



A Comparative Study of Non Performing Assets in DCCBs and UCBS

Nagaraja R.C

Assistant Professor, Department of Commerce, Government First Grade College, Holalkere

J. Madegowda

Professor, Department of Commerce, Kuvempu University, Jnana Sahyadri, Shankaraghatta

ABSTRACT

Non Performing assets (NPA) are one of the major concerns for banks in India. NPA reflect the performance of the banks. The co-operative sector has been facing serious problems of raising Non-Performing Assets. The Net NPAs growth has a direct impact on profitability of banks. It involves the necessity of provisions, which reduces the overall profits and shareholders' value. The problem of NPAs is not only affecting the banks but also the whole economy. It is necessary to trim down the NPAs to improve the financial health in the banking system. This paper, therefore, makes an attempt to evaluate the Non Performing Assets of DCCBs and UCBS in terms of Gross NPA Ratio, Net NPA Ratio, Averages, Variances, t-test etc.

KEYWORDS : District Central Co-operative Banks, Urban Co-operative Banks, Gross NPA, Net NPA, Shareholder's Value, Profitability.

1. INTRODUCTION

High level of Non-performing Assets (NPAs) is a matter of concern for everyone involved as credit is essential for economic growth and NPAs affect the smooth flow of credit. Banks raise resources not just from fresh deposits, but they also create credit by recycling the funds received back from the borrowers. Thus when a loan becomes non-performing, it affects recycling of credit and in turn credit creation. Apart from the credit creation, NPAs affect the profitability as well, since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provisions for bad loans. Therefore, the problem of NPAs is not the concern of the lenders alone, but it a concern of policy makers as well who are involved in putting economic growth on the fast track. Non Performing Advance is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the definition of NPAs has changed over time. According to the Narasimham (1991) committee report, those assets (advances, bills discounted, overdrafts, cash credit etc) for which the interest remain due for a period of four quarters (180 days) should be considered as NPAs. Subsequently this period was reduced, and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days should be considered as NPAs.

Assets Classification:

A bank's assets portfolio is basically classified into performing and non-performing assets. The cooperative banks started classifying their assets as per the new prudential norms introduced by RBI since 1996-97. The classifications of advances are under four broad categories, i.e. Standard, Sub Standard, Doubtful and Loss Assets. Sub standard, doubtful and loss assets are individually and collectively known as NPAs.

2. REVIEW OF LITERATURE

Many studies have been conducted by researchers on NPAs in banking industry. The researchers has made attempts to present a brief review of the literature available, which are published in the form of research article and technical papers published in the journals, magazines and websites in the related area.

Satpal (2014) in his study focuses on comparative study on Non-Performing Assets in Public and Private Sector Banks in the new age of technology. Similarities and dissimilarities remedial measures and conclude the importance of a sound understanding of the macro economic variables and systematic issues in pertaining to banks and the economy for solving NPAs.

Priyanka Mohnani and Monal Deshmukh (2013) in a study on Non performing Assets on selected Public and Private Sector Banks. NPA

are considered as an important parameter to judge the performance and financial health of the banks. There has been marginal decrease in NPAs level over the period in all selected banks.

Chaudhary and Sharma(2011) in their research paper on performance of Indian Public Sector banks and private sector banks: A Comparative study stated that it is the right time to take suitable and stringent measures to get rid of NPA problem.

3. OBJECTIVE OF THE STUDY

The present study "Management of Performing and Non Performing Assets – A study of selected District Central Co-operative Banks and Urban co-operative banks in Karnataka." has been initiated to fulfill certain objectives which are as follows:

1. Highlight the NPAs trend and Position of selected DCCBs and UCBS.
2. To Assess the Comparative position of NPA in Selected DCCBs and UCBS.
3. To Assess the variation of NPA ratio in selected DCCBs and UCBS.
4. To understand the NPA and to suggest for reducing NPA at the micro and macro level

4. RESEARCH INSTRUMENT

The study focuses on entire condition of nonperforming assets of co-operativebanks. As it was descriptive type of Research work, for collecting primary data have been collected through discussions with managerial personnel, executives and staffs of the selected co operative banks. Secondary data are taken from annual reports (Balance Sheets, Profit & Loss Accounts) of the selected Co operative banks, internal circulated matter from RBI, guidelines, Trend & Progress reports of RBI, Co-operative journals, and from the web sites available on net.

The financial tool to know the condition of NPA of the co operative banks and the Ratio Analysis under NPA management. The conclusion is drawn on the basis of NPA management of last five Years i.e. 2008-09 to 2012-13.

5. SCOPE OF THE STUDY

The study covers only selected District Central Co-operative Banks (DCCBs) and Urban Co-operative Banks (UCBs) which are in Karnataka State. It does not cover whole DCCBs & UCBS which are working in Karnataka State. This study enables to improve knowledge about the co operative banking sector, specifically on account of NPAs. This study also enables the banks to know its actual position on NPA management in last five years i.e. 2008-09 to 2012-13.

6. SELECTION OF SAMPLE

The Sample consists of three District Central Co-operative Banks - Bagalkot District Central Co-operative bank, Bijapur District Central Co-operative bank, Davangere District Central Co-operative bank, and Three Urban Co-operative Banks- Basaveswara Urban Co-operative bank, Bagalkot, Davangere Urban Co-operative bank, Davangere, Merchants Urban Co-operative bank, Gadag.

7. ANALYSIS OF DATA

In the data analysis some abbreviations have been used namely, i) GNPA-Gross Non Performing Assets, ii) % GNPA- Percentage of Gross NPA to Gross Advances iii) NNPA-Net Non Performing Assets iv) %NNPA-Percentage of Net NPA to Net Advance.

Table 1: Gross and Net NPA of DCCBs

Year	Basaveshwara DCCB				Bijapur DCCB				Davangere DCCB			
	GNPA	%GNPA	NPA	%NPA	GNPA	%GNPA	NPA	%NPA	GNPA	%GNPA	NPA	%NPA
2009	2919.70	1.95	1664.58	3.88	1877.79	4.71	1322.21	2.37	1566.33	36.48	619.81	4.66
2010	2633.76	4.49	1713.84	3.66	1756.94	1.26	900.31	2.29	1441.00	18.48	1181.51	8.66
2011	1996.88	2.99	409.94	0.66	1302.61	2.37	561.11	1.01	884.30	18.84	1434.72	7.04
2012	1982.99	2.49	448.42	0.58	1222.79	1.64	462.81	0.83	1596.77	13.35	1181.17	3.66
2013	1841.27	2.00	311.63	0.27	1321.48	1.41	168.96	0.18	N/A	N/A	N/A	N/A
Avg	2316.58	3.18	860.97	1.71	1493.31	1.81	497.51	1.10	1428.60	17.99	1113.56	6.28

Source : Audit and Annual Reports of DCCBs.

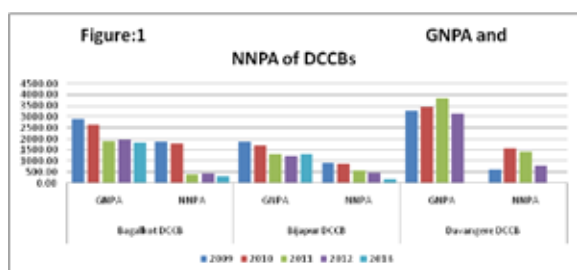


Figure 1 shows that GNPA and NNPA of Davangere DCCBs is highest among all three banks. And Table 1 also shows that the % of GNPA and % of NNPA is also highest in Davangere DCCB and lowest in Bijapur DCCB. It indicates that Davangere DCCB have maintained low quality of credit portfolio.

Table 2: Gross and Net NPA of UCBs

Year	Basaveshwara UCB, Bagalkot				Davangere UCB, Davangere				Merchant UCB, Gadag			
	GNPA	%GNPA	NPA	%NPA	GNPA	%GNPA	NPA	%NPA	GNPA	%GNPA	NPA	%NPA
2009	2044.00	21.07	1248.00	6.96	803.90	11.23	281.57	8.12	232.50	42.09	1023.07	22.16
2010	2099.00	18.35	1481.00	3.82	599.63	7.85	384.60	2.21	155.79	47.99	692.62	27.06
2011	1171.25	13.36	121.25	1.18	891.64	35.54	427.95	7.61	151.11	38.17	194.32	38.89
2012	1151.00	8.1	N/A	N/A	1361.95	12.38	176.58	0.81	363.96	39.32	148.57	15.21
2013	1324.00	7.49	N/A	N/A	1197.11	12.82	457.91	8.92	172.82	34.88	292.88	34.10
Avg	1772.65	14.19	411.42	2.77	618.27	20.87	464.51	7.34	301.83	38.10	663.77	28.89

Source: Audit and Annual Reports of UCBs.

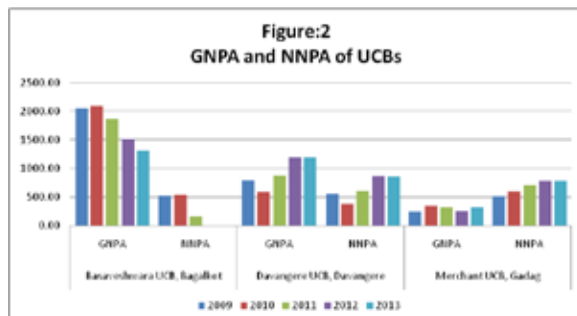


Figure 2 and Table 2 shows that GNPA of Basaveshwara UCB is highest among all three banks and NNPA of Davangere UCB is highest as compare to other Urban banks. The % of GNPA and % of NNPA is highest in Merchant UCB and lowest in Basaveswara UCB (NPA is Nil In the year 2012 and 2013). It indicates that Basaveswara have maintained good quality of credit portfolio among the three banks.

Table 3: Analysis of Gross Non Performing Asset of DCCBs and UCBs.

		AVE	Mean	Variance	t-Test
DCCBs	BAGALKOT DCC BANK	3.59	7.94	67.01	3.3
	BIJAPUR DCC BANK	2.87			
	DAVANGERE DCC BANK	17.39			
UCBs	BASAVESHWARA UCB BAGALKOT	14.19	21.23	228.3	
	DAVANGERE UCB DAVANGERE	10.92			
	MERCHANT UCB GADAG	38.58			

Source: Audit and Annual Reports of DCCBs and UCBs.

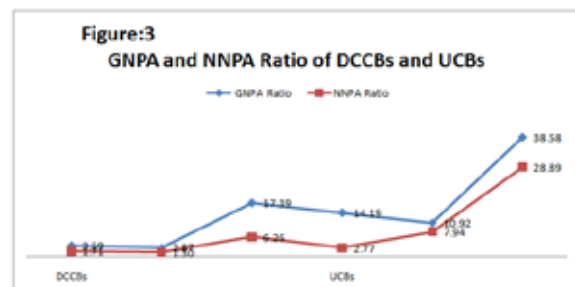
It is obvious from the above Table 3 the average Gross NPA value of Urban Cooperative Banks are more as compared to District Central co-operative banks. It means that low quality of credit portfolio possessed by UCBs than DCCBs, which is affected the profitability position of the banks. The difference in the average Gross NPAs between all selected DCCBs and UCBs is found not statistically significant (t = 3.3 i.e. more than the critical value 2.91 one tail).

Table 4: Analysis of Net Non Performing Asset of DCCBs and UCBs

		AVE	Mean	Variance	t-Test
DCCBs	BAGALKOT DCC BANK	1.71	3.08	7.57	1.56
	BIJAPUR DCC BANK	1.30			
	DAVANGERE DCC BANK	6.26			
UCBs	BASAVESHWARA UCB BAGALKOT	2.77	13.2	191.21	
	DAVANGERE UCB DAVANGERE	7.94			
	MERCHANT UCB GADAG	28.89			

Source: Audit and Annual Reports of DCCBs and UCBs.

It is obvious from the above Table 4 the average Net NPA value of Urban Cooperative Banks are more as compared to District Central co-operative banks during the survey period. It means that higher level of risk have been taken by Urban cooperative banks than District Central Cooperative banks. The difference in the average Net NPAs between all selected DCCBs and UCBs is found statistically significant (t = 1.56 i.e. less than the critical value 2.91 one tail).



8. Conclusion

NPA is a serious blow on the credibility of the cooperative banking system. It shakes the confidence of the general public on the soundness of the banking operations and indirectly affects the capacity of the bank to mobilize more deposits and also prevents the bank to enter into schemes. This study shows that extent of NPA is comparatively very high in UCBs as compared to DCCBs. The bank management should speed up the recovery process. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing co-operative sector at all.

REFERENCES

1. Annual Reports of Selected Cooperative banks. | 2. Adhivarahan, V (2000), Reductin of NPA-Whether an insurmountable task?, IBA Bulletin | 3. Anil Suryawanshi (2003), Non Performing Assets- An Analysis of SGB, Banking Finance.Vol 16(9) September. | 4. Meenakhasi Rajiv (2008),"Assets as Liability?: NPAs in the Commercial Banks of India", Research Project funded by South Asia Network of Economic Research Institute 2008 | 5. Misra, T P (2003), Managing non-performing assets- A professional approach, IBA Bulletin | 6. Ravichandran K, and Mayilsamy, R (2003), "A world through Cooperatives (ed.by)," Frank Ratna Kumar and others. Rainbow Publication, Coimbatore. | 7. Reserve Bank of India, <http://www.rbi.org.in> accessed on 31st October, 2011 at 9.20.54 pm. | 8. Satpal (2014)"A Comparative study of Non Performing Assets in Public and Private Sector Banks in the New Age of Techonology". International Journal of Current and Technology, Vol 4, No.4. | 9. Sudhan D.Yardi, Vishwanatha S erbhhu, A.J.Prasad. (2008), 'Banker's Guide to Non Performing Assets with reference to commercial and cooperative banks', 3rd ed, 2008, Yardi Prabhu consultants Pvt Ltd: Mumbai. |