



## Comparative Analysis of Non Performing Assets(Npa) of The Sarvodaya Nagrik Sahakari Bank Ltd. & The Mehsana Urban Co-Op. Bank Ltd.

**MOHAMMADVASIM-  
RANAVADIYA**

RESEARCH SCHOLER OF PACIFIC UNIVERSITY

**DR.SUNILSHAH**

PRINCIPAL(I/C)HNSB COLLEGE OF MANAGEMENT

**ABSTRACT**

Indian banking industry plays a mediation in the socio economic development of the country. This role is played by banks by extending credit to various deficit sector for their growth and assets. Post reform era has changed the whole structure of banking sector of india. The unfold competition has resulted in new challenges for the indian banks. The current study was under taken to study the NON PERFORMING ASSETS OF THE SARVODAYA NAGRIK SAHAKARI BANK LTD (SNSB) AND THE MEHSANA URBAN CO OPERATIVE BANK LTD (MUCB). This paper provides an empirical approach to the analysis of profitability indicators with a focal point on NPA of SNSB& MUCB. Non performing assets are one of the major concerns for banks in india. NPA reflect the performance of bank .The earning capacity and profitability of the bank are highly affected because of the existence of NPA. A high level of NPA suggests that large number of credit defaults that affect the profitability and net worth of bank. This paper analyses the position of NPA in SNSB & MUCB. It also highlight the policies pursued by the bank to tackle the NPA and suggests a multi pronged strategy for speedy recovery of NPAs in banking sector.

### KEYWORDS

Non performing assets, The Sarvodaya Nagrik Sahakari Bank Ltd, The Mehsana Urban CO-OP. Bank Ltd.

### 1.INTRODUCTION.

Non-performing asset (NPA) is one of the major concern and problem for banks in India. NPAs reflect the degree of risk and quality of assets of bank and profitability of a bank. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves reduced income from assets and the necessity of provisions, which reduces the overall profits and shareholders' value. The level of nonperforming assets is at the alarming rate in Indian banking comparatively to other countries. This level is much higher in case of public sector banks due to their directional credit to priority sector projects and social development projects. The public sector banks play an immense role in the development and growth from the very inception. The public sector banks which were operating on social model by mobilising the huge resources and directing them to social and priority sectors for social and economic development of the country. Due to their socio economic role, there was high level of NPAs in their asset portfolio. After the liberalization in 1991, they faced high level competition from private and foreign banks. Due to this fierce competition and challenge on their survival, they were forced to improve the performance and weakness. The biggest weakness and problem they faced was huge NPAs in their portfolio.

NPA is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the definition of NPAs has changed over time. According to the Narasimham Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs. Subsequently, this period was reduced, and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days were considered as NPAs. An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment

### 2.NON PERFORMING ASSETS (NPAs)- Meaning

Assets which generate periodical income are called as performing assets. Assets which do not generate periodical income are called as non-performing assets. An asset, including

a leased asset, becomes nonperforming when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or an advance where;

- i. interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- ii. The account remains „out of order „for more than 90 days in respect of an Overdraft/Cash Credit (OD/CC),
- iii. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iv. The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- v. The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- vi. The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.
- vii. in respect of derivative transactions, the overdue receivables representing positive mark-to- market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. Any amount due to the bank under any credit facility is „overdue“ if it is not paid on the due date fixed by the bank.

In simple terms it can be said that 'Non-Performing Assets (NPA) means the asset, which is not performing or not earning income for the bank as per the expectations'. As long as an asset generates the income expected from it, it is treated as a 'performing asset' and when it fails to generate income, it becomes 'non - performing asset'. NPAs have many ill effects on the overall banking business and their performance. Increasing NPAs means that, the funds locked are not being used properly or are not producing adequate returns. If a bank has high NPAs, then it may not be able to earn enough to pay deposi-

tors interest or repay their principal. Will eventually affect the 'Health' of the bank and adversely affect business model of bank.

**3. GROSS NPA AND NET NPA**

**Gross NPA**

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account Gross NPA reflects the quality of the loans made by Banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

**Gross NPAs Ratio = Gross NPAs / Gross Advances**

**Net NPA**

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the Central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

**4.LITERATURE REVIEW**

This section provides an overview of some of the existing literature with regard to the NPA. This literature review helps me to better understanding of both research topics and of the existing gap:

**Arora and Ostwal (2014)** conducted study on "Unearthing the Epidemic of Non-Performing Assets: A Study of Public and Private Sector Banks" which deals with the concept of Non-performing assets and analyze the classification of loan assets of public and private sector banks. It also explores the comparison of loan assets of Public sector and private sector banks.

**Raval, Manish (2015)** in his book "Non-Performing Assets – An Overview of Indian Banking Sector", describes different types of risks associated with banking sector and reasons of NPAs in Indian Banking Sector. He has studied various measures to curb the NPAs in Banking Sector.

**5.OBJECTIVE OF THE STUDY**

**5.1) Main objective:-**

To compare the analysis of "Non Performing Assets of The Sarvodaya Nagrik Sahakari Bank Ltd & The Mehsana Urban Co-Operative Bank Ltd.

**5.2) Sub objectives:-**

- To study and understand the concept of NPAs.
- To analyze the bank's policy to recover the level of NPAs of SNSB & MUCO-OP. Bank.
- NPA to understand how corrective measures taken by bank for recover NPAs
- To analyze the profitability of the bank.
- To study the trend of NPAs during last years..
- To determine the factors affecting NPA.
- To identify the financial strengths & weakness of the bank.

**6.CATEGORIES OF NPAs**

Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the real-ability of the dues:

- i. Substandard Assets
- ii. Doubtful Assets

iii. Loss Assets

**Substandard Assets**

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

**Doubtful Assets**

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

**Loss Assets**

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

**The major cause for the NPA can be:**

Improper selection of borrowers activities, Weak credit appraisal system Industrial problem, Inefficiency in management of borrower, Slackness in credit management & monitoring, Lack of proper follow up by bank, Recession in the market, Due to natural calamities and other uncertainties .

**7. IMPACT OF NPA ON BANKING OPERATIONS**

The efficiency of a bank is not reflected only by the size of its balance sheet but also by the level of return on its assets. The NPAs do not generate interest income for banks. At the same time, banks are required to provide provisions for NPAs from their current profits. The NPAs have deleterious impact on the return on assets in the following ways:

- a. The interest income of banks will fall and it is to be accounted only on receipt basis.
- b. Banks profitability is affected adversely because of the providing of doubtful debts and consequent to writing it off as bad debts.
- c. Return on investments (ROI) is reduced.
- d. The capital adequacy ratio is disturbed as NPAs enter into its calculation.

**Recover of NPAs:**

- 1. Increase in the income of the bank
- 2. Increase in the trust of share holder in the bank
- 3. Level of NPA reduces as the recovery done.
- 4. Decrease in provisioning requirements.

**8. SCOPE OF THE STUDY:**

Being a project scope will be based on the day-to-day team-work operations. The data will be collected from various aspects of loans and advances in bank.

- To understand the concept of NPA in Banking industry.
- To understand the causes of NPA.
- To analyze the past trends of NPA of banks

**9.Tools of Analysis:**

Tables, Technological Tools,

**10. ANALYSIS OF DATA ASSET AT 2012-2013**

**10.1.1) STANDARD ASSETS:**

(Rs. in Lacs)

Year	STANDARD ASSETS:	
	SNSB	MUCO-OP Bank
2012-2013	2432.43	101778
	100%	4184.21%

**Interpretation :**

Analysis show Standard Assets of SNSB is 100% as compare with the Standard Assets of MUB is 4184.21%. It means that the MUB has given more loan as compare SNSB.

**10.1.2 SUB STANDARD ASSETS** (Rs. in Lacs)

Year	SUB-STANDARD ASSETS:	
	SNSB	MUCO-OP Bank
2012	3.58	110
2013	100%	3072.63%

**Interpretation:**

Analysis shows that Sub Standard Assets of SNSB is 100% as compare with Sub Standard Assets of MUB is 3072.63%. It means that the SNSB has more chance of recovery compare to MUB Because Low ratio shows that there is a chance of recovery assets is high.

**KEY RATIO ANALYSIS:**

To analyzed the NPA situation in bank from that to know that to know about the banks credit appraisal system and level of risk in bank I have done the ratio analysis. Ratio analysis is the tool which will help us to do financial analysis of bank. Some name of ratio as follows:

- 1.GROSS NPA RATIO.
- 2.NET NPA RATIO.

**1) GROSS NPA RATIO:**

$$\text{Gross NPA Ratio} = \frac{\text{Gross NPA}}{\text{Gross Advances}} * 100$$

**Gross Advances** (Rs. in Lacs)

YEAR 2012-2013	GROSS NPA	GROSS ADVANCES	GROSS NPA RATIO (%)
SNSB	126.45	2558.88	4.94
MUCO-OP BANK	1755	103533	1.70

**Interpretation:**

Analysis shows that Gross NPAs Ratio of SNSB is 4.94% as compare with Gross NPAs Ratio of MUB is 1.70%. It means that the MUB take strict steps regarding recovery of loan as compare to SNSB so compare MUB we can say that bank have not effective collection system.

**2) NET NPA RATIO:**

$$\text{Net NPA Ratio} = \frac{\text{Net NPA}}{\text{Net Advances}} * 100$$

(Rs. in Lacs)

YEAR 2012-2013	NET NPA	NET ADVANCES	NET NPA RATIO (%)
SNSB	00	2558.88	00
MUCO-OP BANK	00	103533	00

**Net NPA= Gross NPA – Provision for NPA    Net Advances= Gross NPA - Provision for NPA**

**Interpretation:**

Analysis shows that Net NPAs Ratio of SNSB is 0% as compare with Net NPAs Ratio of MUB is 0%. It means that both banks have now enough provision capacity. So, here the degree of risk is less.

Both banks have more provision every year which are good at

one side but at other side it also reduces the profit of bank. And shareholder will get fewer dividends.

**CONCLUSION**

The MUCO-OP BANK has given more loan as compare SNSB than after MUCO-OP BANK Gross NPAs ratio low because the MUCO-OP BANK take strict steps regarding recovery of loan as compare to SNSB The Gross NPAs ratio of SNSB is 4.94% as compare with Gross NPAs ratio of MUCO-OP BANK is 1.70%. It means that the MUCO-OP BANK has taken strict steps regarding recovery of loan as compare to SNSB so compare MUCO-OP BANK we can say that bank have not effective collection system. Both Banks' Net NPAs ratio is 0.00% in the year 2012-13 which is positive for Both Banks' SNSB's NPAs level is high comparing to MUCO-OP BANK.

**Annual Reports:**

Annual Report of The Sarvodaya Nagrik Sahakari Bank Ltd. & The Mehsana Urban CO-OP. Bank Ltd. Year 2012-2013.

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