

A Study on Non-Performing Assets in Select Private Banks



Management

KEYWORDS :

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INTRODUCTION

Non-Performing Assets are popularly known as NPA. Commercial Banks assets are of various types. All those assets which generate periodical income are called as Performing Assets (PA). While all those assets which do not generate periodical income are called as Non-Performing Assets (NPA). If the customers do not repay principal amount and interest for a certain period of time then such loans become non-performing assets (NPA). Thus non-performing assets are basically non-performing loans. In India, the time frame given for classifying the asset as NPA is 180 days as compared to 45 days to 90 days of international norms.

PROVISION ON TYPES OF ASSETS

Type of Assets	Provisions
1 Standard Assets	0.25 % for all type of Standard Advances
2 Sub-Standard Assets	10 % for all types of Standard Advances
3 Doubtful Assets	
- Up to One Year	100 % of unsecured Advances and 20 % of secured Advances
- One to three Year	100 % of unsecured Advances and 30 % of secured Advances
- more then three Year	100 % of unsecured Advances and 100 % of secured Advances
4 Loss Assets	100 % of unsecured Advances and 100 % of secured Advances

STATEMENT OF THE PROBLEM

- Growing rate of NPA is a big concern for every bank in India
- Speedy recovery tools are becoming too costly and time consuming to the bank.
- Goodwill of the bank brings better business but NPA acts as hurdles for new business opportunity to the bank.
- More and More Unmanageable by the bank.
- It Affect the bank Profitability, liquidity and equity.

OBJECTIVES OF THE STUDY

- To understand what is Nonperforming Assets and what are the underlying reasons for the emergence of the NPAs.
- To understand the impacts of NPAs on the operations of the BANK OF BARODA.
- To Know the Concept of Non-Performing Asset
- To know Preventive Measures
- To analyse financial performance of banks at different level of NPA
- To Know the Reasons for NPAs

REVIEW OF LIETRATURE

Dr. S. Rajamohan, in his article titled Analysis of NPAs of the Public Sector Banks in India found that the growth of NPAs consumes the precious time of the staff for preparing a large volume of return to substandard, doubtful, loss assets, preparing proposal for finding of suit monitoring legal acts and so on. So that the bank should be kept personnel touch with the customers through effective customer relationship management.

AnshuBansal, in his article titled —a study on recent trends in risk management of non-performing assets by public sector banks in India found that while gross NPA reflects the quality of the loans made by banks, net NPA shows the actual burden of banks. The banks have to take the initiative to reduce NPAs

in a time bound strategic approach. There has been a continuous decrease in the period considered to declare a loan as non-performing. The continuous decrease in the period is to bring Indian banking norms at par with international norms. This move will certainly reduce the NPAs and in turn improve the asset quality of the banks.

Dr. Mohan Kumar, Govind Singh, in his article titled mounting NPA's in Indian commercial banks|| highlighted that NPA's level in India is not so high as compared to China and other countries. This problem is seriously discussed in the context of public sector banks, but it is now evident that even private banks are not in a better position either to avoid or curtail NPA's growth. Recovery performance is better with respect to individual small borrowers but it is slow in case of corporations and institutional borrowers.

SCOPE OF THE STUDY

- Study is focused on NPA in BANK OF BARODA.
- Study emphasis on various behavioral approach of borrower(standard and NPA account customers)
- External environment factors which affects Bank in collecting/Recovering NPA is revealed.

LIMITATIONS OF THE STUDY

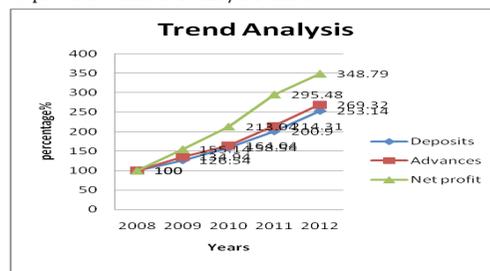
- Collection of data from the bank is difficult.
- Banks are being overburdened with work so sharing knowledge from bank employees was limited.
- Study made at single branch is not enough. So the overall banking practice and regulations in India with regards to NPA can't be determine

ANALYSIS AND INTERPRETATION

TABLE SHOWING TREND ANALYSIS

(Base year 2007 -08)	Change in Percentage(%) figures				
Particulars	2008	2009	2010	2011	2012
Deposits	100	126.54	158.54	200.9	253.14
Advances	100	134.94	164.04	214.31	269.32
Net profit	100	155.14	213.04	295.48	348.79

INFERENCE :An advance also shows increasing trend from 2008 to 2012. There has been a substantial increase in net profit from 2008 to 2012 and that is higher than the deposits and the advances. With the increase in deposits obviously bank is forced to provide various loans/advances.

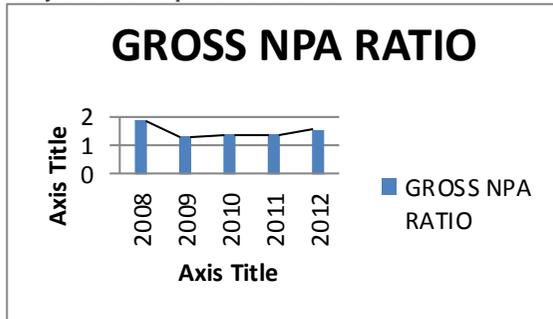


GROSS NPA RATIO

Gross NPA is the sum of all loan assets that are classified as NPA as per the RBI guidelines.

YEARS(31 st Mar)	GROSS NPA RATIO (%)
2008	1.84
2009	1.27
2010	1.36
2011	1.36
2012	1.53

INFERENCE: Gross NPA ratio in present scenario is not a good sign for the bank. It also indicates the rise in NPA and poor recovery and follow-ups from the banker.



NET NPA RATIO

The net NPA percentage is the ratio of net NPA to net advances, in which the provision is to be deducted from the gross advance.

YEARS(31 st Mar)	NET NPA RATIO (%)
2008	0.47
2009	0.31
2010	0.34
2011	0.35
2012	0.54

INFERENCE :High NPA ratio indicates high amount of risky assets in the bank for which no provision are made. The NPA ratio of the bank has been improved quite well as compared to the previous year. High Risky assets are always a hectic problem of the bank.

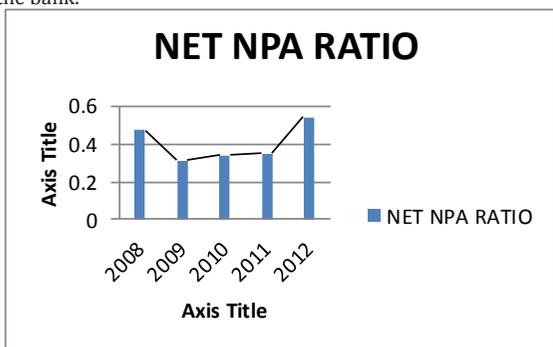


TABLE SHOWS THE NET INTEREST MARGIN RATIO

NET INTERSET MARGIN RATIO			
YEARS	INTEREST RECEIVED	LOAN & ADVANCES	RATIO
2008	118134767	1067013241	11.07153712
2009	150915774	1439858961	10.48128866
2010	166983424	1750352859	9.53998636
2011	218859156	2286763609	9.570694371
2012	296737242	2873772935	10.32570244

INFERENCE: In 2008 the ratio is high and the firm also in good condition but after three years the net margin ratio is low and the firm is not good. But in 2012 the rate has been little bit increased and the firm can be good follow-ups.

CHART SHOW THE NET INTEREST MARGIN RATIO

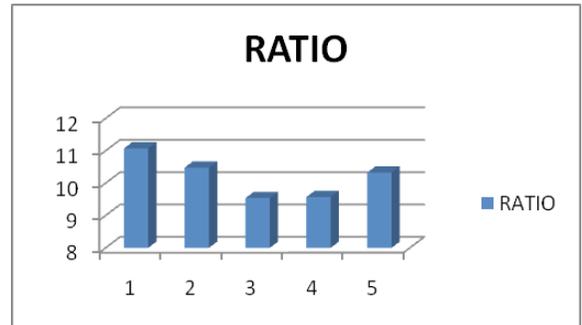


TABLE SHOW THE RETURN ON TOTAL ASSET RATIO

RETURN ON TOTAL ASSET RATIO			
YEARS	NET PROFIT	TOTAL ASSET	RATIO
2008	14355215	1795995162	0.799290293
2009	22272018	2274067254	0.979391351
2010	30583310	2783167028	1.098867215
2011	42416797	3583971754	1.183513708
2012	50069562	4473214670	1.119319454

Infrence:The Return on total asset is in the good level of the bank in 2008-2012. The level of asset ratio can be increased step by step of the 5 years.

CHART SHOW THE RETURN ON TOTAL ASSET RATIO

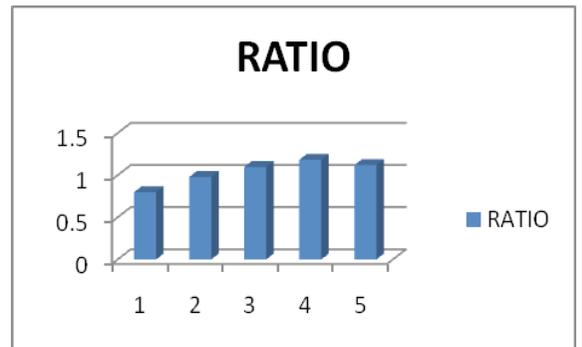
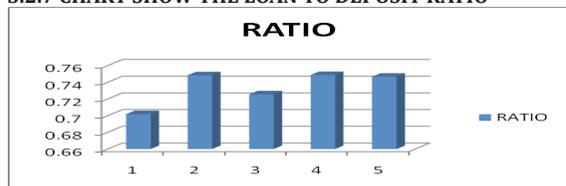


TABLE SHOW THE LOAN TO DEPOSIT RATIO

LOAN TO DEPOSIT RATIO			
YEARS	LOANS	DEPOSIT	RATIO
2008	1067013241	1520341272	0.701824821
2009	1439858961	1923969517	0.7483793
2010	1750352859	2412619252	0.725499002
2011	2286763609	3054394819	0.748679769
2012	2873772935	3848711059	0.746684511

Infrence : Above table show the value of loan deposit of the bank in 2008-2012. The ratio of the Loan to deposit is not good for the bank because only in 2008-2009 the light positive changes made and after years the changes can be decreased negatively.

5.2.7 CHART SHOW THE LOAN TO DEPOSIT RATIO



5.1.8 TABLE SHOW THE LOAN TO TOTAL ASSET RATIO

LOAN TO TOTAL ASSET RATIO			
YEARS	LOANS	TOTAL ASSETS	RATIO
2008	1067013241	1795995162	0.594106968
2009	1439858961	2274067254	0.633164634
2010	1750352859	2783167028	0.628906868
2011	2286763609	3583971754	0.638052911
2012	2873772935	4473214670	0.642440202

Inference: Above Table shows the Loan to asset ratio it also increased step by step in the year 2008-2012. It increased the value of the bank.

CHART SHOW THE LOAN TO TOTAL ASSET RATIO

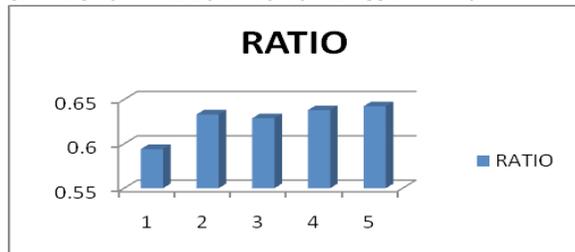


TABLE SHOW THE TOTAL EXPENSES RATIO

TOTAL EXPENSES RATIO			
YEARS	EXPENSES	INCOME	RATIO
2008	138645128	124289913	111.5497828
2009	178492354	156220336	114.2567982
2010	195046989	164463679	118.5957837
2011	246951016	204534219	120.7382399
2012	330960524	280890962	117.8252663

Inference: Above Table shows the Expenses of the Bank from 2008-2012. The expenses can be increased in year by year but it can't be controlled it is one of the essential of every firm. But it controlled in 2012 by the bank is the good maintenance of the bank.

CHART SHOW THE TOTAL EXPENSES RATIO

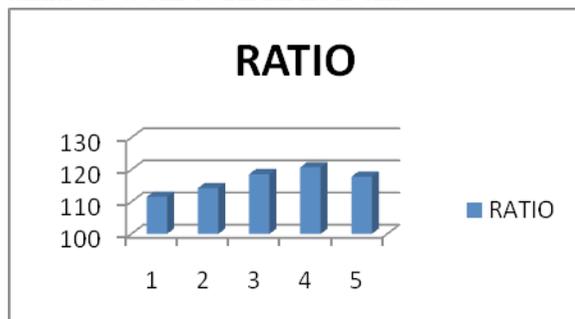


TABLE SHOW THE NET CAPITAL EMPLOYED RATIO

NET CAPITAL EMPLOYED RATIO			
YEARS	TOTAL ASSETS	CURRENT LIABILITY	RATIO
2008	1795995162	1792339885	3655277
2009	2274067254	2270411977	3655277
2010	2783167028	2779511751	3655277
2011	3583971754	3580043681	3928073
2012	4473214670	4469090824	4123846

Inference: The Net Capital of the bank is used to value of the firm. The year 2008-2010 is the same capital maintained and 2011-2012 the put additional capital for needed of the capital of the bank.

CHART SHOW THE NET CAPITAL EMPLOYED

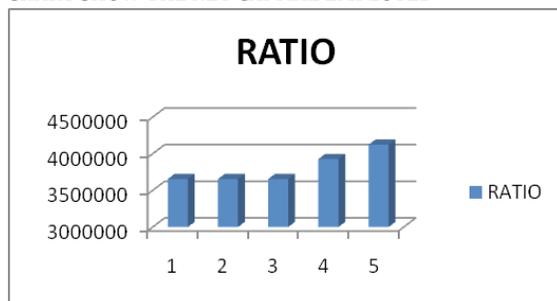
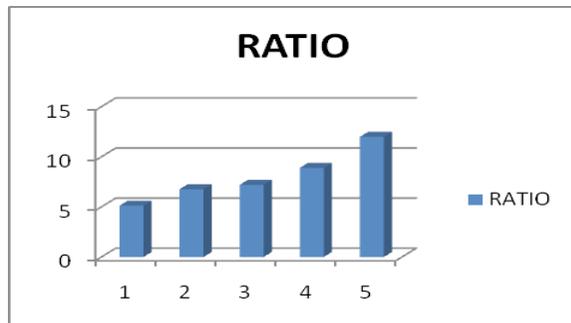


TABLE SHOW THE ASSET TURNOVER RATIO

ASSET TURNOVER RATIO			
YEARS	TOTAL INCOME	FIXED ASSET	RATIO
2008	124289913	24270081	5.12111653
2009	156220336	23097193	6.763606989
2010	164463679	22847648	7.19827612
2011	204534219	22997183	8.893881438
2012	280890962	23415020	11.99618715

Inference: Above Table shows the value of Asset turnover from the year 2008-2012. It cannot be made big changes. The change is the normal.

CHART SHOW THE ASSET TURNOVER RATIO



FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

- The Trend analysis reveals the consistent increase in Deposits, Advances and Net Profit from 2008-2012.
- The GNPA Ratio reveals that the highest is 1.84 in 2008 and lowest is 1.27 in 2009.
- The NNPA Ratio reveals that the highest is 0.54 in 2012 and lowest is 0.31 in 2009.
- The Regression Analysis reveals that is the relationship be-

tween GNPA and NNPA.

- The Net Interest Margin Ratio reveals that the highest ratio is 1.12 in 2012 and lowest is 0.79 in 2008.
- The Loan to Deposit Ratio reveals that the highest ratio is 0.748 in 2011 and lowest is 0.701 in 2008.
- The Total Expenses Ratio reveals that the highest ratio is 120.73 in 2011 and lowest is 111.54 in 2008.
- The Capital Employed Ratio reveals that the highest is 423846 in 2011 and lowest is 111.54 in 2008.
- The Asset Turnover Ratio reveals highest is 11.99 in 2012 and lowest is 5.12 in 2008.

6.2 SUGGESTIONS

- Experts in NPA might be appointed in branch level where the NPA are high.
- Regular follow up and proper documentation will be properly filled and evaluated over period of time in NPA and potential NPA cases.
- Recovery agents should be effective but practically speaking they are not. So banks should have proper recovery agents.
- Frequency of transfers/promotion of bank higher authorities can be reduced. Because their settling time increased the NPA accounts level higher.
- Advocates should be fixed in suit filed cases and it affects the recovery in some terms.

6.3 CONCLUSION

The Bank can have a specific cell for NPA, which is called as Stress Asset Recovery Cell. This cell should continuously work on "How Recoveries Can Be Done". Through which Bank can do its recovery by sending notices, by bidding, and by taking a legal action. or by appointing a Recovery agents can be hired by the banks for the recovery of the non-performing assets at 10% commission. They are hired under SARFAESI act at 10% commission.

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