FINDINGS AND SUGGESTIONS

In the past, the higher margins enabled the banks to run their show even with lower efficiency levels in the management of different functional areas. The introduction of economic reforms in 1991, facilitated the entry of large private sector banks. The foreign banks have also set up their shops in India as a sequel to globalisation. The variety of financial products and technology enabled attractive services offered by these banks have tremendously increased the competition among the banks in India bringing their margins under severe pressure. The banks have now to operate with thin margins necessitating the exercise of prudence and foresight in management.

The history is replete with instances of assessment of a bank’s performance on the basis of very few and simple parameters like aggregate deposits held, loans and advances made and branch network. The changing times have ushered in new evaluation norms for a bank’s performance. The present day key parameters for assessing the bank’s performance are asset portfolio, asset quality, capital adequacy, spread, cost of funds, operational costs, technology absorption and above all the NPA levels and recovery. All these parameters are the determinants of a bank’s stability and profitability.

The DCCBs have been playing a pivotal role in promoting the rural economy of India for several decades. Acting as the support base for the grass roots level PACs, the DCCBs have been the time tested instruments for freeing the farming community from the shackles of the ruthless and exploitative village money lenders. Needless to say, the DCCBs are indispensable for the economic development of the villages. The existence and growth of the DCCBs are no doubt the basic requirements of predominantly agrarian economy of India. But in the present context, maintaining the stability, increasing the profitability and attaining growth are the real challenges before all the banks including the DCCBs.

The greatest impediment to stability and profitability of a bank is the problem of NPAs. The profitability is the growth driver and NPAs will directly erode the profitability. The improper management of NPAs will surely destabilise the bank in the course of time. The
KDCC Bank has been suffering from unduly high level of NPAs especially in the eight years covered by this study. If left unchecked, the NPAs are likely to reach alarming proportions threatening the profitability and eventually the stability of the bank in the years to come. The bank has to streamline its NPA management machinery if it has to survive and grow.

In this background, a need was felt by the researcher to undertake the study of NPAs in banks in general and that of the KDCC Bank in particular. The study mainly aims at the analysis of the composition of NPAs, analysis of the NPAs vis-a-vis financial stability and analysis of the impact of NPAs on cost and profitability.

MAJOR FINDINGS

The main findings emerged from the data analysis are:

(A) Appraisal of Composition of NPAs

1. The Gross Advances of the KDCC Bank increased from Rs. 16,715.18 Lakhs (44.59 % of total assets) as on 31-03-2001 to Rs. 24,758.64 Lakhs (50.30 % of total assets) as on 31-03-2005. This signifies that the share of loans and advances in total assets is fairly large.

2. In absolute terms, the Gross NPAs increased from Rs. 1,938.03 Lakhs as on 31-03-2001 to Rs. 3,233.54 Lakhs as on 31-03-2005. The Gross NPAs as a percentage of Gross Advances (i.e., Gross NPA Ratio) increased from 11.59 % as on 31-03-2001 to 13.06 % as on 31-03-2005. The increase in Gross NPAs both in absolute and percentage terms indicates the necessity to streamline the NPA management machinery.

3. The Provision for NPAs held increased from 632.18 Lakhs as on 31-03-2001 to Rs. 1,119.73 Lakhs as on 31-03-2005. This reveals the increasing necessity to make additional provisioning over the years reducing the profitability of the bank.
4. The Net NPAs increased from 1,305.85 Lakhs as on 31-03-2001 to 2,113.81 Lakhs as on 31-03-2005. The Net NPAs as percentage of Net Advances (i.e., Net NPA Ratio) also increased from 8.12 % as on 31-03-2001 to 8.94 % as on 31-03-2005. As the Net NPAs represent the part of Gross NPAs not covered by provisions the increase in Net NPAs is not in the interest of the bank.

5. The Standard Assets constituted 86.94 % of Gross Advances as on 31-03-2005. The Sub-Standard Assets component was 6.64 % followed by Doubtful Assets 5.09 % and Loss Assets 1.33 %. The pattern in this regard remained more or less the same over the five years ending 31-03-2001 to 31-03-2005. This implies that unless the efforts are made in right earnest to increase the Standard Assets component of Gross Advances by reducing each NPA component the situation will not improve.

6. The percentage of Sub-Standard Assets to Gross NPAs was 50.81 % as on 31-03-2005 followed by Doubtful Assets 38.98 % and Loss Assets 10.21 %. The slight decline in recent years in the percentage of Loss Assets to Gross NPAs would not be of much advantage.

7. In respect of short-term agricultural loans, NPAs constitute 1.07 % of such loans as on 31-03-2005. The percentage varied from a low of 0.39 % as on 31-03-2004 to a high of 1.74 % as on 31-03-2001. NPAs in this category of loans are below the tolerable limit of 5.00 %.

8. In short-term non-agricultural loans other than cash credit there were no NPAs as on 31-03-1998 to 31-03-2003. As on 31-03-2004, NPAs constituted 4.18 % of The percentage declined to 2.29 % as on 31-03-2005. The NPAs in this category are also well within the tolerable level.

9. The NPAs in non-agricultural medium term loans vary from 0.57 % as on 31-03-1999 to a high of 4.58 % of such loans as on 31-03-2005. The percentage witnessed a wide variation from year to year but is within the tolerable level.

10. The NPAs in Cash Credit to Others range from a low of 0.02 % as on 31-03-2002 to a high of 13.05 % as on 31-03-2005. The percentage was far below the tolerable
limit at the end of the years from 31-03-1998 to 31-03-2003. But the percentage
witnessed an increase beyond the tolerable limit to reach 7.90 % as on 31-03-2004
and again to 13.05 % as on 31-03-2005 which is a cause for concern.

11. The NPAs in cash credit to individuals constitute 21.56 % of loans of this category
as on 31-03-2005. From 31-03-1998 to 31-03-2001, the NPAs in this category were
within the tolerable level but thereafter started increasing beyond level. The NPAs
of 21.56 % of cash credit to individuals should be a matter of serious concern.

12. The highest level of NPAs was observed in medium term loans to individuals with
NPAs constituting 33.39 % of loans of this category as on 31-03-2005. It is
significant to note that during the eight years covered by this study, the percentage
of NPAs in this category of loans was far above the tolerable level in all such years.
All the components of NPAs viz., sub-standard, doubtful and loss assets were also
above the tolerable level during these years. This is a matter of very serious concern
necessitating efforts to solve the problem in right earnest.

13. Out of the loans and advances to agricultural sector amounting to Rs. 6,069.37
Lakhs, Standard Assets amounted to Rs. 6,019.64 Lakhs (99.18 % of total loans for
agricultural sector), NPAs amounted to Rs. 49.73 Lakhs (0.82 %). There is no
cause for concern in respect of agricultural loan portfolio of the KDCC Bank. In
NPAs of Rs. 49.73 Lakhs, Sub-Standard Assets amounted to Rs. 37.56 Lakhs
(75.53 % of total NPAs in agricultural sector), Doubtful Assets amounted to Rs.
10.34 Lakhs (20.79 % of total NPAs in agricultural sector), and Loss Assets
amounted to Rs.1.83 Lakhs (3.68 % of total NPAs in agricultural sector).

14. In the loans and advances for non-agricultural sector amounting to Rs. 18,689.29
Lakhs, the Standard Assets amounted to Rs. 15,505.46 Lakhs (82.96 % of total
loans for non-agricultural sector) and NPAs amounted to Rs.3,183.83 Lakhs (17.04
% of total loans for non-agricultural sector). In NPAs of Rs. 3,183.83 Lakhs, Sub-
Standard Assets amounted to 1,605.54 Lakhs (60.43 % of total NPAs in non-
agricultural sector), Doubtful Assets amounted to Rs. 1,250.22 Lakhs (39.27 % of
total NPAs in non-agricultural sector) and Loss Assets amounted to Rs. 328.05
Lakhs (10.30 % of total NPAs in non-agricultural sector). The NPAs of the KDCC Bank in non-agricultural sector are far in excess of tolerable level of 5 %.

Out of the total loans for non-agricultural sector, sizeable chunk of NPAs can be observed in Medium Term Loans and Cash Credit Loans to individuals. In Medium Term Loans to individuals amounting to Rs. 4,451.94 Lakhs, the NPAs amounted to Rs. 1,486.61 Lakhs (33.39 % of Rs. 4,451.94 Lakhs). Out of total Cash Credit to individuals amounting to Rs. 5,670.07 Lakhs NPAs amounted to Rs. 1,222.63 Lakhs (21.56 % of Rs. 5,670.07 Lakhs). In non-agricultural sector, Loans other than the Medium Term Loans and Cash Credit Loans to individuals amounted to Rs 8,567.28 Lakhs. Out of Rs 8,567.28 Lakhs, NPAs amounted to Rs. 474.59 Lakhs (5.53 % of Rs 8,567.28 Lakhs) which is above the tolerable level of 5 %.

The percentage of NPAs in agricultural sector to Gross NPAs ranged from a low of 0.31 % as 31-03-1998 to a high of 1.54 % as on 31-03-2005. The other component of Gross NPAs being the percentage of NPAs in non-agricultural sector to Gross NPAs varied from 98.46 % as on 31-03-2005 to 99.69 % as on 31-03-1998. The fact that during the period of eight years covered by this study, the percentage of NPAs in non-agricultural sector to Gross NPAs stood at an exorbitantly high level of more than 98.00 % is a matter of serious concern.

13 out of 15 branches at taluka headquarters (86.67 % of branches at taluka headquarters) had NPAs in excess of tolerable level of 5 % of gross advances whereas 20 out of 31 branches in villages (64.52 % of branches in villages) had NPAs in excess of tolerable level of 5 %. In this regard, the branches in villages are better than branches at taluka headquarters.

The standard assets component in total advances in branches at taluka headquarters was 84.71 % of total advances of such branches as against 90.19 % in branches in villages. In this respect, the branches in villages have an edge over branches at taluka headquarters. The sub-standard assets constituted 7.10 % of total advances in branches at taluka headquarters as against 7.38 % in branches in villages. With regard to sub-standard assets component, branches at taluka headquarters are slightly better than branches in villages.
19. The doubtful assets formed part of 6.35% of total advances of branches at taluka headquarters as against 2.41% in branches in villages. In respect of loss assets, the branches at taluka headquarters had such assets constituting 1.84% of total advances of such branches as against 0.02% for branches in villages. Thus, on the doubtful and loss assets front, the branches in villages are far better than branches at taluka headquarters.

20. Overall NPAs of the branches at taluka headquarters constituted 15.28% of total advances of such branches as against 9.81% for branches in villages. Though the branches in villages had NPAs in excess of tolerable level of 5%, still, their NPAs were far lesser than that of NPAs of branches at taluka headquarters.

21. The percentage wise, Tattihalli Branch in Mundgod Taluk topped the list of high NPAs as on 31-03-2005. The NPAs of this branch amounted to Rs. 84.54 Lakhs and the percentage of NPAs of this branch to total advances of the branch was a whopping 57.63%. This was followed by Honnavar Branch (41.47%), Sirsi Branch (31.91%), Dandeli Branch (31.07%), and Kavalakki Branch in Honnavar Taluk (23.80%). Out of 46 Branches, as many as 32 branches have NPAs in excess of tolerable level of 5% of total advances. The bank should take special care to reduce the NPAs in these branches to bring them down to the tolerable level.

22. In absolute terms, Honnavar Branch occupied the highest position in NPAs as on 31-03-2005. The NPAs of this branch amounted to Rs. 517.76 Lakhs. This is followed by Dandeli Branch with NPAs of Rs. 563.71 Lakhs, Sirsi Branch with NPAs of Rs. 471.04 Lakhs, Sirsi Market Yard Branch with NPAs of Rs. 405.35 Lakhs and Bhatkal Branch with NPAs of Rs. 183.17 Lakhs. The bank should must make special efforts to reduce the NPAs in these branches to bring down the NPAs to the reasonable level.

(B) Appraisal of NPAs vis-a-vis Financial Stability

1. As on 31-03-2005 the gross advances of the KDCC Bank amounted to Rs. 24,758.64 Lakhs and gross NPAs amounted to Rs. 3,233.55 Lakhs. The gross NPAs as a percentage of gross advances was 13.06% The ratio is quite high considering
the internationally accepted norm for this percentage at the level of 5.00 %. All out efforts should be made to reduce this percentage drastically.

2. The percentage of sub-standard assets to gross advances from the end of the year 31-03-1998 to 31-03-2005 was on an average at the level of 7.07 %. The percentage of doubtful assets to gross advances from the end of the year 31-03-1998 to 31-03-2005 was on an average at the level of 3.13 %. The percentage of loss assets to gross advances from the end of the year 31-03-1998 to 31-03-2005 was on an average at the level of 1.99 %. On an average, during the 8 years from end of the year 31-03-1998 to 31-03-2005, the NPAs on an average were 12.39 % of gross advances. This average percentage is also far above the internationally accepted norm of 5.00 %. Looking from this angle, it appears that hard decisions are necessary to combat the menace of NPAs in the KDCC Bank.

3. During the years ending 31-03-1998, 31-03-1999 and 31-03-2000, the percentage of sub-standard assets to gross NPAs was at a high level of 71.45 %, 81.00 % and 73.51 % respectively. At the year ending 31-03-2001, the percentage drastically declined to the level of 37.87 % and remained at the level of 40.63 % as on 31-03-2002. The percentage witnessed an increase then on and stood at 56.86 %, 54.33 % and 50.81 % as on 31-03-2003, 31-03-2004 and 31-03-2005 respectively.

4. The percentage of doubtful assets to gross advances was 5.09 % as on 31-03-2005. During the years ending 31-03-1998 and 31-03-1999 there were no doubtful assets at all. At the year ending 31-03-2000, there were doubtful assets but the percentage of doubtful assets to gross advances stood at the very low level of 0.68 %. The percentage was fairly steady on an average at the level of 4.87 % from the end of the year on 31-03-2001 to 31-03-2005.

5. During the years ending 31-02-1998 and 31-03-1999 there were no doubtful assets at all. At the year ending 31-03-2000, there were doubtful assets but the percentage of doubtful assets to gross NPAs stood at the level of 6.14 %. The percentage witnessed an unbelievably high level of 44.09 % at the year ending 31-03-2001 and remained at the level of 43.27 % at the year ending 31-03-2002. The percentage
declined to 32.42 % at the year ending 31-03-2003 but again suffered an uptrend to remain at 34.99 % and 38.98 % at the year ending 31-03-2004 and 31-03-2005 respectively.

6. The percentage of loss assets to gross advances was 1.33 % as on 31-03-2005. The percentage was fairly steady on an average at the level of 2.46 % from the end of the year on 31-03-1998 to 31-03-2001. During the four years ending 31-03-2002 to 31-03-2005 the percentage stabilised at an average of 1.52 %. It is matter of satisfaction that the percentage of loss assets to gross advances witnessed a downtrend.

7. The percentage of loss assets to gross NPAs was very high at the year ending 31-03-1998 at 28.55 %. At the years ending 31-03-1999, 31-03-2000, 31-03-2001 and 31-03-2002, on an average, it was at the level of 18.26 %. At the year ending, 31-03-2003, 31-03-2004 and 31-03-2005 the percentage stood at 10.72 %, 10.69 % and 10.20 % respectively. Obviously, the percentage of loss assets to gross NPAs is declining.

8. The percentage of standard assets to deposits was 53.33 % as on 31-03-2005. It was 57.55 % as on 31-03-1998 and on average of 48.25 % at the end of the three years on 31-03-1999, 31-03-2000 and 31-03-2001. The percentage witnessed an increase to an average of 54.67 % at the end of the four years from 31-03-2002 to 31-03-2005. The percentage connotes a reasonable safety to the KDCC Bank and its depositors. The bank should keep this ratio under close observation to improve it from time to time to assure better safety for its depositors.

9. The percentage of standard assets to outside liabilities was 52.15 % as on 31-03-1998 and on average of 43.11 % at the end of the three years from 31-03-1999 to 31-03-2001. The percentage witnessed an increase to an average of 50.31 % at the end of the four years from 31-03-2002 to 31-03-2005. The percentage implies a reasonable safety to the lenders of the KDCC Bank and its depositors. The bank should keep this ratio under close observation to improve it from time to time to assure better safety for its lenders and depositors.
10. The percentage of standard assets to gross advances was 86.94 % as on 31-03-2005. This percentage was at a high level of 90.64 % at the end of the year 31-03-1998. At the year ending 31-03-1999 it declined to 84.99 %. It remained at an average level of 89.01 % at the three years ending 31-03-2000 to 31-03-2002. At the end of three years from 31-03-2003 to 31-03-2005 the percentage of standard assets to gross advances declined an average of 86.07 % signifying the decreasing safety net for the stakeholders of the bank.

11. The percentage of net NPAs to networth was 114.92 % as on 31-03-2005. The percentage of net NPAs to networth should be on the lower side for better stability. At the years ending 31-03-2001 and 31-03-2002 this percentage was at an average level of 94.10 % but it increased to whopping level of 121.50 % on an average in three years ending 31-03-2003 to 31-03-2005. It is therefore, necessary that this percentage should be reduced.

12. The net NPAs reflect the net risk the bank has to bear on account of NPAs. The percentage of net NPAs to net advances should therefore, be on the lower side to signify better stability. This percentage was on an average at the level of 7.56 % at the years ending 31-03-2001 and 31-03-2002 but it rose to an average level of 10.12 % at the years ending 31-03-2003 and 31-03-2004. Though the percentage of net NPAs to net advances declined to 8.94 % as on 31-03-2005, still from the standpoint of stability the position in this regard does not comfortable.

13. The Capital Adequacy Ratio is the indicator of risk bearing capacity of a bank. In case of bank the top ranking risk is that of loss likely to be caused by the NPAs. Higher the Capital Adequacy Ratio, the higher will be the risk bearing capacity of a bank. But it should be noted that a very high Capital Adequacy Ratio would imply low earning capacity of the bank. The via media seems to lie in maintaining Capital Adequacy Ratio at the level of 8.00 % as recommended by Basel Committee on Banking Regulations and Supervisory Practices. In case of the KDCC Bank, the Capital Adequacy Ratio stands at an average level of 9.45 % during the four years ending 31-03-2001 to 31-03-2004. The Capital Adequacy Ratio further improved to 11.54 % as on 31-03-2005.
(C) Appraisal of Impact of NPAs on Cost and Profitability

1. The percentage of net profit to gross NPAs was 4.36% as on 31-03-2005. The percentage shows the extent of cushion available in a year in the form of net profit to bear the burden of gross NPAs. The percentage of net profit to gross NPAs was at a high level of 24.47% as on 31-03-1998 but declined to 8.35% as on 31-03-1999. It rose to 11.64% as on 31-03-2000 and thereafter it has witnessed more or less a declining trend. This implies that the KDCC Bank’s net profit cover for gross NPAs is quite negligible and needs substantial improvement.

2. If the percentage of additional provision made for NPAs during the year to total expenses of the year is on the lower side, it would be better from the standpoint of the bank’s profitability. In the case of KDCC Bank, there is wide variation in this percentage over the years from 1997-98 to 2004-05 ranging from a high of 6.43% in 1997-98 to low of 0.61% in 2001-02. The percentage of additional provision made for NPAs during the year to total expenses of the year for 2004-05 stood at 1.12%. The percentage of additional provision made for NPAs during the year to total expenses of the year is comfortable but there is a need to stabilise it at a reasonable level.

3. The percentage of additional provision made for NPAs during the year to operating income of the year 2004-05 was 1.08%. If this percentage is on the lower side, better would be the profitability of the bank. In the case of KDCC Bank, there is sudden upswing and downswing in this percentage from year to year from 1997-98 to 2004-05. The percentage of additional provision made for NPAs during the year to operating income of the year is also comfortable but it is necessary to stabilise it at the lowest level.

4. The percentage of NPAs recovered during the year to gross NPAs at the beginning of the year reflects the efficiency of the recovery mechanism in the bank. The percentage stood at 7.83% during the year 1997-98 but the very next year it was at the zero level. During the year 1999-00 it stood at 12.78% but next year it rose to 19.38%. Although the percentage declined to 12.23% in the year 2001-02, this
percentage witnessed an uptrend thereafter. The percentage of NPAs recovered during the year to gross NPAs at the beginning of the year was 22.40% during the year 2004-05. The percentages of NPAs recovered during the year to gross NPAs at the beginning of the year, in all these years, are on the extremely lower side which signify that the recovery machinery of the KDCC Bank is weak and there is strong need to strengthen it.

5. The percentage of total provision for NPAs to gross NPAs reveals the extent to which the gross NPAs are covered by the provisions. Alternatively, it signifies the extent to which the gross NPAs have no cover in the form of provisions. If this percentage is unnecessarily high, it will cut into the profits of the bank. As such, it would be desirable to have provisions as required by the NABARD guidelines. As on 31-03-2005 the percentage of total provision for NPAs to gross NPAs was 34.63%. This percentage was at a very high level of 41.43% as on 31-03-1998 and came down to 27.39% as on 31-03-1999. Thereafter, it stands at an average level of 34.38% at the end of the years 31-03-2000 to 31-03-2005.

6. The percentage of provision for sub-standard assets to total provision for NPAs shows the component of provision for sub-standard assets in total provision for NPAs. As on 31-03-2001 percentage of provision for sub-standard assets to total provision for NPAs stood at 12.90% but it increased 16.65% as on 31-03-2002. At the end of two years on 31-03-2003 and 31-03-2004, the percentage stood at an average level of 29.71%. This percentage was 15.75% as on 31-03-2005 which depicts a considerable decrease from the previous year.

7. The component of provision for doubtful assets in total provision for NPAs is reflected by the percentage of provision for doubtful assets to total provision for NPAs. As on 31-03-2001 percentage of provision for doubtful assets to total provision for NPAs stood at 25.69% but it increased to an average level of 37.27% at the end of three years 31-03-2002 to 31-03-2004. This percentage was 50.96% as on 31-03-2005 which signifies a substantial increase from the previous year.
8. The percentage of provision for loss assets to total provision for NPAs shows the component of provision for loss assets in total provision for NPAs. At the end of two years on 31-03-2001 and 31-03-2002, it stood at an average level of 45.41% but declined to an average level of 32.66% at the end of two years on 31-03-2003 and 31-03-2004. This percentage was 29.46% as on 31-03-2005 which indicates a slight decrease from the previous year.

9. The ratio of NPAs recovered during the year to gross NPAs at the beginning of the year during the years from 1997-98 to 2000-01 varied from 0% in 1998-99 to 19.38% in 2000-01. From the year 2001-2002 the ratio witnessed an uptrend from 12.23% in that year to 22.40% in 2004-05.

10. The ratio of NPAs recovered during the year to the gross NPAs at the beginning of the year shows the level of efficiency of the recovery mechanism existing in the bank. A higher ratio in this regard would help improve the liquidity, profitability and stability of the bank. In case of the KDCC Bank, more than 70.00% of gross NPAs are not covered by the provisions and hence the recovery of even 22.40% of gross NPAs, being the highest so far, is certainly not satisfactory.

11. The percentage of total expenses to gross advances shows the cost of maintaining the bank's gross advances. This percentage can be good measure to know the cost of maintaining all components of gross advances viz., standard assets, sub-standard assets, doubtful assets and loss assets. The percentage of total expenses to gross advances was at an average level of 23.88% during four years from 1997-98 to 2000-01. Thereafter, this percentage was on the declining trend with 19.47% in 2001-02, 18.71% in 2002-03 and 16.99% in 2003-04. The percentage stood at 15.10% during 2004-05 which is a welcome sign.

12. The cost of maintenance of excess NPAs was 110.15 Lakhs in 1997-98, Rs. 296.76 Lakhs in 1998-99, Rs. 231.18 Lakhs in 1999-00, Rs. 264.54 Lakhs in 2000-01, Rs. 218.71 Lakhs in 2001-02, Rs. 395.35 Lakhs in 2002-03, Rs. 359.81 Lakhs in 2003-04 and Rs. 301.54 Lakhs in 2004-05. This implies that the KDCC Bank could have saved a sum of Rs. 2,178.34 Lakhs over the years from 1997-98 to
2004-05 in the absence of excess NPAs and on an average Rs. 272.29 Lakhs per year.

13. The percentage of interest income to standard assets shows the extent of income generated by the standard assets. It is only the standard assets which yield the interest income for the bank. The NPAs including sub-standard, doubtful and loss assets do not yield interest income for the bank. The percentage of interest income to standard assets is therefore, a good measure to know the loss of revenue opportunity due to the existence of excess NPAs. In case of the KDCC Bank, the percentage of interest income to standard assets stood at an average level of 28.16 % during four years from 1997-98 to 2000-01 and it declined to an average level of 21.66 % during three years from 2001-02 to 2003-04. This percentage was 17.54 % during 2004-05 and there is a need to improve this percentage upwards.

14. The loss of revenue opportunity due to excess NPAs was 130.31 Lakhs in 1997-98, Rs. 360.90 Lakhs in 1998-99, Rs. 268.72 Lakhs in 1999-00, Rs. 306.86 Lakhs in 2000-01, Rs. 251.85 Lakhs in 2001-02, Rs. 476.07 Lakhs in 2002-03, Rs. 423.98 Lakhs in 2003-04 and Rs. 350.02 Lakhs in 2004-05. This implies that the KDCC Bank could have earned a sum of Rs. 2,568.71 Lakhs over the years from 1997-98 to 2004-05 in the absence of excess NPAs and on an average Rs. 321.09 Lakhs per year.

15. The spread on total assets after provision made for NPAs during the year is substantially less than the spread on total assets before provision made for NPAs during the year from 1997-98 to 2004-05. The spread on total assets before provision made for NPAs during the year declined from 3.18 % in 1997-98 to 1.83 % in 2004-05. The spread on total assets after provision made for NPAs during the year declined from 2.44 % in 1997-98 to 1.74 % in 2004-05. The spread on total assets before provision made for NPAs during the year itself was low and the provision for NPAs wiped off sizeable portion of the spread in 4 out of 8 years. All out efforts must be made to reduce the NPAs and thereby reduce the necessity to make provision for NPAs.
16. The return on total assets after provision for NPAs was on an average 11.40% during 2 years 1997-98 and 1998-99 as against return on total assets before provision for NPAs of an average of 11.89% in respect of the same period. The return on total assets after provision for NPAs took a downtrend from 1999-00 to 2004-05, followed by return on assets before provision for NPAs during that period. During the year 2004-05, the return on total assets after provision for NPAs was 7.80% as against return on assets before provision for NPAs of 7.88%.

17. The return on shareholders' equity after provision for NPAs was 30.07% during 1997-98 as against the return on shareholders' equity before provision for NPAs of 49.13% during that year. The return on shareholders' equity after provision for NPAs was on an average 13.92% during the five years from 1998-99 to 2002-03 as against the return on shareholders' equity before provision for NPAs at an average level of 22.55% during the same period. The return on shareholders' equity after provision for NPAs was 6.63% during the year 2003-04 as against the return on shareholders' equity before provision for NPAs of 8.21% in that year. The return on shareholders' equity after provision for NPAs improved to 7.67% during the year 2004-05 as against an improvement in the return on shareholders' equity before provision for NPAs of 9.95% in that year.

**Suggestions**

In the light of the findings emerged from the analysis, the following suggestions have been made for reducing the NPAs and for attaining operational effectiveness in the management of NPAs of the KDCC Bank and other similar banks elsewhere in India.

1. **Pre-sanction Appraisal**

   In project financing, no loan should be sanctioned without a through project appraisal before according the sanction. The project appraisal should essentially involve the identification of the window dressing in project report submitted by the borrower. The financial projections contained in the projected Trading Account, Profit and Loss Account,
Balance Sheet, Cash Flow Statement and Funds Flow Statement should be analysed threadbare in realistic situation based on practical considerations. A cautious and conservative approach in the appraisal of the project will unearth the window dressing in project report and will place it in a down-to-earth situation. The laws applicable to the project should be identified and classified as those to be complied with for setting up the project and those to be complied with thereafter.

The credit worthiness of the borrower should be one of the significant factors in coming to a decision whether or not to lend. The borrower’s conviction that it is his duty to meet his liabilities in time is the premise on which credit worthiness basically stands. The integrity of the borrower is the backbone of such conviction. The borrower's past track record of meeting his commitments to creditors and lenders should be the basis of determination of credit worthiness of the borrower. It is always difficult to determine the credit worthiness of the proposed borrower.

No one knows what works in the mind of the borrower. Before borrowing, the attractive presentation skills of borrower may show him to be person of good character and integrity. The same borrower’s presentations may turn out to be ugly and unbearable when the time comes for repayment. In order to ascertain the credit worthiness of the borrower, the borrower should be asked to submit references of respectable persons, references of his past lenders, his records relating to payment of past liabilities vis-à-vis the due dates and enquiries may be made with his past lenders.

2 Observing a Healthy Credit Process Flow Chart

The borrowers are always in a hurry to get the loan sanctioned but the bankers should be patient enough to follow a healthy credit process flow chart. In order to appease the borrowers, even if one process is ignored or sidelined, there is every possibility that the banker may have to encounter the menace of NPAs. Therefore, a model of the healthy credit process flow chart is suggested. Its schematic picture is as depicted below:
Healthy Credit Process Flow Chart

3. Trade Cycle Based Project Financing

The projects launched during the boom conditions, with ambitions project cost and projections as to sales and profits at a very high level will run into difficulty once the recession sets in. While the project cost cannot be reduced the sales revenue will drastically come down due to lack of demand which would bring down the profitability and adversely affect the capacity to repay the loan with interest to the bank. Large number of projects are likely to be launched during boom and large number of loans are likely to become NPAs during subsequent recession and depression.

The lending bank should therefore, follow a conservative approach during the stage of boom with due regard to the downward swings the economy is likely to take in the coming recession or depression. On the contrary, the projects launched during depression are likely to do well with the onset of recovery of the economy and subsequent boom as well. The
lending bank should therefore, follow a fairly liberal approach during depression at the time of project financing. If the lending bank follows a conservative approach in sanctioning the term loan or working capital loan, the project is likely to suffer from the shortage of fixed or working capital leading to the project failure.

4. Safety in Directed Lending

The schemes framed for employment promotion and poverty alleviation without ensuring the involvement of the borrower become the generators of NPAs. The loans granted without adequate security like loans under Prime Minister's Rozgar Yojana (PMRY), Integrated Rural Development Programme (IRDP) etc., have the laudable objective of employment generation and promotion of entrepreneurship, but in many cases, they are misused and not repaid leaving the bank in the lurch. The commendable objectives and the ideals behind the introduction of such schemes are conveniently forgotten by the borrowers with the audacity setting in their mind that the bank cannot do anything if the loan is not repaid with interest outstanding thereon.

The unsecured directed lending goes against the principles of sound banking viz., safety, liquidity, security and profitability. It results in deployment of depositors' money in modes not acceptable to them. It is therefore, imperative that the directed lending should be either fully insured or should be in tune with the principles of sound lending and ensure the involvement of the borrowers by way contribution of margin money etc. But the concessions in the form of reduction of margin money requirements, interest rate and enhancement of repayment period may be granted to the borrowers under such schemes.

5. Emphasis on Retail Banking and Micro Financing Alternatives

The retail banking including the financing the purchase of consumer durables such as two wheelers, four wheelers, refrigerators, washing machines, tillers, tractors, generators etc., involve the spread of risk and consequent reduction of risk as compared to large loans. The retail borrowers mainly belong to the middle class who normally do not dare the non-repayment of their dues to the bank. The people belonging to this category are generally conscious of high morals and are very particular about maintaining their credit worthiness.
The chances of retail loans becoming NPAs is less. After meeting the agricultural credit requirements, the KDCC Bank may deploy its surplus funds in retail banking. If necessary, the bank may design more financial products with concession to this sector justified by the spread of risk and consequent reduction of risk.

The micro financing comprises of financing the economic activities of very small scale through the medium of Self Help Groups (SHGs). The SHGs have started playing a very important role in developing the income generating activities in the villages. These tiny organisations can be effective instruments of development of village economy, promoting mutual understanding, co-operation and social development. The sector is steadily growing and all banks are financing this sector. The KDCC Bank is already engaged in financing the SHGs. As the sector offers spread of risk and consequent reduction of risk the KDCC Bank may identify more and more of the deserving SHGs and meet their financial requirements.

6. Appraisal of Security

The appraisal of security offered by the intending borrower for the proposed loan is an important pre-sanction requirement. The constituents of appraisal consist of ascertainment of location of security, its accessibility, mobility, valuation, liquidity and adequacy. The value of security should necessarily be more than the credit facility sufficient to cover the loss likely to be occasioned by default in payment of principal and interest. The real worth of the security must cover the loss that would be caused by the likely principal and interest defaults during the normal course of recovery and also during enforced recovery through the Court of Law.

The absence of adequate gap between the amount of loan and value of its security particularly if the security is highly depreciable asset, will leave the safety level at the lowest edge. In case of slowly depreciable asset like building and non-depreciable asset like land higher ratio of amount of loan and value of security will not cause any problem. The appraisal of security should also cover the accessibility of security for inspection by the bank’s supervisors. If the security is located at a far off place it will not be accessible for inspection by the bank’s supervisors from time to time. The liquidity of security should also

174
be ascertained. If the immovable property given as security is situated in a remote area, it would be very difficult to sell it in case of need, for the buyers may be hard to be found.

The highly depreciable assets like vehicles can always yield a value lower than earlier. But still there are buyers for these assets. The plant and machinery, engineering equipments, fixtures and fittings etc., are surely depreciable though to a lesser degree as compared to vehicles. But the plant and machinery, engineering equipments, fixtures and fittings etc., are not generally suitable for persons other than the persons who bought them and hence the buyers are rare. The borrower, being aware of this fact, would not repay the dues to the bank and even if he minds repayment, he would ask for one time settlement or other negotiated settlement resulting in loss to the bank. It is therefore, necessary that the bank should take great care and caution in accepting the highly depreciable asset as security for the loan. Such security should be accepted with due consideration as to the extent of depreciation and realisable value during the period of loan.

There is also a strong need to undertake a thorough appraisal of the guarantee offered for the loans and advances. Before accepting a particular person as surety, the bank must obtain a complete list of his assets and liabilities to know his networth together with supporting documents. In case of corporate guarantee, the audited balance sheet, profit and loss account, auditor’s report and directors’ report for the last five years must be obtained to analyse the trend in movement of networth and to understand the corporate’s strengths and weaknesses. If the assets of the surety are insufficient to meet his own liabilities or if his financial performance is likely to bring about such a situation in the foreseeable future, there is no meaning in accepting him as surety at all.

7. Security Registration

The bank must ensure that at the time of lending, the registrable security is registered in its favour. The security registration with appropriate authorities of the Government on the one hand, acts as a deterrent to potential defaulters and on the other, avoids impediments in realisation of security. The security of land should be registered with Revenue Department of State Government. The security of vehicle should be registered with Transport Department of the State Government. The security of the assets of a company should be
registered with Registrar of Companies, Department of Company Affairs, Government of India. In case of advances to individuals and partnership firms, there are no authorities to register the securities of the kind of floating / circulating / current assets like stock-in-trade and book debts. The absence of security registration would enable the borrower to borrow from several lenders on the security of the same asset. As a consequence, the banker’s security situation becomes critical and possibility of realisation of security becomes bleak.

8. Building Database of NPAs

The efficient NPA management necessitates a wholesome database of NPAs. The management of NPAs without a proper database is baseless and meaningless. The appropriate database of NPAs would help the bank to draw meaningful inferences and devise effective strategies to draw the loan account specific action plan for reduction of NPAs. The database should be created on meticulously designed formats separately for the following subject-matters:

(a) NPAs at each branch of the bank (Branch-wise NPAs).
(b) NPAs in various amount levels of gross advances (Amount-wise NPAs).
(c) NPAs in various categories of securities against gross advances e.g. fully secured, partly secured and unsecured etc., (Security-wise NPAs).
(d) NPAs in advances to various sectors (Sector-wise NPAs).

9. Maintaining Track Record of Each NPA Account

The track record or history sheet of each NPA account should be prepared, maintained and updated separately by a bank. Such a record will enable the taking of appropriate action to prevent the account from sliding from bad to worse. The slippages from sub-standard to doubtful or from doubtful to loss asset category can be closely watched when such a record is maintained. The track record or history sheet of each NPA account may include the name of the borrower, his address and telephone number, loan account number, date of becoming NPA, date of original sanction, sanctioning authority, security offered including collateral, names of guarantors, their addresses and particulars of their property, insurance thereon if
any, reason for the account becoming NPA, steps taken for recovery date wise, provision held etc.

10. Development of an Efficient MIS Relating to NPAs

An effective management information system is necessary in any bank for the purpose of exercising an effective control over the NPAs. The information may be contained in the monthly, quarterly, half-yearly and annual reports. The flow of information relating to NPAs from the branch to the head office should be smooth and without any hindrance. The processing of such information at head office as branch-wise, amount-wise, security-wise and sector-wise, analysis and interpretation of NPA ratios and their communication to the chief executive should be made in time. The information relating to NPAs must finally be placed before the Board of Directors for facilitating the taking of appropriate decision.

11. Post-sanction Monitoring

The post-sanction monitoring is indispensable part of the bank’s loan product life cycle which comprises of three stages: (1) loan product creation (asset creation), (2) loan product monitoring (asset monitoring) and (3) loan product realisation (asset realisation). It is also inevitable stage of the bank’s healthy credit process. The post-sanction monitoring is as important as pre-sanction appraisal. The neglect of post-sanction monitoring and follow-up will lead to declining seriousness of the borrower in repaying the loan with interest in time. The bank should strengthen its on-site as well as off-site supervision. The on-site supervision involves the visit by the officers of the bank to inspect the condition of security for the loan and to inspect the supporting documents relating thereto. The off-site supervision contains the scrutiny of the stock statement, audited Balance Sheet, Manufacturing Account or Trading Account, Profit and Loss Account, Cash Flow Statement, Funds Flow Statement and Auditor’s Report of the borrower’s business. The on-site and off-site supervision will generate valuable information for the bank to know in what direction the borrower’s financial performance is proceeding and whether there are any warning signals necessitating the initiation of an early action for recovery.
The term loans sanctioned for the purpose of project financing should be reviewed from time to time. The progress reports at various stages of project implementation should be collected from the borrowers at periodical intervals say quarterly, half-yearly and annually. The report should necessarily contain the data regarding the deployment of funds during the period under report and progress of project implementation vis-à-vis the project report and the cost. Similarly, progress reports should be obtained by the bank which has financed the expansion plans of the existing unit. In respect of term loans sanctioned for acquisition of assets, the asset acquired should be inspected by the authorities of the bank to ascertain whether the asset was worth financing. In case of working capital loan, the Stock Statement, Cash Flow Statement and Funds Flow Statement should be obtained from the borrower at periodical intervals to know the direction of movement of funds of the borrowing unit.

12. Strategic Move at the Concerned Stage of Sickness

The sickness of industrial units is not sudden but a gradual process with distinct stages. In the first stage of tending towards sickness, some disorders are witnessed in the functional areas such as production, marketing, human resource development, finance etc., the manifestation of which would be found in decline in production, accumulation of stocks, dishonour of the bills etc. The second stage is that of incipient sickness which means that the industrial unit has just started incurring the losses but the financial strength to meet its commitments and its debt-equity ratio are fairly stable. In the third stage, the sickness is evident with losses disabling the industrial unit to pay its liabilities in full and in time. At this stage, the dues of the industrial unit to the bank would become the NPAs. The fourth and the last stage is that of chronic sickness resulting ultimately in the closure of the industrial unit. The bank should therefore, put the borrowing unit under close observation from day one of releasing the loan amount and should be alert enough to make the strategic move required at the stage concerned to save itself from seeing the face of NPAs.

13. Prompt Action on Identifying Early Warning Signals

In view of the large amount of loans and advances granted to industrial units, their business operations, financial performance, operating profitability, cash inflows and
outflows, stock levels etc., should be continuously put under observation to identify the early warning signals if any, of the incipient sickness. It is imperative that the ailing constituents if any, should be nursed back to health promptly to ensure normalcy in functioning and to bring about the balanced development of all constituents. It is necessary to initiate prompt action to remedy the situation as otherwise the lending banker has to face the NPAs. An illustrative list of such early warning signals is given below.

(i) Downtrend in production, sales and profitability.
(ii) Irregularity in cash credit or overdraft accounts such as inability to maintain stipulated margin on continuous basis, frequent withdrawals in excess of sanctioned limits, periodical interest debited to such account remaining unrealised.
(iii) Outstanding balance in cash credit account remaining continuously at the maximum level.
(iv) Failure to make timely payment of instalments of principal and interest on term loans.
(v) Frequent dishonouring of bills by the credit customers for quality reasons.
(vi) Complaints from suppliers of raw materials, water, power etc, about non-payment of bills.
(vii) Non-submission or undue delay in submission stock statements or submission of incorrect stock statements.
(viii) Attempts to divert the sales proceeds through accounts with other banks.
(ix) Downtrend in credit summations.
(x) Frequent dishonour of cheques issued or bills payable.
(xi) Mounting inventories including large proportion of slow moving or non-moving items.
(xii) Growing amounts and delays in respect of payment of outstanding.
(xiii) Longer period of credit allowed on sale documents negotiated through the bank and frequent return of the same by the customers.
(xiv) Allowing large trade discount on sales.
(xv) Inordinate delay in payment of statutory dues resulting in payment of fines.
(xvi) Utilisation of the funds for the purposes other than running the business.
(xvii) Failure to furnish the information or data on operations in time.
(xviii) Wide variations in the level of sales or receivables.
14. Periodical Analysis of the NPA Ratios

The ratios relating to NPAs concerning safety such as ratio of standard assets to deposits, ratio of standard assets to outside liabilities and ratio of standard assets to gross advances can be analysed monthly, quarterly, half-yearly and annually as the relevant data can be readily accessed from the available records at any time. Similarly, the ratio relating to NPAs concerning stability in the form of capital adequacy ratio can also be analysed monthly, quarterly, half-yearly and annually. The ratios relating to NPAs concerning the profitability, aspects of stability other than capital adequacy, overall financial position can be analysed annually. The impact of NPAs can also be ascertained annually. Even in the case of the issues which can be analysed annually, broad analysis based on estimate can be made monthly, quarterly and half-yearly. The periodical analysis of the NPA ratios will help the bank to know where it actually stands in relation to NPAs and to take timely action to prevent the situation from going from bad to worse.

15. Prevention of Slippage of Standard Assets into NPA Category

"The prevention is better than cure" is a good old saying. The standard assets are performing assets of a bank. They are free from the disease of the NPA kind. Every effort
should therefore be made to prevent these healthy assets from contracting the disease. The preventive measures may include the identification of the borderline cases and fence sitters. The movements of the borrowers belonging to this category as regards their business activities must be carefully and cautiously watched. Appropriate counselling may have to be initiated followed by cautioning and recalling the loan in case of continued defiance by the borrower. In this regard, account specific prompt and timely corrective measure will help maintain the account healthy and prevent the slippage of the standard asset into NPA category.

16. Recalling Loan from the Prodigal Borrower

If the bank has reason to believe that a borrower is spending money without due regard to his earnings, the movements of the borrower should be closely watched by the bank. The extravagant expenditure not commensurate with his income needs to be closely monitored. The squandering of money may extend to the funds borrowed from the bank and in due course of time borrower’s networth may become zero or minus. Well ahead of that point of time, the bank should make a move to recall the loan with interest. Similar strategy may adopted for the non-calculative borrower who spends without bothering about establishing a correlation between his expenditure and income.

17. Revival of Potentially Viable Sick Units

Sometimes the sickness of a borrower’s business may be due to circumstances beyond his control. If the sick unit is potentially viable, the bank should be considerate enough to help its revival. The bank should explore the possibility of revival of sick unit and for this purpose obtain the opinion of the experts, technical, financial or otherwise. But the bank should be cautious enough to ensure that it does not consider any proposal for revival of units of willful defaulters and persons with ostensibly ulterior motives.

The promoter may neither have the capital to contribute nor the will to contribute it even if he has the resources to contribute it. As the promoter's contribution is a precondition in project financing, the project cost is overestimated to cover the capital as well. The machinery, equipments and services to be procured are over invoiced / billed and excess payments are clandestinely ploughed back as capital / promoter's contribution. With this, the promoter sets up his business completely on banker's money without the stake of his own. Thus in reality, the promoter's contribution is rarely brought in. To be on the safer side, the amount of loan should be released only after ensuring that the promoters have brought in their own contribution.

The clandestine making of capital out of loans can be prevented by ensuring that the promoter has really brought in his contribution before releasing the first instalment of the term loan. In case of a company registered under the Companies Act, 1956 it is necessary to ensure that (i) the promoters have paid the amount payable on their shares (equivalent of promoters' contribution) by demand draft / cheque, (ii) the amount is deposited in the bank account of the company, (iii) the funds are utilised from that bank account towards project implementation, (iv) shares have been allotted to them by passing a resolution at the meeting of the Board of Directors of the Company and (v) the Return of Allotment is filed with the Registrar of Companies.

In case of a partnership firm, it is necessary to ensure that (i) the partners-promoters have paid the amount payable as their share in the capital (equivalent of margin money) by demand draft / cheque, (ii) the amount is deposited in the bank account of the partnership firm and (iii) the funds are utilised from that bank account towards project implementation. In case of a sole proprietorship concern, it is necessary to ensure that the proprietor-promoter has paid deposited the amount of capital (equivalent of margin money) in the bank account of the business and (iii) the funds are utilised from that bank account towards project implementation.
19. Disclosure of the Names of Prominent Defaulters

The disclosure of the names of the prominent defaulters would surely act a deterrent against the default. The borrowers are generally conscious of their social status and would always like to maintain their dignity in the society at the highest level. Of course, some borrowers are not unduly worried about their standing in the society but their number is certainly small. The fear of losing the image in the eyes of the public, as a result of the disclosure, compels many fence-sitters not to proceed with their proposed default. The disclosure of the names of prominent defaulters may be made in the annual report of the bank, notice board of the bank branches etc. But the old saying “too much is too bad” may work if such disclosure is aggressively taken up by the bank in a spirit of vengeance. Because, it is possible that the prospective good borrowers may move away from the bank fearing disclosure of their names also if they are unable to repay because of circumstances beyond their control. The disclosure of the names of the prominent defaulters is therefore desirable within reasonable limits as a remedy against the possible default.

20. Enforcement of Security Interest

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was passed for the purpose of reduction of NPAs of banks / financial institutions. The Act is in reality a “three in one” Act. The first aspect is “securitisation”, the second aspect is “reconstruction” and the third aspect is “enforcement of security interest”. These three aspects are distinct but distantly related with each other. The part of the Act that is more near and dear to a bank is that of “enforcement of security interest”. Under the “enforcement of security interest” provisions of the Act, a bank can enforce the security for the loan directly without the intervention of the Court. In order to invoke these provisions, the concerned loan should have become NPA. Prior to the enforcement of security, 60 days’ notice should be given to the defaulting borrower. If the borrower fails to pay the principal and interest within 60 days, the bank can take possession of the asset offered as security or take over the management of such assets or appoint any person to manage such assets. The KDCC Bank may do well to invoke the provisions of the Act relating to “enforcement of security interest” to reduce its NPAs.
21. Compromise Settlements

If the purpose for which the loan was availed by the borrower could not be achieved due to factors beyond his control the bank should be considerate enough to initiate compromise settlement. In that case, the bank may have to make some sacrifice in respect of principal / interest / terms of repayment. Compromise settlement brings down the overall NPAs to the extent justified and to the realistic level.

22. Settlement of Disputes Through Lok Adalats

When a borrower becomes a defaulter, it becomes necessary for the bank to file the suit against the defaulting borrower in the Court of Law for recovery of the dues. Even after filing the suit, the bank should keep close contact with the defaulting borrower and if necessary through his lawyer or relative to explore the possibility of settlement of the dispute through the Lok Adalat. The settlement of the dispute through conciliation and mutual understanding through the Lok Adalat can save the valuable time, energy and money of the banker as well as the defaulting borrower. The resultant reduction of NPAs from the settlement of dispute through Lok Adalats shall be beneficial to the bank as well.

23. Updating the Knowledge of Environmental Protection Laws

The environmental protection laws play a crucial role in deciding the survival of the business of a manufacturer who invariably depends on the financial assistance from the bank in the form of term loans or working capital loans. If the manufacturing unit is closed for violation of environmental protection laws, the sufferers will be both the proprietors of the manufacturing unit as well as the financing bank. Riding on the aquaculture boom, two units borrowed from the KDCC Bank to finance aquaculture farms in the Coastal Regulation Zone (CRZ). The bank and borrowers were not aware of the implications of the already existing notification prohibiting the setting up of fish processing units including warehousing in the Coastal Regulation Zone. These two units had to subsequently close down their operations under the orders of the Supreme Court and their dues to the KDCC Bank became NPAs. The bank officials must carefully study the environmental protection laws and notifications issued thereunder from time to time to...
identify the problem areas. A highly cautious approach is necessary in deciding to or not to finance the borrower-operators in these problem areas.

24. Meetings with Borrowers

The bank should arrange meetings of borrowers periodically preferably every quarter to know their genuine problems. The bank should be considerate enough to extend its helping hand in overcoming the difficulties of deserving borrower. The old saying "a stitch in time saves nine" may work here wonderfully well. A help in time may help the borrower to avert the huge losses likely to caused by certain events. Such a help in time of need creates cordial relation between the banker and borrower which would help the recovery process in a big way.

25. Writing Off of Bad Debts

Where the borrower's project has completely failed or borrower is not traceable or the borrower has no means to pay his dues, it would be fit and proper to write off the dues as bad debts. The bank, by doing so, would cleanse its books and make the Balance Sheet show a really true and fair view of assets. As on 31-03-2005 the components of gross advances of the KDCC Bank are: (1) Standard Assets: 87% (2) Sub-Standard Assets: 7% (3) Doubtful Assets: 5% and (4) Loss Assets: 1%. If the Loss Assets and Doubtful Assets overdue for more than 6 years of approximately 5% of gross advances are written off, the books of the KDCC Bank would be cleansed by NPAs of 5% of gross advances and the remaining NPAs would be of the order of 8% of gross advances. Out of that 8%, Sub-Standard Assets account for 7% and Doubtful Assets account for 1%. The concentration on recovery on these segments can bring down the NPAs to the internationally accepted level of 5%.

In tune with the trend prevailing in present banking system, the experts in accounting, marketing, human resource development, rural development, banking, economics and other disciplines relevant to modern banking must form the human portfolio of the KDCC Bank. Very often, the NPA is the culmination of lack of awareness of the NPA management at various levels of management. Every one in the organisation should be fully aware and if not so, made aware of the problems likely to arise from the NPAs. The bank should organise training programmes in NPA management for various levels of management. The experts in banking must be invited to act as resource persons to impart training in NPA management.

The bank should involve the staff in recovery process. The training programmes should be organised to bring home the strategies to be adopted for recovery of the dues to the bank. The staff involved in recovery, deserve to be provided incentives both monetary as well as non-monetary. The monetary incentives may include cash reward, package tour, etc. The non-monetary incentives may comprise of giving due weightage of quantum of recovery in the performance appraisal of the concerned employee at the time of promotion or upgradation, awarding certificate, shield etc.

For the purpose of solving the problem of NPAs, it is necessary to bring an attitudinal change in the staff as well as management. The decision to lend is made at various levels of management so also the responsibility of recovery lies with them. Once a loan is sanctioned and released, if it is not recovered, the person in the bank who is responsible for sanctioning the loan and who is not so, are likely to be affected in the same manner. Each member of the staff has his own contribution to make in mitigating the problem of NPAs even though the degree of contribution may differ from person to person. Instead of one showing an accusing finger on another for the NPAs caused, there should be appreciation of each other's achievements, problems and pleasures. The morale of the management and staff should be held high and both should proceed as one army in combating the menace of NPAs.
CONCLUSION

The DCCBs are the essential and major players in financing requirements of agriculturists. The inevitable diversification in the deployment of their funds from primarily agricultural sector to non-agricultural sector in the face of surplus funds at their disposal has thrown open the DCCBs to increasing competition and thinning margins. Besides they have been exposed to risks of new types, shapes and dimensions with regard to NPAs. The DCCBs have now to carry on their activities in a world of uncertainty, where prudence and foresight would get rewarded while errors, wrong judgements and bad decisions would bring about disastrous consequences. It is, therefore, absolutely essential that the DCCBs including the KDCC Bank should increasingly be vigilant and cautious in the management of their NPAs as part of their drive to improve their operational effectiveness.

* * * * *