



NON PERFORMING ASSETS OF SYNDICATE BANK IN MYSORE



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ABSTRACT

This paper examines the causes and management of NPAs, analyses the customers nonpayment of loan. The paper describes steps taken by RBI with regard to NPA's. Also this paper identifies performance of NPA's during the last three years.

KEY WORDS: Assets, Customer, NPA, RBI performance, Banks, Financial Institutions

INTRODUCTION

Non-Performing Assets means an asset or account of a borrower, which has been classified by a bank or financial institution as substandard, doubtful or loss asset, in accordance with the directions or guidelines relation to asset classification issued by RBI.

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A non performing asset (NPA) was defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time.

An amount due under any credit facility is treated as 'past due' when it has not been paid within 30 days from the due date. Due to the improvement in the payment and settlement system's recovery climate, up gradation of technology in the payment and settlement systems recovery climate, up gradation of technology in the banking system, etc., it was decided to dispense with 'past due' concept, with effect from March 31, 2001. Accordingly, as from that date, A Non-Performing Asset (NPA) is considered to be an advance where :

1. Interest and or installment of principal remain overdue for a period of more than 180 days in respect of a Term Loan.

2. The account remains out of order for a period of more than 180 days, in respect of an overdraft or cash credit.
3. The bill remains overdue or a period of more than 180 days in the case of bills purchased and discounted.
4. Interest and or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose, and
5. Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

CLASSIFICATION OF NPAs

Banks/ financial institutions required to classify non-performing assets into the following three categories based on the period for which the asset has remained non performing and the reliability of the dues:

1. Doubtful Assets
2. Loss Assets

Doubtful Assets : -

A doubtful asset was one, which remained NPA for a period exceeding two years. With effect from 31st March 2001, as asset is to be classified as doubtful, it has

remained NPA for period exceeding 18 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified a sub-standard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently know facts, conditions and values highly questionable and improbable.

With effect from March 31, 2005 an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

Loss Assets:-

A loss asset is one where, the bank or internal or external auditors or the RBI inspection have identified loss 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.

STATEMENT OF THE PROBLEM

Banking institutions by providing financial assistance to business units have contributed to economic growth of the country. In recent years Loans and Advances given by them are not yielding expected returns giving rise to NPAs.

Non Performing Assets are becoming real threat to the banking industry. Banks are finding difficult in managing their non performing assets. Non performing assets can affect a bank in such a way that it can stop the functioning of the same. The study concentrates on developing the finance plan for the non performance assets by analyzing on information available in syndicate bank.

SCOPE OF THE STUDY

The Study is conducted to know the NPA's effect on the functioning of Syndicate bank and way in which NPA's are managed and recovered.

The study is mainly intended to know why the bank incurs such a High non performing assets. The bank is trying to keep its nonperforming assets to the least.

OBJECTIVE OF THE STUDY

- ✧ To the study the causes and management of NPAs
- ✧ Procedures involved in the recovery to the nonpayment of the loan.
- ✧ Customers view point with regard to the nonpayment of the loan.
- ✧ To study the steps taken by RBI with regard to NPAs
- ✧ To study the performance of NPAs during the last 3 years.

RESEARCH METHODOLOGY

Primary Data :-

Primary data are those collected by the customer for the first time and thus they are original in character. Primary data are Direct data will be made through personal interview with structured questionnaire.

Limitations of the Study:-

- ✧ The result of the study is applicable only to the specific bank and not to all banks.
- ✧ Time constraint.
- ✧ Area of the study is restricted to the city of Mysore
- ✧ Some core data cannot be collected due to confidential policies of the bank.

Sample size:-

The size of the sample is 90 respondents from Mysore city. The sampling techniques used as simple random sampling.

Company profile:-

Syndicate Bank was established in 1925 in Udupi, the abode of Lord Krishna in coastal Karnataka with a capital of Rs. 8000/- by three visionaries – Sri Upendra Ananth Pai, a businessman, Sri Vaman Kudva, an engineer and Dr. T.M.A Pai, a physician who shared a strong commitment to social welfare. Their objective was primarily to extend financial assistance to the local weavers who were crippled by a crisis in the handloom industry through mobilizing small savings from the community. The bank collected as low as 2 annas daily at the doorsteps of the depositors through its Agents under its Pigmy Deposit Scheme started in 1928. This scheme is the Bank's brand equity today and the Bank collects around Rs. 2 crore per day under the scheme.

The progress of Syndicate Bank has been synonymous with the phase of progressive banking in India. Spanning over 80 years of pioneering expertise, the Bank has created for itself a solid customer base comprising customers of two or three generations. Being firmly rooted in rural India and understanding the grassroots realities, the Bank's perception had vision of future India. It has been propagating innovations in Banking and also has been receptive to new ideas, without however getting uprooted from its distinctive socio-economic and cultural ethos. Its philosophy of growth by mutual sustenance of both the Bank and the people has paid rich dividends. The Bank has been operating as a catalyst of development across the country with particular reference to the common man at the individual level in rural/semi urban centers at the area level.

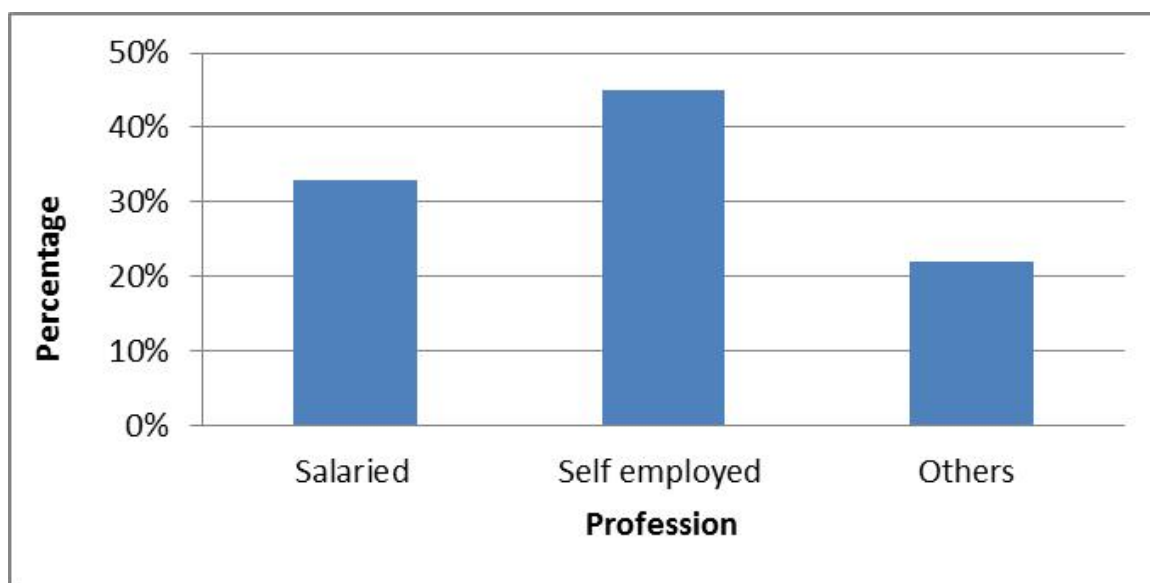
DATA ANALYSIS AND INTERPRETATION**Table -1: Showing the profession of the respondents**

| Particulars | No. of Respondents | Percentage |
|---------------|--------------------|------------|
| Salaried | 30 | 33% |
| Self employed | 40 | 45% |
| Others | 20 | 22% |
| Total | 90 | 100 |

Analysis:-

From this data, we can analysis that most of the customers of syndicate bank are the self employed (45%).

Then comes the salaried group (33%) and followed by other group of people.

Figure 1 : Graph showing the profession of the respondents**Inference:-**

From this information, we can interpret that most of the customers who haven't made the payment towards the loan availed by them from the syndicate bank are

mostly the self employed people. These people have availed loan to start up new project which haven't worked out property which have resulted in non-payment of loans.

Table -2: Showing the Annual Income of respondents

| Particulars | No. of Respondents | Percentage |
|---------------------|--------------------|-------------|
| Less than 100000 | 00 | 0% |
| 100000 to 200000 | 30 | 33% |
| 200000 to 400000 | 39 | 43% |
| Greater than 400000 | 21 | 24% |
| Total | 90 | 100% |

Table - 3: Showing the duration of respondents of syndicate bank

| Particulars | No. of Respondents | Percentage |
|-------------------|--------------------|-------------|
| Less than 1 Year | 3 | 3% |
| 1-4 Years | 27 | 30% |
| 4-8 Years | 33 | 37% |
| More than 8 Years | 27 | 30% |
| Total | 90 | 100% |

Analysis:-

From the table, it is understood that most of the people are the customer of syndicate bank for a period of 4-8 years. It is followed by customers having account with bank for 1-4 years and more than 8 years respectively.

Table – 4: Table showing the sources of information about the loan schemes of syndicate bank

| Particulars | No. of Respondents | Percentage |
|--------------|--------------------|-------------|
| Friends | 21 | 23% |
| Employees | 60 | 67% |
| Media | 9 | 10% |
| Others | 0 | 0% |
| Total | 90 | 100% |

Analysis:-

From the table it is clear that the 67% of employees. Then it is followed by friends (23%). The media customers are aware of the loan schemes through the is contributing 3%.

Table – 5: Showing the tenure of loan

| Particulars | No. of Respondents | Percentage |
|------------------------|--------------------|-------------|
| Less than 24 months | 18 | 20% |
| 24-36 months | 0 | 0% |
| 36-48 months | 33 | 37% |
| Greater than 48 months | 39 | 43% |
| Total | 90 | 100% |

Analysis:-

From the table, customers have taken loan for more than 48 months is the highest (43%). Then it is followed by 36-48 months (37%). Less than 24 months constitute only 20%.

Table – 6: Showing the pattern of the repayment of loan

| Particulars | No. of Respondents | Percentage |
|--------------|--------------------|-------------|
| Lump sum | 42 | 47% |
| Quarterly | 12 | 13% |
| Monthly | 03 | 3% |
| Yearly | 33 | 37% |
| Total | 90 | 100% |

Analysis:-

From the table it is clearly understood that the customers are making lump sum payment of loans (47%). Then the customers prefer yearly payment of the loans (37%). This followed by quarterly and monthly basis of repayment.

Table – 7: Showing the main reason for the nonpayment of the loan

| Particulars | No. of Respondents | Percentage |
|-------------------------------|--------------------|-------------|
| Underutilization of fund | 54 | 60% |
| Project not completed in time | 18 | 20% |
| Financial crisis | 18 | 20% |
| Total | 90 | 100% |

Analysis:-

Most of the customers agree that the main reason for the nonpayment loan is the underutilization of fund (60%). Then comes the project not being completed in time (20%) and the financial crisis (20%) respectively.

Table – 8: Showing the overall satisfaction level with the services of the respondents.

| Particulars | No. of Respondents | Percentage |
|-------------|--------------------|------------|
| Excellent | 54 | 60% |
| Good | 18 | 20% |
| Average | 9 | 10% |
| Poor | 9 | 10% |
| Total | 90 | 100% |

Analysis:-

About 60% of the respondents are satisfied with the overall functioning by bank. Then as followed it comes good, averaged and poor respectively.

FINDINGS

- ▶ Most of the customers are raising loan for the purpose of constructing the house. A house is something that doesn't generate income. When such a situation arises, that will result in the nonpayment of loan.
- ▶ The customers are aware of the bank's different loan schemes through the bank employees itself. The employees will be having the information related to various schemes offered by the bank. This will enable to provide the required information to the needed customers.
- ▶ Customers are getting the products according to their necessity. This makes them approach the syndicate bank to make use of the opportunity available to them. Even this becomes one of the factors for the non-payment of the loans.
- ▶ Most of the customers find that the interest rates of the syndicate bank are much reasonable. This has enabled them to avail the loan with much comfort. But the same interest has not been found in repayment of the loan.
- ▶ When the loan is for long term, the re-payment of the loan takes much time. This result the loan becoming Non performing asset for the bank. So the bank has to screen the credibility of the loan takers before granting the same.
- ▶ Middle income group are interested to make the repayment in yearly basis. Re-payment in lump sum is more benefited for the bank because the bank can generated huge amount of money at one time.
- ▶ The bank is keeping in touch with the customers who have taken loan from the bank. The bank is sending constant reminders to its customers regarding t he loan re-payment.
- ▶ The success of the bank depends upon the employees the bank is having. Good employees only will attract the customers to the customers.
- ▶ A good recovery strategy will help to reduce the non performing assets of the bank. The customers will make the repayment of the loans if the bank is following a good recovery strategy.
- ▶ Until and unless the customers are not satisfied by the performance of Syndicate Adalath, the bank cannot ensure the repayment of loan on regular basis.
- ▶ Even though the bank tried to reduce its NPA in the year 2010 compared to the previous year 2009, the year 2011 showed an increase in its NPA. It shows that the bank is not able to recover the assets effectively. Net NPA of any bank is a threat to its current operations.
- ▶ The bank is successful in recovery its previous non performing assets successfully. The gross NPA of 2011 has reduced to a great extend. This shows that the bank is ensuring that its recovery policy is effectively working.

SUGGESTIONS

- ✓ Based on the study that has been carried out there are a few suggestions that can be made these are :
- ✓ The financial institutions should maintain and improvement performance of last 2 years in all the fields which improve profitability and reducing non performing assets of already existed and avoiding creation new NPA.
- ✓ The financial institution should make improvement in existing systems of appraisals. They should create their own data bank of various types of information and unbiased appraisals, which should cover technical commercial, financial, and economic and management aspects.
- ✓ Some improvement changes in the organizational set up should be made in order to improve the recovery position and to control manipulation made by the borrows various stage and with

- different officers some groups may handle the loan cases / teams from the appraisal stage till the final settlement. For this purpose amount wise or area wise group may be constituted for facilitating work. The monitoring work should also start right from the loan disbursement.
- ✓ A regular follow-up on the performance of its borrowers is necessary this would help the bank in identifying the first signs of sickness in the business and be find out the ways to come out form the financial burden and be prepared for losses arising from them.
 - ✓ List of ill full defaults should be made public. Such defaulters should be discouraged when they make an attempt to approach the other banks for more loans.
 - ✓ There is a need to educate people on their obligation to repay the money borrowed from the bank. Many borrowers may not know the new rules and regulation regarding the recovery of advances, they have to be made aware of these regulations at the time of lending and also through various modes of communication to educate the borrowers be prompt is payment.
 - ✓ The reserve bank of India, guidelines on one time settlement and compromise settlement should be effectively utilized.
 - ✓ The recovery officers are need to focus on upgrading of assets from substandard to standard and doubtful to - substandard.
 - ✓ Syndicate bank may think of conducting workshops on one time settlement at different levels among the long time existing defaulters from when the corporation may get public appreciation.
 - ✓ During appraisal itself meticulous study of the background and proper scrutiny of borrowers are to be made realistically by visiting the places of borrowers.
 - ✓ Study the problem of NPAs branch-wise, amount-wise and age-wise.
 - ✓ Prepare a loan recovery policy and strategies for reducing NPAs.

- ✓ Create special recovery cell at head office / zonal office/ regional office levels.
- ✓ Identify critical branches for recovery
- ✓ Fix target of recovery and draw time bound action program.
- ✓ Select proper techniques for solving the problem of each NPA.
- ✓ Monitor implementation of the time bound action plan.

CONCLUSIONS

- ☒ It is very important for any bank and financial institution to maintain the asset quality for strengthening its financial status. The non performing asset figures of any financial institution and banks gives the picture of the quality of asset of the banks and financial institution.
- ☒ The important reason for NPAs in Syndicate bank is stiff competition, industrial sickness, diversion of funds etc. Syndicate bank adopts affective measures such as prevent slippage, built communication channel, focus on viability rather than categorization etc to prevent NPA
- ☒ From the analyzed data we can conclude that the even though the gross NPA is reducing year by year, the bank is finding it difficult in reducing its net NPA.
- ☒ Steps taken at the appropriate time may help in avoiding NPAs it can be conclude that Syndicate bank should not only take steps for gradual reducing existing and present NPAs but necessary precautions should be taken to avoid future NPAs.

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