



## Impact of Recovery Management on NPA: a Case Study of Bank of Maharashtra

### KEYWORDS

Bank, NPA, Recovery Management

**Ritika N.Singh**

MBA Student, Dept of Business Admn, SSBT's COET, Bambhori, Jalgaon (MH), 425001

**Richa A. Modiyani**

Asst. Prof, Dept of Business Admn, SSBT's COET, Bambhori, Jalgaon (MH), 425001

**Harshal A. Salunkhe**

Asst. Prof, Dept of Business Admn, SSBT's COET, Bambhori, Jalgaon (MH), 425001

**ABSTRACT** *With the growing competition in the market and globalization coming into role it has become essential for any Bank to keep in touch with the recent technology & to survive in a market it is very essential to stick to rules and regulations of RBI, as it is the governing body of every nationalized bank. In many financial services, recovery forms the heart of its operation without which the organization can't survive. If there is no satisfactory recovery the bank will become sick. Thus, with this paper we are presenting the recovery management process & its impact on NPA with reference to Bank of Maharashtra covering the three financial years from 2009-10, 2010-11, and 2011-12. The study is purely based on Secondary data. Bank of Maharashtra is having a very strong recovery management policy which shows its impact on the level of NPA & its financial position.*

### Introduction

Recovery Management is the process of planning, testing, and implementing the recovery procedures and standards required to restore service in the event of a component failure; either by returning the component to normal operation, or taking alternative actions to restore service. Recovery Management is the acknowledgement that failures will occur regardless of how well the system is designed. The intent is to anticipate and minimize the impact of these failures through the implementation of predefined, pretested, documented recovery plans and procedures. The primary objective of recovery Management is to ensure that service level requirements are achieved. This is accomplished by having recovery procedures in place that will restore service to a failing component as quickly as possible.

Recovery is a key to the stability of the banking sector there should be no hesitation in stating that Indian banks have done a remarkable job in containment of Non-Performing Assets (NPA) considering the overall difficult environment. Recovery management is also linked to the bank's interest margin's we must recognize that cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the Indian banks.

### Objectives of Recovery Management

- NPA reduction
- Deposit growth
- Advance growth

### NPA- Meaning:-

Non- Performing Assets or a problem loan can be defined as "A loan where the lender has some doubts or is experiencing difficulties in obtaining repayments &, irrespective of the time frame, the outcome could be a loss of capital.

### Impact of NPA:-

- NPAs do not generate income
- They require provisions.
- Borrowing cost of resources locked in NPAs
- Enhances administrative, legal & recovery costs.
- Reduces profitability substantially.
- Affect the morale of the employees & decision making for fresh loan suffers.

### RBI's mechanism for recovery of NPAs:-

#### Debt Recovery Tribunals:-

Bill on Special Tribunal states that, as of September 1990, more than 15 lakh cases of the public sector banks were pending in various courts. On an average, it takes more than 10 years to get a court verdict. So, to overcome the problem of expeditious court remedies, the government has set up Special Tribunals in Jaipur and Calcutta under the Recovery of Debts Due to Banks & Financial Institutions Act, 1993.

#### Recovery through Private Agencies:-

For improving recovery in decreed account, the bank opted for this option. For this the Bank gives a specific percentage of commission to the advocates or agents, based on the amount recovered.

#### Lok Adalats

Lok Adalats have been found suitable for the recovery of small loans. According to RBIs guidelines issued in 2001. They cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered. Lok Adalats avoid the legal process.

#### Recovery Camps:-

Tribunals or no tribunals have to continue to deal with NPAs on war footing. In this regard, Bank of Maharashtra has a policy of organizing special "recovery camps". Conducting of recovery camps proves to be very helpful to recover the dues, particularly in rural/ semi urban branches. Participation of all concerned like Bank Staff, Govt. Agencies, etc. These camps are very effective, less expensive and create congenial atmosphere for recovery on large scale.

#### SERFAESI ACT- 2002:-

Securitizations and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitizations Act. This act enables the banks to issue notices to defaulters who have to pay the debts within 60 days. Once the notice is issued the borrower cannot sell or dispose the assets without the consent of the lender. The Securitizations Act further empowers the banks to take over the possession of the assets and management of the company.

#### Regional Level Review Committee (RLRC):-

To monitor the Non-Performing Assets meaningfully and systematically the Bank advised the Regional Offices to activate effectively RLRC to ensure creative dialogue on NPA

accounts every month and devising methods to bring down NPA level expeditiously.

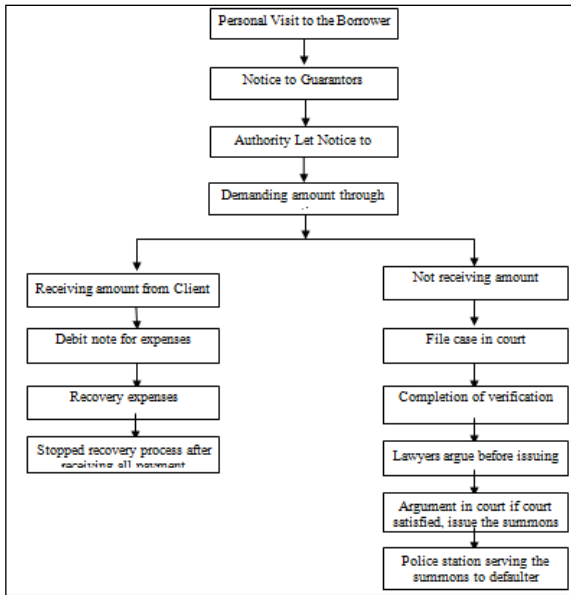
**Compromise Settlement:-**

Compromise Settlement Scheme provides a simple mechanism for recovery of NPA. Compromise Settlement Scheme is applied to advances below Rs. 10 Crores. It covers suit filed cases and cases pending with courts and DRTs (Debt Recovery Tribunals). Cases of willful default and fraud were excluding.

**PROCESS OF DEBT RECOVERY IN BANK OF MAHARASHTRA**

Every bank in order to recover the dues has a recovery process set for them. The usual legal process of recovery which is adopted by the bank is in the following nature.

**Legal Process of Recovery**



**Objectives -**

1. To study recovery management process in Bank of Maharashtra.
2. To study the impact of recovery process on NPAs of Bank of Maharashtra.

**Scope-**

1. It will be useful to know in which sector bank is more efficient in recovering its credit.
2. It will be useful to know about different credit recovery methods adopted by banks.
3. It will be useful to know how to reduce the NPA level of the bank.

**Limitations-**

1. The study is limited to only three financial years.
2. The study is limited only to Bank of Maharashtra.

**Research Methodology:-**

The study is mainly based on secondary data which is collected through books, published reports, newspapers, journals, projects, websites etc

**Data Analysis & Interpretation**

**Movement of NPAs (Rs. in Crore)**

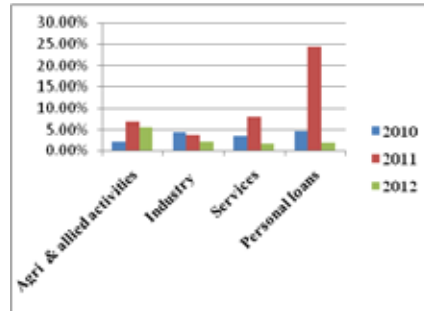
Particulars	Period ended	
	2011	2012
Gross NPA at the beginning of the period	1209.79	1173.70
Reduction in NPA	-	-

Cash Recovery in Ledger balance	277.70	248.91
Up-gradation of	107.70	109.03
Write Off	349.84	394.62
Total reduction in NPA	735.24	752.56
Addition to NPA	-	-
Fresh slippages during the period	687.39	873.30
Addition to existing NPA	11.76	2.59
Total addition to NPA	699.07	875.89
Gross NPA at the end of period	1173.70	1297.03

**Table No.1**  
**Sector wise NPAs (in %)**

Sr. No.	Sectors	% of NPAs to total Advances in that sector		
		2010	2011	2012
1	Agri & allied activities	2.06%	6.66 %	5.53 %
2	Industry (Micro, Small, Medium & large)	4.40%	3.63 %	2.20%
3	Services	3.56%	7.83 %	1.61 %
4	Personal loans	4.64%	24.47%	1.84 %

**Table No.2**

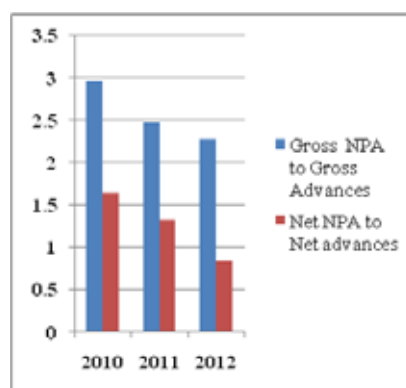


**Graph No. 1 - % of NPAs to Total Advances in that sector**

**Gross & Net NPAs (%)**

Particulars	Net NPAs in Percentages (%)		
	2010	2011	2012
Gross NPA to Gross Advances	2.96	2.47	2.28
Net NPA to Net advances	1.64	1.32	0.84

**Table No.3**



**Graph No. 2:- Gross NPA & Net NPA**

**Findings**

**From the Table No.1**

- It can be observed that the gross NPA was Rs.1209.79 cr. in 2011 in the beginning which was reduced to

Rs.1173.70 at end, while the level of NPA in 2012 was Rs.1173.70 cr. in the beginning and Rs.1297.03 cr. in the end.

#### From the Table No.2

- In 2010 the sector wise NPAs were 2.06% in agriculture sector, 4.40% in industry, 3.56% in services and 4.64 % in personal sector.
- It can be observed that the in 2011 the sector wise NPAs was 6.66% in agriculture sector, 3.63% in industry, 7.83%, in services and 24.47 % in personal sector.
- While in 2012 it can be seen that the level of NPAs in sectors were reduced remarkably and specially in personal sector which is reduced from 24.47% to 1.84 % during the year ended 31.03.2012.

#### From the Table No. 3

- It can be observed that the Gross NPA ratio reduced to 2.28% as on 31.03.2012 from 2.47% as on 31.03.2011. Net NPA ratio reduced to 0.84% at the end of FY 2011-12 from 1.32% a year ago.
- The bank follows all mechanism prescribed by RBI to make the recovery management more effective and re-

duce the NPAs level.

- The bank also take legal steps to suit & to issue notices to borrower if they not paying the dues.
- The bank organizes recovery camps, Re-schedule for recovery of the dues from borrowers.

#### Conclusion

The primary objective of recovery Management is to ensure that service level requirements are achieved. . If recovery is being properly made then it will help to generate fund and then the bank will have sufficient fund and it could provide loans and advances to its customer and generate its business. So it could be said that if recovery is properly done then it will help in all round development of the bank.

For banks it is necessary to keep the level of NPA low as it impacts upon the profitability of the banks and hence it is necessary to have strong recovery system that should be operated effectively with control and supervision of higher authorities.

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