CHAPTER - I
THE DESIGN AND EXECUTION OF THE STUDY

1.1 Introduction

The Banking Institutions are the intermediaries between the depositors and the borrowers. They accept deposits and lend money both for productive and consumption purposes. As the capital formation depends on the mobilization of savings, banks have the moral responsibility over the funds that they pool from outsiders. On the other hand, the borrowers have the responsibility for the repayment of loan together with interest for the smooth functioning of banks (IIB: 1998, p.540). The financial stability of banks has a direct bearing to the extent of collection of loans before they become overdue. If the overdue are not kept under control, they will have a crippling effect of curtailing the ability of the banks to recycle the funds and expand their business (TN: 2005-06, p.21).

In India, the Financial Sector Reforms was started in 1992. As part of reform, Prudential Accounting Norms have been introduced in Commercial Banks (1992-93), in Regional Rural Banks (1995-96) and in Cooperative Banks in the year (1996-97) (Table. 1.1). These norms have brought structural changes in Indian Banking System. The Prudential Accounting Norms consists of Capital Adequacy, Income Reorganization, Asset Classification and Provisioning which are based on the understanding that a proper system of Income Recognition and Provisioning is fundamental to the preservation of strength and stability of the banking system. With the introduction of these norms, there has been a shift from overdue related discipline to Non Performing Assets (NPA) related discipline, which ensures greater transparency in accounting (NABARD: 2001, p.135). NPA means assets, which ceases to generate income for a bank. High level of NPAs is an indication of poor credit management. The rise in NPAs has become the
burning issue and the threatening factor to the banking institutions in general and Cooperative Banking System in particular.

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Introduction of the Prudential Norms

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Cooperatives Banks played an important role in the socio-economic development of rural masses. A small beginning was made with the enactment of first Cooperative Credit Societies Act in 1904 and now the cooperative system has completed a century. At present, there are more than 5.49 lakh cooperative societies functioning with the membership of 22.95 crore (NCUI: 2004, p. 15) and deeply penetrated in the rural economy. The Short term and Long-term Cooperative Banking Structure met the demand for agriculture and allied agriculture credit needs of the farmers in India. The short-term Cooperative Banking Structure consisted of 30 State Cooperative Banks (SCBs) at the State level, 367 District Central Cooperative Banks (DCCBs) at the District level, and 93816 Primary Agriculture Cooperative Societies / Banks (PACBs) at the village level. The All India Federation of SCBs is
functioning at Mumbai as an advocacy body (The structure is not uniform across the country See Annexure-1.1). Here, the DCCBs being the middle tier between SCBs and PACBs, occupied a position of strategic importance (RBI: 1980, p.17).

Tamilnadu has the privilege of being pioneer in cooperative movement in the country because of the opening up of a first village Cooperative Credit Society in Thiroor in Thiruvallore District in 1904 which marked the advent of Cooperative Movement in Tamilnadu. The Short-term Cooperative Banking Structure consisted of a three-tier structure comprising the Tamilnadu State Apex Cooperative Bank at the State level, 23 District Central Cooperative Banks with 722 branches at the district level and 4497 Primary Agricultural Cooperative Banks. This structure meets the credit needs of the farmers living in 16317 villages (NABARD: 2005-06, p. 17). The DCCBs were financing the PACBs from their own resources and also by availing credit from the National Bank for Agriculture and Rural Development (NABARD) through the apex bank for agricultural and non-agricultural purposes. They also extended credit facilities to Primary Handloom Weavers Cooperative Societies, Spinning Mills and other Cooperative Institutions at the district level by availing credit form the NABARD through the apex bank. These banks also sanctioned loans for non-agricultural purposes such as purchase of lorries and buses, bulldozers, earthmovers, construction purpose, establishment of clinic/service centers by Doctors/Engineers and educational loans for pursuing Professional courses. (TN: 2006-07, p.3). The sample list of on lending and direct lending is given in table - 3.3 and 3.4, respectively.

1.2 Statement of the problem

NPAs, as a syndrome, though not new to the Cooperative Banking Structure, had been causing trouble and confusion during the recent past. Because, NPAs as the percentage to total recoverable funds acted as a
constraint on the efficiency of the lending institution and their capacity to borrow funds and lend to agriculture and rural development. At all India level, the total loan issued by District Central Cooperative Banks (DCCBs) during the year 1950-51 was Rs. 83 crore (Sinha, S.K: 1998, p. 119). This has increased over the years and stood at Rs.81025 crore during the year 2005-06 (NABARD: 2005-06, p.84). Though the quantum of loans increased over the years, the malady of cooperative credit i.e., the NPAs had deeply rooted into the system and blocked the flow of credit to agriculture and rural development. Inordinate delay in recovery of loan builds up NPAs, and affected the financial health of Cooperative Banks.

The Committee on Banking Sector Reforms reported that funds blocked in NPAs increase the cost of financial intermediation as banks resort to raising deposits and borrowings at a higher cost (GOI: 1998, p.35). This has an adverse impact on the profitability of the banks both in short and long run. So, Reserve Bank of India (1999) in its report on NPAs stated that reduction in NPAs should be treated as a national priority (www.rbi.org.in).

In India, the total overdue of DCCBs during 1996-97 was Rs. 7802.83 crore which has increased over the years and stood at Rs. 18024.79 crore in the year 2004-05. This was around 32.8 per cent to the total loan demand (NAFSCOB: 2004-05, p.1). Consequently, the total NPAs were Rs.5223.85 crore which constituted 19.70 per cent of total loans and advances outstanding as on 1996-97. This has increased over the years and stood at Rs.17825.5 crore constituting 22.0 per cent (NABARD: 2005-06, p.84). Still a large number of DCCBs had NPAs ranging between 8 per cent to 20 per cent of net advances. The Committee on Banking Sector Reforms (GOI: 1998, p.22&24) has underlined the need to reduce the average level of net NPAs for all banks to below 5 per cent by the year 2002 and also pointed out that no other single indicator reflects the status of quality of assets and its impact on banks.
viability than the figure of net NPAs\(^3\) in relation to advances. National Bank for Agricultural and Rural Development’s (NABARD) Annual Report (2005-06.p.l01) showed that the non-complying with Section 11(1) of the Banking Regulation Act 1949 (As Applicable to Cooperative Societies) by the number of DCCBs as on 31\(^{st}\) March 2006 had increased to 136 as compared to 58 as on 31\(^{st}\) March 1997. The total erosion in the value of assets of these 136 DCCBs was aggregated to Rs.1 1784.26 crore, while erosion in deposits of these DCCBs was to the extent of Rs.3972.44 crore forming 86.65 and 29.10 per cent of the erosion in the value of assets and deposits respectively during the year 2005-06. Further, the accumulated losses had also increased from Rs.1758 crore in the year 1996-97 to Rs.5209 crore in the year 2005-06 (NABARD: 2005-06, p.85). There was substantial increase in loss incurred by DCCBs in the State of Maharashtra (267.54 crore), Tamilnadu (132.90 crore), Madhya Pradesh (72.02 crore), Karnataka (71.08 crore) and Gujarat (62.96 crore).

The position of overdue was more at DCCBs level in Tamilnadu also. There were 23 DCCBs functioning in Tamilnadu. Overdue position at these DCCBs level had increased from Rs378.55 crore in 1996-97 to 1527.48 crore in 2005-06. Also, the percentage of overdue to demand increased from 23.16 to 29.86 (TNSCB: 2005-06, p. 144). Consequently, the problem of NPAs also increased from Rs. 432.97 crore in 1996-97 to Rs 1934.08 crore in 2005-06, which constituted 22.07 per cent to total loans and advances. During the year 2005-06, the Dharmapuri DCCB had 66.7 per cent of gross NPAs\(^4\) followed by the Madurai DCCB at 43.9 per cent. It has been observed that NPAs in absolute terms was increasing in DCCBs (Annexure-1.2).

In Tamilnadu, till the adoption of the prudential norms, twenty-one out of twenty three DCCBs were reporting profit. After the adoption of prudential norms two DCCBs viz.,Thanjavur and Kanyakumari incurred loss during the
year 1996-97. In the year 2005-06, 13 DCCBs incurred loss to the tune of Rs. 5579.78 lakh. The Dharmapuri DCCB was one of the licensed banks occupying the top position in the list, by virtue of having incurred the highest accumulated loss of Rs. 14507 lakh as on 31st March 2005-06. The precarious finance position of these banks was evident from the fact that, ten DCCBs in Tamilnadu viz., Nilgiris, Thanjavur, Sivagangai, Tirunelveli, Viradunagar, Dharmapuri, Thoothukudi, Ramanathapuam, Kumbakonam and Dindigul had been identified as non complying with provisions of Section 11(1) of the Banking Regulation Act 1949 (As Applicable to Cooperative Societies) (BR Act 1949 (AACS)) whose net worth eroded to the extent of Rs.16575 lakh as on 31st March 2006. Hence the survival of the banks depends very much on the speedy recovery of NPAs. In this scenario, it is the need of the hour to enquire: What is the trend and pattern of NPAs in DCCBs in Tamilnadu?, What is the impact of NPAs on the profitability of the DCCBs?, What is the extent of erosion in assets of DCCBs due to the mounting NPAs in TamilNadu?, What are the causes for NPAs? and What are the measures to overcome the problem of NPAs at micro level? These and such other issues need to be studied in detail so as to overcome the problem of the NPAs.

1.3 Review of Literature

The nature and extent of NPAs in Indian Banks in general and Cooperative Bank in particular have attracted considerable research attention during the past. The research studies conducted by the Government of India, RBI, NABARD, State Governments and individual researchers have covered various dimensions of causes and impact of NPAs. Some of these studies are reviewed here under in two broad categories viz., Overdue and Non Performing Assets.

1.3.1 Overdue

The All India Rural Credit Survey Committee (1954, p.62) found that defective lending policies were the causes for poor repayment and consequent
overdue at institutional level. The All India Rural Credit Review Committee (1969) which studied the progress of the cooperative movement after 1954, stated that overdue were a common problem both in developed and underdeveloped areas and found that the bulk of the overdue were caused by big farmers (RBI: 1969,p.553).

The first official and comprehensive study on overdue was conducted by RBI’s Study Team on Overdues (1974,p. 14) which found that faulty lending policies, failure to link credit with marketing, lack of will on the part of management to take strong action against recalcitrant and willful defaulters, lack of financial discipline, apathetic attitude of some of the State Governments towards creating an environment conducive and congenial to the repayment of dues were the causes for overdue. The CRAFICARD (1980,p.67) while endorsing the findings of the Study Team on Overdues found that failure to tie up lending with development programmes and want of a sense of a discipline and responsibility among the loanees with regard to prompt repayment of debts were the important causes among others for overdue.

RBI (1989, p.214) identified that high overdue had affected the ability of the DCCBs in availing adequate refinance from higher financing agencies. Bhaskar, G. et al. (1994, p. 142) indicated that lack of prompt action against willful defaulters and general slackness in the efforts to recover the loans was the reasons for the mounting of overdue. Ramachandra Reddy. D and Ramakrishna Reddy. M (1995, p.47) found that overdue to outstanding were higher than overdue to demand in the sample societies in Andhra Pradesh just as in the case of the State and National level. Kalia, S.K. (1997, p.31) identified that apart from the defective loan policies and procedures, other factors such as in fructuous investments, non realization of anticipated level of return, willful defaulters, defective legal framework, government interferences etc, had also contributed for the mounting of overdue.
Chakraborty, B. (1998, p.27) found that weak marketing system and poor procurement price to the farmers were the reasons for high overdue in the selected PACS and it has adversely affected the financial health of the Nodia DCCB. Veeresh, D. (1996, p.438) pointed out that the anticipation of the loan wavier scheme had been the prime reason for default. This trend was found due to false statements made by the politicians in their election campaign with the intention to take an election advantage from the rural poor. So this sort of misguidance of politicians encouraged the beneficiaries to become willful defaulters.

Puhazhendhi and Jayaraman (1999, p.18) identified that non-repayment of rural loans and accumulation of overdue was realized to be associated with the high transaction costs for funds coupled with lower financial margins. The study conducted by Ranjit Kumar Das (2002, p.9) indicated that every additional advances of Rs.1 would cause an overdue of Rs.0.49 per branch and Rs.0.58 per account of the bank.

GOI (2004, p.57) pointed out the clearing balance sheet of PACS would automatically reduce the accumulated loss of the DCCBs. National Commission on Farmers (2006,p.391) stated that the Government of India’s loan waiver schemes greatly aggravated the weak credit discipline and erosion in financial health. The State Governments had also been announcing waivers (sometimes interest wavier and some time partial loan write offs), which further undermines the credit discipline and also sometimes informal instructions were also conveyed to go slow on recovery of loans.

13.2 Non Performing Assets

found that the formation of agriculturists association, influence of the big farmers, anticipation or hope of write of loans, political patronage, mass exemption of loans, excessive political interference in the day-to-day functioning of credit institutions, etc. had polluted loan repayment climate resulting in mounting overdue.

Ramachandran, R.S. and Kaveri, V.S. (1993, p.221) in their study observed the deficiencies in bank systems and practices to deal with NPAs in detail: (a) appraisal of a credit proposal from an industrial unit was done without looking into the industry’s problem and prospects, (b) managerial competence of the borrower was given less consideration while examining the credit proposals, (c) documents were found to be not in order, hence recovery of advances through the court of law creates problems, (d) for the purpose of follow up, the required data such as performance, conduct of the cash credit facility, position of securities, current ration were not available at one place, consequently follow up was not effective, and (e) compromise proposals were not handled on objective basis and delays were also observed in dealing with the court matters. Kaveri, V.S. (1994, p.77) explained the inter-relationship of assets and liabilities of public sector banks. While the ratio of investments to total assets witnessed a rise, the ratio of advances to the assets showed a marginal fall due to the fear of non-performing advances.

The Committee on Banking Sector Reforms (1998, p.59) observed that the poor implementation of subsidy linked Government programmes, vitiated credit culture, coupled with organizational inadequacies in the Rural Financial Institutions (RFIs) priority sector lending had resulted in higher NPAs. Chakraborty, B. (1998, p.27) found that weak financial position of the PACBs contributed more NPAs in DCCB level because the strength of the DCCB was depending upon the financial strength of the PACBs.
Rajaraman and others (1999, p.768) attempted to examine NPA variations across Indian Commercial Banks. Their findings showed that the bank specific characteristics such as ownership or adherence to prudential norms do not suffice to explain the bank variations in NPAs. RBI (1989, p.917) stated that the higher proportion of NPAs in priority sector advances was attributed due to the directed and pre approved nature of loans sanctioned under sponsored programmes, absence of any security, lack of effective follow up due to large number of accounts, legal recovery measures being considered not cost effective, vitiation of repayment culture consequent to loan waiver scheme etc.

Siddqi, A.Q., et.al.,(1999, p.914) conducted a study which revealed that about 800 top NPA loans in 17 commercial banks and reported that the diversion of funds, expansion, diversification, modernization or promoting sister concerns etc., were the single most prominent reasons for the growth of NPAs. Bhaskaran, R. & Praful Josh (2000, p.XXIX) revealed that the priority sector advances of public sector commercial banks constituted only 43.5 per cent of the net bank credit during the year 1999, whereas the loan portfolio of RFI's consisted predominantly of priority sector advances. Thus, cooperatives unlike the commercial banks lack the balancing factor in their loan portfolio, which can possibly take care of the pressure on viability of operations emanating from the high level of NPAs in priority sector advances.

Kumar (2000, p.856) analyzed the trends of NPAs in RRB at all India level through the classification of loan assets and size of NPAs. This study pointed out that the percentage of gross NPAs at all India level, though declined over the periods, remained at a very high level (28 percentage) at the end of March 1999. Report on the Advisory Committee on Flow of Credit to Agricultural and Related Activities (Vyas Committee) indicated that current prudential norms track defaults not only to a specific loan account, but also to
a borrower. If any one-loan account of a borrower is classified as NPA, all other loans given to the same borrower either in the same Financial Institutions or in different Financial Institutions were automatically classified as NPA, even if they are regularly repaid (RBI: 2001, p.57).

The study conducted by Deepak Shah (2001, p.5) revealed that declining share of net worth had caused an increase in debt assets ratio whereas the return on assets had shown a drastic fall of Buldana DCCB during the study period. Rajendra Singh (2001, p.29) revealed that the most crucial reason for the increase in the NPAs was the dilapidated and defaulter friendly legal system. Vidwans, H.P. (2001, p.19) pointed out that irregularities were rectified but irregular practices continue. Weakness in credit appraisal and credit monitoring had been identified as the major reasons for the NPAs. Vidwans, H.P. and Kaveri, V.S. (2001, p.39) reported that higher level of NPAs had been reduced in the sample Urban Cooperative Bank situated in Maharashtra by exercising effective measures. Recovery cells headed by executives, constant monitoring of top management,visit by senior executives to the branches on a weekly basis, involving every staff members in the recovery drive were the measures adopted by the sample bank with regard to the reduction of NPAs.

Pagaria M.L & Ram Jass Yadev (2002, p.27) in their study revealed that the share of NPAs in loans and advances under Government sponsored programmes had increased from the level of 31 per cent in 1995 to 39 per cent in 1998 which led to higher provisioning and it affected the profitability of the banks severely.

Jain, B.K. (2002, p.13.1) indicated that the low recovery of loans and advances forced the bank to make provision for NPAs and overdue interest, which adversely affected banks profitability. Mathur, K.B.L (2002, p.2252) pointed out that weak and lengthy legal process was the main reason for
mounting NPAs among the public sector banks in India. Abhiman Das (2002, p.444) pointed out that credit risk management involves controlling adverse selection problem by screening loan applicants as well as tackling moral hazard problems through closer and continuous loan monitoring. The cost of controlling credit risk might increase with the level of risk exposure due to monitoring and hedging costs, implying a positive relation between net non performing assets and productivity.

Indira Rajaraman and Garima Vasishtha (2002, p.434) found that poor operating efficiency was the main reason for higher NPAs. Mohan Reddy et al., (2002, p.14) observed that the NPAs tended to rise in urban branches as against a decline in rural branches. The highest percentage of NPAs to total advances was noticed in Galiyerugulla branch while the lowest in Noonepalle branch of Rayalaseema Grameena Bank, Andhra Pradesh.

A study conducted by Ashok Gulati and Seema Bathla (2002, p.9) found that deterioration in the recovery of loan resulted in the increase in default rate. On the other hand, a continuous increase in the overdue, thus, inhibited the capacity of the lending institutions to raise resources, impinge upon recycling of funds and shake the confidence of the depositors. The study also pointed out that natural calamities, inadequate income generation, Government policy of lending at subsidized rate of interest and waiving of loans of many occasions, high transactions cost, complicate lending and provisioning of NPAs were some of the major factors behind a high growth of overdue / NPAs of Rural Financial Institutions. Muniappan, G.P. (2002) stated that one of the most important causes for NPAs was the slackness on the part of the credit management staff in their follow up to detect and prevent diversion of funds in the post disbursement stage.

Debrata Das (2002, p.35) revealed that at all India level, the aggregate NPAs of SCBs were estimated at Rs.2443 crore as against Rs.1647.38 crore
as on March 1997, with an increase of 48 per cent over the previous year; of
the total, 8 SCBs had lower level of NPAs, whereas 12 other SCBs had level
of NPAs between 20 to 50 per cent of their loan and advances. Especially, all
SCBs in North Eastern States were having a very high level of NPAs (20 to 50
per cent). Misra, T.P. (2003, p. 15) pointed out the professional approach was
recommended in dealings with the NPA portfolio to achieve the international
standards. 50 per cent of DCCBs had a recovery level of less than 60 per cent
of the demand. The increase in NPA was high i.e., more than Rs.100 crore
especially in three states viz., Maharashtra, Andhra Pradesh and Karnataka.

Malyadri, P. & Sirisha, S. (2003, p.8) found that ignorance of credit
risk, assumption risk, commercial risk led to creation of future risk at post
sanction stage. Further lack of norms and procedures and overlooking
operational irregularities led to the creation of NPAs. Anil Suryawanshi
(2003, p.18) revealed that MT loans and LT loans, constituted the highest
percentage of NPAs. It was quite serious that the percentage increase in NPAs
in case of ST Agricultural loans and LT loans was two fold while it was 7 fold
in cash of cash credit loans.

Santi Gopal Maj and Soma Dey (2003, p.206) pointed out that the
higher portion of NPAs in unsecured loans was the most prominent reason for
the high level of NPAs in Khatra Peoples Cooperative Bank. The study
conducted on the NFS loan (Ravichandran, K. 2003, p. 17) found that the
problem of overdue and NPA was neutral to the banks because of this, there
was probability of every new loan for agricultural purposes becoming overdue
and every new member becoming defaulter to the banks. Sudarsana Reddy, G.
(2004, p.19) indicated that the percentage of standard assets to total advances
of public sector banks increased from 84.1 per cent in 1999 to 88.9 per cent by
the end of the year 2003, indicating that banks had succeeded in reducing
NPAs, and reducing sub-standard assets.
Ramachandra Reddy. B et.al., (2004, p.225) conducted a study which revealed that due to introduction of the prudential norms, the cooperative banks have to face additional burden by creating more provisions for management of NPAs. During the year 1999-2000 Cuddapah DCCB had an additional burden of 24.04 per cent because of the adoption of prudential norms. The continuous increase in the provision would have an adverse effect on the profitability of the banks. The Study conducted by Mohan Reddy,P. & Narayana Reddy,D.L. (2004, p.255) identified that the level of NPA was higher in case of crop loans, agricultural term loans and demand loans than in respect of jewel loans, staff loans and SRTO loans in the Rayalaseema Grameen Bank.

The study conducted by the Karunakaran, K. (2004, p.126) pointed out that the net NPAs does not include collateralized loans and advances. Therefore, the net NPA position of the Indian financial system was likely to be somewhat lower than actual. The study conducted by Gopalakrishnan. T.V (2005, p.98) identified the causes for NPAs at public sector banks as lack of supervision and follow up by top management, deficiency in credit appraisal by middle management, willful defaulter, diversion of funds, etc.,

Rajiv Ranjan and Sarat Chandra Dhal (2005, p.24) attempted an empirical analysis on the non-performing loan of public sector banks in India. They found that the changes in the cost of credit in terms of expectation of higher interest rate induce increase in NPAs. NABARD (Department of Supervision: 2005) conducted a study which revealed that the assessment of NPAs by the bank and inspecting officers were at divergence in 85 per cent cases and also there were shortfalls in provisions in 13 out of 20 DCCBs studied. This confined the fact that deficiencies in assets classification persisted in majority of the banks.
Task Force on Revival of Cooperative Credit Institutions (Vidyanathan Committee) reported that the reason for the losses could be traced out mainly at the overall business levels and poor recovery position of each of the tiers. The recovery percentages for the Cooperative System as a whole had been low continuously, making the system unsustainable without external injection of resources (GOI: 2004, p.35).

National Commission on Farmers (2006,p.392) identified the reasons for deterioration of financial health of DCCBs viz., the cumulative impact of political interference, write offs, poor credit discipline, lack of professionalism in management, heavy dependence on higher financing agency for resources, certain sectoral issues and operational constraints which cause most of the primary credit societies running into losses. Sudipta Ghosh (2006,p.157) conducted a study that found that the doubtful assets had steadily increased during the study period which indicated the inefficiency of the banks to collect the loans and advances at the initial stage of NPAs.

The above studies found various causes for the growth of overdue and NPAs in banks. Majority of the studies were conducted on commercial banks. Very limited studies were conducted on the problem of NPAs in DCCBs, especially after the introduction of prudential norms. These studies also were unable to identify the magnitude of the problem and the factors that led to the weak financial health of the DCCBs. The existence of DCCBs has certain strategic importance in the STCCS. Hence, the increasing trend in NPAs at DCCBs level should studied periodically so as to address the problem with new strategies.

Further, in the pursuit of maintaining consistency and continuity, there is a dire need for regular surveys so that it is possible to outline the existing gaps and future studies pursued accordingly (Goel G.B: 1997, p.89). By bearing this in mind, the researcher intents to fill the above said gaps in this
study which picturises the trend, extent, causes and impact of NPAs at all India level, State level and sample DCCBs level with a conceptual framework on NPAs.

1.4 Objectives of the study

The study contains the following objectives.

1. To study the business performance of DCCBs at National and State level.

2. To analyse the level and extent of NPAs in DCCBs at the National and State level.

3. To examine the level and extent of NPAs in the sample DCCBs in Tamilnadu

4. To analyse the causes and impact of NPAs in sample DCCBs in Tamilnadu and

5. To suggest suitable measures to reduce the NPAs of sample DCCBs.

1.5 Hypotheses

The following hypotheses have been framed for this study.

- Higher the level of loans and advances, higher will be the level of NPAs.
- When NPA increases, the standard assets decrease and vice versa.
- Recovery performance is inversely related to the level of NPAs.
- NPAs affect the profitability of DCCBs.
1.6 Definitions of the Concepts Used

1.6.1 Bad debt

A debt that is difficult to collect.

1.6.2 Balance

The term balance means the difference between demand for the year and total collection received during the year both the principal and interest.

1.6.3 Conversion

The process of converting crop loan which is a short-term loan in to medium term loan in case crop failure, so as to postpone the demand for recovery. Medium Term loans are also converted during the time of natural calamities.

1.6.4 Credit

Credit or Loan is defined as a temporary transfer of funds, which forms a contract for the future delivery of money by the borrower to the lender.

1.6.5 Credit risk

Credit risk means the possibility that a borrower or counter party will fail to meet their obligations in accordance with the agreed terms.

1.6.6 Current Viability

The ability of the Cooperative Institutions to meet the cost of management and the incremental bad debts out of the gross financial margin available in a position to earn reasonable profit.

1.6.7 Demand

Demand means the loan installment with interest falling due for recovery on particular date.

1.6.8 District Central Cooperative Bank

District Central Cooperative Bank means the principal cooperative society in the District in a State, the primary object of which is financing other cooperative societies in that district.
1.6.9 Doubtful Asset

An asset, which has remained overdue for a period exceeding 3 years, should be treated as Doubtful Asset.

1.6.10 Ever greening Account

Ever greening means giving another loan to the borrower with the help of which he can pay the due interest on the original loan in order to avoid classifying loan assets as NPA.

1.6.11 Imbalance

Imbalances are the differences between the amounts shown as outstanding from a borrower in the books of financing banks and the amounts shown as being repayable in the books of the borrowing bank.

1.6.12 Long-term Loan

Long-term credit is generally granted for periods longer than 5 years and extending up to 15 years. Such credit is granted for making permanent improvements on land like reclamation and bonding, sinking of wells, construction of farm houses, cattle sheds, purchase of land and farm machines, etc.

1.6.13 Loss Assets

A loss asset is a credit facility where loss has been identified by the bank/ auditors / RBI/ NABARD Inspectors but the amount has not been write-off wholly or partly.

1.6.14 Medium Term Loan

Loans provided for a period from 3 to 5 years for the purpose of making improvements, purchase of implements, machinery, livestock, etc. are called as medium term loans. These loans are known as term loans or investment loans.
1.6.15 Non-Performing Assets

As per the circular of the RBI RF.BC.28/07.37.02/2000-01 dt. 10.10.2000 Non Performing Asset means “A credit facility in respect of which interest and / or installment of principal has remained overdue for a period of more than 90 days”

1.6.16 Out of Order Account

An Account is treated as out of order if the outstanding balance remains continuously in excess of the sanctioned limit/ drawing power in respect of cash credit/ overdraft facility.

1.6.17 Outstanding

The amounts (Principal + Interest), which remain to be recovered on a particular date by the financing bank.

1.6.18 Overdue

The amount which was due to be paid on a particular date, but has not been repaid by the borrowers.

1.6.19 Paid up Share Capital

It is a part of the issued capital, which is subscribed by the Shareholders.

1.6.20 Performing Loans

A loan which is not overdue for more than 90 days, i.e., a loan which is not classified as Non Performing.

1.6.21 Provisioning

The amount set aside from the profit and loss account for specific purposes to take care of certain future eventuality.

1.6.22 Refinance

Financial assistance extended by institutions like NABARD, SIDBI etc., to the banks for selected activities.
1.6.23 Rephase of loan

The postponement of recovery of the interest or principal due from the borrowers due to certain reasons, usually natural calamities or crop loss, to further date.

1.6.24 Short Term Credit

Short-term credit is granted for a period ranging from 6 to 18 months and is primarily meant to meet seasonal requirements of agriculture such as seeds, fertilizer, insecticides, hiring of labour etc. This credit is also known as seasonal credit or production credit or crop loans. Jewel mortgage loans and pledge loans are also called as short-term credit.

1.6.25 Standard Assets

An asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any signs of impairment nor carry more than normal risk attached to the business.

1.6.26 Sub standard assets

An asset, which has remained overdue for a period not exceeding 3 years, should be treated as Substandard Assets.

1.6.27 Sustainable Viability

The ability to completely wipe off accumulated losses, unrealizable assets and to provide for a bad debt / assets adequately, etc., and to start on a clean and transparent balance sheet.

1.6.28 Working Capital

Working capital refers to the funds required enabling the bank to carry on its operations, without break at the expected level.

1.6.29 Viability

An institution is described as viable if it can generate surplus over its expenses after providing for loss/likely to be loss assets.
1.6.30 Wilful defaulters

A willful defaulter is one who has not used bank funds for the purpose for which it was sanctioned and who has not repaid loans despite having adequate liquidity.

1.7 Methodology

Survey method was followed for this study. Both primary and secondary sources of data were collected by administering a structured and pretested interview schedule. NAFSCOB’S Basic Data on District Central Cooperative Banks, Reports of National Cooperative Union of India, Dossier on Cooperatives, various Reports of NABARD were referred to elicit data and details pertaining to the profile, extent of overdue and NPAs of Financial Institutions functioning at National Level. NABARD State Focus Paper, TNSC Bank’s Annual Report, Potential Linked Credit Plan for sample Districts, Annual and Audit Reports of DCCBs were referred to elicit data regarding the trend of overdue and NPAs at State level and sample DCCBs.

1.8 Sampling technique

Multi stage random sampling technique was followed for the study. In the First Stage, Agro - Climatic Zones were identified. There were three Agro - Climatic Zones in Tamilnadu viz., Southern Plateau & Hills (Zone X), East Coast Plain & Hills (Zone XI) and West Coast & Hills (Zone XII). In the second stage, These Agro Climatic zones have been further divided into Regions depending upon land, irrigation pattern, rainfall distribution, cropping pattern, physical ecological and social characteristics etc. Region I and II have fallen under Zone X, Region III, IV and V under Zone XI, and Region VI and VII under Zone XII. Totally there were 7 regions falling under these three zones. In the third stage, the DCCBs under these regions were listed out. In the fourth stage, one DCCB having highest percentage of NPAs from each Agro - Climatic Region has been purposively selected for an indepth analysis. Hence, seven DCCBs in Tamilnadu have been chosen for this study (Chart-1.1) (Location Map-1.1).
Chart 1.1
Sampling Framework

Tamilnadu

(Agro Climatic Regional Planning of Planning Commission of India) (ACRP)
(Agro Climatic Zones)

Southern Plateau & Hills
(Zone X)

Agro Climatic Regions

Region I

Salem (10.07)
Dharmapuri (28.6)

Region II

Erode (11.80)
Coimbatore (17.7)
Dindigul (11.30)
Madurai (47.1)
Trichy (24.30)
Pudukkotai (15)

Region III

Chennai (1.60)
Kancheepuram (12.44)
Vellore (12.85)
Thiruvannamalai (19.9)
Cuddalore (11.02)
Villupuram (11.02)

Region IV

Thanjavur (40.2)
Kumbakonam (20.40)

Region V

Sivagangai (27)
Virudhunagar (20.9)
Ramanathapuram (47.4)
Thoothukudi (23.56)
Thirunelveli (23.56)

Region VI

Kanyakumari (9.5)

Region VII

Nilgiris (35.7)

Dharmapuri DCCB
Madurai DCCB
Thiruvannamalai DCCB
Thanjavur DCCB
Ramanathapuram DCCB
Kanyakumari DCCB
Nilgiris DCCB

Source: 1. Audit and annual reports of the TNSC Bank – 2003-04
2. NABARD – Tamil Nadu State Focus Paper, Regional Office, Chennai, -2004-05
3. Figures in brackets indicate the Gross NPAs of DCCBs in the year 2003-04.
TAMIL NADU
LOCATION OF THE STUDY AREA
The dependent and independent variables used for the study are given in Box-1.

**Box - 1**

**Dependent and Independent Variables**

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Independent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPA</td>
<td>Share Capital</td>
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<tr>
<td></td>
<td>Reserves</td>
</tr>
<tr>
<td></td>
<td>Deposits</td>
</tr>
<tr>
<td></td>
<td>Borrowings</td>
</tr>
<tr>
<td></td>
<td>Working Capital</td>
</tr>
<tr>
<td></td>
<td>Investment</td>
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<tr>
<td></td>
<td>Loans and advances</td>
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<tr>
<td></td>
<td>Provisions for NPAs</td>
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<tr>
<td></td>
<td>Profit and Loss</td>
</tr>
<tr>
<td></td>
<td>Accumulated Losses</td>
</tr>
<tr>
<td></td>
<td>Standard assets</td>
</tr>
<tr>
<td></td>
<td>Recovery of ST Loans</td>
</tr>
<tr>
<td></td>
<td>Recovery of All Loans</td>
</tr>
</tbody>
</table>

**1.9 Period Covered by the study**

The study covered the period between 1996-97 and 2005-06.

**1.10 Statistical tools and techniques used**

Statistical tools such as Compound Growth Rate, Simple Correlation and Regression Analysis were used to analysis and interpret the data.

Compound Growth Rate was used to know the growth rate of each component in all the sample DCCBs. To estimate the growth rate logarithm of the corresponding variables were linearly regressed over time and antilogarithm of the regression coefficient was computed and then after the subtracting one from it, it was multiplied by 100 to get the percentage.

Simple correction analysis was carried out to find the association between pairs of variables.

Regression is a cause and effect relationship. It can be linear or non-linear. In this study the scatter diagram of each one of the choice variable with out any transformation exhibited linear relationship and hence the analysis was confined with linear multiple regression.
1.11 Limitations of the study

DCCBs with the highest level of NPA have been chosen to identify the impact of NPAs following sampling procedure. But, all the DCCBs were not far away from the problem of NPAs and their consequences. There were no uniform practices followed by the sample DCCBs to prepare the Annual and Audit reports especially the Final Audit Memorandum (FAM) that made the compilation of data difficult. Further, though the concept of NPAs had been introduced to DCCBs as early as 1996-97, it had not been fully understood by the employees. This amounts to variations in the calculations of NPAs and consequent provisioning in all the sample DCCBs. The increasing trend in NPAs affected the profitability and liquidity of the sample DCCBs and four sample DCCBs could not comply with the provisions of Section 11 (1) of BR Act 1949 (AACS). This trend created adverse climate and spoiled the image of these DCCBs among the public. Because of these certain data/ information pertaining to loan account wise NPAs details for the entire study period and continuance of certain bad accounts could not be collected. However, these limitations were obvious and were not allowed to affect the purpose of the study and its logical presentation.

1.12 Chapter Scheme

This study is presented in five chapters viz.,

Chapter 1: The Design and Execution of the Study

Chapter 2: Non-Performing Assets in Short term Cooperative Credit Structure

Chapter 3: Non-Performing Assets in District Central Cooperative Banks in India

Chapter 4: Non-Performing Assets in Sample District Central Cooperative Banks in Tamilnadu

Chapter 5: Findings, Conclusions and Suggestions
Notes

1. In India, the Long-term Cooperative Credit Structure consists of 20 State Cooperative Agriculture and Rural Development Banks (SCARDBs) and 1475 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) as on 31st March 2006. This structure is not uniform across the country (see Annexure-1). This structure had a long history. The first effort to organize The Land Mortgage Banks was made at Jhang, Punjab as early as 1920. Based on the recommendations of AIRCSC 1954 and AIRCRC 1969 the nomenclature of these banks were changed as Primary Land Development Banks. Again during late 1990s, they were named as Primary Agriculture and Rural Development Banks. As far as Tamilnadu is concerned, these banks are functioning with new nomenclature since 15.12.1999 based on the 50th Act of 1999 Published in the Special G.O. of Tamilnadu Government Ms. No.943. The long-term credit structure consists of Tamilnadu Cooperative State Agriculture and Rural Development Bank at the state level and 181 Primary Cooperative Agriculture and Rural Development Banks are functioning at the Taluk / Block level.

2. The Primary Agricultural Cooperative Credit Societies (PACS) are called as Primary Agricultural Cooperative Banks (PACBs) in Tamilnadu with effect from Government Notification - G.O. Ms.No.507, COOPERATION (CCI) DEPARTMENT Dated: 1.9.1987 and Letter No.32651/CG.2/87-l, Dated: 13.5.1989. Though this pattern is not uniform across the country, their functions are similar except accepting deposits from members. They are referred to as PACBs here. The Primary Societies which are functioning in the hilly regions are named as LAMPS. The Primary Societies, which are functioning in plains and involved in multi-activities, are named as FSS.

3. The Net NPAs are obtained from Gross NPAs after deduction of the followings
   > Balances in interest suspense account, i.e., interest due but not received
   > Claims received from credit guarantors and kept in suspense accounts pending final settlements
   > Part payments received and kept suspense accounts; and
   > Total provisions held.

4. Gross NPA is the sum of all loan assets that are classified / declared as NPA as per the RBI Guidelines as on the balance sheet date.
References


41. NCUI (2004), *Basic Data on Cooperatives in India*, New Delhi, p. 15.


52. RBI (1954), *All India Rural Credit Survey Committee*, p.62.

53. RBI (1969), *The All India Rural Credit Review Committee*, p.553.


58. RBI (2001), Report on the Advisory Committee on Flow of Credit to Agricultural and Related Activities, p.57.


70. www.rbi.org.in.