Non-Performing Assets – A study on the Haryana State Cooperative Bank

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Abstract-This research paper is based on Non-Performing Assets of the Haryana State Cooperative Bank. Non-Performing Assets are classified as standard assets, sub-standard assets, doubtful assets and loss assets. Different techniques are used for managing NPAs such as Compromise settlement schemes, Lok adalats, Corporate debt restricting, DRT Act, NCLT, SARFAESI Act 2002 etc. This research paper also explain some suggestion or recommendations to reducing NPAs like reduction in refinance rate, increase in quantum of refinance, sanction of S.T.(SAO) limits to DCCBs having CRAR below 4% etc.

Keywords-Non-Performing Assets, Lok adalats, Corporate debt restricting, National Company Law Tribunal, SARFAESI act.

INTRODUCTION

THE HARYANA STATE COOPERATIVE BANK

The bank was established in November 1966. It is having 13 branches & 2 extension counters. HARCO Bank head office is located in Chandigarh and Registered at Ambala under Haryana Cooperative Societies Act, 1984. It has been granted a license on 22 Nov., 1991 under section of BR Act 1949. Bank had been included in the second schedule of RBI Act, 1934 on 4th Feb, 1969. It has 19 DCCBs, 594 branches, 653 PACS catering the financial need of 30.47 lakhs members and the service sector of banking industry in Haryana. The main objective of the cooperative credit structure of the state is to fulfill financial requirements of the farmers by providing them short term, medium term loans, deposit mobilization and provide banking essential services in urban and rural area.

NON-PERFORMING ASSET (NPA)

A Non-performing asset (NPA) is a credit facility in which the interest and installments of principal has remained due for a specified period of time. Non-Performing Assets are popularly known as NPA. Commercial Banks assets are of various types. All those assets which generate periodical income are called as performing assets while those which do not generate periodical income are non-performing. For a bank, a Non Performing Asset (NPA) or bad debt is usually a loan that is not producing income. Earlier it was largely applicable to businesses. Now things have changed with banks widely extending consumer loans and strict asset classification norms. If a borrower misses paying his equated monthly installment (EMI) for 90 days, the loan is considered bad and is called as an NPA. In the past years an asset was considered as non-performing asset (NPA) based on the concept of Past Due. From March 31, 2004 overdue norms for identification of NPAs have been made applicable.

RELATED STUDY

Narasimham Committee recommended measures to enhance efficiency, productivity and profitability by improving operational flexibility and functional autonomy1. Reddy, PK (2002) recommended that due to lack of strict prudential norms, legal impediments, postponement of the problem by the banks to show higher returns and manipulation by the debtors using political influence the problem of NPA occurs2. Dash et al (2010) recommended that the level of NPAs affected by macro-factors like real effective exchange rate and growth in real GDP3. Gopalakrishnan, TV (2005) recommended that the major cause of NPA are neglect of proper credit appraisal, lack of follow-up and supervision,
recessional pressures in economy, change in government policies, infrastructural bottlenecks, and diversion of funds etc. Bloem et al (2000) recommended that NPA affecting the banks and its intermediaries, and the development of the nation as well. Ranjan and Dhal (2003) recommended that NPA lowers due to horizon of maturity of credit, better credit culture, favorable macroeconomic and business conditions. In its annual report (2010) RBI stated that “management of NPA by banks remains an area of concern, particularly, due to the likelihood of deterioration of the quality of restructured advances”. Ahmed, JU (2010) recommended that since the reform regime there has been various initiatives to contain growth of NPA to improve the asset quality of the banking sector. Borbora, RR (2007) recommended that the essential features of sound NPA management are i) quick identification of NPAs, ii) their containment at a minimum level and iii) ensuring minimum impact of NPAs on the financials. Panta, R (2007) recommended that all types of lending involves three stages where discretion needs to be exercised (a) Evaluation and assessment of the proposal (b) Timely monitoring and evaluation and (c) Proper assessment of exit decision and modality.

Figure 1. ORGANISATIONAL STRUCTURE

ASSET CLASSIFICATION
Asset classification refers to the credit risk related to a loan account as on the date of balance sheet. Until we know the quantum of risk we cannot chalk out appropriate strategy to manage the risk. Banks broadly classify their assets into the following groups, viz. i) Standard Assets (Performing)-Standard Asset is that asset which does not disclose any problems and does not carry more than normal risk
attached to the business. Such an asset should not be an NPA. Standard assets are those in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer without any default. ii) Sub-standard Assets- It includes following criteria: a) NPA for a period exceeding 18 months w.e.f. the year ended Mar, 2001 (12 months w.e.f. the year ended Mar, 2005) classified as sub-standard assets, b) Under re-negotiated or rescheduled the interest and principal regarding loans have been after commencement of production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance. iii) Doubtful Assets- A doubtful assets are defined in three categories: a) D-1 NPA for one year i.e. overdue up to 1 year. b) D-2 NPA for two years i.e. overdue over 1 year & up to 3 years. c) D-3 NPA for more than 3 years i.e. overdue over 3 years. iv) Loss Assets- A loss has been identified by the bank/auditors/Reserve Bank of India or NABARD inspectors but the amount has not been written off, wholly or partly is called Loss Asset. Loss asset is considered un-collectible and of such little value that its continuance as a doubtful assets is not worthwhile.

Period of Classification of NPA Accounts

<table>
<thead>
<tr>
<th>Classification</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard- Regular</td>
<td>Any period</td>
</tr>
<tr>
<td>Standard- Irregular (any Special Mention Account)</td>
<td>90 days</td>
</tr>
<tr>
<td>Sub- Standard</td>
<td>12 months</td>
</tr>
<tr>
<td>Doubtful- up to 1 year</td>
<td>12 months</td>
</tr>
<tr>
<td>Doubtful- above 1 year but up to 3 years</td>
<td>24 months</td>
</tr>
<tr>
<td>Doubtful- above 3 years</td>
<td>36 months</td>
</tr>
<tr>
<td>Loss</td>
<td>Uncertain</td>
</tr>
</tbody>
</table>

Types of NPA:-

Figure2: Type of NPAs

- Gross NPA is a advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account.

- Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

REASONS FOR MANAGING NPAS:-

NPAs have multifold effects on the performance of banks. It shows the weakness of management of bank. It is necessary to manage non – performing assets for following reasons:-

1) To protect the interest of shareholders.
2) To protect the interest of depositors.
3) For profitability of the bank.
4) Higher NPA leads banks to compel higher provision for bad debts reserve as per the norms of RBI.
5) Creditworthiness of the Bank.
6) Expansion plan for future growth of banks.
7) Welfare of employees.
8) In the interest of sustained economic growth.

FINDINGS:
1. Aggregate NPA’s are showing increasing trend.
2. Bank provides efficient recovery measures by increasing staff productivity.
3. Easy repayment and fewer formalities are the main factors determining customer’s selection of loans.
4. Quality of services provided by the staff is satisfactory because the number of customers visiting in this branch are very less so that the customers are properly dealt with.
5. Customers are satisfied with the mode of repayment of installments.
6. The net result, the recovery is showing decreasing trend in Rabi and Kharif seasonal recovery campaigns.

NPA MANAGEMENT – RESOLUTION
A) Compromise Settlement Schemes- In this scheme banks are free to design & implement their own policies for recovery. Some guidelines were issued in July 2000 & Mar.2007 for recovery of NPAs. It covers all cases pending before Courts/DRTs/BIFR and the cases on which the banks have initiated action under the SRFAESI Act.
B) Lok Adalats- It is a system of alternative dispute resolution presided over by a sitting or retired judicial officer or other person having legal knowledge as the chairman, with two other members. There is no court fee and no rigid procedural requirement. Its focus is on compromise small NPAs up to Rs.20 Lakh.
C) Corporate Debt Restructuring- Its objective is to ensure a timely and transparent mechanism for restructuring of the debts of viable corporate entities affected by internal and external factors, outside the purview of BIFR, DRT or other legal proceedings. This scheme applies to accounts having multiple banking/ syndication/ consortium accounts with outstanding exposure of Rs.100 crores and above. It is also applicable to standard and sub-standard accounts with potential cases of NPAs getting a priority.
D) DRT Act- Debt Recovery Tribunal constituted for banks and FIs so that they enforce their securities by initiating recovery procedure under the banks & FI Act, 1993(DRT Act) by filing an application. A recovery certificate is issued 7 the sale is carried out by an auctioneer or a receiver.
E) National Company Law Tribunal- SICA will be abolished & replaced by NCLT. Under this Company Law Board possesses power & jurisdiction regarding the cases related with the companies, earlier which was with High Court of state concerned. Measures adopted by bankruptcy court for the recruitment of members to NCLT were amended by 2nd amendment.
F) SARFAESI Act, 2002- Banks / Financial Institutions are empowered by the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) to recover non-performing assets. Under this act there are three methods to recover non-performing assets i)Securitization ii)Asset Reconstruction iii)Enforcement of Security without the intervention of the Court.

Impact of NPAs:-
  a) Reduction in interest income.
  b) Incurring additional cost in supervision and follow – up of loans & advances account.
  c) Drain on Profitability:
  d) Deterioration in Liquidity.
  e) Involvement of management.
  f) Affects goodwill.
It would be imperative for these banks to take effective measures to reduce their NPAs to the maximum possible extent. Not only reduction in NPAs even upgradation in the quality of such assets would help the banks to improve their bottom lines because the provisions already made can be transferred to the income head in case of upgradation of NPAs.

SUGGESTIONS AND CONCLUSION
From the study undertaken at bank following suggestions are recommended to reduce the NPA in the STCCS in Haryana.

1. **Reduction in refinance rate**
   In pursuance to the policy of Union Govt. Cooperative Banks are providing Crop loans to the farmers @ 7% interest p.a since 1.4.2006. NABARD is providing refinance against crop loan advances made by the Cooperative Banks to the farmers. Escalation of rate of refinance besides upwardly spiraling cost of deposits, enhanced cost of management and other operations like computerization has put excessive burden on Cooperative Credit Structure as margins have been woefully reduced. NABARD may kindly consider reducing refinance rate from 4.5% to 2.5% to make it viable for the Cooperative Banks.

2. **Increase in quantum of refinance**
   At present, NABARD provides 50% refinance w.r.t. ground level credit which is not in adequate and it should at least be 70% so that there is substantial increase in advances to the farmers. NABARD is requested to increase its level of refinance from 50% to at least 70%.

3. **Increase in Interest Subvention provision**
   Interest subvention is available on own involvement of Cooperative Credit Structure and that too on Non-Overdue loans only. And interest. Consideration may be given to provide interest subvention on total outstanding loans as was done in 2005-06 rather than providing interest subvention on non-overdue loans. Interest subvention may be increased from 2% to 3%.

4. **Sanction of S.T. (SAO) limits to DCCBs having CRAR below 4%**
   As per policy and operational guidelines issued by NABARD for the year 2013-14 for sanction of Short Term Seasonal Agriculture Operation (ST SAO) limits to Cooperative Banks, no credit limit will be sanctioned to the Banks having their Capital to Risk Weighted Assets Ratio (CRAR) below 4% as per their Statutory Audit Report. Therefore, it is requested that NABARD may re-consider its policy and should not link the sanction of these credit limits with CRAR.

5. **Withdrawal of Section 80-P of Income Tax Act.**
   The Coop. Banks are now required to pay Income Tax under section 80 P which amounts to paying of nearly 30% of the net profits of the Cooperative Bank. Govt. of India may be impressed upon on behalf of Cooperative Banks for repealing section 80 P of Income Tax Act in so far as its applicability to Cooperative Banks is concerned in the interest of economic viability of the Cooperative Credit Structure.

6. **Deposit Mobilization**-
   Deposits in DCCBs should be raised through its rural branches. To reduce the cost of deposits CASA deposits are raised and dependence of borrowings be reduced so DCCBs could get good financial margins.

7. **Recruitment of Staff**-
   In DCCBs there is acute shortage of staff. Efficient staff having knowledge of banking and computer be recruited in DCCBs.

8. **Infrastructure and computerization**-
   In the branches of Coop. Banks there is acute shortage of infrastructure. Branches in cooperative banks should be renovated. On Line connectivity between Apex bank, DCCBs and PACS should be made to improve MIS system and quick reporting.

9. **Supervision**-
   It has also been observed that there is lack of supervision DCCBs, Apex Bank should deploy there officers to make surprise visits and inspections in branches.
10. **Maintenance of records**
   Proper records should be maintained at PACS level to improve the MIS system.

11. **Political interference**
   Political interference should be avoided from cooperative banks for improving the financial health of bank.

12. **Training**
   Proper training regarding coop Act, Rules, Bye-Laws, advances, recovery of loan & NPAs etc. should be provided to the employees of bank as well as members committee of PACS and directors of DCCBs through Staff Training College and RICM in order to improve their efficiency and to utilize their skills at optimum level.

13. **Diversification**
   Bank provides major part of loan in “Agricultural Sector” where margins in ST SAO is very low and cost of funds is high. So in order to obtain margins to gain profits, banks should diversify its lending in non-agriculture sector and loaning procedure should be simplify.

14. **Computerization**
   CBS be implemented in all the three tiers and connectivity between Apex, DCCBs and PACS for quick reporting and to improve MIS system be made.

15. **Improve Customer Services**
   To satisfy the existing customers & find new ones banks have to introduce new schemes. They also need to improve the customer services in a good and efficient way. Banks have to make Public Relation Officer and May I Help You counter in each DCCBs branches.

16. **Healthy Advances**
   Healthy advances are needed after proper evaluation and scrutiny of the loan cases. It is necessary for bank to change or improve its working procedure for sanctioning of loans because loan procedure of bank is too tough. Pre sanction and post inspection procedure should be reviewed for all loans. For sanction of big amount loans, it is necessary to take advice of CA.

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