

Non Performing Assets Management of Kerala Financial Corporation (KFC)

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Abstract

The primary function of financial institution's to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the institutions have become very cautious in extending loans. The reason being mounting non-performing assets (NPAs). An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. In order to study the menace of NPA, Kerala Financial Corporation (KFC) the premier institution which provides long term finance for industrial enterprises and assistance to the sick units for the rehabilitation purpose has been selected. NPA is a serious problem faced by KFC. Non- performance in a loan asset is the bane of the financial institutions in India. It is the universal problem and can cripple the economy of any nation. Mounting non-performing assets in a banking sector was the main reason for the financial crisis in the South East Asian countries. The Net NPA of KFC as per the records shows a declining trend. There is a tendency among the beneficiaries of the corporation to delay repayment of the loans and some percentage of these payments also turns into bad debts. The NPA and loans and advances are negatively correlated. It shows that while the amount of loan increases over the years, NPA shows a declining trend. The total amount of loan increased year by year, because corporation introduces variety of new loan schemes.

Keywords: Non Performing Assets, Kerala financial corporation, State Financial Corporation, Development Financial Institution, Economic Development,

Introduction

The primary function of financial institution's to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the institutions have become very cautious in extending loans. The reason being mounting non-performing assets (NPAs). An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. As per the prudential norms suggested by the Reserve Bank of India (RBI), a bank cannot book interest on an NPA on accrual basis.

Background and Definition of the Problem

In other words, such interests can be booked only when it has been actually received. In order to study the menace of NPA, Kerala Financial Corporation (KFC) the premier institution which provides long term finance for industrial enterprises and assistance to the sick units for the rehabilitation purpose has been selected. NPA is a serious problem faced by KFC. Even though the balance sheet figures shows the declining trend in NPA, an examination of financial records of KFC brings out the fact that over the years a sizable amount has been written off as a NPA. This has contributed much to the operating loss of NPA of KFC.

Objectives of the Study

- ❖ To analyze the performance of Non- Performing Asset in Kerala Financial Corporation.
- ❖ To assessing the impact of NPA in functioning of Kerala Financial Corporation.
- ❖ To analyze the lending pattern of the organization.
- ❖ To provide better solutions in order to avoid or control the emergence of NPA in Kerala Financial Corporation.
- ❖ To analyse the relationship between total assets with Non- Performing Assets.

To understand the position if NPA using various tools such as percentage analysis, trend analysis etc. in the organization.

Research Methodology

Research Design

This is a descriptive study of the Non Performing Assets Management at Kerala Financial Corporation. The goal of a descriptive study is to offer a profile or to describe relevant aspects of the phenomena of interest from an individual, organisational, industry-oriented, or other perspective. Hence this study makes an evaluation of the prevailing Non Performing Assets Management with the help of annual report data. Both primary and secondary data have been used for the study.

❖ Source of Data

The study is descriptive making use of primary and secondary data. Data have been collected through primary and secondary sources.

❖ Primary sources

The researcher has collected primary data through structured questionnaire method from defaulters of loan repayment and interview with the managers and employees of KFC. Response was more encouraging as most people were willing to supply information on personal approach. It was easy to obtain information more accurately and also to clear doubts then and there. The language of communication was adapted to the status and educational level of the person interviewed, thus avoiding inconvenience and misinterpretation it took quite a considerable amount of time to collect information through the sources.

❖ Secondary sources

Secondary sources have been depended upon to collect information which the researcher finds impracticable to collect as first-hand information. Past data collected by others, from the company's annual reports, official publications of the RBI and internet are the secondary sources from which the researcher has collected the necessary information. Information from these sources has been very useful in data analysis.

The data collected from both primary and secondary sources have been used product evenly by the researcher for data analysis, which in turn helped in bringing out flourishing results.

Scope of the Study

Non- performance in a loan asset is the bane of the financial institutions in India. It is the universal problem and can cripple the economy of any nation. Mounting non-performing assets in a banking sector was the main reason for the financial crisis in the South East Asian countries. This article is intended to analyze and understand thoroughly the incidence of NPA and its effect on the overall performance of Kerala Financial Corporation (KFC), Thiruvananthapuram. The study is conducted among the borrowers of KFC's Thiruvananthapuram District. The scope of the study covers the firm's NPA of the five financial years from 2007-08 to 2011-12. The study also encompasses the recommendations on basis of the outcomes, the adhering of which is expected to bring good results to the organisation.

Tools for Analysis

- Trend analysis
- Correlation analysis
- Liquidity management pattern
- Analysis of liability structure
- Analysis of asset structure

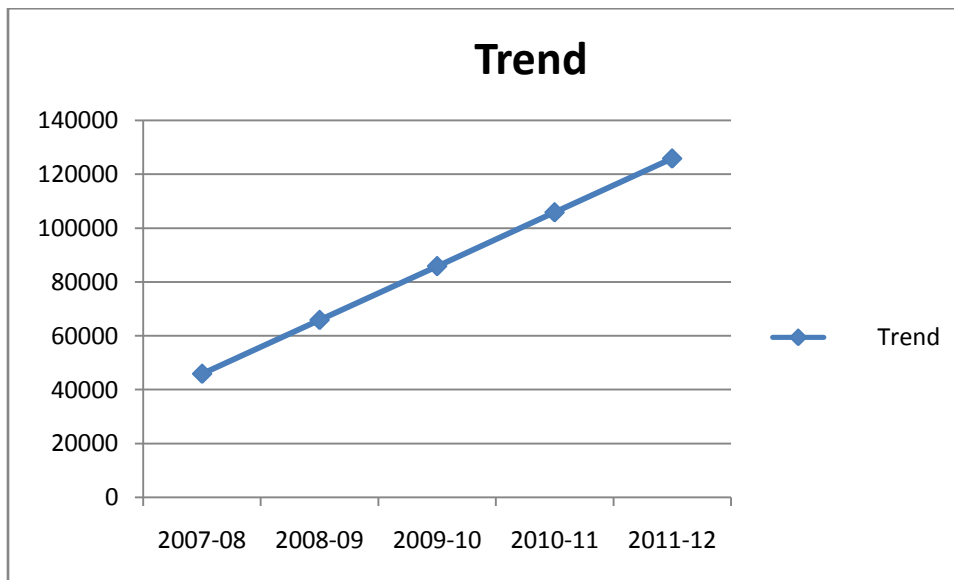
TREND ANALYSIS

TREND ANALYSIS OF LOANS AND ADVANCES DURING THE YEAR 2007-2008 TO 2011-2012

Year	Loans & advances (y) (Rs. In lakhs)	Trend
2007-08	50826.26	45857.77
2008-09	58981.79	65839.26
2009-10	82830.42	85820.75
2010-11	112481.40	105802.24
2011-12	123983.89	125783.73
	$\Sigma y=429103.76$	

Source: Annual Reports of KFC

Chart showing graphical representation of loans and advances and trend line of loans and advances during the period 2007-2008 to 2011-2012



Interpretation

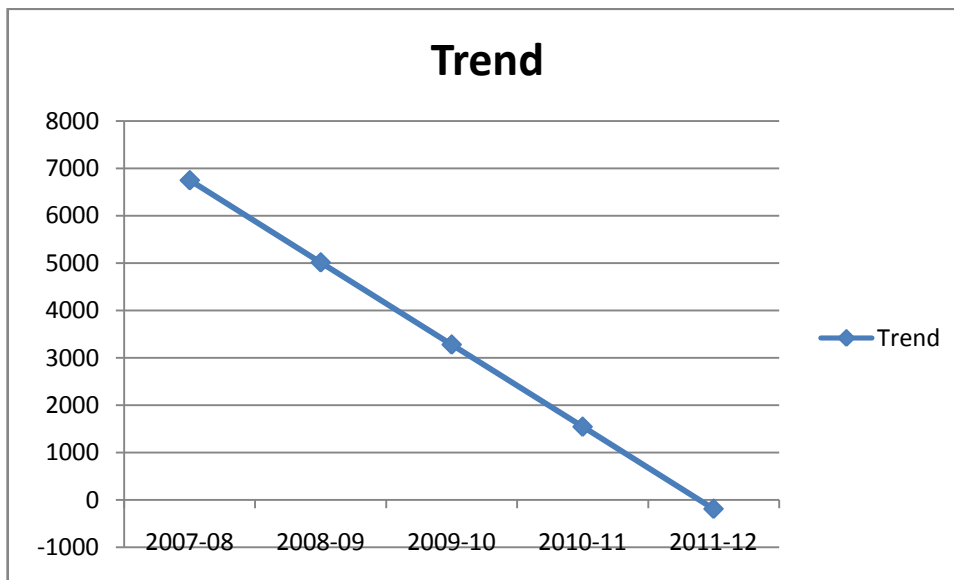
From the above line diagram, there is an increasing trend in the loans and advances of the firm. Each year there is an increasing trend in the loans and advances than previous year. So this indicates that firms operations are more than from each previous year. In each year the amount of loans and advances are increasing.

Table showing trend analysis of NPA during the period 2006-07 to 2010-11

Year	NPA (y)	Trend
2007-08	14410	6746
2008-09	8038	5011.5
2009-10	1991	3277
2010-11	1975	1542
2011-2012	1563	-191
	$\Sigma y=16385$	

Source: Annual Reports of KFC

Chart no. 5.2 showing graphical representation of NPA and trend line of loans and advances during the period 2007-08 to 2011-12



Interpretation:

From the above line diagram there is decreasing trend in NPA. In the year 2007-2008 the value of NPA is 6746 but in the year 2011-2012 this will be low -191. Here the value of NPA in the last year is below 0. That means the NPA is decreasing each year than the previous year. It indicate that, decreasing rate of NPA is benefit to the firm.

CORRELATION ANALYSIS

Table showing correlation of loans and advances and NPA of the period from 2007-08 to 2011-12

Year	Loans & Advances (Rs. in crore) x	NPA (Rs. in crore) y
2007-08	508.27	144.10
2008-09	589.82	80.38
2009-10	828.30	19.91
2010-11	1124.81	19.75
2011-12	1239.03	15.63
	Σx=4291.03	Σy=279.77

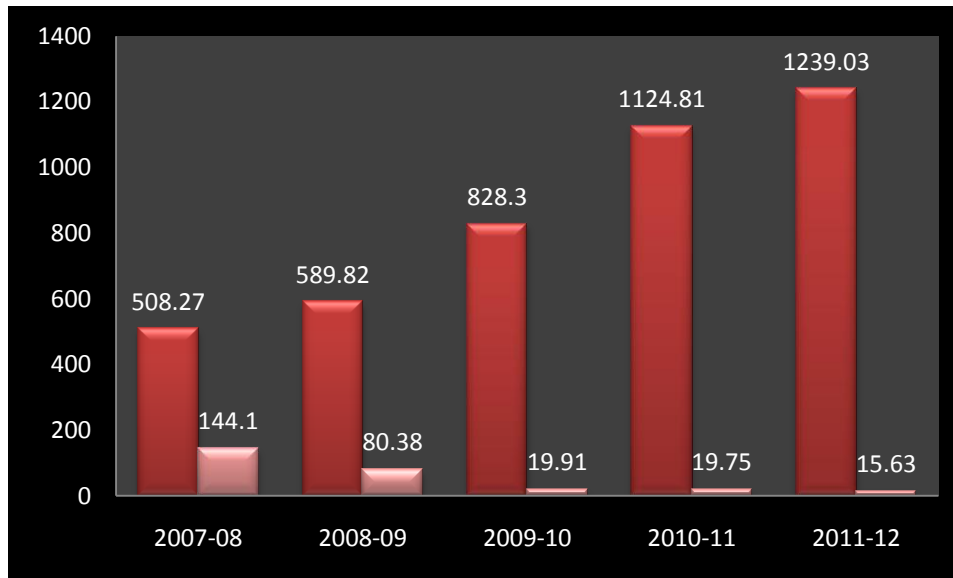
Source: Annual Reports of KFC

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$= \frac{-306819.36}{360324.15}$$

$$r = \underline{\underline{-0.852}}$$

Chart showing the graphical representation of relationship between loans and advances with NPA



Interpretation

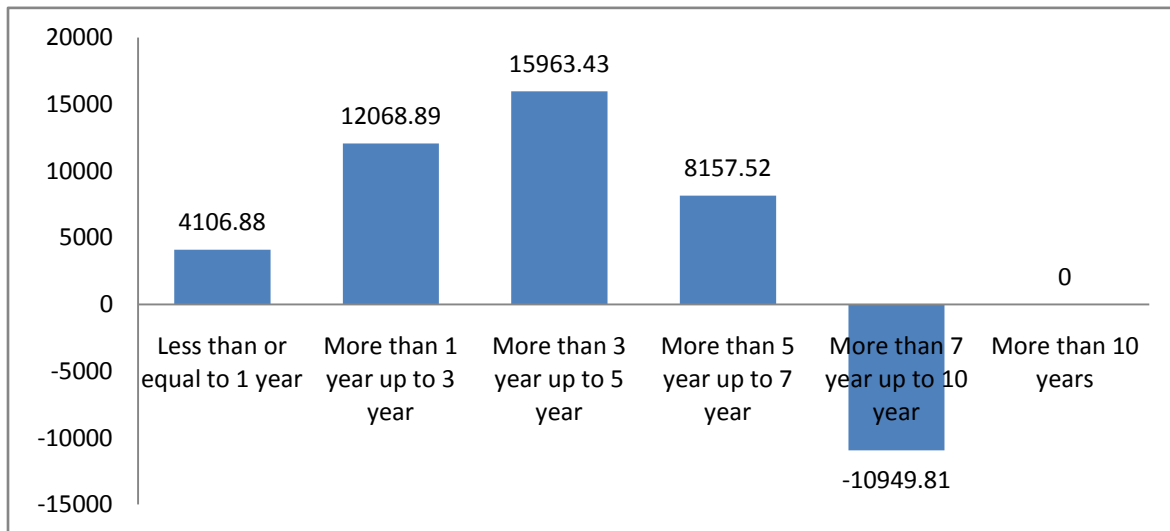
From the above calculation the correlation coefficient of loans & advances and NPA is -.852. That means the correlation is negative it lies between -1 and 0. Correlation is the relationship between two variables. So, the values must lies between -1 and +1. Here the value is -.852. So there is no relationship between two variables. Then the NPA and loans & advanced are negatively correlated. Whenever increase the value of NPA, the value of loans & advances decreases. The value of two in opposite directions, the correlation said to be negative.

Showing the Analysis of Liquidity Management In Maturity

Maturity period	Assets	Liabilities	Liquidity Gap	Cumulative Liquidity Gap
Less than or equal to 1 year	24753.37	20646.49	4106.88	4106.88
More than 1 year up to 3 year	46360.99	34292.10	12068.89	16175.77
More than 3 year up to 5 year	32282.75	16319.32	15963.43	32139.20
More than 5 year up to 7 year	15685.09	7527.57	8157.52	40296.72
More than 7 year up to 10 year	4901.68	15851.49	-10949.81	29346.91
More than 10 years	0	0	0	29346.91
Total	123983.88	94636.97		

Source: Annual Reports of KF

Showing the graphical representation of Liquidity Profile

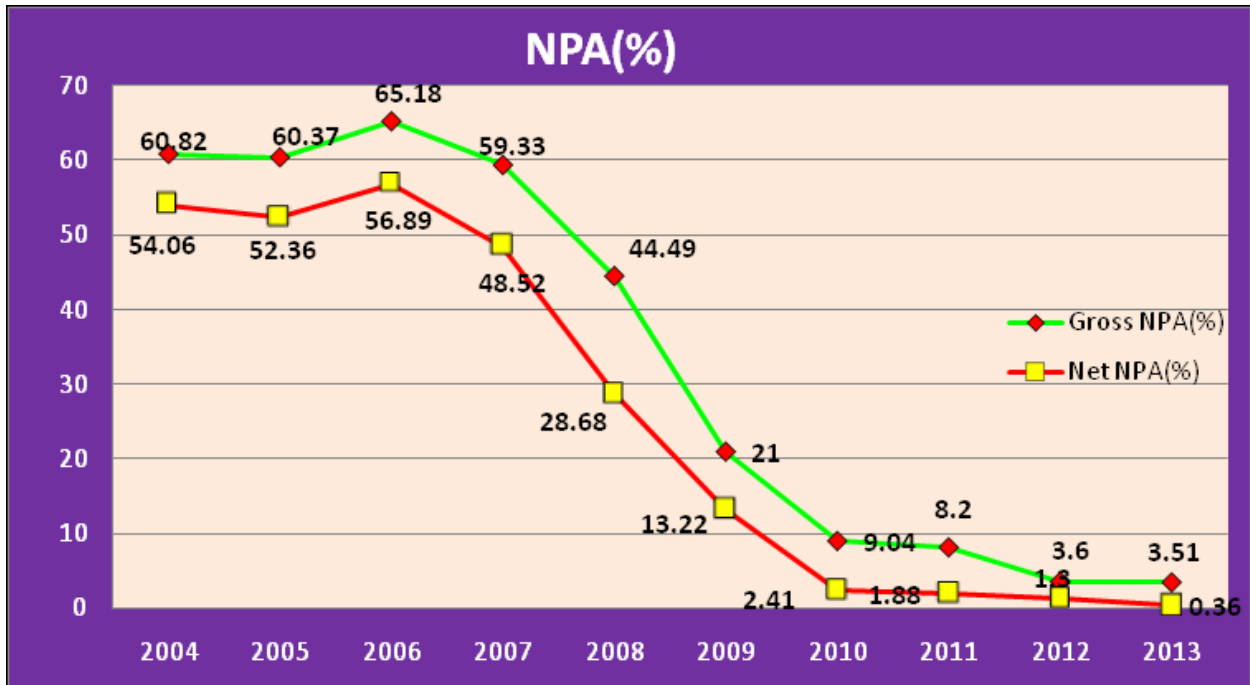


Interpretation:

The positive liquidity gap of KFC up to 7 years maturity period indicates the excess liquidity of the KFC. Even though the KFC had negative liquidity gap in certain maturity, its cumulative liquidity gaps were positive in most of the period, which implies the excess liquidity. Since there was not any short-term liquidity crisis in the study period the org. was in a safer position.

Asset Quality:

Scientific & practical compromise settlement policies are in place for realization of amounts blocked in old and non-performing advances. These are also reflected in the fall in the level of non-performing assets to 0.36% in terms of Net NPA, and to around 3.51% at the Gross Level which is maintained only by a few financial/banking institutions with high standards. Apart from policies for Compromise Settlement, guidelines have been prepared for monitoring of loan accounts which help in avoiding slippage of loan accounts and thus to prevent quality of loan portfolio from deteriorating



ANALYSIS OF LIABILITY STRUCTURE RATIO

1. Owned fund to working capital (Interest free funds)

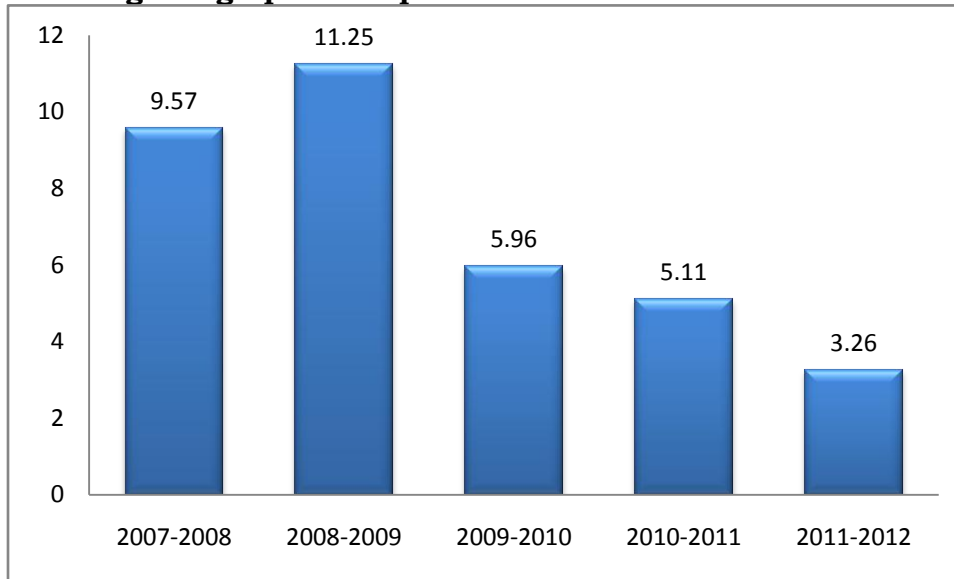
$$\text{Owned fund to working capital ratio} = \frac{\text{Owned fund}}{\text{Working capital}} \times 100$$

Showing that owned fund to working capital ratio

Year	Owned fund	Working fund	Ratio
2007-2008	5946.6	62097.29	9.57
2008-2009	7741.6	68804.12	11.25
2009-2010	4699.52	78827.76	5.96
2010-2011	4894.49	95676.61	5.11
2011-2012	3358.5	102808.06	3.26

Source: Annual Reports

Showing the graphical representation of Owned fund to working capital ratio



Interpretation:

The ratio was the least during 2007-2008 and 2011-2012. Since the cost of owned fund is low, a higher proportion of owned fund is desired to reduce the average cost of funds of KFC. The organisation has to increase its owned fund by increasing its membership and improving its performance so that greater provision can be made towards the reserves.

2. Borrowings to working capital ratio

Borrowings

Borrowings to working capital ratio = ----- x 100

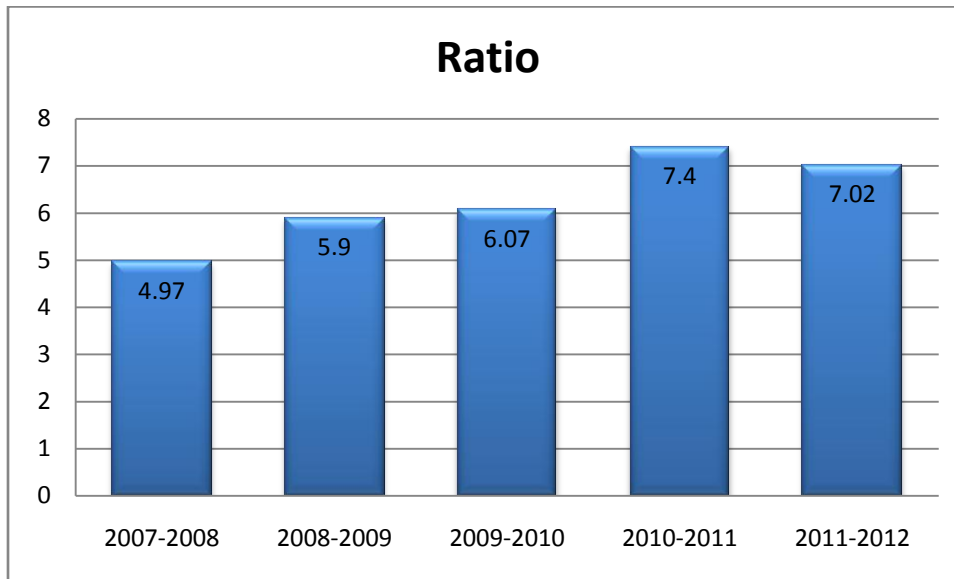
Working capital

Showing borrowings to working capital ratio

Year	Borrowings	Working fund	Ratio
2007-2008	3089.35	62097.29	4.97
2008-2009	4063.40	68804.12	5.90
2009-2010	4790.26	78827.76	6.07
2010-2011	7086.19	95676.61	7.40
2011-2012	7218.39	102808.06	7.02

Source: Annual Reports of KFC

Showing the graphical representation of borrowings to working capital ratio



Interpretation:

During the year 2007-2008, the ratio of borrowings to working capital was around 10 percent and there was a steep increase in the ratio to 11.25 percent during 2008-2009. The ratio declined from 11.25 percent to 3.26 percent from 2008-2009 to 2011-2012. Such a steep variation is a desirable trend.

Analysis of Asset Structure Ratio

1. Earning asset to working fund ratio

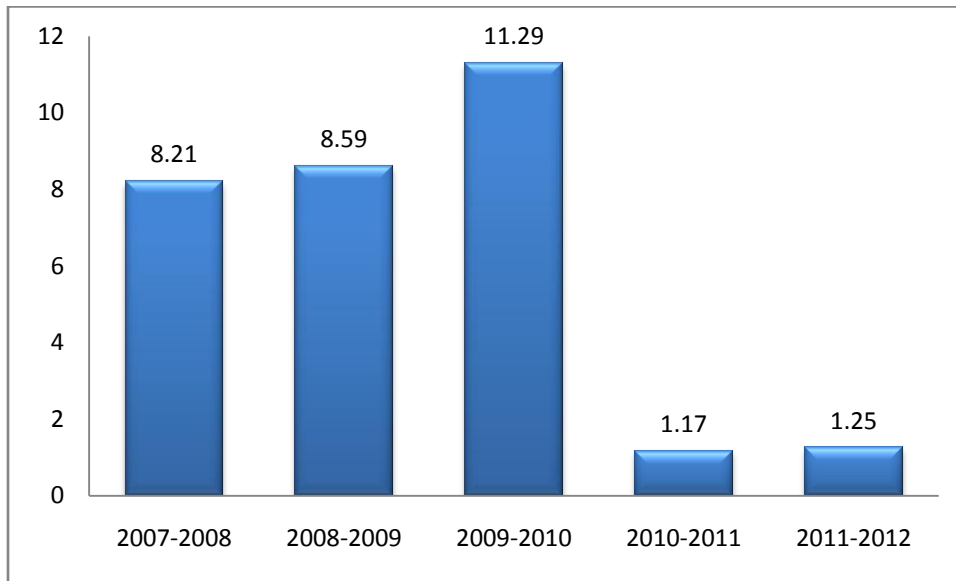
$$\text{Earning asset to working fund ratio} = \frac{\text{Loans + Financial investment}}{\text{Working fund}} \times 100$$

Showing earning asset to working fund ratio

Year	Loans + investments	Working fund	Ratio
2007-2008	5101.55	62097.29	8.21
2008-2009	5914.95	68804.12	8.59
2009-2010	8906.83	78827.76	11.29
2010-2011	1127.69	95676.61	1.17
2011-2012	1286.18	102808.06	1.25

Source: Annual Reports of KFC

Showing the graphical representation of earning asset to working fund ratio



Interpretation:

During the study period, the earning assets to working capital ratios shows that during the period 2007-2010 there is in increasing in earning asset to working capital but in remaining years low in earning asset because lack of effective use of funds. The shares of earning asset to working fund reflect the utilization of working fund in income generating assets. The declining trend increases the risk of the organization.

2. Cash in hand to working fund ratio

Cash in hand

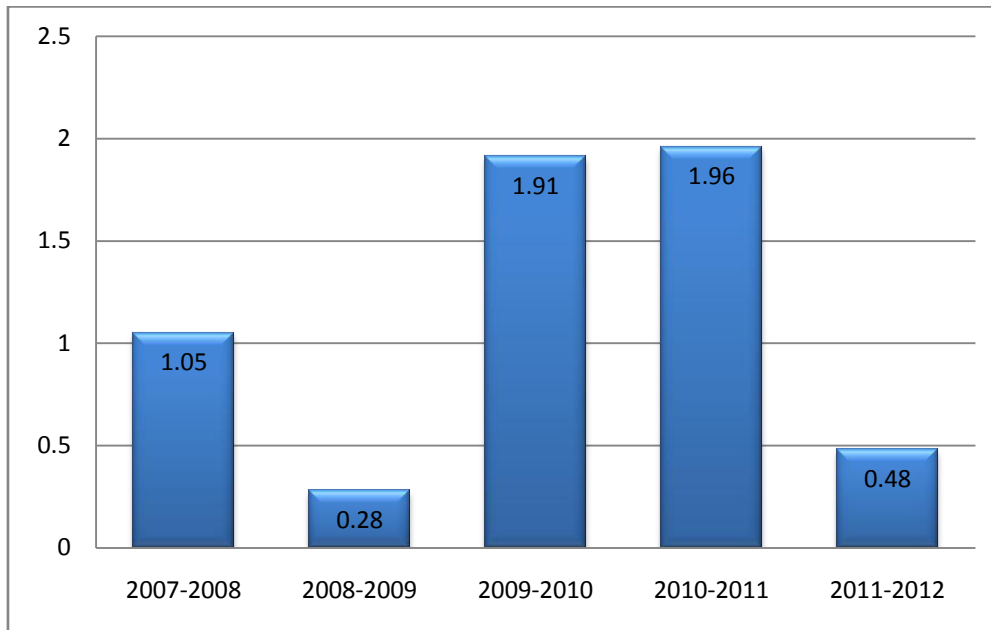
$$\text{Cash in hand to working fund ratio} = \frac{\text{Cash in hand}}{\text{Working fund}} \times 100$$

Showing cash in hand to working fund ratio

Year	Cash in hand	Working fund	Ratio
2007-2008	655.6	62097.29	1.05
2008-2009	197.5	68804.12	0.28
2009-2010	151.1	78827.76	1.91
2010-2011	188.0	95676.61	1.96
2011-2012	495.7	102808.06	0.48

Source: Annual Report of KFC

Showing the graphical representation of cash in hand to working fund ratio



Interpretation:

The ratio of cash in hand to working fund was below 1 % in the year 2008-2009 and 2011-2012. In the year 2009-2011 there slightly increase the liquid cash. The proportion of cash in hand should be kept to minimum in order to reduce the risk of the organization.

1. Cash at bank to working fund ratio

Cash at bank

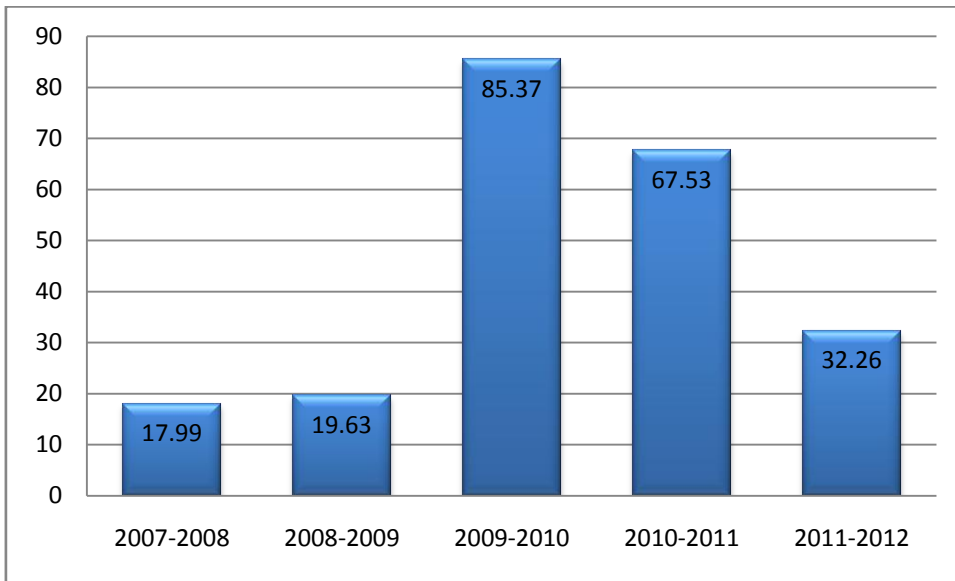
$$\text{Cash at bank to working fund ratio} = \frac{\text{Cash at bank}}{\text{Working fund}} \times 100$$

Showing cash at bank to working fund ratio

Year	Cash at bank	Working fund	Ratio
2007-2008	11175	62097.29	17.99
2008-2009	13510	68804.12	19.63
2009-2010	67296	78827.76	85.37
2010-2011	64611	95676.61	67.53
2011-2012	33172	102808.06	32.26

Source: Annual Report of the KFC

showing the graphical representation of cash at bank to working fund ratio



Interpretation

From the above chart, the rate of cash at bank increases up to a certain level then it decreasing slightly. In the year 2009-2010 the value of cash at bank 85.37 that is high rate of cash at bank, it increasing from previous year. Cash at bank to working capital ratio is an indicator of the liquidity position of the bank.

2. Fixed asset to working capital ratio

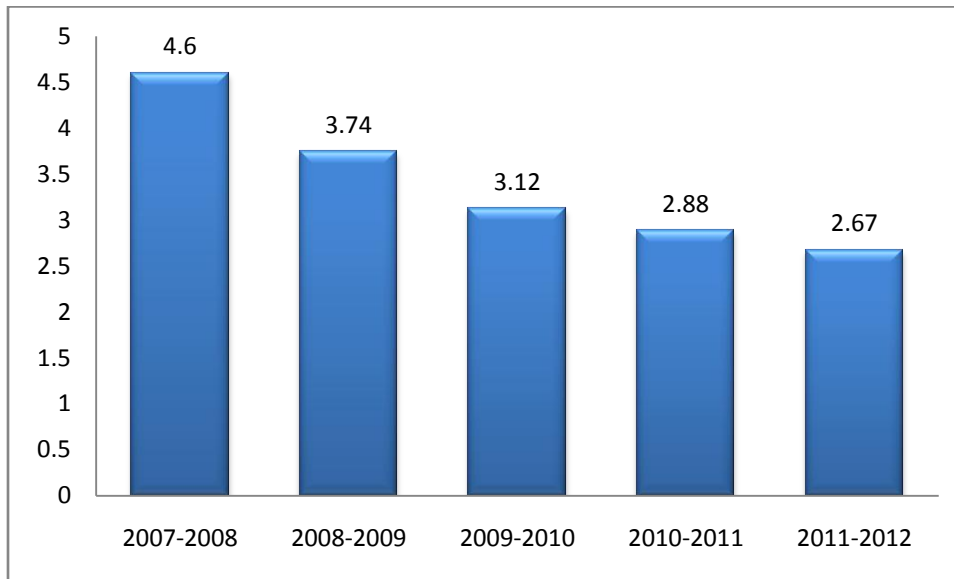
$$\text{Fixed asset to working capital ratio} = \frac{\text{Fixed asset}}{\text{Working capital}} \times 100$$

Showing fixed asset to working capital ratio

Year	Fixed assets	Working fund	Ratio
2007-2008	2859.58	62097.29	4.60
2008-2009	2576.81	68804.12	3.74
2009-2010	2464.30	78827.76	3.12
2010-2011	2759.80	95676.61	2.88
2011-2012	2748.10	102808.06	2.67

Source: Annual Report of KFC

Showing fixed asset to working capital ratio



Interpretation:

The above chart reveals that the value fixed assets is decreasing each year comparatively declining from the previous year. In a firm fixed assets and working fund should be balanced then only the organization can running smoothly. Here the fixed asset is decreasing each year. The declining of fixed assets decreases the risk of the organization up to a certain level but it should not decreasing less than the balancing level of working fund. It should affect the organization.

Findings of the Study

- ✓ The Net NPA as per the records shows a declining trend.
- ✓ There is a tendency among the beneficiaries of the corporation to delay repayment of the loans and some percentage of these payments also turns into bad debts.
- ✓ The NPA and loans and advances are negatively correlated. It shows that while the amount of loan increases over the years, NPA shows a declining trend.
- ✓ The total amount of loan increased year by year, because corporation introduces variety of new loan schemes.
- ✓ KFC gives financial assistance only to financially viable and technically feasible schemes.
- ✓ NPA not only affects current financial position but also future stream of cash inflows, which heavily contributes to operating losses.
- ✓ There is a close relationship between amount of loan taken and the sufficiency of loan

✓ In addition to NPA, time and efforts of management is another indirect cost which KFC has to bear due to NPA.

Suggestions to the Study

✓ Delay in sanctioning loans leads to delayed project implementation and thereby making the unit unviable. So effective steps can be taken for speedy processing of the loan applications by avoiding unnecessary steps involved in pre sanction procedures and formalities.

✓ KFC should be creating a proper database of their NPA portfolio on well designed formats to provide meaningful inferences. It would help in evolving effective strategies as well as account specific action plan for reduction in NPAs.

✓ Both under finance and over finance are problems leading to NPA. So the Corporation can make earnest effort to estimate correctly the loan requirement of each individual projects.

✓ Keep a close watch on the projects so that it is implemented as schedule without any time and cost overrun

✓ In addition to provide financial assistance to project, KFC may actively involved in providing other service in the implementation of projects such as assistance in getting power connection, obtaining license etc.

✓ KFC should make a strict rule for analyzing budget effectiveness every year. It should be fixed for each department and at the end of the year its effectiveness should be analyzed. That is there should be a proper plan and control and a comparison of output and effort should be made.

Conclusion

The study has been completed within the framework of the objectives of the study. Non-performing Asset has emerged since over a decade as an alarming threat to the banking industry in our country sending distressing signals on the sustainability and insurability of the affected banks. Non-performing Assets are the smoking gun threatening the very stability of Indian financial institutions. NPAs wreck the profitability both through a loss of interest income and write-off of the principal loan amount itself. So serious is the problem that reducing NPAs should be treated as a 'national priority'. NPA has affected the profitability, liquidity and competitive functioning of FIs and finally the psychology of the bankers in respect of their disposition towards credit delivery and credit expansion. The enormous provisioning of NPA together with the holding cost of such non-productive assets over the years has acted as a severe drain on the profitability of the FIs. NPA is an Unbridled Virus and an Emerging Challenge to Indian Financial System.

Kerala Financial corporation Kerala Financial Corporation is one of the premier financial institutions in the State which plays a dominant role in the development of Kerala. The study was conducted for analyzing and interpreting the non performing assets management in KFC. The study is analyses that the non performing assets not a threat because it can solve the organization in better manner

because of the efficiency of funds used. The level of NPA is decreasing trend over the years. The suggestions given are according to the annual reports of KFC.

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