Chapter- Six

FINDING OF STUDY

Introduction

This chapter fundamentally legalizes the findings of primary & secondary data with NPA management and restructuring as well as recovery system under guidelines of government authority, RBI, Basel I, II, III & IV.

Findings based on primary and secondary data sources which covers the study objective one to study the functioning and management of UCBs. Second objective explains about study of the structure/ pattern of loaning to its members by Co-operative Banks and procedure for its disbursement and recovery. Third objective studies the guidelines issued by RBI and Govt. of India relating to NPA and also to see whether these guidelines are followed by bankers or not. Objective four explains about study of adoption of Basel-I, II, III & IV guidelines. Objective Five explains about study of growth of non-performing assets in Urban Co-operative Banks. Objective six analyzes the reasons of decline in profitability of Urban Co-operative Banks due to increasing NPA. Objective seven recognizes reasons that lead to NPAs and study of various provisions of the Act with special emphasis on reduction of NPAs. Objective eight explains about UCBs facing the problem of NPA swollenness even after the passing Act to formulate methods for efficient recovery in UCBs.


6.1 Based on Primary data sources

Researcher constructed finding on basis of his own primary data which has very much increased interest of the study. It is also developed his core knowledge of the NPAs game theory in economic world.
6.1.1 Objective One

A first objective is, to study the functioning and management of UCBs. This objective of research was also aims at to verify the method of functioning and management of UCBs in the given region during the relevant period under research.

Finding from primary data, percentage level of respondent’s opinion towards generally substandard assets are inadequately protected by present financial worth and paying capacity or mortgaged assets are same in every UCB, in study region.

Satisfactory Manpower:

- Researcher was observed during study that the manpower provided to the UCBs for NPA management was not adequate in relation to the task assigned to them.
- There is a misapprehension that NPA management is nothing but recovery of banks dues.
- There is an involvement of Management of NPA in all the studied UCB 1 to 5 but UCB -6 is not maintained.
- Planning, deciding strategy for recovery is found in all the studied UCBs
- Selecting accounts for immediate action of recovery found mainly in UCB- 6 and in other UCBs is observed in routine.

The UCBs staff is aware of functioning orders, as they are part of their manual or training. However, in practice they are ignored because of assorted duties and pressure of work. All this ultimately leads to losses to the UCB. The UCBs should therefore take a liberal approach as far as NPA management is concern in providing staff.

6.1.2 Objective Two

Second objective is ‘To study the structure/ pattern of loaning to its members by Co-operative Banks and procedure for its disbursement and recovery’; it means which documents are to be verified while loaning to its members and procedure followed for verification of documents to be observed.
It means which documents are to be verified while loaning to its members and procedure followed for verification of documents to be observed by the UCBs staff that the awareness at borrower’s level regarding non-performing assets. Researcher was observed that the UCBs staff awareness at borrower’s level regarding non-performing assets.

- Impact of awareness at borrower’s on UCBs profitability was very less.
- There was not much of interaction with the UCBs officials.
- The mortgagors were therefore had no knowledge or information on many things which are in their interest.

6.1.3 Objective Three

Researcher examine RBI and Government of India guidelines relating to NPA: One of the major objective of research is to study the guidelines issued by RBI and Govt. of India relating to NPA and also to see whether these guidelines are followed by bankers or not.

- Finding of the study reveals question 327 & 328 that 82.07 percent strategies for overcoming NPAs and various steps have been taken by the government and RBI to recover and reduce NPA. But considering effectiveness of managements the results are not satisfactory as;
- Only 18.48 percent strategies of government and RBI to recover and reduce NPA are having effectiveness by privative management of the UCBs (Table 5.80).
- Very less 7.61 percent strategies of government and RBI to recover and reduce NPA are having effectiveness by curative management of the UCBs (Table 5.81).
- 22.28 percent strategies of government and RBI to recover and reduce NPA are having effectiveness by other specified management of the UCBs (Table 5.82).

Overall it shows that still UCBs in study region are further accepted to improve their managerial efficiency towards the strategies of government and RBI to recover and reduce NPA.

6.1.4 Objective Six:

To analyze the reasons of decline in profitability of Urban Co-operative Banks due to increasing NPA:
To find out burden of NPAs on profitability of UCBs, primary data question 322 and 323 was analyzed to find the reasons of decline in profitability. It means to verify the relevance of NPA upon profitability of UCB and how it has affected profitability of UCB in positive or negative sense. Further it is observed that on account of non-recoverable NPAs, profitability has gone down because NPAs are adjusted against profit.

- 75.54% respondent accept situation that profitability of UCBs has declined due to increasing NPA (Table 5.63).
- Study reveals that 73.91% respondents accept situation that NPA is due to write-off the principal loan amount itself (Table 5.64).

6.1.5 **Objective Seven**

Seventh objective of study is to recognize reasons that lead to NPAs and study of various provisions of the Act with special emphasis on reduction of NPAs. With the help of this research an attempt is made find out provisions applicable under various laws that will help to minimize NPA of UCBs.

Question 325 of the study revealed by parameter such as;

- Agree with less than 20% that the Directed loans system under which UCB is required to supply 40% of their credit to priority sectors is only 35.33%
- Agree with 21-40% that the Directed loans system under which UCB is required to supply 40% of their credit to priority sectors with 30.43%.
- Agree with 41-60% that the Directed loans systems under which UCB are required to supply 40% of their credit to priority sectors with 23.37%.
- Agree with 61-80% that the Directed loans systems under which UCB are required to supply 40% of their credit to priority sectors with 10.87 %
- Agree with more than 80% that the Directed loans systems under which UCB are required to supply 40% of their credit to priority sectors totally absent with 0.00 %
• Agree with less than 20% that most significant sources of NPAs are directed loans supplied to the “micro sector” are problematic of recoveries especially when some of its units become sick or weak observed by 49.46%.
• Agree with 21-40% that most significant sources of NPAs are directed loans supplied to the “micro sector” are problematic of recoveries especially when some of its units become sick or weak observed by 11.41%.
• Agree with 41-60% that most significant sources of NPAs are directed loans supplied to the “micro sector” are problematic of recoveries especially when some of its units become sick or weak observed by 34.24%.
• Agree with 61-80% that most significant sources of NPAs are directed loans supplied to the “micro sector” are problematic of recoveries especially when some of its units become sick or weak observed by 4.35%.
• Agree with more than 80% that Most significant sources of NPAs are directed loans supplied to the “micro sector” are problematic of recoveries especially when some of its units become sick or weak observed by 0.54%.
• Agree with less than 20% that Poverty elevation programs like IRDP, failed on various grounds in meeting their objectives observed by 63.59%.
• Agree with 21-40% that Poverty elevation programs like IRDP failed on various grounds in meeting their objectives observed by 11.96%.
• Agree with 41-60% that Poverty elevation programs like IRDP failed on various grounds in meeting their objectives observed by 14.67%.
• Agree with 61-80% that Poverty elevation programs like IRDP failed on various grounds in meeting their objectives observed by 9.24%.
• Agree with more than 80% that Poverty elevation programs like IRDP failed on various grounds in meeting their objectives observed by 0.54%.
• Agree with less than 20% that the huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections with 17.39%.
• Agree with 21-40% that the huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections with 13.59%.
• Agree with 41-60% that Poverty elevation programs like IRDP failed on various grounds in meeting their objectives with 17.39%.
• Agree with 61-80% that the huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections with 30.43%.
• Agree with more than 80% that the huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections with 21.20%.
• Agree with less than 20% that the Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating with 26.09%.
• Agree with 21-40% that the Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating with 28.26%.
• Agree with 41-60% that Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating with 35.87%.
• Agree with 61-80% that Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating with 7.61%.
• Agree with more than 80% that Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating with 2.17%.

6.1.6 Objective Eight
Eighth objective was to study facing the problem of NPA swolleness even after the passing of the Act to formulate methods for efficient recovery in UCBs. Though the NPA of UCB is considered as swolleness to the banks and it is assumed to be decease which needs to cure by proper remedial actions against such deficiency.

Question 319 resulted the NPAs have destructive impact on the UCBs assets facing the problem of NPA swolleness even after the passing of the Act to formulate methods for efficient recovery by the parameter of reduce the interest income of banks; it is to be
accounted only on receipt basis; the current profits of the banks are eroded, the capital sufficiency ratio is disturbed and the cost of capital will go up.

- Reduce the interest income of banks shows by 68.48%.
- Not reduce the interest income of banks by 17.39%.
- Unpredictable reduce the interest income of banks by 14.13%.
- It is to be accounted only on receipt basis by 77.72%.
- It is not to be accounted only on receipt basis by 15.22%.
- It is doubtful to be accounted only on receipt basis by 7.07%.
- The current profits of the banks are eroded by 92.93%.
- The current profits of the banks are not eroded by 0.00%.
- The unpredictability of current profits of the banks is eroded by 7.07%.
- The capital sufficiency ratio is disturbed by 66.85%.
- The capital sufficiency ratio is not disturbed by 19.02%.
- The doubtful about capital sufficiency ratio is disturbed by 14.13%.
- The cost of capital will go up by 92.39%.
- The cost of capital will not go up by 3.80%.
- The cost of capital will unpredictable goes up by 3.80%.

6.2 Based on Secondary data sources

- All the selected UCBs annual reports shows that it is commonly believed to writing-off of bad debts is a failure of the management, but presentation is fulfilled which carried all the necessary efforts behind it.
- Hence, the Board of Directors (BOD) does not want to take decision regarding the writing-off of bad debts. As per the Co-operative Societies Act, the BOD has to recommend such decisions in their Annual General Meeting (AGM) and the AGM should accept the recommendation and pass a resolution to that effect. But the members generally do not agree with such recommendations.
- The members feel that the debts become bad because of wrong sanctioning of loans by the BOD and hence it is the duty of the BOD to recover the same. They are also of the opinion that the BOD should be detained responsible for such bad
debts. In this environment, the BOD generally equivocates to take such decision, even if it is in the interest of the bank. Because of such an attitude of the board as well as members, the quantum of irrecoverable loans shown in the balance sheet of every urban co-operative bank (UCB) is very large and, therefore, they have to make large provision.

- RBI’s monetary policy measures helped CPI inflation coming down to 5.17% in March 2015 which was 8.31% at the beginning of the F. Y. 2014-15. According to the Monetary Policy Framework Agreement signed by the Reserve Bank of India and the Government of India, the Reserve Bank will stay focused on CPI inflation with a target of 6% by January 2016 and 4% by the end of F. Y. 2017-18.

**The growth of non-performing assets in Urban Co-operative Banks:**

The primary objective of this research is to find out at what rates NPAs are developed in UCBs in the given region during the period under research. Researcher had selected six UCBs which are 1) Thane Janta Sahkari Bank, 2) Dombivili Nagri Sahkari Bank, 3) Abhinav Sahkari Bank, 4) Bassein Catholic Cooperative Bank, 5) Kalyan Janta Sahkari Bank, and 6) Thane Bharat Sahkari Bank.

As per audited financial statements and data published by these UCBs, it appears that percentage wise NPA is reduced but in volume of the amount NPA increased during the 2008 to 2015. Based on the functioning and performance Bassein Catholic Bank is top ranking in selected UCBs.

<table>
<thead>
<tr>
<th>UCB</th>
<th>Average NPA % during study period</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bassein Catholic Bank</td>
<td>3.64</td>
<td>1</td>
</tr>
<tr>
<td>TJS Bank</td>
<td>4.33</td>
<td>2</td>
</tr>
<tr>
<td>D N S bank</td>
<td>5.20</td>
<td>3</td>
</tr>
<tr>
<td>KJS Bank</td>
<td>5.22</td>
<td>4</td>
</tr>
<tr>
<td>TBS Bank</td>
<td>7.19</td>
<td>5</td>
</tr>
<tr>
<td>Abhinav bank</td>
<td>8.29</td>
<td>6</td>
</tr>
</tbody>
</table>
6.2.1 Objective Four

Objective fourth is to study of adoption of Basel-I, II, III & IV guidelines. The research also aims at observations guidelines issued by RBI from time to time and how they are adopted by UCBs in their routine operations.

Basal I has an important aspect of the Market Risk Amendment was that banks were, for the first time, allowed to use internal models (value-at-risk models) as a basis for measuring their market risk capital requirements, subject to strict quantitative and qualitative standards. Much of the preparatory work for the market risk package was undertaken jointly with securities regulators.

In the present study it shows cent percent applicable on the basis of annual report of selected studied UCBs in the region.

"Basel II", the revised framework comprised three pillars, namely: a) Minimum capital requirements, which sought to develop and expand the standardised rules set out in the 1988 Accord; b) supervisory review of an institution's capital adequacy and internal assessment process; and c) effective use of disclosure as a lever to strengthen market discipline and encourage sound banking practices.

It is further resulted that almost all the selected UCBs are following the guidelines of Basal II in totality.

"Basel III" the new capital and liquidity standards were endorsed which were applied by the UCBs in study region by following parameter;

a) An additional layer of common equity - the capital conservation buffer - that, when breached, restricts payouts of earnings to help protect the minimum common equity requirement;

b) A countercyclical capital buffer, which regulates restrictions on participation by banks in system-wide credit booms with the aim of reducing their losses in credit busts;
c) a leverage ratio - a minimum amount of loss-absorbing capital relative to all of a bank's assets and off-balance sheet exposures regardless of risk weighting (defined as the "capital measure" (the numerator) divided by the "exposure measure" (the denominator) expressed as a percentage);

d) liquidity requirements - a minimum liquidity ratio, the liquidity coverage ratio (LCR), intended to provide enough cash to cover funding needs over a 30-day period of stress; and a longer-term ratio, the net stable funding ratio (NSFR), intended to address maturity mismatches over the entire balance sheet; and

e) Additional proposals for systemically important banks, including requirements for supplementary capital, augmented contingent capital and strengthened arrangements for cross-border supervision and resolution.

According to Basel-IV it is expected to follow the third Basel accords (Basel III), and would require more stringent capital requirements and greater financial disclosure and it is still to be implemented.

6.2.2 Objective Five

To study the growth of non-performing assets in Urban Co-operative Banks

The fifth objective of the research is derived by calculating year wise non-performing assets of the UCBs by multiplying year wise NPA ratio to advances of the UCB concerned. The calculation of NPA is based on table number 4.5.

This objectives of study resulted that the trend of advances in rupees in lakhs, NPA in percentage and NPA in rupees in lakhs in study region during the study period is explained with the help of linear graphical presentation.

During four financial years 2008, 2013, 2014 & 2015 NPA amount was higher than average linearity whereas during remaining period of study amount was lowering linearity (Figure 6.1).

Finding of the study indicates that total advances of Rs. 397498.7 lakhs and NPA amount is Rs. 29295.5 lakhs @ 7.37 % during beginning year i.e. 2007-08 and that of
2014-15 total advances of Rs. 1122047.7 lakhs and NPA amount is Rs. 38937.1 lakhs @ 3.47%. It indicates that amount advances by approximately three times whereas NPA % ratio has been reduced from 7.37 % to 3.47 %, hence NPA in values has gone up from Rs. 29295.5 lakhs to Rs. 38937.1 lakhs.

![Figure 6.1: NPA in Study Region](image)

During financial years 2008 NPA Ratio was higher than average linearity whereas during 2009 it was managed the linearity then in further three years up to 2012 it came down lowering linearity. During 2013, 2014 and 2015 years it went on cross the linearity with slightly diminishing rates (Figure 6.2).

![Figure 6.2: NPA Ratio in Study Region](image)
Advances in rupees of the studied UCBs shown on an average linearly increased trends during the overall study period (Figure 6.3).

Linearity shows that advances given by UCBs and NPAs in ratio in the study region during the period are in inverse position.

Burden of NPAs on Profitability of UCBs

Researcher was analyzed the reasons of decline in profitability of Urban Co-operative Banks due to increasing NPAs. It means to verify the relevance of NPA upon profitability of UCB and how it has affected profitability of UCB in positive or negative sense. Further it is observed that on account of non-recoverable NPAs, profitability has gone down because NPAs are adjusted against profit.

| NPA burden on profitability (amount in crores Rs.) |
|-----------------|-----------------|-----------------|
| **UCBs**        | **NPA Burden**  | **Remark of**   |
| TJSB            | 255.48          | Managing with full standard active |
| Basin           | 131.73          | Control with full standard active |
| DNSB            | 104.56          | Control with full standard active |
| ASB             | 61.15           | Control with full standard active |
| KJSB            | 43.85           | Minimize with full standard active |
| TBSB            | 3.23            | Minimize with inactive standard |
### Calculation of deviation and percentage growth of NPA amount, ratio and advances of selected UCBs in Thane District, Maharashtra (Study region)

<table>
<thead>
<tr>
<th></th>
<th>UCB 1</th>
<th>UCB 2</th>
<th>UCB 3</th>
<th>UCB 4</th>
<th>UCB 5</th>
<th>UCB 6</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007-08</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPA Amount</td>
<td>8574</td>
<td>6286.3</td>
<td>774.6</td>
<td>5367</td>
<td>3889.3</td>
<td>4404.3</td>
<td>29295.5</td>
</tr>
<tr>
<td>NPA Ratio</td>
<td>6.67</td>
<td>9.6</td>
<td>8.94</td>
<td>4.24</td>
<td>12.22</td>
<td>12.1</td>
<td>7.37</td>
</tr>
<tr>
<td>Advances</td>
<td>128546</td>
<td>65482.5</td>
<td>8664.9</td>
<td>126579</td>
<td>31827.2</td>
<td>36399.2</td>
<td>397498.7</td>
</tr>
<tr>
<td><strong>2014-15</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPA Amount</td>
<td>17722.1</td>
<td>7252.7</td>
<td>1558.6</td>
<td>9137.6</td>
<td>3041.8</td>
<td>224.4</td>
<td>38937.1</td>
</tr>
<tr>
<td>NPA Ratio</td>
<td>4.02</td>
<td>2.66</td>
<td>6.53</td>
<td>3.51</td>
<td>2.58</td>
<td>3.48</td>
<td>3.47</td>
</tr>
<tr>
<td>Advances</td>
<td>440847.2</td>
<td>272656.2</td>
<td>23869</td>
<td>260330</td>
<td>117898.1</td>
<td>6447.2</td>
<td>1122048</td>
</tr>
</tbody>
</table>

| Deviation of NPA amount during 2008-2015 | 9148.1 | 966.4 | 784 | 3770.6 | -847.5 | -4179.9 | 9641.6 |
| Deviation of NPA Ratio during 2008-2015 | 2.34 | 1.98 | 2.58 | 1.71 | 5.14 | 7.82 | 2.3 |

**UCB1: TJS Bank** presently recorded sustainable performance. It indicated business mix touched to Rs. 11600 Crores the net profit reached to Rs. 101.20 Crores. Advances have gone up steeply, NPA is also effectively increasing but it is not seen in pictorial observation.

![Figure 6.4: UCB1, TJSB Results](image)

**UCB2: DNS** Bank presently recorded the progress as loan and advances is concerned bank has so far assisted thousands of people from all walks of life by lending Rs. 2937 crores.

236
This objective of study resulted that the UCB2 trend of advances in rupees in lakhs, NPA in percentage and NPA in rupees in lakhs are gently effective.

**UCB3: Abhinav Sahkari Bank**, presently recorded the progress as loan and advances is concerned bank has so far assisted thousands of people from all walks of life by lending Rs. 245 crores.

![Figure 6.5: UCB2, DNSB Results](image)

This objective of study resulted that the UCB-3 trend of advances in rupees in lakhs, NPA in percentage and NPA in rupees in lakhs are highly effective.

![Figure 6.6: UCB3, Abhinav Bank Results](image)
**UCB 4: Bassein Catholic** Bank presently recorded the progress as loan and advances is concerned bank has so far assisted society of people from all walks of life by lending Rs. 2653 crores.

*Figure 6.7: UCB4, Bassein Catholic Bank Results*

This objective of study resulted that the UCB-4 trend of advances in rupees in lakhs, NPA in percentage and NPA in rupees in lakhs are gradually effective.

**UCB 5: The Kalyan Janata Sahkari** Bank presently recorded the progress as loan and advances is concerned bank has so far assisted society of people from all walks of life by lending Rs. 1198 crores.
This objective of study resulted that the UCB-5 trend of advances in rupees in lakhs, NPA in percentage and NPA in rupees in lakhs are inconsistent effective.

**UCB 6: Thane Bharat Sahkari** Bank presently recorded the progress as loan and advances is concerned bank has so far assisted society of people from all walks of life by lending Rs. 62.31 crores.

This objective of study resulted that the UCB-6 trend of advances in rupees in lakhs and corers, NPA in percentage and NPA in rupees in lakhs are drastically effective with no one can challenge towards NPAs. To understand the extent of the non-performing asset (NPA) problem in the urban cooperative sector and come up with solutions, it is important to have a good measure of the problem. While the standard measures have their uses, they do not answer the question that everyone seems interested in: How severe is the NPA crisis? We propose a new measure—the ratio of NPAs to UCBs capital.

In sum, the standard measures do not carry the full picture and can be deceptive. A high level of NPAs in the urban cooperative banking sector need not necessarily create a crisis situation, if the UCBs have the capital needed to provision for the losses. UCBs capital is also a key factor in resolving the crisis. Hence, UCB’s ability to withstand NPAs is best measured in relation to capital.