

NON – PERFORMING ASSETS (NPA'S): CAUSES AND REMEDIES (A CASE STUDY OF ANDHRA PRADESH GRAMEENA VIKAS BANK (APGVB), VIZIANA GARAM)

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Abstract:

Banks play a major role in the economic development of a country. The banking business is exposed to various risks, such as credit risk, liquidity risk, interest risk, market risk, and operational risk. Apart from these risks the very important risk is loan recovery. Recovery of advances is the life line for banks. Poor rate of recovery affects the recycling of funds. Non-Performing Assets (NPA's) are one of the major areas of concern for the Indian banking industry. They do not generate any cash flow, whereas, the bank is required to make provision for such non – performing assets. The RBI has introduced the concept of Non – Performing Asset (NPA) and certain norms with effect from 1.4.1992 which are useful not only to know the true financial position but also to take corrective actions for improving the performance of their loan portfolios. This paper mainly focuses on the causes and remedies of NPA's from various dimensions by considering gross NPA's, Net NPA's, Gross Advances and Net advances of APGVB.

Keywords: Non – Performing Assets (NPA, s), Gross NPA, Net Advances and Net NPA's

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Introduction:

India cannot have a healthy economy without a sound and effective banking system. The banking system should be hassle free and able to meet the new challenges posed by technology and other factors, both internal and external. In the past three decades, India's banking system has earned several outstanding achievements to its credit. It is no longer confined to metropolises or cities in India. In fact, the Indian banking system has reached even to the remote corners of the country. This is one of the main aspects of India's growth story. The government's regulation policy for banks has paid rich dividends with the nationalization of 14 major private banks in 1969. Banking today has become convenient and prompt in providing services to the account holders.

The government of India set up Regional Rural Banks (RRBs) on October 2, 1975. The banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural laborers', and small entrepreneurs.

Initially, five RRBs were set up on October 2, 1975 which was sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The total authorized capital was fixed at Rs. 1 Crore which has been raised to Rs. 5 Crores. There are several concessions enjoyed by the RRBs by Reserve Bank of India such as lower interest rates and refinancing facilities from NABARD like lower cash ratio, lower statutory liquidity ratio, lower rate of interest on loans taken from sponsoring banks, managerial and staff assistance from the sponsoring bank and the reimbursement of the expenses on staff training. The RRBs are under the control of NABARD. NABARD has the responsibility of laying down the policies for the RRBs, to oversee their operations, provide refinance facilities, to monitor their performance.

Concept of NPA:

A debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The nonperforming asset is therefore not yielding any income to the lender in the form of principal and interest payments.

Definition of NPA:

With effect from March 31, 2004, a non-performing asset (NPA) shall be declared as a loan or an advance where;

- Installment of principal or interest remain overdue for a period exceeding 90 days in respect of a Term Loan,
- The account remains 'out of order' for a period of more than 90 days, relating to Cash Credit or Bank Overdraft
- The bill remains unsettled for a period of more than 90 days in respect of a purchased or discounted bill.

Review of Literature:

Many research articles were published on Non – performing assets most of the authors argued that NPA's are the serious issues for the banking sector. A review of the relevant literature has been described.

Suresh & Ramana (2016) argued that Non Performing Assets is one of the biggest problems have been faced by the cooperative societies. There is a direct link in between nonperforming assets and profitability of the bank. The bank can able to reduce the non performing assets; ultimately the bank can able to improve the profitability.

Joseph Paulraj (2015) 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 destroys the current profit and interest income and affect the smooth functioning of the recycling of the funds.

Twari & Sharma (2015) in their paper the opined that A high level of NPAs suggests a high probability of a large number of credit defaults that affect the profitability and liquidity of banks. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value.

Satpal (2014) conclude in his research extent of NPA is comparatively very high in public sector banks as compared to private banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers, but with large borrowers and a strict policy should be followed for solving this problem.

Shalini H. S (2013) in her study concluded that the bankers can avoid sanctioning loans to the non creditworthy borrowers by adopting certain measures. They are careful appraisal of the project, which involves checking the economic viability of the project. A banker must consider the return on investment in a proposed project. If the calculated return is sufficiently higher than the credit amount he can sanction the loan.

Kumar (2013) in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a trouble for the Indian banking sector for the past several years. One of the major challenges was the accumulation of huge non-performing assets (NPAs) which will affect the performance of the bank.

Singh (2013) in his article on Recovery of NPAs in Indian commercial banks says that the root cause for the problem of expanding NPA's in banks was the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre- sanctioning appraisal responsibility.

Need for the Study:

The study is very important in Regional Rural Banks why because increasing NPA will affect the financial health of the bank. So there is a need to identify the causes for an asset becoming NPA.

Statement of the problem:

Non- performing assets of Rural Regional banks is one of the biggest challenges of rural development. It affects the financial health of the RRB's. So the banks must take proper remedial

steps for recovering the overdue by way of strengthening the internal management control system. This study aims to analyze the causes and remedies of a nonperforming asset in RRB's particularly in Andhra Pradesh Grameena Vikas Bank, Vizianagaram.

Objectives of the study:

The main objective of the study is to know the causes for an asset becoming Non – performing asset and the remedial steps to be taken to reduce Non – performing assets in Andhra Pradesh Grameena Vikas Bank (APGVB), Vizianagaram.

Methodology:

The study is purely depends on secondary data and the data was collected from annual reports of APGVB, NABARD reports and from RBI reports. For the purpose of the analysis the period considered is 2010-11 to 2014 - 15.

Analysis and Discussion:

Table 1: Status of NPA'S from 2010-11 to 2014-15 based on value

(Rs in Crs)

| Sector | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TOTAL | % |
|----------------|-----------|-----------|-----------|-----------|-----------|--------------------|------------|
| Public Sector | 5,730,087 | 7,104,741 | 1,124,890 | 1,644,618 | 2,784,680 | 18,389,016 | 76.11 |
| Private Sector | 1,738,421 | 1,797,202 | 1,83,146 | 2,076,23 | 3,410,62 | 4,267,454 | 17.66 |
| Foreign Banks | 7,12,793 | 5,06,480 | 62,922 | 79,700 | 1,077,08 | 1,469,603 | 6.08 |
| RRB's | 3,536 | 4,994 | 7,907 | 7,025 | 10,573 | 34,035 | 0.14 |
| | | | | | | 2,41,60,108 | 100 |

(Source: RBI's annual Report)

Table 2: Gross NPA to Gross advance Ratio from 2010-11 to 2014-15 of APGVB

| Year | Gross Advance | Gross NPA | Percentage |
|---------|---------------|-----------|------------|
| 2010-11 | 4,89,443 | 19,628 | 4.01 |
| 2011-12 | 50,439,94 | 20,17,56 | 3.99 |
| 2012-13 | 66,862,850 | 26,74,486 | 4.00 |

| | | | | | |
|-----------------|---------|------------|-----------|------|---------------|
| (Source: annual | 2013-14 | 78,954,212 | 34,98,164 | 4.43 | APGVB Report) |
| | 2014-15 | 90,656,121 | 29,903,02 | 3.29 | |

Table 3:**Total****provisions to Net NPA Ratio from 2010-11 to 2014-15 of APGVB**

| Year | Total Provisions | Net NPA | Percentage |
|---------|------------------|-----------|------------|
| 2010-11 | 6,130 | 13,639 | 44.94 |
| 2011-12 | 55,310 | 1,45,896 | 37.91 |
| 2012-13 | 7,21,573 | 17,28,084 | 41.75 |
| 2013-14 | 9,30,319 | 25,50,101 | 36.48 |
| 2014-15 | 10,14,199 | 22,24,258 | 45.59 |

(Source: APGVB annual Report)

Table 4: Problem Asset Ratio of APGVB from 2010-11 to 2014-15

| Year | Gross NPA | Total Assets | Percentage |
|---------|-----------|--------------|------------|
| 2010-11 | 19,628 | 76,461,417 | 0.02 |
| 2011-12 | 2,01,756 | 97,687,123 | 0.20 |
| 2012-13 | 2,674,486 | 1,019,729,80 | 2.62 |
| 2013-14 | 3,498,164 | 1,061,434,34 | 3.29 |
| 2014-15 | 2,990,302 | 1,359,715,55 | 2.19 |

(Source: APGVB annual Report)

Table 5: Net Provisions Ratio of APGVB from 2010-11 to 2014-15

| Year | Provisions | Trend |
|---------|------------|--------|
| 2010-11 | 4,761 | - |
| 2011-12 | 27,910 | 82.941 |
| 2012-13 | 5,38,597 | 94.818 |
| 2013-14 | 7,13,542 | 24.517 |
| 2014-15 | 7,66,044 | 6.853 |

(Source: APGVB annual Report)

Table 6: Gross Advances to Gross NPA Ratio of APGVB from 2010-11 to 2014-15

| Year | Gross advances | Gross NPA |
|------|----------------|-----------|
| | | |

| | | Gross NPA | % to Advances | % to Total Assets |
|---------|------------|------------------|----------------------|--------------------------|
| 2010-11 | 4,89,443 | 19,628 | 4.01 | 0.025 |
| 2011-12 | 50,43,994 | 2,01,756 | 3.99 | 0.206 |
| 2012-13 | 66,862,850 | 26,74,486 | 3.99 | 2.622 |
| 2013-14 | 78,954,212 | 34,,98164 | 4.43 | 3.295 |
| 2014-15 | 90,656,121 | 29,90,302 | 3.29 | 2.199 |

(Source: APGVB annual Report)

Table 7: Status of Standard, Sub-Standard, Doubtful Assets of APGVB from 2010-11 to 2014-15

| Year | Standard Assets | | Sub-Standard Asset | | Doubtful Asset | |
|--------------|------------------------|------------|---------------------------|------------|-----------------------|------------|
| | Value | % | value | % | value | % |
| 2010-11 | 4,69,815 | 0.28 | 12,082 | 0.28 | 1,556 | 0.042 |
| 2011-12 | 9,87,342 | 0.58 | 5,04,231 | 11.58 | 7,89,441 | 21.08 |
| 2012-13 | 5,486,223 | 3.22 | 10,29,847 | 23.65 | 9,86,444 | 26.34 |
| 2013-14 | 75,456,049 | 44.36 | 13,29,497 | 30.54 | 1,220,609 | 32.59 |
| 2014-15 | 87,665,819 | 51.55 | 14,77,351 | 33.93 | 7,46,907 | 19.94 |
| TOTAL | 170065248 | 100 | 4353008 | 100 | 3744957 | 100 |

(Source: APGVB annual Report)

From the table 1 we can understand the status of NPA'S from 2010-11 to 2014-15. The value of the NPA is classified among five banking sector, public, private, foreign and RRB's. In 2010-11 the status of gross NPA's shows highest value, i.e. 5,730,087 crs from public sector followed by the private sector, i.e. 1,738,421 crs , RRB's noted least value 3536 crs. When compared to 2010-11 the value of gross NPA's increasing year by year and a total of 24,160,108 crs. We observe further RBI has issued a policy document regarding NPA'S write –off, according to the policy all the banks must submit their gross NPA value and the percentage composition of gross NPA's against the provisions.

The increase in the NPA's value will directly impact the bank's performance. The table also reveals public sector and foreign banks having a maximum percentage of NPA'S when compared to private sector and RRB'S.

From the table 2 we can observe the ratio between gross NPA to gross advance from 2010-11 to 2014-15. The ratio is high in the year 2013-14 i.e. 4.43% and least in the year 2014-15, i.e. 3.29%. The ratio is fluctuating between 2010-15. These fluctuations may result in the performance of APGVB and the bank may have to focus more on gross advance while issuing. If not the account may become NPA and the value may increase towards gross NPA value.

The table 3 reveals the percentage composition of total provisions to net NPA ratio. The primary responsibility of any bank is to maintain provisions against NPA 'the above table reveals the ratio between total provisions and net NPA from 2010-11 to 2014-15. The table reveals that the bank has failed to maintain sufficient provisions against net NPA. The net NPA value is more when compared to total provisions. The percentage is high in the year 2014-15 i.e. 45.59% followed by 44.94% in 2010-11, 41.75% in 2012-13. The fluctuations may result in the bank's performance.

If we observe problem asset ratio in the table 4, i.e. gross NPA to total assets ratio it seems that the bank is maintaining good portion of the assets against gross NPA. The percentage is low in 2010-11 i.e. 0.02% and higher in 2013-14 i.e. 3.29%. Further the gross NPA value is increasing year by year. If this continues, there may be a mismatch between gross NPA to total assets.

From the table 5, we can understand the growth percent of provisions against NPA's. The provisions in terms of value are high in the year 2014-15 i.e. 766044 crs with growth percent of and least in 2010-11 i.e. 4761 crs. The provisions value is fluctuating year by year that result in the value of net NPA's. The bank may have to maintain sufficient provisions against net NPA's.

The table 6 shows the ratio of gross advances to gross NPA. The table also reveals percentage to the advances and percentage to the total assets. The ratio towards advances is higher in 2013-14 i.e. is 4.43%, followed by 2010-11 is 4.01% and the total advances % is same in 2011-12 & 2012-13 with 3.99%. The percentage to total advances are almost 4%, except in 2014-15 i.e. 3.29%. Further the % to total assets the ratio is less than 1% in 2010-11, 2011-12, with 0.025 and

0.206%. And in the remaining years, it is fluctuating between 2 to 3% the bank has to focus more on gross NPA's. If any change occurs that would show a direct impact on advances & total assets.

Table 8: Status of Gross and Net NPA's of APGVB from June 2013 to September 2015

| Month & Year | Gross NPA (%) | Net NPA (%) | NPA percentage |
|----------------|---------------|-------------|----------------|
| June 2013 | 5.56 | 2.83 | 60.60 |
| September 2013 | 5.64 | 2.91 | 60.16 |
| December 2013 | 5.73 | 3.24 | 58.32 |
| March 2014 | 4.95 | 2.57 | 62.86 |
| June 2014 | 4.90 | 2.66 | 62.86 |
| September 2014 | 4.89 | 2.73 | 63.18 |
| December 2014 | 4.90 | 2.80 | 63.56 |
| March 2015 | 4.25 | 2.12 | 69.13 |
| June 2015 | 4.29 | 2.24 | 69.49 |
| September 2015 | 4.15 | 2.14 | 70.48 |

(Source: APGVB annual report)

- Gross NPA's decline from 60,891 crs in June 13 to 60,434 crs in June 14.
- Gross NPA's decline from 64,206 crs in September 13 to 60,712 crs in December 14.
- Gross NPA's decline from 67,799 crs in December 13 to 61,991 crs in December 2014.
- Gross NPA's decline from 61,605 crs in March 14 to 56,725 crs in March 15.
- Gross NPA's decline from 60,434 crs in June 14 to 56,421 crs in June 15.
- Gross NPA's decline from 60,712 crs in September 14 to 56,834 crs in September 2015.

Table 9: Recovery performance of APGVB from 2005-06 to 2014-15

(Rs in lakhs)

| Year | Demand | Recovery | Over Dues | % of Recovery |
|---------|------------|------------|-----------|---------------|
| 2005-06 | 88040 | 67,912 | 20,128 | 77.13 |
| 2006-07 | 1,30,804 | 98,640 | 32,163 | 75.41 |
| 2007-08 | 11,534,141 | 90,74,368 | 24,59,773 | 78.67 |
| 2008-09 | 17,965,792 | 14,870,454 | 30,95,338 | 82.77 |
| 2009-10 | 22,137,900 | 18,049,100 | 4,08,880 | 81.53 |

| | | | | |
|---------|------------|------------|------------|-------|
| 2010-11 | 25,472,765 | 20,595,069 | 48,77,696 | 80.85 |
| 2011-12 | 31,646,135 | 25,921,335 | 57,24,800 | 81.91 |
| 2012-13 | 49,277,099 | 40,816,089 | 84,61,010 | 82.83 |
| 2013-14 | 57,704,721 | 45,132,478 | 12,572,243 | 78.21 |
| 2014-15 | 61,206,745 | 47,524,012 | 13,682,733 | 77.65 |

(Source:APGVB annual report)

Causes for NPA's:

Any NPA management policy has to identify for the causes of the occurrence of NPA's. These causes may be attributed either to the borrowers (or) to the bank. Again, these may be internal & external for either borrower (or) the bank.

Causes attributable to borrowers:

Internal: Wrong (or) improper borrower identification, Willful defaults, Incompetent management, Financial indiscipline /diversion of funds, Non-submission of required data (or) submission of wrong (or) inadequate information, Time (or) cost overruns due to delayed project implementation and Technological obsolesces & low priority to technology up gradation.

External: Poor contribution of borrower, Poor inventory, receivables management, Delayed settlement of borrower by large institutional houses, government departments, public sector unit, etc Entry into the business at an inappropriate time of business cycle and Adverse exchange fluctuations.

Causes attributable to banks:

Internal: Poor pre-sanction appraisal (or) un-realistic projection, Poor assessment o commercial viability, Delayed disbursements, In complete, defensive documentation, In adequate supervision absence of effective monitoring & delays in detection of symptoms & initiation of remedial measures, Non- availability of audited financial statements in time & too much reliance on provisional (or) unaudited data Lack of networking, information systems among branches, these enable borrowers to misuse bank funds.

External: Changes in regulatory prescriptions that result in a change in norms for classification, Delay in action for rehabilitation of accounts & finalization of rehabilitation package and Lack of info between financial institutions and banks.

Other causes: Lack of infrastructure, Changes in technology, Unhelpful attitude of government, Government policies, Credit policies, Taxation loss and Changes in banking amendment act

Remedies to reduce NPA's

The NPA is a drain to the RRB's. The RRB's in India are adopting various strategies to reduce NPA's. They are also adopting various methodologies by which further addition to NPA portfolio is minimized.

❖ In a real sense in case there is a recovery in principal the installments due in respect of the loans granted to the banks are receiving 100 percent the question of NPA doesn't raising. However, there is no such ideal bank where the NPA is nil.

❖ Technical analyses of assets are very important. The evaluation of assets must be made scientifically to reduce NPA's.

❖ Various steps have been taken by the government and RBI to recover and reduce NPA's. These strategies are necessary to control NPA's.

- Preventive management
- Curative management

❖ **Preventive Management:** preventive measures are to prevent the asset from becoming a non performance asset. Banks have to focus on the following to minimize the level of NPA's.

- ❖ Early warning signals
- ❖ Financial warning signals
- ❖ Management related warning signals
- ❖ Banking related signals

❖ **Curative management:** The curative measures are designed to maximize recoveries so that bank funds locked up in NPA's are released for recycling. The central government and RBI have taken the necessary steps for controlling the incidence of fresh NPA's and creating legal and regulatory environment to facilitate the recovery of existing NPA's of banks as they are:

- ❖ One time settlement schemes

- ❖ Lok adulates
- ❖ Debt recovery tribunals
- ❖ Securitization act

Limitation of the study:

This study is based on secondary data .We just made the conclusion on the basis of analyzing the data collected through Annual reports of the past five years.

Conclusion:

Increasing NPA is one of the biggest challenges to the RRB's. NPAs affects the overall performance of the banks, which in turn increases credit risk of the bank. If proper management of the NPAs is not undertaken it would obstruct the efficiency of the banks.. The NPAs put an end to the current profit and interest income which will affect the recycling of the funds. Lower deposit rates and higher lending rates blockthe savings in financial markets.Which in turn affects the economic growth of the country. Due diligence and utmost care must be taken by the branch managers before sanctioning the loans.

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