ANALYSIS OF NON PERFORMING ASSETS
(With reference to SCBNL, NABIL and HBL)

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"ANALYSIS OF NON PERFORMING ASSETS (with reference to SCBNL, NABIL and HBL)"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Associate Professor Prakash Singh Pradhan** of Shankar Dev Campus, T.U.

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Ms. Sunita Sharma

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ABBREVIATIONS

A.D	Anno Domini
B.S	Bikram Sambat
BOK	Bank Of Kathmandu
CV	Coefficient of Variance
EBL	Everest Bank Limited
Etc	Etcetera
FY	Fiscal Year
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
JVBs	Joint Venture Banks
L & A	Loan & Advances
LLP	Loan Loss Provision
Ltd.	Limited
MBS	Master of Business Studies
NABIL	Nepal Arab Bank Limited
NEPSE	Nepal Stock Exchange
NIBL	Nepal Investment Bank Limited
NP	Net Profit
NPA	Non-Performing Assets
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
Qtr	Quarter
Rs.	Rupees
SCBNL	Standard Chartered Bank Nepal Limited
TA	Total Assets
TL	Total Loan
TU	Tribhuvan University
USD	United States Dollar

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a land locked country with agro-based economy. It is rich in natural resources but these resources have not been utilized properly. The economic growth rate of Nepal is very low. The important components of economic dimensions of an economy are Gross Domestic Product (GDP), Per Capita Income, personal consumption expenditure, unit labour cost & private investment.

GDP of Nepal is US$ 5.3 billion. Per Capita Income of a country can be used as an indicator of the purchasing power of its people. Nepal's Per Capita Income is US$ 220, which is one of the lowest in the world. This is also the lowest among the SAARC countries. In fact, Nepal is the ninth poorest country in the world. Total population of Nepal is above 28000000 now & its growth rate is 2.24%.

Every nation has come expectations from its financial infrastructure of that country. It is because financial system can contribute a lot for accelerating the pace of economic growth through mobilization of resource. However, the magnitude of expectations from the financial system may vary within the various stage of economic development; the financial system is expected to be a good facilitation and a partner to achieve a sustained economic growth all the times. Banking systems constitute an important segment of financial infrastructure of any country.

A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the public for the purpose of advancing to other for expenditure. Bank is a financial institution, which deals with money by accepting various types of deposits, disbursing loan and various types of financial services. A Bank can be defined as a financial department store which renders a host of financial services besides taking deposits and giving loans.

Nowadays, there is much competition in banking business but less opportunity makes investment. In this condition, bank can take initiation in search opportunity, so that they can survive in the competitive market and earn profit. However, investment is very risky job, for the purposeful, safe, profitable investment, bank must follow sound investment and fund mobilizing policy. Banking sector is exposed to number of risk like interest rate risk, credit risk, liquidity risk, borrowers risk etc.

Among the most critical risk is borrower's risk, the risk of non-payment of the disbursed loan & advances. Failure to collect money disbursed may sometimes result in the bank inability to make repayments of the money to the depositors & return to the shareholders. The risk involved is so high that it can bring bank to a verge of bankruptcy. Banking system is volatile and sensitive section of national economy, which requires effective monitoring and supervision. Hence, to such situation and protect depositors and shareholders money, Nepal Rastra Bank (NRB) issues various directives and guidelines from time to time with modifications and amendments for the sound regulation of the banking system. All the banks have to abide by the rules and regulation issued by the central bank.

"To start with performance in terms of profitability is a benchmark for any business enterprise including the banking industry. However, increasing Non-Performing Assets (NPA) have a direct impact on bank profitability as legally banks are not allowed to book income on such accounts and at the same time banks are forced to make provision on such asset" *(Manamohan; 2002; 6).*

Non-Performing Asset (NPA) has emerged since over a decade as an alarming threat to the banking industry in our country sending distressing signals on the sustainability of the affected banks. Despite various correctional steps administered to solve and end this problem, concrete results are eluding. It is a sweeping and all pervasive virus confronted on banking and financial institutions. Increasing NPA has a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets as per the central Bank guidelines. Also, with increasing deposits made by the public in the banking system, the banking industry cannot afford defaults by borrower since NPA affects the repayment capacity of banks. Further, Central Bank successfully creates excess liquidity in the system through various rate cuts and banks fail to utilize this benefit to its advantage due to the fear of burgeoning Non Performing Assets.

Non Performing Assets, also called Non Performing Loans, are made by a bank or finance company, on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments than a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time a loan is classified as past due. Once a payment becomes really late (usually 90 days) the loan classified as non-performing.

A high level of Non-Performing Assets compared to similar lenders may be a sign of problems, as may a sudden increase. However, this needs to be looked at in the context of the type of lending being done. Some banks lend of higher risk customers than others and therefore tend to have a higher proportion of non-performing debt, but will make up for this by charging borrowers higher interest rates, increasing spreads. A mortgage lender will almost certainly have lower Non-Performing Assets than a credit card specialist, but the latter will have higher spreads and may well make a bigger profit on the same assets, even if it eventually has to write off the non-performing loans.

Loan and advances are the most profitable of all assets of a bank. Banks universally seek after the assets. These assets constitute primary source of income to banks. According to Dr. Walter Leaf "In term of advance to customer we have reached the central portion of the activity of banks." In the word of the Dr. Leaf the bankers "have to timer liberality with caution. If he is too liberal he may easily impair his profits by bad debts, if he is too timid he may fail to obtain an adequate return on the fund, which is confided to him for use. It is by his capacity in lending that bank manager judged" *(Radhaswamy and Vasudevan 1979:550)*.

Performing Assets are those loans that repay principal and interest to the bank from the cash flow it generates. Loans are risky assets, though a bank interest most of its resources in granting loans and advances. The objectives of bound loan policy are to maintain the financial health of the banks, which result in safety of depositor's money and increase in the return to the shareholders. Since loan is a risky asset, there is inherent risk in every loan; however the bank should not take risk above the certain degree irrespective of returns prospects.

Recovery of bad loans by banks and financial institutions has turned into a big issue in the financial sector of Nepal. This has greatly caused negative impact upon Banks' profit, government revenue and the overall financial sector of the country. This calls for an effective system and mechanisms that case the early recovery of debts of Banks and also of bank-like institutions as specified by Nepal Rastra bank the Monetary Authority.

Due to their control role in the economy, government and central bank try their best to rescue banks from such situations. Hence to protect the banks from such situation and protect depositors and shareholders interest, central bank issues various directives and guidelines from time to time with modification and amendments for the sound regulation of the banking system. All the banks have to abide by the rules and regulation issued by central bank of the country.

1.1.1 Profile of the Selected Joint Ventures Banks

Standard Chartered Bank Nepal Limited (SCBNL), formally known as Nepal Grindlays Bank Limited has been in operation since 1987 AD. It is one of the top most joint venture banks of Nepal. Likewise, **Himalayan Bank Limited (HBL)** was established in 1993 AD in joint venture with Habib Bank Limited of Pakistan. Similarly, **Nabil Bank Limited (NABIL)** is the first foreign joint venture commercial bank of Nepal was established on 12th July, 1984under a technical service agreement with Dubai Bank Limited and was renamed as Nabil Bank Limited (NABIL) on 1st January, 2002. **(For further details please see Annex I)**

1.2 Focus of Study

The study is to find out Non-Performing Assets position of SCBNL, NABIL and HBL. Non-Performing Assets means an Assets or account of borrowers which has been classified by bank of financial institution as sub-standard, doubtful or loss assets, so this impacts of NPAs is not only on banking sectors but the whole economy. This study evaluates how to manage NPA problem in joint ventures commercial banks. The main focus of this study is to analyse the trend of Non-Performing Assets in joint ventures commercial banks of Nepal which elaborates whether JVBs are efficient in managing credit and how NPAs play its role to the operations of the banks, to achieve the objective both primary and secondary data have been analysed. With regards to Secondary data, there JVBs SCBNL, NABIL & HBL.

1.3 Statement of problem

Non-Performing Assets means an assets or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss assets, in accordance with the directions or guidelines relating to assets classification issued by NRB.

NPAs have a different meaning that varies from country to country in some countries, it means that the loan in impaired. In some countries, it means that the payment are due but there are significant different among countries how many days a payment should be arrears before past due status is triggered. Increasing NPAs is the emerging problem of the banks. We know that the some banks are closed down due to the uncontrolled NPAs. So the profit of bank might come down. This research has been conducted to find out the solution of following problem with reference to SCBNL, NABIL & HBL.

a) What is the proportion of Non-Performing Assets in the selected JVBs?
b) What are the factors leading to accumulate of Non-Performing Assets?
c) What are the guidelines and provision pertaining to loan classification and loan loss provision?
d) What is the relationship between loan and loan loss provision in the selected JVBs?
e) How generation of NPAs be controlled?

1.4 Objectives of the Study

The gradually increasing NPA has now become a major challenge for bank. Every bank is giving top priority to make them competent by reducing NPA.

The main objective of this research is to examine and study of Non-Performing Assets of JVBs, especially of Standard Chartered Bank Nepal Limited, NABIL and HBL. The specific objectives are:

i. To analyze and evaluate the trend & level of NPA of JVBs with reference to SCBNL, NABIL & HBL.
ii. To study the relationship between ratios of Net Profit & NPA to loan and advances.
iii. To analyze and examine impact of NPA to the bank.
iv. To suggest and recommend on the basis of major findings of the study.

1.5 Significance of the Study

It is well known fact that the financial institution and bank in Nepal has been facing the problem of increasing Non-Performing assets and issue becomes more and more critical. Unfortunately nowadays banks have been becoming victims of high level of Non-Performing Assets. Non-Performing Assets are those loans, which neither pay interest nor repay the principal. So Non-Performing Assets have become subject of headache to the banking sectors. Likewise Nepalese banking sectors cannot escape from such truth. Concerning to the central library of Tribhuvan University, it has been found that there are a few research regarding Non-Performing Assets and loan loss provision. This research will be able to deliver some of the present issues, latest information and data regarding Non-Performing Assets and loan loss provision. Hence, this study will be significant to bankers, shareholders, depositors and further researcher, students etc.

1.6 Limitation of the Study

The research is conducted to fulfill the academic requirement of Master of Business Studies. It is focused on the study of Non-Performing Asset of SCBNL, NABIL and HBL based of the audited financial annual reports of condition of each bank during the period 2007/08to 2011/12. This research has tried to cover all the aspects of the Non-Performing Assets. However, the present research has the following limitation:

- This research is concerned only with the Non-Performing Assets of the selected three joint venture banks. It doesn't consider other aspects of banks.
- This research is focused on the Nepalese JVBs only three JVBs, namely SCBNL, NABIL and HBL, have been selected as sample for the study.
- The period of the study is limited for fiscal year 2007/08to 2011/12.
- The accuracy of secondary data mainly relies on the annual reports of the banks and the accuracy of the primary data totally relies on the responses of the respondents. Any mispresentation, mistakes, omission etc. may affect the outcome of the study. Thus, the reality of the study depends on secondary sources of the data and questionnaire filled and responses given by the respondents.
- The study is fully based on the limited financial resources of students with in a limited period.

1.7 Organization of the study

This research work has been divided into five chapters;

Chapter – 1: Introduction

This chapter deals with the subject matter of the study consisting background of the study, statement of problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter – 2: Review of literature

This chapter deals with the conceptual framework and the review of relevant research studies, articles, banking journals, books, websites etc. related to the study.

Chapter – 3: Research Methodology

This chapter contains research methodology employed in the study. It includes the research design and tools and techniques used in the research work. It provides guidelines and gives a road map to analyse the collected data.

Chapter – 4: Data Presentation and analysis

This chapter covers analysis, presentation and interpretation of the acquired data, which was collected through the designed methodology. Data are presented in tabular, graphic or in an equation form to achieve pre stated objectives. This chapter produces a shape to facilitate the analysis of relevant data in an attractive way. It also includes major findings of the study.

Chapter – 5: Summary, Conclusion and Recommendation

This chapter deals with summary and conclusion of the research and recommendation given to the concerned organization.

Besides this chapter, Bibliography and Annexes are also presented at the end of research.

CHAPTER II

REVIEW OF LITERATURE

The review of literature is a very important aspect of the research. It is reviewing of research studies of other relevant proposition in related area of the study, so that, all the past studies, their conclusion and deficiencies may be known and further research can be conducted. For this, several books, dissertation, reports, hands out and articles published in journals and newspapers are reviewed. This chapter has been divided into the following parts:

2.1 Conceptual Reviews

This heading is devoted to the origin and concept of the bank, meaning and concept of the term used in the study.

2.1.1 Non Performing Assets

One of the most emerging problems of the commercial Banks is to the management of Non-performing assets. Due to the effects of non-analysis of Non Performing Assets of Nepalese commercial banks performing assets, many banks have already suffered from financial problem. In this fast pace competitive age, the bank should have to operate taking consideration that things.

Non-Performing Assets means an assets or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss assets, in accordance with the directions or guidelines relating to asset classification issued by NRB.

"If any advances or credit facilities granted by bank to a borrower becomes non performing, then the bank will have to treat all the advance/credit facilities granted to that borrower as Non-Performing without having any regard to the fact that there may be still exist certain advance/credit facilities having performing status." (Pandey; 1999:167)

NPAs have a different meaning that varies from country to country. In some countries, it means that the loan is impaired. In some countries, it means that the payment are due but there are significant different among countries how many days a payment should be in arrears before past due status is triggered.

According to current Banking Act, the banks have to make provision for bad and doubtful debts. After deducting the bad and doubtful debts from the Non-Performing Assets, net Non-Performing Assets can be achieved.

NPA = (NPA + NBA + RNPL + SI + UA)

Where,

NPA = Non Performing Assets
NPL = Non Performing Loan
RNPL = Remaining Non Performing Loan
SI = Suspend Interest
UA = Unutilized Assets

Non Performing Loan (NPL) can be defined as the non-productive assets of the banks. In other words, it is the loan or dab and doubtful debts that doesn't repay timely. Generally the loan, which doesn't repay within three months, is known as Non-Performing Loan. The loan amount that doesn't covered by the collateral after selling is known as Non-Banking Assets (NBA). Non-Performing Assets also includes the suspend interest. It is the interest, which becomes receivable unutilized assets and those investment which don’t generate any cash or incomes to the banks are also Non-Performing Assets (NPA). The proper management of those assets to generate income is known as management of Non-Performing Assets.

Increasing NPAs is the emerging problem of the banks. We know that the some banks are closed down due to the uncontrollable NPAs. In USA, 1016 commercial banks were declared as unsuccessful from 1985 to 1990 and 27 banks from 1995 to 2001. However, Nepalese banks face this type of problem till now but they have to take step towards it. For this, appropriate amount of bad and doubtful debts is made provision from their incomes/profit.

2.1.2 Factors Influencing to Rise in NPA

The banking sector has been facing the serious problems of the rising NPA. But the problem of NPA is more in public sector banks when compared to privet sector banks and foreign banks. The NPA in CBs are growing due to external as well as internal factors.

A) External Factors

The external factors that cause the Non-Performing Assets are;

- **Ineffective Recovery Tribunal**

The Government has set of numbers of recovery tribunals, which works of recovery of loans and advances. Due to their negligence and ineffectiveness in their work the bank suffers the consequence of non-recover, thereby reducing their profitability and liquidity.

- **Wilful Defaults**

There are borrowers who are able to pay back loans but are intentionally withdrawing it. These groups of people should be identified and proper measure should be taken in order to get back the money extended to them as advance and loans.

- **Natural Calamities**

This is the measure factors, which is creating alarming rise in NPAs of the JVBs. The major natural calamities make the borrowers unable to pay back their loans. Thus the bank has to make large amount of provisions in order to compensate those loans, hence end up the fiscal with a reduced profit. For instance, the farmers depend on rain fall for cropping. Due to irregularities of rain fall the farmers are not able to achieve the production level thus they are not repaying the loans.

- **Industrial Sickness**

Improper project handling, in effective management, lack of adequate resource, lack of advance technology, day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.

- **Lack of Demand**

Entrepreneurs in developing countries could not foresee their product demand and starts production which ultimately piles up their product demand thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers a minimum level. Thus the banks record the non-recovered part as NPAs and have to make provision for it.

- **Change on Government Policies**

With every new Government, Banking sectors gets new policies for its operation. Thus, it has to cope with the changing principles and policies for the regulation of the rising of NPAs.

B) Internal Factors

The internal factors that raise the Non-Performing Assets are:

- **Defective Lending Process**

Defective lending process invites doubt in loan recovery safety. By safety it means that the borrower is in a position to repay the loan both principal and interest. The repayment of loan depends upon the borrowers:

a) Capacity to pay
b) Willingness to pay

Capacity to pay depends upon:

a) Tangible assets
b) Success of business

Willingness to pay depends upon:

a) Character
b) Honest
c) Reputation of borrower

The banker should therefore take utmost care in ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is capable of carrying it out successfully. The borrower should be a person of integrity and good character.

- **Inappropriate Technology**

Due to inappropriate technology and management information system, market driven decisions on real time basis cannot be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, thus NPA. All the branches of the bank should be computerized.

- **Improper SWOT Analysis**

The improper Strength, Weakness, Opportunity and Threat Analysis are another reason for rise in NPAs. While providing unsecured advances the banks depend more on the honesty, integrity, financial soundness and credit worthiness of the borrower. Banks should the borrowers own capital investment. It should collect information of the borrowers from;

a) Bankers
b) Enquiry from market/segment of trade, industry, business
c) From external credit rating agencies.

- **Poor Credit Appraisal System**

Poor credit appraisal is another factor for the rise in NPAs. Due to poor credit appraisal the bank gives advances to those who are not able to repay it back. They should use good credit appraisal to decrease the NPAs.

- **Managerial Deficiencies**

The bankers should always select the borrower very carefully and should take tangible assets as security to safe guard its interest. When accepting securities banks should consider the;

a) Marketability
b) Accountability
c) Safety
d) Transferability

The banker should follow the principle of diversification of risk based on the famous maxim "do not keep all the eggs in one basket" it means that the bank should not grant advance to a few big farms only or to concentrate them in few industries or in a few cities. If a new big costumer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected.

- **Absence of regular industrial visit**

The irregularities in sport visit also increases the NPAs. Absence of regularly visit bank officials to the customer point decreases the collection of interest and principles on the loan. The NPAs due to willful defaulters can be collected by regular visits.

2.1.3 Problems due to NPA

The three letters strike terror in banking sectors and business circle today. NPA is short form of Non Performing Assets. The NPA rule says simply this: when interest or other due to a bank remains unpaid for more than 90 days, the entire bank loan automatically turns a Non Performing Asset. The recovery of loans has always been problem for banks and financial institution.

To come out of these first will need to think is it possible to avoid NPA, no cannot be then left is to look after the factor responsible for it and managing those factors. The following are the major problems caused by NPA:

- Owners do not receive a return on their capital. In the worst case, if the banks fail, owners lose their assets. In modern times this may affect a broad pool of shareholders.
- Depositors do not receive a market return on saving. In the worst case if the banks fail, owners lose their assets or uninsured balance.
- Banks redistribute losses to other borrowers by charging higher interest rates, lower deposit rates and higher lending rates repress saving and financial market, which hamper economic growth.
- Non Performing Loans epitomize bad investment. They misallocate credit from good projects, which do not receive funding, to failed projects. Bad investment ends up in misallocation of capital, and by extension, labour and natural resources.
- Non Performing Asset may spill over the banking system and contract the money stock, which may lead to economic contraction. The spillover effect can channelize through liquidity or bank insolvency.
    a. When many borrowers fail to pay interest, banks may experience liquidity shortage. This can jam payment across the country.
    b. Illiquidity constraints bank in paying depositors,
    c. Under capitalized banks exceed the bank's capital base.

2.1.4 Impact of NPA

The impact of NPA is wide range. However, the major impacts are listed below:

- **Profitability**

NPA means booking of money in terms of bad assets, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only by the account of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/assets. So, NPA doesn't affect current profit but also future system of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (Return On Investment), which adversely affect current earning of bank.

- **Liquidity**

Money is getting blocked, decreased profit lead to lack of enough cash and hand which lead to borrowing money for short period of time which lead to additional cost to the company. Difficulty in operating the function of bank is another cause of NPA due to lack of money in routine payments and dues.

- **Involvement of Management**

Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Nowadays banks have special employees to deal and handle NPAs, which is additional cost to the bank.

- **Credit loss**

Bank is facing problems of NPA then it adversely affects the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

2.1.4.1 Bank Growth Vs NPAs

Following are identified as major impacts of NPAs as bank growth:

- **Deterioration of Profits**

When an advance become NPA interest due for last 3 month and future accruals are required to transfer in to interest in suspense.

- **Increase in Provisions**

When a loan and overdraft falls in to substandard category it is required to provide capital provisioning.

- **Drop in Reserves**

When a facility is not recoverable capital will be write off at last. This will have an impact on profits.

- **Increasing Overhead Costs**

It is costly to maintain non performing advances, since it doesn't generate an income. (Ex: follow up costs, staff costs and legal costs)

- **Increasing Market Borrowing**

When advances are not recoverable there will be a liquidity issue in meeting payment and granting further credit. In order to finance banks tend to borrow from the market at high rate.

- **Drop in Share Value**

When it is known as bank is having a high gross NPA ratio and net NPA ratio share value will be dropped.

- **Negative Image**

In the long run bank will have a negative image due to NPAs.

2.1.4.2 NPAs impact on Economy

Not only NPA affects the sound system of bank, but also affects the whole economy.

- **High Interest Rate**

In order to compensate the loss of interest in NPAs banks have to charge high interest rate from other borrowers. This will have an indirect impact on inflation.

- **Negative Impact on Development**

When fund to lend become scare due to NPAs, countries development will get effected.

- **Unemployment**

Businesses ceased to exist due to inability to meet its repayment obligations. This will create unemployment.

- **Instability in the Banking System**

Due to high NPA position if liquidity crisis arises and bail out is required, this has huge impact on whole banking sector.

2.1.5 Early Symptoms of NPA

Early symptoms by which one can recognize a performing asset turning into Non Performing Asset can be mainly categorized in four sections:

A) Financial

- Non-payment of the very first installment in case of term loan.
- Bouncing of cheque due to insufficient balance in the accounts.
- Irregularity in installment.
- Irregularity of operations in the accounts.
- Unpaid overdue bills.
- Declining Current Ratio.
- Payment which does not cover the interest and principle amount of that installment.
- While monitoring the accounts it is found that partial amount is diverted to sister concern or parent company.

B) Operational and Physical

- If information is received that the borrower has either initiated the process of winding up or are not doing the business.
- Overdue receivables.
- Stock statement not submitted on time.
- External non-controllable factor like natural calamities in the city where borrower conduct his business.
- Frequent changes in plan.
- Non-payment of wages.

C) Attitudinal Changes

- Use for personal comfort, stocks and shares by borrower.
- Avoidance of contact with bank.
- Problem between partners.

D) Others

- Changes in government policies.
- Death of borrower.
- Competition in the market.

2.1.6 Preventive Measurement for NPA

The preventive measurements that can lessen the chances of occurring NPA are as follows:

- **Early Recognition of the problem**

Invariably, by the time banks start their efforts to get involved in a revival process, it's too late to retrieve the situation both in terms of rehabilitation of the project and recovery of banks dues. Identification of weakness in the very beginning that is: when the account starts showing first signs of weakness regardless of the fact it may not have become NPA, is imperative. Assessment of the potential of revival may be done on the basis of a techno economic viability study. Restructuring should be attempted where, after an objective assessment of the promoters' intention, banks are convinced of a turnaround within a scheduled time frame. In respect of totally unviable units as decided by the bank, it is better to facilitate winding up/selling of the unit earlier, so as to recover whatever is possible through legal means before the security position becomes worse.

- **Identifying Borrowers with Genuine Intent**

Identifying Borrowers with genuine intent from those who are non-serious with no commitment or stake in revival is a challenge confronting bankers. Here the role of frontline officials at the branch level is paramount as they are the ones who have intelligent inputs with regard to promoter's sincerity, and capability to achieve turnaround. Based on this objective assessment, banks should decide as quickly as possible whether it would be worthwhile to commit additional finance.

In this regard, banks may consider having "Special Investigation" of all financial transaction or business transaction, books of account in order to ascertain real factors that contributed to sickness of the borrower. Banks may have penal of technical expert with proven expertise and track record of preparing techno-economic study of the project of the borrowers.

Borrowers having genuine problems due to temporary mismatch in fund flow or sudden requirement of additional fund may be entertained at branch level, and for this purpose a special limit to such type of cases should be decided. This will obviate the need to route the additional funding through the controlling offices in deserving cases, and help avert many accounts slipping into NPA category.

- **Timeline and Adequacy of Response**

Longer the delay in response, greater the injury to the account and the assets. Time is a crucial element in any restructuring or rehabilitation activity. The response decide on the basis of techno-economic study and promoters commitment, has to be adequate in terms of extend of additional funding and relaxations etc. under the restructuring exercise. The package of assistance may be flexible and bank may look at the exit option.

- **Focus on Cash Flow**

While financing, at the time of restructuring the banks may not be guided by the conventional fund flow analysis only, which could yield a potentially misleading picture. Appraisal for fresh credit requirements may be done by analyzing funds flow in conjunction with the cash flow rather than only on the basis of funds flow.

- **Management Effectiveness**

The general perception among borrower is that it is lack of finance that leads to sickness and NPAs. But this may not be the case all the time. Management effectiveness in tackling adverse business condition is a very important aspect that affects borrowing units' fortunes. A bank may commit additional finance to analyse unit only after basic viability of the enterprise also in the context of quality of management is examined and confirmed. Where the default is due to deeper malady, viability study or investigation audit should be done – it will be useful to have consultant appointed as early as possible to examine this aspect. A proper techno-economic viability study must thus became the basis on which any future action can be considered.

2.1.7 Practical Approach to Manage NPA

The practical approaches that can enhance in managing the NPAs are as follows:

- **Improving the Appraisal System**

Emphasis should be given to appraisal process to ensure proper evaluation done to establish the credit worthiness of the customer. It should be noted at the appraisal level all required information to submit in order for the approving authorities to take a credit decision.

- **Continuous Monitoring Supervision and Follow Up**

Monitoring supervision and follow up should not be a task to be implemented when an advance turn in to loss category. Early warning signals should be identified and preventive measures should be implemented.

- **Availability of Historical Data**

Availability of historical data is paramount of important in preparation of a credit proposal. So banks should have historical data base to extract past records as and when required.

- **Market Intelligence System (MIS)**

MIS information should be available for various reasons when taking credit decision. (E.g. to rate a customer, to extract performance ratios)

- **Speedy Legal Action**

When all possible attempts for recovery is failed only option is to proceed with legal action and this should be speedy otherwise this will be costly.

- **Integrity**

Staff integrity is also vital factors. No member in the approval cycle should take a decision based on financial rewards.

- **Rewarding Staff**

Introducing a staff rewarding/incentive scheme will also support in reducing NPAs. It should be noted rewarding staff will be less costly rather than spending.

2.2 Review of Related Studies

On way to conduct this research some books, article, journals and publications have been studied to formulate ideas about the subject matter. Although, the specific books regarding the NPA could not be found. However, some banking related books, directives of NRB regarding NPA and some thesis have been consulted.

2.2.1 Review of NRB Directive Relating to NPA

A. Classification of Loan and Advances

Effective from FY 2058/2059 (2001/02) banks shall classify outstanding principal amount of loan and advances on the basis of aging. As per the directives issued by NRB, all loans and advances shall be classified into the following four categories:

i. Pass Loan: Loans and advances whose principal amounts are not past due and past due for a period up to 3 months shall be included in this category. These are classified and defined as performing loans.
ii. Sub-Standard Loan: All loans and advances that are past due for a period of 3 months to 6 months shall be included under this category.
iii. Doubtful Loan: All loans and advances which are past due for a period of 6 months to 1 year shall be included in this category.
iv. Loss: All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included under this category.

B. Additional Arrangement in Respect of Pass Loan

Loan and advances fully secured by gold, silver, fixed deposit receipts, credit cards and government securities shall be include under "pass" category. Loans against fixed deposit receipts of other banks shall also qualify for inclusion under pass loan. However, where collateral of fixed deposit receipt or government securities or NRB bonds is placed as extra security, such loan has to be classified on the bases of clause 1 to clause 7. While renewing working capital loan having maturity period up to one year can be classified as pass loan. If the interest of working capital nature loans and advance is not regular, such loan and advances should be classified on the basis of interest outstanding period.

C. Additional Arrangement in Respect of Loss Loan

Even if the loan is not past due, loans having any or all of the following discrepancies shall be classified as "loss".

- Security is not sufficient,
- The borrowers have been declared bankrupt,
- The borrowers is absconding or cannot be found,
- Purchased or discounted bills are not realized within 90 days from the due date and non fund based letter of credit and guarantees etc. are not realized within 90 days from the due date and non fund based letter of credit and guarantees etc. are not realized within 90 days from the date of conversion into fund based are not realized within 90 days.
- The credit has not been used for the purpose originally intended,
- Owing to non- recovery, initiation as auctioning of the collateral has passed six months and if the recovery process is under litigation,
- Loan provided to the borrowers included in the blacklist of Credit Information Centre(CIC),
- Project or business is not in operative conditions, project or business is not in operation,
- Credit card Loan is not written off within 90days from past due date.

D. Additional Arrangements in Respect of term Loan

In respect of term loan, the classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment.

E. Prohibition to Recover Principal and Interest by Overdrawing the current Account an exceeding the Overdraft Limit:

Principle and interest on Loans and advance shall not be recovered by overdrawing the borrower's current account or where overdraft facility has been extended, by overdrawing such limit. However, this arrangement shall not be constructed as prohibitive for recovering the principal and interest by debiting the customer's account, and recovery is made as such resulting in overdraft, which is not settled within one month , such overdrawn principal amount shall also be liable to be include under the outstanding loan and such loan shall be downgraded by one step from its current classification. In respects if recognition of interest, the same shall be as per the clause relating to income recognition mentioned in directives no 4.

F. Letter of credit and Guarantees

If letter of credit and guarantee and other contingent liabilities converted into fund based liabilities and have to paid, in such condition such loan shall be classified as pass loan within 90days from the date of conversion into fund based. After 90days such loan shall be classified as loss loan.

G. Rescheduling and Restructuring of the loan

If the bank is confident on the following bases of written plan of action submitted by borrower, it may reschedule or restructure the loans and advances. Clear bases of rescheduling or restructuring should be attached with loan files.

- If there is proof of adequate documents and collateral security relating to loan.
- If the bank is confident in recovery of restructured or rescheduled loans and advances.

In additional to written plan of action for rescheduling or restructuring of loan, payment of at least 25 percent of total accrued interest up to the date of rescheduling of restructuring should have been collected.

H. Loan loss Provisioning

The loan loss provisioning, on the basis of the outstanding loans and advances and bills purchases classified as per this directives, shall be provided as follows:

Classification of loans	Loan loss provision
Pass loans	1%
Sub-standard loan	25%
Doubtful loan	50%
Loss	100%

2.2.2 REVIEW OF THESIS

Khadka(2005) in this study" Non-Performing Assets of Nepalese Commercial Banks". He has taken the mean objective to examine and study of level of non-performing assets, total deposits and total landing of Nepalese Commercial banks. He says escalating level of NPA has been becoming great problem in banking business in the world. It is well known fact that bank and financial institution in Nepal have facing the problem of swelling NPA and the issue is becoming more and more unmanageable day by day, he adds. His study is especially focused in five Nepalese commercial banks i.e. Nepal SBI bank, Nepal Investment bank, Nepal Bangladesh bank, Bank of Kathmandu and Nabil Bank Ltd Only. Among these five sampled commercial banks, he found the NPA of NBBL seems very worse than all others banks. He concludes that the level of NPA is sampled banks is not so alarming and the situation is quite satisfactory. He warns ahead if the increasing trend remains continue in coming days, the situation will be unmanageable. He states the commercial banks could not give full attention towards supervising their lending and towards recovering their bad loans perfectly. He recommends to overcome the problem of NPA than being loan a risky asset, effort should be made to have proper control in every step of loan management. Corporate structure of the bank play key role in the effective loan management. He further insists the bank should take collateral from the borrower so that in the event of default this collateral is disposed for recovery of loan. Proper financial analysis of the borrower should be done by the bank. He thinks the fundamental changes are necessary to correct screening by banks. He has followed descriptive research design with analytical approach. His research is based on secondary data. He considered twelve commercial banks as target population which is inside the Kathmandu valley as on mid-July, 2003 among them five banks are taken as sample bank by the researcher. He has used simple percentage tool like arithmetic tool, Karl Person coefficient of correlation and regression analysis for data processing procedures. His research based on research variables like NPL and the level of NPL in different parameter.

Kafle (2006), Aims to study the level of NPL in total assets, total deposits and total lending by Nepalese commercial banks and to find out whether the Nepalese commercial banks are following the NRB directives regarding loan loss provision for NPL or not in his thesis titled" Non- performing Loans of Nepalese Commercial Banks". He found the level of NPA in Nepalese banking sector is alarming and increasing. His study is focused only on five banks i.e. Nepal SBI Bank, Nepal Investment Bank, Nepal Bangladesh Bank, Bank of Kathmandu and NABIL bank Ltd. Only. Level of NPA is the simple banks are not so alarming and the situation is quite satisfactory. He further states not any bank could meet the requirement of NRB directives. He thinks that corporate structure of the bank play key role in the effective loan management. Lack of proper financial analysis, management inefficiency, and the lack of proper collateral are the causes of high level NPA. Nepalese commercial banks should strongly think on these areas, he recommends. He has followed descriptive research design with analytical approach. His research is based on secondary Data. He considers twelve commercial banks as target population which is inside the Kathmandu valley as on mid-July, 2003. Among them five banks are taken as sample bank by the researcher. He has used simple percentage tool like arithmetic tool, Karl Pearson coefficient of correlation and regression analysis for data processing procedures. His research based on research variables like NPL and the level of NPL in different parameter.

Saroja (2007) says ineffective credit policy, political pressure to lead to uncreditworthy borrower, overvaluation of collateral are the major cause of mounting non-performing assets of the banks in her thesis titled" A Study of the Non-Performing assets of commercial Banks of Nepal" to identify effects of NPA, on ROA and ROE, to solve one of the cases of the NPA i.e. analysis and interpretation of the case and to find out the factors behind the accumulation of NPA, to analyse whether the Nepalese commercial Banks are following the NRB directives regarding loan loss provision for NPL/NPA or not and to recommend to overcome the difficulties in managing NPA. She takes NABIL and SCBNL for the sample of the study. She found negative correlation between NPA and ROA and VNPA and ROE of different commercial bank. She found that these two banks have NPL in control and accordingly provision for such loan. These banks are very much cautious about the matter regarding NPA. She states present loan classification and provision directives seem more strengthens the financial health of the banks and makes them able to face any kind of future contingencies. She recommends that there should be regular supervision and follow up for proper utilization of loan. Strict monitoring and control system should be there for timely recovery of the loan, she adds, she recommends creating separate department in every commercial bank to control their NPA like credit appraisal department, credit administrative department, legal department etc. On the way of her conducting research, she follows analytical and descriptive research design in research methodology. Population for her study comprised all the license commercial banks of the country and sample for the study comprised two commercial banks namely NABIL and SCBNL by using judgmental sampling method. She thinks these two banks could represent true picture of so-called successful commercial banks that is why we select these banks as sample. Different kind of appropriate mathematical, statistical, and financial tools have been applied for analysis purpose. Correlation analysis, ratio analysis and different diagrams and graphs are used in her research as tools and techniques.

Aryal (2008), in his study, "Impact of NPA on commercial Bank". Has the main objective to analyse and identify the impact of NPA on profitability. The others specific objective of the study are:

- To evaluate the relationship of loan and advances with total deposit and total assets.
- To find out the level of NPA in total loan and advance and total assets and its relationship with loan and advances, total assets and loan loss provision.
- To find out the return on loan and advances and its relationship with loan loss provision
- To evaluate the relationship between profit (loss) and loan loss provision.

The major findings of the study are:

- The average loan and advances to total assets ratio on NABIL, SCBNL, EBL, NBL, RBB AND NBBL are 50.38%, 29.16%, 59.62%, 32.25%, 37.17% and64.64% respectively during the study period. The relatively low ratio of SCBL is the indication of risk adverse attitude of the management or they have the policy of investing low in the risky assets like loan and advance.
- The loan and advances to total deposit of NABIL, SCBNL, EBL, NBL, RBB and NBBL, during the study period are 58.78%, 36.85%, 73.79%, 57.79%, 70.56% and 79.42% respectively. The NBBL has the highest average ratio but SCBNL has the relatively lower ratio.
- The average ratio of non- performing assets to total loan and advances of NABIL, SCBNL, EBL, NBL, RBB, and NBBL are performing loan respectively.
- The average return on total loans and advance ratio of NABIL, SCBNL, EBL, NBL, RBB and NBBL are 4.61%, 7.73%, -3.99%, -15.67%, and 1.42% respectively. The return on loan and advances revealed that RBB seems to be failure to earn return on loan and advances.

Luitel(2010), in her study "Analysis of Non-Performing assets of Commercial Banks" has select three commercial banks SCBNL, BOK, & EBL for the analysis of non-performing Assets. The specific objectives of the study are:

- To find out the level of non-performing assets in selected commercial bank.
- To study and find the impact of non-performing assets on the profitability of the commercial bank.
- To find out the portion of risky assets in the total assets of commercial banks.
- To measure the relationship between NPA with total deposit and net profit.

- To find out the factors leading to accumulation of non-performing assets in commercial bank.

The major findings of the study are:

- In average the performing loan of SCBNL has covered 97.73% of the total ;loans and advances, whereas the non-performing loan has covered 2.27% of the total loans and advances. Similarly, in BOK the performing loan has occupied 96.25% and non-performing loan has covered 3.75% of total loans and advances. And in EBL, the performing loan has represented 98.78% and non-performing loan has represented 1.22% of the total loan.

- The average sub-standard loan, doubtful loan and loss loan of SCBNL are 13.36% millions, Rs. 83.07% millions, and Rs.103.31 million, respectively, BOK are 81.83% millions, Rs. 44.59% millions, and Rs. 152.03 million respectively, while EBL are Rs. 7.34 millions, Rs. 9.25 million and Rs. 104.07 million respectively.

- In average, the non-performing assets has represented 2.33% in SCBNL, 3.93% in BOK and 1.24% in EBL of the total performing loan of the respective bank, which has indicated that BOK has more risky investment sector than SCBNL and EBL.

- Similarly, the non-performing assets covered 0.79% of the total assets of SCBNL, 2.40% of the total Assets of BOK, And 0.80% of the total assets of EBL, thus implying more risky assets in BOK compared to SCBNL and EBL.

- Likewise, the non-performing assets to total deposit of SCBNL is 0.89% and that of BOK is 2.80%, and EBL is 0.93%, which has indicated better loan management in SCBNL than in BOK and EBL.

- In average, SCBNL, has kept 2.98% of the total loan loss provision and BOK has kept 3.71% of the total loans as loan loss provision and EBL has kept 3.19% as loan loss provision. Similarly, the loan loss provision represented 141.99% and 106.40% and 288.06% of non-performing assets in SCBNL, BOK and EBL respectively.

- Also, the net profit to non-performing assets of SCBNL is 354.74% in average and that of BOK is 87.39% in average and EBL is 213.52 % in average for the five year periods taken for research.

Though the studies are formed to be quite useful in their own side but the question of NPA and cause as well as effect on various aspects empirically and qualitatively in Nepal bank & Rastriya Banijya Bank, commercial bank is yet to be researched. These theses are mainly focused on the condition of NPA in Nepalese banking sectors and other policies and directives regarding this topic. The contribution of NPA of these two banks is more than 60% on overall NPA.

Previous researchers have analyses only other commercial bank NPA problem. None of them could address the cause and effect of NPA in profitability of these two major commercial bank. NPA problem in these two commercial banks are mounting regularly. The problems needed to be solved promptly. In view of these, this study has been based on the various contributing factors that increase NPA level in these banks specifically in Nepalese perspective and its effect on profitability position on the banks. The methodology adopted in this research are research design, population and sample, type and nature of data, data gathering procedure, data processing procedure, techniques of analysis and so on. Secondary as well as primary data are used for the purpose of the study. Primary data is based on opinion survey, which focused on the causes of NPA from the perspective of employees of the sampled banks.

2.3 Research Gap

There is certain gap between the present research and past research. Previous several researches are done in the topic called non-performing Assets. Previously many researches were done by using secondary data. The information of this very research is also based on secondary data. The information of this very research is also based on secondary data as well as primary data, but many effective tools and techniques are used to get the desired result as per the objective of this study. To analyse the facts financial tools as well as statistical tools were used to get the desired objective of the study. Financial tools include ratio analysis and the statistical tools include mean, standard deviation, coefficient of variation, correlation of coefficient analysis and also include trend analysis. In present context, these are the heart issue recent questions and it will also give the latest information about the current practices of concerned JVBs.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology describes the entire methodological approaches employed in the study. It is the procedure by which researchers go about their work of describing, explaining and predicting phenomena. Mostly in the case of the empirical studies, the consistencies of findings are solely based on empirical methodology it has employed. Research methodology is way to systemically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his problem along with the logic behind them.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to search question and control variance. The plan mean now researcher investigation collect the data structure in term controlling the data in term of money and time. The plan mean now researcher investigators collect the data structure in term controlling the data in term of money and time.

The formidable problem that follows that the task of defining the research problem is the preparation of the design of the research project, popularly known as the **"Research Design".** Research design stands for advance planning of the methods of be adopted for collecting the relevant data and the techniques to be used in their analysis, keeping in view the object of the research and the availability of staff, time and money (C.R Kothari 2005:32)

The research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research.

In fact, the research design is the conceptual structure with in which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Decision regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute a research design. As such the design includes an outline of that the researcher will do from writing the hypothesis and its operational to the final analysis of data. Preparation of the research design should be done with great care as any error in it may upset the entire project. Research design, in fact has a great bearing reliability of the result arrived at and as such constitutes the firm foundation of the entire edifice of the research work.

In detail, the research design has main two purposes. The first purpose is to answer the research question or test relationship: then other second purpose of a research design is to control variance. Thus research design is a plan of action to be carried out in connection with a research project. This study is based on both secondary and primary data, The requirement primary data and secondary data have been collected from various sources covering a period of 5(five) years for selected Nepalese JVBs.

The study seeks to analyse the impact of NPA on profitability, NPA effects on externally and internally. The research design of the study is therefore combination of two major research designs i.e. description and analytical design for secondary data and survey research for primary data. The main objectives of research design in this study are to make analysis in non-performing assets of JVBs in Nepal and provide valuable recommendation. In other words, this research is aimed at studying the non-performing assets of commercial banks. This will follow analytical and descriptive research design. and it also analyses the composition of trend of non-performing assets, loan recovery and profitability condition of JVBs . The design for this research is made by collection of information for different sources by using various financial statistical tools.

3.2 Population and Sample

A total number of 6 joint ventures banks are in operation throughout the nation in the present context. Out of the total population, only three banks, namely, Standard Chartered Bank Nepal Limited, NABIL and Himalayan bank Limited are selected as sample of the total population, to fulfill the objective of research. The sample represented 50% of the total populated JVBs.

3.3 Sources of Data

Making study more reliable and justifiable, both primary and secondary data have been used in this study. Published articles, books, newspaper, website, and annual reports of concerned banks are the secondary sources of data. Similarly, the responses obtained from the questionnaire from the primary data.

3.4 Data collection Techniques

Both primary and secondary data were used in preparing this report. Whenever the source and nature of data have been identified, the required and (primary and secondary) of this study have been gathered or collected from the respondents of commercial banks and annual reports through the head office of the concerned sample JVBs, research department of Nepal Rastra Bank, different websites have been taken for the period of five years i.e. during the fiscal year 2007/08 to 2011/12. To collect the secondary data, published materials are viewed in various spots. Books by different writers, unpublished thesis reports, journal, magazines, internet and AGM report of the relevant JVBs etc. are reviewed. To collect these secondary data, the researcher visited Shankar Dev Campus library, central library, NRB library and library of Nepal Commerce Campus. On the other hand, the primary data are collected through questionnaire with the staffs of concerned JVBs.

3.5 Methods of Data Presentation and Analysis

Data are collected from various sources were in raw form, which are included the annual financial report of concerned banks, the related publications of NRB and relevant websites of concerned JVBs. They were classified and tabulated as per the nature of the study and in accordance of the data. The tabulation is specially made on the basis of their consequent five fiscal year's data available and need base headings such as performing loan, total NPA, Substandard loan, Doubtful Loan and Bad Loan. The tabulation mainly contains the calculations of the percentage of required variables, as it is needed. The tabulation also comprises the total Assets, Total Lending, Calculation of the Return on Total Assets and the return on Shareholder's Equity. Simple percentage tool was used as arithmetical tool and Karl Person coefficient of correlation was also used as a statistical tool.

3.6 Financial Tools Used

To achieve the objective of the study, the following financial tools have been effectively used:

A) Composition of Loan and Advances

The loans and advances of bank is composed of performing loan and non-performing loan. The composition of loans and advances depicts the amount of performing loan and non-performing loan along with their respective coverage in the total loans and advances.

Composition of Loan & Advances =Performing Loan + Non Performing Loan

B) Composition of Non-Performing Assets

Non-Performing Assets of bank is composed of sub-standard loan, doubtful loan and loss loan. This composition demonstrates the actual credit risk of the bank by clearly depicting the coverage and amount of sub-standard loan, doubtful loan and loss loan on Non-Performing Assets.

Composition of Non Performing Assets = Sub standard loan + Doubtful loan + Loss loan

C) Non Performing Assets to Performing Loan

The Non Performing Assets to performing loan also measures the credit risk of financial institutions. Lower ratio is considered better, while ratio is unhealthy to the institutions. It measures how much of the performing loan is represented by the non-performing loan. It is calculated as follows:

$$\textbf{NPA to performing Loan} = \frac{\text{NPA}}{\text{Performing Loan}}$$

D) Non Performing Assets to Total Assets

The ratio indicates the ratio between the Non-Performing Assets and Total Assets. Higher NPA to assets ratio implies the bad effects in banks performance and decreases the profit ability of the banks whereas lower ratio implies the better performance of the bank and increases the profitability of banks. This ratio can be calculated as follows:

$$\textbf{NPA to Total Assets} = \frac{\text{NPA}}{\text{Total Assets}}$$

E) Non Performing Assets to Total Deposits

The main objective of the joint venture commercial banks is to collect deposit and lend it to secure sector. The Non Performing Assets to Total Deposits measure the problem of Total Deposit that is having credit risk. Higher the ratio is unfavorable and thus lower ratio is preferable. This ratio is calculated as:

$$\textbf{NPA to Total Deposits} = \frac{\text{NPA}}{\text{Total Deposits}}$$

F) Loan Loss Provision to Total Loans and Advances

Each bank has to keep the loan loss provision for loan and advances as per the direction of Nepal Rastra Bank. The loan loss provision to total loans and advances measures the aggregate percentage of loan loss provision kept by bank on loans and advances and thus eventually measures the security position. It is calculated as follows:

$$\textbf{Loan Loss Provision to Total Loans \& Advances} = \frac{\text{Loan Loss Provision}}{\text{Totalloans \& Advances}}$$

G) Loan Loss Provision to Non Performing Assets

The ratio describes the proportion of provision held to non- performing assets of the bank. The ratio measures up to what extent of risk inherent in NPA is covered by the total loan provision. Higher ratio signifies that the banks are safeguarded against future contingencies that may create due to nonperforming assets. So, higher the ratio better is the financial strength of the bank. This ratio is calculated as follows:

$$\textbf{Loan Loss Provision to Non Performing Assets} = \frac{\text{Loan Loss Provision}}{\text{Non Performing Assets}}$$

H) Net Profit to Non performing Assets

The ratio indicates the proportion of the return over the Non Performing Loan. It describes how efficiently the bank has employed its resources in recovering its non-performing loan along with the interest. Higher the ratio indicates better performing of bank and lower non-performing assets. It is calculated as follows:

$$\textbf{Net Profit to Non Performing Assets} = \frac{\text{Net Profit}}{\text{Non Performing Assets}}$$

3.7 Statistical Tools

The analysis could not have been done without using the statistical tools. The following statistical tools have been effectively utilized for data analysis.

A) Mean

Arithmetic mean or simply a mean of a set observations is the sum of all the observations divided by the number of observation Arithmetic mean is also known as the arithmetic average.
Let x1, x2, x3,…………xn be the n values of the variable then their arithmetic mean be denoted by x is defined by,

$$x = \frac{x1 + x2 + x3 + \dots\dots + xn}{n}$$

where, n is the number of observation.

B) Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawbacks present in other measure of dispersion are removed. It is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion. Karl person introduced the concept of standard deviation in 1823 and denoted it by small Greek letter 'σ'called sigma.

C) Coefficient of Variation

The coefficient of dispersion based on standard deviation multiplied by 100 is known as the Coefficient of Variation (C.V). Less the C.V, more will be the uniformity and more the C.V, less will be the uniformity. If x be the arithmetic mean and s.d the standard deviation of the distribution, then the C.V is defined by,

Coefficient of Variation (C.V) = $\frac{\sigma}{x}$

D) Karl Pearson's Correlation Coefficient (r)

Correlation coefficient may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. It is denoted by small r and is expressed as,

Correlation Coefficient (r) = $\frac{\sum(\boldsymbol{x}-\overline{\boldsymbol{x}})(\boldsymbol{y}-\overline{\boldsymbol{y}})}{\sqrt{\sum(\boldsymbol{x}-\overline{\boldsymbol{x}})^2\ \boldsymbol{X}(\boldsymbol{y}-\overline{\boldsymbol{y}})^2}}$

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies, the negative correlation and in plus signifies the positive correlation. If,

$r = 0$, there is no relationship between the variables
$r < 0$, there is negative relationship between the variables
$r > 0$, there is positive relationship between the variables
$r = 1$, relationship is perfectly positive
$r = -1$, relationship is perfectly negative

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Data presentation and Analysis

In this chapter, data are presented and analysed systematically to fulfill the objectives of the study. Inferences are made according to objectives stated in first chapter with relevant tables, figures and charts to make the data more understandable. Different arithmetical and statistical tools are used to analyse the data. In this chapter, efforts have been made to present and analyse the collected data.

Nowadays, Non-Performing Assets have been occupying major space in bank's total assets and total loan. It stands around 18% in Nepalese banking sectors. Keeping this fact into the consideration, a provision has set by Nepal Rastra Bank in F/Y 2057/58 to control the level of NPAs of Nepalese Commercial Banks. According to that provision, every commercial bank has to classify its total loan and advances (including bills purchased and discounted) as pass loan, substandard loan, Doubtful loan and loss/Bad loan on the basis of overdue again schedule. NRB's directives for commercial banks 2061/62 direct commercial banks to maintain loan loss provision to find out and control the level of NPA in Nepalese commercial banks to maintain loan loss provision to find out and control the level of NPA in Nepalese commercial banks in future.

In this category of loan, pass loan is called performing assets and others i.e. substandard, Doubtful and loss loan are called Non-Performing Assets.

Data for five fiscal years have been presented starting from F/Y 2007/08 to 2011/2012 to study and analyse the level of NPA. In this chapter conclusion is drawn regarding position of NPA of sample banks, various factors contributing for NPA, impacts of NPA on profitability and other suggestive measures for the management and mitigation of NPAs. To study about NPA ratio, analysis, trend analysis, correlation analysis and opinion survey analysis is done.

4.1.1 Analysis of Loan & Advance, NPA & Net Profit

In this chapter the loan and advances, NPA and Net Profit trend and its level are analysed of the all selected joint venture banks.

Table 4.1: Loan & Advances, Net Profit and NPA of SCBNL

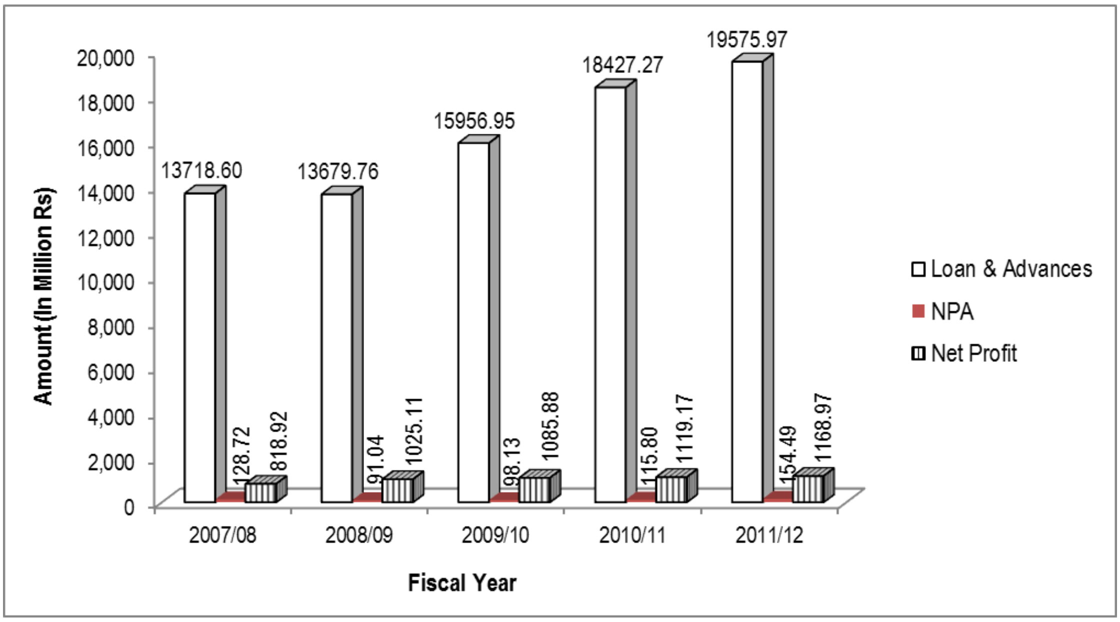
(In Million Rs)

FY	2007/08	2008/09	2009/10	2010/11	2011/12
Loan & Advances	13718.60	13679.76	15956.95	18427.27	19575.97
NPA	128.72	91.04	98.13	115.80	154.49
Net Profit	818.92	1025.11	1085.88	1119.17	1168.97
NPA / L & A (%)	0.94	0.67	0.61	0.63	0.79

Source: Annual Reports of SCBNL

SCBNL has increasing trend in the loan and advances. It is one of the largest lenders in Nepal. Whereas its NPA ratio is in fluctuation trend over the study period. It has improved a lot in the quality of the loan & advances. The NPA ratio to total loan and advances ratio has dropped to 0.79%

Figure 4.1: Loan & Advances, Net Profit and NPA of SCBNL



The figure depicts the level of Loan and Advances, the level of Non-Performing Assets and the Net Profit of SCBNL during the 5 years of study period.

Table 4.2: Loan & Advances, Net Profit and NPA of NABIL

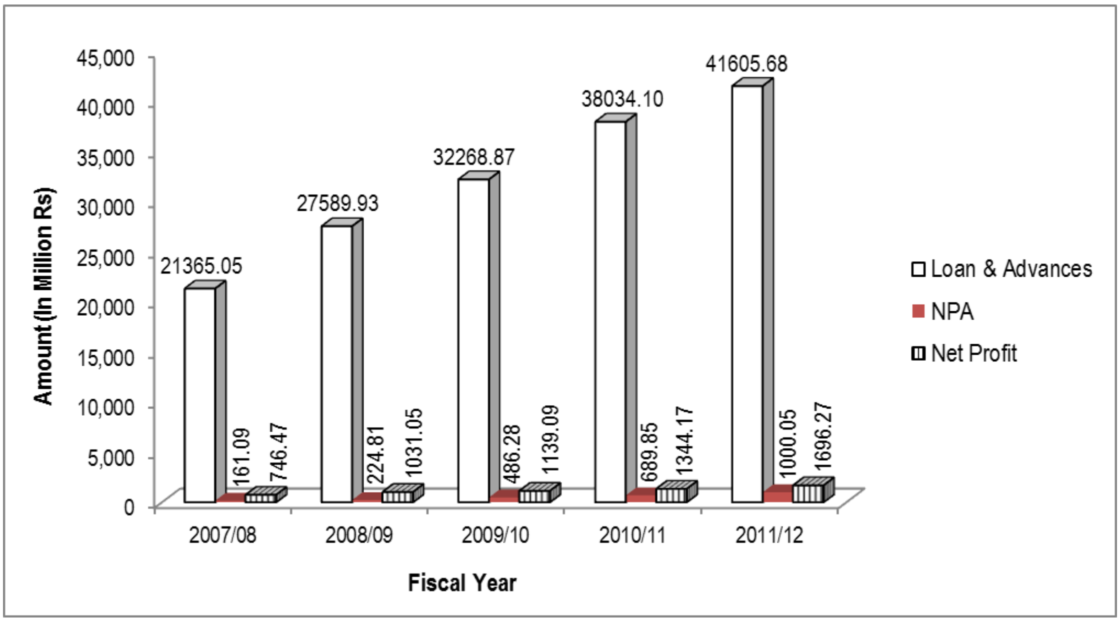
(In Million Rs)

FY	2007/08	2008/09	2009/10	2010/11	2011/12
Loan & Advances	21365.05	27589.93	32268.87	38034.10	41605.68
NPA	161.09	224.81	486.28	689.85	1000.05
Net Profit	746.47	1031.05	1139.09	1344.17	1696.27
NPA / L & A (%)	0.75	0.81	1.51	1.81	2.40

Source: Annual Reports of NABIL

Nabil is one the successful JVBs in Nepal. Likewise, SCBNL it is one of the largest lender in Nepal. The loan and advances are in increasing trend during the whole study period. Comparatively, its loan and advances are higher than SCBNL. We can say it is better in its lending procedures than SCBNL. It's NPA and Net Profit is in fluctuating trend over the study period. In FY 2007/08 its NPA was 161.09 million and in recent year it is 1696.27 million. In FY 2007/08 its net profit was 746.47 million which has increased to 1696.27 million in FY 2011/12.

Figure 4.2: Loan & Advances, Net Profit and NPA of NABIL



The above figure 4.2 shows the level of Loan & Advances, the level of NPA and the trend of the Net Profit of NABIL Bank Ltd.

Table 4.3: Loan & Advances, Net Profit and NPA of HBL

(In Million Rs)

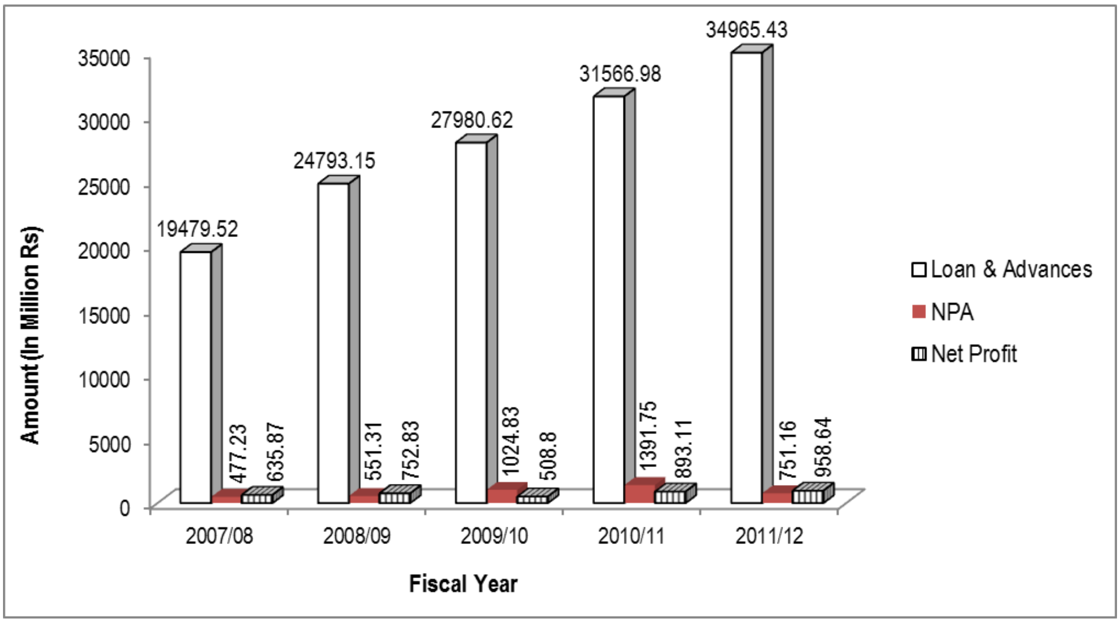
FY	2007/08	2008/09	2009/10	2010/11	2011/12
Loan & Advances	19479.52	24793.15	27980.62	31566.98	34965.43
NPA	477.23	551.31	1024.83	1391.75	751.16
Net Profit	635.87	752.83	508.80	893.11	958.64
NPA / L & A (%)	2.45	2.22	3.66	4.41	2.15

Source: Annual Reports of HBL

HBL has increasing trend in the loan and advances where as its NPA is in fluctuating trend. HBL is aggressive in the sanction of loan. It is one of the highest lending banks in Nepal. But its loan quality is not satisfactory compared to other commercial banks operating in Nepal. It has to do a lot to improve the quality of the loan & advances. Its NPA has dropped to 2.15 in the FY 2011/12 from 2.45% in the FY 2007/08. The loan amount has increased from the 19479.52 million in 2007/08 to 34965.43 million in FY 2011/12.

HBL earned 635.87 million in FY 2007/08. In FY 2011/12 its net profit is 958.64 million which is comparatively higher than last year. It will be able to reduce its NPA and collect the NPL the net profit will go very high in the coming years.

Figure 4.3: Loan & Advances, Net Profit and NPA of HBL



The above figure 4.3 depicts the level of Loan and Advances, the level of NPA and the trend of the Net Profit of Himalayan Bank Limited.

4.1.2 Analysis of Total Assets, Total Loan and Total NPA

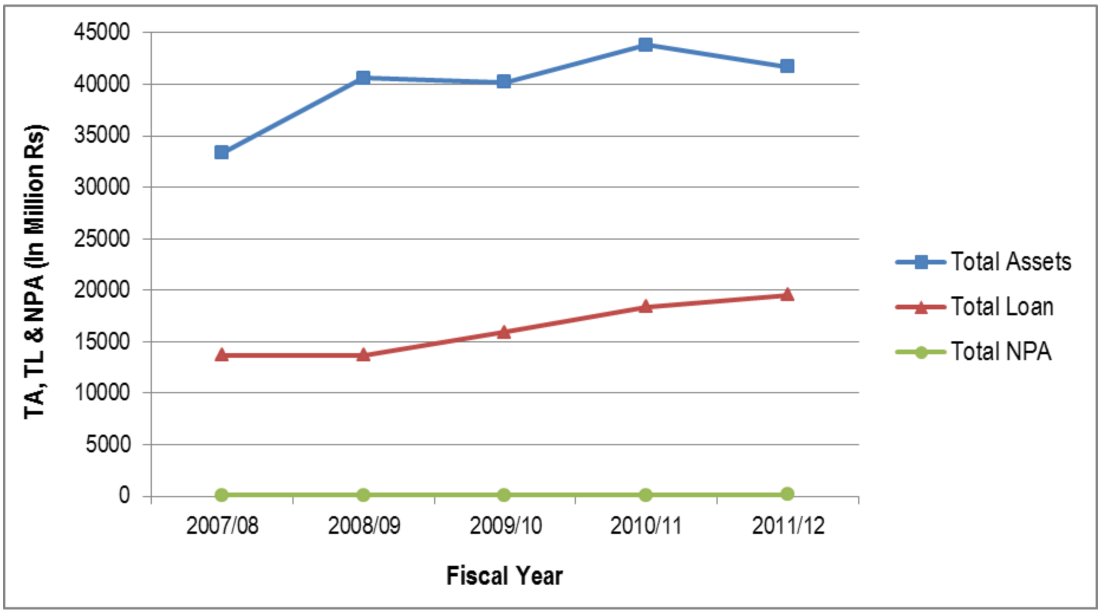
Table 4.4: Total Assets, Total Loan and Total NPA of SCBNL

(In Million Rs)

Fiscal Year	Total Assets	Total Loan	Total NPA
2007/08	33335.79	13718.60	128.72
2008/09	40587.47	13679.76	91.04
2009/10	40213.32	15956.95	98.13
2010/11	43810.52	18427.27	115.80
2011/12	41667.05	19575.97	154.49

Source: Annual Reports of SCBNL

Figure 4.4: Total Assets, Total Loan and Total NPA of SCBNL



From the above table 4.4 & figure 4.4, we can depict that total assets of the bank is in fluctuating trend. Likewise, total loan of the bank also is in increasing trend and Non Performing Assets of the SCBNL decreases to 91.04 from 128.72 (i.e. F/Y 2007/08 to 2008/09).Then after it is in increasing trend.

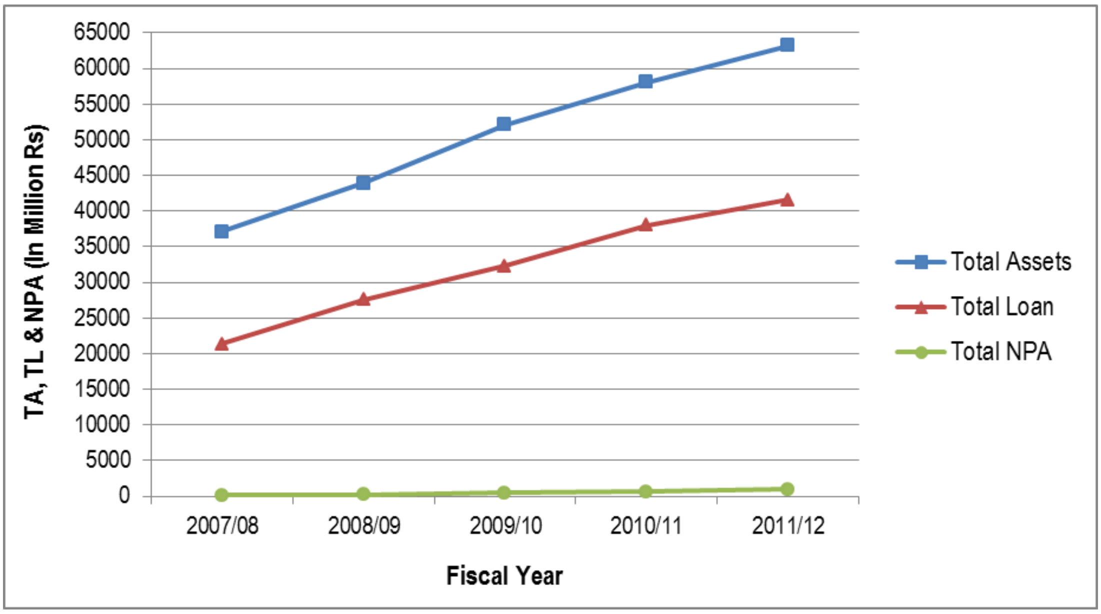
Table 4.5: Total Assets, Total Loan and Total NPA of NABIL

(In Million Rs)

Fiscal Year	Total Assets	Total Loan	Total NPA
2007/08	37132.76	21365.05	161.09
2008/09	43867.40	27589.93	224.81
2009/10	52079.72	32268.87	486.28
2010/11	58099.62	38034.09	689.85
2011/12	63200.29	41605.68	1000.05

Source: Annual Reports of NABIL

Figure 4.5: Total Assets, Total Loan and Total NPA of NABIL



From the above table 4.5 and figure 4.5, we can say that total assets, total loan & NPA of the bank is in increasing trend which is higher than that of SCBNL .NABIL should give concentration in reducing NPAs.

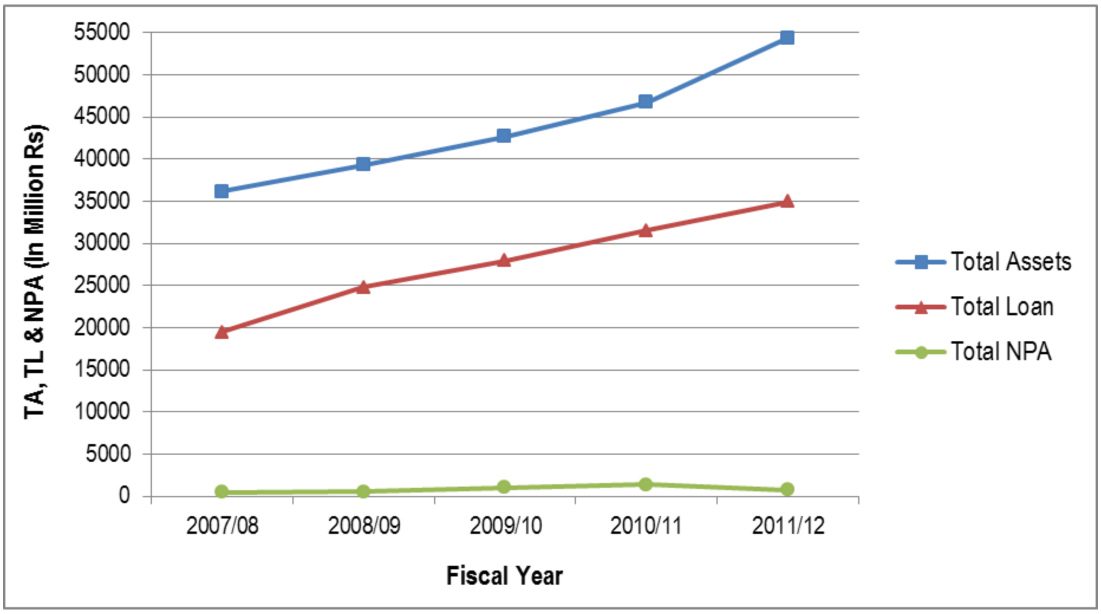
Table 4.6: Total Assets, Total Loan and Total NPA of HBL

(In Million Rs)

Fiscal Year	Total Assets	Total Loan	Total NPA
2007/08	36175.53	19497.52	477.23
2008/09	39320.32	24793.15	551.31
2009/10	42717.12	27980.62	1024.83
2010/11	46736.20	31566.98	1391.75
2011/12	54364.43	34965.43	751.16

Source: Annual Reports of HBL

Figure 4.6: Total Assets, Total Loan and Total NPA of HBL



The above table 4.6 & figure 4.6 reveals that the TA of HBL is in increasing trend over the study period. Similarly the total loan and advances are in increasing trend but NPA is in fluctuating trend over the study period. It was decreasing till 2008/09 and then in increasing trend in 2010/11.

4.1.3 Non Performing Assets to Performing Loan

This ratio measures the representation of Non-Performing Assets on the Performing Loan of the bank. The lower the ratio of Non-Performing Assets to Performing Loan, the better will be the loan management. The ratio of Non-Performing Assets to Performing Loan of SCBNL, NABIL and HBL from the fiscal year 2007/08 to 2011/12 is presented in Table 4.7.

Table 4.7: Non Performing Assets to Performing Loan

(In Million Rs)

FY	SCBNL			NABIL			HBL		
	NPA	PL	Ratio	NPA	PL	Ratio	NPA	PL	Ratio
2007/08	128.72	13835.26	0.93	161.09	21598.37	0.75	477.23	19702.38	2.42
2008/09	91.04	13789.66	0.66	224.81	27774.19	0.81	551.31	24968.21	2.21
2009/10	98.13	16078.47	0.61	486.28	32544.69	1.49	1024.83	28098.92	3.65
2010/11	115.80	18546.67	0.62	689.85	38215.63	1.81	1391.75	31576.52	4.41
2011/12	154.49	19674.02	0.79	1000.05	41867.71	2.39	751.16	35217.31	2.13
Mean			0.72			1.45			2.96

Source: Annual Reports of SCBNL, NABIL & HBL

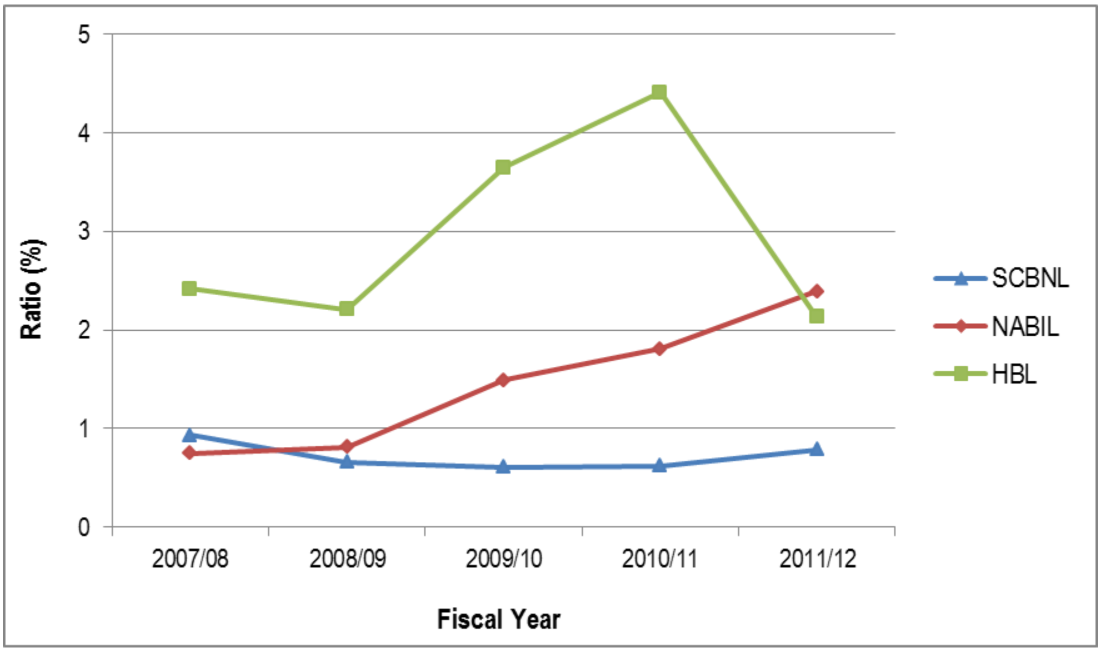
The Table 4.7 has depicted the ratio of Non-Performing Assets to Performing Loan of sampled banks. Above table shows that the ratio of Non-Performing Assets to Performing Loan of SCBNL is in decreasing trend up to 0.61 and increases then after. Similarly, in average the Non-Performing Asset has represented only 0.72% of Performing Loan.

Likewise, the Ratio of NABIL has followed increasing trend i.e. from 0.75 to 2.39. In average, the Non-Performing Assets have represented 1.45% of the Performing Loan.

Also, the ratio of HBL is in fluctuating trend. First it decreases from 2.42 to 2.21, then after it increases from fiscal year 2009/10to 2010/11 and again in 2011/12 it falls to 2.13. In average, the Non-Performing Asset has represented 2.96% of the Total Performing Loan.

Comparing three JVBs on the basis of average Non-Performing Assets to Performing Loan, it can be concluded that the chances of turning Total Loans and Advances in Non-Performing Loan is the lowest in SCBNL than in NABIL and HBL, as the ratio of Non-Performing Assets to Performing Loan of SCBNL is 0.72% which is lower than that of NABIL (1.45%) and HBL (2.96%).

Figure 4.7: Non Performing Assets to Performing Loan



4.1.4 Non Performing Assets to Total Assets

The ratio measures the coverage of Non-Performing Assets to Total Assets of the organization. The higher the ratio indicates higher maintenance of risky assets, as the recovery of Non-Performing Assets is uncertain. The Non-Performing Assets to Total

Assets of SCBNL, NABIL and HBL for the five fiscal year periods taken for study are presented in Table 4.8.

Table 4.8: Non Performing Assets to Total Assets

(In Million Rs)

FY	SCBNL			NABIL			HBL		
	NPA	TA	Ratio	NPA	TA	Ratio	NPA	TA	Ratio
2007/08	128.72	33335.79	0.39	161.09	37132.76	0.43	477.23	36175.53	1.32
2008/09	91.04	40587.47	0.22	224.81	43867.40	0.51	551.31	39320.32	1.40
2009/10	98.13	40213.32	0.24	486.28	52079.72	0.93	1024.83	42717.12	2.40
2010/11	115.80	43810.52	0.26	689.85	58099.62	1.19	1391.75	46736.20	2.98
2011/12	154.49	41667.05	0.37	1000.05	63200.29	1.58	751.16	54364.43	1.38
Mean			0.30			0.93			1.90

Source: Annual Reports of SCBNL, NABIL & HBL

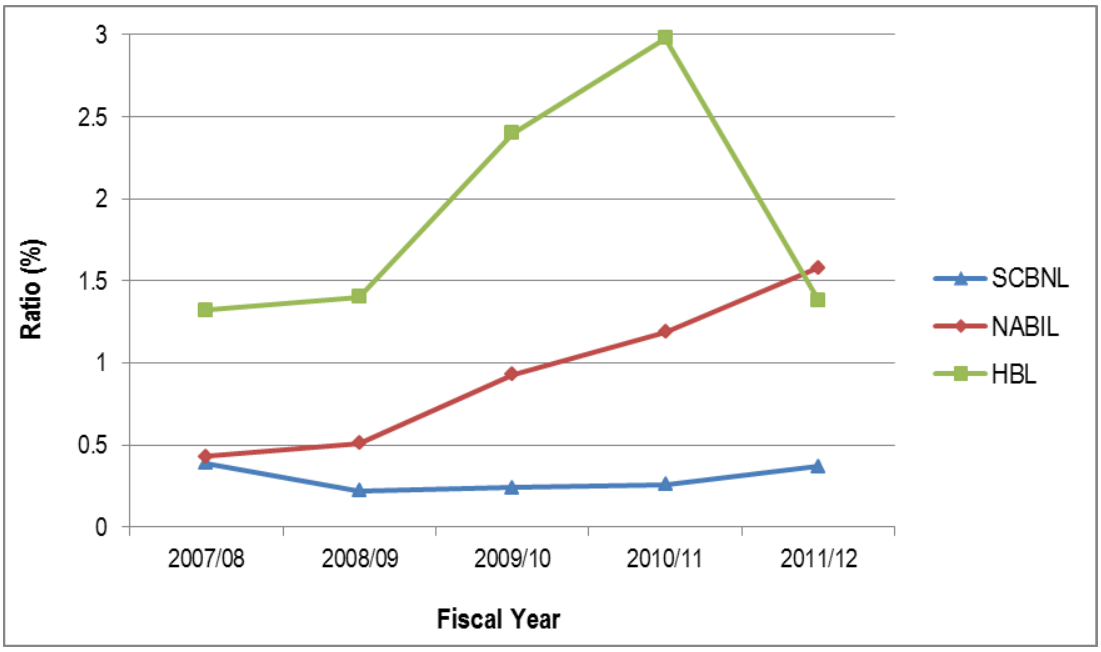
The Table 4.8 shows the ratio of Non-Performing Assets to Total Assets. The table has depicted that the ratio of NPA to Total Assets of SCBNL decreases from 0.39 to 0.22 which is a good indicator of loan management, especially in case of loan recovery, then after it increases from 0.24 to 0.37 during F/Y 2009/10 to 2011/12. In average, SCBNL has maintained the ratio of 0.30% in the five year periods.

Similarly, the ratio of Non-Performing Assets to Total Assets of NABIL is in increasing trend. In average, 0.93% of the Total assets of NABIL are covered by Non-Performing Assets.

Likewise, except in the fiscal year 2011/12, the ratio of Non-Performing Assets to Total Assets of HBL is in increasing trend. The ratio is 1.32%, 1.40%, 2.40%, 2.98% and 1.38% in FY 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, 1.90% of Total Assets are represented by NPA of HBL.

Comparing these three JVBs on the basis of NPA to Total Assets, it can be considered that the SCBNL is the best in comparison to that of NABIL and HBL, since the average ratio of SCBNL is 0.30% which is the least than that of NABIL (0.93%) and HBL (1.90%).

Figure 4.8: Non Performing Assets to Total Assets



4.1.5 Non-Performing Assets to Total Deposits

The Non-Performing Assets to Total Deposit measure the mobility of Total Deposit in Non-Performing Assets. The higher ratio indicates higher misuse of Total Deposits. The ratio of SCBNL, NABIL and HBL for the five fiscal years period is presented in Table 4.9.

Table 4.9: Non Performing Assets to Total Deposit

(In Million Rs)

FY	SCBNL			NABIL			HBL		
	NPA	TD	Ratio	NPA	TD	Ratio	NPA	TD	Ratio
2007/08	128.72	29744.00	0.43	161.09	31915.05	0.50	477.23	31842.79	1.50
2008/09	91.04	35871.72	0.25	224.81	37348.26	0.60	551.31	34682.31	1.59
2009/10	98.13	35182.72	0.28	486.28	46410.70	1.05	1024.83	37611.20	2.72
2010/11	115.80	37999.24	0.30	689.85	49696.11	1.39	1391.75	40920.63	3.40
2011/12	154.49	35965.63	0.43	1000.05	55023.70	1.82	751.16	47731.00	1.57
Mean			0.34			1.07			2.16

Source: Annual Reports of SCBNL, NABIL & HBL

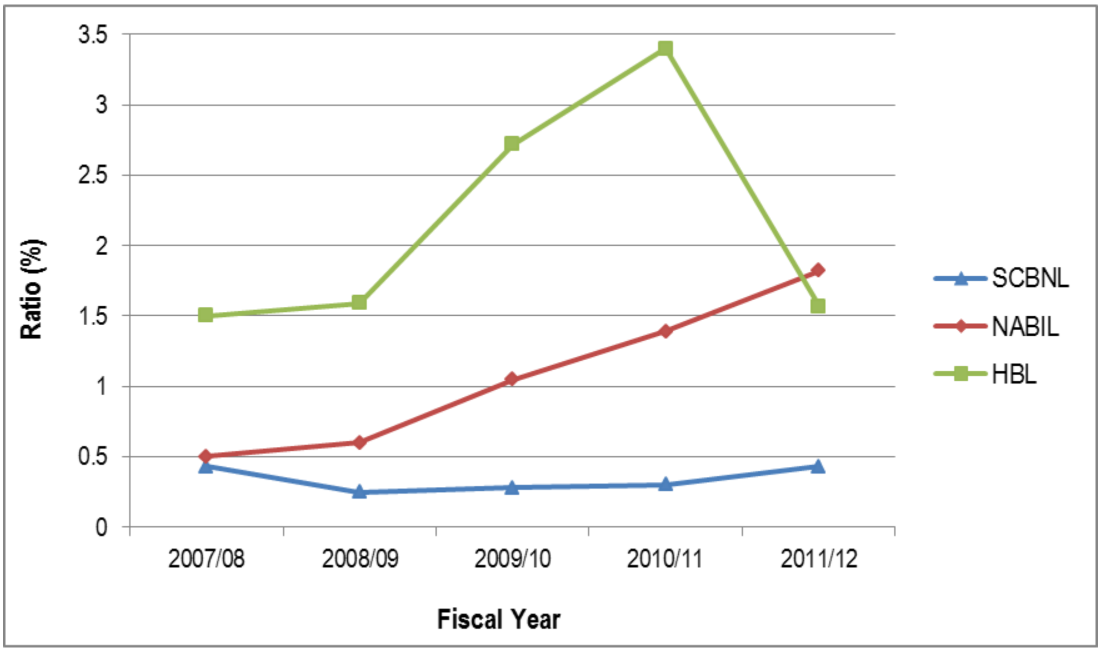
The Table 4.9 has delineated the coverage of Non-Performing Assets on Total Deposit. The table shows that ratio declines from fiscal year 2007/08 to 2008/09 (i.e. 0.43 to 0.25) and then after it increases from fiscal year 2009/10 to 2011/12 (i.e. 0.28 to 0.43). In average, SCBNL has mobilized 0.34% of its Total Deposit in Non-Performing Assets.

Similarly, the ratio of Non-Performing Assets to Total Deposit of NABIL is in increasing trend. In average, the ratio of Total Deposit mobilization in Non-Performing Assets is 1.07% in NABIL.

Likewise, except in the fiscal year 2011/12, the ratio of Non-Performing Assets to Total Deposit of HBL is in increasing trend. The ratio is 1.50%, 1.59%, 2.72%, 3.40% and 1.57% in FY 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, 2.16% of Total Deposits are represented by NPA of HBL.

Comparing three sampled banks on the basis of Non-Performing Assets to Total Deposit, it can be concluded that the Total Deposit of SCBNL has been effectively utilized in higher secured sector than that of NABIL and HBL, as the ratio of Non-Performing Assets to Total Deposit of SCBNL is 0.34% which is the least in comparison to that of NABIL (1.07%) and HBL (2.16%).

Figure 4.9: Non Performing Assets to Total Deposit



4.1.6 Net Profit to Non-Performing Assets

This ratio shows the relationship of Non-Performing Assets with the Net Profit of the company. The higher the Non-Performing Assets, the lower will be the Net Profit. The Net Profit to Non-Performing Assets of SCBNL, NABIL and HBL for the five years period are presented in the table 4.10.

Table 4.10: Net Profit to Non-Performing Assets

(In Million Rs)

FY	SCBNL			NABIL			HBL		
	NP	**NPA**	**Ratio**	**NP**	**NPA**	**Ratio**	**NP**	**NPA**	**Ratio**
2007/08	818.92	128.72	636.20	746.47	161.09	463.39	635.87	477.23	133.24
2008/09	1025.11	91.04	1126.00	1031.05	224.81	458.63	752.83	551.31	136.55
2009/10	1085.88	98.13	1106.57	1139.09	486.28	234.25	508.80	1024.83	49.65
2010/11	1119.17	115.80	966.47	1344.17	689.85	194.85	893.11	1391.75	64.17
2011/12	1168.97	154.49	756.66	1696.27	1000.05	169.62	958.64	751.16	127.62
Mean			918.38			304.15			102.25

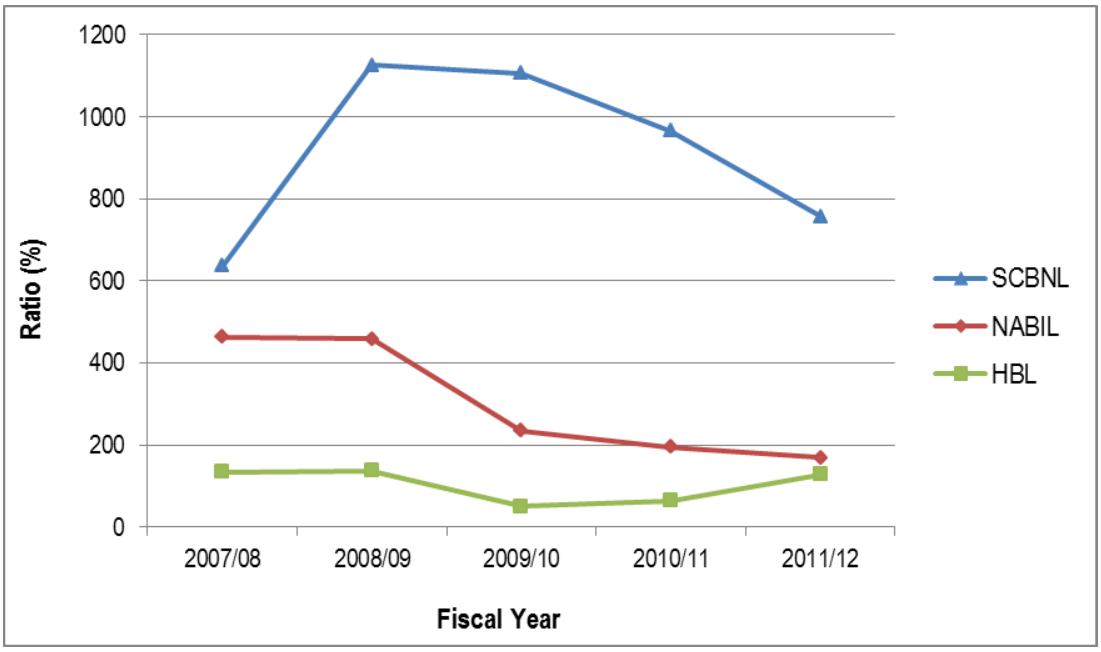
Source: Annual Reports of SCBNL, NABIL & HBL

The table 4.10 represents the ratio of Net Profit to Non-Performing Assets. The table shows that the ratio of SCBNL increases from 636.20 to 1126.00 during fiscal year 2007/08 to 2008/09. After 2008/09 it starts falling. In average, the Net Profit has represented 918.38% of the Non-Performing Assets.

Likewise in NABIL, the Net Profit amount is in increasing trend, whereas the ratio of Net Profit on Non-Performing Assets is in decreasing trend. In average, the Net Profit represented 304.15% of the total Non-Performing Assets.

However in HBL, the Net Profit increases from 635.87 million to 752.83 million during the FY 2007/08 to 2008/09. Net Profit decreases to 508.80 million in 2009/10. From 2010/11, NP starts increasing. Similarly, the ratio of HBL increases from 133.24% to 136.55% during the FY 2007/08 to 2008/09. Ratio decreases to 49.65% in 2009/10, then after ratio starts increasing from 2010/11. And in average, the Net Profit of HBL represented 102.25% of the total Non-Performing Assets.

Figure 4.10: Net Profit to Non Performing Assets



4.1.7 Loan Loss Provision to Non-Performing Assets

The Non-Performing Assets is considered much risky than the Performing Loan and finally affects the financial performances of the company. This, to remain secure each bank has to keep more portions of the Non-Performing Assets, 25% of sub-standard loan, 50% of doubtful loan and 100% of Loan Loss Provision. The Loan Loss Provision to Non-Performing Assets measures the aggregate representation of loan provision on Non-Performing Assets. The ratio of SCBNL, NABIL and HBL for the five year periods is presented in the table 4.11.

Table 4.11: Loan Loss Provision to Non-Performing Assets

(In Million Rs)

FY	SCBNL			NABIL			HBL		
	LLP	NPA	Ratio	LLP	NPA	Ratio	LLP	NPA	Ratio
2007/08	245.39	128.72	190.64	394.41	161.09	244.84	682.09	477.23	142.93
2008/09	200.95	91.04	220.73	409.08	224.81	181.97	726.36	551.31	131.75
2009/10	219.63	98.13	223.82	762.09	486.28	156.72	1143.12	1024.83	111.54
2010/11	235.21	115.80	203.12	871.39	689.85	126.32	1401.29	1391.75	100.69
2011/12	252.54	154.49	163.47	1262.08	1000.05	126.20	1003.03	751.16	133.53
Mean			200.35			167.21			124.09

Source: Annual Reports of SCBNL, NABIL & HBL

The table 4.11 depicts the ratio of Loan Loss Provision on Non-Performing Assets. The table outlines that the ratio of Loan Loss Provision on Non-Performing Assets of

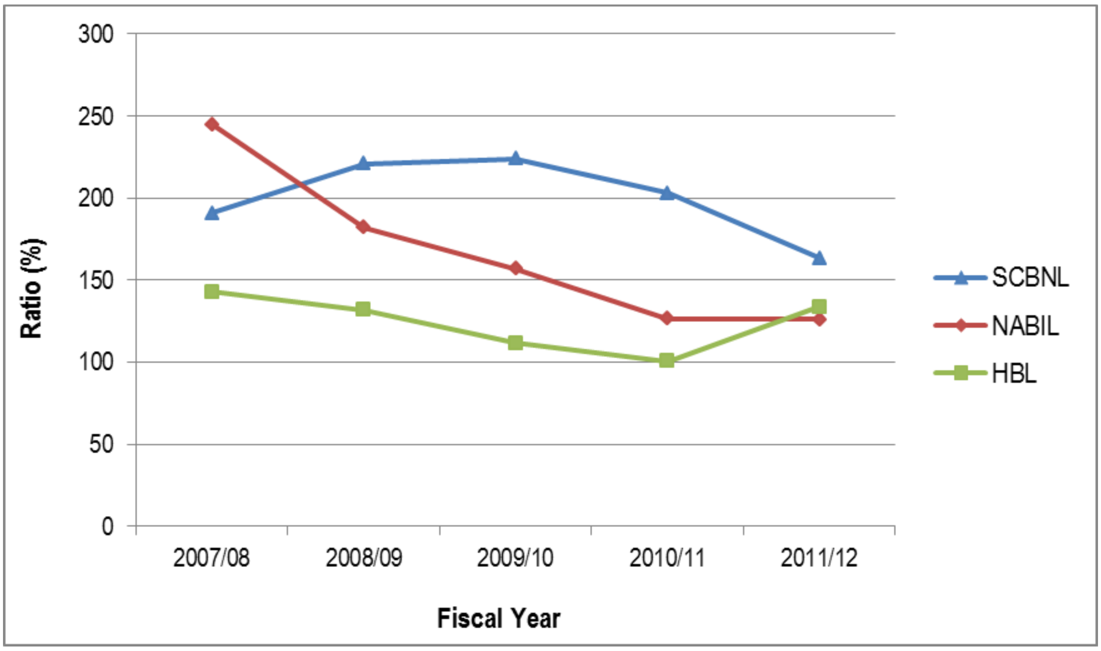
SCBNL has increased in first three years (i.e. from 190.64% to 223.82%), then after it decreases from 203.12 to 163.47 during the FY 2010/11 to 2011/12. The Loan Loss Provision kept is 190.64%, 220.73%, 223.82%, 203.12% and 163.47% of the total Non-Performing Assets in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, SCBNL has provisioned 200.35% of the Non-Performing Assets as Loan Loss Provision.

Similarly, the ratio of Loan Loss provision to Non-Performing Assets kept by NABIL is in decreasing trend. In average, NABIL has kept 167.21%.

Likewise, except 2011/12 the ratio of HBL is in decreasing trend. In fiscal year 2011/12 ratio has increased from 100.69 to 133.53. Its average ratio is 124.09.

Comparing the JVBs, it can be concluded that SCBNL has remained most secured from Non-Performing Assets in comparison to NABIL and HBL, since the Loan Loss Provision to Non-Performing Assets of SCBNL is 200.35%, which is the highest in comparison to that of NABIL (167.21%) and HBL (124.09%).

Figure 4.11: Loan Loss Provision to Non Performing Assets



4.1.8 Loan Loss Provision to Total Loan and Advances

As per the direction of NRB, each bank has kept 1% of the pass loan, 25% of the sub-standard loan, 50% of the doubtful loan and 100% of the loss loan as provision. The Loan Loss Provision to total Loan and Advances measures the aggregate provision kept by the bank. The loan loss to total Loans and Advances of SCBNL, NABIL and HBL for the five consecutive years is presented in table 4.12.

Table 4.12: Loan Loss Provision to Total Loan & Advances

(In Million Rs)

FY	SCBNL			NABIL			HBL		
	LLP	LA	Ratio	LLP	LA	Ratio	LLP	LA	Ratio
2007/08	245.39	13718.60	1.79	394.41	21365.05	1.85	682.09	19497.52	3.50
2008/09	200.95	13679.76	1.47	409.08	27589.93	1.48	726.36	24793.15	2.93
2009/10	219.63	15956.95	1.38	762.09	32268.87	2.36	1143.12	27980.62	4.09
2010/11	235.21	18427.27	1.28	871.39	38034.09	2.29	1401.29	31566.98	4.44
2011/12	252.54	19575.97	1.29	1262.08	41605.68	3.03	1003.03	34965.43	2.87
Mean			1.44			2.20			3.56

Source: Annual Reports of SCBNL, NABIL & HBL

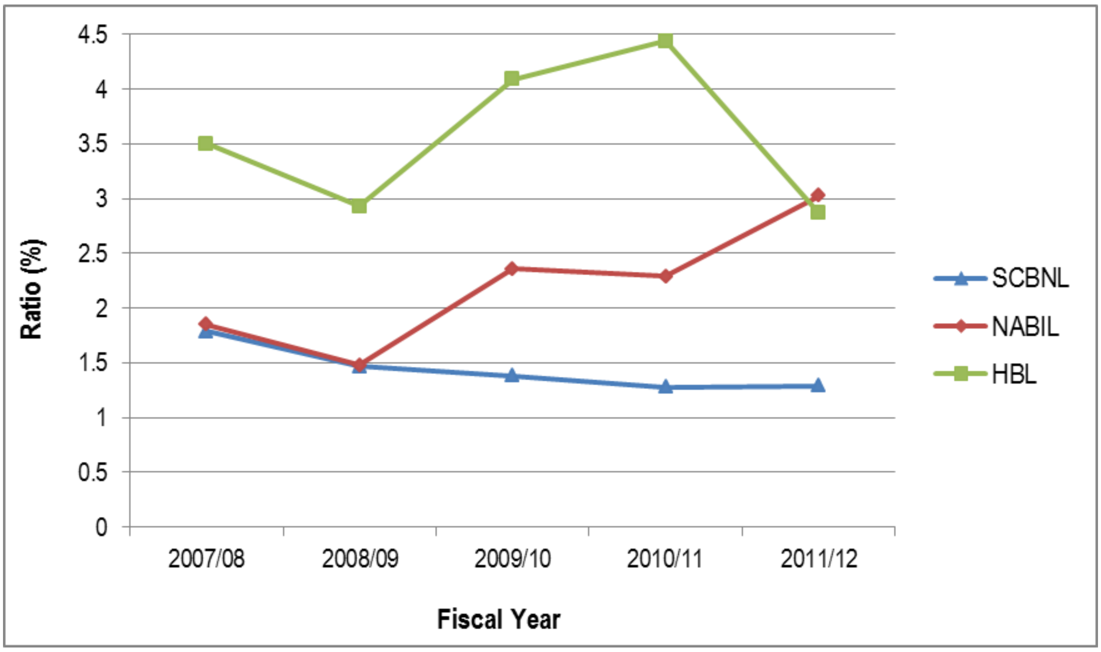
The table 4.12 shows the ratio of Loan Loss Provision kept on total loan. The table shows that the ratio of SCBNL has followed decreasing trend except fiscal year 2011/12. This might be due to good loan management policy adopted by the bank. The decreasing trend of ratio of Loan Loss Provision indicates that the amount of pass loan and restructured loan is comparatively higher than sub-standard, doubtful and loss loan in SCBNL. In average, SCBNL kept 1.44% of its total Loan Loss Provision.

Similarly, the ratio of Loan Loss Provision to Total Loan in NABIL has followed fluctuating trend. The ratio decreases from 1.85% to 1.48% during the fiscal year 2007/08 to 2008/09. It increases to 2.36% in 2009/10 then after again it decreases to 2.29% in fiscal year 2010/11. NABIL ratio is maximum of 3.03% in the last fiscal year 2011/12. In average, NABIL has maintained 2.20% of the Total Loan as Loan Loss Provision.

Likewise, the ratio of Loan Loss Provision to Total Loan in HBL has also followed the same fluctuating trend. The ratio decreases from 3.50% to 2.93% during the fiscal year 2007/08 to 2008/09, then after it increases to 4.09% and 4.44% during fiscal year 2009/10 and 2010/11. The ratio is the lowest(i.e. 2.87%) in 2011/12. HBL has kept 3.56% of the total Loan and Advances as Loan Loss Provision.

Comparing the banks on the basis of Loan Loss Provision to total loan disbursement, it can be concluded that SCBNL has better coverage of pass loans and restructure loan on total loan as the average ratio of Loan Loss Provision of SCBNL is 1.44% which is the lowest in comparison to that of NABIL (2.20%) and HBL (3.56%).

Figure 4.12: Loan Loss Provision to Total Loan & Advances



4.2 Correlation Analysis

In this section the relationship between Non-Performing Assets and Net Profit, NPA and Total Loan, Net Profit and Loan and Advances are analysed and the data and information are depicted. Correlation coefficient measure the relation between two or more variables. It also measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. The +1 coefficient indicates that the variables are perfectly positively correlated and -1 coefficient indicates that variables are perfectly negatively correlation and if the correlation coefficient is 0, it means that the variables are not related to each other.

The negative correlation indicates that the increase in value of one variable leads to decrease in the value of the others variables. The positive correlation indicates that their increase in the value of one variable leads to increase in the value of the other variable also. The number indicates the degree of correlation between the variables.

Correlation coefficient of different dependent and independent variables are tried to analyse to find out the relation of these variables in different years. The statistical tool correlation analysis is preferred in this study to identify relationship between NPA and Net Profit, NPA and Total Loan and Loan Loss Provisioning to find out whether the relationship is significant or not.

4.2.1 Correlation between NPA & Net Profit

The correlation between the ratio of NPA and Net Profit is analysed to find out what type of relationship does exist between these two entities of individual Joint Venture Banks.

Table 4.13: Correlation Coefficient between NPA & Net Profit

JVBS	SCBNL	NABIL	HBL
Correlation Coefficient	0.12	0.97	0.20

Source: Annex III

The correlation coefficient between the NPA and Net Profit of all the JVBs are positive. It means when the NPA is high the Net Profit will increase and when the NPA decrease the Net Profit decrease.

NABIL has the highest degree of correlation between the NPA and Net Profit i.e. (0.97) and similarly, HBL and SCBNL have 0.20 and 0.12 respectively.

4.2.2 Correlation Coefficient between NPA and Loan Loss Provision

Loan loss provisioning is the vehicle for adjusting the degradation of quality of loan which could arise from the reduction in quality of loan. In general more NPA means more amount of operating profit to set aside for loan loss provisioning resulting decrease in portion of net income. In other aspects, more loan loss provisioning reflects that adequate cushion is maintained to protect the banks from the loss of degradation of their loans. It is found that there + or – correlation between NPA and loan loss provisioning under study.

Table 4.14: Correlation Coefficient between NPA & Loan Loss Provision

JVBS	SCBNL	NABIL	HBL
Correlation Coefficient	0.93	0.99	0.98

Source: Annex III

The correlation coefficient between the NPA and LLP of all the JVBs are positive. It means the NPA and LLP have positive relationship.

From the above table 4.14 we can say that NPA and LLP of NABIL is highly positively correlated i.e. 0.99. It indicates that there is positive relationship between NPA and loan loss provisioning of NABIL. It means that when NPA level of the bank is increased loan loss provisioning is also increased and vice versa. NPA level seems to rise with the rise in the volume of loan loss provisioning.

4.2.3 Correlation coefficient between NPA & Total Loan

As the NPA is the part of loans which is not performing well, it is necessary to analyse the correlation between total loans and NPA. Positive correlation indicates that Non-Performing Assets are simultaneously increases with the increases of loan portfolio. Negative correlation indicates decrease in Non-Performing Assets even loan portfolio increases and vice versa.

Table 4.15: Correlation Coefficient between NPA & Total Loan

JVBS	SCBNL	NABIL	HBL
Correlation Coefficient	0.60	0.96	0.59

Source: Annex III

4.2.4 Comparative performing of sample joint Venture Banks

Table 4.16: Comparative performance of sample Joint Venture Banks

(In Million Rs)

FY	2010/11				2011/12			
JVBs	**L &A**	**NPA**	**NP**	**LLP**	**L & A**	**NPA**	**NP**	**LLP**
SCBNL	18427.27	115.80	1119.17	235.21	19575.97	154.49	1168.97	252.54
NABIL	38034.09	689.85	1344.17	871.39	41605.68	1000.05	1696.27	1262.08
HBL	31566.98	1391.75	893.11	1401.29	34965.43	751.16	958.64	1003.03

Source: Annual Reports of JVBs

In the FY 2010/11 and 2011/12, NABIL earned the highest Net Profit followed by the SCBNL, HBL has the lowest income earner among the sample Joint Ventures Banks in 2010/11 and 2011/12 and in the following year as well.

Loan Loss Provision is the fund set aside to minimize the effect of possible loan losses of the banks. The loan loss is directly related to NPA. Among the sample JVBs, SCBNL has the lowest NPA hence it has the lowest provision for loan loss. HBL which has the highest NPA in 2010/11, has the highest Loan Loss Provision. Due to high NPA large sum has to be set aside for provision, due to which its loan able fund decreases affecting its revenue. NABIL has the second highest amount set aside for Loan Loss Provision. Its NPA is also second highest after HBL. But due to its highest Loan and Advances its Profit is also high.

From the view point of Loan Loss Provision and NPA, SCBNL is the best among the sample JVBs. From the view point of Loan & Advances, NABIL is the best among all the JVBs in FY 2010/11 and in FY 2011/12 too.

4.3 Result Section of Questionnaire (Primary Data Analysis)

For the purpose of collecting primary data, a questionnaire having a set of 8 questions were prepared and presented to 40 respondents. The respondents were selected randomly from shareholders, Borrowers and Employees. The question 1 to 8 contained objective question. The targeted 40 respondents were composed by 10 shareholders, 15 borrowers and 15 employees. Out of 40 questions distributed, responses from only 32 personnel obtained, which represented 80% of the total populated questions. Among the 32 respondents, 9 were shareholders, 12 were borrowers and 11 were employee of SCBNL, NABIL and HBL.

4.3.1 Loan Floatation Basis

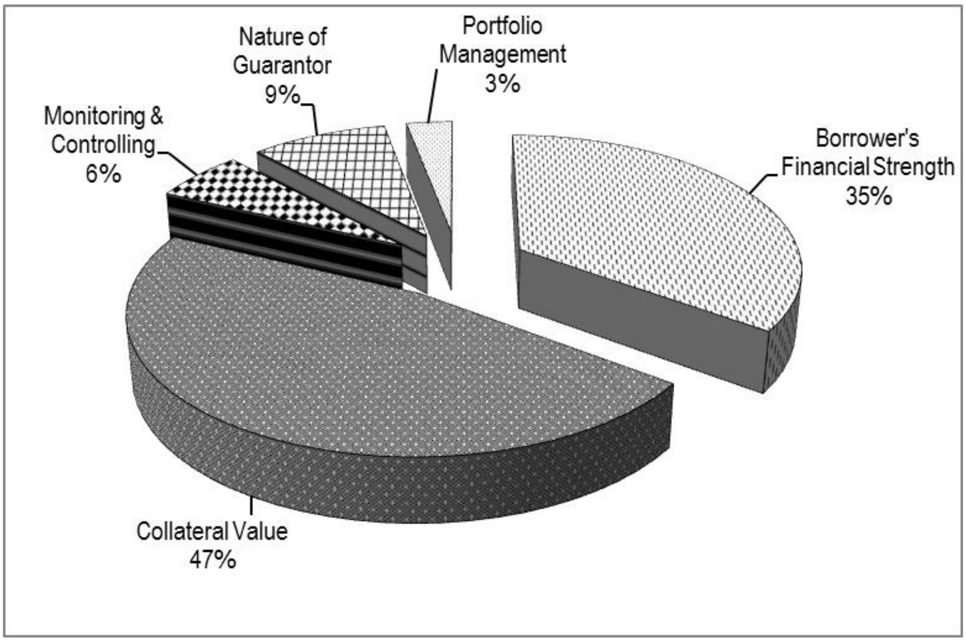
Table 4.17: Loan Floatation Basis

Basis	**Responses**			**Total**	
	Shareholder	**Borrower**	**Employee**	**Responses**	**%**
Borrower's Financial Strength	2	4	5	11	35
Collateral Value	4	6	5	15	47
Monitoring & Controlling	1	1	0	2	6
Nature of Guarantor	1	1	1	3	9
Portfolio Management	1	0	0	1	3
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

The table 4.17 shows that the majority of the respondents have stared that the collateral value should be given more consideration while disbursing loan. Out of the 32 respondents, 15 respondents (47%), have supported this option. Beside collateral value, 35% of the respondents, 11 out of 32, have opined that evaluation borrower's financial strength should be the main basis while floating loan. Similarly, 9% of the respondents (3 out of 32), 6% of the respondents (2 out of 32) and 3% of the respondents (1 out of 32) have affirmed that nature of guarantor, monitoring and controlling and portfolio of loan management respectively should be the main basis for loan floatation.

Figure 4.13: Loan Floatation Basis



4.3.2 Internal Reasons for Turning Bad Loan

To know the internal reasons that turn out the good loan into bad loan, the respondents have been asked on this regard. The responses obtained from the respondents have been presented in table 4.18.

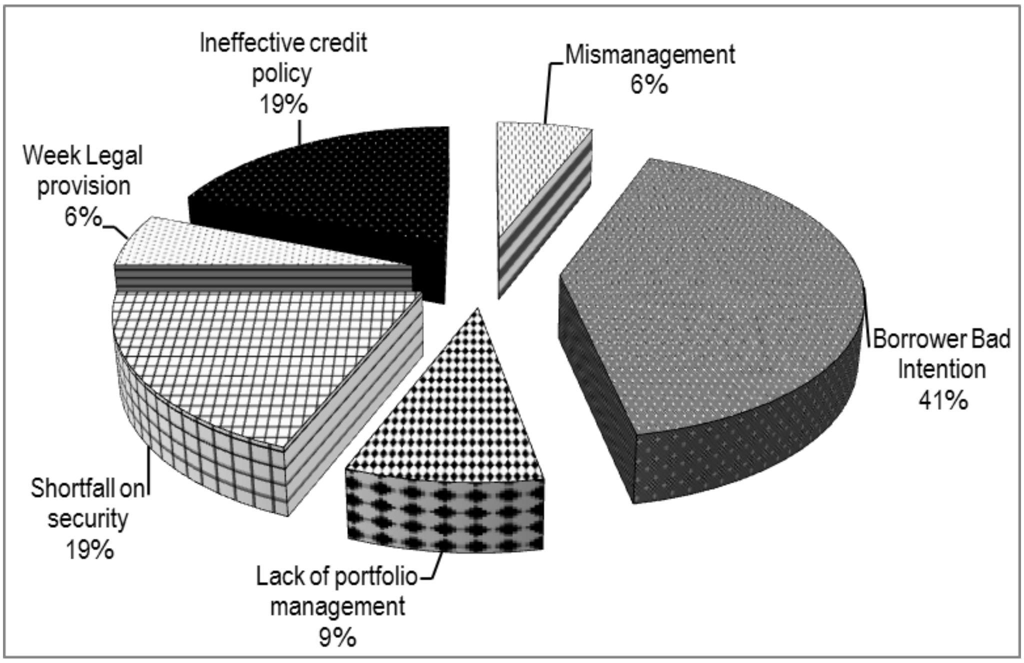
Table 4.18: Internal reasons for turning Bad loan

Basis	**Responses**			**Total**	
	Shareholder	**Borrower**	**Employee**	**Responses**	**%**
Mismanagement	1	0	1	2	6
Borrower Bad Intention	3	7	3	13	41
Lack of portfolio management	0	1	2	3	9
Shortfall on security	3	1	2	6	19
Week Legal provision	0	0	2	2	6
Ineffective credit policy	2	3	1	6	19
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

The table and figure shown that the majority of the respondents, 13 out of 32 (41%) have strongly affirmed that the bed intention of borrower turns the loan into bad loan. Similarly, 6 respondents (19%) have said that overvaluation of security and ineffective credit policy of the bank each is equally responsible for turning loan into bad loan. However, 3 respondents (9%) have stated that lack of good portfolio loan management is responsible for bad loan, while 2 respondents each (6%) opined that mismanagement and weak legal provisions are responsible for formation of bad loan. Considering the majority of each category,3 out of 9 shareholders, 7 out of 12 borrowers, 3 out of 11 employees and the overall majority, 13 out of 32 respondents, it can be concluded that the borrowers' bad intention is the major reason for turning bad loan.

Figure 4.14: Internal Reasons for Turning Bad Loan



4.3.3 External Reasons for Turning Bad Loan

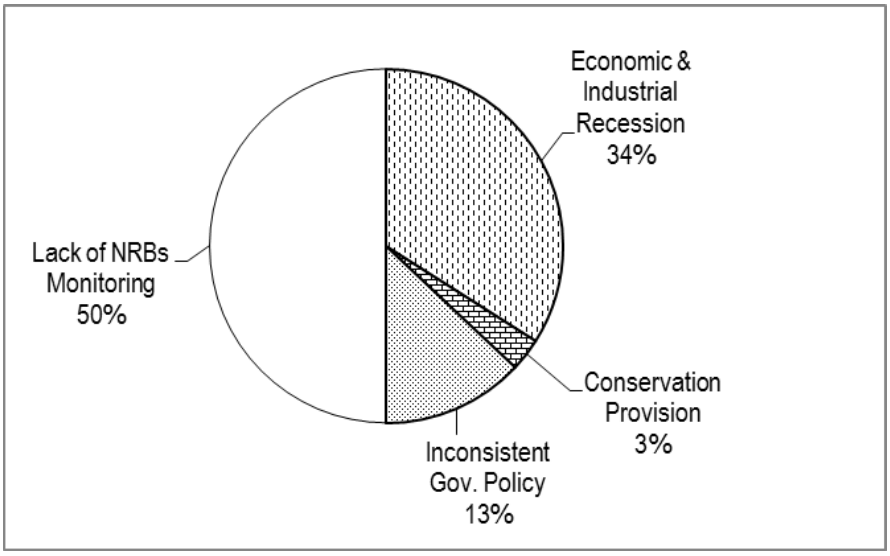
Similarly, to know the external reason that provokes the loan to turn into bad loan, the respondents have been asked to express their view. The responses obtained from them have been presented in the Table 4.19.

Table 4.19: External Reasons for Turning Bad Loan

Basis	**Responses**			**Total**	
	Shareholder	**Borrower**	**Employee**	**Responses**	**%**
Economic & Industrial Recession	3	5	3	11	34
Conservation Provision	0	1	0	1	3
Inconsistent Gov. Policy	1	2	1	4	13
Lack of NRBs Monitoring	5	4	7	16	50
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

Figure 4.15: External Reason for Turning Bad Loan



The table 4.19 and figure 4.15 shows that the majority of the respondents, 16 out of 32, half of the total respondents, have opined that the lack of NRBs monitoring and supervision is the main reason behind turning loan into bad loan. Likewise, 11 respondents, 34% of total respondents, have said that recession in economy and industry causes loan to turn bad. However, 3% of the respondents, 1 out of 32 and 13% of the respondents, 4 out of 32, have stated the conservative provision for loan and inconsistent government policy are the majority of the shareholders, 5 out of 9 and the majority of employee. 7 out of 11 have supported lack of NRBs proper monitoring and supervision are the main reason, while the majority of the borrowers have stated that economic and industrial recession is the main reason for bad loan. Eventually on the basis of overall majority it can be considered that lack of NRBs proper monitoring and supervision is the main external reason that causes loan to turn bad.

4.3.4 Sector Covering More Default Loan

To control the process of turning good loan into bad, it is essential to know the major sector defaulting loan. Hence to examine the major sector that covers more default loan, the respondents are asked to express their opinions. The responses achieved from them have been presented in the Table 4.20.

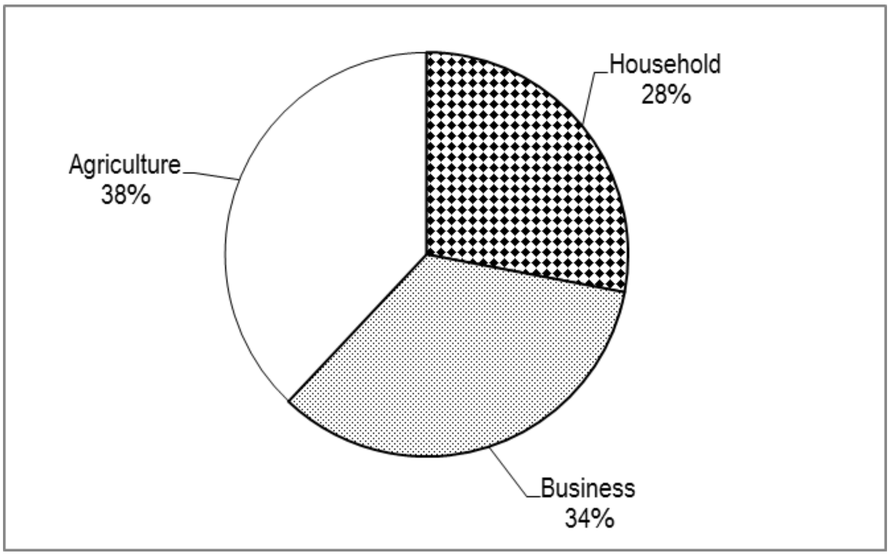
Table 4.20: Sector Covering More Default Loan

Basis	Responses			Total	
	Shareholder	**Borrower**	**Employee**	**Responses**	**%**
Household	2	4	3	9	28
Business	4	2	5	11	34
Agriculture	3	6	3	12	38
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

The table 4.20 depicts that the majority of the respondents, 12 out of 38, have pointed out that agricultural sector covers the more default loan. While, 34% of the respondents, 11 out of 32, have opined that business sector covers more default loan and 28% of the respondents, 9 out of 32, have stated that household covers more default loan. Similarly, looking each category the majority of the shareholders, 4 out of 9 and majority of the employees, 5 out of 11, strongly support that business sector covers more default loan. However, the majority of the borrowers, 6 out of 11, have said that agriculture sector covers more default loan. Eventually, considering the overall majority, 38% of the respondents, it can be concluded that agriculture sector is more risky while recovering loan than household and business sector.

Figure 4.16: Sector Covering More Default Loan



4.3.5 Effect of NPA on Financial Health of Bank

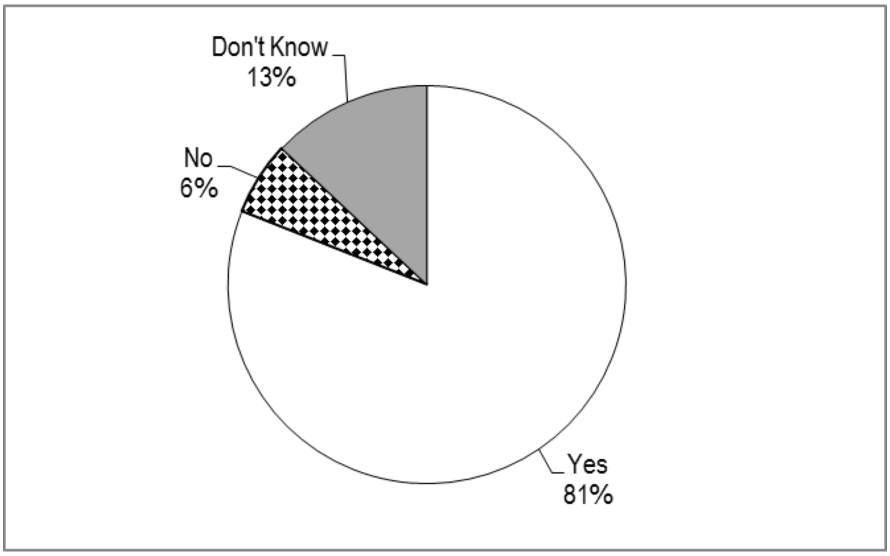
To investigate whether Non-Performing Assets actually affects the financial health of bank or not, the respondents are asked to opine their feeling the responses obtained through questionnaire are presented in the Table 4.21.

Table 4.21: Effect of NPA on Financial Health of Bank

Basis	Responses			Total	
	Shareholder	**Borrower**	**Employee**	**Responses**	**%**
Yes	8	8	10	26	81
No	1	1	0	2	6
Don't Know	0	3	1	4	13
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

Figure 4.17: Effect of NPA on Financial Health of Bank



Above table and figure delineates that the 81% of the respondents, 26 out of 32, are in the view that NPA has direct on the financial health of the bank, whereas only 6% of the respondents, 2 out of 32, are in the view that NPA has no effect in the financial health of the company, and 13% of the respondents, 4 out of 32, have remained neutral on this query, Also, the majority of each category, 8 out of 9 shareholders, 8 out of 12 borrowers and 10 out of 11 employees are in the view that NPA has direct impact on the financial performance of the company. So, embracing the majority of each category and the whole majority, it cannot be denies with the fact that NPA has direct influence on the financial health of the bank.

4.3.6 Degree of Effect of NPA on Banking Industry

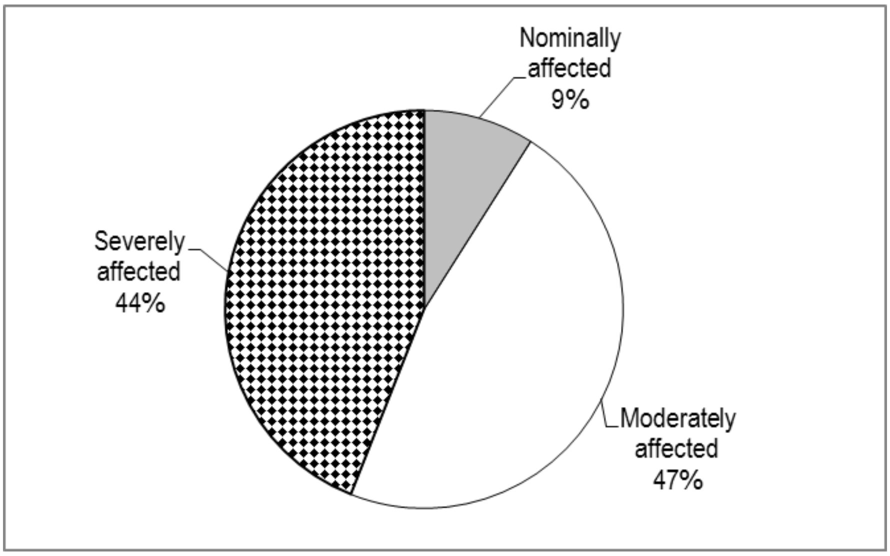
To know the degree of effect that NPA has on banking industry, the respondents are asked to express their view. The responses obtained from them have been presented in the table 4.22.

Table 4.22: Degree of Effect of NPA on Banking Industry

Basis	Responses			Total	
	Shareholder	Borrower	Employee	Responses	%
Not affected	0	0	0	0	0
Nominally affected	0	1	2	3	9
Moderately affected	6	4	5	15	47
Severely affected	3	7	4	14	44
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

Figure 4.18: Degree of Effect of NPA on Banking Industry



Above table and figure demonstrates that 47% of the respondents, 15 out of 32, have stated that the banking industry has been moderately affected by the problem of NPA. Similarly, 44% of respondents, 14 out of 32, have said that the problem of NPA has severe effect on the banking industry. Also, 9% of the respondents, 3 out of 32, have stated that the banking industry had been nominally affected by the problem of NPA. Looking each category, the majority of the shareholders, 6 out of 9 and the majority of the employees, 5 out of 11, have stated that banking industry has been moderately affected by NPA. However, the majority of the borrower, 7 out of 12, stated that the banking industry has been severely affected by the problem of NPA. Finally, considering the overall majority, 15 out of 32, it can be concluded that NPA has moderate effect on banking industry.

4.3.7 Best measures to resolve NPA Problem

To solve the NPA problem has become the greatest challenge of today's banking industry to reduce the credit risk. Hence, to know what measures can be taken for resolving the NPA problem, the respondents are asked on this regard. The solution achieved from them has been presented in the Table 4.23.

Table 4.23: Best measures to resolve NPA Problem

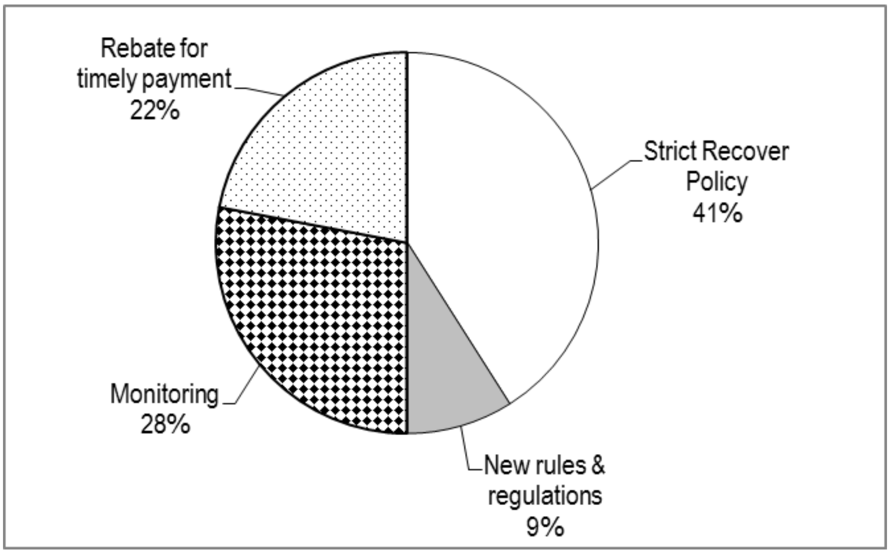
Basis	**Responses**			**Total**	
	Shareholder	**Borrower**	**Employee**	**Responses**	**%**
Strict Recover Policy	4	6	3	13	41
New rules & regulations	0	1	2	3	9
Monitoring	2	3	4	9	28
Rebate for timely payment	3	2	2	7	22
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

The table 4.23 depicts that 41% of the respondents, 13 out of 32 sought that the adoption of strict recovery policy can only reduce the problem of NPA. Similarly, 28% of respondents, 9 out of 32. 22% of the respondents, 7 out of 32, and 9% of the respondents, 3 out of 32, have opined that monitoring of borrowers activities, providing rebate for timely payment and introduction of new rules and regulations regarding NPA respectively can reduce the problem of NPA. Looking each category, the majority of shareholders, 4 out of 9, and the majority of borrowers, 6 out of 12, have suggested adoption of strict recovery policy, while the majority of the employees, 4 out of 11, have suggested monitoring of borrowers activities can reduce the NPA problem.

Finally, considering the majority of the respondents, 13 out of 32, it can be concluded that adoption of strict recovery policy is the best option for reducing NPA.

Figure 4.19: Best measures to resolve NPA Problem



4.3.8 Best Time to Follow up after Due date

To examine the best time within which the bank should follow up for recovery after due date, the respondents have been asked on this regard. The responses obtained from them have been presented in the Table 4.24.

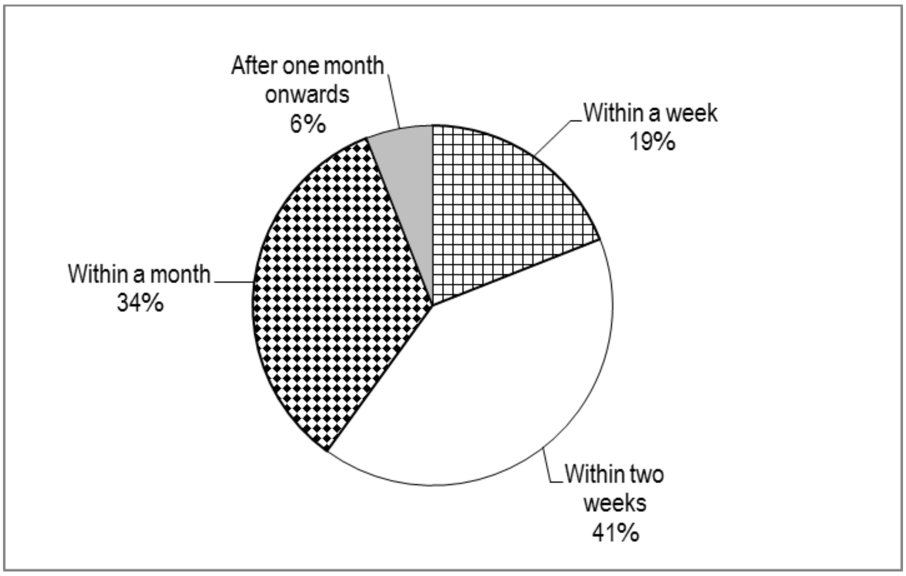
Table 4.24: Best Time to Follow up after Due date

Basis	**Responses**			**Total**	
	Shareholder	**Borrower**	**Employee**	**Responses**	**%**
Within a week	2	1	3	6	19
Within two weeks	4	3	6	13	41
Within a month	3	6	2	11	34
After one month onwards	0	2	0	2	6
Total	**9**	**12**	**11**	**32**	**100**

Source: Annex II

The table 4.24 and figure 4.20 demonstrates that 41% of the respondents, 13 out of 32, are in the view that banks should follow up for recovery within two weeks after due date. Similarly, 34% of the respondents, 11 out of 32, have opined that within a month after due date will be the best time that the bank should start for recovery. Also, 19% of the respondents, 6 out of 32 and 6% of the respondents, 2 out of 32, opine that within a week and after one month onward respectively will be the best time for follow up. Looking each category, the majority of shareholders, 4 out of 9 and majority of employees, 6 out of 11, have supported within two weeks, whereas the majority of borrowers, 6 out of 12, have supported within a month for follow up after due date. Eventually, considering the overall majority, it can be concluded that within two weeks after the matured date of loan will be the best time for bank to follow up for recovery process.

Figure 4.20: Best Time to Follow up after Due date



4.4 Major Finding

Present study based on the analysis has drawn important results. Findings of the present analysis are very important for academician and researchers. Nepalese banking sectors in recent days are facing the several problems with increasing number of NPA. With the level of increasing NPA profitability performance of the bank has badly affected. To find out the cause of increment of NPA in commercial banks basis of loan flotation procedure, it has tried to sort out follow up practice carried out by the bank for recovery of overdue loan outstanding, internal responsible factor causing NPA growth as well as external factor that has significant impact for NPA growth. On the basis of both primary and secondary data analysis, the following major findings have been drawn up;

4.4.1 Finding from Secondary Data Analysis

- In average, the Non-Performing Assets of SCBNL has covered 0.72% of the Performing Loan. Similarly, in NABIL the NPA has covered 1.45% of the Performing Loan. And NPA of HBL has covered 2.96% of its Performing Loan. So comparing three JVBs on the basis of average Non-Performing Assets to Performing Loan, it can be concluded that the chances of turning Total Loans and Advances in Non-Performing Loan is the lowest in SCBNL (i.e. 0.72%) than that of NABIL and HBL.

- SCBNL is the best comparison to that of NABIL and HBL, since the average ratio of Non-Performing Assets to Total Assets of SCBNL (0.34%) is least than the NABIL (1.07%) and HBL (2.16%).

- On the basis of Non-Performing Assets to Total Deposit ratio, it can be concluded that the Total Deposit of SCBNL has been effectively utilized in higher secured sector than that of NABIL and HBL, as the average ratio of Non-Performing Assets to Total Deposit of SCBNL (0.34%) is least in comparison to that of NABIL (1.07%) and HBL (2.16%).

- Similarly, the Net Profit to Non-Performing Assets of SCBNL, is 918.38% in average and that of NABIL is 304.15% in average and HBL is 102.02% in average for the five year periods taken for research.

- SCBNL has remained most secured from Non-Performing Assets in comparison to NABIL and HBL, since the Loan Loss Provision to Non-Performing Assets of SCBNL (200.35%) which is highest in comparison to that of NABIL (167.21%) and HBL (124.09%).

- Regarding the Loan Loss Provision to Total Loan & Advances, it can be concluded that SCBNL has better coverage of pass loans and restructured loan on total loan as the average ratio of Loan Loss Provision of SCBNL is (1.44%) which is the lowest in comparison to that of NABIL (2.20%) and HBL (3.56%).

- There exists positive correlation between NPA and Net Profit of the entire sample JVBs. That means when the NPA is high the Net Profit will increase and when the NPA decreases the Net Profit also decreases. SCBNL, NABIL and HBL have the positive correlation coefficient of 0.12, 0.97 and 0.20 respectively.

- The correlation coefficient between the NPA and LLP of all the JVBs are positive (i.e. correlation coefficient of SCBNL, NABIL and HBL are 0.93, 0.99 and 0.98 respectively). It means the NPA and LLP has positive relationship. From the study, we can say that NPA and LLP of NABIL is highly positively correlation i.e. 0.99. It indicates that there is positive relationship between NPA and Loan Loss Provision of NABIL i.e. when NPA level of the bank is increased Loan Loss Provisioning is also increased and vice versa. NPA level seems to rise with the rise in the volume of Loan Loss Provisioning.

- The correlation coefficient between the NPA and Total Loan of all the JVBs are positive (i.e. correlation coefficient of SCBNL, NABIL and HBL are 0.60, 0.96 and 0.59 respectively). It means the NPA and Total Loan has positive relationship. From the study, we can say that NPA and Total Loan of NABIL is highly positively correlation i.e. 0.96. It indicates that there is positive relationship between NPA and Total Loan of NABIL i.e. when NPA level of the bank is increased Total Loan is also increased and vice versa.

4.4.2 Major Finding from Primary Data Analysis

- 47% of the respondents are the view that the collateral evaluation should be the main basis to be considered while disbursing loan.

- Similarly, 41% of the respondents, 13 out of 32, have stated that bad intention of borrower is the main internal reason that provokes the loan to turn out into bad. Further, lack of NRBs proper monitoring and supervision is the major external reason that turns loan into bad. About 50% of the respondents, 16 out of 32, chose this option.

- 38% of the respondents have said that agricultural is the major sector that covers more default loan. Similarly, 34% of the respondents and 28% of the respondents have claimed business and household respectively that covers default loan.

- About 81% of the respondents, 26 out of 32, have opined that NPA has effect on the financial health of the banks. Similarly 47% of the respondents, 15 out of 32, have stated that the banking industry has been moderately affected by the problem of NPA.

- Finally, 41% of the respondents, 13 out of 32, have suggested adoption of strict recovery policy to reduce the problem of Non-Performing Loan and the same percentage of the respondents suggested within two weeks after the due date will be the best time to follow up for loan recovery.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the final chapter of the study which consists of the summary, conclusion and recommendation from earlier analysis. As mentioned in the objectives of the study this chapter summarizes the problems area with regards to management of NPA and various impacts of NPA.

5.1 Summary

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sector. Non-Performing Assets are one of the major concerns for banks in Nepal. NPA reflect the performance of banks. A high level of NPA suggests high probability of large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profit and shareholders value.

The problem of NPAs not only affects the banks but also the whole economy. The fact high level of NPAs in Nepalese banks is nothing but reflection of the state of health of the industry and tread. Non-Performing Assets/Loan are those loans which do not repay principle and interest on time to the banks. According to the NRB directive, sub-standard, doubtful and loss loans are the Non-Performing Loan. Higher Non-Performing Assets can be a cause to decrease profit of the commercial banks. As the provisioning required as NRB circular is very much stick, major chuck of operating profit has been allocated for maintaining Loan Loss Provisioning.

The main objective behind making this study is to analyse the trend of Non-Performing Assets in Joint Ventures Commercial Banks of Nepal, which elaborates whether JVBs are efficient in managing credit and how NPAs play its role to the operations of the banks. To achieve the objective both primary data and secondary data have been analysed. Further, books, articles and past Masters research works are reviewed in the research. With regard to secondary data, three JVBs i.e. SCBNL, NABIL and HBL are taken as sample. The data collected from various sources are recorded systematically and presented in appropriate form of tables and charts and appropriate mathematical, statistical and graphical tools have been applied to analyse the collected data in a suitable manner. The data of five consecutive years of the three JVBs have been analysed to meet the objectives of the study.

5.2 Conclusion

From the above analysis it is found that SCBNL is best in comparison to that of NABIL and HBL in regarding NPA to Total Assets, since the average ratio of SCBNL (0.34%) is least than that of NABIL (1.07%) and HBL (2.16%).

From this research work carried out, we can conclude that the chances of turning Total Loans & Advances in Non-Performing Loan is lowest in SCBNL than in NABIL and HBL, as the ratio of Non-Performing Assets to Performing Loan of SCBNL (0.72%) is lower than that of NABIL (1.45%) and HBL (2.96%) over the study period.

The statistical analysis aids to conclude that there exist positive correlation between NPA and Net Profit of the entire sample JVBs. It means the NPA and Net profit have positive relationship. That means when the NPA is high the Net Profit will increase and when the NPA decreases the Net Profit also decreases. SCBNL, NABIL and HBL have the positive correlation coefficient of 0.12, 0.97 and 0.20 respectively.

The correlation coefficient between the NPA and LLP of all the JVBs are positive (i.e. correlation coefficient of SCBNL, NABIL and HBL are 0.93, 0.99 and 0.98 respectively). It means the NPA and LLP has positive relationship. From the study, we can say that NPA and LLP of NABIL is highly positively correlated i.e. 0.99%. It indicates that there is positive relationship between NPA and Loan Loss Provision of NABIL i.e. when NPA level of the bank is increased Loan Loss Provisioning is also increased and vice versa. NPA level seems to rise with the rise in the volume of Loan Loss Provisioning.

Similarly, the correlation coefficient between the NPA and Total Loan of all the JVBs are positive (i.e. correlation coefficient of SCBNL, NABIL and HBL are 0.60, 0.96 and 0.59 respectively). It means the NPA and Total Loan has positive relationship. From the study, we can say that NPA and Total Loan of NABIL is highly positively correlation i.e. 0.96. It indicates that there is positive relationship between NPA and Total Loan of NABIL i.e. when NPA level of the bank is increased Total Loan is also increased and vice versa. NPA level seems to rise with the rise in the volume of Total Loan.

Opinion survey was done to analyse factors causing for the growth of NPA, impacts of NPA and problems associated with the management of NPA. Most of the respondent indicated that external factors are more responsible than internal factors in the conversion of good loan to bad/loss.

Among the external factors, factors related with political and economic situation of the country and borrower related factors are found most crucial in the conversion of good loan into bad/loss. While looking for the internal factors it is found that insufficient control and monitoring system, credit policy of the bank and faults in credit appraisal system are the most contributing factors in the growth of NPA.

Analysing the problems associated with the management of NPA, most of the respondents revealed that proper documentation and strength NRB guidelines are the problem area to be faced in the management of NPA. Lack of assets management company, execution of the court proceeding and cumbersome legal procedure and economic recession and political instability are the main problem.

5.3 Recommendations

High level of Non-Performing Assets not only decreases the profitability of the banks but also affects the entire financial as well as operational health of the organization. Based on the major findings of this study, some recommendations have made so as to overcome issues of Non-Performing Assets of the banking sectors:

- NRB should tight the supervision and inspection activity towards the commercial banks so that the accounting manipulation can be avoided and net profit of the banks is not decrease and NPA level of banks not increase.
- All three banks should quest for more productive and secured sector for investment so as to divert the total deposits and earn more profitability in order to keep their top position in the banking industry of Nepal.
- Each bank should have its own independent credit rating agency which should evaluate the financial capacity of the borrower before the credit facility. The credit rating agency should regularly evaluate the financial condition of the clients.
- Special amount should be made of the clients where monthly loan concentration reports should be made.
- It is also wise for the banks to carryout special investigative audit of all financial and business transactions and books of accounts of the borrower company when there is possibility of the diversion of the funds and mismanagement.
- The banks before providing the credit facilities to the borrower company should analyse the major heads of the income and expenditure based on the financial performance of the comparable companies in the industry to identify significant variances and seek explanation for the same from the company

management. They should also analyse the current financial position of the major assets and liabilities.

- Banks should evaluate the SWOT analysis of the borrowing companies i.e. how they would face the environmental threats and opportunities with the use of their strength and weakness, and what will be their possible future growth in concerned to financial and operational performance.
- Independent settlement procedure should be more strict and faster and the decision made by the settlement committee should be binding both borrowers and lenders and any one of them failing to follow the decision of the settlement committee should be punished severely.
- Banks should take enough collateral so that bank at least can cover its amount in case of being unable to repay by the borrower.
- The credit section should carefully watch the warning signals i.e. nonpayment of quarterly interest, dishonor of cheque, etc.
- Effective inspection system should be implemented and regular inspection of the organization should be carried out.
- Banks should provide necessary training regarding NPA management to the managers and staffs who are involving in managing NPA.
- Banks having high level of NPA should take immediate action towards recovering their bad loan as soon as possible.
- Some external improvements are necessary to decrease the NPA and recover the loans that have turned bad. Political stability is essential for away from the political instability and influence. The industries should not be the playground for the political practice.
- The loan recovery tribunal should be given full power to recover bad debts. The banks should also report as soon as possible regarding the bad debts the loan recovery tribunal to recover the bad loans.

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ANNEX – I

PROFILE OF THE SELECTED JOINT VENTURES BANKS

a) Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited, formally known as Nepal Grindlays Bank Limited has been in operation since 1987. It is one of the top most joint venture banks of Nepal. Capital structure of this bank is; 50% by Chartered Grindlays Bank, 33% by Nepal Bank Limited, the country's oldest and largest financial institutions and 17% by the Nepalese public. On July 31, 2000, Standard Chartered Bank Nepal Limited conducted the acquisition with ANZ Grindlays Bank Limited of the Australia and New Zealand Banking Group. With the acquisition, 50% shares of Nepal Grindlays Bank Limited (NGBL), previously owned by ANZ Grindlays Bank Limited, change the name of bank to Standard Chartered Bank Nepal Limited with effect from 16 July 2001.

Standard Chartered Bank Nepal Limited has a history of over 150 years in banking and operated in many of the world's fastest growing markets in over 70 countries. Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Banks values and supports the Banks growth as the world increasingly becomes one market.

With 16 points of representation, 17 ATMs and more than 350 local staff, Standard Chartered Bank Nepal Ltd. Is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

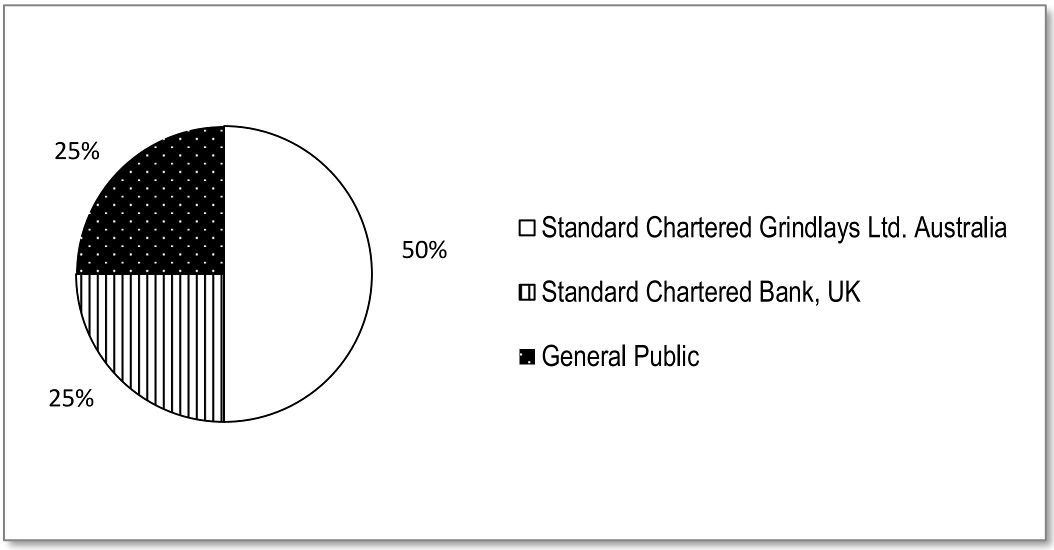
Share Capital as at 16^{th} July 2011 (32 Ashad 2068)

Authorized Capital	Rs. 2,000,000,000
Issued Capital	Rs.1,610,168,000
Paid-Up Capital	Rs.1,610,168,000

Share ownership

Standard Chartered Grindlays Ltd. Australia	50%
Standard Chartered Bank, UK	25%
General Public	25%

Figure 1: Share Ownership of SCBNL



b) Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities-Loans and Deposits. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. HBL holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank. Like any other commercial bank in Nepal, HBL is also engaged in some industrial banking. The bank has experienced dynamic growth over the last seven years. It has expanded its services by establishing various branches within Nepal.

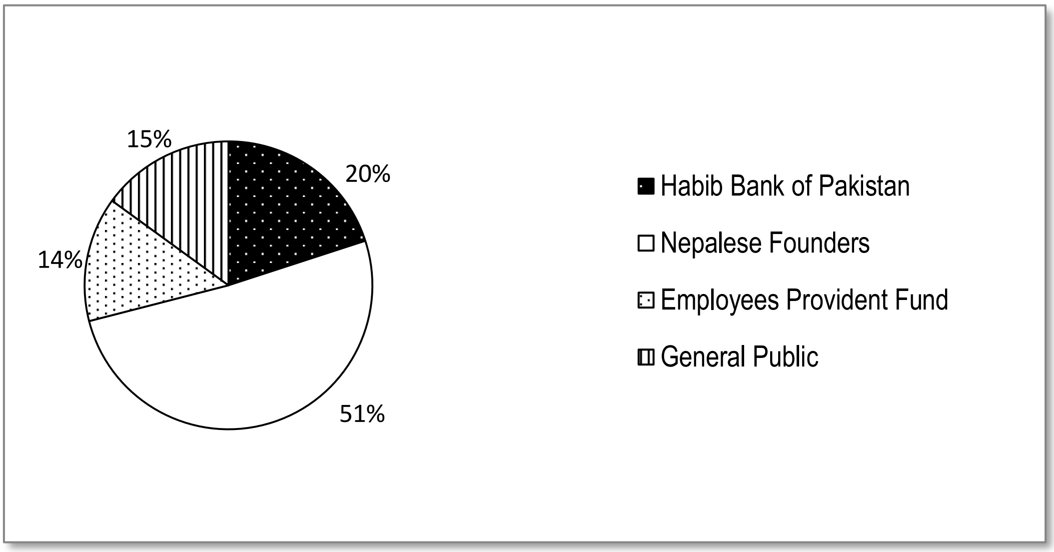
Share Capital as at 16th July 2011 (32 Ashad 2068)

Authorized Capital	Rs 3,000,000,000
Issued Capital	Rs 2,000,000,000
Paid-Up-Capital	Rs 2,000,000,000

Share Ownership

Habib Bank of Pakistan	20%
Nepalese Founders	51%
Employees Provident Fund	14%
General Public	15%

Figure 2: Share Ownership of HBL



c) Nabil Bank Limited (NABIL)

Nepal Arab Bank Limited, is the first foreign joint venture commercial bank of Nepal, was established on 12th July, 1984 under a technical service agreement with Dubai Bank Limited and was renamed as Nabil Bank Limited (NABIL) on 1st January, 2002. In the beginning the authorized capital of this bank was Rs. 100 million and paid up capital was Rs. 28 million 400 thousand. The 50% share of NABIL owned by Dubai Bank Limited was transferred to Emirates Bank International Limited, Dubai by virtue of its annexation with the later. Later on, Emirates Bank International Limited sold its entire 50% share to National Bank Ltd, Bangladesh. Now National Bank Limited is managing the bank in accordance with the Technical Services Agreement signed between it and the bank on June 1995. The bank introduced an Automated Teller Machine (ATM) first time in Nepal, in three places in the valley at Kantipath, New Road and Lalitpur. The bank issues widest range of credit and debit cards under the brands of visa and master card to accountholders as well as non-accountholders. The bank has its corporate had office at Kamladi, Kathmandu. Its branches are located in all over the country.

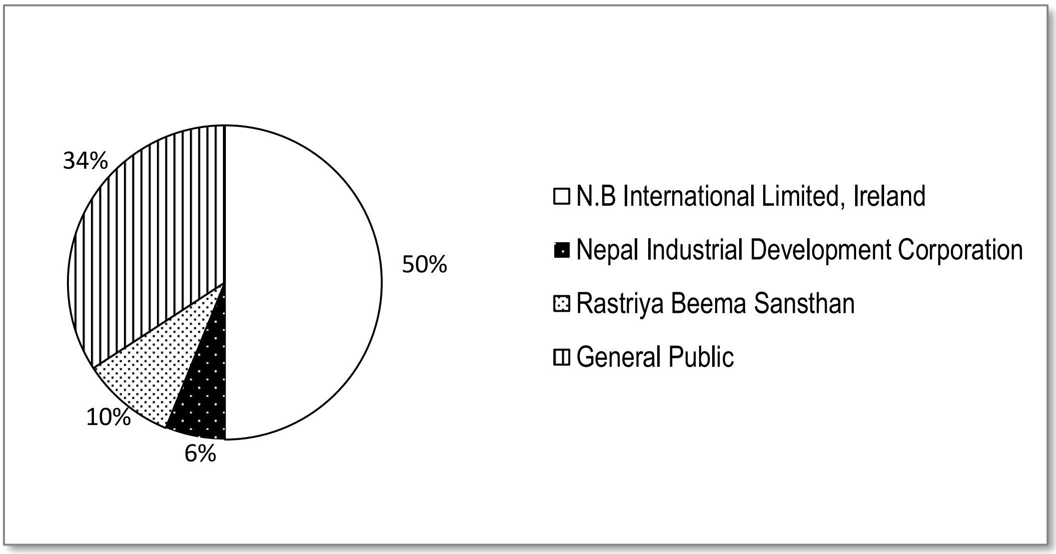
Share Capital as at 16th July 2011 (32 Ashad 2068)

Authorized Capital	Rs. 2,100,000,000
Issued Capital	Rs. 2,029,769,400
Paid-Up Capital	Rs. 2,029,769,400

Share Ownership

N.B International Limited, Ireland	50%
Nepal Industrial Development Corporation	6.15%
Rastriya Beema Sansthan	9.67%
General Public	34.18%

Figure 3: Share Ownership of NABIL



ANNEX – II

QUESTIONNAIRE

Dear Sir/Madam,

This is to bring yours kind information that this is an attempt to make the "Analysis of Non-Performing Assets with reference to SCBNL, NABIL and HBL" for the partial fulfillment of thesis required for the Master's Degree of Business studies, TU. You kindly requested to fill up the following Questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Name:……………………………………..

Occupation (Tick One)

Shareholders ☐

Borrowers ☐

Bank Employee ☐

Please Tick the best alternative (QN1 to 8)

1. What should be the basis for floating loan?

Financial strength of borrower ☐

Collateral value ☐

Monitoring and Control system ☐

Guarantor ☐

Portfolio Management ☐

2. In your opinion, what are the internal reasons for turning good loan into bad loan?

Mismanagement ☐ Bad Intention of borrower ☐

Lack of Portfolio Management ☐ Shortfall on security ☐

Weak Legal Provision ☐ Ineffective Credit Policy ☐

3. In your opinion, what are the external reasons for turning good loan into bad loan?

Economic and Industrial Recession ☐ Conservation Provision ☐

Inconsistent Government Policy ☐ Lacking of NRBs Monitoring ☐

4. What sector covers the more default loan?

Household ☐ Business ☐ Agriculture ☐

5. Does NPA affect the financial health of the commercial bank?

Yes ☐ No ☐ Don't Know ☐

6. To what extent today's banking industry is affected by the problem of NPA?

Not affected ☐ Nominally affected ☐

Moderately affected ☐ Severely affected ☐

7. Which measure is the best option to resolve the problem of NPA?

Strict recovery Policy	☐	New rule and regulation	☐
Monitoring	☐	Rebate for timely Payment	☐

8. If the borrower is having with overdue outstanding the bank should start follow up:

Within a week	☐	Within two week	☐
Within one month	☐	After one month onwards	☐

Thank you for your time and effort.

Sunita Sharma

Master of Business Studies

Shanker Dev Campus

ANNEX – III

STATISTICAL CALCULATION

Calculation of Correlation Coefficient between NPA and Net Profit of SCBNL

'ear	NPA (x)	NP (y)	$(x-\overline{x})$	$(y-\overline{y})$	$(x-\overline{x})^2$	$(y-\overline{y})^2$	$(x-\overline{x})(y-$
08	128.72	818.92	11.08	-224.69	122.76	50485.60	-2490.46
09	91.04	1025.11	-26.60	-18.50	707.56	342.25	492.10
10	98.13	1085.88	-19.51	42.27	380.64	1786.75	-824.69
11	115.80	1119.17	-1.84	75.56	3.38	5709.31	-139.03
12	154.49	1168.97	36.85	125.36	1357.92	15715.12	4619.52
					$\sum(x-\overline{x})^2=$ 2572.26	$\sum(y-\overline{y})^2=$ 74039.03	$\sum(x-\overline{x})(y-$ 1657.43

Correlation Coefficient (r) $=\frac{\sum(x-\overline{x})(y-\overline{y})}{\sqrt{\sum(x-\overline{x})^2 X (y-\overline{y})^2}} = \frac{1657.43}{\sqrt{2572.26X74039.03}}$ = **0.12**

Calculation of Correlation Coefficient between NPA and Net Profit of NABIL

ear	NPA(x)	NP (y)	$(x-\overline{x})$	$(y-\overline{y})$	$(x-\overline{x})^2$	$(y-\overline{y})^2$	$(x-\overline{x})(y-$
08	161.09	746.47	-351.33	-444.94	123432.77	197971.60	156320.7
09	224.81	1031.05	-287.61	-160.36	82719.51	25715.33	46121.14
10	486.28	1139.09	-26.14	-52.32	683.30	2737.38	1367.64
11	689.85	1344.17	177.43	152.76	31481.40	23335.62	27104.21
12	1000.05	1696.27	487.63	504.86	237783.02	254883.62	246184.8
					$\sum(x-\overline{x})^2 =$ 476100.00	$\sum(y-\overline{y})^2 =$ 504643.55	$\sum(x-\overline{x})(y-$ 477098.6

Correlation Coefficient (r) $= \frac{\sum(x-\overline{x})(y-\overline{y})}{\sqrt{\sum(x-\overline{x})^2\ X (y-\overline{y})^2}} = \frac{477098.64}{\sqrt{476100.00 X 504643.55}} =$ **0.97**

Calculation of Correlation Coefficient between NPA and Net Profit of HBL

'ear	NPA(x)	NP(y)	$(x-\overline{x})$	$(y-\overline{y})$	$(x-\overline{x})^2$	$(y-\overline{y})^2$	$(x-\overline{x})(y-$
08	477.23	635.87	-362.03	-113.98	131065.72	12991.44	41264.18
09	551.31	752.83	-287.95	2.98	82915.20	8.88	-858.09
10	1024.83	508.80	185.57	-241.05	34436.22	58105.10	-44731.65
11	1391.75	893.11	552.49	143.26	305245.20	20523.43	79149.72
12	751.16	958.64	-88.10	208.79	7761.61	43593.26	-18394.40
					$\sum(x-\overline{x})^2=$ 561423.96	$\sum(y-\overline{y})^2=$ 135222.12	$\sum(x-\overline{x})(y-$ 56429.76

Correlation Coefficient (r) $=\frac{\sum(x-\overline{x})(y-\overline{y})}{\sqrt{\sum(x-\overline{x})^2\ X(y-\overline{y})^2}} = \frac{56429.76}{\sqrt{561423.96\ \text{X}\ 135222.12}} =$ **0.20**

Calculation of Correlation Coefficient between NPA and Loan Loss Provision of SCBNL

ear	NPA (x)	LLP (y)	$(x-\bar{x})$	$(y-\bar{y})$	$(x-\bar{x})^2$	$(y-\bar{y})^2$	$(x-\bar{x})(y-$
07/08	128.72	245.39	11.08	14.65	122.77	214.62	162.32
08/09	91.04	200.95	-26.60	-29.79	707.56	887.44	792.41
09/10	98.13	219.63	-19.51	-11.11	380.64	123.43	216.76
10/11	115.80	235.21	-1.84	4.47	3.39	19.98	-8.22
11/12	154.49	252.54	36.85	21.80	1357.92	475.24	803.33
					$\sum(x-\bar{x})^2 =$ 2572.27	$\sum(y-\bar{y})^2 =$ 1720.72	$\sum(x-\bar{x})(y-$ 1966.60

Correlation Coefficient (r) = $\frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \, X (y-\bar{y})^2}} = \frac{1966.60}{\sqrt{2572.27 \text{ X } 1720.72}}$ = **0.93**

Calculation of Correlation Coefficient between NPA and Loan Loss Provision of NABIL

ear	NPA (x)	LLP (y)	$(x-\bar{x})$	$(y-\bar{y})$	$(x-\bar{x})^2$	$(y-\bar{y})^2$	$(x-\bar{x})(y-$
07/08	161.09	394.41	-351.33	-345.40	123432.77	119301.16	121349.38
08/09	224.81	409.08	-287.61	-330.73	82719.51	109382.33	95121.26
09/10	486.28	762.09	-26.14	22.28	683.30	496.40	-582.40
10/11	689.85	871.39	177.43	131.58	31481.40	17313.30	23346.24
11/12	1000.05	1262.08	487.63	522.27	237783.02	272765.95	254674.52
					$\sum(x-\bar{x})^2 =$ 476100.00	$\sum(y-\bar{y})^2 =$ 519259.14	$\sum(x-\bar{x})(y-$ 493909.00

Correlation Coefficient (r) $= \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \, X (y-\bar{y})^2}} = \frac{493909.00}{\sqrt{476100.00 \text{ X } 519259.14}}$ = **0.99**

Calculation of Correlation Coefficient between NPA and Loan Loss Provision of HBL

ear	NPA (x)	LLP (y)	$(x-\bar{x})$	$(y-\bar{y})$	$(x-\bar{x})^2$	$(y-\bar{y})^2$	$(x-\bar{x})(y-$
08	477.23	682.09	-362.03	-309.09	131065.72	95536.63	111899.85
09	551.31	726.36	-287.95	-264.82	82915.20	70129.63	76254.92
10	1024.83	1143.12	185.57	151.94	34436.22	23085.76	28195.51
11	1391.75	1401.29	552.49	410.11	305245.20	168190.21	226581.67
12	751.16	1003.03	-88.10	11.85	7761.61	140.42	-1043.99
					$\sum(x-\bar{x})^2 =$ 561423.96	$\sum(y-\bar{y})^2 =$ 357082.66	$\sum(x-\bar{x})(y-$ 441887.97

Correlation Coefficient (r) $= \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \, X (y-\bar{y})^2}} = \frac{441887.97}{\sqrt{561423.96 \text{ X } 357082.66}} = \mathbf{0.98}$

Calculation of Correlation Coefficient between NPA and Total Loan of SCBNL

ear	NPA (x)	Total Loan (y)	$(x-\bar{x})$	$(y-\bar{y})$	$(x-\bar{x})^2$	$(y-\bar{y})^2$	$(x-\bar{x})(y-$
07/08	128.72	13718.60	11.08	-2553.11	122.77	6518370.67	-28288.46
08/09	91.04	13679.76	-26.60	-2591.95	707.56	6718204.80	68945.87
09/10	98.13	15956.95	-19.51	-314.76	380.64	99073.86	6140.97
10/11	115.80	18427.27	-1.84	2155.56	3.39	4646438.91	-3966.23
11/12	154.49	19575.97	36.85	3304.26	1357.92	10918134.15	121761.98
					$\sum(x-\bar{x})^2 =$ 2572.27	$\sum(y-\bar{y})^2 =$ 28900222.39	$\sum(x-\bar{x})(y-$ 164594.13

Correlation Coefficient (r) $= \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2\ X(y-\bar{y})^2}} = \frac{164594.13}{\sqrt{2572.27\ X\ 28900222.39}} =$ **0.60**

Calculation of Correlation Coefficient between NPA and Total Loan of NABIL

ear	NPA (x)	Total Loan (y)	$(x-\bar{x})$	$(y-\bar{y})$	$(x-\bar{x})^2$	$(y-\bar{y})^2$	$(x-\bar{x})(y-$
07/08	161.09	21365.05	-351.33	-10807.67	123432.77	116805730.83	3797058.7
08/09	224.81	27589.93	-287.61	-4582.79	82719.51	21001964.18	1318056.2
09/10	486.28	32268.87	-26.14	96.15	683.30	9244.82	-2513.36
10/11	689.85	38034.09	177.43	5861.37	31481.40	34355658.28	1039982.8
11/12	1000.05	41605.68	487.63	9432.96	237783.02	88980734.36	4599794.2
					$\sum(x-\bar{x})^2$ = 476100.00	$\sum(y-\bar{y})^2$ = 261153332.47	$\sum(x-\bar{x})(y-$ 10752378.7

Correlation Coefficient (r) $=\frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2\ X (y-\bar{y})^2}} = \frac{10752378.74}{\sqrt{476100.00\ \mathrm{X}\ 261153332.47}}$ = **0.96**

Calculation of Correlation Coefficient between NPA and Total Loan of HBL

ear	**NPA (x)**	**Total Loan (y)**	$(x-\bar{x})$	$(y-\bar{y})$	$(x-\bar{x})^2$	$(y-\bar{y})^2$	$(x-\bar{x})(y-$
08	477.23	19497.52	-362.03	-8263.22	131065.72	68280804.77	2991533.5
09	551.31	24793.15	-287.95	-2967.59	82915.20	8806590.41	854517.5
10	1024.83	27980.62	185.57	219.88	34436.22	48347.21	40803.13
11	1391.75	31566.98	552.49	3806.24	305245.20	14487462.94	2102909.5
12	751.16	34965.43	-88.10	7204.69	7761.61	51907558.00	-634733.1
					$\sum(x-\bar{x})^2$ = 561423.96	$\sum(y-\bar{y})^2$ = 143530763.32	$\sum(x-\bar{x})(y-$ 5355030.5

Correlation Coefficient (r) $= \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \, X (y-\bar{y})^2}} = \frac{5355030.56}{\sqrt{561423.96 \text{ X } 143530763.32}}$ **= 0.59**

List of the respondents interviewed

SN	Name	Institute
	Bank Employee	
1	AtulRisal	Nabil Bank Ltd.
2	Kumar Khatri	Standard Chartered Bank
3	PursotamSubedi	Himalayan Bank Ltd.
4	UshaDhakal	Nabil Bank Ltd.
5	PramodChaudhary	Himalayan Bank Ltd.
6	Dinesh Karki	Nabil Bank Ltd.
7	Sneha Poudyal	Himalayan Bank Ltd.
8	SujanRisal	Nabil Bank Ltd.
9	DipeshChalise	Standard Chartered Bank
10	Hemant Poudyal	Standard Chartered Bank
11	Sabin Giri	Himalayan Bank Ltd.
	Shareholders	
12	Binod Karki	Century Bank
13	Aarati Joshi	Kist Bank
14	Salaka Shrestha	Young Innovation
15	YamkalaBhusal	Kumari Bank
16	Rajesh Kumar Singh	Development Vision Nepal Pvt. Ltd.
17	Suk BhahadurGharti	Agriculture Development Bank
18	Sijan Bhatta	Tech Consultancy
19	Puskar Acharya	SapanaMulti Purpose Co-operative
20	Jib LalKhanal	Nepal SBI Bank
	Borrowers	

21	YunitaAdhikari	Dynamic consultancy
22	Ashmi Shah	Mahakali Sugar Industry
23	Anita Devkota	CDS Learning Pvt. Ltd.
24	LaxmiBhattarai	Quest Pharmaceuticals
25	Anita Neupane	High Himalayan Academy
26	Sweta Shrestha	Entrust Solution Nepal
27	Prem Prasad Dhungana	Karnali Distillery
28	Janak Nepal	Himalayan Infosys P. Ltd.
29	ToyaNathSapkota	CE construction P. Ltd.
30	ShobhaLamichane	ITPNP Pvt. Ltd
31	Kiran Sharma	Ayurvedic Medicine Wholesalers
32	Rojina Shrestha	Mark Formulations Pvt Ltd