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Review Article

A Study on Non-Performing Asset at Co-Operative Societies in India

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Abstract: The performance of a country's financial system reflects in a country's growth. India is striving to be one of the developed countries. Our country is going through many changes as it strives to be at the top of the world. The financial system is the mainstay of any country in India and the banking system plays an important role in the financial system. In a country like India, where 70% of the population lives in rural areas agriculture is a main occupation, which accounts for more than 30% of GDP. Banks and cooperatives in the public and private sectors play an important role in accelerating credit services to rural areas. India has 12 public sector banks, 22 private sector banks, 42 foreign banks, 56 regional rural banks, 1485 urban cooperative banks 96000 rural cooperative banks in addition to Credit Cooperative Bank. The obstacle for cooperative societies and banking institutions is NPA non-performing assets. The focus of this paper is to study NPA in Indian cooperatives and the impact of NPA on the profitability of cooperatives, the remedies for NPA problems to improve the performance of cooperatives.

Keywords: Banks, Cooperative societies, NPA, Agriculture.

INTRODUCTION

The nation and its citizens depend on banking system for the systematic development of the country. The banking industry supports the growth of diverse industries and the national economy. Indian banks can now compete with international banks because of advancements in technology. The primary objective of the banking industry in rural areas of India in the 20th century was to obtain high rates of interest on the money they lend.

Co-Operative Bank

The Indian financial system was designed to address credit issues. Since 1904, there has been a solid financial history with the adoption of beneficial rules. The goal of this law was to create a positive credit society that would energies investment funds, encourage co-activity and involvement among ranchers and specialists, and have limited implications. These are the associations: Significant social organizations. The national bank. The neighborhood bank. The work to coordinate helpful associations and issue agreeable credit started, yet was unsuitable before freedom. Indeed, even after 50 years of activity, the helpful credit comprised only 3.1% of total rural credit is generally accessible.

A cooperative society, sometimes known as a "co-operative," is an independent group of persons who come together voluntarily to achieve their common economic, social, and cultural needs and ambitions through a jointly owned and democratically governed company. A cooperative's principal goal is to serve the interests of its members, who are also the organization's owners. Cooperatives function on the ideas of collaboration, democracy, and equal benefit sharing.

NPA (Non-performing Assets)

The Indian financial sector has been dealing with NPAs for a while. NPAs are incredible credit risk indicators. The RBI established the Narasimhan Board to oversee the investigation into the challenges facing the financial sector in India and to provide recommendations. Amazing indicators of credit risk are NPAs. Due to fluctuation in NPA from 2018 onwards, the RBI established the Narasimhan Board to examine the problems of the financial industry in India. Was having and to provide solutions. This conference raised the issue of non-performing assets (NPAs), which have been decreasing banks' profits; nevertheless, even though NPA-related problems have accumulated over time, no appropriate action not been taken.

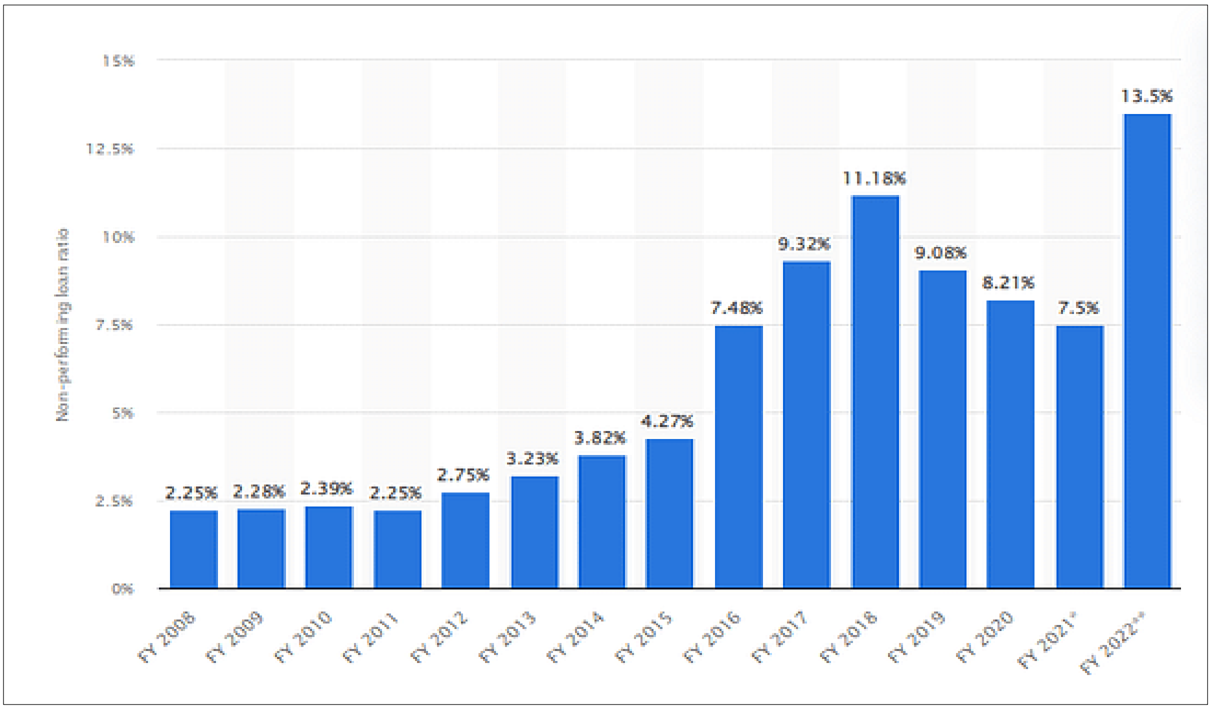

Figure 1

Internal Factors That Cause NPA
Internal Factors

- Redirection of assets for development/expansion/modernization taking up new tasks,
- helping/advancing partner concerns.
- Business (thing, advancing, etc dissatisfaction.
- Disappointment in organization.
- Inappropriate advancement/particular issue.
- Nonattendance of co-ordinate among pioneers.

External Factors

- Power need.
- Trading scale instability
- Disasters and ordinary fiascoes
- Slump

NPA in Cooperative Banks

NPA's of co-operative banks as per the Ministry of State in the Ministry of finance (Dr. Bhagwat Karad).

Bank	GNPA's as of 31st March 2020	GNPA's as of 31st March 2021
RCB's	10.2	9.5
UC B'S	10.6	11.7

NPA has a direct impact on the profitability of the Cooperative banks higher NPA deteriorates the lending capacity of banks as the considerable capital is kept in the form of NPA. Eventually, this leads to a higher cost of capital, higher inflation, and lower the growth of lending services, which affects the Country's economy due to low take-off funds.

Impact of NPA on Bank

The bank's frustration could provoke issues for their industry and country. Nonperforming assets are influencing the Indian monetary region. NPA is simply difficult issue for capacity as well as shows of an extensive variety that bank. NPA impact most certainly on components of banks. Be that as it, is not completely firmly established by considering the assets returns, NPA lessens the compensation for the banks, all the while banks necessities to avoid any unnecessary risk expected to diminish the NPA. NPA impact for the most part advantage might negatively affect the bank's liquidity.

REVIEW OF LITERATURE

RANI D. UMA (2020):

Every useful movement requires cash, it's guaranteed. Since 65% of Indians rely upon farming to sustain their livelihood extra consideration. As per Shashank Joshi, is public income commitment about the farming business does not compare to the quantity of labourers in that area.

TALLA NARAYANA GOWD (2019):

The scientist needs for the purpose of investigating the Dharmavaram Metropolitan Helpful Bank's monetary standing. The information shows that there has been critical growth in the accompanying regions concerning DUCB: stores, individuals, borrowings, working capital, reserve funds, complete pay, all-out use, and over the levy.

Shivani Mohan IES OT-2022:

Indian banks have been burdened with the problem of rising NPAs over the past decade. Higher NPA translates into lower profits for banks as it reduces the interest income and also causes capital erosion. This study focuses on looking at the impact of non-performing assets of 40 scheduled commercial banks - public sector and private sector banks across the period 2005-2018. The main findings include - that NPA have a significant negative impact on the profitability of scheduled commercial banks measured using return on assets and return on equity.

M SHABAN (2018):

The paper analyzes" non-performing resource and their effect on the benefit of business banks public banks, confidential banks and unfamiliar banks in India" The data set from RBI was collected over a lengthy period, from April 2006 to March 31, In the review in 2017, return on resource and return on fairness were used as intermediary factors for the advantage of the banks, while gross non-performing assets to net advances and net to net advances proportions were used as independent factors to denote the NPA resources belonging to the banks.

RAJ KUAMR MITTAL (2017):

The paper analyzes "the issue of bringing nonperforming resources up in financial area in India similar examination of public and confidential area banks" The expansion of the economy relies on the efficiency and solidness of the finance sector.

DHAWAN ANNU (2016):

"Monetary execution of locale helpful banks in Punjab, use of CAMAL model" I observed that most DCCBs didn't have the necessary level of money. The scientist suggested that RBI should foster observing survey writing 43 boundaries certain banks as evidenced by their functioning condition.

Paper by Kumar Das and Utpal (Das & Utpal, 2021) finds that NPA has a negative impact on Return on assets for Indian commercial banks using a Random effects model and also including Economy-wide characteristics like inflation and GDP rate of growth. A paper by Ripon Bepari and Subhas Chandra Sarkar (Ripon Bepari & Subhas Chandra Sarkar, 2020) analyzes the profitability performance of selected public and private sector banks in India from 2010 to 2018 and finds a significant negative impact of NPA for public sector banks, while a positive impact for private sector banks while a positive impact of net NPAs on profitability of private sector banks

Y.V REDDY (2009):

In his article "Reforming India's Financial Sector-Changing Dimensions and Emerging Issues" has described the background for the financial sector.

P. N JOSHI (2003):

Non-Performing Assets-causes, Extent, and Remedies" has observed conceptual irregularities in the instructions provided by the Central Bank. Impact of NPAs

K. H. VORA (2007): Management non-performing assets and Reconstruction Company" impact of NPAs

Research Design

Problem Statement

Indian financial industry which was brilliant work in some time ago, banks have been confronting a ton of difficulties relating to Non-Performing Resources at the present situation. Mama Banks have held their NPAs under the influence however several banks can't handle the NPA levels. The issue they are tackling on of issue. There can be different purposes for the NPA. Among the vital elements that choose the listing of the banks and finance establishments is to detection NPA. They must make an arrangement for NPA which impacts productivity unfavorably. A component of banking is NPA all through the world. It isn't peculiar to public areas when contrasted with private area banks and unfamiliar banks in India. The rising pattern of NPA antagonistically influences the benefit position of the association. It can be expressed that because of NPA, the productivity of the banks is going down step by step.

Research Objective

1. To comprehend what NPA means for bank income
2. To discover the reasons and impact of the non-performing assets at the cooperative Bank

Research Questions

1. What are the major reasons for the increase in NPA at cooperative banks
2. How NPA impact on the profitability of the cooperative banking sector

Hypothesis

H0: The level of NPA's does not affect profitability and growth of Cooperative banks.

H1: The level of NPA has a significant impact on the profitability and growth of Co-operative banks.

Gathering of Data

Secondary Data:

Secondary data collected in bank articles newspapers, books, and bank annual reports. The primary drawback of the study is more dependent rather than secondary data than primary data is a main drawback for the study. Examples: Monetary data, assessment of solicitations, sites, and so on. Branch supervisor's individuals involved in NPA-focused research, research publications, and distributed distributions obtain the data from the record office.

Limitation of the Study: The study is based on historical data which has been published by RBI and NABARD, IBEF for the previous years.

Only recent years only two years of data has been considered 2020 to 2022 for the comparative study.

DATA ANALYSIS AND INTERPRETATION

Gross NPA of Co-Operative Bank

Gross NPA signifies a loan that is deemed unrecoverable, requiring the bank to allocate provisions." and that is still present in the bank's financial records.

Gross NPA ratio= (Gross NPA /Gross advances) *100

Provisional Coverage Ratio

Provisions are set aside by businesses in case they are anticipating any losses or unexpected bad loans. Indian banks must create a provision fund to cover their anticipated bad loans, and this is the provision coverage ratio. Banks set aside provisions for bad loans from the bank's own funds, mostly from the profits.

Provision Coverage Ratio (PCR) = Provisions/Gross NPA

Table 1: Non-Performing Assets of UCBs

(At end-March)

Sr. No.	**Items**	**Scheduled UCBs**		**Non-Scheduled UCBs**		**All UCBs**	
		2020-21	2021-22	2020-21	2021-22	2020-21	2021-22
1	2	3	4	5	6	7	8
1	Gross NPAs (₹ crore)	15,047	10,678	22,950	19,794	37,996	30,473
2	Gross NPA Ratio (%)	10.5	7.5	13.4	11.6	12.1	9.7
3	Net NPAs (₹ crore)	5,746	4,116	11,037	8,798	16,783	12,914
4	Net NPA Ratio (%)	4.3	3.0	7.0	5.6	5.8	4.4
	Ideal NPA (as per RBI less than 1% and within 3.8%)	3.8	3.8	3.8	3.8	3.8	3.8
5	Provisioning (₹ crore)	9,537	6,983	12,848	12,179	22,385	19,162
6	Provisioning Coverage Ratio (%)	63.4	65.4	56.0	61.5	58.9	62.9
	Good PCR (%) (70%+ indicate the good financial health of banking and other FII)	70	70	70	70	70	70

Note: Data for 2021-22 are provisional.

Analysis

The NPA % of UCB is are very compared to the standard NPA prescribed by RBI i,e. they are ranging from less than 1% to 3.8% but where it has been observed from the above table that NPA % is 4.3, 3.0,7.0,5.6,5.8,4.4 which indicates banks failure in the recovery of loans.

Interpretation

The table indicates the value of Gross Non-Performing Assets of co-operative Bank has been fluctuating over the years which is comparatively above the acceptable NPA and it's important for the bank to closely monitor and manage its Non-Performing Assets to ensure financial stability and sustainability. High NPA levels can negatively affect a bank's profitability and capital adequacy, which can be proved by the provisioning coverage ratio which is less than 70%, tells us that the bank is at risk and the asset quality is not taken care of and clear indication that the bank is not strong enough to withstand NPAs.

Financial Performance and Profitability

Table 2: Financial Performance of Scheduled and Non-scheduled Urban Co-operative Banks

(Amount in ₹ crore)

Item	**Scheduled UCBs**		**Non-scheduled UCBs**		**All UCBs**		**All UCBs Variation (%)**
	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2021-22
1	2	3	4	5	6	7	8
A. Total Income [i+ii]	22,301	20,743	30,148	29,879	52,449	50,622	-3.5
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	
i. Interest Income	19,463	18,551	27,837	28,022	47,300	46,573	-1.5
	(87.3)	(89.4)	(92.3)	(93.8)	(90.2)	(92.0)	
ii. Non-interest Income	2,838	2,192	2,311	1,857	5,149	4,049	-21.4
	(12.7)	(10.6)	(7.7)	(6.2)	(9.8)	(8.0)	
B. Total Expenditure [i+ii]	18,884	17,017	25,773	24,875	44,657	41,892	-6.2
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	
i. Interest Expenditure	13,503	11,398	18,613	17,311	32,116	28,709	-10.6
	(71.5)	(67.0)	(72.2)	(69.6)	(71.9)	(68.5)	
ii. Non-interest Expenditure	5,381	5,619	7,160	7,565	12,541	13,183	5.1
	(28.5)	(33.0)	(27.8)	(30.4)	(28.1)	(31.5)	
of which: Staff Expenses	2,745	2,876	3,923	4,144	6,668	7,020	5.3
C. Profits							
i. Amount of Operating Profits	3,417	3,727	4,375	5,004	7,792	8,730	12.0
ii. Provision, Contingencies	2,242	1,921	2,584	2,805	4,826	4,726	-2.1
Provision% out of operating profits	65.61	51.54	59.06	56.05	61.93	51.13	-17.5
iii. Provision for taxes	597	306	811	817	1,408	1,124	-20.2
iv. Amount of Net Profit before Taxes	1,175	1,805	1,791	2,199	2,966	4,004	35.0
v. Amount of Net Profit after Taxes	578	1,499	980	1,382	1,558	2,881	85.0

Notes: 1. Data for 2021-22 are provisional.
2. Components may not add up to the total due to rounding off.
3. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ crore.
4. Figures in parentheses are proportion to total income/expenditure (in per cent). Source: Off-site surveillance returns, RBI.

Analysis

The above table indicates that the major portion of the operating profit has been i,e. 65.61,51.54,59.06,61.93,51.13 has been utilized for creating a provision and contingencies and ending up with less profit

Interpretation

The above table indicates that the major portion of operating profit i,e. more than 50% has kept for meeting the unrecovered loans, bad debts, and other unrealized loans. As per the RBI rule banks have a provision of maintaining 100% provisions and contingencies out of their profit but this has a significant impact on the profitability of the banks, which in turn can lose the confidence of the stakeholder and negative impact on the market value of the banks.

Table 3: Select Profitability Indicators of UCBs

(Percent)

Indicators	**Scheduled UCBs**		**Non-Scheduled UCBs**		**All UCBs**	
	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22
1	2	3	4	5	6	7
Return on Assets	0.19	0.50	0.28	0.38	0.24	0.43
Return on Equity	2.94	6.88	3.22	4.21	3.11	5.27
Net Interest Margin	2.01	2.39	2.67	2.94	2.36	2.69

Note: Data for 2021-22 are provisional.
Source: Off-site surveillance returns, RBI.

Analysis

The table provides the details of profitability indicators of the Cooperative banks in India. Where in ROA 5% TO 10% is considered as good and more than 20 % is considered excellent in the above table ROA comes under the category of excellent, which indicates banks' assets are performing well in the market. ROE 15% to 20% is considered as good and more than 20 % is excellent, but though the ROA is excellent ROE is very low that is less than 5 % which depicts the bank's failure for the recovery of loans and default interest payments.Net margin for banking sector 5 % is considered as low 10 % and more than 20% is excellent in the above table Net interest margin is less than 5% which talks about the loss due to the presence of NPA.

Interpretation

ROA, ROE, and Net interest margin are the major indicators of the financial health of the banking institutions, In the analysis it has been noticed that the loans in the priority sector and rural, urban areas banks achieved success in catering to the diversified credit facilities and helps the capital creation for the agro-based industries but the banks fails to make good profit out of this services due to the predominant presence of NPA.

CONCLUSION

The study accepts the H1: The level of NPAs has a significant impact on the profitability and growth of Co-operative banks here are some important factors to think about while concluding NPAs. The financial health of the financial institutions and their strategies for managing credit risk is a key factor for NPA analysis. This demonstrates the impact of NPAs on banks. The bank's profitability reflects the sound financial planning of banks but the low net interest margin declares the failure of recovery management. Banks may increase operations, profit, and customer service but if fail to address the issues of non-performing assets (NPA) management and recovery strategies, then in the long run the banking institutions cannot sustain in the market. RBI has identified some of the key contributors to NPA in the Indian banking system and brought the reforms to minimize the NPA percentage so that the banking system help to channel the savings into capital and help the growth of industries of different sectors to contribute for the growth of the country.

NPA influences the financial institution's profitability and country's economic growth adversely. It needs to be managed for the stability of our economy. Despite many regulations and guidelines issued by RBI to minimize the NPA in banking sectors still many financial institutions and co-operative societies have failed to follow the guidelines and recently many cooperative societies have lost the license to deal with banking activities due to the high NPA. Banks initiated transparent recognition, reclassifying standard restructured advances as NPAs and providing for expected losses on such advances.

Increase in NPAs led to additional provisioning, which affected the profitability of banks, and several PSBs were brought under the prompt corrective action (PCA) framework of RBI. The Minister stated that the Government implemented a comprehensive 4R strategy of Recognising NPAs transparently, Resolution and Recovery, Recapitalising PSBs, and Reforms in the financial ecosystem. Major banking reforms undertaken by the Government over the last eight years addressed credit discipline, responsible lending, and improved governance, besides the adoption of technology, amalgamation of banks, and maintaining general confidence of bankers and promising high profitability and sustainable growth for the banking sector in India.

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