



MANAGEMENT OF NON-PERFORMING ASSETS(NPAs) AT KARNATAKA  
STATE FINANCIAL CORPORATION(KSFC)

*Dr.G.Ramanaiah*  
*SJB Institute of Technology, Bangalore*

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## I. INTRODUCTION

For several months now the issue of non-performing assets(NPAs) being faced by banking and other lending institutions has dominated headlines and causing discomfort to policy makers, economists and administrators. The total amount of NPAs of public sector banks(PSBs) stood at Rs.7.27 lakh crore as on 30th September, 2019. From the time RBI started reviewing quality of banking assets from 2016 and revealing of NPAs in response, stressed the system. The advanced countries like the USA, the UK, Japan and Germany have less than 2% of NPAs. But India with 10 per cent (according to RBI report 9.9 per cent), is in the more 'unsatisfactory' league of nations with high NPAs.

### **The Concept of NPA**

The Non-performing asset is the asset ceases when the interest or the principal amount of loan remains overdue for the period and fails to generate income when the repaying scheduled income to the creditor is failed to book into the accounts.

As per the RBI, if the interest or installment of principal is due for a period of 90 days, then the assets is classified as non-performing asset and depending on the length of period it is pending, these assets are categorized into:

- Sub-standard asset: If an asset has been non-performing for less than 12 months;
- Doubtful asset: If an asset has been non-performing for more than 12 months; and
- Loss assets: Assets where losses have been identified by the bank, auditor or inspector and have not been fully written off.

### **Company profile**

The Karnataka State Financial Corporation (KSFC) was set up in March 1959, under section 3(1) of the State Financial Corporation Act, 1951 with the basic objective to create finance and modern development force in Karnataka by loaning some types of term advances, valuable investment, gearing renting etc. This is headquartered at Bangalore with 4 circle offices and 32 Branch Offices. Its CMD is designated by the state government and 2 executive directors and five general managers are there to help him to run the organization effectively and efficiently. It extends its financial help further to the enterprises for the procurement of hardware/ gear/ transport vehicle. KSFC has a "shipper keeping money division", which use to take the



authority of sanctioning of money at shores. The extended report arrangement, yield the installment of assurance and consortium of advances, bill payment reduction and corresponding errands.

In the last 60 years of presence, the KSFC has controlled and monitored most of the developments of Small Scale Industries for improvement and advancement of the business. KSFC has helped not less than 1,71,414 units, with the total assets of over Rs.15,276.05 crores, out of which over half are towards Small Scale Industries.

### Literature Review

Many researchers did an extensive research related to NPAs and their effect on Indian economy, banks, financial institutions of lending, perception of various people connecting to this issue etc.

P.N Joshi(2003) in his research on 'non-performing assets, causes, extent and remedies' observed that there were certain irregularities in the guidelines issued by RBI as the position of NPAs in Indian banking is exaggerated.

Chatterjee, Mukherjee and Das (2012) investigated the management of non-performing assets and suggested that the banks/lending institutions should understand the reasons or purpose for which the borrowers are seeking loans clearly and check the guarantor's personal profile, wealth etc before approving the loan. The loan policy should be clear, straight and documentation should be made perfectly.

Dr. K.C.Chakraborty (2005) in his conceptual paper on the 'administration of non-performing assets-tendencies and tasks' stressed that the financial institutions need to confront a few difficulties in overseeing NPAs, other than guaranteeing better investigation of the credit

Laveena and Guleria (2016) in their research on non-performing assets and their reasons with reference to public sector banks in India suggested that the banks must take proper care to understand the borrower's ability through financial statements for avoiding future

Pradhan T K(2012) in his investigation on management of NPAs in commercial banks located in Odisha suggested that at the time of credit policy framing, opinions of the branch managers concerned have to be given due weightage. The study pointed that another major hurdle in the way of efficient functioning of banks had been the sluggish legal system which makes more than 92 per cent of managers to go for out-of-court settlement with the defaulters.

Laveena and Guleria(2016) in their paper on NPAs in public sector banks suggested an efficient management system should be put in place to counter this problem, bank staff be made responsible for such loans, also train them appropriately with regard to legal documentation, charge of security and other preventive measures to avoid future NPAs

Dananjyakadanda and Krishnaraj(2018) found through their study, the past NPAs, the operating efficiency of the bank, capital adequacy, GDP growth rate, and interest rate are the major determinants of the growth of NPAs in Indian public sector banks.



Dr. Kumar M.K., Reddy C.M. and Muktha K.C. (2004) in their article 'Causes of NPAs and Remedial Measures' mentioned that profitability of banks depends on how they reduce NPAs and further to increase bottom lines, it is necessary to prevent them. It was suggested that launching of massive recovery campaigns, providing adequate machinery, extraordinary care in selection of borrowers by branch managers, help in minimizing NPAs.

Sulagna Das, and Abhijit Dutta (2012) analyzed the data of NPAs public sector banks from 2008-2013 using Anova statistics, and with the help of SPSS software. to find out if there are any significant differences in the mean variation of the concerned banks. No significant variations were found in the means of NPAs of public sector banks when applied ANOVA for testing the results of the study.

Krishna Murari (2014), assessed the NPA position and trends of public and private sector banks, using 13 years data taken from RBI sources from 2001-2013. It was observed that there was a continuous increase in the trend of public sector bank NPAs compare to private sector and observed interestingly there is no significant difference between public and private sector, which means both sectors are trying hard to mitigate their NPAs through different regulatory and supervisory agencies.

Rinku Sharma Dixit, Shailee L. Choudhary (2019) made a study on forecasting non-performing assets for Indian banking sector. The NPA forecasted value for PNB in 2019 is Rs. 1,23,129 crores which is less than SBI and other commercial banks. But the pace of increasing NPA in PNB is higher than SBI and others.

## II. OBJECTIVES & METHODOLOGY

Objectives:

1. To analyse trends (Outstanding, movement in NPA and percentage of NPAs in net advances) in NPAs
2. To assess the provisions made in NPAs

## III. MATERIALS & METHODS

The information and data required for the study were gathered from the records of accounts, and recovery offices, KSFC website, annual reports, RBI circulars etc. The data on NPAs for a period of 5 years i.e 2012-2017 was taken to assess the levels of NPAs, provisions made, percentage of NPAs in net advances etc. The study adopted analytical approach in analyzing data and interpreting the data collected. One way ANOVA was applied to test significance of difference in outstanding NPAs.

Hypothesis: Ho: There is no significant difference in NPAs outstanding across categories

H1: There is a significant difference in NPAs outstanding across categories



Data Analysis

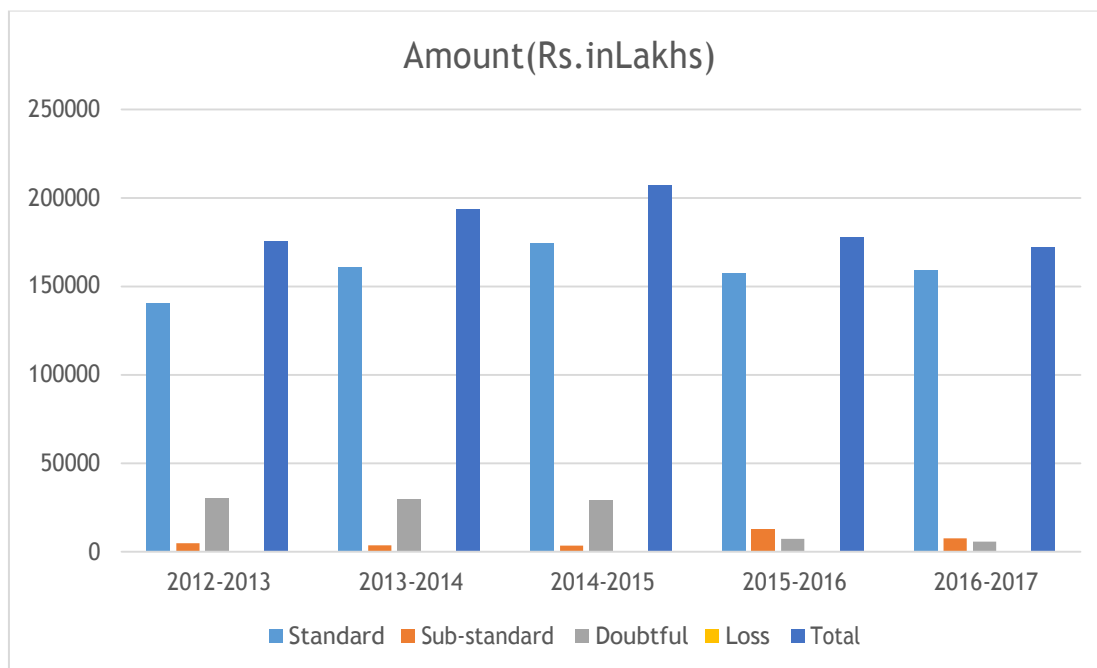
Table 1: Outstanding of NPAs

Year	Category of assets		
	Standard assets	Sub-standard assets	Doubtful assets
2012-13	140428.24	4787.14	30145.26
2013-14	160725.99	3641.94	29478.03
2014-15	174519.45	3483.33	29290.11
2015-16	157437.64	12863.16	7354.78
2016-17	159097.67	7564.04	5686.19

Source: Annual Reports

Chart 1

Chart Showing NPAs Outstanding



From the above data it is noticed that there is an increasing trend in the growth of Standard Assets. However, there is a slight decrease in the year 2015-2016. This is because the KSFC has initiated intensive steps on monitoring the loan accounts. Again during the year 2016- 2017 the Standard Assets has been increased to Rs.159097.67 Lakhs from Rs.157437.64 Lakhs during previous year i.e., 2015-2016.

It is noticed that there has been a continuous decrease in the ratio of doubtful assets. This is because KSFC is finding difficult to recover the loan amount sanctioned by them towards their clients.



It may be understood that amount of outstanding in the doubtful assets has been decreased by Rs.24459.07 lakhs in 5 consecutive years, but we can also note that standard and sub-standard assets have been increased by Rs.18669.43 and Rs.2776.9 lakhs respectively, over the years.

**Anova: Single Factor**

Summary				
Groups	Count	Sum	Average	Variance
140428.24	4	651780.8	162945.2	61341620
4787.14	4	27552.47	6888.118	19429417
30145.26	4	71809.11	17952.28	1.75E+08

**ANOVA**

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	6.07E+10	2	3.03E+10	356.1735	2.71E-09	4.256495
Within Groups	7.66E+08	9	85162931			
Total	6.14E+10	11				

The F-statistic is computed from the data and represents how much the variability among the means exceeds that expected due to chance. Here F calculated value is greater than critical value, so the null hypothesis is rejected and alternative hypothesis is accepted. So it can be concluded that there is a significant difference in categories of assets of NPAs outstanding across years.

Table 2: Provisions in NPA made by KSFC  
(Rs. In Lakhs)

Categories of Assets	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Standard	635.49	1129.95	121.014	1197.04	1744.65
Sub-standard	708.19	984.04	1080.77	2207.90	19660.9
Doubtful	28021.54	27144.17	26672.67	3833.88	3838.50
Loss	-	-	-	-	-
Total	31502.34	29258.16	27874.45	7238.82	25244.05

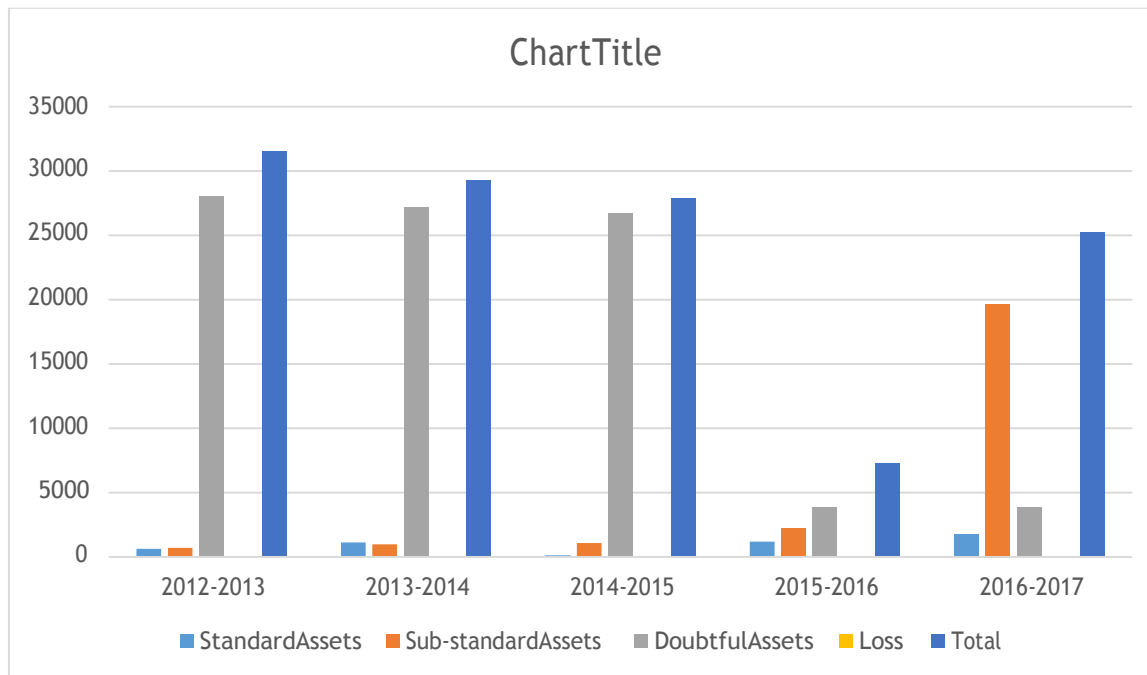


Chart 2: Chart Showing Provisions for NPA made by KSFC:

From the above chart and data, it is clear that classification of assets, the amount of provisions made have increased over the years. Provisions made under Standard Assets has been increased by Rs.1109.16 Lakhs, Sub-standard Assets increased by Rs.1257.9 Lakhs respectively over the years. However, the provisions made towards Doubtful Assets has been decreased by Rs.24183.04 Lakhs over the years.

Table 3: Table Showing Movement of NPA made by KSFC:  
(Rs. In Lakhs)

	2014-2015	2015-2016	2016-2017
<b>Opening Balance</b>	4608.55	9006.14	15238.53
<b>+ Additions</b>	8387.43	13289.08	15928.11
<b>-Recovery</b>	3989.84	7056.69	21427.75
<b>Total</b>	9006.14	15238.53	9738.89

Source: Annual reports



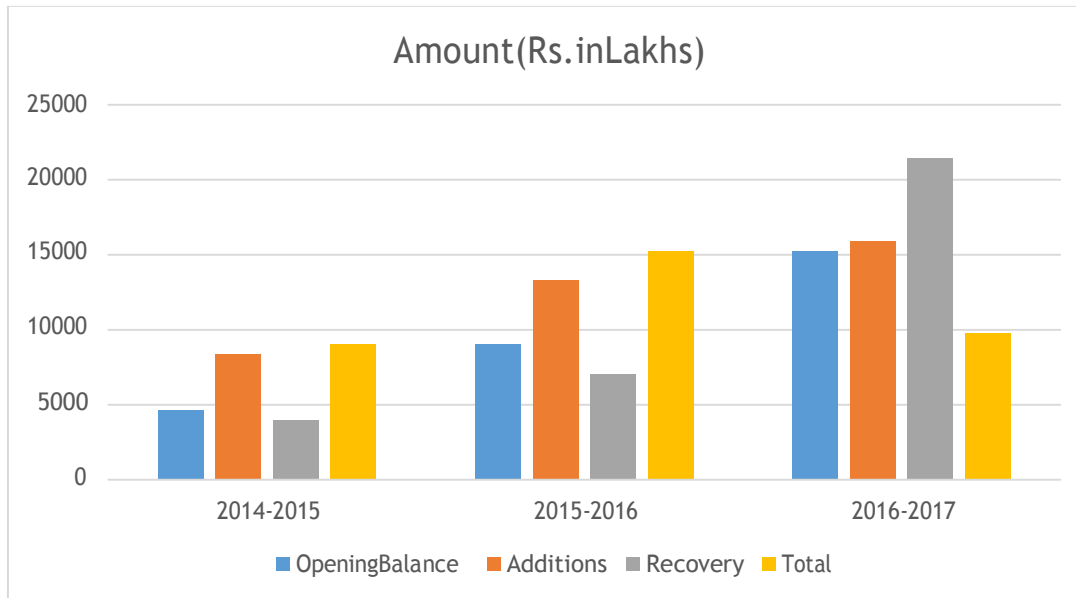


Chart 3: Chart Showing Movement of NPA by KS

Here we can see that the NPA has been increased from the year 2014-2015 to 2016-2017 by Rs.10629.98 Lakhs. However, we can also see that additions are less in the year 2014-2015, as compared to 2015-2016 and 2016-2017. Later it has been increased by Rs.7540.68 Lakhs over the years.

Table 4: Table Showing Net NPA as % of Net Advance made by KSFC:

Year	Percentage (%)
2012-2013	2.78
2013-2014	2.57
2014-2015	5.07
2015-2016	8.83
2016-2017	5.77

Source: Annual reports

From the above table we can see the percentage change in net NPA towards the advances made by the KSFC. Here the percentage in the NPA has been increased by 1.08 percent from the year 2014-2015 till 2016-2017, which is not a good sign for the company. The company should take serious action against it.



#### **IV. RESULTS AND DISCUSSION**

The operations of KSFC has been increased over the last four years and the overall NPA outstanding has been highly volatile. The percentage of Net NPA to Net advances of the coporation is increasing over the last four year period. The overall performance appears to be variable with the volume on sub-standard assets fluctuating over the years and financial health is decreased in the year 2015-16 compared to other years. The only plus point is that the introduction of online one time settlement was very encouraging and had a greater impact in helping of resolving good number of cases pending over the years and improving resource generation. But the percentage in NPA in 2014-15 to 2016-17 is an alarming sign and it needs company's attention to plug it.

#### **V. CONCLUSION**

The findings of the study show that the corporation is making adequate provisions against gross NPA which is satisfactory. It is clear that NPA's have visible impact on the loan portfolio of any financial institution affecting their balance sheet, which ultimately affects their profits, but it is also seen that KSFC is trying its best to reduce the percentage of NPA's and are taking effective measures towards this cause. This is visible from the fact that debt recovery tribunals have speeded up the legal procedure of resolving a resource for an extraordinary degree. The idea of settlement of duty between the bank and its loan bosses through lokadalats, has taken off bigly. This has prompted a decrease in the level of NPA's for the first time in the history of Indian financial system. Focus on high value NPA account can be done by improving quality of credit appraisal and prompt action on credit reports should be undertaken. Physical verification of hypothetical, mortgaged properties and ensuring collateral securities for all the loans given. Let's hope that the organization has capability of managing NPAs well in bringing down these levels and contribute to the industrial growth through its entrepreneurs.





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