

IMPACT OF NON - PERFORMING ASSETS: A STUDY OF THREE CO-OPERATIVE BANKS OF GUJARAT

Dr. Harshad Vataliya*

ABSTRACT

In a fast changing banking environment of today the very survival of a banking organization depends on level of the income generated through optimum use of assets after paying the cost of funds for acquiring them and other administrative costs involved therein. Once the assets cease to contribute the income, they are termed as Non-Performing Assets, which not only have cost of funds involved but also require to be operated as per prudential norms. One of the major problems being faced by banks and financial institutions in India is that of bad debts termed as "Non-Performing Assets" (NPA). There are many reasons for the sorry state of affairs and major among them are 1) Political interference, 2) Poor law enforcement, 3) Archaic laws and procedures, 4) Corruptions at various levels and competition in various banking institution, 5) Flow of Funds.

KEYWORDS: *Banking Environment, Cost of Funds, Administrative Costs, Non-Performing Assets.*

Introduction

The Gross NPA means NPA on application of the prudential Norms on Income Recognition and Assets Classification specified (IRAC). The net NPA means the reduced interest suspense account claim received from Deposit Insurance, Credit Guarantee Corporation (DICGC), Export Credit Guarantee Corporation (ECGC), and part payments received and kept in suspense account and total on balance of Gross NPA. The Non-Performing Assets refer to gross and net provision

Statement-gross advance means all outstanding loans and advances including advance for which refinance has been received but excluding rediscounted bills and advances written off. The position of the percentage of NPA to Gross Advance & Net Advance is outstanding balance of selected banks. The problem of Non Performing Advance is common to both weak and strong banks; it depends on the net worth performance. Therefore to point out information on NPAs of selected banks, there realization appears macro level economic and impact on important micro level variables.

Gross NPAs to Gross Advances Ratio

This ratio is always mentioned in terms of percentage, which indicates the proportion of the NPA in the advances in gross. The lower is the percentage better is the advancing policy. Gross NPA to Gross Advances Ratios of private sector scheduled banks are presented in Table 1 given below.

* Assistant Professor, Mahdi Mahila College, Bhavnagar, Gujarat, India.
(This paper has been submitted for the National Webinar on "Latest Advancements & Future Trends" organized by K. R. Doshi Group of Colleges, Bhavnagar, which was held on 20th December, 2020.)

Table 1: Gross NPA to Gross Advance of Private Banks. (Rs in Lakh)

Year	Kalupur Bank		Surat Nag. Bank		Nutan Sah. Bank	
	Gross NPA Rs	%	Gross NPA Rs	%	Gross NPA Rs	%
1998	10831	7.76	1550.31	10.00	613.52	10.88
1999	18666	10.86	1886.36	11.11	810.22	11.60
2000	15442	6.45	2414.54	12.37	1284.37	15.39
2001	33958	12.00	2812.02	11.03	1187.73	13.62
2002	38908	14.08	3654.74	12.88	1685.32	18.07
2003	44771	13.00	3922.75	11.95	1932.34	18.42
2004	51634	13.14	3883.99	11.63	1821.25	17.33
2005	45020	10.87	4600.33	10.31	1907.00	18.04
2006	49079	12.25	3928.24	8.46	N A	N A
2007	N A	N A	3805.22	7.66	N A	N A

Source: 2nd Sep 2006 Merger on IDBI Bank, 25th Jan 2006 Merger on the Federal Bank Ltd

The following tables also give comparison of various banks belonging to the two sectors and some meaningful inferences are drawing from the same. The comparison of selected private banks gives the following inference:

- Gross NPA to Gross Advances ratio show significant increase during 1998 to 2005.
- In the case of Kalupur Bank the NPA has witnessed 14.08% increase during 1998 to 2005.
- Surat Nagrik Sahkari Bank observed 12.88% increases in NPA during the same period where as Nutan Sahkari Bank registered 18.42% increase.
- After 2005 Surat Nagrik Sahkari Bank witnessed steady decrease in the percentage of Gross NPA to Gross Advances, which is a positive sign.

The scene in cooperative banks is as under

Table 2: Gross NPA to Gross Advances of Cooperative Banks (Rs. in Lakh)

Year	Kalupur Bank		Surat Sahkari Bank		Nutan Sahkari Bank	
	Gross NPA	%	Gross NPA	%	Gross NPA	%
1998	787.07	8.43	777.69	93.5	55660.28	35.78
1999	840.43	98.38	1063.83	97.83	45284.47	31.77
2000	985.48	99.40	1500.45	96.32	54452.15	28.58
2001	1277.00	96.64	2128.84	16.73	58664.47	31.18
2002	1683.43	65.83	2085.57	11.31	44471.21	18.70
2003	2783.95	11.97	2767.87	13.35	46412.85	21.55
2004	4700.12	15.81	2824.36	99.72	48198.33	18.39
2005	3233.77	11.83	2600.61	99.51	40788.33	42.90
2006	3182.08	10.17	1658.58	96.48	33584.55	31.90
2007	3078	3.75	1806.42	93.4	28500.56	23.70

Table 2 shows comparison between selected co-operative banks. The comparison of Gross NPA to Gross Advances draws following inferences:

- The average ratio of Gross NPA to Gross Advances in case of Kalupur Bank is 10.46%.
- The Surat Nagrik Sahkari Bank witnessed 10.10% average ratio for Gross NPA to Gross Advances.
- Nutan Sahkari Bank registered the highest ratio of Gross NPA to Gross Advances (38.75%).
- The overall performance of select Co-operative banks show 29.19% Gross NPA to Gross advances. This is an alarming sign.

Conclusion

The comparative analysis of table 1 and table 2 shows that the performance of cooperative banks concerning gross NPA to Gross Advances is not satisfactory compared to Private Banks selected for the study.

Net NPA to Net Advance

Here net NPA to net advances of selected private and cooperative banks has been analyzed. This analysis provides a base for comparison of position prevailing in private and cooperative sectors.

Name of Selected Banks	1998 Net NPA		1999 Net NPA		2000 Net NPA		2001 Net NPA		2002 Net NPA	
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
Kalapur Bank	522.3	6.11	885.8	4.2	59556	4.12	767.5	4.12	1098	5.1
Surat Nagrik Sahkarik Bank	674.5	7.85	783.5	6.34	1313	8.16	1882	10.3	1498	9.8
Nutan Sahkari Bank	14995	24	27105	18.3	25834	27.5	40434	37	21833	24

Name of Selected	2003 Net NPA		2004 Net NPA		2005 Net NPA		2006 Net NPA		2007 Net NPA	
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
Kalapur Bank	2989	9.5	3353	8.6	23738	5.6	22675	5.66	N A	N A
Surat Nagrik Sahkarik Bank	2314	7.4	1932	5.5	2347	5.5	1281	2.61	1022.2	91
Nutan Sahkari Bank	2330	23	2212	3.7	1455	2.2	11103	1341	9824.7	9

Source: 2nd Sep 2006 Merger on IDBI Bank, 25th Jan 2006 Merger on the Federal Bank Ltd

Table 3 reflects ratio of net NPA to net advances of the selected banks:

- Private Banks selected for the study performed better than Cooperative banks with ratio of net NPA to Net advances as 9.04% capered to 12.85% in the case of Co-operative banks.
- Kalapur Bank (13.19%) private banks and Surat Nagrik Sahkari Bank (25.41%) in co-operative banks recorded highest ratio of net NPA to net advances.

All the banks showed positive signs after 2004. The percentage of net NPA to net advances started declining gradually after 2004.

High net NPA ratio is the indicator of high risk and ideally ratio of net NPA to net advances should not cross 3%. Inter sectorial comparison shows both the sectors do not have satisfactory net NPA ratio. Though recent years show decline in the ratio. The increasing trend of NPA in absolute term is cause for great concern.

Gross NPAs and Net NPAs to Total Assets

Here gross NPAs and net NPAs to total assets of selected banks are analyzed:

Table 4: Showing Gross NPA and net NPA as Percentage of Total Assets

Year	1998		1999		2000		2001		2002	
	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %
Kalapur Bank	3.64	2.63	4.75	3.53	3.20	233	5.62	4.41	5.92	555
Surat Nagrik Sahkarik Bank	3.es	2.41	4.81	3.25	4.85	3.27	4.72	3.12	4.72	3 4C
Nutan Sahkari Bank	4.38	2.61	3.63	4.25	4-8	2.10	368	223	6.53	7.74
Year	2003		2004		2005		2006		2007	
Name of Selected Bank	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %	Gross NPA %	Net NPA %
Kalapur Bank	7.50	5.01	7.23	4.70	335	3.50	6.85	0.32	N A	N A
Surat Nagrik Sahkarik Bank	5.30	3.12	4.76	233	529	3.70	4.81	1.30	3.32	0.88
NutanSahkariBank	5.1	10.17	48.10	8.15	17.24	6.17	13.82	4.57	11.45	3.65

2nd Sep 2006 Merger on IDBI Bank, 25th Jan 2006 Merger on the Federal Bank Ltd

Table 4 represents ratio of Gross NPA and Net NPA to total assets. The data signifies following observations.

- Cumulative percentage of Gross NPA to total assets for private and co-operative banks considered together shows that 10.15% assets are non-performing assets.
- The private banks considered together shows that the percentage of gross NPA to total assets in private banks selected for the study is 6%.
- If the co-operative banks considered together the percentage of gross NPA to total asset in select co-operative banks is 26.13% which is very high than the ideal ratio.
- The inter sectorial comparison between private and co-operative banks select study are shows that nonperforming assets compared to total asset is 400% higher in co-operative bank w.r.t. private banks.
- The ratio of net NPA to total asset in private banks in select banks is 4.16%.
- If co-operative banks considered together the ratio of net NPA to total asset is 7.14%.
- The overall ratio of net NPA to total asset shows that net non-performing assets are 5.63% of total asset.
- The ratio of net NPAs to total assets is 171% more in co-operative banks w.r.t. private banks.

Conclusion

The position gross and net NPA level of the observed sample banks show that most to the banks have brought down the percentage terms. The obtained data / information from sample banks irrespective of the delivery channel. Their NPAs data providers have become performance of financial strength of bank or management. Moreover, the technique adopted by the banks for NPA reduction varies and play important role in the quality of NPAs. Such NPA data reduced by maximum compromise and write off is significantly different from the NPA reduction by up-gradation and cash recovery. The position NPAs amount is not only useful for the bank but also helpful for the customer service, marketing etc. The concept of “pay bank to help you back” During the study it has observed that every bank shows low recovery and high provision on NPA and suffering losses, which ultimately weaken the banks, occurrence of new NPA and low recovery resulted in potential high position of NPAs of banks makes and adverse effect on the banking performance.

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