



## A STUDY ON EFFECTIVE MANAGEMENT PRACTICES OF NPA IN SOUTH INDIAN BANK.

### Management

**R.Priyadharshini**

B.Com(CS),MBA, Assistant Professor Department of Management Studies AJK Institute of Management Coimbatore

### ABSTRACT

The economic progress of a nation and development of banking is invariably interrelated. The Banking sector is an indispensable financial service sector supporting development plans through channelizing funds for productive purpose, intermediating flow of funds from surplus to deficit units and supporting financial and economic policies of the government. The study helps to identify the NPA and its implications over a period of time.

### KEYWORDS

Banking, NPA, Economic policies, Financial Distress

### INTRODUCTION

The importance of bank's stability in a developing economy is noteworthy as any distress affects the development plans thereby the economic progress. The Indian Banking sector accounts for a major portion of financial intermediation and acknowledged as the main vehicle for monetary policy signals, credit channel and facilitator for payment systems. developing economy is noteworthy as any distress affects the development plans thereby the economic progress.

The stability of banking is a pre-requisite for economic development and resilience against financial crisis. Like any other business, success of banking is assessed based on profit and quality of asset it possesses. Even though bank serves social objective through its priority sector lending, mass branch networks and employment generation, maintaining asset quality and profitability is critical for banks survival and growth.

### Review of Literature

**Selvarajan & Vadivalagan (2013)** in a study on management of Non Performing Assets in priority sector reference to Indian Bank and Public Sector Bank (PSB<sub>s</sub>) their research paper has studied that the growth of Indian bank lending to priority sector is more than that of the public sector bank as a whole. Indian Bank has slippages in controlling of NPA<sub>s</sub> in the early year of the decade. Therefore, the management of banks must pay special attention towards the NPA management and take appropriate steps to arrest the creation of new NPA<sub>s</sub> besides making recoveries in the existing NPA<sub>s</sub>. Timely action is essential to ensure future growth of the bank.

**Virender Koundal(2012)** found that despite reforms in public sector bank performance is still lagging behind foreign bank on there is need to adopt strict measures for increasing productivity and profitability.

**Doyran (2012)** have highlighted that high leverage and large non-performing loan ratio leads to a lower rate of return on capital and revealed that over-leveraging and underperforming loans have the potential to render S&L<sub>s</sub> vulnerable to financial shocks, thus contributing to financial instability.

**Rai (2012)** in her study on study on performance of NPA<sub>s</sub> of Indian commercial banks said that till recent past, corporate borrowers even after defaulting continuously never had the fear of bank taking action to recover their dues. This is because there was no legal framework to safeguard the real interest of banks. However with the introduction of SARFAECI ACT banks can issue notices to defaulters to repay their loans. Also, the supreme court has recently given the banks the freedom to sell mortgage assets of the borrowers, if they do not respond to the legal proceedings initiated by lender. This enables banks to sickly loans thereby improving their bottom lines.

**Kaur(2006)** in her thesis titled credit management and problem of NPA<sub>s</sub> in public sector banks highlighted the problem of Non-Performing Assets in public sector banks. Author suggested that for effective handling of NPA<sub>s</sub>, there is an urgent need for creating proper awareness about the adverse impact of NPA<sub>s</sub> on profitability amongst bank staff, particularly the filed functionaries. Bankers should have frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

**Vigneswara Swamy (2013)**, Study has established that private banks and foreign banks have advantages in terms of their efficiencies in better credit management in containing the NPAs, which indicates that bank privatization can lead to better management of default risk. These findings infer that better credit risk management practices need to be taken up for bank lending. Adequate attention should be paid to those banks with low operating efficiency and low capitalization as also to macroeconomic cycles that appear to be playing some role in NPA management. The state owned banks need to be toned up with adequate measures to sharpen their NPA management practices. These findings assume crucial importance in view of the significance. It is summarized that Private Banks (both Old and New) and Foreign Banks appear to manage their NPAs efficiently.

**Pacha Malyadri, S. Sirisha (2011)**, observed that the banking sector in India has responded very positively in the field of enhancing the role of market forces regarding measures of prudential regulations of accounting, income recognition, provisioning and exposure, introduction of CAMELS supervisory rating system and reduction of NPA's and up gradation of technology. It is suggested that government should formulate bank specific policies and should implement these policies through Reserve Bank of India for upliftment of Public Sector Banks. Public sector banks should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.

**Dr. A Ramachandran, D.Siva Shanmugam (2012)**, Analyzed that the urban cooperative banks exhibited a greater emphasis on product diversification, customer orientation thrust towards retail banking, adoption of IT for improved service, better MIS and management and strategic mergers and acquisition across bank groups. The researcher concluded that the future of urban cooperative banks is challenging because of the competition from public sector banks and private sector banks. Public sector banks and private sector banks are concentrating on their major expansion activities both vertically and horizontally. The growth of urban cooperative banks depends on transparency in control and operation, governance, customer-centric policies, technology-up gradation and efficiency.

**Siraj K.K. and Sudarsanan Pillai P. (2013)** 44 investigate the growth of selected NPA variables and compare it with banking performance indicators. The authors utilized the growth rate measured using exponential growth equation to estimate the relative efficiency of different bank groups in India. The estimation using EG value is more accurate since variables used in this study showed non-linear movements. Variables that impact NPA of banks is assessed and based on its growth rate, inference is generated. The analysis focused on identifying relative efficiency of different bank groups in managing their NPA. The findings revealed relative efficiency of public sector banks, which of course may be judged as the major reason for the resilience of Indian banking towards financial crisis.

**Selvarajan B. and Vadivalagan G.(2013)**39 considers that the problem of NPA is not limited to only Indian public sector banks, but it prevails in the entire banking industry. Major portion of bad debts in Indian Banks arose out of lending to the priority sector at the dictates of politicians and bureaucrats. If only banks had monitored their loans

effectively, the bad debt problem could have been contained if not eliminated. The top management of the banks was forced by politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers. The authors estimates that the Agriculture advances have registered a 7 fold net increase, SSI advances have set a record net increase of 8.5 times and the advances to other priority sector have made a net increase of 4.5 times, that of their respective figures in 2001–02.

**Ahmad Zahoor and Jegadeeshwaran DM. (2013)40** was undertaken a study to study the non performing assets of nationalised banks. The reason being mounting nonperforming assets (NPAs), NPA account not only reduces profitability of banks by provisioning in the profit and loss account, but their carrying cost is also increased which results in excess & avoidable management attention. Apart from this, a high level of NPA also puts strain on a bank's net worth because banks are under pressure to maintain a desired level of Capital Adequacy and in the absence of comfortable to assess the health of various categories of loan assets in various categories of banks. The data was collected for a period of five years and analysed by mean, CAGR, ANOVA and ranking banks. The individual banks got ranks as per their performance in management of NPA's. It was also tested, whether there is significant difference between nonperforming assets of banks, it was found that there is significant difference in the level of NPA's of nationalised banks which reflect their varied efficiency in the management of nonperforming assets.

**Garg Sambhav et al (2013)42** an attempts has been made to compare different bank groups as well as bank- wise data relating to Gross NPAs to Gross Advances. The paper also shows Priority and Non- Priority Sector Advances of Scheduled Commercial Banks. The present study highlighted that all the Indian banks are facing the challenge of NPAs and intensity of NPAs is much higher in Public Sector Banks. It shows that earlier Public Sector's NPAs was more as compared to Public Sector Banks. However, now it has been managed at lower end.

**Shalini H. S. (2013) 43** makes an attempt to study the effect of different variables on the non performing farmers, as the main objective of our study is to know what are the difficulties faced by our Indian farmers in paying back the borrowed amount with regular payment of interest. We have used both the data collection methods and Telephonic interview method to collect sufficient information. Apart from these methods we have also used the chi square analysis test in order to know whether these variables have an effect on the nonpayment of interest. I have also tried to find out, are there any significant differences in our study? If yes, what is their significance level? In order to make my study more accurate the author considered 1% level of significance. After the study suggestions are given as to how the NPA's can be minimized by considering the 5 main functions of Management.

**OBJECTIVES OF THE STUDY**

- The ultimate objective of the study is to know about the effectiveness of management of NPA in south Indian bank.
- To know about loans and recovery procedures of the bank.
- To know the treatment of NPA account.
- To know about the measures adopted by the bank for reducing NPA.

**DATA SOURCE**

**Source of secondary data**

- Annual Report of bank
- Reports of RBI

**FINANCIAL TOOLS USED.**

**CAMEL MODEL ANALYSIS**

The CAMELS ratings or Camels rating is a supervisory rating system originally developed in the U.S. to classify a bank's overall condition. It's applied to every bank and credit union in the U.S. (approximately 8,000 institutions) and is also implemented outside the U.S. by various banking supervisory regulators.

Bank examiners (trained and employed by the country's central bank) award these ratings on the basis the adequacy and quality of a bank's Capital, Assets (loans and investments), Management, Earnings, Liquidity, and Sensitivity (to systemic-risk). Banks with a rating of 1 are considered most stable; banks with a rating of 2 or 3 are considered average, and those with rating of 4 or 5 are considered below average,

and are closely monitored to ensure their viability. These ratings are disclosed only to the bank's management and not to other banks or the general public. CAMELS' rating is an advanced version of the older MACRO rating. See also bank examination

**Capital Adequacy**

- Capital Risk Asset Ratio
- Debt Equity ratio
- Coverage ratio

**Asset Quality**

- Net NPA To Net Advances Ratio
- Government Security To Investment Ratio
- Standard Advances To Total assets Ratio

**Management Quality**

- Total Advances To Total Deposit Ratio
- Business Per Employee
- Profit Per Employee

**Earning Ability**

- Return On assets
- Income Spread To Total Assets Ratio
- Operating Profit To Total Assets ratio
- Cost To Income Ratio

**Liquidity**

- Cash Assets To Total Assets Ratio
- Government Security To Total Assets Ratio
- Liquidity Assets to Total Deposit Ratio

**CONCEPT OF CAMEL MODEL ANALYSIS**

The criteria of the performance of all the commercial banks under CAMEL rating include Capital adequacy, Asset quality, Management efficiency, Earning Quality and Liquidity. In some country it is called CAMEL; because in addition to above mentioned five areas, system and sensibility is also considered as a barometer to judge a bank's success or failure. In a nutshell, the following table shows different areas as well as significant accounting ratio used for denoting strengths and weakness of a banking company under CAMEL rating

**CAPITAL ADEQUACY**

Capital Adequacy has come forth as one of the prominent indicators of the financial health of a banking system. It is very useful for a bank to conserve and protect stakeholders confidence and preventing the bank bankrupt. It reflects whether the bank has enough capital to bear unexpected losses arising in the future.

**Capital Risk Assets Ratio**

This ratio is propounded to ensure that banks can take up a reasonable level of losses arising from operational losses. The higher the CRAR ratio, indicates stronger the bank and the more will be the protection to investors. The banks need to maintain 9% capital adequacy ratio as per latest RBI norms.  $CRAR = \frac{\text{tire-1 capital} + \text{Tire-2 capital}}{\text{Risk Weighted Assets}}$ . Tire1 capital includes permanent shareholders equity; perpetual non-cumulative preference shares, Disclosed reserve and innovative capital instrument. Tire2 capital includes Undisclosed reserve, provisions/ general loan- loss reserve; Hybrid debt capital instrument and subordinate debt. CRAR is measures the ability of a bank in absorbing losses arising from risk assets. The higher the value of this ratio the better the financial health of a bank

**Table 1. Capital Risk Assets Ratio**

year	CRAR
2012	14
2013	13.91
2014	12.42
2015	12.01
2016	11.82

**INTERPRETATION:**

Capital Adequacy Ratio is a ratio of a bank's capital to its risk. National regulators track a bank's CRAR to ensure that it can absorb a reasonable amount of loss and are complying with their statutory capital requirements. Reserve bank of India prescribes banks maintain a minimum capital to risk asset ratio (CRAR) of 9% with regards to credit risk, market risk and operational risk on an ongoing basis.

During the last 5 years, south Indian bank is in a position to maintain more than this minimum requirement. In 2012 it was 14% and shows an decreasing trend up to 2016. The reason of increased the ratio of CRAR in 2012 is the bank has raised capital higher the ratio the bank has in a comfortable to absorb losses. The first one year is a good sign for its depositors and investors.

#### • DEBT EQUITY RATIO

This ratio indicates the degree of leverage of a bank. It indicates how much of the bank business is financed through debt and how much through equity. This is calculated as the proportion of total asset liability to net worth. 'Outside liability' includes total borrowing, deposits and other liabilities. 'Net worth' includes equity capital and reserve and surplus. Higher the ratio indicates less protection for the creditors and depositors in the banking system. This ratio thus indicates the bank's financial leverage. In the case of manufacturing sector the ideal ratio is 2:1. However, in the case of commercial banks, there is no standard norm for debt equity ratio. It shows how much proportion of the bank business is financed through equity and how much through equity and how much through debt. Higher ratio is an indication of less protection for the depositor and creditor and vice-versa

**Table 2. Debt Equity Ratio**

Year	Debt Equity Ratio
2012	15.43
2013	15.46
2014	15.31
2015	15.56
2016	17.6

#### INTERPRETATION

The Debt to Equity Ratio measures how much money a bank should safely able to borrow over long period of time. Generally any bank that has a debt to equity ratio of over 40% to 50% should be looked at more carefully to make sure there are no liquidity problems. Debt equity ratio of South Indian Bank during 2012to2016 is very low(safe period). Here in this case of South Indian bank we can see that the Debt Equity Ratio has increased over the year.in 2014 the debt capital were low because this year is safe period. Its debt capital has shown a staidly over the past 5 years, in 2014 was small changes in debt capital. from this we can infer that since South Indian Bank is a private sector banks it depends much more on debt capital rather than equity capital.

#### • COVERAGE RATIO

Coverage ratio measures a company's ability to pay certain expense and thus show some aspects of a company's financial strength. The ability to separate companies with a healthy amount of debt from those that are overextended is one of the most important skills an investor can develop. Most businesses use debt to help finance operations, whether it's buying new equipment or hiring additional workers. But relying too much on borrowing will catch up with any business. For example, when a company has difficulty paying creditors on time, it may have to sell off assets, which puts it at a competitive disadvantage. In extreme cases, it may have no choice but to file for bankruptcy. coverage ratio are a useful way to help gauge such risks. This ratio indicates availability of capital to meet any incidence of loss assets in NPAs

**Table 3 Coverage Ratio**

Year	Coverage Ratio
2012	.05
2013	.06
2014	.06
2015	.05
2016	.04

#### INTERPRETATION

This ratio indicates the availability of capital to meet any incidence of loss assets in NPAs. In above charts shows South Indian bank has same Coverage Ratio in 2014 & 2015 i.e. .06. followed by in the years of 2013 and 2016 has the same coverage ratio.

#### • ASSET QUALITY

Asset quality determines the healthiness of financial institutions against loss of value in the assets. The weakening value of assets, being prime source of banking problems, directly pour into other areas, as

losses are eventually written-off against capital, which ultimately expose the earning capacity of the institution

#### • NET NPA/NET ADVANCES RATIO

It is the most standard measure to judge the asset quality, measuring the net non-performing assets as a percentage of net advances. This indicates the level of non-performing assets in net advances.

Net NPAs= Gross NPAs- Net of provisions on NPAs- interest in suspense account

**NET NPA/NET ADVANCE:** NPA/ Net advances

**1 Gross NPA ratio:** This ratio is used to check whether the bank's gross NPAs are increasing quarter on quarter or year on year. If it is, indicating that the bank is adding a fresh stock of bad loans. It would mean the bank is either not exercising enough caution when offering loans or is too lax in terms of following up with borrowers on timely repayments.

**Gross NPA ratio:** Gross NPA/ Total Loan

**2 Net NPA ratio:** Net NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and networth of banks and also wear down the value of the asset. Loans and advances usually represent the largest asset of most of the banks. It monitors the quality of the banks loan portfolio. The higher the ratio, the higher the credits risk.

NET NPA ratio: Net NPA/ Total Loan

**Table 4. Net NPA To Net Advances Ratio**

Year	Net NPA to Net Advances
2012	0.28
2013	0.78
2014	0.78
2015	0.96
2016	2.89

#### INTERPRETATION

In this section it can be seen from the above that the bank is able to decreases to its NPA and due to this the bank is able to increases its Capital Adequacy and also the profitability of bank is increasing continuously. During 2012 the ratio of Net NPAs to Total Advances was .28 and increasing in 2016. This indicates that the bank is not able to manage the credit it risk. Higher the ratio, higher the credit risk.

#### 2.2 GOVERNMENT SECURITY / TOTAL INVESTMENT

The percentage of investment in government securities to total investment is a very important indicator, which shows the risk taking ability of the bank. It indicates a bank's strategy as being high profit high risk or low profit low risk. It also gives a view as to the availability of alternative investment opportunities. Government securities are generally considered as the most safe debt instrument, which, as a result, carries the lowest return. Since government securities are risk free, the higher the government security to investment ratio, the lower the risk involved in a bank's investments. It is important indicator showing the risk taking ability of the bank. It is bank's strategy to have high profit, high risk or low profit, low risk.

Gov. Sec/ investment ratio=Government security /total investment

**Table 5. Government Security To Total Investment**

year	Government security/ Total Investment
2012	0.87
2013	0.79
2014	0.80
2015	0.88
2016	0.95

#### INTERPRETATION

The ratio of Government Securities to Total Investment shows how safe are the company's investments. Here, in case of South Indian Bank we can see that its ratio of investments in Government Securities to Total Investments is very high and it has remained quite steady over the year with minimum fluctuations. The high ratio tells that South Indian Banks investment policy is conservative and their investments are safe.

### 2.3 STANDARD ADVANCES / TOTAL ADVANCES RATIO

This ratio indicates the how much of the bank's total advances is standard in nature and if the percentage is high it is favorable in nature. This ratio mean that if the bank has high performing assets it may result in higher earnings.

Standard Advances to Total Advances Ratio = Standard Advances (Net of Total Advances and Gross NPAs) / Total Advances

**Table 6 Standard Advances To Total Advances Ratio**

Year	Standard Advances To Total Advances Ratio
2012	1.003
2013	1.008
2014	1.008
2015	1.010
2016	1.029

#### INTERPRETATION

This ratio means that if the bank has high performing assets it may result in higher earnings. Standard Advances to Total advances ratio during 2016 is very high (it is better) so it will get higher earnings. In the year 2012 to 2016 the ratio shows an increasing trends. The Standard advances to total asset ratio has increased over the year 2012 to 2016, in this period south Indian bank will generate more earnings

#### • Management Efficiency:

The Management Efficiency parameters signal the ability of the board of directors and senior managers to identify, measure, monitor and control risks associates with the bank. Management Efficiency is an important element of the CAMEL model. The management of the bank takes crucial decisions depending on its risk perception. It sets vision and goals for the organization and sees that it achieves them. This parameter is used to evaluate management efficiency as to assign premium to better quality banks and discount poorly managed ones.

### 3 TOTAL ADVANCES TO TOTAL DEPOSIT RATIO

This ratio measures the efficiency and ability of the banks management in converting the deposits available with the banks (excluding other funds like equity capital, etc.) into high earning advances. Total deposits include demand deposits, saving deposits, term deposit and deposit of other bank. Total advances also include the receivables. This ratio indicates the ability of a bank to converts its deposits into higher earnings advances.

Total Advances to Total Deposit ratio = Total Advances / Total Deposits

**Table 7 Total Advances to Total Deposit ratio**

Year	Total Advances To Total Deposit Ratio
2012	0.75
2013	0.72
2014	0.76
2015	0.72
2016	0.29

#### INTERPRETATION

This ratio measure the efficiency and ability of the banks management in converting deposits available with the banks (excluding other funds like equity capital etc.) into high earning advances. total deposits include demand deposits, savings deposits, term deposits and deposits of other bank. The total advances also include the receivables.

#### 3.2 Business Per Employee

Revenue per employee is a measure of how efficiently a particular bank is utilizing its employees. Ideally, a bank wants the highest business per employee possible, as it denotes higher productivity. In general, rising revenue per employee is a positive sign that suggests the bank is finding ways to squeeze more sales/revenues out of each of its employee. This ratio is used to find out whether a bank is relatively over or under staffed.

**Table 8 Business Per Employee**

Year	Business Per Employee
2012	107.9
2013	120.1
2014	119.9
2015	115.4
2016	125.5

### INTERPRETATION

Similar to profit per employee, Business Per Employee of South Indian Bank also shows an increasing trends from 2012 to 2016. It indicates the inefficacy of the bank in the field of productivity. In the above table South Indian Bank stands with highest ratio (125.5) in the first position. the business per employee is higher the better.

#### • PROFIT PER EMPLOYEE

This ratio shows the surplus earned per employee. It is arrived at by dividing profit after tax earned by the bank by the total number of employee. The higher the ratio shows good efficiency of the management.

Profit Per Employee = Profit / No of Employee

**Table 9 Profit Per Employee**

Year	Profit Per Employee
2012	.7
2013	.8
2014	.7
2015	.4
2016	.4

#### INTERPRETATION

Revenue per employee is a measure of how efficiently a particular bank is utilizing its employees. Ideally, a bank wants the highest business per employee possible, as it denotes higher productivity. In general, rising revenue per employee is a positive sign that suggests the bank is finding ways to squeeze more sales/revenues out of each of its employee. Profit per employee of the bank even through increased from .7 in 2012 to .8 in 2013. this indicates that the management of the bank maximum efficiently utilizing employees. in 2014 to 2016 the profit per employee of the bank even through decreases. It indicates that the management of the bank minimum efficiently utilizing employees.

#### • EARNINGS & PROFITABILITY

Earnings and profitability, the prime source of increase in capital base, is examined with regards to interest rate policies and adequacy of provisioning. In addition, it also helps to support present and future operations of the institutions. The single best indicator used to gauge earning is the Return on Assets (ROA), which is net income after taxes to total asset ratio. Strong earnings and profitability profile of banks reflects the ability to support present and future operations. More specifically, this determines the capacity to absorb losses, finance its expansion, pay dividends to its shareholders, and build up an adequate level of capital.

Being front line of defense against erosion of capital base from losses, the need for high earnings and profitability can hardly be overemphasized. Although different indicators are used to serve the purpose, the best and most widely used indicator is Return on Assets (ROA).

#### • RETURN ON ASSETS

Net profit to total asset indicates the efficiency of the banks in utilizing their assets in generating profits. A higher ratio indicates the better income generating capacity of the assets and better efficiency of management in future. This ratio is indicates the returns earned on assets deployed by the bank

Return On Assets : Net Profit After tax / Total Asset

**Table 10 . Return On Assets**

Year	RETURN ON ASSETS
2012	1.12
2013	1.17
2014	1
2015	.56
2016	.55

#### INTERPRETATION

The formula for Return on Assets is Net profit after tax/ total assets. It shows how profitable a bank's assets are in generating revenue. The number tells you what the bank can do with what it has, i.e. how many rupees of earnings it derives from each rupees of assets it control. in the case of south Indian bank we can see that its ROA has increased over

the year, especially from the year of 2012 and 2013 but in 2014 to 2016 was decreased. The total assets has increased over the year 2012&2013, its net income has also increased accordingly and faster rate but 2014 to 2016 the net income has decreased. So the south Indian bank have better earnings potential in future. We can conclude that South Indian Bank is utilizing its assets well for generating revenue in the year 2012-2013, but the 2014-2016 the level of revenue was changed.

**4.3 INCOME SPREAD TO TOTAL ASSET RATIO**

This ratio portrays how much a bank can earn for every rupee of investment made in assets. The ratio of interest income to total assets determines the viability of a banking company. Higher the ratio better is the viability. Interest income is the difference between the interest income and the interest expended. It is expressed as a percentage of total assets. A higher spread indicates the better earnings given the total assets.

Income Spread To Total Assets Ratio: (Interest income Earned-Interest Expended)/ Total assets

**Table 11 Income Spread To Total Assets Ratio**

Year	Income Spread To Total Assets Ratio
2012	0.025
2013	0.026
2014	4.135
2015	0.006
2016	0.024

**INTERPRETATION**

South Indian Bank shows highest spread of 4.135% in the year 2014. In 2015 it is .006% and shows a decreasing trend. In the years 2016, the ratio shows an increasing trend. The low spread situation is an indicator of the inefficiency of the management, but in the current year the ratio shows an upward trend indicating the management efficiency.

**4.3 OPERATING PROFIT TO TOTAL ASSET RATIO**

This ratio reflects how much a bank can earn profit from its operations for every rupee invested in its total assets. In this ratio operating profit are expressed as percentage of total assets. This ratio indicates how much a bank can earn from its operations after meeting operating expenses for every rupee of investment made in assets.

**Table 12 Operating Profit To Total Asset Ratio**

Year	OPERATING PROFIT TO TOTAL ASSET RATIO
2012	1.78
2013	1.88
2014	1.69
2015	1.55
2016	1.44

**INTERPRETATION**

This ratio indicates how much a bank can earn from its operations after meeting operating expenses for every rupee of investment made in assets. Earnings reflect the growth prospects. The ratio operating profit shows an upward trend till the year 2013, the higher the ratio indicates the better performance.

**4.4 COST TO INCOME RATIO**

Cost to income ratio is important for determining the profitability of a bank. The ratio gives a clear view of how efficiently the bank is being run the lower the ratio, the more profitable the bank. Thus there is an inverse relationship between the Cost to income Ratio and the bank's profitability. It indicates the ability of the bank to meet the operating expense from the revenue generated.

Cost To Income Ratio= operating Expense / Net Income

**Table 13 Cost To Income Ratio**

Year	COST TO INCOME RATIO
2012	0.95
2013	0.90
2014	1.0
2015	1.11
2016	1.31

**INTERPRETATION**

It indicates the ability of the bank to meet the operating expenses from the revenue generated. In this table shows cost of income increases in the year 2012 to 2016

**5 LIQUIDITY**

An adequate liquidity position refers to a situation, where institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. It is, therefore, generally assessed in terms of overall assets and liability management, as mismatching gives rise to liquidity risk. Efficient fund management refers to a situation where a spread between rate sensitive assets (RSA) and rate sensitive liabilities (RSL) is maintained. The most commonly used tool to evaluate interest rate exposure is the Gap between RSA and RSL, while liquidity is gauged by liquid to total asset ratio.

Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. The term liquidity is used in various ways, all relating to availability of, access to, or convertibility into cash. An institution is said to have liquidity if it can easily meet its needs for cash either because it has cash on hand or can otherwise raise or borrow cash. A market is said to be liquid if the instruments it trades can easily be bought or sold in quantity with little impact on market prices. An asset is said to be liquid if the market for that asset is liquid. The common theme in all three contexts is cash. A corporation is liquid if it has ready access to cash. A market is liquid if participants can easily convert positions into cash—or conversely. An asset is liquid if it can easily be converted to cash.

**5.5 CASH ASSET / TOTAL ASSET RATIO**

Cash is an important asset of a banking company, which reflects the liquidity position. If a bank has adequate cash balance its liquidity position will be more. At the same time the bank should not maintain too much of cash balance which involves opportunity cost. It will be obtained by dividing cash by total assets. If the ratio is higher it indicates liquidity position of bank is high and if the ratio is low it indicates lower liquidity position of a bank. This ratio measures cash which has the highest liquidity and safety among all the assets as a proportion of total assets. This ratio is calculated by the following this formula

Cash to Total Assets Ratio = (Cash/Total Assets) × 100

**Table 14 Cash to Total Assets Ratio**

Year	CASH ASSET TO TOTAL ASSET RATIO
2012	0.04
2013	0.03
2014	0.04
2015	0.04
2016	0.04

**INTERPRETATION**

This ratio measures cash which has the highest liquidity and safety among all assets as proportion of total assets. In above graph, South Indian Bank has same Cash Assets TO Total Assets Ratio in 2012, 2014, 2015 & 2016 is .04 the South Indian Bank is more Safe and liquidity, but in 2013 cash assets to total assets is .03.

**5.2 Government Securities to Total Asset:**

Government Securities are the most liquid and safe investments. This ratio measures the government securities as a proportion of total assets. Banks invest in government securities primarily to meet their SLR requirements, which are around 25% of net demand and time liabilities. This ratio measures the risk involved in the assets hand by a bank. This ratio measure Government securities (most liquid and safe investments) as a proportion of total assets

**Government Security To Total Asset Ratio :** Government Securities/ Total Asset

**Table 15 Government Security To Total Asset Ratio**

year	Government security To Total Assets Ratio
2012	.20
2013	.20
2014	.21
2015	.21
2016	.22

## INTERPRETATION

Government securities are more secured and always enjoyed a reedy market. By comparing the last five year data we can ascertain in that South Indian Bank has made Investments in Government securities around .22 of its total assets.

### 5.3 Liquidity Asset To Total Deposit

This ratio measures the liquidity available to the deposits of a bank. Total deposits include demand deposits, savings deposits, term deposits and deposits of other financial institutions. Liquid assets include cash in hand, balance with the RBI, and balance with other banks (both in India and abroad), and money at call and short notice. This ratio indicates liability of the bank to meet its deposit obligations with available liquid fund.

Liquidity Asset to Total Deposit : Liquidity Asset/ Total Deposit

**Table 16 Liquidity Asset to Total Deposit**

Year	Liquidity Assets / Total Deposit
2012	.072
2013	.098
2014	.068
2015	.069
2016	.055

## INTERPRETATION

The ratio show the power of liquidity assets against total demand deposits. It means what part of the demand deposits can be easily converted into monitory form in need. The liquidity position of South Indian Bank is very good as it stands in the first position with in the year 2013 is .098. liquidity assets is higher the better.

## FINDINGS

- The existing management system followed by the bank towards NPA is efficient.
- Capital adequacy reflect the overall financial condition of the bank and also the ability of the management to meet the need for additional capital. The committee on banking regulation and supervisory practices(basel committee) released frame work on stringent capital standard to be adopted by bank worldwide. As per prudential norms all indian scheduled commercial banks are required to achieve 9% capital adequacy ratio.
- Debt Equity Ratio indicates that the bank's liquidity position is under threat and it also adversely affect the bank's long term borrowings.
- Net profit of the bank shows an increasing trend. But at the same time the percentage growth in net profit is not as good when compared to the situation up to the year 2012
- The bank attained the international standard towards net NPA during the year 2012-2016, which shows the excellent performance of the bank.
- The bank is well known for its excellent customer service and the bank maintains a better relationship with its customer.
- The banks provides both priority sector and non priority sector advances for the economic development of the area where its functioning.
- The bank's loan and advances portfolio shows an increasing trend.
- The banks NPA portfolio shows a decreasing trend.
- Instead of following coercive methods the bank follows the method of personal persuasion for the recovery of loans and advances.

## SUGGESTIONS

After all these points, I just want to say that NPA is a big problem of bank. Due to this crisis the NPA are also increased. Strengthening provision norms and loan classification standard based on forward looking criteria were implemented.

- The current performance of the bank is in a good position. It is better to follow the procedures and policies which they are currently adopting. The current NPA management system works in an efficient manner. It is to better to continue the same system in the future also.
- Maintain required capital adequacy ratio as per Basel norms. That means now the provision for NPA wii be more. This may look a conservative approach. But it should be implemented to reduce risk. criteria were

- Currently the banks follow yearly scheduling of NPA accounts. For the better performance, the bank should follow quarterly or half yearly scheduling of NPA accounts.
- They should also keep in mind to maintain the better relationship with their customers. The bank may give adequate training to convince the importance of the customer relationships to their new appointments.
- Through securitization they can reduce NPA.
- At present the minimum capital adequacy ratio as per RBI norms is 9% and South indian bank keep the minimum requirements. But the average capital adequacy ratio of the private sector bank is above 12%. Therefore south indian bank must take all necessary steps to improve its CAR, at least to the level of industry average.
- Liquidity of any bank depends upon its investment in government securities and other approved securities. Government securities and other approved securities are more liquid and safe.

## CONCLUSION

Growing NPAs is one of the biggest problems that the indian banking sector is facing today. If proper management of the NPAs is not undertaken it would hamper the efficiency of the banks. If the concept of NPAs is taken very lightly it would be dangerous for the banking sector. The NPAs destroy the current profit and interest income and affect the smooth functioning of the recycling of the fund.

Banks also redistribute losses to other borrowers by changing higher interest rate. Lower deposit rate and higher lending rate repress savings and financial market, which is turn hampers the economic growth of the country. Thus, it is highly essential for the bank to focuses their attention on growth of NPAs and taken appropriate measures to regulate their growth.

The south indian bank were performing efficiently in managing NPA statements. The banks provides loans to the people who are eligible to repay the loan amount. So they can manage the NPA account by recovering the loan amount.

## REFERENCES

1. Annual report of South Indian Bank form year 2012-2016.
2. I M pandey, financial management, New Delhi, 2007
3. The ICFAI journal of "bank management" VOL V, No3, August 2006.
4. Kothari CR, Research Methodology, New Delhi, New age international (p) limited.