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“IMPACT OF NON-PERFORMING ASSETS ON PROFITABILITY OF CREDIT CO-OPERATIVE: A CASE STUDY OF SANJIVANI NAGARI SAHAKARI PATSANSTHA LTD., CHITALI.”

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Abstract:

The present paper makes an attempt to study the problem of Non-Performing Assets (NPAs) in Sanjivani Nagari Sahakari Patsanstha Ltd., Chitali and also impact on the performance of the patsanstha. Impact on NPAs on the profitability of patsanstha is analyzed by applying correlation model. NPA not only affects the performance of the patsanstha but also puts irreparable harm to the entire economy. Narasimham committee suggested the classification of assets into performing assets and non performing assets is very important for strengthening the financial health of a bank. Because the NPA's badly affect the financial health of the banks and hence control and management of NPA's have assumed great importance.

KEYWORDS:

Non-Performing Assets, Profitability.

1.INTRODUCTION

Non-performing assets don't earn interest income Repayment of loans to bank doesn't take place according to schedule, which affects redevelopment and recycling of funds, further affecting interest income. Although the non-performing assets (NPA) do not earn interest but at the same time the bank has to incur carrying cost under different forms. in bank balance sheet since assets and liabilities match in order to sustain the non earning NPA assets, bank have to incur interest expenditure on deposit liabilities.

Banking transactions are carried on with the help of deposits kept by the people out of these deposits bank given loan and advances, expenses of management are met. So long as there is a guarantee earning interest and repayment of advances bank are in a position to give deposits back to the people along with interest to those who have kept their surplus funds in banks. “Non-Performing assets are those loan assets in the balance sheet of banks which do not contribute to earning and due to lack of recycling of such assets, they are non-interest earning”.

2 STATEMENT OF THE PROBLEM:

At present it is observed that Sahakari Patsanstha are in difficulties. If we go through the profit and loss account of a patsanstha it gives a very clear picture that sahakari patsanstha are struggling for minimizing the number of NPA accounts. Because as number of NPA accounts increase, it disturbs the financial discipline of the bank. It affects not only the working but also the profitability and image of the patsanstha. There are few examples in practice that the entire profit is transferred to NPA's provision. Besides, these patsanstha are unable to distribute dividend to the shareholders. As NPA percentage goes up RBI declares the patsanstha as a weak or sick patsanstha. Due to recession in market there are limits on the

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recovery of patsanstha.

3 OBJECTIVES OF THE STUDY:

The following are the specific objectives of the present study.

- 1) To study the NPA's position in patsanstha.
- 2) To study the impact of NPAs on the financial health of the patsanstha.
- 3) To identify the major factors responsible for NPA accounts.
- 4) To suggest suitable remedies for minimizing the NPA accounts.

4 SCOPE OF THE STUDY:

The entire study concerned with “Sanjivani Nagari Sahakari Patsanstha, Ltd. Chitali, Tal. Khataw, Dist. Satara.” The scope of study is to 5 years commencing from 2007-08 to 2011-12. The study is entirely based on data available in the NPA statement such as sub standard accounts, A Doubtful-1, Doubtful-2, Doubtful-3 accounts, loss account. The project covers the investigation useful findings and positive suggestions which would be useful to the financial decision maker for how to reduce the NPA's. The NPA statement is the heart of the Patsanstha. It is also an analytical tool in the hand of the manager of the branch. It reveals the charges of the credit and recovery i.e. how much to given loan, how to collect or which policies in using for recovering the credit and reduce the NPA in the patsanstha. It is useful for planning of recovery and analyzing recovery ability of organization and performance of the patsanstha.

5 LIMITATIONS OF THE STUDY:

Though the present study aims to achieve the above mentioned objectives in full earnest and accuracy, it may be hampered due to certain limitations. Some of the limitations of the study can be summarized as follows.

- a] The study is limited to only “Sanjivani Nagari Sahakari Patsanstha, Ltd. Chitali.” and data available at this patsanstha.
- b] The study period is fixed for five years only from 2007-08 to 2011-12.
- c] The researcher has considered management point of view for the present study.
- d] The researcher also has limitations of time and other resources.

5 RESEARCH METHODOLOGY:

The following research methodology has been adopted for the completion of present study.

A] Method of Data Collection-

Present research paper is based on primary and secondary data.

I) Primary Data:

Primary data regarding the loans and advances, NPA accounts, provisions for NPA of secured and unsecured advances and related statistics are collected from the “Sanjivani Nagari Sahakari Patsanstha Ltd. Chitali, Tal. Khataw, Dist. Satara.” The information is also collected by the way of discussion with recovery officers, loans and advances section and General manager of the “Sanjivani Nagari Sahakari Patsanstha Ltd. Chitali, Tal. Khataw, Dist. Satara.”

II) Secondary Data:

Secondary data are also used for the preparation of present study of impact of NPA. RBI circulars, Journals on Banking and finance and annual reports of the “Sanjivani Nagari Sahakari Patsanstha, Ltd. Chitali, Tal. Khataw, Dist. Satara.”

7. RESULTS & DISCUSSION:

The Correlation between Net NPA and Net Profit of the Patsanstha:

The following table shows the correlation between Net NPA & Net Profit. This analysis shows how Non-Performing Assets badly affect the Profitability of the Sanjivani Nagari Sahakari Patsanstha, Ltd. Chitali.

Table - 1

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Net NPA % = X	36.79	37.50	23.54	41.89	19.89
Net Profit % = Y	2.55	2.56	2.64	2.57	11.11

(Source- Annual Reports of the patsanstha for the years 2007-08 to 2011-12)

The Net NPA percentage is the percentage of Net NPA amount and Net advances. The Net NPA of the patsanstha is 36.79% in the year 2007-08 & it is reduced up to 19.89% in the year 2011-12.

The Net profit percentage is the percentage of Net profit to interest earned. The Net Profit is 2.55% in the year 2007-08 it is increased in the year 2011-12 up to 11.11%. It shows when NPA decreased at the same time profitability of patsanstha is increased.

Table - 2

Correlation between Net profit and Net NPA

Years	Net NPA % X	x=X-X x=31.92	x ²	Net Profit % Y	y=Y-Y Y=4.28	y ²	xy
2007-08	36.79	4.868	23.70	2.55	-1.736	3.01	-8.45
2008-09	37.50	5.578	31.11	2.56	-1.726	2.98	-9.63
2009-10	23.54	-8.382	70.26	2.64	-1.646	2.71	13.80
2010-11	41.89	9.968	99.36	2.57	-1.716	2.94	-17.11
2011-12	19.89	-12.03	144.77	11.11	6.824	46.57	-82.11
Total	£x=159.61		£ x ² =369.2	£Y=21.43		£ y ² =58.21	£xy=-103.5

(Source- Annual Reports of the patsanstha for the years 2007-08 to 2011-12)

$$Y = (\sum xy) / (\sum x^2 \cdot y^2)$$

$$Y = (-103.5) / (369.2 \cdot 58.21)$$

$$Y = (-103.5) / 146.60$$

$$Y = -0.70600$$

There is negative correlation between the Net NPA and Net profit of the patsanstha.

It means that, if NPA increases the Net profit is decreases. It means that the impact of NPA is made move on the profit of the patsnstha. The correlation of the Net NPA and Net profit is negative as - 0.70600, so profit is mostly affected by the NPA of the patsanstha. But other factors are also affected the profit of the patsanstha, but it is less than NPA effect.

8 SUGGESTIONS:

From the finding and observation the research would like to suggest the following measures by using these suggestions patsanstha can control and minimize the Non performing assets.

- 1)The Assets classification should be made properly that is standard, sub-standard, doubtful & loss assets. This can help for minimization of NPA's
- 2)Rate of interest should be minimized on sub-standard & doubtful categories assets which can motivate the borrower to repay the borrowed amount in time.
- 3)Improvement in the identification of protection project of the borrower and economy viability of the project.
- 4)Apply strictly Narsimhan Committee Recommendations about the provision of NPA for various assets categories.
- 5)Patsanstha should try to implement one time settlement scheme by calling eligible borrowers and reduce the proportion of NPA's through co-operation understanding and compromise to avoids and minimize legal action.
- 6)Before sanctioning loan it is necessary to scrutinize the primary security and collectively security for sufficient value credit worthy guaranties must be check.
- 7)Patsanstha follow the Know Your Customer (KYC) norms by which patsanstha can decided customer acceptance policy.

9 CONCLUSIONS:

The rise in the level of NPA's in the banks and the financial institution should be given serious attention because it is the barrier in the smooth functioning of banking institutions. Some effective measures should be taken so as to bring down the level of NPA's. With the available data related with the NPA's of the Sanjivani Nagari Sahakari Patsnstha, Chitali. It is possible to say that if there is proper management of the assets the level of NPA's can be low. Particularly the patsanstha should concentrate on internal factors which are within their reach. The patsanstha should also concentrate on reducing overdue. There should be continuous follows-up towards recovery of the loans.

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