

NPAs, A CHALLENGE FOR CO-OPERATIVE BANKS- A COMPARATIVE STUDY OF PEOPLES' CO-OPERATIVE BANK LTD., HINGOLI AND THE NANDED MERCHANTS CO-OPERATIVE BANK LTD., NANDED (PERIOD 2001-02 TO 2005-06)

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ABSTRACT

The NPAs of the banks is a break in the progress of the bank. The NPAs can affect the profitability of the bank and hence affect the future growth of the bank. The co-operative banks are facing the problem of NPA in their life. Although they are having the problem of non-performing assets but their ration of covering is good. The NPAs is proving to be the barrier in the progress of the economy and financial system of any country. The co-operative banks although facing the problem of NPAs but they were also succeeded in pulling down their NPAs more fastly than the Nationalized banks. It can be said that the non-performing assets of the bank is that part of the assets which remains due for the called period. The NPAs now days have been recovered and are within the statutory limits because of the good and proper way of distribution and recovery of loans.

INTRODUCTION

Arguments have been made by the number of economist in regard of the economic growth that a well developed financial system enables smooth flow of savings and investments and hence supports economic growth. A healthy financial system may help to achieve efficient allocation of resources across time and space by reducing inefficiencies arising out of market friction and other socio economic factors. Besides the various desirable characteristics of a well functioning financial system, the maintenance of a few non-performing assets (NPA) is also an important one. NPA beyond a certain level causes worries for the banks or the concerns since it affects the smooth flow of credit and credit is very essential for economic development. The bank raises their funds through deposits and also through the funds received from the borrowers. Thus when a loan becomes non-performing, it affects recycling the funds received from the borrowers, hence the non-performing loan affects recycling of credit and credit creation. Besides that the NPAs also affect the profitability of the banks since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provision against bad loans. Therefore the problem of NPAs is not the

concern of the lenders alone but is indeed a concern for policy makers as well who are involved in putting economic growth on the fast track.

In India because of the social banking motto, the problem of bad loans did not receive priority from policy makers initially. However, with the reform of the financial sector and the adoption of international banking practices the issue of NPAs has received due focus. Hence in India the concept of NPA came into the reckoning after reforms in the financial sectors were introduced on the recommendations of the report of the committee on the financial system and an appropriate accounting system was put in place. In broader way NPA is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India the definition of NPAs has changed overtime, according to Narasimham committee report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs. Then after this period was minimized and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days were considered as NPAs.

History

Non-Performing Assets (NPAs) have been plaguing the Indian financial sector for a long time, but were not in the public domain until the early nineties. By that time, a significant number of loan assets involving uncertainty with respect to ultimate collection had piled up, creating concerns with the opinion-makers about the health of the Indian banking and financial sectors. NPAs reflect natural waste in any economy. In advanced economies, the financial markets are well-developed and segmented, with various players operating in identified niches, catering to various user/risk segments. This constitutes an effective institutional mechanism for targeting risks to players with an appetite for such risks. Commercial banking is conducted in a highly risk-managed and mitigated ambience, unlike its Indian counterparts who are often required to take unmitigated risks as a part of business policy. The origination of NPAs in the Indian banking landscape can be broadly discussed in two stages:

- a) Pre-Liberalization Era; and
- b) Post-Liberalizing Era.

NPA Norms

Though the issue of NPA was given more importance after the Narasimham committee Report (1991) highlighted its impact on the financial health of the commercial banks and, subsequently, various asset classification norms were introduced, the concept of classifying bank assets based on its quality began during 1985-86. A critical analysis to monitor credit comprehensively and uniformly was introduced in 1985-86 by the RBI by way of the Health Code System in banks. This system, inter alia, provided information regarding the health of individual advances, the quality of the credit portfolio and the extent of advances causing concern in relation to total advances. It was considered that such information would be of immense use to banks for control purposes. The RBI advised all commercial banks (excluding foreign banks, most of which had similar coding system) on November 7, 1985, to introduce the Health Code System indicating the quality (or health) of individual advances

under the following eight categories, with a health code assigned to each borrowal account (source: RBI):

1. Satisfactory - conduct is satisfactory; all terms and conditions are complied with; all accounts are in order and safety of the advance is not in doubt.
2. Irregular- the safety of the advance is not suspected, though there may be occasional irregularities, which may be considered as a short term phenomenon.
3. Sick, viable - advances to units that are sick but viable - under nursing and units for which nursing/revival programmes are taken up.
4. Sick: nonviable/sticky - the irregularities continue to persist and there are no immediate prospects of regularization and the accounts could throw up some of the usual signs of incipient sickness
5. Advances recalled - accounts where the repayment is highly doubtful and nursing is not considered worthwhile and where decision has been taken to recall the advance
6. Suit filed accounts - accounts where legal action or recovery proceedings have been initiated
7. Decreed debts - where decrees (verdict) have been obtained.
8. Bad and Doubtful debts - where the recoverability of the bank's dues has become doubtful on account of short-fall in value of security, difficulty in enforcing and realizing the securities or inability/unwillingness of the borrowers to repay the bank's dues partly or wholly.

Asset Classification

Assets are classified into two basic categories.

1. Standard Assets.
2. Non-performing Assets: Non-Performing Assets are divided into three parts.
 - a) Sub standard Asset.
 - b) Doubtful Asset.
 - c) Loss Asset.

Recovery Mechanism of NPA

The Government of India felt that the usual recovery measures like issue of notices for enforcement of securities and recovery of dues was a time consuming process. Thus, in order to speed up the recovery of NPAs, the government constituted a committee under the chairmanship of late Shri Tiwari in 1981. The committee examined the ways and means of recovering NPAs and recommended, inter alia, the setting up of 'Special Tribunals' to expedite the recovery process. Later the Narasimham Committee (1991) endorsed this recommendation, and, suggested setting up of the Asset Reconstruction Fund (ARF). It was suggested that the Government of India, if necessary, should establish this fund by special legislation to take over the NPAs from banks and financial institutions at a discount and recover the dues owed by the primary borrowers. Based on the recommendations of the

Tiwari and the Narasimham Committees, Debt Recovery Tribunals were established in various parts of the country. An Asset Reconstruction Company was also established. The various measures taken to reduce NPAs include rescheduling and restructuring of banks, corporate debt restructuring and recovery through Lok Adalats, Civil Courts, Debt Recovery Tribunals and compromise settlement. In addition, some legal reforms were introduced to speed up recovery.

OBJECTIVES OF THE STUDY

The objectives of the study can be summarized in following points

1. To find out the effect of NPAs on banking.
2. To know the reasons and factors of NPAs.
3. To know the recovery mechanism of the NPAs.
4. To know the trends in NPAs.

HYPOTHESIS

The hypothesis of the study can be summarized in following points

1. NPAs of the Peoples' Co-operative bank Ltd., Hingoli is less than The Nanded Merchants Co-operative bank Ltd., Nanded.
2. NPAs of both banks shows a regular decreasing trend.
3. NPAs affects economic growth.

LIMITATIONS

1. This study is limited about the NPAs only.
2. This study is taken for a limited period only.
3. Only two banks have been taken for the study.

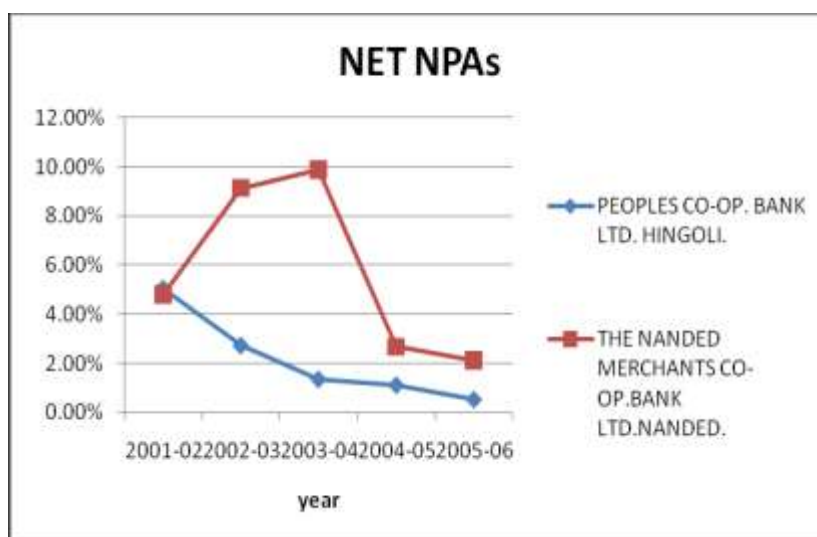
RESEARCH METHODOLOGY

As Nanded and Hingoli are one of the highly populated cities in Maharashtra, there were nearly 10 to 15 co-operative banks. In order to study the effects and trends of the NPAs the data is collected for 5 years. Annual reports of the banks were used. Banks are selected by random sample method.

NPAs figures given below in the table for the years 2001-02 to 2005-06 are of the Peoples' Co-operative bank Ltd., Hingoli and The Nanded Merchants Co-operative bank Ltd., Nanded. .

Table 1. NPAs

Year	Peoples Co-Op. Bank Ltd. Hingoli	The Nanded Merchants Co-Op.Bank Ltd. Nanded
2001-02	GROSS- 9.89%	GROSS- 8.57%
	NET- 5.03%	NET- 4.80%
2002-03	GROSS- 10.32%	GROSS- 15.93%
	NET- 2.72%	NET- 9.12%
2003-04	GROSS- 9.64%	GROSS- 16.22%
	NET- 1.35%	NET- 9.87%
2004-05	GROSS- 8.00%	GROSS- 9.55%
	NET- 1.12%	NET- 2.68%
2005-06	GROSS- 7.57%	GROSS- 8.63%
	NET- 0.54%	NET- 2.12%



Graph 1. NET NPAs

Comparative interpretation of the banks

The above table and the line graph show the NPAs of two banks taken here for study. The table shows that the NPAs of the two banks show a regular decrease in the value. The net NPA value goes on decreasing year by year and while the gross NPA also shows an irregular decrease of the value. The fall of net NPA of the Peoples' co-operative bank ltd., Hingoli shows a fast decrease in the value than the Nanded merchants' co-operative bank ltd., Nanded. The fall of net NPAs for the Peoples co-operative bank ltd., Hingoli is more regularly declining while the net NPAs for The Nanded merchants co-operative bank ltd., Nanded shows an irregular decrease in the value. The net NPAs firstly increased for the year 2002-03 to 2003-4 and then the value goes on decreasing and the value for the year 2005-06 is at the lower figure from the year 2001-02.

CONCLUSIONS

Here it can be said that the NPAs are the most dangerous and barrier in the way of the progress of the economy of any country's financial system. The NPAs are affecting the growth of the banks. The NPAs nowadays becoming lesser and lesser because of the regular and quick action taken by the banks itself and by the RBI. The rate of the NPAs is now in the rare cases for the co-operative banks and due to which there growth rate is also gained a little much. The awakeness in respect of the disbursement of the loans and the proper recovery system made the NPAs percentage diminishing. The RBI is also emphasizing on the co-operative banks in respect of the loan policy and keeping a regular watch on them. Due to the personal efforts and the proper control authority etc. made the net NPAs percentage lesser. The co-operative banks are now not suffering of being closing the business of banking like that in the past. The decreasing percentage of the co-operative banks made them stronger and due to which there business is growing steadily. The proper policies adopted by the banks regarding the disbursement of the loan and the good chain of recovery made this thing possible i.e. pulling the net NPAs to the lower rates. The continuous and systematic way of working has also made the NPAs to diminishing rates.

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