MANAGEMENT OF NON PERRFORMING ASSETS IN MAYURAM URBAN CO-OPERATIVE BANK

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Abstract
The management of non-performing asset is an important aspect for any banking institution. The management of Non-Performing Assets (NPAs) in urban co-operative banks is a really robust challenge and cumbersome task. Since, the co-operative banks are mainly based in rural areas the people in rural areas tend to be defaulters. In this background a case study was undertaken to study the NPA status in UCBs by taking into consideration of the secondary data for the past ten years. In the preliminary section of the article, theoretical background for co-operative banks, urban co-operative banks and the concept of NPAs were discussed. Two ratios viz., NPAs to total assets and NPAs to advances are used to assess the performance of sample study units regarding the management of NPAs.   It is found that the bank is not much consistent with management of NPAs. The study concluded that the timely disbursement and timely recovery of loans is necessary pre conditions for preventing or minimizing the incidence of NPAs.

 Key Words: Non-Performing Assets, Co-Operative Banks, Advances and Total Assets.

Introduction
Co-operative banks play an important role in meeting the credit requirements of both the urban and rural India. Though in the bank dominated financial system, these institutions account for a small share in the total credit they hold a significant position in credit delivery as they cater to different geographic locations and demographic categories. The wide network of co-operative banks, both rural and urban, supplements the commercial banking network for deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network. Demographically, these institutions have enabled access to financial services to low and middle-income groups in both rural and urban areas. The role of co-operative banks has been commendable in enhancing the inclusiveness of the financial system.

Urban Co-operative Banks
 The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably. Urban Co-operative banks mobilize savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society. These banks organize on a limited liability basis; generally extend their area of operation over a town. The main functions of these banks are to promote thrift by attracting deposits from members and non-members and to advance loans to the members.

Non-Performing Assets
Non-Performing Assets are popularly known as NPA. All those assets which generate periodical income are called as **Performing Assets (PA)**. While all those assets which do not generate periodical income are called as **Non-Performing Assets (NPA)**. If the customers do not repay principal amount and interest for a certain period of time then such loans become non-performing assets (NPA). Thus non-performing assets are basically non-performing loans.

Classification of NPA
 NPA have been divided or classified into following four types:-
1. **Standard Assets**: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.

2. **Sub-Standard Assets**: All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets.
3. **Doubtful Assets**: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets.
4. **Loss Assets**: All those assets which cannot be recovered are called as Loss Assets.

Materials and Methods
Statement of the Problem
Co-operative banks are an integral part of the Indian financial system. They comprise urban co-operative banks and rural co-operative credit institutions. The co-operative societies play a significant role in the economic development of the country. Urban Co-operative Banks play an important role in meeting the growing credit needs of urban and semi-urban areas of the country. The funds of co-operative banks were not used productively. The appraisals and recovery system also were not accurate. As a result of this, non-performing assets of these banks showed a marked increase, adversely affecting their growth. It also affects the profitability of the bank and hence affects the future growth of the bank. The NPAs is proving to be the barrier in the progress of the economy and financial system of any country. In this backdrop, the present study is undertaken to study the *"***MANAGEMENT OF NPAs IN MAYURAM URBAN CO-OPERATIVE BANK"***

Objectives of the Study
The main objective of the study is to identify and analyze the performance of sample bank, to throw light on the problems of ever growing NPAs and to offer some meaningful suggestions for efficient management of NPAs.
Methodology: The research paper is descriptive and analytical in nature.The study is mainly based on secondary data. The data were collected from the published annual reports of the MCUB. The data relevant to NPAs have been collected for the period of ten years from 2002-03 to 2011-12. The data is also collected from other sources like books, journals etc. This data have been analysed with the help of sophisticated statistical tools like Mean, SD, CV, CAGR and LGR.

Results and Discussion
Non-Performing Assets (NPA) to Advances (Loan Issued)
The ratio of NPA to Advances is the most standard measure of assets quality measuring the net non-performing assets as a percentage to net advances. Net non-performing assets are gross non-performing assets minus net of provisions on Non-performing assets and interest in suspense account. Table-1 is depicted with results of the analysis evaluating the status of Non-performing assets (NPA) to Advance ratio for MUCB.

An examination of the table-1 showed that there was a continuous and significant increase in NPA as well in Advances. But rate of increase in NPA was less compared to that of Advances (CAGR was less for NPA compared to CAGR for Advances). Though not consistent, the change in NPA to Advances was negative and significant at notable level during the period. The proportion of NPA to advances, 7.12 per cent in 2002-03, increased in 2003-04 and 2005-06 from respective previous year level but started declining continuously from 2007-08 until reaching at 3.29 per cent in 2011-12. Over the period, it declined significantly at compound rate of 8.56 per cent and constant rate of 0.52 per cent per annum. Hence, it was found that MUCB, despite inconsistent, had significantly reduced to risk of loan default over the period of 10 years under study.

Non-Performing Assets (NPA) to Total Assets (TA)
This ratio discloses the efficiency of bank in assessing the credit risk and, to an extent, recovering the debts. It is arrived at by dividing the net non-performing assets by total assets. Table 2 presents the NPA to TA results of the analysis pertaining to mean, standard deviation, coefficient of variation, CAGR and LGR for MUCB. From the table-2, it was observed that the change in NPA to Total assets had neither increased nor decreased despite there was a significant increase in NPA and rate of increase in NPA when compounded annually was higher than that of average total assets. The ratio of NPA to TA was same in both beginning and end year, after hovering between

2.05 and 2.27 from 2003-04 and 2010-11. From trivial and insignificant CAGR and LGR values, it was apparent that the bank kept NPA relative to total assets at stable level through the period. On the whole, it was concluded that the MUCB had managed to keep the default risk at constant level during the period.

Major Findings
Following are the various findings revealed from the study:
    (i) There was a continuous and significant increase in NPA as well in Advances. But rate of increase in NPA was less compared to that of Advances
    (ii) The MUCB, despite inconsistent, had significantly reduced the risk of loan default over the period of 10 years under study.
    (iii) It is found that the sample bank is not much consistent in management of Non-performing Assets.
    (iv) The non-performing assets in Total Assets had marginally declined in MUCBs in turn indicating that the bank was somewhat efficient in managing the risk of default during the period of study.
    (v) The impacts of NPAs resulted in decreasing profitability and reduce capital assets and lending limits.

Suggestions
The bank should keep NPAs under control. To achieve this, banks should exercise proper pre sanction scrutiny and post sanction supervision and control. Hence, they should develop effective credit appraisal policy and loan recovery strategy. The bank should conduct loan recovery camp. In addition to that, the bank should provide training and awareness programmes regarding the repayment of loans, and effective use of funds.

Conclusion
A strong banking sector is important for development of Indian economy. The failure of the banking sector may have an adverse impact on all other sectors like agricultural, industrial etc., Non-performing assets are one of the major concerns for any type of banks in India. NPAs do not just reflect the bank's performance in account books, but they adversely impact the national economy also. The rising incidence of NPAs has been generally attributed to the economic slowdown. Keeping this in mind, the RBI is also emphasizing on the cooperative banks in respect of the loan policy and keeping a regular watch on them. Hence, effective management of NPA is need of the hour. Reduction of NPAs in urban co-operative banking sector should be treated as national priority item to make the co-operative banking system more strong and vibrant. To achieve this, timely disbursement, correct end use of funds and timely recovery of loans is absolutely necessary pre conditions for preventing or minimizing the incidence of NPAs.

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ANNEXURE

Table-1: Non-Performing Assets (NPA) to Advance Ratio of MUCB from 2002-03 to 20011-12.

(Rs. In Lakhs)

Year	NPA	Average Advances	NPA to Advance Ratio
2002-03	87.78	1233.49	7.12
2003-04	101.19	1180.06	8.58
2004-05	101.49	1199.91	8.46
2005-06	113.55	1305.49	8.70
2006-07	113.61	1517.75	7.49
2007-08	123.37	1745.60	7.07
2008-09	120.66	1934.89	6.24
2009-10	124.91	2358.56	5.30
2010-11	139.88	3068.61	4.56
2011-12	124.70	3791.08	3.29
Mean	115.11	1933.54	6.68
SD	15.02	889.33	1.82
CV	13.05	45.99	27.31
CAGR	4.16**	13.91**	-8.56**
LGR	4.55**	267.56**	-0.52**

*Source: Secondary Data, **Significant at 1% level.*
Table value @5% = 2.31 and @1% = 3.36.

Table-2: Non-Performing Assets (NPA) to Total Assets (TA) Ratio of MUCB from 2002-03 to 20011-12.

(Rs. In Lakhs)

Year	NPA	Average Total Assets	NPA to Advance Ratio
2002-03	87.78	4754.24	1.85
2003-04	101.19	4924.46	2.05
2004-05	101.49	4876.03	2.08
2005-06	113.55	4620.87	2.46
2006-07	113.61	4425.62	2.57
2007-08	123.37	4569.55	2.70
2008-09	120.66	4934.05	2.45
2009-10	124.91	5570.47	2.24
2010-11	139.88	6170.37	2.27
2011-12	124.70	6732.95	1.85
Mean	115.11	5157.86	2.25
SD	15.02	759.67	0.29
CV	13.05	14.73	13.01
CAGR	4.16**	3.46*	0.68
LGR	4.55**	188.40*	0.01

*Source: Secondary Data, **Significant at 1% level.*
Table value @5% = 2.31 and @1% = 3.36.