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Management of Non-Performing Assets in Andhra Bank

KEYWORDS: PSBs, CBs, NPAs, Globalization etc.

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ABSTRACT *Globalisation and liberalisation of Indian economy brought many changes in the Banking Sector which has shown positive effect on the economy. The Banking system in India has undergone drastic changes after financial sector reforms. A mounting level of NPA's in the banking sector can severely affect the economy in many ways. If NPA's are not properly managed, it can cause financial and economic degradation which in turn signals and adverse investment climate. Non-performing Asset is an important constraint in the study of financial performance of a bank as it results in declining margin and higher provisioning requirement for doubtful debts. The success of a banker lies in keeping these bad debts to the bare minimum as they cannot be avoided at all. This paper examines the trends of NPAs in India, particularly Andhra Bank in comparison with PSBs and Nationalized Banks. The scope of the study is limited to for a period of ten years i.e., from 2002-2011. The study is based on secondary data retrieved from annual reports of Andhra Bank, Report on Trend and progress of Banking n India. The objective of the study is to analyze the impact of NPAs on profitability of Andhra Bank as well as Public Sector Banks.*

1. INTRODUCTION
The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into picture. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. In recent times the banks have become very cautious in extending loans, the reason being mounting non-performing assets. Non-performing assets had been the single largest cause of irritation of the banking sector of India. Earlier the Narasimham committee-I had broadly concluded that the main reason for the reduced profitability of the commercial banks in India was given importance to priority sector lending. The committee had highlighted that priority sector lending was leading to the building up of non-performing assets of the banks and thus it recommended it to be phased out. Subsequently, the Narasimham committee-II also highlighted the need the zero non-performing assets for all Indian banks with international presence. The 1998 report further blamed poor credit decisions, behest-lending and cyclical economic factors among other reasons for the build-up of the non-performing assets of these banks to uncomfortably high levels. The committee recommended creation of Asset Reconstruction Funds or Asset Reconstruction Companies to start on a clean-state.

2. REVIEW OF LITERATURE
TOOR N.S. (1994) stated that recovery of non-performing assets through the process of compromise by direct talks rather than by the lengthy and costly procedure of litigation. He suggested that by constant monitoring, it is possible to detect, the sticky accounts, the incipient sickness of the early stages itself and an attempt could be made to review the unit and put it back on the road to recovery.1

S.N. BIDANI (2002) Non-performing Assets are the smoking gun threatening the very stability of Indian banks. NPAs wreck a bank's profitability both through a loss of interest income and write-off of the principal loan amount itself. This is definitive book which tackles the subject of managing bank NPAs in it's entirely, starling right from the stage of their identification till the recovery of dues in such accounts.2

DEBARSH AND SUKANYA GOYAL (2012) emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform based on Core Banking Solution, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the RBI. Non-performing Asset is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. The reduction of non-performing asset is necessary to improve profitability of banks and comply with the capital adequacy norms as per the Basel Accord.3

KAVITHA. N (2012), emphasized on the assessment of non-performing assets on profitability its magnitude and impact. Credit of total advances was in the form of doubtful assets in the past and has an adverse impact on profitability of all Public Sector Banks affected at very large extent when non-performing assets work with other banking and also affect productivity and efficiency of the banking groups. The study observed that there is increase in advances over the period of the study. However, the decline in ratio of Non-performing Assets indicates improvement in the assets quality of SBI groups, Nationalized Banks and Private Sector Banks.4

3. THE PRESENT STUDY
The present study is based on to assess the non – performing assets of Andhra Bank in comparison with public sector banks as well as nationalized banks and its impact on profitability. The study uses the annual reports of Andhra Bank for the period of ten years from 2001-02 to 2010-11. The data has been analyzed by using CV, SD, CGR, LGR, r-value.

4. NON-PERFORMING ASSETS IN ANDHRA BANK
A mounting level of NPA's in the banking sector can severely affect the economy in many ways. If NPA's are not properly managed, it can cause financial and economic degradation which in turn signals and adverse investment climate. Non-performing Asset is an important constraint in the study of financial performance of a bank as it results in declining margin and higher provisioning requirement for doubtful debts. Various banks from different categories together provide advances to different sectors like SSI, agricultural, priority sector, public sector & others. These advances need to be done pre-sanctioning evaluation and post-disbursement control to contain rising non-performing assets in the Indian Banking sector. The decline of NPA is essential to improve profitability of banks and fulfill with the capital adequacy norms as per the Basel Accord.

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5. ANDHRA BANK GROSS NON-PERFORMING ASSETS (NPAS) COMPARED WITH PSBS

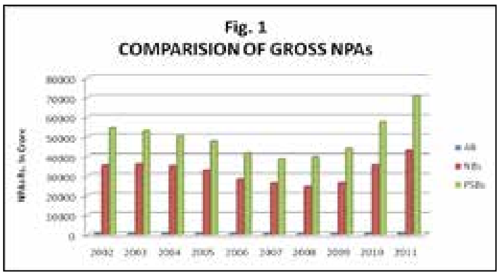
NPA is double edged weapon that tells on bank's profitability. On one hand banks cannot recognized income from NPA account and on the other, profit earned from other sources is diverted towards making provision for losses on NPAs. The gross and net NPAs of Andhra Bank are discussed in the following tables. The government could carve out NPAs from being restructured, replace bad assets with government bonds on balance sheets and have NPAs managed by an asset management company to fix the problems. Existence of high NPAs in one sector can lead to drying up of credit flow to others. This obviously leads to a contagion effect on the economy as a whole. The Gross NPAs of Andhra Bank compared with the Public Sectors banks are analysed in the Table 1.

TABLE 1
GROSS NPAs OF ANDHRA BANK vs. PUBLIC SECTOR BANKS (Rs. In Crore)
(By the end of March 31st)

Year	Andhra bank	Nationalised Banks	Public sector Banks	2 % of 3	2 % of 4
(1)	(2)	(3)	(4)	(5)	(6)
2002	524	35328	54423	1.48	0.96
2003	581	35849	52807	1.62	1.1
2004	615	34990	50148	1.75	1.22
2005	441	32888	47696	1.34	0.92
2006	437	28185	41378	1.55	1.05
2007	397	26046	38602	1.52	1.02
2008	372	24528	39749	1.52	0.93
2009	368	26169	44042	1.4	0.83
2010	488	35470	57301	1.37	0.85
2011	996	42907	71047	2.32	1.4
Total	5219	322360	497193		
Mean	521.9	32236	49719.3		
SD	186.66	5830.01	9849.42		
CV	35.77	18.09	19.81		
LGR	-6.8568	-6.5157	-5.8329		
r-value	-0.8282	-0.9531	-0.9678		
CGR	-7.3287**	-6.7265**	-6.0973**		
** Significant at 0.01 levels					
· * Significant at 0.05 levels NS Not significant					

Source:
1. Andhra Bank Annual Reports 2002-2011
2. RBI, Report on Trend and Progress of Banking in India 2002

Figure-1



The Table 1 analyzes that the Andhra Bank gross NPAs to nationalized banks increased from 1.48 per cent to 2.32 per cent during 2002-2011. When it compared with public sector banks, Andhra Bank NPAs share also increased from 0.96 per cent to 1.44 per cent. The average non-performing assets of the Bank is 521.9 crore with a standard deviation of 186.16. The annual compound growth rate is 7.32 per cent negative during the period.

6. ANDHRA BANK NET NPAs COMPARED WITH PSBs:

The Net Non-performing Assets of Andhra bank compared with the public sector banks are presented in Table 2. The percentage of net NPAs are calculated by using the formula net NPAs/net Advances X 100

TABLE 2
NET NPAs OF ANDHRA BANK vs PUBLIC SECTOR BANKS
(Rs. In Crore)
(By the end of March 31st)

YEAR	ANDHRA BANK		Public Sector Banks	
	Net NPAs. (Rs.)	%	Net NPAs(Rs.)	%
2002	237	2.45	27958	5.80
2003	206	1.79	24867	4.50
2004	120	0.93	18860	3.00
2005	49	0.28	16904	2.10
2006	52	0.24	14566	1.30
2007	47	0.17	15145	1.10
2008	54	0.15	17836	1.00
2009	79	0.18	21033	0.94
2010	96	0.17	29644	1.10
2011	274	0.38	36071	1.09
Total	1214		222884	
Mean	121.4		22288.4	
SD	85.89		7115.46	
CV	70.7467		31.9245	
LGR	-27.5065		-8.6695	
r-value	-0.8876		-0.8251	
CGR	-25.4642**		-8.8629**	
** Significant at 0.01 levels				
· * Significant at 0.05 levels NS Not significant				

Source:
1. Andhra Bank Annual Reports 2002-2011
2. Report on Trend and Progress of Banking in India: issues 2001-02 to 2010-11.

The Table 2 reveals that the net NPAs of Andhra Bank in terms of rupees are decreasing up to March, 2007 where from it is increasing till the end of March, 2011, it reaches to Rs. 274 crores. It is evident that Andhra Bank failed to take remedial measures in the last year that is why Net NPAs of Andhra Bank increased by 0.38 per cent. The percentage of Net NPAs of public sector banks decreasing from 5.80 per cent to 1.09 per cent in between 2002 to 2011. The average net NPAs of Andhra Bank is 121.4 with SD 85.89. The growth in net NPAs of Andhra Bank is negative i.e., CGR is 25.46 per cent with r-value - 0.8876 at 1 per cent level.

7. NON-PERFORMING ASSETS MIX IN ANDHRA BANK:

The application of Income Recognition norms categorizes the assets into performing assets into performing and non-performing. As per the Asset classification norms all the loan assets of a bank are to be classified into four broad groups standard, sub-standard, doubtful and loss assets. Among these, standard assets are treated as performing assets and the remaining three categories come under non-performing assets (NPAs). The Non-performing Assets of Andhra Bank are classified and depicted in Table 3.

TABLE 3
NPAs MIX IN ANDHRA BANK
(Rs. In Crore)
(By the end of March 31st)

ASSET CATEGORY		Sub – Standard assets	Doubtful assets	Loss assets	Total Gross NPAs
YEARS	2002	180	321	23	524
	2003	117	450	14	581
	2004	206	403	6	615
	2005	127	302	12	441
	2006	116	293	28	437
	2007	223	152	22	397
	2008	186	184	2	372
	2009	135	222	11	368
	2010	331	157	0	488
	2011	562	426	8	996

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	Total	2183	2910	126	5219
	Mean	218.3	291	12.6	521.9
	SD	137.241	110.836	9.276	186.665
	CV	62.868	38.088	73.619	35.766
	LGR	13.507	-5.219	-11.736	2.456
	r-value	0.6505	-0.4149	-0.4827	0.2079
	CGR	10.995	-5.851	#NUM!	0.843
** Significant at 0.01 levels					
· * Significant at 0.05 levels NS Not significant					

Source: Andhra Bank Annual Reports 2002-2011

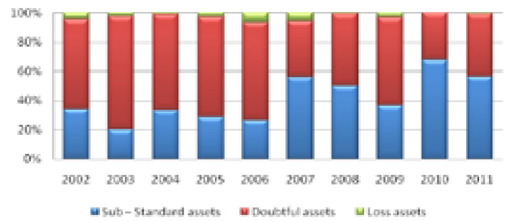

Fig. 2
COMPOSITION OF NPAs IN AB

The mix of NPAs is clearly visible from the above table 3 under three categories by the end of March, 2002 to the end of 2011. It is observed that the major NPAs are under doubtful asset category followed by substandard and loss assets. During the period the loss assets are very less and doubtful assets are major portion. In respect of NPAs with balance of Rs. 5.00 crores & above, bank needs to formulate policy for annual stock audit by external agencies & in respect of immovable properties, valuation to be carried out once in 3 years by approved values.

8. CAUSES FOR NON-PERFORMING ASSETS

A strong banking sector is important for a flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. The Indian banking system, which was operating in a closed economy, now faces the challenges of an open economy. It is very unfortunate that non-performing assets have increased not due to economic slowdown, delay in implementation of project, it is due to improper assessment of the proposals. Many banks still rely upon proposals come chartered accountants, intermediaries etc who just want to earn commission bring in proposal and recovery procedure is not effective. There are cases banks have lend crores of rupees, in spite of borrower had no background of business activity. The gross NPAs of public sector banks stood at Rs. 78,199 crores by the end of June 2011. As far as old NPAs are concerned, a bank can remove it on its own or sell the assets to AMCs to clean up its balance sheet. For preventing fresh NPAs, the bank itself should adopt proper policies. There are various factors behind the transformations of assets from performing to non-performing. The causes are funds borrowed for a particular Projects not completed in time, Poor recovery of receivables, lack of proper follow-up, Delay in sanctioning, Non-co-operation of Govt. Agencies in recovery, Social-political pressures, Imbalances of inventories, Poor quality management, Willful defaults, Natural calamities, Product failure due to lack of demand or quality, Industrial recession, power shortage, industrial recession, excess capacity, Strikes, lockouts and labour problems, Heavy market competition, Sluggish legal system, Low morale and ethics.

9. REMEDIES/SUGGESTIONS FOR REDUCING NPAs

To control the NPAs, some remedial measures are suggested as follows:-

- There must be an effective and regular follow-up with the customers and need to watch is there any diversion of funds. This process can be taken up at regular intervals.
- A number of personal visits after sanction and disbursal of credit and close monitoring of the operations of the accounts of borrowed units.
- Between the Bankers – borrower a healthy relationship should be developed. Many instances reported that the banks uses force in recovery of loans, which is unethical.
- Banks have to take decisions regarding filing of suits expeditiously and effectively follow-up the filed and decreed cases.
- Managers in charge of non-performing assets should have dynamism and seal in their work. But many of them are worried due to accountability fixed arbitrarily. Many managers say that "we do not fear to negotiate but we do not negotiate out of fear. Such fear leads to arbitrary negotiation, which fails.
- Frequent discussions with the staff in the branch and taking their suggestions for recovery of NPAs make them feel responsible.
- Priority sector lending involves more risk and less return. Hence the priority sector lending bench mark of 40 per cent of net bank credit should be redefined.
- Assisting the borrowers in developing his/her entrepreneurial skill will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds.
- Another way to manage NPAs by banks is compromise settlement schemes or One Time Settlement Scheme (OTS). However, under such schemes the banks keep the actual amount recovered in secret, under these circumstances, it is necessary to bring more transparency in such deals so that any flaw could be removed.
- RBI need to take necessary actions against defaulters like, publishing names of defaulters in News papers, broadcasting media, which is helpful to other banks and financial institutions.
- If the delinquencies are due to reasons beyond the control of borrower i.e. draughts, floods, natural disasters etc the banker should suitably restructure the loans taking into consideration of the genuine difficulty of the borrowers.
- Lok Adalats are identified as fast recovery agencies of smaller loans. The present maximum limit is Rs. 20 lakhs, which may be extended up to Rs. 50 lakhs.
- In the export related loan, banks have to check the authenticity of the firm with the export houses.

10. CONCLUSION

The problem of NPAs has been a major issue for the banking industry. The RBI which is the apex body for controlling level of non-performing assets have been giving guidelines and getting norms for the banks in order to control the incidents of faults. Reduction of NPAs in banking sector should be treated as national priority item to make the Indian Banking system more strong, vibrant and geared to meet the challenges of globalization. In the year 2002 the gross NPAs of Andhra Bank was 2.45 per cent and it has come down to 0.38 per cent by the end of 2011 whereas in the case of Public Sector Banks it has come down from 5.80 to 1.09 per cent for the above period. It is observed from the study that there is tremendous decline in NPAs of Andhra Bank as well in Public Sector Banks during the study period, even though enormous growth in advances. This was resulted with the introduction of prudential norms. The use of technology like Core Banking Solutions will bring change Indian Banking to manage their non-performing assets.

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