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**The Study on Impact of NPA on Growth of Co-operative Banks**

Dr.Renu Nainawat  
Assistant Professor

Department of Economic Administration and Financial Management  
JDB Government Girls College, Kota (Rajasthan)

**Abstract**

*India is known as rural economy with predominance of citizenry occupy in rural region. Nearly, two third of the citizenry depend on agriculture for their sustenance. The first known mutual aid society in India was probably the 'Anyonya Sahakari Mandali' organised in the erstwhile princely State of Baroda in 1889 under the guidance of Vithal Laxman also known as BhausahabKavthekar. The co-operative banks in India play an important role even today in rural financing. The businesses of co-operative banks in the urban areas also have increased phenomenally in recent years due to the sharp increase in the number of primary co-operative banks. It can be observed that Central Cooperative Banks have progressed remarkably good in all fronts, namely profits, deposits, loans or advances, but, it is a matter of serious concern that all these banks are getting down under the weight of escalating NPAs. Today, NPAs have given a big jolt to many cooperative banks by eroding their capital base and, thus, endangering their viability. On the one hand, the PSBs, which are the mainstay of the Indian Banking system are in the process of shedding their excessive weight in terms of excessive manpower, excessive non Performing Assets and excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through mergers and acquisitions.*

**Keyword:** Anyonya Sahakari Mandali, Co-operative banks, NPA, Indian Banking System.

**Introduction**

The banking industry in India is strong backbone to Indian Economy. India's banking sector is on a high-growth trajectory with around 10 ATMs and less than seven bank branches per 100,000 people, according to a World Bank report. Another report prepared by KPMG prepared in association with the Confederation of Indian Industry (CII) states that the Indian banking sector is expected to become fifth largest in the world by 2020. The report highlights that India is one of the top 10 economies of the world and with relatively lower domestic credit to gross domestic product (GDP) percentage, their lies a huge scope of growth for the banking.

India is known as rural economy with predominance of citizenry occupy in rural region. Nearly, two third of the citizenry depend on agriculture for their sustenance. Therefore naturally, the magnification of agriculture and poverty alleviation is remarkable objectives of every co-operative society and bank. The Co-Operative structure play a crucial and important role in the economic growth of the country. Cooperatives can provide funds to farmers at low rates of interest and thereby alleviate them from the clench of the money

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lenders. But, the main difficulty is recovery management. The un-recovered loan which is called as Non Performing Assets (NPAs) is proving major setback and head-ache for the banks mainly in rural areas.

### **The Beginning of Cooperative Societies**

The first known mutual aid society in India was probably the 'AnyonyaSahakariMandali' organised in the erstwhile princely State of Baroda in 1889 under the guidance of VithalLaxman also known as BhausahabKavthekar. Urban co-operative credit societies, in their formative phase came to be organized on a community basis to meet the consumption oriented credit needs of their members. Salary earners' societies inculcating habits of thrift and self help played a significant role in popularizing the movement, especially amongst the middle class as well as organized labour. From its origins then to today, the thrust of UCBs, historically, has been to mobilize savings from the middle and low income urban groups and purvey credit to their members - many of which belonged to weaker sections.

### **Role of Co-operative Banks in India**

The co-operative banks in India play an important role even today in rural financing. The businesses of co-operative banks in the urban areas also have increased phenomenally in recent years due to the sharp increase in the number of primary co-operative banks. The co-operative banks are expected to perform some duties, namely, extend all types of credit facilities to customers in cash and kind, advance consumption loans, extend banking facilities in rural areas, mobilize deposits, supervise the use of loans etc. The needs of co-operative bank are different.

Co-operative banks in India finance rural areas under: Farming, Cattle, Milk, Hatchery, Personal finance. Co-operative banks in India finance urban areas under: Self-employment, Industries, Small scale units, Home finance, Consumer finance, Personal finance etc.

It can be observed that Central Cooperative Banks have progressed remarkably good in all fronts, namely profits, deposits, loans or advances, but, it is a matter of serious concern that all these banks are getting down under the weight of escalating NPAs. According to the Macleagan Committee, which is the dawn in the annals of Cooperative Movement, "When funds are kept rotating, any loaning function of the bank can gear up successfully and serve the very useful purpose" (Reserve Bank of India 1914). But today, NPAs have given a big jolt to many cooperative banks by eroding their capital base and, thus, endangering their viability.

### **District Co-operative Banks**

A District co-operative bank is a federation of primary credit societies in a specified area normally extending to the whole district. It is also known as central co-operative bank. The district banks raise funds by way of share capital from member societies, deposits from public and loans from the State co-operative Bank. The main function of these banks is to finance member societies.

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### State Co-operative Banks

The State Co-operative Bank is a federation of District Co-operative Banks. It works as a watch dog of the co-operative banking structure in the state. It receives deposits from the public and from local board, municipalities, etc. Further, they receive loans at call and short notice from the Commercial Banks and from the Reserve Bank of India. The State Governments contribute a certain portion of their working capital. The state co-operative banks lend money to district banks work as intermediaries between the state co-operative banks and primary credit societies.

### Features of Bank Advances

1. Banks provide credit majority to trade and industries than agriculture. Because of the greater risks and inability of agriculturists to furnish good security.
2. The short term loans are given for the seasonal needs and working capital requirements.
3. Short term loans may be in the form of cash credit and overdraft, demand loans and the purchase and discount of bills. Among these, cash credit and overdraft are the most popular.
4. Indian banks sanction loans against sound security.
5. Banks take all possible protective steps to minimize their risks while granting loans to the firms

### Current Scenario

At present the Banking industry is currently in a transition phase. On the one hand, the PSBs, which are the mainstay of the Indian Banking system are in the process of shedding their excessive weight in terms of excessive manpower, excessive non Performing Assets and excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through mergers and acquisitions.

Now with the advent of technology, the Indian banking is moving leaps and bounds by way of Internet banking, mobile banking and so on. Online banking provides many advantages from fund transfer to settlements as well as many online services.

Cooperative banks cannot remain silent on this very important parameter. Adoption of internet and advanced technology and asset management is not a matter of choice but a compulsion for survival of many Cooperative Banks. Some cooperative bank with a modern banking facilities, loan modules, etc which enables the cooperative banks to earn desired profits.

The high rise in gross NPA of the cooperative banking in the recent past is at an exponential rate and it indicates a heavy toll on cooperative credit discipline. This is further supported by recovery climate, legal system, approach of the lenders towards lending and many other factors. Despite myriad problems and the existing set up, the cooperative banks have to

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perform well and achieve the target for NPA reduction affixed as per the RBI norms. In order to achieve the target, a professional approach is required in dealing with the NPA.

### Review of literature

**M.V. Narayanaswmy, K.ArunaRao and Srimathi .S.Mayya (2007)** made an attempt to construct a scale for measuring the performance of Primary Agricultural Credit Societies (PACSS) and establish the robustness of scaling techniques and the scale itself. An attempt is made to evaluate the performance of co-operatives by using the tools developed for the co-operative sector which does not seem to be appropriate. Corporate is an 'outward looking' entity whereas cooperative is an inward looking entity the scaling technique developed in this paper is both simple and robust and address the problem of non normal data.

**Chatterjee, Mukherjee and Das (2012)** in their study on Management of non-performing assets - a current scenario has concluded that banks should find out the original reasons/purposes of the loan required by the borrower. Proper identification of the guarantor should be checked by the bank including scrutiny of his/her wealth. Framing reasonably well documented loan policy and rules. Sound credit appraisal on well-settled banking norms with emphasis on reduction in Gross NPAs rather than Net NPAs Position of overdue accounts is reviewed on a weekly basis to arrest slippage of fresh account to NPA. Half yearly balance confirmation certificates should be obtained from the borrowers.

**AlpeshGajera, Dr. Vijay Pithadia (2013)** evaluated the operational performance of Indian Banking sector and discussed the importance of NPAs in determining the financial health of the banks. This study was carried on for sixteen years from 1996-97 to 2011-12. The author used ratio analysis and ANOVA to determine the results. Gross NPA to gross advance of public sector banks and old private sector banks is found to be higher than new private sector and foreign banks. Gross NPA to total assets of public sector banks and old private sector banks is higher than new private sector and foreign banks. Net NPA to net advance of public sector banks and old private sector banks is higher than new private sector and foreign banks. Net NPA to net assets of public sector banks and old private sector banks is higher than new private sector and foreign banks.

**AshisSatpathy, Samir RanjanBehera and Sabat Kumar Digal (2015)** analysed the issues related to NPAs of Indian banking sector. Authors empirically examined both the macroeconomic and microeconomic (bank-specific) factors responsible for the rising NPA levels in the Indian banking sector. The study used the three popular methods of panel data analysis - the constant coefficient model, the fixed effects model and the random effects model. The study concluded that fiscal deficit, growth in GDP of India and an increased balance of trade could help in reducing the NPA levels. The bank-specific factors also had significant impact on the bad asset levels of public sector banks.

### Research Methodology

Study focuses on the impact of NPA's on the banking system and their profitability. Looking back to the performance of the bank in the decade or so on, one cannot escape that lack of proper infrastructure economic policies and business growth were most contributory factor in different generation of NPA's or financial performance.

Researcher not only need to know how to develop certain indices or tests, how to calculate mean, mode median or standard deviation or beta, how to apply particular techniques but also need to know which of these methods or techniques are relevant and which are not and what would they mean and indicate and why. The researchers also need to know the criteria by which they can decide that certain techniques and procedure will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design the methodology for his problem as the same may differ form problem to problem.

### Objectives of Study

- To study the various reasons due to which the NPA problem has grown.
- To study the adverse effects of rising NPA's on the working of cooperative banks.

### Sample size

In this study the sampling unit is employees and beneficiaries of co-operative banks. A sample size of 300 employees who are working in co-operative banks in India, which were approached through questionnaire canvased through *google forms* and the responses were received through mail.

### Hypothesis

**H<sub>0</sub>:** There is no significant association between NPA and Profitability and asset classification of Co-operative Banks

### Limitations of study

In most of the studies carried out, the research work is limited to calculation of various NPA ratios and identifying the impact on profitability, which does not provide the clear picture of the banks' performance in respect to NPAs. Also, not many studies were carried out to study the impact of economic indicators on banks' performance with regards to NPA management. Thus, there exists a literature gap in this area. Researcher tries to fill this gap and has made an attempt to investigate the procyclical behaviour of Indian public and private sector banks and analysed the link between banks' riskiness to the general economic conditions.

**Data analysis**

To test the hypothesis “*There is no significant association between NPA and Profitability and asset classification of Co-operative Banks*” One-Way ANOVA test is applied taking prevalence of problem of NPA in co-operative banks as fixed factors and impact of NPA on profitability and asset classification as dependent factors. ANOVA test helps to find the significant difference between the impact of NPA on banks where problems of NPA prevails and where problem does not prevail. The result obtained from the study are as follows:

Descriptives									
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min	Max
						Lower Bound	Upper Bound		
NPAs do not generate interest income	Strongly Disagree	35	1.0000	.00000	.00000	1.0000	1.0000	1.00	1.00
	Disagree	37	1.6216	.49167	.08083	1.4577	1.7856	1.00	2.00
	Neither Agree nor Disagree	43	2.1395	.35060	.05347	2.0316	2.2474	2.00	3.00
	Agree	128	3.6406	.82990	.07335	3.4955	3.7858	2.00	5.00
	Strongly Agree	57	4.9123	.28540	.03780	4.8366	4.9880	4.00	5.00
	<b>Total</b>	<b>300</b>	<b>3.1100</b>	<b>1.42290</b>	<b>.08215</b>	<b>2.9483</b>	<b>3.2717</b>	<b>1.00</b>	<b>5.00</b>
Provisions have to be made on NPAs, which eats away the profits of banks	Strongly Disagree	35	1.0000	.00000	.00000	1.0000	1.0000	1.00	1.00
	Disagree	37	1.7568	.43496	.07151	1.6117	1.9018	1.00	2.00
	Neither Agree nor Disagree	43	2.1860	.39375	.06005	2.0649	2.3072	2.00	3.00
	Agree	128	3.4531	.63815	.05640	3.3415	3.5647	2.00	4.00
	Strongly Agree	57	4.7018	.46155	.06113	4.5793	4.8242	4.00	5.00
	<b>Total</b>	<b>300</b>	<b>3.0133</b>	<b>1.28530</b>	<b>.07421</b>	<b>2.8673</b>	<b>3.1594</b>	<b>1.00</b>	<b>5.00</b>
Profitability gets reduced on	Strongly Disagree	35	1.0571	.23550	.03981	.9762	1.1380	1.00	2.00
	Disagree	37	1.7027	.46337	.07618	1.5482	1.8572	1.00	2.00

account of provisions and non-debiting of interest	Neither Agree nor Disagree	43	2.3023	.46470	.07087	2.1593	2.4453	2.00	3.00
	Agree	128	3.6484	.62229	.05500	3.5396	3.7573	2.00	5.00
	Strongly Agree	57	4.8596	.35044	.04642	4.7667	4.9526	4.00	5.00
	<b>Total</b>	<b>300</b>	<b>3.1433</b>	<b>1.33744</b>	<b>.07722</b>	<b>2.9914</b>	<b>3.2953</b>	<b>1.00</b>	<b>5.00</b>
Balance sheet of banks and financial institutions wear an unpleasant look due to stressed assets reflected in the balance sheet	Strongly Disagree	35	1.0000	.00000	.00000	1.0000	1.0000	1.00	1.00
	Disagree	37	1.7027	.46337	.07618	1.5482	1.8572	1.00	2.00
	Neither Agree nor Disagree	43	2.0465	.21308	.03249	1.9809	2.1121	2.00	3.00
	Agree	128	3.5781	.65939	.05828	3.4628	3.6935	2.00	5.00
	Strongly Agree	57	4.6491	.48149	.06377	4.5214	4.7769	4.00	5.00
	<b>Total</b>	<b>300</b>	<b>3.0300</b>	<b>1.31461</b>	<b>.07590</b>	<b>2.8806</b>	<b>3.1794</b>	<b>1.00</b>	<b>5.00</b>
Carrying NPAs in the books of accounts increases administrative, legal and recovery costs	Strongly Disagree	35	1.0000	.00000	.00000	1.0000	1.0000	1.00	1.00
	Disagree	37	1.8108	.39706	.06528	1.6784	1.9432	1.00	2.00
	Neither Agree nor Disagree	43	2.1628	.37354	.05696	2.0478	2.2778	2.00	3.00
	Agree	128	3.5938	.65733	.05810	3.4788	3.7087	2.00	5.00
	Strongly Agree	57	4.7193	.45334	.06005	4.5990	4.8396	4.00	5.00
	<b>Total</b>	<b>300</b>	<b>3.0800</b>	<b>1.30868</b>	<b>.07556</b>	<b>2.9313</b>	<b>3.2287</b>	<b>1.00</b>	<b>5.00</b>

The above table gives the mean value, standard deviation and standard error of the factors showing the impact of NPA on the profitability and asset classification of co-operative banks. In case of almost all the factors the mean value obtained for the total responses is more than 3, which states that all these factors **show strong impact** of NPA on the profitability of the co-operative banks.

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.

NPAs do not generate interest income	Between Groups	499.474	4	124.869	347.854	.000
	Within Groups	105.896	295	.359		
	Total	605.370	299			
Provisions have to be made on NPAs, which eats away the profits of banks	Between Groups	416.976	4	104.244	399.526	.000
	Within Groups	76.971	295	.261		
	Total	493.947	299			
Profitability gets reduced on account of provisions and non-debiting of interest	Between Groups	460.095	4	115.024	453.987	.000
	Within Groups	74.742	295	.253		
	Total	534.837	299			
Balance sheet of banks and financial institutions wear an unpleasant look due to stressed assets reflected in the balance sheet	Between Groups	438.892	4	109.723	415.842	.000
	Within Groups	77.838	295	.264		
	Total	516.730	299			
Carrying NPAs in the books of accounts increases administrative, legal and recovery costs	Between Groups	434.160	4	108.540	410.926	.000
	Within Groups	77.920	295	.264		
	Total	512.080	299			

The above table shows the F-value and significance value (p value) in case of all the factors representing the impact of NPA on profitability and asset classification of co-operative bank. It is found from the above table that in case of all the factors indicating impact of NPA the sig. value obtained is 0.00 which is less than the alpha value of 0.05 ( $p < 0.05$ ) and mean values are between 3 and 3.2, which states that there is high degree of impact of increase in NPA on the profitability and asset classification of the co-operative banks.

Hence it is concluded that the hypothesis i.e. “*There is no significant association between NPA and Profitability and asset classification of Co-operative Banks*” **is rejected** and alternate hypothesis i.e. “*NPA of cooperative banks has a very major impact on profitability and asset classification.*” **is accepted.**

## Conclusion

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Cooperative banks can play a role of ‘Game Changer’ as far as rural economy is considered. Therefore they need to revamp the entire process of Asset Management and Asst recovery process. It will surely help in removing negative impact of NPA. The cooperative banks expected to perform the duties of community development and society welfare.

To manage NPA effectively, both proactive and curative measures are required. Proactive measures implies efficient loan appraisal and its management, while curative measures focus on realizing NPA accounts using minimum possible efforts. At the pre-disbursement stage, appraisal techniques of bank need to be sharpened. All technical, economic, commercial, organizational and financial aspects of the project need to be assessed realistically.

The failure of the banking sectors adversely affects other sectors in the economy. Non Performing Assets (NPA) is one of the major concerns for any bank. NPA is the parameter to judge bank’s performance. NPAs adversely affect lending activity of banks as non-recovery of loan installments as also interest on the loan portfolio. The efficient management of loan accounts is the major concern for any bank.

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