



Non-Performing Assets (NPA) Of Regional Rural Banks of Maharashtra: A Comparative Analysis

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Abstract:

The rising trend of NPA among the nationalised banks of India is not only a problem for the banks but also a major concern for the economy. It not only affects the profitability of the banks but also hampers the economic development of the country. In this paper, the researchers attempt to assess the growth rate of NPAs of RRBs in Maharashtra (MGB and VKGB) from 2013-14 to 2014-15 but also compares the NPA recovery rate between the RRBs. The paper also analyses the growth in Gross and Net NPAs of both the banks with respect to gross and net advances of respective Banks and the growth in Gross and Net NPAs of both the banks with respect to total assets of respective banks during this period. The findings clearly reveal that that the Maharashtra Gramin Bank (MGB) which operates in the rural districts of Maharashtra, manages NPA better than Vidharbha Konkan Gramin Bank (VKGB), during this period. The paper which is descriptive in nature is based on secondary data and the data have been extracted from the annual reports of Vidharbha Konkan Gramin Bank (VKGB) and Maharashtra Gramin Bank (MGB).

Keywords: Maharashtra Regional Rural Banks, Non performing assests, profitability, Vidharbha Konkan Gramin Bank (VKGB), Maharashtra Gramin Bank (MGB).

I. INTRODUCTION:

Non Performing Assets (NPA) has always been a major concerned for all the commercial banks in India. It has been the single largest cause of irritation of the banking sector of India. The latest data reveals an alarming trend of NPAs among the nationalized banks including the largest commercial bank, the State Bank of India. Increasing NPAs at an alarming rate is a threat to the banking industry since it sends distressing signals on the sustainability of the affected banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability of banks and also erodes the value of the asset. The problem of NPAs not only affects the banks but also the economy as a whole. Higher level of NPA would force the banks to charge higher PLR and PLR related interest rates. This will attract high risk borrowers which, in turn, may result in higher level of non-performing advances in future. Mismanagement or diversion of fund is also one of the main causes of NPA (Pradhan Tanmaya 2012). According to Poongavanam.S (2011), an NPA account not only reduces profitability of banks by provisioning in the profit and loss account, but their carrying cost is also increased which results in excess and avoidable management attention. Apart from this, a high level of NPA also puts strain on a bank's net worth because banks are under pressure to maintain a desired level of Capital Adequacy and in the absence of comfortable profit level; banks eventually look towards their internal financial strength to fulfill the norms thereby slowly eroding the net worth. Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. According to the RBI guideline

“Nonperforming Asset” (NPA) means an asset in respect of which:

- 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;
- Interest or principal (or instalment thereof) is overdue for a period of 90 days or more from the date fixed for receipt thereof;
- Interest or principal (or instalment thereof) is overdue on expiry of the planning period, where no plan is formulated for realization of the assets;
- 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

The identification of non-performing assets is done on the basis of the position as on the balance sheet date. If an account is regularized before the balance sheet date by payment of overdue amount, the account may not be treated as a non-performing Asset. Now-a-days, banks are evaluated on the basis of percentages of their non-performing assets. Therefore, banks make their best possible efforts to reduce the percentages of their NPAs (Jain & Narang, 2009). In the literature, generally NPAs are divided as Gross NPA and Net NPA. Gross NPA is the amount outstanding in the borrower accounts in the books of the bank other than the interest which has been recorded and not debited to the borrower account; Net NPA is the amount of gross NPA less (1) Interest debited to borrow and not recovered & not recognized as income & kept in insurance suspense, (2) Amount

of provision held in respect of NPAs & (3) Amount of claim received & not appropriated (Gupta Bratati, 2012). In this background, the paper attempts to study the rising trend of NPAs of two Regional Rural Banks of Maharashtra which are MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB).

The paper is organized into five parts. The first part presents the background of the paper including objectives, hypotheses, research methodology; the second part presents the review of literature and an outline of RRBs of Maharashtra. The third part presents findings, the fourth presents the major findings and conclusion and the last part presents references.

Brief about Maharashtra Gramin Bank (MGB) and its branch network:

Maharashtra Gramin Bank a Regional Rural Bank, sponsored by Bank of Maharashtra came into existence on 20.7.2009 by merging erstwhile two RRBs viz., Marathwada Gramin Bank and Maharashtra Godawari Gramin Bank. The Bank is sponsored by Govt. of India, Bank of Maharashtra and Government of Maharashtra in proportion of 50:15:35.

The area of operation of the Bank comprises of sixteen districts of Maharashtra State namely Nanded, Parbhani, Hingoli, Beed, Latur, Osmanabad, Pune, Aurangabad, Jalna, Thane, Ahmednagar, Jalgaon, Dhule, Nashik, Nandurbar and Raigad.

The Bank is having 6 Regional Offices located at Nanded, Parbhani, Latur, Beed, Jalna and Thane. The Bank is having a three tier organizational structure comprising of Branches, Regional Offices and Head Office with a network of 391 Branches and one extension counter.

The product and Services offered by the Bank include demand deposits, time deposits, working capital finance, term lending, retail loans, industrial / corporate loans, remittances and other fee based products like safe deposit lockers.

The broad function of the Bank are acceptance of deposits from public as per the norms prescribed by the RBI, Government of India for lending and investment and rendering of services to customers such as collection of cheques, issue of Demand Drafts, Mail Transfer, Lockers, ATMs, etc. i.e. all banking facilities. Maharashtra Gramin Bank is established with a view to developing the rural economy by providing; for the purpose of development of Agriculture, Trade, Commerce, Industry and other productive activity in rural area, credit and other facilities particularly to Small Farmers/ Medium Farmers/ Allied Activity/ Rural Artisans and Small Entrepreneurs for the matter connected these with and incidental there to.

Brief about Vidharbha Konkan Gramin Bank (VKGB) and its branch network:

Vidharbha Konkan Gramin Bank came into existence on 28th February, 2013 through amalgamation of erstwhile Wainganga Krishna Gramin Bank, Solapur and Vidharbha Kshetriya Gramin Bank, Akola, Maharashtra State. The objectives of the Bank are to improve the economy of the rural, semi-urban/urban centers

by providing financial and other support for agriculture, trade, commerce, industry and other productive activities through extension of timely and adequate credit and other facilities and create employment opportunities in the villages and small towns; inculcating the habit of savings amongst the rural poor through banking channels and complete the goal of Financial Inclusion as envisaged by Government of India and Reserve Bank of India. The authorised capital of the Bank is Rs.1000 Lakhs and the paid up capital is Rs.700 Lakhs. Governments of India, Government of Maharashtra and Bank of India have contributed 50%, 15% and 35% shares respectively in the share capital of the Bank. The area of operation of the Bank covers 17 districts of Maharashtra State viz. Chandrapur, Gadchiroli, Wardha, Bhandara, Gondia, Nagpur, Buldhana, Akola, Washim, Yavatmal, Amaravati, Solapur, Sangli, Satara, Kolhapur, Ratnagiri and Sindhudurg. And has 6 regionals office in Solapur, Chandrapur, Ratnagiri, Bhandara, Akola and Yavatmal. The Bank is serving its cliental through 318 branches, 1 satellite and 84 Ultra Small Branches spread across the area of operation. All these branches are functioning on Core Banking Solution platform. The Board of Directors comprises of nine directors. Besides Chairman from Sponsored Bank, there is one Nominee director each from RBI and NABARD, two Nominee directors each from Sponsor Bank, Government of Maharashtra and Central Government.

OBJECTIVES:

1. To find out the trend of NPA of MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB) from 2013-14 and 2014- 2015.
2. To analyse the growth in Gross and Net NPAs of MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB) with respect to gross and net advances of respective Banks from 2013-14 and 2014- 2015.
3. To analyse the growth in Gross and Net NPAs of MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB) with respect to total assets of respective banks from 2013-14 and 2014- 2015.
4. To analyse the comparative growth in the recovery rate of MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB) during 2013-14 and 2014- 2015.

HYPOTHESES:

1. There is same increasing trend of NPAs in both MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB) during 2013-14 and 2014- 2015.
2. Higher growth rate in gross and net NPAs as against gross and net advances in case of MAHARASHTRA GRAMIN BANK (MGB) but higher growth rate in gross and net NPAs as against total assets in case of VIDHARBHA KONKAN GRAMIN BANK (VKGB).

3. There is same growth rate in the NPA recovery of MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB) during 2013-14 and 2014- 2015.

RESEARCH METHODOLOGY:

The study is descriptive in nature. It is based on secondary data. The data have been collected from annual reports of MAHARASHTRA GRAMIN BANK (MGB), VIDHARBHA KONKAN GRAMIN BANK (VKGB), RBI, books, journals and websites. For analysing the data, descriptive statistics like Tabulation and Percentage have been used. The study covers four years from 2013-14 and 2014- 2015.

LIMITATIONS OF THE STUDY:

The study is restricted to only 4 years performance that is from 2013-14 and 2014- 2015 and the study does not analyse the causes of Non-Performing Assets of the Vidharbha Konkan Gramin Bank and Maharashtra Gramin Bank.

II. REVIEW OF LITERATURE:

There are number of studies about the NPAs and it's possible

Impacts on Indian economy. Studies of Satpal (2014), Samir and Karma (2013) Chatterjee, Mukherjee and Das (2012) Rajput, Arra and Kaur (2011) reveal that NPAs not only affect the performance of credit institutions but also have a direct negative impact on economy. In the studies of Ganesan and Santhanakrishnan (2013), Gupta Bratati (2012) Sumathi Gopal (2010), it is clearly revealed that the sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs) . According to Sontakke and Tiwari (2013) NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. However according to Vemula and become very cautious in extending loans, the reason being mounting non-performing assets.

Research gap:

From the review of literature, it is revealed that all the studies are related to its impact on banking operations, depositors, economy as a whole, etc. Whereas any study doesn't analyse about the raising trend of NPAs particularly among the RRBs. The study of NPA of RRBs of Maharashtra that is VIDHARBHA KONKAN GRAMIN BANK (VKGB) and MAHARASHTRA GRAMIN BANK (MGB) is not found in the existing literature. Hence, the study is an attempt to fill up the existing research gap.

Table 1: A comparative statement of MAHARASHTRA GRAMIN BANK (MGB) and VIDHARBHA KONKAN GRAMIN BANK (VKGB)

Particulars	MGB (Maharashtra Gramin Bank)	VKGB (Vidharbha Konkan Gramin Bank)
No of Districts as area of operation	16	17
Headquarter	Aurangabad	Nagpur
No. of regional offices	6	6
No of branches	391	318
Profit earned 2013-14	Rs. 35 crores	Rs. 20 crores
Profit earned 2014-15	Rs. 38 crores	Rs. 24 crores

(Amt. in crore in Rs)

Sources : Annual report of VKGB and MGB for the FY 2013 to 2015

Table 2: Growth rate in Gross NPAs of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank) for FY ending in 2014 and 2015

Year	MGB (Maharashtra Gramin Bank)			VKGB (Vidharbha Konkan Gramin Bank)		
	Gross NPAs (Rs in crore)	Absolute increase (in crores)	Percentage of increase (in %)	Gross NPAsRs in crore)	Absolute increase (in crores)	Percentage of increase (in %)
2013-14	144.51	21.95	11.85	129.27	24.82	12.38
2014-15	171.93	27.42	11.90	156.04	26.77	12.07

Computed from the Annual Reports of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank)

Growth rate in Gross NPAs of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank): The table 2 clearly depicts that the growth rate of Gross NPA of both the banks. In case of MGB (Maharashtra Gramin Bank), in the year 2013-14, the growth rate was 11.85%, which increased to 11.90% in 2014-15. While in case of VKGB (Vidharbha Konkan

Gramin Bank) , in 2013-14, the growth rate of Gross NPA was 12.38%, which decreased to 12.07% in 2014-15. The significant finding is that when Gross NPA of MGB (Maharashtra Gramin Bank) in both the years in more than VKGB (Vidharbha Konkan Gramin Bank).

Table 3: Growth rate in Net NPAs of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank) for FY ending in 2014 and 2015

Year	MGB (Maharashtra Gramin Bank)			VKGB (Vidharbha Konkan Gramin Bank)		
	Net NPAs (Rs in crore)	Absolute increase (Rs in crore)	Percentage of increase (in %)	Net NPAs (Rs in crore)	Absolute increase (Rs in crore)	Percentage of increase (in %)
2013-14	565	98	12.10	387	104	13.67
2014-15	703	138	12.44	561	174	14.50

Computed from the Annual Reports of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank)

(b) Growth Rate of Net NPAs: Table 3 clearly indicates the growth rate of Net NPA. The table shows that there is fluctuating trends in both the banks.. In case of MGB, the rate has increased from 12.10% in the year 2013-14 to 12.44% in the year 2014-15.

While in case of VKGB, the growth rate of Net NPA also increased from 13.67% in the year 2013-14 to 14.50% in the year 2014-15 Thus, from the above analysis, it can be said that the trend of the growth rate of Gross and Net NPAs are not same in case of MGB and VKGB .

Table 4: Percentage Gross NPAs as against Gross advances for FY ending in 2014 and 2015

Year	MGB (Maharashtra Gramin Bank)			VKGB (Vidharbha Konkan Gramin Bank)		
	GNPAs (Rs in crore)	G. Adv (Rs in crore)	% of GNPAs on Gadvs (in %)	GNPAs (Rs in crore)	G. Adv (Rs in crore)	% of GNPAs on Gadvs (in %)
2013-14	144.51	259	5.58	129.27	214.53	6.03
2014-15	171.93	292	5.89	156.04	241.35	6.47

Computed from the Annual Reports of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank)

(c) Percentage of Gross and Net NPAs as against Gross and Net advances: Table 4 reveals that the percentage of gross NPAs as against gross advances have been an increasing trend in case of both the banks. In case of VKGB, the ratio has increased from 6.03% in 2013-2014 to 6.47% in 2014-15,

Though the ratio of Gross NPAs to Gross Advances has increased in both the cases, the ratio in case of MGB is higher than that of VKGB

Table 5: Percentage of Net NPAs as against net advances for FY ending in 2014 and 2015

Year	MGB (Maharashtra Gramin Bank)			VKGB (Vidharbha Konkan Gramin Bank)		
	NNPAs (Rs in '000')	N. Adv (Rs in '000')	% of NNPAs on N.Advs	NNPAs (Rs in '000')	N. Adv (Rs in '000')	% of NNPAs on N.Advs
2013-14	565	2530	2.23	387	992	3.90
2014-15	703	2870	2.45	561	1570	3.57

Computed from the Annual Reports of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank)

From Table 5 above, it is observed that the percentage of Net NPA as against Net Advances has also increased in case of both banks over the period of the study. Though the

Ratio of Net NPAs to Net Advances has shown an increasing trend in case of both the banks, the ratio of VKGB is higher than MGB.

Table 6: Table 6: Percentage of Gross and Net NPAs as against Total assets for FY ending in 2014 and 2015

Year	MGB (Maharashtra Gramin Bank)			VKGB (Vidharbha Konkan Gramin Bank)		
	Total Assets (Rs in '000')	GNPAs as % of T.Assets	NNPAs as a % of T.Assets	Total Assets (Rs in '000')	GNPAs as % of T.Assets	NNPAs as a % of T.Assets
2013-14	527	3.65	0.93	379	2.93	0.98
2014-15	632	3.68	0.90	435	2.79	0.78

Computed from the Annual Reports of MGB (Maharashtra Gramin Bank) and VKGB (Vidharbha Konkan Gramin Bank)

d) Percentage of both gross and net NPA as against Total Assets:

Table 6 reveals that the increase in the Gross and Net NPA clearly indicate that the credit defaulter of both banks have been increasing over the study period. From the above analyses, it is found that the percentage of both Gross and Net NPAs as against Gross and Net Advances of MGB are higher than that of VKGB. It is also same in case of the percentage of Gross and Net NPAs as against Total Assets

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