



AN ANALYSIS OF NON-PERFORMING ASSETS AND ITS EFFICIENCY ON FINANCIAL TRANSACTIONS SECTOR

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Abstract

Banks assumes a significant part in the financial advancement of a country. Banks are development - driver and the financial business is presented to different danger, for example, credit hazard, liquidity hazard, premium danger, market hazard, operational danger and the executive's hazard. Aside from these dangers the vital danger is credit recuperation. The sound monetary situation of a bank relies on the recuperation of advances or its degree of Non-performing resources (NPAs). Diminished NPAs by and large gives the feeling that banks have reinforced their credit evaluation measures throughout the long term and development in NPAs includes the need of arrangements, which cut down the general benefit of banks. The Indian financial area is dealing with a significant issue of NPA. The greatness of NPA is nearly higher in open areas banks. To improve the productivity and benefit of banks the NPA should be decreased and controlled.

Introduction

An asset, counting a leased asset, becomes non-performing when it ceases to produce revenue for the bank and is then termed as Non-Performing Asset (NPA). RBI has defined NPA as a recognition competence in reverence of which the interest and repayment of principal has remained 'past due' for a particular phase of time as predetermined by RBI. NPA is an significant limitation in the psychoanalysis of monetary presentation of a bank as it results in higher provisioning requirements and thus decreasing periphery. It affects liquidity and prosperity, in calculation to posing threat on quality of asset and survival of banks. It points out the credit risk of the banks. It emerged about 30 years ago in our banking subdivision, sending disappointing signals on the sustainability of affected banks. At in attendance, community Sector Undertaking Banks is facing more problems than Private Sector Banks. An increasing height of NPAs in the banking sector can relentlessly affect the financial system in many ways. If NPAs are not appropriately managed, it can cause monetary and financial degradation which in turn signals an adverse investment climate.

OBJECTIVES OF THE STUDY

1. To recognize the concept of non-performing assets.
2. To understand the NPAs sector wise.
3. To understand the recuperation through various channels.
4. To know the effect of NPAs on Indian Banking Sector.

REVIEW OF LITERATURE



Jacobs phooey (2011) in his research paper "A proportional Study of Non-Performing Assets in India in the worldwide circumstance – similarities and dissimilarities, counteractive measures" stressed the significance of a resonance considerate of the macroeconomic variables and universal issues pertaining to banks and the financial system for solve the difficulty NPAs along with the criticality of a physically powerful legal framework and legislative framework.

Dr. allot phonon (2012) in their research paper "experiential learning on Non-Performing Assets of Bank" originate that Because of mismanagement in bank there is a constructive family member between Total Advances, Net Profits and NPA of depository which is not good. Bank is powerless to give loans to the new consumers due to be deficient in of funds which are payable to NPA.

Silks mission (2012) in her research paper "examination of Non-Performing assets of community Sector banks" revealed that share of nationalized banks in main concern sector NPA was greater in 2012 but after that it is decreasing. However amount of NPA of in cooperation banks is mounting but there proportion share in total NPA is decreasing after 2012 continuously.

RESEARCH DESIGN

Data Collection

The lessons are based on less important data pertaining to the period 2011-12. The data pertaining to banks was sourced from twelve-monthly reports of banks.

The information collected is mainly secondary in character. The sources of data for this research include the journalism published by Bank of Maharashtra and the Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

Analytical Tools of Data Analysis

Ratio Analysis

Ratio Analysis is a appearance of monetary Statement Analysis that is used to get hold of a quick suggestion of a firm's monetary performance in several key areas. The ratios are categorized as Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios.

Statistical tools for data analysis

Use of tables, Pie diagrams and column charts are done to measure up to the ratios of five financial years & interpret the analysis of the same.

DATA ANALYSIS & INTERPRETATION

Net NPA Ratio

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

Net Advances

Table – 1
Data Analysis & Interpretation

<i>Year</i>	<i>Net NPA</i>	<i>Net Advances</i>	<i>Net NPA Ratios (%)</i>
2007-08	6832.03	107562.67	6.35
2008-09	4126.57	98599.1	4.19
2010-11	1807.32	88920.4	2.03
2011-12	392.93	75470.78	0.52
2012-13	469.57	56059.76	0.84

Analysis & Interpretation

It can be noticed that Net NPA ratio which was 0.84% in 2011-12 has reduced 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 2011 -12 to 2010-11, the net NPA has increased and finally reached to 6.35% which indicates that the bank had failed to make sufficient provisions against NPA in these years which is not satisfactory. The Management of the Bank has not taken enough care in granting advances and they are not able to recover from defaulters.

Total Provisions Ratio

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

Table – 2

Data Analysis & Interpretation

<i>Year</i>	<i>Provision</i>	<i>Gross NPA</i>	<i>Total Provision Ratio (%)</i>
2006-07	3266.62	10385.85	31.45
2007- 08	2136.49	6402.06	33.37
2008-09	1009.90	2859.85	35.31
2009-10	709.69	1137.55	62.39
2010-11	790.11	1297.03	60.92

Analysis & Interpretation

From the above counter 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 2010-11 the provisions was the highest i.e. 62.39% but after it is being decreased to 31.45% in the year 2010-11, which is not a high-quality sign for bank. The bank needs to make adequate provision in order to diminish the level of NPA.

Problem Assets Ratio

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

Table – 3
Data Analysis & Interpretation

<i>Year</i>	<i>Gross NPA</i>	<i>Total Assets</i>	<i>Problem Assets Ratios (%)</i> <i>(In Crores)</i>
2005-06	10385.85	160957.32	6.45
2006-07	6402.06	146018.79	4.38
2007-08	2859.85	136320.06	2.10
2008-09	1137.55	116952.81	0.97
2009-10	1297.03	91137.38	1.42

Analysis & Interpretation

The predicament assets ratio shows the quantity of Gross NPA to total assets and the table given above shows that the Bank was having lessening tendency of problem assets till the year 2016-17, which depicts decreasing trend of NPA. But in last three years i.e.2010-11, 2011-12 & 2009-10 the trend is increasing, which is also increasing the inclination of NPA. It seems that less concentration has been given by the management to the proportion of Gross NPA and total assets of the bank. Hence there is a positive correlate on flanked by NPA and problematic assets. The gross NPA is on the rise due to the increase in advances.

Depositor’s Safety Ratio

Total Standard Assets

Depositor’s Safety Ratio = Total outside liabilities X 100

Table – 4
Data Analysis & Interpretation

<i>Year</i>	<i>Total</i>	<i>Total Outside</i>	<i>Depositor’s Safety Ratio (%)</i>
2005-06	10085	152170	66.28
2006-07	94808	137951	68.73
2007-08	87509	128952	67.86
2008-09	75259	110556	68.07
2009-10	55682	86415	64.44

Analysis & 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 2009-10. It is good sign for common investors that the ratio is consistent in the last five years, although it has dropped down in 2010-11 to 66.28% it can be stated that the depositor’s currency is safe in this bank.

Shareholder's Risk Ratio

Net NPAs

Shareholder's Risk Ratio = Total Capital & Reserves X 100

Table – 5**Data Analysis & Interpretation**

<i>Year</i>	<i>Net NPA</i>	<i>Capital & Reserves</i>	<i>Shareholder's Risk Ratios</i>
2005-06	6832.03	8787.14	77.75
2006-07	4126.57	8067.33	51.15
2007-08	1807.32	7368.15	24.53
2009-10	392.93	6396.94	6.14
2010-11	469.57	4722.66	9.94

Analysis & Interpretation

From the table given above, we can see the situation of Bank. A risk ratio was low in the year 2006-07. After that it is increasing year by year and reached to 77.75% which is the highest in the given period. This indicates the bank has failed in making provisions against NPAs. However, it is not the good sign that the risk ratio is increasing, the bank has to take some instant actions to lower down the risk or it can affect the goodwill, market price of the shares and the competitive market. This signifies that the shareholder's fund in this bank is not clearly safe.

Sub-Standard Assets Ratio

Sub – Standard Assets Ratio = Total Sub – Standard Assets

Gross NPAs X 100

Table – 6**Data Analysis & Interpretation**

<i>Year</i>	<i>Net NPA</i>	<i>Capital & Reserves</i>	<i>Shareholder's Risk Ratios</i>
2005-06	6832.03	8787.14	56.52
2006-07	4126.57	8067.33	51.23
2007-08	1807.32	7368.15	47.45
2009-10	392.93	6396.94	36.54
2010-11	469.57	4722.66	31.53

Analysis & Interpretation

From the above table it is found that ratio has been increasing in the first three years i.e. 2005-06, 2006-07 & 2008-09, 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 organization should take essential measures to reduce uncertain assets and loss assets and to increase the percentage of sub-standard assets.

Doubtful Assets Ratio

Doubtful Assets Ratio = Total Doubtful Assets

Gross NPAs X 100

Table – 7**Data Analysis & Interpretation**

<i>Year</i>	<i>Total Doubtful Assets</i>	<i>Gross NPA</i>	<i>Doubtful Assets Ratios</i>
2005-06	4498.9	10385.85	43.32
2006-07	2375.02	6402.06	37.10
2007-08	587.66	2859.85	20.55
2009-10	388.91	1137.55	34.19
2010-11	467.37	1297.03	36.03

Analysis & Interpretation

The doubtful assets ratio of Bank is presented in the above table. Banks can recover more of the advances through compromise. From the table we understand that the ratio had been decreasing from the year 2005-06 to 2007-08 which is satisfactory except for the years i.e. 2009-10 & 2010-11. On the other hand, the doubtful assets ratio is less than sub-standard assets ratio which is a positive sign. The organization must try to recover as much doubtful advances as possible so that the gross NPAs are reduced.

Loss Assets Ratio

Loss Assets Ratio = Total Loss Assets

Gross NPAs X 100

Table – 8**Data Analysis & Interpretation**

<i>Year</i>	<i>Total Loss Assets</i>	<i>Gross</i>	<i>Loss Assets</i>
2005-06	544.2	10385.85	5.24
2006-07	1052.35	6402.06	16.44
2007-08	113.15	2859.85	3.96
2009-10	166.93	1137.55	14.67
2010-11	148.15	1297.03	11.42

Analysis & Interpretation

Loss assets ratio shows the quantity 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 above table it is understood that the loss assets ratio had been very low in the years of study i.e. 2017-18 but it is high for remaining years and is 16.44% for the year 2011-12. The bank should take its condition seriously and work out action plans to reduce the loss assets ratio.



CONCLUSION

The bank seems to have an increasing trend of NPA in last five years. The bank needs be practical in the assortment of clients and clientele while sanctioning of loans. The procedure of the bank is extensive enough to cater to the needs of broad spectrum of the society and economy of India at large. Bank of Maharashtra should strictly follow all the norms and derivatives given by RBI. Bank needs to have better credit appraisal system so as to prevent NPAs from occurring. However, once NPAs do come into existence, the problem can be solved only if there is enabling legal structure, since recovery of NPAs often requires litigate ion and court orders to recover stock loans. With long-winded litigation in India, debt recovery takes a very long time. Even if the bank is taking necessary measures for recovering the loans, but it needs the support of the system. But it takes at least one to two years to get authorization from the court for physical possession of any belongings, which delay's the further procedure.

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