

An Essay on the Incitements of Non-Performing Assets With Allusion to Indian Overseas Bank



Management

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ABSTRACT

Loans and advances are the most profitable of all the assets of the banks universally. These assets constitute primary source of income to banks. As business institutions, banks aim at making huge profits and are willing to lend loans and advances for a certain predetermined fixed period or maturity period. While lending loans advances the bank has to be careful about the safety of such loans. The borrowers must re pay the loans by the maturity periods or expiry date but there is no certainty that all the loans are recovered by the maturity date. Loans that cannot be recovered even after its maturity remain as non performing assets of the bank. Indian Overseas Bank is one of the premium nationalized banks which has a major lag in financial performance due to its undying and ever increasing non- performing assets. This study aims to bring out the significant internal and external factors that have a major impact on the performance of the Bank and also to determine the trend of NPA's impacts on the profits of the Bank. The project was carried on at Indian Overseas Bank, Coimbatore Main.

1. Introduction

Indian Overseas Bank (IOB) was founded on February 10th 1937, by Shri. M. Ct. M. Chidambaram Chettyar, a pioneer in many fields - Banking, Insurance and Industry with the twin objectives of specializing in foreign exchange business and overseas banking. IOB had the unique distinction of commencing business on 10th February 1937 (on the inaugural day itself) in three branches simultaneously - at Karaikudi and Chennai in India and Rangoon in Burma (presently Myanmar) followed by a branch in Penang. At the dawn of Independence, IOB had 38 branches in India and 7 branches abroad. Deposits stood at Rs.6.64 crores and Advances at Rs.3.23 crores at that time. IOB was one of the 14 major banks that were nationalized in 1969. On the eve of Nationalization in 1969, IOB had 195 branches in India and as of now it has about 3080 branches in India alone and is expecting to increase this number by the end of this year. However, one of the major concerns of the bank has been its ever rising level of non- performing assets which currently stands at 2.5%. The Reserve Bank has issued directives from 31/03/1993 and presented a new concept of Income Recognition". This is done on the recommendations of Narsimham Committee. According to these directives the banks have to classify their credit facilities into two parts:

- (1) Performing Assets (Standard Assets)
- (2) Non – Performing Assets

Indian Overseas bank has recovered well from the financial setbacks of 1990s to emerge as a strong bank with one of the highest return on assets (0.25% as of March 2013). However, the impacts of the Non Performing Assets have a dramatic impact on the profits as the financial performance of the Bank has been dipping due to the chronic effects of NPAs. Hence, my study deals with the identification of the various sources of NPAs that have a major impact on the performance of Indian Overseas Bank and to find out the industry which will prove to be a massive impacting one on the overall NPA.

Objectives of the study

The primary objective of this study on Non-Performing Assets at Indian Overseas Bank is to identify the industrial segments which cause a major impact on the bank's performance in terms of NPAs and also to assess the level of NPAs in different segments as compared to the industrial average of the banking activities. The secondary objective is to provide recommendations based on loan restructuring and stressed asset management techniques to improve the Bank's financial performance with regard to setbacks due to Non-Performing Assets.

2. Review of Literature

The problems faced by Non- Performing assets with regard to the performance of banks have been predominant since 1990s. According to a study by Navjot Singh et. Al, NPAs in various

banks that are of various categories as public, private sector banks mainly depend upon their strategies for management employed and also is the main reason for depletion of profits of banks. Their study was conducted across 15 private sector banks and public sector banks in and across 13 public sector undertakings in the year 2011. The reports of this study show results from analysis of both primary and secondary data. A study entitled, "A sector wise analysis of non performing assets in State Bank of Travancore" by Devi Premnath and Balachandran. S analyzes the ratio of gross NPAs to that of the total loans and advances and also identifies the trends for various sectors divided as priority, non- priority and public sector banks. In a study titled, "Banking sector reforms and NPAs" authored by Meenakshi Rajeev and H P Mahesh, NPAs in banks are the root cause for financial global turmoil.

3. Research Methodology

The type of research used for the study is quantitative research as it aims to measure the quantity or amount and compares it with past records and tries to project for future period. The process of measurement is central to quantitative research because it provides fundamental connection between empirical observations and mathematical expressions of quantitative relationships. For making the study more reliable and justifiable, secondary data has been used in this study. The annual audited reports of the bank are the major sources of the data for the study. However, beside the annual reports of the banks, the following sources of data are also considered.

1. IIFL reports
2. Annual reports of Indian Overseas Bank
3. Various publications dealing with the subject matter of the study
4. Articles on non-performing assets published in prominent newspapers and journals

Other sources like dissertations, remarks by the specialists on the subject, those are capable in providing valuable data and conclusion, are also considered in the study. The statistical data over the past three years on the non-performing assets of India Overseas Bank in an industry wise allocation for 12 different quarters is used for the research and for the overall details, 10 years of data is used. The tools used for this study vary upon the basis of the nature of the data as:

- Trend analysis
- Simple Percentage Analysis

4. Analysis and Interpretation:

The secondary data with regards to the industry wise segregation of NPAs of IOB for the past 12 quarters has been obtained from the bank. Other details with regard to the overall NPAs and other financial details have also been obtained from the bank.

For this data, tools used include trend analysis, percentage analysis and correlation.

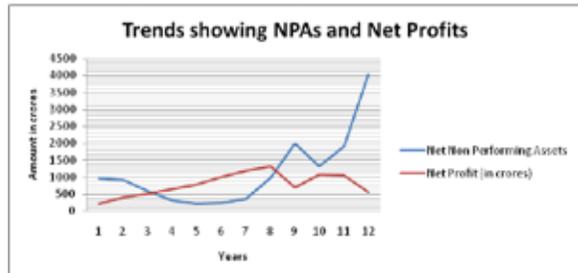
4.1 Trend Analysis

4.1.1 Net NPA and Net Profit

A trend can be charted out for the Net NPAs and the Net Profit so as to identify the relationship between the two elements. Table 1 attached as a part of annexure.

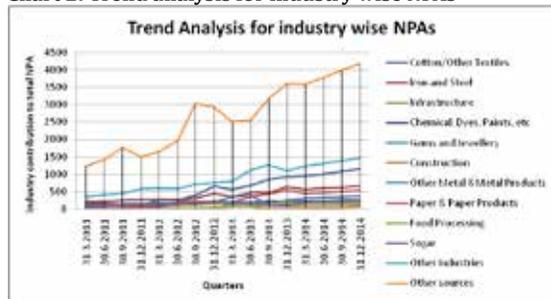
Chart 1: Trends showing NPAs and Net Profits

4.1.2 Industry wise trend analysis



An industry wise trend analysis for the quarter based data of the bank has been done so as to have an understanding on the individual performance of each industry which is a major contributor to the overall figures depicting the non- performing assets of the bank. Trend analysis shows the graphical representation of how the industry is fairing and also if the respective industry is showing an upward or a downward trend in terms of its quarterly contribution towards the bank's gross NPAs. The trends for the next quarters can also be generated. Table 2 containing the trends for various industries for the next four years indicated in the annexure.

Chart 2: Trend analysis for industry wise NPAs



4.2 Simple Percentages

This ratio helps us to identify the intensity of the relationship between variables overtime. It defines the quantum of impact of one variable over the other.

4.2.1 Percentage of Gross Non Performing Assets to Total Advances

This analysis helps us to understand the relationship between gross non- performing assets with that of the total advances. It shows how this percent has been on a falling trend from where it was 10 years ago at 11.99% to 4.02% in the year 2012-2013. This percentage change only stands to denote the improvement of performance of the bank over the past 10 years.

Table 3: Table indicating the percentage of gross non performing assets to total advances

Year ended 31 March,	Total Advances(in crores)	Gross Non Performing Assets	(%) Gross Non Performing Assets (GNPA to Total Advances)
2013	160,364.12	6,607.96	4.02
2012	140,724.44	3920.07	2.74
2011	111,832.98	3089.59	2.72

2010	79,003.93	3611.08	4.47
2009	74,885.27	1923.41	2.54
2008	60,423.84	996.95	1.63
2007	47,060.29	1120.21	2.34
2006	34,756.20	1227.55	3.43
2005	25,205.19	1388.15	5.28
2004	20,294.86	1575.85	7.4
2003	17,447.00	1896.48	10.29
2002	15,162.34	1818.54	11.99

The formula used for doing this calculation is;

4.2.2 Percentage of Net Non Performing Assets to Total advances

This percentage analysis shows the relationship between Net Non Performing Assets to Total Advances. From 6.31% ten years ago, this ratio has dipped to 2.50% in 2012-2013. This is higher than the other players in the industry but still is below the overall industry average for net NPAs in India which stands at 5.6%.

Table 4: Table indicating the percentage of net non- performing assets to total advances

Year ended 31 March,	Total Advances(in crores)	Net Non Performing Assets	(%) Net Non Performing Assets (NNPA to Total Adv)
2013	160,364.12	4,027.21	2.50
2012	140,724.44	1907.44	1.35
2011	111,832.98	1328.42	1.19
2010	79,003.93	1994.97	2.52
2009	74,885.27	999.14	1.33
2008	60,423.84	363.2	0.6
2007	47,060.29	257.83	0.55
2006	34,756.20	224.33	0.65
2005	25,205.19	319.2	1.27
2004	20,294.86	577.52	2.85
2003	17,447.00	912.21	5.23
2002	15,162.34	957.51	6.31

The formula used for doing this is:

$$\%NNPA \text{ to Total Advances} = \frac{\text{Net Non Performing Assets}}{\text{Total Advances}} \times 100$$

5. Findings and suggestions

- The ratio of Gross and Net NPAs to Total advances has a rising trend hence the bank has to take measures to reduce this.
- The industry wise analysis shows that most of them are at an upsurge which indicates that the bank has to be more cautious while granting loans to such sectors.
- Several industries like paper, food processing, sugar etc, have a falling trend as with respect to NPAs and in other cases, a Stressed Asset Management company can be set up to solve the problems of NPAs.

6. Conclusion

Growing NPAs is one of the biggest problems that the Indian banks are facing today. If proper management of the NPAs is not undertaken it would hamper the efficiency of the banks. NPAs destroy the current profit and interest income and affect the smooth functioning of the recycling of the funds. Banks also redistribute losses to other borrowers by charging higher interest

rates. Lower deposit rates and higher lending rates repress savings and financial markets, which in turn hampers the economic growth of the country. Thus, it is highly essential for the banks to focus their attention on growth of NPAs and take appropriate measures to regulate their growth.

Table 1 Trend analysis for NPAs and Net Profits

Year	Net Non Performing Assets	Net Profit (in crores)
2013	4,027.21	567
2012	1907.44	1050
2011	1328.42	1073

2010	1994.97	707
2009	999.14	1326
2008	363.2	1202
2007	257.83	1008
2006	224.33	783
2005	319.2	651
2004	577.52	513
2003	912.21	416
2002	957.51	230

Table2 Trend analysis for industry wise NPAs

Year	Cotton	Iron and Steel	Infrastructure	Chemical, Dyes, Paints, etc	Gems and Jewellery	Construction	Other Metal & Metal Products	Paper & Paper Products	Food Processing	Sugar	Other Industries	Other sources
31.3.2011	183	229	180	160	127	8.5	61	126	23	36	357	1226.4
30.6.2011	157.69	225.29	140.7	158	125.7	8.46	88.79	126.31	23.19	33.97	412.17	1413.62
30.9.2011	127	261	124	122	106	11.8	156	118	28	34	454	1756
31.12.2011	134	277	124	132	65	12.3	167	120.9	37.9	39.98	576.98	1503.2
31.3.2012	265.96	280.35	125.9	147	43.38	7.09	188.64	111.95	39.19	44.01	598.78	1658.17
30.6.2012	255	279	120	153	43	13	189	129	39	209	589	1953
30.9.2012	399.1	329.46	112.3	143	23.64	23.32	169.2	174.93	40.94	205.96	713.74	3033.19
31.12.2012	664.19	449.7	158.2	224	13.7	23.03	208.31	215.41	57.28	206.29	749.83	2938.76
31.3.2013	559.24	350.3	142	189	165.8	69.62	365.93	212.03	75.31	199.8	784.18	2507.57
30.6.2013	676.24	472.3	167.5	195	201.8	61.59	396.93	363.87	78.31	149.64	1115.94	2548.64
30.9.2013	837.23	470.05	104.8	225	178.7	23.16	136.9	427.01	109.85	115.95	1266.26	3169.15
31.12.2013	926.41	651.77	93.07	222	139.9	33.07	249.26	543.01	192.55	100.68	1092.63	3614.09
31.3.2014	932.06	566.66	114.6	225	141.1	49.48	316.81	445.7	135.66	195.09	1226.47	3584.92
30.6.2014	998.6	599.03	111.8	233	147	53.31	335.08	480.05	147.02	207.48	1303.49	3786.17
30.9.2014	1074.1	631.4	109.1	241	152.9	57.14	353.35	514.41	158.34	219.86	1380.5	3987.42
31.12.2014	1149.7	663.77	106.3	249	158.8	60.97	371.61	548.77	169.68	232.25	1457.52	4188.66

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