



## THE EXTENT OF NON-PERFORMING ASSETS OF URBAN COOPERATIVE BANKS IN COIMBATORE DISTRICT

**Dr. X. Lourdes Xavier Wilson\* Mrs.P.Kalaiselvi\*\***

*\*Associate Professor, Visiting scholar, University of Helsinki, Finland, PG & Research Department of Cooperation Sri Ramakrishna Mission Vidyalyaya College of Arts and Science (Autonomous) (Reaccredited with A Grade by NAAC) SRKV Post, Coimbatore, Tamil Nadu, India.*

*\*\*Ph.D., Research Scholar (Part -Time) PG & Research Department of Cooperation Sri Ramakrishna Mission Vidyalyaya College of Arts and Science (Autonomous) (Reaccredited with A Grade by NAAC) SRKV Post, Coimbatore, Tamil Nadu, India.*

The cooperative banking system forms an integral part of Indian financial system. It comprises Urban Cooperative Banks and Rural Credit Institutions. The distinctive feature of the cooperative credit structure in India is its heterogeneity. The structure differs across rural and urban areas as well as across States and tenures of loans. The urban areas are served by Urban Cooperative Banks (UCBs), which are further sub-divided into scheduled and non-scheduled UCBs. Scheduled UCBs form a small proportion of the total number of UCBs. The operations of both scheduled and non-scheduled UCBs are limited to either one State (single-State) or stretch across States (multi-State). Most of the non-scheduled UCBs are primarily single State UCBs having a single tier structure.

The Urban Co-operative Banks (UCBs) registered as co-operative societies under the provisions of State Co-operative Societies Acts or Multi State Co-operative Societies Act and licensed to undertake banking business under the provisions of Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). The UCBs are co-operative societies at the primary level and represent a unitary structure.

As a result of the new initiatives and sustained efforts by RBI, the number of financially weak banks in the Urban Cooperative Bank sector has declined. Further, due to consolidation in the sector on account of closures and mergers, the number of Urban Cooperative Banks came down from 1770 as at end-March 2008 to 1589 as on March 31, 2014 and further to 1579 by end-March 2015. The sector has recorded growth and financial strength after consolidation. The deposits and advances of Urban Cooperative Banks increased from Rs. 1398.71 billion and Rs. 904.44 billion as at end-March 2008 to Rs. 3155.03 billion and Rs. 1996.51 billion, respectively, as at end-March 2014. The Gross Non Performing Assets (NPAs) decreased from 15.5% to 5.7% in the same period. However, this growth was not uniform across the Urban Cooperative Bank sector as a few Urban Cooperative Banks grew exponentially during the period. In the process, some Urban Cooperative Banks acquired the size of smaller commercial banks. As on 31st March, 2015 there are 1579 Urban Cooperative Banks are functioning in India ([www.rbi.org.in](http://www.rbi.org.in)).

In Tamil Nadu, there are 129 urban cooperative banks functioning in the state. All the urban cooperative banks mobilize the funds required by them by way of deposits from the public as well as from their members and from the district central cooperative banks. Economically backward people such as poor and middle class income group of people are members in Urban Cooperative Banks and the banks are making way to channelize the savings of those people towards capital formation. Urban Cooperative Banks are also helping the small industries. As per the reports of Reserve Bank of India majority of their lending are provided to small scale industries, it helps the economy in creating and encouraging small entrepreneurs and creating new entrepreneurs and which reduces unemployment problem of the economy. It indicates importance of survival of Urban Cooperative Banks, Urban Cooperative Banks may survive only when it earns continuous profit otherwise it will be struggling in doing banking business and it may affect economy also.

The banks are required to advance not less than 60 percent of their total lending to priority sector. They have issued short term and medium term loans to the extent of Rs. 5868.54 crores during the period from 1.4.2014 to 31.3.2015 to the semi urban population. The urban cooperative banks provide non-farm sector loans to the cottage and small-scale industries. These banks were conscious to augment the deposit position in proportion with the loans advanced to various sectors. The total deposit of all urban cooperative banks as on 31.03.2015 was Rs. 3551.20 billion as against 1398.71 billions in the year 2007-08.

### **Prudential norms for Urban Cooperative banks**

These prudential norms were recommended by the Basle Committee on Bank Supervision (BCBS) as a measure for the assessment of the financial soundness through a set of common denominators and operational parameters for banks having



national operations. The aim of the prudential norms was to reduce the risk of the systematic failures and avert the disruption caused by impending financial crises. These norms insist the following elements to be focused in Banking Institutions.

- ☞ Adequate Capitalization,
- ☞ Management of Risks,
- ☞ Adoption of proper Accounting system,
- ☞ Reporting true financial position and
- ☞ Effective supervision.

Further the application of the prudential norms is a tool which would help a bank to develop a sound and transparent base sustainability and to help in arresting deterioration in assets quality.

The Prudential norms on Capital Adequacy, Income Recognition, Assets Classification and Provisioning are the center around the concept of NPAs. The Prudential Norms have not only standardized the accounting procedures but also brought about the uniformity in maintenance and disclosure of financial information, which has facilitated for an inter- bank comparison over a period. As per the recommendation of the CFS (1991) and RBI issued guidelines for Capital Adequacy, Income Recognition, Assets Classification and Provisioning for NPAs for Urban Cooperative Banks in the year 1992-93.

### **Review of Literatures**

Ramu (2009) in his article entitled, “Dimensions of Non-performing Assets in Urban Cooperative Banks in Tamil Nadu”, analyzed the asset quality and highlighted that the strengthening of prudential norms has resulted in increased levels of Non-Performing Assets (NPAs) for the Urban Cooperative Banking Sector. As per CAMELS rating model, the highest weight was given to asset quality components. The Urban Co-operative banks are compelled to maintain superior asset quality in the competitive market for their survival.

Subburaj and Karunakran (2002) in their study entitled, “Adoption of Modern strategies by UCBs in Tamilnadu” have mentioned that the viability of an Urban Co-operative banks depends on the volume of business, a good service mix, cost efficiency and a sound system of Non-Performing Assets reduction. They have suggested adherence to capital Risk asset Ratio Norms (CRAR) and strict internal control system in the areas of capital adequacy, Asset Quality Management, Earning Appraisal and Liquidity monitoring are very essential.

Teli (2005) has conducted a study on the Performance Evaluation of Urban Co-operative banks in Kolhapur District. The progress of different indicators of UCBs in Kolhapur District showed a considerable growth in their membership, share capital, reserves, owned funds, deposits, loans and profits. But at the same time increase in over dues and number of banks making losses reflected an urgent need for further investigation of the working of UCBs in Kolhapur district. He suggested that the owned funds of the banks needs to be strengthened .The banks have to decide roadmap to reduce NPAs for their survival and growth in their business .The bank has to increase their income. The bank has to ensure greater transparency in their overall working to rebuild the confidence of their business.

Bhagabata Behera (2014) reviewed the Reserve Bank of India in its annual report on trend and progress in banking, stated that urban banks are purveyor of credit to small borrowers and weaker section of the society, but it is not coming out with any supportive policies that will strengthen the role of UCBs. Although some UCBs have been shown remarkable in the recent years, still a large number of banks have shown measurable performance. The operational efficiency is unsatisfactory and characterized by low profitability, ever growing non-performing assets (NPA) and relatively low capital base. Over a long period of time, the performance of UCBs has been deteriorating due to non recovery of interest and installments of loan portfolio. Probably the biggest challenge facing the banking sector, especially the UCBs, is the availability of quality assets. The organization is now at cross road. The growing NPA tendency put the bank into liquidity crunch.

### **Statement of the Problems**

Urban poverty is the flow of rural poverty. In providing credit in urban society to the weaker sections, the commercial banks have been neglected them. In promoting the economic interest of the weaker sections of the urban society which is one of the national objectives, the urban cooperative banks are entrusted with the responsibility of financing on priority basis of small means of urban sector like trader, artisan, merchants, workmen like carpenters, blacksmiths, mechanics, self-employed, small transport operators, etc., Nowadays, there are many Urban Cooperative Banks cover under the Scheduled Bank and also extended its wings to different States of India as per Multi State Cooperative Societies Act. Having realized the vital role of the urban cooperative banking sector, the Government of India has extended its help and encouragement particularly after the implementation of social control in 1968.

The second phase of RBIs reform is on the improvement in the organizational efficiency of banks. The most critical area in the improvement of profitability of banks is the reduction of Non-Performing Assets (NPAs). RBI, as a regulatory authority is issuing from time to time various guidelines to the banks and financial institutions for proper credit administration.

The Urban banks were mainly established to cater the general requirement of the middle class and lower section of people in urban areas. They lend mostly to consumption purpose partly to useful productive purposes. At present, most of the Urban Cooperative Banks in Tamil Nadu have heavy overdues upto Rs. 191.98 crores during the year 2002 as against 72.76 crores in 1998. It necessitates identifying the various causes and effects for such mounting level of overdues.

### Objectives of the Study

The study aims to study the level of NPAs in UCBs in Coimbatore District.

### Sampling Procedure for the Selection of Respondents

Multi stage sampling technique has been followed for the study. In the first stage, Coimbatore District has been purposively selected because of the convenience of the researcher. In the second stage, census method has been adopted to select Urban Cooperative Banks. As there were four Urban Cooperative Banks functioning in Coimbatore District, all Urban Cooperative Banks have been taken as study units. At present there are 4 Urban Cooperative Banks in Coimbatore District namely, The Coimbatore City Cooperative Bank (CCCB), The Mettupalayam Cooperative Urban Bank (MCUB), The Pollachi Cooperative Urban Bank (PCUB) and Valparai Cooperative Urban Bank Ltd (VCUB). Each of these banks has its own origin and most of them in the pre-independence era.

### Non Performing Assets in UCBs

Due to the poor recovery, the burden of NPAs had been mounting year by year. High level of NPAs represents a continuing potential threat to the viability of UCBs (*GOI: 1998, p.24*). This had become a major stumbling block to attain profitability and solvency for majority of the UCBs. The Committee on Banking Sector Reforms 1998 rightly pointed out that NPAs constituted a real economic cost to the nation in that they reflect the application of scarce capital and credit funds to unproductive uses.

The Gross NPAs was the sum total of all loan assets that were classified as NPAs as per the RBI guidelines as on the balance sheet date. The Gross NPAs were a better indicator than net NPAs of the quality of the loan portfolio.

**Table – 1, NPAs of UCBs in Coimbatore District (In percent)**

UCBs Year	CCCB	MCUB	PCUB	VCUB
2005-2006	1223.8	806.84	1090.5	137.17
2006-2007	2631.6	1042.1	1113.5	276.61
2007-2008	2083	1099.3	1075.9	294.23
2008-2009	2348.5	1141.5	1090	412.07
2009-2010	2332.8	1267.7	1090	261.9
2010-2011	3866.1	1247.4	1181	392.76
2011-2012	2355.4	1103.5	1030	394.29
2012-2013	2185	1059.1	1065	160.83
2013-2014	3313.8	1725.5	1061	112.28
2014-2015	3674.2	1858.8	1082.6	146.27
Mean	<b>2601.42</b>	<b>1235.17</b>	<b>1087.95</b>	<b>258.84</b>
S.D	<b>761.27</b>	<b>304.44</b>	<b>37.56</b>	<b>109.50</b>
C.V%	<b>29.26</b>	<b>24.65</b>	<b>3.45</b>	<b>42.30</b>
AGR	<b>11.62</b>	<b>8.70</b>	<b>-0.07</b>	<b>0.64</b>
CAGR	<b>20.91</b>	<b>11.45</b>	<b>0.07</b>	<b>11.43</b>

Source: Audit and Annual Reports of the UCBs in Coimbatore District for the relevant years

The table reveals the position of NPAs of UCBs in Coimbatore District. The NPAs have been mounting in CCCB and MCUB over the years followed by fluctuations whereas low level increase was found in VCUB. NPAs of PCUB have been

reduced to Rs.1082.6 lakhs at the end as against Rs.1090.5 lakhs in the year 2005-06. High level of NPAs was found in CCCB recording Rs.3674.2 lakhs in the year 2014-15 due to more quantum of issue of loans.

Mean NPAs of CCCB was high showing Rs.2601.42 lakhs. Co-efficient of variation of VCUB was reported to 42.3 percent. AGR and CAGR of CCCB were high recording 11.62 percent and 20.91 percent respectively.

### Provisions of NPAs

Banks are lending loans and advances which in some cases may not be recoverable fully or partially and therefore, may require provisioning against such assets in their balance sheet. Consequently, the provision requirement against each and every NPAs account would be calculated on cumulative basis as on the balance sheet date in order to find out the total provisioning requirements. The provision held in the past year was not being excluded in an individual account so as to reflect what the total provision requirements should be as on the balance sheet date. At the head office level of the each bank, total provision requirements were maintained by making additional provision necessary depending upon the balance outstanding in the provision account. One of the means to improve the soundness of the bank was by enhancing the provisioning standards of the bank.

**Table- 2,Provisions of NPAs of UCBs in Coimbatore District(Rs. in Lakhs)**

UCBs Year	CCCB	MCUB	PCUB	VCUB
2005-2006	1665.55	460.37	575.54	116.11
2006-2007	1284.47	476.85	535.95	154.1
2007-2008	1524.85	433.81	364.9	155.42
2008-2009	1719.48	367.16	239.16	172.57
2009-2010	1741.1	360.54	244.19	143.86
2010-2011	1721.85	339.05	241.28	117.78
2011-2012	1840.21	428.82	163.54	92.32
2012-2013	1588.41	493.77	261.41	92.32
2013-2014	1658.63	563.63	278.63	113.93
2014-2015	1745.63	658.63	296.36	116.91
Mean	<b>1635.74</b>	<b>436.00</b>	<b>328.25</b>	<b>127.53</b>
S.D	<b>160.53</b>	<b>68.13</b>	<b>141.33</b>	<b>26.04</b>
C.V%	<b>9.81</b>	<b>15.63</b>	<b>43.06</b>	<b>20.42</b>
AGR	<b>0.15</b>	<b>0.26</b>	<b>-4.6</b>	<b>0.07</b>
CAGR	<b>1.53</b>	<b>2.36</b>	<b>-12.63</b>	<b>1.58</b>

Source: Audit and Annual Reports of the UCBs in Coimbatore District for the relevant years

The table portrays the position of NPAs of UCBs in Coimbatore District. The provisions of NPAs have increased over the years in CCCB and MCUB. Especially in CCCB, the provisions have increased from Rs.1665.55 lakhs in the year 2005-06 to Rs.1745.63 lakhs in the year 2014-15. The provisions of NPAs were declined to Rs.296.36 at the end in PCUB as against Rs.575.54 lakhs in the year 2005-06. The provisions of VCUB have steadily fluctuated over the years and reached the same level, as it has prevailed in the year 2005-06.

Mean provisions of NPAs was found high in CCCB showing Rs.1635.74 lakhs. The growth rates of MCUB were higher than other banks showing 0.26 percent and 2.36 percent whereas these growth rates were negative in PCUB.

### Non Performing Assets Ratio

To assess the financial strength, quality of loan assets and also quality of NPAs management of the bank, it is required to analyze various parameters with respect to NPAs. Various ratios and their significance with respect to NPAs management are discussed below:

#### i. Gross Non Performing Assets Ratio (GNPA)

Gross NPA is the sum total of all loan assets that are classified as NPA as per the RBI guidelines on a balance sheet. Gross NPA ratio is the ratio of Gross NPA to gross advances of the bank/branch. When it is expressed in percentage, it is known as Gross NPA percentage.

$$\text{Gross NPA Ratio} = \text{Gross NPA} / \text{Gross Advances} \times 100$$

It indicates the quality of credit portfolio of the banks/branches. Higher gross NPA ratio indicates low quality credit portfolio of the bank/branch and vice versa.

### ii. Net NPA Ratio (NNPA)

Net NPA is worked out by subtracting from the figure of gross NPAs the interest accrued and charged to the borrower, but not recognized as income by the bank and kept in an interest suspense account, provisions held in respect of the non-performing assets, claims receivable/received from DICGC/ECGC and held in the suspense account, and such other items. Where prudential accounting norms are strictly adopted, guarantee cover is not available and any recovery made is directly accounted to the borrowal account, the net NPA can be simply worked out as the gross NPA minus provision held for NPA accounts. The net NPA percentage is the ratio of net NPA to net advances expressed in terms of percentage.

$$\text{Net NPA Ratio} = \text{Gross NPA} - \text{Provisions} / \text{Gross Advances} - \text{Provisions} \times 100$$

It indicates the degree of riskiness in the credit portfolio of the bank/branch. High net NPA ratio indicates the high quantity of risky assets in the banks/branch for which no provision has been made.

### iii. Total Provision Ratios (TP)

For every loan given to the members, the banks to keep aside some extra funds to cover up losses if something goes wrong with those loans. This is called provisioning. The ratio of provisioning to gross non-performing assets indicates the extent of funds that a bank has kept aside to cover loan losses.

$$\text{Total Provisions Ratio} = \text{Total Provision} / \text{Gross NPAs} \times 100$$

**Table- 3,NPA ratios of CCCB (In percentage)**

Year	GNPA	NNPA	TP
2005-2006	10.5	2.41	78.90
2006-2007	24.3	14.14	48.81
2007-2008	19.3	6.02	73.20
2008-2009	19.6	6.14	73.22
2009-2010	15.6	4.49	74.64
2010-2011	24.5	11.71	51.15
2011-2012	13.3	3.24	78.13
2012-2013	10.2	3.00	72.70
2013-2014	13.7	7.32	50.05
2014-2015	14.6	8.22	47.51
Mean	<b>16.56</b>	<b>6.67</b>	<b>64.83</b>

Ratio of Gross NPA highlighted that the position of NPAs has fluctuated and registered 14.6 percent at the end of the study period as against 10.5 percent in the year 2005-06. Mean gross NPA position was 16.56 percent. It revealed that the bank was in a position to manage its NPAs out of its provisions. Ratio of Net NPA connotes that the bank has the NPA to the extent of 6.67 percent as an average. However, it has increased from 2.41 to 8.22 in the year 2014-15. Net NPA was very low in this bank. Low level of NPA of the bank was confirmed with the provisions made by the banks by employing total provision ratio, which indicates the mean provisions to the extent of 64.83 percent.

**Table – 3NPA ratios of MCUB (In percentage)**

Year	GNPA	NNPA	TP
2005-2006	23.30	11.54	57.06
2006-2007	28.38	17.69	45.76
2007-2008	28.53	19.46	39.46
2008-2009	26.10	19.33	32.16
2009-2010	24.82	19.11	28.44
2010-2011	20.70	15.97	27.18
2011-2012	16.44	10.74	38.86
2012-2013	13.33	7.59	46.62
2013-2014	19.48	14.01	32.66
2014-2015	19.55	13.56	35.43
Mean	<b>22.06</b>	<b>14.90</b>	<b>38.36</b>

Ratio of Gross NPA was declined to 19.55 percent at the end as against 23.3 percent in the year 2005-06. However, the mean Gross NPA was upto the level of 22.06 percent. Ratio of Net NPA was heavily fluctuated during the study period. However, the Net NPA was at the manageable level in the banks showing the mean Net NPA of 14.9 percent. Ratio of Total Provisions was declined from 57.06 percent to 35.43 percent because of proper control over NPAs in the bank. The mean percentage of provisions indicated that the bank was able to cover one portion of its Net NPAs out of two portions of provisions made.

**Table -4,NPA ratios of PCUB(In percentage)**

Year	GNPA	NNPA	TP
2005-2006	24.00	12.97	52.78
2006-2007	25.66	15.18	48.13
2007-2008	25.43	18.40	33.92
2008-2009	25.14	20.77	21.94
2009-2010	22.65	18.52	22.40
2010-2011	24.39	20.42	20.43
2011-2012	21.18	18.43	15.88
2012-2013	19.12	15.14	24.55
2013-2014	18.66	14.47	26.26
2014-2015	18.22	13.93	27.37
Mean	<b>22.45</b>	<b>16.82</b>	<b>29.37</b>

Ratio of Gross NPA of PCUB was declined to 18.22 percent in the year 2014-15 as against 24 percent in the year 2005-06. Mean ratio of Gross NPA showed that the bank has its GNPA to the average extent of 22.45. Ratio of Net NPA of PCUB has fluctuated and stood at 13.93 percent as against 12.97 percent in the year 2005-06 and 20.42 in the year 2010-11. Net NPA recorded to 16.82 percent during the study period. Ratio of total provisions indicated that the bank has sufficient level of provisions to cover its NPAs. However, the bank has to exercise moral vigil to control of over the NPAs in the forthcoming years.

**Table – 5,NPA ratios of VCUB**

Year	GNPA	NNPA	TP
2005-2006	24.73	4.80	84.65
2006-2007	51.27	31.79	55.71
2007-2008	59.74	41.18	52.82
2008-2009	85.79	77.82	41.88
2009-2010	45.30	27.18	54.93
2010-2011	61.79	53.10	29.99
2011-2012	70.67	64.86	23.41
2012-2013	25.37	12.65	57.40
2013-2014	17.85	3.43	83.63
2014-2015	24.43	6.10	79.92
Mean	<b>46.69</b>	<b>32.29</b>	<b>56.43</b>

Ratio of Gross NPA has heavily fluctuated during the study period. The Gross NPA has increased from 24.73 percent in the year 2005-06 in the year 2005-06 to 85.79 percent in the year 2008-09 and 70.67 percent in the year 2011-12. After that, the Gross NPA has been controlled by the banks which stood at 24.43 percent in the year 2014-15.

Net NPA has also fluctuated during the study period. It has increased from 4.8 percent in the year 2005-06 to 77.82 percent in the year 2008-09 and 64.86 percent in the year 2011-12. However, the bank has controlled through vigorous steps in the subsequent years and the ratio stood at 6.10 percent at the end. The bank has followed proper NPA norms and maintained provisions to extend their services to the members, though the NPAs were alarming in the bank. The adequate provisions made by the bank were to the average extent of 56.43 percent in the year 2014-15. However, the bank has to be highly cautious to control its NPAs, which impinges the equity base of the banks.

### Conclusion

The very nature of cooperative banking business involving members, money and environment caused for the increasing trend in NPAs. The cooperative environment depends on political, economic and technological factors which are influenced by the natural process of change. Changes in any of these segments will have both negative and positive impact on the cooperative



banking. Due to the financial sector reforms, changes are inevitable; where in cooperative banks should develop a niche in the banking market. The ability of cooperative banks especially the UCBs lie in adjusting and surviving in this changing environment due to accumulations of NPAs. Several Committees and Commissions appointed on Cooperation and related subjects in India reiterated the strategic importance of UCBs in the Cooperative Banking Structure in India. However, from the above analysis it was found that right from the origin of UCBs in India, Government of India, RBI, and State Governments took several measures for streamlining as well as strengthening the UCBs. But still, the problem of poor recovery had been continuing. The increasing trend in NPA severally affected the profitability, liquidity, and solvency of these banks.

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