

Credit Management in Banks in India : Sector-wise Analysis

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Abstract

Assets quality in Indian banks have deteriorated sharply due to continued economic slowdown, which is a matter of concern not only for the lenders, but also for the policy makers. In this paper, an attempt has been made to study the trend relating to assets quality and credit management for public sector and private sector banks for the period from 2001-02 to 2013-14 through various ratio relating to default risk, recovery risk and restructuring. The results of this study indicates that at the overall level, the gross slippage ratio, up-gradation to reduction ratio, write-offs to reduction ratio, slippages to recovery and up-gradation ratio, net slippages ratio, slippages and fresh restructuring to advances, restructured advance ratio, stressed assets ratio and impaired assets ratio are found higher in public sector banks. This clearly indicates that slippages are more in this sector and the banks have resorted to restructuring extensively to report lower NPAs.

I Introduction

THE BANKS PLAY a catalytic role in economic growth of any country and NPAs in the banks is one of the most important indicator of their financial health. Since the onset of the Financial Crisis in 2008-09 in US, the global economy had continued to face bad times and Indian economy is not an exception. It is important for Indian banks to recall the lesson from the crises, as they face serious challenge of burgeoning NPAs in the system. As, the economic crisis emanates from banking crises due to higher levels of NPAs. Studies by Demircuc-Kunt (1989) and Barr and Siems (1994) have established that asset quality is a statistically significant predictor of insolvency and the failing banking institutions always have high level of non-performing loans prior to failure. Assets quality in Indian banks have deteriorated sharply due to continued economic slowdown, which has resulted in decline in bank's profitability and liquidity, degrading of banks'

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