NON-PERFORMING ASSETS: A CASE STUDY OF SYNDICATE BANK

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Abstract

The banking sectors are act as catalyst in achieving rapid economic development of a country. They act as an intermediary to mobilize the excess fund of surplus sectors to provide necessary finance to those sectors, which are needed to promote for the sound development of the economy. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs). Therefore the study of non-performing assets of Banks assumes a great importance in a developing economy. The present study is on Non-Performing assets: A case study of Syndicate Bank over the period of five years (2011-2015). The research paper is based on the secondary data. The collected data is analyzed using mean, percentage. Regression, Student t-test and one way Anova test. The study concluded that NPAs are draining the capital of the banks and weakening their financial strength. Management of non-performing assets is a difficult task for every bank in the banking industry. Willful defaults, improper processing of loan proposals, poor monitoring and so on are the causes for accounts becoming NPAs. Therefore, banks must take more care in avoiding any account becoming NPA by taking proper preventive measures in an efficient manner.

Keywords: Gross NPA, Net NPA, Gross Advances, Net Advances, Banks

Introduction

The banking sector plays very important role in the economic development of a country. This role is played by banks by extending credit to various deficit sectors for their growth and development. Like other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it possess. The asset quality is a prime concern and impacts various performance indicators, i.e., profitability, liquidity, intermediation costs, credibility, income generating capacity and overall functioning of banks. The reduction in asset quality results in accumulation of Non-Performing Assets (NPAs).

After the Nationalization of banking sector, the financial system and Indian Banking has made commendable progress in extending in geographical spread and financial reach. The banking industry in India is also undergoing rapid changes with the introduction of financial sector reforms and follow-up actions by Reserve Bank of India based

on the Narasimham Committee recommendations.

M. Narasimham committee was examined all aspects relating to the organization, functions and procedures of the Indian financial system. Narasimham Committee gave preference to the prudential norms of income reconstruction, assets classification and provisioning for the advance portfolio of the banks and recognition of Non -Performing Assets and gradually strengthening the financial position of banks.

Thus, non-performing assets are loans in jeopardy of default. The level of NPA is an indicator of banker's efficiency in credit management and efficiency of resource allocation to productive sectors. The Basel Committee on Banking Supervision defines credit risk as "potential default of a borrower to meet the obligation in accordance with the agreed terms". Higher non-performing assets resulted in many bank. NPAs represent a real economic cost in modern days as they reflect the application of scarce capital and credit funds to unproductive use. It also affects the lending capacity since funds are blocked and repayment is disturbed and has also resulted in additional cost for intermediation and realizing the NPAs.

Present study is conducted to analyze the non-performing assets in Syndicate Bank.

Review of Literature

Pallab Sikdar And Manish Makkad (2013)1 attempted to put forward the means of interpreting credit risk from existing levels of bank NPAs. Their research highlights the significant steps taken and procedures implemented by major Indian commercial banks, within the public and private sector, towards recovery of loans and advances slipping into the NPA bracket. The researcher found that the problem of NPAs can be tackled only with proper credit assessment and risk management mechanism.

Zahoor Ahmad, M.Jegadeeshwaran (2013)2analyzed the non-performing asset management in nationalized bank. .For the study researcher collected the data for a period of five years and analyzed by mean, CAGR, ANOVA and ranking. The study revealed that there is significant difference in the level of NPA's of nationalized banks which reflect their varied efficiency in the management of nonperforming assets.

Namita Rajput, Monika Gupta, MR. Ajay Kumar Chauvan (2012)3had discussed NPA, Factors contributing to NPA, Magnitude and Consequences. By using analytical perspective, the researcher observed that NPAs affected significantly to the performance of the banks in the present scenario. On the other hand, factors like better credit culture, managing the risk and business conditions which lead to lowering of NPAs. The empirical findings using observation

method and statistical tools like DEA, correlation, regression and data representation techniques, identified that there is a negative relationship between profitability measure and NPAs.

Ratikantha Ray (2013)4had compared the non-performing assets of commercial and cooperative banks by selecting the banks in Pune. For study researcher selected two bank viz. Bank of Maharashtra from commercial bank sector and Janata Sahakari Bank Ltd from co-operative bank. The study concluded that occurrence of NPA affects the profitability and health of a Bank adversely.

D.Ganesan, R.Santhanakrishnan (2013)5found by their study that banking industry has undergone a major change after the first phase of economic liberalization; hence the importance credit management has emerged. In recent time banks are very cautious in extending loan, because of mounting NPA. This article highlights the reasons for an assets becoming NPA and remedial measures to be taken. Due to various steps taken by the Government of India NPA levels were reduced to considerable level.

Statement of the Problem

The substance of the Banks will be threatened by the level of NPA. If the banks have many accounts that are turning out to NPA, the existence of the bank would be difficult. The banks which have higher NPA can lose the confidence of the customer and also it would affect the liquidity, profitability and solvency position of the bank.

Scope of the Study

T he study analyzed the management of NPA in Syndicate Bank only. The study is based on the secondary data. The period of study is 5 year (2010-11to 2014-15).

Objectives of the Study

The following are the objectives of the study.

1.To analyze the gross and net NPA.

2.To analyze the sector wise NPA.

3.To analyze the impact of Gross NPA on Net Profit.

Hypothesis of the Study

H0: There is no significant difference between Gross and Net NPA

H1: There is significant difference between Gross and Net NPA

H0: There is no significant difference in sector wise non-performing assets.

H1: There is significant difference in sector wise non-performing assets.

Methodology

The study is analytical in nature and it is based on the secondary data. The information has been retrieved from annual reports of Syndicate Bank. The data has been analyzed by using percentage, t-test, regression and one-way ANOVA.

Analysis

Table 1: Percentage of Gross NPA to Gross Advances

(in Crores)

Year	Gross NPA	Gross Advances	Gross NPA to Gross Advances
2011	2598	108250	2.40
2012	3183	125810	2.53
2013	2979	149698	1.99
2014	4611	175992	2.62
2015	6442	205814	3.13

Source : Annual Reports of Syndicate Bank

As depicted in table 1, there was increase in percentage of Gross NPA to Gross advances from 2.40 in 2011 to 2.53 in 2012 and decreased to 1.99 percentage in year 2013 which is low compared to remaining study period.   The bank recorded   highest percentage of Gross NPA to Gross advances in the year 2015 i.e. 3.13 percentage.

Table2: Percentage of Net NPA to Net Advances

(in Crores)

Year	Net NPA	Net Advances	Net NPA to Net Advances
2011	1030	106185	0.97
2012	1185	123437	0.96
2013	1125	148026	0.76
2014	2721	174423	1.56
2015	3844	202315	1.96

Source : Annual Reports of Syndicate Bank

It is noted that percentage of net NPA to net advances declined from 0.97 during 2011 to 0.96 during 2012 and it again decreases to 0.76 in the year 2013. However, after 2013 it was increased as 1.56 per cent and 1.90 per cent in years 2014 and 2015 respectively.

Analysis of t-test

	Mean	Variance	t	P Value
Gross NPA	3962.6	2001045.04	2.454	0.0397
Net NPA	1981	1257824.4		

The t test for Gross NPA to Net NPA found that obtained p value 0.0397 is less than significant 0.05. It suggested that observed data are inconsistent with the assumption that the null hypothesis is true. It can be said that there is significant difference between Gross and Net NPA of Syndicate Bank.

Table3: Sector wise NPA

(in percentage)

Year/Sectors	2011	2012	2013	2014	2015
Agriculture and allied activities	2.05	2.88	4.67	3.67	4.79
Industry (small, medium and long)	2.31	1.16	2.13	3.75	6.46
Services	5.13	5.29	5.10	3.51	4.08
Personal Loans	3.14	3.13	4.54	6.33	4.33
Anova					
	Sum of squares	df	Mean Square	F	Sig
Between Groups	6.510	3	2.170	1.090	0.382
Within Groups	31.864	16	1.992		
Total	38.375	19			

Source : Annual Reports of Syndicate Bank

As showed in table 3 there was increased in trend of percentage of NPA to total advances from 2011 to 2013 i.e. 2.05 to 4.67 percentage in agriculture and allied activities sector and it decreased in the year 2014. The bank recorded high percentage of NPA to total advances in the year 2015 i.e. 4.79 percent. There was declined in percentage of total NPA to total advances in industry sector from 2.31 during the year 2011 to 1.16 during the year 2012. Then this percentage gradually increased from 2013 to 2015 i.e. from 2.13 to 6.46 percent. The percentage of NPA to total advances in service sector is high compared to other sectors of the bank. This is highest during year 2012 i.e. 5.29 percentage and lowest in the year 2014 i.e. 3.51 percentage. In the year 2014 the bank recorded highest percent of NPA to total advances i.e. 6.33 in personal loan sector.

The ANOVA test for sector wise NPA found that calculated F statistics value of 1.090 is lower than the table value of 3.24 at 5 % level of significance. Results of our ANOVA analysis supports the null hypothesis that there is no significant difference in sector wise NPA of Syndicate Bank.

Impact of Gross NPA on Net Profit of the Bank

In general, here is a negative relationship between Gross NPAs and Net Profit. While Gross NPAs is increasing the Net Profit is substantially decreasing. So in this model the regression analysis may not fully reflect the position. So the resulted regression coefficient values are presented in table 4.

This regression model $y = a + bx + e$

where as ,

y = Net Profit (dependent variable).

x = Gross NPAs (independent variable).

b = regression coefficient.

a = intersect.

e = error term

Table: 4 Impact of Gross NPA on Net Profit

Model summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1.	.199	0.040	-.281	414.39373

Predictors: Constant, Gross NPA(a)

Anova[b]

Model	Sum of Squares	Df	Mean Square	F	Sig
1 Regression	21212.315	1	21212.315	.124	.784
Residual	515166.485	3	171722.162		
Total	536378.800	4			

a.Predictors: Constant,Gross NPA(a)
b.Dependent Variable: Net NPA

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error			
1. (Constant)	1337.343	551.222		2.426	.094
Gross NPA	.046	.131	.199	.351	.748

Dependent Variable: Net NPA

Table 4 reveals that the Gross NPAs have moderate relationship with net profit. The magnitude of relationship is not statistically significant. Thus the R square value is only 4% of the variation of net profit is explained by Gross NPAs

The regression coefficient of Gross NPAs reveals that impact of Gross NPA is less on net profit. It means that impact of several other causes on the net profit on the bankers. The highest constant value indicates that high profit of the bank even when effect of Gross NPAs is low.

Findings

* With regard to gross NPA to gross advances, the bank recorded highest percentage i.e.3.15 in year 2015.

* Analysis of net NPA to net advances revealed that bank recorded high percent i.e. 1.96 during year 2015.

* Hypothesis test proved that there is significant difference between Gross NPA and Net NPA.

* The bank has highest NPA in service sector from the period 2011 to 2013.

* In the year 2014, bank recorded highest NPA in service sector.

* Hypothesis test proved that there is no significant difference in sector wise NPA of Syndicate Bank.

* There is moderate relationship between Gross NPA and Net Profit of the Bank.

Suggestions

* The NPA can be reduced to a greater extent by improving the quality of credit appraisal and follow up. Bankers should critically review the existing credit appraisal framework in line with international standards.

* Bankers should be given more autonomy while selecting projects for lending. All projects, whether it be a priority sector or non-priority sector, should be valued critically and decisions must be taken depending on the quality of the project and credit worthiness of the borrower.

* The legal impediments often delay the time taken for recovery which in turn affects the realizable value of NPAs. There should be efforts from the regulatory authorities to improve the recovery management process, so that the NPA accounts can be realized without

much erosion in its value.

CONCLUSIONS: NPAs are draining the capital of the banks and weakening their financial strength. It is also as much a political and a financial issue. The banks and financial institutions should be more proactive to adopt a pragmatic and structured non- performing assets management policy where prevention of non performance assets receives priority. Therefore, banks must take more care in avoiding any account becoming NPA by taking proper preventive measures in an efficient manner.

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