ASSET QUALITY AND ACCOUNTING JUGGLERY IN INDIAN BANKS

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ABSTRACT

In the context of recent financial and banking crisis, the stability of the banking system becomes a priority on the agenda of the national monetary authorities. Since "asset quality" is widely accepted as the fundamental concept for the study of banking stability, this paper therefore attempts to highlight the asset quality of public and private sector banks in the pursuit of accounting jugglery and maneuvering techniques. One of the techniques banks use to depict even a financially weak and non-performing asset as standard asset is "ever greening". Moreover, as banks have become broad based financial institutions engaging in full spectrum of financial services their credit risk exposures have become more complex and interdependent. Hence, the risk and sensitivity of bank failures due to poor asset quality will trigger a chain reaction and generating negative externalities for the whole financial system has significantly grown. Consequently, there is a stringent need for appropriate regulations and proper asset quality surveillance by the national monetary authorities for macro prudential supervision. In present study, revenue slippage analysis and financial ratio analysis has been used to analyze the asset quality in banks. The asset quality of select banks has been statistically tested by using standard deviation, F Test and exponential growth rate. Further, for the purpose examining the impact of ever greening of credit portfolio simulation analysis has been attempted. The findings of the study reveals that reported asset quality of the banks has witnessed healthy improvement but one important revelation is that usage of "ever greening" of advance portfolio has become common practice among banks in India. Finally, study has identified that coefficients of credit growth were positive and statistically significant from second lag onwards reflecting that credit growth fed into growth in NPAs in a lagged manner.

Keywords: *Asset quality, Revenue slippage, Non-performing assets, Banking crisis, Ever greening, Capital adequacy.*

Introduction:

In search for competitive advantage now-a-days banks are increasingly placing more focus on asset quality and capital adequacy. Research has shown that high quality of assets contributes significantly to positive spread insulation, capital adequacy, and profitability and ultimately leads to increased shareholders value. The classic explanation of financial crisis, going back to hundreds of years, is that they are caused by excesses (frequently monetary excesses) which lead to a boom and an evitable bust (Taylor, 2008). Thus, if banks increase their credit excesses will throw them in credit crisis, resulting in deteriorating asset quality and capital adequacy. In recent crisis we had a housing boom and bust which in turn lead to financial turmoil in the US and other countries. Banks in these countries witnessed decline in asset quality mainly because housing bubble plausibly brought down house rentals and house prices.

Similarly main cause behind the Asian Financial crisis (Yen, 1999) was deteriorating asset quality in banks. It is argued (Nagle, 1991) that the future time bomb for bank collapses will be poor asset quality. Asset quality is therefore an important indicator of proper risk management practices and assures future solvency,

consequently leads to customers and shareholders satisfaction. The declining profitability of Indian banks after implementation of (Narasimham Committee, 1991) recommendations have revealed that asset quality has come to stay high on the agenda of bankers for avoiding banking crisis. The recommendations of the committee relating to asset classification, provisioning, income recognition and capital adequacy norms no doubt has improved the health of Indian Banks in terms of asset quality and risk cushion but has caused greater stress and strain on their profitability. Keeping in view the importance of asset quality in banks, supervisors and regulators need to understand the potential implications of the banks to depict rosy picture of asset quality on the financial and systematic stability of the banking sector. No doubt due to proper surveillance of advance portfolio, presently banks are leaving no stone unturned to depict better asset quality but they are frequently resorting to "ever greening concept" which enables them to show even weak and non-performing assets (NPAs) in better shape and size. All this is done by not managing the credit portfolio professionally but by resorting to various accounting jugglery and maneuvering techniques which has defeated very purpose of asset classification and provisioning norms.

As evidenced from recent American sub-prime crisis, the crisis in banking sector can engulf the entire economy because banks are the catalyst of growth. Banking crisis (Khan, 2000) crop in if non-performing assets touches 10% of total banking assets, resolution cost of crisis is 2% or more of GDP and banking problem results in large scale nationalization or extensive bank failures. Further, significant crisis is an extensive unsoundness of banking sector in terms of deterioration in asset quality or loan losses and thereby eliminating fully or partly bank capital. In recent years banking and financial crisis have become common phenomenon and various nations have already experienced the fall out of deteriorating asset quality and poor credit risk management in banks. Therefore, Indian banks are left with no alternative but to maintain better asset quality in order to meet ever increasing customer expectations and to remain competitive in the global market. This scenario has forced banks to pay attention on competing pricing of credit instruments, credit risk management and maintenance of high asset quality. In this context, the present study makes a modest attempt to deliberate on asset quality in the context of accounting jugglery in Indian banks.

Literature Review:

In the context of performance and systematic soundness of banks, asset quality is considered as a major outcome of perfect credit risk management and serves as a link between profitability and capital adequacy. The study of (William, 2009) demonstrates convincingly that all along the problems in the US money market were related to credit risk rather than liquidity, as he argues that credit crunch with large spillovers, seriously has weakened an economy which was already suffering from the lingering impacts of the oil price bout and the housing bust. A synoptic review of literature brings to the fore insights into various determinants of poor asset quality. A considered view is that banks' lending policy is a major driver of NPAs [(Reddy, 2004), (McGoven, 1998), (Bloem & Goerter, 2001)]. While critically reflecting on banks' investment portfolio and lending policy (Mohan, 2003) has conceptualized lazy banking as important reason for NPAs. Certain other reasons for poor asset quality highlighted by various researchers are poor credit investigation, appraisal and supervision (Taori, 2000), lengthy bank litigation process (Bhagavat, 1990), huge over dues in loan accounts (Kurup, 1990), poor house-keeping (Godse, 1990), industrial recession (Nambirajan, 2000), regulatory supervision (Rajagopal, 1996), macroeconomic instability (Chaudhari, 1997), capital controls (Rangarajan, 2000), thrust on rural credit (Thiugalaya, 1999), social objective (Joshi, 1987) and cross subsidization of activities (Bastian, 1998). In an empirical study (Rajaraman & Vashista, 2002) provided an evidence of significant bivariate relationship between an operating inefficiency indicator and the problem loans of public sector banks.

The important revelation in the context of asset quality and credit risk management has been made by the (Taylor, 2008). While providing empirical evidence that government actions and intervention caused, prolonged and worsened the recent sub-prime financial crisis. He revealed that along with other factors, the government actions prolonged this crisis by misdiagnosing the problem in the bank credit market and thereby responding inappropriately by focusing on liquidity rather than credit risk.

In India, in spite of high NPA ratio and poor asset quality in banks, fortunately Indian banking sector has been able to avoid severe crisis in recent times. Since most of the factors identified by researchers as main causes of poor asset quality and problems in bank credit, which lead to crisis in US and other countries are by and large present in Indian banking system, as such utmost care and precautions should be taken to check future banking crisis. After implementation of provisioning and accounting norms, banks' in India are now-a-days booking their incomes as per these norms under strict RBI supervision. However, banks' at certain point of time are resorting to ever-greening of their loan portfolio. Hence, reduction in NPAs (Hugar, 1998) and structured asset quality management (Taori, 2000) continues to be critical area in the real soundness and stability of banking system.

Table: 1- Statistical Analysis of Asset Quality Ratios of Select Public Sector Banks

Ratios	Banks	Mean Score	Standard Deviation	F-Value	Significance (Two Tailed)	ACGR	Significance of ACGR
Gross NPAs / Gross advances	SBI	12.57	5.28	0.18	0.839	-15.99	0.000
	BOB	13.14	5.22			-15.15	0.000
	PNB	11.85	3.97			-12.59	0.001
Gross NPAs / Total Assets	SBI	4.84	2.08	0.65	0.528	-14.93	0.000
	BOB	5.73	1.83			-11.93	0.001
	PNB	5.07	1.48			-10.23	0.002
Net NPAs / Net Advances	SBI	5.11	1.88	0.05	0.954	-13.72	0.000
	BOB	5.11	2.75			-23.36	0.000
	PNB	5.47	3.99			-53.76	0.006
Net NPAs / Total Assets	SBI	3.23	2.33	6.24	0.006	-22.77	0.000
	BOB	3.70	2.09			-25.15	0.000
	PNB	0.98	0.57			15.47	0.025

Research Objectives:

The study is undertaken to achieve the following objectives:

1. To analyze asset quality of select Banks in India;
2. To compare the asset quality of public and private sector banks in India;
3. To gauge impact of ever-greening of advance portfolio on revenue generation and profitability.

Research Methodology:

The studies on evaluation of financial stability of banks mostly use CAMELS parameters. The CAMELS acronym stands for Capital adequacy, Asset quality, Management, Earnings and Liquidity and Sensitivity. However, the asset quality evaluation is considered as strong variable for evaluation of bank stability. In order to study position of asset quality of Indian banks, the data regarding various variables on asset quality were collected from Prowess, Capital Line and RBI official website. To evaluate and analyze the asset quality of public and private sector banks three types of absolute amounts and ratios were compared namely Gross NPAs , Net NPAs, Outstanding Provisions, Gross NPAs as a percentage of Gross Advances, Net NPAs as a percentage of Net Advances and Outstanding provisions as a percentage of gross NPAs. In short, NPA ratios and coverage ratios have been used to compare the performance of two banking sectors. Further, revenue slippage due to existence of NPAs has been computed to analyze the impact of NPAs on bank profitability.

In order to gauge impact of accounting jugglery and maneuvering techniques used by banks on the position of asset quality of banks simulation analysis has been used. Further, In order to test the asset quality of select banks mean, standard deviation F-value and exponential growth rate has been used.

Findings and Discussions:

Within CAMELS parameters as used for evaluation of performance of banking companies, the asset quality is main parameter to gauge the soundness of a bank. Poor asset quality not only declines bank profitability by requiring high loan loss provisions charged to the profit and loss account, but carrying cost of these assets is also very high, which otherwise can be avoided by proactive management action. Apart from this, a poor asset quality will put severe strain on banks' net worth as credit risk increases and bank is supposed to maintain regulatory minimum risk adjusted capital adequacy ratio. The financial strength of banks' gets affected because their income recognition capacity gets depleted due poor asset quality, as a result slowly erodes their capital funds. The presenting incorrect picture of their advance portfolio further erodes the capital base of banks' because on unrealized interest they are supposed to pay tax. The results of the present study are outlined hereunder:

Asset quality evaluation of select Public and Private Sector Banks:

The select statistical analysis based on four important asset quality ratios' of three selected public sector banks (PUB) viz. State Bank of India (SBI), Bank of Baroda (BOB) and Punjab National Bank (PNB) is presented in Table-1. The analysis reveals a declining growth of asset quality and results are significant as P>.05.The absolute values of asset quality ratios are revealing no significant difference between the three public sector banks as is evident from F-Values at 5% level of significance except in respect of Net NPAs to Total Assets ratio. This implies that poor quality of assets affects the asset strength of banks. However, in terms of variability, more variability is observed in case of SBI and least in case of PNB because SD of all four ratios is highest for former and lowest for later.

Table: 2- Statistical Analysis of Asset Quality Ratios of Select Private Sector Banks

Ratios	Banks	Mean Score	Standard Deviation	F-Value	Significance (Two Tailed)	ACGR	Significance of ACGR
Gross NPAs / Gross advances	ING	6.76	4.28	8.54	0.001	-23.21	0.000
	FED	10.82	3.47			-11.16	0.000
	JKB	4.68	1.97			-13.37	0.000
Gross NPAs / Total Assets	ING	3.68	2.82	8.46	0.001	-24.17	0.000
	FED	5.94	2.09			-12.18	0.000
	JKB	2.10	0.91			-12.36	0.000
Net NPAs / Net Advances	ING	5.64	3.91	2.60	0.093	-18.63	0.002
	FED	5.03	3.28			-20.03	0.049
	JKB	2.66	1.60			-18.77	0.000
Net NPAs / Total Assets	ING	3.23	2.33	6.18	0.006	-22.77	0.000
	FED	3.70	2.09			-25.15	0.000
	JKB	0.98	0.57			15.47	0.025

Table: 3- Analysis of NPA Ratios and Coverage Ratios

Banks	Gross NPAs (Amount in crores of ₹)			Gross NPAs / Gross Advances (%)			Outstanding Provisions (Amount in crores of ₹)		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Public Sector Banks:-	**44,957**	**59,926**	**76,614**	**1.97**	**2.19**	**2.23**	**22,658**	**28,187**	**36,680**
Nationalized Banks	26,543	36,395	44,222	1.73	1.95	1.89	15,171	17,818	21,190
SBI Group	18,413	23,532	30,392	2.46	2.70	3.00	7,487	10,369	15,490
Private Sector Banks:-	**16,926**	**17,639**	**18,240**	**2.89**	**2.74**	**2.25**	**9,391**	**10,848**	**13,252**
Old Pvt. Sector Banks	3,072	3,622	3,699	2.36	2.32	1.97	1,826	2,066	2,466
New Pvt. Sector Banks	13,854	14,017	14,541	3.05	2,87	2.33	7,564	8,782	11,086
	Net NPAs (Amount in crores of ₹)			**Net NPAs / Net Advances (%)**			**Outstanding Provisions / Gross NPAs (%)**		
	2008-09	**2009-10**	**2010-11**	**2008-09**	**2009-10**	**2010-11**	**2008-09**	**2009-10**	**2010-11**
Public Sector Banks:-	**21,155**	**29,644**	**36,071**	**0.94**	**1.10**	**1.09**	**50.5**	**47.4**	**49.2**
Nationalized Banks	10,286	16,813	21,281	0.86	0.91	0.92	57.2	48.9	47.9
SBI Group	10,869	12,831	14,790	1.47	1.50	1.49	40.8	45.0	51.0
Private Sector Banks:-	**7,412**	**6,506**	**4,430**	**1.29**	**1.03**	**0.56**	**55.7**	**62.4**	**74.3**
Old Pvt. Sector Banks	1,159	1,272	0,982	0.90	0.83	0.53	59.4	61.3	66.7
New Pvt. Sector Banks	6,253	5,234	3,448	1.40	1.09	0.56	54.9	62.7	76.2

Source: *Compiled and computed on the basis of data given in* ***"Report on Trend and Progress of Banking in India"*** *published by Reserve Bank of India for 2009, 2010 and 2011.*

This shows asset quality of PNB is better than SBI and BOB.

The select statistical analysis based on four important asset quality ratios' of three selected private sector banks (PRB)viz. ING Vysya Bank (ING), Federal Bank (FD) and JK Bank (JKB) is presented in Table-2. The analysis depicts improvement in the asset quality of banks under study. The annual compound growth rate of the ratios is statistically significant and depicts better growth in asset quality ratios of banks under study. The absolute value of asset quality ratios are revealing significant difference between the banks as revealed by the F Test applied for this purpose at 5% level of significance as P> .05 except for one ratio i.e. Net N PA's to net advances.

However, in terms of variability JKB has registered least variability in case of all ratios as its S.D. is lowest amongst all banks under study. This shows that JKB is continuously maintaining high asset quality compared to other banks. Similarly FD is witnessing least variability compared to ING. From the statistical analysis it is evident that both private and public sector are able to bring down their NPA's in Titanic Style, provided figures given in their annual reports are correct and they have not used accounting jugglery in showing rosy picture of their credit portfolio.

Trend analysis of group wise asset quality of Public and Private sector banks:

In order to gauge overall asset quality picture of public and private sector banks the analyses of relevant NPA ratios are presented in Table-3. In recent years although the capital adequacy of Indian banks remained robust yet there were some emerging concerns with regard to the second important soundness indicator of banks of NPA's. The asset quality of Indian banks had generally seen a steady improvement since 1999 as level of gross and net NPA ratio has shown sharp decline (RBI Report: 2009-10). It clear from the analysis presented in Table: 3 that gross NPA ratio for PUB witnessed an increase to 2.19 percent (2009-2010) from 1.97 percent (2008-09), while within PUB gross NPA to gross advance ratio showed an increase for nationalized banks (NB) from 1.73 percent to 1.95 percent and for SBI group from 2.46 percent to 2.70 percent over the period of study. The gross NPA to gross advance ratio has declined for old PRBs from 2.36 percent to 2.32 percent and for new PRBs from 3.5 percent to 2.87 percent over the same period. Similarly, gross NPA to total asset ratio has witnessed decline for both public and private sector banks except minor increase in case of old private sector banks.

It is noteworthy that net NPAs to net advances ratio for PUB showed inflation from 0.94 percent to 1.10 percent over the previous year, while within the sector ratio has risen from .86 percent to .91 percent for NBs and from 1.47 percent to 1.50 percent for SBI group. However, the ratio for PRB has surged from 1.29 percent to 1.03 percent over the same period. Among PRB the decline for old private sector banks were .90 percent to .83 percent and for new private sector banks from 1.40 percent to 1.09 percent.

Similarly, the ratio of net NPAs to total assets followed similar behavior as was experienced in case of net NPAs to net advances ratio for both PUB and PRB. The increase in case of PUB and decrease in case of PRB in gross and net NPA ratios during the period of study clearly reveals that asset quality of PUB has deteriorated compared to PRB. The results of this study are corroborating with the results of RBI study (RBI, 2008), wherein empirical analysis taking growth rates of gross advances and gross NPAs since June 2008 indicated that NPA growth follows credit growth with lag of two years. The coefficients of credit growth were positive and statistically significant from the second lag onwards reflecting that credit growth fed into growth in NPAs in a lagged manner. This phenomenon has underlined that asset quality of banks get compromised during period of high credit off-take, which later results in the creation of non-performing assets in banks. The NPAs as a percent of gross/net advances rather than as a percent of total assets is a post-facto measure of failure to judge credit risk, whereas the latter is a measure of threat to solvency posed by the mismanagement (Rajaraman et al., 1999). A similar view was also expressed by (Mukerjee, 1998).

Revenue slippage analysis of Public and Private Sector Banks

The analysis of cash flow slippage as presented in Table-4 reveals that total revenue slippage for PUB recorded at ₹6,811 crores in 2008-09 has swelled up to ₹8,210 crores and ₹10,189 crores in 2009-10 and 2010-11 respectively. The highest surge was recorded for Nationalized Banks compared to SBI group within the sector. Similarly, the slippage for PRB showed inflation from ₹2,713 crores in 2008-09 to ₹2,368 crores and ₹2,398 crores in 2009-10 and 2010-11 respectively. The sharp rise in cash flow slippage were highest for new private sector banks compared to old private sector banks within the sector. Further, it can be seen from the analysis that provisions required for NPAs has added fuel to the fire, as it has deflated profitability to a grave level.

Table: 4- Revenue Slippage Analysis Due to NPAs and its Impact on Profitability

(Amount in crores of ₹)

Banks	Gross NPAs (₹)	Revenue Slippage due to NPAs (₹)					Provisions for NPAs (₹)	Increase in Profit at Zero NPA Level (₹)
		Revenue Loss		Cost of Funds Blocked		Total Revenue Slippage		
		%	Amount	%	Amount	Amount		
i. Public Sector Banks:-								
2008-09	44,957	9.11	4,096	6.04	2,715	6,811	22,658	29,469
2009-10	59,926	8.36	5,010	4.34	3,200	8,210	18,037	26,247
2010-11	76,614	8.41	6,443	4.89	3,746	10,189	29,133	39,322
a. Nationalized Banks:-								
2008-09	26,543	9.22	2,447	6.09	1,616	4,063	15,171	19,234
2009-10	36,395	8.48	3,086	5.35	1,947	5,033	11,518	16,551
2010-11	44,222	8.50	3,759	4.93	2,180	5,939	15,720	21,659
b. SBI Group:-								
2008-09	18,413	8.90	1,822	5.94	1,093	2,915	7,487	10,402
2009-10	23,532	8.63	1,913	5.32	1,251	3,164	6,519	9,683
2010-11	30,392	8.21	2,495	4.80	1,459	3,954	13,413	17,367
ii. Private Sector Banks:-								
2008-09	16,926	9.85	1,667	6.18	1,046	2,713	9,391	12,104
2009-10	17,639	8.60	1,517	4.83	851	2,368	10,393	12,761
2010-11	18,240	8.56	1,561	4.56	832	2,393	6,854	9,247
a. Old Private Sector Banks:-								
2008-09	3,072	10.01	307	6.67	204	511	1,826	2.337
2009-10	3,622	9.25	335	6.13	222	557	1,246	1,803
2010-11	3,699	8.98	332	5.50	203	535	1,149	1,684
b. New Private Sector Banks:-								
2008-09	13,854	9.80	1358	6.04	836	2,194	7,564	9,758
2009-10	14,017	8.40	1177	4.42	620	1,797	9,147	10,944
2010-11	14,541	8.44	1227	4.27	621	1,848	5,705	7,553

Source: *Compiled and computed on the basis of data given in **"Report on Trend and Progress of Banking in India"** published by Reserve Bank of India for 2009, 2010 and 2011.*

Table: 5- Simulation Analysis Showing Impact of Ever-greening on **Asset Quality of Banks**

(Amount in crores of ₹)

Banks	Decline in NPAs due to Ever-greening (₹)	Return credited on Ever-greened Advances		Revenue Slippage Due to Ever -greening of Sub Standard Advances (₹)			
		(%)	Amount (₹)	Revenue Loss	Co F	Extra Tax Payment*	Total Slippage
a. Public Sector Banks:							
2008-09	4,496	10.0	453	410	272	1,485	2,167
2009-10	5,993	8	545	501	320	1,961	2,782
2010-11	7,661	9.10	696	644	375	2,507	3,526
b. Private Sector Banks:		9.09					
2008-09	2,654		303	261	164	887	1,312
2009-10	3,640	11.4	369	313	176	1,200	1,689

Source: *Compiled and computed on the basis of data given in **"Report on Trend and Progress of Banking in India"** published by Reserve Bank of India for 2009, 2010 and 2011*

Notes: - 1.Return on Funds= (Interest earned on advances+ Interest earned on investment) / (Average of current and previous year's advances plus investments)

2. Cost of Funds= (Interest paid on deposits plus borrowings) / (Average of current and previous year's deposits plus borrowings)

The total deflation in profit due to NPA and provisioning thereof were recorded at ₹29,469 crores in 2008-09, 26.247 crores in 2009-10 and ₹39,322 for PUB, while it was recorded at ₹12,104 crores in 2008-09, ₹12,761 crores in 2009-10 and ₹9,247 crores in 2010-11 respectively for PRB. This manifestation depicts that huge amount of funds have

been lost due to poor asset quality and poor credit risk management. All this requires immediate attention of regulators otherwise this may lead to banking crisis in India. In this context, banks were allowed (RBI, 2008) to restructure their advances, as one time measure. However, there was always a concern how many of these restructured standard accounts will fall back into NPA category over a period of time as these borrowers were facing temporary cash flow problems in the wake of the global financial turmoil. The situation of asset quality would have been more dismal had the banks in India not resorted to accounting jugglery and maneuvering techniques in the form of ever-greening of less performing assets.

Simulation analysis showing impact of ever-greening of advance portfolio:

To assess the impact of ever-greening/restructuring of bad advances by banks as standard advances, simulation analysis is presented in Table-5. In presented analysis it has been assumed that banks only show 10 percent of substandard advances as standard advances. Based on this assumption, it is evident from the analysis that NPA figure of PUB will surge by ₹ 4,496 crores in 2008-09 crores, ₹5,993 crores in 2009-10 and ₹7,661 crores in 2010-11. Similarly, the NPA figure for PRB will deflate by ₹2,654 crores in 2008-09, ₹3,640 crores in 2009-10 and ₹4,422 crores in 2010-11. Thereby, the reported profit of the PUB would have declined by ₹2,031 crores in 2008-09, ₹2,619 crores in 2009-10 and ₹3,317 crores in 2010-11. Similarly, the reported profit of the PRB would have decreased by ₹1,221 crores in 2008-09, ₹1,581 crores in 2009-10 and ₹1,908 crores in 2010-11.

Table No5 Notes:

1.Revenue loss is computed by multiplying Return on Funds [i.e. (Interest earned on advances +Interest earned on investment) / (Average of current and previous year's advances plus investments)] on amount of declined NPAs due ever greening @10% (assumed)

2. Cost of Funds= (Interest paid on deposits plus borrowings) / (Average of current and previous year's deposits plus borrowings) is also computed on the amount of declined NPAs due to ever greening.

* Extra payment of tax is computed on the amount of provisions not maintained on over-greened advances and interest income credited to P&L A/c on over greened advances.

Further, the ever-greening have effect on income recognition of banks. The reported return on advances, which otherwise were bad or doubtful, of PUB is recorded at ₹453 crores in 2008-09, ₹545 crores in 2009-10 and ₹696 crores in 2010-11. Similarly, in case of PRB estimated income booked on these advances is recorded at ₹303crores in 2008-09, ₹ 360crores in 2009-10 and ₹428crores in 2010-11. Due to return booked on these advances the PUB are expectedly to have paid extra corporate tax to tune of ₹136crores in 2008-09, ₹163crores in 2009-10 and ₹209crores in 2010-11, while as PRB are expected to have paid extra corporate tax of ₹91crores in 2008-09, ₹108crores in 2009-10 and ₹128crores in 2010-11. Hence, one can easily perceive that even a minor percentage of ever-greening will enable the banks to depict a rosy picture of the advance portfolio and can help them to inflate profit to a desired level.

It is pertinent to mention here that the recognition of income on NPAs is against the prescribed income recognition norms of RBI and also contrary to Accounting Standard No. 9 on income recognition. It is as per the AS-9 that interest income on NPAs should be recognized only when it actually realized. The depletion in after tax net profits of these banks can be attributed to faulty income recognition, due to which they were supposed to pay extra corporate tax.

Conclusion:

The research findings of the present paper study brings to light that a significant variation in asset quality of PUB and PRB. The NPA for both the sectors though have shown decline in NPAs in a titanic style but asset quality of PRB is better than PUB. The slippage analysis depicts that revenue loss due poor asset quality is highest in case of PUB compared to PRB. However, within PRB the better asset quality is witnessed in case of young private sector banks thus they have also less revenue leakage. The better asset quality witnessed during 2008-09 can be attributed to restructuring guidelines issued by RBI (2008) regarding classification of substandard and doubtful assets as standard assets. These guidelines have helped banks to limit growth of gross non performing advances during global financial turmoil. However, serious reason for limit on growth of NPAs in banking industry is believed to be the usage of ever-greening of advance portfolio. This menace needs immediate attention of regulatory authorities, otherwise time is not far away when Indian banking industry will face crisis due to poor asset quality. This is also evident from inflated NPA ratio and depleting coverage ratio of provisions, which reflects a weak cushion to meet NPA losses. To sum up, in near future Indian banking sector needs to present transparent and correct picture of NPAs so as to support growth momentum in the economy while paying due importance to RBI classification and provisioning norms of advances together with adherence to AS-9.

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