



NON-PERFORMING ASSETS (NPAs): A STUDY OF UCO BANK

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ABSTRACT

KEYWORDS:

Commercial banks, Non-Performing Assets, Gross NPA, Net NPA, Economic growth

Banking sector plays a pivotal role in the economic development. In a developing country like India, a strong, efficient and healthy banking system is needed for sustainable economic growth. But from last two decades Non-Performing Assets (NPA) has become a big threat for the banking sector which adversely affects the profitability, liquidity and solvency. This paper is descriptive as well as analytical in nature and completely based on secondary data analysed by using various statistical and accounting tools. UCO Bank was established before the independence of India and has been performed successfully but now facing several problems due to NPA. This paper presents the concept of NPA in banking sector, causes and impact of NPA. This paper also evaluates the performance of UCO Bank with reference to the terrible problem of NPA.

I. INTRODUCTION

Banking system plays an important role in the economic development of any country. It works as the lifeline of any country's economy as it provides credit to all the sections of the society. Without a transparent and effective banking system, no country can have a healthy economy. Although there was a banking system in India from the Vedic civilization, the first modern bank 'Bank of Hindustan' was established in 1770s in Calcutta. Then gradually many banks were established. UCO Bank, formerly known as United Commercial Bank, was established in 1943 Kolkata, under the aegis of Sri Ghanshyam Das Birla, a prominent Indian industrialist. The Govt. of India nationalised United Commercial Bank on 19th July, 1969 and changed the bank's name to UCO bank in 1985.

The UCO Bank emerged successful in early stage of their incorporation. In addition to India, there are significant presences of UCO Bank in the financial markets outside of India. But in this decade it experienced some unwanted difficulties due to some significant reasons. The main reason behind the worse performance of the UCO Bank is that most of the assets becoming non-performance and overdue increased over the time.

Currently NPA is the core financial problem for the bank in particular but also in general. It is an unavoidable burden on the banking industry. Hence, NPAs are considered to be an important parameter to judge the financial health and evaluate the performance of the bank.

II. LITERATURE REVIEW

Vohra, P.S. and Dhamu, J. (2012), in their study noted that the NPAs have a direct impact on profitability, liquidity and equity of the banks. They observe that NPAs of Indian

banks are relatively higher than the global standard. They recommend the lending operation only to secured advance.

Samir and Kamra, D. (2013), in their paper analyses the position of NPAs in selected banks namely State Bank of India (SBI), Punjab National Bank (PNB) and Central Bank of India (CBI). This study highlights the policies pursued by the banks to tackle the NPAs and suggest a strategy for speedy recovery of NPAs in banking sector.

Chandraappa, P. (2014), in his research paper discussed magnitude and major causes for an account becoming non-performing. He suggest that to improve the efficiency and profitability of the bank the huge backlog of NPAs needs to be reduced and controlled otherwise it can weaken the foundation of entire financial system.

Ramasubbian, H. and Thangavelu, A. (2015), in their research paper analysed a comparative study of the NPAs in Public sector banks, Private sector banks and foreign banks in India and observed an improvement in the asset quality of Private and foreign banks.

Chalam, G.V. (2017), in his paper attempts to study the trends of NPAs in Indian Banking sector, specifically sector wise, and identify the causes and consequences of NPAs and suggest establishing a sound control and feedback mechanism on banking operations.

III. OBJECTIVES OF THE STUDY

The main objectives of this study are:

- To know the concept of Non-Performing Assets in banking sector
- To explore the reasons and impact of NPA

- To examine the trend of NPA in UCO Bank, and
- To evaluate the performance of UCO Bank with reference to the terrible problem of Non-Performing Assets

IV. RESEARCH METHODOLOGY

Data Collection: The data has been collected from secondary source which includes RBI reports, various articles, journals, research papers and various websites.

Study Period: The present study has been covered a period of five financial year from 2013-14 to 2017-18 to compare and analyse the data.

Tools and Techniques: The data are analyzed by using different accounting and statistical tools and conceptual understanding.

V. NPA — A CONCEPTUAL FRAMEWORK

The concept of NPAs developed when RBI introduced prudential norms recommended by the Narsimham Committee. And this norm was applicable from 1992-93 in commercial banks. Accounting treatment in this prudential norms interest is not to be debited on the accrual basis only cash basis. The prudential accounting norms mainly based on N-P-A Concept, i.e. N— (generating) No income, P— (maintained) Provisioning and A— (required) Assets classification. So the prudential norms consist of three main things namely, Income Recognition, Assets Classification and Provisioning.

Income Recognition: As per the prudence norms for income recognition bank assets are classified into two categories namely (i) Performing Assets and (ii) Non-performing Assets.

Performing Assets are those assets of which interest income and/or interest as well as instalment of principal are paid by the customer within stipulated time. In that case income is recognised on accrual basis.

Non-Performing Assets are those assets of which interest income and/or interest as well as instalment of principal have been due more than the stipulated time. In that case income is recognised on cash basis.

Assets Classification and Provisions: The RBI has issued guidelines to banks for classification of assets (advances) into four categories viz. (i) Standard assets (ii) Sub-standard Assets (iii) Doubtful Assets and (iv) Loan assets.

(i) Standard Assets: This assets do not create any problem and which do not carry more than normal risk. This assets also known as performing assets. 0.25% general provision has to be provided on global loan portfolio basis.

(ii) Sub-standard Assets: A Sub-standard Assets was one, which remains overdue for a period not exceeding 12 months. 10% general provision on outstanding has to be provided on Sub-standard Assets.

(iii). Doubtful Assets: These are the assets which have remains non- performing for a period more than 12 months. The norms have been tightened with effect from 31st March, 2005, and further classified three subsequent categories as doubtful i.e. Doubtful-I, Doubtful-II and Doubtful-III, if it is remained in the sub-standard category for 12 months. Provisions of these assets are made differently, period up to one year 100% of unsecured advances and 20% of secured advances provisions are made, period one to three year 100% of unsecured advances and 30% of secured advances provisions are made and period more than three years 100% of unsecured advances and 100% of secured advances provisions are made.

(iv) Loss assets: Loss assets are those assets which remains non-performing for the period of more than 3 years. It has been identified by the particular bank or internal or external auditors or RBI inspectors. 100% of unsecured advances and 100% of secured advances provisions are made for these assets.

NPA— Meaning: A non-performing asset (NPA) is a loan or an advance for which a borrower is not able to pay either interest or principal amount or both remain overdue for a period of 90 days. In others words, a non-performing assets are those assets when it discontinuance to generate income for bank and the principal amount back is also terminated. The Non-performing Assets is the sum of Sub-standard assets, Doubtful assets and Loss assets. NPA is classified two categories Viz. Gross NPA (GNPA) and Net NPA (NNPA). Gross NPA is a better performance indicator than Net NPA of the quality of loan portfolio. It is calculated by the following formulae:

$$\text{GNPA} = \text{Sub-standard Assets} + \text{Doubtful Assets} + \text{Loss Assets}$$

$$\text{GNPA Ratio} = (\text{GNPA} / \text{Gross Advances}) \times 100$$

$$\text{NNPA} = \text{GNPA} - \text{Provisions against NPA}$$

$$\text{NNPA} = (\text{GNPA} - \text{Provision}) / (\text{Gross Advances} - \text{Provision}) \times 100$$

VI. REASONS OF NPAS

For efficient management, it is very important to recognise and classify the factors which are mainly responsible for increase in NPAs. These factors are classified into three categories like internal factors, external factors and factors related to borrowers.

Internal factors	External factors	Factors related to borrowers
(i) Improper identification of borrowers (ii) Defective credit appraisal and lending process (iii) Management deficiencies (iv) Lack of Supervision and training (v) Lack of post disbursement follow-up supervision etc.	(i) Natural calamities (ii) Change on Govt. policies (iii) Political interference (iv) Industrial sickness (v) Wilful defaults etc.	(i) Mis-utilization of loans (ii) Migration (iii) Attitude to default wilfully (iv) Improper monitoring (v) Diversion of fund etc.

VII. IMPACT OF NPAS

The NPAs have its various impacts which are directly or indirectly affected on the performance of the bank. Profitability, Liquidity, Involvement of management and Credit Loss are the most important factor which are worst affected by the mounting NPAs.

Profitability: NPA not only affect current profit, it also affect the future stream profit which leads to loss some long term beneficial opportunity. NPAs negatively impact on the profitability of the bank. Another impact of reduction in profitability is low (Return on Assets) ROA. It is calculated by the following formula:

ROA = Net Profit or Loss/Total Assets

Liquidity: Loans and advance is getting blocked due to NPAs, the desired profit is also decreased. So, lack of sufficient cash at hand lead to borrowing money for shortage period of time. As a result, bank has to bear additional cost and face some difficulty in the operating function. So, the NPAs directly affect the liquidity position of the bank due to enough cash. It is calculated by the following formula:

Liquidity = Total Assets/ Total loans

Involvement of Management: Now the bank employs some special employee to deal and handle NPAs, for which bank has to bear additional cost. Besides, time and effort of management is one of the another indirect cost which bank has to bear due to NPAs. It is calculated by the following formula:

Involvement of Management = Operating Expenses/ Total Revenue

Credit Loss: Due to NPAs bank facing several problems and it adversely affect the value of bank in terms of market credit. There is chance of bankruptcy or collapse goodwill, brand image, equity value and credit which have negative impact to the public and shareholders. It is calculated by the following formula:

Credit Loss = Non-Performing Loans/ Total Loans

VIII. ANALYSIS OF PERFORMANCE OF UCO BANK WITH REFERENCE TO NPA

Non-performing assets are one of the most important parameters to analysing financial performance of the bank. This section evaluates financial health of UCO Bank.

Table 1: Net NPA Ratio and Gross NPA Ratio of UCO Bank

Year	Net NPAs (Rs. Crore)	Net NPA Ratio (%)	Gross NPAs (Rs. Crore)	Gross NPA Ratio (%)
2014	3556.43	2.38	6621.37	4.32
2015	6330.58	4.30	10265.05	6.76
2016	11443.50	9.09	20907.73	15.43
2017	10703.39	8.94	22540.95	17.12
2018	14082.07	13.10	30549.92	24.64
Average		7.56		13.65
SD		4.25		8.22
CV		18.10		67.63

Source: Compiled from Annual Reports of the UCO Bank.

It is observed from Table 1 the Gross NPA ratio has shown an increasing trend in UCO Bank from 2013-14 to 2017-18. Gross NPA ratio of UCO Bank increased from 4.32 percent to 24.64 percent. There is no significant improvement in recovery of NPAs along with a rise of gross loans and advance led to highly increase in the Gross NPA to gross advance ratio. The average Gross NPA ratio is 13.65 percent. The standard deviation of Gross NPA ratio is 8.22 percent

and coefficient of variance of Gross NPA ratio is 67.63 percent. The Net NPA ratio has also shown an increasing trend in UCO Bank from 2013-14 to 2017-18. Net NPA ratio of UCO Bank increased from 2.38 percent to 13.10 percent. The asset quality of UCO banks has not been improving over the last five years as reflected in the increasing trend of NPA to Advances ratio. The average Net NPA ratio is 7.56 percent. The standard deviation of Net NPA ratio is 4.25 percent and coefficient of variance of Net NPA ratio is 18.10 percent.

Table 2: Sector-wise classification of NPAs of UCO Bank

Year	Priority Sector NPAs		Non-Priority Sector NPAs		Total NPAs
	Rs. in Crore	Percentage (%)	Rs. in Crore	Percentage (%)	
2014	2920	44.10	3701	55.90	6621
2015	3875	37.75	6390	62.25	10265
2016	4804	22.98	16104	77.02	20908
2017	5652.69	25.08	16888.26	74.92	22540.95
2018	6589.45	21.57	23960.47	78.43	30549.92
R	0.971		0.999		

r = Coefficient of Correlation between the amounts of different sectors to the total amounts

Source: Compiled from Annual Reports of the UCO Bank.

UCO Bank classified there total NPAs into two categories viz. Priority Sector and Non-Priority Sector. Table 2 shows the sector wise NPAs of UCO Bank for five years from 2014-2018. It depicts the percentage of NPAs in Priority Sector to the total NPAs of UCO Bank has significantly decreased from 44.10 percent in 2013-14 to 21.57 percent in 2017-18. The proportion of Non-Priority Sector to the total NPAs significantly increased from 55.90 percent in 2013-14 to 78.43 percent in 2017-18. The correlation between Priority

Sector NPAs and total NPAs is 0.971; this indicates a higher degree of positive relationship between Priority Sector NPAs and total NPAs. This result implies that with an increase of Priority Sector NPAs, there has been a corresponding increase in total NPAs. Again the correlation between Non-Priority Sector NPAs and total NPAs is 0.999; this indicates a very higher degree of positive relationship between Non-Priority Sector NPAs and total NPAs. This result implies that with an increase of Non-Priority sector NPAs, there has been a corresponding increase in total NPAs.

Table 3: Correlation between Net Profit and Net NPA

Year	Net Profit (Rs. in Crore)	Net NPA (Rs. in Crore)
2014	1510.59	3556.43
2015	1137.79	6330.58
2016	-2799.25	11443.50
2017	-1850.66	10703.39
2018	-4436.36	14082.07
Correlation (r)	-0.99732	

Source: Compiled from Annual Reports of the UCO Bank.

Table 3 shows that the correlation between net profit and net NPA is -0.997. It indicates that there is a very high degree of negative correlation between net profit and net NPA. It depicts that while NPA is increasing, the net profit is

decreasing. The net profit of UCO Bank starts negatively decreasing from 2015-16. The main reason of decreasing net profit is the huge amount of money NPA during this period. It leads to adverse effect on profitability and financial health of the bank.

Table 4: Financial Performance of UCO Bank

Year	Return on Assets (ROA) (%)	Net Interest Margin (%)	Liquidity (%)	Involvement of Management (%)	Business per Branch (Rs. in Crore)	Business per employee (Rs. in Crore)
2014	0.70	2.82	1.60	0.12	121.87	15.28
2015	0.48	2.35	1.67	0.12	121.24	15.51
2016	-1.25	2.16	1.94	0.14	111.35	11.81
2017	-0.75	1.56	1.93	0.16	107.26	13.48
2018	-1.88	1.32	2.01	0.19	98.40	12.74

Source: Compiled from Annual Reports of the UCO Bank.

Table 5: Descriptive Statistics of Financial Performance of UCO Bank

	Return on Assets (%)	Net Interest Margin (%)	Liquidity (%)	Involvement of Management (%)	Business per Branch (Rs. in Crore)	Business per employee (Rs. in Crore)
Mean	-0.54	2.04	1.83	0.15	112.02	13.76
Median	-0.75	2.16	1.93	0.14	111.35	13.48
Maximum	0.70	2.82	2.01	0.19	121.87	15.51
Minimum	-1.88	1.32	1.6	0.12	98.4	11.81
Std. Dev.	1.11	0.60	0.18	0.03	9.88	1.60
Skewness	0.059	0.252	-0.557	0.834	-0.388	0.025
Kurtosis	-2.28	-1.49	-2.63	-0.41	-1.24	-2.57
Observation	5	5	5	5	5	5

Source: Compiled from Annual Reports of the UCO Bank.

Return on Assets (ROA) is a profitability ratio that helps determine how a company efficiently uses its assets. Table 4 shows that ROA of the bank significantly decreasing. It indicates that the bank performance is deteriorating. Again, from 2015-16 to 2017-18 ROA is negative, it indicates that the bank trended towards having more invested capital and there is negative profit. Net Interest Margin is also considered a significant profitability indicator for evaluating the effectiveness and stability of bank. Table 4 shows that the Net Interest Margin is significantly decreasing trend, it also depicts that the interest earned would fall and the NPAs are rising. It is observed that the involvement of management is comparatively increased over the year, which indicates that financial status based on NPA in terms of involvement of management of the bank is very poor that adversely affect the financial performance of the bank. The performance of a banking unit is adjudged in terms of certain key parameters and their ratio such as cost to income ratio, business per employee, business per branch etc. By using ratio such as business per employee, business per branch, understand the trend in labour productivity devoid of the influence pricing of services rendered by the bank. Business per branch of UCO bank decrease from Rs. 121.87 Crore in 2013-14 to Rs. 98.40 Crore in 2017-18. The relatively low business per branch

could be attributed to large proportion of rural branches where the size of transaction is small.

IX. FINDINGS

- The fund blocked in due to huge amount of Gross NPA Rs.30549.92 Crore during the year 2017-18. But there is no time frame and significance follow up to recover the blocked amount.
- The Gross NPA level during the study period is quite alarming i.e. Gross NPA Ratio increasing from 4.32 percent in 2013-14 to 24.64 percent in 2017-18.
- The Net NPA Ratio during the study period shows a marked rising trend. It increases from 2.38 percent in 2013-14 to 13.10 percent in 2017-18.
- A highly negative correlation between Net NPA and Net Profit was observed. It leads to adverse effect on profitability of the bank.
- ROA significantly decrease of the bank during the study period and last three years it is negative.
- Net Interest Margin is significantly decreased of the bank during the study period.
- Involvement of Management during the study period shows a rising trend. It increases from 0.12 percent in 2013-14 to 0.19 percent in 2017-18.

X. CONCLUSION

The increasing level of NPAs is the major problem in Indian banking sector. As huge amount of money of UCO Bank blocked as NPAs, both the level of Gross NPAs and Net NPAs is increasing trend and negative relationship between Net Profit and Net NPAs so it adversely influences the overall performance of the bank. For better management of NPAs, the UCO Bank should be evaluating the causative factors for NPAs so that corrective measure can be taken.

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