ABSTRACT OF THE THESIS

An effort has been made in the instant project to study and find out various reasons leading to Non Performing Assets (NPA) and ways of Managing NPA in different types of Banks. A comparative study has been made between a commercial Bank and a Co-operative Bank with reference to selected Banks in Pune. Since NPA has been a growing menace in banking, the study may help understanding this concept better and Banks may adopt remedial measures so as to maintain NPA at the minimum level.

The selected Banks in Pune were Bank of Maharashtra from commercial Bank sector and the Janta Sahakari Bank Ltd, Pune from co-operative sector. The findings of the study are presented in the form of thesis which comprises various chapters like:

I  INTRODUCTION
II  GUIDELINES OF NPA
III  PRESENT SCENARIO OF NPA
IV  EFFECT OF NPA
V   REASONS OF NPA
VI  MANAGEMENT OF NPA
VII CONCLUSION AND SUGGESTIONS
CHAPTER I dealt in INTRODUCTION

1.1 After Narasimham Committee recommendations, prudential norms were implemented in Indian Banks with effect from 1992-93 and Banks can only recognise the interest of the Performing assets as their Income. Interest of NPA can not be treated as income unless it is recovered from borrowers. In other words if any advance account turns NPA, then interest earning of the Bank from the captioned account ceases forthwith. As a result the very purpose of lending (ie. to earn interest) gets defeated. Even maintaining NPA accounts in the books of the Bank is a costly proposition. Thus it has been the endeavour of all banks to keep its asset in Performing category. Under such circumstances, Banks having less volume of NPA are treated as more healthy than that of their counter part having more volume of NPA. Therefore, managing NPA has been very crucial and essential for every Bank and hence study of this subject is very important.

1.2 Objectives of Study

Followings are the objectives of the proposed research study:

I. To study concepts of NPA
II. To examine reasons of NPA
III. To examine effect of NPA
IV. To know how different Banks manage NPA
V. To examine procedure of recovery
VI. To examine procedure of rephasing
VII. To examine procedure of managing NPA
VIII. To examine procedure of monitoring performing borrowal accounts
1.3 Hypothesis

Borrowers do borrow to meet cost of fixed assets and current assets for his business, run his enterprise, earn profit and ultimately return the borrowed funds along with interest as per stipulation. However, in some cases this objectives is not fulfilled due to so many reasons leading to borrowers account turning NPA. The followings are the hypothesis of the proposed study:

I. In turning the account from PA to NPA the act of nonfulfilment of obligation by Borrowers is more predominant than that of a banker

II. The occurrence of NPA affects the profitability and financial health of a Bank very adversely.

III. The percentage of NPA is higher in Cooperative Banks

IV. Appraisal is better in Commercial banks

V. Monitoring of Advances is better in Commercial banks

VI. The policies and procedures are better in commercial banks

VII. The management of NPAs in a Commercial banks is better.

1.4 Methodology

The study is an imperical research based on collection of both primery and secondary data. The information relating to details of various aspects of NPA and management of it were collected from different Branches of a selected commercial bank and a cooperative bank.

Survey Method:
The whole study has been pursued on the basis of survey method. For the purpose of micro-level study, Bank of Maharashtra and The Janta Sahakari Bank Ltd have been choosen from the group of Commercial banks and Co-operatives Banks respectively and both are Pune based.
The accounts of minimum 5 branches of each bank were also selected for the study.

The Co-operative banks operate almost in the similar line as commercial banks do. Both the banks extend different types of advances like loans, cash credit and bills facilities etc, and NPA concepts are almost identical for both the banks. For the purpose of better comparison, area approach has been adopted. The branches of the two banks taken for study are from Pune, where both the banks have appreciable exposure.

The borrowers have been selected on random sampling basis. As such, the representation of various types of borrowers is not homogenous one. However, while selecting, efforts have been made to include maximum borrowers from various ranges.

On an average 5 borrowal accounts from each branch, ie 25 borrowal accounts from each Bank have been selected for study. The interview of the selected respondents was done with the help of well designed questionnaire and their replies have been recorded properly. As the main purpose of the study is to study the reasons of NPA and ways of managing NPA, the collection of entire relevant information from both the banks and personal interview of the Branch managers and borrowers were undertaken during the period November 2004 to Sept 2005.

For acquiring detail knowledge through study of various aspects of NPA and management of NPA in both the selected Banks, the concerned Officials selected from these banks were interviewed and their opinions have been recorded, analysed and conclusion is drawn.

1.5 Scope and period of study

Both commercial as well as co-operative banks are operating in this country since long. The concept of prudential norms have been
implemented in India since April 2002. The criteria for treating the defaulting accounts as NPA based on defaulting period has been gradually reduced from time to time. This has made NPA management more challenging a task for Bankers day by day. The scope of this study is not only to bring to the notice of Bankers and policy makers about the prominent reasons responsible for leading the account turning to NPA but also the ways how the borrowal accounts as well as NPA accounts be managed so as to contain the NPA volume of the banks to its minimum with a view to maximize Profit.

The study undertaken pertains to the period from the opening of the selected accounts till date of this study.

1.6 Limitation of study

Inspite of the sincere endeavour made for conducting the study in a very effective and fruitful manner, the study is subjected to the following limitations.

1. Lack of proper record maintained by the borrowers with respect to number instalments in arrear of the loan accounts leading the account turning to NPA.

2. The borrowers are not well aware of the provisions of NPA.

3. What ever feedback received are fully based on memory of the borrowers. However, various cross checks have been made to improve the level of accuracy of information.

4. The treatment of NPA is uniform for all types of borrowers other than agriculture. In a country like India adverse and extreme geographic and environmental conditions are prevalent in different parts of the country. 55% of the national income is generated from agriculture and activities related to it. However, identical treatment of NPA norms are given for all types of activities.
5. It is also observed that in one branch the borrower may have nicely operated account and where as in another branch the account of the same borrower is a NPA one. Lack of technology in branch networking stands as a limiting factor.

6. NPA and its Management is a phenomenon relating to field of Finance, commerce and Human Relation Management which are very much individual related as well as prevailing situation related but our task is to bring a common conclusion.

CHAPTER II dealt in GUIDELINES OF NPA

A Non-performing assets is an advance where
a) interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan,
b) the account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
c) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
d) interest and/or instalment of principal remains overdue for two harvesting seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
e) any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

With a view to moving towards international best practices and to ensure greater transparency, the 90 days 'overdue' norm for identification of NPAs, has been adopted from the year ending March 31, 2004

Banks can not treat interest of the NPA accounts as their income unless the interest is recovered and necessary Provision is required to be made out of the income of the Bank which strains the profit. Hence Banks take all care to monitor the Loan portfolio effectively and ensure that NPA volume is kept at the minimum.
CHAPTER III dealt in PRESENT NPA SCENARIO

The Net NPA percentage is the highest in Old Private sector Banks (3.8%) followed by the Nationalised Bank (3.13%). The lowest is in State Bank of India and its Associate Banks. The percentage is low in case of Foreign Banks.

The two select banks from Pune taken for the purpose of study are Bank of Maharashtra and The Janta Sahakari Bank Ltd from Banks in Commercial and Co-operative Banking sector respectively.

The position of NPA in both the Banks under study are analysed. The percentage of Gross NPA as well as Net NPA of Bank of Maharashtra has been reducing gradually every year. The Gross NPA shows a flexible trend. However the Net NPA has been reducing every year.

The Gross NPA as well as Net NPA of JSB have increased upto the year 2003 and reduced subsequently. The percentage of Gross and Net NPA has been growing from 2001 to 2004 and has come down in 2005 in case of the Janta Sahakari Bank Ltd.

It is revealed from the analysis that the profit of Bank of Maharashtra has been growing till 2004. In 2005 it is reduced due to shrinkage in other income and yield on advances. During the period 2001 to 2005 the Gross NPA has increased by 9.73% over 2001, where as the Provision has increased by 95.76% during the same period which has strained the Profit of the bank.

Effect of NPA on Profit of The Janta Sahakari Bank Ltd is also analysed.
Advances has declined over the years from 2002 to 2005, NPA has grown from 2001 to 2004 and hence profit has come down. Comparative position of Gross NPA indicates that in BOM % of Gross NPA was showing an increasing trend where as in JSB GNPA has been growing year after year and in 2005 it has declined due to better recovery.

As regards Bank of Maharashtra the rate of growth of Advances is faster than the growth of NPA. Therefore growth of profit is observed.

EFFECT ON CRAR

The comparative study of Capital to Risk Weighed Assets ratio (CRAR) of both the Banks indicates that the CRAR of Bank of Maharashtra is improving over the years. The position of Janta Sahakari Bank is declining over the years due to incurring losses for which NPA is responsible.

EFFECT ON IMAGE

Banks are statutorily required to publish their Balance Sheets with detail schedules of NPA position in the News Paper. Higher volume of NPA speaks about unhealthy image of the Bank which affects the business growth.

CHAPTER V dealt in REASONS OF NPA

On going through various ledgers, documents and records of Banks the major reasons contributing the slippage of performing accounts into NPA are as follows:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>External reasons</td>
<td>84%</td>
</tr>
<tr>
<td>Internal reasons</td>
<td>16%</td>
</tr>
</tbody>
</table>
The study of selected Branch Managers and Borrowers in BOM has revealed that reasons like mismanagement, willful defaulter and diversion of funds are exclusive reasons quoted by Banker to which borrowers do not acknowledge. Not getting adequate business and non realization of receivables etc are prominent reasons of NPA as stated by Borrowers.

The study of selected Bankers and borrowers in The Janta Sahakari Bank Ltd has revealed the reasons of NPA that Borrowers do not acknowledge closure of business as one of the reasons to which Bankers state as major reason (15%). Internal dispute contributes 18% from the view of Bankers and 10% from borrowers.

The study of selected Bankers in Bank of Maharashtra and The Janta Sahakari Bank Ltd has revealed that both BOM and JSB have expressed the major reason of NPA is the borrower's not getting expected business after availsment of loan. Closure of business is another major reason leading to NPA. Internal dispute among the owners of the business is a major reason experienced in Co-operative Bank and is very less in Nationalised Bank. Mismanagement and willful defaulting are major reasons for Nationalised Bank and is less experienced in Co-operative Bank.

The study of selected Borrowers of Bank of Maharashtra and The Janta Sahakari Bank Ltd has revealed that Borrowers of both Nationalised and Co-operative Bank have also expressed their opinion that not getting adequate business as expected is major reason for account turning to NPA. Receivables not realized is major reason for Nationalised Bank and is less observed in Co-operative Bank. Competition is stated to be major reason for Co-operative Bank than Nationalised Bank.
Summary of Major Reasons

1. The Exclusive Reasons quoted by Bankers are ‘Mismanagement, Wilful default and Diversion of funds’.
2. The reason of ‘Internal dispute’ is more predominant in Cooperative Banks as expressed by Bankers and Borrowers.
3. ‘Business not run as expected’ is the predominant reason quoted by Bankers and Borrowers.
4. The reason ‘Competition’ is quoted by Borrowers of Co-operative Bank.

CHAPTER VI dealt in MANAGEMENT OF NPA

NPA Management basically aims at managing the Banks with least NPA level which can be achieved by

1. Reducing existing volume of NPA by
   i. Recovery
   ii. Upgradation
   iii. Write off

2. Stoppage of further growth of NPA

3. Increasing credit portfolio

Recovery

There are two major ways of Recovery:

I) Legal

II) Non Legal

Legal Measures comprises

Lokadalat
Securitisation Act
Asper Provisions of Co-operative Society Act
Non Legal measures:

By adopting following measures

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sending of Notices</td>
</tr>
<tr>
<td>2.</td>
<td>Paying Visits</td>
</tr>
<tr>
<td>3.</td>
<td>Pursuation through meetins</td>
</tr>
<tr>
<td>4.</td>
<td>Pursuation through Guarantor</td>
</tr>
<tr>
<td>5.</td>
<td>Applying pressure tactics</td>
</tr>
<tr>
<td>6.</td>
<td>Through Compromise settlement</td>
</tr>
<tr>
<td>7.</td>
<td>Employing Recovery agents</td>
</tr>
<tr>
<td>8.</td>
<td>Conducting Recovery camps</td>
</tr>
<tr>
<td>9.</td>
<td>Prefering Corporate Debt Restructuring(&gt; 20 Cr)</td>
</tr>
</tbody>
</table>

Recovery can be strengthened by One Time Settlement (OTS) and entering into Compromise settlement.

NPA volume can be reduced by Upgradation of the account:

The benefits of upgradation are

I. Reduction of volume of NPA reflecting better Balance sheet position

II. Resumption of application of Interest improving interest income

III. Write back of already made Provision improving profit

NPA management can be done through Rephasement of the borrowal accounts.

Write off: Write off is an exercise adopted by Banks by which non recoverable NPA accounts are removed from book of accounts of a Bank. It helps in better presentation of a clean advances portfolio in the Balance sheet of the Bank.
Management of NPA in Bank of Maharashtra

From the study and survey undertaken in Bank of Maharashtra, it is observed that Bank of Maharashtra is adopting the following measures for Management of NPA:

Recovery: Bankers resort to adopting various ways of Recovery like:
1. Group approach for recovery
2. Arranging exhibition to market Banks product
3. ABC analysis of cases
4. Incentive to staff for making recoveries
5. Outsourcing recovery work
6. Developing Borrower psychology for repayment
7. Compromise settlement

Incentive to Advocates

In Bank of Maharashtra to expedite recovery process fast and to attract involvement of advocates the Bank has devised a policy of granting incentive to the advocates on amount of recovery through their help. The advocates are required to find out the assets of the judgement debtors and get the decree executed fast. 5% of the amount so recovered through execution is given as incentive to the advocate.

Securitisation Act

In Bank of Mahasahtra a Security Enforcement Cell is setup at the Regional Offices. The cell is empowered to take possession of secured assets, its maintenance & disposal. It carries on the process of attachment of property and its subsequent disposal through auction.
Compromise

Bank of Maharashtra has devised the compromise Policy and compromise cases are sanctioned as per the guidelines. The Borrowers get the concession in interest depending on the easiness of recovery worth of Borrowers and guarantors and realizable value of the securities. Through the Policy Bank has delegated powers for sanction to various authorities for speedy disposal.

Write Off of Accounts

Bank of Maharashtra has devised the write off policy based on which write off is considered in NPA accounts. The accounts are written off where
1. prospect of recovery is remote
2. 100% provision has already been made and the account has already remained in loss asset for a period of one year.

Survey outcome reveals the various ways of Managing NPA in Bank of Mahasahtra that BOM adopts measure of suit file in 39% of cases, through pursuasion in 13% cases and through compromise in 14% cases. Bank writes off in 14% of cases.

Management of NPA in The Janta Sahakari Bank Ltd

From the study undertaken it is observed that Delegated Powers for sanction of Loan is comparatively small. The sanctioning power of the Branch Managers depends on scale of Officer ranging from Rs 1 to 10lac. Amount over Rs 10 lac is sanctioned by HO of the Bank. Some pertinent features of the Bank are as follows:
- The Bank is not financing for Direct Agriculture activity.
• NPA identification is done as per 90 days norms applicable for limit of Rs 1 lac and over
• and 180 days norms is for limit below Rs 1 lac
• For Small loan and Gold Loan norm of 180 days is applicable
• No additional finance extended to a NPA Borrower.
• Bank does not consider any Rehabilitation package.
• Under SARFESI Act the Bank has issued 136 notices of which 12 accounts are closed. Response is encouraging
• Total NPA Accounts are 1779 comprising Amount of Rs 407 Crores
• Major Sectors financed by the Bank are: 1. RT/Whole sale
  2. Manufacturing sector and SSI, 3. Personal Loan/Vehicle
• NPA occurrence is less with Traders. The bank is more comfortable with Traders
• The Bank has the experience that Risk of default is more in manufacturing sector and finance to Builders.

Survey out comes reveals various ways of Management of NPA in JSB.
In JSB, filing of suit is preferred in 33% cases followed by securitisation measures in 18% cases. Pursuasion is adopted in 12% cases and Compromise in 12% cases.

From the comparative study it is found that for managing NPA recovery is very important and for effecting such recovery of Banks dues the most common way adopted by Banks is filing of suit. Its incidence is 39% in Bank of Maharashtra whereas 38% in case of The Janta Sahakari Bank Ltd. Through Compromise the recovery is effected to the extent of 14% in Bank of Maharashtra and 12% in Janta Sahakari Bank.

Occurance of Write off is 14% in cases of Bank of Maharashtra and 3% in case of Janta Sahakari Bank.
Management of NPA through Rephasement is in 5% cases in Bank of Maharashtra and that of 3% in case of Janta Sahakari Bank. Through Securitisation Bank of Maharashtra manages 9% of cases where as in Janta Sahakari Bank it is 18%. Pursuasion and followup method is adopted in 12 to 13% cases in both the Banks.

CHAPTER VII dealt in CONCLUSION AND SUGGESTION
Based on the study of NPA Management in both the banks the observations are listed and also Conclusions and suggestions are drawn based on the observation and findings which are described in Table A1

<table>
<thead>
<tr>
<th>Study Observation/Conclusion/suggestions</th>
<th>Study Observations</th>
<th>Conclusion/Suggestion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 The Exclusive Reasons Mismanagement factor can quoted by Bankers are be taken care of if Bankers Mismanagement, Wilful ensures at the time of default and Diversion of sanction of Loan that funds.These reasons are not realised by Borrowers. adequate professional knowledge and skill to manage his business . The psychological and attitudinal state of the borrower should be judged at Appraisal stage so that in later days willful default factor can be minimised. Bankers may consider sanctioning consumption loans to their borrowers so</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

xxvi
that occurrence of diversion of funds or resorting to private borrowings can be minimised.

2 The Bankers opined that Internal dispute contributes 18% in Co-operative Banks and the Borrowers opined that it contributes 10% in Co-operative Banks. In Commercial Bank this is negligible.

3 Bankers as well as Borrowers quote a major reason as "Business not run".

Co-operative Banks work on principle of mutual cooperation. Banker has a role to play as friend philosopher and guide for the borrower. Good liaison with all members of the borrowal unit may minimise internal dispute and cases of default of such nature.

Bankers have to still develop skill of studying the viability of the project in a realistic way before acceptance of future projections submitted by the borrowers. Banker should have a commercial vision for future of the business. State should devise scientific models of various business projects so that this factor can be minimised.
4 The reason ‘Competition’ is contributing 19% as quoted by Borrowers of Co-operative Bank. Co-operative Banks have to takeup the programme for their borrower education to develop capability of encountering challenges of competition in business world.

5 Bankers have opioned A wide scope lies in the that the most common way adopted by them for recovery of NPA dues is by filing of suit in 39% cases in Bank of Maharashtra and 38% in case of Janta Sahakari Bank Ltd. Bankers should try creating a feeling of obligation in the mind of borrowers for payment of Bank dues which is the public money utilised by them. They should feel obliged to repay in time. Legal remedy should be the last resort.

6 Through Compromise the recovery is effected to the extent of 14% cases in Bank of Maharashtra and 12% in Janta Sahakari Bank Ltd. Borrowers have a feeling that through Compromise they get some remission. Though it is advisable in deserving cases, some borrowers who try to escape repaying the justified amount wait for compromise stage which is unfortunate. Through borrower counseling and

xxviii
7 Occurrence of Write off is
Bank of Maharashtra has a
documented Write off
policy. Every Bank should
frame its policy on various
aspects like write off,
compromise etc so that non
recoverable debts can be
cleaned from the Balance
sheet of the Banks. In
Commercial Banks Policy
document is well framed
and the performance is
better.

8 Management of NPA
through Rephasement is
done in 5% cases in Bank
of Maharashtra and that of
3% in case of Janta
Sahakari Bank Ltd

Continuous dialogue and
monitoring of the borrowal
account will indicate the
right time of taking the
recourse of rephasement.
Borrower education on
aspects of NPA may attract
Borrowers cooperation
enabling Bank in
rephasing in eligible
cases.
9 Bank of Maharashtra resorts Securitisation in 9% of cases where as Janta Sahakari Bank in 18% cases for Recovery. Public psychology of Recovery Officer of cooperative banks is deep rooted. Cooperative Bank gets better advantage of attachment of property and gets easy recovery. Government may think of giving identical powers through legislation to Recovery officers of Commercial banks to better their performance.

10 Pursuation and followup method is adopted in 12 to 13% cases in both Banks for recovery. Though banks are pursuing for recovery the result from such persuasion is not remarkable. Through IT intervention, system should be developed to provide information of the account instantaneously and easily to facilitate recovery followup easier.

11 NPA affects profit, image and business growth of the Bank adversely. Banks should monitor their advances portfolio effectively so that slippage to NPA can be minimised.

12 Percentage of NPA is generally more in Co-operative Banks than Commercial Bank. Co-operative Banks have to strengthen their system of Credit Management to curtail NPA which is
In view of the foregoing, the Action points for Banks are suggested as follows.

1. Appraisal by Bankers should be more scientific and objective.
2. The capabilities of the borrowers be well assessed before sanction of loan.
3. The psychological attitude and state of mind of the Borrower be well tested.
4. Bankers may consider sanctioning consumption loans to their borrowers.
5. Cooperative Banks may play the role of friend, philosopher, and guide for the borrower. Good liaison with all members of the borrowal unit may minimize internal dispute and cases of default of such nature.
6. Bankers have to still develop skill of studying the project in a realistic way before acceptance of projections submitted by the borrowers.
7. Cooperative Banks have to take up the programme of borrower education programme to help them withstand competition in business world.
8. Banks should undertake borrower education and motivation programme and try to generate the feeling of obligation in the mind of borrowers to help in repayment.
9. Through borrower counseling regular recovery performance can go up

10. Every Bank should frame its policy on various activities like write off, compromise etc so that non-recoverable debts can be cleaned from the Balance sheet of the Banks in an objective way.

11. Borrower education on Rephasement will help Borrowers to cooperate Banks in process of rephasing in eligible cases.

12. Government to enact legislation to treat at par the Recovery Officers of commercial banks with that of Cooperative Banks.

13. Through IT intervention the system should be fine tuned to provide finer information of the account in an easy manner so that subsequent followup can be made easier and effective.

**Suggested Role ahead for Bankers are**

Role of Banker is very important as regards NPA Management is concerned. Right from the stage of selection of Borrower till repayment of the entire borrowed amount, Banker has to monitor the Borrowal accounts very meticulously. Framing suitable Policies and procedures on various aspects of Credit Management and NPA Management will help Banks in this direction a lot.

**Suggested Role ahead for Government are**

In developed countries like USA a defaulter of a Bank encounters various difficulties at the time of seeking a job, ration goods and renewal of contracts for getting essential services and therefore it indirectly compels him to keep his Bank account operational and healthy. Indian Government should enact similar laws for the general public to maintain Bank accounts healthy and any defaulter of Bank should find his daily going difficult.