INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

PERFORMANCE OF INDIAN BANK WITH REFERENCE TO NON PERFORMING ASSETS – AN OVERVIEW

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ABSTRACT

Over the few years Indian banking, attempts to integrate with the global banking has been facing lots of hurdles in its way due to certain inherent weakness, despite its high sounding claims and lofty achievements. In a developing country, banking is seen as an important instrument of development, while with the demanding Non Performing Assets (NPAs), banks have become burden on the economy. Non Performing Assets are not merely non remunerative, but they add cost to the credit Management. The fear of Non Performing Assets permeates the psychology of bank managers in entertaining new projects for credit expansion. Non Performing Assets is not a dilemma facing exclusively the bankers; it is in fact an all pervasive national scourge swaying the entire Indian economy. Non Performing Asset is a sore throat of the Indian economy as a whole. Non Performing Assets have affected the profitability, liquidity and competitive functioning of banks and developmental of financial institutions and finally the psychology of the bankers in respect of their disposition towards credit delivery and credit expansion. NPAs do not generate any income for the banks, but at the same time banks are required to make provisions for such NPAs from their current profits. Apart from internal and external complexities, increases in NPAs directly affects banks' profitability sometimes even their existence. Published statistics revealed before five years that for every Rs of 100 in NPA the bank is losing Rs. 30 per annum. The quality of loan assets is the most important factor for the basic viability of the banking system. The overdue advances of banks in India are mounting and in consequence, the NPAs in their portfolio are on the rise, impinging on the banks' viability. Lower level of Non Performing assets helps the bank in consolidating their position and gives credence to efficiency of the management. Pre – credit and post – credit appraisals are to be done by the bank more objectively. Close monitoring of borrower accounts, site visits, factory visits, etc are to be done regularly. Rehabilitation of viable sick units is essential. Consultancy and technical services must be provided to the borrower units wherever necessary. It is necessary for the bank to adopt proper credit monitoring mechanism, with periodical inspection of the units along with regular flow of information from them pertaining to their financial liquidity, annual accounts, stock reports, etc., besides comparative risk analysis and compliance of terms and conditions of sanction. Bank is expected to make sincere efforts to recover the amount from assets which have already slipped into NPAs category.

KEYWORDS
Cost of Non Performing Assets, Gross and Net Non Performing Assets, Provisions for Non Performing Assets, Corporate Debt Recon structuring.

INTRODUCTION

The Indian Banking sector has played a commendable role in fuelling and sustaining growth in the economy. In the recent past a large part of the banking sector's growth has been on the back of financing consumption, as reflected in the growth of retail banking. Profitability and viability of development financial institutions are directly affected by quality and performance of advances. Indian banks are weighted down by enormous amounts of bad loans that threaten the very health of the banking system. In fact banks extended large number of loans to all sector at the behest of politicians, but their experience with these borrowers has not been satisfactory. RBI has been specifically commenting on Non Performing Assets.

The implementation of prudential norms of Narasimham committee was the step towards introduction of transparency in accounting practices as per the norms of international accounting standards. Banking is the key sector of any economy. It can influence economic growth by enhancing resources in the direction of national objectives. Its energy and vitality indicate the health and prosperity of any nation. In the liberalized economy, banking and financial sector reforms assume high priority.

The new economic reforms have given a new thrust to the banking sector as a whole and private sector in particular. In spite of commanding role of the Indian banking sector in last five decades under the competitive global environmental conditions, the banking sector currently suffers from a number of weakness such as low recovery rate of credit, high costs, poor management practices, trade union pressures, political interferences, unprofitable branches and mounting Non Performing Assets (NPAs). The banking system in the country has undergone a sea - change with the introduction of prudential norms on income recognition, asset classification and their provisioning.

However, the system requires a combination of new technologies, well guarded risk and credit appraisal, treasury management, product diversification, internal control, external regulations and professional as well as skilled human resources to achieve heights of the international excellence and to play a critical role meeting the global challenges.

Over the few years Indian banking, attempts to integrate with the global banking has been facing lots of hurdles in its way due to this inherent weakness, despite its high sounding claims and lofty achievements. In a developing country, banking is seen as an important instrument of development, while with the demanding Non Performing Assets (NPAs), banks have become burden on the economy.

Looking to the changing scenario at the world level, the problem becomes more ironical, because Indian banking cannot afford to remain unresponsive to the global requirements. The banks are aware of the grim situation and are trying their level best to reduce the Non Performing Assets (NPAs) ever since the regulatory authorities ie, Reserve Bank of India and Government of India are seriously chasing up the issue. The study focuses on the cost of Non Performing Assets in Banks with special reference to Indian Bank and it deals with steps to reduce the Non Performing Assets (NPAs).

STATEMENT OF PROBLEM

Credit risk is associated with lending highly and whenever a party enters into an obligation to make payment or deliver value to the bank. The nature and extent of credit risk depend on quality of loan assets and soundness of investments. Based on the income, expenditure, net interest income, NPAs and capital adequacy one can comment on the profitability and the long run sustenance of the bank. When the money is blocked, inadequate cash at hand this leads to borrowing of money for short period of time which adds additional cost to the bank. Time and efforts of management cause indirect cost which bank has to bear due to Non Performing Assets. Now - a - days, banks have special employees to deal with and handle Non Performing Assets, which is also an additional cost to the bank. Bank is facing problem of Non Performing Assets as it adversely affects the value of bank in terms of market credit. It will lose its goodwill, brand image and credit which have negative impact on the people who are putting their money in the banks.

Non Performing Assets are not merely non remunerative but they add cost to the credit management. The fear of Non Performing Assets permeates the psychology of bank managers in entertaining new projects for credit expansion. Non Performing Assets is not a dilemma facing exclusively the bankers; it is in fact an all pervasive national scourge swaying the entire Indian economy. Non Performing Asset is a sore throat of the Indian economy as a whole. The banks are only the ultimate victims, where life cycle of the virus is terminated. Non Performing Assets can be arrested only through internal remedies, ie improving efficiency of credit assessment and credit delivery operations at the point of the financing bank in the first instance. The bank will face the problem of NPAs because of poor recovery of advances granted by the bank and several other reasons. When the loan is not recovered by the bank effectively and efficiently it will become NPA to the bank and it may affect banks' net profit.

In advanced economics, the financial markets are well – developed and segmented, with various players operating in identified niches, catering to various user/risk segments. This constitutes an effective institutional mechanism for targeting risks to players with an appetite for such risks. Commercial banking is conducted in a highly risk managed and mitigated ambience, unlike its Indian counterparts who are often required to take unmitigated risks as a part of business policy.

NON PERFORMING ASSETS – CONCEPT AND TYPES

Non Performing assets are those assets that cease to generate income for banks. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 defines Non Performing Assets as "an asset or account of a borrower, which has been classified by a bank or financial institution as sub – standard, doubtful or loss assets in accordance with the direction and guidelines relating to asset classification issued by the RBI". From 31st March 2004 an asset is considered to have gone bad when the borrower has defaulted on principal and interest repayment for more than one quarter or 90 days.

The following are the RBI guidelines for NPA classification and provisioning:

STANDARD ASSETS

Standard assets, which are not NPAs, but involve business risks, require a minimum of 0.25% provision on global portfolio but not on domestic portfolio.

SUB – STANDARD ASSETS

These are those accounts which have been classified as NPAs for a period less than or equal to 18 months. The general provision of 10% of total outstanding principal plus entire outstanding interest should be made on sub - standard assets.

DOUBTFUL ASSETS

These are those accounts which have remained as NPAs for a period exceeding 18 months. On these assets the banks are required to provide 100% for the unsecured portion and additional provision of 20% to 50% advances, if doubtful for 3 and above 3 years.

LOSS ASSETS

Loss asset is a credit facility where the bank's internal or external auditors or the RBI inspectors have identified as loss but the amount hasn't been written off, wholly or partly. Provisions required are 100 percent of the outstanding balance of the loss assets.

Standard assets are treated as performing assets and the remaining categories of assets such as sub standard, doubtful and loss assets are known as Non Performing Assets.

REVIEW OF LITERATURE

1. **Dr. C.H. Rajesham and Dr. K. Rajendar (June 2007)** studied the management of non performing assets in Indian scheduled commercial banks. The results of these studies were unfavorable of Non Performing assets in banks. Both the authors found that stringent measures are required at the levels of RBI, banks and judiciary to control the NPA problem. Further, they found NPAs have negative impact on banks.
2. **T. N. Anantharam Iyer (June 1999)** in his paper "Bank supervision and the management of Non Performing Advances" he studied how much risk each bank undertakes for recovering, managing the Non Performing Assets. It is revealed that early identification of problem assets helps the success of remedial action and effective recovery of the Non Performing Assets.
3. **Shri T C G Namboodiri (March 2002)** in his study entitled "NPA - Prevention is better than cure", he pointed out the problem of Non Performing Assets in Indian Banks. He observed certain simple but important basic points that a banker has to apply while appraising a credit proposal. He suggested to several points such as 5Cs (Character, Capital, Capacity, Conditions, Collateral), 6Ms (Man, Money, Machine, Material, Market, Men), and 7Ps (Product, Project, Purpose, Place, People, Policies, Profit). These 18 points mentioned play considerable role in credit risk management and can be used for a SWOT analysis of the venture before financing.
4. **Dr. B. Samal (April 2002)** in his paper on "The NPA overhang: Magnitude, Solution and Legal Reforms" reviewed the overall recovery machinery and legal reforms of banks for the period of 1994 – 2001. The study found that NPAs derivative of financial reforms cannot be avoided by the banks; rather they should be dealt with more critically and consciously. However, it is pointed out that it is not possible to eliminate totally Non Performing Assets in the banking business but can only be minimized.
5. **K.J. Taori (June 2000)** in their study entitled, "Problems and issued relating to management of NPAs of banks in India" studies the growth of NPAs of banks in India. The analysis revealed about priority sector and Non priority sector NPAs and set up the guidelines for bankers and borrowers. It was concluded that an effective legal framework will be needed to bring recovery suits to their logical conclusion and effect recoveries, within a reasonable time frame.

OBJECTIVES OF THE STUDY

1. To analyze the cost of Non Performing Assets in Indian Bank
2. To find out the reasons for Non Performing Assets in Banks
3. To offer suitable suggestion based on findings of this study

METHODOLOGY

The study is based on secondary data. The period of the study covers ten years from 2000-2001 to 2009 – 2010. The relevant data required for the study has been collected from

- RBI's Annual reports and Indian Bank's annual reports
- Reports on trend and progress of banking in India
- Government publications, books and websites
- Various banking journals

The data collected has been tabulated to facilitate the analysis with the help of mean, percentage, statistical tools (F test, t test) etc.

COST OF NON PERFORMING ASSETS

Non Performing Assets affect the profitability, liquidity and competitive functioning of banks and developmental financial institutions and finally the psychology of the bankers in respect of their disposition towards credit delivery and credit expansion. Non Performing assets cause high cost for the bank, as these assets do not improve any of the following:

- ✓ Profits
- ✓ Capital adequacy
- ✓ Reduction of other costs
- ✓ Capital market perception

HYPOTHESIS

H_0: There is no significance difference between the total advances and Gross NPAs in the last 10 years.
Ha: There is significance difference between the total advances and Gross NPAs in the last 10 years.

ANALYSIS AND INTERPRETATION

Table – I depicts the gross advances and gross NPAs of Indian bank for the period of 10 years from 2000 – 2001 to 2009 – 2010 using this data attempt has been made to calculate the opportunity cost and maintenance cost of Non Performing Assets for Indian Bank. For the purpose of calculation, the level of gross NPAs, over and above the 5% level (assuming that to be the international standard for Non Performing Assets), has been taken into account. The opportunity cost of Non Performing Assets has been found to be very high. Maintenance cost of Non Performing Assets is 11% for Indian Bank.

From this table - I, it is clearly inferred that Indian bank has incurred a total loss of Rs. 96.97 crores because of maintenance and opportunity cost of Non Performing Assets in a decade. If it continues, the bank will not concentrate on other areas, like profit, EPS, etc. From this total loss, bank spends more towards maintenance cost than any other costs.

From the year 2000 – 2001, the maintenance cost is reduced from Rs. 12.97 crores to Rs. 2.52 crores in the year 2008 – 2009. It is almost decreased by an amount of Rs. 10.44 crores. But the same time in the year 2009 – 2010 the maintenance cost is increased to Rs. 2.81 crores. So, the bank should take steps to reduce the maintenance and opportunity cost. If the bank takes more efforts to reduce the cost, it will get more profit and fewer burdens.

GROSS NPAs TO TOTAL ASSETS

Gross NPAs to total assets reflects the portfolio of non – standard assets to total assets of the bank. It is observed from Table – II that the total asset has been constantly increasing from 2000 – 2001 to 2009 – 2010. A net increase of Rs. 74748.77 crores (280.58%) has been registered in ten years of the study period. During the same period, the gross NPA level has come down drastically from Rs. 2359.07 crore in 2000 – 2001 to Rs. 459.18 crore in 2008 – 2009. A net reduction of Rs.1899.89 crore (80.53%) has been viewed in the NPA level. A marginal increase in NPA is noticed in the year of 2009 - 2010. The ratio of gross NPA to Total assets has been brought down from 8.86 to 0.50 in a decade of study.

The inference derived from Table – II is that Indian Bank has been increasing its assets portfolio and at the same time reducing the Gross NPA level. The bank takes enough steps to recover the loan through proper follow up with the borrower. Thus Indian Bank maintains the ratio of Gross NPA to Total assets at a comfortable minimum average level of 2.95 for the period of ten years.

NET NPAs TO TOTAL ASSETS

Net NPAs to total assets reflects the portfolio of non – standard assets to total assets of the bank. It is observed from Table – III that the total asset has been constantly increasing from 2000 – 2001 to 2009 – 2010. A net increase of Rs. 74748.77 crores (280.58%) has been registered in ten years of the study period. During the same period, the Net NPA level has come down drastically from Rs. 949.93 crore in 2000 – 2001 to Rs. 93.81 crore in 2008 – 2009. A net reduction of Rs.856.12 crore (90.12%) has been viewed in the NPA level. However a marked increase is noticed in the Net NPA level in the year of 2009 - 2010. The ratio of Net NPA to Total assets has been brought down from 3.57 to 0.14 during the decade of study.

The inference derived from Table – III is that Indian Bank has been increasing its assets portfolio and simultaneously reducing the Net NPA level. The bank takes appropriate steps to recover the loan and make adequate provision. Therefore, Indian Bank could maintain the ratio of Net NPA to Total assets at an average level of 1.12 for the period of ten years.

GROSS NPAs TO TOAL ADVANCES

This ratio related to NPA not provided for to advances. It is an important parameter of examining of a bank. It also indicates how good banks' are provisioning practices. The following table IV and V explain the above points.

It is found from Table – IV that the total advances have been constantly increasing from 2000 – 2001 to 2009 – 2010. A net increase of Rs. 50046.89 crores (530.80%) has been registered in ten years of the study period. During the same period, the gross NPA level has come down drastically from Rs. 2359.07 crore in 2000 – 2001 to Rs. 459.18 crore in 2008 – 2009. A net reduction of Rs.1848.96 crore has been viewed in the NPA level. The ratio of Gross NPA to Total Advances has been brought down from 25.01 to 0.86 during the period of study.

The inference derived from Table – IV is that Indian Bank has been increasing advances and reducing the Gross NPA level. The bank has given more loans to the borrowers and takes appropriate steps to recover the loan through proper follow up with the borrower. Indian Bank could maintain the ratio of Gross NPA level to total advances at an average level of 7.86 for the period of ten years.

NET NPAs TO TOTAL ADVANCES

It is found from Table – V that the total advances have been constantly increasing from 2000 – 2001 to 2009 – 2010. A net increase of Rs. 50046.89 crores (530.80%) has been registered in ten years of the study period. During the same period, the Net NPA level has come down drastically from Rs. 949.93 crore in 2000 – 2001 to Rs. 93.81 crore in 2008 – 2009. A net reduction of Rs.805 crore has been viewed in the NPA level. The ratio of Net NPA to Total advances has been brought down from 10.07 to 0.24 during the study period.

The inference derived from Table – V is that Indian Bank has been highly increasing its advances level and drastically reducing the Net NPA level. The bank has given more loans to the borrowers and takes prompt steps to recover the loans through proper follow up with the borrowers. Indian Bank could maintain the ratio of Net NPA to total advances at an average level of 3.04 for the period of ten years.

NET PROFIT TO GROSS NPAs

The efficiency of a bank is not always reflected only by the size of its balance sheet but the level of return on its assets and profit level of the bank. The measuring the efficiency of banks, actual return on assets and Profits are considered as superior parameter than that of size of balance sheet level of any bank. The following table VI and VII are shows the relationship of profit level and Gross & Net NPAs.

It is observed from Table – VI that the Net profit has been constantly increasing from 2000 – 2001 to 2009 – 2010. A net increase of Rs. 1828.99 crores has been registered in ten years of the study period. During the same period, the gross NPA level has come down drastically from Rs. 2359.07 crore in 2000 – 2001 to Rs. 459.18 crore in 2008 – 2009. A net reduction of Rs.1848.96 crore has been viewed in the NPA level. The ratio of Net Profit to gross NPA has been improved to 304.83. The inference derived from Table – VI is that Indian Bank takes more efforts for increasing profit level and reducing the Gross NPA level. Indian Bank could maintain the ratio of Net Profit to Gross NPA level at an average level of 100.96 for the period of ten years.

NET PROFIT TO NET NPAs

It is observed from Table – VII that the Net profit has been constantly increasing from 2000 – 2001 to 2009 – 2010. A net increase of Rs. 1828.99 crores has been registered in ten years of the study period. During the same period, the Net NPA level has come down drastically from Rs. 949.93 crore in 2000 – 2001 to Rs. 93.81 crore in 2008 – 2009. A net reduction of Rs.856.12 crore (90.12%) has been view in the NPA level except in the year of 2009 - 2010. The ratio of Net Profit to Net NPA has increased to Rs. 473.43crore.

The inference derived from Table – VII is that the bank takes steps to fulfill the shareholders' requirements and expectations by increasing the profit level. Indian Bank has maintained the ratio of Net Profit to Net NPA level at an average level of 476.32 for the period of ten years.

PROVISIONS FOR NPAs

NPAs do not generate any income for the banks, but at the same time banks are required to make provisions for such NPAs from their current profits. Apart from internal and external complexities, increase in NPAs directly affects banks' profitability and sometimes even their existence. Statistics revealed before five years states that for every Rs of 100 in NPA the bank is losing Rs. 30 per annum. The detail of the loss is as follows:

Rs. 8 towards average interest paying on deposits
Rs. 10 towards provisioning
Rs. 12 towards Non recognition of income and
With in 3 years the loss amounts to the size of principal

As per RBI guidelines, gross advance means all outstanding loans and advances including advances for which refinance has been received but excluding rediscounted bills and advances written off at head office level (technical write off). RBI has advised that while reporting, banks have to reduce the technical write off accounts from gross advances. The following are deducted from gross NPA to arrive at net NPA.

a. Balance in interest suspense account, if applicable
b. DIGGC / ECGC claims settled and received and held pending for adjustment
c. Part payment received and kept in suspense account
d. Total provisions made excluding technical write off made at head office

The gross NPA and gross advances includes interest suspense account where the bank is following the accounting practice of debiting interest to customers' account and crediting interest suspense account. After proper classification of loan assets the banks are required to make sufficient provisions against each of the NPA account for possible loan losses as per prudential norms. The minimum amount of provision required to be made against a loan asset is different for different types of asset.

1. Standard asset – At present, no provision is required. However, banks should make a general provision of a minimum of 0.25% against standard assets. Provisions on standard assets should not be reckoned for arriving at net NPAs.
2. A general provision of 10% of the total outstanding is required to be made without making any further allowance for DICGC/ECGC guarantee cover and securities available against such advances.
3. The quantum of provision in case of doubtful assets depends upon the realizable value of security and the age of doubtfulness of the asset. Provision required is 100% of the security shortfall i.e. the extent to which the advance is not covered by the realizable value of security to which the bank has the valid recourse and the realizable value is estimated on realistic basis.
4. Provision required is 10% to 50% of the secured portion depending upon the period for which the asset has remained doubtful
5. Provision required is 100% of the outstanding balance of the loss asset.

The following table VIII shows the provisions level maintained by the Indian Bank.

Gross NPA	XXX
Less: Deductions	XXX
Net NPA	XXX

From the VIII table, the gross NPA level has come down from Rs. 2359.07 crore in 2000 – 2001 to Rs. 510.118 crore in 2009 – 2010. Thus a net reduction of Rs.1848.89 crore has been viewed in the NPA level. The Net NPA level has come down from Rs. 949.93 crore in 2000 – 2001 to Rs. 144.93 crore in 2009 – 2010. Thus a net reduction of Rs.805 crore has been viewed in the Net NPA level. Provisions are decreased during the of the study period. In 2000 – 2001, the provisions are Rs. 1409.14 crores and it decreased to Rs. 365.18 crores in the year of 2009 – 2010. The Net reduction of Rs. 1043.96 crores has been in viewed in the quantum of provisions. It is inferred from this table VIII that the provisioning requirement on mounting NPA is reduced gradually taking good efforts by Indian Bank. It is very good healthy for banking operations.

MOVEMENT OF GROSS NPAs

The quality of loan assets is the most important factor for the basic viability of the banking system. The overdue advances of banks in India are mounting and in consequence, the NPAs in their portfolio are on the rise, impinging on the banks' viability. The following table clearly shows the movement of Non Performing Assets for ten years in Indian Bank.

It is inferred from the table IX that the quantum of Non Performing Assets of Indian Bank decreased from 2359.07crores in the year 2000 – 2001 to Rs. 459.18 crores in the year of 2008 – 2009 but in the year of 2009 – 2010 the NPAs increased to Rs. 510.11 crores. The decreased percentage of Non Performing Assets from 2000 – 2001 to 2008 – 2009 is 80.53 except in the year of 2009 – 2010. The additions and deductions value are varied for ten years. Both the additions and deductions value for NPAs have fluctuations throughout the decade. Indian Bank takes appropriate steps every year to reduce the Net NPAs.

RECOVERY OF NON PERFORMING ASSETS

Banks have been able to recover NPAs through the use of Legal measures, which is a good sign of their efforts. Indian Bank successfully implemented various new channels like Asset Reconstruction India Limited, Securitizations Act to recover NPAs. From the available data for the years 2000 – 2001 to 2009 – 2010, the annual growth rate in the recovery of NPAs in Indian Bank is worked out.

As evident from this table – X, the recovery of Non Performing Assets increased considerably over the given period. It is increased from Rs. 284.02 crores in the year of 2001 – 2002 to Rs. 587.48 crores in the year of 2009 – 2010. In the year of 2006 – 2007, the recovery of NPA is well and good. It is inferred from this table X, the Indian bank takes more efforts for recovery of Non Performing Assets. It showed appreciable progress in terms of recovery performance in the NPAs of Indian Bank

REASONS FOR NON PERFORMING ASSETS

The following reasons are being responsible for the growth of Non Repayment of credit and Non Performing Assets in India. The points that are derived by the Reserve Bank of India recently on 800 top non repayment of credit and NPAs account in 25 banks, revealed interesting insights into the problem of non repayment of credit and NPAs. The study identified factors such as:

- Diversion of funds mostly for expansion or for promoting associate concerns
- Marketing failure in related field of area
- Inefficient Management of funds
- Inappropriate technology adopted by the business and other areas
- Labour unrest and poor financial disclosure
- Excessive exposure in high risk sources
- Huge misallocation of corporate funds reinforced
- Unfavorable macro economic environment like recession
- Infrastructural bottlenecks, time and cost over runs
- Changes in the government economic policies and
- Delays in the sanction of loans

HYPOTHESIS

H_0: There is no significance difference between the total advances and Gross NPAs in the last 10 years.
Ha: There is significance difference between the total advances and Gross NPAs in the last 10 years.

Statistic – I: **t - test**

t = $\left|\dfrac{\bar{x}-\bar{y}}{SE}\right|$ where SE = $\sqrt{\dfrac{(x-\bar{x})^2+(y-\bar{y})^2}{m+n-2}}$

Year	Total Advances	Gross NPAs	$(X-\bar{X})^2$	$(Y-\bar{Y})^2$
2000 - 2001	9433.90	2359.07	299677299.22	1642344.77
2001 - 2002	10908.35	2175.35	250802333.83	1205208.75
2002 - 2003	12274.98	1629.82	209384083.41	305024.24
2003 - 2004	14126.07	1191.78	159239665.76	13053.06
2004 - 2005	18380.09	748.35	69973225.00	108359.47
2005 - 2006	22484.63	668.99	18151519.41	166904.93
2006 - 2007	29058.11	545.81	5350061.52	282726.16
2007 - 2008	39838.71	486.87	171442884.70	348879.24
2008 - 2009	51465.27	459.18	611087299.23	382356.72
2009 - 2010	59480.79	510.11	1071626054.49	321965.46
TOTAL	**267450.90**	**10775.33**	2866734426.58	4776822.81
Mean	**26745.09**	**1077.53**		
S.E	**12630.46**			
t	**2.03**			
The Hypothesis is Accepted				

Using t test - Table Value at 18 level of Significance = 2.101 then 2.03 < 2.101,
So, H_0 is accepted

HYPOTHESIS

H_0: There is no significance difference between the total advances and Gross NPAs in the last 10 years.
Ha: There is significance difference between the total advances and Gross NPAs in the last 10 years.

Statistic – II: **F - test**

F = $\dfrac{S_1^2}{S_2^2}$ where S = $\sqrt{\dfrac{(x-\bar{x})^2}{m-1}}$

Year	Total Advances	Gross NPAs	$(X-\bar{X})^2$	$(Y-\bar{Y})^2$
2000 - 2001	9433.90	2359.07	299677299.22	1642344.77
2001 - 2002	10908.35	2175.35	250802333.83	1205208.75
2002 - 2003	12274.98	1629.82	209384083.41	305024.24
2003 - 2004	14126.07	1191.78	159239665.76	13053.06
2004 - 2005	18380.09	748.35	69973225.00	108359.47
2005 - 2006	22484.63	668.99	18151519.41	166904.93
2006 - 2007	29058.11	545.81	5350061.52	282726.16
2007 - 2008	39838.71	486.87	171442884.70	348879.24
2008 - 2009	51465.27	459.18	611087299.23	382356.72
2009 - 2010	59480.79	510.11	1071626054.49	321965.46
TOTAL	**267450.90**	**10775.33**	2866734426.58	4776822.81
Mean	**26745.09**	**1077.53**	318526047.4	530758.0897
S			17847.29804	728.531461
F Ratio	**24.50**		Table Value at (9, 9) level of Signi is = 3.18	
The Hypothesis is Rejected				

Using f test - Table Value at (9, 9) level of Significance = 24.50 then 3.18 > 24.50
So, H_0 is rejected.

From the above statistical analysis, two types of tools present the solutions in different manner. They are as allows:

1. **Using t test** - Table Value at 18 level of Significance = 2.101 then 2.03 < 2.101, So, H_0 is accepted. There is no significant difference between the advances and Gross NPAs in the last 10 years.
2. **Using f test** - Table Value at (9, 9) level of Significance = 24.50 then 3.18 > 24.50, So, H_0 is rejected. There is no significant difference between the advances and Gross NPAs in the last 10 years

FINDINGS

- Indian bank for past ten years sum of Rs. 96.97 crores because of maintenance and opportunity cost of Non Performing Assets. If it continues, the bank will not concentrate to other areas, like profit, EPS and etc. From this total loss, bank spends more expenses to maintenance cost compare with opportunity costs.
- Indian Bank could maintain the ratio of total assets to Gross NPA level at a comfortable least minimum average level of 2.95 for the period of ten years.
- Indian Bank has been increasing assets value and reducing the Net NPA level. The bank takes enough call to recover the loan through proper follow with the borrower. Therefore, Indian Bank could maintain the ratio of total assets to Net NPA level at average level of 1.12 for the period of ten years.
- Indian Bank could maintain the ratio of total advances to Gross NPA level at average level of 7.85 for the period of ten years.
- Indian Bank has been highly increasing advances and drastically reducing the Net NPA level. The bank has given more loans to the borrowers and takes enough call to recover the loans through proper follow with the borrower. Indian Bank could maintain the ratio of total advances to Net NPA level at average level of 3.03 for the period of ten years.

- The bank has concentrate profit level as well as reducing NPAs. Indian Bank could maintain the ratio of Net Profit to Gross NPA level at average level of 108.79 for the period of ten years.
- The bank concentrates to fulfill the shareholders' requirements and expectations for increasing the profit level. Indian Bank has maintained the ratio of total advances to Net NPA level at average level of 473.73 for the period of ten years.
- Provisioning requirement on mounting NPA is adversely affecting capital adequacy and also banks profitability. Indian Bank took very good efforts of reducing the provisions. It is very good health for banking operations.
- The Indian Bank concentrate of monitoring of loan, follow up, and other steps taken year by year. It will continue the NPAs level may be reached to Zero Gross NPAs or Zero Net NPAs.
- The Indian bank takes more efforts for recovery of Non Performing Assets. It showed appreciable progress in terms of recovery performance in the NPAs of Indian Bank

SUGGESTIONS

Indian bank has realized that a higher level of Non Performing Assets in their credit portfolio is dangerous and will affect on their profitability which is already under strain. Quality of loan assets is the most important factor for the basic viability of the banking system. Lower level of Non Performing assets helps the Indian bank in consolidating their position and gives credence to efficiency of the management. Indian bank can control this problem of reducing the Non Performing Assets taking two measures namely;

1. Preventive Measures
2. Corrective Measures

1. PREVENTIVE MEASURES

It is required to arrest the fresh inflow of Non Performing Assets. Indian bank need to ensure that only genuine proposals are accepted and projects having inherited weakness are to be rejected at the first instances. It needs to upgrade the credit appraisal skills which are highly inadequate. Economic viability, technical feasibility, quality of management and financial position of the borrower should be evaluated properly. Pre – credit and post – credit appraisals are to be done by Indian bank more objectively. Close monitoring of borrower accounts, site visits, factory visits, etc are to be done regularly. Rehabilitation of viable sick units is essential. Consultancy and technical services must be provided to the borrower units wherever necessary.

2. CORRECTIVE MEASURES

Corrective measures are required to recover the money out of assets, which have already fallen into NPA category. Normally, after sanctioning and disbursement of loans the bank should have an effective follow-up, monitoring and supervision over the credit. Indian Bank is necessary to adopt proper credit monitoring mechanism, with periodical inspection of the units along with regular flow of information from them pertaining to their financial liquidity, annual accounts, stock reports, etc., comparative risk analysis and compliance of terms and conditions of sanction. Indian Bank is needed to make sincere efforts to recover the amount from assets which have already slipped into NPAs category. Further, the following strategies have successfully been tried by Indian bank in bringing down the Non Performing Assets:

LEGAL MEASURES

The following are the important tribunals, committees and agencies for recovering the Non Performing Assets initiated by Reserve Bank of India.

a. Debt recovery Tribunals (DRT)
b. Corporate Debt Restructuring (CDR)
c. Asset Reconstruction Company India Limited (ARCIL)
d. Credit Information Bureau (CIB)
e. Lok adalats
f. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

Indian Bank is maintaining a proper database of their NPA portfolio on well – designed formats to provide meaningful inferences which would help them in evolving effecting strategies as well as account specific action plans for reduction in Non Performing Assets.

CONCULSION

Non Performing Assets have been a big worry for the banks in India. It is just not a problem for the banks; they are bad for the economy too. The money locked up in Non Performing Assets is not available for productive use and hence they have an adverse effect on banks' profitability. If the bank could reduce the cost of Non Performing Assets, cost will reduce and the profit and return on equity and assets will increase. It is not possible to eliminate totally the Non Performing Assets in the banking business but can only be minimized. It is always wise to follow the proper policy appraisal, supervision and follow up of advances to avoid creation of Non Performing Assets. The banks should take steps for reducing present non performing assets, but necessary precaution should also be taken to avoid future Non Performing Assets.

The banking industry is facing yet another period of change, perhaps greater than the one experienced in the immediate past and there is no doubt that Indian Bank has to manage its function successfully and skillfully during the present era, replete with significant economic, competitive and technological challenges in order to improve its deposits, advances, profitability and to reduce the Non Performing Assets.

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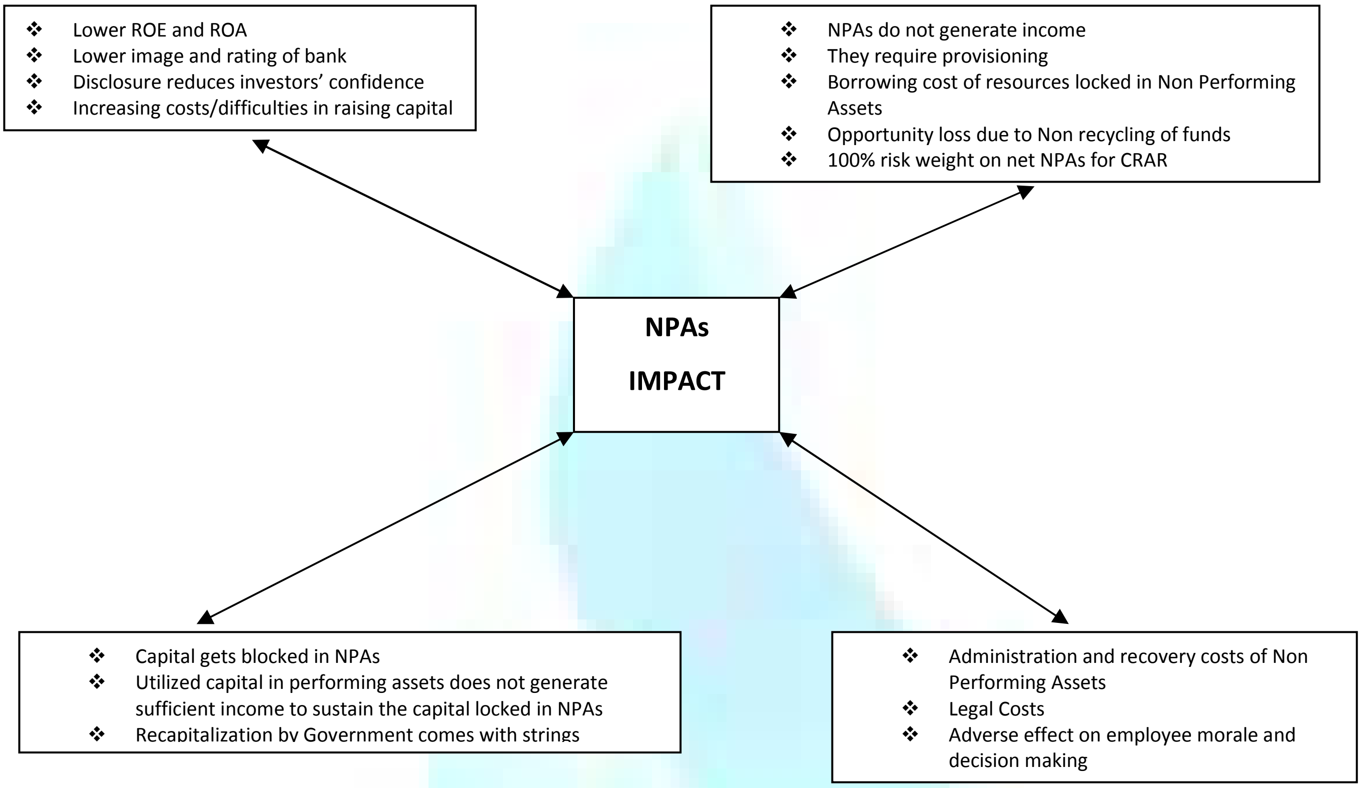
ANNEXURE

IMPACT OF NON PERFORMING ASSETS



GROSS NPAs TO TOTAL ASSETS

TABLE – II Amount (Rs.in Crores)

YEAR	GROSS NPAs	TOTAL ASSETS	RATIO
2000 - 2001	2359.07	26640.54	8.86
2001 - 2002	2175.35	30262.93	7.19
2002 - 2003	1629.82	35375.22	4.61
2003 - 2004	1191.78	39154.07	3.04
2004 - 2005	748.35	43860.71	1.71
2005 - 2006	668.99	47635.27	1.40
2006 - 2007	545.81	56148.64	0.97
2007 - 2008	486.87	70507.68	0.69
2008 - 2009	459.18	84121.74	0.55
2009 - 2010	510.11	101389.31	0.50
TOTAL	10775.33	535096.11	29.52
MEAN	1077.533	53509.611	2.95

Source: Indian Bank, Annual Report

NET NPAs TO TOTAL ASSETS

TABLE – III Amount (Rs.in Crores)

YEAR	NET NPAs	TOTAL ASSETS	RATIO
2000 - 2001	949.93	26640.54	3.57
2001 - 2002	903.58	30262.93	2.99
2002 - 2003	754.95	35375.22	2.13
2003 - 2004	383.21	39154.07	0.98
2004 - 2005	247.42	43860.71	0.56
2005 - 2006	176.66	47635.27	0.37
2006 - 2007	102.13	56148.64	0.18
2007 - 2008	97.59	70507.68	0.14
2008 - 2009	93.81	84121.74	0.11
2009 - 2010	144.93	101389.31	0.14
TOTAL	3854.21	535096.11	11.17
MEAN	385.421	53509.611	1.12

Source: Indian Bank, Annual Report

GROSS NPAs TO TOAL ADVANCES

TABLE – IV Amount (Rs.in Crores)

YEAR	GROSS NPAs	TOTAL ADVANCES	RATIO
2000 – 2001	2359.07	9433.90	25.01
2001 – 2002	2175.35	10908.35	19.94
2002 – 2003	1629.82	12274.98	13.28
2003 – 2004	1191.78	14126.07	8.44
2004 – 2005	748.35	18380.09	4.07
2005 – 2006	668.99	22484.63	2.98
2006 – 2007	545.81	29058.11	1.88
2007 – 2008	486.87	39838.71	1.22
2008 – 2009	459.18	51465.27	0.89
2009 – 2010	510.11	59480.79	0.86
TOTAL	10775.33	267450.90	78.56
MEAN	1077.533	26745.09	7.86

Source: Indian Bank, Annual Report

NET NPAs TO TOTAL ADVANCES

TABLE – V Amount (Rs.in Crores)

YEAR	NET NPAs	TOTAL ADVANCES	RATIO
2000 - 2001	949.93	9433.90	10.07
2001 - 2002	903.58	10908.35	8.28
2002 - 2003	754.95	12274.98	6.15
2003 - 2004	383.21	14126.07	2.71
2004 - 2005	247.42	18380.09	1.35
2005 - 2006	176.66	22484.63	0.79
2006 - 2007	102.13	29058.11	0.35
2007 - 2008	97.59	39838.71	0.24
2008 - 2009	93.81	51465.27	0.18
2009 - 2010	144.93	59480.79	0.24
TOTAL	3854.21	267450.90	30.37
MEAN	385.421	26745.09	3.04

Source: Indian Bank, Annual Report

NET PROFIT TO GROSS NPAs

TABLE – VI Amount (Rs.in Crores)

YEAR	NET PROFIT	GROSS NPAs	RATIO
2000 - 2001	-274.01	2359.07	-
2001 - 2002	33.22	2175.35	1.53
2002 - 2003	188.83	1629.82	11.59
2003 - 2004	405.75	1191.78	34.05
2004 - 2005	408.49	748.35	54.59
2005 - 2006	504.48	668.99	75.41
2006 - 2007	759.77	545.81	139.20
2007 - 2008	1008.74	486.87	207.19
2008 - 2009	1245.32	459.18	271.21
2009 - 2010	1554.98	510.11	304.83
TOTAL	5835.57	10775.33	1009.6
MEAN	583.557	1077.533	100.96

Source: Indian Bank, Annual Report

NET PROFIT TO NET NPAs

TABLE – VII Amount (Rs.in Crores)

YEAR	NET PROFIT	NET NPAs	RATIO
2000 - 2001	-274.01	949.93	-
2001 - 2002	33.22	903.58	3.68
2002 - 2003	188.83	754.95	25.01
2003 - 2004	405.75	383.21	105.88
2004 - 2005	408.49	247.42	165.10
2005 - 2006	504.48	176.66	285.57
2006 - 2007	759.77	102.13	743.92
2007 - 2008	1008.74	97.59	1033.65
2008 - 2009	1245.32	93.81	1327.49
2009 - 2010	1554.98	144.93	1072.92
TOTAL	5835.57	3854.21	4763.22
MEAN	583.557	385.421	476.32

Source: Indian Bank, Annual Report

PROVISIONS FOR NPAs

TABLE – VIII Amount (Rs.in Crores)

YEAR	GROSS NPAs	PROVISIONS	NET NPAs
2000 - 2001	2359.07	1409.14	949.93
2001 - 2002	2175.35	1271.77	903.58
2002 - 2003	1629.82	874.87	754.95
2003 - 2004	1191.78	808.57	383.21
2004 - 2005	748.35	500.93	247.42
2005 - 2006	668.99	492.33	176.66
2006 - 2007	545.81	443.68	102.13
2007 - 2008	486.87	389.28	97.59
2008 - 2009	459.18	365.37	93.81
2009 - 2010	510.11	365.18	144.93
TOTAL	10775.33	6921.12	3854.21
MEAN	1077.533	692.112	385.421

Source: Indian Bank, Annual Report

MOVEMENT OF GROSS NPAs

TABLE – IX Amount (Rs.in Crores)

YEAR	OPENING BALANCE	ADDITIONS	DEDUCTIONS	GROSS NPAs
2000 - 2001	3354.57	399.81	1395.31	2359.07
2001 - 2002	2359.07	377.63	561.35	2175.35
2002 - 2003	2175.35	244.85	790.38	1629.82
2003 - 2004	1629.82	221.71	659.75	1191.78
2004 - 2005	1191.78	227.54	670.97	748.35
2005 - 2006	748.35	191.58	270.94	668.99
2006 - 2007	668.99	172.07	295.25	545.81
2007 - 2008	545.81	443.71	502.65	486.87
2008 - 2009	486.87	228.93	256.62	459.18
2009 - 2010	459.18	586.19	535.27	510.11
TOTAL	13619.79	3094.02	5848.49	10775.33
MEAN	1361.979	309.402	584.849	1077.533

Source: Indian Bank, Annual Report

RECOVERY OF NON PERFORMING ASSETS

TABLE – X Amount (Rs.in Crores)

YEAR	RECOVERY OF NON PERFORMING ASSETS	INCREASE	DECREASE
2000 - 2001	549.00	-	-
2001 - 2002	284.02	-	264.98
2002 - 2003	280.59	-	3.43
2003 - 2004	320.22	39.63	-
2004 - 2005	311.58	-	8.64
2005 - 2006	418.20	106.62	-
2006 - 2007	653.50	235.30	-
2007 - 2008	575.38	-	78.12
2008 - 2009	487.10	-	88.28
2009 - 2010	587.48	100.38	-
TOTAL	4467.07	481.93	443.45
MEAN	446.707	48.193	44.345

Source: Indian Bank, Annual Report

TABLE – I: COST OF NON PERFORMING ASSETS Amount (Rs.in Crores)

YEAR	TOTAL ADVANCES	GROSS NPAs	GROSS NPA 5% OF TOTAL ADVANCES	MAINTENANCE COST @11% P.A	OPPORTUNITY COST AT BANK RATE COMPOUNDED WITH QUARTELY RESTS 7% P.A	TOTAL LOSS
2000 - 2001	9433.90	2359.07	117.95	12.97	8.25	21.22
2001 - 2002	10908.35	2175.35	108.77	11.96	7.61	19.57
2002 - 2003	12274.98	1629.82	81.49	8.96	5.71	14.67
2003 - 2004	14126.07	1191.78	59.59	6.55	4.17	10.72
2004 - 2005	18380.09	748.35	37.42	4.12	2.62	6.74
2005 - 2006	22484.63	668.99	33.45	3.68	2.34	6.02
2006 - 2007	29058.11	545.81	27.29	3.00	1.91	4.91
2007 - 2008	39838.71	486.87	24.34	2.68	1.71	4.39
2008 - 2009	51465.27	459.18	22.96	2.53	1.61	4.14
2009 - 2010	59480.79	510.11	25.51	2.81	1.78	4.59
TOTAL	267450.90	10775.33	538.77	59.26	37.71	96.97
MEAN	26745.09	1077.533	53.87665	5.9264315	3.771	9.6974315

Source: Indian bank, Annual report

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