

A PAPER ON FINANCIAL ANALYSIS THROUGH NON – PERFORMING ASSETS IN CANARA BANK, KAIKALURU

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ABSTRACT

Non-performing assets (NPA's) are loans that are classified as non-performing when interest and principal payments have not been made for a specified period. The entire loan portfolio is to be classified into four parts: standard, substandard, doubtful, and loss assets. Standard assets are performing assets, whereas the remaining three are called non-performing assets (NPA's).

This study focus on the performance of the Canara Bank Ltd. for the period 2018–19 to 2022–23. It also throws light on Gross NPA and Net NPA of Canara Bank for the past five years. The study found that Gross NPA as well as Net NPA increased continuously, and in the years 2019- 20, there was a boom in NPAs. As a result of this, it adversely affected the profits of the Canara Bank Ltd., and on the other hand, it also affects the bank's reputation, which means banks may lose public confidence, etc

Keywords: Co-operative bank, Gross NPA, Net NPA, Non-Performing Assets

1. INTRODUCTION

A non-performing asset (NPA) is a classification used by financial institutions for loans and advances on which the principal is past due and on which no interest payments have been made for a period of time.

In general, loans become NPAs when they are outstanding for 90 days or more, though some lenders use a shorter window in considering a loan or advance past due.

NPA expands to non performing assets. Reserve Bank of India defines Non Performing Assets in India as any advance or loan that is overdue for more than 90 days.

The objectives were opening of branches, extending network, development of rural areas, implementation of govt. sponsored schemes and increase in employment generation.

Banks are advised to provide loans to industry and agriculture along with personal & housing loans and loans to weaker sections of the society. After implementation of the first phase of economic liberalization in 1991, banks became more cautious in lending as the concept of income recognition changed from accrual basis to actual recovery basis.

It means if interest really recovered then only it goes to income. Nowadays the late payment of interest and installment of loans Remain overdue for 90 days or more then loan becomes NPA (Non- performing Assets) in bank books which are called bad assets.

After the loan becomes NPA, it's transferred to a separate category, norms for classification of NPA, Income recognition, Asset classification, Provisioning, uniformly applicable to all the banks working in India. Reserve Bank of India has given recovery accounting etc

Definition:

Non-performing assets (NPAs) are loans or advances that are in default or in arrears. In banking terms, an asset, including a loan, is classified as non-performing when it ceases to generate income for the bank. This typically occurs when:

1. Interest and/or principal payments remain overdue for a period of 90 days.
2. The borrower is unable to meet agreed repayment terms, resulting in a substantial likelihood that the loan will not be repaid.

Objectives:

The main objectives of the study are given below:

- To study the conceptual framework of Non- Performing Assets in the banking sector.
- To understand the performance of Canara Bank in terms of NPAs.
- To elicit the reasons for NPA in the Canara Bank.
- To analyze the relationship between Net NPAs and other variables of Canara Bank
- To implement strategies and various recovery channels in order to management of NPAs in banking sector.

2. METHODOLOGY

The methods which are to use for collect the information to study and analyze that procedure of methods is called methodology.

Primary data Secondary data

Primary data

The data collected through personal interviews called -primary data| which include;

- Conducting personal interview to the officers of the company.
- Individually observations and inferences.

Secondary data

The data which is already published is called -secondary data|. Which include;

- Web sites
- Annual reports of the company.

To accomplish the given objectives, data have gathered from different sources and it's included;

- The research is basically found on secondary data where it's in descriptive analysis. And the source of the data.
- The information is obtained from the Canara bank, by branch managers, promoting research, research reports, and published articles related to NPA.

The statistical information on NPA, bank- explicit and economic indicators have been collected mainly from

3. ANALYSIS OF DATA

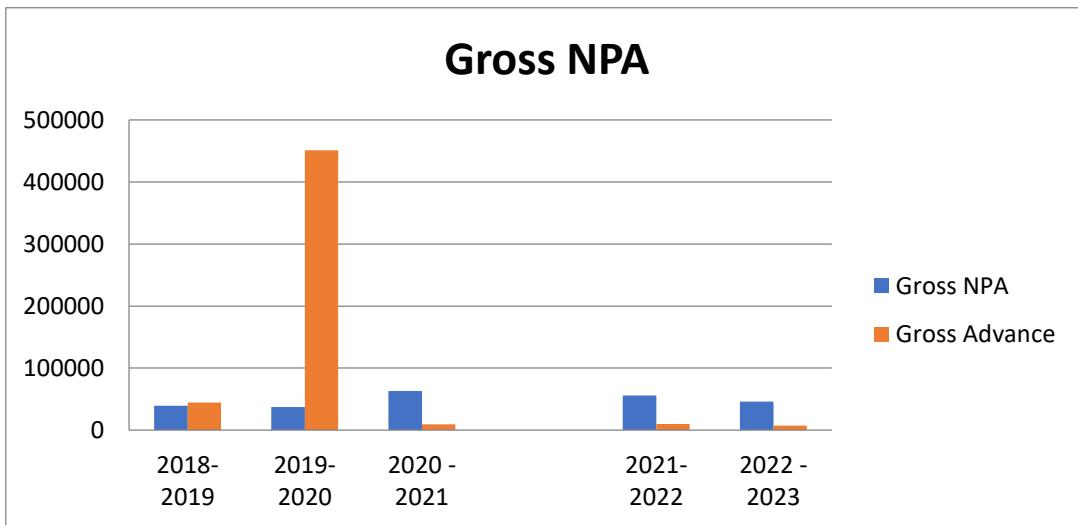
Gross NPA Ratio

$$\text{Gross NPA} = \text{Gross NPA} / \text{Gross Advance} * 100$$

4.1 Table showing the percentage of Gross NPA

Years	Gross NPA	Gross Advance	Gross NPA Percentage
2018- 2019	39224.12	44421	9.00%
2019- 2020	37041.15	451223	8.20%
2020 - 2021	63228.00	9467.00	9.10%
2021- 2022	55652.00	9879	8.30%
2022 - 2023	46160.00	7399	6.2%

4.1 Graph representing the percentage of Gross NPA



Interpretation:-

Canara bank's gross advances increased between 2019 and 2023, driven by a focus on the agricultural sector and lending to farmers for various purposes. During this period, there was also a rise in gross non-performing assets (NPA's) due to difficulties in loan recovery, such as limited legal recourse and delayed resolution processes. However, in 2021, the bank implemented improved strategies, including legal recourse and alternative methods, resulting in a reduction in the gross NPA ratio.

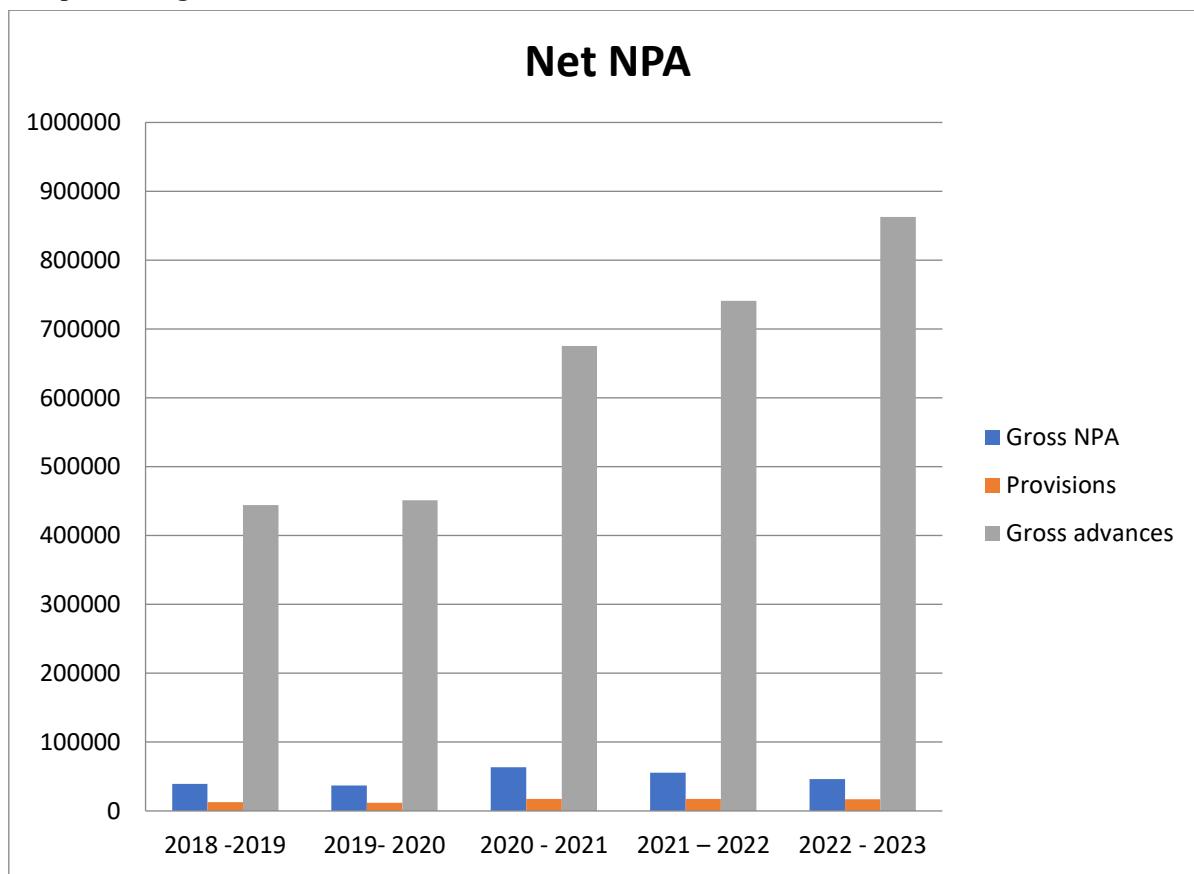
4.2 Net NPA Ratio

% of Net NPA = Gross NPA – Provisions / gross advances * 100

4.2 Table showing the percentage of net NPA

Years	Gross NPA	Provisions	Gross advances	Percentage of Net NPA
2018 -2019	39224.12	12722.82	444216	5.37%
2019- 2020	37041.15	11696.51	451223	4.22%
2020 - 2021	63228.00	17490.37	675155	3.82%
2021 – 2022	55652.00	17502.62	741147	2.65%
2022 - 2023	46160.00	17166.48	862782	1.73%

4.3 Graph showing the Provisions Ratio



Interpretation:-

The data from the above table show a consistent increase in Gross NPA and provisions over the years, along with a gradual rise in gross advances. The net NPA percentage increased from 2020 to 2023, indicating a lack of efficient loan recovery mechanisms. However, it decreased in the subsequent year due to effective recovery strategies.

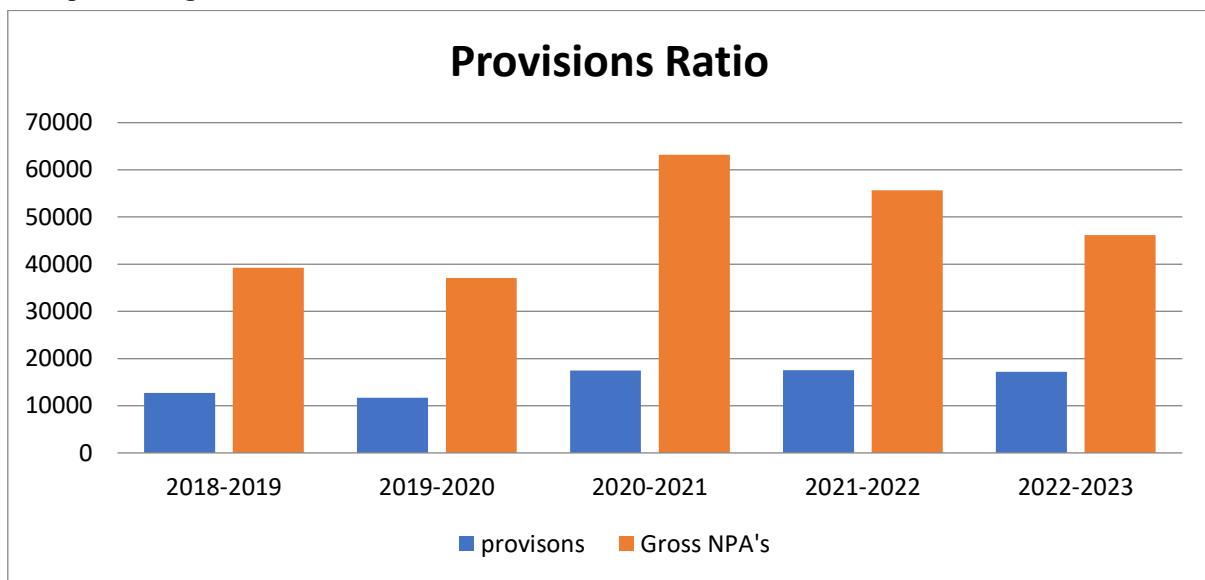
4.3 Provisions Ratio (%)

Provision Ratio = provisions / Gross NPA's * 100

4.3 Table showing the percentage of provisions Ratio

Years	Provisions	Gross NPA's	Provisions Ratio
2018-2019	12722.82	39224.12	32.43%
2019-2020	11696.51	37041.15	31.58%
2020-2021	17490.37	63228.00	27.66%
2021-2022	17502.62	55652.00	31.45%
2022-2023	17166.48	46160.00	37.19%

4.3 Graph showing the Provisions Ratio



Interpretation:-

As per the above graph, the bank consistently increased its provisions during this period, which can be attributed to the economic indicators in each year. In times of economic uncertainty, characterized by low GDP growth, high inflation, or poor business confidence, the bank likely made higher provisions to safeguard against potential loan defaults or market volatility.

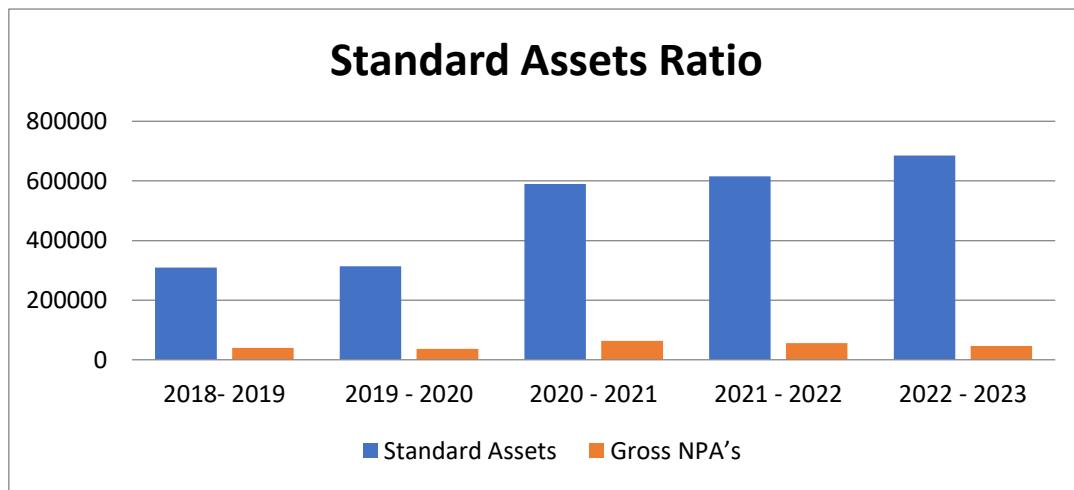
4.4 Standard Assets Ratio (%)

Standard Assets Ratio = Total Standard Assets / Gross NPA's

4.4 Table showing the percentage of Standard Assets Ratio

Years	Standard Assets	Gross NPA's	Standard Assets Ratio
2018- 2019	308887	39224.12	7.87%
2019 - 2020	313848	37041.15	8.47%
2020 - 2021	590090	63228.00	9.33%
2021 - 2022	614867	55652.00	11.04%
2022 - 2023	685495	46160.00	14.75%

4.5 Graph showing the percentage of Standard Assets Ratio



Interpretation:-

As per the above graph, shows that the performance of standard assets relative to NPA is increasing year after year. In FY 2019, the assets were 308887. In the year 2020, they were raised to 313848. They also raise the years 2020 and 2021, and by 2023, they had been raised to 685495. So as the performance of the bank on the standard assets has been raised annually, the advice to the bank is to maintain the same.

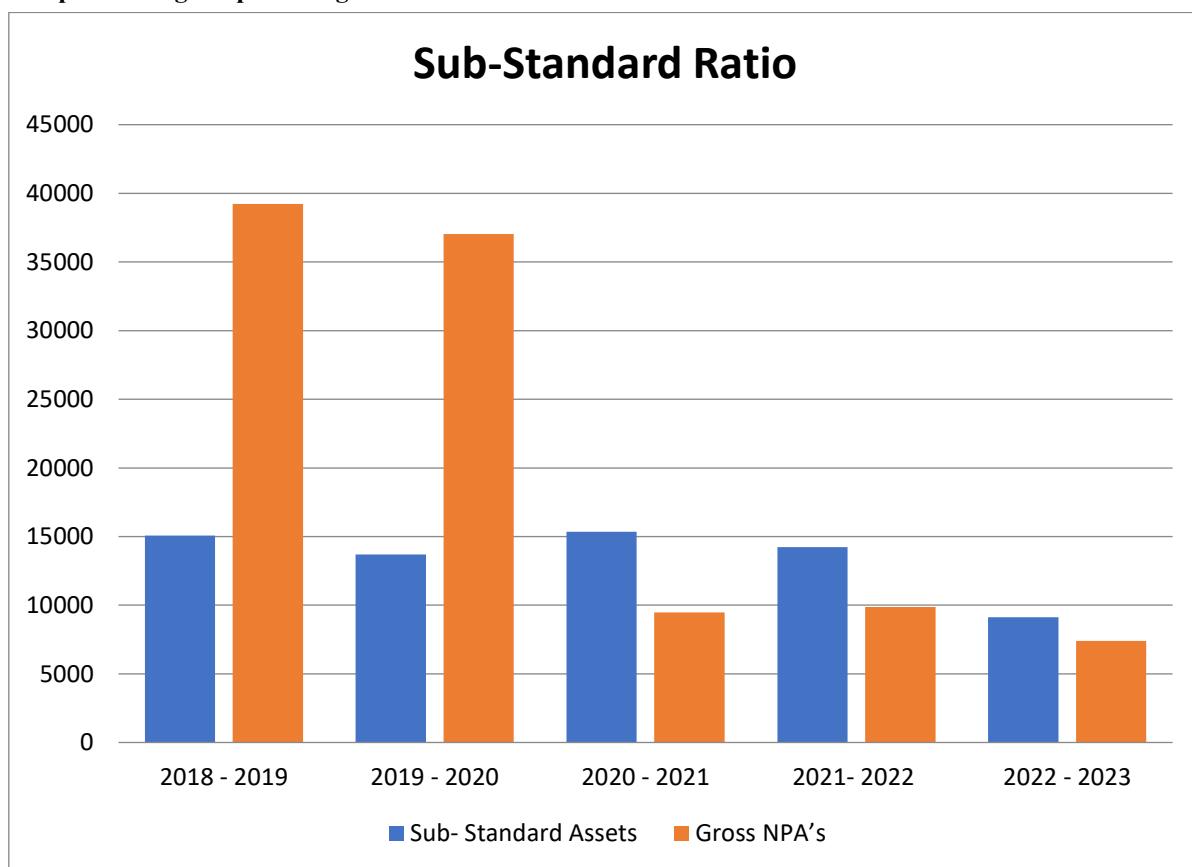
4.5 Sub- Standard Assets Ratio

Substandard Assets Ratio = Total sub- standard Assets / Gross NPA's

4.5 Table showing the percentage of Sub-standard Assets Ratio

Years	Sub- Standard Assets	Gross NPA's	Percentage of Sub-Standard Assets Ratio
2018 - 2019	15073	39224.12	0.38%
2019 - 2020	13692	37041.15	0.36%
2020 - 2021	15347	9467.00	1.62%
2021- 2022	14222	9879	1.4%
2022 - 2023	9130	7399	1.2%

4.6 Graph showing the percentage of Sub-standard Assets ratio



Interpretation

As per the table shows slightly increasing sub-standard assets in 2018-19 due to challenges in the agricultural sector. However, in 2023, the decline was due to improved recovery mechanisms and efficient processes. Canara Bank resolved sub-standard assets and raised them in 2022, transforming them from sub-standard to doubtful assets.

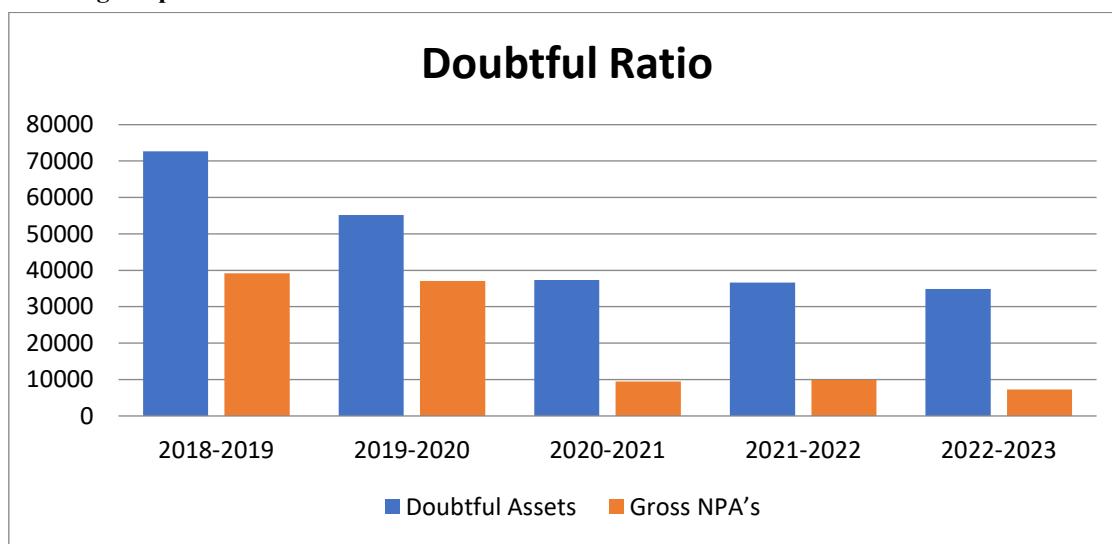
5.6. Doubtful Assets Ratio (%)

Doubtful Assets Ratio = Total doubtful assets / Gross NPA's

5.6 Table showing the percentage of Doubtful Assets Ratio

Years	Doubtful Assets	Gross NPA's	Percentage of Doubtful Ratio
2018-2019	72670	39224.12	1.8%
2019-2020	55209	37041.15	1.4%
2020-2021	37304	9467.00	3.9%
2021-2022	36670	9879	3.7%
2022-2023	34868	7309	4.7%

Graph showing the performance Doubtful assets Ratio



Interpretation:-

As per the above graph reveals the fact that Doubtful assets increased from 2018 to 2019 but declined in the year 2020 because Canara strengthened its risk management practices in 2020. This include enhanced due diligence processes, stricter evaluation of borrowers' creditworthiness or improved monitoring of loan performance and again raised in 22 and 23.

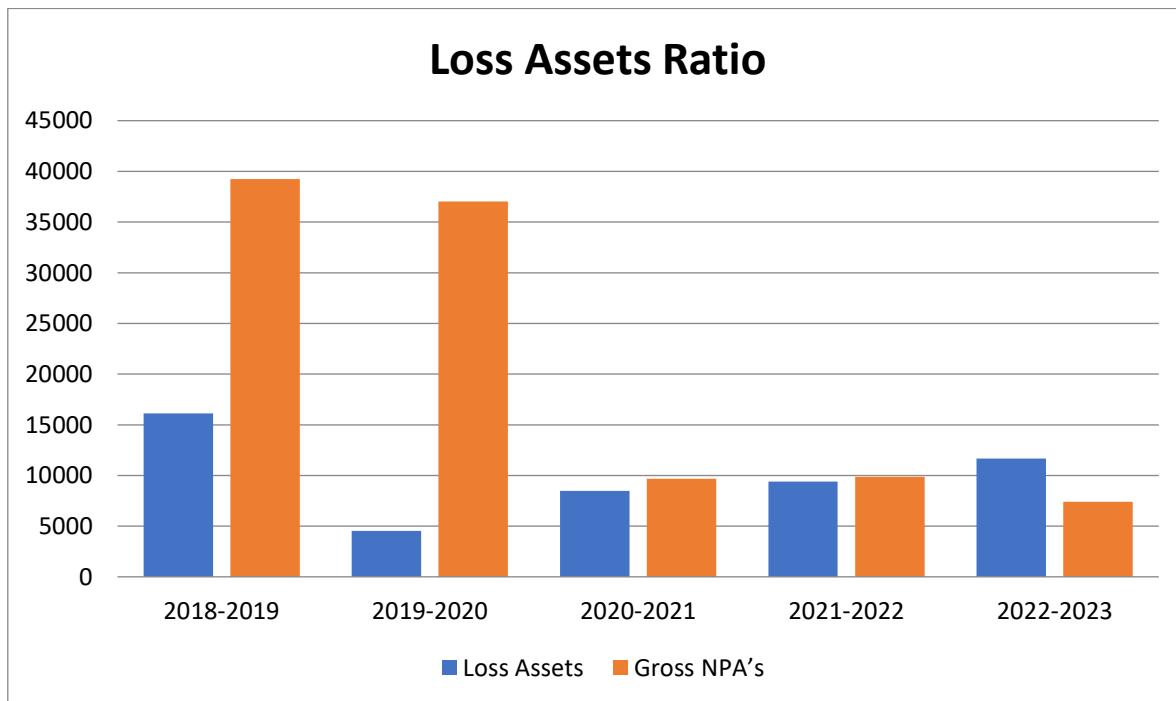
4.7. Loss Assets Ratio

Loss Assets Ratio = Total loss assets / Gross NPA's

4.7 Table showing the percentage of Loss Assets Ratio

Years	Loss Assets	Gross NPA's	Percentage of Loss Assets Ratio
2018-2019	16111	39224.12	0.4%
2019-2020	4543	37041.15	0.12%
2020-2021	8476	9667.00	0.8%
2021-2022	9396	9879	0.9%
2022-2023	11654	7399	1.5%

4.8 Graph showing the percentage of loss assets ratio



Interpretation:-

As per the graph above shows fluctuating trends in loss assets, with both increases and decreases over the years. The bank's ability to recover interest and principal from these assets is critical. It's essential to consider overall economic conditions during this period, as they can significantly impact the occurrence of loss assets. Factors like economic downturns, recessions, industry-specific challenges, or policy changes within the region or country can directly affect borrowers' ability to repay loans, thus influencing the occurrence of loss assets.

4. FINDINGS

- Gross NPA decrease in Canara bank indicate that the bank's loan portfolio is healthier.
- Net NPA decrease in Canara bank indicate that the bank is effectively Managing its bad loans and reducing its exposure to risky assets.
- An increase in the provisions ratio in canara bank indicates that the bank is experiencing higher losses from bad loans or other risks.
- Standard assets ratio increase in Canara bank indicate a healthy loan portfolio.
- Doubtful assets ratio increase in Canara bank indicate financial stability by diversifying its revenue streams.
- Sub-Standard assets ratio decrease in Canara bank indicate an improvement in the bank portfolio.
- Loss assets ratio increase in Canara bank poses significant challenges .

5. SUGGESTIONS

- A decrease in gross NPA assets in canara bank signals improved asset quality and financial health, boosting investor confidence.
- A decrease in net NPA in canara bank indicates better recovery and provisioning strategies, reflecting stronger financial stability.
- An increase in the provisions ratio in canara bank implies to leverage this , the bank should maintain credit risk evaluations, ensure regular stress testing.
- The standard assets increase in canara bank indicates a higher proportion of loans that are quality.
- An increase in doubtful assets in canara bank signals rising credit risk and potential future losses.
- A decrease in sub-standard assets in canara bank indicates improved asset quality and successful resolution of previously troubled loans.
- An increase in loss assets in canara bank suggests a rise in loans demand unrecoverable, negatively impacting profitability.

6. CONCLUSION

The NPA's are one of the biggest problems Indian Banks are facing today. If proper management of the NPA's is not undertaken it would hamper the business of the banks. If the concept of NPA's is taken very lightly it would be dangerous for the Indian banking sector. The NPA's would destroy the current profit; interest income due to large provisions of the NPA's, and would affect the smooth functioning of the recycling of the funds. Banks also redistribute losses to other borrowers by charging higher interest rates. Lower deposit rates and higher lending rates repress savings and financial markets, which in turn hampers economic growth of the company. Thus, it is highly essential for the banks to focus their attention on growth of NPA's and take appropriate measures to regulate their growth.

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