Chapter: Two
Review of literature

2.1 Introduction

Review of literature summarized the major conclusions and intention of previous research studies on NPA. The review of literature is extreme important in any research as it offers an explanation for the necessity of the current research initiatives. The asset quality and non-performing assets (NPAs) is debated in many academic literatures across the world. In Indian context, the literature mainly focused on a review of NPA among different bank groups and its management since the post-liberalization period. The review of the literature explains in-depth view on the treatment of NPA in Indian banking sector. In general, studies on NPA had done on Urban Cooperative Banks (UCBs) in Thane district of Maharashtra state in India.

In every developing country there is need of strong banking sector. The cooperative immerse nearly all cent percent villages in India. The cooperative form of organization is the ultimate Organization for economically weaker sections in the country. The disaster of the Co-operative banking sector may have an adverse impact on other sectors. The management of NPA’s in co-operative banks is a really tough challenge and UN manageable task. The observation and analysis of cooperative structure in India resulted into damaging its reputation because of high NPA which effect ultimately the economic development of the state and nation.

Elimination of NPA cannot be done at heavy cost of its appropriation against profit and treating it as expenditure. The present economic culture of the people throughout the world indicates that NPA in urban cooperative banks cannot be removed. It can only be limited. Also it has to be done not at a heavy cost of provisioning and increasing the portfolio of credit. The competence notches of UCBs like Indian banks in general and of the better in particular has improved considerably during the post-reform period. It is suggested by authority like RBI and government for consolidation the Debt Recovery Tribunals (DRTs) to deal with defaulters diligently. Amendments of laws relating to recovery of loans and implementation of new strategies to deal with NPA are
required to be critically evaluated for the betterment of UCBs. In the previous academic studies it is identified that issues like the prospect of maturity of credit, better credit culture, and favorable macroeconomic and business conditions resulted in to lowering NPAs. It indicates that banks in the post liberalization period are not much differentiated in terms of input or output oriented technical efficiency and cost efficiency in India. Overall academic scenario of NPA is very meaningful and smoothening of the present study.

R Gandhi, 2014. According to R Gandhi, Deputy Governor of RBI, in December 2014 the high level committee constituted by the RBI to re-examine and recommend more efficient working ways for the UCBs sector. The recommendations made by the board had submitted with the board suggested a roadmap on how the UCBs can convert themselves into a universal bank. Whether the NPA of Urban Cooperative Banks (UCBs) is efficiently managed?

2.2 Past Progresses in Co-operative Movement

Cooperative banking is retail and commercial banking organized on a cooperative basis. These institutions take deposits and lend money in most parts of the world. Cooperative banking, as debated here, includes retail banking carried out by credit unions, mutual savings banks, building societies and cooperatives, as well as commercial banking services provided by mutual organizations to cooperative businesses.

Cooperative banks serve an important role in the Indian economy, especially in rural areas. In urban areas, they mainly serve small industry and self-employed workers. They are registered under the Cooperative Societies Act, 1912. They are regulated by the Reserve Bank of India under the Banking Regulation Act, 1949 and Banking Laws (Application to Co-operative Societies) Act, 1965. Anyonya Sahakari Mandal, established in 1889 in the Gujrat at Baroda, which was the earliest credit union known cooperative in India. During this span, the performing of co-operative societies Act, 1904, gave real motivation to the co-operative movement. The Act was amended in 1912 with a view to broad basing it to enable organization of non-credit societies. There after Maclagan Committee was appointed in 1915 and said that urban cooperative credit societies are more viable than agricultural credit societies. The Government of India Act
in 1919 transferred the subject of “Cooperation” from Central Government of India to State Governments. In 1925 government of Bombay passed the first State Co-operative Societies Act. In 1931 the Indian Central Banking and Enquiry Committee felt that urban banks have a duty to help small business and middle class people. The Mehta Bhansali Committee in 1939 recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association of these Banks.

During 1946 the Co-operative Planning Committee passed resolution stating that urban banks have been the best agencies for small people for whom joint stock banks are not generally interested. The Rural Banking Enquiry Committee in 1950 impressed by the low cost of establishment and operations and recommended that such banks should be established in plakhs smaller than taluka town. The first study of the Urban Co-operative Banks was taken up by the RBI in the year 1958-59. The report which was published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks emphasized the need to establish primary urban co-operative banks in new centers and suggested that the State Governments lend active support to their development.

In this reference UCBs observed important players. The Working Group on Industrial Financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries. This was reiterated by the Banking Commission (1969). The Madhavdas Committee (1979) evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards.

The Hate Working Group (1981) desired better utilisation of banks' by using their surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the Madhava Rao Committee (1999) focused on
consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks. Over the years, primary (urban) cooperative banks have registered a significant growth in number, size and volume of business handled. As on 31st March, 2003 there were 2,104 UCBs of which 56 were scheduled banks. About 79 percent of these are located in five states.\(^4\)

**Dr. Prashant Ashturkar & Satish Pharate\(^5\) 2016**, Researcher examines the financial data of DNS Bank which knows well UCB in the Thane district. He also recommended bank should avoided to give the loans to Zombie Companies, which are paying only interest instated of regular repayment of their loans. Banks should try to clean its Balance sheet in the sense of improving the financial liquidity of the assets.

### 2.3 Growth of NPA

Earlier studies mainly observed that the failure of the banking sector may have an adverse impact on other sectors. The Indian banking system, which was operating in a closed economy, now faces the challenges of an open economy. On one side a protected environment ensured that banks never needed to develop sophisticated treasury operations and Asset Liability Management skills. On the other side a combination of directed lending and social banking relegated profitability and competitiveness to the background. The net result was unsustainable NPAs and consequently a higher effective cost of banking services.\(^6\) As a result of the new initiatives and sustained efforts by RBI, the number of financially weak banks in the UCB sector declined. Due to consolidation and capital restructuring, the number of UCBs came down from 1770 as at end-March 2008 to 1589 as on March 31, 2014 and further to 1579 by end-March 2015. However, the deposits and advances of urban banks increased from Rs.1398.71 billion and Rs.904.44 billion as of end-March 2008 to Rs. 3155.03 billion and Rs.1996.51 billion, respectively, as on end-March 2014. After 2005 119 UCBs have converted by mergers.

The Indian financial sector has undergone a significant structural transformation since the initiation of financial liberalization during 1990s. A safe and sound financial sector is a pre requisite for sustained growth through the mobilization of financial savings, putting them to productive use and thereby mitigating various risks. India has a well-organized and regulated capital market, in addition to an efficient credit
infrastructure. The evolving role of the Indian financial sector in the functioning of the economy and the growing integration across financial markets is highlighted by the current macro-economic and financial developments. As such, strengthening financial system has been one of the central issues facing emerging markets and developing economies. Under this emerging situation NPA birth time to time in financial institutions.

Dr. Prashant Ashturkar & Satish Pharate, 2016, examines the financial data of Abhinav Cooperative Bank in the Thane district. Studied the financial data and concluded that the bank growth was predominantly by professionals and academicians and it is properly managed by professionals and business community. Overall study shows the financial efficiency, growth and stability as well as profitability of banks.

RBI, 2015 highest increase in gross non-performing assets (NPAs) in percentage terms against total loans in the last fiscal by the UCO bank. It was based on RBI data on domestic operations of banks, gross NPA to gross advances ratio of Kolkata-based UCO Bank increased to 8.05% at the end of March 2015 from 4.47%, an accretion of 3.58% on an annual basis. It was followed by Indian Overseas Bank (IOB) and Bank of Maharashtra (BoM) with gross NPA rising to 8.30%, and 6.18% respectively at the end of March 2015. In the case of IOB variation compared to the previous financial year was 3.46% while for BoM was 3.02%. Besides, the gross NPA taking into account the domestic operation of Dena Bank increased from 3.33% to 5.29% at the end of 2014-15, recording a variation of 1.96 %. At the same time, Corporation Bank's gross NPA level rose from 3.42% to 4.80% at the end of March 2015, showing an accretion of 1.38 over the previous fiscal. Rising NPA has hit the bottom line of banks and to strengthen their balance sheet the government is providing Rs. 25,000 capital support in the current fiscal.

S. Varadharajan 2015, traced out rising NPAs put banks in a tight advertisement, it concerns were raised over the increase in non-performing assets which were impacting credit growth of banks. The rise was due to some infrastructure projects, slowdown in global economic recovery, and continuing uncertainty in global markets leading to lower growth of credit. It was stated that public sector banks continued to be under stress on account of their past lending. The banking system as a whole has been witnessing higher
level of non-performing assets (NPA). With restructured loans turning bad, the problems of the industry have only compounded.

**Shantanu Bose, 2014**\(^1\) stated that urban co-operative banking sector had occupied a difficult place in the Indian financial system. Nourishment of its growth is associated to professionalization of its management, inculcating good corporate governance, technology absorption and scrupulous adherence to regulatory framework. His expectation that the sector will learn from its past mistakes and shortcomings quickly and will provide a sound network in the banking system for supportable growth and development of the economy.

**RBI 2012,**\(^2\) UCBs have shown a steady improvement in their asset quality over recent years. There has been a decline in gross Non-Performing Assets (NPAs), both in absolute and ratio terms. In continuation of this trend, UCBs reported negative growth in gross NPAs and also showed a fall in their gross NPA ratio in 2011-12.

**Karunakar, et al (2008)** in a descriptive study on NPA in Indian context observed that the level of NPA depends on how various risks are managed in the business. The study is explanatory in nature and briefed the NPA trends of PSBs from 1992-93 to 2005-06. Based on the study, the authors concluded that the lasting solution to the problem can be achieved only with proper credit assessment and risk management mechanism.

**J Babu, M Selkhar 2012**\(^3\), observed the growing role of the financial sector in the allocation of resources has significant potential advantages for increase in profits of UCBs improved in 2010-11 as compared to the previous year owing to higher growth of their business. But the gross as well as net NPA ratio of UCB sector declined. In their critical study, on Urban Cooperative Banking is a key sector in the Indian Banking scene, they shown like gone through a lot of turmoil? Though some UCBs have shown credible performance in the recent years, a large number of banks have shown discernible signs of weakness. The operational efficiency is unsatisfactory and characterized by low profitability, ever growing non-performing assets (NPA) and relatively low capital base. Also urban cooperative banks have not been able to service the growing credit requirements of clients or the newer demands for loans in the field of personal finance. In
the interest of healthy competition, the urban cooperative banks should be encouraged to
grow. Thus a few bad eggs should not curb the growth of a key banking entity.

2.4 Management of NPA

Regulatory Reporting practices of financial organisations studied by the
academicians most of them found every banks need to purify the management system
which directly or indirectly controlling the NPA of banks.

Suresh Babu K N & Suresh Ramana Mayya 2016, observed that the study of
nonperforming asset is very important in rural cooperative bank because of increasing
trend of nonperforming will affect the financial health of the cooperative bank according
to their study, ‘Management of NPA in Selected Co-Operative Banks with Special
Reference to D.K. District, Karnataka, India’. Doubtful Assets are very low in UCBs but
same time indicates that a higher level managerial performance regarding the recovery of
NPA. Minimum loss an asset shows that no bad debt waved it shows that efficiency of
the management of recovery of NPA is very high.

Different studies were conducted on UCBs in India by the committees appointed by the
RBI and the Govt. of India. Outlines of the major ones are 1) The Indian Central Banking
Enquiry Committee (1931), observed as follows: The duty of these urban banks should be
to try to do for the small trader, the small merchant and the middle class population. 2)
The Working Group on Industrial Financing through Co-operative Banks (1968), (known
as Damry Group) appointed by the Reserve Bank recognized the key role which urban
banks could play in providing finance to cottage and small-scale industries. 3) The
Madhavdas Committee (1979) evaluated the role played by urban co-operative banks in
greater details and drew a roadmap for their future role recommending support from RBI
and Government in the establishment of such banks in backward areas and prescribing
viability standards. 4) The Madhava Rao Committee (1999) focused on consolidation,
control of sickness, better professional standards in urban co-operative banks and sought
to align the urban banking movement with commercial banks.

Suresh Babu K N 2016 concluded their study on Management of NPA in Selected Co-
Operative Banks that Non-Performing Assets is one of the biggest problems had faced by
the cooperative societies. There is a direct link in between nonperforming assets and
profitability of the bank. The bank can able to reduce the non-performing assets; ultimately the bank can able to improve the profitability. The study discloses that GPACS bank have more control over NPA than MPACS bank.

**Sougata Chakrabarti** 2014, His study explains the Basel impact on banking sector which is relates the UCBs also. Committee introduced Liquidity Coverage Ratio to ensure sufficient unencumbered, high quality liquid assets to offset the net cash outflows it could encounter under an acute short term stress scenario. The Basel Committee introduced minimum liquidity standards to promote an international level playing field. The Basel Committee is proposing a Liquidity Coverage Ratio (LCR) which is \((\text{High Quality Assets})/(30 \text{ Day Net cash Outflows}) \geq 100\%\).

Meanwhile he observed that the effective implementation of Basel III will make Indian banks stronger, more stable and sound. It would help them in delivering value to the real sectors of the economy. At present Banks in India are operating on the Standardised Approaches of Basel II but they have to adopt advanced approaches to risk management which would enable Indian banks in managing their capital more efficiently and improve their profitability. A change in perception to seeing the capital framework as pre-requisite instead of compliance function for keeping banks sound, stable and profitable is important. It provides deeper and broader based capacity in risk management and ensures adequate and good quality data. As per the estimates of RBI Indian banks need an additional capital requirement of Rs.5 lakh crore, of which, non-equity capital will be of the order of Rs.3.25 lakh crore while equity capital will be Rs.1.75 lakh crore. The amount the market would have to provide would depend on how much of the recapitalisation burden of public sector banks the government would meet (Dr.Rao Subba,ex. Governor RBI).

**Anupam Mitra, 2011**, summarized his findings of study on NPA management of UCBs in Hooghly District of West Bengal such as apparent that the swelling NPA has become a major problem of the urban co-operative banks. Poor resource base is the main constraint of the urban co-operative banks. Most of the UCBs follow conservative credit policy. Another problem, which vitiates co-operative movement, is the interference of the politicians in the organization. Urban co-operative banks are suffering from the lack of
professional management and in most of the cases approach is very much casual. Every authority concerned with Co-operative sector will have to play its part in ensuring that the aspirations of the Urban Co-operative Banking sector are nurtured in a manner that depositor interest and the public interest at large are protected.

The role of RBI could, thus, be to frame a regulatory and supervisory regime that is multilayered to capture the heterogeneity of the sector and implement policies that would provide adequate elbowroom for the sector to grow in a non-disruptive manner. The State and Central Governments could recognize that the UCBs are not just cooperative societies but they are essentially banking entities whose management structure is that of a cooperative. They should recognize the systemic impact that inefficient functioning of the entities in the sector could have. Consequently, it would be in the interest of the sector if they support, facilitate and empower the RBI to put in place mechanisms and systems that would enable these UCBs to perform their banking functions in a manner that is in the overall interest of the depositor and the public at large.

In the banking scheme, high level of NPAs can be thoughtful effort on overall performance of economy on account of change of its management and financial resources towards recovery of NPAs. Greater the resources needed by banks to reserve for losses, lesser is the amount of capital they can leverage. Consequently it makes the banks risk averse in providing new loans leading to credit crunch in the financial market, amounting to economic and financial degradation. Assets reconstructions Companies (ARCs) are established to acquire, manage, and recover illiquid or NPAs from lenders, unlocking value trapped in them via an institutional platform.

Arora and Ostwal\textsuperscript{17} (2014), conducted study on “Unearthing the Epidemic of Non-Performing Assets: A Study of Public and Private Sector Banks” which deals with the concept of Non-performing assets and analyze the classification of loan assets of public and private sector banks. It also explores the comparison of loan assets of Public sector and private sector banks. The study concluded that private sectors improving due to decline in NPAs ratio compare to Public sector banks due to recovery management done in NPAs and suggest that there is need to check the NPAs of public sector banks so that Indian banking system becomes efficient.
Srinivas K T\textsuperscript{18} (2013) he shows the identification of Non-performing assets at Commercial banks in India. Study also highlights the various general reasons which convert advances/ assets into NPA and also give suitable suggestion on findings to overcome the mentioned problem.

Sikdar and Makkad\textsuperscript{19} (2013) deliver insight on the role of NPA in risk frame work of selected Indian commercial banks and try to put forward the means of interpreting credit risk from existing levels of bank NPAs. Further, research highlights the significant steps taken and procedures implemented by major Indian commercial banks, within the public and private sector, towards recovery of loans and advances falls into the NPA bracket. His work seen mainly based on extensive study of annual publications on performance of public sector and private sector commercial banks by the Indian Banks Association (IBA). Further, annual reports of commercial banks in focus for the year ending March 2012 have been studied. The study conclude that problem of NPAs can be tackled only with proper credit assessment and risk management mechanism.

Olekar and Talawar\textsuperscript{20} (2012) studied NPA management with reference to Karnataka central cooperative bank ltd., where they described conceptual data about NPA and on the other hand, they calculated few NPA related ratios and used trend projection method to predict next year advances for the bank. Their finding includes the considerable reduction of NPA for the bank and some suggestions for recovery of NPA.

Malyadri and Sirisha\textsuperscript{21} (2011) this study examine the NPA of Public Sector banks and Private sector banks of weaker sections for the period seven years in India. The secondary data compiled from Report on Trends and Progress of Banking in India, 2004-10 which has been analyzed by statistical tool such as percentages and compound Annual Growth rate. This study reveals that the public sector banks have achieved a greater penetration compared to the private sector banks.

Kaur and Saddy\textsuperscript{22} (2011) revealed in the research paper entitled “A Comparative Study of Non-Performing Assets of Public and Private Sector Banks” an attempt is made to clarify the concept of NPA, the factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations. Besides capital to
risk weight age assets ratio of Public and Private sector banks, management of credit risk and measures to control the threat of NPAs are also discussed.

**Hosmani and Hudagi**\(^{23}\) (2011) conducted study on “Unearthing the Epidemic of Non-Performing Assets with Reference to Public Sector Banks in India” an empirical and descriptive in nature which shows the magnitude and trend of Public Sector banks in India and found that there is a slight improvement in the asset quality reflected by decline in the diverse NPA percentage. The study concluded that NPA is an important parameter for assessing financial performance of banks in terms of profitability, liquidity and economies of scale in operation and banks has to take timely action against degradation of good performing assets.

**Meenakshi and Mahesh**\(^{24}\) (2010) this exploratory paper examines the trends of NPAs at global level - One interesting observation is that most of the countries that fall under the higher „NPA/Total Loan” ratio Category are in the Asian region & Also examine India from various magnitudes and also identification of the problem & recovery mechanism to a great extent. It also show that NPA in the priority sector is higher than non – priority sector. The paper also discusses the role of joint liability groups (JLGs) or self-help groups (SHGs) in enhancing the loan recovery rate.

**Kakker, R. (2005)** studied “Role of Asset Reconstruction Company in NPA Management”. The author stressed the need for management of the NPA by stating that a high level of NPAs severely affects the economy in many ways. The study was concluded by stating that ARC’s with statutory/ regulatory powers are likely to emerge as nodal resolution agencies coexisting with CDR mechanisms for management of NPA.

### 2.5 International Scenario

Historically in 1970s the incidence of banking crises has often been associated with a massive buildup of nonperforming loans which can account for a sizable share of total assets of bankrupt banks and financial institutions, especially during episodes of systemic crises. The ostensible association between nonperforming loans and banking crises was further verified by the 1997 East Asian financial and banking crisis which left the four countries severely affected, with a more than threefold increase in their volume of nonperforming loans in the period leading up to the crisis. For instance, in Indonesia
where over 60 banks collapsed during the crisis, nonperforming loans represented about 75% of total loan portfolios [Caprio and Klingebiel (2002)].

The banking crisis which affected a large number of Sub-Saharan African countries in the 1990s was also accompanied by a rapid accumulation of nonperforming loans. In spite of this apparent association between banking crises and nonperforming loans, the literature on banking crises has focused on the macroeconomic determinants of banking crises and less on the various sources of nonperforming loans, which are used as indicator variables to measure the intensity of the crisis, and may be viewed as one possible consequence of the crisis, rather than a critical factor leading to it.

Asset reconstruction companies have a long history throughout the world. The Federal Deposit Insurance Corporation was established by the US government in 1933, to counter the devastating effects of the Great Depression on banks and financial institutions. Thereafter in 1980s, the US faced crisis in real estate market since a change in the regulatory framework allowed large number of banks with high risk policies to enter the real estate which, destabilized the capital market. In pursuant to this, the US formed the Resolution Trust Corporation in 1989.

Japan also faced insolvency in its banking sector following indiscriminate lending during the 1990s. This led the Japanese government setting up the Resolution and Collection Corporation in 1999. The main purpose of the institution was to manage, collect and dispose of assets transferred from 7 Jusen companies i.e. housing loan companies and failed financial institutions, to enhance their capital adequacy and to purchase assets from sound financial institutions.

In 2004, Japan set up The Second Bridge Bank whose function was to assume the bank’s operations till it finds its takeover candidate and if no takeover of the bank is found within a stipulated period then the recipient bank was placed for liquidation.

2.6 Indian Context

R. Gandhi 2015, Deputy Governor & Chairman, High Powered Committee on UCBs, report release examined various issues with regard to size and complexity of business of UCBs, conversion of UCBs into joint stock bank and modalities of implementation of the
recommendations of expert committee on licensing of new UCBs. It boosting in the management of NPA.

Ramu, N. (2008) examined the management of the NPA in UCBs with special reference to 5 UCBs in Tamil Nadu. He confirmed that even though the banks played an important role in credit operation its NPA stand alarming as seen from their gross NPA and net NPA ratios. He also recommended improvements in the credit management through removing existing deficiencies in the credit appraisal, monitoring and improving the overall lending policies.

In a similar study on management of NPA, Noronha (2006) also stressed the need for managing NPA for a robust banking system. Using statistical information available on NPA and classification of loan assets, the impact of various measures such as One-time settlement scheme, SARFAESI Act, Lok Adalats, Debt Recovery Tribunals, etc were analyzed. The study asserted that NPA is unavoidable in the banking sector and proper management would lead to curbing them and in turn lead to a healthy growth of the financial sector.

John, K. and Philip Thomas (2006) examined the NPA in Indian Banking Sector with a focus on recovery through Debt Recovery Tribunals. The authors commented that the prudential norms introduced into the banking sector helped in reducing the volume of the NPA in the balance sheets of the banks. The study used the all India figures relating to DRT cases during 1996 to 2005. The analysis revealed a meager recovery through the speedy process of DRT. The authors concluded that the bulk of the NPA in the banking sector remains as an economic cost to the nation. The study is useful as it explains inadequacy of an existing recovery mechanism and the need for streamlining it for better management of NPA.

2.6.1 Functioning & Management of NPA

The reviews on NPA fascinated the attention of researchers in the late 1980’s when the necessity to transform the banking sector was felt in Indian economy. The studies in this period highlighted the shortcomings in the functioning of the banking sector and stressed the need to incorporate sensible norms for income recognition, asset classification and provisioning. Such analysis and inferences to a great extent helped the
researcher in identifying the stages of his research toward NPA of UCBs in Thane districts of Maharashtra state in India.

**Priyanka Mohnani, Monal Deshmukh**\(^{27}\), 2013,

In their study shown, NPA is one kind of obstacle in the success of bank and affects the performance of banks negatively so, for that the management of NPA in bank is necessary. It possible by way of framing reasonably well documented loan policy and rule, Recovery effort should starts from the month of default with prompt legal action. Position of overdue accounts is reviewed on weekly basis to arrest slippage of fresh account to NPA. Credit appraisal and monitoring with inspection and credit audit. Half yearly balance confirmation certificates should be obtained from the borrowers. A committee is constituted at Head Office, to review irregular accounts.

**Chipalkatti and Rishi (2007)**\(^{28}\) in an exploratory research on NPA examined the behavior of Indian banks in the context of tighter regulatory standards that became effective after 1999. Based on the analysis, the authors observed that "weak" Indian banks - defined by low profitability and low capital ratios camouflaged the magnitude of their gross NPAs in the post-1999 period. The study revealed a disturbing fact; that the true nature of India's bad loan problem is more serious than explained the prior research studies.

**Vallabh., et al (2007)**\(^{29}\), In a comparative study on the NPA in Indian Public, Private and Foreign Sector Banks, examined the fundamental factors which impact NPA of banks using an extended Altman model. The model consisted macroeconomic factors and bank-specific parameters. The macroeconomic factors of the model are GDP growth rate and excise duty, and the bankspecific parameters are Credit Deposit Ratio (CDR), loan exposure to priority sectors, Capital Adequacy Ratio (CAR), and liquidity risk. The authors, based on analysis, commented that the NPA movement can be explained well by the factors considered in the model for the public and private sector banks. The other notable observation is that the banks' exposure to priority sector lending reduces the NPA. Even though some of the observations of this study are refutable, the study provided an insight on a few analytical tools that can be widely used in analyzing the asset quality of banks.
Rajendar, K. and Suresh, S. (2007) In this analytical study on NPA with special reference to State Bank of Hyderabad, evaluated the effectiveness of the reform process on the basis of the recommendations of the Narasimham Committee, using statistical data on banks for the period 2000-01 to 2005-06. Inference based on ratio analysis showed a reduction in NPA during the period. The authors pointed out that the better management of the NPA is the result of good recovery and sufficient provisioning for doubtful debts and write-off bad debts.

John, K. and Philip Thomas (2006) examined the NPA in Indian Banking Sector with a focus on recovery through Debt Recovery Tribunals. The authors commented that the prudential norms introduced into the banking sector helped in reducing the volume of the NPA in the balance sheets of the banks. The study used the all India figures relating to DRT cases during 1996 to 2005. The analysis revealed a meager recovery through the speedy process of DRT. The authors concluded that the bulk of the NPA in the banking sector remains as an economic cost to the nation. The study is useful as it explains inadequacy of an existing recovery mechanism and the need for streamlining it for better management of NPA.

Rajendran, K. and Karthikeyan, K. (2007) These people had explained that the high level of NPA not only affects the overall quality of the loan portfolio but also puts a burden on the income statement of banks in the form of higher provisions in the study reviewed recovery of NPA through various mechanisms like OTS, DRTs, ARCs, SARFAESI Act, etc during 2003-04 to 2005-06. Study also reveals the optional the need to consider ‘reduction of NPA’ in the banking sector as a national priority item. Evaluated three major aspects of the NPA: the degree of the NPA problem, its causes and the solutions adopted to address the issue. The research provided an insight by classifying the causes for NPA into systematic and situational causes. A notable contribution of this research is about recognizing a proper classification of NPA and its contribution by providing a mix of short-term and long-term remedial measures in dealing with NPA.

Chipalkatti and Rishi (2007) Used econometric techniques on 78 banks, the study tested the hypothesis that weaker banks – defined as those with low capital adequacy ratios and low profitability – understate their loan loss provisions and their gross NPA when compared to the earlier period due to the tightening of CAR guidelines and provision
norms in their research article on “Do Indian Banks understate their bad loans” examined the bank’s behavior in India during the period 1996-2002. Implication based on analysis revealed that the weak banks secret the greatness of their gross NPA in the post 1999 period. The authors warned that the true nature of India’s bad loan problem is more serious than alluded to in various studies.

Ramu, N. (2008)\textsuperscript{33} examined the management of the NPA in Urban Cooperative Banks (UCBs) with special reference to 5 UCBs in Tamil Nadu. The author stated that even though the banks played an important role in credit deployment its NPA stood alarming as seen from their gross NPA and net NPA ratios at 23.4\% and 12.5\% respectively in 2005. Based on the analysis, the authors recommended improvements in the credit management through removing existing deficiencies in the credit appraisal, monitoring and improving the overall lending policies. In a similar study on NPA in commercial banks with special reference to small scale sector, Rajeev (2008) used various econometric models and analyzed the level of NPA and its relationship with key performance indicators in Indian banking. Inference based on analysis revealed that rural branches contribute more NPA in SSI sector. Also, the analysis revealed that PSBs have improved their efficiency during 1997-2005 compared to private and foreign banks. Regarding the generation of the NPA, the study pointed out that inadequate funds and higher amounts of accumulated NPAs resulted in the creation of the more NPA in SSI.

R. Satish,\textsuperscript{2010}\textsuperscript{34}, Concluded management of NPA is need of the hour. NPA is key factor in increasing/decreasing net profit of the Bank. The hypotheses prove that the NPA is having direct impact on net profit. The course open to the banker is to ensure that an asset does not become NPA. If it does, he should take steps for early recovery failing which the profitability of the bank will be eroded. Time is of prime essence in NPA management.

Jaynal Ud-din Ahmed\textsuperscript{35} 2011 His paper revels non-performing assets (NPAs) of the Indian banking system are now comparable to several advanced economies and significantly lower than several economies in the Asian region. His observation indicating RBI rates reduction in NPAs as one of the major achievements of the Indian banking sector. But still the Indian banking sector is facing a serious problem of mounting quantum of NPAs. The commercial banks including UCBs in India in general suffer a tendency to minimize their NPA figures. Mostly UCBs are trying to practice of
'ever-greening' of advances through understated techniques. The earning capacity and profitability of UCBs has been adversely affected by the high level of NPAs. The reduction of NPAs in banks is posing the biggest challenges in the Indian economy.

2.6.2 Structure & Pattern

The Urban Co-operative Banks (UCBs) registered as co-operative societies under the provisions of State Co-operative Societies Acts or Multi State Co-operative Societies Act and licensed to undertake banking business under the provisions of Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). The UCBs are co-operative societies at the primary level and represent a unitary structure. They operate on standalone basis; unlike the three tier rural co-operatives credit structure, though loosely integrated to the higher financing agencies, such as District Central Co-operative Banks (DCCBs) and State Co-operative Banks (SCBs). The status of the UCBs registered under the Multi State Co-operative Societies Act in the cooperative structure is not well defined. They are neither linked to any DCCB nor SCB on account of their presence in more than one state.

Ms. Aditi Ahooja, 2011, studied on a study of Indian banking sector performance analysis since liberation period with critical presented the structure and pattern of banking sector. In her finding the profitability ratio analysis conducted in the study reveals that public sector banks shown the reasonable variable drifts. The return ratios also showed the fluctuating trend for the public sector banks have shown irregular decline. Performance of asset ratios for private and public sector banks have shown expected optimistic movement.

The greatest task before banking sector in general and the Urban Co-operative Banks in particular is management of the NPA. In order to manage the funds more effectively and efficiently it is obligatory on the part of the urban banking sector to manage the NPA in a more prudent manner.

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