Management of non-performing assets
A Case study in Krishna Grameena Bank, Gulbarga District

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Abstract: In the recent years public sector banks have been experiencing a growth in profits. But many drivers of profits of not sustainable in the long run, They should focus on key factors like diversified loan portfolio, robust Internal risk management techniques by putting in place appropriated risk Measurement and mitigating framework, sophisticated credit monitoring Systems, higher share of non fund income in total, which helps in sustainable Profits in long run. Indian banking has witnessed tremendous changes in the wake of the new economic reforms ushered in the year 1992. The reforms have positively impacted on the banking system, which has become resilient, Competitive and efficient with better productivity. The winning strategies for them could be clear customer segmentation and product offerings focus on Cost efficiencies and entrepreneurial ability to face stiff competition. Reserve bank of India which is the central banking authority aims at financial stability through structural and regulatory measures. It envisages the new economic reforms in the banking sectors as those aimed at enhancing operational efficiency thorough completion and prudential norms. The biggest challenge for the banks in India is efficient management of non-performing assets (NPA’s). So the study focuses to know what the non-performing Assets are, and how they can handle to reduce loss. The study reveals the reason for NPA’s, methods that are used to control NPA’s. The data for the study is collected based on informal discussions and from manuals, annual reports of the Krishna Grameena Bank.

Keywords: NPA’s, RBI Regulation, Banking Reforms.

I. INTRODUCTION
A non-performing asset is one which does not generate income for the bank. In other words, an advance account which ceases to yield income is a non-performing asset. Krishna Grameena Bank (KGB) is pioneer in promoting & extending financial Assistance to self help group so for the Bank has credit linked 8042 SH’s out Total 8841 SHGs who are hawing SB A/C with Bank. The aggregate quantum of micro finance to SHGs is Rs-40.69 Cores. The bank has bagged third prize form NABARD for best performances In SHG Bank linkage programmed In Karnataka State during 2005-06. A prominent rural banking institution dedicated to the overall economic development of our area of operation to ensure continuous Improvement of quality of our mass with sustained viability of the bank.

The Branch net work is spread in to four Areas

1. Gulbarga Area :25 branches
2. Shahapur Area : 24 branches
3. Sedam Area : 23 branches
4. Bidar Area : 24 branches
5. Under GM’s control : 10 Branches

TOTAL : 106 branches

II. OBJECTIVES
1. To review the regulatory framework of RBI towards Non Performing Assets and identify the causes of Non Performing Assets.
2. The strategies adopted by the Krishna Grameena Bank to recover Non-performing assets, the role of banker in general to control the NPA’s problem.

III. REVIEW OF LITERATURE
Rajeshwari Krishnan focused on the problem of swelling non-performing assets in banks and financial institution of the country becomes more and more unmanageable and created threats for the financial sector. She found that securitization can be used for the liquidating the illiquid and long terms debut like loan receivables of the financial institutions or bank by issuing marketable securities against them. She concluded that the SARFAESI act is defiantly and big leap forward not only in the filled of NPA management but also promoting the securitizing market in India. The act may be required to fine tuned to bring in ‘natural justice’.

Prof. U.N. Lakshman in his study pointed out the reasons for NPA’s in Indian bank. He started the reasons could be, diversion of the bank fund, time/cost overrun while implementing the project, business failures like product failing to capture market, inefficient management, strained labor relations, old technology and product obsolescence, recession in some foreign countries and adverse exchange rate government policies toward excise, imports and exports, willful default frauds, misappropriations, deficiencies in the system of credit appraisal monitoring and follow up, delay in settlement/ subsidies. He further mentioned some of the methods to recover NPAs they are Recapitalization and asset reconstruction fund. He highlighted the steps taken 15 contain NPAs they are as following RBI stressed the need for credit appraisal and credit supervision since the basic
problem is at lone decision stage, stressed the need to monitor stock and operation and end use statements, detailed guidelines have been issued to take steps to avoid sickness and also to nurse bake the align units, stressed the need to constitute recovery cells, NPA management departments and fixed recovery target for banking units, the debt recovery tribunal should depose off the issues within six months. It should be given freedom to regulate its own Procedure subject to the provision of the Act of 1993, on the filling of suit in court law; the following guidelines are prescribed which registered and the enforceable. He made suggestions that areas which created the problem, in most costs the borrowers are ot be found. The documents charging should with the bank including the location map of properties. Must avoid expert’s orders to eliminate scopes for reopening the mater and also further litigation cost memo should be filled with in 7 days from the date of court order which includes application fee, advocate fee, insurance /go down /storage charges and other expenses incurred by a bank.

Prof. G. Chandrashakar Rao studied the present and most critical issue faced by the banking system has been hug pile-up of nonperforming assets which the bank have come to be saddled with. As result the survival of many weak bank managements and unions of their employees. He noticed that the main reasons for the banking units to become weak leading to mounting NPAs in diversification of funds by promoters, the other region is the tardy legal system and the inadequate legislation for recoveries. The reasons stated for the increasing NPAs in the primary sector are directed and pre-approved loans sanctioned under sponsored programmes, absence of any securities, lack of effective follow up etc.

In view of this, it is not desirable to expect the other hand, they have to work as promoted of the economic development on the other hand, this call for effective risk return approach to be adopted by the banks. It is found that majority of the defaulters are willful defaulters and hence criminal proceedings against corporate defaulters are to be issued to recover this national wealth. Government shall ensure proper legal foundation for enforcement of contracts and recovery of dues by banks.

P.Rajaseker Reddy and D. Ramama Reddy made a conceptualized study in Andhra Pradesh in nonperforming asset. They noticed that the internal and external courses for NPAs have included are many sector of industry. Failures to introduce financial management, managerial deficiency over the estimation demand, underestimation of capital costs, delay in implementing project which result is cost over the estimation demand, underestimation of capital costs the barrowers are incurred by a bank. They figured out the problem of NPAs in state and made some suggestion they are extending role of banks and financial institutions not to keep their activity limited to financing but also to monitor the functioning of industry from time to time, introducing entrepreneur training, counseling and guidance for the new entrepreneurs. Establishing a separate department of rehabilitation of NPAs which concentrates on diagnosing the reason for NPAs and to detect rehabilitation process by catering to economic, administrative, technical and infrastructural help.

They concluded that the growing industrial sickness among private, public an co-operative endeavors, certain selections were suggested to encounter industrial sickness and to minimize the chances of evolution of NPA in any industry. The suggestions are promotion and encouragement to traditional industrial depending upon the skill and workmanship of the workers engaged, reforming the role of financial institutions not restricted only to lend finances but to act as guide and co-coordinator in functioning of the industry so as to help them thrive, establishment of a separate and special department for rehabilitation of NPAs which mainly concentrates on and diagnoses the reasons to economic, administrative, technical and infrastructure help.

Prof.C.Sivarami Reddy and Smt.V.Kalavathi studied the reasons remedies of non-performing assets, they found that the reasons for NPA were diversification of funds, mostly for expansion / diversification of business like product / market failure, failure, inefficient management, inappropriate technology, labor unrest etc., changes in the macro environment like recession, infrastructural bottle necks etc., time / cost over runs during project implementation, changes in government policies, and delay in release of sanctioned limits by banks.

They highlighted various steps for reducing NPAs they are, study the Problems of NPA branch wise, amount wise and age wise, prepare loan Recovery policy and strategies for reducing NPA, create special cells at the Head office / zonal office level to look after critical branches where NPAs are on the high side, select prepare technique suitable for the NPA and monitor it in a time bound action plan. They concluded that NPA is not just a problem for banks they are bad for the economy. The money locked up in NPA is not available for productive use and to that extent the banks seek to make provisions for NPA or write them off.

IV. RESEARCH METHODOLOGY

Primary data was gathered by informal discussions held with various Officials of the department; also information pertaining to non-performing assets was collected from respective department in the unit. Secondary financial data was collected audited account books and published annual reports of the bank. Also...
internal records like manuals, Broachers etc. were useful source of secondary data.

The technique used to analyze the non-performing assets of KGB are, ratio analysis, which helped to comparison between loan budgets and disbursed, loan outstanding.

The published accounts and annual reports of KGB are primarily the basis for the purpose of study. The period covered under the study is for Seven years are 2005-06, 2006-07, 2007-08, 2008-09, 2009-10, 2010-11, 2011-12

Scope
The author has concentrated to only one bank (KGB), which can be widened to by taking other rural banks into consideration.

Limitation
The author could not study other banks of the same geography because of economical constrain and the time limit.

V. ANALYSIS
Table 1: Showing loan sanctioned and disbursed in last 7 years

<table>
<thead>
<tr>
<th>Years</th>
<th>Budgeted (Rs.in lakhs)</th>
<th>Disbursed (Rs. In Lakhs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>14095</td>
<td>13802</td>
<td>98</td>
</tr>
<tr>
<td>2007</td>
<td>14000</td>
<td>13810</td>
<td>99</td>
</tr>
<tr>
<td>2008</td>
<td>14153</td>
<td>17207</td>
<td>121</td>
</tr>
<tr>
<td>2009</td>
<td>15938</td>
<td>17327</td>
<td>109</td>
</tr>
<tr>
<td>2010</td>
<td>23328</td>
<td>29505</td>
<td>127</td>
</tr>
<tr>
<td>2011</td>
<td>26289</td>
<td>32465</td>
<td>124</td>
</tr>
<tr>
<td>2012</td>
<td>33696</td>
<td>41842</td>
<td>125</td>
</tr>
</tbody>
</table>

Source: Annual Report

The table 1 displays the loan budgeted and disbursed for KGB from 2006 to 2012 It is observed that in 2006 & 07, the bank could not achieve the target it could disburse only 13802 Lakhs and 13810 but from 2008 to 2012 it was able to achieve the target which means the bank was disbursing more amount than it had budgeted. The disbursed amount were 121,109,127,124 and 125 percent from 2008-2012

Table 2: Showing Movement in net NPA’s (Rs.in Lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>313182</td>
<td>408350</td>
<td>349095</td>
<td>105716</td>
<td>142657</td>
</tr>
</tbody>
</table>

Add: Additions during the years |
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>197108</td>
</tr>
<tr>
<td>205097</td>
</tr>
<tr>
<td>35698</td>
</tr>
<tr>
<td>149300</td>
</tr>
<tr>
<td>205557</td>
</tr>
</tbody>
</table>

Less: Recovery during the year |
<table>
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<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>102000</td>
</tr>
<tr>
<td>264353</td>
</tr>
<tr>
<td>279077</td>
</tr>
<tr>
<td>112358</td>
</tr>
<tr>
<td>150557</td>
</tr>
</tbody>
</table>

Total |
| 408350 |
| 349094 |
| 105716 |
| 142657 |
| 197675 |

Source: Annual Report

Above table shows the movement of NPA from 2007-08 to 2011-12. In the year 2007-08 the net NPA from 408350 was decreased up to 105716 in 2009-10 form 2010-11 onwards it is again in increasing order. It shows that bank has performed well in the year 2009-10.

VI. FINDINGS, CONCLUSION AND SUGGESTION
Findings from the study can be classified into two parts. In first part the findings were made with reference to the data recorded from Asset department and in the second part the general reasons for non performing of assets were highlighted.

- It is found that the bank is efficient in achieving the budgeted target. The bank is efficient in mobilizing the funds from customers.
- It is found that the amount of loan outstanding is gradually increasing year after, it shows that bank is inefficient in proper appraisals, inefficient control system.
- From the last five years data analyzed, it is found that the net movement of non performing of assets are in cyclic order. In the year 2007-2008 it was high and it decreased in the year 2009-10, from 2010-11 it is again increasing. This shows that bank was efficient in recovery in the year 2009-10. This could be due to recovery camps, recovery awareness camps etc adopted during that year.
- It is observed that the external reasons that contributed to increase in nonperforming of assets are natural calamities, which are beyond the means of borrower to cope with, political interference in recovery process, vitiates recovery climate, failure of activity due to economic and managerial reasons.
- It is noticed the borrower related reasons that contribute to increase in nonperforming of assets are misutilization of loans, diversification of funds, lack of technical and managerial skills, failure of activity of economic reasons, poor maintenance of assists, personal accident death, shifting of place of residence and business place, willful default, geographical factors, changes in policy

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environment, changes in policy environment, changes in technology, changes economic conditions, lack of risk cover availability.

- It is notice found that the related reasons that contribute to increase in nonperforming assets are improper identification of borrower or activity, insufficient gestation or repayment period, lack of post-disbursement follow-up lack of borrow contact, inadequate understanding of clientele, lack of recovery efforts, inefficient internal control systems, low motivation and commitment of staff, perception of bank as a charity institution, Poor industrial relations climate, lack of information to borrow on due dates, amount etc.

VII. SUGGESTIONS

During the study it was found that NAPs have viable impact on the loan portfolio of any financial institutions and bank affecting their balance sheet, which ultimately affects their profit. But it also seen that banks and financial institutions are trying their best to reduce the percentage of NPA's in their banks. While the ratio of NPA’s to loan assets can be brought down through the various measures, the biggest contribution must be through recovery, up gradation and selective write off.

1. Whenever any borrowing units face problem may be the beyond the control of management, the bank should immediately find out the possibility where the unit can be brought back to normal health by giving some concessions like cut off interest appropriate rehabilitation package be released in time otherwise early action for recovery of entire loan be taken in order to minimize the expected losses in feature.

2. The bank should make the improvements in existing system of appraisals. They should create their own date of various type of information and do unbiased appraisals, which should cover technical, commercial, Financial, economic and management aspects.

3. Securitization is another way which transforms non-performing assets to performing. So the bank shall go for securitization of the assets.

4. Bank employees need to give more attention on the activities of the NPA’s and slow recovery of overdue loans.

5. If the customer intentionally tries to become NPA then take serious or legal action. If they do this the other NPA’s account which are slow in payment will be recovered fast.

6. Bank should properly evaluate all loan applications and analyze project feasibility. Bank staff should be properly trained in this regard.

7. Try to deal softly with NPA customers and motivate them to repay the loan.

VIII. CONCLUSION

1. Nonperforming asset is one which does not generated income for the bank. In other words, an advance account which ceases to yield income is a non-performing asset.

2. NPA is not just a problem for bank, but also bad for the economy of the country. The money which is locked in NPA is not available for productive activities. It adversely affects the profit of the bank and result in higher rate of their diligent credit customer. Step should be taken appropriately on the time to avoid NPA. Qualitative appraisal, Supervision and follow ups should be taken for the present advanced to avoid the further NAPs. It is essential to restructure the strategies for recovery process; this will improve bank general capabilities and meets the prudential requirements.

IX. REFERENCES


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