

## A STUDY ON NON PERFORMING ASSETS AND IT'S IMPACT ON MADHYANCHAL GRAMIN BANK

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### ABSTRACT

Banks plays a vital role in financial market and economy of our country. Financial market is a market which provides a platform for allocation of funds. The household save their funds and deposit it to the banks and further the bank re-invest these funds to the capital and money market. The Indian Banking system now a days faces various issues of non-performing assets. It is increasing day by bay which adversely impact the whole banking system of India. This study is conducted to analyze the impact of non-performing assets on Madhyanchal Gramin Bank. This study also identifies the causes and measures of Non-performing assets in the Bank.

**Keywords:** Non-Performing Assets, Banks, Madhyanchal Gramin Bank, Financial Market.

### Introduction

Bank is considered as life line and plays an important role for any business or trade. These days Indian Banks faces various issues of increasing the level of Non-Performing assets (NPAs).NPAs not only impact the banks but the entire economy a well. As the default of borrower increases, the profitability of the banks in its financial statement reduced. Profit is the main indicator for success, growth and survival of any business. From this point of you, we can say that NPAs is one of the factor which determine the profit of the Banks. NPA is bifurcated into Gross NPA and Net NPA. The Indian Banks is not only facing the issue of NPAs but all the nations' faces the same problem. Bank is one of the sectors which monitors the financial operations and helps in the economic progress of the country.

Madhyanchal Gramin Bank is a regional rural bank in India. It was established in the year 2006 by the sponsorship of State Bank of India. It was formed by the merger of three rural banks namely, Madhya Bharat Bank, Allahabad Bank and Union Bank of India. Madhyanchal Gramin Bank personal loan is known as an unsecured loan because it doesn't need to keep any collateral with the bank. The interest rate of the above varies according to the banks.The Madhyanchal Gramin Bank has reported the maximum NPA of Rs. 539 crore. The one of the reason for low recoveries behind this the borrowers, who are mostly belongs to the category of farmers believe that there will be a loan waiver and on the other hand, there has been successive crop loss due to natural calamity. The politicians also intervene and start protesting the same.

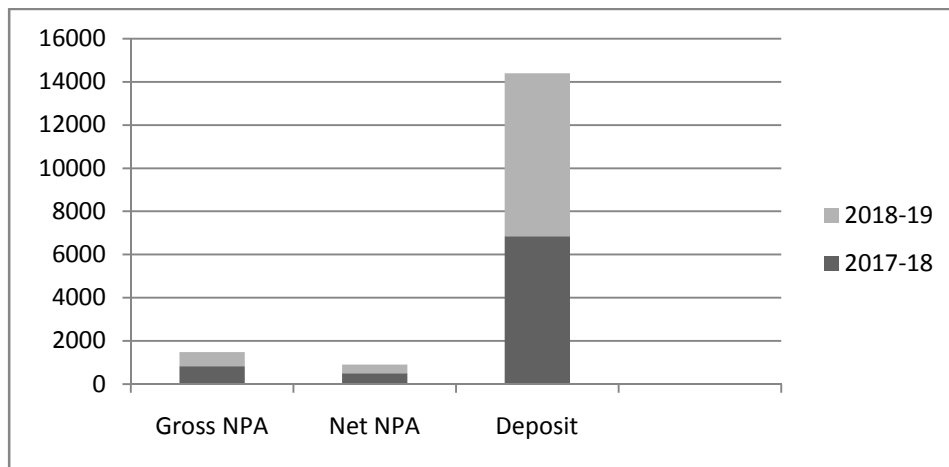
As per the annual report of Madhyanchal Gramin Bank for the F.Y 2018-19, the deposits, Gross NPAs and Net NPAs of the bank is tabulated below:

(Amt. in crores)

Sr. No.	Particulars	2017-18	2018-19	Percentage %
1	Deposits	6857.31	7541.23	9.97
2	Gross NPAs	823.81	654.97	2.14
3	Net NPAs	510.96	395.44	2.19

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### Objectives of the Study

- To examine the status of NPA of Madhyanchal Gramin Bank for the past few years.
- To know the causes of NPA in India.
- To know the asset classification of Madhyanchal Gramin Bank for the F.Y 2017-18 and 2018-19.
- To know and compare the investments and borrowing of Madhyanchal Gramin Bank for the F.Y 2017-18 and 2018-19.
- To give suggestions in order to save the banks from the adverse impact of NPA on its profitability.

### Limitations of the Study

- This study is conducted on the basis of past two financial years. NPA of a bank are not fixed all the time. They have a dynamic nature and not rigid.
- The data given in the above study is taken from web sources on estimated basis.

### Methodology

The main object of this research is to forecast NPAs of Madhyanchal Gramin Bank. There are various factors of forecasting are Repo rate, Gross domestic product, Loans and advances, inflation rate etc. This methodology describes the overview of the existing research on Non-Performing assets (NPAs). This study is based on secondary data analysis and the data has been collected from various web sources as well. The above sources include various journals, annual report of Madhyanchal Gramin Bank, magazines and already published research papers.

### Assets Classification

#### • Standard Assets

Standard assets means an assets which does not make any problem and also not carry more than normal risk attached to the business. This asset is not classified as NPA. Under this category the borrow delay the payment on prescribed time.

#### • Sub-Standard Assets

Sub-standard assets is an assets which is classified by the banks as an NPA for a period less than 12 months. The Bank make provision for the above asset is 15%.

#### • Doubtful Assets

Doubtful assets is an assets which is classified by the banks as an NPA for a period of more than 12 months. Under this category, the banks are highly doubtful whether the amount will be recoverable or not.

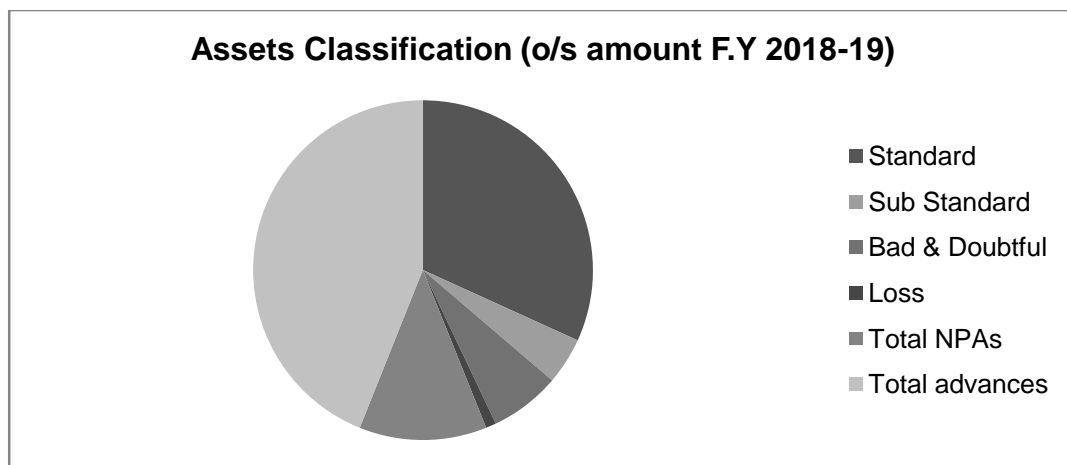
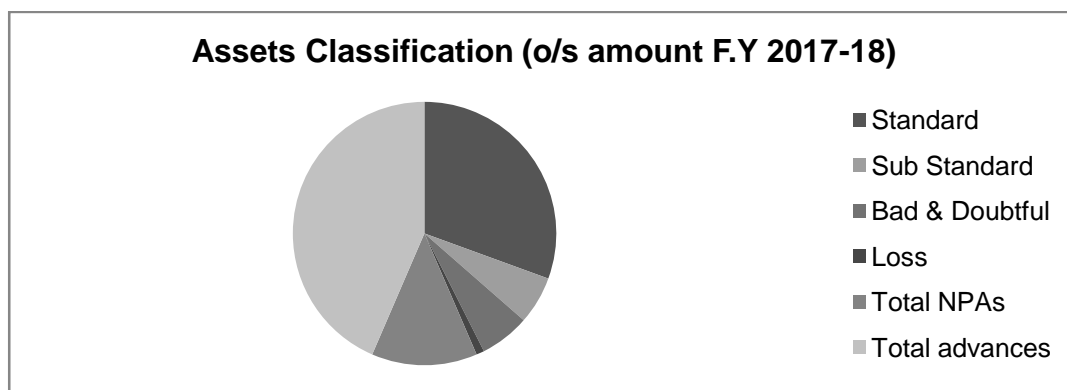
#### • Bad Debt

A bad debt is a debt which is not recoverable. It is a part of loan which is not recovered from the Banks from their borrowers and considered as Bad debt. The auditor identifies the loss and write off wholly or partially.

**Assets Classification of Madhyanchal Gramin Bank**

(Rs. in Crore)

Assets	2017-18	2018-19
	outstanding loan	outstanding loan
Standard	1941.86	1713.89
Sub Standard	373.41	241.13
Bad & Doubtful	388.75	360.15
Loss	61.65	53.69
Total NPAs	823.81	654.97
Total advances	2765.67	2368.86



**Causes of Non Performing Assets**

- The main ground for rising the level of NPAs is the credit rating is not properly analyzed by the banks.
- Ineffective management, lack of resources, poor project handling of the corporate is also the reason for non recovery of debt by the bank from the borrower.
- Natural calamities also cause NPAs, which in turn making the borrowers unable to pay back their loans.
- The entrepreneurs could not predict their product demand, sale of the goods in the market and start production of goods, which results making them unable to pay back the money which they borrow from the banks to operate their business.
- Due to change in government policies, the borrower has to cope up with the changing principles and policies.

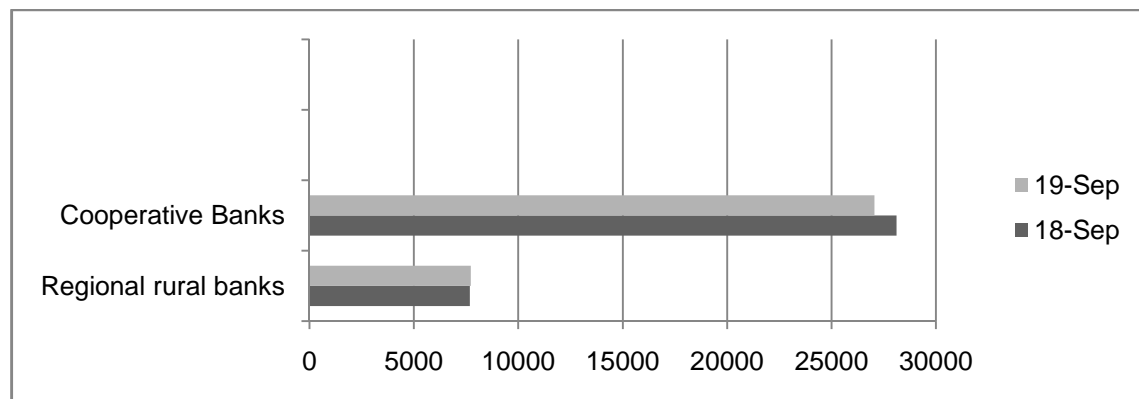
### Impact of NPAs

- NPAs reduces the profitability of the Banks and increases the loss of the Banks. In addition to this, banks also make provision for the same.
- Due to increase in number of NPA, the banks are compel to reduce the rate of interest of deposits. It hampers the liability management of the banks.
- Increasing the level of NPA, lost the trust of the shareholders and switch the segment of their investment because of this reason.
- Bank's image also adversely impact because of higher the number of NPAs.

### Comparison of Agricultural Loan of Quarter 2 of Regional Rural & Cooperative Bank

(Amt. in Crore)

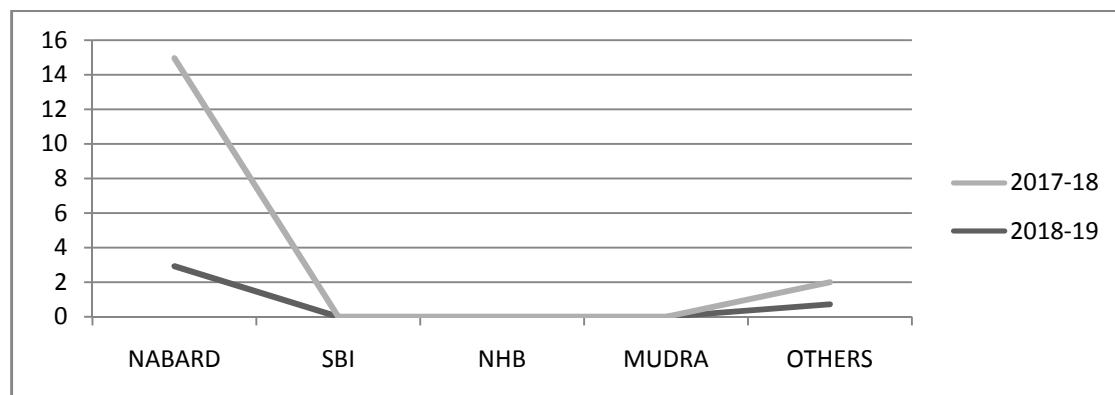
Sr. No.	Name of Bank	Agriculture Loans of Q2		Variation in %
		Sep-18	Sep-19	Sep-19
1	Regional rural banks	7673	7730	0.74
2	Cooperative Banks	28112	27062	-3.74



### Borrowings of Madhyanchal Gramin Bank

(Rs. in Crores)

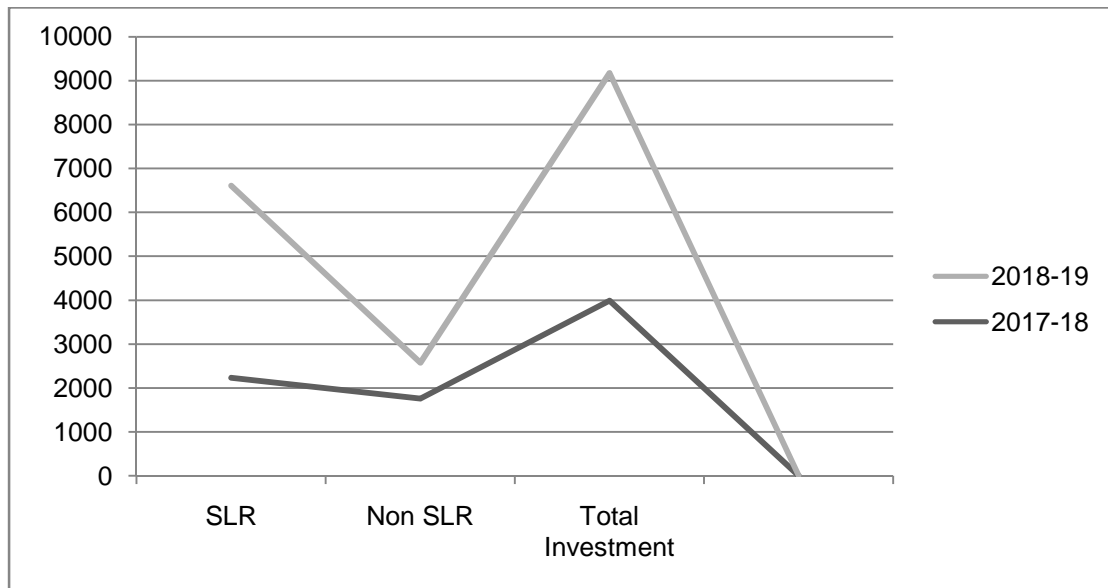
Sr. No.	Institution	2018-19	2017-18
1	NABARD	2.94	12.02
2	State Bank of India	0	0
3	National Housing Bank	0	0
4	Micro units development & Refinance agency bank	0	0
5	Other institutions	0.72	1.28
	<b>Total</b>	<b>3.66</b>	<b>13.3</b>



**Investments of Madhyanchal Gramin Bank**

(Rs. in Crores)

Investments	2017-18	2018-19
SLR	2235.52	4371.65
Growth %	34.81	95.55
Non SLR	1754.32	820.27
Growth %	-29.91	-53.24
Total Investments	3989.84	5191.92
Growth %	-4.12	30.13



**Findings of the Study**

- Non-Performing assets is a challenging task for every banks and financial institutions. Among regional rural banks, Madhyanchal Grameen Bank has the maximum NPA of Rs. 539 crore.
- There has been slow recovery of the NPAs of the Madhyanchal Gramin Bank.
- As per the annual report of Madhyanchal Gramin Bank (FY 2018-19), the total business of the Madhyanchal Gramin bank has reached at a level of Rs. 99910.09 crores with a growth of Rs. 287.11 crores @ 2.98% (Rs. 392.02cr @4.25%)

**Recommendation for Management of NPAs**

The management of the NPAs is very important for facing this challenging issue. The main object is to protect the present NPAs as well as to take the effective measures in this regard in order to secure the future situation.

- Proper evaluation of projects before sanctioning the loan amount.
- Banks should find a new ways to recover the loan from the borrower.
- The Banks must change its monitoring and credit rating methods.
- The officers of the Bank must personally supervise and visit the borrowers' office after sanction of the loan to ensure the proper utilization of the funds.
- If borrower needs any entrepreneurial skill, assist and guide them.
- RBI also publishes the list of the defaulter so that the other banks must investigate before approving the loan to the borrower.
- The bank with its staff internally discusses the matter and take prompt action for recovery of the loan. The staff also gives its suggestion in this regard.

**Conclusion**

Non- performing assets play a role of roadblock for the banking system. It not adversely impact the banks but the economy too. We target the Madhyanchal Gramin bank in this paper to know the NPAs of the regional rural bank and how it impacts the other things also. The Banks are highly dependent on the interest income on the funds which it lend to the borrowers. The government has taken various initiatives to solve the above issue of NPAs, still there is a need to take other measures also. The profitability of the Banks is affected due to fluctuation in the level of NPAs. The government should take measures for speedy disposal of cases of the NPAs. The Banks or financial institution also manages the recovery of loan from the borrower at the regular intervals. When the cash of the bank is blocked by any reason, then the respective assets is known as illiquid assets. The banks sell these assets to the assets reconstruction companies by handover the portfolio of assets. The assets reconstruction companies convert them into liquid assets. This process is known as securitization of assets. If we cannot resolve the issue of NPAs at the earliest, the profitability of the banks will go down which is not beneficial for the growth of our economy.

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