NEXUS BETWEEN NON-PERFORMING ASSETS AND BANK SPECIFIC VARIABLES: A STUDY WITH REFERENCE TO ASSAM GRAMIN VIKAS BANK

Tapashi Dasgupta
Faculty Associate, Department of Commerce, ICFAI University Nagaland & Research Scholar, Assam University, India.

ABSTRACT

Financial institutions are indispensible for the growth and development of any country in today's world but in a country like India, where still a major portion of the population do not have access to and any account in the most common financial institution "bank", there amongst all the different categories of financial institutions, banks play the most crucial role; and as such it is necessary to look into the efficiency with which bank operate and to look into its lending portfolio. A healthy bank is considered as one where the assets remain assets only and do not turn into liability. In this backdrop, the paper is a humble attempt to look in the health of Assam Gramin Vikas Bank in terms of its non-performing assets for a period of 5 years beginning from 2010-11 till 2014-15 respectively.

Keywords: Non-Performing Assets, Assam Gramin Vikas Bank, Gross & Net advances, Total Assets, Profitability

1. **Introduction**

Soundness of financial institutions give an indication of the soundness of the economy and in India, "banks" are the most important financial institution for meeting the basic requirements of savings and also for getting money (borrowings) to meet different obligations. Though after the initiation of the LPG model, private sector banks and foreign sector banks also got the permission of doing business but their concentration is seen mostly in urban areas of the country. Since most of the private and foreign banks do not venture into rural areas and also

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because of limited penetration of even most of the public sector banks in interior areas of the country, the rural population is left with no option but to borrow money from richer persons of their regions and thereby facing exploitation. The Government of India has started Regional Rural Banks (RRBs) so that the rural population can have access to basic banking facilities and currently in one such remote areas of north east, Assam Gramin Vikas Bank (AGVB) is operating to provide banking facilities to the rural people of the largest north eastern state of Assam. Assam Gramin Vikas Bank, the only restructured Regional Rural Bank of north east India was set up on the 12th of January 2006 with its head office situated at Guwahati. The bank came into existence by amalgamating Pragjyotish Gaonlia Bank, Lakhimi Gaonlia Bank, Cachar Gramin Bank and Subansiri Gaonlia Bank as per the provisions under section 23(A) of the Regional Rural Bank Act, 1976. The bank is jointly owned by the Government of India, Government of Assam and United Bank of India with stake holdings of 50%, 15% and 35% respectively [1]. While catering to and fulfilling every ones' need in the rural areas by RRBs, it may create problems for the banks if they do not scrutinize the reasons and viability of the proposal given by the borrowers. The amount of loans and advances constitute banks' assets and if the money lend by the bank is not returned by the borrowers in due time, then the same assets become banks' 'liability' and affect their financial health and market standing. The good assets when not repaid within due time by the borrowers becomes bad and constitute Non-Performing Assets. Non-Performing Asset is defined as credit facility in respect of which the interest and/or instalment of principal has remained 'past due' for a specified period of time. It is a classification used by financial institutions that refer to loans that are in jeopardy of default [2]. According to Reserve Bank of India guidelines, Non-Performing Asset means an asset in respect of which: a) interest or principal (or instalment thereof) is overdue for a period of 90 days or more from the date of acquisition or the due date as per contract between the borrower and the originator, whichever is later; b) interest or principal (or instalment thereof) is overdue for a period of 90 days or more from the date fixed for receipt thereof; is overdue on expiry of the planning period, where no plan is formulated for realization of the assets; d) any other receivable, if it is overdue for a period of 90 days or more in the books of the Securitization Company or Reconstruction Company. Non-Performing Assets are classified under two heads: Gross Non-Performing Assets and Net Non-Performing Assets.

Gross Non-Performing Assets refer to the sum total of all loan assets that are classified as non-performing as per the guidelines of Reserve Bank of India and consist of all non-standard assets like sub-standard, doubtful and loss assets [3]. Net Non-Performing Assets are those

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type of non-performing assets in which the bank has deducted the provision regarding non-performing assets. Net Non-Performing Assets show the actual burden of banks. Since in India, Balance Sheet of banks contains a huge amount of non-performing assets and the process of recovery and write off of loans is very time consuming so banks have to make some provisions against non-performing assets as per the directives of Reserve Bank of India [4].

2. Review of Literature

Stuti & Bansal [5] have examined the performance of public and private sector banks with respect to non-performing assets, studied the trends of non-performing assets and also the causes that lead to high rise in the non-performing assets in the two sectors of the banking industry. The study found that though there was increase in bank's advances but non-performing assets ratio declined which indicates that public and private sector banks have made an improvement in the assets quality and also credit portfolio. Rani & Gaba [6] has done a comparison of gross non-performing assets and gross advances of public, private and foreign sector banks operating in India. Kumar [7] has also done a comparative study on gross non-performing assets and gross advances of old private sector and foreign sector banks operating in India. Manohar [8] has also done a comparison of gross and net non-performing assets of public and private sector banks in India and provided the reasons for high non-performing assets in the banking sector. The paper also analyzed the impact of non-performing assets on the operations of banks and suggested different ways for management of non-performing assets. Selvakumar et al [9] has studied the extent of non-performing assets in four private sector banks operating in Tamil Nadu i.e. City Union Bank, Karur Vysya Bank, Tamilnad Mercantile Bank and Lakshmi Villas Bank and also made a comparison of these four banks' in terms of their gross and net non-performing assets, ratio of gross and net non-performing assets on each banks' total assets, ratio of gross and net non-performing assets on each banks' total advances and percentage of each banks' net non-performing assets on net profitability.

3. Objectives of the study

i. To find out the relationship between gross and net non-performing assets with gross and net advances of Assam Gramin Vikas Bank from 2010-11 to 2014-15

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ii.   To find out the relationship between gross and net non-performing assets with total assets of Assam Gramin Vikas Bank from 2010-11 to 2014-15

iii. To find out the relationship between non-performing assets with net profit of Assam Gramin Vikas Bank from 2010-11 to 2014-15

4. Methodology

The study has made use of secondary data which are collected from bank's annual reports. The time frame of the study is 5 years beginning from 2010-11 to 2014-15. For analyzing data, graphs and correlation analysis is done.

5. Hypotheses of the study

H_{01}: There exists no relation in movement of gross and net non-performing assets with gross and net advances of Assam Gramin Vikas Bank.

H_{02}: There exists no relation in movement of gross and net non-performing assets with total assets of Assam Gramin Vikas Bank.

H_{03}: There exists no relation in movement of gross and net non-performing assets with net profit of Assam Gramin Vikas Bank

6. Data Analysis

The following and figures are constructed for making an analysis of Assam Gramin Vikas Bank's Non-Performing Assets.

Table I (Amount in thousands)

Years	GNPAs	Gross Advances	%age of GNPAs on Gross Advances
2010-11	1179194	20728263	5.69%
2011-12	1552678	26015645	5.97%
2012-13	1904764	31135260	6.18%
2013-14	3635785	36677030	9.91%
2014-15	3591403	39113376	9.18%

(Source: Annual Reports of AGVB)

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Table I (Amount in thousands)

Years	NNPAs	Net Advances	%age of NNPAs on Net Advances
2010-11	673776	20222845	3.33%
2011-12	836736	25299703	3.30%
2012-13	915763	30146259	3.04%
2013-14	1688667	34729912	4.86%
2014-15	1475672	36997645	3.99%

(Source: Annual Reports of AGVB)

The following are the two figures constructed with the help of the information displayed in the two tables given above.
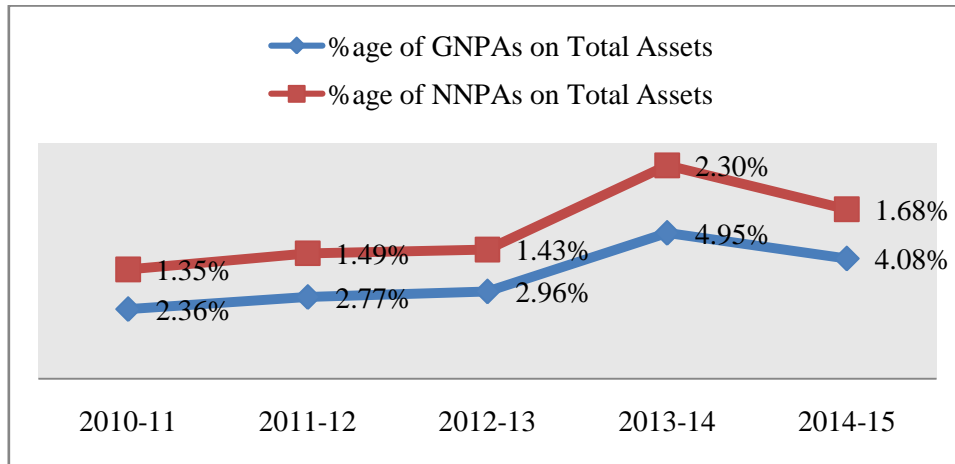
Figure I
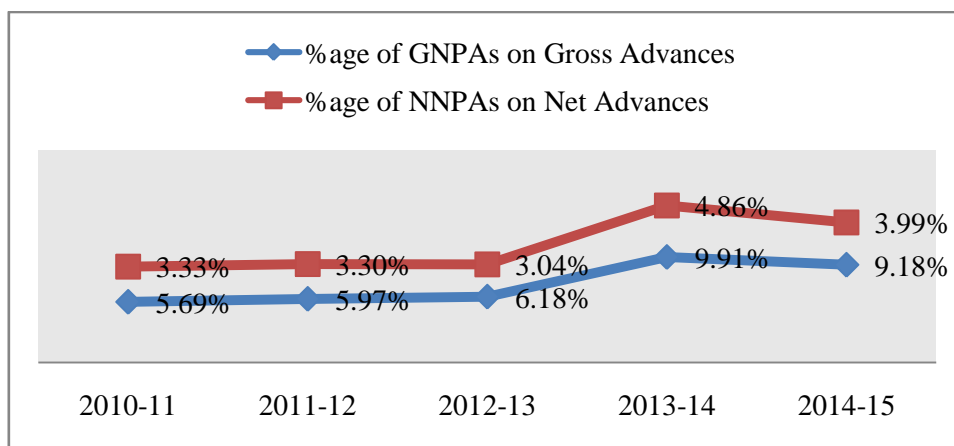
From the above figure it can be seen that the percentage of GNPAs on bank's Gross Advances is showing an increasing trend from the first two years of the study period and then in 2012-13 there is minimal decrease in the percentage. Again in 2013-14, the percentage increases and reaches 4.86%. There is a decline in the percentage in 2014-15 to the extent of 3.99%.

The trend of percentage of NNPAs on Net Advances is showing a different trend as in this case an upward trend is visible in the graph above up to 2013-14 and then in 2014-15 the percentage declines to the extent of 9.18%. The burden of GNPAs and NNPAs on bank's gross and net advances is highest in the year 2013-14 as visible in the graph above.

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Figure II

From the above figure it can be seen that the percentage of GNPAs on Total Assets of Assam Gramin Vikas Bank is showing a mixed trend as in 2010-11and 2011-12 there is upward trend and then there is decline of 1.43% in 2012-13. The percentage increases again in 2013-14 with 2.30% and again falls with 1.68% in 2014-15.

As far as percentage of NNPAs on Total Assets of Assam Gramin Vikas Bank is concerned, from the above graph it can be seen that there is an upward trend up to 2013-14 and then in 2014-15 decline is seen with 4.08%. The burden of GNPAs and NNPAs on bank's total assets is highest in 2013-14 as can be seen in the graph above.

In order to find out whether there is any relation between GNPAs & NNPAs with bank's gross and net advances, GNPAs & NNPAs with bank's total assets, and bank's net profit with GNPAs & NNPAs, Karl Pearson's correlation analysis is done with the help of SPSS software. The results are presented below

		Gross Advances	GNPAs
Gross Advances	Pearson Correlation	1	.950*
	Sig. (2-tailed)		.013
	N	5	5
GNPAs	Pearson Correlation	.950*	1
	Sig. (2-tailed)	.013	
	N	5	5

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*. Correlation is significant at the 0.05 level (2-tailed).

From the above table it can be seen that the coefficient of correlation between Gross Advances and GNPAs is 0.950. It can thus be inferred that there is high degree of positive correlation between Gross Advances and GNPAs and that with increase in Gross Advances, there is high increase in GNPAs each year.

		Net Advances	NNPAs
Net Advances	Pearson Correlation	1	.901[*]
	Sig. (2-tailed)		.037
	N	5	5
NNPAs	Pearson Correlation	.901[*]	1
	Sig. (2-tailed)	.037	
	N	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

From the above table it can be seen that the coefficient of correlation between Net Advances and NNPAs is 0.901. It can thus be inferred that similar to the relation between Gross Advances and GNPAs also there is high degree of positive correlation between Net Advances and NNPAs and that with the increase in Net Advances every year, there is high increase in NNPAs of the bank.

		Total Assets	GNPAs
Total Assets	Pearson Correlation	1	.923[*]
	Sig. (2-tailed)		.025
	N	5	5
GNPAs	Pearson Correlation	.923[*]	1
	Sig. (2-tailed)	.025	
	N	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

From the above table it can be seen that the coefficient of correlation between Total Assets and GNPAs is 0.923. It can thus be inferred that there is high degree of positive correlation between Total Assets and GNPAs and that with the increase in bank's Total Assets every year, there is high increase in the mount of GNPAs.

		Total Assets	NNPAs
Total Assets	Pearson Correlation	1	.850
	Sig. (2-tailed)		.068
	N	5	5
NNPAs	Pearson Correlation	.850	1
	Sig. (2-tailed)	.068	
	N	5	5

From the above table it can be seen that the coefficient of correlation between Total Assets and NNPAs is 0.850. It can thus be inferred that though the degree is less in comparison to Total Assets and GNPAs but nonetheless there is high degree of positive correlation between Total Assets and NNPAs and that with the increase in bank's Total Assets every year, there is high increase in the mount of NNPAs.

		Net Profit	GNPAs
Net Profit	Pearson Correlation	1	-.423
	Sig. (2-tailed)		.478
	N	5	5
GNPAs	Pearson Correlation	-.423	1
	Sig. (2-tailed)	.478	
	N	5	5

From the above table it can be seen that the coefficient of correlation between Net Profit and GNPAs is - 0.423. It can thus be inferred that there is low degree of negative correlation between Net Profit and GNPAs and that with the increase in Net Profit every year, there is decrease in GNPAs of the bank but the degree of decline is low.

		Net Profit	NNPAs
Net Profit	Pearson Correlation	1	-.489
	Sig. (2-tailed)		.403
	N	5	5
NNPAs	Pearson Correlation	-.489	1
	Sig. (2-tailed)	.403	
	N	5	5

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From the above table it can be seen that the coefficient of correlation between Net Profit and GNPAs is - 0.489. It can thus be inferred that similar to the former case, there is low degree of negative correlation between Net Profit and NNPAs also and that with the increase in Net Profit every year, there is decrease in NNPAs of the bank but the degree of decline is low.

From all the above analysis it is seen that non-performing assets have the highest impact on bank's advances followed by its detrimental impact on bank's total assets. Net Profit are not that impact as with its increase, non-performing assets do not increase and shows an opposite trend of downfall but still then the decline is not to a high extent as the analysis shows low degree of correlation.

7. Conclusion

The study has tried to display and discuss the non-performing assets scenario of Regional Rural Banks by taking Assam Gramin Vikas Bank as the sample and similar to the situation of public sector banks, the study finds that non-performing assets has found its way to Regional Rural Banks also as Assam Gramin Vikas Bank's advances and total assets are not safe due to the mount of non-performing assets.

The Indian banking sector has more bad assets or asset turned liabilities than 'actual assets' and it is very high time for the Government of India, the Reserve Bank of India to take some strong measures and see that the measures are implemented properly. Though Reserve Bank of India has directed banks to get rid of their non-performing assets by 2017 but to what extent there will be success only time will tell.

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