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A STUDY ON MANAGEMENT OF NON PERFORMING ASSETS IN CO-OPERATIVE BANKS SPECIFICALLY IN KERALA

SINU.M
ASST. PROFESSOR IN COMMERCE
SCHOOL OF DISTANCE EDUCATION
UNIVERSITY OF CALICUT
MALAPPURAM

ABSTRACT

Co-operative banks play very important role in providing banking services to common man in their area of operation. If co-operative banks go in liquidation due to abnormal increase of Non-Performing Assets not only customers and staff members of that particular co-operative bank will suffer but all other co-operative banks will also get a major setback. Leading to severe damage to the reputation of entire co-operative sector, which is very important for the balance of economic development of our country. This study is aim to evaluate the present level of nonperforming assets in co-operative banks and also the recovery prospects of Non-Performing Assets in general, and also various methods adopted by the bank in the recovery process.

KEYWORDS

NPA, co-operative banks, management of NPA.

INTRODUCTION

Banking is the life blood of Indian economy. Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology.

Banking has three types of sectors, which provide finance to different sectors i.e. private sector, public sector and cooperative sector. The co-operative banking structure has developed very fast in India. Through cooperative societies it is possible to reach last man in village. They provide finance to agrarians at low rates of interest, and thereby relieve them from the clutches of the money lender. But the pin problem is recovery management. The unrecovered loan which is termed as NPA is a great headache for the banks especially in rural areas. The NPA impact on the performance of the bank in which it reduces its interest income, the net worth of the bank, demoralized the staff, hardens Capital Risk Adequacy Ratio which also restricts recycling of fund and hinders the desirable yield.

NON-PERFORMING ASSETS

An asset which ceases to generate income for the bank is called as Non-performing asset. Non-performing assets are those when loan given by a bank or financial institution and the borrower delays in payment of interest or principle amount within stipulated period. According to the guidelines, 'any loan repayment, which is delayed beyond 90 days, has to be identified as Non-performing assets. Banks are not allowed to book any income from Non-performing assets. They have to make provision for the Non-performing assets or keep money aside'.

MEASURES ADOPTED BY BANKS TO REDUCE NPA LEVEL

Looking to the situation of banks it is desirable to take effective measures to reduce the NPAs as low as possible. Managing these Non-performing assets is required in order to protect the interest of shareholders, depositors as well as increase the credit worthiness of bank. It is also advisable to increase the profitability by making the provision as well as expansion plan.

SECURITIZATION ACT

- Now this act is also applicable to all Urban Co-Operative Banks.
- According to this act Bank can take direct possession of the movable and immovable property mortgages against loans and sell out the same for such recovery, without depending on legal process in the court.

ONETIME SETTLEMENT

This scheme covers all sectors sub – standard assets, doubtful or loss assets as on 31st March 2000. All cases on which the banks have initiated action under the SRFAESI Act and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR are covered. However, cases of willful default, fraud and malfeasance are not covered. As per the OTS scheme, for NPAs up to Rs.10crores, the minimum amount that should be recovered should be 100% of the outstanding balance in the account.

SAHAKARANA ADALAT

It is a one-day settlement scheme, all the cooperative banks, higher officials, and defaulters are attended the programme. Here the officials conduct a discussion with the clients, and try to find out the reason for default and also in certain cases days of grace is allowed to the defaulters. Through this scheme by reducing the interest rate bank should be able to collect half of the amount.

DEBT RECOVERY TRIBUNAL

The Debt Recovery Tribunals have been established by the Government of India under an Act of Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. The Debt Recovery Tribunal is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act.

RESCHEDULING OF LOAN REPAYMENT

Repayment schedule may be fixed taking into account gestation or moratorium period, harvesting season, income generation, surplus available etc. If the repayment schedule is defective both with reference to quantum of installment and period of recovery, assets have a tendency to become NPA.

MONTHLY CONFERENCE

It is arranged by the bank with a view to reduce the overall NPA. Here the managers of all the branches file a report about the NPA level and also the areas of default. The higher official suggests remedial measures and helps them to reduce the NPA level. From 1-4-2012 the NPA of the bank does not exceed 10% of the advance.

NPA RECOVERY SECTION

In order to reduce the level of NPA, the bank has also developed a department that is NPA recovery section or department. This department continuously informs the borrower about the due date of repayment and other details regarding the repayment of loan. Registered demand notice and registered notices are issued by this department and also personal visit is conducted in order to recover the NPA.

LITERATURE REVIEW

S. N. Bidani (2002) feels that Non-Performing Assets are the smoking gun threatening the very stability of Indian banks. NPAs wreck a bank's profitability both through the loss of interest, income and write-off of the principal loan amount itself. In a bid to stem the lurking rot, RBI issued in 1993 guidelines based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs and reducing NPAs was treated as a 'national priority'.

Prof. S. K. Kulkarni (2005) found that the co-operative bank was miserably failed to keep pace with the banking sector reforms. The other banking groups have significantly surpassed the co-operative banking sector, not only in the performance but also in the market share in the core area so far dominated by the cooperative banks. If things do not improve, the co-operative banking sector may cease to exist by 2020. The high amount of NPA's is one major aspect for this failure.

Dr. James Mathew (2006) observed that rising over dues and high level of NPAs among the co-operatives in the country is a matter of serious concern. The politicization of the recovery management has further vitiated the recovery climate. The growth in over dues has been much higher than the growth in loans outstanding. For example, in Kerala, while the loans outstanding with the PACS in the state increased by 55% between 1999 and 2003, the loans over dues increased by 113% (The Hindu, 2004). This alarming situation in over dues has to be seriously addressed.

NEED AND SIGNIFICANCE OF THE STUDY

The accumulation of huge non-performing assets in banks has assumed great importance. The depth of the problem of bad debts was first realized only in early 1990s. The magnitude of NPAs in banks and financial institutions is over Rs.1,50,000 crores. While gross NPA reflects the quality of the loans made by banks, net NPA shows the actual burden of banks. The banks and financial institutions have to take the initiative to reduce NPAs in a time bound strategic approach.

STATEMENT OF THE PROBLEM

Non-performing assets are those which are not been yielding revenue for a long period of time. The bank will always face the problem of NPA because of poor recovery of advances granted by the bank and several other reasons like adopting some poor recovery strategies so when the loan is not recovered from the bank effectively and efficiently that balance amount will become the NPA to the bank it may create some huge problem to the bank's financial status.

OBJECTIVES

1. To evaluate the level of NPA in the bank and the credit worthiness.
2. To study the recovery prospects of NPA in general, and also various methods adopted by the banks in the recovery process.

RESEARCH METHODOLOGY

The research project is descriptive and analytical in nature. The main source of primary data is collected through discussions with managerial personnel, executives and staffs. The secondary data were collected from annual reports (Balance Sheets, Profit & Loss Accounts) of the bank, internal circulated matter from RBI, RBI guidelines, Trend & Progress reports of RBI, Co-operative journals and from the web sites available on net. The collected data were classified, analyzed and tabulated in a systematic manner and presented here.

RESULTS AND DISCUSSION

The analysis and interpretation was carried through various tables and charts. The analysis was mainly done to know the management of the non-performing assets of the co-operative bank and its performance over the years.

TABLE 1: TOTAL LOAN PROVIDED BY COOPERATIVE URBAN BANK FROM 31-3-2011 TO 31-3-2015 (In lakh)

Term loan	Short term loan	Medium term loan	Long term loan
2011	14278.44	2051.84	72.30
2012	14945.19	2658.62	136.46
2013	11253.46	5518.83	433.55
2014	12680.03	6172.39	474.62
2015	7479.56	7424.36	589.66

Source: annual report

By analyzing the data, total short term loan issued by the bank in the year 2011 was 14,278.44 lakh and this was decreased to 7479.56 lakh in the year 2015. But medium term and long term loan shows an increasing trend from year to year.

FIGURE 1: TOTAL LOAN

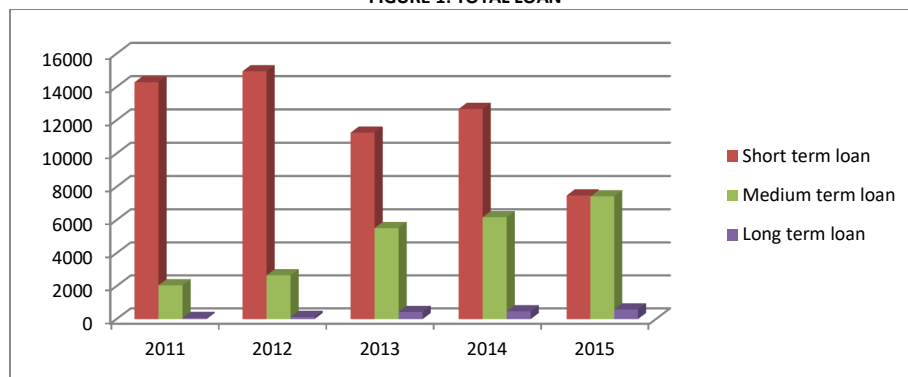


TABLE 2: DETAILS OF NPA (in lakh)

YEAR	2011	2012	2013	2014	2015
SUB-STANDARD ASSETS	182.90	201.52	725.33	498.41	327.11
DOUBTFUL ASSETS	155.87	200.08	140.03	107.79	148.91
LOSS ASSETS	.05	1.30	1.00	.49	.99
TOTAL NPA	338.82	402.9	866.36	606.79	477.01

Source: annual report

The data given shows that there is an increase in Nonperforming assets of the banks in the previous years and after that there is a decrease. The NPAs would destroy the current profit, interest income due to large provisions of the NPAs, and would affect the smooth functioning of the recycling of the funds. So the bank should take measures to reduce the rate of nonperforming assets.

FIGURE 2: TOTAL NPA

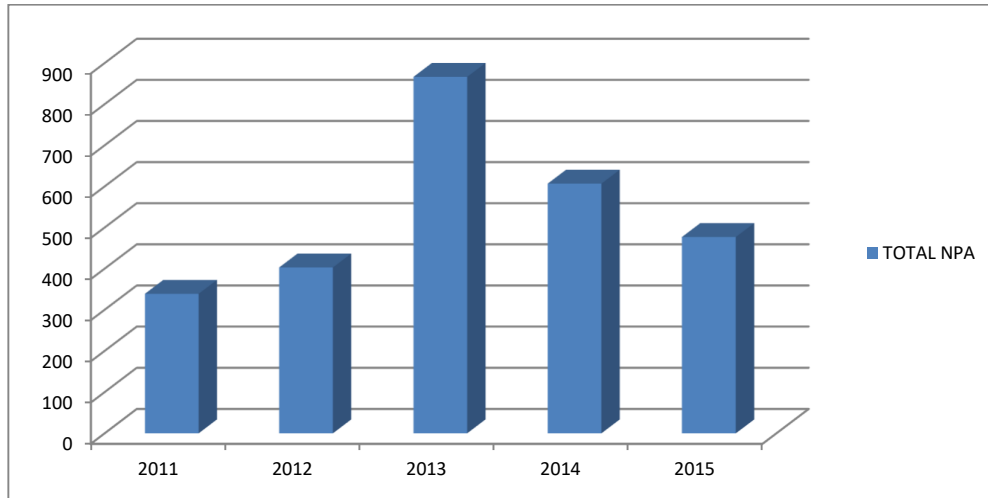


TABLE 3: CLASSIFICATION OF TOTAL ADVANCES

YEAR	2011	2012	2013	2014	2015
Total npa	338.82	402.9	866.36	606.79	477.01
Standard assets	2849.54	3718.54	4212.41	5087.08	6427.72
Total advances	3188.36	4121.44	5078.77	5693.87	6904.73

Source: annual report

The total advances provided by the bank is increasing year to year and also the rate of nonperforming assets are also shows the same in first three years. And it is peak in 2013, which is a bad signal for the bank. After that bank take serious steps to mitigate the rate. In 2105 it is reduced to 477. 01.

FIGURE 3

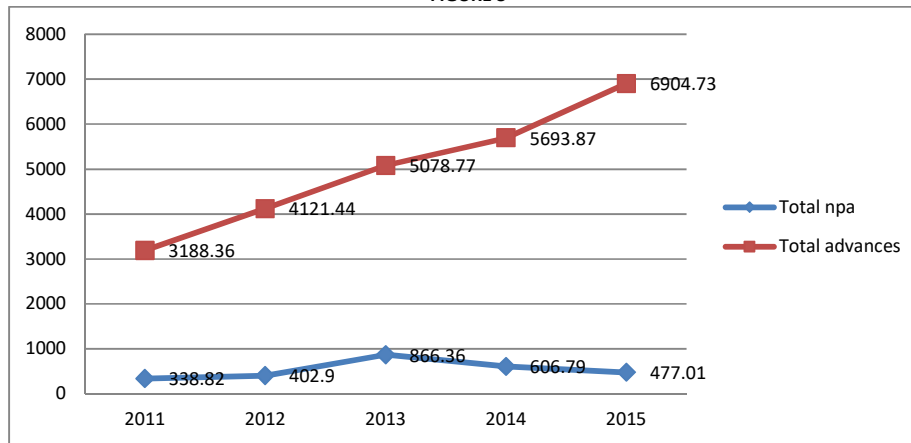


TABLE 4: TREND ANALYSIS (Amount in lakh)

YEAR	NET NPA
2011-12	127.84
2012-13	153.41
2013-14	409.56
2014-15	358.95
2015-16	223.94
2016-17	374.062
2017-18	413.836

The figure mentioned above shows a mounting tendency in non-performing assets of Cooperative Bank from 2011 to 2018. The NPA line begins from 127.84, and it is increased to 409.56 in 2013-14. In 2015-16 NPA rate is reduced to 223.94. But in 2017-18 it is again in peak (414.836).

FIGURE 4

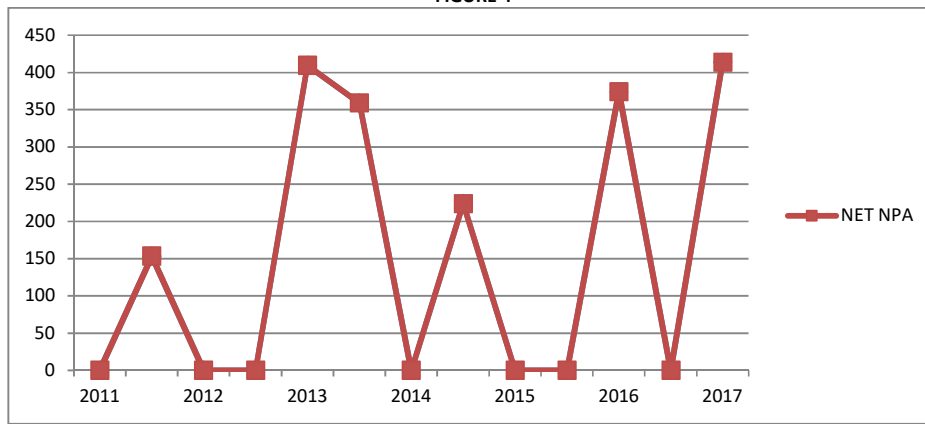


TABLE 5: IMPACT OF NPA ON BANK'S PROFITABILITY (amount in lakh)

CORRELATION BETWEEN NPA AND NET PROFIT							
YEAR	NET PROFIT (X)	NET NPA (Y)	dx	dy	dx dy	dx ²	dy ²
2011	219.59	679.72	22.822	65.838	1502.55	520.8437	4334.642
2012	150.19	696.40	-46.578	82.518	-3843.52	2169.51	6809.22
2013	172.21	582.80	-24.558	-31.082	763.311	603.0954	966.0907
2014	218.26	550.88	21.492	-63.002	-1354.04	461.9061	3969.252
2015	223.59	559.61	26.822	-54.272	-1455.68	719.4197	2945.45
TOTAL	983.84	3069.41	0	0.00	-4387.38	4474.775	19024.66
	MEAN 196.76	MEAN 613.88	$r = \frac{n \sum dx dy - (\sum dx \sum dy)}{\sqrt{[n \sum dx^2 - (\sum dx)^2]} \sqrt{[n \sum dy^2 - (\sum dy)^2]}}$				
CORREL = -.4805							

The correlation analysis shows a negative correlation between NPA and profitability of the bank. That is when NPA reduces, profitability of the bank increases and vice versa.

FINDINGS

Banking sector is one of the largest revenue generated sector in India. The non-performing assets mean those assets which are classified as bad assets which are not possibly be returned back to the banks by the borrowers. If the proper management of the NPAs is not undertaken it would hamper the business of the banks. The NPAs would destroy the current profit, interest income due to large provisions of the NPAs, and would affect the smooth functioning of the recycling of the funds.

SUGGESTIONS

1. Each bank must develop its own independent credit rating agency which should evaluate the financial capacity of the borrower before granting credit.
2. Based on the study it is suggested that the bank should keep Non-Performing Assets under the track.
3. The Co-operative Bank should follow even more stringent measure to tackle problem of non-performing assets.
4. As concern to future feasibility of the banks provision is necessary. It is advisable for the bank to classify the assets according to the prudential norms of Reserve bank of India and keep aside prescribed amount of provision as a reserve to future likelihood of bank concern.

CONCLUSION

Nowadays Non Performing Assets is one of the biggest problems have been facing by the cooperative societies. There is a direct link in between nonperforming assets and profitability of the bank. The bank can able to reduce the nonperforming assets; ultimately the bank can able to improve the profitability.

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