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## Review Of Research

# Regional Rural Banks (RRBs) in India



### “MANAGEMENT OF NON-PERFORMING ASSETS IN REGIONAL RURAL BANKS - A CASE STUDY OF PRAGAHTI KRISHNA GRAMEENA BANK, BALLARI.”



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#### ABSTRACT

Regional Rural Banks (RRB) is playing an important role in India's rural economy. According to the Narsimhan Committee, the new institution was evolved combining the good features of co-operatives as well as commercial banking institution. First recommendation for the establishment of regional rural banks was made by banking commission in 1972. As a result of this recommendation a working group headed by Mr.

Narsimhan, RRB's came in to existence in 1975. The main objective of RRB is to provide credit and other facilities, particularly to the small and marginal farmers, agriculture labourers and small entrepreneurs, so as to develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

The main purpose of this research paper is to examine the problems of the PKG bank due to NPA and review the strategies/ measures adopted by PKG Bank for arrest and control of NPAs. The research involves collection of primary data on NPAs and collection of other information such as reasons for default, impact on performance, recovery procedures, and problems.

**KEYWORDS** : Non- Performing Assets, Regional Rural Banks, Managing, Performance.

#### INTRODUCTION

The history of Regional Rural Banks in India dates back to the year 1975. It's the Narsimhan committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the

need of regionally oriented rural banks' that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi- urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans.

Although RRB'S have been playing us helpful role in assisting marginal farmers and artisans, they are facing lot of problems posing serious challenges to their survival The mounting overdue of these banks is the main problem .High levels of NPA and high provisions of loan losses and bad debts have been responsible for low productivity and profitability of bank .A non-performing assets an asset which fails to generate income for the bank. As per regulation, an asset is considered to have gone due, the past due amount remaining uncovered where the borrower has defaulted as principal and interest repayment for more than one quarter or 90 days is called as non-performing asset.

### **REVIEW OF LITERATURE:**

Prashanth K Reddy (2002) in his thesis titled, "A comparative study of Non Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures" highlighted that financial sector reform in India has progressed rapidly on aspects like interest rate deregulation, reduction in reserve requirements, barriers to entry, prudential norms and risk-based supervision. But progress on the structural- institutional aspects has been much slower and is a cause for concern. The sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective.

Bidani (2002) in his book titled, "Managing Non-Performing Assets in Banks," highlighted that banks are concerned with their heavy NPA portfolio which was impairing their profitability and are taking all possible steps to contain the same. Banks have achieved a reasonable degree of success to bring down their existing NPAs but due to heavy slippage of standard accounts to NPA category the overall position continued to deteriorate.

Kumar (2003) in his paper titled, "The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act,2002", discussed in detail the need, process, summary, positive as well as negative aspects of the Act. He analyzed that this Act empowered banks and financial institutions to directly enforce the security interest which was pledged to them at the time of sanctioning the loan without going through the judicial process of DRT or Civil Courts.

Misra (2003) in his article, "Managing Non-Performing Assets: A Professional Approach", highlighted that the profitability of the financial institutions largely depended upon the level of income generated through optimum use of the assets after paying the cost of fund for acquiring them and other administrative costs involved therein. Redefined objective of managing NPAs through profit maximization approach and risk management approach were suggested. The author further concluded that the high rise in gross and net NPAs of the banking sector in the recent past was at an exponential rate giving an indication that present ongoing recession was taking a heavy toll on corporate credit discipline.

Khan and Singh (2005) in their Report on "Effectiveness of DRTs in Recovery of Bank Dues", have evaluated the performance of DRTs in recovery of bank dues during the years 1996 to 2004. They have highlighted major defects in DRT system and also gave recommendations to overcome them. They have concluded that the DRTs were effective in recovery of banks' dues to a certain extent and would become more effective, provided the given suggestions were implemented in letter and spirit.

### **SIGNIFICANCE OF THE STUDY:**

Non-performing assets have emerged as an alarming threat to the Indian banking industry and their reduction has become synonymous with professional functioning and management of banks. NPA should not be seen as a dilemma but as a challenge for the banking sector. The study of management of NPA will focus on the financial position of the bank. This evoked the researcher’s interest to prepare a research paper on the management of non-performing assets in Regional Rural banks - A case study of Pragahti Krishna Grameena Bank Ballari.

### **STATEMENT OF THE PROBLEM:**

One of the important functions of banks is to maintain the quality of assets, which requires proper selection of borrower, appraisal of this project, adequate credit, close monitoring, supervision and follow up. In spite of this there is always risk of accounts becoming non-performing. There is therefore, need to devise suitable strategy for accounts, which have gone bad and / or classified as non-performing assets.

There is a carrying cost or holding cost for the non-performing assets as there is loss of interest, provision to be made etc. Appropriate and timely action for recovery can reduce the level of NPAs and further reduce the holding cost. This is very important from bank’s profitability point of view. The focus of this study is on reducing the level of NPAs and further reducing the holding cost by adopting appropriate strategy for recovery, compromise and write off.

### **OBJECTIVES OF THE STUDY:**

- 1.To study the Concept and significance of NPAs in PKG Bank,
- 2.To examine the problems of the PKG bank due to NPA
- 3.To review the strategies/ measures adopted by PKG Bank for arrest and control of NPAs.

### **SCOPE OF THE STUDY:**

The study pertains to Pragahti Grameena Krishna Bank in Ballari District, recovery policy with which it hopes to bring down the percentage of net non-performing assets to the net advances. The study also encompasses the recommendations, the adhering of which will bring good results to the organization.

The researcher has concentrated to only one bank (PKGB), which can be widened to by taking other rural banks into consideration.

### **RESEARCH METHODOLOGY:**

Type of the Study: it is a Descriptive research method has been used by researcher to understand the relevance of NPA and its impacts on Banks in PKG Bank with special reference to Ballari District of Karnataka state.

### **DATA COLLECTION:**

Researcher to fulfill his research objectives had been collected data from the both source of data those are as follows.

**Primary Data:** The research involves collection of primary data on NPAs and collection of other information such as reasons for default, impact on performance, recovery procedures, problems and difficulties faced by them. It also involves study of classification by the branches along with other detail

such as cost of deposit, provision etc and its effect on profitability to work out the carrying cost.

**Secondary Data:** The study is mainly based on secondary data. The information has been collected from various audited annual books of accounts prepared and maintained by the bank and other relevant reports.

**Data analysis tools:** In order to analyze the data statistical tools like ratios and percentages are use

**Study period:** This study covers a period of three years from 2012 to 2015. The other sources of information have been collected from journals, books and websites etc.

### **REGIONAL RURAL BANKS (RRBS) IN INDIA-AN OVERVIEW:**

Rural people in India such as small and marginal farmers, landless agricultural laborers, artisans and socially and economically backward castes and classes, have been exploited in the name of credit facility by informal sectors. The rural credit market consists of both formal and informal financial institutions and agencies that meet the credit needs of the rural masses in India. The informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of both economic and non-economic conditions in the rural population of India. The supply of total formal credit is inadequate and rural credit markets are imperfect and fragmented. Moreover, the distribution of formal sector credit has been unequal, particularly with respect to region and class, cast and gender in the country side.

For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than 10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively. The first five RRBs were set up in five States in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial banks.

### **PRAGATHI KRISHNA GRAMINA BANK IN BELLARY:**

Pragathi Krishna Gramina Bank, a Regional Rural Bank sponsored by Canara Bank having its Head Office at No.32, Sanganakal Road, Gandhinagar, Bellary may need about 400 numbers of tubular batteries of 12 V 100 AH (200 No.) / 130 AH (200 No.) capacity of reputed make such as Exide etc., for the use of the same to the UPS supplied by M/s. Techser Power Solutions Pvt Ltd., and M/s. Novateur Electrical & Digital Systems Pvt., Ltd., or any other vendor at various branches / offices located at Bellary, Bidar, Chitradurga, Chikkaballapura, Davangere, Gulburga, Kolar, Koppal, Raichur, Shimoga, Yadgiri districts and any other places in Karnataka State for replacement of existing batteries as and when required. Last Date for submission of offers: 03/12/2013 up to 11.30 AM and bid to be submitted / sent to address furnished below If the last day of submission of offers is declared a holiday under N. I. Act., by the Govt. subsequent to issue of RFP.

Pragathi Krishna Gramina Bank is a regional rural bank registered under Act 1976. It is licensed under RBI (Reserve bank of India) to do the business of Banking. The registered office of the Bank is situated at main road, Bellary (D) and Karnataka(S). Pragathi Krishna Gramina Bank comes into existence on 12.09.2005 with the amalgamation of RRBs sponsored by canara bank in Karnataka state. The erstwhile Tungabhadra graming bank, (167 branches) chitradurga gratin bank, (91 branches), kolar gram in bank (62 branches) and Sahyadrigramina bank (29 branches) were amalgamated in to one single bank and started working with headquarter in Bellary, Karnataka state. At present the bank is having 365 branches with operational jurisdiction over 8 districts viz., Bellary (68), chikkaballapura (30), Chitradurga (65), Davanagere (44), kolar (35), Koppal (42), Raichur (53), Shimoga (28).



**MEANING AND DEFINITION OF NPA:**

With a view to moving towards international best practices and to ensure greater transparency, „90 days“ overdue\* norms for identification of NPAs have been made applicable from the year ended March 31, 2004. As such, save and except certain relaxations mentioned for Tier I Banks and Tier II Banks as defined below, with effect from March 31, 2004, a non-performing asset shall be a loan or an advance where Interest and/or installment of principal remain “overdue”\* for period of more than 90 days in respect of a Term Loan.

**NPAS CLASSIFICATION:**

**NPA have been classified into following four types:**

- 1. Standard Assets: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense.
- 2. Sub-Standard Assets: All those assets (loans and advances) which are considered as non-performing for a period of 12 months.
- 3. Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months.
- 4. Loss Assets: All those assets which cannot be recovered. These assets are identified by the Central Bank or by the Auditors.

**DATA ANALYSIS AND INTERPRETATION:**

**Table-1: showing information about Term Loan**

Years	Number of accounts	Total amount deposited (Rs)
2012-13	66	324855
2013-14	131	425836
2014-15	299	620118

(Source: Field Survey)

Interpretation: The above table shows that in 2012-13 the number of accounts were 66 with a total savings sum of Rs326780. Number of accounts increase to 299 and that of saving increase to Rs.620118 in 2014-15

**Table-2 Showing Cash credit and overdraft facility**

Years	Number of accounts	Total amount deposited(Rs.)
2012-13	62	620000
2013-14	83	801248
2014-15	144	975486

(Source: Field Survey)

Interpretation: The above table shows that in 2012-13 the number of accounts was 62 with a total savings sum of Rs.620000. Number of accounts increase to 144 and that of saving increase to Rs.975486 in 2014-15.

**Table-3 showing Bills purchased and discounting**

Years	Number of accounts	Total amount deposited(Rs.)
2012-13	507	435895
2013-14	788	492106
2014-15	644	122390

(Source: Field Survey)

**Interpretation:** The above table shows that in 2012-13 the number of accounts was 507 with a total savings sum of Rs.435895. Number of accounts increase to 644 and that of saving increase to Rs.122390 in 2014-15.

**Table-4 Showing Housing loan to the staff members**

Years	Number of accounts	Total amount deposited(Rs.)
2012-13	485	468951
2013-14	275	546915
2014-15	508	476896

(Source: Field Survey)

**Interpretation:** The above table shows that in 2012-13 the number of accounts was 485 with a total savings sum of Rs 468951. Number of accounts increase to 508 and that of saving increase to Rs. 476896 in 2014-15.

**Table-5: Showing information on other Credit facilities**

Years	Number of accounts	Total amount deposited(Rs.)
2012-13	211	324450
2013-14	257	425630
2014-15	305	520110

(Source: Field Survey).

**Interpretation:** The above table shows that in 2012-13 the number of accounts was 211 with a total savings sum of Rs. 324450. Number of accounts increase to 305 and that of saving increase to Rs.520110 in 2014-15.



**Table-6: Showing information Doubtful assets**

Years	Number of accounts	Total amount deposited(Rs.)
2012-13	304	254800
2013-14	478	311100
2014-15	760	442520

(Source: Field Investigation).

**Interpretation:** The above table shows that in 2012-13 the number of accounts was 304 with a total savings sum of Rs. 254800. Number of accounts increase to 760 and that of saving increase to Rs.442520 in 2014-15.

**Table-7: Showing accrued interest on NPAs**

Years	Number of accounts	Total interest (in %)
2012-13	2654	7.90%
2013-14	3014	6.60%
2014-15	4223	7.90%

(Source: Field Investigation).

**Interpretation:** The above table shows that in 2012-13 the number of accounts was 2654 with a total savings sum of 7.90%. Number of accounts increase to 4223 and that of saving increase to 7.9% in 2014-15.

**Table-8: Showing information Accrue Assets on performance assets**

Years	Number of accounts	Total interest (in %)
2012-13	2849	6.35%
2013-14	1985	8.70%
2014-15	3948	7.80%

(Source: Field Investigation).

**Interpretation:** The above table shows that in 2012-13 the number of accounts was 2849 with a total savings sum of 6.35%. Number of accounts increase to 3948 and that of saving increase to 7.80% in 2014-15.

**Table -10: NPA of PKG Bank.**

Years	NPA
2012-13	2.95%
2013-14	4.5%
2014-15	5.5%

(Source: Field Investigation)

**Interpretation:** The above table shows that in the year 2012-13 the NPA is 2.95% and that increase to 5.5% in 2014-15

**FINDINGS:**

1. According to survey the numbers of account holders has increased in the year 2015 in account no 299 with deposit of Rs 620118
2. According to survey the number of cash credit and over draft facility as increased in the year 2014-2015 in account no 144 with Rs 975486
3. According to survey the number of bill purchased account was increased in the year 2012- 2013 in 644 with Deposited 122390
4. According to survey the number of project finances are whether Deposit amount will increased in the year 2014- 2015 in 364 with 19102.
5. According to survey most of housing loans granted to staff members they are increased in the year 2014-15 508 deposit amount are 476896
6. According to survey how many other facilities are PKG bank are increased in the year 2012- 2013 accounts 305 and deposit amount are 520110
7. According to survey the number of doubtful assets accounts are in the 2014-15 760 account are increased the amount are 442520
8. According to survey how many accrued interest on Naps are increased in the year 2014-15 4223 and in percentage 7.90%
9. According to survey the how accrued interest on performing assets are increased in the year 2012-2013 in accounts 3948 and in percentage 7.80 %
10. According to survey how NPAs percentage is increased in the year 2014-2015, 5.5% compare to the last year

**SUGGESTIONS:**

1. Bank should introduce online SB account opening for resident customer
2. Banker or bank is a financial institution whose primary activity is to act as a payment agent for customer and to borrow and lend money
3. The principal objective was to create a development financial institution for providing medium term project financing to Indian business
4. for providing medium term project financing to Indian business Bank offers wide variety of deposit product to suit your require mention convenience of network branches/ATM and facility of E-channels like interest and mobile banking.
5. Banker are coordination with farmers club/ NGO
6. Banker has to give a awareness and training camp for borrowers
7. Bankers have provisioning as the current economic s low down has already stressed (the lenders) public sector bank for which assets quality worsened more than of their private sector counter parts

**CONCLUSION:**

Management of NPA is needed of the efficient work in nonperforming asset. And to be effective, NPA management has to be an exercise pervading the entire bank from the Board down the last level. Time is of prime essence in NPA management. 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. That can trigger other problems to undermine the bank’s financial condition.

It is right time to take suitable and stringent measures to get rid of NPA problem. An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement

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