

*Communication*

Non-Performing Assets of North Malabar Gramin Bank

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Abstract

North Malabar Gramin Bank (NMGB) has been playing a dominant role in the economic development of Kerala. It is functioning in the area covering seven districts viz; Kasargod, Kannur, Wayanad, Ernakulam, Kottayam, Alappuzha and Kollam. Its functions spread over both urban and rural areas. NMGB ensures accelerated growth in the rural development. However, the bank faces the problems of overdue. Since 1995, banks in India have made provisions for NPA in order to avoid heavy burden in future. The private banks and new generation banks provide diversified banking facilities and other value added services to its customers. It poses a threat to regional rural banks. This study makes an attempt to analyse the volume and intensity of Non Performing Assets (NPAs) and the impact it has on the profitability of North Malabar Gramin Bank.

Keywords: *Non Performing Assets, Gross Non Performing Assets, Provisions, Net Non-Performing Assets.*

I. Introduction

North Malabar Gramin Bank (NMGB), established as per Regional Rural Bank's Act 1976 and sponsored by Syndicate bank, started functioning on 12th December 1976 with Kannur as its head quarters. The paid up capital of the bank was Rs.100lakhs, contributed by the Government of India, Syndicate bank and the Government of Kerala in the ratio of 50:35:15 respectively. In the course of 30 years of existence, NMGB had established itself as a fundamentally strong and financially viable Regional Rural Bank in the country. The bank had 222 branches (as on 14th June, 2013) spread over seven districts of Kerala viz; Kasargod, Kannur, Wayanad, Ernakulam, Kottayam, Alappuzha and Kollam districts. The bank was in the forefront in implementing poverty alleviation programmes and its lending activities focused on priority sector advances. The bank also participates actively in the flagship programmes of the Government of India and Government of Kerala. As per Government of India notification dated 08.07.2013, amalgamation of South Malabar Gramin Bank (sponsored

by Canara Bank) and North Malabar Gramin Bank have been effected into a single entity as Kerala Gramin Bank (KGB) with its head office at Malappuram in Kerala. Kerala Gramin Bank (KGB) is a Regional Rural Bank (RRB) formed on 8th July/2013, under the Sub-Section (1) of Section 3 of the RRB Act 1976 (27 of 1976). Kerala Gramin Bank is the largest Regional Rural Bank in the country with a total business of above 15,000 crore and a network of 505 branches spread all over Kerala. It is having dominant presence in all the 14 districts of Kerala State and is the only RRB in the State.

NMGB ensures accelerated growth in the rural development. However, the bank faces the problems of overdue. Since 1995, banks in India have made provisions for NPA in order to avoid heavy burden in future. The private banks and new generation banks provide diversified banking facilities and other value added services to its customers. This also poses threat to regional rural banks. This study makes an attempt to analyse the volume and intensity of Non-Performing



Assets (NPAs) and the impact it has on the profitability of North Malabar Gramin Bank.

An asset becomes non performing when it ceases to generate income for the bank as per the terms of contract. A non performing asset is defined as a credit facility in respect of which interest/ installment remains 'past due' for a period of two quarters, from the year ending March 31, 1995 onwards. Any amount due to the bank under any credit facility such as term loans, cash credit, overdrafts, bills discounted etc is to be treated as 'past due' when it remains outstanding for 30 days beyond the date. Credit facilities backed by central and state government guarantees need not be treated as non-performing assets (Sundaraman, 2008).

II. Objectives and Methodology

The study aims to analyse the volume and intensity of non-performing assets and its impact on the profitability of NMGB. It is a case study as the study is being confined only to NMGB. Only secondary data have been used for this study. Secondary data were collected from the annual reports of North Malabar Gramin Bank. The study is conducted for a period of eight years from 2004-05 to 2011-12. Mathematical tools like percentage and average are used for the analysis and interpretation of data.

III. Data Analysis and Results

In order to analyse the volume and intensity of non-performing assets of NMGB, Gross Non Performing Assets Ratio (GNPAR), Net Non Performing Assets Ratio (NNPAR), Gross Problem Assets Ratio (GPAR), Net Problem Assets Ratio (NPAR), Depositors Safety Ratio (DSR), Shareholders Risk Ratio (SRR), Provisions Ratio (PR), Sub Standard Assets Ratio, Doubtful Assets Ratio and Slippage Ratio are computed. To assess the impact of non performing assets on the profitability of NMGB,

Return on Total Assets (ROTA) before and after provisions for NPA is analysed.

III (A). Gross Non Performing Assets Ratio (GNPAR)

NPA arises from the overdue of loans and advances. Performance of a bank is evaluated on the basis of the optimum utilization of loans and advances. GNPAR is defined as the ratio of Gross NPAs to total advances. As per Table 1, GNPAR of NMGB shows a declining trend till 2007-08. It is a favourable trend. It means that NMGB could reduce gross NPA from the period 2004-05 to 2007-08. But from the period 2008-09 to 2011-12, it shows an increasing trend except slight decrease in 2009-10. This shows that NMGB could not follow effectively the norms regarding recovery of NPA. However, the average GNPAR is 2.9 per cent whereas the international ratio is 5.0 per cent (Suresh, 2013). The low GNPAR of NMGB indicates high quality of credit portfolio.

III (B). Net Non Performing Assets Ratio (NNPAR)

NNPAR is defined as the ratio of Net NPAs to total advances. The average NNPR of NMGB is 1.8 percent (Table 1). The international ratio is 2.5 per cent (Suresh, 2013). The NNPAR of NMGB is below the international standard indicating high quality of the credit portfolio.

III (C). Gross Problem Assets Ratio (GPAR)

GPAR is the ratio of GNPA's to total assets of the bank. As per table 2, GPAR of NMGB shows a declining trend till 2007-08. This indicates that NMGB could reduce gross NPAs from the period 2004-05 to 2007-08. But, from the period 2008-09 to 2011-12, this ratio shows an increasing trend which means that NMGB could not follow the norms effectively in respect of recovery of NPA during these periods. However, the average GPAR is 2.0 percent. The standard GPAR ratio is 2.0 per cent and less (Suresh, 2013). Hence,



Table 1: GNPARG and NNPAR of NMGB

Year	Gross NPAs (Rs. in crores)	Net NPAs (Rs. in crores)	Total Advances (Rs. in crores)	GNPAR (%)	NNPAR(%)
2004-05	31.6	19.6	711.6	4.4	2.8
2005-06	27.9	15.8	906.5	3.1	1.7
2006-07	23.1	10.8	1147.9	2.0	0.9
2007-08	23.8	10.7	1405.9	1.7	0.8
2008-09	45.9	29.8	1605.5	2.9	1.9
2009-10	54.0	34.4	2025.1	2.7	1.7
2010-11	77.3	50.3	2457.2	3.1	2.0
2011-12	99.1	64.6	2880.3	3.4	2.2
Average	47.8	29.5	1642.5	2.9	1.8

Source: Annual Reports of NMGB

GNPAR of NMGB is favourable and confirms liquidity of the bank.

III (D). Net Problem Assets Ratio (NPAR)

NPAR of NMGB shows a declining trend till 2007-08. It shows that NMGB could reduce net NPA

from the period 2004-05 to 2007-08. But, from the period 2008-09 to 2011-12, it shows an increasing trend. This points out that the norms are not strictly followed by NMGB regarding recovery of NPA. The average NPAR is 1.2 percent (Table 2). It also indicates liquidity.

Table 2: GPAR and NPAR of NMGB

Year	Gross NPA (Rs. in crores)	Net NPA (Rs. in crores)	Total Assets (Rs. in crores)	GPAR(%)	NPAR(%)
2004-05	31.6	19.6	1002.3	3.2	2.0
2005-06	27.9	15.8	1250.3	2.2	1.3
2006-07	23.1	10.8	1566.0	1.5	0.7
2007-08	23.8	10.7	1999.9	1.2	0.5
2008-09	45.9	29.8	2485.3	1.8	1.2
2009-10	54.0	34.4	2991.3	1.8	1.2
2010-11	77.3	50.3	3613.5	2.1	1.4
2011-12	99.1	64.6	4144.3	2.4	1.6
Average	47.8	29.5	2381.6	2.0	1.2

Source: Annual Reports of NMGB



III (E). Depositors Safety Ratio (DSR)

DSR is the ratio of standard assets to outside liabilities. In this study standard assets mean total advances minus gross non performing assets. Outside liabilities are total liabilities minus shareholders' funds (ie., share capital plus reserves). As per table 3, DSR of NMGB shows a mixed trend. First it increased till the period

2006-07, and then it showed a decreasing trend in the subsequent two years. Again it started to increase till the end of the study period. The average DSR of NMGB is 73.1 per cent. The standard DSR is above 80.0 per cent(Suresh, 2013). This ratio indicates the degree of safety of the deposits. As this ratio is less than the standard, the safety of the deposit is not strong.

Table 3: Depositors Safety Ratio (DSR) of NMGB

Year	Std Assets (Rs. in crores)	Outside Liabilities (Rs. in crores)	DSR(%)
2004-05	680.0	888.0	76.6
2005-06	878.6	1126.6	78.0
2006-07	1124.8	1423.5	79.0
2007-08	1382.1	1847.9	74.8
2008-09	1559.6	2328.7	67.0
2009-10	1971.1	2823.9	69.8
2010-11	2379.9	3432.9	69.3
2011-12	2781.2	3941.2	70.6
Average	1594.7	2226.6	73.1

Source: Annual Reports of NMGB

Table 4: Shareholders Risk Ratio (SRR) of NMGB

Year	NNPA (Rs. in crores)	SF (Rs. in crores)	SRR(%)
2004-05	19.6	114.3	17.2
2005-06	15.8	123.8	12.8
2006-07	10.8	142.5	7.6
2007-08	10.7	152.0	7.0
2008-09	29.8	156.6	19.0
2009-10	34.4	167.4	20.5
2010-11	50.3	180.7	27.8
2011-12	64.6	203.1	31.8
Average	29.5	155.0	18.0

Source: Annual Reports of NMGB



III (F). Shareholders Risk Ratio (SRR)

SRR is the ratio of net non performing assets to shareholders funds of the bank. SRR of NMGB shows a decreasing trend till the period 2007-08 and then it shows an increasing trend till 2011-12. This ratio indicates the degree of risks associated with the shareholders funds. Hence, the degree of risks of shareholders is higher in the last four years than the previous periods. The average SRR of NMGB is 18.0 per cent (Table 4). As the ideal SRR is less than cent per cent(Suresh, 2013),SRR of NMGB is far better and less risky.

III (G). Provisions Ratio (PR)

PR is the ratio of total provisions against NPAs to the Gross Non Performing Assets of the bank. As per Table 5, PR of NMGB shows an increasing trend till the period 2007-08, and then it shows a decreasing trend except in the period 2009-10. PR indicates the safety measures adopted by the bank. The upward movement of the provisions in the first four years indicatethat NMGB has made more provisions for the probable advance losses in the first four years, while less provision has been made in the subsequent periods. The average PR of NGB is 41.3 per cent. The

Table 5: PR and SSAR of NMGB

Year	GNPA (Rs. in crores)	Provisions (Rs. in crores)	Sub Std Assets (Rs. in crores)	PR (%)	SSAR (%)
2004-05	31.6	12.0	6.3	38.0	19.9
2005-06	27.9	12.1	7.1	43.4	25.4
2006-07	23.1	12.3	4.3	53.2	18.6
2007-08	23.8	13.1	5.5	55.0	23.1
2008-09	45.9	16.1	18.6	35.1	40.5
2009-10	54.0	19.6	21.0	36.3	38.9
2010-11	77.3	27.0	38.3	34.9	49.5
2011-12	99.1	34.5	41.1	34.8	41.5
Average	47.8	18.3	17.8	41.3	32.2

Source: Annual Reports of NMGB

standard PR is 60.0 per cent and above(Suresh, 2013).It indicates that NMGB is not adopting adequate measures for the future advance losses.

III (H). Sub Standard Assets Ratio (SSAR)

SSAR is the ratio of total Sub Standard Assets to Gross Non Performing Assets of the bank. SSAR of NMGB shows a mixed trend. This ratio indicates the upgradation of the non performing assets. The average SSAR of NMGB is 32.2 per cent (Table 5). The ideal SSAR is 35.0 per cent

and less(Suresh, 2013).It indicates that there is much upgradation of the non performing assets of the bank.

III (I). Doubtful Assets Ratio (DAR)

DAR is the ratio of Doubtful Assets to Gross Non Performing Assets of the bank. As per table 6, DAR of NMGB shows a decreasing trend in the first four years and then it shows a mixed trend. This ratio indicates the scope of compromise for the non performing assets reduction. The average



Table 6: Doubtful Assets Ratio (DAR) of NMGB

Year	GNPA (Rs. in crores)	Doubtful Assets (Rs. in crores)	DAR(%)
2004-05	31.6	13.3	42.1
2005-06	27.9	8.7	31.2
2006-07	23.1	6.5	28.1
2007-08	23.8	5.2	21.8
2008-09	45.9	11.2	24.4
2009-10	54.0	13.4	24.8
2010-11	77.3	12.0	15.5
2011-12	99.1	23.5	23.7
Average	47.8	11.7	26.5

Source: Annual Reports of NMGB

DAR of NMGB is 26.5 per cent. The standard DAR is 60.0 per cent and less (Suresh, 2013). It indicates that management of non performing assets of NMGB is good.

III (J). Slippage Ratio (SR)

SR is the ratio of total fresh non performing assets added to the total standard loan assets in the

beginning of the year. SR of NMGB also shows **Table 7: Slippage Ratio of NMGB**

Year	NPA Beginning (Rs. in crores)	Additions Amount (Rs. in crores)	SR(%)
2004-05	57.7	7.0	12.1
2005-06	31.6	8.0	25.3
2006-07	27.9	4.7	16.8
2007-08	23.1	6.2	26.8
2008-09	23.8	141.8	595.8
2009-10	45.9	26.5	57.7
2010-11	54.0	43.3	80.2
2011-12	77.3	47.3	61.2
Average	42.7	35.6	109.5

Source: Annual Reports of NMGB



a mixed trend; moreover it is very high in the period 2008-09. It indicates that NMGB has not taken effective preventive measures during this period. The average SR of NMGB is about 110.0 per cent. This is due to a very high addition in the period 2008-09. The ideal slippage ratio is less than 5.0 per cent(Suresh, 2013).High slippage ratio shows that immediate measures have been taken from the part of NMGB to reduce NPAs.

III (K). ROTA Before and after Provisions for NPA

It is no doubt that the profit of the bank varies with the amount of provisions held in respect of NPAs. In table 8, Return on Total Assets (ROTA) before and after provisions for NPA is given. On an average, NMGB would be in a position to double the ROTA, if the bank avoids provisions.

Table 8: ROTA Before and after Provisions for NPA (in percentage)

Year	ROTA (before provisions)	ROTA (after provisions)
2004-05	2.9	1.7
2005-06	1.7	0.8
2006-07	1.9	1.1
2007-08	1.2	0.5
2008-09	0.8	0.2
2009-10	1.1	0.4
2010-11	1.4	0.4
2011-12	1.6	0.5
Average	1.6	0.7

Source: Annual Reports of NMGB

IV. Conclusion

In the era of new generation banks, severe competition in the marketing segment, especially in the areas of diversification of banking functions and other value added services, is the threat of each and every bank. Accelerated growth of profit and the improvement in the overall performance of the bank are challenging. Non-performing assets directly affect the overall performance of the bank. In this situation, NMGB must be in a

position to improve its performance by minimising the problems of NPAs.

References

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