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NON PERFORMING ASSETS MANAGEMENT IN KARNATAK CENTRAL CO-OPERATIVE BANK LTD. DHARAWAD

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ABSTRACT

Non Performing Assets surfaced suddenly in the Indian banking scenario around the eighties. In the midst of turbulent structured changes overtaking the international banking institutions and where the global financial markets were undergoing sweeping changes. Management of Non Performing Assets nowadays is a critical performing area for banks. It is better for Indian banks to try for the international standard in terms of efficiency, productivity, profitability, assets recognition norms, and provisioning and capital adequacy to compete in the competitive new economy. Non Performing Assets (NPA's) are one of the major areas of concern for the Indian banking industry. The strength of a Bank and its health are determined by the quality of assets it possesses. Non-Performing Assets are like a double edged sword. They do not generate any income, whereas, the bank is required to make provisions such as assets. Thus Non-Performing Assets are the assets which show how healthy the bank is, so most of the banks are still in the process of decreasing the NPA's. And they still don't find the reasons behind the assets turning into NPA's

KEYWORDS

N.P.A, Advances, time series, prudential norms, provisioning.

INTRODUCTION

 Non Performing Assets surfaced suddenly in the Indian banking scenario around the eighties. In the midst of turbulent structured changes overtaking the international banking institutions and where the global financial markets were undergoing sweeping changes. Management of Non Performing Assets nowadays is a critical performing area for banks. It is better for Indian banks to try for the international standard in terms of efficiency, productivity, profitability, assets recognition norms, and provisioning and capital adequacy to compete in the competitive new economy. Non Performing Assets (NPA's) are one of the major areas of concern for the Indian banking industry. The strength of a Bank and its health are determined by the quality of assets it possesses. Non-Performing Assets are like a double edged sword. They do not generate any income, whereas, the bank is required to make provisions such as assets. Thus Non-Performing Assets are the assets which show how healthy the bank is, so most of the banks are still in the process of decreasing the NPA's. And they still don't find the reasons behind the assets turning into NPA's

WHAT IS N.P.A.?

With a view to moving towards International best practices and to ensure greater transparency the '90 days overdue' norm for identification of Non Performing Assets has been adopted by the R.B.I. (w.e.f. 31.03.2004)

So NPA refers to,

- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- The Account remains 'out of order' for a period of more than 90 days. In respect of an overdraft/ C.C.
- The bills remains 'overdue' for a period of more than 90 days in the case of bills purchased and discounted.

"Non Performing Asset" management is a key subject which plays an important role in deciding the overall performance of the Bank. Therefore, the subject of "Non Performing Asset" is chosen for the project work. Accordingly the project is undertaken at **Karnataka Central Co-operative Bank Ltd, Dharwad.**

MAIN REASONS FOR ACCOUNTS BECOMING NPAs

- Units closed
- Borrower Absconding
- Sale of Assets
- Diversion of Funds
- Willful Default
- Non Renewal of the Limits
- Interest/Installments not paid.
- Non repayment of loans due to natural calamities such as drought, floods, earthquakes etc.
- Lack of verification of his/her securities.

REASONS FOR NPAs IN INDIA

- Corruption
- Judicial system flaws
- Nonexistent fear of penalties
- Inefficient credit appraisal systems
- Lack of technology, methodology and data support for scientific credit appraisal

WAYS TO REDUCE NPAs

- Personal contacts.

- Frequent follow-ups by bank officials.
- Issue of periodical notices.
- Adjustments of his/her O/S deposits.
- Apply of Scientific for appraisal before the loan is disbursed and monitor it closely in real time.
- Conduct recovery Campaign
- Break up recovery to branch level network
- Take every NPA case as a separate issue and analyze the need for further funding from an economic point of view.
- Implement a system for selecting a good borrower.

EFFECTS OF NPAs

As the number of accounts become NPAs this will lead to additional provisions which has to be made and these provisions are made out of profits earned by the Bank. Ultimately it leads to reduction in profits.

PREREQUISITES TO CONTROLLING NPAs

1. Governance :

- Independent oversight board with clear mandate.
- Defined and transparent procedures
- Improved reporting standards

2. Greater focus on restructuring :

- The quality and speed of asset resolution is key
- Taking ownership of NPAs and proactive management
- Working with debtors to improve cash-flow of assets underlying NPAs.

3. Greater powers and institutional capabilities:

- For example, power to separate bad management from the debtor and to liquidate debtors, which cannot be expeditiously restructured.
- Training, knowledge Transfer
- Leadership

4. Incentives and disciplines for banks:

- Enhanced accountability of Banks and Bank managers
- Ensure banks put in place risk analysis and credit management systems
- Ultimate burden not transferable to AMCs.

5. Greater protection of creditor rights:

- Credible liquidation procedures and efficient secured transaction processes
- Triggers and incentives for insolvency
- Strong and Credible regulators, free from political pressure.

6. The Road to Recovery:

- The key Facilitators
- Early detection
- Speed
- Voluntary references
- Facilitation and quick arbitration.

NEED FOR THE STUDY

Non Performing Assets (NPA's) are one of the major areas of concern for the Indian banking industry. The strength of a Bank and its health are determined by the quality of assets it possesses. Non-Performing Assets are like a double edged sword. They do not generate any income, whereas, the bank is required to make provisions such as assets. Thus Non-Performing Assets are the assets which show how healthy the bank is, so most of the banks are still in the process of decreasing the NPA's. And they still don't find the reasons behind the assets turning into NPA's. Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms, or in other words it is defined as the risk that a firm's customer and the parties to which it has lent money will fail to make promised payments is known as credit risk. The exposure to the credit risks large in case of financial institutions, such commercial banks when firms borrow money they in turn expose lenders to credit risk, the risk that the firm will default on its promised payments. As a consequence, borrowing exposes the firm owners to the risk that firm will be unable to pay its debt and thus be forced to bankruptcy.

PROFILE OF KARNATAKA CENTRAL CO-OPERATIVE BANK

The bank is established in the year 1916 with the share capital of Rs. 30000 under the provision of Co-Op act 1912. The area of operation Dharwad and Belgaum districts subsequently the area of the operation is restricted to Dharwad district. The bank is started with the objective to provide financial assistance for agricultural and its allied activities immense efforts, great foresight, accurate planning and dedication of promoters paved the way to success of the KCC bank. As one of the leading Co-operative bank in India

The KCC bank has been serving to the best satisfaction of the agricultural and non-agricultural members since last eight decades. But in last ten years the bank has advanced agriculture and non-agriculture loans without proper security and without getting proper securities. So the recovery was becoming grinding halt, which has severely affected on the financial position. Such a position that a bank was not able to pay depositors money at least meager amount. NABARD has inspected the bank U/S 35(6) of Bank Regulatory Act 1949 to its financial position as on 31st March 2001 and observed the bank has failed to comply to with section 11(1) of Bank Regulatory Act 1949 and most of the loan outstanding are over dues and came under NPA due to very poor recovery since last three years.

OBJECTIVES OF THE STUDY

1. To study the classification of the Non Performing Assets of bank.
2. To know why account becomes Non Performing Assets and the steps taken by the bank to reduce Non Performing Assets.
3. To study the movements of Non Performing Assets and its effects on Bank.
4. To find tools to control Non Performing Assets.

DATA COLLECTION METHOD

To fulfill the objectives of the study, the researcher has been taken into considerations secondary data. The data was collected from the Magazines, Annual reports, Internet of the Karnatak Central Co-operative Bank Ltd. Dharwad. Also collected from books, journals, websites etc. Various ratios have been computed & Time series was used to analyse and interpret the NPA's of KCC Bank Ltd. Dharwad.

A) DIFFERENT TYPES OF RATIOS

1. RATIO OF GROSS NPA TO TOTAL ADVANCES

TABLE 1 (Rs.In lakh)

Year	Net Advances	Gross NPA	GNPA (%)
2006-07	24661.50	11896.91	48.24
2007-08	23380.47	11267.53	48.19
2008-09	22237.28	10603.79	50.66
2009-10	22877.00	9031.41	39.47
2010-11	29426.89	5850.25	19.88

Source: Bank Annual Reports

Interpretation

In the year 2006-07 the percentage of GNPA was 48.24%. It declined in the year 2007-08 to 48.19%, it shows positive indication and again it increases to 50.66% in the year 2008-09. And again it is declined for the next two years i.e. for 2009-10 it is 39.47% and for 2010-11 it is 19.88%

2. RATIO OF NET NPA TO TOTAL ADVANCES

TABLE 2 [Rs.In Lakh]

Year	Net Advances	Net NPA	NNPA (%)
2006-07	24661.50	6748.46	27.36
2007-08	23380.47	6333.18	27.08
2008-09	22237.28	6705.37	30.15
2009-10	22877.00	5761.75	25.18
2010-11	29426.89	4616.63	15.68

Source: Bank Annual Reports

Interpretation

In the year 2006-07 the percentage of Net NPA was 27.36%. It declined in the year 2007-08 to 27.08%, and again it increases to 30.15% in the year 2008-09. And again it is declined for the next two years i.e. for 2009-10 it is 25.18% and for 2010-11 it is 15.68%.

3. PERCENTAGE OF SUB- STANDARD ASSETS OF KARNATAKA CENTRAL CO-OPERATIVE BANK

TABLE 3

Year	Sub-Standard	Total advances (Rs)	Percentage
2006-07	1087994	53072918	2.05%
2007-08	950127	52784846	1.8%
2008-09	1108942	48241154	2.29%
2009-10	232961	37131078	0.62%
2010-11	192365	35679097	0.53%

Source: Bank Annual Reports

Interpretation

The percentage of Sub-Standard Asset to Total Advances decreased from 2.05% to 1.8% in the year 2007-08 and it again increases to 2.29% in the year 2008-09. But for the next two consecutive years i.e. for the year 2009-10 and 2010-11 it is decreased from 0.62% and 0.53% respectively.

4. PERCENTAGE OF DOUBT FULL ASSETS OF KARNATAKA CENTRAL CO-OPERATIVE BANK

TABLE 4

Year	Doubt full Assets	Total advances (Rs)	Percentage
2006-07	1061458	53072918	2.00%
2007-08	1293228	52784846	2.45%
2008-09	627135	48241154	1.30%
2009-10	178229	37131078	0.48%
2010-11	89197	35679097	0.25%

Interpretation

The percentage of Doubt full Asset to Total Advances increased from 2.00% to 2.45% in the year 2007-08. and for the next three years it is continuously decreasing i.e. 1.30% for 2008-09, 0.48% for 2009-10, and 0.25% for 2010-11 respectively.

5. PERCENTAGE OF LOSS ASSETS OF KARNATAKA CENTRAL CO-OPERATIVE BANK

TABLE 5

Year	Loss assets	Total advances (Rs)	Percentage
2006-07	1087994	53072918	2.05%
2007-08	950127	52784846	1.8%
2008-09	1108942	48241154	2.29%
2009-10	232961	37131078	0.62%
2010-11	192365	35679097	0.53%

Interpretation

The percentage of Loss Asset to Total Advances decreased continuously five years i.e. from 2006-07 to 2010-11 as follows, for 2006-07 it is 0.23%, for 2007-08 it is 0.19%, for 2008-09 it is 0.14%, for 2009-10 it is 0.09%, and for the 2010-11 it is 0.04%

B) TIME SERIES

This method is also known as **Trend Projection Method**. Under this method past trend is projected in order to interpret the future trend. The past data can be arranged chronologically with regular intervals of time. Such data when arranged chronologically yield **Time Series**. The most popular method of analyzing time series is to project the trend of the time series. A trend line can be fitted through series either usually by means of statistical techniques such as the method of least squares. This method is very popular because it is simple and inexpensive and also because time series data often exhibit a persistent growth trend. With the help of Time Series method we can find out the advances for the year 2012.

This following table shows the Year and Advances amount of entire Karnataka Central Co-operative bank

TABLE 6 [Rs .In Cr]

Year	Advances
2006-07	24661.50
2007-08	23380.47
2008-09	22237.28
2009-10	22877.00
2010-11	29426.89

TABLE 7

Year	Advances [Y]	X	X x X=X ²	XY
2007	24661.50	-2	2	-49323.00
2008	23380.47	-1	1	-23380.47
2009	22237.28	0	0	0
2010	22877.00	1	1	22877.00
2011	29426.89	2	2	58853.78
N=5	ΣY= 122583.14	ΣX=0	ΣX²=6	ΣXY=9027.31

We can substitute the value of ΣY, ΣX, ΣX², ΣXY in the equation given below:

Y=a+bx

To find the value of 'a'

Solve the equation

$ΣY=Na+bΣX$

Where $ΣY=122583.14$, $N=5$, $ΣX=0$

$122583.14 = 5.a+b.0$

$122583.14 = 5a+0$

$122583.14 = 5a$

$a = 122583.14/5$

$∴ a = 24516.628$

To find the value of 'b'

Solve the equation

$ΣXY= aΣX+b ΣX²$

Where $ΣXY=9027.31$, $a=24516.628$, $ΣX=0$, $ΣX²=6$

$9027.31 = 24516.628 (0) + b (6)$

$9027.31 = 0+6b$

$9027.31 = 6b$

$b = 9027.31/6$

$∴ b = 1504.55$

Substituting the values of 'a' and 'b' in equation **Y=a+bx**

Y= 24516.628 + 1504.55x

Using the equation, we can find out the trend values for the previous years and estimate the Advances for the 2012. The trend values and estimates are as follows:

$Y_{2007} = 24516.628 + 1504.55 (-2) = 21507.528$

$Y_{2008} = 24516.628 + 1504.55 (-1) = 23012.078$

$Y_{2009} = 24516.628 + 1504.55 (0) = 24516.628$

$Y_{2010} = 24516.628 + 1504.55 (1) = 26021.178$

$Y_{2011} = 24516.628 + 1504.55 (2) = 27525.728$

$Y_{2012} = 24516.628 + 1504.55 (3) = 29030.278$

Thus the Bank is expected to have advances of **Rs.29030.278Cr** for the year **2012** based on Time Series Method.

FINDINGS

- KCC Bank classifies the Assets as Sub-Standard Assets, Doubt full Assets & Bad/loss Assets, depending upon their period of becoming due.
- The Percentage of Sub-standard Assets is decreased from 2.05% to 1.8% in the year 2007-08, increases to 2.29% in the year 2008-09. But for the year 2009-10 and 2010-11 it is decreased from 0.62% and 0.53% respectively.
- The Percentage of Doubt Full Assets to Total Advances increased from 2.00% to 2.45% in the year 2007-08. Next three years it is continuously decreasing i.e. 1.30% for 2008-09, 0.48% for 2009-10, and 0.25% for 2010-11 respectively.
- The percentage of Loss Asset to Total Advances decreased continuously five years.
- Bank is expected to have advances of Rs.29030.278Cr for the year 2012 based on Time Series Method.
- There has been a positive trend that has been in favor of KCC Bank.
- There has been a considerable reduction in the level of NPA.
- The Net NPA of KCC Bank is Nil for the last two years.
- The recovery has been made from the loss assets which provide an edge for the Bank to use the corpus to fund the priority sectors.
- The NPA level is bit low in KCC Bank as compared to the other commercial banks, and thus KCC Bank is giving stiff competition to other Banks.

SUGGESTIONS

- Immediate action has to be taken for reduction of NPA's.
- The KCC Bank has to go for securitization of those accounts, which has been in the NPA category from a long time. NABARD should restructure or rescheduled the accounts well before the accounts slip into NPA's.
- There should be frequent follow ups by the KCC Bank officials. In some cases the NABARD should perform personal visits for recovering NPAs.
- The KCC Bank should take every NPA case as a separate issue and analyze the need for further from an economic point of view.
- Effective Training and Guidance should be given to the recovery team of the Corporation in order to recover the dues from hardcore defaulter.

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