribution of Number of Banks By NNPAs To Net Advances

Distribution Of No Of Banks By NNPAs To Net Advances

	N	Mean	Std. Deviation
Upto 2 Percent	5	5.80	1.304
Above 2 And Upto 5 Percent	5	2.40	1.673
Above 5 And Upto 10 Percent	5	.20	.447
More Than 10 Per Cent	5	.20	.447
Total	20	2.15	2.560

Table 21 : ANOVA Results For Distribution of Banks By NNPAs To Net Advances

Distribution of No of Banks by NNPAs to Net Advances

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	104.950	3	34.983	28.558	.000
Within Groups	19.600	16	1.225		
Total	124.550	19			

Table 23: Distribution of No of Banks By NNPAs To Net Advances

Tukey HSD [a]

Ratio-percent	N	Subset For Alpha = .05		
		1	2	3
Above 5 and upto 10 per cent	5	.20		
More than 10 per cent	5	.20		
Above 2 and upto 5 per cent	5		2.40	
upto 2 percent	5			5.80
Sig.		1.000	1.000	1.000

Means for groups in homogeneous subsets are displayed. [a.] Uses Harmonic Mean Sample Size = 5.000.

Table 22 : Multiple Comparisons of Distribution of Number of Banks By NNPAs To Net Advances

Dependent Variable: Distribution Of No Of Banks By NNPAs To Net Advances
Tukey HSD

(I) Ratio-percent	(J) Ratio-percent	Mean Difference (I-J)	Std. Error	Sig.
Upto 2 Percent	Above 2 And Upto 5 Per Cent	3.400 *	.700	.001
	Above 5 and upto 10 per cent	5.600 *	.700	.000
	More than 10 per cent	5.600 *	.700	.000
Above 2 and upto 5 per cent	upto 2 percent	-3.400 *	.700	.001
	Above 5 and upto 10 per cent	2.200 *	.700	.029
	More than 10 per cent	2.200 *	.700	.029
Above 5 and upto 10 per cent	upto 2 percent	-5.600 *	.700	.000
	Above 2 and upto 5 per cent	-2.200 *	.700	.029
	More than 10 per cent	.000	.700	1.000
More than 10 per cent	upto 2 percent	-5.600*	.700	.000
	Above 2 and upto 5 per cent	-2.200*	.700	.029
	Above 5 and upto 10 per cent	.000	.700	1.000

*· The mean difference is significant at the .05 level.

6) CAPITAL TO RISK-WEIGHTED ASSETS RATIO (CRAR)

It is the bank's capital which ultimately acts as a buffer against losses that a bank may suffer. Capital to Risk-Weighted Assets Ratio (CRAR) is a measure which reflects the capacity of the banking system to absorb unexpected losses. As per guidelines of the Basel Committee on Banking Supervision (BCBS), the minimum capital to risk weighted assets ratio has been recommended at 8 percent level. The CRAR of private sector banks is 10.2 percent, 12.1 percent, 12.6 percent, 12 percent, and 14.4 percent for the years 2004, 2005, 2006, 2007, and 2008 respectively. The overall CRAR of the new private sector banks has improved to 14.4 percent at the end-March 2008 from 10.2 percent at end-March 2004 (Table 24). During the period of study, total CRAR of new private sector banks in India remained well above the Basel norm of 8 per cent and the stipulated minimum norm of 9 per cent for banks in India.

Table 24: CRAR of New Private Sector Banks

YEARS	CRAR (%)
2003-04	10.2
2004-05	12.1
2005-06	12.6
2006-07	12.0
2007-08	14.4

CONCLUSION

Indian banking industry is largely dominated by public sector banks with almost two third share of total advances to the economy. Private sector banks have shown their presence and have successfully expanded their business over last

five years in the Indian economy. The study conducted on the management of NPAs by new private sector banks found that there is significant improvement in the asset quality as reflected by decline in the diverse NPA ratios as well as asset wise classification of NPAs of these banks. Asset quality of banks has registered a noteworthy improvement with top most reduction in the NPAs level in non-priority sector. The study observed that 7 out of 8 new private sector banks have significantly reduced the Net NPAs to Net advances ratio and now fall in the category of less than 2 per cent class. The new private sector banks have managed to sustain a CRAR above the regulatory framework of Basel II requirements, and are effectively capitalized to meet any credit related stress. It is found that banks have been efficiently managing its assets over the period of study, however, rise in the NPA ratios over last two years shows that there is scope for further improvement in the recovery mechanism.

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