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A STUDY ON THE ASSET QUALITY MANAGEMENT OF DENA BANK

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ABSTRACT

Financial performance of banks could be measured in terms of assets quality management of the bank. The major assets of any bank are various loans and advances sanctioned by them. The banks have been taking various measures to recover the loans and advances with interest on due dates. However, it is obvious that certain customers fail to repay the amount borrowed by them and also the interest payable thereon. The assets of a bank have been classified as performing assets and non performing assets. The assets on which the principal and interest payable thereon have been recovered on dues without fail are classified as performing assets. On the other hand, the loans and advances fetching no repayment for the time limit prescribed by the Reserve Bank of India have been regarded as non performing assets. The non performing assets (NPA) have been the major threat for banks since there occurs loss on account of such non performing assets. In this paper, an attempt has been made to analyze the asset quality management of bank. In this regard, Gross NPA, Net NPA, and return on assets have been analyzed.

KEYWORDS Asset Quality; Performing assets; Non Performing Assets; Return on Assets

Dena Bank is one of the leading nationalized banks in India. The bank has been offering loans and advances on various schemes to its customers. The management of the bank has been formulating various policies to recover the loans and advances along with the interest on the due dates. Despite the measures taken by the banks, the amount due on certain loans and advances has been accumulating and unpaid for a quite long period. In the event of no revenue on any loan for a period of 90 days such loans are termed as non-performing assets. It is a serious concern for every bank since increase in non-performing assets leads to the net loss and the efficiency of the management of the bank becomes questionable. Hence, all the banks have been taking certain strict measures for the timely recovery of dues on loans and advances.

STATEMENT OF THE PROBLEM

In order to compete with the other nationalized banks, private banks and foreign banks, Dena Bank has been sanctioning loans and advances to its customers. The management of the bank issues guidelines from time to time to the managers at the branch level to ensure the speedy and timely repayment of loans and advances along with the interest thereon. They follow the guidelines of the top management regarding the sanctioning and recovery of loans and advances. The branch managers call on the borrowers frequently and obtain acknowledgement of debts. They ask the borrowers to repay their loans on time. However, a few customers have not been repaying the loans and interest. As a result, the quantum of non-performing assets has been increasing every year. Under these circumstances, the asset quality management of Dena Bank has been deemed to be worthy for research and hence the present study has been undertaken.

OBJECTIVES OF THE STUDY

The present study has been undertaken with the following objectives:

1. To analyze the growth of non-performing assets of Dena Bank,
2. To examine the impact of non-performing assets on return on assets of Dena bank and
3. To offer suggestions for improving the asset quality of Dena Bank.

PERIOD OF STUDY

The study has been conducted for a period of five years from 2011-12 to 2015-16.

ASSET QUALITY MANAGEMENT

The assets of banks are categorized as standard assets, sub standard assets, doubtful assets and loss assets according to the asset classification guidelines of the Reserve Bank of India. The status of standard assets turn to be sub standard assets and that of sub standard assets becomes standard from time to time depending on the credits in the loan accounts. Sub standard assets and doubtful assets are classified as non-performing assets. The proportion of non-performing assets on the total assets has been divided into Gross Non Performing Assets and Net Non Performing Assets. The Gross NPA and Net NPA play a vital role in measuring the quality of assets of a bank.

TABLE 1: GROSS NPA AND NET NPA

Years	Gross NPA (Rs. in crores)	Net NPA (Rs. in crores)	% of Gross NPA	% of Net NPA
2011-12	956.50	571.73	1.67	1.01
2012-13	1452.45	917.18	2.19	1.39
2013-14	2616.03	1818.92	3.33	2.35
2014-15	4393.04	3014.30	5.45	3.82
2015-16	8560.49	5230.47	9.98	6.35
Mean	**3595.70**	**2310.52**	**4.52**	**2.98**
SD	**3074.23**	**1885.99**	**3.38**	**2.17**
CV	**85.50**	**81.63**	**74.67**	**72.78**
CAGR	**72.96**	**73.92**	**56.35**	**58.35**

According to the Table 1 the gross non per forming assets of Dena Bank has increased from Rs.956.50 crores in the year 2011-12 to Rs.8560.49 crores in the year 2015-16. There has been constant increase in the gross NPA of the bank during the period of study. The gross NPA has almost doubled in the year 2015-16 when compared with the previous year. The average gross NPA of the bank was found to be Rs.3595.70 crores while the standard deviation was Rs. 3074.23 crores and the coefficient of variation was 85.50 per cent. It means that the gross NPA was consistent during the study period. The CAGR of gross NPA was ascertained to be 72.96 per cent. It implies that there has been a rapid increase in the gross NPA over the years of study. The net NPA ranged between Rs.571.73 crores and Rs.5230.47 crores during the period of study. There was an increasing trend in the net NPA throughout the period of study. The mean NPA of the study period was found to be Rs.2310.52 crores whereas the standard deviation was Rs.1885.99 crores and the coefficient of variation was 81.63 per cent. It reveals that the variation level of net NPA was little lesser than that of gross NPA. On the other hand, the CAGR of net NPA was found to be 73.92 per cent which indicates that the growth of net NPA was greater than the growth of gross NPA.

The percentage of gross NPA and net NPA had an average of 4.52 per cent and 2.98 per cent respectively during the period of study. The standard deviation of gross NPA was found to be 3.38 per cent while the standard deviation of net NPA was found to be 2.17 per cent. The coefficient of variation and CAGR reveal that the variation in the gross NPA was greater than that of net NPA and the growth of net NPA was greater than the gross NPA.

The impact of gross NPA and net NPA on the return on assets has been measured using t test. In this regard, the following hypotheses have been formulated and tested.

(I) Null Hypothesis H0: There is no significant relationship between percentage of gross NPA and return on assets
(II) Null Hypothesis H0: There is no significant relationship between percentage of net NPA and return on assets

Table 2: IMPACT OF GROSS NPA AND NET NPA ON RETURN ON ASSETS

Variables	% of Gross NPA	Return on Assets %	% of Net NPA	Return on Assets %
Mean	4.524	0.328	2.984	0.328
Variance	11.411	0.675	4.717	0.675
Observations	5	5	5	5
DF	4		5	
t Stat	2.699		2.558	
p value	0.027		0.025	
t Critical	2.132		2.015	
Result	**Significant @ 5%**		**Significant @ 5%**	

From the Table 2, it is evinced that the p value stating the relationship between percentage of gross NPA and return on assets was found to be 0.027. Since the p value was less than 0.05, it falls in the rejection region. Hence, the null hypothesis is rejected and the alternative hypothesis is accepted. The hypothesis that 'there is no significant relationship between percentage of gross NPA and return on assets' does not hold good. Hence, it is concluded that there is a significant influence of gross NPA on the return on assets of Dena Bank.

It is observed that the p value indicating the relationship between percentage of net NPA and return on assets was found to be 0.025. Since the p value was less than 0.05, it falls in the rejection. Hence, the null hypothesis is rejected and the alternative hypothesis is accepted. The hypothesis that 'there is no significant relationship between percentage of NPA and return on assets' does not hold good. Hence, it is concluded that there exists a significant relationship between percentage of net NPA and return on assets of the bank.

FINDINGS

It is found from the analysis that the gross NPA and net NPA has been rapidly increasing over the years of study. The constant increase in the gross NPA and net NPA has been the major issue for the bank to be viewed seriously and addressed immediately. The growth of gross NPA was higher than the growth of net NPA.

It is also observed that the relationship between the percentage of gross NPA and return on assets of the bank has been statistically significant. Similarly, the percentage of net NPA also has significant influence on the return on assets of the bank. It leads to the negative growth in the return on assets of the bank.

SUGGESTIONS

It is suggested that the bank has to ensure the debt collection mechanism more efficient. The bank has to call on the borrowers frequently and make them realized the importance of repayment of loans and advances. The branch managers have to maintain cordial relationship with the borrowers and let them understand the need for timely recovery of loans and advances. Further, the bank has to follow strict principles while sanctioning the loans and advances.

CONCLUSION

Dena Bank has been suffering from lower profitability for the past few years. It has been caused mainly on account of increase in non-performing assets. The study has identified that there exists a significant influence of NPA on the return on assets. The prof itability of the bank in terms of net profit ratio and return on assets has been falling down in the recent years. It is due to the lack of efficiency of the management to recover the loans and advances on due dates without fail.

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