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A Study on Non Performing Assets (NPA) Management of Selected Co-Operative Banks in India-Covid 19

DR.G.JAYALAKSHMI, M.Com., M.phil, Ph.D

Associate Professor, Department of Commerce, Bharath Institute of Higher Education and Research, Chennai

Abstract: Cooperative banks play an important role in the rural areas, providing timely credit and other support for uplifting the economic conditions of farming community. Most co-operative banks sit uncomfortably in the heterogeneous banking structure. Cooperative Banks have a portfolio of loans and advances that are highly tilted toward Agriculture and that too short term agriculture [crop loning]. Management of NPA is burning issue now a day in banking sector.

For that purpose The Narasimham Committee on Financial Sector Reforms has recommended that the policy on income recognition by banks should be in conformity with the international best practices which require classification of assets in two categories, viz., Performing Assets (PA) and Non-performing Assets (NPA).

INTRODUCTION:

Recovery of credit is absolutely essential for recycling of credit. Timely recovery of advances keeps the business running and continues flow of funds helps retaining the customers and reducing Non-Performing Assets [NPAs]. The Government of India 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.

HISTORY OF COOPERATIVE BANKS IN INDIA

The genesis of the cooperative movement and its implementation in a modern technical sense can be traced after the Industrial Revolution in England during the period of 18th and 19th century. The idea of Hermann Schulze and Friedrich Wilhelm Raiffeisen during the economic meltdown to provide easy credit to small businesses and poor sections of the society took shape as cooperative banks of today across the world.

Most co-operative banks sit uncomfortably in the heterogeneous banking structure. While big banks continue to gain all the attention, the cooperative banks which play a significant role in credit delivery to the rural population and contribute to financial inclusion remain confined in an unglamourous state.

As on May 31, 2021, there are 1,531 urban cooperative banks (UCBs) and 97,006 rural cooperative banks, with the latter making up 65% of the total asset size of all cooperatives taken together.

Despite the crucial role played by the cooperative sector, its asset size was only around 10% compared to that of scheduled commercial banks (SCBs) at end March-2020.

Share of rural cooperative lending in total agricultural lending has considerably diminished over the years, from as high as 64% in 1992-93 to 11.3% in 2019-20. Although the RBI had initiated consolidation among these banks and has been tightening the straps on UCBs over the past few years, the financial soundness of the sector has been of concern reflecting operational and governance-related impediments.“Apart from this, the areas of operations for most UCBs are also restricted to the state where these UCBs are incorporated. Hence in absence of sufficient ability to grow, the scale and service offerings for most UCBs has remained constrained,”

NON-PERFORMING ASSET (NPA):

An asset which, stops to generate income for the bank is called a Non-performing Asset (NPA). When a borrower could not pay interest and /or instalment on a loan, which remain overdue it becomes Non-Performing assets.

LOANS MORATORIUM ON BANKS AND NPAS

Banking sector performance had improved in FY20. Several PSU banks which were having high NPAs reported growth in earnings. Then the Covid-19 crisis emerged and loan moratorium was announced by RBI.

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RBI had announced loan moratorium on banks to salvage borrowers due to Corona virus. Loan moratorium means that the borrowers will not be required to pay interest and principal components of the loan to the bank during the moratorium period. This is to encourage borrowers to increase their spending and businesses to thwart low business confidence and expand and continue their businesses buoyantly so that economic growth does not be spoiled.
A stress test conducted by the RBI suggests that the RBI could push Indian banks' gross bad loans to their highest in nearly two decades. Gross NPA declined to 8.5% in 2020 from 9.3% in 2019. Gross NPAs would rise to 15.2% by March 2021 from 11.3% a year earlier in the baseline scenario. In the "very severe stress" scenario, this could go as high as 16.3%.
Credit growth to corporate form 37% of total bank assets and generates 73% of NPAs. Credit growth to industry slowed to 0.8% in July 2020 as compared with 6.1% growth in July 2019.Credit growth to food processing, mining, petroleum, coal & nuclear fuels, leather, wood industry, paper increased in July 2020. Sectors hit hard by the pandemic are tourism, aviation, entertainment, hospitality, petroleum, real estate and food. Sectors performing well are pharmaceuticals, FMCG, ecommerce, utilities and IT sectors. Loans to these sectors are not likely to turn bad.
However, credit growth to chemicals, plastic, infrastructure, gems & jewellery, glass and beverage & tobacco decreased. So we see that credit growth to sectors hit by pandemic will generate high NPAs.Retail lending forms 22% of total bank lending and generates 3.7% of NPAs. Car loans, home loans and personal loans have low delinquencies and are good loans. Personal loans performed well growing by 11.2% implying NPAs from this segment will be low and banks will enjoy higher margins.

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.

RESERVE BANK OF INDIA ON NPA MANAGEMENT IN BANKS

The thinking of RBI on NPA management in banks is clear from its circular on Prompt Corrective action [RBI/2016-17/276 DBS.CO.PPD. BC.No.8/11.01.005/2016- 17 April 13, 2017]. Though the circular is issued for all Scheduled Commercial Banks, the direction of thinking clearly states that

A. Capital, asset quality and profitability continue to be the key areas for monitoring in the revised framework.
B. Indicators to be tracked for Capital, asset quality and profitability would be CRAR/ Common Equity Tier I [Ratio1], Net NPA [Ratio2] and Return on Assets [Ratio3] respectively.

Though PCA guidelines are not made applicable to Cooperative Banks today it very clearly indicates the actions which must be initiated in the bank for reach of Risk thrash holds. As can be seen from the above-mentioned tables on gross NPA and Net NPA, many of the DCCBs have already breached or may be on the verge of breaching these thrash hold limits. Any future strategy for NPA management and bringing them down to manageable level must include regulators and supervisory actions on all such banks including time bound action plan. RBI in its policy announcements have indicated that Banks must move from the stage of "Identification of NPAs" to "Resolution of NPA's. The proportion of gross non-performing assets (NPA) of urban co-operative banks rose to 11.3% in FY21 as against 10.8% in FY20 and 7.3% in FY19, according RBI. The financial health of rural cooperatives too, remains fragile amid stiff competition from niche players like non-banking financial companies and small finance banks. Growth in deposits, which constitute about 90% of their total resource base, plunged in the year ended March 2020. The average growth rate in deposits fell from 13% in the first decade of consolidation drive to 8% between FY15 and FY20.

Data from RBI signals deposit deterioration trend to continue well into 2021. The UCBs reported a cumulative loss of `4,806 crore for FY20 as against a profit of `3,544 crore in FY19 mainly because of high NPAs and lower investments. The major crisis at Punjab and Maharashtra Cooperative (PMC) Bank in 2019 can be attributed to the mammoth quantum of NPAs.

Secondly, the credit demand remains anaemic. After growing at an average rate of 7.8% since 2015-16, loans and advances of UCBs almost stagnated in 2019-20. The health of cooperative banks is likely to worsen in post Covid-19 days.

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CENTRAL COOPERATIVE BANKS

A Central Co-operative Bank is a federation of primary societies covering specified area. There are 23 Central Cooperative Banks functioning in the State. They extend credit and banking support to all affiliated Co-operatives such as Primary Agricultural Co-operative Credit Societies (PACCS), Consumer Co-operative stores, Agricultural Producers Cooperative Marketing Societies, Cooperative Sugar Mills, Weavers Cooperative societies, Employees Cooperative Thrift and Credit Societies, Cooperative Spinning Mills etc. These banks raise resources through public deposits, borrowings and refinance from Tamil Nadu State Apex Cooperative Bank and NABARD. These banks have 908 branches which extend banking services directly to the public throughout the State. All the 23 Central Co-operative Banks are functioning in current year profit. They have also obtained banking license from the Reserve Bank of India. The performance of Central Cooperative Banks is given below:

Amount (Rs. in crore)

Sl.No	Details	2016-17	2017-18	2018-19	2019-20	2020-21 (unaudited)
1	Member's Share Capital	1,252.23	-	-	-	-
2	State Government's Share	67.94	68.32	65.20	70.04	68.83
3	Reserves and Surplus	3,460.53	3,480.12	3,591.96	3,724.30	3,935.09
4	Deposits	28,343.91	27,693.41	28,792.35	30,316.00	31,927.28
5	Borrowings	4,340.41	4,885.59	6,324.87	8,478.87	6,729.60

There is hope that the new ministry will help resolve problems in cooperative banking even as many suspect it to be a political move.

SUMMARY AND CONCLUSION

The paper examines the determinants of non-performing assets (NPA) of Selected Co-Operative Banks in India during the period 2016-17 to 2020-21, and adds to the non-performing assets literature in three ways. Earlier studies focussed on one aspect of the bank. However, we have tried to capture the business performance not only at the functional level but also at the corporate level. The functional level of a bank was captured through the operational, liquidity and solvency indicators, while the banks' business growth strategy (in terms of asset growth) at the corporate level was captured using business development capacity as a proxy. If banks followed an aggressive growth strategy they would witness higher NPAs.

Repo rate has been lowered substantially by the RBI since some time but banks have not much lowered their lending rates because of financial sustainability. So with the growth of loans in H1FY21 will translate into good earnings for banks despite the pandemic. Once moratorium is lifted and repayments start coming banks will become profitable. NPAs would rise and in this aspect RBI has asked banks to do provisioning, buffers and raise capital and thus be resilient organisations. All banks are facing lot of problems due to various reasons. Co-Operative Banks are lifeline of the Indian economy and government should nourish them for their sustainability. Only mergers of banks are not the only tool for economic growth. Interference by various political parties in functioning of the banks must be stopped.

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