

Non-Performing Assets (NPAs) Performance of Andhra Bank – An Analytical Study

*Dr.S.Dilli

Abstract

The present paper is an analytical study which envisaged that the Non-Performing Assets (NPAs) position in public sector banks, particularly with reference to Andhra Bank for recent past decade period. A bank account is treated as 'out of order', if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases, where the outstanding balance in the operating account is less than the sanctioned limit amount or drawing power, but there are not credit continuously for ninety days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Key words: Non-Performing Assets, Segment-wise NPAs Position of Andhra Bank

*Dr. S. Dilli, Associate Professor, Dept. of MBA, Chadalawada Ramanamma Engineering College (Atonomous), Renigunta road, Tirupati, Andhra Pradesh, India.

1. Introduction:

The present paper is an analytical study which envisaged that the Non-Performing Assets (NPAs) position in public sector banks, particularly with reference to Andhra Bank for recent past decade period. The researcher put modest efforts in analyzing the NPAs Position and performance of Andhra Bank with help of growth rates and statistical tools over a period from 2008-09 to 2017-18 financial years.

2. Concept of Non-Performing Assets:

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time. Non-performing assets are one of the talking points of banks in their performance reports. Almost all banks in India have been suffering from the problem of NPA. An Asset, which including a leased asset, become an NPA when it ceased to generate income for the bank. An NPA is a loan or an advance where;

- The Interest and/or Installment of principal remain overdue for a period of more than ninety days in respect of a term loan,
- An account remains 'out of order' as indicated in the article below, in respect of an overdraft/cash credit (OD/CC).
- A bill remains overdue for a period of more than ninety days, in the case of bills purchased and discounted.

- An installment of the principal or the interest thereon remains overdue for one crop season for long duration crops.

Banks should classify an account as an NPA only if the interest charged during any quarter is not serviced fully within ninety days from the end of the quarter.

2.1 Out of Order Status:

A bank account is treated as 'out of order', if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases, where the outstanding balance in the operating account is less than the sanctioned limit/ drawing power, but there are not credit continuously for ninety days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of Bond finance principal has remained 'past due' for a specified period of time. NPA is used by financial institutions that refer to loans that are in jeopardy of default the so called NPL. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset. Non-performing assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in NPLs and often results in massive write-downs.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue' norm for identification of NPA, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) is a loan or an advance where;

- Interest and/or installment of principal remain overdue for a period of more than 91 days in respect of a term loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
- Non submission of Stock Statements for 3 Continuous Quarters in case of Cash Credit Facility.
- No active transactions in the account (Cash Credit/Over Draft/EPC/PCFC) for more than 91days

Further classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

1. Sub-standard assets: a sub standard asset is one which has been classified as NPA for a period not exceeding 12 months.
2. Doubtful Assets: a doubtful asset is one which has remained NPA for a period exceeding 12 months.
3. Loss assets: where loss has been identified by the bank, internal or external auditor or central bank inspectors. But the amount has not been written off, wholly or partly.

Sub-standard asset is the asset in which bank have to maintain 15 per cent of its reserves. All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets. All those assets which cannot be recovered are called as Loss Assets. Some advanced tools like Experian India's Hunter Fraud Score have also been launched that work on data mining and calculate some authentic score that can help banks detect fraud and lower their losses.

2.2 Reasons for NPAs:

NPAs result from what are termed “Bad Loans” or NPL. Default, in the financial parlance, is the failure to meet financial obligations, say non-payment of a loan installment. These loans can occur due to the following reasons:

- Usual banking operations /Bad lending practices
- A banking crisis like as happened in USA, South Asia and Japan
- Overhang component due to environmental reasons, natural calamities, business cycle, Disease Occurrence, etc.
- Incremental component due to internal bank management, like credit policy, terms of credit, etc.

2.3 Problems Caused to NPAs:

NPAs do not just reflect badly in a bank's account books, they adversely impact the national economy. Following are some of the repercussions of NPAs:

- Depositors do not get rightful returns and many times may lose uninsured deposits. Banks may begin charging higher interest rates on some products to compensate NPL losses
- Bank shareholders are adversely affected
- Bad loans imply redirecting of funds from good projects to bad ones. Hence, the economy suffers due to loss of good projects and failure of bad investments.
- When bank do not get loan repayment or interest payments, liquidity problems may ensue.

3 Research Design:

3.1 Statement of the Problem:

The main motive of the banks is to provide financial service for the public in form of loans and advances for the upliftment of the economic strength. Now a days, the borrowers are not ready to repay the

amount of loan taken to the banks regularly as per the due dates and it is affecting the overall performance of the bank in general and in financial performance in particular. As per the new banking regulations, the borrower not paid the principle and interest of the loan amount within 90 days, the amount is to be considered as Non-Performance Assets.

3.2 Need for the study:

Andhra bank is one of the lead nationalized banks in India. Now a day, NPAs are key determinants in bank performance. Hence, the present study “NPA Performance of Andhra Bank” was under taken to analyze NPAs position in the bank.

3.3 Objectives of the study:

1. To Examine the NPAs Position in Andhra Bank;
2. To study the segment-wise NPAs in the Bank during the study period;
3. To analyze the Provision for NPAs during the study period.

3.4 Data collection:

The present study were obtained secondary data and collected the data from the sources of published annual reports of the Andhra Bank for the period of 10 years, books, journals, news papers etc.

3.5 Period of the study:

The study confined to the period of 10 years data only from 2008-09 to 2017-18.

3.6 Tools for the study:

To grasp the meaning full interpretations for the data, the study used statistical tools like mean, Standard Deviation (SD), Coefficient of Variance (CV), Compound Annual Growth Rate, t-test, Anova test and percentages.

3.7 Limitations of the study:

1. The study is based on the data provided in the reports of the Bank.
2. The study is based on only on NPA section of the Bank
3. Due to time, and financial constraints, it cannot be analyzed in-depth.

4. Data Analysis

4.1 Gross NPA Position:

A perusal of Table 1 reveals that the gross Non-Performing Assets (NPAs) of Andhra Bank for the decade of 2008-09 to 2017-18 with regard to NPA amount and growth rate. It is observed that the total NPA

amount registered Rs. 77,336.77 crore with an average of Rs. 7,733.68 crore. The NPA amount of the bank was aggressively increased from Rs. 368.14 crore to Rs. 28,124.87 crore during the study period.

It is further observed from the table that the NPA growth rate has been drastically fluctuated and indicated down fall during the study period. The highest growth rate 85.18 per cent were registered in the financial year 2014-15, followed by 75.46 per cent in 2009-10, 64.76 per cent in 2016-17, 63.41 per cent in 2013-14, 62.83 per cent in 2017-18, 60.09 per cent in 2015-16, 55.37 per cent in 2011-12, 49.00 per cent in 2010-11, 48.41 per cent in 2012-13 respectively over the study. It is good sign to decline the growth rate of gross NPAs from 75.46 per cent to 62.83 during the study period.

Table 1
Gross NPA Position of Andhra Bank during 2009-18
(Rs. in Crore)

| Year | NPA Amount | Growth Rate |
|---------|------------------|-------------|
| 2008-09 | 368.14 | 0 |
| 2009-10 | 487.87 | 75.46 |
| 2010-11 | 995.64 | 49.00 |
| 2011-12 | 1798.01 | 55.37 |
| 2012-13 | 3714.49 | 48.41 |
| 2013-14 | 5857.60 | 63.41 |
| 2014-15 | 6876.54 | 85.18 |
| 2015-16 | 11443.63 | 60.09 |
| 2016-17 | 17669.98 | 64.76 |
| 2017-18 | 28124.87 | 62.83 |
| Total | 77336.77 | |
| Mean | 7733.68 | |
| SD | 9043.65 | |
| CV | 116.94 | |
| CAGR | 54.28 | |
| t-test | 2.68* (0.012) | |

Source: Published Annual Reports of AB.

Note: *indicates Significant at 5 per cent of significance level.

The calculated statistical values of Standard Deviation (SD) registered 9,043.65, Coefficient of Variance (CV) 116.94, the Compound Annual Growth Rate (CAGR) 54.28 per cent, and the calculated t-test 2.68 per cent is significant at 5 per cent level of significance.

4.2 Net NPA position:

A perusal of Table 2 indicates that the net Non-Performing Assets (NPAs) of Andhra Bank for a decade period from 2008-09 to 2017-18 with regard to net NPA amount and growth rate. It is pragmatic that the total NPA amount were registered Rs. 39,672.08 crore with an average of Rs. 3,967.21 crore. The net NPA amount of the bank was also aggressively increased from Rs. 79.22 crore to Rs. 12,636.87 crore over the study period.

It is further observed from the table that the net NPA growth rate of the bank has been drastically fluctuated during the study period. The highest growth rate 90.62 per cent were registered in the financial year 2014-15, followed by 82.76 per cent in 2009-10, 81.94 per cent in 2017-18, 72.08 per cent in 2013-14, 61.11 per cent in 2016-17, 58.29 per cent in 2016-17, 36.21 per cent in 2011-12, 34.98 per cent in 2010-11 and 31.37 per cent in 2012-13 respectively over the study.

Table 2
Net NPA Position of Andhra Bank during 2009-18
(Rs. in Crore)

| Year | NPA Amount | Growth Rate |
|---------|-----------------|-------------|
| 2008-09 | 79.22 | 0 |
| 2009-10 | 95.72 | 82.76 |
| 2010-11 | 273.68 | 34.98 |
| 2011-12 | 755.85 | 36.21 |
| 2012-13 | 2409.18 | 31.37 |
| 2013-14 | 3342.47 | 72.08 |
| 2014-15 | 3688.63 | 90.62 |
| 2015-16 | 6035.65 | 61.11 |
| 2016-17 | 10354.81 | 58.29 |
| 2017-18 | 12636.87 | 81.94 |
| Total | 39672.08 | |
| Mean | 3967.21 | |
| SD | 4437.19 | |
| CV | 111.85 | |
| CAGR | 66.07 | |
| t-test | 2.79* (0.01) | |

Source: Published Annual Reports of AB.

Note: *indicates Significant at 5 per cent of significance level.

The calculated statistical values of Standard Deviation (SD) for Net NPA of the bank registered 4,437.19, Coefficient of Variance (CV) 111.85, the Compound Annual Growth Rate (CAGR) 66.07 per cent, and the calculated t-test 2.79 per cent is significant at 5 per cent level of significance.

4.3 Segment-wise NPA Position:

A perusal of table 3 furnished segment-wise NPAs registered in Andhra Bank during the study period in both priority and non-priority sectors. The priority sector had been classified into three categories namely Agriculture, MSMEs and others. The non-priority sector also categorized in o two types like large scale industry and others.

Table 3
Segment-wise NPA Position of Andhra Bank during 2007-17
(Rs. in Crore)

| Year | Priority Sector | | | | Non-Priority Sector | | |
|------|-----------------|-------|--------|-------|---------------------|--------|-------|
| | Agriculture | MSMEs | Others | Total | Large Scale | Others | Total |

| | | | | | Industry | | |
|---------|--------------|----------|---------|----------|--------------|--------|----------|
| 2008-09 | 17.00 | 61.00 | 79.00 | 157.00 | 110.00 | 101.00 | 211.00 |
| 2009-10 | 26.00 | 166.00 | 113.00 | 305.00 | 126.00 | 57.00 | 183.00 |
| 2010-11 | 116.00 | 354.00 | 223.00 | 693.00 | 275.00 | 28.00 | 303.00 |
| 2011-12 | 369.85 | 425.56 | 322.46 | 1117.87 | 590.86 | 89.28 | 680.14 |
| 2012-13 | 410.04 | 422.27 | 316.31 | 1148.62 | 2422.56 | 143.31 | 2565.87 |
| 2013-14 | 564.04 | 528.78 | 303.20 | 1396.02 | 4461.58 | 0.00 | 4461.58 |
| 2014-15 | 1057.00 | 1139.00 | 297.00 | 2493.00 | 4384.00 | 0.00 | 4384.00 |
| 2015-16 | 1095.00 | 1823.00 | 365.00 | 3283.00 | 8161.00 | 0.00 | 8161.00 |
| 2016-17 | 1156.88 | 2703.06 | 458.26 | 4318.20 | 13351.78 | 0.00 | 13351.78 |
| 2017-18 | 1269.92 | 4364.92 | 690.85 | 6325.69 | 21799.11 | 0.00 | 21799.11 |
| Total | 6081.73 | 11987.59 | 3168.08 | 21237.40 | 55681.89 | 418.59 | 56100.50 |
| Mean | 608.17 | 1198.76 | 316.81 | 2123.74 | 5568.19 | 41.86 | 5610.05 |
| SD | 495.10 | 1390.65 | 173.12 | 2058.86 | 7113.93 | 52.94 | 7166.87 |
| CV | 81.41 | 116.01 | 54.65 | 252.06 | 127.76 | 126.46 | 254.23 |
| CAGR | 53.93 | 53.27 | 24.22 | 44.72 | 69.71 | 7.25 | 59.01 |
| Anova | 2.97*(0.023) | | | t-test | 2.45*(0.018) | | |

Source: Published Annual Reports of AB.

Note: *indicates significant at 5% level of significance.

The total amount of NPA were gradually increased year by year from Rs. 157 crore in 2008-09 to Rs. 6,325.69 in 2017-18 respectively. The total amount of NPAs were registered under priority sector Rs. 157 crore in 2008-09, out of which Rs. 17 crore are parted by agriculture, followed by Rs. 61 crore are having in MSMEs and Rs. 79 crore are belongs to others. The total amount of NPAs in 2009-10 registered Rs. 305 crore, out of which Rs. 26 crore from Agriculture, Rs. 166 crore from MSMEs and the remaining Rs. 113 crore from others. The total amount of NPAs in 2014-15 highly reached to Rs. 2493 crore, out of which Rs. 1057 crore from Agriculture, Rs. 1139 crore from MSMEs and the remaining Rs. 297 crore from others. The total amount of NPAs in 2017-18 were recorded Rs. 6325.69 crore, out of which Rs. 1269.2 crore from Agriculture, Rs. 4364.92 crore from MSMEs and the remaining Rs. 690.85 crore from others.

The non-priority sector NPAs amount also increased from Rs. 211 crore in 2008-09 to Rs. 21799.11 crore in 2017-18 in increased manner over the study period. It was recorded the total of Rs. 211 crore in the starting year, out of which the large scale industry have parted Rs. 110 crore and the remaining from others. The total amount of NPAs in non-priority sector were slightly declined in the subsequent year 2009-10 and reached to Rs. 21799.11 crore in large scale industry.

The grand total of NPAs of Andhra Bank in priority sector registered worth of Rs. 21,237.40 crore, out of which Agriculture having lowest NPA amount of Rs. 6081.73 crore, the highest share of NPA had in MSMEs worth of Rs. 11,987.59 crore and from others Rs. 3,168.08 crore over the study period. In the non-priority sector NPAs grand total amount were recorded Rs. 56,100.50 crore, out of which the major share is belongs to large scale industries around more than 99 per cent of amount and the rest of less than 1 per cent of NPAs amount registered from other segment during the study period.

It is found that the banks' NPA amount of Non-Priority sector is high when compared to Priority sector amount of NPAs over the study period. It is further found that the big amount of borrowers,

particularly Large Scale Industrialist and MSMEs are caused to increase the NPAs in the Bank. The calculated statistical values are also evidenced that the Non-Priority Sector NPAs high than Priority Sector Loans during the study period.

4.4 Provision Held for NPAs by the Bank:

A bird look of the table 4 provides that the classification-wise NPA provision made by the Andhra Bank during the study period. It reveals that the total NPA amount recorded worth of Rs. 368.14 crore, out of which Sub-Standard Assets are Rs. 135.10 crore, Doubtful Assets are Rs. 222.18 crore and Loss Assets are 10.86 crore in 2008-09. In the total NPA amount, the bank was made a provision of Rs. 55.30 crore in sub-standard assets only. The amount of total NPA during 2013-14 registered Rs. 5857.60 crore, out of which Rs. 1734.06 crore are from Sub-Standard Assets, against this the bank made provision Rs. 431.89 crore; Rs. 4094.49 crore NPAs amount were created in form of Doubtful Assets, in which Rs.2028.19 crore were provisioned by bank, and remaining amount of Rs. 29.05 crore NPA registered. At the end of the study period 2017-18, the total NPA amount were recorded worth of Rs. 28,124.36 crore, against this amount Rs. 15,443.77 crore were provisioned by the bank. Out of which Rs. 6,241.56 crore are from Sub-Standard Assets, in which Rs. 1,191.01 crore provision, followed by the NPA amount of Doubtful Assets are recorded Rs. 21,072.27 crore, against this Rs. 13,454.97 crore were provisioned and the NPA amount of Loss Assets are recorded as Rs. 810.53 crore, in which Rs. 797.79 crore were made a provision by the bank respectively.

Table 4
Provision Held for NPAs in Andhra Bank during 2009-18
(Rs. in Crore)

| Year | Sub-Standard Assets | | Doubtful Assets | | Loss Assets | | Total | |
|---------|---------------------|-----------|-----------------|-----------|-------------|-----------|-------------------|-----------|
| | NPA Amount | Provision | NPA Amount | Provision | NPA Amount | Provision | NPA Amount | Provision |
| 2008-09 | 135.10 | 55.30 | 222.18 | 222.18 | 10.86 | 10.86 | 368.14 | 288.34 |
| 2009-10 | 330.75 | 234.74 | 157.12 | 157.12 | 0.00 | 0.00 | 487.87 | 391.86 |
| 2010-11 | 561.49 | 284.94 | 425.84 | 425.84 | 8.34 | 8.34 | 995.67 | 719.12 |
| 2011-12 | 1108.42 | 371.57 | 642.48 | 599.22 | 71.37 | 71.37 | 1822.27 | 1042.16 |
| 2012-13 | 1985.74 | 373.50 | 1688.53 | 853.53 | 40.22 | 40.22 | 3714.49 | 1267.25 |
| 2013-14 | 1734.06 | 431.89 | 4094.49 | 2028.19 | 29.05 | 29.05 | 5857.6 | 2489.13 |
| 2014-15 | 2004.34 | 379.08 | 4829.16 | 2752.79 | 43.04 | 43.04 | 6876.54 | 3174.91 |
| 2015-16 | 3337.15 | 569.37 | 8063.97 | 4783.10 | 42.51 | 42.51 | 11443.63 | 5394.98 |
| 2016-17 | 6611.17 | 1154.18 | 10999.78 | 6088.96 | 59.03 | 59.03 | 17669.98 | 7302.17 |
| 2017-18 | 6241.56 | 1191.01 | 21072.27 | 13454.97 | 810.53 | 797.79 | 28124.36 | 15443.77 |
| Total | 24049.78 | 5045.58 | 52195.82 | 31365.90 | 1114.95 | 1102.21 | 77360.55 | 37513.69 |
| Mean | 2404.98 | 504.56 | 5219.58 | 3136.59 | 111.50 | 110.22 | 7736.055 | 3751.369 |
| SD | 2323.81 | 376.56 | 6676.89 | 4158.55 | 246.65 | 242.64 | 9247.358 | 4777.754 |
| CV | 96.63 | 74.63 | 127.92 | 132.58 | 221.22 | 220.14 | 445.7676 | 427.3536 |
| CAGR | 46.71 | 35.93 | 57.65 | 50.74 | 53.92 | 53.68 | 54.28 | 48.90 |
| t-test | 3.073** (0.006) | | 2.57* (0.01) | | 1 | | 2.83** (0.009) | |

Source: Published Annual Reports of AB.

Note: 1. *indicates significant at 5 % level of significance, **indicates significance at 1 % level of significance and NS – indicates Not Significance.

The calculated t-test value for the total NPA amount and Provision is 2.83 is showing significant at 1 per cent level of significance. The Sub-Standard Assets t-cal value also indicating significant at 1 per cent level of significance, Doubtful Assets value 2.57 is significant at 5 per cent level and the Loss Assets t-cal value is not significance.

Findings and Conclusion:

The study has been found that the total amount of NPA in the bank was greatly increased over the study period. Increasing the amount of NP of the bank indicates that the bank is functioning under poor recovery of loan amount and it is danger to bank financial position. But, the growth rate of NPA of the bank had been shown the down fall. It is a good sign to the bank's performance with regard to improving the recovery of loans and advances over the study period.

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