A Study of Non-Performing Assets of Udhagamandalam Co-operative Urban Bank Ltd.

[1]Dr. K. Vijaya Venkateswari, [2]Ms. S.Vidhya

[1]Associate Professor, [2]Ph. D Research Scholar
Department of Commerce Sri Ramakrishina College of Arts and Science for women
Coimbatore, Tamil Nadu, India

***Abstract*: Banks play an important role in the provision of financial services to the public and contribute tremendously to economic development of a country. Though they are growth drivers, the banking business is exposed to various risk, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk. Apart from these risks the very important risk of banks is loan recovery. The sound financial position of a bank depends upon the recovery of loans or its level of Non-Performing assets (NPAs). Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks compared to private sector banks. This paper intends to study the NPAs of Udhagamandalam Co-operative Urban Bank Ltd.**

***Keywords*: NPA, Banking Sector, Credit risk, Doubtful assets.**

INTRODUCTION

With the introduction of financial sector reforms 1991 the faces of Indian Banking sector have extremely changed. It plays an important role in the economic development of India. The problems arising in the banking sector will affect the Indian economy. The banking industry has moved step by step from a synchronized environment to a decontrolled market based economy. In 1991-1992 India adopted the open economy. Because of liberalization and globalization in market development there has been tremendous change in the transitional role of banks in India. The problem of swelling non-performing asset is catching attention and has assumed great importance in terms of risk management. The incidence of non-performing assets (NPAs) is affecting the performance of the credit institutions financially. NPA broadly defined as non-repayment of interest and instalment of principle amount (Das & Ghosh, 2006).NPA is a disorder resulting in non-performance of a portion of loan portfolio leading to no recovery or less recovery income to the lender. NPAs represent the quantify “Credit Risk”. Bankers have realized to have effective NPA management on their priority list. According to the “Narasimham Committee Report (1991), those assets (overdraft/ cash credit) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs”. After, this period had reduced and from March 1995 onwards assets for which interest and principle remains unpaid for a period of 90 days were considered as NPAs. Thus, NPA constitutes an important factor in the banking system as it seriously affects the profitability of the banks. The NPA can broadly be classified into Gross NPA and Net NPA. Gross NPA reflects the quality of the loans made by banks whereas Net NPA shows the actual burden of banks.

OBJECTIVES OF THE STUDY

- To understand the concept of non- performing assets.
- To study the NPAs of Udhagamandalam Co-operative Urban Bank Ltd.
- To suggest the mechanism for recovery of NPAs through various channels.

RESEARCH DESIGN

This study is descriptive and analytical one and based on secondary data pertaining to the period 2012-2017. The sources of data for this research include the reports published by Udhagamandalam Co-Operative Urban Bank Ltd., books and research papers published in Journals.

DATA ANALYSIS AND RESULTS

Ratio Analysis: Ratio Analysis is a form of Financial Statement Analysis used to obtain a quick indication of a firm’s financial performance in several key areas. For the purpose of studying the NPAs of the bank ratio analysis has been made. Following are the results of ratio analysis.

A. Net NPA Ratio

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

Table -1

Year	Net NPA	Net Advances	Net NPA Ratios(%)
2012-13	14873507	192382705	7.73
2013-14	14852198	192285607	7.72
2014-15	10621940	187996721	5.65
2015-16	9688672	178862924	5.42
2016-17	6065913	169383915	3.58
Average	**11220446**	**184182374**	**5.99**

Source: Annual Report

The above table presents the net non-performing assets position of bank and the ratio has been decreased from 7.73 to 3.58 from the year 2012-13 to2016-17. It shows that the bank have been able to make enough provisions against their gross NPA which is a very satisfactory position. The management of this bank have been very meticulous in recovering from defaulters.

B. Total Provisions Ratio

$$\text{Total Provisions Ratio} = \frac{\text{Total Provisions}}{\text{Gross NPAs}} \times 100$$

Table -2

Year	Total Provisions	Gross NPA	Total Provision Ratios(%)
2012-13	10345382	15218889	67.98
2013-14	17649231	25501429	69.21
2014-15	15243393	20865333	73.10
2015-16	17761227	19449899	91.32
2016-17	17807359	16543272	107.64
Average	**15761318**	**19515764**	**81.85**

Source: Annual Report

From the above table it is clear that the Bank have made enough provisions for their gross NPA. During the last five years provisions created by bank has been increasing every year from 2012-13 to 2015-16 and it is above 100% in the year 2016-17. This marks a very satisfactory position. It has even exceeded the limits laid down by the RBI.

C. Problem Assets Ratio

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

Table -3

Year	Gross NPA	Total Assets	Problem Assets Ratio(%)
2012-13	15218889	324889059	4.68
2013-14	25501429	383743777	6.65
2014-15	20865333	444917188	4.69
2015-16	19449899	458545172	4.24
2016-17	16543272	497514286	3.32
Average	**19515764**	**421921896**	**4.72**

Source: Annual Report

The problem assets ratio shows the proportion of gross NPA to total assets and the table given above shows that the percentage of the problem assets ratio of the bank is 4.72% on an average for the last 5 years. The percentage shown is, however not stable. It was reducing from 2013-14 to 2016-17.

D. Depositor's Safety Ratio

Total standard Loan Assets+ Investments
Depositors' Safety Ratio= --X100
Total liabilities – Capital& Reserves

Table -4

Year	Total Standard loan Assets(Rs.)	Investments (Rs.)	Total Standard Assets (Rs.)	Total Liabilites (Rs.)	Capital & Reserves (Rs.)	Total outside Liabilities (Rs.)	Depositor's Safety Ratio (Rs.)
2012-13	64127568	128255137	192382705	412574255	174350748	238223507	80.76
2013-14	92142803	100142804	192285607	408539904	184254198	224285706	85.73
2014-15	88323196	99673525	187996721	343763590	133991421	209772169	89.62
2015-16	87998245	90673525	178861372	1509974485	1320537762	189436723	94.42
2016-17	67461305	112922610	180383915	284490710	105653190	178837520	100.86
Average	**80010623**	**106333520**	**186382064**	**591868589**	**383757464**	**208111125**	**90.28**

Source: Annual Report

The above table shows that the ratio of the bank is very satisfactory in the last 5 years, especially in the year 2016-17. It is very high in the year 2016-17 i.e. 100.86% and it can be concluded that the depositors' money is safe with the bank.

E. Shareholder's Risk Ratio

Net NPAs
Shareholder's Risk Ratio = --X100
Total Capital & Free Reserves

Table -5

Year	Net NPA	Total Capital & free Reserves	Shareholder's Risk Ratio(%)
2012-13	14873507	174350748	8.53
2013-14	14852198	184254198	8.06
2014-15	10621940	133991421	7.93
2015-16	9688672	132053762	7.33
2016-17	6065913	105653190	5.74
Average	**11220446**	**146060664**	**7.52**

Source: Annual Report

It is necessary to see that the shareholders funds are safe in view of the NPA. From the table given above it is clear that risk ratio is decreasing year by year which shows that the bank is making adequate provisions against NPAs. This indicates that the shareholders' funds in this bank are safe.

F. Doubtful Assets Ratio

Total Doubtful Assets
Doubtful Assets Ratio = ----------------------------------X 100
Gross NPAs

Table -6

Year	Total Doubtful Assets	Gross NPA	Doubtful Assets Ratio(%)
2012-13	10371940	15218889	68.15
2013-14	22407110	25501429	87.87
2014-15	10550512	20865333	50.56
2015-16	18490913	19449899	95.07
2016-17	12255248	16543272	74.08
Average	**14815145**	**19515764**	**75.15**

Source: Annual Report

The doubtful assets ratio indicates the proportion of total doubtful assets to gross NPAs. From the table we understand that the ratio is satisfactory except for the years 2013-14 (87.87%), 2015-16 (95.07%). The management of the bank must try to recover as much doubtful advances as possible to reduce the NPAs.

G. Loss Assets Ratio

Total loss Assets
Loss Assets Ratio = --------------------------X100\
Gross NPAs

Table -7

Year	Total Loss Assets	Gross NPA	Loss Assets Ratio (%)
2012-13	3263222	15218889	21.44
2013-14	2633250	25501429	10.33
2014-15	2579200	20865333	12.36
2015-16	2311200	19449899	11.88
2016-17	2376287	16543272	14.36
Average	**2632632**	**19515764**	**14.07**

Source: Annual Report

The above table explains the Loss assets ratio and it is understand that the loss assets ratio is very high in the year 2012-13 and low in the year 2013-14 (10.33%). There is a fluctuation after the year 2012-13 and it has been increased to 14.36 in the year 2016-17. It should be taken into consideration and action plans are necessary to reduce the loss assets ratio.

MECHANISM FOR RECOVERY OF NPAs

Non-performing assets can be reduced by taking following steps by the bank.

1. The Securitisation and Enforcement of Security Interest Act, 2002(SARFAESI)

This Act empowers banks to recover their NPAs without the intervention of the Court. Act also provides three alternative methods for recovery of non-performing assets, viz., Securitisation, Asset Reconstruction and Enforcement. Non-Performing assets should be backed by securities charged to the bank by way of hypothecation or mortgage or assignment. Security interest by way of lien, pledge, hire purchase and lease not liable for attachment under sec.60 of CPC, are not covered under this Act.

2. The Act empowers the bank,

(a) To issue demand notice to the defaulting borrower and guarantor, calling upon them to discharge their dues in full within 60 days from the date of notice.

(b)To give notice to any person who has acquired any of the secured assets from the borrower to surrender the same to the bank.

(c) To ask any debtor of the borrower to pay any sum due or becoming due to the borrower.

(d) Any Security Interest over Agricultural land cannot be proceeded with

3. If the borrower fails to comply with the notice, the bank may take recourse to one or more of the following measures:

(a) Take the possession of the security

(b) Sale or lease or assign the right over the security

(c) Manage the same or appoint any person to manage the same

4. Lok Adalats: Lok Adalat is for the recovery of small loans. According to RBI guidelines issued in 2001, they cover NPA upto Rs.5 lakhs, both suit filed and non-suit filed are recovered.

5. Compromise Settlement: It is a scheme which provides a simple mechanism for recovery of NPA. It is applied to advances below Rs.10 crores.

6. Credit Information Bureau: A Credit Information Bureau help banks by maintaining a data of an individual defaulter and provides this information to all banks so that they may avoid lending them.

7. Debt Recovery Tribunals: The debt recovery tribunal Act was passed by Indian Parliament in 1993 with the objective of facilitating the banks and financial institutions for speedy recovery of dues in cases where the loan amount is Rs.10 lakhs and above.

CONCLUSION

Findings of the study show that the bank is creating adequate provisions against their gross NPA which is a very satisfactory position. The management of this bank have been very meticulous in recovering from defaulters. The problem assets ratio is not stable in the period of study. There is a fluctuation in the Loss Assets ratio and it should be taken into consideration and action plans are necessary to reduce the loss assets ratio. Shareholders' funds are safe very safe in this bank as per shareholders fund ratio. There is a fluctuation in the loss assets ratio and it has been increased to 14.36 in the year 2016-17. It should be taken into consideration and action plans are necessary to reduce the loss assets ratio.

Bank should be proactive in the selection of customers while sanctioning of loans and needs to have better credit appraisal system so as to prevent NPAs. The problem can be solved only if there is enabling legal structure, since recovery of NPAs often required litigation and court orders to recover stock loans. With long- winder litigation in India, debt recovery takes a very long time. Even if the bank is taking necessary measures for recovering loans, but it needs the support of the system. But it takes at least one to two years to get permission from the court for physical possession of any property, which delay's the further procedure.

REFERENCES

1. Chandan Chatterjee(2012), Jeet Mukherjee; Dr.Ratan Das (2012) "Management of Non- Performing Assets- A Current Scenario" International Journal of Social Science & Interdisciplinary Research Vol.1 Issue 11, ISSN 2277-3630.
2. Vivek Rajbahadur Singh(2006) "A Study of Non- Performing Assets of Commercial Banks and it's recovery in India" Annual Research Journal of SCMS, Pune Vol.4.
3. Dr. Dinesh Gaba. Neha Rani (2014)" Analysis of Non- Performing Assets of Public Sector banks" Global Journal for Research Analysis, Volume-3, Issue- 9, ISSN No 22778160.
4. A.Siva Kumar(2013), A Study on occupation wise non-performing assets of public and private sector commercial banks in India.
5. Rai,K (2012) Study On Performance Of NPAs Of Indian Commercial Banks. Retrieved from AJRBF, Volume 2, Issue 12 (December, 2012) ISSN: 2249-7323
6. Rajput, N., Arora, A.P., Kaur, B (2012) Management Of Non-Performing Assets A Study Of Indian Public Sector Banks. Retrieved from IJMIE Volume 2, Issue 4, April 2012, ISSN: 2249-0558 [26].
7. Rajaraman, I., Vasishtha, G. (2001) Non-Performing Loans of PSU Banks: Some Panel Results (Discussion Paper), November2001 [27].
8. Gupta, B. (2012) A Comparative Study of Non-Performing Assets of SBI and Associates and Other Public Sector Banks. Retrieved from SIT Journal of Management, Vol. 2.No. 2. December 2012.
9. http://www.insightsonindia.com.