



NPA'S OF PRIMARY COOPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANKS [PCARDBS] – A CASE STUDY OF SHIVAMOGGA

Neetha K* Ashoka M*

* Lecturer, Department of Commerce and Management, Sahyadri Commerce and Management College, Shivamogga, Karnataka.

Abstract

The timely repayment of loans and power utilization helps the banks to circulate credit uninterruptedly which is necessary for rural development. Unfortunately, the repayment of loan by the borrowers of PCARDBs has been very poor and has become a cause of concern for the bank. All possible steps must be taken sincerely by the government to improve the repayment capacity of the borrowers, to repay the loans through appropriate legal actions and to eliminate outside interference in the normal functioning of the banks and keep in NPA with in tolerable limit.

Key words: NPA, PCARSBS, LOAN, KSCARD.

Shivamogga is a flourishing city in the state of Karnataka in India. It is the administrative headquarters of Shivamogga district. Today Shivamogga has become an educational and commercial centre catering to large section of the society. The district has one Karnataka state co- operative agricultural and rural development bank [KSCARD], branch office and 6 PCARDBs, one in each block. These provide agricultural long term loans.

The primary cooperative agricultural and rural development banks [PCARDBs] playing vital role in providing terms loans for investment in agriculture are now riddled with several operational problems. Overdue is one of the important problems which threaten to cripple the entire performance of PCARDBs. No lending institution can continue to function without ensuring prompt recovery of loans lent and recycling of funds. "At the same time, successful bank management presupposes that the right type and right type of members at the right time". But banks have failed miserably in this respect, as such too much of defaults and mounting overdue exist in almost all their banks. The situation has paved the way for paucity deprived the needy people from different walks of life from their entitlements. The main objective of this study is to assess the causes for NPAs of the PCARDBs in the study area.

Meaning of NPAs

As long as an asset generates income expected from it, it is treated as "performing asset" and when it fails to generate income, a loan asset become "non-performing assets [NPAs]. In other words, a loan asset becomes 'non performing 'when it ceases to generate income, i.e., interest, fee commission and other like to the bank. The Narasimhan committee for the first time defined in a formal way the concept of non-performing assets. This committee has defined NPAs as "an advance sheet an amount to be paid to the bank, [interest of installment of principal] is past due for a period of 90 days. An amount is considered past due, when it remains outstanding for 30 days beyond due date.

The RBI introduce the NPA concept in India 1992 and certain norms [popularly known as prudential norms] were issued as to the method of NPA identification , asset classification , and provisioning and income recognized having been implemented consequent to the Narasimhan committees recommendations recommendations.

Since, NPAs have been emerged as one of the biggest ever challenges facing the banks, increasing the NPAs affect the profitability, liquidity and equity of the banks and lead to accumulation of losses in the succeeding years. "There is a need to treat reduction of NPAs in banking sectors as a national priority item to make the Indian banking system more strong".

NPAs are important parameters in the analysis of financial performance of PCARDBs. At this juncture, a study of nature pertinent to known about NPAs causes its provisions and its impacts on the performance of the banks. An attempt has been made to find the influence of NPA on the financial performance of primary cooperative agricultural and rural developments banks in shivamogga district.



Details of Doubtful Assets

Sl. No.	Doubtful Assets	Period	% of provision
01	Doubtful Assets	3 to 4 years	20
02	Doubtful Assets	4 to 6 years	30
03	Doubtful Assets	More than 6 years	50

Table – 1: NPAs to Total Outstanding loans of PCARDBs [Rs. In lakhs]

Name of PCARDB	2013-14			2017-18			% of NPA Increase over 2012-13
	LO	NPA	% of NPA to LO	% of NPA to LO	NPA	LO	
Shikaripura	1560.30	251.19	16.09	1170.70	193.67	16.54	0.45
Shivamogga	1276.34	261.86	20.51	1040.56	187.00	17.98	-2.53
Thirthahalli	562.93	147.87	26.26	146.12	38.98	26.68	0.42
Bhadravathi	803.14	169.77	21.14	424.02	72.81	17.18	-3.96
Sagara	1338.50	269.05	20.10	1006.08	157.23	15.62	-4.48
Hosanagara	433.35	126.74	29.24	153.24	57.15	37.30	8.06
Total	5974.56	1226.48	20.52	3940.72	706.84	17.93	-2.59

Source: KSCARDB, District Branch office, Shivamogga.

NPA: Non Performing Assets

LO: Loan Outstanding

Table-3: Provisions for NPA by PCARDBs in Shivamogga District [As on 31-03-2017] [Rs. in Lakhs]

Type of Assets	Primary Co-Operative Agriculture and Rural Development Banks					
	Shikaripura	Shivamogga	Thirthahalli	Bhadravathi	Sagara	Hosanagara
LO	675.74	364.13	568.89	662.34	639.68	267.82
Standard at 0.25%	1.69	0.91	1.42	1.66	1.60	0.67
LO	827.21	646.03	57.41	295.14	717.49	20.73
Sub-standard at 10%	82.72	64.60	5.74	29.51	71.75	2.07
LO	107.41	202.23	37.17	64.07	148.99	8.45
Doubtful I at 10%	21.48	40.45	7.43	12.81	29.80	1.69
LO	151.26	75.56	6.95	17.89	78.58	47.92
II at 30%	45.39	22.67	2.09	5.37	23.57	14.38
LO	84.79	116.74	44.59	46.92	61.02	75.60
III at 50%	42.40	58.37	22.30	23.46	30.50	37.80
LO	0.00	0.00	0.00	0.00	0.00	0.54
Loss assets at 100% [LT]	0.00	0.00	0.00	0.00	0.00	0.54

Source: KSCHRDB, Branch Office, Shivamogga District, Shivamogga.

NPA= Non Performing Asset

LO= Loan Outstanding

Table-4: Resoans for Non-Performing Assets: A Comparison

Weights	6	5	4	3	2	1	Total weights	Rank
Performance	1	2	3	4	5	6		
Crop failure	3	8	4	3	0	2	85	II
Division credit	1	4	2	13	0	0	77	III
Willful defaulters	15	2	0	2	1	0	108	I
Lack of sufficient power bank to recovery of loan	4	4	1	0	9	2	68	IV
Repayment procedures not guide to the borrowers properly	0	3	3	3	8	3	55	V
Other [high transaction cost]	0	0	9	0	1	10	48	VI

Source: Survey data.

NPA is classified as standard assets, such standard assets doubtful assets and loss assets. On these assets, the banks are required to provide for entirely for the unsecured portion and an additional provision of 20 to 50 % of the secured portion should be made depending on the periods, as listed below.

NPA's of PCARDBs in Shivamogga District

The non-performing assets are one of the most important problems faced by primary cooperative agriculture and rural development banks. There are so many factors which contribute for increasing NPA in PCARDBs as, fault credit appraisal, lack of effective supervision improper selection of borrowers and government sponsored schemes are also responsible for increasing overdues in PCARDBs. Hence, whenever loans and advances are granted, the PCARDBs must take care, vigil and ensured that the borrower repays the loans with interest as per the terms and conditions and repayment schedule. Table-1 shows the extent of NPAs of PCARDBs in the district during the study period.

Table-2 presents an overview of non performing assets` [NPAs] in the district as a whole along with the NPAs over the years of 2012-13. The percentage of non-performing assets to loan outstanding has decreased from 20.52 percent in 2012-13 to 17.93 percent in 2016-17. The main reasons the recovery was high and the state government had offered debt and interest waived which was beneficial and acted as incentive for prompt repayment of dues to the banks. It can be observed from the table that the higher percentage of NPA was found in PCARDB of Hosanagara taluk are severe drought in most years, several bore wells or open wells were reported to have gone dry, no irrigation facilities and misutilisation of loan.

But in other taluks NPAs was more even though implementations of agriculture debt waiver and debt relief scheme 2016 government of India and interest waiver scheme 2012-13 to 2016-17 of Karnataka state government. The study has observed willful defaults, crop failure and diversion of loan to be responsible for it.

NPA's provisioning in PCARDBs

Offering credit, invite discredit and drain profit may perhaps describe the state of affairs of the banks in general and PCARDBs in particular. In conformity with prudential norms, provision should be made on the non-performing assets on the basis of the classification of assets. Taking into account the time lag between an accounts becoming doubtful of recovery, its recognition as such the realization of security and the erosion over time in value of security charged to the bank, the banks should makes provisions against loss assets doubtful assets and substandard assets as given in table-3

The table-3 reveals that the amount of provisions for substandard assets ranges from Rs 2.07 lakhs in Hosanagara PCARDB to Rs 82.72 lakhs in Shikaripura PCARDB. The doubtful asset ranges from Rs 1.69 lakhs in Hosanagara PCARDB to Rs 58.37 lakhs in Shivmogga PCARDB. The loss asset show only in Hosanagara PCARDB.

Opinion survey of banks officials

There are many reasons responsible for increasing non-performing assets in banks. But in the present study has taken six important reasons were considered for comparison. The opinion of bank official's regarding non-performing assets in their respective banks was collected on preferential basis to identify the factors that influenced the borrowers to become defaulters.



Table-4 reveals that the preferential rank for the causes of non-performing assets. Each factor is represented in each column. Preferential ranks are given on the basis of highest weights. It is clear from the table that the total weights secured by the reasons of willful defaults is 108 and this occupies the 1st place, crop failure and diversion of credit occupied second and third place by securing 85 and 77 weights among the reasons for NPAs. The reasons of lack of sufficient power to bank for recovering of loan and in ability to provide technical guidance to the borrower occupies IV and V place by securing 68 and 55 weights.

From table-4 shows clearly that the willful defaulters, crop failure, and diversion of credit are secured first second third place respectively, compared to other reasons.

Measures to Reducing NPAS

The Indian Cooperative banking sectors especially the PCARDBs have been facing the big challenges of NPAs. NPAs are important parameters in the analysis of financial performance of banks. Reduction of NPAs is necessary to improve profitability of the banks and comply with the capital adequacy norms. To solve the problems of existing NPAs the following measures are suggested.

1. Proper selection of the borrower accounts.
2. Financing viable schemes.
3. Ensuring proper endues, proper post sanction follow-up.
4. Regular contact with borrowers and regular monitoring of the accounts.
5. Fixing field officer wise targets and introducing a system of incentives/penalties.
6. Remainder system.
7. Legal action should be taken at a proper time.

Conclusion

The timely repayment of loans and proper utilization helps the banks to circulate credit uninterruptedly which is necessary for rural development. Unfortunately the repayment of the loan by the borrowers of PCARDBs has been very poor and has become a cause of concern for the bank. All possible steps must be taken sincerely by the government to improve the repayment capacity of the borrowers to repay the loans through appropriate legal actions and to eliminate outside interferences in the normal functioning of the banks and keep the NPA within tolerable limit.

References

1. BanamberSahoo.[2000] 'Banker Hand Book on NPA Management', Asia law House, Hyderabad, P:17
2. RBI, Report on currency and finance 1998-99, RBI Mumbai, P: VII.8.
3. SBI, Monthly Review, Vol.XXXVII, no.110, P: 1193.
4. SCARD, order No: TMER/AS/-57/44 dated, 31-05-2007, Gen/Circlur: 2, 2007-08.
5. Rajendra Singh, [1999] 'Reduction of NPAs through legal methods', IBA BULLETIN, Vol.XXI, No.7, July, P: 19.
6. Ministry of finance, GOI, Report of the committee on Banking sectors reforms, New Delhi, April-1998, and Pp: 22-26.
7. Chansarkar A.R. [1997] 'Market Share of Public sector Banks in Post Reforms Period'.
8. Naik S.V. [1999] 'Ice berg of NPAs SBI Monthly Review, Vol.XXXVIII, no.10, P: 1160.