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A STUDY OF IMPACT OF NON-PERFORMING ASSETS (NPAs) - A SPECIAL REFERENCE TO PUNJAB & MAHARSHTRA CO-OPERATIVE BANK.

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Abstract

Non -performing Assets (NPAs) are loans that are classified as non-performing when interest and principal payments have not been made for a specified period. The all loan portfolio is to be classified into four parts i.e. standard, sub-standard, doubtful and loss assets. Standard assets are performing assets whereas remaining three is called non-performing assets² (NPA). This paper focuses on the performance of the Punjab and Maharashtra Co-operative Bank (PMC) for the period from 2010-11 to 2019-20. This paper also focuses on the Gross NPA and Net NPA of the PMC Bank for past one decade. The study found that Gross NPA as well as Net NPA was increased continuously and in the year 2019-20, there were a boom in NPAs. Results of these, it contrarily affects the profits of the Punjab and Maharashtra Co-operative Banks and on the other hand it also affects the banks reputation which means banks may loses public confidence, etc. such kind of boom in NPAs in PMC Bank in the year 2019-20, Reserves & Surplus⁴ shows negative balances.

keywords: co-operative bank, gross NPA, net NPA, non-performing assets.

Introduction

A Non-Performing Assets (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. A bank lends money in the form of loan and if the person or firm is not able to give back that interest or principal amount for 90 days than banks put that's loan as Non-Performing Assets (NPA). In India, Reserve Bank of India (RBI) monitors the entire banking systems. So, any loan which is not paid for a period of 90 days or more than 90 days the interest or the instalments over due is called NPA. The increase in Non-performing assets in Indian banks follows the recognition standards being pursued by the banks after the RBI highlighted in Asset Quality Review. In the last few years, RBI has come with strict measures to identify bad assets because if we want to improve the quality of banking in India, we need to come out with the short coming, we need to come out with the problems and the biggest problem in the banking industries today is non-performing assets.

Banks were doing earlier, they were not classifying NPAs proactively, they were hiding NPAs but RBI came with Asset Quality Review as per which RBI recognises NPAs in a very transparent manner, in a very open manner and in a very strict manner. So, RBI is the institution which is responsible for classifying loan accounts into NPAs.

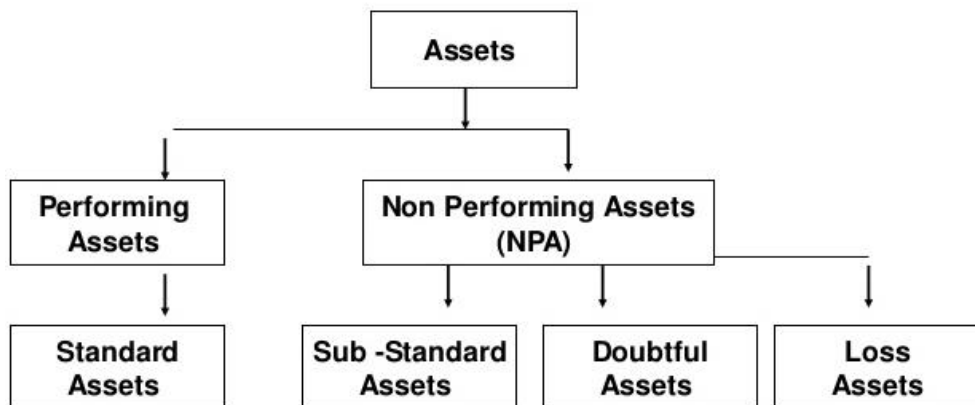
Reasons for rise in NPAs

From 2000 to 2008 Indian economy was in a boom face and banks specially, Public sectors banks started lending extensively to companies. Banks were very happy and they gave loans to people proactively without knowing much of credit appraisal and thinking about the future because this time everything was going well and the market was completely in an excited face. However, there was a financial crisis and this financial crisis was reported in 2008 -2009. The corporates profits decreased and the governments ban mining projects so corporates were failing and the corporates had to close their business. The situation become very serious. None of the infrastructure sectors was working.

Behind these huge NPA problem were a combination of factors Banker exuberance, incompetence and corruption. Bankers were over confidence while giving loans during boom period and they did very little independent analysis of the project cashflows.

Assets classifications¹ are classified into four parts:

Fig 1: Asset Classification



1. Standard Assets:

Standard Assets means where customer is repaying the loans that is interest as well as principal of the instalments. In that situation banks are incurring income and it called standard assets. A Standard Assets are performing assets.

2. Sub-standards assets:

When a customer fails to repay principal and interest for more than 90days, the account is classified as Sub-Standard Assets and Non-Performing Assets (NPAs).

3. Doubtful Assets:

If any loan account remains in the category of sub-standard for more than one year, it will shift to Doubtful Assets category and it will remain in doubtful category till it recover.

4. Loss Assets:

A Loss Assets are the one where the loss has been identified by the banks through the internal or external auditor or by the Central Bank inspectors. Mostly assets which are Non-Performing Assets (NPAs) for more than 36 months are automatically considered as Loss Assets. These assets are mostly written off by subtracting any recovery value of the security which has been held by the banks.

Objective of the study

1. To understand the concept of Non-Performing Assets and its impact on banking sectors.
2. To understand the extension of Punjab and Maharashtra Co-operative Bank in India.
3. To understand the causes of Non -Performing Assets in banking sectors
4. To study the impact of Non-Performing Asset on Punjab and Maharashtra Co-operative Bank.
5. To know the factors influencing to increase of Non-Performing Asset in Punjab and Maharashtra Co-operative Bank.
6. To know Gross Non-Performing Asset (NPA) and Net Non-Performing Asset (NPA).
7. To know the measures taken by Government & RBI to recover Non-Performing Assets.

Research Methodology

- The study is secondary based in analytical in nature. Data is collected from the secondary source. Data used for the analysis is taken from 2010-11 to 2019-20 from the website (Pmcbank.com/English/About us.aspx)
- The study used secondary data is to analyse Net profit, Loans and Advances, Gross NPA and Net NPA of Punjab and Maharashtra Co-operative Bank (PMC Bank) to conclude an actual performance of PMC Bank.
- The study covered a period of ten years from 2010-11 to 2019-20 in Punjab and Maharashtra Co-operative Banks.

Limitations of the study

This paper is centered Non-Performing Assets impact to Co-operative banks only. The study covers only for Punjab and Maharashtra Co-operative Bank (PMC Bank). The analysis of comparative study of Non-Performing assets with others Co-operative bank has not done. The study covers the period for ten years only i.e. from 2010-11 to 2019-20. For the period of time, there is a variation in Non-Performing Assets (NPAs) on yearly basis.

Causes of Non-Performing Assets² (NPAs)

Wilful Defaults:

A wilful defaulter is a person or a organization which has defaulted in meeting its loan obligations or repayments obligations to the lender like banks even when it can honour these obligations. One of the best examples of wilful defaulter is Kingfisher Airlines. These are most dangerous form of NPAs and usually a company criminal proceeding against the defaulters.

Industrial Crisis:

Industrial Crisis is one of the external factors affecting NPAs in the country. Industries depend on banks for fulfilling their requirements on funding various of their projects. In case of crisis of industries, companies may find it difficult to pay back their liabilities which puts them into NPA Zone.

Lenient Lending Norms:

Overestimation of financial status and credit ratings by banks for famous industry names are one of the reasons of NPAs.

Credit distribution Mis-management:

Misuse of funds by the borrowers also leads to Non-Performing Assets (NPAs). Like some borrowers bribe the banks officials and get the loan approved with the soul intention of default. Clearly Nirav Modi company falls under this category.

Punjab and Maharashtra Co-operative Bank (PMC Bank)

Co-operative banks are unit closely-held by their customers and follow the co-operative principle of 1 person, one vote. Co-operative banks are usually regulated underneath each banking and cooperative legislation. they supply services like savings and loans to non-members³ in addition on members, and a few participate within the wholesale markets for bonds, cash and even equities. Cooperative banking systems also are typically additional integrated than bank systems. Native branches of co-operative banks choose their own boards of administrators and manage their own operations, however most strategic choices need approval from a home office. Credit unions typically retain strategic decision-making at an area level, although they share back-office functions, like access to the worldwide payments system, by federating. Punjab| geographic area| geographical region| geographic region } & geographic area Co-operative Bank may be a Multi-State scheduled Urban Co-operative Bank with its area of operation within the States of geographic area, Delhi, Karnataka, Goa, Gujarat, state and Madhya Pradesh. the common-or-garden starting of the Bank was tired a little area at Sion, on February thirteen, 1984 as one branch Bank. in an exceedingly span of thirty-five years, the Bank includes a wide network of 137 branches³ across six states. The Bank stands among high ten co-operative banks of the country.

Paid up Share capital

The money put in to the company by the shareholders is called share capital. After that only they become the owner of the company. Share capital is divided into two category called equity share capital and fixed percentage preference share capital. The share capital has been continuously increasing from 2010-11 to 2019-20. In the year 2019-20 share capital was ₹ 29,494.

Reserves & Surplus

An accumulated profits / savings by the co-operative banks is called as reserves and surplus. The reserve fund uses for the purpose of meeting the future circumstances/ future costs.

Table (1): The Extension of paid up Share capital and Reserves & Surplus for the year 2010-11 to 2019-20.**(Rs. in Lakhs)**

Sr. No.	Years	Share Capital	Reserves & Surplus	Total
1	2010-11	7,846	21,979	29,825
2	2011-12	8,449	35,110	43,559
3	2012-13	11,001	37,821	48,822
4	2013-14	14,400	40,676	55,076
5	2014-15	18,674	52,835	1,26,585
6	2015-16	24,094	59,064	83,158
7	2016-17	28,407	74,790	1,03,197
8	2017-18	29,380	81,480	1,10,860
9	2018-19	29,260	93,394	1,22,654
10	2019-20	29,494	(3,13,207)	(2,83,713)
Mean		20,100	18,394	38,494
SD		9107.09	118673.68	127780.77
CV%		45.31	645.18	331.95
CAGR		0.14	(0.30)	(0.25)

Source: Annual reports of PMC Bank from 2010-11 to 2019-20.

Observation:

- The share capital of the PMC Bank⁴ was growing continuously from ₹ 7,846 (lakhs) in 2010-11 to ₹ 29,494 (crore) in 2019-20 whereas the Reserves & Surplus was growing up to 2018-19 after that there was a negative impact.
- The standard deviation of share capital was 9,107.09 whereas in case of reserves and surplus was 1,18,673.68.
- The CV % of share capital was 45.31% and reserves & surplus was 645.18%.
- Throughout the above study, reserves & surplus was positive from 2010-11 to 2018-19 whereas in the year 2019-20 it shows negative ₹ (3,13,207) because non-performing assets was high in the year 2019-20 of Punjab and Maharashtra Co-operative Bank (PMC).

Deposits⁶ [Rule 2(1)(c)]

Deposits, in common expression refers to the savings/excess funds that general public entrust to a reliable entity for safekeeping; and successively expect a come supported productive use of those funds or to be command in trust for withdrawal on demand. This reliable entity was originally created within the kind of a Bank and controlled by run batted in through the run batted in Act, 1934 then by the Banking Regulation Act, 1949. It involves deposits from individual & others and co-operative institutions. It includes deposits from fixed deposits, savings deposits, current deposits and matured deposits from the year 2010-11 to 2019-20 of Punjab and Maharashtra Co-operative Bank (PMC). Total deposits have been continuously increasing from 2010-11 to 2018-19. But in 2019-20, there was a slightly decrease in total deposits ₹ 10,72,710.

Savings deposits⁵

Savings accounts is the most common type of account which we hold in the banks. It is known for high liquidity. It enjoys easy withdrawals of funds and flexible for deposits. The interest rates provided in savings account a considerably good. Interest is credit in saving bank account holder twice in a year i.e. 30th June and 31st December every year. Saving deposits was increased to ₹ 1,64,850 in 2019-20 from ₹ 51,386 in 2010-11.

Fixed Deposits (FDs)

Fixed account is an account the amount is fixed with banks for fixed period of time. The amount received from FDs when the date is matured. The interest rate is high as compared to all other accounts. The minimum amount limit for FDs in co-operative bank is ₹ 1,000/- for durations ranging from 15 days to 10 years. Fixed deposit was increased to ₹ 7,48,484 in 2019-20 from ₹ 2,03,494 in 2010-11.

Current Deposits⁵

Current account an account which is most suitable for businessman. It is a special type of account that have lesser restrictions as compared to savings bank deposits. It is also known as demand deposits. Current deposits are most liquid deposits and there are no restrictions on number of transactions. There was no fixed maturity for a current account because there is a regular amount of funds that flow from this account. Current deposit was increased to ₹ 36,323 in 2019-20 from ₹ 25,532 in 2010-11.

Table (2): The Extension of Deposits for the year 2010-11 to 2019-20.

(Rs. in Lakhs)

Sr. No.	Years	Savings deposits	Fixed Deposits (FDs)	Current Deposits	Matured Deposits	Total Deposits
1	2010-11	51,386	2,03,494	25,532	2,324	2,82,736
2	2011-12	56,655	2,51,416	31,900	1,833	3,41,804
3	2012-13	69,919	3,49,373	21,872	4,148	4,45,312
4	2013-14	82,779	4,58,606	21,241	6,105	5,68,731
5	2014-15	99,452	5,57,334	24,623	5,621	6,87,030
6	2015-16	1,16,630	6,27,510	28,164	5,841	7,78,145
7	2016-17	1,61,991	7,01,442	32,438	5,327	9,01,198
8	2017-18	1,67,982	7,77,211	41,653	7,037	9,93,883
9	2018-19	1,83,603	9,23,655	45,533	8,941	11,61,732
10	2019-20	1,64,850	7,48,484	36,323	1,23,053	10,72,710
Mean		1,15,525	59,853	30,928	17,023	7,23,328
SD		50519.14	239556.82	8253.09	37313.99	309892.64
CV%		43.73	42.79	26.68	219.20	42.84
CAGR		0.12	0.14	0.04	0.49	0.14

Source: Annual reports of PMC Bank from 2010-11 to 2019-20.

Observation:

- The total deposits of Punjab and Maharashtra Co-operative Bank (PMC Bank) was increased from ₹ 2,82,736 (in lakhs) in 2010-11 to ₹ 10,72,710 (in lakhs) in 2019-20.
- From the above table shown the coefficient of variation was 43.73, 42.79, 26.68 & 219.20 for savings deposits, fixed deposits, current deposits & matured deposits respectively.

Dispersion of Funds – Loans and Advances

A loans and advance may be a monetary facility provided by the banks and monetary institutions⁷ to assist their customers in monetary want. For banking sectors loans are the assets and these banks generates incomes from these loans that is termed interest. briefly for banks assets is adequate to loans. A finance is that the main sources of funds for his or her endeavour. So, once one isn't able to get a full quantity of cash by his own. He will use this kind of economic services provided by a bank.

Short Term Loans

Short term loan is a loan which is normally for 1 or 2 years. The interest rate is high as compared to long term loans. Short term loan is easier to get a loan.

Medium Term Loans

Medium term loans are normally for a period of 2 to 5 years and it can be a mixture of short- term loan and long- term loan.

Long Term Loan

Long term loans are usually for a period of more than 5 years and it involves secured and unsecured loan.

Table (3): The Loans and Advances of (PMC Bank) for the year 2010-11 to 2019-20.**(Rs. in Lakhs)**

Sr. No.	Years	Short Term Loans	Medium Term Loans	Long Term Loan	Total Loans & Advances
1	2010-11	1,70,300	8,578	29,108	2,07,986
2	2011-12	2,10,235	10,266	18,616	2,39,117
3	2012-13	2,50,695	13,434	33,527	2,97,656
4	2013-14	3,00,769	13,652	51,746	3,66,167
5	2014-15	4,06,641	15,616	57,099	4,79,356
6	2015-16	4,53,791	17,418	66,502	5,37,711
7	2016-17	5,24,772	21,619	86,452	6,32,843
8	2017-18	6,06,353	22,865	1,00,530	7,29,748
9	2018-19	6,87,319	26,463	1,06,640	8,20,422
10	2019-20	3,08,287	9,401	1,15,862	4,33,550
Mean		3,91,916	15,931	66,608	4,74,456
SD		1,73,944.06	6,090.94	34,461.17	2,06,835.11
CV%		44.38	38.23	51.74	43.59
CAGR		0.06	0.01	0.15	0.08

Source: Annual reports of PMC Bank from 2010-11 to 2019-20.

Observation:

- From the above table, it shows the performance of PMC Bank short -term loans⁴, medium term loans and long -term loans for the period from 2010-11 to 2019-20.
- It shows that long term and short -term loans have been increasing continuously whereas medium term loan increases up to 2018-19 after than it declines.
- The CAGR for short term, medium term loans and long -term loans were 0.06, 0.01 and 0.15 respectively.

Gross NPA⁴ and Net NPA

Any account that is classified non -performing assets is called Gross NPA. Gross means whatever the amount is due towards the banks. If bank add all these amounts of all the loans accounts with a particular bank that will make it Gross NPA.

Gross NPA percentage = Outstanding of Gross NPA * 100 / Total Loan Amounts

Every bank has to make a provision i.e. 15%, 20%, 30%, 50% or 70% of the amount outstanding, so difference between amount of provision and Gross NPA is called Net NPA.

Net NPA percentage = Net NPA*100 / Total Loan Amount

Table (4): Analysis of Gross NPA and Net NPA of PMC Bank for the period 2010-11 to 2019-20.**(Rs. in Lakhs)**

Sr. No.	Years	Gross NPA	Net NPA	Total
1	2010-11	4,106.31	957	5,063.31
2	2011-12	2570.54	391.4	2,961.94
3	2012-13	3022.67	556.3	3,578.97
4	2013-14	3,171.51	729.15	3,900.66
5	2014-15	5,257.28	2,197.10	7,454.38
6	2015-16	7,652.33	3,842.15	11,494.48
7	2016-17	11,185.58	6,125.40	17,310.98
8	2017-18	14,800.26	7,715.08	22,515.34
9	2018-19	31,524.24	18,059.24	49,583.48
10	2019-20	3,51,888.71	51,406.70	4,03,295.41
Total		4,35,179.43	91,979.52	5,22,095.64

Source: Annual reports⁴ of PMC Bank from 2010-11 to 2019-20.

Observation:

- From the above table, it shows Gross NPA was increased to approx. ₹ 3,51,888 (in crores) in 2019-20 from ₹ 4,106 (in crores) 2010-11. Non -performing assets is continuously growing in past one decade.
- Net NPA have been increased to ₹ 51,406.70 (in crores) in the year 2019.20 from ₹ 957 (in crores) in the year 2010-11. In the year 2019-20, there was a boom in Net Non -performing assets in PMC Bank.
- Total Gross NPA and Net NPA of PMC Bank for the period from 2010-11 to 2019-20 was ₹ 4,35,179.43 (in crores) and ₹ 91,979.52 (in crores) respectively.

Impact of NPA on Co-operative Banks

Financial stability report of 2017 released by Reserve Bank of India (RBI) states that India's Gross NPA was at 9.6%. This figure is sum total of all stressed assets held by lending institutions in the country including co-operative and small banks in addition to government and private banks. India has second highest ratio of NPAs among the major economies in the world. According to latest figures of December 2017, this figure of 9.6% has actually increased to 10.4%.

1. Profitability:

Non-Performing Assets (NPAs) put huge impact on the profitability of the banks as they stopped to earn income on these stressed assets on one hand and they have to keep aside some capital to make sure that there are no liquidity impacts for the depositors because of these probable NPAs default and this is called Provisioning of Assets. Each type of NPA has different provisioning ratio as prescribed by RBI. i.e. sub-standard NPA has provisioning ratio of 15%.

2. Asset Contraction/ Credit Contraction:

The increased NPAs are putting pressure on recycling of funds and reduces the ability of banks for lending more and thus results in lesser interest income for the banks. It contracts the money stock which may lead to economic slow-down even. It also adding too much scrutiny in corporate loan dispersal by banks which is bringing inefficiency in the system and is taking some of the industries to the slow down.

3. Liability Management:

In the light of high NPAs to improve their profitability, banks tend to lower the interest rates on the deposits like Fixed Deposits (FDs), Savings etc. and likely to levy higher interest rates on new and old loans to sustain their Net Interest Margin.

$$\text{Net Interest Margin} = (\text{Investments Returns} - \text{Interest Expenses}) / \text{Average Earning on Asset}$$

4. Public Confidence:

NPAs may impact the public confidence in banking system as well because it shakes the confidence of public in the soundness of banking system. Increased in NPAs may even pose a liquidity issues in the future and already because of these NPAs the banking stocks are taking a huge dive. Thus, these increase incidence of NPAs is not only impacting the performance of the banks and the banking system but overall economy as well.

Measures taken by Government & RBI to recover NPAs

While the increase in NPAs is problematic. Its increase since 2015 after RBI's Asset Quality Review (AQR) in 2014 is a good sign. It means banks are acknowledging Non – Performing Assets (NPAs) than hiding them. The resulting recognition of true asset quality at banks largely explains the increase in NPAs during these last three years and even as reporting as NPAs rose⁸ since 2015 RBI suspected that some banks were still under reporting them and in April 2017 RBI's asked all banks to reflect in their notes if their NPAs differed from the definition of regulators as a results some of these banks were heavily fined for under reporting bad loans and there are many things which government has done in last few years to solve the problems.

1. Banking Regulations Acts was amended to give RBI more powers to monitors bank accounts of big defaulters.
2. to recover outstanding loans a slew of legislation called Insolvency & Bankruptcy Code (IBC) was passed by the parliament which helps in easy liquidation of the defaulters.
3. Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) and Recovery of Debt Due to Banks and Financial Institutions Act (RDDBFI Act) were amended Debt Recovery Tribunals (DRT) were also set up to fast track proceedings of liquidation.
4. Amendments are aimed at faster recovery and resolution back debts by banks and financial institutions and making it easier for assets reconstruction companies to function along with this new bankruptcy law which came to deal with these NPAs effectively in Indian Banking system.
5. Reserve Bank of India (RBI's) announced a complete overall of the asset resolution process setting a strict timeline and criteria of reporting NPAs and resolving them.



The management of the bank is responsible for the ban that millions of customers of Punjab and Maharashtra Cooperative Bank have faced at this time. In the RBI's preliminary inquiry, the bank's MD Joy Thomas⁹ himself has confessed in a letter to RBI that the details of the loan given to HDIL were deliberately hidden. PMC Bank had given 73 per cent loan only to HDIL group companies. Not only gave loan but also made a fraud to hide. The brunt of which the bank's account holders are now suffering. The MD of the bank itself has admitted to hiding the NPA in a letter to the RBI.

SUGGESTION & RECOMMENDATIONS

1. Banks have to do credit risk appraisal very strictly.
2. Banks have to see all the aspects of the customers, like whether the customer can repay the loan amount or what is intent of the customer where will they make the profit from.
3. Banks should also do sensitivity analysis and should build safeguards against external factors.
4. Banks should make projections and calculations about projects and also extrapolate and will get next 10 to 15 years of performance of that enterprise.
5. The recovery process of the bank should be strict and they should more proactive in recovery Non-Performing Assets (NPAs).
6. Banks have to create more accountability. Every level has to be accountable to whatever actions they take. This may ensure more transparency and corruption incidence may reduce significantly.
7. Banks needs for effective recovery strategies to recover NPAs.

Conclusion

From the above analysis. It is concluded that NPA is a discreet object which impacting the profitability & liquidity of the banks as well as public confidence towards banking sectors. The performance of PMC Bank in year 2019-20 was not healthy because their Reserves & Surplus shows negative balance. It clearly shows that NPA of PMC Banks was on peak. NPA is injurious for the banking sectors and it also effect the economy of the nations. In Punjab and Maharashtra Co-operative Bank, NPA is growing year by year. To prevent these NPA, Co-operative banks should take some rigid steps and proper measures & appraisal before sanctioning any loans. It is responsibility of the banks to secure the funds of their depositors because which fund is lending through loans and advances its customers money which they have kept into the bank and have trust on banking system. So, to maintain this, banks needs to be more active and diagnosis while lending funds.

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