

# NON-PERFORMING ASSETS IN JHAJJAR DISTRICT CENTRAL COOPERATIVE BANK – AN OVERVIEW

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## ABSTRACT

The financial position of Co-operative Banks in India is not sound at present and the main factor which is responsible for it is high ratio of Non-performing Assets (NPAs). The presence of NPAs affect the profitability of the banks. So today NPAs is a major concern of these banks and policy makers. There are a number of causes of high NPAs like – Loan Waiver Scheme, Lack of professionalism among the loan officers, poor credit appraisal system. The present article aims at examining the trends of NPAs in co-operative banks and its causes especially in the district of Jhajjar in the State of Haryana.

Keywords: District Central Co-operative Bank, NPAs.

## INTRODUCTION

Co-operative Banking System is an imperative segment of the Indian Banking set-up. It plays an important role in meeting out the credit requirements of both lower and middle class in rural and urban areas. Its contribution is significant in the development of rural sector in India. However, the financial performance of these institutions particularly in rural areas is not sound at present. The high levels of Non-performing assets (NPAs) have affected these banks badly. The high ratio of NPAs affects the profitability of these banks. It not only reduces the income of the banks, but increases the costs of the banks for making provisions for NPAs. So today NPAs is a major concern of the banks and the policy makers. In broader sense NPAs is defined as an advance where payment of interest on loans and repayment of the principal amount is not paid timely from the side of the borrowers.

In India as per the norms of RBI (2004) an asset is classified as Non-Performing asset if the borrower does not pay the interest and the principal amount with in a period of 90 days after the due date of payment, but

in case of farming sector, an assets is considered as NPAs, if the farmers don't repay the loan with interest with in a period of one year (two harvesting seasons).

### ASSET CASSIFICATION:

Assets are classified into two basic categories:

1. Standard Assets
2. Non-Performing Assets : Non-performing assets are further classified into three Categories :

- (i) Sub-Standard Assets
- (ii) Doubtful Assets
- (iii) Loss Assets.

### OBJECTIVES OF THE STUDY:

The objectives of the current study are following:-

- 1) To enquire about the trends of NPAs in Jhajjar District Central Co-operative Bank (JBCCBs).
- 2) To study the reasons of NPAs in JDCCBs.
- 3) To study the recovery Mechanism of NPAs.

### RESEARCH METHODOLOGY:

The research methodology of the current study has the following approaches – a detailed survey of the 24 branches of Jhajjar District Central Co-operative Bank have been conducted with the help of interview method. The secondary data taken from different Journals and Annual reports of JDCCBs are classified, tabulated and analyzed in a systematic manner. The average annual growth rates of different types of assets are estimated with the application of the following formula:-

$$r = \text{Antilog} \left[ \frac{\log P_n - \log P_0}{n} \right] - 1$$

r = Average annual growth rate.

$P_n$  = Value at the end of the period.

$P_0$  = Value at the beginning of the period.

$n$  = number of years.

## LIMITATIONS OF THE CURRENT STUDY

The study covers a period of Nine years only-from 2008-2016. The current study is restricted to Central Co-operative Bank of Jhajjar only. Due to time and cost constraints, the field survey is conducted only to branch managers of JDCCBs and the main focus of the current study is to find out the trends and position of NPAs of JDCCBs.

## REVIEW OF LITERATURE:

In this section, an effort is made to review some studies that have already been conducted in respect of the issues of NPAs in banking in India.

**Dharmendran. A (2012)** – observed in his study that the gross NPAs of State Co-operative Banks (STCBs) shows positive trends and the reasons of it are – undue interference by political bigwigs and inadequate support from RBI in meeting the fund needs of these banks. He suggested that (STCBs) in India should introduce incentives / reward system to staff engaged in collection process. **Reserve Bank of India (2013)** reported that the overall performance of State Co-operative Banks (STCBs) and District Central Co-operative Banks (DCCBs) exhibited some improvement in NPAs ratio. According to this report STCBs showed a consistent decline between 2008 and 2012, but the Primary Agriculture Credit Societies reported losses and weak financial performance. **Nivethitha .J and Brindha. G (2014)** Conducted a survey of NPAs management in Virudhunagar District Central Cooperative Bank and found that co-operative banks provide a big portion of the advances to agriculture sector. They suggested that for the reduction in NPAs government should provide annual assistance to drought affected areas and Training programmes should be set-up for loan officers. **Anupama Mitra (2012)** conducted a survey of Urban Co-operative banks in Hooghly district of West Bengal and found high correlation between loan advances and gross NPAs in co-operative banks. She suggested that to

reduce NPAs there is a need of high degree of professionalism in management. **Mohan Kumar and Govind Singh (2012)** observed the main reasons of high NPAs in commercial banks and concluded that the lending is not linked with productive purpose scale. These banks are pressurized to provide loan to sick industries and it deteriorate the qualitative aspects of lending. **Rajiv Kumar and Jasmindeep Kaur (2013)** suggested that to improve the financial position of co-operative banks, all banks should focus on the customer relationship management and fill the vacant posts immediately.

## RESULT AND DISCUSSIONS:

There are 19 Districts Central Co-operative Banks in Haryana, which perform as an intermediate between 634 Primary Agricultural Credit Co-operative Societies (PACCS) and HARCO Bank (The Apex bank of Haryana). Jhajjar District Central Co-operative Bank is among these 19 DCCBs in Haryana. The trends of NPAs in JDCCBs are presented in Table-I

**Table – I**  
**Classification of asset and NPAs of JDCCBs (At the end of March) Rs. In Lacs**

Sr.No	Asset Type	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average Annual Growth Rate (%)
1	Total Loan & Advances Outstanding	25059.05	26331.44	30639.86	33225.05	35002.72	42518.45	47607.13	49473.20	51306.90	(8.2)
2	Standard Assets	23524.21	23511.38	26847.26	28981.8	30645.88	38028.50	43560.10	45443.95	46790.10	(7.9)
3	Sub Standard Assets	950.36	2455.11	3082.82	2705.50	2176.16	1905.23	1039.38	672.43	1239.68	(5.4)
4	Doubtful assets	580.47	364.95	709.78	1537.73	2180.68	2584.72	3007.21	3356.82	3277.12	(21.2)
5	Loss : Loan Others	- 40.36	- 40.28	- 21.69	- 81.50	- 81.50	- 179.95	191.80	193.30	272.38	
6	Total Provisions for NPAs	695.96	957.82	962.82	1150.82	1260.92	1545.36	2008.67	2107.92	2307.92	(14.2)

7	Gross NPAs	1575.19 (6.29)	2860.44 (10.86)	3874.29 (12.24)	4324.74 (13.02)	4356.84 (12.45)	4489.95 (10.56)	4046.59 (8.50)	4029.25 (8.14)	4516.80(8.8 0)	(12.4)
8	NET NPAs	879.23	1902.52	2911.47	3173.92	3177.42	2944.59	2037.92	1921.33	1208.88	3.6

Source : Annual reports of JDCCBs

Note: 1) Figures in Parenthesis indicate the growth percentage

The above table represents the trends in NPAs of JDCCBs during the period of 2008 -2016 and shows that the loan and advances of JDCCBs have increased from Rs. 25059.05 lacs on March end 2008 to Rs. 51306.90 lacs as on March 31, 2016.

The gross NPAs stood at Rs. 1575.19 Lacs on March end 2008 Consisting of Rs. 950.36 Lacs Sub-Standard assets, Rs. 580.47 Lacs doubtful assets. It increased and became Rs. 4516.80 Lacs on March 31, 2016 Consisting Rs. 1239.68 Lacs in Sub-Standard Category and Rs. 3277.12 Lacs in doubtful Category. The percentage of average annual growth rate of gross NPAs of (JDCCBs) is Low if it is compared to the percentage of average annual growth rate of total loan and advances. The table reveals high growth rates of Non-Performing assets but after the year 2011, the percentage of the ratio of Gross NPAs to total Loan and advances shows declining trends. On March end 2011, it was recorded as 13.02 percent, but in 2016 it reduced and remained 8.80 percent. The awareness in respect of the disbursement of loans and advances and some improvements in recovery system made the percentage of gross NPAs diminishing.

#### **ANALYSIS OF THE VIEWS OF BRANCH MANAGERS:**

##### **Sectoral Disbursement of Loan:**

To know the views of branch managers I have conducted interviews of all 24 branches managers in Jhajjar district in Haryana and found that the Co-operative bank sanctioned loan for different purposes such as Agriculture, retail borrowers, business. Consumption purposes and so on. But most of the share of loan (approximately 65 percent) goes to Agricultural sector. The reason is that most of the people in rural area of Haryana are farmers and they borrow money from these banks for agriculture purpose and a very small share of total loan and advances goes to Non farming sector.

A number of measures have been adopted by the branches of (JDCCBs) to recover loan such as – One Time Settlement Scheme, Compromise Settlement Scheme, Issuance of notices to borrowers etc.

### **Reasons of NPAs:**

The main reason for loan default as stated by the branch managers is the wrong statements of the political leaders during the time of elections and written off policy of loan by the government. So a number of borrowers have stopped repaying in the hope that government will announce another loan waiver scheme. They refuse to repay the loan and become intentional defaulters. Generally borrowers take the loan for productive purpose, but they use It for consumption purpose and at the time of repayment, they are not in position to repay.

The another main reason of high ratio of NPAs as reported by branch Managers is the lack of professionalism among the Board of Directors. There are 11 members in Board of Directors in Jhajjar District Central Cooperative Bank and most of them have lack of professionalism. Majority of directors have lack of knowledge about banking sector. There are other so many other Causes of NPAs in JDCCBs like –

-Role of nature in Agriculture sector

-Political pressure

-Large branch expansion

-Lack of Infrastructure facilities

-Insufficient staff members

-Lack of Training Programmes.

### **SUGGESTIONS**

For the reduction in NPAs, and for smooth working of Co-operative banks some effective suggestions are given below:-

- Loan officers and Managers should be given more powers in management of Non performing assets.
- The members of Board of Directors (BODs) should be made aware about their role, responsibilities and duties. Training programmes should be conducted for them.
- The problem of NPAs, should be studied branch wise and amount wise.

- The managers should enquire in detail the financial position of the borrowers at the time of providing loans.

## **CONCLUSION:**

Banks play a major role in the growth of a Country and Considered a major indicator of the progress of an economy. But Non-Performing Assets are the most dangerous and a barrier in the way of the smooth working of banks. The current study is an attempt to enquire about – the trends of NPAs of JDCCBs, views of the bank's managers and its causes and give some suggestions to solve this problem. From the current study it is found that after the year 2011, the trends of NPAs have been diminishing. The awareness in respect of the disbursement of the loans and advances and some improvements in recovery system made the percentage of both gross and Net NPAs diminishing. But still the ratio of NPAs in JDCCBs is high. So the bank should accept some more effective measures to reduce NPAs and may adopt some suggestions given in the current study.

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