

## **An Analysis of non-Performing Asset Management by Nayagarh District Central Co. Operative Bank Ltd. Nayagarh, Odisha**

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**Abstract:** *NPA is Non-Performing Asset, which means an asset or account of borrower, which has been classified by a Bank as Sub-Standard, Doubtful or Loss Asset, in accordance with the directions or guidelines relating to assets classification issued by RBI. A Loan Asset becomes Non-Performing when it ceases to generate income to the Bank. These NPAs have well defined credit weakness that jeopardize the liquidation of debts and may be characterized by the distinct possibilities that the Bank will sustain some loss. NPA is a big threat to banks' profitability. This paper focuses on one particularly important aspect of the cause of bank insolvency: NPAs. This paper will consider both the prevention and control of NPAs and in so doing will examine regulatory and supervisory issues as well as initiatives for dealing with impaired assets.*

**Keywords:** *S S D = Standard Assets, S S T = Sub-Standard Assets, D F = Doubtful Assets L A = Loss Assets*

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### **I. Introduction**

Bank insolvency has been a significant problem in many parts of the world in the last 30 years. There have been waves of bank failures in developed and developing countries and also in countries with transitional economies. One of the major problems being faced by banks and financial institutions in India is that of bad debts termed in glorified phrase as "Non Performing Assets (NPAs)". The public perception of banks in most developed countries tends to be that they are a safe place to deposit savings. Banks are expected to be conservative in their approach to doing business, and there is the public misconception that the bank is actually looking after the money of its depositors. The final quarter of the 20th century witnessed a huge amount of instability in the banking markets throughout the globe with more than 160 countries experiencing banking crises so severe as to have systemic implications.

#### **Objective of the Study**

1. To provide some glimpses on the menace of NPA and how the banks are tackling the same.
2. To Study the causes of bank failure indicate that poor asset quality is the major contributing factor in many cases. In particular, problems with the banks' loan portfolios have been very significant in the entire banking crisis in recent years.
3. To study how can NPAs be prevented, or at least contained to manageable levels?
4. To assess, when the assets slip to NPA despite all preventive efforts by the banks how can these be dealt.

### **II. Review of Literature**

Review of literature is important part of the scientific research. It enables the researcher to understand different aspect of the study or the problems to be investigated.

**1-S.N. Bidani (2002)** 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. This is definitive book which tackles the subject of managing bank NPAs in its entirety, starting right from the stage of their identification till the recovery of dues in such accounts.

**2- Mohan (2003)** conceptualized 'lazy banking' while critically reflecting on banks' investment portfolio and lending policy. A measured view is that banks' lending policy could have crucial influence on non-performing loans and crucial issues pertaining to credit of Indian banks.

**3-Jimenez and Saurina (2006)** observed the Spanish banking sector from 1984 to 2003, they provide evidence that NPLs are determined by GDP growth, high real interest rates and relaxed credit terms. This study attributes the latter to disaster myopia, herd behavior and agency problems that may attract bank managers to lend excessively during boom periods.

**4-Pacha Malyadri, S. Sirisha, 2011).** This study strives to examine the state of affairs of the NPAs of public sector banks and private sector banks in India with special reference to the weaker sections. Several studies are based on PSBs and NPA/NPL which also confirmed the conversing impact of NPAs or non-performing loans (NPLs) on the productivity of public sector banks.

**5- Paul Purnendu, Bose, Swapan and Dhalla, Rizwan S.(2011)** In this paper we attempt to measure the relative efficiency of Indian PSU banks on overall financial performances. Since, the financial industry in a developing country like India is undergoing through a very dynamic pace of restructuring, it is imperative for a bank to continuously monitor their efficiency on Non-Performing Assets, Capital Risk-Weighted Asset Ratio, Business per Employee, Return on Assets and Profit per Employee. Here, Non-Performing Assets is a negative financial indicator. To prove empirically, they propose a framework to measure efficiency of Indian public sector banks.

**6-Khedekar Pooja S. (2012)** A strong Banking Sector is essential for a flourishing economy. Indian banking sector emerged stronger during 2010-11 in the aftermath of global financial meltdown of 2008-10 under the watchful eye of its regulator. The level of NPA's act as an indicator showing the credit risks & efficiency of allocation of resource. NPA involves the necessity of provisions, any increase in which bring down the overall profitability of banks. An excessive rise in interest rates over the past 18 months has led to a sharp increase in nonperforming assets. This not only affects the banks but also the economy as a whole.

**7-Debarsh and Sukanya Goyal (2012)** emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform based on Core Banking Solution, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the RBI. Non-performing Asset is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts.

**8-Kavitha. N (2012),** emphasized on the assessment of non-performing assets on profitability its magnitude and impact. Credit of total advances was in the form of doubtful assets in the past and has an adverse impact on profitability of all Public Sector Banks affected at very large extent when non-performing assets work with other banking and also affect productivity and efficiency of the banking groups. The study observed that there is increase in advances over the period of the study.

#### **Company Profile:**

The Nayagarh District Central Co-operative Bank Ltd., was established by the Raja Sahib and Ruling Chief of the Nayagarh Ex-State in 1940 as "THE STATE BANK OF NAYAGARH" to cater the credit need of rural area. After merger of Nayagarh Ex-State in Orissa State and having got independence, the Bank was converted to "NAYAGARH CENTRAL CO-OPERATIVE BANK LTD." registered under the Bihar Orissa Co-operative Societies Act, 1935 on 30.03.1949 bearing Registration No.92PU/1949. The Bank was also renamed as Nayagarh District Central Cooperative Bank Ltd. on formation of Nayagarh District.

#### **Area of Operation of Ndcceb**

As per Bye-laws Provision No.1 the area of operation of the Bank has been extended to the Ex-State areas of Nayagarh, Daspalla, Khandapada, except the areas merged with the Cuttack District. After abolition of the State and delimitation of boundaries of Revenue Division and Blocks the area of operation of the Bank is co-terminus with the following Blocks.

- (a) Nayagarh Block
- (c) Khandapada Block
- (b) Daspalla Block
- (e) Nuagaon Block
- (g) Gania Block
- (d) Bhapur Block
- (f) Odagaon Block
- h) Some Panchayat of Ranpur Block

#### **What is NPA?**

According to RBI guidelines, with effect from March 31, 2004, NPAs to be defined for various types of credit facilities or advances are as under:

- a. In case of term loan (other than agricultural loan), either interest and/or installment of principal dues

- remains “overdue” (i.e. if they are not paid on the due date fixed by the Bank) for a period of more than 90 days.
- In case of running account such as cash credit or overdraft (other than agricultural loan), the account remains “Out of Order” for a period of more than 90 days.
  - In case of bill purchased and discounted, if the bill remains “overdue and unpaid” for a period of more than 90 days.
  - In case of other loan facilities, any amount to be received remains “overdue” for a period of more than 90 days.
  - State Government guaranteed advances are classified as NPA if interest and/or installment remains unpaid beyond 90 days, irrespective of whether the guarantee is invoked or not.
  - Central Government Guaranteed advances are to be classified as NPA only after 90 days of repudiation of the guarantee by the Government, when the same is invoked. In case of Agricultural Loan, the identification norms are stipulated on the basis of periodicity of the crop grown as detailed hereunder:~
    - Short Duration Crops (up to 12 months):~Loans granted for short duration crops will be treated as NPA if the installment of the principal or interest remains unpaid for two crop seasons, beyond the due date.
    - Long duration Crops (beyond 12 months):~A loan granted for long duration crop will be treated as NPA if the installment of the principal or interest thereon remains unpaid for one crop season beyond the due date.

**Analysis of Data**

**(1) Analysis of Total outstanding and amount of NPA**

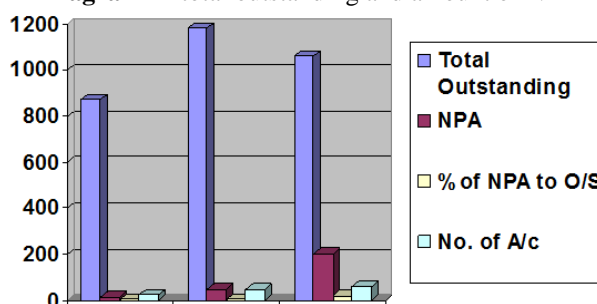
**Table-1- total outstanding and amount of NPA**

Rs in lacks	Mar '2013	Mar '2014	Mar '2015
<b>Total Outstanding</b>	15268.28	17610.12	20061.78
<b>NPA</b>	567.72	816.52	2061.78
<b>% of NPA to O/S</b>	4.37	4.63	7.98

(Source: Annual Report of NDCCB)

The above table shows the amount of total outstanding and amount of NPA of past three year of the Nayagarh District Central Co operative Bank Ltd. From the above data it is observed that the amount of NPA & no. of A/c of NPA is increasing over the time. This fact can be shown with the help of following diagram.

**Diagram-1- total outstanding and amount of NPA**



This diagram shows the decreasing percentage of NPA to outstanding over the years.

**(2) Analysis of outstanding Priority Sector Credit and the amount of NPA**

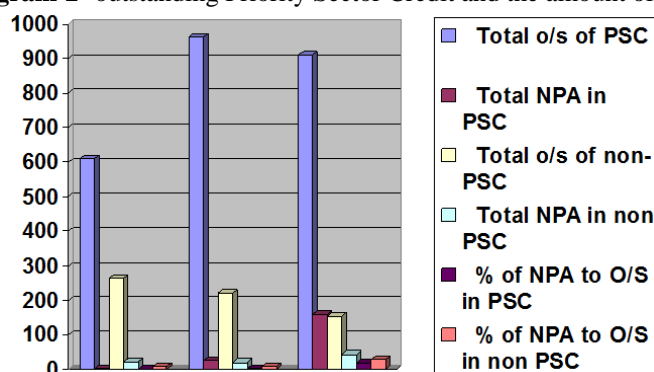
**Table-2- outstanding Priority Sector Credit and the amount of NPA**

Rs. in lacks	Mar'2013	Mar'2014	Mar'2015
<b>Total o/s of PSC</b>	6589.94	17732.41	18950.73
<b>Total NPA in PSC</b>	541.52	641.71	746.31
<b>Total o/s of non-PSC</b>	687.30	841.22	1021.16
<b>Total NPA in non PSC</b>	43.14	39.51	539.59

(Source: Annual Report of NDCCB)

The above table shows total amount of outstanding Priority Sector Credit and the amount of NPA in such credit over the years. It also shows total amount of outstanding non Priority Sector Credit and the amount of NPA in such credit over the years. Further it is also found that the percentage of NPA to outstanding balance for PSC is higher than that of for non PSC over the years. It is also shows that the percentage is decreasing over the years. This fact can be shown with the help of following diagram.

**Diagram-2-** outstanding Priority Sector Credit and the amount of NPA



**(3) Analysis of percentage of NPA to outstanding in PSC under different sectors**

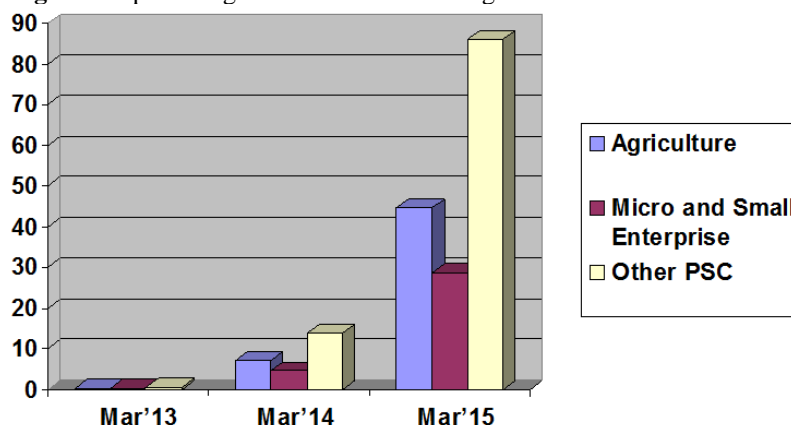
**Table-3-** percentage of NPA to outstanding in PSC under different sectors

In %	Mar'2013	Mar'2014	Mar'2015
Agriculture	7.80	40.30	44.72
Micro and Small Enterprise	222.98	223.76	225.16
Other PSC	310.74	377.65	225.16

(Source: Annual Report of NDCCB)

The above table shows the percentage of NPA to outstanding in PSC under different sectors over the years. It is found that percentage of NPA to outstanding is maximum for Micro and Small Enterprise over the years. With the help of the following diagram we can show that decrease in percentage of NPA to outstanding is more in Micro and Small Enterprise. This fact can be shown with the help of following diagram.

**Diagram-3-** percentage of NPA to outstanding in PSC under different sectors



From the above diagram it is found that the percentage of NPA to outstanding is also decreasing over the years.

**4-Analysis of percentage of NPA to outstanding in PSC under different sectors**

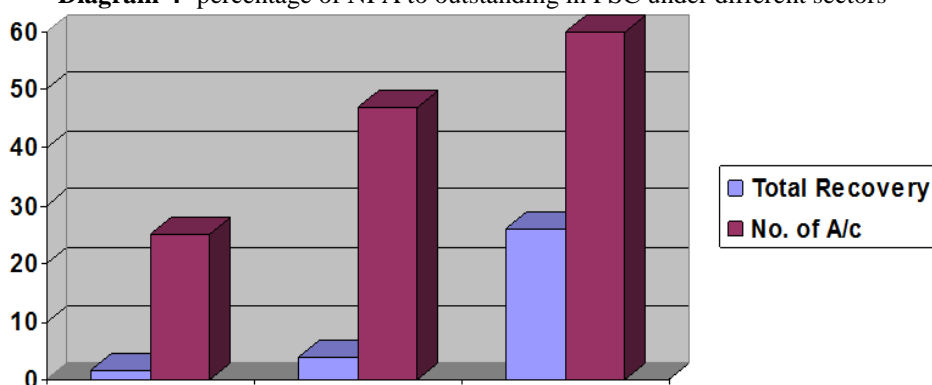
**Table-4-** percentage of NPA to outstanding in PSC under different sectors

In%	Mar-2013	Mar-2014	Mar-2015
Non-PSC Industries	39.45	46.05	539.59
Non-PSC Others	43.14	39.51	54.27

(Source: Annual Report of NDCCB)

The above table shows the percentage of NPA to outstanding in non-PSC under different sectors over the years. Here it is also observed a trend of decrease in the percentage of NPA to outstanding over the year. This fact can be shown with the help of following diagram.

**Diagram-4-** percentage of NPA to outstanding in PSC under different sectors



**5- Analysis of recovery of NPA by NCDC bank**

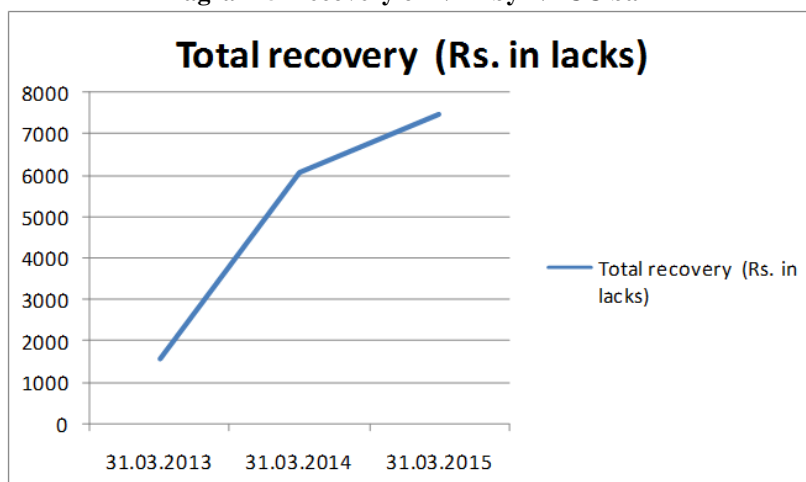
**Table-5-** recovery of NPA by NCDC bank

DATE	Total recovery (Rs. in lacs)
31.03.2013	1582.70
31.03.2014	6080.44
31.03.2015	7496.32

(Source: Annual Report of NDCCB)

From the above tables we can see that there is a huge increase in recovery in the year 2014 over 2013( Rs. 6080.44 lacs fromRs 1582.70 lacs) and similarly in the year 2015 over 2014( Rs. 7496.32 lacs fromRs.6080.44 lacs). This fact can be shown with the help of following diagram

**Diagram-5-** recovery of NPA by NDCC bank



**6-Comparison of New NPA to existing NPA**

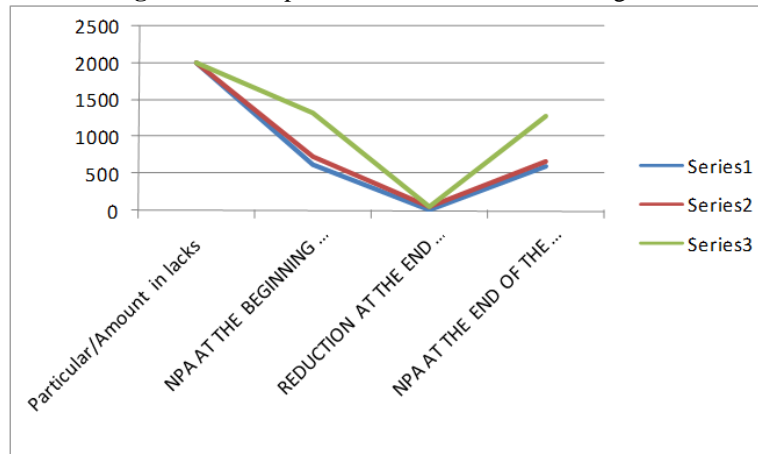
**Table-6-** Comparison of New NPA to existing NPA

Particular/Amount in lacs	2013	2014	2015
Npa At The Beginning Of The Year	624.11	727.27	1340.17
Reduction At The End Of The Year	11.78	51.49	48.37
Npa At The End Of The Year	612.33	675.78	1291.80

(Source: Annual Report of NDCCB)

From the above table we can see that new addition of NPA in 2015 is greater than 2014 & 2013. Percentage of new addition in NPA to total NPA for the year 2015; 2014;& 2013 was 48.41% ;51.49% & 11.78% resp. for the last 3 yrs. So it may be said that the percentage of new addition of NPA is increasing through the last 3 yrs rapidly. Though total NPA is increasing, but the percentage of new addition in NPA to total NPA is greater for year 2014 Provision for NPA accounts is a must. But provision actually decreases the profitability of Bank because provisions are made out of profit of the Bank. From the following table we can show the amount of provisions made in year 2013 and 2014. This fact can be shown with the help of following diagram.

**Diagram-6- Comparison of New NPA to existing NPA**



**7- Analysis of provision for NPA made by NDCCB**

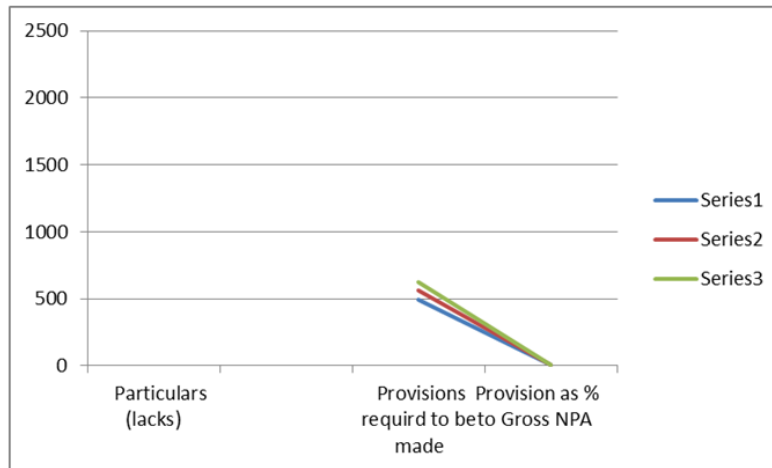
**Table-7- provision for NPA made by NDCCB**

Particulars (lacks)	2013	2014	2015
Provisions require to be made	493.50	565.29	626.65
Provision as % to Gross NPA	4.37	4.63	7.98

(Source: Annual Report of NDCCB)

From the above table it is clear that provision made by the Bank has in quantum. terms as well as in percentage terms during FY:2013 -2014 Different cash recovery tools help in recovering dues from NPA accounts. From the following table we can see how different tools helped the Bank in recovering the dues. This fact can be shown with the help of following diagram.

**Diagram-7- provision for NPA made by NDCCB**



**8- Analysis of recovery of NPA by NDCCB**

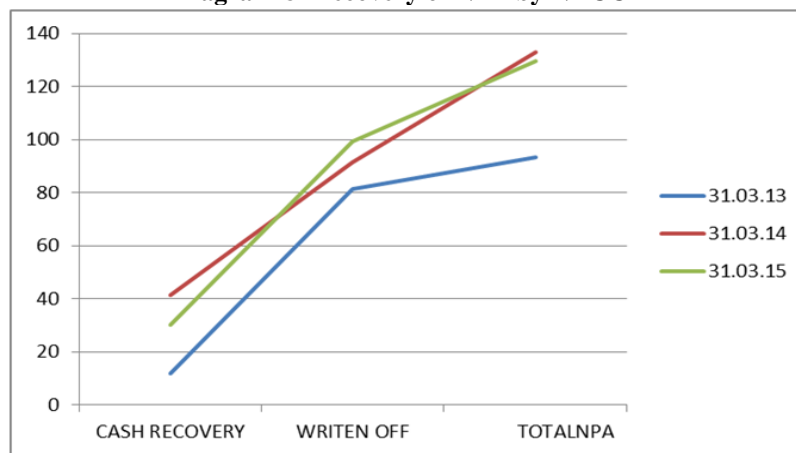
**Table 8 - Recovery of NPA by NDCCB**

DATE	CASH RECOVERY	WRITEN OFF	TOTALNPA
31.03.13	11.78	81.40	93.18
31.03.14	41.49	91.40	132.89
31.03.15	30.3	99.40	129.7

(Source: Annual Report of NDCCB)

From the above table it is found that the recovery of NPA was highest in the year 2013-14. It was because of drastic steps were taken by the bank to recover the NPA. But the amount of NPA written off was highest in the year 2014-15. This fact can be shown with the help of following diagram.

Diagram-8- Recovery of NPA by NDCCB



### III. Conclusion

NPAs have negative impact on the productivity, achievement of capital adequacy level, funds deployment and mobilization policy, credibility of the banking system and overall economy. Therefore, concerted efforts are required all level to control the menace of NPAs. But the complete avoidance of bad debts in banks would be impossible in practice. So there will always be a need for a strategy to deal with bad debts, even in the best run banking system, as long as banks are involved in the risky business of lending money. There is a need to put in place a framework to minimise the number of NPAs. The work of the Basel Committee has contributed much and its latest guidance for promoting internal controls has the potential to assist in improving the situation in many countries.

Lenders need to adhere to the principles of good lending and have in place workable risk-management systems using internationally accepted accounting practices in order to minimise problems like NPA. The establishment of internal control systems in accordance with Basel Committee and chairman Shri M.Narasimham recommendation should be essential to ensure the minimization of the problem of NPAs, but this can be achieved only after an effective system of prudential regulation and supervision has been put in place. The supervisor must be provided with adequate enforcement powers and be sufficiently well resourced (and this includes trained and experienced staff) to undertake the task effectively.

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