

NON – PERFORMING ASSETS IN TAMILNAD MERCANTILE BANK LIMITED – AN EVALUATION

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ABSTRACT

In today's world of healthy competition where all business units and industries are trying to survive in the market, banking sector too cannot be aloof from competition in market. But today profit is a sign of vitality and success in a competitive scenario. It ensures survival and growth and can eventually become the only parameter for performance evaluation profit depends upon NPA provisions. Hence for a banker NPA has become very significant. In this article an attempt has been made to find out the importance of Non-performing Assets in Tamilnadu Mercantile Bank Limited.

1. NON – PERFORMING ASSETS IN TAMILNAD MERCANTILE BANK LIMITED – AN EVALUATION

In today's world of healthy competition where all business units and industries are trying to survive in the market, the banking sector too cannot be aloof from competition has opened door for free entry in any business, the Tamilnadu Mercantile Bank Limited of banking has to free competition from not only nationalized or commercial banks but also from private financial institution and foreign banks. It ensures survival and growth can eventually become the only parameter for performance evaluation. Profit depends upon NPA provisions. Hence, a banker NPA has become very significant.

To understand the Non-performing assets and to detect the discrepancies of existing recovery process of private sector banks in India. In order to minimize the events of defaults that Non-performing assets.

In this article an attempt has been made to find out the importance of non-performing assets in Tamilnad Mercantile Bank Limited and to measure the level of private sector using accounting techniques of NPA analysis and statistical tools.

The History of Tamilnad Mercantile Bank Limited

Private sector banks play an important role in development of banking services. Tamilnad Mercantile Bank Limited is a premier old private sector scheduled bank having head quarters in the south of Tamilnadu in 1921. The bank has a long cherished of 90 years of successful banking with continuous profit record and with strong financial fundamentals.

At present, the bank is having 285 branches, 318 automated teller machines, 2 mobile branch banking units, 9 regional offices and spread over 11 states and 3 union territories TMB serves its more than 2.8 million delighted customers. All the branches are fully computerized and inter connected with each other and enabled with anywhere banking internet banking and mobile banking facilities.

Ever since the bank stands pre eminently among the glance of banks in the private sectors depicting scientific and sound financing. Tamilnad Mercantile Bank Limited has developed very fast in India with very good financial position of Tamilnad Mercantile Bank Limited is very important one. The main idea of article is to make an evaluation of the Non-performing Assets in Tamilnad Mercantile Bank Limited.

2. STATEMENT OF THE PROBLEM

We study about NPA of Tamilnad Mercantile Bank Limited. Non performing assets is an vital role in any bank's growth. Now we study about the position of current and future trend of NPA. After studying it, it will be very useful to bank and its customers. Hence this study is very important one.

3. METHODOLOGY

This article is an attempt to study on NPA of Tamilnad mercantile bank limited for ten years (from 2005-2006 to 2014-2015). Ratio analysis, Linear Growth rate analysis and graphs are also presented. To analyse the NPA variables like Gross NPA Ratio and Net NPA Ratio.

Data are collected from secondary sources like RBI bulletin, TMB's Annual Reports and others we site relating to banking industry.

Non-Performing Assets Ratio's Analysis of Tamilnad Mercantile Bank Limited

An attempt has also been made to judge the position of NPA of Tamilnad Mercantile Bank Limited through ratio analyzing using important ratio as follows.

a) Gross NPA Ratio

Gross NPA is the total of all loan assets that are classified as NPA as per the RBI guidelines as on a balance sheet date. Gross NPA ratio is the ratio of Gross NPA to Gross Advances of the bank. When it is expressed in percentage, it is known as gross NPA percentage.

$$\text{Gross NPA Ratio} = \text{Gross NPAs} / \text{Gross Advances} \times 100$$

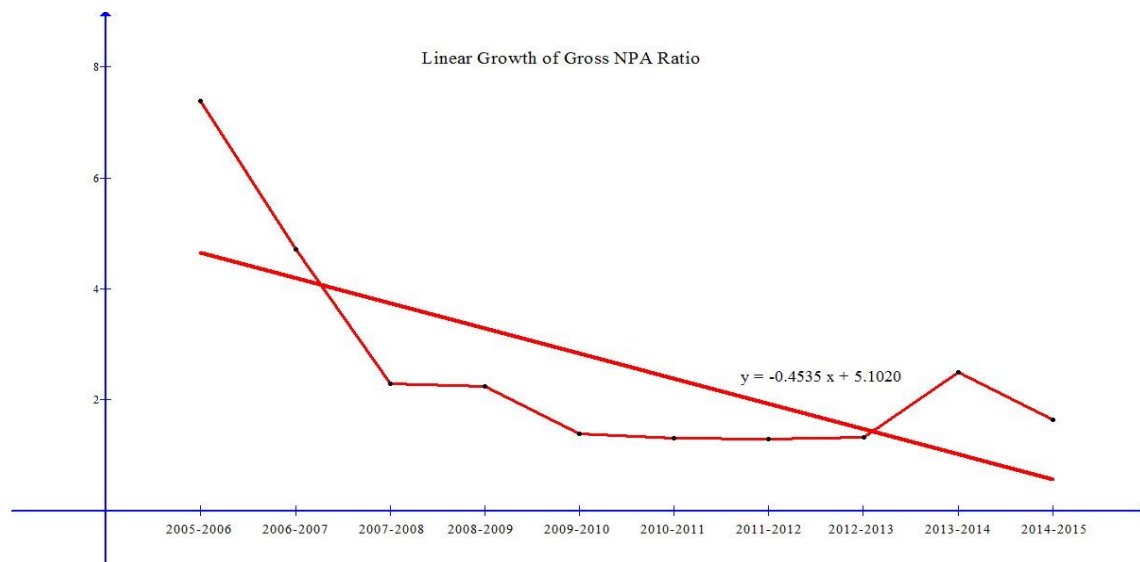
It indicates the quality of credit portfolio of the Tamilnad Mercantile Bank Limited. High gross NPA ratio indicates low quality credit portfolio of the bank and vice versa. The gross NPA ratio should be determined for different categories of loans to know the contributing factor for high NPA in a bank. It will help to take remedial course as well as to review the disbursement of loans category wise. Table 4.27 provides the gross NPA ratio for the Tamilnad Mercantile Bank Limited.

TABLE 1
GROSS NPA RATIO

Year	Gross NPA	Gross Advances	Ratio (%)
2005-06	230.58	3126.39	7.38
2006-07	190.60	4046.72	4.71
2007-08	122.18	5331.31	2.29
2008-09	120.40	5371.68	2.24
2009-10	115.00	8287.61	1.39
2010-11	141.13	10758.66	1.31
2011-12	177.48	13778.86	1.29
2012-13	214.45	16255.99	1.32
2013-14	428.02	17143.85	2.50
2014-15	318.68	19335.95	1.65
Source: Data Compiled from the Annual Reports of TMB			

The table shows the least percentage of gross NPA to gross advance in 2011-12. The percentage of NPA had decreasing trend from the base year 2005-06 in 7.38 per cent to 2011-12 in 1.29 per cent. There after it increased 2012-13 in 1.32 per cent to 1.65 per cent in 2014-15. Next suddenly it decreased to 1.65 percent in 2014-15. Even though by increasing gross advance, the per cent of NPA decreased for the study period.

Figure 1



From the above figure we conclude

- Since $a > 0$, there is a positive growth in the ratio. That is there is an increasing in the ratio.
- Since $a < 0$, there is a negative growth in the ratio. That is there is a decrease in the ratio.
- Since $a < 0$, for Gross NPA ratio is a negative rate of growth in the ratio. That is there is a decrease in the rate of growth in the ratio.
- Though there is growth in both Gross NPA and Gross Advances, the growth of Gross NPA is low compared with the Total Advances.

PREDICTION USING LINEAR GROWTH VALUS

The rate of growth for the future can be predicted using linear growth analysis. We find that the linear rate of growth can be found using the formula,

$$Y = a + bx$$

Where x denotes the year and y denotes the rate of growth.

a denotes the value of growth of Gross NPA with respect to Gross advances.

b denotes vertical translation constant of the growth curve.

' a ' is the slope of the linear growth of Gross NPA Ratio

$$Y_{2019-2020} = -0.4535(x) + 5.1020$$

For the year 2019-2020 $x = 15$

$$Y_{2019-2020} = -0.4535(15) + 5.1020$$

$$= -1.70$$

The Gross NPA Ratio will be -1.70 Per cent.

b) Net NPAs to Net Advances

Net NPA is worked out by subtracting the provisions held in respect of the non – performing assets as well as bad and doubtful debts from the figure of gross NPA i.e., the net NPA is simply worked out as the gross NPA i.e.,

the net NPA is simply worked out as the gross NPA minus provisions held for NPA accounts. Net advances are arrived at by deducting the provisions from gross advances. The net NPA percentage is the ratio of the net advances expressed in terms of percentage.

$$\text{Net NPAs to Net Advances} = \text{Net NPA} / \text{Net Advances} \times 100$$

It indicates the degree of risk prevailing in the credit portfolio of the bank. High net NPA ratio indicates the high quantity of risky assets in the bank for which no provision has been made Table 2 shows the net NPA ratio of the bank.

TABLE 2
NET NPA RATIO

Year	Net NPA	Net Advances	Ratio (%)
2005-06	67.92	3129.95	2.17
2006-07	39.79	4060.20	0.98
2007-08	20.15	5233.06	0.39
2008-09	22.08	6473.34	0.34
2009-10	19.98	8193.00	0.24
2010-11	29.31	10647.00	0.28
2011-12	62.60	13665.00	0.46
2012-13	106.76	16175.75	0.66
2013-14	209.32	17157.38	1.22
2014-15	135.53	20228.36	0.67

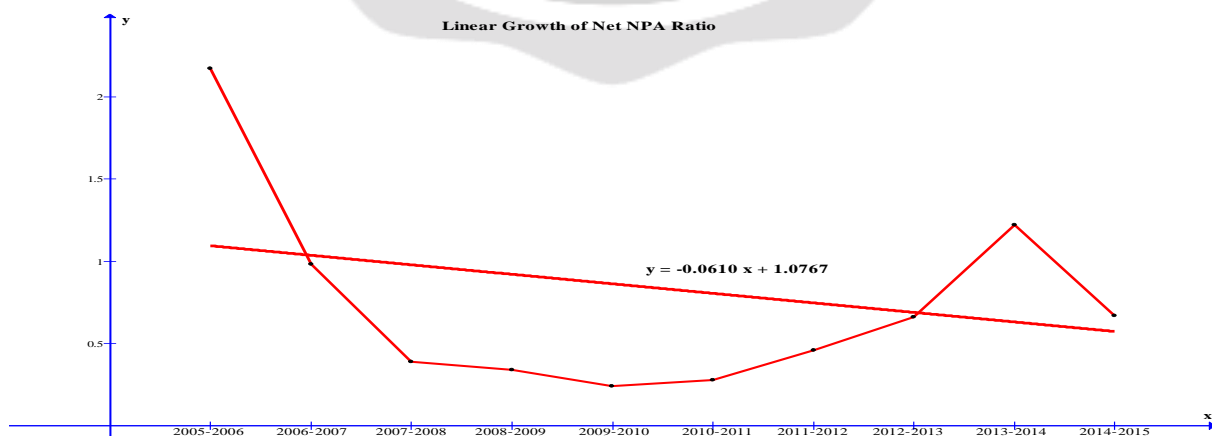
Source: Data Compiled from the Annual Reports of TMB

The Net NPA ratio was the least in the year 2009-10 i.e., 0.24 per cent and the highest percentage of Net NPA ratio was in the year 2005-06 i.e., 2.17 percentage. Though by increasing net advance, the percentage of Net NPA decreased for the study period from 2005-06 to 2014-15.

From the below figure we conclude

- Since $a > 0$, there is a positive growth in the ratio. That is there is an increasing in the ratio.
- Since $a < 0$, there is a negative growth in the ratio. That is there is a decrease in the ratio.
- Since $a < 0$, for Net NPA Ratio is a negative rate of growth in the ratio. That is there is a decrease in the rate of growth in the ratio.
- Though there is growth in both Net NPA and Net Advances, the growth of Net NPA is low compared with the Net Advances.

Figure 2



PREDICTION USING LINEAR GROWTH VALUS

The rate of growth for the future can be predicted using linear growth analysis. We find that the linear rate of growth can be found using the formula,

$$Y=a+bx$$

Where x denotes the year and y denotes the rate of growth.

a denotes the value of growth of Gross NPA with respect to Gross advances.

b denotes vertical translation constant of the growth curve.

‘a’ is the slope of the linear growth of Net NPA Ratio

$$Y_{2019-2020} = -0.0610 (x) + 1.0767$$

For the year 2019-2020 $x = 15$

$$Y_{2019-2020} = -0.0610 (15) + 1.0767$$

$$= 0.16$$

The Net NPA Ratio will be 0.16 Per cent.

4. FINDINGS

The following are summarized result of analysis.

- 1.) We can not that the Gross NPA ratio of Tamilnad Mercantile Bank Limited has been decreased constantly.
- 2.) We can find that Net NPA ratio also has been decreased constantly.

5. SUGGESTION

At present the Gross NPA position and Net NPA ratio are satisfactory level. As per our study this position will be same in 2019-2020. The current effective steps will lead to retain this position in future.

6. CONCLUSION

The analysis and discussions of this article reveals that NPA of Tamilnad Mercantile Bank Limited on evaluation has improved since the study period.

The analysis and discussions of this article reveals that Tamilnad Mercantile Bank Limited is taking very effective steps among the highest completion of other banks in the modern trend. This study will be very useful to other banking institutions and to academic researchers in the area of banking performance evaluation.

7. REFERENCE

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