

# A STUDY ON THE MANAGEMENT OF NON PERFORMING ASSETS IN COMMERCIAL BANKS OF KARNATAKA

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## ABSTRACT

The failure of the banking sector may adversely affect different sectors. Non-performing assets (NPA) are one of the significant worries for banks in India. NPAs have turned into a wellspring of grave worry for practically every one of the banks amid the previous two decades. Indian banks have perceived the way that Non-performing assets (NPAs) influence the profitability, net worth and value of the banks adversely. With consistently expanding advances and loaning rehearses by the banks, the issue identified with loan defaults and its recuperation has been basic to the very presence and survival of the banks. Along these lines, this paper is an attempt to comprehend what has been the status of the Gross NPAs and Net NPAs in both the private sector banks and public sector banks amid the most recent couple of years and to dissect whether it has any impact on the advantage quality of the banks or not. In this investigation secondary data was utilized for surveying the management of NPA by various financial institutions in Karnataka.

**Key words:** Non-performing assets, commercial, banks, management

## INTRODUCTION

The banking industry has experienced a drastic change after the principal period of monetary advancement in 1991 and subsequently credit management. While the essential capacity of banks is to loan assets as loans to different sectors, for example, horticulture, industry, individual loans, lodging loans and so forth. The banks have turned out to be wary in expanding loans as of late. The reason being the mounting Non-Performing Assets (NPAs). A NPA is characterized as a loan resource, which has stopped to create any salary for a bank whether as premium or main reimbursement. According to the prudential standards recommended by the Reserve Bank of India (RBI), a bank can't book enthusiasm on a NPA on collection premise. At the end of the day, such interests can be reserved just when it has been really gotten. In this manner, this has progressed toward becoming what is called as a 'critical performance area' of the banking sector as the level of NPAs influences the profitability of a bank. In this way, a NPA account not just lessens profitability of banks by provisioning in the profit and loss account, however their conveying cost is

additionally expanded which results in abundance and avoidable management attention. Aside from this, a high level of NPA additionally puts strain on a bank's net worth since banks are experiencing strain to keep up an ideal level of Capital Adequacy and without agreeable profit level; banks in the long run look towards their internal financial solidarity to satisfy the standards along these lines gradually dissolving the net worth.

## FACTORS FOR RISE IN NPAS

The banking sector has been confronting the difficult issues of the rising NPAs. Be that as it may, the issue of NPAs is more in public sector banks when contrasted with private sector banks and remote banks. The NPAs in public sector banks are becoming because of external just as internal factors. There are a few purposes behind a record getting to be NPA. A. Internal factors B. External factors

### A. INTERNAL FACTORS:

1. Assets obtained for a specific reason yet not utilized for the said reason.
2. Venture not finished in time.
3. Poor recuperation of receivables.
4. Abundance limits made on non-monetary costs.
5. Powerlessness of the corporate to raise capital through the issue of value or other obligation instrument from capital markets.
6. Business failures.
7. Preoccupation of assets for extension/modernization/setting up new activities/helping or advancing sister concerns.
8. Unshakable defaults, guiding of assets, extortion, debate, management question, misappropriation and so on,
9. Inadequacies with respect to the banks viz. in credit evaluation, monitoring and subsequent meet-ups, delay in settlement of installments/auxiliaries by Government bodies and so on.,.

### B. EXTERNAL FACTORS:

1. Poor legal system - Long legal tangles, changes that had occurred in labor laws and absence of earnest exertion.
2. Shortage of raw material, power and different assets.
3. Recession in industries.
4. Shortage of raw material, raw material/input value heightening, power shortage, modern recession, overabundance capacity, normal cataclysms like floods, mishaps.

5. Failures, non-installment/over dues in different nations, recession in different nations, externalization issues, antagonistic trade rates and so on.

6. Government policies like extract duty changes, import duty changes and so on

## REVIEW OF LITERATURE

**Shah (2007)** assessed the country credit situation of Maharashtra, with accentuation on the credit delivery system through Primary Agricultural Credit Societies (PACS) and other zenith institutions in the state. Credit cooperatives in Maharashtra have not just demonstrated slower growth in their institutional money coupled with much slower growth in their enrollment yet in addition quicker growth in remarkable loans as against their loan advances amid the change time frame (1991-2000), which shows the issue of overdue.

**Jadhav et al. (2007)** evaluated the performance of District Central Cooperative Banks (DCCBs) in Vidarbha area, Maharashtra, utilizing secondary data for the period 1985/86-2000/01 acquired from annual reports of nine DCCBs. An attractive performance of the DCCBs before the banking change period (1985/86-1993/94) was seen in regard of number of branches, enrollment, borrowings, recovery, and overdue. Amid the banking change period (1994/95-2000/01), palatable performance was seen in regard of loans and advances, share capital, save reserves, possess reserves, stores, venture, working capital, profit and cost of management.

## OBJECTIVES OF THE STUDY

1. To examine the trend in Non-Performing Assets (NPA) of commercial banks in Karnataka.
2. to study about the trend in NPA of Co-operative credit institutions, Regional Rural Banks (RRB's), Private Banks and Other banks.
3. To identify the assess and monitor NPA management under priority sector and non-priority sector advances of different financial institutions and
4. To have a glimpse at NPA management by the financial institutions with special reference to agriculture.

## METHODOLOGY

### AREA OF STUDY:

The present study pertains to the trend analysis of NPAs, ROA and Asset Quality over a decade.

### SOURCE OF DATA:

Secondary data on non-performing assets position of various financial institutions was obtained from Convener, SLBC, Syndicate Bank, Bengaluru. Period of study was from March 2014 to March 2018.

TABLE 1: Year wise NPA in Karnataka banks.

Yearly Results of Karnataka Bank	----- in Rs. Cr. -----				
	Mar '18	Mar '17	Mar '16	Mar '15	Mar '14
<b>NPA Ratios :</b>					
i) Gross NPA	2,376.07	1,581.59	1,180.40	944.21	835.93
ii) Net NPA	1,400.51	974.73	795.47	623.55	538.04
i) % of Gross NPA	4.92	4.21	3.44	2.95	2.92
ii) % of Net NPA	2.96	2.64	2.35	1.98	1.91
Return on Assets %	0.49	0.74	0.76	0.91	0.71

Source: <https://www.moneycontrol.com/financials/karnatakabank/results/yearly/KB04>

## FINDINGS

- The percentage of gross NPA gradually increased every year of the study period.
- The percentage of net NPA increased every year on a steady basis.

## CONCLUSION

NPA is characterized as a loan resource, which has stopped to create any income for a bank whether as interest or main reimbursement. According to the prudential standards recommended by the Reserve Bank of India (RBI), a bank can't book interest on a NPA on collection premise. Along these lines, this has become 'critical performance area' of the banking sector as the level of NPAs influences the profitability of a bank. Along these lines, a NPA account not just diminishes profitability of banks by provisioning in the profit and loss account, however their conveying cost is additionally expanded which results in overabundance and avoidable management attention.

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