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Management of Non-Performing Assets by Banks: A Study of District Central Co-operative Bank, Shivamogga of Karnataka

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ABSTRACT

Banking sector plays very important role in economic development. Out of total bad loans, 90 percent bad loans in the public sector banks. As on 30th September 2017 the India's banks' the gross Non-Performing Assets (NPAs) were Rs. 8.40 lakh crore. In view of the alarming NPAs condition the government of India has announced bank recapitalization plan of Rs. 2.11 lakh crore to help the public sector banks. Based on the logical belief "all depositors will not withdraw their money on the same day and few may withdraw a part of their deposited amount", banks advance loans. Giving loans is inevitable to earn profit. The performance of banks is assessed on the base of the profit they earn. Loans are given by the bank for earning income, if the lent amount remains stuck with the borrower after certain period of time becomes Non Performing Asset. The loan turns into bad loan if the borrowers do not pay either interest or part of principal or both. The Non-Performing Assets or Bad Loans are those assets which will not help the bank to generate income. Loan given by the bank is asset of the lender bank.

Key Words: Doubtful Assets, Loss assets, Non-Performing Assets, Standard Assets, Sub Standard Assets

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I. INTRODUCTION

Banking sector plays very important role in economic development. Out of total bad loans, 90 percent bad loans in the public sector banks. As on 30th September 2017 the India's banks' the gross Non-Performing Assets (NPAs) were Rs. 8.40 lakh crore. In view of the alarming NPAs condition the government of India has announced bank recapitalization plan of Rs. 2.11 lakh crore to help the public sector banks. As the banks are financial institutions and are engaged in accepting deposits and advancing loans. People will deposit their excess money with those banks which are honest, prompt, give safety for their money (deposits), flexible and give more interest on their deposits. Manage the day to day expenses, pay the salary to their employees, pay for maintenance of belongings of the bank, give good service to the customers, retain the existing customers, attract the new customers, earn profit, show their better performance and compete with other competing banks and financial intermediariesetc., are the responsibilities of every bank. Most of the people deposit their money with the bank, if bank pays higher interest. Banks have to earn income for which they have to lend money to the needy persons. Most of the needy people will borrow from the bank which charges low interest on loan.

This creates the dilemma to the bankers. The investment policy of the bank determines the safety of the bank and profit earnings of the bank. Deposits of the public are the liabilities of the bank. Based on the logical belief "all depositors will not withdraw their money on the same day and few may withdraw a part of their deposited amount", banks advance loans. Giving loans is inevitable to earn profit. Loans advanced will be the assets of the bank and bring profit to the bank. Banks are profit making institutions earn profit by lending and giving other banking services. The performance of banks is assessed on the base of the profit they earn. The banks have to circus and use wise strategy for balancing and managing the things and show a better show. They have to maintain the balance between assets and liabilities and liquidity and profitability. Banks, after assessing the customer and following certain criteria lend to the borrower. Lending on the part of banks is easy task than recovery. With the intention of earning more profit, pressure from higher officers and politicians (sometimes) banks lend to the not worthy borrowers.

II.NEED FOR THE STUDY

Banks have to generate income for meeting its all expenses. Maintaining balance between assets and liabilities is a challenge for all banks. Advancing loan is easier than its recovery. If loan amount including principal and interest remain unrecovered for more than 90 days then, the problem of NPAs starts. Maintaining good health of the bank is quite essential. Now days the problem of NPAs is mounting which has become the worry of RBI. Therefore RBI has released funds for recapitalization. In this view the study of NPAs position of District Central Co-operative Bank is needed.

Objectives

1. To study the NPAs position of India
2. To study the reasons for NPAs
3. To assess the NPA trends of District Central Co-operative Bank, Shivamogga
4. To find out solutions for controlling NPA problem.

Methodology

The study is based on secondary data. The required data is collected from the annual reports of District Central Co-operative Bank, published data and web pages. The collected data is presented in the form of tables. Percentage method is followed for data analysis.

LIMITATIONS

1. This study is based on secondary data only.
2. The available data is used for analysis.
3. Study is confined only to District Central Co-operative Bank Shivamogga and for the period of 2013 to 2017.

III. WHAT IS NON-PERFORMING ASSET (NPA)?

The Non-Performing Assets or Bad Loans are those assets which will not help the bank to generate income. Loan given by the bank is asset of the lender bank. Loans are given by the bank for earning income, if the lent amount remains stuck with the borrower after certain period of time becomes Non Performing Asset.The loan turns into bad loan if the borrowers do not pay either interest or part of principal or both.

A Non-performing Asset (NPA) is defined as "a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time. In simple terms, an asset is tagged as non-performing when it ceases to generate income for the lender" (NPA Wikipedia).

According to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset.

In the case of Agriculture / Farm Loans; the NPA is defined as- For short duration crop agriculture loans such as paddy, Jowar, Bajra etc., if the loan (installment / interest) is not paid for 2 crop seasons, it would be termed as a NPA. For Long Duration Crops, the above would be 1 Crop season from the due date.

Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

- **Standard Assets:** Standard Assets are those assets which bring expected income to the lenders
- **Sub Standard Assets:** Assets which remain non- performing for a period up to 12 months.
- **Doubtful assets:** An asset which remains in the substandard category for a period of 12 months.
- **Loss assets:** Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value (RBI).

IV.IMPACT OF NPAS ON BANK'S PROFITS AND LENDING POWERS

A bank's efficiency is reflected mainly by the level of returns on its assets. NPAs do not generate income for the banks. But banks are required to make provisions for such NPAs from their current profits. An account becomes NPA as per the RBI's directions issued from time to time. NPA means an advance where payment of interest or repayment of installments of principal or both remains unpaid for a period of more than 90 days.

The fallowing deleterious effects occur due to NPAs:

1. NPAs erode current profits through provisioning requirements,

2. NPAs result in reduced interest income,
3. NPAs require higher provisioning requirements affecting Profits and accretion to capital funds and capacity to increase good quality risk assets in future,
4. NPAs limit recycling of funds, set in asset liability mismatches,
5. Lenders suffer lowering of profit margins,
6. Redirecting funds from the good projects to the bad ones,
7. Higher interest rates by the banks to maintain the profit margin,
8. Investors do not get rightful returns,
9. It may result in unemployment etc.,

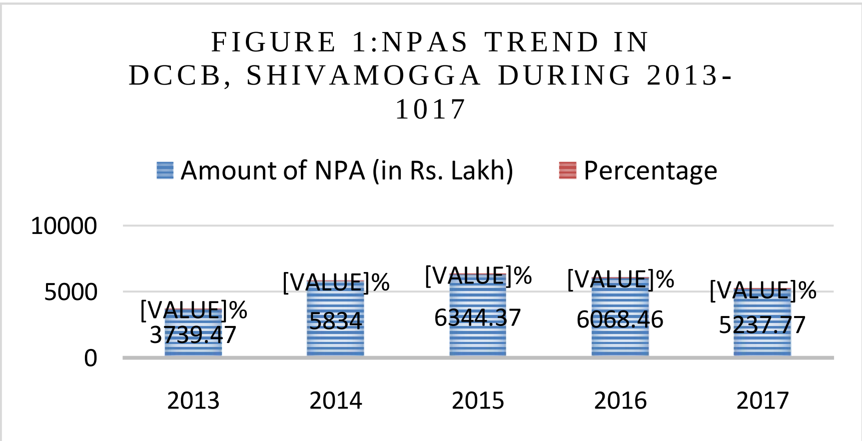
V. MANAGEMENT OF NON-PERFORMING ASSETS BY DISTRICT CENTRAL CO-OPERATIVEBANK, SHIVAMOGGA

The growing menace of Non-Performing Assets (NPAs) has added to the existing ills of mal-administration, mis-utilization of funds, poor recovery, dual control, lack of professionalism, limited area of operation of co-operative banks in the country.The lesser NPA position is good for the health of the bank. The NPAs amount and percentage show higher because of more lending and poor recovery and Vic versa. The District Central Co-operative Bank is a leading bank Shivamogga. It has been competing with public sector commercial banks and private banks in Shivamogga district. The position of Non-Performing Assets of District Central Co-operative Bank Shivamogga was fluctuating during the period 2013-2017. The NPA amount was Rs.3739.47 lakh (6.33 percent). The amount increased to Rs. 5834.00 lakh (20.33 percent) again to Rs. 6344.37 lakh (12.39) in 2014 and 2015 respectively. The bad loan amount (NPAs) decreased to Rs. 6068.46 lakh (12.76 percent) to Rs. 5237.77 lakh (10.55 percent) in the year 2016 and 2017. The NPA position of District Central Co-operative Bank,Shivamogga was good in the year 2013 and it has shown sharp rise to 20.33 percent which worsened the position. The trend remained increasing for next two years and has shown downwards in 2017.

Table 1: Management of NPAs By District Central Co-operative Bank, Shivamogga

Sl. No.	Year	Amount of NPA (in Rs. Lakh)	Percentage
1	2013	3739.47	6.33
2	2014	5834.00	20.33
3	2015	6344.37	12.39
4	2016	6068.46	12.76
5	2017	5237.77	10.55

Source: Field Survey



IV. CONCLUSION AND SUGGESTIONS

The menace of NPAs is corroding the entire banking system in the country including the co-operative banks. The NPAs position of the District Central Co-operative Bank, Shivamogga was fluctuating. In recent year the bank has taken good steps for mitigating NPAs level at low. The remedy in reducing the menace should include the following measures;

i. Appropriate selection of borrowers,

ii. Financing possible schemes,
iii. Advance need based financing,
iv. Correct post sanction follow-up,
vi. Have regular contact with borrowers,
vii. Regular watch of the accounts,
viii. Avoiding overdrawing irrelevant debts.
ix. Holding regular recovery camps,etc.,

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