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A Comparative Analysis of Non-Performing Assets in Selected Co-operative Banks in Thrissur District, Kerala

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Non-Performing Assets is dreadful virus in the banking sector which affects the banks financial health. Mounting up of NPA reduces the profitability as well as the liquidity position of the banks. In this paper an attempt is made to do a comparative study of the NPAs of six co-operative banks in Thrissur district, Kerala over a time period of five years from 2012-13 to 2016-17. The trend in gross NPA, gross NPA as a percent of gross advance, gross NPA as a percent of total assets and net NPA as a percent of net advance were analyzed through CAGR and the banks were ranked according to their performance. It was found that NPA is having a positive trend over the years and the banks are working hard to manage it. A strong negative correlation was existing between net profit and gross NPA. Comparatively Bank V is performing well compared to others banks in managing their NPAs.

Key words: Non-performing assets (NPA), Co-operatives, Gross NPA, Net NPA.

Indian Banking Industry is well regulated and ensures a good financial and economic condition in the country. It is stable and hence survived the global economic downturn (Subbareddy and Bhaskar, 2018). The primary function of the banks is to receive deposits at a lower interest rate and lend out at higher interest rates (Gupta, 2016). Here receiving deposits is comparatively less risky than lending out, because of the inherent uncertainty in repayment and hence the account becoming a nonperforming assets (NPA) (Narula and Singla, 2014). In the present sinario mounting up of NPA is the major problem faced by the Banking sector, which affects the profitability as well as the asset quality of the banks. Sometimes the liquidity positions of the Banks are affected as the loans are lend out from the deposits received which has to be repaid on demand at any time by the customer. Higher NPA leads to higher provisions for it and results is reduction in the overall profit and hence the returns (Subbareddy and Bhaskar, 2018).

The assets which are not generating periodic income are called as Non-performing assets (NPA). Simply, if the principle or interest of an advance or loans remains overdue for a period of more than a quarter or 90 days, such assets are called as nonperforming assets. NPAs are further classified by RBI as sub-standard assets, doubtful assets and loss assets.

Accounts which are due for 12 months or less are called as substandard assets, those assets which are due for more than 12 months are termed as doubtful assets (Satpal 2014). Loss assets are uncollectable assets which are identified by the banks internal or external auditors which have to be wholly written off (Gupta, 2016).

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Gross NPA consist of all sub-standard assets, doubtful assets and loss assets which are irrevocable for which banks have made provisions and those which are held in the books of account of the banks. Gross NPA clearly depicts the quality of loans sanctioned by the banks. Net NPA is the actual burden on the banks which is the difference between gross NPA and the provisions made by the bank. Previous studies indicate that the co-operative banks are suffering because of the poor management of NPAs and hence reduced profitability (Rachana, 2011, Bhatt and Bhat, 2013, Menakadevi and Tamilvani 2015) . The present study is taken up to analyse and compare the position of Non-performing assets in the selected co-operative banks.

Material and Methods

The study is analytical in nature. Secondary data was collected from records of the respective co-operative banks in Thrissur district and also from the Joint director of co-operative audit's office. The data was analyzed using ratio analysis, trend analysis and through CAGR. The ratios analyzed includes gross NPA as a per cent of gross advance, gross NPA as a per cent of total assets and net NPA as a per cent of net advance for the time period of five years from 2012-13 to 2016-17. Finally, the selected banks were ranked according to their performance derived from the ratios using Garrett ranking technique (most preferred ratio is given rank 1 and least preferred as rank 6) and the relationship between NPA to profit is analyzed using Pearson correlation.

The Selected Banks were not interested to state their names in the publication, hence the Banks are represented as Bank I – Bank VI.

Results and Discussion

The data collected are subjected to statistical analysis and the results are presented.

Portfolio of loans

The portfolio of the advances lend out by the sample banks are given in Table 1.

Table 1. Portfolio of loans

Year	Bank I		Bank II		Bank III		Bank IV		Bank V		Bank VI
	Un secured	Secured	Un secured	Secured	Un secured	Secured	Un secured	Secured	Un secured	Secured	Un secured
2012-13	19.13*	17.74	11.55	6.87	27.22	18.65	4.29	18.21	5.58	13.01	100.00
	(51.88)#	(48.12)	(62.70)	(37.30)	(59.34)	(40.66)	(19.12)	(81.10)	(29.99)	(70.01)	(1.90)
2013-14	23.67	18.04	14.65	6.22	28.06	23.86	6.20	19.66	5.88	13.60	100.00
	(56.77)	(43.23)	(70.19)	(29.81)	(54.04)	(45.96)	(23.97)	(76.03)	(30.18)	(69.82)	(2.25)
2014-15	31.21	16.57	19.50	6.81	30.51	22.70	10.26	20.36	6.48	13.86	100.00
	(65.33)	(34.67)	(74.10)	(25.90)	(57.34)	(42.66)	(33.50)	(66.50)	(31.85)	(68.15)	(2.56)
2015-16	38.24	16.55	26.28	7.95	43.77	19.33	13.83	17.98	9.16	14.24	100.00
	(69.80)	(30.20)	(76.77)	(23.23)	(69.36)	(30.64)	(43.48)	(56.52)	(39.14)	(60.86)	(2.39)
2016-17	43.55	14.40	33.05	7.74	57.19	16.24	15.58	16.57	10.66	13.05	100.00
	(75.15)	(24.85)	(81.03)	(18.97)	(77.89)	(22.11)	(48.46)	(51.54)	(44.79)	(54.79)	(2.26)
Mean	31.17	16.66	21.00	7.12	37.34	20.15	10.03	18.56	7.55	13.55	100.00
	(63.79)	(36.21)	(72.96)	(27.04)	(63.59)	(36.41)	(33.71)	(66.34)	(35.19)	(64.73)	(2.27)

Per cent of total advances * in crores (10000000)

Unsecured loans are having more chances of getting converted into NPA. From Table 1. it could be observed that there is a general trend of increase in the unsecured loans over the study period and vice versa in case of secured loans except in Bank VI having only unsecured loans. Here bank IV is having the highest mean value of secured loans with 66.34 per cent followed by bank V (64.73). All other selected banks are having secured loans less than 50 per cent.

Trend in gross NPA

NPA position of the banks during the study period varying from 2012-13 to 2016-17 shown in the Figure 1, 2012-13 is taken as the base year

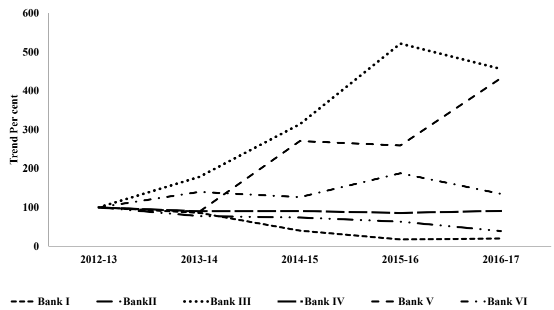

Figure 1. Trends in gross NPA of Co-operative Banks (2012-2017)

(Source: Various sources, audit reports of selected co-operative banks * 2012-13is taken as base year.

From Figure 1, it was clearly observed that Bank I followed by Bank II and Bank IV were having a negative growth of NPA were as Bank III and Bank V were showing a positive growth which was not desirable

Gross NPA as per cent of gross advance

The ratio is often used to measure the quality of the dispersed loans. The results of the study are presented in Table 2.

Table 2. Gross NPA as per cent of gross advance

Year	BANK I	BANK II	BANK III	BANK IV	BANK V	BANK VI
2012-13	2.80	3.38	0.66	1.34	0.22	219.33
2013-14	2.13	2.31	1.03	1.05	0.19	258.84
2014-15	0.87	1.75	1.78	0.89	0.55	206.10
2015-16	0.33	1.15	2.49	0.81	0.46	327.06
2016-17	0.35	0.60	1.87	0.85	0.75	248.85
Mean	1.30	1.84	1.56	0.99	0.44	252.04
SD	1.11	1.08	0.72	0.22	0.23	47.07
CAGR	-45.25	-34.00	34.52	-11.04	39.61	4.99

From Table 2 it could be found that Bank V (0.44) was performing well which having the lowest mean ratio followed by Bank IV (0.99), Bank I (1.30), Bank III (1.56), Bank II (1.84) and Bank VI (252.04). On the other hand while comparing the over the year performance, Banks I, II, and IV were having a negative growth rate, -45.25, -34.00 and -11.04

respectively which shows that these banks possess less NPA as a percentage of gross advance compared to previous years.

The bank which possesses smallest ratio and having a negative growth rate over the study period is always preferred since they are managing the NPA at a lower level and also reducing the same over the year, which would increase the profitability.

Gross NPA as per cent of assets

The ratios of gross NPAs as a per cent of total assets of the selected Banks during the period 2012-2017 are depicted in Table 3. The gross NPAs to total assets ratio is an indicator of the rate at which the co-operative Banks reduces their gross NPAs to enhance the quality of assets.

Table 3. Gross NPA as per cent of assets

Year	BANK I	BANK II	BANK III	BANK IV	BANK V	BANK VI
2012-13	1.78	1.82	0.27	0.77	0.16	3.76
2013-14	1.28	1.20	0.40	0.53	0.13	5.23
2014-15	0.46	0.91	0.62	0.47	0.39	4.69
2015-16	0.15	0.62	0.86	0.45	0.33	6.91
2016-17	0.15	0.35	0.72	0.45	0.51	5.03
Mean	0.76	0.98	0.57	0.53	0.30	5.12
SD	0.73	0.57	0.24	0.13	0.16	1.14
CAGR	-50.79	-32.68	31.35	-11.64	38.40	8.99

The least mean value indicates the bank having more quality assets which was observed in Bank V (0.030) followed by Bank IV (0.53), Bank III (0.57), Bank I (0.76), Bank II (0.98) and Bank VI (5.12). On evaluating the individual banks over the year performance, Bank I is improving its asset quality as it possess a CAGR of -50.79 per cent followed by Bank II (-32.68) and Bank IV (-11.64).

Net NPA as per cent of net advance

The ratio indicates the net NPA as per cent of net advance of the banks. Here, we consider the provisions which are used to reduce the risk of huge losses, net advances indicates the difference between gross advances and provisions . Table 4. shows the ratios of the selected banks for the study period of 2012-2017.

Table 4. Net NPA as per cent of net advance

Year	BANK I	BANK II	BANK III	BANK IV	BANK V	BANK VI
2012-13	1.28	1.19	0.00	0.61	0.07	0.00
2013-14	0.83	1.00	0.54	0.93	0.04	0.00
2014-15	0.35	0.90	2.01	0.07	0.25	0.00
2015-16	0.10	0.67	0.00	0.05	0.18	0.00
2016-17	0.04	0.00	0.00	0.09	0.37	-3.03
Mean	0.52	0.75	0.51	0.35	0.18	-0.61
SD	0.53	0.46	0.87	0.40	0.14	1.35
CAGR	-59.54	-	-	-49.09	62.16	-

From Table 4 it could be clearly observed that efficient provisioning had been done by most of the selected co-operative banks since the mean ratios were below 1.00 per cent and also having an appreciable negative growth rate expect Bank V which posses a positive CAGR of 62.16 per cent in 2016-17 Bank VI had made more provisions than that of NPA hence the ratio is found to be negative

From the NPA parameters observed above, by using Garret ranking tool the results are shown in Table 5.

Table 5. Ranking of Banks according to NPA parameters

Bank	Mean Garret score	Rank
Bank V	72.33	1
Bank IV	60.00	2
Bank III	48.67	3
Bank I	45.67	4
Bank VI	41.00	5
Bank II	32.33	6

Table 5 clearly depicts that Bank V was performing well on consideration of mean values of NPA parameters followed by Bank IV, Bank III, Bank I, Bank VI and least by Bank II which having the Garret scores of 72.33, 60.00, 48.67, 45.67, 41.00 and 32.33 respectively.

Correlation between gross NPA and net profit

Gross NPA and net profit values are subjected to correlation studies using SPSS, it could be found that there was a strong negative correlation between net profit and gross NPA. The Pearson coefficient of -0.948 which is significant at one percent shows that increase in gross NPA will decreases the net profit and vise versa. This shows the importance of managing NPA for better asset quality as well as profitability of the banks.

The major reason for the level of NPAs is mostly because of the nature of the loans given by the sample banks, the level of NPA is mainly in the banks which lend out more un secured loans and hence the banks have to concentrate in collateral securities (Kale and Chobe, 2016). The banks should ensure the collaterals collected should be SARFAESI enabled. The study shows only two banks are having the problem of mounting up of NPA which affects the profitability of the banks. The profitability is also affected by other variables also hence the banks with more of NPA have to take more care. So the bank employees should be well trained in the selection of borrowers and of the financial documents submitted by the borrowers (Chaudhary and Sharma, 2011). The bank should ensure the KYC norms by RBI and also consider CIBIL score which shows the previous banking history and make sure that the applicant is not having any NPA accounts in any other banks.

The mean gross NPA to Gross advance ratio is almost half of the mean ratio of sample nationalized bank in the period of 2011-15 (Shiralashetti and Poojari, 2016) and the situation is same in case of net NPA towards net advances which consider the provisions. This shows that these co-operative banks are more efficient in case of asset quality, Gross NPA to Gross Advances ratio of banks I and II are showing the negative growth rate which is almost three to five times of the negative growth rate in DCCBs of Patyala and Jalandhar divisions of Punjab state (Waraich and Dhawan, 2013).

The banks should give more emphasis on recovery measures since the recovered amount from these NPA accounts directly contribute to the total profit of the banks as it was already provisioned by the banks according to the banking norms.

Conclusion

NPA is always a threat to the banking sector, mounting up of NPA decreases the asset quality maintained as well as the profitability of the banks. From the study we can conclude that the selected banks are working hard to reduce the NPA as the trend for the banks in gross NPA is negative except two which are having higher NPA over the years. Bank V is performing well as it possesses the lowest mean ratios compared to others and least by Bank II. So the Banks have to take more care in lending loans especially in case of unsecured loans and also they have to create an efficient and faster loan recovery system by making use of SARFAESI act and also ensuring other primary and collateral securities. NPAs cannot be reduced to zero level still it has to be minimized as it adversely affects the proper functioning of the banks.

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