ISSN–2278-5655

AMIERJ

Aarhat Multidisciplinary International Education Research Journal

Volume–XII, Issues– III May – June, 2023

OPEN ACCESS

Original Research Article

COMPARATIVE STUDY OF NPA OF ANDHRA BANK AND CORPORATION BANK BEFORE MERGER WITH UNION BANK

*** Prof. Pradnya Garad**

* Assistant Professor, Department of Economics, K. B. College of Arts and Commerce for Women.

Abstract

When a bank's balance sheet has a high quantity of nonperforming assets (NPAs), it can harm its overall financial health because it reduces its profitability and threatens its solvency. In order to better manage their nonperforming assets (NPAs), banks may take a variety of steps, such as renegotiating the terms of the loan, selling the underlying asset, or commencing legal action against the borrower. In addition, the national central bank of a country may issue directives and regulations concerning the categorization and administration of nonperforming assets held by banks. In the present research information of NPA is obtained for Andhra Bank and Corporation Bank. Information about NPA is obtained for seven quarters, from June 2018 to December 2019. Gross NPA and Net NPA are both considered for the comparative study. The study is based on secondary data. SPSS software is used for the analysis of data. Desriptive and inferential statistics are used for the analysis of data.

Keywords: *Andhra Bank, Corporation Bank, NPA*

Introduction:

Non-Performing Asset is an abbreviation for "Non-Performing Asset," which describes a loan or advance in which the borrower has failed to make payments towards the principal or interest for at least ninety days. In other words, when a borrower fails to make repayments of interest or principal on a loan or credit facility for a certain amount of time, the loan is categorised as a non-performing asset. This can happen for a variety of reasons, such as the borrower's financial situation or the terms of the loan. Banks are obligated to classify their assets into various categories based on their level of risk, and non-performing assets are regarded as the category of assets with the highest level of risk.

The NPA term is used to describe loans or advances provided by a bank or other financial institution but which no longer produce income or interest for the lender. This indicates that the borrower has not made any payments towards the loan for a predetermined amount of time, and as a result, the bank is not receiving any revenue from the loan. Impact on a bank's capacity to turn a profit Nonperforming assets (NPAs) can hurt a bank's ability to turn a profit since they cut into the amount of interest revenue generated by the bank. Because of this, the bank's net interest margin (NIM) may go down, which will have an impact on the institution's overall financial performance. Banks are required to control their risk exposure to nonperforming assets (NPAs) by managing the quality of their loan portfolios and identifying prospective defaults or credit risks. This is part of risk management. Because of this, they are able to take preventative actions to lessen the likelihood of default and cut down on losses. Compliance with regulations: Nonperforming assets (NPAs) are subject to stringent oversight from regulators, and banks are mandated to keep a minimum amount of provisioning against them. This guarantees that banks have sufficient capital to cover any potential losses that may arise as a result of loan defaults or payments not being made. Creditworthiness of borrowers: The NPA classification provides assistance to financial institutions in determining the creditworthiness of borrowers and their capacity for repayment. This enables more educated decisions to be made about the provision of loans or credit facilities to customers. In a nutshell, non-performing assets (NPAs) are an essential indicator of the overall state of a bank's finances and risk management. It is absolutely necessary to practise efficient management of nonperforming assets (NPAs) in order to keep the financial system stable and viable.

Literature Review:

Deepa, N. (2011), made a probe into the fulfilment of motives as vowed in the merger deals of the nine select merged banks. The study uses Summary Statistics, Wilcoxon Matched Paired Signed Rank Test and‘t’ test for analysis and interpretation of data pertaining to the five pre and post merger periods each. The result indicates that there has been only partial fulfilment of the motives as envisaged in the merger deals

Duksait, E and Tamosiunien, R (2009), described the most common motives for companies decision to participate in mergers and acquisitions transactions. The reason is growth, synergy, access to intangible assets, diversification, horizontal and vertical integration and so on arises from the primary company’s motive to grow. Most of the motivations for mergers and acquisitions feature serve as means of reshaping competitive advantage within their respective industries. However, it may be that some of the motives identified affect some industries more than others, and in that sense they can be expected to be associated with a greater intensity of mergers and acquisitions in certain sectors rather than others.

Dewan, A (2007), focussed on the post merger financial performance of the acquirer companies in India and performance of firms going through mergers in Indian industry. The merger cases for the year 2003 have been taken for the analysis. The financial data has been collected for six years from 2000-06. Pre-merger and post-merger financial ratios have been examined using paired sample t test. The results of the analysis reveal that there is significant difference between the financial performance of the companies before and after the merger. Further, the type of industry does make a difference to the post-merger operating performance of acquiring firms.

Drs. M. Balaji Reddy, (2022), Financial reforms helped banks. Increasing bank activity and service levels. Private banks grew faster yet both increased profitability. Public sector banks struggle financially. Their substantial social contributions alter dimensions. To promote industry and national progress, private sector banks must fully evaluate priority sector lending and social factors. Public sector banks must professionalise management and customer service to increase performance. Public and private sector growth are high. Public banks must assess net earnings and growth. Cost-cutting must lower operating costs. Monitoring staff performance ensures quality.

Gangu Naidu (2012), The inquiry found that interest income, total spending, and net profit to total funds ratios had all declined, which decreased profitability. Burdon ratios increased as interest expenditure ratios decreased. Profitability indexes will rise. Based on their strengths and the market they are most likely to compete in, the bank needs to reconsider their

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XII, Issues– III *May – June, 2023*

OPEN ACCESS Original Research Article

business strategies. To stay up with this domestic and international expansion, the banking industry must choose the best course for its development.

Shrestha S (2017), Company performance depends on working capital management. Most financial executives manage working capital assets and liabilities. Working capital issues plague most Nepalese firms. This study examines how working capital management affects Nepalese firms' profitability. ROA's association with inventory conversion, receivable conversion, and payable deferral periods is identical to the prior research. Longer inventory, receivable, and payable conversion times lower ROA. These results match Deloof (2003). Sales and current liabilities to total assets ratio increase corporate profitability, while current ratio, leverage, and current assets to total assets ratio decrease it. Previous research supports this. Working capital management affects profits.

Kivuti M. (2015), The study found that pay and remuneration affect merged company performance. Wages, benefits, allowances/bonuses, employment conditions, and performance-based compensation affect employee performance in the merger setting. Mergers influence employee ownership, belonging, and performance, according to the study. Employee contributions, composition, shareholder wealth, merger satisfaction, and communication affect Bank employee performance. The study indicated that amalgamated bank workers understood their employment procedures, policies, and responsibilities and that job stability affects performance. Job happiness, skills, retention, and organisational commitment affect employee performance. The study found chain of command affects bank staff effectiveness. Personal relationships, task conflicts, coordination, workloads, cultural compatibility, managerial support, working environment, employees' attitudes, strategic rationale, non-monetary benefits, and employee commitment affect employee success in the amalgamated bank.

Joshi V., (2012), It's natural for small banks to merge into larger ones. Employees are stressed by uncertainty, insecurity, fear of job loss, job changes, compensation, power, position, prestige, workload, working hours, technology issues, inadequate salary, family job anxieties at home, group differences, and communication. Stress impacts staff performance. Banks need employee satisfaction to succeed.

Research Methodology: The research is based on secondary data. Information is collected from the official websites of the respective banks. Quarterly data is obtained for Andhra bank and Corporation bank. For analysis of data SPSS software is used. T-test is applied to compare Gross NPA and Net NPA of the two banks.

Table 1
NPA Andhra Bank

Sr No.	Quarters	Gross NPA %	Net NPA %
1	Jun-18	16.69	7.96
2	Sep-18	16.36	7.49
3	Dec-18	16.68	6.99
4	Mar-19	16.21	5.73
5	Jun-19	16.44	5.67
6	Sep-19	16.91	5.95
7	Dec-19	17.26	6.36

Table 1 indicates the information on the Gross and Net NPA of Andhra Bank. The data is obtained from June 2018 to December 2019. There is very small changes in gross NPA it ranging from 16.21% to 17.26%. Regarding net NPA, there was a good recovery from June 2018 till December 2019.

Table 2 Corporation Bank

Sr No.	Quarters	Gross NPA %	Net NPA %
1	Jun-18	17.44	11.46
2	Sep-18	17.46	11.65
3	Dec-18	17.36	11.47
4	Mar-19	15.35	5.71
5	Jun-19	15.44	5.69
6	Sep-19	15.43	5.59
7	Dec-19	14.8	5.32

Table 2 consists of information related to the gross and net NPA of the Corporation bank. The figures of the table reveal that there is moderate improvement in gross as well as net NPA from June 2018 to December 2019.

Objective 1: To compare the Gross NPA of Andhra Bank and Corporation Bank.

For the study of the above objective, the following hypotheses are considered.

Null hypothesis H_{01}:

There is no significant difference in the Gross NPA between Andhra Bank and Corporation Bank**.**

Alternate hypothesis H_{11}:

There is a significant difference in the Gross NPA between Andhra Bank and Corporation Bank.

To test the above null hypothesis, the independent sample t-test is used. The results are as follows.

Table 3
Independent Samples Test

	t-test for Equality of Means				
	t	df	p-value	Mean Difference	Std. Error Difference
Gross NPA %	1.004	12	.335	.46714	.46511

Interpretation: The above results indicate that the p-value for the Gross NPA is 0.335. It is greater than the standard p-value of 0.05. Therefore, the independent sample t-test is accepted. Hence, the null hypothesis is accepted and the alternate hypothesis is rejected.

Conclusion: There is no significant difference in the Gross NPA between Andhra Bank and Corporation Bank.

Findings: To understand the findings of the hypothesis mean scores of the Gross NPA are obtained for both banks.

Table 4
Group Statistics

	Bank	N	Mean	Std. Deviation	Std. Error Mean
Gross NPA %	Andhra Bank	7	16.6500	.35684	.13487
	Corporation Bank	7	16.1829	1.17769	.44513

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

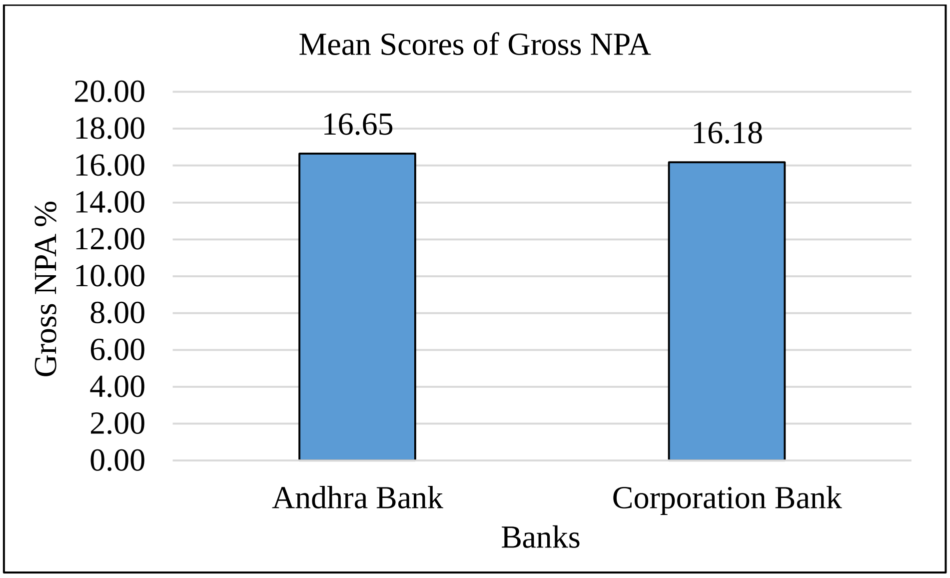
Volume–XII, Issues– III *May – June, 2023*

OPEN ACCESS Original Research Article

The above table indicates that the mean score of the Gross NPA for Andhra Bank is 16.65% and for Corporation Bank is 16.18%. The difference in mean scores for Gross NPA is not significant. The conclusion is that Gross NPA is uniform for both banks.

The above information is represented in a bar chart as shown below.

Figure 1



Objective 2: To compare the Net NPA of Andhra Bank and Corporation Bank.

For the study of the above objective, the following hypotheses are considered.

Null hypothesis H_{02}: There is no significant difference in the Net NPA between Andhra Bank and Corporation Bank.

Alternate hypothesis H_{12}:

There is a significant difference in the Net NPA between Andhra Bank and Corporation Bank.

To test the above null hypothesis, the independent sample t-test is used. The results are as follows.

Table 5

Independent Samples Test

	t-test for Equality of Means				
	t	df	p-value	Mean Difference	Std. Error Difference
Net NPA %	-1.227	12	.243	-1.53429	1.25060

Interpretation: The above results indicate that the p-value for the Net NPA is 0.243. It is greater than the standard p-value of 0.05. Therefore, the independent sample t-test is accepted. Hence, the null hypothesis is accepted and the alternate hypothesis is rejected.

Conclusion: There is no significant difference in the Net NPA between Andhra Bank and Corporation Bank.

Findings: To understand the findings of the hypothesis mean scores of the Net NPA are obtained for both banks.

Table 6

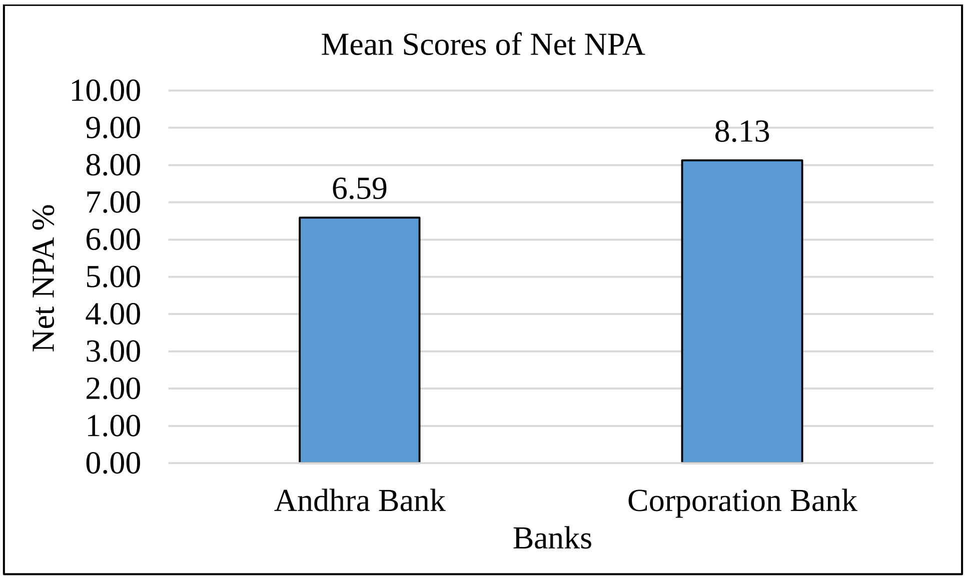
Group Statistics

	Bank	N	Mean	Std. Deviation	Std. Error Mean
Net NPA %	Andhra Bank	7	6.5929	.90327	.34140
	Corporation Bank	7	8.1271	3.18309	1.20310

The above table indicates that the mean score of the Net NPA for Andhra Bank is 6.59% and for Corporation

Bank is 8.13%. The difference in mean scores for Net NPA is not significant. The conclusion is that Net NPA is uniform for both banks. The above information is represented in a bar chart as shown below.

Figure 2



Findings and Conclusion:

Andhra Bank was a public sector bank in India that was established in 1923 and had its headquarters in Hyderabad. As part of the Indian government's effort to consolidate the nation's several public sector banks in 2020, it was merged into the Union Bank of India. Andhra Bank has had a fluctuating record of success in terms of their finances over the years. It reported a net loss of 2,494 crores for the fiscal year 2018-19, the primary cause of which was a large increase in money set aside to cover bad loans. Nevertheless, during the subsequent financial year 2019-20, the bank achieved a net profit of 157 crores, mostly attributable to lower provisions for bad loans.

The asset quality of Andhra Bank has been cited as a source of concern in the past. The amount of the bank's gross non-performing assets (NPAs) in 2019 was 16.44%, a percentage greater than the industry average. However, the bank had taken many steps to enhance the quality of its assets, including increasing the number of recovery activities, and as a result, its gross nonperforming assets were down to 14.71% in March of 2020.

Andhra Bank has had a less than stellar performance in terms of its finances, but it is important to point out that the bank no longer exists as a separate organisation because it was merged with Union Bank of India.

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XII, Issues– III May – June, 2023

OPEN ACCESS Original Research Article

Before the merger, Corporation Bank had experienced difficulties in its ability to perform financially during the previous few years. The bank reported a net loss of Rs 6,642 crore for the fiscal year 2019-20 due to a high provision for bad loans. This was because the bank had a lot of bad loans. Compared to the previous year, when the bank had posted a net profit of Rs 605 crore, this was a considerable decrease.

Corporation bank needs help dealing with a high number of these NPAs. The bank had a gross nonperforming asset ratio of 12.65% for the quarter ending in June 2020, which was a greater percentage than the average for public sector banks in India. It is essential to remember that a bank's performance can be impacted by a number of different factors, including the economic climate, the policies of the government, and the decisions made by management. As a result, it is necessary to consider the broader banking business and the economic conditions in India when thinking about this information.

Reference:

Jeyalakshmi, P. R., & Rani, A. S. L. (2020). *Merger and Consolidation of Indian Public Sector Banks - An Analysis*. *1*.

Milojičić, M. (2020). the Impact of Internal Marketing on Employee Satisfaction in the Banking Sector. *Knowledge International Journal*, *V*(2), 36–48. https://ikm.mk/ojs/index.php/KIJ/article/download/4258/4076

Biswas, D. (2021). psychological empowerment and satisfaction of bank employees psychological empowerment and satisfaction of bank employees in west bengal *Ghosh Ananya*. *June*.

Practices, E., Union, A. T., Of, B., & Pradesh, A. (2022). analysis of determinants of quality of life on employee engagement practices at union bank of india , andhra pradesh. *January 2021*, 0–7.

Bulugahamulla, B., Premarathne, K., Hettiarachchi, A. A., & Nawaratne, N. (2017). *Impact of Colour on Worker Performance and Satisfaction in Sri Lankan Office Buildings with Reference to Bank Buildings in Gampaha District*. 262–268.

Adhikari, D. K., & Deb, P. (2013). Factors Influencing Job Satisfaction of Bank Employees. *SUMEDHA Journal of Management*, *2*(2), 22–31.

Pandya Nayak, D., Ravi Kumar, D., & Author, C. (2020). Customer Relationship Management Practices In Select Public And Private Sector Banks-Palarch's. *Journal of Archaeology of Egypt/Egyptology*, *17*(7), 12106.

Jeyalakshmi, P. R., & Rani, A. S. L. (2020). *Merger and Consolidation of Indian Public Sector Banks - An Analysis*. *1*.

Milojičić, M. (2020). the Impact of Internal Marketing on Employee Satisfaction in the Banking Sector. *Knowledge International Journal*, *V*(2), 36–48. https://ikm.mk/ojs/index.php/KIJ/article/download/4258/4076

Reddy, M. B. (2019). *EMPLOYEE JOB SATISFACTION OF COMMERCIAL BANKS IN ANDHRA PRADESH*. *VII*(25), 18–22.

Cite This Article:

**** Prof. Garad P. (2023).*** *Comparative Study of NPA of Andhra Bank and Corporation Bank Before Merger with Union Bank.*, ***Aarhat Multidisciplinary International Education Research Journal, XII (III) May-June, 5-11.***