

A STUDY ON PERFORMANCE OF NON-PERFORMING ASSET IN SELECTED BANKS

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ABSTRACT

Indian Banking Sector plays a vital role in the development of all sectors like industry, Education, and like any other sector by providing advances to the projects, where they repay the principle and interest for the loans. This was the scenario before 2000's But the banking sector faced tremendous capital adequacy or some even loss due to the non -payment of Loans by their customers which become doubt full debts and later non -performing assets, where no income out of their advances. Though the Reserve Bank of India introduced many schemes and measures to reduce the NPA, still the banks facing the same problem which affects their profit and fund generation. There is serious of problems in banking growth process due to this Non Performing Asset that affect the productivity of the banks. This research attempts to analyze the level of Non -performing assets and profitability of the selected banks in public sector from the year 2006-2007 to 2015-2016. The finding and suggestion helps as an eye opener to the banks and the customers.

Key Words: Non Performing, Advances, Profitability

INTRODUCTION

Banking system plays a vital role in development of economy by rendering services to all type of business and some time even for individuals in the form of loans and advances. Thus the bankers are called as custodians and distributors of the liquid capital. Banks accepted deposits in order to magnify the savings discipline among the public. Deposit mobilization promotes the economic prosperity by controlling the money circulation and canalizing for development and productive purposes. This is done through various deposit schemes for different section of people, which paved the way to raise funds for many bankers. For the successful banking services the source of fund is more important. So, along with the deposit the bankers choose the other source of funds like capital, reserves and borrowings. Since bankers provide various facilities and schemes, The repayment by customer for the loan is one of the major factor for bankers to manage the profit level. Banks are facing problem of managing NPA due to defaults in various loans like education, project, Agriculture, Mortgage and others.

NON PERFORMING ASSETS

An amount under any of the credit facilities is to be treated as past due when it remain unpaid for 30 days beyond due date. Non Performing Assets are also called as Non Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time.

OBJECTIVES OF THE STUDY

- To highlight the NPA level of selected Public Sector Banks.
- To analyse the impact of non-performing assets on the profitability of selected Public Sector banks.

STATEMENT OF THE PROBLEM

The banking sector faced problem in managing the capital and to manage the Advances during 2000's. Therefore there is a need to analyse the performance of NPA and Profitability of the bank from the year 2006-2007 to 2015-2016. This analysis helps to know about the banks recovery of NPA and profitability of the selected banks.

RESEARCH METHODOLOGY

For this study the researcher Selected Five Public sector banks based on their Net profit level.

Among the various Public sector banks the following banks are selected Punjab National Bank, Bank of Baroda, Canara Bank, Bank of India and Indian Bank. The study adopts to analyse the Growth rate of NPA using AGR as tool, and attempts has been made to analyse profitability using various profitability ratios and Ratios relate to NPA.

SOURCES OF DATA

Data are obtained from the publications of the Reserve Bank of India relating to banking business in its monthly bulletins, annual reports and various business newspapers. Finally the various internet website have been comprehensively referred for the information.

TOOLS USED

To analyse the profitability the following ratios are used

NPA Ratios

1. Performance of NPA
2. Gross NPA to Gross Advances
3. Capital Adequacy Ratio
4. Problem asset Ratio

Along with the ratios **Mean, Standard Deviation and Co-efficient Variation and correlation** is used to analyse the result through Excel.

REVIEW OF LITERATURE

1. The article by **LOK SABHA SECRETARIAT, (2014)** a descriptive study on Non-Performing Assets and Public Sector Banks in India deals with implication of NPAs in an economy, Factors affecting NPAs and other implication for the growth of banking sector. The research represents, the most important business implication of the NPAs is that it leads to credit risk management assuming priority over other aspects of bank's functioning. The bank's whole machinery would thus be pre-occupied with recovery procedures rather than concentrating on expanding business. A bank with a high level of NPAs would be forced to incur carrying costs on non-income yielding assets. Other consequences would be reduction in interest income, high level of provisioning (as banks are required to keep aside a portion of their operating profit as provisions, as NPAs increases banks have to increase the amount kept aside as provisions which will reduce their net profits), and also they highlighted the following initiatives like 1. Appointment of nodal officers in banks for recovery at their head offices/zonal offices/for each Debts Recovery Tribunal (DRT). 2. Directing the state-level bankers' committees to be proactive in resolving issues with the state governments, 3. Thrust on recovery of loss assets by banks and designating asset reconstruction companies (ARC) resolution agents of banks and 4. Close watch on NPAs by picking up early warning signals and ensuring timely corrective steps by banks including early detection of sign of distress, amendments in recovery laws, and strengthening of credit appraisal and post credit monitoring.

2. The empirical study done by **Dr. N.Kavitha (2012)**, the impact of non-performing assets on the profitability of Indian scheduled Commercial banks empirical evidence the paper deals with the assessment of non-performing assets on profitability, its magnitude and impact. Credit of total advances was in the form of doubtful asset in the past and has an adverse impact on profitability of public sector banks at comprehensive level representative high degree of riskiness in credit portfolio on the credit appraisal. The profitability of all public sector banks affected at very large extent when non-performing assets (NPAs) work with other banking and also affect productivity and efficiency of the banking groups. She recommended the asset management companies or asset reconstruction fund must redress the NPAs to be reviewed. Banks directly or indirectly affect trade and industry development. In India, banks were purely limited to urban areas and provided credit to the business and trading community and also the other way to manage the NPA is Compromise Settlement Schemes or One Time Settlement Schemes. Under these situations, it is necessary to bring more simplicity in such deals so that any mistake could be removed.

3. In the research article by **Sakaria Sima Vasantbhai (2013)**, she examined that NPA is the indicators of banking health in a country. Researcher attempt to evaluate the operational performance of the selected

two public sector bank i.e., State Bank of India and Central Bank of India and also how efficiently they managed the NPA in selected public sector Banks. Researcher concluded that both the Banks have compiled the capital adequacy norms of RBI and NPA is fluctuating for course of year 2008-2012.

4. The research article by **Chandan Chatterjee***, **Jeet Mukherjee****, **Dr.Ratan Das on management of Non Performing assets - a current scenario, (2012)**, The researchers stated that Several prudential, payment, integrating and provisioning norms have been introduced to improve efficiency and trimming down the NPAs to improve the financial health of the banking sector. NPA involves the necessity of provisions, any increase in which bring down the overall profitability of banks; is the indicator of banking health in a country. The issue of mounting non-performing assets is giving jitters to banking sector particularly in many a developing economy. This article attempts to focus mainly on the causes and consequences of NPAs, policy directives of RBI, initiatives of Indian Government, scenario of NPAs sector wise and bank group wise and finally the curative measures for NPAs in India. The researcher found that the share of NPAs in the priority sector to total NPAs of Public sector banks increased marginally to 58.1 percent in 2011 from 53.8 percent compared to that of 2010, share of NPA of other sectors and non-priority sector in 2011 is declined to 17.5% and 41.9% respectively. The NPAs have a negative influence on the achievement of capital adequacy level, funds mobilization and deployment policy, banking system credibility, productivity and overall economy. On one hand, the Public Sector Banks which are the said to be a focal point of the Indian Banking system are in trouble with excessive governmental equity, excessive NPAs and excessive manpower, while on the other hand the private sector banks are merging themselves through adoption of most up-to-date expertise and technological systems. Therefore considerable efforts are required at RBI, Ministry of Finance and all the banks level to control the menace of NPAs.

5. The research article by **B.Selvarajan & Dr. G. Vadivalagan (2013)** researchers examined the performance of NPA in priority sectors in Indian bank and public sector banks. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows.

It is from the interest payments that a bank makes its profits. The problem of NPA is not limited to only Indian public sector banks, but it prevails in the entire banking industry. Researchers analyzed and concluded that. Mean of the Other Priority Sector advances for the decade of study is 36.11 percent of total Priority Sector advances in Indian Bank. About 25 percent of total Priority Sector lending by Indian Bank has gone to weaker sections. , In case of NPA management, the performance of Indian Bank is better than that of Public Sector Banks as a whole.

ANALYSIS AND INTERPRETATION

Performance of NPA

Table No: 1

| Year | Public Sector banks | | | | | | | | | |
|------|---------------------|--------------|--------|--------------|-------------|--------------|-------------|--------------|----------------------|--------------|
| | BOB | AGR | BOI | AGR | Canara Bank | AGR | Indian Bank | AGR | Punjab National Bank | AGR |
| 2007 | 176102 | - | 206157 | - | 137831 | - | 38321 | - | 44896 | - |
| 2008 | 61964 | -64.81 | 155428 | -24.61 | 112528 | -18.3 | 24742 | -35.43 | 11944 | -73.40 |
| 2009 | 51804 | -16.40 | 96950 | -37.62 | 87918 | -21.87 | 17666 | -28.60 | 21017 | 75.96 |
| 2010 | 50167 | -3.16 | 81203 | -16.24 | 92697 | 5.44 | 10213 | -42.19 | 72562 | 245.25 |
| 2011 | 49355 | -1.62 | 59198 | -27.10 | 89903 | -3.01 | 9758 | -4.46 | 75378 | 3.88 |
| 2012 | 45115 | -8.59 | 62821 | 6.12 | 150725 | 67.65 | 9381 | -3.86 | 26385 | -65.00 |
| 2013 | 60232 | 33.51 | 220745 | 251.39 | 179970 | 19.40 | 14493 | 54.49 | 98169 | 272.06 |
| 2014 | 79088 | 31.31 | 194499 | -11.89 | 234733 | 30.43 | 39704 | 173.95 | 203863 | 107.67 |
| 2015 | 154360 | 95.17 | 384250 | 97.56 | 338630 | 44.26 | 119680 | 201.43 | 445420 | 118.49 |
| 2016 | 419200 | 171.57 | 603260 | 57.00 | 527810 | 55.87 | 238430 | 99.22 | 723650 | 62.46 |
| Mean | | 26.33 | | 32.73 | | 19.98 | | 46.06 | | 83.04 |

The above Table infers that from FY 2008-2012 The growth rate of NPA is negative in all banks. But, after 2012 the level of NPA Increased.

Gross NPA to Gross Advances

Table No:2

| Year | Public Sector banks | | | | |
|------|---------------------|------|-------------|-------------|----------------------|
| | BOB | BOI | Canara Bank | Indian Bank | Punjab National Bank |
| 2007 | 10.52 | 7.86 | 6.33 | 7.98 | 9.35 |
| 2008 | 7.3 | 5.5 | 3.9 | 4.2 | 6 |
| 2009 | 3.9 | 3.7 | 2.3 | 2.9 | 4.1 |
| 2010 | 2.5 | 2.4 | 1.5 | 1.9 | 3.5 |

| | | | | | |
|-------------|--------------|--------------|--------------|--------------|--------------|
| 2011 | 1.8 | 1.7 | 1.3 | 1.2 | 2.7 |
| 2012 | 1.27 | 1.71 | 1.56 | 0.89 | 1.77 |
| 2013 | 1.2 | 1.73 | 1.5 | 0.95 | 1.7 |
| 2014 | 1.62 | 2.64 | 1.47 | 0.99 | 1.79 |
| 2015 | 1.89 | 2.91 | 1.75 | 1.94 | 3.15 |
| 2016 | 2.4 | 2.99 | 1.55 | 3.33 | 4.27 |
| Mean | 3.44 | 3.31 | 2.32 | 2.63 | 3.52 |
| SD | 2.92 | 1.87 | 1.52 | 2.08 | 2.35 |
| CV% | 84.88 | 56.50 | 65.52 | 79.09 | 66.76 |

The above table infers that Gross NPA to Gross advances is very high in the FY 2007-2008 later on it was decreasing. The lowest mean was achieved by Canara Bank and the highest mean was attained by Punjab National Bank followed by BOB, BOI and Indian Bank. The SD result shows that Punjab National Bank is with highest Deviation and the lowest is by Canara Bank.

Capital Adequacy Ratio

Table No:3

| Year | Public Sector banks | | | | |
|-------------|---------------------|-------|-------------|-------------|----------------------|
| | BOB | BOI | Canara Bank | Indian Bank | Punjab National Bank |
| 2007 | 13.91 | 13.01 | 12.66 | 12.82 | 13.1 |
| 2008 | 12.61 | 11.52 | 12.78 | 14.14 | 14.78 |
| 2009 | 13.65 | 10.75 | 11.22 | 13.19 | 11.95 |
| 2010 | 11.8 | 11.75 | 13.5 | 14.14 | 12.29 |
| 2011 | 12.91 | 12.04 | 13.25 | 12.86 | 12.96 |
| 2012 | 14.05 | 13.01 | 14.1 | 13.98 | 14.03 |
| 2013 | 14.36 | 12.94 | 13.43 | 12.71 | 14.16 |
| 2014 | 14.52 | 12.17 | 15.38 | 13.56 | 12.42 |

| | | | | | |
|-------------|--------------|--------------|--------------|-------------|-------------|
| 2015 | 14.67 | 11.95 | 13.76 | 13.47 | 12.63 |
| 2016 | 13.3 | 11.02 | 12.4 | 13.08 | 12.72 |
| Mean | 13.58 | 12.02 | 13.25 | 13.4 | 13.1 |
| SD | 0.87 | 0.76 | 1.05 | 0.52 | 0.87 |
| CV% | 6.41 | 6.32 | 7.92 | 3.88 | 6.64 |

Source: Data calculated from Statistical Tables Relating to Banks in India, R.B.I., of the relevant years

The above table reveals that in later 2009 the capital Adequacy ratio increased and showed the good performance by all the selected commercial banks than the yearly 2008. The average capital adequacy is better in case of BOB and Canara Bank, means they are in a situation with enough capital to face the future needs. The co-efficiency of variation is maximum in Canara Bank followed by Punjab National Bank, BOB and BOI and it is minimum in Indian Bank.

PROBLEM ASSET RATIO

The Problem assets ratio shows the proportion of Gross NPA to total assets. The decreasing in ratio shows the increase in Performance.

Problem Asset ratio = $\text{Gross NPA} / \text{Total Asset} * 100$

Problem Asset Ratio

Table No: 4

| Year | Public Sector banks | | | | |
|-------------|---------------------|------|-------------|-------------|----------------------|
| | BOB | BOI | Canara Bank | Indian Bank | Punjab National Bank |
| 2007 | 4.68 | 4.41 | 3.15 | 3.4 | 4.58 |
| 2008 | 3.51 | 3.33 | 2.15 | 5.96 | 2.97 |
| 2009 | 2.11 | 2.21 | 1.35 | 1.41 | 2.16 |
| 2010 | 1.46 | 1.48 | 0.91 | 0.98 | 2.09 |
| 2011 | 1.1 | 1.09 | 0.79 | 0.69 | 1.68 |
| 2012 | 0.81 | 1.1 | 1 | 0.55 | 1.13 |
| 2013 | 0.86 | 1.78 | 0.99 | 0.51 | 1.09 |
| 2014 | 0.78 | 1.25 | 0.89 | 0.6 | 1.16 |
| 2015 | 0.87 | 1.35 | 1.05 | 1.19 | 1.9 |

| | | | | | |
|-------------|--------|-------|--------|-------|--------|
| 2016 | 1.46 | 1.94 | 1.53 | 2.21 | 2.82 |
| Mean | 37.496 | 1.994 | 22.68 | 1.75 | 31.571 |
| SD | 104.51 | 1.03 | 64.16 | 1.65 | 88.52 |
| CV% | 278.73 | 51.55 | 282.88 | 94.08 | 280.37 |

Source: Data calculated from Statistical Tables Relating to Banks in India, R.B.I., of the relevant years

The above table infers that the problem asset ratio of the selected public sector Banks, in this analysis the ratio was gradually decreasing from 2011 in all the selected banks.

Correlation between Net NPA and Total Assets

Table No: 5

| Year | BOB | | BOI | | Canara Bank | | Indian Bank | | Punjab National Bank | |
|-------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|----------------------|--------------|
| | Net NPA | Total Assets | Net NPA | Total Assets | Net NPA | Total Assets | Net NPA | Total Assets | Net NPA | Total Assets |
| 2007 | 176102 | 8,510,866 | 206157 | 8,468,568 | 137831 | 9,941,864 | 38321 | 3,509,113 | 38321 | 3,509,113 |
| 2007 | 61964 | 94,664.23 | 155428 | 9,481,257 | 112528 | 110,188 | 24742 | 3,980,272 | 24742 | 3,980,272 |
| 2008 | 51804 | 11,339,253 | 96950 | 11,211,693 | 87918 | 13,270,848 | 17666 | 4,741,156 | 17666 | 4,741,156 |
| 2009 | 50167 | 14,314,618 | 81203 | 14,148,751 | 92697 | 16,371,817 | 10213 | 5,592,919 | 10213 | 5,592,919 |
| 2010 | 49355 | 1,795,995 | 59198 | 17,706,690 | 89903 | 17,832,383 | 9758 | 7,029,245 | 9758 | 7,029,245 |
| 2011 | 45115 | 22,740,673 | 62821 | 22,379,146 | 150725 | 21,747,764 | 9381 | 8,286,612 | 9381 | 8,286,612 |
| 2012 | 60232 | 27,831,671 | 220745 | 27,353,784 | 179970 | 26,260,841 | 14493 | 10,016,423 | 14493 | 10,016,423 |
| 2013 | 79088 | 35,839,718 | 194499 | 34,985,308 | 234733 | 33,384,648 | 39704 | 12,052,375 | 39704 | 12,052,375 |
| 2014 | 154360 | 44,732,146 | 384250 | 38,329,957 | 338630 | 37,209,507 | 119680 | 14,025,517 | 119680 | 14,025,517 |
| 2015 | 419200 | 54,713,544 | 603260 | 45,260,272 | 527810 | 41,030,936 | 238430 | 16,168,901 | 238430 | 16,168,901 |
| Correlation | 0.66 | | 0.77 | | 0.81 | | 0.76 | | 0.61 | |

The above table reveals that there is positive correlation (0.66) between Net NPA and Total Assets in Bank of Baroda, (0.77) in BOI, whereas (0.81) in Canara Bank, next it is (0.76) in Indian Bank and (0.61) in Punjab National Bank. All the correlated values show positive correlation between the Net NPA and the Total Assets. This shows that they are significantly related to each.

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