BAD LOANS AND BANK ADVANCES: AN ANALYSIS OF MIZORAM RURAL BANK

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ABSTRACT

Non-Performing assets is a huge problem and a blockade in the path of smooth functioning of banks in India. The one of the major vehicle for country's development, banks are today finding their survivability into difficulty because of the burden of non-performing assets that are increasing with each passing year in the banking sector. The paper in this backdrop has done a study to find out the extent of non-performing assets in Regional Rural Banks in north east India by taking Mizoram Rural Bank as the sample. The study has concentrated on a time period of five years and the results of the study show that Non-Performing Assets has a big toll of the financial well being of Mizoram Rural Bank.

KEYWORDS: *Gross & Net Advances, Mizoram Rural Bank, Non-Performing Assets.*

INTRODUCTION

The latest news of business world in relating to Indian liquor baron Vijay Mallya where he has taken massive loans from different banks and unable to make repayment, is a case which has brought the question of bank's efficiency and credibility in giving loans and the high mount of non-performing assets.

When loans are given to genuine and credit worthy projects, bank get timely repayment but without studying the viability of a project and the reasons for borrowing if loans are forwarded then banks do not get timely repayment or no repayment at all resulting into non-performing of bank's loan assets and generating extra revenue for bank. So long a loan asset performs and remains productive, bank gets revenue but when the assets stop performing then the problem of non-performing assets begins to shake the banking sector. As per the definitions given by the Reserve Bank of India (https://rbi.org.inscriptsBS_ViewMasCirculardetails.aspx?id=9009#CT4), an asset, including a leased asset, becomes non - performing when it ceases to generate income for the

bank. A non   performing asset (NPA) is a loan or an advance where;

✧ Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan; the account remains 'out of order' (if the outstanding balance remains continuously in excess of the sanctioned limit/ drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order') in respect of an Overdraft/Cash Credit (OD/CC),

✧ The bill remains overdue (Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank) for

a period of more than 90 days in the case of bills purchased and discounted,

✧ The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

✧ The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

✧ The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

✧ In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

✧ In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Profile of Mizoram Rural Bank (http://www.mizoramruralbank.com/images/Annual_report/ar14.pdf)

Mizoram Rural Bank was established on the 27th September, 1983 under the Regional Rural Bank Act 1976. The Bank has the privilege of being sponsored by the premier and largest bank of the country, the State Bank of India. The Bank is owned jointly by Govt. of India, Govt. of Mizoram and State Bank of India. It covers all the districts and RD blocks of the State with a network of 75 branches comprising 16 urban, 13 semi urban and 46 rural centres respectively. The Bank also has the largest number of branches among all the banks operating in the State and it ranks second in terms of business, next to its sponsor bank, i.e. State Bank of India.

Classification of Non-Performing Assets:-

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date, these assets include sub-standard, doubtful and loss assets. It reflects the quality of the advances made by banks. Net NPAs reflect the type of NPAs which are determined by deducting items such as provisions, interest due but not recovered, part payment received and other income kept in suspense account from Gross NPAs (Mishra, 2013).

REVIEW OF LITERATURE

Rao (2014) has examined the trends of non-performing assets in India from various dimensions and explains how mere recognition of the problem and self-monitoring has been able to reduce it to a great extent. The study has stated that the issue of mounting non-performing assets is giving jitters to banking sector particularly in many a developing economy and has found that public sector banks in India, which function to some extent with welfare motives, have as good a record in reducing non-performing assets as their counterparts in the private sector.

Sikdar & Makkad (2013) has put forward the means of interpreting credit risk from existing levels of banks' non-performing assets. Their study has discussed the different steps taken and implemented by major Indian commercial banks towards recovery of loans and advances slipping into the non-performing assets bracket. The study has suggested that the problem of non-performing assets can be tackled only with proper credit assessment and risk management mechanism and it is necessary that the banking system is to be equipped with prudential norms to minimize if not completely to avoid the problem of non-performing assets.

Stuti & Bansal (2013) 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. The study has suggested that non-performing assets can be lowered if there is better credit culture, favourable macro-economic situation along with internal evaluation and assessment of the different loan proposals by the banks.

Pradhan (2012) has emphasized the different steps taken by banks to control non-performing assets, norms of the banks for sanctioning loans and the measures under taken by banks recover non-performing assets. The paper has discussed how banks by setting careful and judiciary steps such as examining merit and feasibility of project, credibility of borrower, technical and financial viability and managerial efficiency of client, if loans are sanctioned then the banks can achieve the status to near zero, if not, zero percentage of non-performing assets.

Ramesh & Sudhakar (2012) have investigated the non-performing assets management in public sector

banks by analyzing non-performing assets of canara bank and state bank of India. The study has stated that non-performing assets affect business cycles, legal framework, ethical standards, regulatory and supervisory system and bank specific factors like credit appraisal system; credit recovery procedures risk management system and the motivational level of employees.

OBJECTIVES OF THE STUDY

❖ To find out the trend of gross and net non-performing assets of Mizoram Rural Bank from 2009-10 till 2013-14.

❖ To find out the trend of gross and net advances of Mizoram Rural Bank from 2009-10 till 2013-14.

❖ To find out the relation of gross non-performing assets with gross advances of Mizoram Rural Bank from 2009-10 till 2013-14.

❖ To find out the relation of net non-performing assets with net advances of Mizoram Rural Bank from 2009-10 till 2013-14.

METHODOLOGY

For the study, secondary data has been used and collected from the annual reports of Mizoram Rural Bank. A time frame of five years beginning from 2009-10 till 2013-14 has been taken for the study. The collected data has been analyzed with the help of SPSS software.

Profile of Mizoram Rural Bank

Mizoram Rural Bank was established on 27th September 1983 under the Regional Rural Bank Act 1975. It is perhaps the only Regional Rural Bank in India that has a spread in all the districts and blocks of a state. The bank covers 8 districts and 25 rural development blocks including 1 urban and 11 semi urban centres of Mizoram (http://www.mizoramruralbank.com/).

ANALYSIS

Table: 1- GNPAs and NNPAs of Mizoram Rural Bank (Rs. In thousands)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
GNPAs	166966	272665	382934	417946	379007
NNPAs	122575	201088	272843	251254	217261

(Source: Annual Reports)

The table below shows movement of gross and net non-performing assets for a period of five years and it can be seen that both gross and net non-performing assets are showing an upward trend up to 2012-13 and thereafter a decline in the trend can be seen in 2013-14. Though there in a fall in NPAs in 2013-14 but in comparison to the base year of 2009-10, the overall growth in the five years i.e., from 2009-10 to 2013-14 is 127% for GNPAs and 77% for NNPAs.
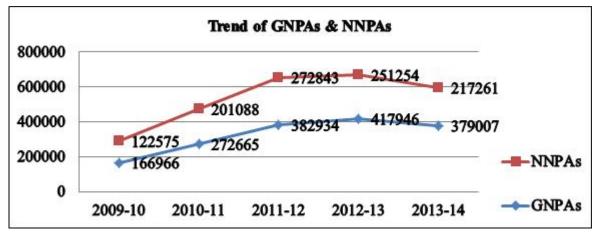
Graph 1

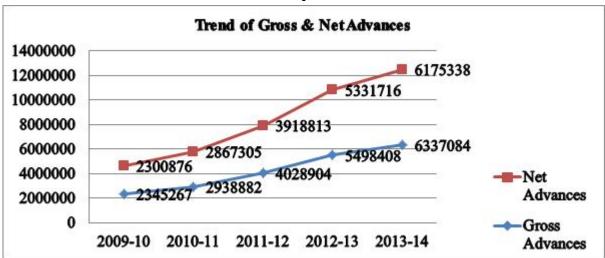### Table: 2- Gross and Net Advances of Mizoram Rural Bank (Rs. In thousands)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Gross Advances	2345267	2938882	4028904	5498408	6337084
Net Advances	2300876	2867305	3918813	5331716	6175338

(Source: Annual Reports)

The graph below shows movement of gross and net advances of Mizoram Rural Bank for a period of five years. The graph shows an upward trend for both gross and net advances and over a period of five years, gross advances increased to the extent of 170% and there is a growth of 168% for net advances.

Graph 2

In order to find out the relation between GNPAs and Gross Advances, and NNPAs and Net Advances, Correlation analysis is done and the results are given below

		GNPAs	**Gross Advances**
GNPAs	Pearson Correlation	1	.843
	Sig. (2-tailed)		.073
	N	5	5
Gross Advances	Pearson Correlation	.843	1
	Sig. (2-tailed)	.073	
	N	5	5

From the above table it can be seen that correlation coefficient between GNPAs and Gross Advances is 0.843 which means that there is high degree of positive relation between GNPAs and Gross Advances. It can be inferred that with increase in gross advances, the volume of GNPAs also increases and vice versa.

		NNPAs	**Net Advances**
NNPAs	Pearson Correlation	1	.590
	Sig. (2-tailed)		.295
	N	5	5
Net Advances	Pearson Correlation	.590	1
	Sig. (2-tailed)	.295	
	N	5	5

From the above table it can be seen that correlation coefficient between NNPAs and Net Advances is 0.590 which means that there is moderate degree of positive relation between NNPAs and Net Advances. It can be inferred that increase in Net Advances do not lead to a very high increase in NNPAs and vice versa.

CONCLUSION

The study is an attempt to look into the problem of NPAs of Regional Rural Banks in North East India and it is seen that Mizoram Rural Bank has high mount of NPAs which keeps on increasing with each passing year. Though bank is providing loans to borrowers and with the passage of each year loan amount lent increases which is a good indication because loans and advances generate revenue for banks, but the troublesome part for Mizoram Rural Bank is that along with increase in loans and advances, the amount of NPAs also is on the rise and it shows the inefficiency on the part of management. Also it suggests that Mizoram Rural Bank do not take precaution while forwarding loans and do not judge the credit worthiness of the proposals for which loan is seek. If within a span of only five years, the burden of GNPAs can reach a growth of 127% then the time is not far when bank will not be in a position to provide loans to genuine borrowers because of

lack of revenue and in spite of being an asset for Mizoram's development, the bank itself will turn into a liability.

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