

Correlation between Non-Performing Assets and Performing Assets

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Abstract – It is found that correlation between NPAs/gross advances and performing assets/gross advances is -1. It means that there is negative correlation between NPAs and performing assets i.e. as NPAs increases performing assets decreases. The correlation coefficient indicates that there is perfect negative correlation between NPAs and performing assets. Non-Performing Assets in District Central Co-operative Banks (DCCBs) in Haryana have been evaluated after collecting data regarding from 2001-02 to 2008-09. Analysis of Gross NPAs is done by taking gross advances and total assets as base. The ratio of gross NPAs to gross advances has shown zigzag trend up to 2005-06, thereafter it has been showing an increasing trend for the DCCBs of zone-I. The banks that have highest gross NPAs ratio in 2008-09 include DCCB Ambala with 23.54%, DCCB Kurukshetra with 15.95% and DCCB Yamuna Nagar with 14.32% and DCCB Panchkula with 10.93% and DCCB Karnal with 9.20%. The banks that have lowest gross NPAs ratio in 2008-09 include only one DCCB i.e. DCCB Kaithal with 3.01%. It means this is the only bank who manage its NPAs efficiently as compared to other banks of zone-I

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NON PERFORMING ASSETS TO GROSS ADVANCES IN ZONE-II

The ratio of gross NPAs to gross advances has shown zigzag trend up to 2005-06, thereafter it has been showing an increasing trend for the DCCBs of zone-II. The banks that have highest gross NPAs ratio in 2008-09 include DCCB Jhajjar with 10.86% and DCCB Jind with 10.85%. The banks that have lowest gross NPAs ratio in 2008-09 include DCCB Panipat with 4.96%, DCCB Rohtak with 6.28% and DCCB Sonapat 6.73%. It is further found that the gross NPAs ratio of all DCCBs (except DCCB Jind) in zone-II is below 5% throughout the study period except year 2008-09 which is an indication of sound management of loan portfolio in DCCBs of zone-II. The ratio of gross NPAs to Gross advances is highest in case DCCB Jind on year to year basis.

NON PERFORMING ASSETS TO GROSS ADVANCES IN ZONE-III

The ratio of gross NPAs to gross advances has been showing zigzag trend throughout the study period in zone-III. The banks that have highest gross NPAs ratio in 2008-09 include DCCB Hisar with 10.36% and DCCB Fatehabad with 15.12%. The banks that have lowest gross NPAs ratio in 2008-09 include DCCB Sirsa with 5.89% and DCCB Bhiwani with 6.19%. It is also found that DCCB Sirsa has the

lowest gross NPAs ratio in zone-III during the study period.

NON PERFORMING ASSETS TO GROSS ADVANCES IN ZONE-IV

The ratio of gross NPAs to gross advances has shown zigzag trend up to 2005-06, thereafter it has been showing an increasing trend for the DCCBs of zone-IV. The banks that have highest gross NPAs ratio in 2008-09 include DCCB Mahendergarh with 9.42% and DCCB Faridabad with 11.60%. The banks that have lowest gross NPAs ratio in 2008-09 include DCCB Gurgaon with 5.03% and DCCB Rewari with 6.65%. It is further found that DCCB Faridabad has the highest gross NPAs ratio in zone-IV as compared to other DCCBs during the study period.

NON PERFORMING ASSETS TO TOTAL ASSETS IN ZONE-I

The ratio of gross NPAs to total assets has shown zigzag trend up to 2005-06, thereafter it has been showing an increasing trend for the DCCBs of zone-I. The banks that have highest problem assets ratio in 2008-09 include DCCB Ambala with 16.88%, DCCB Kurukshetra with 12.70% and DCCB Yamuna Nagar with 10.60% and DCCB Panchkula with 7.50% and DCCB Karnal with 7.11%. The banks that have lowest problem assets

ratio in 2008-09 include only one DCCB i.e. DCCB Kaithal with 2.11%. It means this is the only bank who manage its NPAs efficiently as compared to other banks of zone-I

NON PERFORMING ASSETS TO TOTAL ASSETS IN ZONE-II

The ratio of gross NPAs to total assets has shown zigzag trend up to 2005-06, thereafter it has been showing an increasing trend for the DCCBs of zone-II. The banks that have highest problem assets ratio in 2008-09 include DCCB Jhajjar with 7.27% and DCCB Jind with 8.86%. The banks that have lowest problem assets ratio in 2008-09 include DCCB Panipat with 3.80%, DCCB Rohtak with 3.66% and DCCB Sonapat 4.91%. It is further found that the problem assets ratio of all DCCBs (except DCCB Jind) in zone-II is below 5% throughout the study period except year 2008-09 which is an indication of sound management of loan portfolio in DCCBs of zone-II. The problem assets ratio is highest in case DCCB Jind on year to year basis.

NON PERFORMING ASSETS TO TOTAL ASSETS IN ZONE-III

The ratio of gross NPAs to total assets has been showing a zigzag trend throughout the study period in zone-III. The banks that have highest problem assets ratio in 2008-09 include DCCB Hisar with 7.64% and DCCB Fatehabad with 13.63%. The banks that have lowest problem assets ratio in 2008-09 include DCCB Sirsa with 4.78% and DCCB Bhiwani with 4.54%. It is also found that DCCB Bhiwani has the lowest gross NPAs ratio in zone-III during the study period.

NON PERFORMING ASSETS TO TOTAL ASSETS IN ZONE-IV

The ratio of gross NPAs to total assets has shown zigzag trend up to 2005-06, thereafter it has been showing an increasing trend for the DCCBs of zone-IV. The banks that have highest problem assets ratio in 2008-09 include DCCB Mahendergarh with 7.25% and DCCB Faridabad with 8.26%. The banks that have lowest problem assets ratio in 2008-09 include DCCB Gurgaon with 2.18% and DCCB Rewari with 4.38%. It is further found that DCCB Faridabad has the highest problem assets ratio in zone-IV as compared to other DCCBs during the study period.

RECOMMENDATIONS FOR THE MANAGEMENT OF NPAs

NPAs have become the most critical factor governing the performance of banks. NPAs have serious implications on the profitability of banks. While banks cannot recognize or book income on NPA accounts, there is a strain on profitability of the banks as profits earned, have to be diverted towards making provisions for impaired assets. As the level of NPAs

to total credit increases, the liquidity risk of banks also increases. The NPA problem is the result of mounting overdues due to various factors such as target oriented policy to lending, misutilisation of loans, poor credit appraisal system, lack of proper monitoring, political interference and loan waiver schemes etc. Whereas in case of overdues, due to genuine problems such as vagaries of monsoon etc, there is a need to have a sympathetic view, it is the willful defaults which should deserve the serious attention of the banks. NPAs as a proportion of total credit in co-operative banks are large when compared to other banks and consequently NPAs have affected adversely the net worth of the banks, at times eroding the entire owned funds. Therefore, all co-operative banks need to have a sound NPA management strategy in place so as to bring down the level of NPAs. An effective and prudent management of non-performing assets consists of: to check creation of NPAs in the first place particularly of fresh loans; improvement in the quality of NPA i.e. to reduce slippage of a low grade NPA to the next higher level and reduction of NPAs. Based on the present study, the following recommendations are suggested to the co-operative banks to control over the NPAs. These recommendations are classified into three categories as follows:

6.7.1. Pre-sanction suggestions

6.7.2. Post-sanction suggestions

6.7.3. General suggestions

PRE-SANCTION/ SUGGESTIONS

PREVENTIVE

Appraisal and monitoring factors are the most important factors to prevent the occurrence of Non-Performing Assets at the first instance. Some strategies at the preventive stage are as follow.

■ Strengthening Pre-Sanction Appraisal

At pre-disbursement stage appraisal techniques of bank need to be sharpened for preventing the incidence of fresh NPAs and overdues under all categories of loan and advances. All technical, economical, commercial, organizational and financial aspects like cost of the project, profitability projections of the loan project etc. need to be appraised realistically. A major cause for NPA is fixation of unrealistic repayment schedule. It may be fixed by taking into account the gestation or moratorium period, harvesting season, income generation, surplus available etc, if the repayment schedule is defective both with references to quantum of installment and period of recovery assets have a tendency to become non-performing assets. Further co-operative banks should set up an economic research wing at their head office, would provide data on various types of farm and

non-farm activities and rural industries etc., required for proper appraisal of the loan.

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