CHAPTER V
CONCLUSION
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This study has been undertaken to probe into the problem of NPAs and their effect on the financial health of Salem DCCB and the default of co-operative credit in Salem district during the study period. A summary of the findings from the study, conclusion drawn, suggestions, and scope for further research are presented in this chapter.

5.1 FINDINGS

5.1.1 NON-PERFORMING ASSETS

i. In the year the prudential norms have been implemented, Salem DCCB has Rs. 917.86 lakhs gross NPAs and Rs. 3152.36 lakhs gross NPAs at the end of the period. The proportion of the short-term NPAs to the total NPAs is 76.23%; the medium-term NPAs are 12.78% and long-term NPAs are 10.98%. The delinquency of co-operative credit is higher in the case of the short-term loans. The NPAs have increased by 3.43 times. However, the short-term NPAs have increased by 3.81 times, the medium-term NPAs by 3.31 times and long-term NPAs by 1.74 times. The total NPAs of the bank have a growth rate of 25.5. Short-term NPAs have the highest growth rate of 31.57, followed by long-term NPAs at 31.04 and medium term NPAs at 22.85.

ii. The average level to NPAs to total outstanding in the bank is 8.58%. The short-term NPA level is 8.20%, medium-term NPA level is 7.59%, and long-term NPA level is 14.21%.
iii. The net NPAs have been Rs. 215.91 lakhs at the beginning of the period and Rs. 1301.27 lakhs at the end of the period.

5.1.2. ASSETS CLASSIFICATION

i. The standard assets of the bank had been Rs. 12715.63 lakhs in 1999-2000 but went up to Rs.26233.38 lakhs in 2005-2006. The mean proportion of short-term loans to total standards assets is 80.77%, that of medium-term standard is 12.60% and long-term standard assets is 6.29%. The annual compound growth rate of total standard assets is 11.22. The short-term, medium-term and long-term standard assets have a growth rate of 10.87, 15.47, and 12.69 respectively.

ii. The sub-standard assets which had been at Rs.22.58 lakhs in 1999-2000 piloted to Rs.2063.16 lakhs at the end of the period. The proportion of short-term sub-standard assets has been the highest at 72.39% of total sub-standard assets followed by long-term sub-standard assets which stand at 14% and medium-term sub-standards assets at 10.47% of total sub-standard assets. The annual compound growth rate of sub-standard assets is 61.79%. The short-term sub-standard assets have the highest growth rate of 144.22%, followed by medium and long-term sub-standard assets with 71.73% and 39.04% respectively.

iii. While the bank has doubtful assets of Rs.148.71 lakhs at the beginning of the period, it has Rs. 712.10 lakhs at the end of the period. The proportion of short, medium and long-term doubtful assets to total doubtful assets is 71.45%, 5.55%, and 23.05% respectively. The doubtful assets have registered annual compound growth rate of 89.94. The short-term doubtful assets
are growing at an alarming rate of 198.91%. The medium-term and long-term doubtful assets are growing at the rate of 19.08% and 56.35% respectively.

iv. The loss assets of the bank have been Rs.546.57 lakhs at the beginning of the period and Rs.377.10 lakhs at the end of the period. The proportion of short-term loss assets to total loss assets is 51.18% and in the case of medium-term and long-term loss assets, they are 45.92% and 2.97% respectively. The total loss assets have recorded an annual compound growth rate of 12.95. The short-term loss assets have a growth of rate 82.25, medium-term loss assets, of 5.74 and long-term loss assets have the highest growth rate of 167.63.

v. The proportion of sub-standard assets to total NPAs is 49%, that of doubtful assets is 25% and that of loss assets is 26%.

vi. The provision provided for various classes of assets has been increasing during the period. While a total provision of Rs.592.09 lakhs had been provided in 1999-2000, an amount of Rs.1621.76 lakhs was provided for NPAs at the end of the period.

5.1.3. EFFECT OF NON-PERFORMING ASSETS ON PROFITABILITY

NPAs have reduced the interest spread, an indicator of profitability. Due to increasing burden of the bank there is loss in most of the years. All profitability ratios computed, shows a negative result. While the average ratio of profit to total income is (-) 1.74%, the average ratio of profit to spread is (-) 8.07%. NPAs corrode the average earnings from assets. Thus the mean ratio of return on assets is (-) 0.20%. The low net worth of the
bank has resulted in the ratio of return on equity of (-) 4.33% during the period.

5.1.4. EFFECT OF NON-PERFORMING ASSETS ON LIQUIDITY

Increase in operating cost required a strong liquidity position. The average liquidity ratio of the bank during the period is 72.03% indicating that the bank is capable of meeting only three-fourths of its liabilities. The average cash ratio of the bank is 28.62% during the period revealing the fact that less than 30% of the resources of the bank are immediately liquid. The income earning capacity of the bank to augment its working capital is rather low since the average ratio of total income to working capital is 11.63%. The total expenditure of the bank tends to exceed the total income of the bank creating an illiquid situation since the ratio of total expenditure to total income is 101.74% during the period.

5.1.5. EFFECT OF NON-PERFORMING ASSETS ON SOLVENCY

The solvency ratios show that the solvency of the bank needs to be strengthened. The already low level of net worth of the bank cannot be further strengthened since the bank is not operating profitably. Hence, the ratio of deposits to net worth is 11.20 times and the ratio of risk assets to net worth is 11.63 times during the period. Investments in secure avenues is a protection against the risk of NPAs. But investments of the bank are low, since the mean ratio of investments to deposits is only 9.81%.
5.1.6. RECOVERY OF NON-PERFORMING ASSETS THROUGH LITIGATION

i. The number of arbitration claims in the district ranged from a minimum of 3667 claims for Rs.653.17 lakhs in 2002-2003 to a maximum of 8899 for Rs.1170.17 lakhs in 2004-2005.

ii. The decrees executed in the district range from a minimum of 5510 decrees for Rs.581.27 lakhs to a maximum of 12044 decrees for Rs.1106.12 lakhs in 2005-2006.

iii. It is found that 60% of the decrees pending at the end of the period are less than one year old.

iv. The recovery effected through litigation is minimal. While a minimum amount of Rs.101.27 lakhs from 1110 defaulters had been recovered in 2002-2003, an amount of Rs.720.50 lakhs from a maximum number of 11272 defaulters was recovered in 2004-2005.

v. The pendency of arbitration claims ranged from a minimum of 46 claims for Rs.4.55 lakhs in 2004-2005 to a maximum of 840 claims for Rs.165.78 lakhs in 2005-2006. Execution awards pending range from a minimum of 14473 decrees for Rs.1411.73 lakhs to a maximum of 26800 decrees for Rs.1978.33 lakhs.

5.1.7. INTEREST RELIEF AND ONE TIME SETTLEMENT

i. While a minimum number of 147654 farmers were benefited from an interest relief of Rs.657.78 lakhs in 2002 a maximum number of 615380 farmers were benefited from interest relief
of Rs.22757.41 lakhs in 2004 in Tamil Nadu. The maximum relief of 54.61% to principal was provided in 2004.

ii. In Salem district a minimum of 865 farmers were benefited from a relief of Rs.13.11 lakhs in 2005 and a maximum of 29853 farmers from a relief of Rs.1023.43 lakhs in 2004.

iii. The minimum recovery through OTS was Rs.5.34 lakhs from 119 defaulters in 2005-2006 and the maximum recovery was Rs.140.93 lakhs from 1910 defaulters in 2004-2005 in the district.

5.1.8. FACTORS DISCRIMINATING DEFAULTERS

i. In Omalur, where recovery is low, 58.8% are non-willful and 41.3% are willful, in Mettur where recovery is moderate, 55% are non-willful and 45% are willful and in Salem where recovery is high, 53.8% are non-willful and 46.3% are willful; the default status remains similar in the three taluks.

ii. Among the forward caste respondents, 59% are willful defaulters. The caste of the defaulters is dissimilar with regard to default status.

iii. Among those with agriculture as the predominant occupation, 60.7% are non-willful defaulters, and among those who do not have agriculture as predominant occupation, 58.1% are willful defaulters. The occupation is not same in the two default groups.
iv. A majority of respondents who are leaders of non-leaders are non-willful defaulters (56.39% and 55.14% respectively); the leadership status is not similar in the two default groups.

v. In the marginal farmers and small farmers categories, 86.2% and 56.9% are non-willful defaulters respectively. But 77.6% of large farmers and 51.9% of medium farmers are willful defaulters, the land size being dissimilar in the two groups.

vi. Among the defaulters with overdues of Rs.20001-30000, 60.9% are willful and among those with overdues less than Rs.10000, 72.9% are non-willful. The amount of overdues is dissimilar between the two groups.

vii. While 62.9% of them who have utilized the credit productively are willful defaulters, 59.1% of them who diverted are non-willful defaulters. The utilization of loans is dissimilar in the two groups.

viii. A majority of defaulters with an annual income of less than Rs.50000, and those with an income of Rs.50001-100000, are non-willful (83.5% and 58.8% respectively), the income being dissimilar in the two groups.

ix. It is observed that 65.12% of defaulters with an annual expenditure of less than Rs.50000 are non-willful defaulters and 56.62% with an annual expenditure of more than Rs.100001 are willful defaulters. Dissimilarity in annual expenditure is observed in the default groups.

x. Among those cultivating commercial crops, 75% are willful defaulters and 60.1% of those cultivating food crops are non-
willful defaulters. The type of crop cultivated is dissimilar in the two groups.

xi. It is noted that 88.6% of the defaulters with market surplus of above Rs.100001 are willful and 74.2% of them with market surplus of less than Rs.50000 are non-willful, the market surplus being dissimilar among the defaulters.

xii. Among those expecting waiver, 62.5% are non-willful defaulters. Dissimilarity regarding expectation of waiver is seen in the two groups. Factors such as annual income landholding, annual expenditure, and overdues are found to discriminate correctly between willful and non-willful defaulters to the extent of 76.7% accuracy. It could be used to predict the default status correctly.

5.1.9. REASONS FOR DEFAULT

i. An analysis of reasons for default according to default status shows that increased farm and family expenditure, emergency expenses, and crop failure are the most common reasons, irrespective of default status. However, the willful and non-willful defaulters differ in their reasons for default. Late sale of produces is the main reason in which willful defaulters differ from non-willful defaulters.

ii. Taluk wise analysis shows that crop failure is the most common reason for default in all the three taluks. There is significant difference among the defaulters in the three taluks regarding reasons for default. Expectation of waiver is the main reason by which the defaulters in Omalur taluk differ from defaulters in other taluks.
iii. Defaulters, irrespective of their size of landholding hold that increased farm and family expenditure and crop failure are the prominent reasons for default. The defaulters classified according to land size differ in the reasons for default. Reasons such as emergency expenses and expectations of waiver differentiate the defaulters with marginal farms from others. It is inadequacy of credit in the case of small landholders and lack of persuasion from co-operative officials in the case of large landholders.

5.1.10. ATTITUDE TOWARDS REPAYMENTS

All the respondents in Salem District unanimously are demotivated by government policy of waive-off, in their repayment behaviour. Postponement of loan, repayment expecting government action in times of calamities have secured a mean score of 4.22. The analysis of the attitude of defaulters according to taluk, default status and landloading shows that governments’s waive-off policy has primarily motivated postponement of repayment (since this option scored a mean score above 4 in all the analyses). The attitude towards repayment of loans does not differ according to the taluk, default status or landholding.

5.3. SUGGESTIONS

The following suggestions have been made from the study.

5.3.1. CREDIT MONITORING

Co-operative credit can be made more purposeful in developing the socio-economic conditions of the farmers, only if timely supply of necessary credit, effective supervision, and timely recovery of loans are ensured. Effective recovery is possible only if there is effective credit monitoring or supervision.
5.3.1.1 PRE-LENDING APPRAISAL

Effective credit monitoring starts with appraisal of potential borrowers at the pre-sanction stage. A critical appraisal of loan proposals is essential to avoid delay in lending and disbursement of loans. Pre-lending appraisal like evaluation of agricultural product, assessment of external forces, availability of inputs, local market structure, etc., are to be undertaken. The repaying capacity of the borrower is to be judged carefully before sanctioning the loan.

5.3.1.2. LOAN SCREENING COMMITTEE

A Loans Screening Committee could be established to screen loan proposals and to avoid giving loans to willful defaulters, thus avoiding the possibility of creation of overdues at pre-sanction stage itself.

5.3.1.3. POST-SANCTION MONITORING

Diversion of credit for unproductive purposes is one of the reasons for default. Effective monitoring of end-use of credit is an essential task to be carried out by the officials of the bank. If this task is carried out promptly and diligently, diversion of funds could be averted. Prevention of NPAs has to be carried out on war footing by the bank. Effective credit audit through qualitative analysis coupled by effective reporting from the PACB level to the CCB level would prevent default. The recovery discipline has to be inculcated among borrowers right from the sanction/disbursal of loans.

5.3.2. EFFECTIVE SUPERVISION AND CONTROL

In the federal co-operative credit structure, the weaknesses in the PACBs affect the operations of the CCB. Mounting overdues in PACBs have increased the NPAs in Salem DCCB. In the three-tier credit structure,
the CCB shoulders the major responsibility for curbing the overdues at the primary level. Thus, the bank should use, its statutory and non-statutory powers in respect of supervision and control over the societies and its leadership with knowledge of local conditions to help in prompt recovery of loans.

5.3.3. RECOVERY CELLS

The NABARD offers financial assistance to create recovery cells in the RRBs. If such provision for creating recovery cells is extended to the PACB level, recovery operation cell could be set up in the PACBs, which would ensure timely collection of overdues.

5.3.4. LEGAL ACTION

The Co-operative Societies Act has empowered the co-operative Court, headed by the Registrar, his/her subordinates, to take legal action on defaulters of co-operative credit.

3.4.1. EVALUATION OF RECOVERY PERFORMANCE

Legal action by the co-operative court is impaired by various intrinsic and extrinsic constraints. However, the PACBs and the CCB can adopt the following suggested norms to enhance their performance regarding legal action:

i. When the overdues could not be recovered within one year, it could be deemed that all persuasive methods have failed. Arbitration process should be initiated in the case of overdues of over one year. Loans, which are overdues for more than three years, are termed as chronic overdues. They could be normally recovered only through execution of decrees.
obtained. If these norms are observed, legal action may be considered adequate.

ii. In order to facilitate effective recovery, the co-operative court, should ensure disposal of legal cases entertained by it within the time limit, for legal actions to be timely.

5.3.4.2. COERCIVE ACTION

Non-institutional agencies, also provide consumption and production credit to the farmers. However, the overdues in these institutions are minimal, since they adopt coercive methods of recovery of dues. Unfortunately, the co-operatives could not adopt such coercive methods of recovery, since the government has slapped a carpet ban on the use of coercive methods of recovery. This study reveals that the execution of the decrees are pending and cannot be executed due to the unfavorable policy of the government. It is high time the importance and significance of coercive action against willful defaulters be realized by the authorities, and they should sanction immediately adequate measures to recover dues from willful defaulters.

5.3.4.3. PERSUASIVE ACTION

The study shows that the borrowers tend to repay the loans of non-institutional agencies, which charge exorbitant rates of interest, after availing loans from the PACBs, at a lower rate. The co-operatives cannot resort to such practices. Only repeated approach for repayment by the officials, may hasten recovery. Thus, persuasive action seems to be the only avenue open to the co-operatives to recover their dues. The defaulters should be made to realize the working of co-operatives and how their defaulting results ultimately in entire loss.
5.3.4.4. ATTITUDINAL CHANGE

It is obvious that persuasive methods should not be ignored in the recovery of dues. Hence, the officials and employees at the PACB level and CCB level should develop a positive attitude in creating a friendly relation with the borrowers. They have to create a good climate through personal touch with the borrowers, by meeting their demands instantly. A fairly adequate knowledge about the behaviour, credit worthiness, personal need, and character of the borrowers and lenders would be brought close through such attitudinal change. This relationship would ultimately motivate the borrowers to repay the dues in time.

5.3.4.5. DISQUALIFICATION OF DEFAULTERS

Willful defaulters set a bad precedence to the borrowers. A radical measure would be to disqualify the defaulters (particularly willful defaulters) from being members the management team (Board of Directors) and delineate them from voting rights.

5.3.5. COMPROMISE SETTLEMENTS

This study corroborates the conclusions of previous studies that recovery through legal action is a time consuming process and it takes years to settle a dispute. Adding woe to the pathetic situation is the government’s policy of carpet ban on the use of coercive methods of recovery, which has made recovery of co-operative dues, a Herculean task in the district. Thus, a method of mediation / compromise with the defaulters may help in minimizing the overdues at the PACB level and NPAs at the CCB level. The Registrar of Co-operatives or his / her subordinates, who are empowered by the co-operative department, could enter into compromise agreements with the defaulters. The settlement could be in the shape of waiving penal interest or waiving accrued interest or permitting easy terms
of repayment. Compromise with borrowers seems to be a pragmatic approach in the fields of recovery of NPAs.

5.3.6. RECONSIDERATION ON WAIVERS

This study has revealed that expectation of waiver is one of the main reasons for non-payment of dues. The announcement of write-off of interest and/or penal interest and the interest relief schemes are quite frequent in the state. There is also a misconception in the minds of the borrowers that entire amount of loans and advances borrowed would be written-off. Besides, Omalur and Mettur taluks, two of the sample taluks in the Cauvery delta basin, are frequently affected by drought. Hence, they are eligible for drought relief and also flood relief sanctioned by the government. This situation in addition to assisting the poor farmers, would also breed up toward results. Certainly not so eligible farmers could also avail the schemes. Thus, it would lead to increase in the number of defaulters, as most of the farmers would become members of the PACBs with the ulterior motive of getting waivers or interest relief from the government. Therefore, the government should reconsider its policy of announcing write-offs or waivers to the members of co-operatives. Instead the government should identify the non-viable and non-bankable segments of agriculture and they may be given the necessary inputs and support.

5.3.7. EDUCATION

Just as the membership has been increasing over the years, the number of defaulters of co-operative credit has also been increasing in the district. Reducing the number of defaulters and the level of overdues by educating and motivating the members to remit their dues to the bank in time are the need of the hour. Co-operative education being implemented in the District exists only on paper. Non-payment of dues disables recycling of
agricultural credit. Concerted efforts to educate the members regarding the significance of prompt repayment of dues and the dangers of default would go a long way in preventing default.

5.4. SCOPE FOR FURTHER RESEARCH

i. The study could be extended to compare inter-state position of NPA pattern in CCBs.

ii. A study of NPAs in both long-term and short-term co-operative credit structure could be carried out.

iii. Comparative study of NPAs in various sectors of banking, viz., commercial, private, foreign, and co-operative sectors could be done.

iv. Indepth studies on the impact of NPAs on the profitability, liquidity, and solvency of co-operative banks could be carried out.

v. Qualitative study on the effect of government policy and recovery of dues to co-operatives could be undertaken.

vi. The relationship of default of credit and multi-agency lending could be studied.

vii. Default of credit could be assessed from the perspective of credit utilization.

The recent phenomena of depletion in solvency of CCBs in the country and failure of one CCB in Tamil Nadu, and eight CCBs in other states of India reiterate the significance of this study. Hence, the researcher hopes this study, which is the need of the hour, would draw the attention to
the menace of NPAs especially in CCBs and paves the way to strengthen them.

This study has come out with various measures to prevent and control NPAs. The suggestions made by the researcher based on his study to make effective prevention and reduction of NPAs, strengthening of profitability and solvency position in CCBs would hopefully stall further bank failures.