

Non Performing Assets: A Study of Pithoragarh District Co-Operative Bank Ltd. (Uttarakhand)

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ABSTRACT

Now a days the Indian banking sector has been facing serious problems of raising Non – Performing Assets. Non – Performing Assets are a burning topic of concern for the public sector banks, as managing and controlling NPA is very important. A well – built banking sector is significant for a prosperous economy. The crash of banking sector may have an unfavourable blow on other sectors. A banker should be very cautious in lending, because banker is not lending money out of his own pocket. A major portion of the money lent comes from the public deposits and government share. At present NPA is increasing year by year in nationalized banks. According to the RBI data the Gross NPA of nationalised banks as on end of September 2017 hits 7.34 lakh crore. In this direction present paper is undertaken to study the reasons for advances becoming NPA of the Pithoragarh District CO- Operative Bank Ltd and to give suitable suggestions to overcome the mentioned problem.

Keywords-- NPA, Economy, Co-Operative Bank

I. INTRODUCTION

For any nation, banking system plays a vital role in the development of its sound economy. India is not an exception. Bankers are the custodians and distributors of the liquid capital of the country. The foremost function of the banking system is to mobilize the savings of the people by accepting deposits from the public. The banker becomes the trustee of the surplus balances of the public. Here-in-lies the onerous duty of the banker is in stimulating the mobilization of surpluses. Well - knit banking systems secure a good foundation for a Nation's Industrial and Economic Progress. The role of banking in promoting development and growth, especially in the context of planning to break the vicious cycle of poverty and to retrieve the economy from the trap of under-development is a matter of paramount importance, particularly when our country is on the way of development. Deposit mobilization promotes the economic prosperity by controlling the

money circulation and canalizing for development and productive purposes.

In order to mobilize deposits, the commercial banks undertakes deposit mobilization through various deposit schemes suited to the different sections of the people. As the growth of the bank deposits is the key element in the progress of the banking business, bankers spend more time and man power in the mobilization of deposits. The deposits along with other sources of funds, namely, capital, reserves and borrowings, form the sources of funds for the banks. The lending and investment activities of the bank are based on the sources of funds conducted to check the NPA,s of Pithoragarh District Co- Operative Bank from March 2013 to March 2017 and suggestion to reduce the NPA,s has also been drawn.

II. MEANING OF NON-PERFORMING ASSETS

Non-performing assets are one of the important phenomena that have to properly follow by the banks, to maintain the growth of the banking activity. NPA's are an inevitable burden on a banking system. Banks need to observe their standard assets regularly in order to prevent any account becoming an NPA. Now way a days a good performance of any bank depends upon the proper maintenance of the NPAs and looking them within the control level. The Reserve Bank of India has issued a parameter for a bank regarding NPA that the interest and principal remind overdue beyond 90 days i.e. the term loan, cash credit, overdraft, bill purchase or discount are all classified as NPA.

III. TYPES OF NPA

Gross NPA

Gross NPA is advance which is considered irrecoverable, for which bank has made provisions, and which is still held in bank's books of accounts.

Net NPA

Net NPA is obtained by deducting items like interest due but not recovered or a part of amount received but kept in suspense account from Gross NPA.

Assets Classification and Provisions

Assets Classification and Provisions Banks are required to classify the loan assets (advances) into four categories viz.

1. Standard assets
2. Sub-standard assets
3. Doubtful assets; and
4. Loss assets

1. Standard Advances/Assets: are those, which do not disclose any problem and do not carry more than normal risk attached to the business. Such assets are considered to be performing asset. A general provision of 0.25% has to be provided on global loan portfolio basis.

2. Sub-Standard Advances: With effect from 31 March 2005, a substandard asset would be one, Which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize liquidation of the debt and are characterized by distinct possibility that bank will sustain some loss. Accordingly a general provision of 10% on outstanding has to be provided on substandard assets.

3. Doubtful assets: These are the assets which have remained NPAs for a period exceeding 12 months and which are not considered as a loss advance. Banks have to provide 100 percent of the unsecured portion of the outstanding advance after netting realized amount in respect of DICGC scheme (Deposit Insurance and Credit Guarantee Corporation) and realized/realizable amount of guarantee cover under ECGC (Export Credit Guarantee Corporation) schemes. Period for which the Provision requirements (%) advance has remained in Doubtful category Up to one year 20 % One to three years 30 % More than three years I. Outstanding stock of NPAs - 60 percent with effect from as on March31,2004 March31,2005 -75 percent with effect from March 31, 2006. -100 percent with effect from March31,2007 II. Advances classified as 100 percent with effect from doubtful for more than March 31, 2005 three years on or after April1, 2004.

4. Loss Assets: Loss assets are those where loss has been identified by the bank or internal /external auditors or RBI inspectors but the amount has not been written off, wholly or partially. Any NPAs would get classified as loss assets if they were irrecoverable or marginally collectible and cannot be classified as bankable asset. Companies have to provide 100% of these outstanding advances. Note: provision towards standard assets should not be deducted from advances but shown separately as contingent provisions against standard assets under "Other liabilities and provisions" others in schedule V of the balance sheet.

IV. OBJECTIVES OF THE STUDY

The present study has been designed to achieve the following objectives:

- To know and study about the non – performing assets in Pithoragarh District CO- Operative Bank.
- To analyse the types of assets and effect of NPA on it.
- To study the causes of NPA of banks.
- To study the trends of gross NPA during March 2013 to March 2017

V. LIMITATIONS OF THE STUDY

- The study is limited to the functions of Pithoragarh District CO- Operative Bank (Uttarakhand).
- A deep analysis is made non –performing assets only.
- The result of the study may not be applicable to any other banks.
- The data are collected from Pithoragarh District CO-Operative Bank till the end of March 2017
- Since NPA are critical, bank officials are not willing to part with all the information with them.
- Reasons for Npa,s and management of NPA,s are changing with the time. The study is done in the present environment without foreseeing future developments.

VI. REASONS FOR NPAS IN BANKS

An account does not become an NPA overnight. It gives signals sufficiently in advance that steps can be taken to prevent the slippage of the account into NPA category. An account becomes an NPA due to causes attributable to the borrower, the lender and for reasons beyond the control of both. An internal study conducted by the RBI shows that in the order of prominence, the following factors contribute to NPAs.

Internal Factors

- Diversion of funds for- Expansion/diversification/modernization.- Taking up new projects.-Helping/promoting associate concerns.
- Time/cost overrun during the project implementation.
- Inefficient management.
- Strained labour relations.
- Inappropriate technology/technical problems.
- Product obsolescence, etc.
- Poor credit Appraisals, monitoring and follow up, improper SWOT analysis on the part of banks.

External Factors

- Recession.
- Input or power shortage.
- Price escalation.
- Exchange rate fluctuation.
- Accidents and natural calamities.

- Changes in government policy such as excise, import and export duties, pollution control order etc.
- Willful defaulters have been there because they knew that legal recourse available to the lenders is time consuming and slow.
- Sickness of the industry also leads to gradual erosion of the liquidity and units start failing to honour its obligations for the loan payments. Heavy funds are locked up in these units.
- Political tool-Directed credit to SSI and Rural sectors has been there
- Manipulation by the debtors using political influence has been a cause for high industrial bad debts

VII. COLLECTION OF DATA

In this study only secondary are used. The secondary data to non - performing assets and the micro variable from March 2013 to March 2017 were collected from various issues of Pithoragarh District CO-Operative Bank annual reports.

VIII. TOOLS OF DATA ANALYSIS

The data collected from the secondary sources relating to NPA,s has been analyzed and tabulated and drawn the appropriate tables. Interpretations were made based on table.

IX. DATA ANALYSIS

Analysis of Gross N.P.A (amount in lakhs ₹)

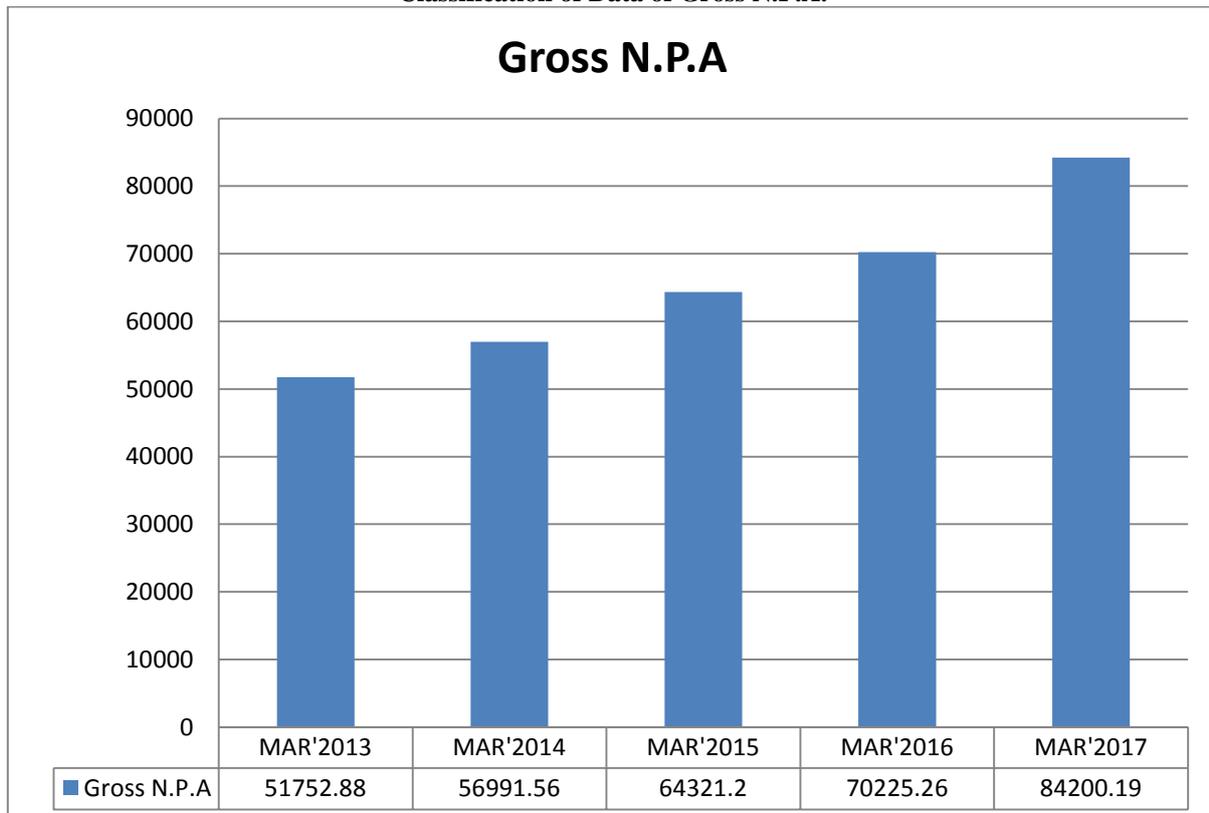
Particulars	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Gross N.P.A	51752.88	56991.56	64321.20	70225.26	84200.19
TOTAL	51752.88	56991.56	64321.20	70225.26	84200.19

(Source : Annual reports of Pithoragarh District CO- Operative Bank)

Above table shows that Gross N.P.A. from the year 2013 to2017. It is clear from the table that the amount of gross NPA,s have been increasing since 2013

to 2017. It was 51752.88 lakhs in mar 2013 and it was 84200.19 lakhs in Mar 2017.

Classification of Data of Gross N.P.A.



From the above table it is clear that from March 2013 to March 2017, the Gross NPA has been increased by ₹

32447.31 (in lakhs) and it is increased by 62.70% from 2013 to 2017.

*Position of NPA,s***Position of NPA provision as on 31/03/2013**

S.No	Particulars	Total assets amount	Provision which was to be made	Provision which actually made	Additional provision
1	Loans/advances	17643.40	279.78	664.25	384.47
2	Accrued interest	1851.47	289.45	395.86	106.41
3	Investment	29167.05	0.12	55.00	54.88
4	Other assets	3090.96	179.84	188.38	8.54
	Total	51752.88	749.19	1303.49	554.30

From the above table it is clear that the additional provision is made of 554.30₹ (in lakhs) at the end of financial year 2013

Position of NPA provision as on 31/03/2014

S.No	Particulars	Total assets amount	Provision which was to be made	Provision which actually made	Additional provision
1	Loans/advances	19733.48	405.23	545.10	139.87
2	Accrued interest	157.76	157.76	396.73	238.97
3	Investment	30896.606	0.12	55.00	54.88
4	Other assets	6203.60	189.52	190.31	0.79
	Total	56991.56	752.63	1187.14	434.51

Above table reveals that the NPA is increased by 5238.68 ₹ (in lakhs) and additional provision is made 434.51 ₹(in lakhs).

Position of NPA provision as on 31/03/2015

S.No	Particulars	Total assets amount	Provision which was to be made	Provision which actually made	Additional provision
1	Loans/advances	21111.98	525.64	700.39	174.75
2	Accrued interest	114.86	114.86	396.73	281.87
3	Investment	36678.02	0.07	55.00	54.93
4	Other assets	6416.34	247.47	248.19	0.72
	Total	64321.20	887.04	1400.31	512.27

From the above table it is clear that NPA is increased from 2014 to 2015 by 7329.64 ₹ (in lakhs) and

bank has made additional provision of 512.27 ₹ (in lakhs).

Position of NPA provision as on 31/03/2016

S.No	Particulars	Total assets amount	Provision which was to be made	Provision which actually made	Additional provision
1	Loans/advances	23722.00	507.15	711.31	204.16
2	Accrued interest	157.54	157.54	196.73	39.19
3	Investment	39958.34	0.07	55.00	54.93
4	Other assets	6387.38	227.63	303.19	75.56
	Total	70225.26	892.39	1266.23	373.84

Above table reveals that from 2015 to 2016 NPA increased by 5904.06 ₹ (in lakhs) and additional provision is made of 373.84 ₹ (in lakhs).

Position of NPA provision as on 31/03/2017

S.No	Particulars	Total assets amount	Provision which was to	Provision which actually	Additional provision

			be made	made	
1	Loans/advances	26708.73	571.56	922.82	351.33
2	Accrued interest	153.87	153.87	242.90	89.03
3	Investment	46616.40	0.07	55.00	54.93
4	Other assets	10718.19	411.97	412.69	0.72
	Total	84200.19	1137.47	1633.41	496.01

From the above table it is clear that at the end of financial year 2016-17 the Gross has reached 84200.19 ₹ (in lakhs) and this year again like previous years bank has made additional provision of 496.01 ₹ (in lakhs).

X. FINDINGS

In this study it was found that from March 2013 to March 2017 NPA,s has been increasing continuously. Lack of securitization while granting of loan is seen in the bank. NPA,s is reducing the earning capacity of bank and badly affect the ROI.

XI. CONCLUSION

The non-performing assets is one of the important and a dangerous concept of the banking system if the NPA is not maintained properly that is get a serious affect on the profitability of the bank and also on the economy of the country. The money is locked up in NPA i.e., interest and principle, that is the main source of bank.

Non performing assets of Pithoragarh District CO- Operative Bank is studied in detail for the given time period of March 2013 to March 2017 with its factors ,types of assets , NPA,s in terms of rupees as well as in percentage terms. Along with this findings have also been presented. The above paper indicates that NPA,s for the Pithoragarh District CO- Operative Bank has been rising since 2013 which is a serious note for the bank and bank should take some strict action to avoid it, Proper system of recovery should be done is expected, Loan portfolio should be revived by the bank. For solving problem of increasing NPA,s strict policies should be followed by bank otherwise it will completely

damage the profitability of the banker and also is not good for the growth of bank and also for the growth of economy .

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