

EFFECT OF NON PERFORMING ASSETS IN COOPERATIVE BANKS IN KERALA

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Abstract

The cooperative banks in Kerala is facing serious problems of raising Non- Performing Assets (NPAs). The NPAs growth has a direct impact on profitability of banks. Non- performing assets are one of the major concerns for cooperative banks. Co-operative banks play a significant role in providing banking as well as financial services to people. Now a day's non-performing assets constitute a significant part of banks assets. Management of NPAs is an issue of relevance not only in commercial banks but also in co-operative banks. It is very important to have a thorough understanding of various classes of assets having the potential to go for NPA category. Recovery of debts due to banks requires efforts from the management point of view. Thus recovery management is a specialized operational function for the banks today. This study aims at identifying various means to manage the NPAs and the requirement of provisioning.

Introduction

Co-operative banks play very important role in providing banking services to common man. Co-operative banks are important constituent of the Indian financial system, judging by the role assigned to them, the expectations they are supposed to fulfill, their number and the number of offices they operate. Their role in rural financing continues to be important even today and their business in the urban areas also increased in recent years. The co-operative banks have a history of almost 100 years. Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks. Some of the co-operative banks are quite forward looking and have developed sufficient core competencies to challenge state and private

sector banks. The essential functions of banks are borrowing and lending of money. Borrowing is done by accepting deposits and lending is done by providing loans and advances. The major risk factor lies in non-repayment of loans. The bank incurs heavy losses due to the non-repayment of principal and interest.

Literature review

Sukhmani (2011) in her thesis titled, "Performance Evaluation of Central Cooperative Banks: A Comparative Study of Punjab and Haryana", elucidated that the profitability and productivity performance of DCCBs Punjab was more satisfactory than that of the DCCBs in Haryana. The study also observed that DCCBs of Punjab, not only succeeded in diversifying their business in commercial loans, but, they were also more organized in recovery management of short-term agricultural loans. She recommended that the DCCBs in both the states should increase their resource base at low cost and expand their operations to the high yielding loan portfolios. She also suggested that separate Act called, "The Punjab Co-operative Credit Societies Act", should be enacted taking into consideration the special nature of banking business and dynamic economic environment. 6. Dr. A Ramachandran, D.SivaShanmugam (2012), Analyzed that the urban cooperative banks exhibited a greater emphasis on product diversification, customer orientation thrust towards retail banking, adoption of IT for improved service, better MIS and management and strategic mergers and acquisition across bank groups. The researcher concluded that the future of urban cooperative banks is challenging because of the competition from public sector banks and private sector banks.

STATEMENT OF THE PROBLEM

The study entitled "Effect of Non Performing Assets in Cooperative Banks in Kerala" is an attempt to evaluate the non-performing assets. Management of NPAs is an issue of relevance not only in commercial banks but also in co-operative banks. Recovery of debts due to banks requires efforts from the management point of view. Thus recovery management is a specialized operational function for the banks today. The classification of NPAs into substandard, doubtful and loss assets have been purposefully undertaken with a view to regulate and manage recovery. Banks consistently put in efforts to manage their NPAs and reduce the requirement of provisioning.

OBJECTIVES OF THE STUDY

- To understand the impact of NPA on the profitability of the bank.
- To identify the reasons for NPA
- To study the current status of Non performing assets in cooperative banks in Kerala.
- To evaluate the trend of NPAs for the years 2013-14 to 2017-18

Research Design

The study is descriptive and analytical in nature. The secondary data has been collected from journals magazines websites and company own records. The annual reports of the Bank were taken for this study. Data was collected from 2013 to 2018 annual reports of cooperative banks in Kerala

Data analysis

Trend Analysis

YEAR	2013-14 (BASE YEAR)	2014-15	2015-16	2016-17	2017-18
TOTAL NPA	528466589	363628869	286444193	252192251	207,460,981
PERCENTAGE	100	68.82	54.20	47.72	39.26

The figure shows that highest NPA for seasonal agricultural loan was for the year 2014-2015 with 68.82% and the lowest NPA was for the year 2017-2018 with 39.26%. In the year 2015-16 NPA was 54.2% and for the year 2016-17 with 47.72%. It shows a decreasing trend.

YEAR	2013-14 (BASE YEAR)	2014-15	2015-16	2016-17	2017-18
TOTAL NPA	731000488.41	1099378367	845216935.06	879736286.95	1,048,155,084
PERCENTAGE	100	150.39	115.62	120.34	143.38

The figure shows that highest NPA for overdrafts/cash credits was for the year 2014-15 with 150.39% and the lowest NPA was for the year 2015-2016 with 115.62%. In the year 2016-17 NPA was 120.34% and for the year 2017-18 NPA was 143.38%.

YEAR	2013-14	2014-15	2015-16	2016-17	2017-18
Gross NPA	3806513274.0 5	3690617258.00	3913335998.58	7156481667.57	78353,59,001.50
Gross advances	25870628345. 07	26946930020.6 3	27439756870.0 4	28855547319.3 3	293493,77,258.67
Ratio	14.71	13.69	14.26	24.80	26.69

From the above, Gross NPA Ratio is the highest for 2017-18. It shows a decrease in 2014-15. After that, it is increasing considerably.

YEAR	2013-14	2014-15	2015-16	2016-17	2017-18
Gross NPA	3806513274.05	3690617258.00	3913335998.58	7156481667.57	7835359001.50
Total Assets	40301539331.98	50357878102.86	63795101834.76	74151088565.31	79826886614.88
Ratio	9.44	7.32	6.13	9.65	9.81

Problem Asset ratio is the highest for the year 2017-18. It is the lowest in the year 2015-16.

Calculation of Correlation Co-efficient

YEARS	X (in trillion)	X ²	Y (in trillion)	Y ²	XY
2013-14	380.65	144894.42	3.37	11.35	1282.79
2014-15	369.06	136205.28	10.22	104.44	3771.79
2015-16	391.33	153139.16	7.79	60.68	3048.46
2016-17	715.64	512140.60	0.00	0	0
2017-18	783.53	613919.26	(362.35)	131297.52	(283912.09)
	$\Sigma X =$ 2640.21	$\Sigma X^2 =$ 1560298.72	$\Sigma Y =$ -340.97	$\Sigma Y^2 =$ 131473.99	$\Sigma XY =$ -275809.05

There is negative correlation between NPAs and profitability of the bank. That means, for every positive increase in NPA, there is a negative decrease of a fixed proportion in the profit.

Findings

By comparing all the loans from the year 2013-14 to 2017-2018 the highest NPA is for the year 2017-18 2. By comparing all the loans from the year 2013-14 to 2017-2018 the lowest NPA is for the year 2014-15 3. By comparing all the loans from the year 2013-14 to 2017-2018 the highest NPA is for medium term loans because there was a high loss asset. 4. By comparing all the loans from 2013-14 to 2017-2018 the lowest NPA is created by Seasonal agricultural operations. 5. By comparing all the loans from the year 2013-14 to 2017-2018 there was no loss asset for SAO. 6. From the trend analysis the financial year 2014-15 shows the highest NPA and 2017-18 shows the lowest NPA for Seasonal agricultural operation

Conclusion

Co-operative banks play very important role in providing banking services to common man in their area of co-operation. The co-operative banking sector plays an important role in expanding rural economy as well as banking structure and its services to the last man of the society. A small

depositor or a small borrower feels comfortable in dealing with the local staff of co –operative bank than to the staff of nationalized banks and private sector banks. If co-operative banks go in liquidation due to abnormal increase of NPA not only customers and staff members of that particular co-operative bank will suffer but all other co-operative banks will also get a major setback. Leading to severe damage to the reputation of entire co-operative sector which is very important for the balance of economic development of our country.

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