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Impact of NPAs on the Performance of UCO Bank: A Study

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ABSTRACT
Indian banking sector has been facing terrible problem due to the deterioration quality of assets which is increasing gradually. The growth of NPA has a direct impact on the overall performance of the bank. The problems of NPAs not only affecting the bank but also affect the entire economy. The present study is analytical in nature and completely based on secondary data analysed by using accounting and statistical tools. The UCO Bank was established before the independence and worked successfully, but now facing various problems due to NPAs. In this above background the present study assess the financial strength, quality of loan assets and NPA management and also discussed the impact of NPAs on the performance of UCO Bank as well as the recovery performance of NPAs.

KEYWORD: *Non-performing assets, RBI, Commercial Bank, Economic development*

I. INTRODUCTION

Strong banking system of a country works as the main driving for the economy and plays an important role in the economic development of the country. Transparent and effective banking system makes the healthy and strong economy of the country. But now a day's the bank's health and performance diminishing due to increase in non-performing assets(NPA) of the bank which causes the country's economy to deteriorate. UCO Bank, previously known as United Commercial Bank, emerged successful in early stage of their incorporation and there are a significant presence of UCO Bank not only in the financial markets of India, it is also outside of India. But in this decade UCO Bank faced some unwanted difficulties which affect the performance of the bank. The main reason for the bad performance of the UCO Bank is that most of the assets become non-performing and increased year after year. So NPA is the core financial problem for the bank and considered to be a most important parameter to evaluate its impact on the performance of the bank.

II. LITERATURE REVIEW

Bansal, A. (2012), in his research paper discussed the concept and recent trends of NPAs of public sector banks. He also analyse the impact of NPAs and evaluate the reasons for NPAs and suggest how to reduced NPAs and improve assets quality of the bank.

Garg, A. (2015), in his paper attempts a comparative assessment of non-performing assets in public sector bank, private sector bank and foreign bank and suggest that to improve non-interest income public sector bank must find appropriate means, as interest income affect the net profit due to rise in NPA.

Singh, V.R. (2016), in his article highlights the status and trend of NPAs in Indian schedule commercial bank, the factors contributing to NPAs, reasons for high impact of NPAs and how to recovery of NPAs through various channels. He observed that extent of NPA is comparatively very high in public sectors banks, although government have been taken various step to reduced the NPAs.

Sharifi, O. and Akter, J. (2016), in their paper highlights the trends, status and impact of NPAs on profitability of Public Sector Banks during the period of 7 years (2009-2015) and found that the impact of NPA negatively on financial performance of public sector banks under the study period.

Chalam, G.V. (2017), in his paper attempts to study the trends of NPAs in Indian Banking sector, specifically sector wise, and identify the causes and consequences of NPAs and suggest establishing a sound control and feedback mechanism on banking operations.

III. OBJECTIVES OF THE STUDY

The main objectives of this study are:

- To analysis the NPAs of UCO Bank
- To evaluate the impact on NPAs on the performance of UCO Bank
- To evaluate the recovery performance of NPAs of UCO Bank

IV. RESEARCH METHODOLOGY

Data Collection: The data has been collected from secondary source which includes RBI reports, various articles, journals and research papers.

Study Period: The present study has been covered a period of five consecutive financial years from 2013-14 to 2017-18.

Tools and Techniques: The data are analyzed by different accounting and statistical tools and conceptual understanding.

V. CONCEPT OF NPAs

The concept of NPAs developed from Reserve Bank of India (RBI) prudential norms which was recommended by the Narsimham Committe, applicable from 1992-93 in Indian Commercial Banks. As per the prudential norms bank assets are classified into two broad categories viz. Performing Assets and Non-performing Assets. Performing Assets are those assets which generate interest income regularly and customers paid the instalment of principal and interest amount within the due date. On the contrary, non-performing assets are those assets, where customers are not able to pay the interest or principal or both within the due date. As per RBI guidelines, assets of bank classified into four categories i.e. Standard assets, Sub-standard assets, Doubtful Assets and Loss Assets of which Standard Assets considered as Performing Assets and the sum of last three are considered Non-performing Assets. Further, NPAs is also classified two categories viz. Gross NPA and Net NPA.

VI. RATIO ANALYSIS AND THE NPA MANAGEMENT

To assess the financial strength, quality of loan assets and NPA management, it is very important to analyze different parameters with respect to NPA. Here an attempt has been made to assess the position of NPA of UCO Bank with the help of ratio analysis by using important ratios as follows:

Table 1: Ratios relating to NPAs

Year	Gross NPA Ratio (%)	Net NPA Ratio (%)	Sub-Standard Assets Ratio (%)	Doubtful Assets Ratio (%)	Loss Assets Ratio (%)
2013-14	4.32	2.38	36.63	56.70	6.68
2014-15	6.76	4.30	51.24	47.74	1.07
2015-16	15.43	9.09	28.54	67.22	4.23
2016-17	17.12	8.94	22.21	72.69	5.09
2017-18	24.64	13.10	19.99	71.75	8.25
Average	13.65	7.562	31.72	63.22	5.06

Source: Compiled from Annual Reports of the UCO Bank.

Gross NPA Ratio

Gross NPA Ratio = (Gross NPA/Gross Advance) × 100

Gross NPA indicates the quality of credit portfolio of the bank. High Gross NPA Ratio indicates the low quality credit portfolio. Table 1 shows that, on an average, Gross NPA arrives at 13.65% during the period of study and it gives a continuous upward trend. It is observed that the management of UCO Bank are not paying adequate attention to take care of and following ideal norms of granting advance, so that recovery is not satisfactory which leads to higher Gross NPA Ratio.

Net NPA Ratio

Net NPA Ratio = (Gross NPA – Provisions) / (Gross Advances – Provisions) × 100

Net NPA indicates the risk of existing loan of the bank. High Net NPA Ratio indicates the existence of highly risky loans of the bank for which no adequate provision has been made. From the Table 1 it is noticed that Net NPA Ratio is 2.38% in 2013-14 and it is significantly increased every year and in 2017-18 finally reached to 13.10% which is significantly higher than the average Gross NPA Ratio (7.562%). The UCO Bank had failed to make sufficient provision against NPA which indicates unsatisfactory position.

Sub-standard Assets Ratio

Sub-standard Assets Ratio = (Total Sub-standard assets/Gross NPA) × 100

Sub-standard Assets Ratio indicates the scope for improvement in NPA of the bank. High Sub-standard Assets Ratio indicates is the better position of recovering the advances. From the Table 1 it is observed that Sub-standard Assets Ratio, which is 36.63% in 2013-14 significantly decreasing every year and finally reached to 19.99% in 2017-18 which is much lower than the average Sub-standard Assets Ratio (31.722%) due to the higher percentage of doubtful assets over the Sub-standard Assets.

Doubtful Assets ratio

Doubtful Assets Ratio = (Total Doubtful Assets/Gross NPA) × 100

Doubtful Assets Ratio indicates the performance of management in respect of NPA of the bank. High Doubtful Assets Ratio indicates the management of NPA in the bank is appear to be poor and there is more scope for reducing NPAs by adopting softening attitude towards customers. From the Table 1 it is understand that the ratio had been not satisfactory except for two years i.e. 2013-14 (56.705) and 2014-15 (47.745).

Loss Assets Ratio

Loss Assets Ratio = (Total Loss Assets/Gross NPA) × 100

Loss Assets Ratio indicates the higher losses or high erosion of securities of the bank. High Loss Assets Ratio indicates higher losses, so this ratio would be as low as possible. From the above Table 1 it is understand that Loss Assets Ratio had been higher than average ratio for two year i.e. 2013-14 and 2017-18, otherwise it is low.

VII. ANALYSIS OF THE IMPACT OF NPA ON THE PERFORMANCE OF UCO BANK

To analyze the impact of NPA on the performance of the UCO Bank in terms of Profitability, Liquidity and Involvement of Management (IM) under this study from 2013-14 to 2017-18, a linear Multiple Regression Model has been used. For analysis, we have taken gross NPA as independent variables; on the other hand, bank's performance indicators such as Profitability, Liquidity and Involvement of Management (IM) are taken as dependent variables.

To investigate the dependence between two or more variables at the same time, compute a correlation matrix.

Table 2: Correlation Matrix among Dependent and Independent variables

		ROA	Liquidity	IM	NPA
ROA	Pearson Correlation	1.000	-0.975	-0.884	-0.983
	Sig. (1-tailed)		0.002	0.023	0.001
	N	5	5	5	5
Liquidity	Pearson Correlation	-0.975	1.000	0.869	0.972
	Sig. (1-tailed)	0.002		0.028	0.003
	N	5	5	5	5
IM	Pearson Correlation	-0.884	0.869	1.000	0.938
	Sig. (1-tailed)	0.023	0.028		0.009
	N	5	5	5	5
NPA	Pearson Correlation	-0.983	0.972	0.938	1.000
	Sig. (1-tailed)	0.001	0.003	0.009	
	N	5	5	5	5
Correlation is significant at the 0.05 level (1-tailed)					

Source: Computation through SPSS

The above Table 2 shows that NPA is negatively correlated with ROA and positively correlated with

Liquidity and IM which is significant for this study. The simple linear regression model has been sketchy to investigate the impact of NPA on the performance of UCO Bank, which as follows:

1st Model: ROA = α + β NPA + €
2nd Model: Liquidity = α + β NPA + €
3rd Model: IM = α + β NPA + €

Where, ROA (Return on Assets) = (Net Profit or Loss) / (Total assets)

Liquidity = (Total Assets/Total Loans)

IM (Involvement of Management) = (Operating Expenses/Total Revenue)
α = Constant,
β = Regression Coefficients and
€ = Error Term

Regression Analysis based on 1st Model:
To observe the significant relation between NPA and Profitability (ROA) of UCO Bank we have taken the hypothesis

1st Hypothesis:
H_0 = When NPA decreases, profitability (ROA) decreases
H_1 = When NPA increases, profitability (ROA) decreases

Table 3: Regression Coefficients of UCO Bank (Dependent variable: ROA)

Model 1	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
Constant	1.397	0.237		5.904	0.010
NPA	-0.256	0.028	-0.987	-9.164	0.003

Source: Computation through SPSS

From the Table 3, we get the regression equation is ROA = 1.397 – 0.256 NPA. Table 3 shows that profitability is linked negatively with NPA. When NPA is increased by one unit, ROA is decreased negatively by 0.256 units that support the economic theory because ROA and NPA must be inversely related. The result shows that for the independent variable NPA, the probability of t statistic (-) 9.164 for the b coefficient is 0.003 which is less than the significant level of 0.05. So we reject the null hypothesis that, there is no significant impact of NPA on ROA.

Regression Analysis based on 2nd Model:
To observe the significant relation between NPA and Liquidity of UCO Bank we have taken the hypothesis

2nd Hypothesis:
H_0 = There is no significant negative relationship between NPA and Liquidity

H_1 = There is significant negative relationship between NPA and Liquidity

Table 4: Regression Coefficients of UCO Bank (Dependent variable: Liquidity)

Model 2	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
Constant	1.515	0.049		30.838	0.000
NPA	0.042	0.006	0.972	7.180	0.006

Source: Computation through SPSS

From the Table 4, we get the regression equation is ROA = 1.515 + 0.042 NPA. Table 4 shows that profitability is linked positively with NPA. When NPA is increased by one unit, ROA is increase positively by 0.042 units that does not support the economic theory because Liquidity and NPA must be inversely related. The result shows that for the independent variable NPA, the liquidity of t statistic (7.180) for the b coefficient is 0.006 which is less than the significant level of 0.05. So we reject the null hypothesis that there is no significant impact of NPA on Liquidity.

Regression Analysis based on 3rd Model:
To observe the significant relation between NPA and IM of UCO Bank we have taken the hypothesis

3rd Hypothesis:

H_0 = There is no positive relationship between NPA and IM

H_1 = There is a positive relationship between NPA and IM

Table 5: Regression Coefficients of UCO Bank (Dependent variable: IM)

Model 3	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
Constant	0.097	0.012		8.152	0.004
NPA	0.007	0.001	0.938	4.673	0.019

Source: Computation through SPSS

From the Table 5, we get the regression equation is ROA = 0.097 + 0.007 NPA. Table 2 shows that profitability is linked positively with NPA. When NPA is increased by one unit, IM is increased positively by 0.007 units that support the economic theory because IM and NPA must be directly related. The result shows that for the independent variable NPA, the probability of t statistic (4.673) for the b coefficient is 0.019 which is less than the significant level of 0.05. So we reject the null hypothesis. Hence we conclude that there is significant impact of NPA on IM.

VIII. RECOVERY PERFORMANCE

Recovery management is the key factor to stability of the banking sector in containment of non-performing assets considering the overall difficulties. The main objectives of recovery management are NPA reduction, Deposit growth and Advance growth. For improving recovery in decreed account, the bank adopted several RBIs mechanism for recovery of NPAs such as Modified Compromises Settlement Scheme, SARFAESI Act, DRTs, Lok Adalats, Country wise mega recovery camps etc. The details of Cash Recovery and Up gradation shown below:

Table: Cash Recovery and Up gradation (Rs. in Crore)

Year	Cash Recovery	Up gradation	Total	Recovery in Loss Assets (ML & Tech Write-off a/c)
2014	2015	1032	3047	295
2015	1629	877	2506	189
2016	1368.58	1357.86	2726.44	131.01
2017	2038.66	4300.45	6339.11	139.81
2018	1680.04	2610.08	4290.12	181.56

Source: Compiled from Annual Reports of the UCO Bank.

The total of cash recovery and up gradation for the year 2018 is Rs. 4290.12 Crore as against Rs. 6339.11 Crore for the year 2017. It is too lower than the previous year. The recovery of written off accounts is Rs. 181.56 Crore for the year 2018 comparatively high to Rs. 139.81 Crore for the year 2017 and last three years it is increasing trend.

IX. CONCLUSION

The Non-performing assets not only created big problem for Indian banking sector but also the economy too. This study shows that the money blocked in NPAs of UCO Bank is very high and its affects the profitability, liquidity and involvement of management adversely. The bank should take timely action against the deterioration of performing assets. The performance of recovery is also not satisfactory. The bank management should speed up the recovery and up gradation process and make efforts to manage and reduce NPA. The government should also take some initiative and make more provision against loan defaulters for faster settlement of pending cases.

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