



Non Performing Assets – Analysis of UCO Bank

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Abstract:

Banking sector plays a vital role in the capital formation of the country but there are various hurdles in the continuous flow of progress of any commercial bank like risk management, efficiency and productivity in the functioning of bank, maintaining loan portfolio etc. but apart from these there is a big challenge for the better functioning of commercial bank that is about Non Performing Assets of the bank. To create loan is not a big deal for the bank but the recovery of these loans is an important concern for the commercial bank. This paper is indicating the non performing assets of the UCO bank for the period of 2009-10 to 2013-14. Here the detail study for the purpose of finding NPA's of UCO bank is conducted with the detail statistics and suggestion to reduce the NPA's of a particular bank.

Keywords: Banking Sector, NPA

1. Introduction

With the development and growth of the economy the importance of banking systems has also increased and in these development and growth process the role of Banks is indispensable but one of the biggest challenges the Indian banks are facing is the amount of nonperforming assets especially after nationalization of commercial bank from 1969. After nationalization the amount of nonperforming assets was around 15% which can be considered as one of the biggest limitations for the commercial bank. Therefore RBI issued guidelines based on recommendations of Narashimham committee that every commercial bank has to be very punctual in granting loan and more importantly to collect the amount of loan that is recovery of loan. Considering the recommendation of the RBI the proportion of NPAs has reduced to 3.6% in 2013. Though the problem of NPAs has not been solved all together, here the study of UCO Bank is presented in the reference of NPAs for a particular period of time

2. Objectives of the Study

1. To study gross NPA of UCO for the year 2011 to 2014
2. To study the net NPA of UCO for the year 2011 to 2014
3. To analyse the types of assets and effect of NPA on it.
4. To study the causes of NPA of Banks
5. To study the trends of gross and net NPA during 2011 to 2014
6. To check the effect of NPA on the performance of the bank.

3. Literature Review

Anshu Bansal (2012) revealed that “reduction in time for declaring a loan as non-performing is a good step for reducing NPAs and in turn improves asset quality of banks.”

Bakshi (1998) in his article, “NPAs Management in Banks” mentioned that there was a health code system which classifies the assets in 1998 but the norm was not so effective. RBI introduced prudential norms to regulate NPAs which involves asset classification, recognition of income and provisioning norm. After introduction of the norm NPAs are in decreasing mood both net NPAs and gross NPAs.

Srinivas K T (2013) revealed that “financial services or products can be provided to weaker section at cheap rate only when public sector banks take correct measures to reduce NPAs in both priority and non priority sectors.”

TOOR N.S. (1994) revealed that recovery of non-performing assets through the process of compromise by direct talks rather than by the lengthy and costly procedure of litigation. He suggested that by constant monitoring, it is possible to detect, the sticky accounts, the incipient sickness of the early stages itself and an attempt could be made to review the unit and put it back on the road to recovery.

4. NPAS: Effect on the Performance of Banks

The large percentages of NPAs have a deleterious impact on a bank's profit in a number of ways: • they result in reduced interest income

- They erode (eat into) current profits through provisioning requirements.
- it leads into erosion of capital base and reduction in their competitiveness
- Through creation of reserves and provisions that come from profits, to act as cushions for loan losses.
- Decline in profit has its bearing on variables like Capital to Risk Weighted Assets Ratio (CRAR and cost).

To quote the committee on banking sector reforms (Narasimham Committee II, 1998) “NPAs constitute a real economic cost to the nation is that they reflect the application of scarce capital & credit funds to unproductive uses. The money locked up in NPAs is not available for productive uses to the extent that bank seek to make provisions for NPAs or write them off. It is a charge on their profits, NPAs, in short, is not just a problem for banks; they are bad for the economy”.

5. Asset Classification Categories of NPAS

5.1 Standard assets

Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year. If asset fails to be in category of standard asset that is amount due more than 90 days then it is NPA and NPAs are further need to classify in sub categories. Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

(1) Sub-Standard Assets

With effect from 31 March 2005, a sub standard asset would be one, which has remained NPA for a period less than or equal to 12 month. The following features are exhibited by sub standard assets: the current net worth of the borrowers / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full; and the asset has well-defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

(2) Doubtful Assets

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable. With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

(3) Loss Assets

A loss asset is one which considered uncollectible and of such little value that its continuance as a bankable asset is not warranted- although there may be some salvage or recovery value. Also, these assets would have been identified as ‘loss assets’ by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

6. Causes for Creation of Non-Performing Assets

6.1 External causes

Natural calamities and climatic conditions, Recession, changes in Government policies changes in economic conditions, Industry related problems, Impact of liberalization on industries, Technical problems

6.2 Internal causes

Internal defaulters, Faculty projects, Most of the project reports are ground realities, proper linkages, product pricing etc. Some approach for the “heck” of starting a venture, with poor knowledge of product risks, over depended on poorly paid killed workers and technicians, Building up pressure for sanctions, Inept handling by banker’s lack of professionalism and appraisal standards, Non-observance of system, procedures and no insistence of collaterals etc, Lack of post sanction monitoring, unchecked diversions.

7. Data Analysis

Table 1 . Analysis of Gross N.P.A. (Rs.)

Particulars	2011	2012	2013	2014
Gross N.P.A.	3150.36	4086.2	7130.09	6621.37
Total	3150.36	4086.2	7130.09	6621.37

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Gross N.P.A. from the year 2011 to 2014. The above table represents that gross NPA,s for the bank has been rising from 2011 to 2014. It was 3150.36 crores and has increased to 6621.37 crores in 2014.

Fig. 1: Classification of Data of Gross N.P.A. (Rs.)

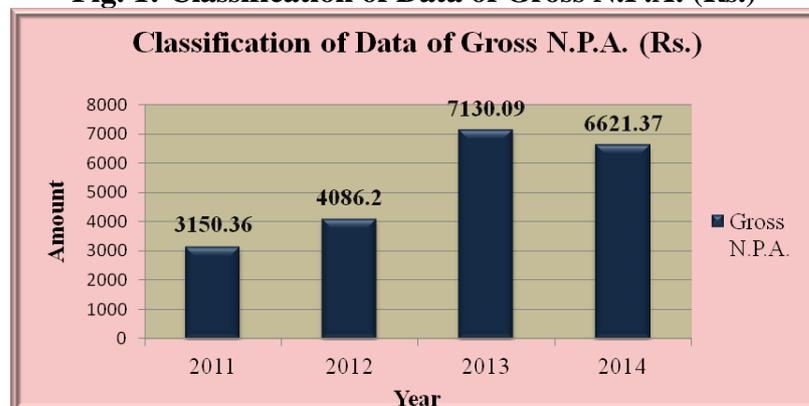


Table 2: Analysis of Net N.P.A. (Rs.)

Particulars	2011	2012	2013	2014
Net N.P.A.	1824.55	2263.94	4069.31	3556.43
Total	1824.55	2263.94	4069.31	3556.43

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Net N.P.A. from the year 2011 to 2014. It is clear from the table that Net NPA,s has been rising too from 2011 to 2014. It was 1824.55 crores in 2011 and has increased to 3556.43 but it has decreased in comparison to the previous year 2013.

Fig. 2: Classification of Data of Net N.P.A. (Rs.)

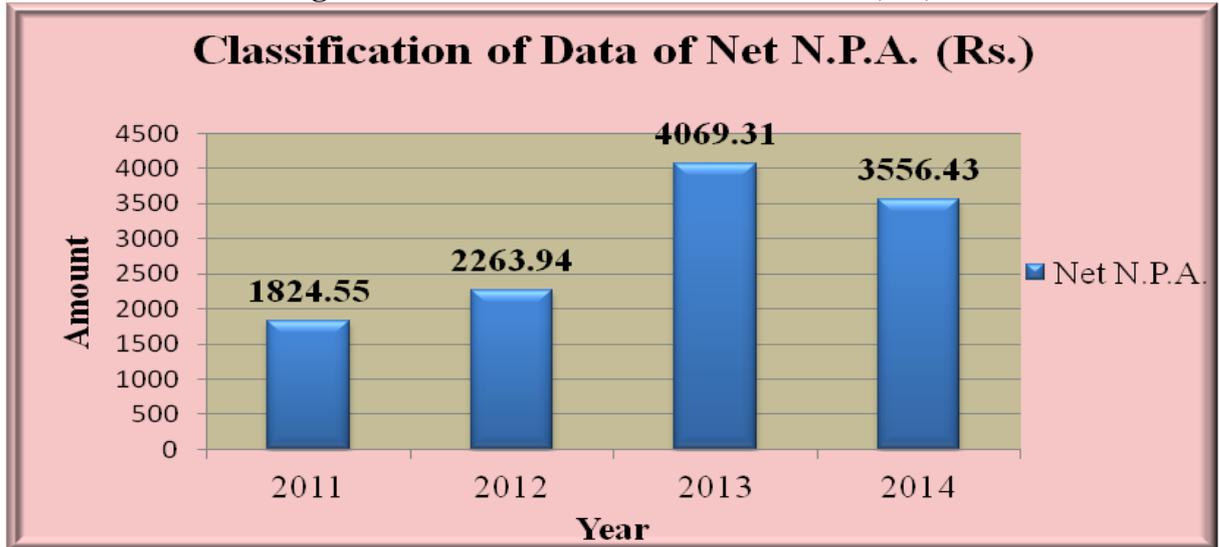


Table 3: Analysis of Gross N.P.A. (%)

Particulars	2011	2012	2013	2014
Gross N.P.A. (%)	3.13	3.48	5.42	4.32
Total	3.13	3.48	5.42	4.32

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Gross N.P.A.(%) from the year 2011 to 2014. It is clear from the above table that Gross NPA,s in terms of % has increased from 2011 to 2013 and has again decreased marginally in 2014. It was 3.13% in 2011 while it was 5.42% in 2013 while it decreased to 4.32% in 2014.

Fig. 3: Classification of Data of Gross N.P.A. (%)

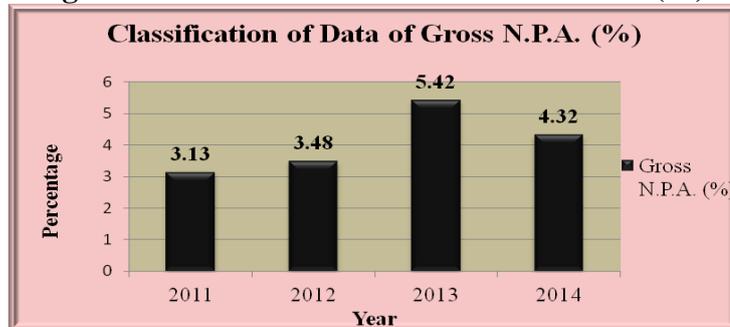


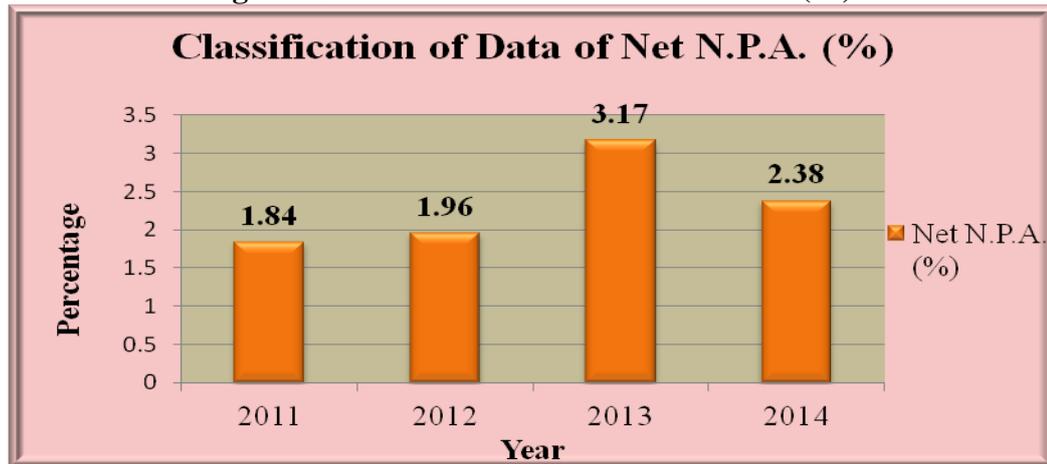
Table 4. Analysis of Net N.P.A. (%)

Particulars	2011	2012	2013	2014
Net N.P.A. (%)	1.84	1.96	3.17	2.38
Total	1.84	1.96	3.17	2.38

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Net N.P.A.(%) from the year 2011 to 2014. It is clear from the above table that Net NPA,s has increased from 2011 to 2013 and has fallen in 2014. It was 1.84% in 2011 and has increased to 3.17% in 2013 while decreased to 2.38% in 2014.

Fig. 4: Classification of Data of Net N.P.A. (%)



8. Findings

1. Gross and Net NPA,s have been increasing and then after decreasing in terms of rupees.
2. Gross and Net NPA,s have been increasing and then after decreasing in terms of percentage
3. It seen that securitization is not proper which reflects in the NPA,s of the bank.

9. Conclusion

The performance of banking system is proving an important one but the problem of NPA,s is serious note for any bank. Here in this paper we have witnessed NPA,s of UCO bank from 2011 to 2014 whereby the condition was worse for the first three years but in the last year 2014 there is an improvement seen because the percentage of Net and Gross NPA,s have been decreasing which a good sign for the UCO bank. In this paper finding, causes and movement of NPA,s of UCO bank have been presented which shows Gross and Net NPA,s of the bank.

10. References

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