

PERFORMANCE OF NON-PERFORMING ASSETS

(WITH REFERENCE TO ARYAPURAM CO-OPERATIVE BANK LTD, RAJAHMUNDRY)

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Abstract:

Banking sector is vital role in financial services market. Without banking sector we cannot run monetary policies. Efficient monetary policies to be prevent the financial crisis of the organization and Indian economy also. In banking sector (NPA) non-performing asset was vital role because efficient NPA to be frame good credit appraisal system. Banking sector maintains are depends up on suitable credit policy, In fails of the credit appraisal then banking sector turn into financial crisis that's way banking sector given more priority to NPA system. In this study conducted NPA performance and comparative analysis between NPA to profit of the Aryapuram Co-Operative Bank in Rajahmundry.

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Introduction:

Non-performing assets are converting into now-performing asset. Banking organization maintenance depends up on suitable NPA policy. Reserve Bank of India frame guidelines to banking organizations for NPA maintenance. Non-performing asset means banking are gave the loan but they are not collect, interest and principal amount within the stipulation of period, that types of asset or loans called non-performing asset.

Objectives of the study:

- To be understand the concept of Non-performing asset
- To know the impact of non-performing asset
- To be comparative gross NPA with net NPA
- To be analyze financial performance of Aryapuram Co-Operative Banks at different level of non-performing asset.

Methodology of the study:

The entire study depends up on secondary data. The data collected from from bank officials... and conducted following are tools.....

- Relation between gross NPA and net NPA
- Relation between gross NPA to Total Assets
- Relation between provisions to gross NPA.

Limitations of the study:

- Study is entirely based on data willingly provided by the bank officials.
- Study is confidential in nature, so the views expressed by the officials may be a general opinion.
- The findings of the Study cannot be applied to other branches.

Literature Review of the study:

Sreedharan, (1996) analyzed the performances of Indian baking industry for the year 1995 and 1996. The analytical exercise was carried out with reference to net worth, liabilities, assets, income, expenditure, profitability and efficiency of different groups in the banking system. It was revealed that by and large, the public sector banks lagged far behind the foreign and private sector banks in respect of all the variables analysed. The researcher suggested that the programmes and policies regarding commercial banks should be redefined in such a way that that there exist a co-ordination between the commercial viability and social responsibility of the

public sector banks.

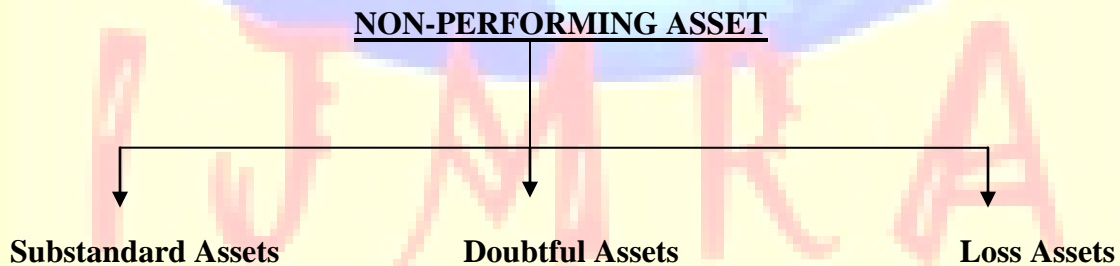
Rangarajan, C. (1997) RBI at the Bankers Training Centre of the Nepal Rashtra Bank Katmandu on 18th May 1997 addressed in his speech in respect of direct lending, there is a prescription that 40% of the net bank credit should go to priority sector such as agriculture, small scale industries, small business man and programmes for poverty alleviation without affecting the viability and profitability of the bank. Speaker emphasized on operational efficiency and allocation efficiency. Operational efficiency relates to the transaction cost and allocation cost deals with the mobilized funds among competing demand. Governors speech covered aspects such as Global experience, reforms undertaken in India, Philosophy, strategy, policy frame work, improvement in financial health, and institutional strengthening in India.

Mishra, T.P. (2003) revealed the high rise in gross and Net NPA of the banking sector in the recent past as the exponential rate giving an indication, that the ongoing recession was taking a heavy toll on corporate audit discipline. This was further supported by recovery climate, legal system, approach of the lenders towards lending and many other factors. Despite myriad problems and existing set up, banks had to perform well and achieve the target for NPA reduction affixed as per international standard.

Theoretical Frame Work of the Study:

ASSET CLASSIFICATION:

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 reliability of the dues:



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. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

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 substandard, 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. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

NORMS FOR IDENTIFICATION OF NPA:

With an intense to use the international best practice and to ensure greater transparency, “90 days” overdue norms are accepted for the identification of NPA from the year ended March 31, 2004.

With effect from March 31, 2004, a NPA shall be counted on loan and advances where:-

- A. Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- B. The account remains out of order for a period of 90 days, in respect of an Overdraft/ Cash Credit (OD/CC).
- C. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- D. Any amount to be received remains overdue for a period of more than 90 days in respect of any other accounts.

Analysis of the study

NPA of the cooperative bank for five years:

(Amount in Rs.lakhs)

Years	Standard asset	Sub-standard asset	Doubtful-1	Doubtful-2	Doubtful-3
2009	2236.29	320.15	61.16	20.84	74.19
2010	2824.22	364.1	67.1	19.85	63.12
2011	3620.67	320.6	14.7	12.89	58.676

2012	3256.32	445.1	223.1	123.85	96.12
2013	3256.32	445.1	223.1	123.85	96.12

RATIO ANALYSIS

To analyzed the NPA situation in bank and from 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.

GROSS NPA RATIO

Gross NPA is the sum of the total assets which are classified as the NPA by bank at the end of every year. Gross NPA is the ratio of Gross NPA to Gross Advances. It is expressed in percentage form.

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

YEAR	GROSS NPA	GROSS ADVANCES	GROSS NPA RATIO
2009	516.72	2797.86	18.47
2010	478.24	3629.66	13.17
2011	438.30	4136.25	10.59
2012	459.25	4234.22	10.85
2013	487.13	4524.32	10.77

Interpretation:

Gross NPA ratio shows the bank’s credit appraisal policy. High Gross NPA ratio means bank have liberal appraisal policy and vice-versa. In Aryapuram co-operative bank this ratio was 18.47% in March-2009 and it has been decreased from year 2009 to 2013 from 18.47% to 10.77%. However it is reveals from the chart that bank’s Gross NPA ratio is continuously decreasing which is positive trend for bank and we can say that bank have good appraisal system.

NET NPA RATIO

The Net NPA Ratio is the ratio of net NPA to Net Advances. This ratio shows the degree of risk in bank’s portfolio. Net NPA ratio can be obtain by Gross NPA minus the NPA provisions divided by Net advances.

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

Net Advances

YEAR	NET NPA	NET ADVANCES	NET NPA RATIO (%)
2009	118.60	2399.74	4.94
2010	206.08	3086.35	6.67
2011	196.34	3894.26	5.04
2012	178.23	4234.22	10.85
2013	202.32	4524.32	10.77

Interpretation:

Net NPA ratio shows the degree of risk in portfolio of bank. High net NPA ratio means banks don't have enough fund to do provision against the Gross NPA. In Aryapuram co-operative bank Net NPA ratio was 4.9% in year March-2009 which shows that in that year bank had not enough fund for provisions. On the next i.e 2010 year the net NPA ratio 6.67 which was increased by 1.77. But it was decreased to 5.04 in 2011.

Aryapuram co-operative bank has done more provision every year which is good at one side but at other side it also reduces the profit of bank. And Shareholder will get fewer dividends.

When all bank will do provision then Net NPA will become zero but if we want to know the true and fair situation of bank we must consider the Gross NPA of bank.

PROBLEM ASSETS RATIO

This ratio is also known as the Gross NPA to Total Assets ratio. This ratio shows the percentage of risk on the total assets of the bank. High ratio means high risk for bank.

$$\text{Problem Assets Ratio} = \frac{\text{Gross NPA}}{\text{Total Assets}} * 100$$

(Rs.in Lakhs)			
YEAR	GROSS NPA	TOTAL ASSETS	PROBLEM ASSETS RATIO (%)
2009	516.72	2712.63	19.04
2010	478.24	3338.39	14.32
2011	438.30	4027.53	10.88
2012	459.25	4144.49	11.08

2013	487.13	4144.49	11.75
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Interpretation:

This ratio shows the percentage of risk on the assets of bank. It shows the level of risk on bank's assets. High ratio shows the high risk on liquidity. In Aryapuram co-operative Bank this ratio was 19.04% in 2009 and after that it has been decreased from 19.04% to 10.88% in 2011.

This ratio is continuously decreasing in bank. This ratio is good for bank which indicates the level of risk is low in bank.

SUB-STANDARD ASSETS RATIO

$$\text{Sub-standard Assets Ratio} = \frac{\text{Total Sub-standard Assets}}{\text{Gross NPA}} * 100$$

(Rs.in. LACS)

YEAR	SUB-STANDARD ASSETS	GROSS/ NPA	SUB-STANDARD ASSETS-RATIO
2009	320.15	516.72	61.95
2010	364.1	478.24	76.13
2011	320.6	438.3	73.14
2012	445.1	459.25	96.92
2013	445.1	487.13	91.37

Interpretation:

This ratio shows the percentage of Sub-Standard assets in the Gross NPA of bank. High Sub-Standard ratio means more proportion of Sub-Standard asset in the Gross NPA. High ratio shows that there is a chance of recovery of assets is high. In Aryapuram co-operative bank this ratio was 61.95% in March-2009 which is good for bank and it is 96.92% in year March-2012. It shows increase in substandard ratio.

As the level of Sub-Standard assets are more the chances of recovery of NPA are high.

PROVISION RATIO

Provisions are to be made against the Gross NPA of bank. As bank make provision for NPA it directly affects the profit of bank. This ratio shows the relation of total provision to Gross NPA.

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

Gross NPA

(Rs.in LACS)

YEAR	Total provisions	GROSS-NPA	SUB-STANDARD ASSETS-RATIO
2009	398.12	516.72	61.95%
2010	272.16	478.24	76.13%
2011	241.96	438.3	73.14%
2012	281.02	459.25	96.92
2013	284.81	487.13	91.37

*Total provisions = gross NPA – net NPA

Interpretation:

Provision ratio shows the degree of provision that is made against the Gross NPA of bank. As bank made the provision it directly affect the profit of bank and also the dividend payout ratio of bank too. If Provision ratio is less then it means that bank has make under provision and if provision is more then it means that it is over provision.

In Aryapuram co-operative Bank they have made 77.04% provision in March-2009 which shows that it was normal provision but in 2010 it was slightly decreased i.e 73.89 and it again raised in 2013 to 91.37 which indicate that provision was nearer to total amount of Gross NPA .which is the fair provision ratio.

DOUBTFUL ASSETS RATIO

It is the ratio of total doubtful assets to Gross NPA of the bank.

$$\text{Doubtful Asset Ratio} = \frac{\text{Total Doubtful Assets}}{\text{Gross NPA}} * 100$$

Gross NPA

(Rs.in LACS)

YEAR	TOTAL DOUBTFUL ASSETS	GROSS NPA	DOUBTFUL ASSETS RATIO
2009	156.206	516.72	30.32
2010	150.077	478.24	31.38
2011	86.276	438.3	19.68
2012	443.07	459.25	96.48
2013	443.07	487.13	90.95

Interpretation:

This ratio shows the percentage of Doubtful assets in the Gross NPA of bank. High Doubtful assets ratio means more proportion of Doubtful asset in the Gross NPA. More Doubtful assets means Bank should take action through recovery policy to reduce the level of Doubtful assets. As the Doubtful assets ratio is high which shows that bank should take quick action to reduce that level. This ratio should be less for the bank.

In Aryapuram co-operative Bank this ratio is in 30.32 in 2009 and 90.95 in 2013 which shows a good reduction in the ratio.

FINDINGS OF THE STUDY

- The Gross NPA ratio of bank is 18.47 in the year 2009 after then it reaches to 10.59% in the year 2011. Hence, the idle gross NPA ratio is 5.00% and bank have 10.59%. So, we can say that bank's financial condition is nearer to ideal ratio.
- Bank's Net NPA ratio is 4.94% in the year 2009 and 5.04 in 2011 which is negative for bank. The Bank must try to reduce this ratio by taking steps.
- The Problem assets ratio was 19.04% in the year 2009 from that year it is decrease to 10.88% in the year 2011 which is good for bank.
- Provision ratio for the year 2009 is 77.04% which show that their was under provision in that year but in year 2011 this ratio is 83.13% which shows that bank have increased provisions .
- It will be considered good if the Sub-standard assets ratio is high. For Aryapuram co-operative bank this ratio is 61.95% in the year 2009 which is good it reaches to 73.14% in the year 2011 which is very good for bank's health.
- Doubtful assets ratio should be low for the good health of bank and in City bank this ratio is 30.32% in the year 2009 which is normal but in year 2011 this ratio decrease to 19.68% which is positive for bank.

SUGESTIONS OF THE STUDY

- Aryapuram co-operative bank's NPA level is decreasing year by year which good for bank but bank should follow the recovery policy strictly.

- In Aryapuram co-operative bank there is special recovery department so bank should develop the department for the fastest recovery of NPA.
- Bank should motivate the staff to do fast recovery NPA.
- Bank have more NPA in Small Scale Industry so, they should try to reduce that level of NPA.
- The bank should always select the borrower very carefully and should take tangible assets as security to safe guard its interests.

CONCLUSION

Now as we know that NON-PERFORMING ASSETS is like a black spot on diamond. They affect the profit of bank and also the financial health of bank. This NPA have number of effects on banks working.

During my training in bank I gathered as much as possible information about NPA from bank and on the basis my experience I conclude the following points:-

- Aryapuram co-operative bank NPA level is decreasing year by year which good for bank.
- The Gross NPA ratio of bank is 18.47% in the year 2009 after then it reaches to 10.59% in the year 2011. Hence, the idle gross NPA ratio is 5.00% and bank have 10.59%. So, we can say that bank's financial condition is good. But it has to take steps to reduce it.

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