

NPA IMPACT ON PROFITABILITY OF INDIAN OVERSEAS BANK

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Abstract—A strong banking sector is important for prosperous economy. One of the most vital and major role played by banking sector is that of lending business. Non-performing assets are one of the major concerns for banks in India. NPAs reflect the recital of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. The present project which is entitled as NPA IMPACT ON PROFITABILITY OF INDIAN OVERSEAS BANK (Trichy region) is an attempt made to understand the real reasons behind the mounting up of NPA and its corresponding impacts on profitability of the bank with reference to this region. In this research study the sample questionnaires were given to both defaulters and employees of Indian Overseas Bank, Trichy Region. The bankers' questionnaires were given to all the branch managers' i.e. 66 branches under this region are covered and samples were collected. The sample data from defaulters were also collected in number of 200 to capture their perception and the real reasons behind their failure of repayment towards the loan borrowed. After the data collection, researcher has identified the reliability of the scale was tested through Cronbach Alpha (0.84) and (0.94) respectively. Both primary and secondary data are used in the present study. The secondary data to non-performing assets were collected from various issues of IOB Annual Reports and RBI Bulletins. This paper basically deals with the factors that mainly contribute to NPA rising in this region and also provides some suggestions how to overcome this burden of NPA on these particular branches regarding this region.

Keywords—Commercial Banks, Indian Overseas Bank, NPA, Occupation, Profitability.

INTRODUCTION

Non-performing assets are one of the major concerns for banks in India. NPAs reflect the performance of banks. The issue of Non-Performing Assets has been discussed at length for financial system all over the world. The magnitude of NPAs have a direct impact on Banks profitability legally they are not allowed to book income on such accounts and at the same time banks are forced to make provisions on such assets as per RBI guidelines The RBI has advised all State Co-operative Banks as well as the Central Co-operative Banks in the country to adopt prudential norms from the year ending 31-03-1997.

An asset is classified as non-performing asset (NPAs) if dues in the form of principal and interest are not paid by the borrower for a period of 180 days, however with effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days. The importance of bank's stability in a developing economy is noteworthy as any distress affects the development plans thereby the economic progress. Like any other business, success of banking is assessed based on profit and quality of asset it possesses. Even though bank serves social objective through its priority sector lending, mass branch networks and employment generation, maintaining asset quality and profitability is critical for banks survival and growth. A major threat to banking sector is a prevalence of Non-Performing Assets (NPAs). Moreover, the result shows that at least Indian banks should take care to ensure that they give loans to creditworthy customers to reduce the NPA level.

OBJECTIVES

- To understand what is Non Performing Assets and what are the underlying reasons for the emergence of the NPAs.
- To understand the impacts of NPAs on the operations of the Banks.

- To know why NPAs are the great challenge to Banks.
- To measure the level of NPA branch wise and its overall effect on the region.
- To know the methods adopted by the RBI to look after management.

LIMITATIONS OF THE STUDY

- The secondary data, which used for this study is based on annual reports of the bank. The quality of this research depends on quality and reliability of data published in annual reports of banks.
- A deep analysis is made on non-performing assets only. The performing assets do not pose any problems to credit management.
- This study is only restricted to Indian Overseas Bank only.
- The result of the study may not be applicable to any other banks.
- Since the part of the study is based on their perceptions, the findings may change over the years in keeping with changes in environmental factor.
- Though the present study ascertains the views from the borrowers who are not directly concerned with management of non-performing assets but they may change accordingly in the forthcoming years.

RESEARCH METHODOLOGY

In this research study the sample questionnaires were given to both defaulters and employees of Indian Overseas Bank, Trichy Region. This helps in getting aware of the real reasons behind their default payment towards loans. The banker's questionnaire is given to all the branch managers' i.e. 66 branches under this region are covered and samples are collected. The sample data from defaulters were also collected in number of 200 to capture their perception and the real reasons behind their failure of repayment towards loan borrowed. The data were analyzed with percentage method, frequencies and regression, factor analysis. Charts and tables are also prepared.

LITERATURE REVIEW

(Sreedharan, (1991))

Analyzed the performances of Indian banking industry for the year 1995 and 1996. It was discovered that by and large, the public sector banks lagged far behind the foreign and private sector banks in respect of all the variables analysed.

(Kohli, 1997)

Analyzed the impact of directed credit under priority sector on the profitability of commercial banks in India. The researcher, however, has called for the re-appraisal of the credit policy of India on the lines of the policies implemented in East- Asian countries.

(C.S.Balasubramaniam, July 2014)

Found that the best indicator for the health of the banking industry in a country is its level of Non-performing assets (NPAs). It reflects the performance of banks. NPAs in the Indian banking sector have become a major concern for the Indian economy.

(Gupta, 2013)

Analysed 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.

(Chakraborty Anindita, 2012)

This study showed that overall six factors were there in which out of five proclivities, endorsement, inept, intrusion, deliberately having significant difference between private and public sector banks perception.

(Monika, 2011)

Analyzed that the Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement.

(Srivastava Vivek and Bansal Deepak, 2013)

Concluded that the problem of NPAs can be achieved only with appropriate credit appraisal and risk management mechanism. It is required that the banking system is to be equipped with prudential norms to reduce if not completely to keep away from the problem of NPAs.

(Jain, 2007)

This study reveals that the banks and financial institutions should be more proactive to adopt a pragmatic and structured nonperforming assets management policy where prevention of non performance assets receives priority.

(Das, 2002)

In this article the researcher tries to Seek a solution to the problem of NPA in the small Scale industries under the present circumstances of banking and insurance working together under the same roof.

(Reddy, 2002).

The study reveals that the sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective.

DATA ANALYSIS AND INTERPRETATION

The researcher has made the following analysis to understand the NPA level and its impact on its whole region and also the reasons behind the nonpayment of loan borrowed by the customers.

Table 1: Frequency Analysis

<i>Variables</i>	<i>Category</i>	<i>Frequency</i>	<i>Percentage Frequency</i>
Caste	SC	14	7
	ST	20	10
	BC	90	45
	OC	76	38
Educational qualification	Primary	18	9
	Secondary	24	12
	Higher	97	48.5
	Professional	61	30.5
Occupation	Primary	93	46.5
	Secondary	107	53.5
Amount borrowed	Rs.25,000 to Rs.50,000	9	4.5
	Rs.50,000 to Rs.1,00,000	98	49
	Total	200	100
	Above Rs.1,00,000	93	46.5
Presence of NPA	0-3 years	15	22.7
	3-5 years	2	3.0
	5-7 years	9	13.6
	Above 7 years	40	60.6
Category of NPA	Personal loan	10	15.2
	Vehicle loan	16	24.2
	Housing loan	13	19.7
	Agri term loan	27	40.9
	Total	66	100

Source: Primary data

The demographic characteristics of the respondents are depicted in Table 1, the detailed analysis of descriptive statistics revealed that the 45% of the respondents lies under BC caste than others. In terms of the educational qualification most of the respondents have the qualification of Higher education with 48.5% and some respondents possess professional qualification with 30.5%. In regard with the occupation it indicated that the majority of the respondents are in secondary

occupation with 53.5% followed by primary occupation with 46.5%. Most of the respondents have borrowed Rs.50, 000 to Rs.100, 000 which shows 49% followed by above 100,000 with 46%. The NPA presence in most of the branches in this region is above 7 years with 60.6% and some branches have NPA for 0-3 years with 22.6%. In this region NPA level is higher in Agri term loan section with 40.9% and the vehicle loan section with 24.2%.

Table 2: Regression Analyses

The presence of NPA in the branches from the associated main reasons for NPA considered including the category of NPA and branch functioning.

<i>R</i>	<i>R square</i>	<i>Sum of squares</i>	<i>Df</i>	<i>Mean square</i>	<i>F</i>	<i>Sig</i>
0.9	0.97	5.343	11	8.91	2.43	0.00
		23.64	54			
		28.99	65	0.054		

Above table 2 shows the power of the regression model which is represented by the R square and it is highly healthy 0.97 and the F test of the model shows that the significance of the model is high as the significance of F is 0.00 which is less than 0.05.

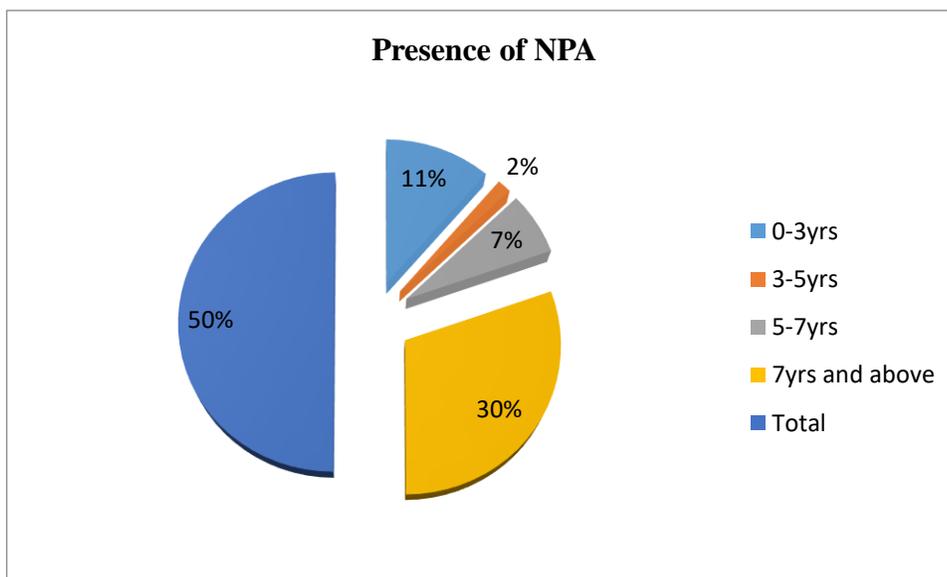
Table 3: Regression Analyses

A thought for repaying the loan by the customers from their associated main reasons for their failure in repayment of loan including their knowledge about the scheme of loan and the banking efforts regarding NPA enlightenment.

<i>R</i>	<i>R square</i>	<i>Sum of squares</i>	<i>Df</i>	<i>Mean square</i>	<i>F</i>	<i>Sig</i>
0.91	0.84	117.8	12	9.82	3.62	0.00
		21.5	187			
		139.4	199	0.115		

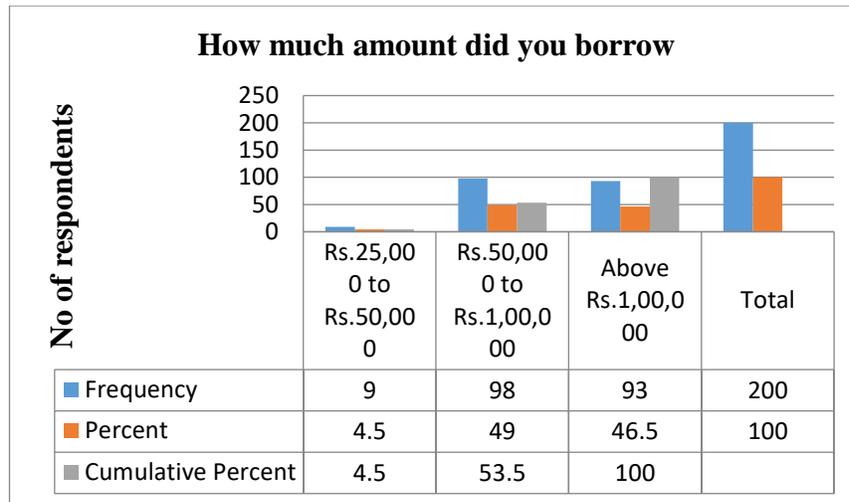
The power of the regression model is represented by the R square and it is highly healthy 0.84 and the F test of the model shows that the significance of the model is high as the significance of F is 0.00 which is less than 0.05.

Chart 1: Presence of NPA



The presence of NPA in most of the branches for 7 years and above with 60.6% and some branches is with 3-5 years functioning time in 3-5 years NPA presence with 3% followed by 5-7 years with 13.6%.

Chart 2: Amount Borrowed



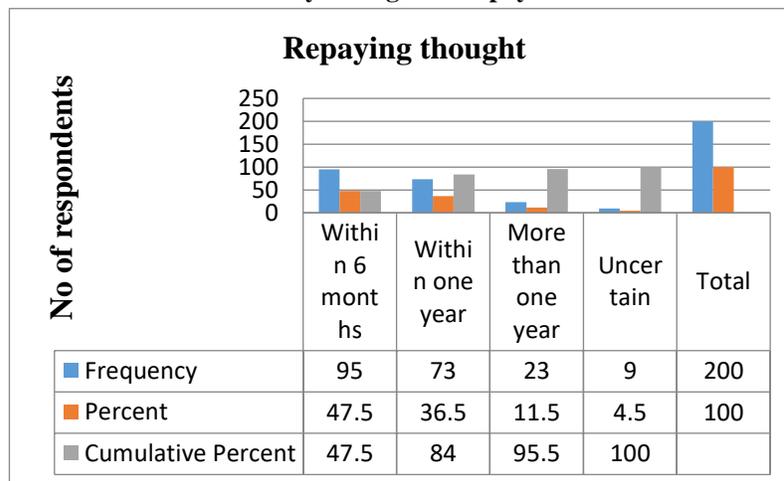
It denotes that the amount borrowed in this section lies under Rs.50, 000 to 1, 00,000 with 49% and above 100,000 with 46% and 25,000 to 50.000 which shows 4.5%.

Table 3: Any Thought to Repay the Loan

<i>Particulars</i>	<i>Frequency</i>	<i>Percent</i>	<i>Cumulative Percent</i>
Within 6 months	95	47.5	47.5
Within one year	73	36.5	84
More than one year	23	11.5	95.5
Uncertain	9	4.5	100
Total	200	100	

Source: Primary Data

Chart 3: Any Thought to Repay the Loan



It denotes that the most of the defaulters have the repaying thought to pay the money borrowed within 6 months which shows 47.5% and some have a thought to repay within one year with 36.5% This can be inferred that all the defaulters have the repaying thought but most of them have the thought to pay it within 6 months and some people have no idea about their payment of loan

Table 4: One Way ANOVA

One way ANOVA between the presence of NPA in the branches and the main reasons for mounting NPA considered.

<i>Particulars</i>		<i>Sum of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
Improper credit appraisal	Between Groups	3.70	3	1.23	1.54998	0.21
	Within Groups	49.33	62	0.79		
	Total	53.03	65			
Lack of effective follow up	Between Groups	11.03	3	3.67	6.2327	0.02
	Within Groups	36.56	62	0.58		
	Total	47.59	65			
Diversion of funds	Between Groups	1.50	3	0.5	0.84455	0.47
	Within Groups	36.76	62	0.59		
	Total	38.26	65			
Willful default	Between Groups	10.56	3	3.52	4.2768	0.007
	Within Groups	51.03	62	0.82		
	Total	61.59	65			
Difficulty in execution of discredit	Between Groups	5.34	3	1.78	3.55031	0.01
	Within Groups	31.10	62	0.5		
	Total	36.44	65			
Cost of effective legal measures	Between Groups	6.04	3	2.01	3.49168	0.02
	Within Groups	35.72	62	0.57		
	Total	41.76	65			
Absence of security	Between Groups	1.10	3	0.36	0.81374	0.49
	Within Groups	27.93	62	0.45		
	Total	29.03	65			
Management failure	Between Groups	9.25	3	3.08	4.11004	0.01
	Within Groups	46.51	62	0.75		
	Total	55.76	65			
Demand recession	Between Groups	8.87	3	2.95	8.56922	0.071
	Within Groups	21.39	62	0.34		
	Total	30.26	65			
Ho accepted at 5%						

HYPOTHESIS: Ho- The presence of NPA in the branches does not vary with the associated main reasons for the mounting NPA in this region considered.

The significance of 'F' is less than 0.05 for the main reasons for NPA mounting such as lack of effective follow up, willful default, difficulty in execution of discredit, cost of legal measures and management failure. Improper credit appraisal, absence of security, diversion of funds and demand recession, so the null hypothesis is not accepted and it is concluded that the presence of NPA in the branches does not vary with the associated main reasons for the mounting NPA in this region.

FINDINGS, RECOMMENDATIONS & CONCLUSION

It is found from this study that more defaulters fail to pay in agri term loan section and they face many difficulties to repay their loan. The bank has also never carried on the lending principles properly which ended up in mounting NPA. The persons who borrow money are being the defaulters willfully and that paves a way for the NPA. The corporate and restructuring have created its own impact and acted as a measure for reducing NPA level in this region. The government interventions and their policies create an impact on their default in payment.

On the basis of data analysis and interpretations, the following suggestions can be made, The bankers should make enough efforts for recovering the money lent to the borrowers and there should be keen access on their usage of funds by borrowers. Some kind of encouragement and awareness can be given to those defaulters to induce them for repaying their

loan. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers.

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