

A STUDY ON NPA OF STATE COOPERATIVE BANKS IN INDIA

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ABSTRACT

NPA is burning issue these days, which has drawn the attention of our regulators, Government and common man. The financial soundness of any bank is negatively affected by Non Performing Assets. On the one hand, it adversely affects the profits and on the on other hand, it has negative impact on goodwill of bank. Higher NPA breaks the trust of depositors in the bank. NPA recognition and provisioning are parts of prudential norms. Prudential norms are made applicable to cooperative banks in 1996-97. The motive of the present study is to access the non performing assets of state cooperative banks all over India. Cooperative banks are accepting deposits from members and non-members, therefore, it is required to find out the NPA status of these banks. The study has found that NPA status is different in each region of our country. This paper also focuses on the impact of NPA on cooperative banks.

KEYWORDS: Cooperative Bank, Non-Performing Assets, Depositors & Non-Members

INTRODUCTION

A cooperative bank is a cooperative society which accepts deposits from the public, i.e., members and non-members and utilizes these for lending or investments will be deemed to be transacting business of banking. The cooperative banks are state subjects and are under Schedule VII of our constitution. Therefore, these are registered under cooperative society's act of respective state. The cooperative banks are member owned institutions, comprising rural and urban cooperative banks. The cooperative credit structure has three categories - short-term credit structure, long-term credit structure and urban cooperative banks. Long-term cooperative credit structure (LTCCS): it consists of the Primary Cooperative Agricultural And Rural Development Bank at the bottom level and State Cooperative Agricultural And Rural Development Bank at the state level. Urban cooperative credit structure: these are primary cooperative credit institutions and function individually. The area of operation of some of the urban cooperative banks extends to more than one state. These institutions are registered under the Multistate Cooperative Societies Act, 2002. Short-term cooperative credit structure (STCCS): it is a three tier structure which consists of Primary Agricultural Cooperative Societies (PACS) at the bottom level, District Central Cooperative Banks (DCCB) at the intermediate level and State Cooperative Banks (SCB) at the state level. As far as cooperative is concerned, State Cooperative Banks are at apex level in the state. These are called apex banks also. There are 33 state cooperative banks in India. State Cooperative banks are under the supervision of National Bank for Agriculture and Rural Development. Under Section 13(3) of NABARD Act, 1981 The Board of Supervision (BoS) was constituted by NABARD. This is an internal committee, which gives guidance in respect of relating to supervision of State Cooperative Banks.

Concept of NPA in Case of Cooperative Banks

A non performing asset refers to a loan in the books of financial institutions that is in default or is in arrears on scheduled payments of principal or interest. Non Performing Assets are those in which interest and/or instalment of

principal remain overdue for more than 90 days in respect of a term-loan. Any amount [interest and / or instalment of principal] if not paid on due date, is overdue from the next day. Would be overdue from Next day of due date. In case of overdraft/Cash credit (OD/CC), the account remains 'out of order' for more than 90 days. CC/OD should be treated as 'Out of Order, if outstanding balance remains continuously in excess of the sanctioned limits or drawing power for more than 90 days or outstanding balance is less than sanctioned limits or drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during any time of the year and overdue for more than 90 days. Interest and/or instalment of principal remains overdue for two harvest seasons, but for a period not exceeding two half years in the case of an advance granted for agricultural purposes. Crop loans are classified in two parts: loan for short duration crops and loan for long duration crops. Crops with crop season longer than one year are long duration crops. Short duration crop loan is treated as non performing asset, if the instalment of the principal or interest remains unpaid for two crop seasons beyond the due date. Loan granted for long duration crops is treated as non performing asset, if the instalment of principal or interest remains unpaid for one crop season beyond the due date. Advances made by bank against own term deposits, NSC (National Savings Certificate), IVP, KVP (Kisan Vikas Patra) and life insurance policies are not treated non performing.

ASSETS CLASSIFICATION

Standard Assets: Standard assets are absolutely good assets. This is one which does not disclose any problem and which does not carry more than normal risk. All the agricultural and non-agricultural loans which have not become nonperforming assets may be treated as standard asset of cooperative banks/ other banks.

Sub Standard Assets: An asset which has remained overdue for a period not exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as sub-standard. In case of all types of term loans, where instalments are overdue for a period not exceeding 3 years, the entire outstanding in term loan should be treated as sub-standard. An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for at least one year of satisfactory performance under the renegotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory performance. In case of commercial banks, w. e. f. 2005, a substandard asset is one, which has remained NPA for a period less than or equal to 12 months.

Doubtful Asset: As asset which has remained overdue for a period exceeding 3 years, in respect of both agricultural and non-agricultural loans, should be treated as doubtful. In case of all types of term loans, where instalments are overdue for more than 3 years, the entire outstanding in term loan should be treated as doubtful. As in the case of sub-standard assets, rescheduling does not entitle a bank to upgrade the quality of advance automatically. Doubtful has further three categories D1, D2 and D3. Doubtful 1 is asset which is overdue more than 36 months to 48 months. Doubtful 2 is asset which is overdue for more than 48 months to 72 months. Doubtful 3 is asset which is overdue for more than 72 months. Asset straightaway be classified as doubtful, in case of serious credit impairment as assessed by the Bank/ auditors/ RBI/ NABARD i.e. realisable value of the security is less than 50%. In case of commercial banks, w. e. f. March, 2005, an asset is classified as doubtful if it has remained in the substandard category for a period of 12 months.

Loss Assets: Loss assets are those where loss is identified by the bank/auditor/RBI/NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset which is considered unrealizable and/or of such little value that its continuance as a doubtful asset is not worthwhile, should be treated as a loss asset. Where decrees or execution petitions have been time barred or documents are lost or no other legal proof is available to claim the debt, at that time asset is classified as loss asset. Where the members and their sureties are declared insolvent or have died leaving no tangible assets, where borrowers have left the area of operation leaving no property and sureties of such loan have also no means to pay the dues, at that time asset is classified as loss asset. It is classified as loss asset, where the loan is fictitious or misutilisation is noticed. Asset straightaway be classified as loss if realisable value of the security is less than 10%, as assessed by the Bank/ auditors/ RBI/ NABARD.

Provisioning Norms

For standard assets, provisioning is also required. Credit to Agriculture activities and Small and medium enterprises 0.25 % and other Loans (including medium enterprises) 0.40 %. For sub- standard it is 10%.

Type of Assets	Secured	Unsecured
Doubtful 1	20	100
Doubtful 2	30	100
Doubtful 3	100	100
Loss Assets	100	100

IMPACT OF NPA ON COOPERATIVE BANKS

Profitability

NPA means locking of money in terms of bad assets. It has occurred due to wrong choice of borrowers. Money is not available to banks for payments to customers. Therefore, your current position is not good as well as it badly affects future profits, which a bank can gain by lending or investment. There is a bad impact of goodwill of banks.

Liquidity

Liquidity is the availability of money for day to day operation of banks. NPA is a curse that can decrease the position of liquidity of a bank. Because of NPA, money of bank is blocked and the bank cannot use that for payment.

Involvement of Staff & Management

Time, efforts and energy of bank staff and management affect a bank in a bad way. Staff has to work for NPA reduction. They have to do a lot of efforts in order to recover these bad loans. Otherwise, they can use it in fruitful activities.

OBJECTIVES OF THE STUDY

- To study the NPA status of State Cooperative Banks all over India.
- To study region-wise NPA status of State Cooperative Banks in India.

METHODS

The study is planned to be carried out with the help of secondary data to understand the NPA level of State Cooperative banks in India. The present study is based on secondary data. Availability of data is the limitation of this

study. Secondary data was collected from the reports, articles, journals, documents, printed literatures, certain web sites and other online data bases etc.

RESULTS AND DISCUSSIONS

Table 1: NPA Status of State Co-Operative Banks in Northern Region

Region / State	NPAs as Percentage of Loans		
	2011	2015	2016
Northern Region	2.9	1.8	1.7
Chandigarh	14.4	4.2	4.0
Delhi	7.6	0.1	5.3
Haryana	-	8.6	0.0
Himachal Pradesh	12.5	19.6	6.6
Jammu & Kashmir	26.3	6.4	19.1
Punjab	1.1	0.8	0.9
Rajasthan	1.1	0.3	0.3

It is clear from the above table that state cooperative banks are showing good improvement as far as NPA is concerned. Northern region consists of five states, namely, Haryana, Himachal Pradesh, Jammu Kashmir, Punjab and Rajasthan and two union territories. NPA in northern region was 2.9% in 2011 which has decreased to 1.7 in 2016. In 2015, Himachal Pradesh has the highest percentage of NPA in Northern region, i.e. 19.6%, which had decreased to 6.6% in 2016. NPA of all states/union territories has decreased from 2015 to 2016 except Delhi, Jammu Kashmir and Punjab. NPA of Jammu Kashmir was 26.3% in 2011 which has reduced to 6.4% in 2015. The highest increase in the NPA is in Jammu Kashmir, which is 12.7% from 2015 to 2016. From 2015 to 2016, highest reduction is in state co-operative bank of Himachal Pradesh i.e. 13%. Rajasthan has same NPA percentage in 2015 and 2016. Overall NPA has decreased in this region.

Table 2: NPA Status of State Co-Operative Banks in North-Eastern Region

Region/State	NPAs as Percentage of Loans Outstanding		
	2011	2015	2016
North-Eastern Region	31.7	14.5	13.1
Arunachal Pradesh	84.4	70.8	67.2
Assam	35.5	11.2	11.1
Manipur	69.1	95.8	90.5
Meghalaya	13.3	8.2	7.8
Mizoram	14.4	11.5	10.9
Nagaland	35.3	16.2	13.5
Sikkim	7	5.8	4.2
Tripura	18.1	3.5	3.5

Table 2 shows NPA position of state cooperative banks in North-Eastern region. NPA of state cooperative banks as a percentage of total loans outstanding is shown in the above table. NPA in North-Eastern region was 31.7% in 2011 which has decreased to 14.5% in 2015 and 13.1% in 2016. In 2016, Manipur has highest NPA as percentage of total outstanding loans i.e. 90.5%, followed by Arunachal Pradesh (67.2%). NPA of Manipur was 69.1%, which was increased to 95.8% in 2015 but there decreases in NPA percentage by 5.3% from 2015 to 2016. NPA of state cooperative banks in Arunachal Pradesh was 84.4% in 2011 which has decreased to 67.2% in 2016. Manipur and Arunachal Pradesh are top NPA states. Tripura has same status of NPA percentage in 2015 and 2016. Overall North-Eastern region is showing a great

decrease in NPA from 2011.

Table 3: NPA Status of State Co-Operative Banks in Eastern Region

Region/State	NPAs as Percentage of Loans Outstanding		
	2011	2015	2016
Eastern Region	6	6.2	5.6
Andaman & Nicobar	9.4	21.7	21.9
Bihar	24.2	12.2	10.3
Jharkhand	-	35.3	28.2
Odisha	5.1	2.9	2.4
West Bengal	3.1	7.9	7.3

It is depicted from table 3 that NPA of state cooperative banks in Eastern region was 6 in 2011 which has decreased to 5.6 in 2016. In 2016, Jharkhand has a maximum percentage of the NPA in Eastern region followed by Andaman and Nicobar Island (21.9%) and Bihar (10.3%). In 2016, NPA of state cooperative bank of Jharkhand is 28.2% which was 35.3 in 2015. NPA of all state cooperative banks has decreased from 2015 to 2016 except Andaman Nicobar which has increased from 21.7% to 21.9% from 2015 to 2016. Overall this region has shown a positive sign of growth as far as NPA is concerned. Overall NPA of state cooperative banks is decreasing.

Table 4: NPA Status of State Co-Operative Banks in Central Region

Region/State	NPAs as Percentage of Loans Outstanding		
	2011	2015	2016
Central Region	6.2	3.0	4.0
Chhattisgarh	7.8	4.4	3.8
Madhya Pradesh	3.2	1.4	4.2
Uttar Pradesh	7.8	4.8	4.2
Uttarakhand	10.1	2.9	2.5

It is clear from the above table that NPA of state cooperative banks in Central Region was 6.2%, 3% and 4% in 2011, 2015 and 2016 respectively. There are four states in this region, namely, Chhattisgarh, MP, UP and Uttarakhand. In 2016, state cooperative bank of Madhya Pradesh and Uttar Pradesh states have a maximum percentage of NPA i.e. 4.2% in the Central region, whereas state co-operative bank of Madhya Pradesh state had lowest NPA percentage in 2015. NPA of all state cooperative banks has decreased from 2015 to 2016 except in Madhya Pradesh which has increased by 2.8%. NPA of all state cooperative banks in Central region has increased from 3% to 4% from 2015 to 2016 but there is a decrease in region's overall percentage from 2011 which was 6.2%.

Table 5: NPA Status of State Co-operative Banks in western region

Region/State	NPAs as Percentage of Loans Outstanding		
	2011	2015	2016
Western Region	20.6	8.8	7.5
Goa	8.2	11.3	9.5
Gujarat	9	2.4	2.5
Maharashtra	23.5	11.7	9.3

It is clear from above table that NPA of state cooperative banks in western region was 20.6% in 2011 which has decreased to 8.8% in 2015 and further, decreased to 7.5% in 2016. Western region consists of three states only, namely, Goa, Gujarat and Maharashtra. There is a decrease of NPA i.e. 1.3% from 2015 to 2016. In 2016, State cooperative bank of

Goa has maximum percentage of NPA i.e. 9.5% in the Western region, whereas Maharashtra has highest NPA percentage in 2015 which was 11.7%. NPA of all states/union territories has decreased from 2015 to 2016 except Gujarat, which was increased by 0.1%. Further, NPA of state, cooperative banks in Maharashtra and Gujarat has shown a great decline from 2011. Overall NPA of state cooperative bank is decreasing.

Table 6: NPA Status in Southern Region and All Over India

Region/State	NPAs as Percentage of Loans Outstanding		
	2011	2015	2016
Southern Region	4.9	5.2	3.6
Andhra Pradesh	2.7	2.7	0.4
Karnataka	4.1	3.8	3.3
Kerala	15.3	16.0	15.6
Puducherry	13.7	9.8	5.9
Tamil Nadu	2.7	4.7	3.1
Telangana	-	0.04
All India	8.6	5	4.5

Table 6 shows NPA of state, cooperative banks in the Southern region and all over India. Southern region consists of five states namely, Andhra Pradesh, Karnataka, Kerala, Telangana and Tamil Nadu. This region has one union territory also. NPA of state cooperative banks in southern region was 4.9 in 2011 which has increased to 5.2% of total loan outstanding (2015) and decreased to 3.6% of total loan outstanding (2016). In 2016, Kerala has a maximum percentage of NPA in this region, which was 15.6% in the Southern region. Overall, there is a decrease in NPA in all states/union territory. Region-wise highest NPA percentage of state cooperative banks was in North- Eastern region which was 31.7%, 14.5% and 13.1% of total loan outstanding in 2011, 2015 and 2016 respectively. Further, NPA (all over India) was 8.6 % in 2011 which has decreased to 5 % in 2015. Furthermore, it has decreased to 4.5%, in 2016, as a percentage of total loans outstanding.

CONCLUSIONS

There is difference in NPA recognition norms in commercial and cooperative banks. Rules of NPA classification are much liberal in care of cooperative banks. NPA is a serious issue that impacts profitability as well as the liquidity of banks. NPA is harmful for short term as well as long term financial stability. State Cooperative Banks are depicting reduction in NPA except in a few states in which there is an increase in the NPA. Overall NPA is decreasing y-o-y. In order to reduce it further, it is suggested that pre-sanctioning of loan is a turning point. Proper borrower appraisal is a pro-active approach. Healthy loaning should be there, because depositors are keeping their hard earned money with banks. Credit should not be confused with charity. Post-disbursement check is also required to reduce NPA.

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