

Management of Non Performing Assets-A Case Study

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Abstract: *A strong banking sector is important for an economy like our's. In our country, the banking sector has undergone a major change after 1991 and subsequently credit management. Due to which, in recent years banks have become more cautious in extending loans. The reason being mounting of non-performing assets. The non performing assets (NPA's) reflect the performance of a bank. High level of NPA's reflect high amount of defaults & ultimately affect the profitability of the banks. The present paper makes an attempt to identify the causes of NPA's in Regional Rural Banks viz J&K Grameen Bank and also to suggest few strategies for reducing them.*

Keywords: NPA's, performance of banks, Profitability.

1. Introduction

After Nationalisation of banks in July 1969, there has been tremendous growth in the banking industry and tremendous efforts were made to enhance the disbursement of credit in both priority and non priority sectors. However after 1991, with the opening of the Indian economy and with the introduction of financial sector reforms, banks become more cautious in sanctioning of loans and advances on account of piling NPA's.

2. Meaning of NPA's

An asset is classified as NPA's if due in the form of principal & interest and not paid by the borrower for a period of 90 days. A non performing asset shall be a loan or an advance where-

- 1) Interest/instalment or principal remain overdue for a period of more than 90 days in respect of a term loan.
- 2) The account remains 'out of order' for a period of more than 90 days in respect of an overdraft/cash credit.
- 3) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- 4) Interest or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes & W.e.f. 30-09-2004, following further amendments were issued by the apex bank:-
 - A loan granted for a short duration crops will be treated as NPA's if the instalment of principal or interests their on remains overdue for two crop seasons.
 - A loan granted for a long duration crop will be NPA's if the instalment or principal or interest their on remains overdue for one crop season.
 - Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

If any advance or credit facility granted by banks to a borrower becomes non performing, then the bank will have to treat all the advances/ credits facilities granted to that

borrower as non performing without having any regard to the fact that there may still exist certain advances/credit facilities having performing status. As per the procedural norms suggested by RBI, a bank cannot book interest on an NPA on accrual basis.

3. Classification of NPA's/ Asset classification

Once an asset falls under the NPA category, banks are required by RBI to make provision for the uncollected interest on these assets. For the purpose they classify their assets based on the strength and on collateral securities into:-

1. Substandard assets (2005), which has remained NPA for a period less than or equal to 12 months.
2. Doubtful assets: Which has remained NPA for a period less than or equal to 12 months.
3. Loss assets: Where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. It is an asset identified by the bank auditors or by RBI inspection as a loss asset. It is an asset for which no security is available or there is considerable erosion in the realizable value of the security.

4. Objectives

The present study aims that the growth in NPA's should be checked, as growth and profitability of the banks & financial institutions depends upon the level of income generated. However the main objectives of the study are:-

- a) To highlight the NPA position of J&K Grameen bank.
- b) To identify the various causes of NPA's.
- c) To make few recommendations on the basis of research work carried out.

5. Methodology

For the present study data has been collected from the primary and secondary sources. The secondary data has been collected from head office of the Grameen bank. So far as, primary data is concerned, the same has been collected by holding group discussion and interaction with the borrowers

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of the Bank from five branches of district Rajouri i.e. Rajouri, Palma, Manjakote, Chingus and Dungi. In addition discussions were also held with the bank officials.

6. Analysis and Discussion

Table 1: Classification of loan assets of J&K Grameen Bank during 2009 to 2013-14
 Fig. in 000's

Year	Standard Assets	Sub-Standard Assets	Doubtful Assets	Loss Assets	Total NPA's	Total Advances
2009-10	3950784	1989694	127316	91574	417854	4368638
2010-11	4742553	177305	181848	112159	471312	5213865
2011-12	6156073	333100	177385	112198	622683	6778756
2012-13	7756408	434969	249243	132245	816457	8572865
2013-14	9149275	565754	396140	138072	1099966	10249241

Source: Annual Reports JK Grameen bank

Table 1. given above deals with the classification of loan assets of the bank from 2009 to 2013-14. It is clear from the table that the total advances of the bank have increased right from 2009-10 to 2013-14. However, the table also shows light on the NPA position of the bank. It can be seen that there is continuous increase in the NPA's. In the year 2009-10, the NPA's was 9.56% of the total advances, whereas in 2013-14, it has gone to 10.74%.

Table 2: Recovery of NPA's in J&K Grameen Bank for five years from 2010 to 2014

Year	Amount (Rs in Lakh)	Amount Recieved (Rs in lakhs)	% of Col(3) to Col(2)
2009-10	4179	1342	32.11%
2010-11	4713	1041	22.08%
2011-12	6227	1526	24.50%
2012-13	8164	1932	23.66%
2013-14	11000	2332	21.117%

Source: Annual Reports JK Grameen bank

Table 2 shows quantum of NPAs and amount recovered from NPAs in absolute terms and rate of recovery from year to year over five year period. It is interesting to note that the quantum of increase in the NPAs of JKGB is so significant whereas the quantum of increase in the amount recovered from the outstanding NPAs is showing a fluctuating trend. The amount recovered out of outstanding NPAs of Rs.4179 lakhs in 2009-10 was Rs. 1342 lakhs whereas the amount recovered out of NPA amount of Rs.4713 lakhs in 2010-11 is only Rs.1041 lakhs. So, there is a low performance in the collection of amount from outstanding NPAs. The performance in the collection of NPAs in 2011-12 increased a little as compared to previous year but it again decreased to 24% in the year 2012-13 and constantly decreased in the year 2013-14. From the foregoing analysis, one can infer that there is growth in the NPAs of JKGB over five years from 2009-10 to 2013-14. However, there is no major increase in the collection of amount from the outstanding NPAs over the study period of five years.

Table 3: Year wise provisions of NPA's in J&K Grameen Bank during the period 2010 to 2014

Year	NPA's Col(2)	Provision Col (3)	% of Col (3) to Col(2)	Gross NPA's%	Net NPA's %
2009-10	4179	3339	79%	9.56%	1.92%
2010-11	4713	3689	78%	9.04%	1.96%
2011-12	6229	3989	64%	9.19%	3.30%
2012-13	8164	3796	46%	9.52%	5.33%
2013-14	11000	4286	39%	10.73%	6.84%

Source: Annual Reports JK Grameen bank

Table 3 reveals the provision of NPAs and the percentage of provision in the outstanding NPAs. The provision created against NPAs has been gradually increased from 2009-10 to 2011-12 while in 2012-13 the provision created against NPAs was low.

However from the data given in table no. 3, it can be seen that how the bank is keeping provision against NPA's.

Main Reasons for Non- Performing Assets:

There are a number of reasons for NPA's. A few to mention are as under-

A. Internal factors:-

1. Appraisal system
2. System of sanctioning of loans
3. Delegation of powers for sanctioning of loans
4. Scrutiny of various information given by the borrowers.
5. Pressure of targets
6. No follow up of recovery
7. Shortage of staff

B. External Factors:-

1. Political Interference
2. Competition among different Banks
3. State of the economy
4. Natural Calamities

7. Recommendations and Solutions for Non Performing Assets:

Regular Training Program

Executives have to undergo regular training program on credit and NPA management. It is very useful and helpful to the executives for dealing the NPAs properly.

Recovery camps

The banks should conduct regular or periodical recovery camps in the bank premises or some other place, such type of recovery camps reduced the levels of NPA in the banks

Spot Visit

The bank officials should visit to the borrower's business place / borrowers field regularly or periodically. .

Credit Appraisal and Risk Management Mechanism

A lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism (Chakraborty, 2012). The documentation of

credit policy and credit audit immediately after the sanction is necessary to upgrade the quality of credit appraisal in banks. In a situation of liquidity overhang the enthusiasm of the banking system is to increase lending with compromise on asset quality, raising concern about adverse selection and potential danger of addition to the NPAs stock. It is necessary that the banking system is equipped with prudential norms to minimize if not completely avoid the problem of credit risk.

Potential and Borderline NPA's under Check

The potential and borderline accounts require quick diagnosis and remedial measures so that they do not step into NPAs categories. The auditors of the banking companies must monitor all outstanding accounts in respect of accounts enjoying credit limits beyond cut – off points, so that new sub-standard assets can be kept under check.

Lok Adalats

The Lok adalats institutions help banks to settle disputes involving accounts in doubtful and loss categories. These are proved to be an effective institution for settlement of dues in respect of smaller loans. The Lok adalats and Debt Recovery Tribunals have been empowered to organize Lok adalats to decide for NPAs of Rs. 10 lakhs and above.

Beside above the following solutions are also recommended in addition to solve the problem of NPA'S.

- Bank should find out the original reasons/purposes of the loan required by the borrower. Proper identification of the guarantors should be made by the bank including scrutiny of his/her assets and liability.
- The bank should revise reasonably loan policy and rules for fresh advancing.
- Sound credit appraisal on well-settled banking norms with emphasis on reduction in Gross NPAs and Net NPAs should be done.
- Position of overdue accounts should be reviewed on weekly basis to arrest slippage of fresh account to NPA's.
- Half yearly balance confirmation certificates should be obtained from the borrowers on a continuous basis. It can go a long way in reducing the NPA's.
- A committee should be constituted at Head Office level to review irregular accounts on regular bases.
- Based on the recent trends, banks should emphasize more on priority sector for reducing the quantum of NPAs.
- Banks should ensure credibility of the borrower.
- Appropriate SWOT analysis should be done before disbursement of the advance.
- Banks should ensure that there is no diversion of funds disbursed to the borrower.
- Bank officials should frequently visit the unit and should assess the physical conditions of the assets, receivables and stocks therein.
- While advancing loans, the three principles of lending viz., Principle of Safety, Liquidity and Profitability should be taken care. Regular training programme should be organised for Banks staff at the local levels to educate the staff on these principles.
- Bank should make proper scrutiny and analysis of Non Encumbrance & Valuation certificates of the property and collateral thoroughly before the sanctioning of the cases.

Proper lien should be got entered in the revenue records which must be got confirmed by the bank in the black and white before the disbursement of the loan.

- The banks should ensure that the assets are fully insured to safeguard the interests.
- Recovery competitions should be organised by the bank at all stages among the staff members and the toppers should be encouraged in annual and other functions organised by the Banks.
- Bank should make a distinguish between wilful and non wilful defaulters. In case of the latter category of defaulters, the approach should not be as harsh as in case of former category.

Moreover, bank should organise awareness camps at the grass route level for the defaulters of the bank to educate them on the various benefits of making regular payments and vice versa. Good repay masters must be encouraged by way of some gifts and religious tours.

8. Conclusion

Banking system plays a very significant role in the financial existence of the nation. The strength of the economy is closely related to the reliability of its banking system. The problem of NPAs can be achieved only with appropriate credit appraisal and risk management mechanism. It is very important for the bank to keep the level of NPA as low as possible. Because NPA is one kind of barrier in the success of a bank which affects its performance. And this management can be done by following way:

- Credit assessment and monitoring.
- Timely sanction and or release of loans by the bank are to evade time and cost overruns.
- Working personnel should inspect the level of inventories/receivables at the time of evaluation of working capital.
- Identifying reasons for rotating of each account of a branch into NPA is the most significant factor for advancement of the asset quality, as that would help begin suitable steps to raise the accounts.
- The recovery machinery of the bank has to be modernized; targets should be set for field officers / supervisors not only for recovery in general but also in terms of upgrading number of existing NPAs.
- Due to lower credit risk and consequent higher profitability, greater encouragement should be given to small borrowers.

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