

Non-Performing Assets of RRB'S in India

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Abstract

Banking industry is one of the basic instruments of economic growth. It should be on a sound footing as it constitutes an important link in various socio-economic activities. A strong banking sector is important for a flourishing economy. The failure of the banking sector in any country may have an adverse impact on other sectors. In India, non-performing assets (NPAs), are one of the major concerns in the financial system in general and banking sector in particular. The assets which do not perform any role in getting profit are called NPAs. *The more the NPAs the lower the performance of any financial institution.* The issue of NPAs has been discussed at length all over the globe. The NPAs not only affect the organization, but also the entire economy of any country. An attempt is made in this article to review the NPAs of regional rural banks (RRBs) after merger/amalgamation in the recent decade.

Keywords: loan assets, non-performing assets (NPAS), sub-standard assets, doubtful assets, loss assets, reserve bank of India (RBI)

1. Introduction Concept of NPA

The NPA relates to loans, advances and so on of a financial institution. As long as an asset generates expected income and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset. When it fails to generate the expected income, it becomes NPA. In other words, an asset becomes NPA when it ceases to generate income, dues for more than 90 days. A NPA is an advance where payment of interest or repayment of instalment on principal or both remains unpaid for a stipulated period.

2. Review of literature

A considerable account of research has been carried out in relation to NPAs of banks by academicians, researchers, policy-makers etc. The literature is available in the form of reports of various committees, commissions, study and working groups constituted by governments, RBI, economic analysts and researchers etc. Kaveri (2001) studied the NPAs of several banks and suggested strategies to reduce the extent of NPAs. Jaynal Ud-din Ahmed (2011) has concluded that the earning capacity and profitability of banks had adversely affected by the incidence of high level of NPAs. The reduction of NPAs in banks poses a biggest challenge. Sandeep and Parul Mital (2012) have analysed the comparative position of NPAs of select public and private sector banks. Zahoor Ahmed and M. Jagadeeshwaran, (2013) had summed up that NPA is a major problem and hurdle faced by the banking industry. And also highlighted the causes like wilful default, improper processing of loan proposals, poor monitoring and follow up and so on. Thus there are many studies on the NPAs of banks. The specific studies on RRBs are scant in the literature. The studies on RRBs after merger/amalgamation are almost nil.

3. Tools of analysis

The analysis of data is the core part of research. Scientific methods were adopted nowadays to get the output or study made authentic and suffice to the purpose for which the study is meant for. The collected data were processed. To obtain the relevant results, the data has been tabulated, analysed and interpreted with the help of appropriate statistical tools like averages, coefficient of variation (C.V.), compound annual growth rate (CAGR), coefficient of correlation and t test, This is carried out through EXCEL and SPSS software. The study is confined to a period of 10 years i.e., from 2007 to 2016.

4. Classification of assets

Assets are classified into standard and NPAs. A standard asset is a performing asset. Standard asset generates continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. The NPAs are categorised into sub-standard, doubtful and loss. A substandard asset would be one, which has remained as NPA for a period less than or equal to 12 months. Such an assets will have defined credit weaknesses that jeopardize the liquidation of debt. This is characterised by the distinct possibility that the banks will sustain some loss, if deficiencies, are not corrected. Doubtful asset is one which remains in the sub-standard category for period of more than 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values-highly questionable and improbable. All those assets which cannot be recovered are loss assets. A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection team but the amount has not been written off wholly. In other words, such an asset is considered

uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

5. Non-performing assets

The assets of the RRBs are classified into two broad groups such as performing and non - performing as shown in the Table 1. The performing assets were Rs. 69,484.94 crores in 2007 and gradually raised to Rs. 2,65,661.61 crores in 2016. There is no decline in any one of the years. On the other hand, net NPAs were Rs. 22.96 crores in 2007 as against Rs. 190.51 crores in 2016. There is a decline in 2014. The proportion of NPAs in the total assets was the highest at 0.072 per cent in 2016 and the least at 0.023 per cent during 2008. On an average, per year, performing and NPAs stood Rs. 161,133.33 crores and Rs. 80.68 crores sequentially. Coefficient of variation (C.V.) is the highest at 66.76 per cent in NPAs while the lowest at 43.71 per cent in performing assets. The growth rate is 23.56 per cent and 14.35 per cent in the former and latter respectively. The calculated value of ‘t’ is more than the corresponding critical value at one percent level. Hence, it is significant at one per cent level. It may be concluded that there is a steady increase in performing assets. But there are fluctuations in the growth of NPAs.

Table 1: Assets of RRBS during 2007-16 (Rs. crores)

Year (1)	Performing (2)	Net NPAs (3)	Total (4)	% of col (3) to col (4) (5)
2007	69,484.94	22.96	69,507.90	0.033
2008	82,853.14	19.28	82,872.42	0.023
2009	98,822.36	30.31	98,852.67	0.031
2010	120,487.10	50.03	120,537.13	0.042
2011	139,459.40	69.15	139,528.55	0.050
2012	165,174.11	91.42	165,265.53	0.055
2013	195,440.89	111.36	195,552.25	0.057
2014	221,360.03	95.80	221,455.83	0.043
2015	252,589.73	125.99	252,715.72	0.050
2016	265,661.61	190.51	265,852.12	0.072
Average	161,133.33	80.68	161,214.01	
S.D.	70,429.46	53.86	70,480.51	
C.V. (%)	43.71	66.76	43.72	
CAGR	14.35	23.56	14.36	
‘t’ cal	7.235**	4.737**	7.233**	

Note: S.D: Standard deviation C.V. : Coefficient of variation
CAGR: Compound annual growth rate **: Indicates significant at 1 per cent level

Source: Relevant issues of NABARD, Annual Report, Mumbai.

5.1 Classification of NPAs

The target of banks is to shift more assets to standard category so as to make more profits and improve their financial position. Of the NPAs, sub - standard assets were at Rs. 18.42 crores in 2007 as compared to Rs. 28.60 crores in 2016 (see Table 2). In percentage terms, these have formed 80.23 per cent in 2007 while 15.01 per cent in 2016. There are volatile changes in absolute as well as relative terms. The doubtful assets were Rs. 4.54 crores in 2007 vis - à - vis Rs. 153.99 crores in 2016. Its share in the total NPAs has varied between 19.77 per cent and 98.52 per cent. The loss assets were absent during 2007-10. These emerged in the rest of the period. These were Rs. 1.02 crores in 2011 whereas Rs. 7.92 crores in 2016. In relative terms, these have varied between 0.92 per cent and 6.29 per cent in the period. In the meantime, there are to and fro changes. It may be said that the doubtful

debts have increased as against decrease in sub - standard assets. This is not favourable to the bank. The loss assets were absent in first four years. But their presence with increasing trend in the recent 6 years is not a good sign for the bank. There is no improvement in the asset profile of RRBs. The NPAs mainly from sub –standard and doubtful categories.

Table 2: Classification of NPAs in RRBS during 2007-16 (Rs. crores)

Year	Sub - standard	Doubtful	Loss	Total
2007	18.42 (80.23)	4.54 (19.77)	0	22.96 (100)
2008	2.40 (12.45)	16.88 (87.55)	0	19.28 (100)
2009	6.86 (22.63)	23.45 (77.37)	0	30.31 (100)
2010	6.01 (12.01)	44.02 (87.99)	0	50.03 (100)
2011	0 (0)	68.13 (98.52)	1.02 (1.48)	69.15 (100)
2012	22.19 (24.27)	68.21 (74.61)	1.02 (1.12)	91.42 (100)
2013	1.02 (0.52)	109.32 (98.17)	1.02 (0.92)	111.36 (100)
2014	6.23 (6.50)	88.55 (92.43)	1.02 (1.06)	95.80 (100)
2015	22.40 (17.78)	95.67 (75.93)	7.92 (6.29)	125.99 (100)
2016	28.60 (15.01)	153.99 (80.83)	7.92 (4.16)	190.51 (100)

Note: Figures in brackets indicate the percentage total.

Source: As in Table 1.

5.2 Relative share

The amount of gross NPA has raised from Rs. 3,178.03 crores in 2007 to Rs. 13,369.50 crores in 2016 with volatile changes (see Table 3). The share of gross NPAs in outstanding advances has decreased from 6.55 per cent in 2007 to 6.45 per cent in 2016 with relative ups and downs. On an average, gross NPAs stood at Rs. 6,476.76 crores during the period. The C.V. in the case of gross NPAs is 59.91 per cent. The CAGR was 15.45 per cent, which is significant at one per cent level.

Table 3: Non - performing assets of RRBs in India during 2007 – 16 (Rs. crores)

Year (1)	Loans & advances o/s (2)	Gross NPAs (Rs.) (3)	Gross NPA ratio (4)
2007	48,492.59	3,178.03	6.55
2008	58,984.27	3,566.34	6.05
2009	67,802.10	2,807.01	4.14
2010	82,819.10	3,084.82	3.72
2011	98,917.43	3,709.40	3.75
2012	1,16,384.97	5,854.16	5.03
2013	1,37,078.00	8,361.76	6.10
2014	1,59,406.00	9,707.83	6.09
2015	1,80,955.00	11,128.73	6.15
2016	2,07,279.00	13,369.50	6.45
Average	1,15,811.85	6,476.76	
S.D.	54,163.37	3,880.35	
C.V. (%)	46.77	59.91	
CAGR	15.63	15.45	
‘t’ cal	6.762**	5.278**	

Note: S.D: Standard deviation C.V. : Coefficient of variation
CAGR: Compound annual growth rate **: Indicates significant at 1 per cent level

Source: As in Table 1.

5.3 Provision to NPAs

The year - wise provision made towards NPAs is provided in the Table 4. The addition to net NPAs was Rs. 22.96 crores in 2007 when compared to Rs. 125.99 crores in 2016. In the meantime, the amount of provision has considerably varied. The collection during the year was Rs. 10.84 crores in 2008 as against Rs. 8.11 crores in 2016. It was absent in 2007, 2009

and 2012. On an average, per year, net NPAs at the beginning of the year, additions to NPAs during the year and collection of NPAs during the year stood at Rs. 61.63 crores, Rs. 24.56 crores and Rs. 5.51 crores sequentially. The C.V. in collection during the year is 144.74 per cent indicating more variability and less consistency. The CAGR in net NPAs at the end of the year 26.50 per cent and beginning 20.82 per cent, additions (fresh NPAs) was 13.65 per cent and collection -

3.17 per cent. As per the norms stipulated, the RRBs have created provision for NPAs, which is dependent on several factors to. It may be said that there are variations in the provision created for net NPAs in absolute and relative terms during the period. However, there is almost a declining trend in percentage terms. The provisions created varied due to the variation in the opening net NPAs, collection and additions during the year.

Table 4: Year - wise Accretion to NPAs in RRBS during the period 2007-16 (Rs. crores)

Year (1)	NPAs at the beginning of the year (2)	Additions during the year (3)	Total (2+3) (4)	Collection during the year (5)	NPAs at the end of the year (4-5) (6)
2007	0.00	22.96	22.96	0.00	22.96
2008	22.96	7.16	30.12	10.84	19.28
2009	19.28	11.03	30.31	0.00	30.31
2010	30.31	22.57	52.88	2.85	50.03
2011	50.03	26.36	76.39	7.24	69.15
2012	69.15	22.27	91.42	0.00	91.42
2013	91.42	19.95	111.37	0.00	111.37
2014	111.37	9.55	120.92	25.12	95.80
2015	95.80	31.12	126.92	0.93	125.99
2016	125.99	72.63	198.62	8.11	190.51
Average	61.63	24.56	86.19	5.51	80.68
S.D.	43.37	18.56	55.41	7.97	53.86
C.V. (%)	70.37	75.58	64.29	144.74	66.76
CAGR	20.82	13.65	27.09	-3.17	26.50

Note: S.D: Standard deviation C.V: Coefficient of variation CAGR: Compound annual growth rate, **Source:** As in Table 1.

5.4 Collection and upgradation

It can be observed that the bank has collected Rs. 10.84 crores in 2008 and Rs. 8.11 crores at the end of 2016 (see Table 5). The amount recovered from net NPAs was Rs. 10.84 crores in 2008 as against Rs. 0.66 crores in 2016. The amount of outstanding advances upgraded as net NPAs has declined from Rs. 5.40 crores in 2011 to Rs. 1.23 crores in 2016. There is no upgradation in 6 years. The amount written off from NPAs was Rs. 17.46 crores in 2014 as compared to Rs. 6.22 crores in 2016. The written off is absent in 8 years. In order to test whether the write offs have linear relationship with upgradation, the correlation coefficient is performed. The results are furnished in the Table-6. The write offs and upgradation has low correlation.

Table 5: Collection during the period in RRBs during 2007 – 16 (Rs. crores)

Year	Collection during the year	Recovery	Upgradation	Written off
2007	0.00	0.00	0.00	0.00
2008	10.84	10.84	0.00	0.00
2009	0.00	0.00	0.00	0.00
2010	2.85	2.85	0.00	0.00
2011	7.24	1.84	5.40	0.00
2012	0.00	0.00	0.00	0.00
2013	0.00	0.00	0.00	0.00
2014	25.12	6.79	0.87	17.46
2015	0.93	0.58	0.35	0.00
2016	8.11	0.66	1.23	6.22

Source: As in Table 1.

Table 6: Correlation between Write Offs and Upgradation

	Upgradation	Written off
Upgradation Pearson Correlation	1	-.112
Sig. (2-tailed)		.833
N	6	6
Written off Pearson Correlation	-.112	1
Sig. (2-tailed)	.833	
N	6	6

Source: From Table- 5.

The linear correlation is -0.11, which is close to -1. There is high degree of negative correlation between write offs and upgradation of the RRBs.

5.5 Recovery

The recovery of NPAs for the period 2007-16 is given in the Table 7. The amount recovered from net NPAs was Rs. 10.84 crores in 2008 as against Rs. 0.66 crores in 2016. In the meantime, there are ups and downs. The amount recovered was absent in 2007, 2009, 2012 and 2013. The proportion of recovery to net NPAs was 56.22 per cent in 2008. It has undergone to and fro changes over the period and finally stood at 0.35 per cent at the end of 2016. On an average, per year, amount recovered from NPAs stood Rs. 1.27 crores. The degree of variation in the amount recovered was 155.23 per cent. The CAGR in net NPAs was 21.05 per cent while in the amount recovered -32.96 per cent.

Table 7: Recovery of NPAs in RRBS for the period 2007-16 (Rs. crores)

Year (1)	Net NPAs (2)	Amount recovered (3)	% of col (3) to col (2) (4)
2007	22.96	0.00	0.00
2008	19.28	10.84	56.22
2009	30.31	0.00	0.00
2010	50.03	2.85	5.70
2011	69.15	1.84	2.66
2012	91.42	0.00	0.00
2013	111.36	0.00	0.00
2014	95.80	6.79	7.09
2015	125.99	0.58	0.46
2016	190.51	0.66	0.35
Average	80.68	2.36	
S.D.	53.86	3.66	
C.V. (%)	66.76	155.23	
CAGR	21.05	-32.96	

Note: S.D. : Standard deviation C.V. : Coefficient of variation
CAGR: Compound annual growth rate **Source:** As in Table 1.

6. Conclusion

Gross NPA ratio has progressively decreased from 6.55 per cent in 2007 to 6.45 per cent in 2016 with relative ups and downs during 2007-16. On the other hand, net NPAs have just increased, from Rs. 22.96 crores in 2007 to Rs. 23.33 crores in 2016. The doubtful debts have increased as against sub - standard assets. This is not favourable to the bank. The loss assets were absent in first four years. But their presence with increasing trend in the recent 6 years is unwelcome. There is no marked improvement in the asset profile of the RRB. It is held that the recoveries are due mainly from sub – standard and doubtful categories and not from the loss category. The amount recovered were absent in 2007, 2008, 2009, 2012 and 2013. It may be concluded that the amount collected from NPAs was higher in 2010 when compared to 2016. There is no collection during 2007, 2009 and 2012. There is no upgradation during 2012 and 2013. The NPAs were written off 2014 and 2016 only. Thus, the RRBs have additionally upgraded NPAs out of outstanding advances and simultaneously written off certain amount from NPAs. This is so because the past dues have elapsed and the RRB thought that some of the NPAs could not be recovered in the future also. Hence they are upgraded and written off.

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