

## Management of Non-Performing Assets in Virudhunagar District Central Co-Operative Bank-An Overview

*J. Nivethitha and G. Brindha*

School of Management Studies,  
Bharath University, Chennai, India

**Abstract:** Non-Performing Assets are one of the major concerns for co-operative Banks in India. A High level of NPAs suggest high probability of a large number of credit defaults that affect the profitability and net-worth of co-operative banks and also erodes the value of the asset. The problem of NPA is not only affecting the co-operative bank but also the whole Indian economy As the level of NPAs to total credit increases the liquidity risk also increases. Thus reduction of NPAs is essential to speed up the growth and profitability of banks. The NPA problem is the result of monitoring overdue to various factors like weak monitoring, poor credit appraisal system, loan waiver scheme and mis-utilization of loan etc.,The strong co-operative banking is important for successful country's economy. This paper deals with understanding of the magnitude of NPAs in co-operative banks and major causes for an account becoming Non-performing in co-operative banks and concluding remarks.

**Key words:** NPA • Credit Default • Profitability • Overdue • Credit Appraisal • Loan waiver E12, G21, G32, G33

### INTRODUCTION

The major activity of a bank is to deal with money and people. Since the money and people are highly sensitive, they are to be handled carefully with more skills and knowledge. Today, the Non-Performing Assets (NPAs) are posing a serious threat to the banking industry. The financial health of the banks is greatly affected by the NPAs. The high level of NPAs is the greatest impediment to the economic growth of the country and any bottleneck in the smooth flow of credit is bound to create adverse repercussions in the economy. Hence, the management of NPAs has emerged as one of the major challenges for the banks. The present study has analysed the effectiveness of NPA management by cooperative banks has also been studied through Ratio Analysis by using secondary data. In addition, the perceptions of branch managers on the various aspects relating to management of NPAs at branch level have been studied based on primary data collected through field survey.

**Objectives of the Study:** The present study entitled "A Study on the Management of Non Performing Assets" is undertaken with the following objectives:

- To Analysis the Perception of Virudhunagar District Central Co-operative Bank's Branch Manager towards NPAs.
- To Identify the Reasons for an account leading to NPAs.
- To evaluate the effective measures of NPAs in VDCCBs.

### Scope of the Study:

- Securitisation of NPAs of Banks
- Problems in enforcement of security interest by Banks
- Recovery of NPAs by Financial Institution

### Statement of the Problem:

- Credit risks are inability or unwillingness of the borrowers to repay loan.
- Problem of mismatch in asset-liabilities due to accumulation of NPAs in banks.
- Quality of the loan is affected.
- Interest income of the banks falls as the NPAs do not generate income
- Recycling of funds and capacity of the banks to make fresh loans is reduced.

**Review of Literature:** R.J. Patel (1977) [1] observed in Distribution and utilization of Co-operative Credit in the Lucknow, that the causes for non-repayment of Crop loan by the defaulters showed that the majority of the defaulters were unable to repay the loans due to poor returns from agriculture. They may be forced to defaulted payment because of their high domestic expenditure necessitated by their big family size, besides only five percent of the defaults were willing to pay a part of the loan. Purusothaman. P (1976) [2] conducted a study of operational growth of primary Agricultural Co-operative Societies in Andhra Pradesh “Role of Kamaraja District Central Co-operative Bank in Financing to Agricultural Sector”, an article written by V. Rengasamy and A. They have concluded that in the total finance provided to the agricultural sector in the district, the share of Kamaraja District Central Co-operative Bank is commendable when compared to the other financial agencies in the district. Shukla (1997) [3] is of the opinion that besides seriousness, the staff concerned should cast aside their age old practice and adopt a more-practical and commercial approach while dealing with NPAs. Effective handling of NPAs called for developing good leaders who can build up a team of motivated staff Palaniappa Mudaliar (1979) [4] “In the study on the credit structure on Tamil Nadu pointed out that modernizing of agriculture in Tamil Nadu has been possible mainly on account of the credit and input support given by the Agricultural co-operative Societies, which cover all the villages in the State. As much as 76 percent of the agricultural families are covered by the membership”. P. Chellasamy in his thesis<sup>5</sup>, “A Study on Primary Urban Co-operative Bank in Madurai District”, has studied deposit mobilization and lending performance of primary urban co-operative banks in Madurai district. He has also reviewed the financial performance and the factors influencing profitability of the primary urban co-operative banks in Madurai district.

**Limitation of the Study:** The study is restricted to cooperative banks only of the Virudhunagar district. Due to time and cost constraints the field study is conducted only to the Branch managers of Virudhunagar District Central Co-operative Banks.

**Research Methodology:** The present study is both an Analytical and a Descriptive study on the Management of Non-Performing Assets of Co-operative Banks. The study is primarily analytical in the sense that it analyses various financial variables based on secondary data. It also

adopts descriptive methodology in order to ascertain the views of bankers to know their opinion on the management of NPAs.

**Sampling Design:** There are 30 branches in VDCCBs. The researcher has selected all the branches by using census method for this study. Moreover in order to study the opinion of branch managers the sampling technique has been adopted. The size of sample is 30. That is the samples of 30 branch manager have been chosen from each branch of VDCCBs.

All co-operative banks follow the same guidelines issued by NABARD from time to time for the management of NPAs. However, the various measures recommended by NABARD for dealing with NPAs are implemented at branch level. Hence, apart from quantitative analysis using secondary data, primary data are also used of marking qualitative analysis and intensive study of various issues relating to NPAs.

**Period of the Study:** The study covers a period of THREE years which is from 2010-2013

**Field Work and Collection of Data:** In order to carry out the aforesaid objectives, it was decided to collect both secondary and primary data relating to Non-Performing Assets of banks. The secondary data were collected from published sources like Statistical Tables relating to Banks in India, Annual Reports of Co-operative Banks; Reports published By NABARD, Annual Reports of Co-operative banks, Reports of various committees appointed by NABARD and Government and articles published in various journals and magazines. The papers presented by experts in various conferences have also been reviewed

**Processing of Data:** All the data have been classified, tabulated for better comprehension and analysis. Statistical Tool Garrett Rank Test have been applied for analysis of data.

**Hypothesis:** There is no significance of relationship between Effective measures and Location of branch in VRDCCBs.

**Measures of NPA:**

**One-Time Settlement (OTS) Scheme:** One-Time Settlement Scheme (OTS) was launched for the first time in May 1999 and specific guidelines were issued to Public Sector Banks (PSBs) for one time non

discretionary and nondiscriminatory settlement of NPAs of small sector. It was again introduced in July 2000. In May 2003, the time limit for processing of applications received under the revised guidelines for compromise settlement of chronic NPAs of PSBs, up to Rs. 10 crore was extended to December 2003. Based on the requests received for further extending the time limit for operation of the guidelines and in consultation with the Government of India, the time limit for receiving applications was further extended up to July 31, 2004. The guidelines are applicable to cases in which the banks have initiated action under the SARFAESI Act, 2002 and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.

**Compromise Settlement Schemes:** The RBI/Government of India have been constantly stimulate the banks to take steps for arresting the incidence of fresh NPAs and have been creating legal and regulatory environment to facilitate the recovery of existing NPAs of banks. The broad framework for compromise or negotiated settlement of NPAs advised by RBI in July 1995 continues to be in place. Banks are free to design and implement their own policies for recovery and write-off incorporating compromise and negotiated settlements with the approval of their Boards, particularly for old and unresolved cases falling under the NPA category. The policy framework suggested by RBI provides for setting under independent settlement Advisory Committees headed by a retired Judge of the High Court to scrutinize and recommend compromise proposals.

**Perception of Branch Managers:** Purpose of Loans provided to the borrowers in Virudhunagar District Central

**Co-Operative Banks:** The Co-operative Bank has sanctioned loans activities for different purposes such as agriculture, business, retail Borrowers and so on. Moreover, to identify which loan Segment is the vital one, the researcher has used Garret's ranking test. Table 1.1 shows the loan segment which are financed by the Virudhunagar District Central.

Table 1.1 furnishes the Garret's scores and the Average scores. The Average scores far ranked according to their values. Hence it elucidates that the VDCCBs provide lending loan for the agriculture purposes followed by the micro enterprises, business and village/cottage

industries and so on. Hence it is inferred that this banks activated finance for the agricultural purposes because most of the braches of VDCCBs located in rural areas, the people are dependent only on the agriculture and allied activities.

**Effective Measures For the Recovery of NPAs and the Location of Branch-Analysis of variance (ANOVA):**

There is lot of Measures for the Recovery of NPAs in co-operative Banks such as One Time Settlement Scheme, Compromise Settlements and so on. Here by using the Analysis of Variance to find whether there is any significant relationship between the Location of Branch and the Effective Measures for the Recovery of NPAs. since the null hypothesis is rejected for all the statements such as one time Settlement Scheme, compromise settlement scheme and so on. Because F ratio is less than 0.05 at five percent significant level.

**Non-Performing Assets-Ratio Analysis**

**Gross NPA Ratio of VDCCBs:** The gross NPA is a better indicator than net NPA of the quality of the loan portfolio. Gross NPA is the sum total of all loan assets that are classified as NPA as per the RBI guidelines as on the balance sheet date.

Gross NPA indicates the quality of credit portfolio of the bank. High gross NPA ratio indicates low quality credit portfolio. In the case of Virudhunagar District Central Co-operative Banks the ratio was ranging between 17.18 percent to 23.1 percent. The year 2011 onwards the gross NPA ratio was increasing which affected the profitability position of the Virudhunagar DCCBs.

**Net Problem Assets Ratio:** This ratio states the relationship between Net NPAs and total assets of the bank. It indicates the proportion of the risky assets that a bank carries, for which no adequate provision has been made.

Net problem asset ratio is the ratio of net NPA to total assets of Virudhunagar DCCB. This ratio indicates the proportion of the risky assets of the bank. In the year of 2010-11 Virudhunagar DCCBs had heavy burden of risky assets upto 13.67 percent. But in the subsequent years they were able to control the increasing the risky of assets and maintain the satisfactory performance. It was reduced by the proper provision cover extended by the bank and it stood at just 5.04 percent in the year 2012-13.

Table 1.1: Co-operative Banks.

S.NO	Activities Financed	Garret Scores	Garret Rank	Average Score
1.	Agriculture	2080	1	69.33
2.	Micro Enterprise	1984	2	66.1
3.	Business	1479	3	49.3
4.	Village/Cottage Industries	1222	4	40.7
5.	Retail Borrowers	1303	5	43.43
6.	Small Industries	1052	6	35.06

Source: Primary Data collection

Table 1.2

		Sum of Squares	Degrees of Freedom	Mean Square	F	Significance 5% level
One Time Settlement Scheme	Between Groups	0.67	2	0.3333	0.5389	0.590
	Within Groups	16.7	27	0.6185		
	Total	17.3	29			
Compromise Settlement Scheme	Between Groups	0.41	2	0.21	1.31	0.286
	Within Groups	4.28	27	0.15		
	Total	4.7	29			
Rehabilitation of Sick Units	Between Groups	0.33	2	0.17	0.07	0.932
	Within Groups	63.6	27	2.36		
	Total	63.9	29			

Source: Primary Data Collection

Table 1.3: Gross NPA

Year	Gross NPA (in crores)	Gross Advances (in crores)	Gross NPA Ratio
2010-2011	35.5	202.8	17.18
2011-2012	38.7	214.3	18.4
2012-2013	47.26	196.8	23.1

Source: Secondary Data

Table 1.4: Net Problem Assets

Year	Net NPA (in crores)	Total Assets (in crores)	Net Problem Asset Ratio %
2010-2011	42.71	332.68	13.67
2011-2012	18.27	315.25	5.79
2012-2013	16.12	319.57	5.04

Source: Secondary Data

### Findings:

- As per the Garrett Ranking in the opinion of branch managers highest score is awarded "for the Agricultural Purposes" followed by Micro enterprises, Village/Cottage Industries, Small Industries and Business. The least score is awarded to the "Small Industries"
- There is a significance differences between the branch locations and the one time settlement scheme followed by compromise settlement scheme and so on.
- The year 2011 onwards the gross NPA ratio was increasing which affected the profitability position of the Virudhunagar DCCBs
- In the year of 2010-2011 VDCCBs had heavy burden of risky assets upto 13.6 percent. But in the subsequent years they were able to control the

increasing the risky of assets and maintain the satisfactory performance. It was reduced by the proper provision cover extended by the bank and it stood at just 5.04 percent in the year 2012-2013.

**Suggestions for Reducing NPAs:** The position of NPAs is quite grave in Virudhunagar DCCB. So the bank has to take certain preventive measure to reduce NPAs at the institutional level. To achieve this task. Some suggestions are furnished below:

- Training Programme on NPA
- Special Monitoring Cell to be Setup
- Weekly and Monthly Review Meetings
- Relaxing Norms for Weak Banks
- Annual Assistance for Drought Affected Areas
- Personal touch with the borrowers

## **CONCLUSION**

This study concluded that recovery of NPAs is effective provided proper care is taken by shouldering the recovery drive more enthusiastically and confidently. This study has provided comprehensive information about the financial background, non-performing assets and the perception of branch managers towards the NPAs in Virudhunagar District Central Co-operative Banks. NPA is a double edged sword, which results in loss in interest income and provisioning which affects profitability. In order to arrest the rising trend of NPAs and to perform functions well, the Virudhunagar District Central Co-operative Bank may adopt the suggested remedial measures.

## **REFERENCES**

1. Patel, R.J., 1977. Distribution and utilization of Co-operative Credit District Lucknow-A Case study, *Indian Journal of Agricultural Economics*, 32(4): 142-143.
2. Purusothaman, P., 1976. Operational Growth of primary Agricultural Co-operative Credit Societies *Indian Co-operative Review NCVI*, New Delhi, 7: 479.
3. Shukla, H.B., 1997. Managing Non-Performing Assets-A Professional Approach, *IOB Quarterly News Review*, pp: 15.
4. Palaniappa Mudaliar, 1979. A study on the Credit Structure in Tamil Nadu, *TamilNadu journal of Co-operation TamilNadu State Co-operation Union Chennai*, 18(5): 25.