

**ASSOCHAM**  
**FINANCIAL**  
**PULSE**  
**STUDY**

**Solvency Analysis of the Indian Banking Sector**

**November 2008**

*Prepared by*  
*Nusrat Ahmad*  
*Assocham Research Bureau*

## EXECUTIVE SUMMARY

- Net non-performing assets (NPAs) of 25 banks have risen by an average 21.75 per cent in Q2 FY '09 as against Q2 FY'08.
- The aggregate net non-performing assets (NPA) of 25 banks increased to Rs 17,992.82 crore in second quarter of 2008-09 from Rs 15,462.84 crore in the same period of FY'08
- The average capital adequacy ratio (CAR) of 25 banks slipped to 12.68 per cent in Q2-FY '09 from 13.41 per cent in the previous year.
- Karur Vysya Bank recorded maximum rise of 275.36 per cent in net NPAs in Q2-FY'09 with Rs. 50.03 crore as against Rs 13.33 crore in Q2-07.
- Seven major PSBs recorded a significant decrease in net NPAs.
- Among the private sector banks only South Indian Bank registered an improvement in net NPAs by -29.82 per cent.
- 16 banks witnessed a fall in their CAR from the previous fiscal, but they still managed to remain above the prescribed limit of nine per cent posed by the Basel II accord.
- Axis bank registered the maximum decline in CAR from 17.59 per cent in Q2 FY'08 to 12.2 per cent in Q2 FY'09.
- Federal Bank had the maximum rise in CAR upto 20.81 per cent in Q2 FY 2008-09 from 13.08 per cent a year earlier.

## **INTRODUCTION**

### **TIME PERIOD**

The report prepared by the team of ASSOCHAM Research Bureau has taken corporate results announced by Banks in second quarter ending September 2008. Those banks have been taken that have announced their results from 20<sup>th</sup>-29<sup>th</sup> of October 2008.

### **DATA SOURCE**

The report prepared is based on the data posted by banks on the Bombay Stock Exchange website.

### **SAMPLE SIZE**

The ASSOCHAM Research Bureau (ARB) has taken total of 25 banks including an aggregation of 15 public sector banks (PSBs) and 10 private sector banks.

### **PARAMETERS**

The AFP analysis of the Indian banking sector's solvency is based on two broad parameters including net non performing assets and capital adequacy ratio.

### **METHODOLOGY**

Simple average and sum of the total data for the two parameters are taken for the comparative analysis.

**21 per cent rise in NPAs of banks in second quarter and capital adequacy ratio declines by 2 percentage points, says Assocham study.**

If NPAs and CAR reported by the commercial banks are an indication of the financial strength, the second quarter results of the Indian banking sector do not portray a healthy picture. This is because the net non-performing assets have risen by an average 35 per cent while capital adequacy ratio reduced by 2 percentage points in Q2 of current fiscal as compared to the corresponding period of previous year, according to the Assocham Financial Pulse (AFP) Study.

The AFP Pulse study titled **“Solvency Analysis of the Indian Banking Sector”**, reveals that on an average 21 per cent rise in net non performing assets (NPAs) have been registered by 25 public sector and commercial banks during the second quarter of the FY'09 as against Q2-FY'08. However, the average capital adequacy ratio (CAR) of the banks slipped to 12.68 per cent in Q2-FY '09 from 13.41 per cent in the previous year.

The analysis of the Indian banking sector was based on the quarterly results posted by 25 Indian banks on Bombay Stock Exchange (BSE) from 20<sup>th</sup> - 29<sup>th</sup> October 2008. For a macro analysis, the total 25 banks included an aggregation of 15 public sector banks (PSBs) and 10 private sector banks. The AFP analysis of the Indian banking sector's solvency is based on two broad parameters including net non performing assets and capital adequacy ratio.

“Although the Indian banking sector has remained insulated from the global financial crisis, the emerging trends as found in the AFP do not give positive signals”, says the Assocham spokesman.

As per the AFP, the aggregate net non-performing assets (NPA) of 25 banks increased by 21.75 per cent to Rs 17,992.82 crore in second quarter of 2008-09 from Rs 15,462.84 crore in the same period of FY'08. Karur Vysya Bank recorded maximum rise of 275.36 per cent in net NPAs in Q2-FY'09 with Rs. 50.03 crore as against Rs 13.33 crore in Q2-07. It was followed by HDFC bank with an increase by 139 per cent, Vijaya Bank (132 per cent), State Bank of Hyderabad (81.42 per cent) and IDBI (57 per cent).

On the contrast, seven major PSBs recorded a significant decrease in net NPAs, including Union Bank of India (-73.38 per cent), Dena Bank (-17.24 per cent), Bank of India (-14.80 crore), Bank of Maharashtra (-7.75 crore) and Indian Bank (-1.54 per cent) have shown improvement in net NPA levels. Whereas, among the private sector banks only South Indian Bank registered an improvement in net NPAs by -29.82 per cent.

**Table 1: Net Non Performing Assets of banks**

Name of the bank	Net Non Performing Assets		
	Q2 FY08-09 RsCrore	Q2 FY07-08 Rs Crore	% Change
<b>Top 3 banks with maximum rise in net NPAs</b>			
Karur Vysya Bank	50.03	13.33	275.36
HDFC Bank	584.12	243.74	139.65
Vijaya Bank	268.42	115.6	132.2
<b>Top 3 banks with maximum decline in net NPAs</b>			
Union Bank of India	116.2	436.59	-73.38
South Indian Bank	43.64	62.18	-29.82
Dena Bank	248.25	299.95	-17.24

Source: Corporate Announcements for the quarter ending September 2008-09.

In terms of capital adequacy ratio, out of the 25 banks posting their results for the quarter ending September 2008-09, it was found that 16 banks witnessed a fall in their CAR from the previous fiscal, but they still managed to remain above the prescribed limit of nine per cent posed by the Basel II accord. The AFP study also

revealed that in Q2 FY'09, there were 11 public sector banks out of the total 16 banks that registered decline in CAR from the previous year.

Axis bank registered the maximum decline in CAR from 17.59 per cent in Q2 FY'08 to 12.2 per cent in Q2 FY'09. It was followed by HDFC bank from 14.9 per cent to 11.4 per cent, Bank of Maharashtra from 13.6 per cent to 10.78 per cent and ICICI bank recorded a decline from 16.79 per cent to 14.01 per cent respectively. In the second quarter of current financial year, the Central Bank of India registered a 9.85 per cent CAR from the previous 12.38 per cent. It was the only bank whose CAR dipped just around the thresh hold limit of 9 per cent CAR posed by the Basel II.

**Table 2: Capital Adequacy Ratio of the banks**

Name of the bank	Capital Adequacy Ratio (CAR)	
	Q2 FY08-09 (in %)	Q2 FY07-08 (in %)
<b>Top 3 banks with maximum decline in CAR</b>		
Axis Bank	12.2	17.59
HDFC Bank	11.4	14.9
Bank of Maharashtra	10.78	13.6
<b>Top 3 banks with maximum rise in CAR</b>		
Federal Bank	20.81	13.08
Yes Bank	14.28	13.02
Union Bank of India	12.53	11.55

Source: Corporate Announcements for the quarter ending September 2008-09.

However, Federal Bank had the maximum rise in CAR upto 20.81 per cent in Q2 FY 2008-09 from 13.08 per cent a year earlier. South Indian Bank at the second position registered a mere increase from 14.36 per cent to 14.44 per cent in the second quarter of current financial year.

Other banks which registered a significant rise in CAR include Yes Bank, whose ratio rose to 14.28 per cent over 13.02 per cent in previous year, City Union Bank

from 12.85 per cent to 13.24 per cent, Karnataka Bank from 13.03 per cent in the second quarter of the previous fiscal to 13.21 per cent in the current fiscal and Dena Bank registered an increase in the ratio from 11.47 per cent in Q2 FY'09 to 12.34 per cent in same quarter of the last fiscal.

## APPENDIX

### 25 Banks that have been analyzed for the study:

Name of the Bank
Allahabad Bank
Axis Bank
Bank of Baroda
Bank of India
Bank of Maharashtra
Bank of Rajasthan
Canara Bank
Central Bank of India
City Union Bank Ltd
Dena Bank
Federal Bank
HDFC Bank
ICICI BANK
IDBI LTD.
Indian Bank
IndusInd Bank Ltd
Karnataka Bank Ltd
Karur Vysya Bank
Oriental Bank of Commerce
South Indian Bank
State Bank of Hyderabad
State Bank of India
Union Bank of India
Vijaya Bank
Yes Bank

### 1) Non Performing Asset

Non-performing assets are loans made by a bank or finance company, on which repayments or interest payments are not being made on time.

Bank's NPAs can be attributed to several factors, including factors affecting industrial growth, a sharp decline in commodity prices, high level of debt in the financing of projects, and significant fall in interest rates in the Indian economy, which disincentivised repayments by customers.

## 2) Capital Adequacy Ratio

Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk

Capital adequacy ratios ("CAR") are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures.

Capital adequacy ratio is defined as

$$\text{CAR} = \text{Capital} / \text{Risk}$$

Where Risk can either be weighted assets () or the respective national regulator's minimum total capital requirement. If using risk weighted assets,