A STUDY ON MANAGEMENT OF NON PERFORMING ASSETS IN DISTRICT CENTRAL COOPERATIVE BANK

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ABSTRACT

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. Non-performing assets are one of the major concerns for banks in India. The issue of Non-Performing Assets has been discussed at length for financial system all over the world. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. This study deals with understanding the concept of NPAs, its magnitude and major causes for an account becoming non-performing, projection with special reference to Corporation Bank, Bagalakot and BDCC Bank, Bagalakot. In conclusion, on the basis of information available from both the banks i.e., Corporation Bank and BDCC Bank and the present financial schemes offered by Finance Ministry, Government of India. It was observed that, most of the loans became NPAs in the bank books around 1987 and it was only after 1991-92 that RBI worked out provisioning norms, the banking sector strengthening a bit. The observation made and analysis was carried out with better understanding of present and past scenario of NPA management. And suggestions are presented after thorough analysis of findings in our research work.

Introduction

Banking sector reforms in India has progressed promptly on aspects like interest rate deregulation, reduction in statutory reserve requirements, prudential norms for interest rates, assets classification, income recognition and provisioning. But it could not match the pace with which it was expected to do. The accomplishment of these norms at the execution stages without restructuring the banking sector as such is creating havoc.

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 and any other external and internal factors. For the past three decades India’s banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India’s growth process.

The Indian cooperative banking sector is facing a deep crisis. The Reserve Bank of India (RBI) has said gross non-performing assets (NPA) of urban cooperative banks (UCBs) shot up to Rs 11,922 crore for the fiscal2003-04. To make matters worse, RBI said apart from UCBs, central co-op banks have recorded NPAs of Rs 13,862 crore, and state co-operative banks’ NPAs was Rs 6,284 crore as on March 31st, 2003. In to, urban co-op banks, state co-op banks and central co-op banks have recorded NPAs of Rs 32,068 crore which is enough to fund 50 per cent of India’s Golden Quadrilateral road project. In its report on “Trend and Progress of Banking 2003-04”, RBI said while the deposits of 55 urban co-operative banks have risen to a staggering Rs 39,305 crore, their accumulated losses were Rs 2,320 crore. The deposits and advances of all UCBs were Rs 1,10,256 crore and Rs 67,930 crore respectively as on March 2004. RBI said there is no clear demarcation of regulatory powers between state government, NABARD and itself, which has resulted at times in cross-directives from the controlling agencies thereby undermining the working of co-operatives.

In order to reduce NPAs, RBI has banned loans to directors and their family members and also directed these banks to step up their statutory liquidity ratio (SLR) investments in government securities. This report explores an empirical approach to the analysis of Non-Performing Assets of Nationalized Bank and Cooperative Bank

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 a 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. In order to evaluate the performance of the Bagalkot District Central Co-operative Bank Ltd. It feels necessary to undertake the study regarding management of NPAs.

The identification of Account as NPA

**Definition of Non-performing asset:** According to Narasimham committee “An advance where a date of Balance sheet on amount paid to the bank (interest or instalment of the principal) is a part due for a period more than 90 days”.

**Bills Purchased & Discounted Facility:** The bills purchased / discounted amount should be treated as NPA if the bill remains over due and unpaid for a period of more than 90 days during the financial year. Overdue interest should be charged and taken to income account in respect of bills classified as NPA unless it is realized.

**Term Loan Facility:** Term loan is sanctioned to a borrower for acquisition of block / fixed asset like land, building, plant / machinery equipment, furniture, fixture etc, such loans with interest are payable over fixed period of time, say within 3 to years, as per pre-determined instalments depending on the repayment capacity of the unit based on its cash flow position.

A term loan will be treated as NPA if interest or instalments are not paid and is remaining over due for more than 90 days in a financial year.

**Cash Credit and Overdraft Facility:** As per the reserve bank of India guidelines a cash credit as overdraft account is to be treated as none performing asset if the account remains out of order for a period of more than 90 days. An account is to be treated as “out of order”. If the outstanding balance remains continuously in excess of the sanctioned limit or drawing power. The outstanding in an account based on drawing power calculated from stock statements order than three months would be demand as irregular.

A borrower account will become NPA if such drawings are permitted in the account for a continuous period of more than 90 days even though the unit may be working or the borrower’s financial position is satisfactory.

The identification of nonperforming assets is required to be done as on the date of balance sheet. Hence the bank’s branch which has to classify the loan assets as performing as non-performing would be required to find out if cash credit or overdraft account is renewing “out of order” as on the date of balance sheet. If so they will also have to find out whether the account remained a out of order for more than 90 days for classifying the account as NPA as on the balance sheet data.

Past due for a period of more than 90 days. An amount is consider past due when it remains outstanding 30 days beyond the over date the loan asset can be classified into the “four” categories.

**Assets Classification:**

1. Standard assets.
2. Sub standard assets.
3. Doubtful assets.
4. Loss assets.

**1. Standard Assets:** Standard assets are assets which are not NPA and as such do not more than normal risk attached to the business.

**2. Sub standard assets:** Sub standard assets are is one which is a NPA for a period not exceeding 18 months. In such assets the current not worth of the borrower guarantor or the current market value of the securities charged is not enough to ensure recovery of the dues to the bank is fuel in other words such an asset will have well depend credit weaknesses that may jeopardize the liquidation of the debt and are characterized by the distinct possibilities that the bank will sustain some loss of deficiencies are not corrected.

**3. Doubtful Asset:** A doubtful asset is assets one which remains nonperforming assets for period accessing 18 months. A loan classified as doubtful has all the weaknesses in leaven as that of sub standard amount with the added characteristics that the weaknesses make collection or liquidation of outstanding dues in such an amount in for on the basis of currently known facts, conditions values highly questionable and improbable or these are assets which have remained as NPA for more than two years starting March 2001 assets will have to be classified as doubtful if it remains in the sub-standard category for 18 months.

**Loss Assets:** A loss asset is an asset which or where loss has been identified by the bank or internal or external auditors or the RB inspecting officials. But the amount has not been written off wholly or partly in other words such as asset is considered collectable and of such little value that is continuance as bankable asset is not warranted although there may be some salvage or recovery value.
<table>
<thead>
<tr>
<th>Period for which the advance has been considered as doubtful.</th>
<th>% of provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1 years</td>
<td>20%</td>
</tr>
<tr>
<td>1 to 3 years</td>
<td>30%</td>
</tr>
<tr>
<td>More than 3 years</td>
<td>50%</td>
</tr>
</tbody>
</table>

**Objectives of the Study**

- To study the management of NPA of co-operative bank Ltd. Special emphasis on District Cooperative Central Bank Ltd
- To understand the provisions for the customers made by the bank.
- To study about assets classification.
- To find reason for loan amount to become NPA.
- To study the procedure for recurrence loans.
- To study the strategic and steps to reduces NPA.

**Hypothesis**

Taking the \( H_0 \): Null hypothesis that NPA will have impact on net profit of BDCC Bank.

\( Ha \): The NPA will not have impact on BDCC Bank net profit

**Sample Size**

A finite universe was taken for the study. A sample of BDCC Bank was chosen based on the details provided by non-performing assets of DCC Bank of Bagalkot.

**Data Collection**

The present study is analytical in nature and others relevant particulars are collected from primary data source. I have contacted general manager and discussed details about NPA and functions of the bank. The rates about the functions of the banks and NPA and organization structures rates for Secondary data, is a data that has already been published or the data collected for some purpose other than specific tasks, the secondary data are collected from annual reports of the bank and the manuals circulars.

**Statistical Analysis**

The data collected have been transformed into tables. The present study made use of percentage analysis as the statistical tool to analyses and interpret the collected data. \( t \)-Test are used to test the hypothesis of the study. \( t \)-Test was used to find out whether there is declining in nonperforming assets. Based on the results, conclusion was drawn and suggestions were made to improve the management of NPA.

**Limitations**

1. The area of study is restricted only to Bagalkot District. Hence generalization made from the findings of the present study can be useful in solving problems at the micro level.
2. The findings of the study are on the basis of the information provided by the respondents.
3. Due to time constraints, only DCC Bank was considered for the study.

**Data Analysis by \( t \)-Test**

\( t \)-Test was applied to ascertain management of nonperforming assets

**Table 1**: Shows last 5 years performance of NPA

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>A.S year</th>
<th>Percentage of NPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2004-05</td>
<td>8.87</td>
</tr>
<tr>
<td>2</td>
<td>2005-06</td>
<td>7.64</td>
</tr>
<tr>
<td>3</td>
<td>2006-07</td>
<td>6.92</td>
</tr>
<tr>
<td>4</td>
<td>2007-08</td>
<td>7.34</td>
</tr>
<tr>
<td>5</td>
<td>2008-09</td>
<td>5.75</td>
</tr>
</tbody>
</table>
Taking the null hypothesis that the population mean is equal to hypothesized mean of 5.75%.

We can write

\[ H_0: \mu = \mu_H = 5.75 \]

\[ H_a: \mu \neq \mu_H \]

As the sample size is small (since \( n = 5 \)) and the population standard deviation is not known, we shall use \( t \)-test assuming normal population and shall work out the test statistics \( t \) as under.

\[
 t = \frac{\bar{x} - \mu_H}{\sigma \sqrt{n}}
\]

To find \( \bar{x} \) and \( \sigma \) we make the following comparison

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>( x_1 )</th>
<th>( x_1 - \bar{x} )</th>
<th>((x_1 - \bar{x})^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8.87</td>
<td>1.57</td>
<td>2.4649</td>
</tr>
<tr>
<td>2</td>
<td>7.64</td>
<td>0.34</td>
<td>0.1156</td>
</tr>
<tr>
<td>3</td>
<td>6.92</td>
<td>-0.38</td>
<td>0.1156</td>
</tr>
<tr>
<td>4</td>
<td>7.34</td>
<td>0.04</td>
<td>0.0016</td>
</tr>
<tr>
<td>5</td>
<td>5.75</td>
<td>1.55</td>
<td>2.4025</td>
</tr>
<tr>
<td></td>
<td>( n = 5 )</td>
<td>( \sum_{x_1} = 36.52 )</td>
<td>( \sum_{(x_1 - \bar{x})^2} = 5.7446 )</td>
</tr>
</tbody>
</table>

Source: compiled and computed from primary Data

Therefore

\[
\bar{x} = \frac{\sum x_1}{n} = \frac{36.52}{5} = 7.30 \%
\]

\[
\sigma = \sqrt{\frac{\sum (x_1 - \bar{x})^2}{n-1}} = \sqrt{\frac{5.7446}{5-1}} = \sqrt{1.4362} = 1.1984
\]

Hence,

\[
t = \frac{7.30 - 5.75}{1.1984 \sqrt{5}} = 1.55
\]

\[
t = \frac{1.55}{1.1984 \times 2.24} = 0.58 \%
\]

Degree of freedom = (\( n-1 \)) = (5-1) = 4

As \( H_a \) is two sided we shall determine the rejection regions applying two-tailed test at 5% level of significance and it comes to as under using table of \( t \)-distribution for 4 d.f

R:1 t/>2.776

As the observed value of t (i.e. -0.58) is in the acceptance region. We accept \( H_0 \) at 5% level and conclude that the mean NPA performance is declining i.e. 5.75.
Findings
1. Decrease in the number of accounts of nonperforming assets year by year
2. Securities are very powerful tool for the bank. In all eligible cases one should invoke the provision of the Act to quickly cease the assets and displays of.
3. The seed of NPA is shown at the limit of sanction itself in case the credit appraisal standard is compromised.

Suggestions
Up gradation of assets – Once accounts become NPA, then bankers should take steps to upgrade them by recovering the entire over dues. Close follow-up will generally ensure success.
Compromise settlements – Wherever feasible, in case of chronic NPAs, banks can consider entering into compromise settlements with the borrowers.
Recovery through legal recourse – Banks may file suits promptly against willful defaulters. Banks can take recourse under either a civil suit or the Special Recovery Acts passed by various states or the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. The bank should vigorously follow up the legal cases.

Conclusion
Management of NPA is need of the hour. NPA is key factor in increasing/decreasing net profit of the Bank. The hypotheses prove that the NPA is having direct impact on net profit. The course open to the banker is to ensure that an asset does not become NPA. If it does, he should take steps for early recovery failing which the profitability of the bank will be eroded. Time is of prime essence in NPA management.

Bibliography