



## A Study on Non Performing Assets (NPA) Management of Selected Commercial Co-Operative Banks in Gujarat State

### KEYWORDS

NPA- Non Performing Assets, PA- Performing Assets Gross NPA, Net NPA, CCOBs  
Commercial Co-operative Banks

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**ABSTRACT** Management of NPA is burning issue now a day in banking sector. Banking business mainly depends upon acquiring and lending money. The most important operation of the banking business is recovery of lending money. 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). The concept of Non-performing Assets (NPA) was introduced for the first time in the Narasimham Committee report was tabled in Parliament on December 17th 1991.

#### 1. INTRODUCTION:

Management of NPA is burning issue now a day in banking sector. Banking business mainly depends upon acquiring and lending money. The most important operation of the banking business is recovery of lending money. 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). The concept of Non-performing Assets (NPA) was introduced for the first time in the Narasimham Committee report was tabled in Parliament on December 17<sup>th</sup> 1991.

#### 1.1 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. The basic factor to determine whether an account is NPA or not, is the record of recovery and not the availability of security. The period of non-performance of assets is 90 days with effect from March 31<sup>st</sup> 2004 i.e. an assets which not generate any income for bank in last 90 days or more is classified as NPA. Nonperforming assets further required to classify into three categories based on the period for which the assets has remained non-performing viz., Sub-standard Assets, Doubtful Assets and Loss Assets.

#### 1.2 GROSS NPA AND NET NPA:

As per RBI circular, gross advance means, all outstanding loans and advances including advance for which refinance has been received but excluding re-discounted bill and advances written off at head office level (technical write off). The Gross NPA and Net NPA are always expressed as a percentage of advances. The percentage of Gross NPA to advances includes Interest Suspense Account where the banks is following and are deducted from Gross NPA to arrive at net NPA.

#### 1.3 COMMERCIAL CO-OPERATIVE BANKS:

The term Commercial Co-operative Banks (CCOB) not formally defined same as Urban Co-operative Banks. It may

defined as "The Co-operative banks works in urban area and providing all services same as commercial banks and controlled by RBI, Banking regulation act 1949 and State Governments as per the provisions of respective State Acts." The main functions of these banks to provide short term loan to businessman, traders, entrepreneurs etc. These banks are established under Co-operative act but provide all the services which provided by commercial banks like ATM, E-Banking, Housing Loan, Vehicle loans, Demat account facilities, Fund Transfer Facility, SMS facilities etc.

#### Features of Commercial Co-operative Banks:

1. CCOB is a Co-operative bank.
2. It is a Co-operative bank mostly works in urban area.
3. It provides all facilities to its customers which provides by a commercial bank.
4. This kinds of banks governed by RBI, Banking regulation act 1949, and respective act of state for co-operatives
5. Such banks mainly deal with retail banking business.
6. Some CCOBs operate beyond their state of registration and are governed by the Multi state Co-operative Act 1984. Like Kalupur Commercial Co-operative Bank.
7. CCOBs accept deposits from members as well as customers for loan and short period of time.
8. It provide loan to its members and customers for non agricultural purpose for business development, purchase of house purchase of vehicle, for short period of time say one to five years and for long period of time say 10 to 15 years.

There are total 1609 urban co-operative bank registered at the end of March 2013 out of these 51 is scheduled and 1558 are non-scheduled urban co-operative banks. There are total 23 Commercial Co-operative banks in India and out of this 14 CCOBs are in Gujarat at the end of March 31, 2014. Out of the total CCOBs in India two are Scheduled and remaining 21 are Non-Scheduled and out of the two scheduled bank one is in Gujarat, Kalupur Commercial Co-operative bank. The researcher has selected ten commercial co-operative banks out the fourteen banks in Gujarat that banks are (1) The Bhuj Commercial Co-Op Bank Ltd. (BCCB) (2) The Kalupur Commercial Coop. Bank

Ltd.(KCCB) (3) The Rajkot Commercial Cooperative Bank Ltd. (RCCB) (4) The Jivan Commercial Coop. Bank Ltd. Rajkot (JCCB) (5) The Vijay Commercial Coop. Bank Ltd. Rajkot (VCCB) (6) The Commercial Co-operative Bank Ltd. Jamnagar. (TCCBLJ) (7) The Chanasma Commercial Coop. Bank Ltd.(CCCB) (8) The Market yard Commercial Cooperative Bank (MCCB) (9) The Sarvodaya Commercial Coop. Bank Ltd.(SCCB) (10) The Randheja Commercial Co-operative Bank Ltd. (TRCCBL)

## 2. LITRETURE REVIEW:

Bhattacharya (2001) in his book 'Banking Strategy, Credit Appraisal and lending decision' rightly point out that increasing rate regime quality borrowers would switch over to other avenue like capital market, internal accrual for their requirement of funds. Under such circumstances banks would not have any option but to dilute the quality of borrowers thereby increasing the probability of generation of NPAs.

S. N. Bidani (2002) feels that Non-performing Assets are the smoking gun threatening the very stability of Indian banks. NPAs wreck a bank's profitability both through the loss of interest, income and write-off of the principal loan amount itself. In a bid to stem the lurking rot, RBI issued in 1993 guidelines based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs and reducing NPAs was treated as a 'national priority'.

Gourav Vallabhi, Anoop Bhatio and Saurabh Mishra (2007) explain that the Non performing assets are considered an important instrument to judge the efficiency and financial health of banks. The level of Nonperforming assets is one of the factors effecting a financial stability and growth of the banking industry. The authors made an effort to find the fundamental factors which impact Non-performing assets of banks. It is seen that priority sector lending is a major cause for Non-performing assets.

Dr. Rajesh D. Rana (2010) has completed his study 'Management of Performing and Non-Performing Assets – A study of selected Urban Co-operative Bank in South Gujarat. In his study he has focus on urban co-operative banks located in south Gujarat region. In his study he found that that all the selected UCBs of South Gujarat are managing their NPAs very satisfactorily, though there may be some weakness somewhere and they must be carefully looked after.

Maneesh Kant Arya (2013) in his research paper 'Non-performing assets and survivability of banks' indicates that increasing rate of NPA adversely affects the survivability of the banks and meager and acquisition is the best option of it.

After survey of above literature the researcher found that there has no any research has conducted on Management of NPAs by Commercial co-operative banks in Gujarat state therefore to fill the research gap this topic has selected.

## 3. OBJECTIVE OF THE STUDY:

- To know about the conceptual framework of PA and NPA.
- To understand the management of NPA by selected Commercial Co-operative Banks in Gujarat State
- To make Comparative analysis of Management of NPA of Selected Commercial Co-operative Banks in Gujarat

State.

- To put forward the suggestion for better management of NPA to the CCOBs.

## 4. RESEARCH METHODOLOGY:

This study was based on mainly secondary data which was available from published annual reports of the selected CCOBs in Gujarat State. First of all the researcher has collected NPA related data from the annual reports and then arranged same in tabular form. Then after Gross NPA and Net NPA Ratios has been calculated with the help of accounting formula. Simple average is used to determine the average rate of NPA and hypothesis of the study has been tested with the help of F-test (One way ANOVA) at 5% level of significance.

## 5. RESULTS OF ANALYSIS:

### 5.1 COMPARISION OF GNPA AND NNPA RATIO:

Year	BCCB	KCCB	RCCB	JCCB	VCCB	TCCBLJ	MCCB	CCCB	SCCB	TRCCBL	AVG
2008-09	30.38	4.68	35.23	10.14	12.58	10	6.55	8.49	1.73	6.92	12.67
2009-10	29.39	2.80	25.16	8.32	11.80	9.97	5.94	6.51	1.12	9.26	23.70
2010-11	26.99	1.42	26.51	6.58	10.35	4.28	5.84	5.18	0.61	9.66	20.77
2011-12	20.97	0.96	14.77	5.94	8.18	1.71	3.92	5.07	0.66	11.00	17.06
2012-13	16.27	0.96	9.06	5.44	6.21	0.75	2.60	4.54	0.24	13.10	13.24
AVG.	24.80	2.16	22.15	7.28	9.82	5.34	4.97	5.96	0.87	9.99	

Year	BCCB	KCCB	RCCB	JCCB	VCCB	TCCBLJ	MCCB	CCCB	SCCB	TRCCBL	AVG
2008-09	0	0	5.24	0	5.16	0	0	0	0	0	1.04
2009-10	0	0	5.12	0	3.1	0	0	0	0	0	1.86
2010-11	0	0	0	0.57	0	0	0	0	0	0	0.88
2011-12	0	0	0	0	0	0	0	0	0	0	0.06
2012-13	0	0	0	0	0	0	0	0	0	2.66	0.27
AVG.	0	0	2.07	0.11	1.65	0	0	0	0	0.53	

From the above table 1 and table 2 the researcher can clearly observed that Highest Average gross NPA found in BCCB 24.80 percent and lowest ratio found in SCCB 0.87 percent. In all the selected commercial co-operative banks during the period of the study from 2008-09 to 2012-13 it was found that GNPA ratio shown decreasing trend except TRCCBL. Net NPA ratio of all the selected banks found almost zero during the period of the study. That means all the selected bank maintained enough provision against the non performing assets. It indicates that NPA management of the selected CCOBs found too good during the period of the study. According to recent guideline of the RBI NPA ratio of the banks should not be more than 5%. But in all the selected CCOBs in Gujarat it found less than 5 percent it indicate good management of NPA by the CCOBs in Gujarat.

### 5.2 HYPOTHESIS TESTING:

To test the hypothesis the researcher has used one way ANOVA F test at 5 percent level of significance to determine the significance difference between GNPA and NNPA ratio of selected CCOBs of Gujarat.

$H_0$  : There is no significance between the GNPA ratio of selected Commercial Co-operative banks in Gujarat State.

$H_1$  : There is significance difference between GNPA ratio of selected Commercial Co-operative banks in Gujarat State

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2888.035	9	320.8928	17.25964	3.50419	2.124029
Within Groups	743.6838	40	18.5921			
Total	3631.719	49				

From the above table 3 the researcher can conclude that null hypothesis rejected at 5 percent level of significance and alternative hypothesis accepted i.e. Gross NPA ratio of selected CCOBs are significantly different of each selected bank.

$H_0$  : There is no significance between the NNPA ratio of selected Commercial Co-operative banks in Gujarat State.

$H_1$  : There is significance difference between NNPA ratio of selected Commercial Co-operative banks in Gujarat State

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	27.04309	9	3.004788	1.979551	0.067763	2.124029
Within Groups	60.71656	40	1.517914			
Total	87.75965	49				

From the above table 4 the researcher can conclude that null hypothesis accepted at 5 percent level of significance and alternative hypothesis rejected i.e. Net NPA ratio of selected CCOBs are identical it was not found significantly differ from each selected bank.

## 6. CONCLUSION:

From the above analysis and study the researcher can conclude that the NPA management of the selected CCOBs in Gujarat was found too well during the period of the study. All the Selected CCOBs take care of its Non-performing assets well. Most of the all banks have decreasing GNPA ratio during the period of the study. Apart from this Net NPA of the selected CCOBs found almost Zero during the period of the study. That means all the banks maintained enough provision against the NPA. From the hypothesis testing the researcher can conclude that GNPA ratios of the all banks were not identical but Net NPA ratios were identical.

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