A STUDY OF NON PERFOMING ASSESTS OF CO-OPERATIVE BANKS WITH SPECIAL REFFERENCE TO HYDERABAD KARNATAKA REGION

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ABSTRACT:

Cooperative Banks in India have become an integral part of the success of Indian Financial Inclusion story. They have achieved many landmarks since their creation and have helped a normal rural Indian to feel empowered and secure. The story has not been smooth and has its share of procedural glitches and woes placed at various pockets. They are giving timely assistance to rural peoples by way of giving loans and other amenities to agriculturist. But any default in repayment of loan, will affect operational efficiency and financial health of the bank. So that management of loans is very important in primary agricultural Co-operative bank. This paper attempted to study the movement of Nonperforming Assets in selected cooperative banks with special reference to Hyderabad Karntaka Region.

KEYWORDS*: Co-operative Bank, Non Performing Asset, Financial Inclusion.*

INTRODUCTION

Co-operative banks in India provides play an important role in the rural areas, providing timely credit and other support for uplifting the economic conditions of farming community. Cooperative Banks have a portfolio of loans and advances that are highly tilted toward Agriculture and that too short term agriculture [crop loaning]. Both Government of India and State Governments (many) are giving interest subvention on crop loans issued through the cooperative sector, which make it the cheapest loan in the banking system. They also cater to services like loans, deposits, and other banking related activities like Universal banks but widely differ in their values and governance structures.

To ensure this timely financial assistance and services to the agriculturist is very important. But at the same time due to natural calamities and low rate of crops they are not in a position to repay the loan in time this leads to Non-Performing assets.

A. Non Performing assets

An asset becomes non- performing assets when it ceases to generate income for the bank. Such an asset is known as non performing assets. This is due to several reasons. A borrower fails to repay the principal along with interest to the bank it is called as non performing assets.

B. Classification of Bank Advances

1. Standard Assets: Standard assets are those which do not disclose any problems and which do not carry more than normal risk attached to the business. Such assets are not NPA 2. Sub-standard Assets: These assets are those which have been classified as NPA for a period not exceeding 12 months. In such a case, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the bank in full. Such assets will have well defined credit weakness that jeopardize the liquidation of the debts and are characterized by the

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distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

3. Doubtful Assets: Doubtful assets are those which have remained NPA for a period exceeding 12 months. In the case of term loans, those where installments of principal have remained overdue for a period exceeding 18 months should be treated as doubtful. An asset is classified as non- performing assets under the following record of performance of recovery In respect of term loan, if interest and/or installment of principal remain overdue for a period of more than 90 days. In respect of running accounts like overdraft/cash credit, if the account remains out of order for more than 90 days. The balance outstanding should not exceed the limit or drawing power, whichever is lower. Drawing power is sets charged as security. The drawing power cannot exceed the sanctioned limit. Even if the outstanding balance in the account is below the sanctioned limit/drawing power, but there is no credit continuously for 90 days as on the date of balance sheet of the bank or credits are not adequate to cover the interest debited, the account is to be treated as non-performing. In respect of a bill discounted, if it remains overdue for more than 90 days. In respect of short duration crop loan, if it remains overdue for two crop seasons or more. In respect of securitization transactions, if the amount of liquidity facility remains over due for more than 90 days.

Objectives of the Study

•To assess the current status of Co-Operative banks.
• To study the movement of NPA.
• To analyze the trend and cause of NPA in Bank

Scope of the study

Non Performing Assets are an important parameter in the analyses of financial performance of Primary Agricultural and Rural Development Banks. The geographical area of this study is only in primary Co-operative Agricultural and Rural Development Bank, Belthangady, Dakshina Kannada District.

An attempt has been made to analyze six year financial performance of Primary Co-operative Agricultural and Rural Development Bank, Belthangady, Dakshina Kannada District for studying NPA.

STATEMENT OF THE PROBLEM

CBs occupy a place of significance in the cooperative credit delivery system. They act as a spokesperson of the cooperative movement at district level. The success or otherwise of the cooperatives in a district level largely depends upon the efficiency of the functioning of CBs. The founders of the movement envisioned the role of DCCBs beyond the boundaries of mere financing bank. CBs are expected to serve as a financing bank for the primaries in a district, guide them in their day to day operations, supply of necessary manpower and technology wherever it is required, voicing on behalf of primaries at policy level etc,. Because of this integrated role, DCCBs are strategically located and integrated with the cooperative system.

Hence, they are not only acting as financing banks but also act as development banks for the cooperatives at district level. To do these multifarious functions CBs should have a well-defined management system. In the total management of the CBs, financial management occupies a place of importance as the functions of these institutions are also governed by the Banking Regulation Act. Even a minor deviation from banking norms would attract penal actions from the law enforcing authorities. On the one side, CBs are expected to act as a financing bank for the primaries, which are in majority of the cases managed by untrained work force. On the other side, CBs are expected to follow the banking norms as well as implement the State Governments schemes and programmes for the development of the state. Most CBs that fail seem to do so because of problems in their loan portfolio. Non-performing loans grow to such extent that revenues fall off and loan expenses as well as operating costs absorb all the earnings that remain. The bad loan situations usually arise from combination of factors. In this regard, it is pertinent to study how these banks mobilize the resources and deploy them. Hence funds

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management of the Cbs is an important issue and their financial performance is to be studied with their impact on NPA's in CBs. In this context, the questions apt to arise are:

Whether the financial performances of the banks are in satisfactory manner in terms of NPA's?

To find out the answer to these questions, an analytical study had to be undertaken. The results of such studies will help to find out the problem, difficulties, impacts etc., and to frame financial policies by the CBs for the benefits of the farmers, the community and other stakeholders.

RESEARCH METHEDOLOGY

Wellspring of information accumulation:

In order to collect the data essential information and auxiliary information has been gathered.

1.Primary Data

2. Secondary Data

Primary Data:

Essential information was assembled by the casual exchanges held with different authorities of the offices; likewise data relating to non performing resources was gathered from separate office in the unit. Subjective information was discovered exceptionally valuable for composing the report.

Secondary Data:

Auxiliary budgetary information was gathered from examined books of records and distributed yearly reports of the bank, furthermore inner records like manuals, broachers and so on. Were helpful wellsprings of auxiliary information.

REVIEW OF LITERATURE

Several individual researchers had studied a few facets of NPA's of selected CBs in selected areas. To know how far the ground is already prepared and to identify the gaps therein and to spell out the issues which need further intensive and comprehensive analysis, an attempt is made to review the related literature.

1 Gowthaman A. and Srinivasan T, (2010) in their article entitled, "Effective Funds Management by the Kumbakonam Central Cooperative Bank" has presented the DCCBs are modal centers of financial institution in the cooperative sector in a district. They have to mobilize the

available resources and utilize them in the most efficient and profitable manner. As a consequence of this situation, efficiency in funds management has down considerably and profitability of the DCCBs in Tamilnadu is found decreased. In this paper an attempt is made to analyze the funds management of the bank for the period of 1998-99 to 2007-08.

2 Surya Rao K, (2007) in his study, "Performance of Cooperative Banking. A study of DCCB - Eluru, Andhra Pradesh", applied ratio such as profitability analysis, productivity analysis, solvency position, and operational efficiency and SWOT analysis. The study revealed through productivity analysis that the rate of deposits per employee has lagged behind that of the loans per employee ratio. Thus there is need on the part of employees to mobilize deposit to meet loans demand in view of disparity in the growth rate in these two ratios. Accordingly the ratio values of deposits per employee, productivity of employees can be improved. The solvency ratios showed that the bank was maintaining an average cash reserve ratio of 11 per cent that is much more than the stipulated ratio of 6 per cent. The operational efficiency ratios concluded the satisfactory performance. Finally SWOT analysis revealed various aspects of the Eluru DCCBs. The study suggested strengthening of the working capital and to increase the deposit from member societies. The bank should utilize the opportunity of expanding their lending operations. Depending on external sources of borrowing such as refinance from apex bodies could be minimized by promoting deposits

mobilization.

3 Fulbag Singh and Balwinder Singh, (2006) in their study "Profitability of the Central Cooperative Banks in Punjab- A decomposition Analysis", they analyzed the profitability position of the Central
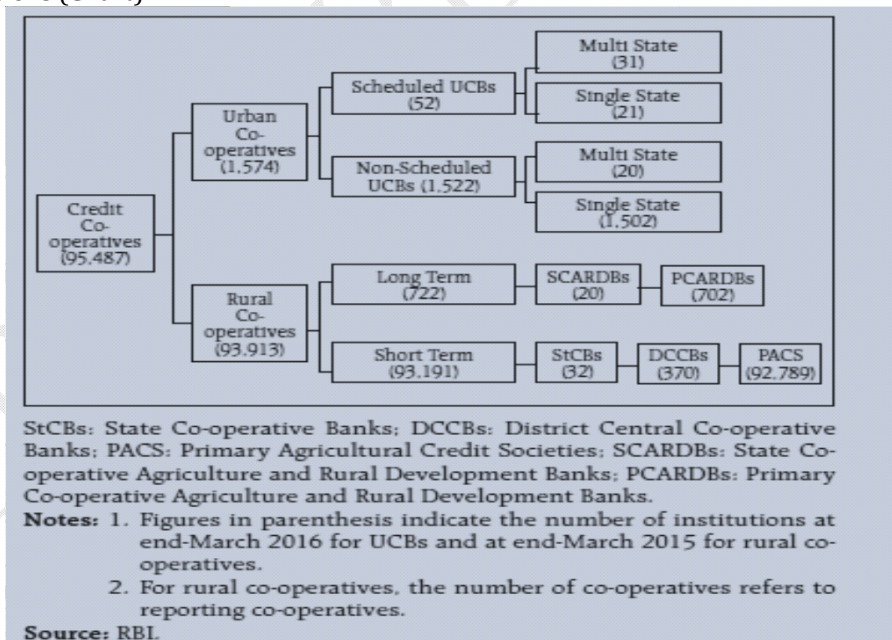
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Cooperative Bank in Punjab. Two different years have been studied with the help of a frame work of Return on Equity (ROE) model. The sample of bank with high business volume and those with low business volume had been tested separately. The study could be concluded that as far as the profitability performance was concerned, the central Cooperative Bank of Punjab had worked well. The miscellaneous income in comparison to the total income has been in lower profile in these banks. The switching over to high yield non-farm sector advances has helped to register a positive trend in financial margin in almost all the banks. The implementation of prudential norms from 1996-97 have helped the banks to generate an awareness on adverse effect of overdue/ non- performing assets in these banks.

4 Raja. S, (2005) in his study, "Performance Evolution of MDDCB Ltd- an Application of Structural and Growth Analysis", analyzed the pattern of each component of the financial statements such as balance sheet and profit and loss account over a period of time. The study found out that performance of the Madurai District Central Cooperative Bank (MDCCB) using structural and growth analysis. Macro mean has been used to exhibit the strength and weakness of each factor considered. The major result of the study is macro mean which in respect of interest received constitutes 99% of the total income, 97% for interest paid, 21% in the case of operating expenses, 94% for spread and it is at 93% for burden. As regards book profit, it works out to be 7% the revolution of the growth rate analysis are that net loss has recorded the growth at 17%, operatingexpenses at 18%, spread at 13%, burden 20% advances and aggregate deposits at 6% each and fixed deposits and saving deposits at 9% each.

The study concluded that the burden rate should be reduced by effecting cost control measure and spread rate be increased so that profitability can be at higher rate.

Co-operative Credit Structure in India

As per the data given in Reports on trends and Progress in banking 2015-16 by Reserve Bank Of India, as at end-March 2016, India's co-operative banking sectorcomprised of 1,574 urban cooperative banks (UCBs) and 93,913 rural co-operative credit institutions, including short-term and long-term credit institutions (Chart).

StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Notes: 1. Figures in parenthesis indicate the number of institutions at end-March 2016 for UCBs and at end-March 2015 for rural co-operatives.
2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

Source: RBI.

Table I Cooperative Credit Structure in India [position as on 31.03.2016
[Source: Reports on trends and Progress in banking 2017-18
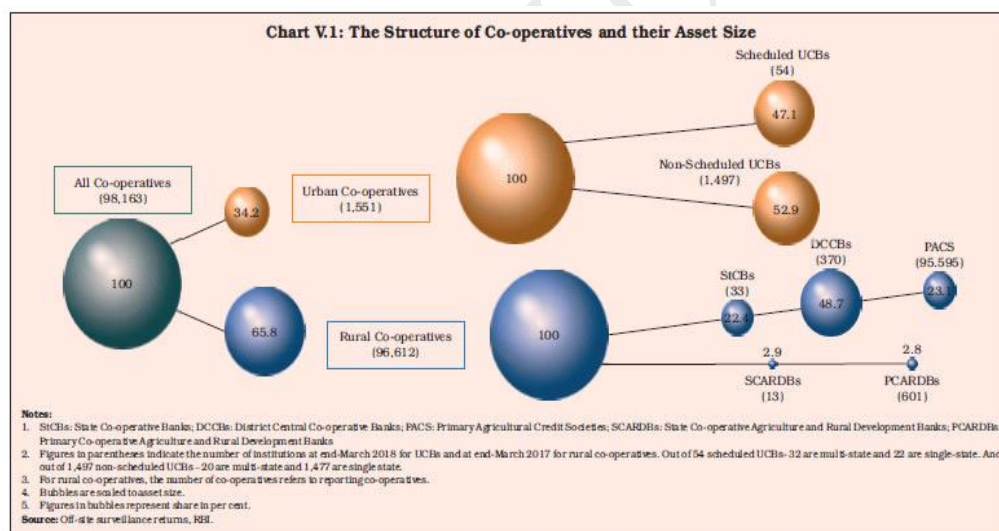
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Introduction of Prudential Norms In order to reflect Bank's actual financial health in its balance sheet, RBI had introduced prudential norms for Income Recognition, Asset Classification and Provisioning norms for the advances and investment portfolio of all banks, including Cooperative Banks. The policy of income recognition is based on the record of recovery.

RBI has further advised that if the applicable Co-operative Societies Act and/or rules made there under or any other applicable statutory provisions are stringent than prescribed by RBI, they shall continue to be applicable.

Developments in Co-operative Banking

*T*he consolidated balance sheet of urban co-operative banks (UCBs) moderated in 2017-18 as the impact of the demonetisation-induced expansion in deposits in the preceding year waned. Asset quality improved, although overall profitability moderated. Among rural co-operatives, state co-operative banks (StCBs) improved their NPA ratios and profitability, but in other segments – district central co-operative banks (DCCBs), state co-operative agriculture and rural development banks (SCARDBs) and primary co-operative agriculture and rural development banks (PCARDBs) – losses mounted alongside a rise in loan delinquency.

Co-operative institutions play a significant role in credit delivery to unbanked segments of the population and financial inclusion within the multi-agency approach adopted in India in this context. They consisted of 1,551 urban co-operative banks (UCBs) at end-March 2018 and 96,612 rural co-operative banks at end-March 2017, with the latter accounting for 65.8 per cent of the total asset size of all co-operatives taken together

Chart V.1: The Structure of Co-operatives and their Asset Size

Notes:
1. StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks
2. Figures in parentheses indicate the number of institutions at end-March 2018 for UCBs and at end-March 2017 for rural co-operatives. Out of 54 scheduled UCBs – 32 are multi-state and 22 are single-state. And out of 1,497 non-scheduled UCBs – 20 are multi-state and 1,477 are single state.
3. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.
4. Bubbles are scaled to asset size.
5. Figures in bubbles represent share in per cent.
Source: Off-site surveillance returns, RBI.

While UCBs strive to deliver institutional credit at affordable costs in urban and semi-urban areas, rural co-operatives provide financial services in villages and small towns by leveraging on their geographical and demographic outreach. The growth of co-operative institutions has not, however, been commensurate with the overall growth of the banking sector – at the end of March 2017, they accounted for only 11 per cent of the total assets of scheduled commercial banks (SCBs) in comparison to 19 per cent share in 2004-05. While remedial measures initiated by the Reserve Bank have resulted in consolidation in the UCB sector, weaknesses in the rural co-operative segment persist, reflecting operational and governance-related impediments.

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RESULTS AND DISSCUSSION
GROSS NPA RATIO

Gross NPA extent is the extent of Gross NPA to gross advances of the bank. Gross NPA is the total of each advancement resource that are arrange according to RBI rules The extent is tallied in the rate (%) and the formula of Gross NPA Ratio is according to the accompanying.

Showing Gross NPA from 2014-2015 to 2017-2018 of DCB

SL.NO	YEARS	GROSS NPA	GROSS ADVANCE	GROSS NPA RATIO (%)
1	2014-2015	93364723	1017524533	8.19
2	2015-2016	93026171	1476633031	5.62
3	2016-2017	64550116	2481632366	2.19
4	2017-2018	7781159	384328966	2.01

• **NET NPA RATIO:**

It is the most important ratio which measures the NPA as a percentage of advances.

The formula of that is.

SL.NO	YEARS	NET NPA	NET ADVANCE	NET NPA RATIO (%)
1	2014-2015	93363994.23	1017523804	8.19
2	2015-2016	9025442.23	1476632302	5.62
3	2016-2017	-22992107	24738788143	-0.92
4	2017-2018	30782654	3758070029	0.81

EARNING PER SHARE:

The EPS measures the advantage open to the quality holder on a for every offer reason. It is found by diving the measure of advantage after evaluation by the amount of shares.

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SL.NO	YEAR	PROFIT AFTER TAX	TOTAL SHARE HOLDER	EARNING PER SHARE (EPS)
1	2014-2015	18457866	314135975	8.61
2	2015-2016	1182963	34330275	3.44
3	2016-2017	5154093	256743963	1.61
4	2017-2018	17299671	332743191	4.59

RETURN ON ASSETS:

This proportion corresponds between the aggregate resources and the net benefit. The arrival on aggregate resources (additionally return on capital utilized or rate of profitability) is characterized as Net Income (profit) isolated by normal aggregate resources.

SL. NO	YEARS	NET INCOME (PROFIT)	AVERAGE TOTAL ASSETS	RETURN ON ASSET (ROI in %)
1	2014-2015	8457865.52	1721916797	1.07
2	2015-2016	1282963	2002945097	0.05
3	2016-2017	4154093	2674130111	0.15
4	2017-2018	15299671	3992099470	0.38

Cash Recovery

SL.NO	YEARS	CASH RECOVERY (%)	
		Agriculture	Non-Agriculture
1	2014-2015	88.06	47.60
2	2015-2016	96.60	78.77
3	2016-2017	83.09	88.39
4	2017-2018	81.37	93.91

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SUMMARY OF FINDING AND RECOMMENDATIONS:

- The Net NPA ratio of the District Co-operative Bank declined from -0.92 % as at 2016-2017to 5.62 as at 2011-2012.
- It is establish that the bank is convincing in satisfying the masterminded aim. The bank is productive in setting up the advantages from conventions.The absolute resource of the locale co-agent national bank expanded from Rs. 3992099470 as on 2017 to Rs.5320945341 as on the year of 2018.
- It is found that NPA is happening because of perspective to wilful default of nom reimbursing the credit sum by the borrower.
- The net point of preference of the affiliation augmented R. 15299671 in the year 2017 Rs20893073 in the year 2018.
- In case the borrower meets with misfortune it takes times to recovery which will influence t   he work routine of the borrower. Likewise he won't be in positions to pay credits so it prompts NPA.
- The store and distinctive records is decreased from 1302922730 as at 2017 to 1116302342 as at 2018.

CONCLUSION:

Developing NPAs in one of the most concerning issues the Indian Banks are confronting today. In the event that true blue association of the NPAs is not got a handle on it would back off the feasibility of the banks. In the event that the considered NPAs is taken carelessly it would be unsafe for the saving money parcel the NPAs beat the present profile and premium pay and impact the level execution of the reusing of the advantages. Banks moreover reallocate disasters to various borrowers by charging higher financing costs. Lower store rates and upper crediting rates curb reserve funds and money related markets, which thusly hampers the monetary development of NPAs and take suitable measures to manage their development.

Securitization act will without a doubt help banks in diminishment of NPA as it were.

- Preventing new stream of NPA as it were.
- Exchange of credit data among banks would be of monstrous stay away from conceivable NPAs.

SUGGESTIONS:

- Co-Operative Bank ought to focus more using a credit card examination, observing, credit hazard administration and recuperations.
- Settlement is a superior alternative for the banks grappling with the issue of non-performing resources.
- Credit scoring permits loan specialist to figure out if or not you fit the profile of the kind of clients they are searching for.
- Bank concerned ought to constantly screen advances to recognize accounts that can possibly get to be non-performing.
- Banks ought to make another model of giving so as to save money business advances to the credit commendable and individual having clear financial record.
- Finding out the genuine explanation for unpredictable reimbursements or defaults and on the off chance that it is not wilful then offer great obligation administration counsel to the borrower.
- While loaning, bank needs to ensure that the borrower is both capable and willing to meet the reimbursements

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