A Study of Non-Performing Assets and Its Impact on bank of Maharashtra – A case study.

Rajni Mathur, Vijay Yadav

Assistant Professor, Student

Bharati Vidyapeeth Institute of Management And Research

Abstract

Banks plays a very important role in the development of an economy of a country. Banks are growth-driver. There are various risk, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk from which banking business is exposed to. loan recovery is another very Important risk apart from these risks. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs). Reduction in NPAs generally gives the idea 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. A serious problem of NPA is faced by the Indian banking sector. The magnitude of NPA is comparatively higher in public sectors banks. The NPA need to be reduced and controlled so as to improve the efficiency and profitability of banks. To understand and analyze the NPA level of bank of Maharashtra this study has been conducted. Analysis of various ratios reveal that there is a rising trend in NPA of Bank of Maharashtra. The analysis has been done for the period of 2012-2016.

Key Words: Ratio Analysis, NPA, Risk Analysis

Introduction

RBI has defined NPA 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 as stipulated by RBI. It emerged about 25 years ago in our banking sector, sending disappointing signals on the sustainability of affected banks. At present, more problem is faced by Public Sector Undertaking Banks (PSU) than Private Sector Banks (PRSB). The economy can be severely affected in many ways by the mounting level of NPA in the banking sector. If NPAs are not properly managed, it can cause financial and economic deterioration which in turn signals an unpleasant investment climate.

Causes for Creation of Non-Performing Assets
External causes: Natural calamities and climatic conditions**,** Recession, changes in Government policies changes in economic conditions, Industry related problems,
Impact of liberalization on industries, Technical problems.
Internal causes: Internal defaulters**,** Faulty projects, Most of the project reports are ground realities, proper linkages, product pricing etc. Some approach for the "heck" of starting a venture, with poor knowledge of product risks, over depended on poorly paid killed workers and technicians, Building up pressure for sanctions, Inept handling by banker's lack of professionalism and appraisal standards, Nonobservance of system, procedures and non-insistence of collaterals etc. Lack of post sanction monitoring, unchecked diversions.

About Bank of Maharashtra
The Mahratta Chamber of Commerce (MCC) was established in Poona in 1934 and its Founder Secretary Shri A.R.Bhat was a great visionary.
Gross Advances of the bank increased from ₹ 1, 01,210 crore as on 31.03.2015 to ₹ 1, 11,240 crore as on 31.03.2016 (growth of 9.91%).

It established Central Processing Cells at all 34 zones during the last year. The centralized Processing is expected to improve quality of appraisal and reduce undue delays in credit delivery mechanism. Efforts are continued to improve portfolio yield by reshuffling the portfolio mix.

The gross NPA ratio of the bank is at 9.34**%** as against 6.33% as of 31.03.2015 due to rise in fresh slippages. Similarly the ratio of net NPAs stood at 6.35**%** as on 31.03.2016 as against 4.19**%** a year ago as provision could not keep up pace with slippages. Bank of Maharashtra is a major public sector bank in India with total business of 2, 50,230. Crore as on 31.03.2016 as compared to 2, 23,329 crore in the year 2015(growth of 12.05%) and total deposit stood at 1,38,990 crore as compared to 1,22,119 last year (growth of 13.82%).

(in crore)

Particulars	As on		% Growth
	Mar-15	Mar-16	
Total Business	2,23,329	2,50,230	12.05%
Deposits	1,22,119	1,38,990	13.82%
of Which CASA deposits	45,297	50,967	12.52%
Gross Advances	1,01,210	1,11,240	9.91%
Gross Investment	32,819	36,332	10.70%

Source: Bank of Maharashtra Financials

Review of literature

1.   Neha Rani (2014) in her research paper "Analysis of Non-Performing assets of Public Sector banks" revealed that share of nationalized banks in priority sector NPA was greater in 2008 but after that it is decreasing. However amount of NPA of both banks is increasing but there percentage share in total NPA is decreasing after 2010 continuously.

2.   Chandan Chatterjee; Jeet Mukherjee; Dr.Ratan Das (2012) in their research paper

"Management of Non-Performing Assets – A current Scenario" found that NPAs

have a negative influence on the achievement of capital adequacy level, funds mobilization and deployment policy, banking system credibility, productivity and overall economy.

3.   Vivek Rajbahadur Singh (2016) in his research paper "A Study of Non-Performing Assets of Commercial Banks and it's recovery in India" concluded that The NonPerforming Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. This study shows that extent of NPA is comparatively very high in public sector banks.

4.   Prashanth K Reddy in his research paper "A comparative Study of Non-Performing Assets in India in the Global context – similarities and dissimilarities, remedial measures" stressed the importance of a sound understanding of the macroeconomic variables and systemic issues pertaining to banks and the economy for solving the problem NPAs along with the criticality of a strong legal framework and legislative framework.

5.   Dr. Sonia Narula & Monika Singla (2014) in their research paper "Empirical Study on Non-Performing Assets of Bank" found that Because of mismanagement in bank there is a positive relation between Total Advances, Net Profits and NPA of bank which is not good. Bank is unable to give loans to the new customers due to lack of funds which arises due to NPA.

Research Methodology

Research methodology necessitate collection of appropriate data from the annual reports of Bank of Maharashtra and compiling data in order to critically analyze the Total Advances, Net Profit, Gross NPA, Net NPA of PNB and arrive at a more complete understanding about performance of Bank of Maharashtra. The study uses the annual reports of Bank of Maharashtra for the period of five years from 2011-12 to 2015-16. To compare total advances, gross NPA, net NPA & profits of Bank of Maharashtra, table is used.

Data collection – The study is based on secondary data having relevance to the period 2011-16. The data related to banks was sourced from annual reports of banks, database like Ace Analyzer, Capital Line. Data has been acquired for all listed banks for which information was available.

Research Instruments

Ratio Analysis

To obtain a quick indication of a firm's financial performance in several key areas, ratio analysis which is a form of financial statement analysis is used. The ratios are classified as Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios.

Key concepts and definitions

Classification of Non-Performing Assets

T.N.Gurumoorthy (2012) stated that "non-performing assets can be further classified by bank as standard, substandard, doubtful and loss asset in accordance with guidelines related to asset classification issued by RBI."

➢ **Standard Assets:** Standard assets produce continuous earnings and repayments as and when they fall due. So a standard asset is a performing asset. Such assets carry a normal risk and are not NPAs in the real sense. Hence, no special provisions are needed for Standard Assets.

➢ **Sub-Standard Assets:** A sub-standard asset was one, which was considered as non-performing for a duration of 12 months.

➢ **Doubtful Assets:** Doubtful assets are those assets which are considered as non-performing for period of more than 12 months.

➢ **Loss Assets:** A loss asset is one where loss has been recognized by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Provisional Norms

➢ **Sub-standard Assets**: The account holder belonging to this category don't pay three installment continuously after 90 days and up to 1year. To meet the losses generated from NPA from their profit, bank has made 10% provision of funds for this category

➢ **Doubtful Assets**: Doubtful NPA are categorized into three sub categories:
  20% provision is made by the banks for D1 i.e. up to 1 year
  30% provision is made by the bank for D2 i.e. up to 2 year
  100% provision is made by the bank for D3 i.e. up to 3 year.

➢ **Loss Assets**: 100% provision is made by the banks to write off the accounts of the account holders who belongs to this category. After this the assets are delivered to recovery agents for the purpose of sale.

Gross NPA and Net NPA

Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account.
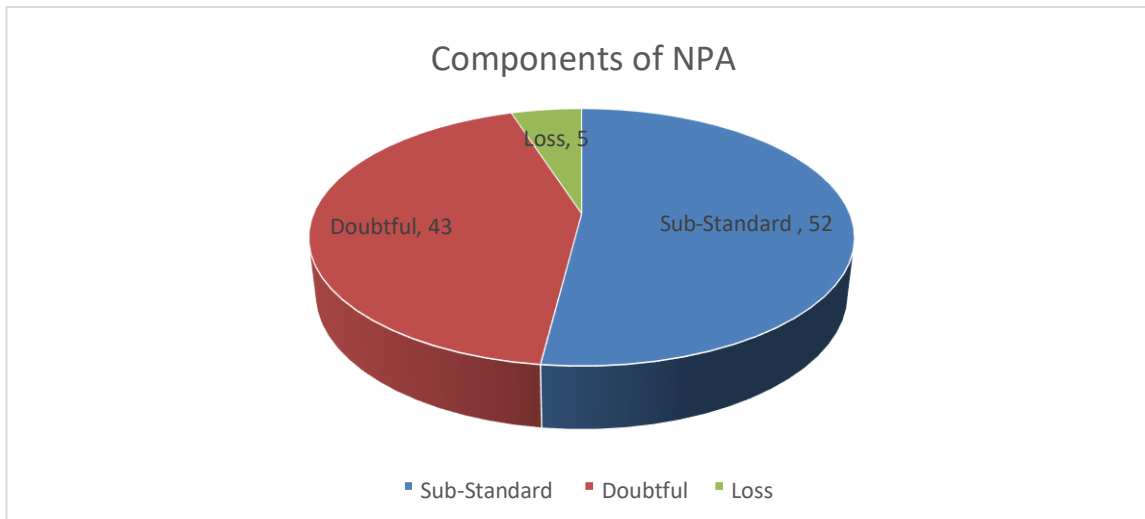
Net NPA is obtained by subtracting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

Analysis

1 Average Proportion of various components of NPAs of Bank of Maharashtra

Types of Non-Performing Assets	Percentage
Sub-Standard	52
Doubtful	43
Loss	5

Table 1

Graph 1

Analysis:

The above table shows that out of the total non-performing assets 43% are doubtful assets, 52% assets are Sub-Standard assets and remaining 5% are loss assets.
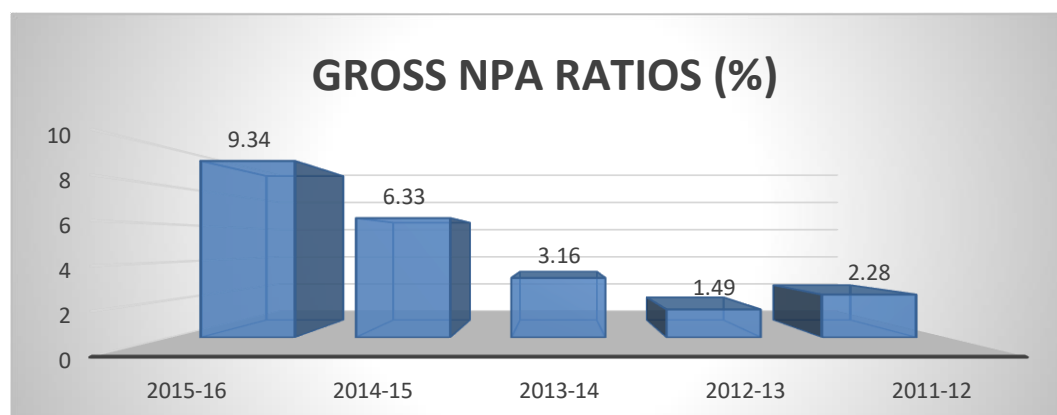
Interpretation:

As far as sub-standard assets and doubtful assets are concerned it can be said that a high sub-standard assets over doubtful assets may signify a satisfactory and safe position as the prospect of recovery of advances is bright. Bank should make such attempts to recover advances from defaulters, even by making some compromise, that the proportion of gross NPA gets reduced. Considering the position of Bank of Maharashtra, it can be concluded that the situation is good. The increasing sub-standard assets shows that there is a very good scope for recovery. The management should take required action to reduce doubtful assets and loss assets and to increase the percentage of substandard assets.

2 Gross NPA Ratio $= \dfrac{\text{Gross NPA}}{\text{Gross Advances}} \times 100$

(₹ in crore)

YEAR	GROSS NPA	GROSS ADVANCES	GROSS NPA RATIOS (%)
2015-16	10385.85	111240	9.34
2014-15	6402.06	101210	6.33
2013-14	2859.85	90369	3.16
2012-13	1137.55	76397	1.49
2011-12	1297.03	56979	2.28
Average	**4416.47**	**87239**	**4.52**

Table 2

Graph 2

Analysis:

From the above graph it can be understood that the gross NPA has decreased from 2.28% in 2011-12 to 1.49% in 2012-13. After that from 2013-14 to 2015-16 it is increasing continuously from 3.16%, 6.33% & 9.34% respectively.
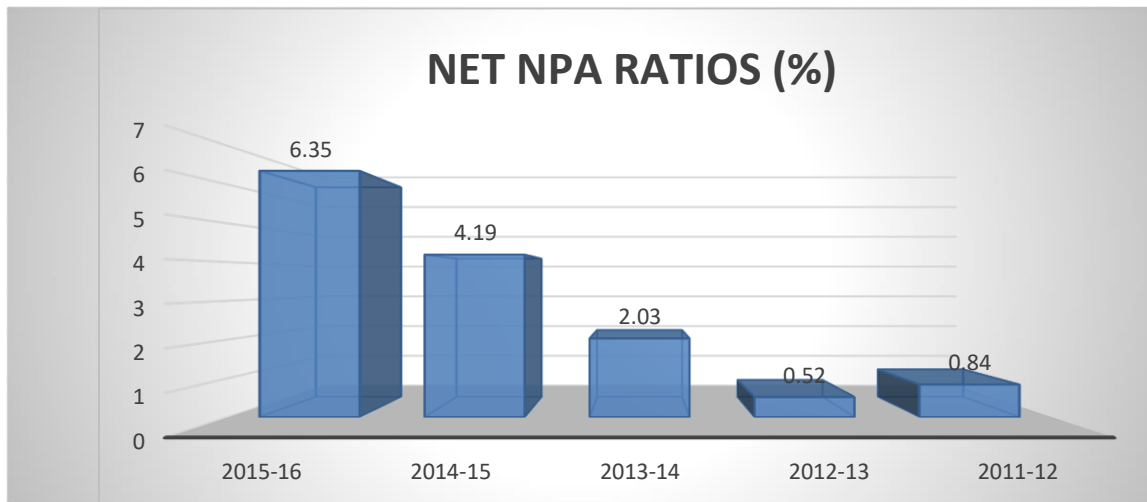
Interpretation:

It is interpreted that the gross NPA which was 2.28% in 2011-12 decreased marginally to 1.49% in the year 2012-14 and after that it increased and finally reached 9.34% in 2015-16. It indicates that the Bank may not be following ideal norms of granting advances or there may be any hurdle in the process of recovery, which is why the recovery is not adequate leading to higher gross NPA. It is very discouraging that the gross NPA ratio in the last two years is very much higher than the average 4.52%.

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

YEAR	NET NPA	NET ADVANCES	NET NPA RATIOS (%)
2015-16	6832.03	107562.67	6.35
2014-15	4126.57	98599.1	4.19
2013-14	1807.32	88920.4	2.03
2012-13	392.93	75470.78	0.52
2011-12	469.57	56059.76	0.84

Table 3

NET NPA RATIOS (%)

Graph 3

Analysis:

From the above table it can be seen that the net NPA ratio has decreased from 0.84% in 2011-12 to 0.52% in 2012-13, which is the lowest. But from 2013-14 to 2015-16 the net NPA increased and ultimately reached 6.35%.
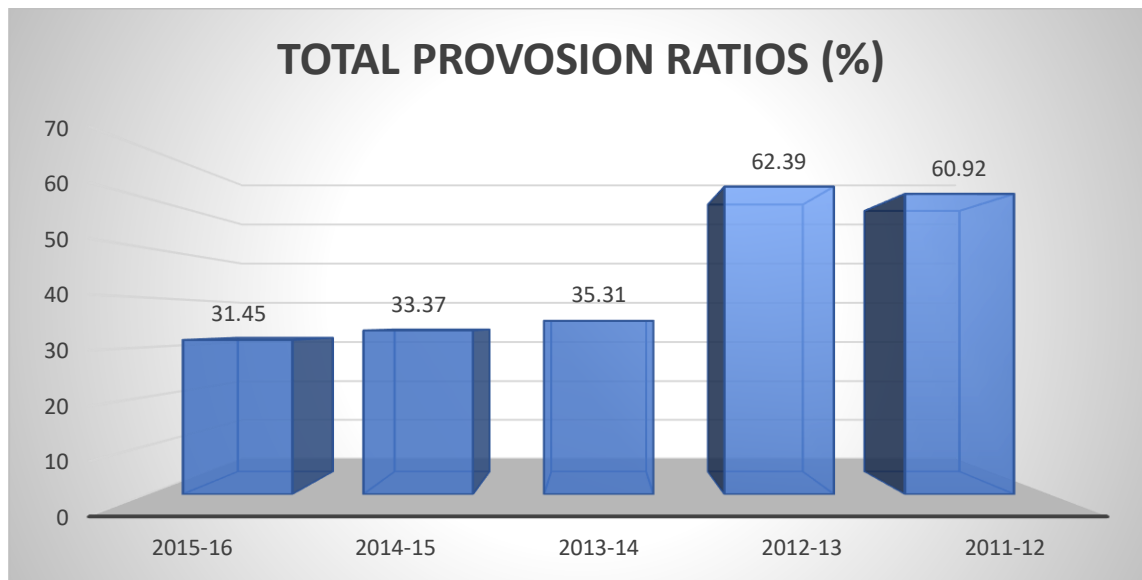
Interpretation:

It can be observed that Net NPA ratio which was 0.84% in 2011-12 has decreased to 0.52% which is good sign that the bank is succeeded in making good provisions against NPA. But in the last three years of study i.e. from 2013-14 to 2015-16, the net NPA has increased and eventually reached to 6.35% which shows that the bank had failed to make sufficient provisions against NPA in these years which is not satisfactory.

4 Total provision ratio $= \dfrac{\text{Total provisions}}{\text{Gross NPAs}} \times 100$

(in crore)

YEAR	PROVISION	GROSS NPA	TOTAL PROVOSION RATIOS (%)
2015-16	3266.62	10385.85	31.45
2014-15	2136.49	6402.06	33.37
2013-14	1009.9	2859.85	35.31
2012-13	709.69	1137.55	62.39
2011-12	790.11	1297.03	60.92

Table 4

TOTAL PROVOSION RATIOS (%)

Graph 4

Analysis:

From the above table we can see that of 5 consecutive years, in 2012-13 the provisions was the highest i.e. 62.39%, but after that it is being decreased to 31.45% in the year 2015-16, which is the lowest.

Interpretation:

From the above table it can be interpreted that bank has not made enough provisions for their gross NPAs. From the table we can see that of 5 consecutive years under study, in 2013-13 the provisions was the highest i.e. 62.39% but after it is being decreased to 31.45% in the year 2015-16which is not a good sign for bank. The bank need to make sufficient provision in order to reduce the level of NPA.

$$5\ \text{Problem Assets Ratio} = \frac{\text{Gross NPA}}{\text{Total Assets}} \times 100$$

YEAR	GROSS NPA	TOTAL ASSETS	PROBLEM ASSETS RATIO (%)
2015-16	10385.85	160957.32	6.45
2014-15	6402.06	146018.79	4.38
2013-14	2859.85	136320.06	2.1
2012-13	1137.55	116952.81	0.97
2011-12	1297.03	91137.38	1.42

Table 5

Graph 5

Analysis :

From the above table we say that the Problem Asset Ratio is lowest in the 2012-13 i.e 0.97% and after it increased upto 6.45 % in the year 2015-16 which is the highest.

Interpretation :

The problem assets ratio shows the proportions of Gross NPA to total assets and the table given above shows that the Bank was having decreasing trend of NPA. But in the last three years i.e. 2013-14, 2014-15 and 2015-16 the trend is increasing which is also increasing the trend of of NPA. It seems that the less attention has been given by the

management to the proportion of Gross NPA and total assets of the bank. Hence there is a positive correlation between NPA and problematic assets. TNPA is on the rise due to increase in advances.

6 Depositors Safety ratio $= \frac{Total\ Standard\ Assets}{Total\ Outside\ Liabilities} \times 100$

(₹ in crore)

YEAR	TOTAL STANDARD ASSETS	TOTAL OUTSIDE LIABILITIES	DEPOSITOR'S SAFETY RATIO (%)
2015-16	100854	152170	66.28
2014-15	94808	137951	68.73
2013-14	87509	128952	67.86
2012-13	75259	110556	68.07
2011-12	55682	86415	64.44

Table 6
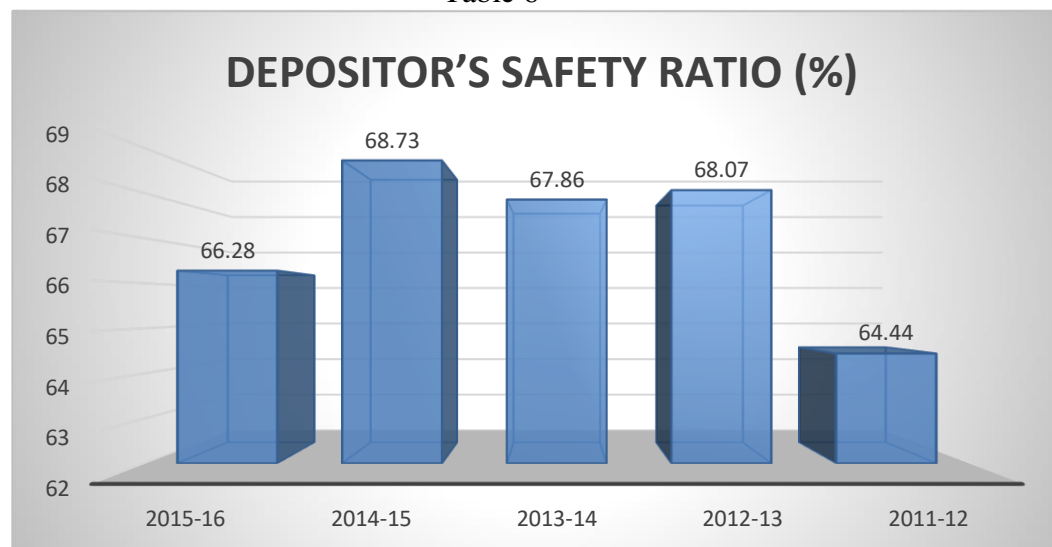
Graph 6

Analysis:
From the above graph it can be analyzed that the Depositor's Safety Ratio differs during the period taken under study. It was lowest in the year 2011-12 i.e. 64.44%. Then it raised sharply to 68.07% in 2012-13. It was highest in 2014-15 with 68.73%. Then again it decreased to 66.28% in the year 2015-16.

Interpretation:
From the above table and graph it can be interpreted that the Depositor's Safety Ratio of Bank of Maharashtra is satisfactory in the last five years, especially in the year 2014-15. It is good sign for common investors that the ratio is consistent in the last five years, although it has decreased in 2015-16 to 66.28% it can be stated that the depositor's money is safe in this bank.
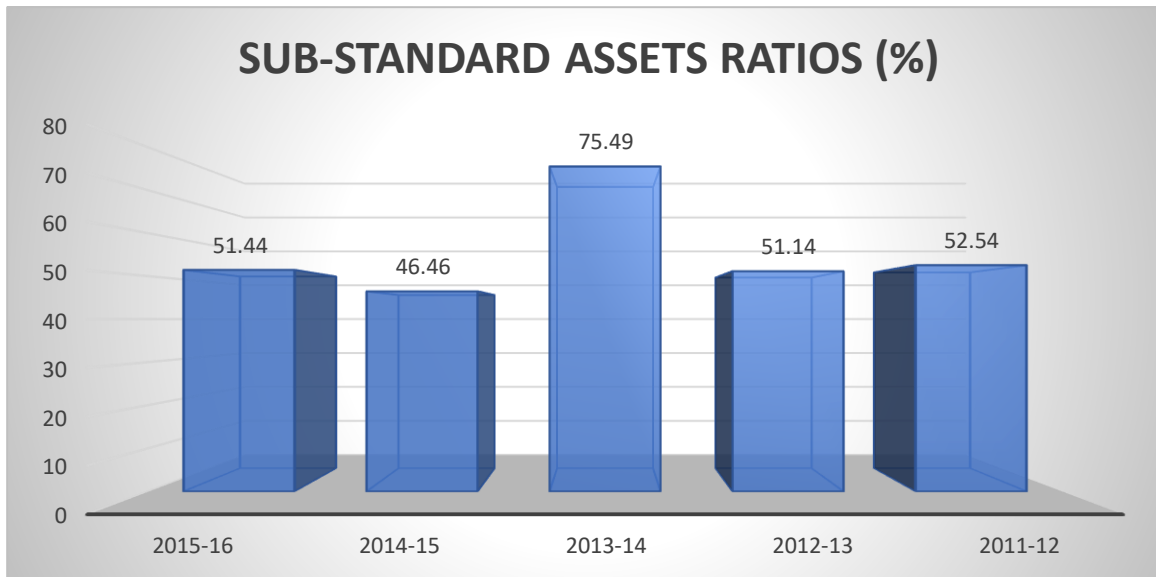
7 Sub- Standard Assets Ratio $= \frac{Total\ Sub-Standard\ Assets}{Gross\ NPAs} \times 100$

(in crore)

YEAR	SUB-STANDARD ASSETS	GROSS NPA	SUB-STANDARD ASSETS RATIOS (%)
2015-16	5342.65	10385.85	51.44
2014-15	2974.68	6402.06	46.46
2013-14	2159.03	2859.85	75.49
2012-13	581.7	1137.55	51.14
2011-12	681.49	1297.03	52.54

Table 7

Graph 7

Analysis :

From the above table it can be seen that ratio is not following any trend. It has increased tremendously in 2013-14 and dropped more than that in 2014 -15.
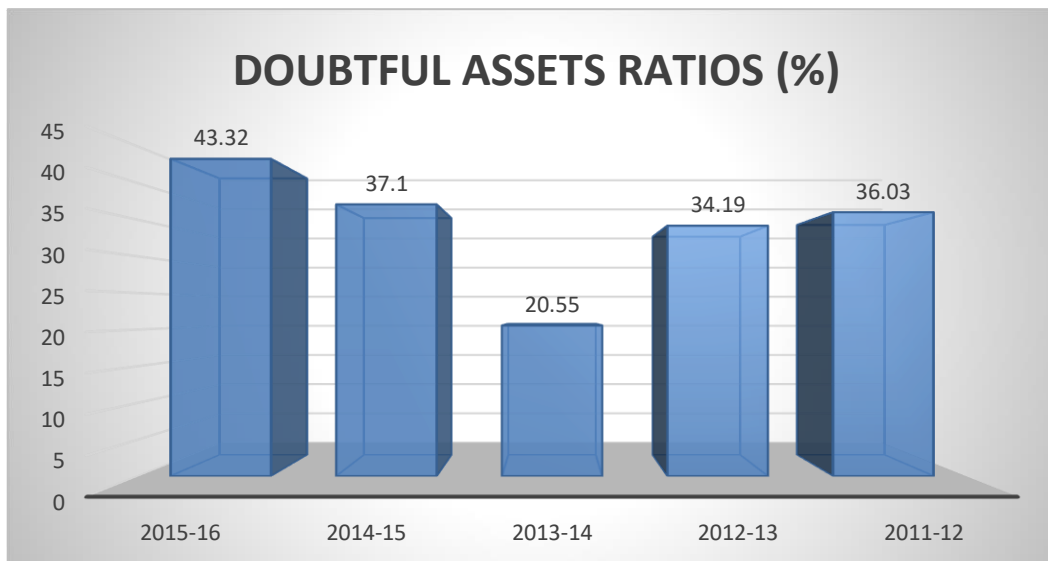
Interpretation :

From the above table it is found that ratio has been increasing in the first three years i.e. 2011 -12, 2012 -13 and 2013-14, which is not a good sign. The variations in the sub standard assets ratio are caused by higher percentage of doubtful assets over sub standard assets in the bank . The management should take necessary measures to reduce doubtful assets and loss assets and to increase the percentage of sub-standard assets.

8 Doubtful Assets Ratio = Total Doubtful Assets / Gross NPAs*100

YEAR	TOTAL DOUBTFUL ASSETS	GROSS NPA	DOUBTFUL ASSETS RATIOS (%)
2015-16	4498.9	10385.85	43.32
2014-15	2375.02	6402.06	37.10
2013-14	587.66	2859.85	20.55
2012-13	388.91	1137.55	34.19
2011-12	467.37	1297.03	36.03

Table 8

DOUBTFUL ASSETS RATIOS (%)

Graph 8

Analysis:

From the above table it can be seen that the ratio had been decreasing from the year 2011-12 to 2013-14 i.e. from 36.03% to 20.55%
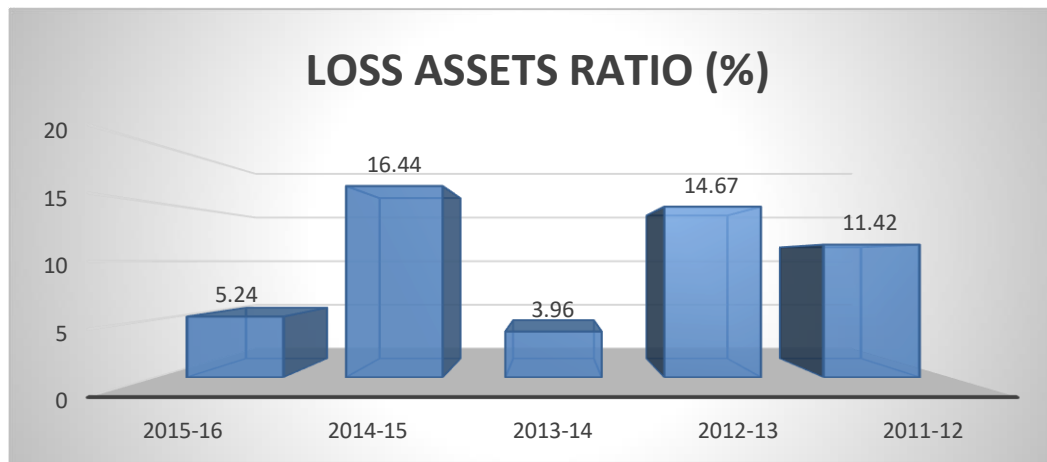
Interpretation:

The doubtful assets ratio of Bank are presented in the above table. Through advances banks can recover more of the advances. From the above table it can be understood that the ratio had been decreasing from the year 2011-12 to 2013-14 which is fair and acceptable except for the years i.e. 2014-15 & 2015-16. However, the doubtful assets ratio is less than sub-standard assets ratio which is a positive sign. To reduce the gross NPA, the management must try to recover as much doubtful advances as possible.

9 Loss Assets Ratio = Total Loss Assets/ Gross NPAs*100

(₹ in crore)

YEAR	TOTAL LOSS ASSETS	GROSS NPA	LOSS ASSETS RATIO (%)
2015-16	544.2	10385.85	5.24
2014-15	1052.35	6402.06	16.44
2013-14	113.15	2859.85	3.96
2012-13	166.93	1137.55	14.67
2011-12	148.15	1297.03	11.42

Table 9

LOSS ASSETS RATIO (%)

Graph 9

Analysis:

From the above table it is understood that the loss assets ratio vary year after year. In the year 2013-14 it is lowest i.e. 3.96%, but it is high for remaining years and is 16.44% for the year 2014-15.

Interpretation:

Loss assets ratio shows the amount of loss that the banks are likely to suffer as compared to gross NPAs. The ratio must be minimum, as it will indicate that the assets to be lost would be lower as compared to gross NPAs. The loss assets are likely to be recovered at all and so higher ratio would suggest higher losses. From the table we can understand that the loss assets ratio had been very low in the years of study i.e. 2013-14 but it is high for remaining years and is 16.44% for the year 2014-15. To reduce the loss assets ratio, the bank should take its condition seriously and work out action plans.

Findings

- Bank of Maharashtra has increasing trend in gross NPA in the last five years from 2012-2016, which shows bad health of the bank.
- No provisions are made for the high quality of risk assets in the banks as indicated by NPA ratio. In the year 2015-2016 bank had 6.35% of Net NPA which is highest of last five years and is diminishing the health of the bank.
- The provision ratio has been declined to 31.45% in the year 2015-2016, which is not a good indication for the bank. The bank needs to make adequate provisions in order to reduce the level of NPA.
- The relation between NPA and problematic assets is positive. Higher the level of NPA, higher the problematic assets and vice versa.
- There was fluctuation seen in Net NPA to total assets which was found out from the analysis. It is less in percentage but more in numbers.
- It is found from the analysis that depository safety ratio is decreased up to 66.25% which indicates that the bank is not taking any steps for providing safety to its investors.
- The loss assets of the bank is 5.24% which is acceptable as compared to last year.

Conclusion

It appears that bank have an increasing trend of NPA in last four years. While selecting the clients and customers for sanctioning of loans the bank needs to be very proactive. The functioning of the bank is wide enough to cater to the needs of broad spectrum of the society and economy of India at large. All the norms and derivatives given by RBI should be followed by Bank of Maharashtra strictly

There should be a better credit appraisal system in a bank so as to prevent NPAs from occurring. Nevertheless, once NPAs do come into existence, the problem can be solved only if there is enabling legal structure, since recovery of NPAs often requires litigation and court orders to recover stock loans. Debt recovery takes a very long time due to long-winded litigation in India. The support of the system is very much required even though

the bank is taking necessary measures for recovering the loan. But it takes at least one to two years to get approval from the court for physical possession of any property, which slows down the further procedure.

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