ANALYSIS OF FACTORS INFLUENCING NON PERFORMING ASSETS IN CANARA BANK WITH SPECIAL REFERENCE TO CHENNIMALAI BRANCH

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A PROJECT REPORT
submitted by
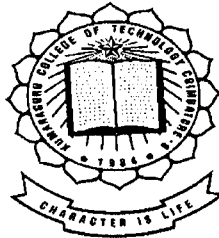
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In partial fulfillment of the requirements
for the award of the degree

of
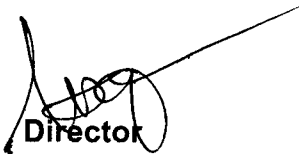
MASTER OF BUSINESS ADMINISTRATION

April, 2009

KCT Business School
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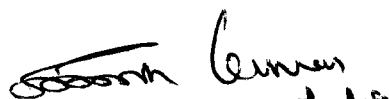
<u>BONAFIDE CERTIFICATE</u>

Certified that this project titled **"Analysis of Factors Influencing Non Performing Assets in Canara Bank with Special Reference to Chennimalai Branch"** is the bonafide work of   **Ms.G.SAKTHI PRIYAH** who carried out this project under my supervision. Certified further, that to the best of my knowledge the work reported herein does not from part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Director

Faculty Guide

Evaluated and viva-voce conducted on .....5|5|09.................

Examiner I   5˙.5˙. 09

Examiner II 5|5|09

KCT BUSINESS SCHOOL
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ACKNOWLEDGEMENT

ACKNOWLEDGEMENT

I express my sincere gratitude to our beloved correspondent **Mr. M. Bala Subramaniam** the prime guiding spirit of Kumaraguru College of Technology.

I extend my hearty thanks to our principal **Dr. Joseph V. Thanikal,** Kumaraguru College of Technology , for provided facilities to do this project.

In great honor and with indebt gratitude to my inspiring guide **Mr. A. Senthil kumar** who has taken great interest in helping me on and often in the successful pursuit of my project..

I express my hearty gratitude to, **Mrs.Lalitha Lakshmanan,** General Manager, Coimbatore Circle Office, Canara Bank, **Mr.Krishnan,** Officer, Erode Regional Office, Canara Bank And **Mr. Poun Raj,** Branch Manager, Canara Bank, Chennimalai, for giving me an opportunity for doing the project in their esteemed organization and encouraged me with this expert counseling and guidance for successful completion of my research study.

I also extend my hearty gratitude to all the **Employees of Canara Bank,** for furnishing the information needed and being very accommodative in all aspects.

Above all, I thank **Almighty God and My Parents** for giving me the grace and constant support in successfully completing this project to the best of my ability.

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ABBREVATIONS USED

ABG — -Agricultural Bio Gas

HL — - housing loan

AMI — - Agricultural Minor Irrigation

TL — - Teacher's loan

ALAFM — - Agri Loan – Farm Machinery

ML — - Machinery loan

ALLPD — - Agri Loan - Loan Past Due

ODCC — - Over Draft Cash Credit

DPN — - Demand Promissory Note

CANCARRY — - loan for home needs

PMRY — - Prime Minister Rajgari Yojna

CANBUDGET — - Personal loan for salaried people

CANMOBILE — - vehicle loan

SHG — - Self Help Groups

ALPMRY — - Agri Loan – Prime Minister Rajgari Yojna

AL LHV — - Agricultural Loan - Loan on Hypothecation of Vehicles

LPD GEN — - Loan Past Due-General

ABSTRACT

ABSTRACT

Canara Bank is a nationalized scheduled commercial Bank, started in July 1906, is operating with 2710 branches and 9 subsidiaries. Canara Bank is dealing with a wide range of financial products with exclusive terms and facilities.

The research entitled " **Analysis of Factors Influencing Non Performing Assets in Canara Bank with Special Reference to Chennimalai Branch**" with the primary objective of identifying the most influencing factor in the becoming of Non Performing Assets and with the secondary objective of finding the sector wise risk and there by pre – identifying the accounts having the possibility of turning to Non Performing Assets, supported by the year wise analysis of NPA Assets.

When the proportion of NPA accounts increases, the financial performance of the organization will decline. Hence all NPA accounts from April 2003 to March 2009 of Chennimalai Canara Bank is identified and the factors influencing NPAs and risk level is calculated using various parameters like security of loan, purpose, sector, outstanding amount, year of becoming NPA etc, and the reports are put forward.

The study is based on the secondary data obtained from the bank in relation with NPA accounts and primary data for finding out the influencing factors which is identified through a pilot study conducted with around 10 officers of Canara Bank. The final data is analysed using various tools like correlation, percentage analysis and the most influencing factors are identified. The result obtained from the analysis can be used to pre- identify the risks and causal factors involved in the formation of Non Performing Accounts.

INTRODUCTION

CHAPTER – I

INTRODUCTION

1.1 ABOUT THE STUDY

Credit Management is a function that falls under the label of "Credit and Collection' or 'Accounts Receivable' as a department in many companies and institutions. Credit management will not be proper unless when there is a coherent policy in monitoring of payments and collections. India has a bank based financial system where banks and financial institutions are the backbone of the economy. A major problem being observed in the banking sector, all over the world is the problem of Non Performing Assets (NPAs).

Reserve Bank of India defines NPA as "An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. A non performing asset is 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 (90 days, March 31, 2004 onwards)." As per the official figures of IMF (International Monetary Fund), NPAs as a proportion of total loans is 12.5% in India. The first step of building a stable and strong financial system is to minimize the non-performing loans.

Canara bank is a leading major financial conglomerate with effective credit management system and there by having successful management of loans and advances.

1.2 ABOUT THE INDUSTRY

The assets of the banking sector continued to grow at a faster rate than the real economy, resulting in an increase in the assets to GDP ratio to 91.8 per cent at end-March 2008 as compared with 83.5 per cent a year ago. Credit growth during the year showed some deceleration mainly on account of lower growth in agriculture and allied activities and personal loans, whereas credit to the services sector showed a higher growth.

The asset quality of SCBs improved further during 2007-08, which was reflected in the decline in gross non-performing assets (NPAs) as percentage of loans and advances. The net NPAs as percentage of net advances remained unchanged at the previous year's level. However, gross and net NPAs were higher in absolute terms during 2007-08, as fresh accruals of NPAs exceeded the NPAs recovered and written-off during the year. This trend was observed across all bank groups, barring old private sector banks

Table 3.1

S. No.	Bank	Net NPAs/Total Assets (%)				
		2003-04	2004-05	2005-06	2006-07	2007-08
1	Scheduled Commercial Banks	1.20	0.92	0.67	0.58	0.57
2	Public Sector Banks	1.28	0.95	0.72	0.62	0.59
3	Nationalised Banks	1.40	0.91	0.64	0.53	0.44

Table3.2

Table showing the percentage of NPAs of Canara Bank

from 2003 to2008

S. No	Year	Net NPAs/Total Assets (%)
1	2003-04	1.39
2	2004-05	1.02
3	2005-06	0.66
4	2006-07	0.56
5	2007-08	0.50

The non performing assets of Canara bank, starting from the year 2003 showed a gradual decrease and in 2008 it became 0.5%. Among the nationalized commercial banks in India, Canara bank is showing a minimal level of NPAs. As at September 2008, the Bank has further expanded its domestic presence, with 2710 branches spread across all geographical segments. Keeping customer convenience at the forefront, the Bank provides a wide array of alternative delivery channels that include over 2000 ATMs- the highest among nationalized banks- covering 698 centers, 1351 branches providing Internet and Mobile Banking (IMB) services and 2027 branches offering 'Anywhere Banking' services. Under advanced payment and settlement system, all branches of the Bank have been enabled to offer Real Time Gross Settlement (RTGS).

1.3 ABOUT THE COMPANY

1.3.1 PROFILE OF CANARA BANK

Widely known for customer centricity, Canara Bank was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank was strewn with many memorable milestones. Today, Canara Bank occupies a premier position in the comity of Indian banks.

1.3.2 HISTORY OF CANARA BANK

Canara bank was founded as 'Canara Bank Hindu Permanent Fund' in 1906, by late Sri. Ammembal Subba Rao Pai, a philanthropist, this small seed blossomed into a limited company as 'Canara Bank Ltd.' in 1910 and became Canara Bank in 1969 after nationalization. With an unbroken record of profits since its inception, Canara Bank has several firsts to its credit. These include:

- Launching of Inter-City ATM Network
- Obtaining ISO Certification for a Branch
- Articulation of 'Good Banking' – Bank's Citizen Charter
- Commissioning of Exclusive Mahila Banking Branch
- Launching of Exclusive Subsidiary for IT Consultancy
- Issuing credit card for farmers
- Providing Agricultural Consultancy Services

FOUNDING PRINCIPLES OF CANARA BANK

1. To remove Superstition and ignorance.
2. To spread education among all to sub-serve the first principle.
3. To inculcate the habit of thrift and savings.
4. To transform the financial institution not only as the financial heart of the community but the social heart as well.
5. To assist the needy.
6. To work with sense of service and dedication.
7. To develop a concern for fellow human being and sensitivity to the surroundings with a view to make changes/remove hardships and sufferings.

Sound founding principles, enlightened leadership, unique work culture and remarkable adaptability to changing banking environment have enabled Canara Bank to be a frontline banking institution of global standards.

1.3.3 VISION AND MISSION STATEMENT

VISION

To emerge as a 'Best Practices Bank' by pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach.

MISSION

To provide quality banking services with enhanced customer orientation, higher value creation for stakeholders and to continue as a responsive corporate social citizen by effectively blending commercial pursuits with social banking.

1.3.4 FINANCIAL PRODUCTS OF CANARA BANK

A wide variety of products were offered by canara bank. They are,

- Housing loan
- Home Improvement Loan
- Canara Site
- Canara Jewel
- Canara Tech
- Canara Travel
- Canara Value
- Canara Cash
- Canmobile (Car Loan / Two-Wheeler Loan)
- Canara Budget (Simple Personal Loan)
- Canara Pension
- Teachers Loan Scheme
- Gold Loan/Swarna Loan Scheme
- Loans For Traders & Businessmen
- Vidyasagar Loan For Students
- Canmahila Loan Scheme
- Doctor's Choice (Medical Practitioners Loan Scheme)
- Loans To Individuals (Clean Od/Dpn Other Than Teachers' Loan)
- Corporate Loan Scheme
- Canara Guide
- Canara Jeevan
- Canara Trade
- CanRENT
- CanMORTGAGE

1.3.5 AWARDS AND ACHIEVEMENTS

The following awards are received during 2007- 2008.

- First National Award, instituted by the Ministry of Micro, Small & Medium Enterprises, Govt. of India for **'Excellence in Micro & Small Enterprises (MSE) Lending'** for 2006-07.

- **'Golden Peacock Award for Corporate Social Responsibility'** for the year 2007. Canara Bank is the first PSB to receive the award since its institution in the year 1991.

- **'Golden Peacock National Training Award-2007'**, instituted by the Institute of Directors, New Delhi, a pioneer in Quality Revolution.

- Conferred the **Business Superbrands** Status for 2008.

- **'The Organization of the Year Award- for PR Excellence'**, instituted by Public Relations Council of India.

- Excellence in the field of Khadi & Village Industries in South Zone for the year 2006-07, instituted by **Khadi & Village Industries** Commission, Ministry of Micro, Small & Medium Enterprises, Government of India.

The following awards are received during 2008-09 so far.

- Conferred **'First Rank'** in India's Best Banks awards under the category **'Strength and Soundness'** for 2006-07 by a survey conducted by Ernst & Young.

- **Global HR Excellence in Training**, an award conferred by the **Asia Pacific HR Congress**, the largest rendezvous of HR Professionals, at its Employer Branding Talent Management Congress held on 22nd & 23rd August, 2008, Delhi.

- **Best Performing Bank under Rural Employment Generation Programme** (REGP) of Khadi and Village Industries Commission (KVIC), in South Zone for the year 2007-08, instituted by the **Ministry of MSME, Government of India.**

1.3.6 MILESTONES

Year	Significant Milestones
1st July 1906	Canara Hindu Permanent Fund Ltd. formally registered with a capital of 2000 shares of Rs.50/- each, with 4 employees.
1910	Canara Hindu Permanent Fund renamed as Canara Bank Limited
1969	14 major banks in the country, including Canara Bank, nationalized on July 19
1976	1000th branch inaugurated
1983	Overseas branch at London inaugurated Cancard (the Bank's credit card) launched
1984	Merger with the Laksmi Commercial Bank Limited
1985	Commissioning of Indo Hong Kong International Finance Limited
1987	Canbank Mutual Fund & Canfin Homes, launched
1989	Canbank Venture Capital Fund started
1989-90	Canbank Factors Limited, the factoring subsidiary launched
1992-93	Became the first Bank to articulate and adopt the directive principles of "Good Banking".
1995-96	Became the first Bank to be conferred with ISO 9002 certification for one of its branches in Bangalore
2001-02	Opened a 'Mahila Banking Branch', first of its kind at Bangalore, for catering exclusively to the financial requirements of women clientele.
2002-03	Maiden IPO of the Bank
2003-04	Launched Internet & Mobile Banking Services
2004-05	100% Branch computerization
2005-06	Entered 100th Year in Banking Service Launched Core Banking Solution in select branches Number One Position in Aggregate Business among Nationalized Banks
2006-07	Notched up the highest ever net profit since its inception Retained Number One Position in Aggregate Business among Nationalized Banks Singed MoUs for Commissioning Two JVs in Insurance and Asset Management with international majors.

MAIN THEME OF THE PROJECT

CHAPTER – II

MAIN THEME OF THE PROJECT

2.1 OBJECTIVES OF THE STUDY

2.1.1 PRIMARY OBJECTIVE

- To identify the factors which are playing key role in becoming of Non Performing Assets.

2.2.2 SECONDARY OBJECTIVE

- To analyse the factors and finding the measures for pre identification of the accounts having possibility of turning to Non Performing Assets.

- To analyse the sectoral performance, there by finding the level of risk at the respective sectors.

2.3 SCOPE OF THE STUDY

This study, "Analysis on Factors Influencing Non Performing Assets In Canara Bank with Special Reference to Chennimalai branch", is concentrated towards finding out the most relevant factor for the formation of NPAs, which may be an external or internal factor, and finding out the measures to minimize or eradicate the factors for the formation of NPAs. Using the tools of analysis the most influencing factor and the reason for the formation of NPAs will be determined using statistical tools and the result obtained can be suggested to improvise the system in the future.

2.4 LIMITATIONS

This study involves the following limitation

- The reliability and accuracy of the calculations are based on the information given in the secondary data.

2.5 STATEMENT OF THE PROBLEM

It has been observed that the failing banks have often shown a level of bad loans. A number of researches have indicated that such ailing banks are in no way near the best practice frontier. Some researches have clearly indicated a negative impact of bad loans on the efficiencies of the banks. Increase in non-performing loans tend to be followed by decrease in measured cost efficiency, suggesting that high levels of problem loans cause banks to increase spending on monitoring, working out, and / or selling off these loans, and possibly become more diligent in administering the portion of their existing loan portfolio that is currently performing.

In respect of accounts where there are potential threats of recovery on account of erosion in the value of security or non availability of security and existence of other factors such as fraud committed by borrowers, bills discounted with fake documents, death of the borrower, whereabouts of the borrower not known, business closed, borrower has no means to repay, loss due to natural calamities, etc., it will not be prudent for the bank to classify them first as substandard and then as doubtful after expiry of 18 months from the date when the account has become NPA.

A proper systematic approach to the recovery of non performing assets should be carried out. There by at any circumstances of more defaulters the bank should be able to gain betterment in its financial performance provided with the provisions and security level of loan.

2.6 RESEARCH METHEDOLOGY

2.6.1 RESEARCH DESIGN

The accounts which became NPAs from April 2003 to March 2009 is taken for the study from the Chennimalai branch of Canara Bank. The NPA accounts are quantified using various parameters to find out the most relevant influencing factor for the becoming of NPA.

2.6.2 METHOD OF DATA COLLECTION

- A pilot study has been conducted to find out the most relevant factors causing NPAs .
- The required details needed are obtained through secondary data from the bank.

2.6.3 SAMPLE SIZE

Starting from April 2003 to March 2009, there are 133 NPA accounts in the Chennimalai branch of Canara Bank.

2.6.4 TOOLS OF ANALYSIS

The tools used for analysis are

1. Percentage analysis

2. Correlation

3. Analysis of risk
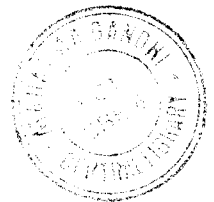
2.7 REVIEW OF LITERATURE

According to **Gunjan M. Sanjeev**[1], A major problem being observed all over the world in the banking sector is the problem of bad loans. The first step of building a stable and strong financial system is to minimize the non-performing loans. As per the official figures of IMF (2001), the bad debts as a proportion of total loans is 2.5% for US, 5.4% for Korea, 12.5% for India, 19.3 % for Malaysia, 25% for China and 45% for Thailand. The non-performing loans have been a matter of concern for all the nations across the globe. remained 'past due' for a specified period of time (90 days, March 31, 2004 onwards). It has been observed that the failing banks have often shown a level of bad loans. A number of researches have indicated that such ailing banks are in no way near the best practice frontier (Barr et al. 1994; Berger et al. 1997). Some researches have clearly indicated a negative impact of bad loans on the efficiencies of the banks (Resti, 1995).

According to **B.S.Bholla**[2] Banking Sector Reforms have changed the face of Indian banking industry. The reforms have led to the increase in resource productivity, increasing level of deposits, credits and profitability and decrease in non-performing assets. However, the profitability, which is an important criteria to measure the performance of banks in addition to productivity, financial and operational efficiency, has come under pressure because of changing environment of banking. An efficient management of banking operations aimed at ensuring growth in profits and efficiency requires up-to-date knowledge of all those factors on which the bank's profit depends. Accordingly, in this paper we have made an attempt to identify the key determinants of profitability of Public Sector Banks in India.

1.B.s. bodla, Determinants of profitability of banks in India: a multivariate analysis, Journal of services research, volume 6, number 2.

2.Gunjan M. Sanjeev, Bankers' Perceptions on Causes of Bad Loans in Banks, Journal of Management Research, Volume 7, Number 1

According to **Maria Boyazny**[3], the burden of non-performing assets has affected many economies at one point or another in the history ot their economic development. The Asian financial crisis created a large number of financially distressed companies,particularly in South Korea, Thailand, Indonesia, Malaysia, and the Philippines, which to this day continue to weigh down the continent's economies. *In post-crisis years, numerous events in specific countries and industry sectors created an additional steady supply of troubled situations.*

According to **Marga Ramthun**[4], Management shortcomings are one of the major causes of delays of payment: lack of organisation, deficient information systems, underdeveloped computer systems, technical facilities short administrative needs, etc. Examples of shortcomings on the part of the seller are the absence of a written contract, invoicing delays or mistakes, inefficient monitoring of payments and the lack of a coherent policy on collecting claims. On the buyer's side, delays can stem from poor organisation of order preparation, receipt of invoices, control of deliveries, authorisation to pay, etc.These management shortcomings are mostly to be found in small firms which are short-staffed and underendowed with management resources. Beyond traditional training measures, it is necessary to take into account the educational value of computerised business management methods.

3.Maria Boyazny, Taming the Asian Tiger: Revival of Non-Performing Assets on the Asian Continent, Journal of private equity, special turnaround management issue, spring 2005

4.Credit management an important tool within your business report by marga ramthun, LIC general secretary

DATA ANALYSIS AND INTERPRETATION

CHAPTER – III

DATA ANALYSIS AND INTERPRETATION

TABLE 3.1.1

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE AMOUNT OF LOAN

S.No	Loan amount	Number of NPAs	Percentage
1	<1 lakh	98	73.7
2	1 to 3 lakh	31	23.3
3	>3 to 5 lakh	3	2.3
4	>5 to 10 lakhs	1	.8
	Total	133	100.0

INTERPRETATION

98% of the NPAs were loans issued less than a lakh whereas 31% of the loans which became NPA s were issued between a range of 1 to 3 lakhs.

Percentage

100
90
80
70
60
50
40
30
20
10
0

98

31

3

1

<1 lakh   1 to 3
lakh

>3 to 5
lakh

>5 to 10
lakhs

Loan amount

■ Number of NPAs

▨ Percentage

CHART 3.1.1

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE AMOUNT OF LOAN

TABLE 3.1.2

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE TYPE OF LOANS ISSUED

S.No	Type of loan	Number of NPAs	Percentage
1	ABG	1	.8
2	AL LHV	2	1.5
3	AMI	1	.8
4	ALAFM	1	.8
5	AL LPD	9	6.8
6	ALPMRY	1	.8
7	ODCC	4	3.0
8	DPN	29	21.8
9	SHG	3	2.3
10	CANMOBILE	4	3.0
11	ML	2	1.5
12	PMRY	8	6.0
13	HL(<50 LAKHS)	26	19.5
14	CANBUDGET	16	12.0
15	TL	8	6.0
16	DPN(OTHERS)	6	4.5
17	CANPENSION	1	.8
18	CANCARRY	4	3.0
19	LPD GEN	7	5.3
	Total	133	100

INTERPRETATION

It is clear from the above analysis that Demand Promissory Notes (DPN) had become highest percentage as NPAs (21.8%)whereas housing loans for the priority sector occupied second position in the NPA count(19.5%). The loans issued to the priority sector, mostly less than a lakh had became more NPAs.
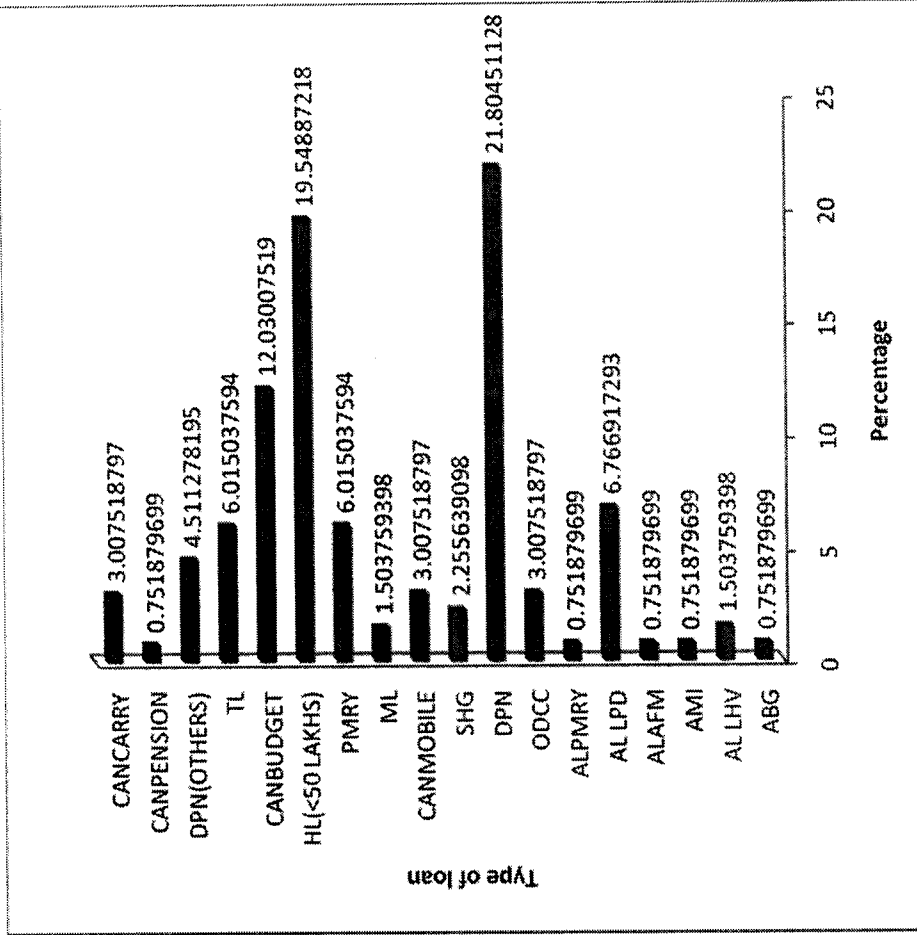
CHART 3.1.2

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE TYPE OF LOANS ISSUED

TABLE 3.1.3

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE DURATION OF LOAN

S.No	Duration of loan	Number of NPAs	Percentage
1	nil	16	12.0
2	1 year	5	3.8
3	3 years	35	26.3
4	5 years	43	32.3
5	7 years	7	5.3
6	>10 years	27	20.3
	Total	133	100.0

INTERPRETATION

Loans issued for a duration of 5 years became more NPAs(32%) whereas 26% of loans issued for 3 years became NPAs and 20% of the loans issued for greater than 10 years became NPAs.
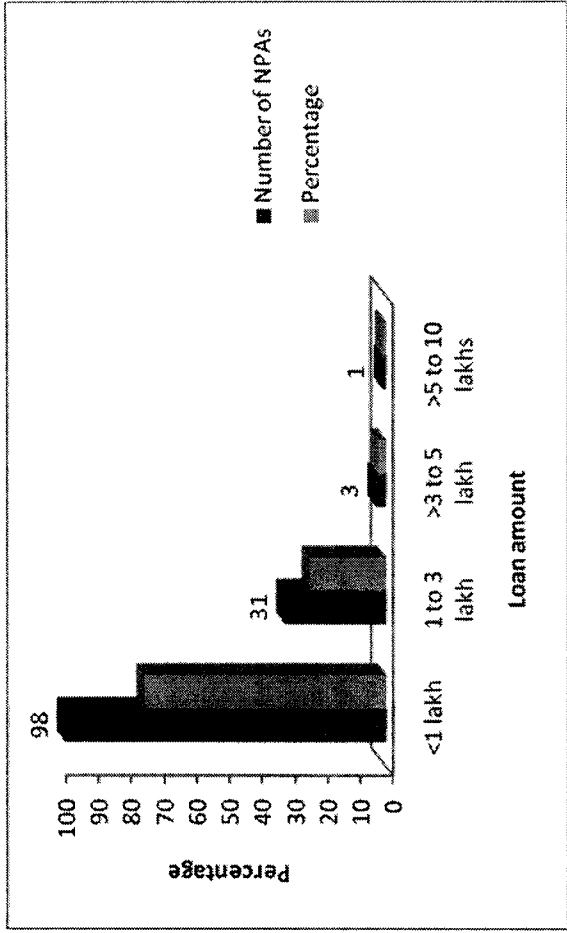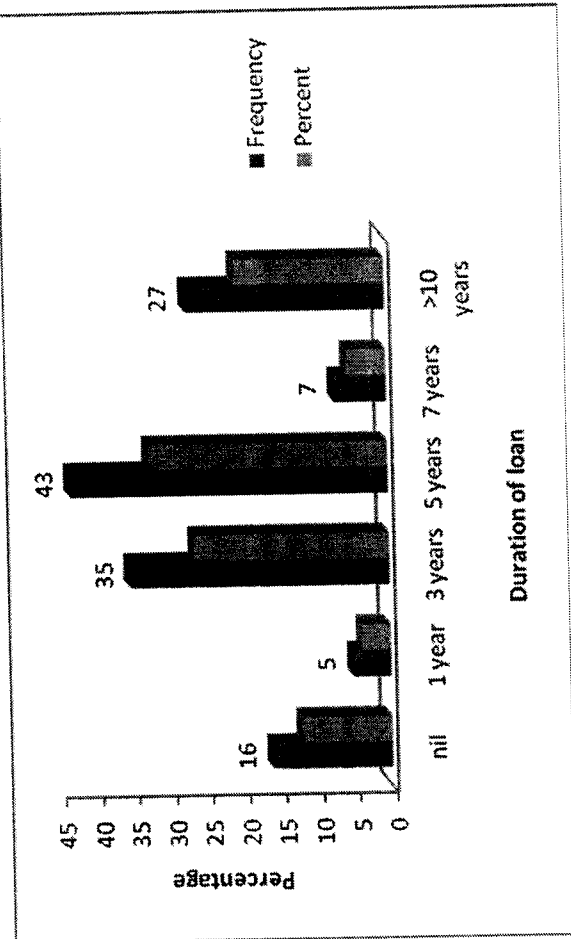
CHART 3.1.3

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE DURATION OF LOAN

TABLE 3.1.4

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE INTEREST PERCENTAGE

S.No	Interest percentage	Number of NPAs	Percentage
1	NIL	16	12.0
2	9.25%	26	19.5
3	9.75%	3	2.3
4	10.75%	2	1.5
5	11.75%	1	.8
6	12%	8	6.0
7	12.5%	42	31.6
8	13%	2	1.5
9	14.25%	2	1.5
10	15%	23	17.3
11	16%	8	6.0
Total	Total	133	100.0

INTERPREATATION

31% of loans with interest percentage of 12.5% became NPAs whereas 19.5% and 17% of loans became NPAs with interest percentage of 9.25% and 15% respectively.

TABLE 3.1.5

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON NPAs CLASSIFICATION

S.No	Type of NPA	Number of NPAs	Percentage
1	Sub standard asset	36	27.1
2	Doubtful asset	64	48.1
3	Loss asset	33	24.8
	Total	133	100.0

INTERPRETATION

48% of the NPAs were under the classification of doubtful assets whereas 27% of NPAs are classified as substandard assets and 24% of NPAs were classified as loss assets.

CHART 3.1.5

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE NPA CLASSIFICATION

TABLE 3.1.6

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE RECOVERY ACTION TAKEN BY THE BANK

S.No	Recovery action	Number of NPAs	Percentage
1	no action	5	3.8
2	recieval of acknowledgement	1	.8
3	Compromise	1	.8
4	Legal notice	24	18.0
5	personal contact	5	3.8
6	Repayment by customer	4	3.0
7	Notice	32	24.1
8	one time settlement	1	.8
9	adjustment from deposit	2	1.5
10	suit filed	31	23.3
11	single comprehensive proposal	26	19.5
12	DRT case filed	1	.8
	Total	133	100.0

INTERPRETATION

For 24% of NPAs, notice has been issued, for 18% of NPAs legal notice has been issued whereas for 23% of NPAs suit filed in the court. 19.5% of the NPAs were recovered through single comprehensive proposal.
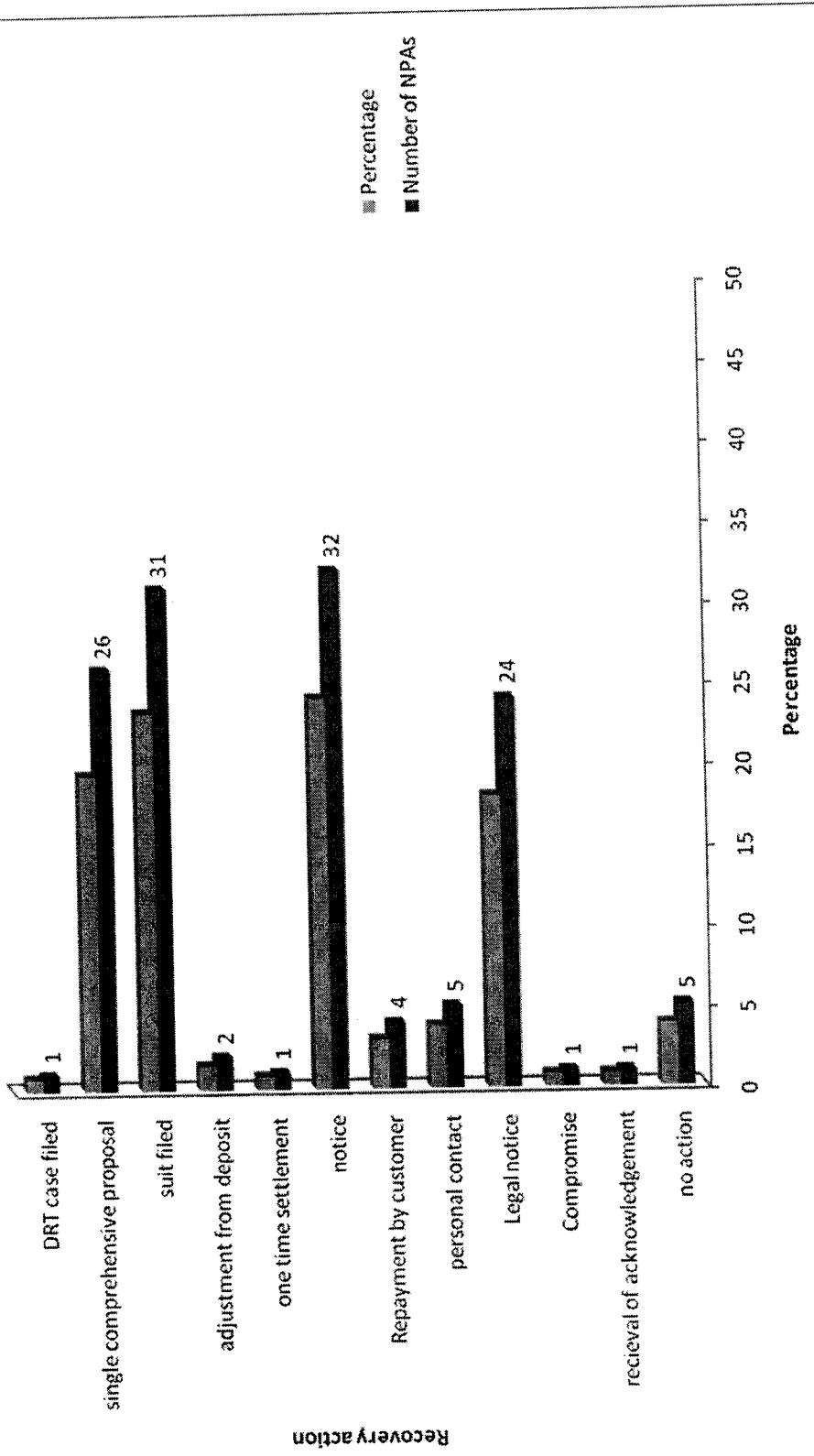
CHART 3.1.6

CHARRT SHOWING THE PERCENTAGE OF NPAs BASED ON THE RECOVERY ACTION TAKEN BY THE BANK

TABLE 3.1.7

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE CAUSAL FACTORS OF NPA FORMATION

S.No	Factor of NPA formation	Number of NPAs	Percentage
1	Improper usage of loan	26	19.5
2	Misuse of funds	12	9
3	Negligence to repay	89	66.9
4	Government policies	5	3.8
5	Loss of securities	1	.8
	Total	133	100

INTERPRETATION

About 67% of the NPAs occurred due to the negligence to repay by the defaulters. 19.5% of the NPAs were due to improper usage of the loans and9% of the NPAs is due to misuse of funds.

CHART 3.1.7

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE CAUSAL FACTORS OF NPA FORMATION

TABLE 3.1.8

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE SECURITY OF LOAN

S.No	Security of loan	Number of NPAs	Percentage
1	secured	69	51.9
2	unsecured	64	48.1
	Total	133	100.0

INTERPRETATION

About 69% of the loans which became NPAs are secured whereas 64% of the loans which became NPAs are unsecured.
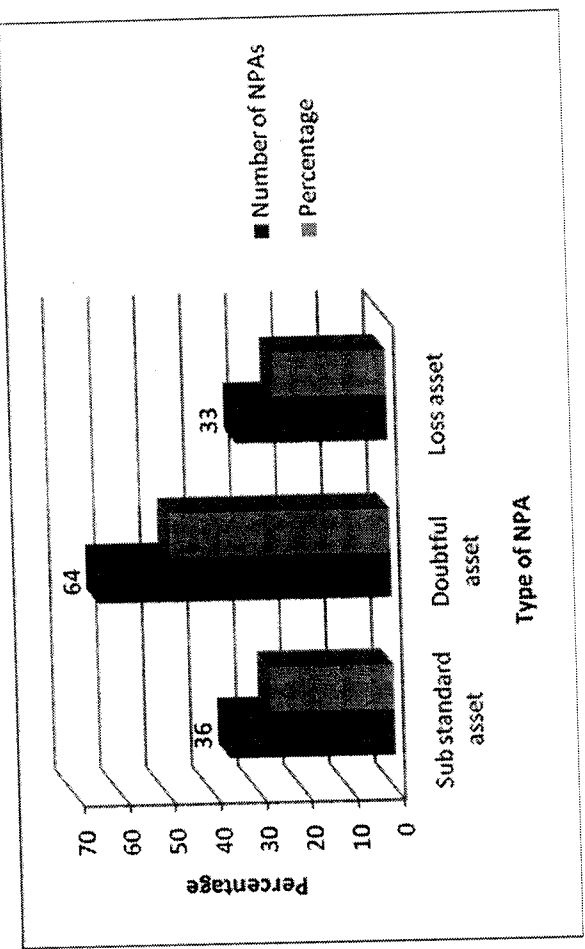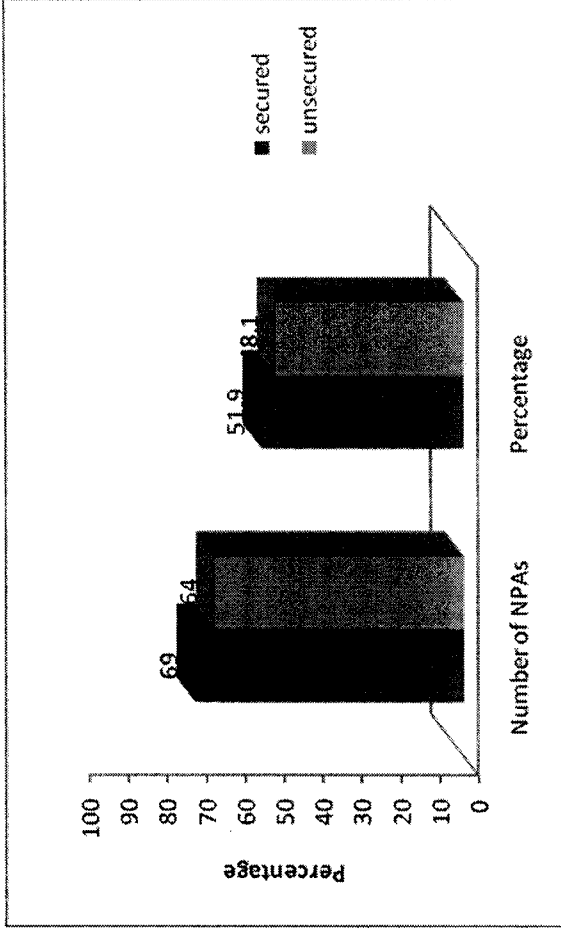
CHART 3.1.8

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE SECURITY OF LOAN

TABLE 3.1.9

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE PERCENTAGE OF MARGIN

S.No	Percentage of margin	Number of NPAs	Percentage
1	no margin	61	45.9
2	5%	10	7.5
3	10%	7	5.3
4	25%	55	41.4
	Total	133	100.0

INTERPRETATION

About 46% of NPAs are loans given without any margin whereas 41% of loans are issued with 25% margin.

TABLE 3.1.10

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE PURPOSE OF LOAN

S.No	Purpose of loan	Number of NPAs	Percentage
1	Agricultural loan	9	6.8
2	personal loan-priority	67	50.4
3	personal loan-non priority	34	25.6
4	agricultural development	5	3.8
5	loan for government schemes	9	6.8
6	loan for business	9	6.8
	Total	133	100.0

INTERPRETATION

About 50% of the NPAs were issued for the purpose of personal loan-priority and 25% of the NPAs were issued for the purpose of personal loan-non priority.
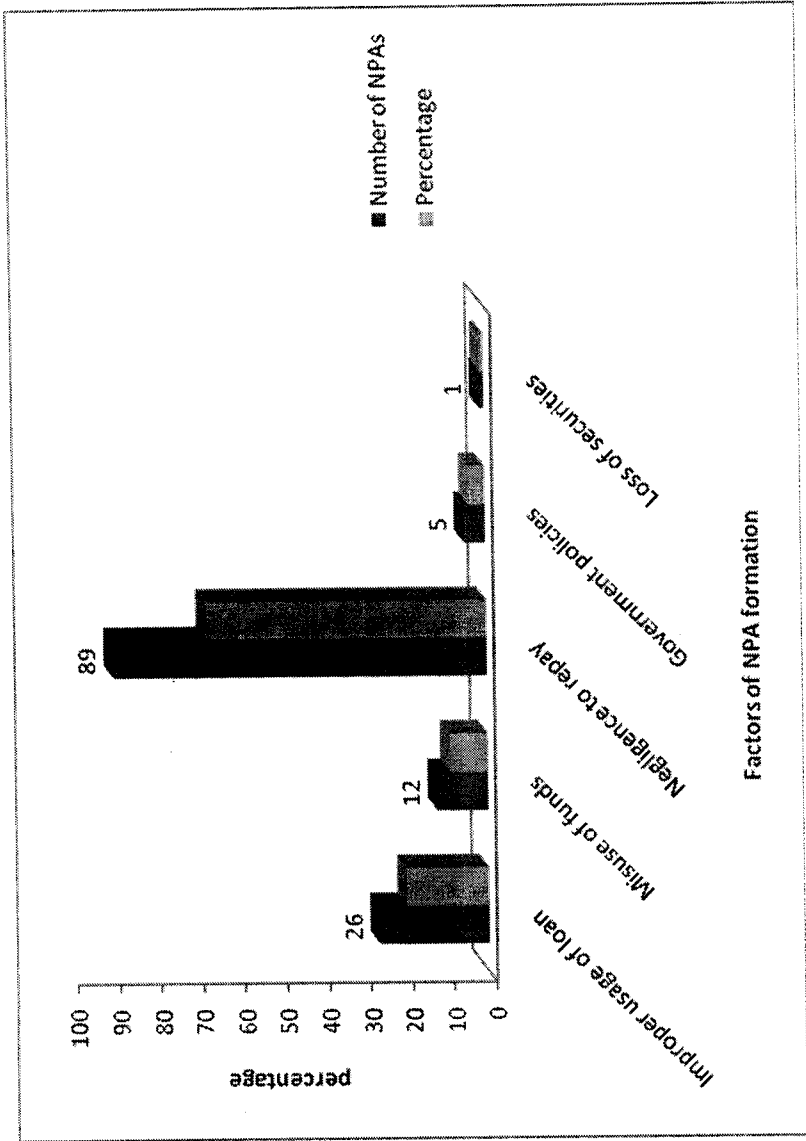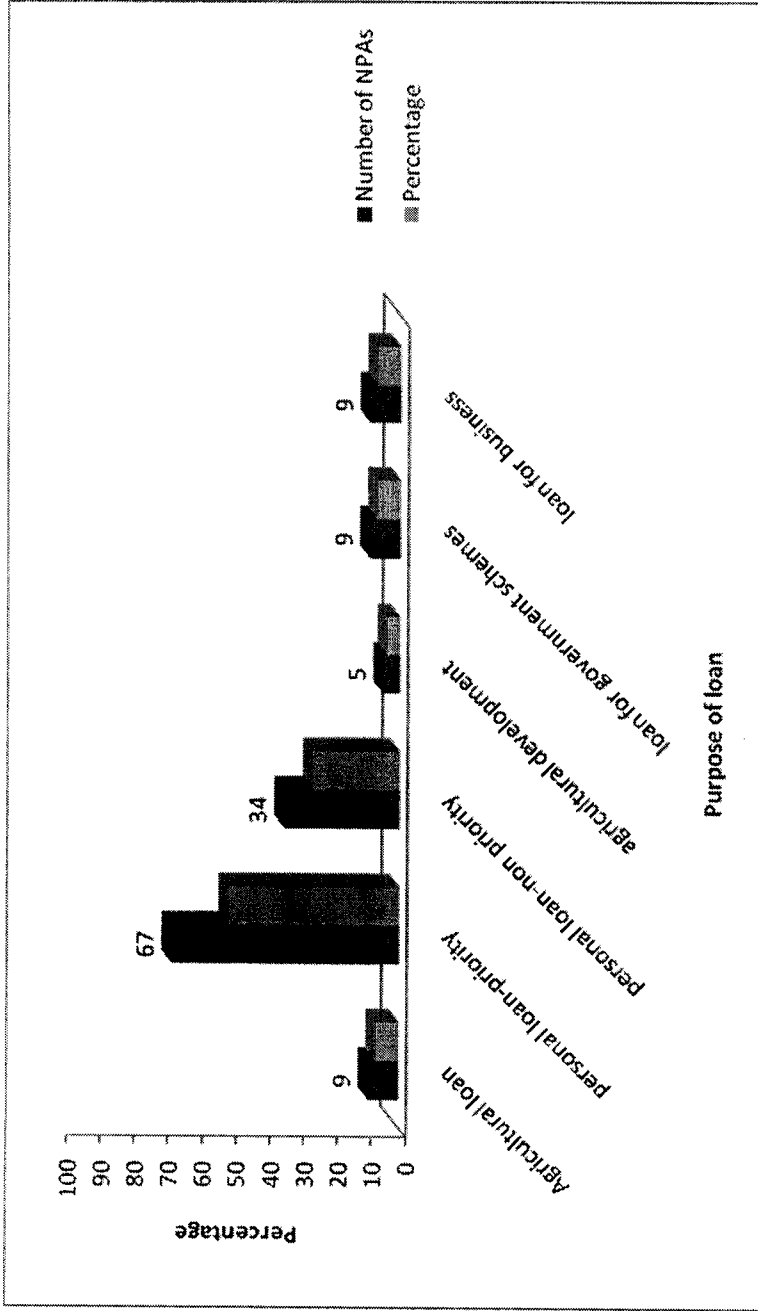
CHART 3.1.10

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE PURPOSE OF LOAN

TABLE 3.1.11

TABLE SHOWING THE PERCENTAGE OF NPAs BASED ON THE LEGAL ACTION

S.No	Legal action	Number of NPAs	Percentage
1	No	50	37.6
2	Yes	83	62.4
3	Total	133	100.0

INTERPRETATION

About 62% of the NPAs were undergone legal action and about 37% of the NPAs did not undergone any legal action.
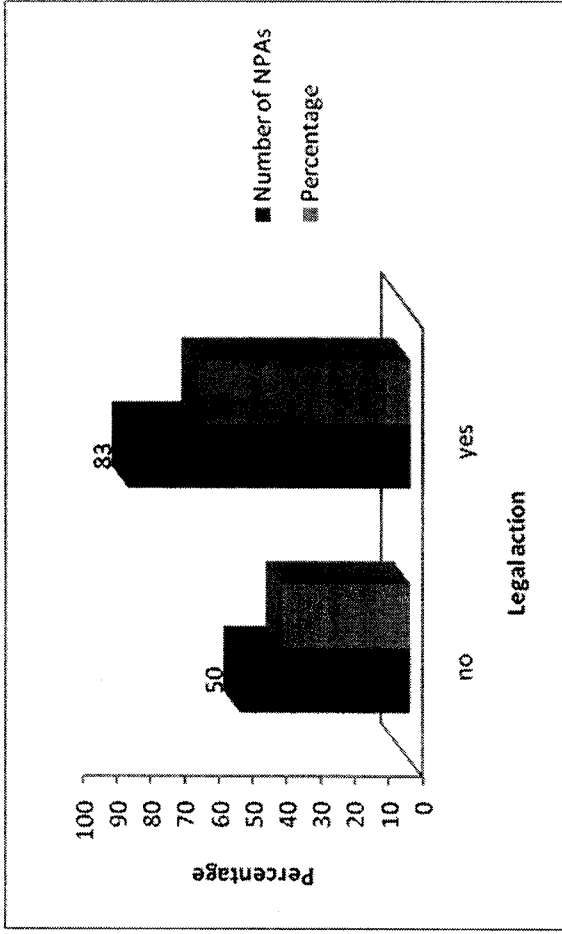
CHART 3.1.11

CHART SHOWING THE PERCENTAGE OF NPAs BASED ON THE LEGAL ACTION

TABLE 3.2.1

TABLE SHOWING THE PERCENTAGE OF RISK BASED ON THE TYPE OF NPA CLASSIFICATION

S. No.	NPA Classification	Loan Amount	Outstanding Amount	Outstanding (%)
1	Substandard assets	70,75,000	25,78,677	36.45%
2	Doubtful assets	44,44,603	29,39,414	66.13%
3	Loss assets	12,97,000	10,76,206	82.98%
	Total	1,28,16,603	65,94,297	51.45%

INTERPRETATION

The risk percentage is 36.45% for Substandard assets, 66.13% for doubtful assets whereas the risk percentage is 82.98% for doubtful assets.

INFERENCE

The risk percentage increased gradually from substandard assets to doubtful assets. Hence the provision for Non Performing Assets should be allocated based on the risk percentage, i.e., more provision should be made available for loss assets.

CHART 3.2.1

CHART SHOWING THE PERCENTAGE OF RISK BASED ON THE TYPE OF NPA CLASSIFICATION
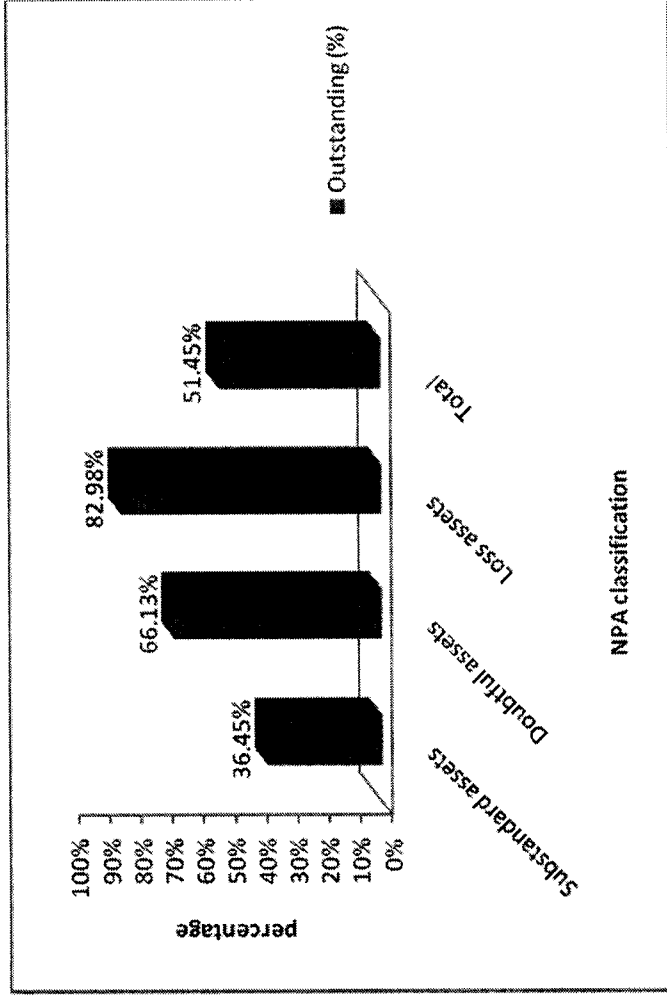
TABLE 3.2.2

TABLE SHOWING THE PERCENTAGE OF RISK BASED ON THE SECTOR WISE CLASSIFICATION

S. No.	Sector wise Classification	Loan Amount	Outstanding Amount	Outstanding (%)
1	Agricultural loan	568103	601507	106%
2	personal loan-priority	7891500	2943832	37.3%
3	personal loan-non priority	1549000	1182617	76.35%
4	agricultural development	419000	643215	153.5%
5	loan for government schemes	454000	341018	75.11%
6	loan for business	1935000	882108	45.59%
	Total	1,28,16,603	65,94,297	51.45%

INTERPRETATION

Highest percentage of risk is with the loans issued for agriculture purpose and agricultural development, 153.5% and 106% respectively. The personal loan for non priority sector is having the risk level of 76.35%. loan issued for government schemes is having 75% of risk.

INFERENCE

Loans issued for agricultural sector as a whole is having the risk level of above 100%. Hence other than allotting more provisions, issue of loans to agricultural sector can be restricted based on the security of the loan.

CHART 3.2.2

CHART SHOWING THE PERCENTAGE OF RISK BASED ON THE SECTOR WISE CLASSIFICATION
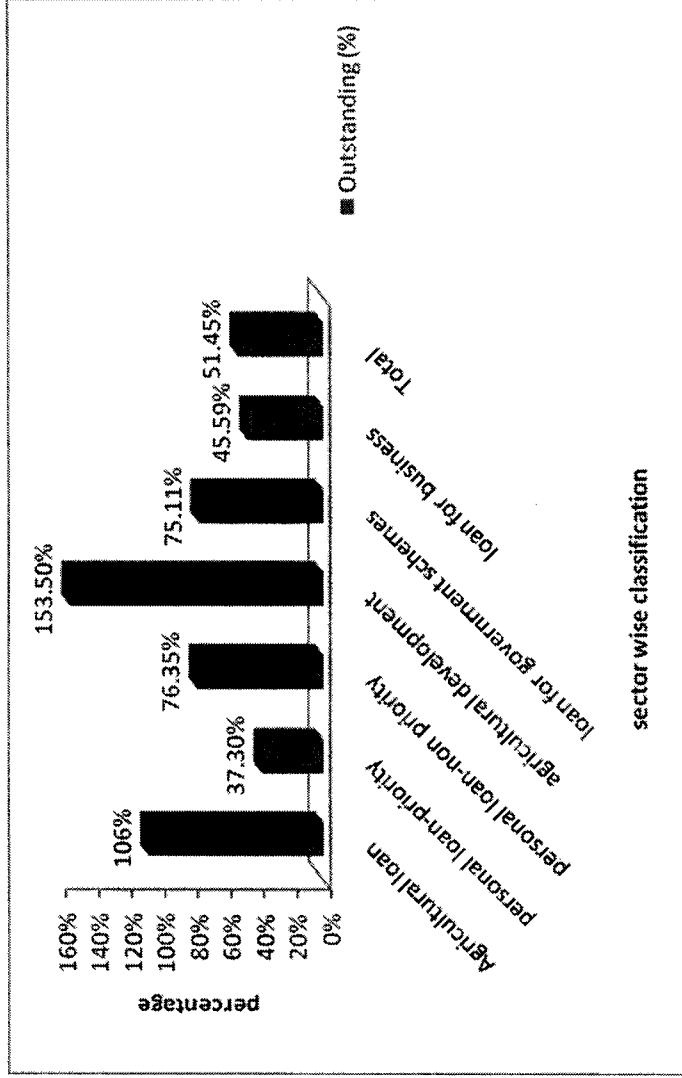
TABLE 4.3.1

CORRELATION BETWEEN INTEREST RATE AND NPA

Factors	Number of NPAs	Correlation	Significance
Interest & NPA classification	133	.205	.018

INTERPRETATION

As there is positive correlation (r=0.205) between interest rate and non performing assets, there will be significant relationship between interest rate and non performing assets.

INFERENCE

When the interest rate is increased the amount to be paid as due will increase. Hence there will be increase in the formation of NPA, when there is increase in interest rate and vice versa.

TABLE 4.3.2

CORRELATION BETWEEN TYPE OF ACCOUNT AND NPA

Factors	Number of NPAs	Correlation	Significance
Type of account & NPA classification	133	-.086	.325

INTERPRETATION

As there is negative correlation (r= -.086) between type of account and non performing assets, there is no significant relationship between type of account and NPA.

INFERENCE

As different types of loans are served for different purposes and based on the needs of the customer the loan type will not be an influencing factor for the formation of NPA.

TABLE 4.3.3

CORRELATION BETWEEN LOAN AMOUNT AND NPA

Factors	Number of NPAs	Correlation	Significance
loan amount & NPA classification	133	-.421	.000

INTERPRETATION

As there is negative correlation (r= -.421) between loan amount and non performing assets, there is no significant relationship between loan amount and NPA.

INFERENCE

It is clear that loans issued based on the sector will have influence on the NPAs and hence loan amount is not an influencing factor.

TABLE 4.3.4

CORRELATION BETWEEN DURATION OF LOAN AND NPA

Factors	Number of NPAs	Correlation	Significance
duration of loan & NPA classification	133	-.707	.000

INTERPRETATION

As there is negative correlation (r= -.707) between duration of loan and non performing assets, there is no significant relationship between duration of loan and NPA.

INFERENCE

When the duration of loan increases the extent of repayment decreases because of the changing economic condition over time

TABLE4.3.5

CORRELATION BETWEEN INSTALLMENT DUE AND NPA

Factors	Number of NPAs	Correlation	Significance
Installment due & NPA classification	133	-.372	.000

INTERPRETATION

As there is negative correlation (r= -.372) between installment due and non performing assets, there is no significant relationship between installment due and NPA.

INFERENCE

When installment due increases the repayment level decreases due to various external factors like changes in the business environment, changes in the economy etc.

TABLE4.3.6

CORRELATION BETWEEN FACTOR OF NPA FORMATION AND NPA

Factors	Number of NPAs	Correlation	Significance
Factor Of NPA Formation & NPA Classification	133	.788	.000

INTERPRETATION

As there is high positive correlation (r= .788) between factor of NPA formation and non performing assets, there is significant relationship between installment due and NPA.

INFERENCE

The factors or reasons of NPA formation is directly related with the NPAs and hence they are highly correlated.

TABLE 4.3.7

CORRELATION BETWEEN PERCENTAGE MARGIN AND NPA

Factors	Number Of NPAs	Correlation	Significance
Percentage of margin & NPA classification	133	-.652	.000

INTERPRETATION

As there is negative correlation (r= -.652) between percentage of margin and non performing assets, there is no significant relationship between duration of loan and NPA.

INFERENCE

When the percentage of margin increases the loan amount will decrease and hence chances of repayment along with the security level is more.

TABLE 4.3.8

CORRELATION BETWEEN CORRECTLY PAID DUES AND NPA

Factors	Number Of NPAs	Correlation	Significance
Correctly paid dues & NPA classification	133	-.424	.000

INTERPRETATION

As there is negative correlation (r= -.424) between duration of loan and non performing assets, there is no significant relationship between duration of loan and NPA.

INFERENCE

When the number of correctly paid dues are more then the chances of repayment of the loan also increases and the outstanding amount will decreases there by reducing the risk level of the loan.

TABLE 4.3.9

CORRELATION BETWEEN SECURITY OF LOAN AND NPA

Factors	Number of NPAs	Correlation	Significance
NPA classification & security of loan	133	.302	.000

INTERPRETATION

As there is positive correlation (r= .302) between security of loan and non performing assets, there is significant relationship between duration of loan and NPA.

INFERENCE

When there is more security of the loan the risk level of the loan decreases and hence provision can be made less and recovery of the loan can also be done with right measures.

TABLE 4.3.10

CORRELATION BETWEEN SECURITY OF LOAN AND NPA

Factors	Number of NPAs	Correlation	Significance
Factor of NPA formation & recovery action	133	-.379	.000

INTERPRETATION

As there is negative correlation (r= -.379) between Factor of NPA formation & recovery action, there is no significant relationship between duration of loan and NPA.

INFERENCE

As the major factor for the formation of NPA is negligence to repay, recovery action will play a major role in correcting the factors for the formation of NPA.

TABLE 4.3.11

CORRELATION BETWEEN SECURITY OF LOAN AND NPA

Factors	Number of NPAs	Correlation	Significance
Factor of NPA formation & duration of loan	133	-.763	.000

INTERPRETATION

As there is negative correlation (r= -.763) between Factor of NPA formation & duration of loan, there is no significant relationship between duration of loan and NPA.

INFERENCE

When the duration of loan increases there will be more chances in the delay of repayment of loan due to various factors which serves as the reason for the formation of NPA.

TABLE 4.3.12

CORRELATION BETWEEN FACTOR OF NPA FORMATION & CORRECTLY PAID DUES

Factors	Number of NPAs	Correlation	Significance
Factor of NPA formation & correctly paid dues	133	-.531	.000

INTERPRETATION

As there is negative correlation (r= -.531) between Factor of NPA formation & correctly paid dues, there is no significant relationship between duration of loan and NPA.

INFERENCE

When the dues are correctly paid NPAs will be decreased and the outstanding dues will also decrease.

TABLE 3.4.1

TABLE SHOWING THE NUMBER OF NPAs OCCURRED PER YEAR FROM APRIL 2003 TO MARCH 2009

S.No.	Year of becoming NPA	Number of NPAs	Percentage
1	(From April)2003	1	.75
2	2004	15	11.3
3	2005	1	.75
4	2006	16	12
5	2007	5	3.75
6	2008	85	67
7	2009(Up to march)	10	7.5
	Total	133	100

INTERPRETATION

About 67% percentage of the NPAs occurred in the year 2008, 12% of the NPAs occurred in the year 2006 and about 11% of the NPAs remained as NPA in the year 2004 and are not recovered which became loss assets.

INFERENCE

Though the percentages of NPAs are more at each year they are reduced gradually by the recovery actions taken by the bank. Despite there are 15 and 16 loss assets in the year 2004 and 2006 respectively due to various economic downfalls like agricultural failures (more in 2006). Chennimalai is basically having weaving as the main occupation and since there is a degradation in the whole handloom industry starting from 2004, there is more NPAs especially in personal loan – priority and agricultural sector. NPAs which occurred in 2008 may reduce by the further recovery actions of the bank.
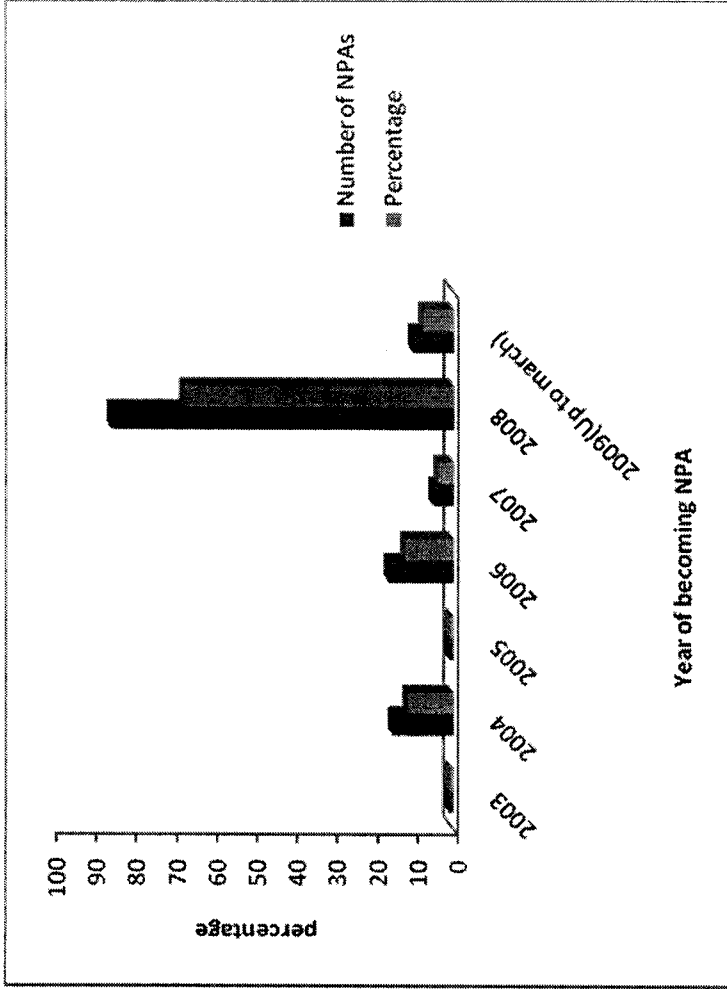
CHART 4.4.1

CHART SHOWING THE NUMBER OF NPAs OCCURRED PER YEAR FROM APRIL 2003 TO MARCH 2009

FINDINGS AND SUGGESTIONS

CHAPTER – IV

FINDINGS AND SUGGESTIONS

4.1 FINDINGS FROM PERCENTAGE ANALYSIS

- 98% of the NPAs were loans issued less than a lakh whereas 31% of the loans which became NPA s were issued between a range of 1 to 3 lakhs.

- Loans issued for a duration of 5 years became more NPAs (32%) whereas 26% of loans issued for 3 years became NPAs and 20% of the loans issued for greater than 10 years became NPAs. Loans issued to agricultural sector are issued only as long term and medium term (5 to 7 years) loans.

- 31% of loans with interest percentage of 12.5% became NPAs whereas 19.5% and 17% of loans became NPAs with interest percentage of 9.25% and 15% respectively.

- 48% of the NPAs were under the classification of doubtful assets whereas 27% of NPAs are classified as substandard assets and 24% of NPAs were classified as loss assets.

- For 24% of NPAs, notice has been issued, for 18% of NPAs legal notice has been issued whereas for 23% of NPAs suit filed in the court. 19.5% of the NPAs were recovered through single comprehensive proposal.

- About 67% of the NPAs occurred due to the negligence to repay by the defaulters. 19.5% of the NPAs were due to improper usage of the loans and 9% of the NPAs is due to misuse of funds. In this case the recovery action taken by the bank should be modified in favour of reducing the NPA Accounts.

- About 69% of the loans which became NPAs are secured whereas 64% of the loans which became NPAs are unsecured.

- About 46% of NPAs are loans given without any margin whereas 41% of loans are issued with 25% margin

- About 50% of the NPAs were issued for the purpose of personal loan-priority and 25% of the NPAs were issued for the purpose of personal loan-non priority.

- About 62% of the NPAs were undergone legal action and about 37% of the NPAs did not undergone any legal action.

- The risk percentage is 36.45% for Substandard assets, 66.13% for doubtful assets whereas the risk percentage is 82.98% for doubtful assets.

- Highest percentage of risk is with the loans issued for agriculture purpose and agricultural development, 153.5% and 106% respectively. The personal loan for non priority sector is having the risk level of 76.35%. loan issued for government schemes is having 75% of risk.

- About 67% percentage of the NPAs occurred in the year 2008, 12% of the NPAs occurred in the year 2006 and about 11% of the NPAs remained as NPA in the year 2004 and are not recovered which became loss assets.

4.2 FINDINGS FROM CORRELATION

- As there is positive correlation (r=0.205) between interest rate and non performing assets, there will be significant relationship between interest rate and non performing assets.

- As there is negative correlation (r= -.086) between type of account and non performing assets, there is no significant relationship between type of account and NPA.

- As there is negative correlation (r= -.421) between loan amount and non performing assets, there is no significant relationship between loan amount and NPA.

- As there is negative correlation (r= -.707) between duration of loan and non performing assets, there is no significant relationship between duration of loan and NPA.

- As there is negative correlation (r= -.372) between installment due and non performing assets, there is no significant relationship between installment due and NPA.

- As there is high positive correlation (r= .788) between factor of NPA formation and non performing assets, there is significant relationship between installment due and NPA.

- As there is negative correlation (r= -.652) between percentage of margin and non performing assets, there is no significant relationship between duration of loan and NPA.

- As there is negative correlation (r= -.424) between duration of loan and non performing assets, there is no significant relationship between duration of loan and NPA.

- As there is positive correlation (r= .302) between security of loan and non performing assets, there is significant relationship between duration of loan and NPA

- As there is negative correlation (r= -.379) between Factor of NPA formation & recovery action, there is no significant relationship between duration of loan and NPA.

- As there is negative correlation (r= -.763) between Factor of NPA formation & duration of loan, there is no significant relationship between duration of loan and NPA.

- As there is negative correlation (r= -.531) between Factor of NPA formation & correctly paid dues, there is no significant relationship between duration of loan and NPA.

- When the interest rate is increased the amount to be paid as due will increase. Hence there will be increase in the formation of NPA, when there is increase in interest rate and vice versa

- As different types of loans are served for different purposes and based on the needs of the customer the loan type will not be an influencing factor for the formation of NPA.

- It is clear that loans issued based on the sector will have influence on the NPAs and hence loan amount is not an influencing factor.

- When the duration of loan increases the extent of repayment decreases because of the changing economic condition over time.

- When installment due increases the repayment level decreases due to various external factors like changes in the business environment, changes in the economy etc.

- The factors or reasons of NPA formation is directly related with the NPAs and hence they are highly correlated.

- When the percentage of margin increases the loan amount will decrease and hence chances of repayment along with the security level is more.

- When the number of correctly paid dues are more then the chances of repayment of the loan also increases and the outstanding amount will decreases there by reducing the risk level of the loan.

- When there is more security of the loan the risk level of the loan decreases and hence provision can be made less and recovery of the loan can also be done with right measures.

- As the major factor for the formation of NPA is negligence to repay, recovery action will play a major role in correcting the factors for the formation of NPA.

- When the duration of loan increases there will be more chances in the delay of repayment of loan due to various factors which serves as the reason for the formation of NPA.

4.3 SUGESSTIONS.

- Loans issued for agricultural sector as a whole is having the risk level of above 100%. Hence other than allotting more provisions, issue of loans to agricultural sector can be restricted based on the security of the loan.

- Though the percentages of NPAs are more at each year they are reduced gradually by the recovery actions taken by the bank. Despite there are 15 and 16 loss assets in the year 2004 and 2006 respectively due to various economic downfalls like agricultural failures (more in 2006). Chennimalai is basically having weaving as the main occupation and since there is a degradation in the whole handloom industry starting from 2004, there is more NPAs especially in personal loan – priority and agricultural sector. NPAs which occurred in 2008 may reduce by the further recovery actions of the bank.

- As a major percentage of defaulters (89%) are having self intention of non repayment, the recovery actions of the Bank should be modified in such a way that the percentage of NPA accounts can be reduced and will happen less in the future.

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ANNEXTURE

QUESTIONNAIRE

The following questionnaire has to be filled accordingly as per the directions for identifying the of the NPA.

Number _____

Type of account

AGRI LOAN		GENERAL ADVANCE			
		PRIORITY LOAN		NON PRIORITY LOAN	
ABG		ODCC		CANBUDGET	
AL LHV		DPN		TL	
AMI		SHG		DPN(OTHERS)	
ALAFM		CANMOBILE		CANPENSION	
AL LPD		ML		CANCARRY	
ALPMRY		PMRY		HL(>50 lakhs)	
		HL(<50 lakhs)		LPD GEN	

Loan amount

a)<1 lakh ☐   b)1 to 3 lakhs ☐   c)>3 to 5 lakhs ☐   d) >5 to 10 lakhs ☐   e)>10lakhs ☐

Duration of loan

a) 1 year ☐   b) 3 years ☐   c) 5 years ☐   d) 7 years ☐

Interest

a) 9.25% ☐   b) 9.75% ☐   c) 10.75% ☐   d) 11.75% ☐   e)12% ☐

f) 12.5% ☐   g) 13% ☐   h) 14.25% ☐   i) 15% ☐   j)16% ☐

Installment due

a) Every month ☐   b) once in 6 months ☐

Specify

Date of becoming NPA	Year of becoming doubtful	Issued on

Loan amount_____

Liability Amount_____

) Loan and liability ratio_____

) Number of correctly paid dues _____

) Type of NPA

    a) substandard asset ☐   c) loss asset ☐

    b) doubtful asset ☐

) Whether any legal notices are issued

  a) Yes ☐   b) No ☐

) Classification of loan based on security

  a) Secured loan ☐   b) Non secured loan ☐

) Margin

5% ☐   b) 10% ☐   c) 15% ☐   d) 20% ☐   e)25% ☐

) Purpose of loan

Personal loan – priority		Agricultural development	
Personal loan – Non Priority		Loan for government schemes	
Agricultural loan		Loan for business	

) Type of recovery action

Repayment by customer		Adjusted from deposit	
Compromise		Personal contact	
restructuring of account		notice	
legal notice		One Time Settlement	
Acknowledgement from nominee		Seizure of securities	
Single comprehensive proposal		Suite filed	

) Tick accordingly the Factors or reasons for the formation of nonperforming assets

Will full defaulters		Non will full defaulters	
REASONS		**REASONS**	
Diversion of funds		Natural calamities	
Improper usage of loans		Government policies	
Over evaluation of securities		Acquisition of securities	
Under evaluation of securities		Erosion of securities	
Misuse of funds		Loss of securities	
Over invoicing		Scarcity of resources	
Under invoicing		More expenses than advance	
Buying with defective titles		Insufficient income from securities	
Negligence to repay		Seizing of goods or rejection of goods	