

Changing trend of non-performing assets in H.P.state co-operative bank ltd

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Abstract

This paper is an attempt to highlight the changing trend of Non-Performing Assets of Himachal Pradesh State Co-operative bank Ltd., which has a direct impact on profitability of bank. NPAs are one of the major concerns of Indian Banking sector. Major portion of the profits are being used in making provisions for them which reduces overall profits and shareholders' value in the banks. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks reflects the state of health of the Indian economy so the need of the hour is to trim down NPAs to improve the financial health in our country's banking system.

Keywords: NPA, RBI, GNPA, NNPA

Introduction

Whenever a borrower fails to repay the interest and principal amount or any one out of it on the agreed terms, it is termed as Non-performing Asset. It means that it has stopped to generate income for the bank. So we can describe performing asset as an asset which is generating income till date and as soon as it stops generating income it shifts to Non-Performing Asset. This concept of NPA has been introduced by Reserve Bank of India from 1st April, 1992 and certain norms were issued for the methods of NPA identification, asset classification and provisioning and income recognition. The basis for identifying NPAs may vary depending on the nature of the loan asset. As per the latest guidelines of RBI, An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A Non-Performing Asset (NPA) is a loan or an advance where;

1. interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
2. the account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC),
3. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
4. the instalment of principal or interest there on remains overdue for two crop seasons for short duration crops,
5. the instalment of principal or interest there on remains overdue for one crop season for long duration crops,
6. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.
7. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks should, classify an account as NPA only if the

interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Asset Classification

Categories of NPAs: Banks are required to classify Non-Performing Assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

Substandard Assets: With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

Doubtful Assets: With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

Loss Assets: A loss asset is one where loss has been identified by the bank or internal or external auditors or the Reserve Bank of India inspection but the amount has not been written off wholly.

Review of literature

Muniappan (2002) ^[4] has observed in his study that NPA is not only the lender's problem but equally that of borrowers too. NPA is related to several internal and external factors of borrowers. External factors are non-payment, recessions, shortage of resources, price escalations, accidents and natural calamities on which one does not have any control on the other hand internal factors are expansion, diversification of business unit, modernization /new project investment failure of business, mismanagement or inefficient management, human resource management problem, technological problems etc. Balasubramaniam (2011) ^[5] in his research paper, divided his study into four parts, where first part deals with concept of NPAs, its

impact on the profitability and financial soundness of banks. Second part deals with analysis of NPA followed by a series of in-depth analysis on the high level of borrowings from banking sector. Third part dwells on the impact of restructuring of advances by banks on the basis of asset classification. And last part deals with issues and perspectives/challenges on the performance of banking sector and financial stability of the economy. After this study the researcher has come up with the conclusion that the level of NPA is high with all banks currently and it is expected to bring down their NPA. This can be achieved by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheet. Joseph, Prakash (2014) [6] their study is mainly focused to understand and analyze the NPA level of private and public sector banks and factors contributing to NPA. Their research concluded by suggesting that the banks and financial institutions should be more proactive to adopt a pragmatic and structured Non-performing asset management policy where prevention of NPAs receives priority.

Need of the study

Though a large number of studies have been conducted on the Non-Performing Assets, the researchers mainly emphasize on the growth of Non-performing Assets in Public, Private and Foreign sector banks. An analytical review of existing literature has brought to light the distressing proportion of NPAs in Co-Operative Banks. In this study an attempt has been made on quality aspects of NPAs in H.P.S.C.B.

Scope of the study

The study is confined to examine the GNPA's and NNPA's level in H.P.S.C.B in the financial years 2010-11 to 2016-17 and the required data is taken from the Annual reports of H.P.S.C.B.

Objective of the study

To study the status and impact of NPA of H.P.S.C.B.

Research Methodology

The study is based on secondary data taken from various annual reports of H.P.S.C.B. The paper discusses the conceptual framework of NPA and also highlights the trends, status and impact of NPA on H.P.S.C.B. during the period of 7years i.e. from 2011 to 2017. Several reputed research journals including research papers and articles have been used. Moreover, RBI Guidelines on NPAs, websites and books on banking has been referred during the study.

Non- Performing Assets in H.P. State Co-operative Bank Ltd.

Gross Advances and Gross NPA of H.P.S.C.B

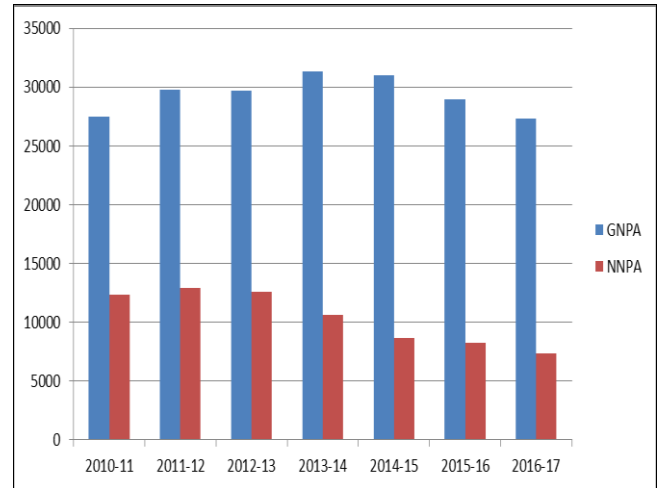
Table 1: Gross Advances and Gross NPAs (amount)

Year	Gross Advances	Gross NPAs	Gross NPAs (%)
2010-11	22104313123.18	2751473000	12.45
2011-12	23616668659.78	2978888000	12.61
2012-13	26537486872.56	2972430000	11.20
2013-14	30231367947.80	3131322000	10.36
2014-15	35917555475.01	3096815000	8.62
2015-16	43615047249.07	2896756000	6.64
2016-17	47582658181.80	2734411000	5.75

Source: Annual report of H.P.S.C.B

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 2010-11 to 2016-17. The amount of Gross advances and Gross NPAs has increased from 2010-11 till 2013-14 and afterwards it started declining. On the other hand NPA percentage is showing the declining trend from 12.45 in 2010-11 to 5.75 in 2016-17.

Gross NPAs and Net NPAs of H.P.S.C.B

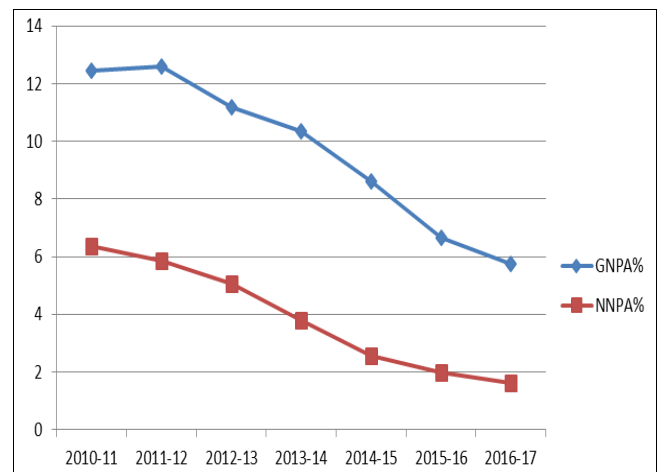


Source: Annual report of H.P.S.C.B

Fig 1: Gross and Net NPAs (amount in lacs)

The above figure shows the trend of Gross NPA and Net NPA for the period of 7years starting from 2010-11 till 2016-17. We can observe here that the Gross and Net amount of NPA has been showing an upward trend in beginning and after 2014-15 it is downward at a very slow rate.

Gross and Net NPAs in Percentage of H.P.S.C.B

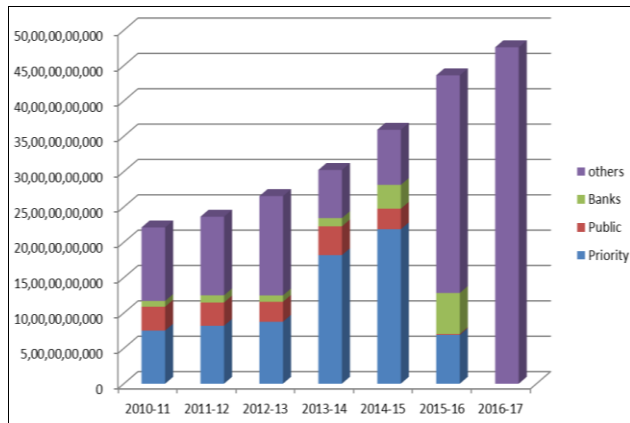


Source: Annual report of H.P.S.C.B

Fig 2: Gross and Net NPAs (Percentage)

The above figure displays the trend of Gross NPA and Net NPA in percentages for the period of 7 years i.e. from 2010-11 till 2016-17. The x-axis represents the years whereas y-axis represents the percentage of NPA. We can observe here that the Gross and Net percentage of NPA has been showing downward trend

Sector-wise distribution of Advances of H.P.S.C.B

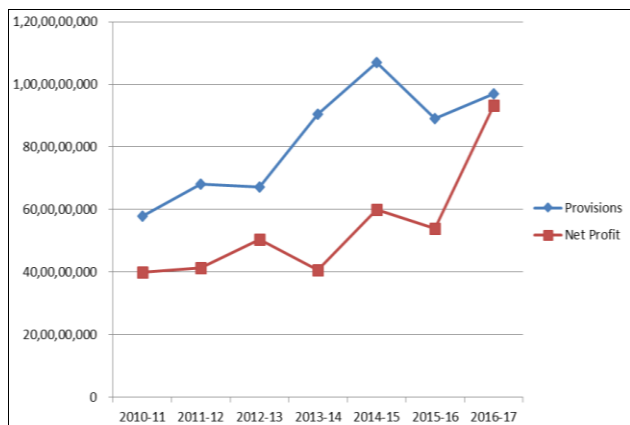


Source: Annual report of H.P.S.C.B

Fig 3: Sector-wise distribution of Advances (Amount)

The above figure portrays that from the year 2010-11 to year 2014-15 major portion of advances was used for priority sector and afterwards it started declining.

Actual Provisions made on NPAAs and Net Profit of H.P.S.C.B



Source: Annual report of H.P.S.C.B

Fig 4: Actual Provisions made on NPAs and Net Profit (amount)

This figure shows the change in the trend of provision made with regard to NPAs and Net profit for the different years which shows the impact of provisions made for NPAs have adverse effect on the profitability of the bank.

Impact of NPAs

NPAs have direct relation to the profitability of banks. Due to which banks are cautious while issuing loans. Banks are sanctioning more loans towards the risk-free investment to avoid the risk, which will lead to the downfall of economy. If timely action is not taken, it will affect:-

- a. Cost of Capital
- b. Earning Capacity of Capital
- c. Provisions required for NPAs
- d. Risk facing ability of banks

Findings

We can conclude from figure 7.5 that net profit is increasing and provisions made after year 2014-15 is decreasing which is a good sign. But on the other hand, the sector-wise distribution of advances in figure 7.4 shows that after year

2014-15 priority sector lending has decreased with a big difference and even in year 2016-17 it is still indicating that the increase in profit could be due to the decrease in the advances in priority sector.

Recommendations

- Bank should find out the reasons for the sudden downfall in lending of advances in priority sector.
- Bank should check the reason of decline in the people obtaining loans, consequently NPAs also decline.
- It should also check whether there is any relation between the both variables i.e. whether NPAs only have declined or the only entire priority sector has seen a decline in borrowings.

The proper blend of the above recommendations can ensure improvement in the overall growth of the economy.

Conclusion

The above research paper is an effort to highlight the trends of NPAs in Himachal Pradesh State Co-operative Bank Ltd. It can be concluded that year by year there is a positive change in the level of NPAs. However the NPAs level of the bank is still high. Due to NPAs the earning capacity of bank is reducing and is adversely affecting the profits of bank. The NPAs have been always creating a big problem not only for the banks but for the economy too.

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