CHAPTER I

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1.1 INTRODUCTION

“A man without money is like a bird without wings” the Rumanian proverb insists the importance of the money. Banks are like reservoirs. They collect the savings of some people and give them to others who can use them productively. In the process, they can earn a commission, out of which they pay interest to those who save and deposit funds with them. A bank is an institution in which those people who have spare cash deposit it and those who need funds borrow from it.

During the last three centuries different types of banks have developed. An efficient banking system is absolutely necessary for a country, if it is to progress economically. The services that an efficient banking system can render a country are indeed very valuable. Undeveloped banking system is not only an index of economic backwardness of a country; it is also an important cause of it. Banks are germane to economic development through the financial services they provide. Their intermediation role can be said to be a catalyst for economic growth. The efficient and effective performance of the banking industry is an index of financial stability in any nation. The extent to which a bank extends credit to the public for productive activities accelerates the pace of a nation’s economic growth and its long-term sustainability.

India is one of the fastest growing economies in the world and is set to remain on that path for many years to come. This will be backed by the stellar growth in infrastructure, industry, services and agriculture. This is expected to boost the corporate credit growth in the economy and provide opportunities to banks to lend to fulfill these requirements in the future.
1.2 BANKING SCENARIO IN INDIA

Modern banking in India could be traced back to the establishment of Bank of Bengal (Jan 2, 1809), the first joint-stock bank sponsored by Government of Bengal and governed by the royal charter of the British India Government. It was followed by the establishment of Bank of Bombay (Apr 15, 1840) and Bank of Madras (Jul 1, 1843). These three banks, known as the presidency banks, marked the beginning of the limited liability and joint stock banking in India and were also vested with the right of note issue.

The Reserve Bank of India was established and started functioning in 1st April 1935. In 1951, in the backdrop of central planning and the need to extend bank credit to the rural areas, the Government constituted All India Rural Credit Survey Committee, which recommended the creation of a state sponsored institution that will extend banking services to the rural areas. Following this, by an act of parliament passed in May 1955, State Bank of India was established in Jul, 1955. In 1959, State Bank of India took over the eight former state-associated banks as its subsidiaries. To further accelerate the credit to flow to the rural areas and the vital sections of the economy such as agriculture, small scale industry etc., that are of national importance, Social Control over banks was announced in 1967 and a National Credit Council was set up in 1968 to assess the demand for credit by these sectors and determine resource allocations. The decade of 1960s also witnessed significant consolidation in the Indian banking industry with more than 500 banks functioning in the 1950s reduced to 89 by 1969. For the Indian banking industry, Jul 19, 1969, was a landmark day, on which nationalization of 14 major banks, in 1980, eight more banks were nationalised. In 1976, the Regional Rural Banks Act came into being, that allowed the opening of specialized regional rural banks to exclusively cater to the credit requirements in the
rural areas. The whole banking system in India is controlled by the Reserve Bank of India. In the banking system there are 27 public sector banks, a vast network of co-operative banks at state, district and block levels and various development banks, in addition to private and foreign sector banks. Rural and agricultural sectors are well served by the co-operative banks. In the year 1991, the economic and financial sector reforms initiated by the then finance minister and present prime minister of India Dr. Manmohan Singh, as a step towards a broader process of international economic integration and globalization of financial markets.

A healthy financial system being the principal pre-requisite for the globalisation process, the banking sector being an important component thereof came into sharper focus. The banking sector was required to strengthen its resilience and capabilities to intermediate in an economy integrated with the rest of the world. The economic reforms since 1991 have removed the shackles that were restraining the economy and have attracted foreign investment. The Indian economy has posted steady and impressive growth in last two decades. This has moved India into the front ranks of the rapidly growing countries in the Asia Pacific region.

The Indian economy registered a growth rate of 8.2% in financial year 2004. But the past few years the Indian economy has not improved and investments are not picking up. Slowing economic growth, which dipped to a nine-year low of 5.3% in the year ended 31 March 2012. The year 2010 and 2011 so far, has been a difficult period for the global banking system, with challenges arising from the global financial system as well as the emerging fiscal and economic growth scenarios across countries. Banking systems in advanced economies have continued to be on uncertain

1 http://www.dnb.co.in/topbanks/overview.asp
grounds on account of a lackluster economic revival and increasing sovereign credit strains. Over the past 4 years or so, financial systems across the world have felt the effects of what is now being referred to as “The Great Recession”.

Events in the United States of America spread across the world, creating a global economic crisis, and causing international financial systems to require massive bailouts to prevent widespread crashes. As economies experienced economic downturns and fiscal vulnerabilities were exposed, rising unemployment and reduced aggregate demand contributed to increased loan delinquency in already stressed banking sectors. With banks making losses, further concerns about banks’ capital adequacy and their ability to identify risks are being raised. Here in India, the crisis affected the banking system through fall offs in bank activity and increased non-performing loans (NPLs) as major segments of the real economy; some banks experienced sharp growth in the NPL ratio over very short time periods resulting in lower profits for these institutions.

As economic growth remains sluggish and key industries struggle to recover, loan delinquency continues to be a key concern for regulators. The headwinds from domestic and international economic developments posed challenges to the banking sector during the year 2011-12. Though asset impairment increased, the resilience of the Indian banking sector was manifested in an improvement in the capital base and maintenance of profitability. A series of stress tests conducted by the Reserve Bank in respect of credit, liquidity and interest rate risks showed that banks remained reasonably resilient. However, under extreme shocks, some banks could face moderate liquidity problems and their profitability could be affected.
1.3 NON-PERFORMING ASSETS IN INDIAN BANKING INDUSTRY

The most calamitous problem being faced by commercial banks all over the world in recent times is spiraling non-performing assets (NPAs). They are affecting their viability and solvency. NPAs adversely influence lending activity of banks as non-recovery of loan installments and interest on the loan portfolio negates the effectiveness of credit dispensation process. Non recovery of loans also hurt the profitability of banks. Besides, banks with high level of NPAs have to carry more own funds by way of capital and create reserves and provisions and to provide cushion for the loan losses. NPAs, thus, make two pronged attack on the bottom lines of commercial banks: one, interest applied on such assets is not taken into account because such interest is to be taken into account only on its realization, two, banks have to make provisions for NPAs from the income earned by them on performing assets.

Persistently high level of NPAs make banks and financial institutions fragile leading ultimately to their failure. This shakes confidence both of domestic and global investors in the banking system\(^3\). The Indian banking industry has undergone a sea change after the first phase of economic liberalization in 1991. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the banks have become very cautious in extending loans. The Indian Banking system is considered to be one of the crucial facets of Indian Economy, and has played commendable role in the overall socio economic development of India. Even though the Banking Sector

\(^3\)http://www.ijmra.us/project%20doc/IJPSS_OCTOBER/IJMRA-PSS353.pdf
in India has shown spectacular progress since nationalization, there has been significant decline in productivity and efficiency resulting in erosion of profits.

The presence of non-performing assets (NPAs) has had an adverse impact on the banking system of India. The best indicator for the health of the banking industry in a country is its level of Non-performing assets. Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in commercial banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled.

The problem of losses and lower profitability of Non-Performing Assets and liability mismatch in banks and financial sector depend on how various risks are managed in their business. Non-performing Assets are the smoking gun threatening the very stability of Indian banks. NPAs wreck a bank’s profitability both through a loss of interest income and write-off of the principal loan amount itself. In a bid to stem the lurking rot, RBI issued in 1993 guidelines based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs. Their implementation immediately pushed many banks into the red. So serious is the problem that an RBI report suggested that reducing NPAs be treated as a „National Priority” Lending institutions are exposed to the risk of default by borrowers as it affects their profitability and solvency.

Continuous default by borrowers affects the economic growth of a country and therefore a major cause of concern for the government and banks. In managing loan default, prevention is better than cure. Hence, lenders exercise vigil at the time of lending by carefully studying the characteristics of the borrowers and making
ajudgment call about the relationship between borrower characteristics and loan
default event. Over 49 lakh debtors have defaulted in repaying loans totaling more
than Rs1 lakh crore from various nationalized banks in the country\(^4\). The Finance
Ministry is worried that banks' bad loans will go up, especially if credit growth slows
down. State-owned banks have been asked to take fresh steps to speed up recovery of
non-performing assets (NPAs), Finance Minister P Chidambaram said in the Rajya
Sabha on December 6, 2012. Government has advised public sector banks to take a
number of new initiatives to increase the pace of recovery and manage the NPAs,
which include appointment of nodal officers for recovery, to conduct special drives
for recovery of loss assets. Global rating agency Standard & Poor’s (S&P) said bad
loans of Indian banks may increase further due to sluggishness in the economy
coupled with high interest rate regime. Banks in the world’s largest developing
economies of Brazil, Russia, India, and China (BRIC) could come under pressure
over the next 12-24 months, S&P said in a report\(^5\).

NPAs, as a proportion of advances, were the highest in six years towards the end
of March 2012. This is expected to worsen further by the end of this fiscal year. The
GNPA ratio (the ratio of loans accounts which have defaulted on interest or principle
beyond 90 days to the total bank loans) of Indian banks, as of March 2012, was at 3.1
per cent. Banks had recorded a high percentage of non-performing assets (NPAs) in
the fiscal year 2011-12 as compared to the previous fiscal because of the high interest
rate regime and downturn in economic conditions in the country. The net non-
performing assets (NPAs) of the banking sector are expected to cross Rs 2 lakh crore
by the end of March 2013, from Rs 1.57 lakh crore in June 2012, mainly due to

\(^4\)http://www.anirudhsethireport.com/over-49-lakh-debtors-defaulted-rs1-lakh-crore-of-psu-
banks/#more-81515

\(^5\)http://www.thehindubusinessline.com/opinion/columns/c-pchandrasekhar/article2384460.ece
slowdown in the economy, industry body Assocham said (Associated chambers of commerce and industry). The chamber also said slowing economic growth would also have a negative impact on asset quality of Indian banking industry. NPAs reflect natural waste in any economy. In advanced economies, the financial markets are well-developed and segmented, with various players operating in identified niches, catering to various user/risk segments. This constitutes an effective institutional mechanism for targeting risks to players with an appetite for such risks. Commercial banking is conducted in a highly risk-managed and mitigated ambience, unlike its Indian counterparts who are often required to take unmitigated risks as a part of business policy.

1.4 OPERATIONS AND PERFORMANCE OF CO-OPERATIVE BANKS

The United Nations General Assembly has declared 2012 as the International Year of Co-operatives, highlighting the contribution of co-operatives to socio-economic development, particularly their impact on poverty reduction, employment generation and social integration. With the theme of “Co-operative Enterprises Build a Better World”, the Year seeks to encourage the growth and establishment of co-operatives all over the world. It also encourages individuals, communities and governments to recognize the agency of co-operatives in helping to achieve internationally agreed upon development goals, such as the Millennium Development Goals. The United Nations Secretary General Ban Ki-moon said the “Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility”.

In India the advent of planned


http://social.un.org/coopsyear
economic development ushered in a new era for the co-operatives commencing from 1947. Today India is the largest incubator of over 6 lakh co-operative societies with 250 million members. It covers over 100% villages and 71% rural household.

They have been providing finance in wide varieties for numerous activities like agriculture, production, processing, marketing, distribution, service sector, etc. For the economic upliftment of farmers, farm labours, village artisans from rural parts and workers and labour from urban parts there is no alternative without Co-operation i.e. Co-operative movement. Co-operative Credit Institutions are important constituent of Indian Financial System. These institutions have broad network of banks and societies in urban as well as in rural area.

### 1.5 NON-PERFORMING ASSETS IN CO-OPERATIVE BANKS

A highly distressing fact of co-operative credit is the heavy over dues of co-operative credit institutions. Indian co-operative banks have a serious problem due to non-performing assets. The NPAs of the co-operative banks are higher than those of commercial banks. NABARDs 2009-10 annual report said nine state co-operative banks (StCBs) and 214 district central co-operative banks (DCCBs) where not being run properly. They are facing from harmfully low or weak quality of loan assets and from highly bad recovery of loans. Loan recovery is one of the critical determinants of profitability and viability and crucial to the health of a co-operative credit institution. Poor recovery hampers the institution's capability to recycle funds and adversely affects effective management of its resources and ultimately its profitability. The incidence of overdues in the agricultural credit system has been increasing over the years and has turned out to be the single most major factor responsible for steady

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erosion of the financial soundness and fitness of the system. The table presented below
depicts the volume of Non-Performing Assets of the co-operative banks in India.

**TABLE 1.1**

**NON-PERFORMING ASSETS OF CO-OPERATIVE BANKS**

(Per cent to gross advances)

<table>
<thead>
<tr>
<th>Year (end-march)</th>
<th>Urban Co-operative Banks(UCBs)</th>
<th>Rural Co-operative Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>StCBs</td>
</tr>
<tr>
<td>1997-98</td>
<td>11.7</td>
<td>12.5</td>
</tr>
<tr>
<td>1998-99</td>
<td>11.7</td>
<td>12.6</td>
</tr>
<tr>
<td>1999-00</td>
<td>12.2</td>
<td>10.7</td>
</tr>
<tr>
<td>2000-01</td>
<td>16.1</td>
<td>13.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>21.9</td>
<td>13.4</td>
</tr>
<tr>
<td>2002-03</td>
<td>19.0</td>
<td>18.2</td>
</tr>
<tr>
<td>2003-04</td>
<td>22.7</td>
<td>18.7</td>
</tr>
<tr>
<td>2004-05</td>
<td>23.2</td>
<td>16.3</td>
</tr>
<tr>
<td>2005-06</td>
<td>18.9</td>
<td>16.8</td>
</tr>
<tr>
<td>2006-07</td>
<td>18.3</td>
<td>14.2</td>
</tr>
<tr>
<td>2007-08</td>
<td>15.5</td>
<td>12.8</td>
</tr>
<tr>
<td>2008-09</td>
<td>13.0</td>
<td>12.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>10.1</td>
<td>8.8</td>
</tr>
<tr>
<td>2010-11</td>
<td>8.5</td>
<td>8.9</td>
</tr>
</tbody>
</table>

**SOURCE:** http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/070_EHS110912F.pdf

The above table exhibits the position of the NPAs in co-operative banks. Overdues at all levels are increasing alarmingly indicating the failure of co-operative credit institutions. There are a number of factors responsible for low recovery and increase in size of NPAs of co-operative banks. Low level of income generation, diversion loans for unproductive purposes, inadequacy of loans leading to their diversion and willful default under the hope that they will be waived in future are the major reasons for the default. The loan waivers scheme is a disaster. It has penalized every honest repayer and it has dealt a severe blow to co-operative societies.
1.6 IMPACT OF NON-PERFORMING ASSETS IN DISTRICT CENTRAL CO-OPERATIVE BANKS

A District Central Co-operative Bank is a key financing institution at the district level which shoulders responsibility of meeting credit needs of different types of co-operatives in the district. DCCBs function as a link between the Primary Agriculture Credit Societies (PACS) and State Co-operative Banks (StCBs). They are basically meant for meeting the credit requirement of PACS. They also undertake banking business such as accepting deposits from public, collecting bills, cheques, drafts etc. and providing credit to the needy persons. Membership of the DCCBs is open to individuals and societies working in its area of operation. Marketing societies, consumer societies, farming societies, urban banks and PACS are usually enrolled as members of this bank. DCCBs supervise and inspect the activities of PACS and help the credit societies run smoothly. They provide requisite funds to societies under their control.

The DCC Banks plays distinct and prominent role in the development of agricultural, industrial and economic in each district. The success of co-operative credit movement in a district is largely depends on their financial strength. But the most important and critical problems faced by the DCC Banks in India viz., recovery of loans and advances, heavy over dues and NPA. An assessment of the co-operative banks carried out by National Bank for Agriculture and Rural Development (NABARD) across the state during the recently concluded financial year has shown that the non-performing assets (NPAs) of at least six District Co-operative Banks was in the range of 15-20 per cent against the limit of 5 per cent due to the non compliance of norms for disbursal of loans. The assessment report based on the balance sheet as on 31 March 2011 of the banks was sent to the Reserve Bank of India (RBI) in
January this year by NABARD which also recommended that banks with very high NPAs be denied the licences to function. Based on the assessment a detailed note prepared by the NABARD has listed out a number of reasons of high NPAs of the banks. As per the NABARD’s assessment note the main reason of loan default is the non compliance of norms in the appraisal for disbursement of loans. Chief General Manager of NABARD, M V Ashok, said “Six of the unlicenced district co-operative banks were poorly managed and lack of compliance of the credit appraisal system norms led to the financing of undeserving units leading to the heavy NPAs”\footnote{http://www.indianexpress.com/news/6-coop-banks-have-1520pc-npas-nabard-report/939690}.

The financial health of co-operative banks is reflected by their operational efficiency. Among other factors, Non-performing Assets (NPA) in the loan portfolio affects the operational efficiency which in turn influences profitability, liquidity and solvency position of co-operative banks. A timely repayment of loans and advances strengthen the resources position of DCC Banks and enables them to repay the borrowed loans to Apex Bank (StCBs) in time. The following table 1.2 shows the NPAs level Recovery performance of DCCBs.
**TABLE 1.2**

NPAs LEVEL AND RECOVERY PERFORMANCE OF DCCBs

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Performing Assets %</th>
<th>Recovery %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>19.9</td>
<td>66.0</td>
</tr>
<tr>
<td>2002-03</td>
<td>21.6</td>
<td>61.0</td>
</tr>
<tr>
<td>2003-04</td>
<td>24.0</td>
<td>62.9</td>
</tr>
<tr>
<td>2004-05</td>
<td>19.9</td>
<td>71.2</td>
</tr>
<tr>
<td>2005-06</td>
<td>19.8</td>
<td>69.0</td>
</tr>
<tr>
<td>2006-07</td>
<td>18.5</td>
<td>71.0</td>
</tr>
<tr>
<td>2007-08</td>
<td>20.5</td>
<td>55.6</td>
</tr>
<tr>
<td>2008-09</td>
<td>18.0</td>
<td>72.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>13.0</td>
<td>75.7</td>
</tr>
<tr>
<td>2010-11</td>
<td>11.6</td>
<td>78.8</td>
</tr>
</tbody>
</table>

**SOURCE:** Report on Trends and progress of Banking in India from 2001-02 to 2010-11.

Recovery is the lifeline of the DCCBs, the above table highlights the fact that level of NPAs and recovery performance are highly negatively correlated. That is better recovery performance corresponds to lower NPAs. Recoveries also serve as an indicator of the quality of lending since repayments are expected from out of the incremental income generated by the productive use of loans. The increase in the quantum of NPAs would outdo the actual expansion of credit in real money terms. In the three-tier structure, the primary responsibility for recovering their dues from members rests with the PACS, it is expected that the higher tiers viz. StCBs and DCCBs play a more active role in guiding and helping PACS in recovering their dues. But the poor recovery performance of PACS leads to increasing overdues. Mounting overdues at the level of primary agricultural co-operative credit societies contribute to the accumulation of non-performing assets in the DCCBs. Heavy overdues at the primary level turn the societies dormant, creating a difficult situation.
for DCCBs to channel fresh credit. The non-performing assets level in the DCCBs increases simultaneously. Efficient recovery management is of importance to the co-operative banks, the increasing competition in the banking world under the ongoing financial reforms process also propelled DCCBs to make vigorous recovery efforts to ensure their survival and growth.

1.7 Restructuring of Co-operatives

As discussed above, the three tier Co-operative Banking structure in India plays a vital role for providing production credit to the agricultural and non-agricultural sector in the India. It is also the most important source of financial support to other primary co-operative societies. But, unfortunately this sector is besought with several weaknesses. Numerous Commissions and Committees have gone into the problems afflicting co-operatives and suggested measures to secure their financial viability. The Government of India has felt the need to revamp the three tier co-operative banking network and constituted the committee to "Restructure and Revitalise the Co-operative Banks". The Union Government constituted a Task Force under the chairmanship of Professor Vaidyanathan. This Committee is also popularly known as the Vaidyanathan Committee.

Vaidyanathan Committee was mandated to chalk out an implementable action plan for reviving rural co-operative banking institutions. The Committee has made wide-ranging recommendations. Committee was also mandated to suggest ‘an appropriate regulatory framework and the amendments which may be necessary for the purpose in the relevant laws’, ‘to make an assessment of the financial assistance that the Co-operative Banking Institutions will require for revival’, ‘the mode of such assistance’, ‘sharing pattern and phasing of the financial assistance’ and also
tosuggest any other measures required for improving the efficiency and viability of Rural Co-operative Credit Institutions’.

The Task Force dwelled upon how the State Governments have become the dominant shareholders, managers, regulators, supervisors and auditors of the short-term credit co-operatives. The principle of mutuality from which co-operatives all over the world derive their strength, has been missing in India. It noted that the “borrower-driven” co-operative credit system in India is characterized by conflict of interest and has led to regulatory arbitrage, recurrent losses, deposit erosion, poor portfolio quality and a loss of competitive edge for the co-operatives. The Task Force Report also recognized that there is an impass in the laws governing Co-operative banking institutions in the country as co-operation is a State subject while banking activities are regulated by a Central Act. Further, the Task Force took cognizance of the poor quality of internal control systems, human resources, housekeeping and audit in the co-operatives. The Vaidyanathan Committee has suggested an implementable Action Plan with substantial financial assistance for recapitalisation subject to introduction of strict legal and institutional reforms together with technical assistance for human resource development, establishment of a common accounting system and computerisation. It is widely held that the implementation of the Revival Package would result in strong and robust co-operatives in a conducive legal and institutional environment. At the macrolevel, the Revival Package is expected to promote growth with social justice and greater financial inclusion.

An Important aspect related to co-operatives, which the Vaidyanathan Committee addressed is the equity contribution by the State governments. The Committee recommended that the co-operative credit institutions should return the equity contribution obtained from State Governments. The Task Force also
recommended that soft loan support be provided to co-operatives, which lack the resources required to return government equity. NABARD has been identified as the nodal agency to implement the recommendations. The States are in different stages of implementation of the recommendations of the Committee. Though it has been the contention of many of the committees and task forces that government’s involvement in the affairs of the co-operatives is detrimental to them, there is no empirical basis backing such an assertion. The Vaidyamathan Committee had cautioned against dilution or cherry picking of its recommendations for the effectiveness of the revival package. Inspite of its repeated cautions, one finds substantial dilution in the Committee’s recommendation at the implementation stage. For instance, the Committee had recommended for retirement of government equity over time but subsequently it has been decided to retain 25 per cent of government equity in co-operatives. Another recommendation that Registrar of Co-operatives should retreat from the governance and other aspects relating to co-operatives has been modified to entrust with them a consultative role. More importantly, the eligibility conditions for the co-operatives to avail the revival package have also been diluted. The recovery norm of more than or equal to 50 percent for the PACS as suggested by the Committee has been lowered to 30 per cent. Also there has been a complete relaxation of the norm relating to gross interest margin as a proportion to operating expenses. Similarly the eligibility norms set for the District Central Co-operative Banks to avail for revival package have been completely withdrawn. With such gross dilution in the original recommendation, one doubts the efficacy of the revival package in reinventing the co-operatives.  

1.8 Implementation of Vaidyanathan Committee Revival Package

The Government of India has accepted the Vaidyanathan Committee recommendations and rolled out the programme for Revival of the Co-operative Credit Structure. NABARD is the nodal implementing agency for the programme. By April 2008, 19 states had accepted the package and commenced implementation. As per the recommendations of the Vaidyanathan Committee, the Government of India has approved a Revival Package for Short Term Co-operative Credit Structure (STCCS). Revival Package envisages an outlay of Rs. 13,597 crore for recapitalization of STCCS. An amount of Rs. 6072.71 crore has been released by NABARD as Government of India share for recapitalization of 37,599 PACS in ten states, while the State Government had released Rs. 608.13 crore as their share. Under the Central Sector Scheme for Co-operative Education and Training, assistance has been given to National Co-operative Union of India (NCUI) and National Council for Co-operative Training (NCCT) for implementing Co-operative Education & Training in the country. During the 10th Five Year Plan Rs. 216.17 crore was released. An outlay of Rs. 149.00 crore is proposed for 11th Five Year Plan. The Government of India also implements its co-operative development programmes, through the National Co-operative Development Corporation (NCDC). The programmes/schemes being implemented through NCDC are (i) Integrated Co-operative Development Projects in selected districts, (ii) assistance to co-operative marketing, processing and storage etc. in co-operatively under-developed/least developed states/union territories, and (iii) share capital participation in growers'/weavers' co-operative spinning mills. During the 10th Five Year Plan Rs. 143.15 crore was released. An outlay of Rs. 320.00 crore is proposed for 11th five year plan.
The Central Government also provides grants to the National Federation of State Co-operative Banks (NFSCOB) and National Federation of Agricultural and Rural Development Banks (NCARDBF). During the 10th Five Year Plan, Rs.1.20 crore was released to these federations. Further, an amount of Rs. 71.60 lakhs has been released in the 11th five year plan. Under the revival package for STCCS, financial assistance to States is released subject to legal and institutional reforms for democratic, self-reliant and efficient functioning of co-operative institutions.

1.9 STATEMENT OF THE PROBLEM

A healthy banking system is essential for any economy striving to achieve growth and remain stable in competitive global business environment. Over the last few years Indian Banking, in its attempt to integrate itself with the global banking has been facing lots of hurdles in its way due to its inherent weaknesses, despite its high sounding claims and lofty achievements. In a developing country like ours, banking is seen as an important instrument of development, while with the strenuous NPAs, banks have become helpless burden on the economy. The best indicator for the health of the banking industry in a country is its level of non-performing assets. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPAs growth involves the necessity of provisions, which reduces the overall profits and shareholders’ value. The issue of Non-Performing Assets has been discussed at length for financial system all over the India. The problem of NPAs is not only affecting the banks but also the whole economy. Every country needs to meet the goal of the development so zero level of NPA’S is difficult task to achieve. The flagrant size of Non-Performing Assets has been creating panic in the Indian banking industry. The magnitude of NPAs in banks and financial
institutions is over Rs.1, 50,000 crores, the banking system's non-performing assets in 2011-12 were the highest in the last six years further increase in future, according to Reserve Bank of India data.

Rising NPAs is a big concern for the Indian banking sector. At the same time the NPAs of the co-operative banks are comparatively higher than commercial banks. The NPAs of the co-operative banks is a break in the progress of the co-operative movement. Co-operative banks are vital organizations not only in ensuring smooth flow of agriculture credit, but also in the overall development of rural economy. Over seventy District Central Co-operative Banks are unable to recover loans and are on the brink of closure. Notices have been given to these banks by Reserve Bank of India that there licences would be withdrawn if they do not complete recoveries by March 30, 2012 and improve their financial health. Around fifty co-operative banks across India may have to stop operations from April 2012, these banks will not be able to reach the RBI-prescribed benchmarks.

The overall picture of the DCCBs is none-too-healthy. The present financial condition of DCCBs had been precarious because of the accumulation of huge non-performing assets. DCCBs provide the necessary financial resources to PACS and are responsible for their recovery. Poor recovery performance of PACS contributes to NPAs in DCCBs. Timely recoveries of loan are an important link in the credit cycle. Poor recoveries or defaults in payments affect recycling of credit, squeeze-up the resources and lead the banks to a state of financial unsustainability. There are several factors responsible for mounting defaults. Default in repayment of loan is a major problem, which affects the entire financial performance of the DCCBs. Keeping all these things in view, the researcher has taken up the Thoothukudi District Central Co-
operative Bank for his research work in order to offer valuable suggestions for reducing the NPAs and improving the financial muscle of the bank.

1.10 OBJECTIVES OF THE STUDY

The objectives of the study are:

1. To study the Non-Performing Assets in Indian banking industry.

2. To analyse the Non-Performing Assets of the Tuticorin District Central Co-operative Bank.

3. To investigate the causes of Non-Performing Assets in Tuticorin District Central Co-operative Bank.

4. To analyse the perception of the Bank managers regarding the NPAs in TDCC Bank and the initiatives taken by them towards controlling the bad debts.

5. To investigate the factors responsible for the default from the defaulters point of view.

6. To offer suitable suggestions on the basis of the finding for the reduction of NPAs and thereby improving their viability and solvency.

1.11 HYPOTHESES

The following null hypotheses are formed and tested in the course of study:

1. The perception about level of non-performance of various sizes of loans does not vary with the respondents’ type of organization.

2. The perception about level of non-performance of various sizes of loans does not vary with the respondents’ experience.

3. The perception regarding the type of loan leading to NPAs does not vary with the respondents’ type of organization.
4. The perception regarding the type of loan leading to NPAs does not vary with the respondents’ experience.

5. The underlying factors extracted from the factor analysis for bank related reasons for NPAs do not vary with respondents’ experience.

6. The underlying factors extracted from the factor analysis for bank related reasons for NPAs do not vary with respondents’ type of organisation.

7. The underlying factors extracted from the factor analysis for borrower related reasons for NPAs do not vary with respondents’ type of organisation.

8. The underlying factors extracted from the factor analysis for borrower related reasons for NPAs do not vary with respondents’ experience.

9. The underlying factors extracted from the factor analysis for various general reasons for NPAs do not vary with respondents’ type of organization.

10. The underlying factors extracted from the factor analysis for various general reasons for NPAs do not vary with respondents’ experience.

11. The underlying factors extracted from the factor analysis for various support systems in the bank do not vary with respondents’ type of organization.

12. The underlying factors extracted from the factor analysis for various support systems in the bank do not vary with respondents’ experience.

13. The underlying factors extracted from the factor analysis for impact of NPA over the bank do not vary with respondents’ type of organization.

14. The underlying factors extracted from the factor analysis for impact of NPA over the bank do not vary with respondents’ experience.
15. The underlying factors extracted from the factor analysis for suggestions relating to improvement of banking operations do not vary with respondents’ type of organisation.

16. The underlying factors extracted from the factor analysis for suggestions relating to improvement of banking operations do not vary with respondents’ experience.

17. The underlying factors extracted from the factor analysis for suggestions relating to remedies for reducing NPAs do not vary with respondents’ type of organisation.

18. The underlying factors extracted from the factor analysis for suggestions relating to remedies for reducing NPAs do not vary with respondents’ experience.


20. Bankers’ responses on borrowers’ behaviour of repayment of loan do not vary with respondents’ experience.

1.12 REVIEW OF LITERATURE

The review of earlier studies on this topic and related topics is essential to have a clear view on the areas already studied. Further it is helpful for the researcher to explore the thrust areas.

A. John Winfred in his study “Funds Management in District Central Co-operative Banks” analysed the cost and returns of funds to understand the margin available to a bank in its resource mobilisation and utilisation and whether the available margin was adequate to run a bank satisfactorily. For the purpose of analysis
four DCCBs were selected from among 16 DCCBs in Tamil Nadu. The analysis was based on both primary and secondary sources of data\textsuperscript{11}.

N. Narayansamy and S. Ramachandran in their study of performance evaluation of South Arcot district Central Co-operative Bank assessed the performance of the bank with reference to key indicators like membership, share capital, deposits, borrowings, advances, operating expenses, establishment expenses and profit for a period of ten years from 1974-75 to 1983-84\textsuperscript{12}.

Y. VenuGopala Rao in his article, “Funds Management in Co-operative Banks – A need for new approach” emphasised the significance of funds management in co-operative banks in the context of globalisation, liberalisation and privatisation of the financial system, consequent upon the implementation of Narasimham Committee recommendations. He pointed out that co-operative banks required a new approach for achieving higher productivity and profitability in the context of the opening of economy, application of prudential norms and deregulation of interest rates. The new approach should lay emphasis on mobilisation of resources at reasonable cost and deployment of funds at required yield so as to enlarge the interest spread and profitability\textsuperscript{13}.

\textsuperscript{11} A. John Winfred, “Funds Management in DCCBS, Cost and Return Analysis”, \textit{Indian Co-operative Review}, Vol. XXV, No. 3, pp. 235-242


C.M. Rajan, in his article, “Central Co-operative Banks” discussed the various promotional measures and intensive efforts to be taken by central co-operative banks in Tamil Nadu\(^\text{14}\).

T.S. Devaraja, in his study, “An analysis of District Central Co-operative Bank, Hasan” analysed the working of the bank in certain vital areas such as share capital, credit business recovery performance, overall profitability and economic viability\(^\text{15}\).

L.D. Vaikunthe, in his study, “Recovery Performance of District Central Co-operative Bank, Dharwad”, analysed the recovery procedure of the bank with the help of 180 borrower households belonging to big, medium and small farmers. He found that crop failure was the main cause of mounting overdues\(^\text{16}\).

D.M. Nanjundappa in his article, “Integrative Rural Banking”, stressed that rural banking should promote speedier development and reduction of poverty in rural India\(^\text{17}\).

“Rural Indebtedness in Assam” an article, written by Gauthram Purakayasta, revealed that in Assam informal sources were playing an important role more than institutional credit for borrowing funds, due to the sad decline of co-operative credit\(^\text{18}\).

In an article, “Co-operative Credit - Revamping needed”, Sanjib Kumar Kota and Vinod Sharma emphasised that a successful financial institution especially a co-


operative financial institution had to adopt itself to the changing needs in order to become sustainable\textsuperscript{19}.

N. Ravindranathan, in his study, “Performance and Promises of Central Co-operative Banks in Kerala” analysed networth, deposits, borrowings, loans, over dues, and profitability of central co-operative banks in Kerala\textsuperscript{20}.

All India Rural Credit Survey Committee 1954 recommended many measures for the general performance of central co-operative banks. This committee maintained that there should be one CCB for each district and the states were asked to draw a detailed scheme for strengthening central co-operative banks located in the state\textsuperscript{21}.

All India Rural Credit Review Committee, 1969, has put forward various suggestions for strengthening the central co-operative banks. This committee stressed the need for state contribution to the share capital of central co-operative banks and writing off of bad debts. It suggested appointment of special officers in view of the poor management of CCBS. It reiterated that the human resources of the bank must be fully utilised\textsuperscript{22}.

Cappoor Committee 2000 suggested a package of measures for strengthening co-operative credit institutions such as increasing share capital base, reducing


Government controls, professionalising management, diversifying business, funds management, and so on\textsuperscript{23}.

The Annual Report of NABARD pointed out the weakness of the institutional agencies in providing rural finance in the following words. “The National Bank recognises that for the effective operation of its polices, a financially sound and operationally efficient credit delivery system is necessary. It has, therefore, been the banks’ endeavour to re-orient the functioning of its client institutions viz. Commercial banks, regional rural banks and co-operative banks towards the achievement of above goals\textsuperscript{24}.

The Khusro Committee rightly felt that co-operative banks must work as a total system and develop self-reliance. The higher tiers of the system must look upon the lower tiers as mother institutions, from which they derive strength and to which they, in turn, provide authority, leadership, guidance, supervision and control. There should be mutual accountability, support and responsibility within the system so that it became cohesive and had an organic relationship between its different tiers. There should be commonly-shared interest in deposit mobilisation, profits and reserves. While self-reliance is a key to successful co-operatives, deposit mobilisation is vital to self-reliance and mobilization of small savings, from as large a number of people as possible which is the desired strategy for deposit mobilisation\textsuperscript{25}.

Mayilsamy and Revathi Bala in their study stated that District Central Co-operative Banks (DCCBs) are essentially an intermediary structure. The important

\begin{itemize}
\item \textsuperscript{23}Jagadish Capoor Committee Report, \textit{Urban Credit}, Vol. XXII, No.4, December 2000, pp. 31-32.
\item \textsuperscript{24}Annual Report, NABARD, Mumbai, 1992-93, p. 29.
\end{itemize}
policy development contemplated by the State Government during the Plan periods consisted of substantial State Partnership in the share capital of DCCBs, linking borrowing with share capital, measures for the mobilization of adequate deposits, linking of deposits with borrowing, application of provisions of Banking Regulation Act to DCCBs, reorientation of lending on the basis of production plans i.e., crop loan system, provisions of working capital needs of Handloom Weaver Co-operative Societies (HWCS) and Marketing Societies, liberalized lending to the DCCBs by the NABARD, preferential lending to weaker sections, reorganization of DCCBs at the rate of one bank for a district, maintenance of financial discipline such as non-overdue cover, recovery discipline, etc. These measures and policy initiatives taken by NABARD and concerned State Governments had resulted into a growth in the general performance of DCCBs in India26.

Darling Selvi in her study stated that the co-operatives in Kanyakumari district play a vital role in the credit scene, particularly, in rural areas. The co-operative department has to oversee the functioning of these micro-level bodies and ensure that they are following the lending norms uniformly. With the co-operatives also being drawn into the service area concept, the department has to ensure that their plans are properly presented and implementation monitored in the Block level meetings. Their role in the development of agriculture is of much useful to the people concerned. The co-operatives in Kanyakumari district has 114 Primary Agriculture Credit Societies, 16 branches and 5 Primary Land Development Banks or Societies. Agriculture is the backbone of India and the role of co-operatives in activating the activities of farmers is quite appreciable and encouraging. Despite the vast expansion of the formal credit

system in the country, the dependence of rural poor on moneylenders continues in many areas especially for meeting emergent requirements. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small. Various reasons credit to these sections of the population has not been institutionalized in practice.

Selvakumar in his study stated that the co-operative banking sector, with its more than a century old existence, plays an important role in enlarging the reach of institutional credit both from geographic and socio-economic perspective. Though it supplements the efforts of the commercial banks in credit delivery and deposit mobilisation, its extensive branch networks with reach even in remote areas, makes it an important instrument for achieving greater financial inclusion. The co-operative movement in India started a century ago with the enactment of Co-operative Societies Act in 1904. Although joint stock banks opened branches in urban and semi-urban areas, they did not find it advantageous to cater to the banking and credit requirements of the urban middle/lower class comprising small traders/businessmen, artisans, factory workers, salaried persons with limited incomes, etc. The inability of joint stock banks to appreciate and cater to the needs of this class of clientele with limited means effectively drove them to money lenders and similar agencies for loans at exorbitant rates of interest. This situation was the prime mover for non-agricultural credit co-operatives coming into being in India. The main objectives of such co-

\[\text{V.DarlingSelvi, “Lending to Agriculture – Scenario of Co-operative Banks in Kanyakumari District”, } \text{Tamil Nadu Journal of Co-operation, April 2009, pp.52-53}\]
operatives are to meet the banking and credit requirements of this section of people and to protect them from exploitation.  

Prashanth K. Reddy in his research paper on the topic, “A comparative study of Non-performing Assets in India in the Global context” examined the similarities and dissimilarities and remedial measures initiated by Indian banks with global players. Financial sector reform in India has progressed rapidly on aspects like interest rate deregulation, reduction in reserve requirements, barriers to entry, prudential norms and risk-based supervision. The study reveals that the sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective. Changes required to tackle the NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective. This paper deals with the experiences of other Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries.

Dr. C. Rangarajan has pointed out that improving the quality of loan assets is the true test of improved efficiency of banking system.

K.J. Taori has dealt with NPA management of banks and stated that the surest way of containing NPAs is to prevent their occurrences. He suggests proper risk


management, strong and effective credit monitoring, co-operative working relationship between banks and borrowers etc as tenets of NPA management policy\textsuperscript{31}.

S.K. Bhaumik and J. Piesse, in their study, indicate that allocation of assets between risk-free government securities and risky credit is affected by past allocation patterns, risk averseness of banks, regulations regarding treatment of NPAs, and ability of banks to recover doubtful credit\textsuperscript{32}.

Ashok Khurana and Mandeep, stated that issue of mounting NPAs is a challenge to public sector banks. The study found that the asset wise classification of PSBs is in right direction and there is significant variation in the recovery of NPAs in the different sector. The research observed that PSBs should not be loaded with the twin object of profitability and social welfare\textsuperscript{33}.

K. Rajender and S. Suresh, in a case study, examine the quality of loan assets of Indian banking and suggest some practical strategies to make Indian banks more viable by managing the level of NPAs\textsuperscript{34}.

Prof. G. V. Bhavani Prasad; D. Veena studied NPAs in Indian Banking Sector – Trends & Issues and concluded that Public Sector Banks, which currently account for more than 78 percent of total banking industry assets are saddled with NPAs, falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks are forging ahead and rewriting the

\textsuperscript{33}Dr.Ashok Khurana and Dr. Mandeepsingh, NPA management: A study of new private Sector Banks in India, Indian journal of finance, September 2010
\textsuperscript{34}K. Rajender and S. Suresh, 2007, Management of NPAs in Indian Banking- A Case of State Bank of Hyderabad, \textit{The Management Accountant}, 42(9):740-49
traditional banking business model by way of their sheer innovation and service and adoption of modern technology\textsuperscript{35}.

Shalu Rani examined the existing position of banks in SCBs of India in respect of NPAs, the causes and remedial measuresthereof and concluded that the level of NPA has increased, eroding whatever reduction was made with the everincreasing level of fresh NPAs and tightening of norms by RBI time to time. Total elimination is not possible inbanking business so it is wise to follow the proper policy for appraisal, supervision and follow up of advances to avoid NPAs\textsuperscript{36}.

Bhaskaran and Josh concluded that the recovery performance of co-operative credit institutions continues to be unsatisfactory which contributes to the growth of NPA even after the introduction of prudentialregulations. They suggested legislative and policy prescriptions to make co-operative creditinstitutions more efficient, productive and profitable organization in tune with competitivecommercial banking\textsuperscript{37}.

Campbellfocused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs\textsuperscript{38}.

Dutta and Basak suggested that Co-operative banks should improve their recovery performance, adoptnew system of computerized monitoring of loans,

\textsuperscript{35} Prof. G. V. Bhavani Prasad; D. Veena , “NPAS in indian banking sector- trends and issues,”Volume 1, Issue 9, 2011.

\textsuperscript{36} Shalu rani(2011), “ a study on NPAs with Special reference to SCBs of India,RMS journal of management &IT,vol. 5, june,pp. 60-68


\textsuperscript{38} Andrew Campbell, "Bank insolvency and the problem of non-performing loans", Journal of Banking Regulation, 2007, pp.25-45
implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment\(^\text{39}\).

Muniappan in his address on NPA cited out that the problem of NPAs is related to several internal and external factors like diversion of funds for expansion/diversification/modernization, taking up new projects, helping, promoting associate concerns, time/cost overruns during the project implementation stage, business (product, marketing, etc.) failure, inefficient management, strained labour relations, inappropriate technology/technical problems, product obsolescence, recession, non-payment in other countries, inputs/powershortage, price escalation, accidents and natural calamities etc\(^\text{40}\).

Meena Sharma in her study on NPA has talked about the detrimental effects of NPA on the society as providing capital support to banks with high NPAs is actually a burden on the public exchequer and hence is a cost to the society. She also says that high NPAs reduce earning base and puts much more pressure on the banks to maintain the required capital adequacy ratio. According to her “high level of NPA also leads to squeezing of interest spread”. She mentions the need to create industry cells to cope with this menace\(^\text{41}\).

RajaramanIndura and Vasishtha Garima in their study performed a panel regression on nonperforming loans of commercial banks. They suggested that recapitalization of weak banks as recommended by Varma committee with


\(^{40}\) Muniappan G.P., “NPA Overhang, Magnitude, Solutions and Legal reforms”, Address at CII Banking Summit, April,2002.

\(^{41}\) Meena Sharma, “Problem of NPA and its impact on Strategic BankingVariables”, Finance India”, VOLIXIX, Sept 2005, pp. 953-967
operational restructuring may therefore not be the solution, since there is clearly a residual problem even after controlling for operating efficiency\textsuperscript{42}.

R.Jeeva in his thesis “A Study on the Functioning of Madurai District Central Co-operative Bank”, has analysed the deposit mobilization, lending policy, and financial performance of Madurai District Central Co-operative Bank. He has also assessed the views of the bank employees on working performance of Madurai District Central Co-operative Bank\textsuperscript{43}.

ArvindG.Deshpande in his article “Problem of Non-Performing Assets” has identified the factors that constitute NPAs and suggested measures to be followed to avoid NPAs\textsuperscript{44}.

K.Rajendran, in his article “Non-Performing Assets” has defined NPA, asset classification, causative factors of NPA, and effects of NPA and recovery of NPA\textsuperscript{45}.

Valasamma Antony, in her article “Co-operative Banks in the grip of NPAs” has pointed out the main reasons for unhealthy situation in the co-operative banks and suggested remedial measure to avoid it\textsuperscript{46}.

“Banks and Non-Performing Assets”, an article written by K.K.Balachandra Nair, has focused the reasons for the inability of the banking sector to bring down the

NPA, methods of computation of NPA, the reasons for NPA of Public Sector Banks and remedial measures to improve it\(^\text{47}\).

D.V. Ingle, in her paper “Challenge of Non-Performing Asset, -Its reasons and remedial measures” made an attempt to suggest remedial measures to tackle the NPA problem\(^\text{48}\).

Kalyankar in his study on crop loan overdues of co-operative finance revealed that 60% of the overdues were from 27% of the big farmers who had the capacity to repay but had neither the will nor the intention to do so\(^\text{49}\).

Balishter, Singh and Viswajit in their study in Agra District, found out that willful default was mainly confined to medium and large farmers to the extent of over 90 percent\(^\text{50}\).

Singh and Rawat predicted the default status of crop loan defaulters in Hamirpur district. The relative importance of the variables, viz., operational size of holding, initial amount of loan, gross income from agriculture, family consumption expenditure, in regard to their power to discriminate between the willful and non-willful defaulters was known\(^\text{51}\).


Sarma R. H in his study the risk of erosion in asset value due to simple default or non-payment of dues by the borrowers is credit risk or default risk\textsuperscript{52}.

Ravichandran.K in his study in Tamil Nadu concluded that political exploitation became the major cause for delinquency, compared to other causes for overdues, viz., crop failures, increasing family expenditure, and social obligations. A significant portion of defaulters were of the opinion that Government waiving schemes was the major cause for this delinquency\textsuperscript{53}.

Dadhich.C in his study found that the main causes for willful default were re-lending practices, which enabled to make profit out of the interest margins\textsuperscript{54}.

Edvin Gnanadhas and Geetha in their study conclude that the environmental factor is the most influencing factor leading to default in repayment of loan\textsuperscript{55}.

\textsuperscript{54}Dadhich, C. *Overdues in Farm Co-operative Credit : A Study of Rajasthan*,1977 Bombay, Popular Prakasan.
1.13 RESEARCH DESIGN

This is a case study of The Tuticorin District Central Co-operative Bank. The study is based on primary data and secondary data.

Sources of Data

1.13.1 Primary Data

In order to fulfill the objectives of the study, a sample survey was carried out, with the help of pre-tested questionnaire. This research study covers the perception of both bank managers and the default loan borrowers. The primary data were collected from the managers and default borrowers through questionnaire. The present study has the objective of assessing the perception of the bank managers regarding the Non-Performing Assets of the bank, in relation to bank related reasons for NPAs, borrower related reasons for NPAs, general reasons for NPAs, remedies for reducing NPAs and the like. The study also covers the perception of default borrowers regarding the reasons for default in repayment of loan.

1.13.2 Secondary Data

Secondary data were collected from various magazines, books, newspapers, journals, published articles, and web resources. Data relating to deposits, lending, non-performing assets of the bank have been collected from the annual report and unpublished records of the bank. Necessary data have been collected from the office of the Registrar of Co-operative societies, Chennai, from circulars and orders of the Government of Tamilnadu, from Annual Reports and circulars of the Tamilnadu State Apex Co-operative Bank, Chennai and from the circulars of the National Bank for Agriculture and Rural Development, Mumbai. Necessary information has also been collected from the National Federation of State Co-operative Banks, Mumbai, from circulars of the Reserve Bank of India, Trend & Progress reports of RBI, Co-operative
journals, co-operative diary and from the web sites available on net and from personal interviews with the officials of the bank.

1.14 CONSTRUCTION OF QUESTIONNAIRES

The variables to be studied were identified from the various reports and booklets published by the Reserve Bank of India, published articles. The questionnaires of managers and default borrowers so drafted were circulated among some resource persons for a critical view with regard to wording, format, sequence and the like. The questionnaires were re-drafted on the light of their expert comments.

1.15 PRE-TEST

The questionnaire for the managers was pre-tested with 10 managers of TDCC Bank. The questionnaire for the default borrowers was pre-tested with 25 borrowers. Fifteen default borrowers from TDCC Bank located at the rural area and ten borrowers from the TDCC Bank located at semi urban area were interviewed during the pilot survey.

1.16 SAMPLING TECHNIQUES

In support to the objective of the research there is a primary research through questionnaire administration method. This research study covers the perception of both bank managers and the default borrowers. Since there are only 17 managers at the branch level and 150 managers at the Primary Agriculture Credit Societies (PACS) level in the study areas as on 31st March 2011, a census study was proposed to elicit information from all the 167 managers and it was duly carried out.

The list of default borrowers was gathered from all the 17 branches and 150 PACS affiliated to the bank. However, only 420 addresses of the default borrowers could be located, since many addresses given by the bank were bogus. Out of this 420
defaulters who were located only 304 defaulters agreed to co-operate with the researcher and therefore, the questionnaire was administrated to only 304 default borrowers. One hundred and sixteen borrowers did not respond to the questionnaire on the ground that the information required was confidential. Thus, the study covers the perception of 167 managers and 304 default borrowers. The researcher has spent almost nine months from October 2010 to June 2011 for collecting the primary data.

1.17 SCOPE OF THE STUDY

The present study deals with the overall progress of the Thoothukudi District Central Co-operative Bank. The survey project also has an in-depth analysis of Non-Performing Assets in Thoothukudi District Central Co-operative Bank. The study also covers the overall position of NPAs in Indian banking sector. The perception of officials on NPAs in Thoothukudi District Central Co-operative Bank has also been studied. Moreover, the researcher also elicited the perception of default loan borrowers to find out the reasons for default in repayment of loan.

1.18 PERIOD OF STUDY

The present study attempts to evaluate the Non-Performing Assets of Thoothukudi District Central Co-operative Bank Limited. The period of coverage for the study is the last eight financial years i.e. 2003-04 to 2010-11. This period is selected for the study because the researcher could collect complete data for the entire period. This period is considered adequate to study, trends and infer valid conclusion. The researcher has spent almost nine months from October 2010 to June 2011 for collecting the primary data.

1.19 DATA PROCESSING AND TOOLS OF ANALYSIS

The data collected were suitably classified and analyzed keeping in view of the objectives of the study. For the purpose of analysis, statistical tools like Ratio
Analysis, Percentages, Compound Annual Growth Rate (CAGR), ANOVA, Weighted average (rank order scale), Likert’s five point scaling techniques and Factor analysis have been used. The analysis of data has been carried out by using Statistical package for the Social Sciences (SPSS).

1.20 LIMITATIONS OF THE STUDY

Every study suffers from approximations and limitations. Some of the limitations may be inherent in the research design, whereas, some other limitations become part of the study, during various stages of operation. The current research work suffers from the following limitations:

1. The study is related to only one district central co-operative bank namely Thoothukudi District Central Co-operative Bank Ltd, Thoothukudi.

2. The present study is confined to eight years of secondary data from 2003-04 to 2010-11.

3. Financial information collected for the study which is the secondary data carries all the limitations inherent with the secondary data.

4. The sample respondents of default borrowers selected randomly did not follow any sampling method.

5. The sample size is limited to 304 default borrowers only; it may not give the real picture.

6. The limitations of tools and techniques applied for the analysis are inherent in the present study.

7. The study may have some biased opinions of the respondents who have their own experience interest, taste and the like but this is inevitable in this study.
8. Identifying the default borrowers and their residential address was the real problem for the researcher throughout the period of his study.

1.21 SCHEME OF RESEARCH REPORT

The present study captioned “A Study on Non-Performing Assets- with special reference to Tuticorin District Central Co-operative Bank” has been branched into VI chapters, as given below:

The First Chapter deals with the introduction and design of the study, banking scenario in India, non-performing assets in Indian banking industry, operations and performance of co-operative banks, over view of co-operative credit movement, non-performing assets in co-operative banks, impact of non-performing assets in DCCBs, restructuring of co-operatives, implementation of Vaidyanathan Committee revival package, statement of the problem, objectives of the study, hypotheses, review of literature, methodology and frame work of analysis, construction of questionnaires, sampling techniques, scope of the study, period of the study, data processing and tools of analysis, limitations of the study and the chapter scheme.

The Second Chapter explains the profile of Tuticorin District Central Co-operative Bank with reference to membership, share capital, reserves and other funds, deposits, demand, collection, investments, loan issued, cost of management and profit and loss of the Bank.

The Third Chapter deals with global banking trends in non-performing assets, NPAs at the global level, NPAs at the national level, preventive measures for NPAs, NPAs of commercial banks, co-operative banks, NPAs of Tuticorin District Central Co-operative Bank, Asset Classification of NPAs of Tuticorin District Central Co-operative Bank, analysis of the NPAs in Tuticorin District Central Co-operative Bank with the help of ratio analysis.
The Fourth Chapter assesses the perception of the bank managers regarding the Non-Performing Assets in Tutocorin District Central Co-operative Bank.

The Fifth Chapter focuses on the perception of loan borrowers on default in repayment of loan in Tuticorin District Central Co-operative Bank.

The Sixth and final chapter presents a summary of findings of the present study and offers various suggestions for improving the working performance of the bank.