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MANAGEMENT OF NON-PERFORMING ASSETS: A CASE STUDY OF KALLAPPANNA AWADE JANATA SAHAKARI BANK LTD., ICHALKARANJI

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Abstract:

Efficient recovery management is a sine qua non for survival of banking institutions. The banks must be able get their money back in stipulated time, which they disburse as loans and advances to the clients. Now a day, in operational sense the efficient recovery performance may be considered as the single pointer of successful loan operations of the bank. In fact, phenomenon of overdue loans has created a serious problem of Non-Performing Assets (NPA) for the banker. There are a number of factors which give rise to the recovery problem. It is, therefore, utmost important for the bank to strictly monitor it's NPA and keep it at lowest level, in order to keep itself away from the threat of sanctions by RBI.

In short, as the NPA drains the profitability and endangers the very existence of the bank, the management of the bank has to take genuine interest in monitoring the loan operations and thereby NPA. The norms suggested by RBI in connection with the disbursement recovery have to be followed rigorously to avoid undesirable consequences of NPA.

In the present paper, an attempt is made to understand how efficiently the NPA has been managed by Kallappanna Awade Janata Sahakari Bank Ltd., Ichalkaranj during period under observation.

KEYWORDS:

Non Performing Assets, Standard Assets/ Performing Assets, Sub-standard Assts, Doubtful Assets, Loss Assets.

INTRODUCTION

Urban Co-operative Banks (UCBs) are mostly engaged in retail banking. The UCBs expanded by leaps and bounds in the 1970s and 1990s. Both these decades were periods of high economic growth, which led to a great demand for funds inadequately met by public sector banks. Out of the 2,090 UCBs, approximately 600 are in Maharashtra. In Kolhapur district, there are 64 Urban Cooperative Banks, spread up through 432 branches in and outside the district.

Efficient recovery management is a sine qua non for survival of urban co-operative banks as for other banking institutions too. The banks must be able get their money back in stipulated time, which they disburse as loans and advances to the clients. The importance of recovery of the loans given by the banks needs no emphasis. In fact, it is so important that in operational sense many bankers consider the recovery performance as the only one indicator of their success in loan operations. In fact, phenomenon of overdue

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loans has created a serious problem of Non-Performing Assets (NPA) for the banker. There are a number of factors which give rise to the recovery problem.¹

It is, therefore, utmost important for the bank to strictly monitor its NPA and keep it at lowest level, in order to keep itself away from the threat of sanctions by RBI. In recent years, several co-operative banks have failed; to name some are Madhavapura Mercantile Co-operative Bank, Wardha District Co-operative Bank, Osmanabad District Central Co-operative Bank, Sadguru Jangli Maharaj Co-operative Bank and Nagpur Bank. In last two years, Mahavir Co-Operative Bank, The Ganesh Bank of Kurundwad Ltd. and The United Western Bank Ltd. faced mergers and strict action by RBI. The lowest percentage of Non-Performing Assets (NPA) acknowledges the efficiency of the bank in recovery of advances and velocity of funds.²

NON-PERFORMING ASSETS

The concept of Non-Performing Asset (NPA) is of recent origin in India. A Non-Performing Asset is defined generally as a credit facility in respect of which interest or installments of principal is in arrears for certain specified period of time. In other words a Non-Performing Asset basically implies an asset, which fails to contribute any income to the bank. An asset becomes non-performing when it ceases to generate any income for the bank.

Urban Co-operative Banks are now required to furnish a report on NPA to RBI on quarterly basis, i.e. 30th June, 30th September, 31st December, and 31st March every year.

IMPACT OF NPAs

Growing NPAs have the following impact for the affected banks.³

- ✍ NPAs do not generate income.
- ✍ Provisions are required to be made for NPAs.
- ✍ It enhances the administrative, legal and recovery costs.
- ✍ It drains profitability of the bank.
- ✍ Borrowing cost of resources locked in NPAs.
- ✍ Decisions for fresh loan proposals suffer.
- ✍ It affects the morale of employees.
- ✍ It affects the credibility of the concerned bank.
- ✍ It locks up the recycling of the funds.
- ✍ It hampers the competitiveness of the concerned bank.
- ✍ It slumps the credit expansion of the bank.

CLASSIFICATION OF ASSETS AND PROVISIONS TO BE MADE

Since the year 1992-93, the Reserve Bank of India, on the basis of the risks involved, all loan assets have been classified into four categories as under: 4

Standard Assets/ Performing Assets: Standard assets are those assets that do not disclose any problem and do not carry more than the normal risk attached to the business. The UCBs have to make 0.25 percent provision for such assets. Advances against National Savings Certificates (NSCs), Life Insurance Policies, Kisan Vikas Patra and Fixed Deposits are to be treated as standard assets.

Sub-Standard Assets: Such assets have credit weaknesses, which may imperil the recovery of the debt in full and there is distinct possibility that the bank will sustain some loss, if the deficiencies are not corrected. Obviously, the UCBs will have to make provisions for such assets at 10 percent.

Doubtful Assets: All those assets which are non-performing and which have continued to be so for a period exceeding two years are referred to as 'doubtful assets'. Such loans and advances cannot be renewed. For them, the provision as shown below is required to be made by UCBs.

- a) Doubtful assets up to one year-----20 percent
- b) Doubtful assets between one to three years-----30 percent.
- c) Doubtful assets for more than three years-----50 percent

Loss Assets: An asset which has been identified by the bank or internal or external Auditors or the RBI Inspectors as loss asset, but the amount has not yet been written off, wholly or partly are referred to as 'loss asset'. Such an asset is uncollectible and is of such little value that its continuance as a bankable asset is not

justifiable and warranted, although there may be some recovery value. If for certain reasons, these assets are permitted

In conformity of the prudential norms, a bank should make a provision in respect of non performing Assets on the basis of classification of such assets into prescribed categories such as sub-standard, doubtful and loss. While making provision for NPA, the bank should take into account the time lag between an account becoming doubtful of recovery, its recognition as such, realizability of security and the erosion over time in the value of security charged to the bank.

MONITORING NPAs

For successful monitoring of NPAs, the banks have to follow three-fold policy: preventive, detective and corrective. Preventive policy should invariably include the adequate expertise in the sector financed, full control over loan documents, control and audit of credit process effectively, frequent customer contacts, strictly avoidance of misuse of authority, control over excess drawings/overdrafts, periodical evaluation of securities, continuous vigil over the conduct of loan accounts, compliance of audit/ inspection irregularities, effective system of identifying border-line NPAs etc.

Detective policy includes listening to the 'early warning signals' like persistent irregularity in the account, defaults in repayment obligations and frequent demands for adhoc limits from the parties and also identifying pressure on loan accounts, exceptionally increasing or decreasing turnover on current accounts, cash credit and overdrafts, delays in realization of bills receivables etc.

Corrective measures should necessarily include building strong recovery mechanism, of course, having freedom to work without any undue interference, proper communication of the facts, discussion/ negotiation with the defaulters and finally legal action as per guidelines in this connection.⁵

OBJECTIVES OF THE STUDY

The present study was undertaken with the following prime objectives.

1. To present the brief profile of Kallappanna Awade Janata Sahakari Bank Ltd., Ichalkaranji.
2. To examine the asset quality and NPA movement of Kallappanna Awade Janata Sahakari Bank Ltd., Ichalkaranji over the period of preceding six consecutive years.
3. To analyze the NPA movement and to examine NPA percentage of Kallappanna Awade Janata Sahakari Bank Ltd., Ichalkaranji over the period under study.

METHODOLOGY OF THE STUDY

This is an ex post facto study which chiefly focuses on the NPA management of an urban co-operative bank. The urban co-operative bank established in Ichalkaranji namely Kallappanna Awade Janata Sahakari Bank Ltd. Ichalkaranji was chosen for the study. The following methodology has been adopted.

Period of the study

Though the bank is established in 1996, the study covers the period of recent six years from financial year 2005-2006 to 2009-2010.

Data sources

The present study is entirely based on secondary data which are collected from published annual reports and financial statements of the concerned bank.

Analysis of data

The data are tabulated and analyzed to draw inferences. For better understanding, the charts and graphs are drawn, wherever necessary. Under each table the findings and conclusions drawn there from are presented.

The widely used statistical tools namely arithmetic mean, standard deviation (S.D.), coefficient of variance (C.V.) have been employed for analysis of data. The mean values are computed to understand the central tendency of the data, while S.D. and C.V are calculated to know the data variability and consistency.

PROFILE OF KALLAPPANNA AWADE JANATA SAHAKARI BANK LTD. ICHALKARANJI

With the splendid cause of providing finance to individuals, small business and farmers through short term, medium term and long term loans at reasonable rate of interest, the Ichalkaranji Janata Sahakari Bank Ltd. was established in 1962 with the initiative of Mr.Kallappa Anna Awade , the Ex-Minister of Maharashtra State and late Dattajirao Kadam. It was registered vide KPR/BNK/102/5/11/1962 and obtained license bearing number ACD/MH/297/P from Reserve Bank of India. It is presently operating at Main Road, Ichalkaranji, Tal-Hatkanangle, Dist.-Kolhapur.6

Its Board of Directors includes 20 office bearers inclusive of Chairman, Vice-Chairman and 13 directors including 3 females, 2 expert directors 2 banking expert directors and the managers. The Legal Advisory Committee of the bank includes 2 advocates and the auditor. For administrative purpose, the bank has constituted a number of subcommittees.

The bank has the paid capital of Rs.1332.64 lakhs and Reserve and Surplus of Rs. 5585.14 lakhs. As on 31st March 2010 it had total deposits of Rs. 71880.22 lakhs and total investment of Rs. 25179.18 lakhs.

As on 31st March, 2010, the Bank has 33 branches operating in Kolhapur and Sangli districts and also spread over to Pune, Mumbai and Aurangabad, as shown below.7

Branches as on 31.03.2010

Sr. No.	Name of Branch	Sr. No.	Name of Branch
1	Bhende Galli,Kolhapur	18	Sulkud
2	Shirol	19	Goaonbhag,Ichalkaranji
3	Jaysingpur	20	Mulund (W), Mumbai
4	Peth Vadgaon	21	Solapur
5	Gandhinagar	22	Ganpati Peth, Sangli
6	Shahupuri -Kolhapur	23	Market Yard, Sangli
7	Main Branch Ichalkaranji	24	Jawaharnagar,Ichalkaranji,
8	New Industrial Estate, Ichalkaranji	25	Nasik
9	Kalbadevi,Mumbai	26	Kothrud,Pune
10	Laxmi Road, Pune	27	Laxmi,Ind. Estate,Hatkanangale
11	Hupari	28	Ajara
12	Gargoti	29	Karad
13	Gadhinglaj	30	Gultekadi, Pune
14	Market Yard,Sangli	31	Jalana
15	Latur	32	Aurangabad
16	Kagal MIDC	33	Thane
17	Shahapur,Ichalkaranji	---	-----

Source: Annual Reports of Kallappa Anna Awade Janata Sahakari Bank Ltd. Ichalkaranji

The major loan facilities provided by the bank**Term Loan:**

Term Loan is especially availed for acquiring of fixed assets for industrial units, business enterprises and purchase and construction of house property as well as consumer durables i.e. vehicle, furniture etc. to the individual customers. Repayment of Term loan is based on the basis of nature of loan, purpose and repayment source etc. Types of term loan and its repayment period is as under:

- (a) Short Term Loan-----36 months
- (b) Medium Term Loan---60 to 60 months
- (c) Long Term Loan----- above 60 months

Working Capital Loan:

Working Capital Loan is a short term loan given to the industrial units and business enterprises for the purpose of day-to-day operations. These types of loans are especially given for short period i.e. for 12 months on renewal basis, as per the need of the industrial/business units.

Priority Sector Lending:

The bank has fulfilled its statutory obligation of lending to the “Priority Sector”. Out of its total advances, 75% is given to promote industry and trade and out of it about 62% advances are given to private sector. The bank has been lending more than 26% of its disbursement to workers' section of the community as per government policy.

Core Banking Solution:

The Bank has implemented core banking solution system and it likely to be implemented at all their branches up to March 2010. The bank has also tied-up for ATM at “BANCS” network and all its ATM card holders can operate through a number of ATM centres located all over India.

Multi- State Status:

Bank has taken a decision regarding the expansion of its area of operation to provide banking services to Gujarat and Karnataka States. In this regard, it has got permission from R.C.S. Karnataka State and Maharashtra State. The bank is also in process of taking over the small unit banks from Karnataka very soon.

Social Awareness:

The bank is aware of its social obligation. The bank management is rendering help for the public cause such as financial help to public schools and contributions to promote technical educational activities being rendered by the Dattajirao Kadam Technical Education Society, Babasaheb Khanjire Institute and other institutions. The bank has started separate cell of 'micro-finance' to help SHG members. Around 250 groups have been registered with financial assistance to the tune of Rs. 35 lakhs. Bank has also participated in the debt related programmes of Government of India and State Governments, waiving debt of agriculture to the extent of Rs. 3.38 cores.

Services provided to customers:

The bank is providing various services to the customers in many ways, such as –

Bills collection facility.
 Safe deposit lockers facility.
 Monthly salary payment of major institutions.
 Banking facilities like commercial & Nationalized Banks.
 Loans and advances at reasonable rate to small and cottage industries.
 Always prompt and cordial service.
 ATM facility at Main Branch Ichalkaranji, Nasik, Aurangabad, Kothrud-Pune, Gaonbhag-Ichalkaranji, Jaysingpur, Shahupuri-Kolhapur and Peth Vadgaon, Gultekadi-Pune, Industrial Estate, Ichalkaranji, Solapur etc. All the 12 branches plus on off-site ATM at Dattajirao Kadam Technical and Engineering College, Ichalkaranji.
 Internet facility is available in all computerized branched.
 Bank has its own web site www.ijsbank.com.
 Life & General Insurance Services.
 PAN card services.
 Inward & Outward RTGS facilities.
 Franking facility is available at Main Branch-Ichalkaranji and Shahupuri-Kolhapur branch.
 E-payment of Government obligation.
 Under income Tax Act, Section 80C Deposit Scheme recognized for special incentive.
 Interest free loan for purchasing LAPTOP for the Teachers, Students, Professionals & Agriculturists⁸

DATA ANALYSIS

In view of the objectives of the study, the study focuses on the assets classifications, computation of gross NPAs and net NPAs, their comparison with gross advances and net advances respectively and also the movement on gross and net NPAs throughout the study period. As per RBI guidelines, the net NPAs are arrived at by deducting the following items from gross NPAs.

- a) Deposit Insurance and Credit Guarantee Corporation (DICGC) and Export Credit Guarantee Corporation (ECGC) claims received and held pending adjustment
- b) Part payment on NPA account received and kept in Suspense Account, and
- c) Total NPA provisions held (BDDR Special, BDDR Balance after appropriation)

Asset Quality: The loans and advances accounts are true earning assets of the bank. It is, therefore, imperative to understand the quality of the 'assets' of the bank through its systematic classification. Table 1 throws light on the asset quality of Kallappanna Awade Janata Sahakari Bank Ltd.

Table: 1
Assets Quality of Kallappanna Awade Janata Sahakari Bank Ltd. Ichalkaranji
(Rs. in lakh)

Year (31 st March)	Total Advances	Standard Assets	Sub- Standard Assets	Doubtful Assets (up to 1 year)	Doubtful Assets (1 to 3 year)	Doubtful Assets (Above 3 year)	Loss Assets
2005	25977.70	22409.45 (86.26)	1311.28 (5.05)	573.56 (2.21)	960.71 (3.70)	722.7 (2.78)	-
2006	31397.02	28098.10 (89.49)	646 (2.06)	345.62 (1.10)	1111.01 (3.54)	1025.12 (3.27)	171.17 (0.55)
2007	31897.08	28492.47 (89.33)	1171 (3.67)	546 (1.71)	527 (1.65)	1050 (3.29)	110.61 (0.35)
2008	32471.61	28698.33 (88.38)	1155 (3.56)	381.19 (1.17)	1212.74 (3.73)	914.64 (2.82)	109.71 (0.34)
2009	40984.50	37319.01 (91.06)	832.79 (2.03)	637.63 (1.56)	1267.4 (3.09)	818 (2.00)	109.67 (0.27)
2010	42007.83	39362.39 (93.70)	525 (1.25)	329.88 (0.79)	566.4 (1.35)	1114.49 (2.65)	109.67 (0.26)
Mean	34122.62	30729.96 (89.70)	940.18 (2.94)	468.98 (1.43)	940.88 (2.84)	940.83 (2.80)	101.75 (0.34)
S. D.	6175.91	6375.36 (1.92)	33.89 (1.40)	132.35 (0.51)	322.92 (1.07)	150.02 (0.47)	55.69 (0.47)
C. V. (%)	18.10	20.75 (2.14)	14.11 (47.62)	28.22 (35.66)	34.32 (36.93)	15.95 (16.79)	54.73 (134.29)

Figures in bracket show percentage to total loans outstanding loan.
Source: Office records of Kallappanna Awade Janata Sahakari Bank Ltd. Ichalkaranji

Table 1 shows the quality of assets of Kallappanna Awade Janata Sahakari Bank Ltd. as per Prudential Norms provided by RBI. In the above table it can be observed that the standard assets (i.e. performing assets) have ranged between 93.70 percent (2010) and 86.26 percent (2005). The mean value of the Bank's standard assets stands 89.70 percent. This simply means that the bank has good revenue generating power because out of 100 assets above 89.74 percent assets are so employed or say above 89.74 percent of loans are so disbursed that they have been generating the regular and steady income in terms of interest. Considering the S.D. 1.92 and C.V. 18.10 percent, it can firmly be concluded that the Bank has remained very alert about the alarming signals of non-performing assets on one hand and achieved good consistency in maintaining its 'asset quality'.

The grand total of mean values of sub-standard assets, doubtful assets (three categories) and loss assets appears to be 10.35 percent (2.94 + 1.43 +2.84 + 2.80 + 0.34), which indicates that only around 10 percent of the Bank's total assets have come under the shadow of non-performing. This reflects that Kallappanna Awade Janata Sahakari Bank's management has successfully been preventing their assets from slippage to NPA. 'Doubtful assets above 3 years' and 'loss assets' are the most chronic segments of NPA. Mean values of Kallappanna Awade Janata Sahakari Bank's 'doubtful assets above 3 years' (2.80 percent) and 'loss assets' (0.35) show the efficiency of its recovery mechanism. In the light of respective

S.D. of those segments (0.51, 1.07, 0.47 and 0.47) it may be concluded that the Bank's recovery mechanism has remained strong during the study period.

Gross and Net NPA: Table 2 below throws light on movement in Gross and Net NPA of the bank during the period of study.

Table: 2
Magnitude of NPA of Kallappanna Awade Janata Sahakari Bank Ltd. Ichalkaranji
(Rs.in Lakh)

Year (31 st March)	Gross NPA	% or GNPA to Gross Advances	Net NPA	% or NPA to Net Advances
2005	3568.25	13.74	1654.19	6.05
2006	3298.92	10.51	1440.97	4.61
2007	3404.61	10.67	1306.68	4.14
2008	3773.28	11.62	1687.86	5.23
2009	3665.49	8.94	1625.63	4.34
2010	2645.44	6.30	518.21	1.23
Mean	3392.67	11.01	1372.26	4.27
S.D.	404.33	2.51	443.10	1.64
C.V.%	11.92	22.80	32.29	38.41

Figures in bracket show percentage to total loans outstanding loan.

Source: Values computed by the researcher

Table 2 presents the absolute and percentage values of Kallappanna Awade Janata Sahakari Bank Ltd. Ichalkaranji's gross and net NPAs over the financial years 2005 to 2010 and its magnitude over the period of study. Both gross and net NPAs are the grey zones in managing the quality of assets of a bank. Comparatively net NPA is the most danger zone; failure of keeping it under control certainly leads to failure of bank. For a co-operative bank the gross NPA should never be allowed going beyond 15 percent and net NPA beyond 10 percent. It can be observed in Table 2 above that Kallappanna Awade Janata Sahakari Bank has never crossed the limit of lending during the study period; though its net NPA has abruptly varied (C.V.:38.41%) compared to variability of gross NPA (C.V.: 22.80%) Throughout the six years covered by the study, the Bank's management has maintained good consistency as reflected by respective S.D. values of gross and net NPAs (2.51 and 1.64 respectively)

Differential Values of NPA: It is very important to take a close and refined look at the NPA movement of the Bank over the period under study. It is presented in the following table No.3.

Table: 3
Differential Values of NPA of Kallapanna Awade Janata Sahakari Bank Ltd. Ichalkaranji

Year (31 st March)	% of GNPA to Gross Advances	Differential values	% or NPA to Net Advances	Differential values
2005	13.74	-	6.05	-
2006	10.51	-3.23	4.01	-2.04
2007	10.67	+0.16	4.14	+0.13
2008	11.62	+0.95	5.23	+1.09
2009	8.94	-2.68	4.34	-0.89
2010	6.30	-2.64	1.23	-3.11
Mean	10.30	-1.49	4.17	-0.96

Source: Values computed by the researcher

It may be observed in table 3 that the mean difference value of 'percentage of gross NPA to gross advances' is -1.49 while that of 'percentage of net NPA to net advances' is -0.96. This clearly indicates that management of gross and net NPA of Kallappanna Awade Janata Sahakari Bank Ltd. is very good however its management of gross NPA is quite rigorous than management of net NPA.

CONCLUSION

Now-a-days, in operational sense the efficient recovery performance may be considered as the single pointer of successful loan operations of the bank. As the NPA drains the profitability and endangers the very existence of the bank, the management of the bank has to take genuine interest in monitoring the loan operations and thereby NPA. The norms suggested by RBI in connection with the disbursement recovery have to be followed rigorously to avoid undesirable consequences of NPA. In the light of this directive principle and based on the above findings it may be concluded that at present, the NPA management of Kallappanna Awade Janata Sahakari Bank Ltd. Ichalkaranji is satisfactory, however the care should be taken to maintain this status quo or improve further the recovery position.

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