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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	STUDENT PEER MENTORING AS A STRUCTURED CO-CURRICULAR CLASS IN BUSINESS PROGRAMS <i>HAROLD P. LANGFORD</i>	1
2.	A TREND OF CURRENCY DERIVATIVES WITH SPECIAL REFERENCE TO HDFC BANK AND BOB <i>Dr. O. P. SINGH & RIYA SINGH</i>	4
3.	MANAGING WORK LIFE BALANCE BY WORKING WOMEN- A CASE STUDY IN JODHPUR <i>Dr. KAMALJIT BHATIA & Dr. SHILPI KULSHRESTHA</i>	8
4.	CUSTOMER RELATIONSHIP MANAGEMENT PRACTICES: IN HEALTH CARE SECTORS IN KARNATAKA (SELECTED HEALTHCARE UNIT) <i>SHIVAKUMAR K., KIRAN KUMAR D K & Dr. K. S. SARALA</i>	12
5.	SAVING HABITS OF RURAL HOUSEHOLDS IN BHAVANI TOWN <i>Dr. GAYATHRI BALAKRISHNAN.R & C. YASODHA</i>	18
6.	A STUDY ON NON-PERFORMING ASSETS IN NILGIRIS DISTRICT CENTRAL CO-OPERATIVE BANK LIMITED <i>K. MARAGATHAM & Dr. P. KANNAPIRAN</i>	23
	REQUEST FOR FEEDBACK & DISCLAIMER	27

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A STUDY ON NON-PERFORMING ASSETS IN NILGIRIS DISTRICT CENTRAL CO-OPERATIVE BANK LIMITED

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ABSTRACT

The present article aims at examining the Concept and Status of Non-Performing Assets (NPAs) in Nilgiris District Central Co-operative Bank Limited (NDCCB). This article analyses the position and growth of standard assets, sub-standard assets, doubtful assets, loss assets, gross NPAs, provision for NPAs and net NPAs are discussed with the help of percentage analysis and compound annual growth rate. The NDCC Bank Ltd. continue to play an important role, the relatively high levels of NPAs have made this bank weak and vulnerable. Gross NPAs of the NDCC Bank Ltd. stood at Rs. 9704.64 lakhs (14.19% of total gross advances) and the net NPAs at Rs. 9492.50 lakhs as on March 31, 2015 (16.68% of total net advances). These figures pose a severe threat to the profitability, liquidity, and solvency position of this bank. In the context of global competition, it is a paramount task for the bank to manage their NPAs more efficiently so that they can change their character from non-performing assets to performing assets.

KEYWORDS

doubtful assets, loss assets, non-performing assets, standard assets, sub-standard assets.

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1. INTRODUCTION

In line with the international practices and as per the recommendation made by the Committee on financial system under the chairmanship Shri M. Narasimham. The RBI has introduced, in a phased manner, prudential norms for income recognition, Asset Classification and Provisioning for the advances portfolio of the Banks so as to move toward greater consistency and transparency in the published account.

The introduction of prudential norms has ushered in a new era in the reform process of banking industry as a whole. The identification of the NPAs as per the prudential norms specified by the RBI is a pre-requisite for the proper management of the NPAs. As per the guidelines of the RBI, the State Co-operative Banks and the Central Co-operative Banks started implementing the prudential norms from the accounting year 1996-1997. One of the major reasons cited for the introduction of the norms has been the persistence of Non-Performing Assets (NPAs) in banks.

Loans or advances given by banks become Non-Performing when the interest and /or instalment of principal remains overdue for more than 90 days. Advances which do not generate any income and which are doubtful affect the very vital function of banks viz. intermediation (mobilizing savings and providing finance for investment).

Loans and advances given by banks are classified as standard assets, sub-standard assets, doubtful assets and loss assets. Sub-standard assets, doubtful assets and loss assets together are called Non-Performing assets. Where assets are Non-performing a provision is required to be maintained.

2. A PROFILE OF NDCC BANK LIMITED

The Nilgiris District Central Co-operative Bank Limited was registered on 12-05-1954, and was assigned to No. J.90, started to function on 14-05-1954. The Nilgiris District Central Co-operative Bank covers the entire Nilgiris District. The bank has 17 branches covering 6 taluks.

The area of operation of the bank covers Six Taluks such as Udhagamandalam, Coonoor, Gudalur, Kotagiri, Kundah and Pandalur. The total number of revenue villages is 54 and it has a total population of 8.05 lakhs. The major crops are potato, tea, coffee, vegetables, padgier, ginger and the like. The Bank's Head Office is situated in Charring Cross, Udhagamandalam.

By end of the 31 March, 2015 the total deposits of the banks stood at Rs. 33866.58 Lakhs. During the period, the total investments of the banks amounted to Rs. 14110.35 Lakhs. The Gross NPAs to Gross Advances ratio also was considerably high from 57.96 per cent in 2005-06 to 88.19 per cent in 2014 - 15. NPAs affect the liquidity, profitability and equity of the banks hence, the present study elucidates the magnitude of NPAs.

3. MEANING OF NPA

An asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is defined generally as a credit facility in respect of which interest and/or instalment of principal has remained "past due" for two quarters or more. An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. It was, however, decided to dispense with the "past due" concept with effect from 31 March 2001.

4. ASSET CLASSIFICATIONS

The RBI has issued guidelines to banks for classification of assets into four categories.

i) STANDARD ASSETS

Assets that generate revenue without any sign of sickness.

ii) SUB-STANDARD ASSETS

Assets that do not yield interest income for a period of 12 months.

iii) DOUBTFUL ASSETS

These are NPA exceeding one year.

(a) Doubtful 1 – NPA for a further period of 12 months i.e. for first 24 months.

(b) Doubtful 2 – NPA for 24 months to 36 months

(c) Doubtful 3 –NPA for over 36 months

iv) LOSS ASSETS

Debt servicing is completing nil and the borrower is in no situation to pay the loan back.

5. TYPES OF NPAs

NPAs are divided into two types namely Gross NPAs and Net NPAs.

i) GROSS NPAs: Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the Non-standard assets Viz., as Sub- Standard, Doubtful and Loss Assets.

ii) NET NPAs: Net NPAs are those type of NPAs from which the bank has deducted the provisions regarding NPAs. The Net NPA shows the actual burden of banks. The provisions against the NPAs are to be made as per RBI guidelines.

6. THE REASON FOR RISING NPAs

The major reasons for high NPAs are:

- The slow, inefficient and decrepit legal system.
- Diversion of funds and diversification of business.
- Demand recession.
- Depressed capital market.
- Changes in government policy.
- Environment and pollution control measures.
- Fear psychosis among banks for compromise settlements.
- Industrial sickness and labour problems.
- Improper and inadequate credit appraisal.
- Poor post loan supervision and follow up (Policing of assets by banks).
- Product /marketing /Business failure.
- Inefficient management.
- Inappropriate technology.
- Changes in Macro Economy /Resources.
- Time /Cost overrun of projects implementation.
- Inadequate supervision.
- Delay in sanction of loan.
- Wilful default.
- Siphoning of funds.
- Frauds.
- Misappropriation.
- Political compulsions and corruption etc.

The Indian legal system had been more geared to project borrowers and not lenders. The legal system in India which had been long-drawn and ineffective has definitely affected the recovery climate in banks.

7. STATEMENT OF THE PROBLEM

The main objective of the NDCC Bank Ltd. is the economic and social welfare of its members. To fulfill the economic obligations, the bank offers more loans and advances to its members. More than 50 percent of the farmers in Nilgiris District depend on the Bank for the short and medium term credit requirements. More loans and advances provided by the bank further create high NPAs. The loan portfolio with NPA reduces the liquidity and profitability position of the NDCC Bank Ltd. The next loan cannot be issued in time when the capital is locked idle; it will lead to erosion of financial resources. When the resources deployed by the NDCC Bank Ltd. are locked up as NPAs and overdues respectively, the NDCC Bank Ltd. cannot able to get refinance from the apex bank. Not only high NPAs affect the profitability of the banks, but they also put stress on the financial system as a whole, as more capital has to be brought in. Besides, as NPAs increase, banks tend to shy away from further lending. Hence a complete examination into the reasons for higher NPAs would help suggest measures for controlling NPAs, improving banking operation and ultimately for reducing NPAs at the NDCC Bank Ltd. level.

8. LITERATURE REVIEW

K.C. Chakraborty (2005) in his article pointed out that the banks have to face several challenges in managing NPAs. Besides ensuring better scrutiny of the credit proposals before sanction, banks need to watch closely and monitor the assets from the beginning. In fact, NPA management begins right from the selection of borrowers.¹

T. Vanniarajan (2006) focused his paper on the problem of NPAs and found that they were more in public sector banks as compared to other banks. NPAs have a direct impact on a bank's profitability, liquidity and equity.²

C. Lakshmanan and A. Dharmendran (2007) in their article said that the problem of Non-Performing Assets (NPAs) is less in the Chennai Central Co-operative Bank as compared to the other CCBs in Tamil Nadu. They also focused on the impact of NPAs on the Net Profit, Investment, Legal Expenses and Spread of the bank. The study concludes that the effective management of NPAs is essential to strengthen the financial position of the bank.³

C. Lakshmanan and A. Dharmendran (2007) "A study has been made by entitled financial performance of DCCBs in Tamil Nadu" taking into account some selected financial indicators namely deposits, loans and advances and over dues of DCCBs in Tamil Nadu for a period of seven years. The study revealed that deposits, loans and advances, and annual growth rate are positive and the total over dues is negative annual growth rate.⁴

Rajendar, K. (2009) examined the management of the NPA in PSBs in India using statistics available for 1999-00 to 2006-07. Inference based on analysis showed a decrease in NPA evidenced by net NPA ratios. The findings support various reform measures particularly SARFAESI Act 2002, ARCs, Lok Adalats, One Time Settlement (OTS) and DRTs.⁵

A. Dharmendran (2008) in his thesis "Non-Performing Assets in District Central Co-operative Banks in Tamil Nadu – An Empirical Study" has assessed the NPAs include sub-standard assets, doubtful assets and loss assets. The growth rates of sub-standard assets, doubtful assets and loss assets were positive in a majority of the DCCBs in Tamil Nadu. The positive growth rates of these assets would have led to falling profitability and erosion of the net worth of the banks. The banks have to minimise these assets considerably through effective recovery proceedings for earning profit.⁶

Rajeev, M., Mahesh, H.P., (2010): This exploratory paper examines the Indian trends of NPAs from various dimensions and explains how recognition of the problem continuous monitoring, can reduce it to a greater extent.⁷

Dr. A. Dharmendran (2011) in his study an attempt has been made to analyse the NPAs position and growth of District Central Cooperative Banks (DCCBs) in India. Gross NPAs of DCCBs in India stood at Rs.18,728 crores (20.50) per cent of total Gross Advances) and Net NPAs at Rs.6,653 crores as on March 31,2008 (8.39 per cent of total Net Advances). These figures pose a severe threat to the profitability of these banks. The NPAs hit banks in several ways. Not only banks lose income on these assets, but they are bad for the economy.⁸

Dr. A. Dharmendran (2012) in his paper found that the growth rates of Gross NPAs and Net NPAs in all the StCBs in India were 5.90 per cent and 2.08 per cent per annum respectively. The problems of gross and net NPAs were relatively high during the study period increase in provision for NPAs will lead to decrease in net NPAs and vice versa. NPA is not just problem for banks; they are bad for the economy.⁹

K.K. Siraj and P. Sudarsanan Pillai (2013) in their paper studied about the relative efficiency of different bank groups ranked banks based on the indicators of NPAs.¹⁰

L. Mehta. & M. Malhotra. (2014) in their paper found that flow of NPA is more in public sector banks and less in private sector banks. Recession was considered as a one of the reason for the continuous increase in the NPAs.¹¹

Shailinder Sekhon & Jasmine Kaur (2015) in their paper concluded that NPA adversely impact liquidity and also future income earning capacity.¹² This reason is there was no effective legal framework to safeguard the real performing assets of the bank.¹²

9. OBJECTIVE OF THE STUDY

The objective of this article is to assess the position and growth of NPAs in NDCC Bank Ltd.

10. RESEARCH METHODOLOGY

The data collected from secondary sources for the ten years from 2005-2006 to 2014-2015. The data relating to assets structure of the bank collected from the annual reports and also from unpublished records, audit reports available in the bank. Necessary information also gathered from the bank staff by means of discussions held with the bank auditors and account section. It is suitably compiled and analysed for the purpose of study. The statistical results are obtained by using SPSS Version 25.

Compound annual growth rates were estimated for the classification of assets in NDCC Bank Ltd. An exponential function of the following type was employed to estimate the Growth rates.

$$Y_t = abt$$

Where,

Y_t = Classification of assets

a = Intercept

b = Parameter

t = Years

Compound Annual Growth Rate = (Anti log of $b-1$) \times 100

11. LIMITATION OF THE STUDY

The present study covers a period of ten years for secondary data from 2005 - 06 to 2014 - 15 for study purpose. Data were available up to 2014 - 15 during the field work and accordingly data up to 2014 - 15 were alone used for analysis. This may not be fully relevant to the later period.

12. ANALYSIS OF THE STUDY

TABLE 1: TRENDS IN NPAs OF NDCC BANK LTD. DURING MARCH 2006 - 2015 (Rs. in Lakhs in Per Cent)

Sr.No	Asset Type	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR
1.	Standard Assets	1867.54 (42.04)	1968.87 (13.80)	3729.04 (17.22)	4874.86 (21.17)	6858.16 (27.70)	8966.78 (30.52)	1010.55 (15.99)	1105.15 (47.30)	1205.15 (21.76)	1299.98 (11.81)	- 3.56
2.	Sub-Standard Assets	530.04 (11.93)	4759.25 (33.35)	7269.32 (33.58)	2834.30 (12.31)	6689.53 (27.02)	5171.67 (17.60)	1600.59 (25.32)	415.97 (17.81)	2032.83 (36.71)	2255.94 (20.50)	15.59
3.	Doubtful Assets	1393.26 (31.36)	3171.68 (22.23)	3527.93 (16.29)	5525.00 (23.99)	5000.71 (20.20)	5336.07 (18.16)	2286.72 (36.18)	343.53 (14.70)	1553.57 (28.06)	1679.50 (15.26)	1.89
4.	Loss Assets	651.51 (14.67)	4368.72 (30.62)	7125.18 (32.91)	9792.88 (42.53)	6209.24 (25.08)	9906.50 (33.72)	1423.05 (22.51)	471.74 (20.19)	745.94 (13.47)	5769.20 (52.43)	24.37
5.	Total Gross NPAs (Total of 2 to 4)	2574.81 (57.96)	12299.65 (86.20)	17922.43 (82.78)	18152.18 (78.83)	17899.48 (72.30)	20414.24 (69.48)	5310.36 (84.01)	1231.24 (52.7)	4332.34 (78.24)	9704.64 (88.19)	14.19
6.	Total Gross Advances (Total of 1 to 4)	4442.35 (100)	14268.52 (100)	21651.47 (100)	23027.04 (100)	24757.64 (100)	29381.02 (100)	6320.91 (100)	2336.39 (100)	5537.49 (100)	11004.62 (100)	9.50
7.	Total Provision for NPAs	545.7	2134.87	1254.67	1454.87	2123.21	1345.32	421.32	134.87	2541.21	212.14	- 9.02
8.	Total Net NPAs (5-7)	2029.11	10164.78	16667.76	16697.31	15776.27	19068.92	4889.04	1096.37	1791.13	9492.5	16.68
9.	Total Net Advances (6-7)	3896.65	12133.65	20396.8	21572.17	22634.43	28035.7	5899.59	2201.52	2996.28	10792.48	10.72
10.	Gross NPA Coverage Ratio (7/5*100)	21.19	17.36	7.00	8.01	11.86	6.59	7.93	10.95	58.66	2.19	

(-) **Figures in Bracts** at Sr.No.1 to 5 are percentage to respective year's Gross Advances (Sr.No.6) and at Net NPAs (Sr.No.8) to Net Advances (Sr.No.9).

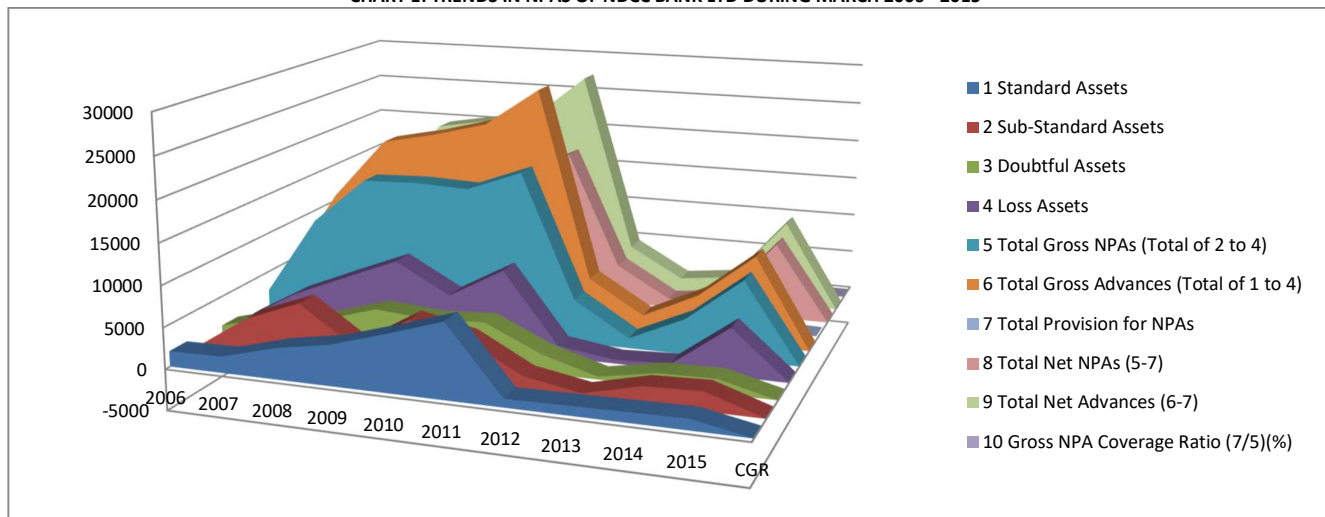
Basic Source: Annual Report of Nilgiris District Central Co-operative Bank Ltd. (NDCCB), 2005 - 06 to 2014- 15.

Note: CAGR – Compound Annual Growth Rate.

INTERPRETATION

Table 1 shows the trends in NPAs during the study period for the NDCC Bank Ltd. Gross NPAs of NDCC Bank Ltd. (Table-1) stood at Rs.9704.64 lakhs, as on March end 2015 consisting of Rs.2255.94 lakhs in sub-standard category, Rs.1679.50 lakhs in doubtful and the remaining Rs.5769.20 lakhs in loss category where the salvage value in negligible. In percentage terms, Gross NPAs amounted to 88.19 per cent of gross advances consisting of 20.50 per cent in sub-standard, 15.26 per cent and 52.43 per cent in doubtful and loss categories respectively. Though in absolute terms the gross NPAs went up from Rs.2574.81 lakhs, as on March end 2006, to Rs.9704.64 lakhs in 2015 growing @ 14.19 per cent per annum, there was increased in percentage terms 57.96 per cent to 88.19 per cent during the said ten years period due to obvious increase of the denominator at a rate faster than the numerator. As the provision against NPAs come down from Rs.545.7 lakhs to Rs.212.14 lakhs during 2006 to 2015 growing @ - 9.02 per cent per annum. The net NPAs went up from Rs.2029.11 lakhs in 2006 to Rs.9492.5 lakhs in 2015 growing @ 16.68 per cent per annum. The coverage ratio of provision to gross NPAs was 21.19 per cent in 2006 and come down to 2.19 per cent in 2015. The following **Chart 1** clearly explains the position and growth of various assets and NPAs in NDCC Bank Ltd., during the period 2005-2006 to 2014-2015.

CHART 1: TRENDS IN NPAS OF NDCC BANK LTD DURING MARCH 2006 - 2015



13. FINDINGS AND SUGGESTIONS

- NPAs include sub-standard assets, doubtful assets and loss assets. The growth rates of sub-standard assets, doubtful assets and loss assets were positive in the NDCC Bank Ltd. with 15.59 per cent, 1.89 per cent, and 24.37 per cent per annum respectively. The positive growth rates of these assets would have led to falling profitability and erosion of the net worth of the banks. The banks have to minimise these assets considerably through effective recovery proceedings for earning profit.
- The growth rates of Gross NPAs and Net NPAs in the NDCC Bank Ltd. were 14.19 percent and 16.68 per cent per annum respectively. The problems of NPAs together (both in gross and net terms) were relatively high during the study period decrease in provision for NPAs will lead to increase in Net NPAs, and vice versa. NPA is not just a problem for banks, they are bad for the economy. The money locked up as NPA is not available for productive use and to that extent the bank seek to make provisions for NPA or write them off. It adversely affects their profit and results in a higher rate of interest to their diligent borrower customers. This also raises the cost of administration. The steps taken at the appropriate time may help in avoiding NPAs. Qualitative appraisal, supervision and follow up should be taken up for the present advances to avoid future NPAs.
- Positive growth rates of standard assets were found in the NDCC Bank Ltd. with - 3.56 per cent per annum. The task of containment of NPAs by arresting slippage of accounts from standard assets to NPAs was a cause of concern for almost the bank due to the government policy of liberal credit to farmers and other weaker sections under priority sector loan. Relentless monitoring and introduction of loan review mechanism of standard assets may be of some help in containing the slippage to NPAs.
- The positive growth rates in provision for NPAs in the NDCC Bank Ltd. with - 9.02 per cent per annum result in the growing problem of the existence of NPAs. This suggests that the quality of assets must be improved through an effective credit delivery system and an effective recovery mechanism.

14. CONCLUSION

The NPAs of NDCC Bank Ltd. is considered relatively high by international standards. NPAs are a severe drain on the profitability of the bank. On the one hand, no income on such accounts can be recognized and on the other hand, the certain amount of provision has to be made from the profit, depending on the asset classification and availability of security. This has double - impact on profitability – No interest on such dead asset and need to maintain Capital Adequacy Ratio (CAR). Profit of NDCC Bank Ltd was affected by the sudden introduction of the concept of NPAs and Income Recognition norms. NPAs are an important parameter in the analysis of financial performance of the bank. So, "Successful management per-supposes that the right type, right time and right amount of credit is given to the right type of client". Reduction of NPAs is necessary to improve the profitability of the bank. To solve the problem of existing NPAs qualitative appraisal, supervision and follow up should be taken up for the present advances to avoid future NPAs.

If the study could help the planners and officials of the co-operative banks in removing the problem of NPAs. It is hoped that this endeavor will provide the basis for further research in other banks of India. The Author has the satisfaction of having undertaken a socially relevant study.

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