

# Chapter

# 1<sup>st</sup>

# Introduction

**This chapter includes**

Para No.	Description	Page No.
1.1	Introduction of the Topic	5
1.2	Background of the selection of the Topic	6
1.3.1	NPAs (Non Performing Assets)-General concept	6
1.3.2	NPA according to RBI (prior to 2004)	6
1.3.3	NPA according to International Standards (wef 2004)	7-8
1.4	Current situation of NPA	8
1.5	Indian banking organization : Structure (figure 1)	9
1.6	Indian Banks under Govt. ownership (figure 2)	10
1.7	Why Case study of Bank of Maharashtra.	11
1.8	Historical Path of Bank of Maharashtra	11-12
1.9	Mile stones during the development of the Bank	12-13
1.10	Progressive Indicators - No. of Branches up 2010 (Table 3.1)	14
	No. of Branches 2010-15 (Table 3.2)	14
	Area wise Branches (Table/Chart 4)	15
	No. of employees on pay roll(Chart5)	16
	ATM Installed (Table/Chart 6)	17
	Financial performance ( gross and Net level) (Table 7 & 8)	18
	Negative performance of the bank. ( Table 9)	18

## **1.1: Introduction of the topic:**

Indian banks, Indian economy and financial system in the new millennium are facing a series of new challenges. The challenges are many and multidimensional, owing to the influence of globalization, adoption of new technology and competition.

Non Performing Assets (NPAs) is a significant challenge to banks.

One of the recommendations made by Narsimhan Committee I (1991) and II (1998) for asset classification, asset-liquidity management (ALM), income recognition, capital adequacy, disclosure norms, risk-management etc. in conformity with global standards have exposed the majority of banks. Few of them are yet to comply with the prescribed standards.

Following are some of the challenges which affect the performance of a bank:-

- Stiff global competition,
- Rapid technological changes,
- Volatile interest rates,
- Entry of private banks and non banking financial institutions.
- Economic and other conditions.

All above causes have adversely affected the performance and profitability of the bank.

Compliance of government's order and in support guidelines issued by the RBI, both has led the banks to a considerable increase in NPA.

During the study period, NPAs have increased from 0.82 to 4.35% which is not a good indicator of a bank's financial health.

Researcher has tried to focus on the effects of guidelines issued by RBI on recovery Management. Simultaneously, he also studied the effects of those guidelines on financial conditions of the bank.

During the study other factors also considered which found relevant and necessary.

## **1.2: Background of the selection of the Topic:**

Non Performing assets, becomes a challenge for Indian economy and banking systems. Because of proportion of NPA is increasing every quarter<sup>1,2</sup> irrespective of the various controlling norms adopted by the RBI.

Research was interested to focus on study of NPA and its increasing proportions since 2009-10, and rapidly 2013 onward. While gone through the news published in this regards, an interest of researcher has been created about this study. Finally the problem on current issue of (N.P.A.) had been selected for research study.

### **1.3.1: General concept of NPAs (Non Performing Assets):**

The concept of Non Performing Assets (N.P.A.) is applicable to the 'Loans and Advances' provided by the bank which stops generating the income of interest for the bank and repayment of principal and part of the principal of those advances are off the business cycle of the lending bank.

NPA includes every type of advances which provided for generation of income for the bank but adversely stop the cycle of generating income of the bank as well as recycling of the principal funds.

### **1.3.2: Non Performing Assets: According to RBI:**

- In general sense NPA concepts applicable to the assets of bank.
- As asset stops to generate income for bank, called Non Performing Assets.
- Earlier, concept of "Past Dues", considered as Non Performing Assets.
  
- ❖ Then after ' a non performing assets defined as past dues for a specific period of which – principal amount (installment of principal) and/or interest on it remain due for such period.
- ❖ Till 31<sup>st</sup> March, 1993 that specific period was of 4 quarters.
- ❖ During 1994 the specific period was reduced to 3 quarters.
- ❖ From 1995 the specific period was reduced to 2 quarters till 2000.
- ❖ During 2001 such specific period was outstanding of 30 days beyond due date.

---

<sup>1</sup> Gross NPA 7.23% on 31<sup>st</sup> October, 2015 which rose from 6.33% was on 31<sup>st</sup> March 2015. Half yearly report of RBI

<sup>2</sup> Half yearly financially report, BOM

**1.3.3:**From the financial year 2003-04 RBI moved to international best practices and Started to consider any loans and advances as NPA of which interest and/or installment of principal remain overdue for a period of 90days and more. For ensuring greater transparency, from 31st March, 2004, a non performing asset may be as loan or an advance of where:

- ✚ In case of Term Loan interest and/or installment of principal amount remain overdue for more than 90 days.
- ✚ In case of cash credit or overdraft, if an account become out of order. It means the balance in such account is less than sanctioned limit, continuously more than 90 days & in which enough credit is not available to recover the interest on such account.
- ✚ In case of the bills (purchase and discounted) remain overdue for the period, more than 90 days.
- ✚ For Agriculture loans or advances:

The duration of the loan will be of two types Short and Long duration.

Long Duration Crops will be of more than One year of respective crops season & Short Duration crops will be which not long duration season crops are.

An agriculture loan will become NPA When its installment of principals and interest there on, remain unrecovered in case of –

- (i) A short Duration Crops loan – more than two seasons and
- (ii) A long duration Crops loan – more than one season

**Proper Classification of Assets (Loans and advances) it is as follows—**

- 1) Standard asset, which is not Non Performing Assets. Assets (advances) which generate the income regularly and no dues of installment of principal amount and interest thereon, on due date.
- 2) Non Performing Assets- Which remains continuously unpaid 90days and more, (Principal as well as interest due thereon for such period). It classified further -

- i) Substandard asset, which remain unpaid during 365 days / one year, continuously
- ii) Doubtful assets, which is remain unpaid more than one year, continuously.
- iii) Loss assets, which identified by the bank, auditor, RBI officers, or by cooperative department, and which is not written off by the bank.

#### **1.4: Current Situation of the NPA:**

In order to meet the global challenges of new economic environmental and exploit the emerging opportunities, bank organization has to re-set their financial positions constantly to sustain in the current competition and this exercise is affecting on the performance of the banking assets negatively. This is not as good as what banking industries are expecting against the advances provided by them for various sectors according to priorities of those respective sectors and government plans on the other hand for the same sectors.

According to the report of RBI and ND TV, the overall Gross NPA of all banks has increase to 3.85% as on 31<sup>st</sup> March, 2014 form 3.26% which was on 31<sup>st</sup> March 2013. As on 31<sup>st</sup> March 2015 it is crossed 4.16% against the gross advances. Most of the reports of RBI state the increasing proportion of the NPAs of the Indian banks, specially nationalized banks. The Net NPA which should be at minimum level according to RBI expectations. Therefore RBI issuing various notifications for restructuring of the NPAs and loans and advances along with the data and causes of NPA time to time according to regular frequency of the publication as per their schedule. Because of the restructuring process of loans and advances of the banks profit and asset positions is become weak day by day. It also affect on the moral of the employees as well as investors and depositors.

However, it does not make any effect on those loans and advances- account holder who are the main contributor of such increasing negative NPA's level.

Up to 2013 the net NPA level of all public sector undertakings including IDBI was 2% of the net advances, on average basis. However, maintaining this minimum level of NPA is quite difficult to all our bankers.

## 1.5: Banking Organizations Structure in India:

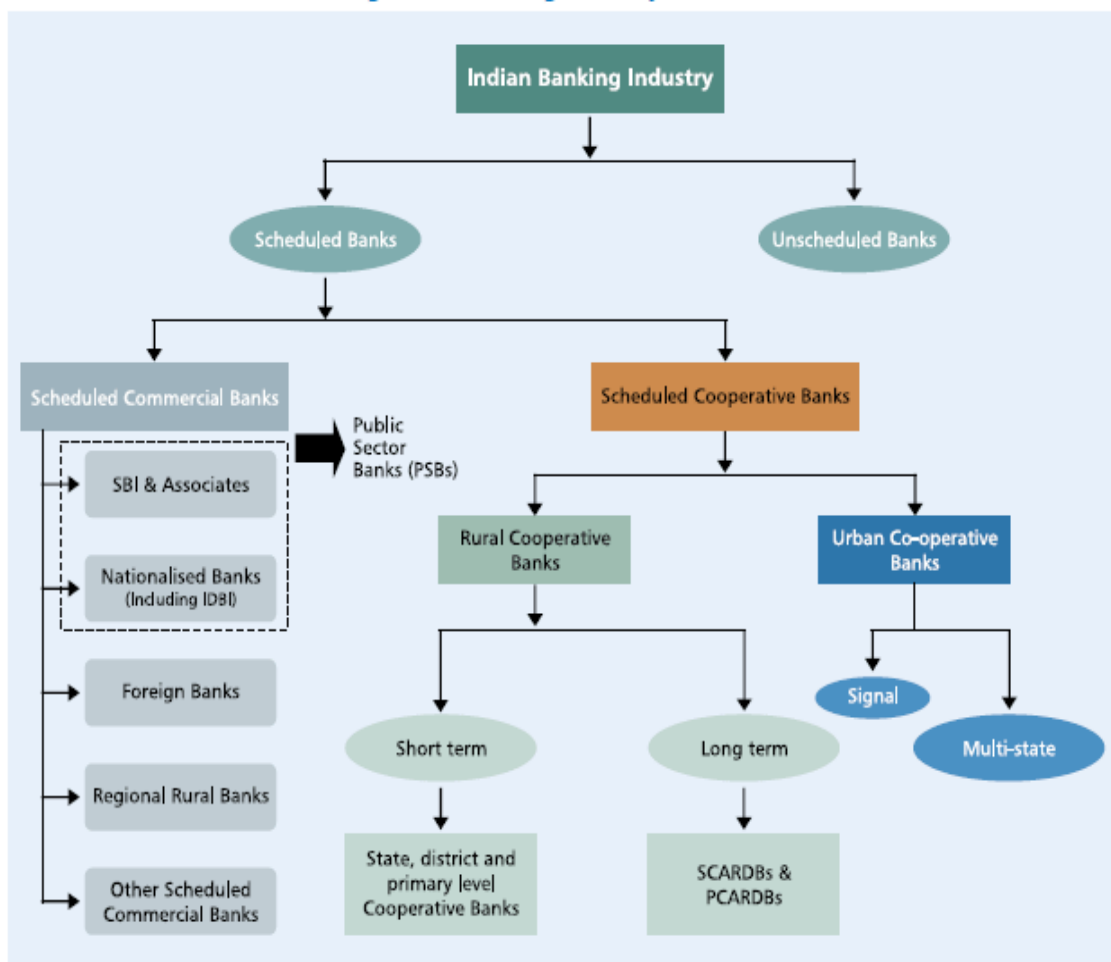
Indian banking structure is leading and control by RBI. It is a common practice that every nation has one central and controlling bank. We have various categories of the banks like –

All scheduled commercial banks – which include State Bank Group (6), 20 nationalized banks including IDBI and other private scheduled banks.

The scheduled cooperative banks and non scheduled cooperative banks --  
Nonscheduled cooperative banks include Urban, Rural and Districts cooperative banks.

Other type is private banks which include Indian scheduled and nonscheduled banks, small private banks and foreign banks.

Exhibit 2.2: Structure of the Organised Banking Industry



Source: D&B Industry Research Service

Figure 1-Indian Banking Org. Structure

## 1.6: Scheduled commercial Government undertakings banks in India:

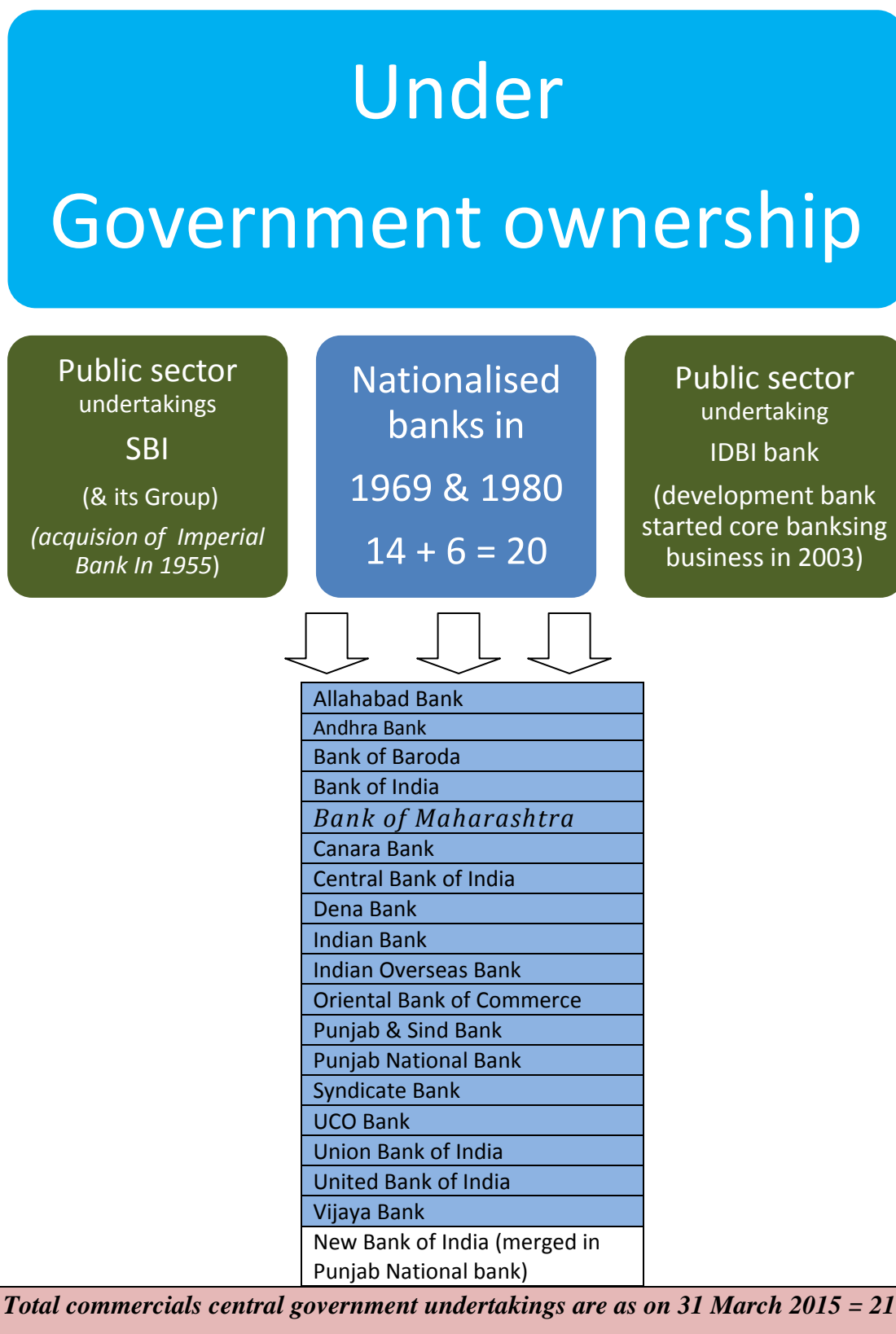


Figure 2:- Public Sector undertaking banks in India.

### **1.7: Why case study of Bank of Maharashtra:**

Bank of Maharashtra is one of the nationalized banks among the first 14 nationalized banks in 1969. It was 4<sup>th</sup> in the rank on the day of nationalization according to deposits, advances, and net profit as well as capital.

The bank was established due to need of trade, commerce and industries in the Maharashtra in 1934 post 2<sup>nd</sup> world war and insisted by the associated members of Marathia Chamber of Commerce, Pune.

For economic development role of banks is very important. Especially in India, role of nationalized banks is more important, Bank of Maharashtra is not an exception for it. Its head office is situated in Pune. Pune is not only the IT and industrial Hub but also knowledge and education hub since beginning.

Bank of Maharashtra have 2.5% share in total loans and advances provided by nationalized banks and SBI and its associate (collectively). The Bank provides 40% advances to priority sector. For increasing NPA ratio, the bank is not the exception in India. To study the problems on NPAs, Bank of Maharashtra found relevant as case study for better and depth study.

### **1.8: Historical path of the Bank of Maharashtra:**

Maharashtra state remains a progressive region for commercial activities and banking business. The first commercial bank in Maharashtra started which was “Bank of Bombay”.

The Impact of the First World War leads to great failure of around 400 banks all over the world. It created a big problem for new establishments of business organizations and banks.

Shri R. Bhat, the founder member and secretary of Maratha Chamber of commerce. He took review through Kesari News paper in Pune for the need of commerce and trade in Maharashtra and special bank require for this need.

He Push the proposal for the formation of the bank and succeeds to pass a resolution for establishment of the special bank for Maharashtra. He formed a subordinate committee amongst the member of Maratha Chamber of Commerce with additions of



few other outside members. Finally, after serious discussion and follow-up on the subject matter it was decided to form a bank in Pune especially for Maharashtra and the outcome was positive.

On 16<sup>th</sup> September, 1935 the bank was registered under Indian companies Act of which registered office is Pune till today. Total 19 members had signed the Memorandum of Association of the bank as promoters at that time. Out of which 10 members became the Board of Directors and other 9 members as supporting members. It was also decided that time Promoters should have minimum 500 shares of Rs. 50 each.

The actual commercial business of the bank was commenced on 8<sup>th</sup> February, 1936 in Pune city. Professor V G Kale was the first Chairman of the Bank of Maharashtra during 1936 to 1943. On 26<sup>th</sup> October 1944 the bank held the Status of scheduled bank as per RBI.

1.9 'Milestones' of the bank during the development path:

#### **Establishment:**

- The Bank registered on 16<sup>th</sup> September, 1935.
- Prospectus issued on 21st October, 1935; for I.P.O.
- Commercial business commenced on 8<sup>th</sup> February, 1936 in Pune city.
- It became scheduled bank in 1944.
- In 1969 bank Nationalized and started the business in Karolbagh at Delhi.
- Bank issued shares to public in 2004 and listed - BSE and NSE.

#### **Collection of Deposits**

- ◆ 1946 – Crossed 1 Crore
- ◆ 1974 – Crossed 100 Crores
- ◆ 1978 – Crossed 500 Crores.
- ◆ 1995 – Crossed 5,000 Crores
- ◆ 2000 – Crossed 10,000 Crores
- ◆ 2010 – Crossed 69,000 Crores and in 2015 – Crossed 1, 22,000 Crores.

**Expansion of Business:**

- Opened 1<sup>st</sup> branch out of Maharashtra in Hubli which was in Mysore state.
- 1976 1<sup>st</sup> Rural Restructuring Bank opened in Marathwada.
- In 1979 'Maha Agriculture & Rural Research Department for Farmers' (MARRDF) Trust established for research and extension services to farmers.
- In 2005 bank entered mutual fund business.
- In 2007 Internet banking system was introduced.
- In 2009, Pension Payment Branch(PPB) commenced in Pune city
- In 2010 Micro Assets Recovery Branch was established
- Core Banking System (CBS) was completely operational in 2011

**Other Highlights:**

- In 1996 bank obtained A class against previous C class.
- In 2009, bank adopted 75 villages for development.
- In 2012, bank was awarded 'Best Banker' prize by Sunday Standard.
- 2013 Bank crossed the business of Rs.2, 00,000 crores.

### 1.10: Progressive Indicators:

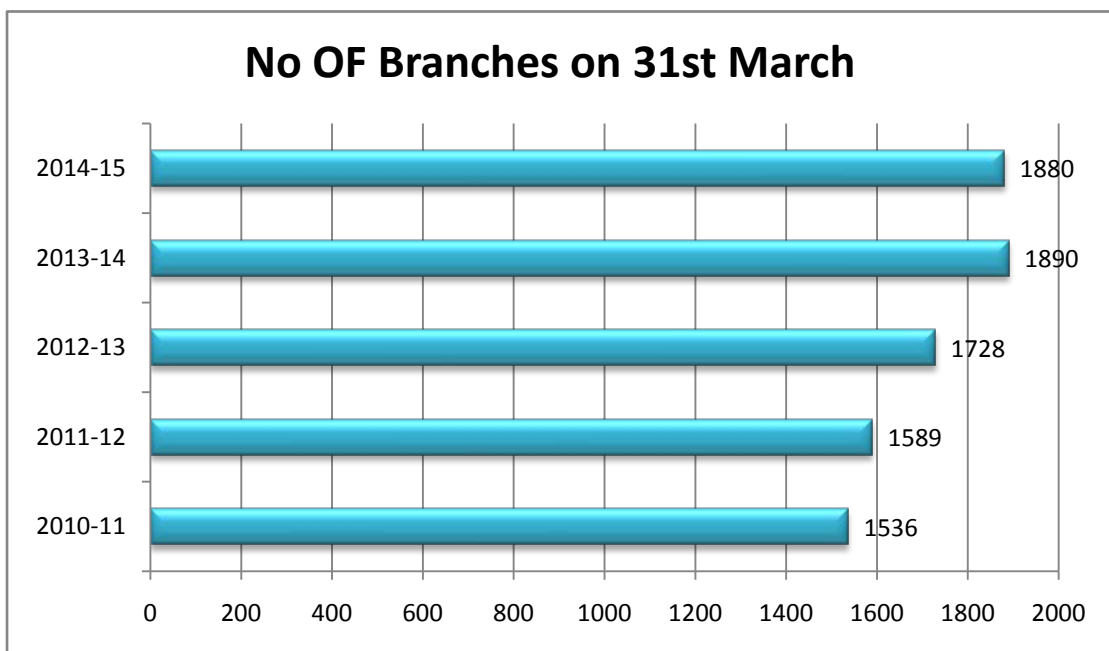
**Table No.1** Progress of the branches up to 31<sup>st</sup> March, 2010

Duration of the period	Branches open/started	Total No of Branches
On 16 September, 1936	01 Bank was opened.	01
1936 – 1938	01	02
1938- 1940	01	03
1940 – 1969 (19 <sup>th</sup> July)	150	153
1969 – 2010 (31 <sup>st</sup> March)	1300	1453.

**Table No.2** Development of the Branches

(During last 5 financial years (2010-11 to 14-15))

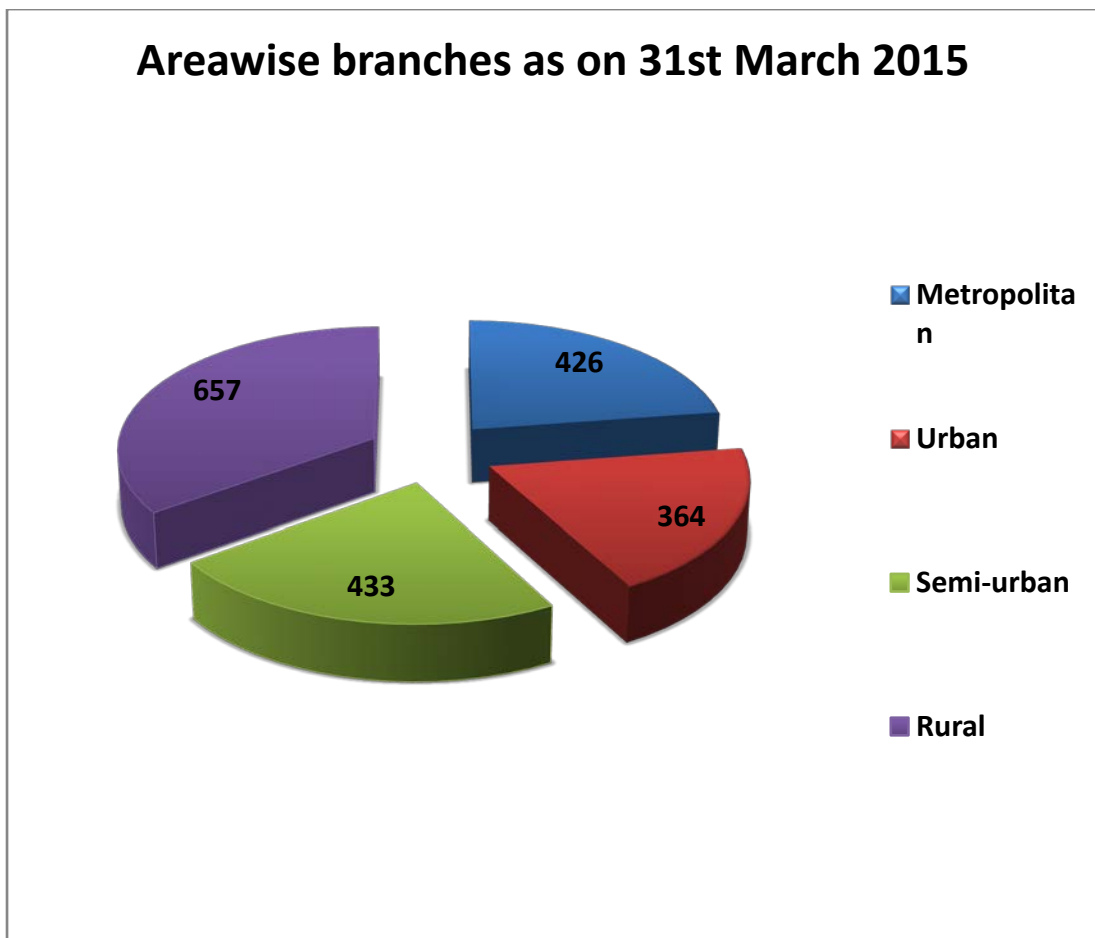
Financial Year	New Branch opened	Total Branched at the end
F Y 2010-2011	83	1536
F Y 2011-2012	53	1589
F Y 2012-2013	139	1728
F Y 2013-2014	162	1890
F Y 2014-2015	26 (-) 36 Service Br.	1880



**Chart No.3**

**Table: 3** Area wise Progress of Branches: (as on 31<sup>st</sup> March of during last 5 years)

Area classification	31 <sup>st</sup> March, 2011	31 <sup>st</sup> March, 2012	31 <sup>st</sup> March 2013	31 <sup>st</sup> March 2014	31 <sup>st</sup> March 2015
<b>Total Nos.</b>	<b>1536</b>	<b>1589</b>	<b>1728</b>	<b>1890</b>	<b>1880</b>
<b>Metropolitan</b>	<b>404</b>	<b>423</b>	<b>436</b>	<b>450</b>	<b>426</b>
<b>Urban</b>	<b>301</b>	<b>319</b>	<b>344</b>	<b>368</b>	<b>364</b>
<b>Semi-urban</b>	<b>293</b>	<b>301</b>	<b>357</b>	<b>424</b>	<b>433</b>
<b>Rural</b>	<b>538</b>	<b>546</b>	<b>591</b>	<b>648</b>	<b>657</b>



**Chart No. 4**

**Table: 4** : No of employees on the payroll during last 5 years:

Date /event as on	No of employees engaged as on
On 19 July 1969 ( Nationalization )	2692
As on 31 March 2011	13860
As On 31 March 2012	13590
As On 31 March 2013	12396
As on 31 March 2014	14396
AS on 31 March 2015	14189

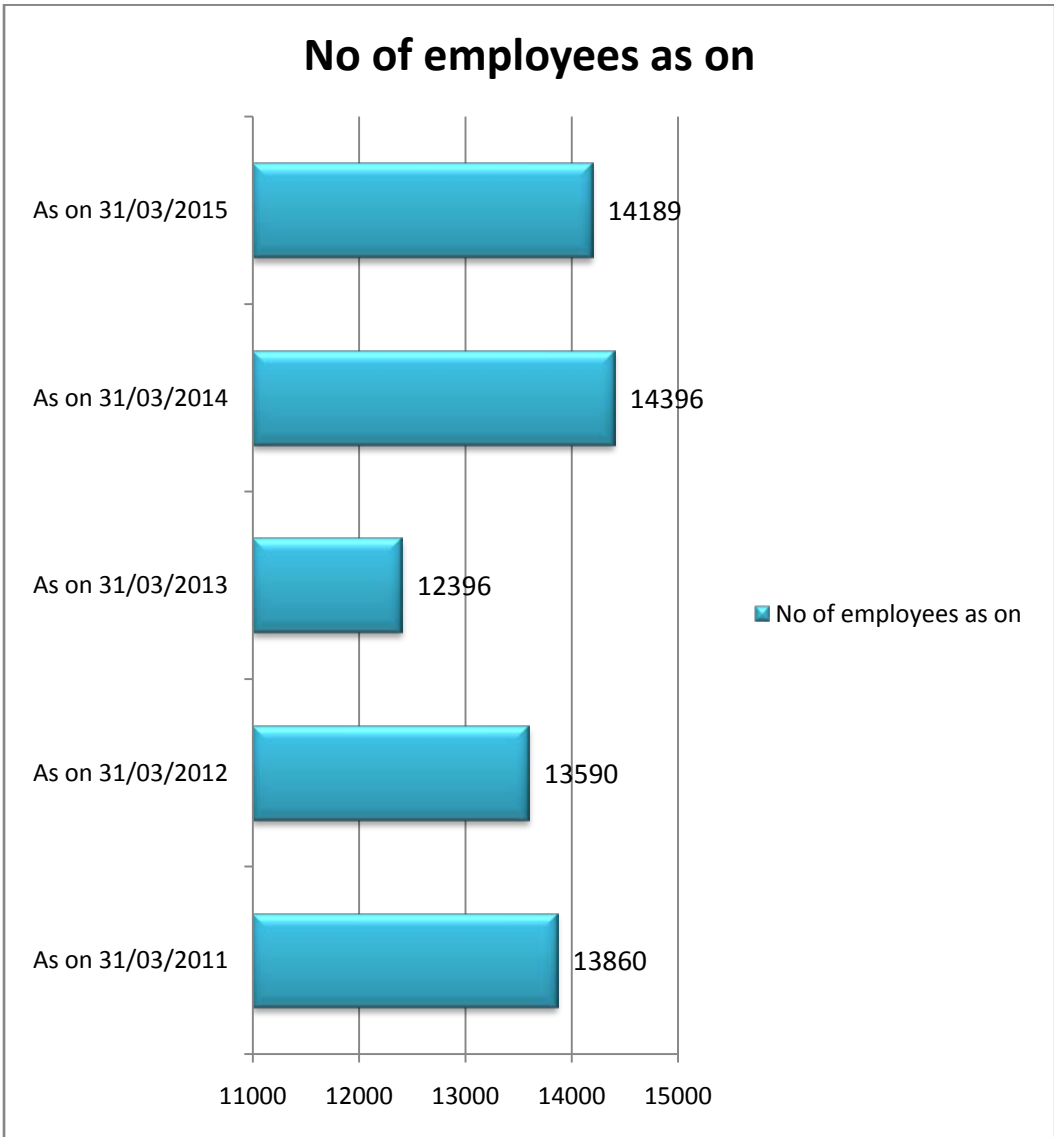
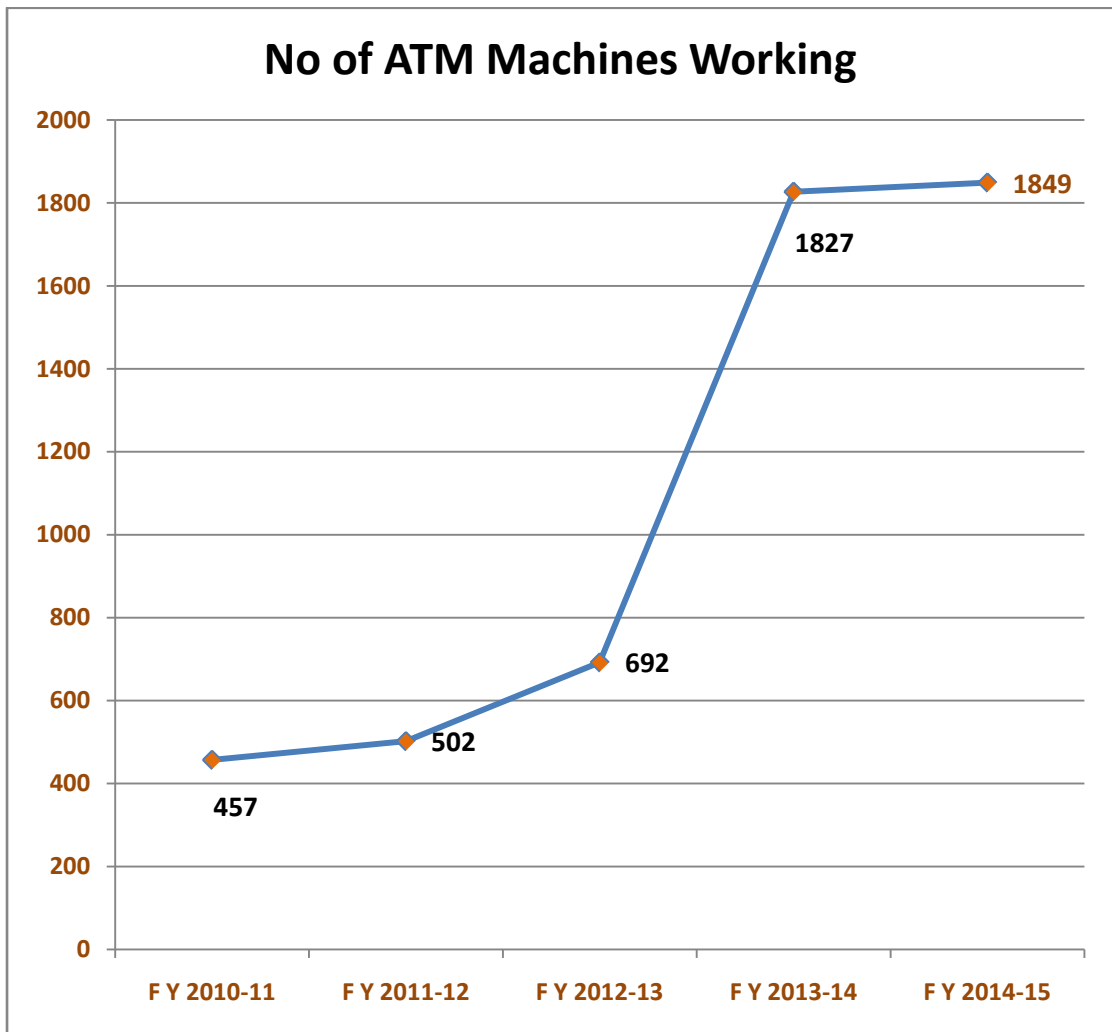


Chart No.5

**Table: 5**

**ATM progress: During last 5 financial years:**

<b>Year</b>	March 31 <sup>st</sup> 2011	March 31 <sup>st</sup> 2012	March 31 <sup>st</sup> 2013	March 31 <sup>st</sup> 2014	March 31 <sup>st</sup> 2015
<b>ATMs</b> →	457	502	692	1827	1849



**Chart No. 6**

**Table: 6** : Review of Financial performance of the bank during last 5years**(At aggregate Level) (Rs. /Crore)**

Heads/ A/c	2010-11	2011-12	20102-13	2013-14	2014-15
Equity capital	482	590	662	839	1063
Preference capital	588	588	588	588	-----
<b>TOTAL CAPITAL</b>	<b>1070</b>	<b>1178</b>	<b>1250</b>	<b>1427</b>	<b>1063</b>
Deposits	66845	76529	94337	116803	122119
CASA deposits	27033	31633	38477	41921	45297
Advances	46881	56060	75471	88920	98599
Investments	22491	26031	31430	37250	36715
Fixed Assets	667	601	1429	1446	1432
Total Borrowings	3077	3825	12879	8326	11127
Business per branch	75	84	99	112	119
Business per/employee	8	10	13	14	16
Total Gross Income	6094	7855	10526	12851	13672
Operating Profit	855	1515	2149	2006	2355
Net Worth	2709	3775	5027	6185	6976

**Table: 7** Performance of the bank at NET or Micro level: (last 5 year)

	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015
Net profit ( Rs/crores)	331	431	760	386	451
Net Profit per branch ( Rs/Crore)	0.22	0.27	0.44	0.21	0.24
Net profit per employee (Rs./lakh)	2.40	3.00	5.60	2.70	3.20
Earnings per share (EPS/Rs.)	6.86	7.59	11.88	4.56	4.50
Dividend paid per share (Rs.)	2.00	2.20	2.30	1.00	0.80
Book value /share (FVRs.10) Rs.	44.00	54.00	67.00	67.00	66.00

**Table: 8** : Negative performance of the bank (during last 5 year)

Head of A/c or description	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Gross NPA ( in Crore )</b>	<b>1174</b>	<b>1298</b>	<b>1138</b>	<b>2860</b>	<b>6402</b>
<b>Net NPA ( in Crore )</b>	<b>619</b>	<b>470</b>	<b>393</b>	<b>1807</b>	<b>4126</b>