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Internship Report

on

'A Study on Trends and Patterns of Non-Performing Assets and Performance of Urban Co-operative Banks in India'

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January, 2020

Certificate

This internship report titled *"A Study on Trends and Patterns of Non-Performing Assets and Performance of Urban Co-operative Banks in India"* is a report on the study taken up at the Fiscal Policy Institute (FPI) in 2019-20.

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All opinion and conclusions expressed in the internship report are of the Intern and usual disclaimer applies.

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Acknowledgement

This report is the result of the dedicated support of many individuals, several of whom deserve special mention and acknowledgement.

I am highly indebted to Shri. Sujit Kumar Chowdhury, the Director, Fiscal Policy Institute, Bangalore, whose encouragement was critical throughout the internship.

I would like to thank my mentor Manjunath Hedge sir, Faculty, Fiscal Policy Institute, for his valuable support throughout the internship period.

I am very thankful to Dr. M R Narayana sir, Consultant (Academic & Research), Fiscal Policy Institute, for his inputs and constructive help into this report and without his help and guidance, the study could not have been completed successfully.

I acknowledge the timely help rendered by Dr. Anantha Ramu sir, Consultant (Academic & Research), Fiscal Policy Institute, which inspired many improvements in this work.

I am indebted to Shri. Subraya Hegde sir, Consultant, Fiscal Policy Institute, for his valuable inputs to the report.

I wish to thank Fiscal Policy Institute, Finance Department, Government of Karnataka, for giving me the opportunity to intern and providing me with a comfortable and friendly environment to work in.
Lastly, I sincerely thank God, my family and friends for helping me see through the dissertation work.

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Abstract

The NPA in Urban Co-operative banks have seen quite a fluctuation in these years which is revealed by the data related to it. This study aims at analysing the growth of NPA over the years and a comparative analysis of NPAs in UCBs and rural co-operative banks was also done. The report also studies the performance of UCBs through different indicators like CRAR, Non-performing Assets, CAMELS grading model, provisioning coverage ratio along with other performance indicators like Return on Assets, Return on Equity and Net Interest Margin.

The study found that the overall growth of NPA in the years from 1994-95 to 2016-17 is negative and it is seen that the NPA in UCBs are comparatively lesser than the rural co-operative societies. Further, the report also mentions that there is an improvement in the performance of UCBs in the CRAR ratio which is indicated by the number of banks maintaining more than 12% of CRAR. The CAMELS model revealed that the number of banks graded A and B have increased and the banks graded D have declined. The other performance indicators, like ROA, ROE and NIM, observed quite a fluctuation but with very less variance in the ten-year period from 2008-09 to 2017-18.

List of abbreviations

AACS	As Applicable To Cooperative Societies
CAMELS	Capital Adequacy, Assets Quality, Management, Earnings, Liquidity, System And Control
CRAR	Capital To Risk-Weighted Assets Ratio
CRCS	Central Registrar Of Cooperative Societies
DCCB	District Central Co-Operative Banks
GNPA	Gross Non-Performing Assets
IVPs	Indira Vikas Patras
KVPs	Kisan Vikas Patras
NIM	Net Interest Margin
NNPA	Net Non-Performing Assets
NPA	Non-Performing Assets
NSCs	National Saving Certificates
PACS	Primary Agricultural Credit Societies
PCARDB	Primary Co-Operative Agriculture And Rural Development Banks
RBI	Reserve Bank Of India
RCS	Registrar Of Cooperative Societies
ROA	Return On Assets
ROE	Return On Equity
SCARDB	State Co-Operative Agriculture And Rural Development Banks
STCB	State Co-Operative Banks
UCBs	Urban Co-Operative Banks

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1. Introduction:

A country's development can be understood better through economic growth which is supported by its financial system. A firm and strong financial system ensures a strong economy besides healthy and orderly growth and development.

Traditionally role of a banking system in any economy is to mobilise savings and facilitate the surplus funds to the deficit units in terms of loans and advances. But the recent development in banking industry has widened the arenas for country's development, especially in the form of co-operative banks.

In India, there are 96,149 credit co-operative institutions which are classified as urban co-operative banks and rural co-operatives and each comprising of 1,618 and 94,531 banks respectively. There are 54 scheduled urban co-operative banks and 1,488 non-scheduled urban co-operative banks in India.

In Indian financial system, urban co-operatives account for a relatively small share but their geographic and demographic outreach holds a higher place in the financial system. They are instrumental in making the financial services reachable to urban and sub-urban areas. They also have made the financial services available especially for the low and middle-income groups in semi-urban and urban areas.

Primary Co-operative Banks, popularly known as Urban Co-operative Banks (UCBs) are registered as co-operative societies under the provisions of, either the State Co-operative Societies Act of a State concerned or the Multi-State Co-operative Societies Act, 2002. They are regulated and supervised by the Registrar of Co-operative Societies (RCS) of State concerned or by the Central Registrar of Co-operative Societies (CRCS), as the case may be. The applicability of banking laws to co-operatives societies since March 1, 1966 ushered in 'duality of control' over UCBs between the Registrar of Co-operative Societies/Central Registrar of Co-operative Societies and the Reserve Bank of India. The Reserve Bank regulates and supervises the banking functions of UCBs under the provisions of Banking Regulation Act, 1949 (AACS).

Within the Reserve Bank, a separate department, viz. Urban Banks Department, has been entrusted with these functions. Urban Banks Department functions in close co-ordination with other regulators viz., RCSs and CRCS.

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 Bhausaheb Kavthekar. Urban co-operative credit societies, in their formative phase, came to be organised 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 popularising the movement, especially amongst the middle class as well as organised labour. From its origins then to today, the thrust of UCBs, historically, has been to mobilise savings from the middle and low-income urban groups and purvey credit to their members - many of which belonged to the weaker sections.

The first study of Urban Co-operative Banks was taken up by RBI in the year 1958-59.

Over the years, primary (urban) cooperative banks have registered a significant growth in number, size and volume of business handled. As on 31st March, 2003 there were 2,104 UCBs of which 56 were scheduled banks. About 79 percent of these are located in five states, - Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Recently the problems faced by a few large UCBs have highlighted some of the difficulties these banks face and policy endeavors are geared to consolidating and strengthening this sector and improving governance.

1.1.<u>Review of literature</u>

- **Gupta J and Jain S (2012)** in their study titled "A study on co-operative banks in India with special reference to lending practices", have focused on the efficiency of co-operative banks in India, suggesting measuring to improve the efficiency of co-operative banks. The researchers have used descriptive statistics to analyses the above objectives along with Knowing different type of loans preferred by different sets of customers and to know the satisfaction level of the customers from the bank's lending policies. From the study it is understood that there is an improvement in the performance of UCBs but there were some concerns regarding the negative CRAR in a few UCBs.

- **Varadi, V. K., Mavaluri, P. K., & Boppana, N. (2006)** in their study "Measurement of efficiency of banks in India" have used the non-parametric approach to understand the efficiency of the banks, that is, 'Data Envelopment Analysis for measuring the efficiency of banks in India' From the study it is understood that the public sector banks are having high-efficiency in terms of productivity, profitability, financial management and asset quality, whereas private banks are having a very high inefficiency levels during the sample period in the different indicators. However, foreign banks seem to be more efficient than the private banks. Therefore, it is quite evident to say, from the study, that public sector banks have wider scope to produce more and more output. Implementation of the reforms in banking sector has become handy to public sector banks than the private and foreign banks as a result. One could conclude that public sector banks are in the forefront of beneficiaries list of reforms in the banking field.

- **Mitra A. (2012)** in their study regarding the "NPA Management of Urban Co-operative Banks, A Study in Hooghly District of West Bengal" made an attempt to enquire about the cause and effect of NPA in the UCBs in Hooghly district of West Bengal for the time period of 2004-05 to 2010-11. The study also emphasises on determining the problems involved in managing NPA and to examine the prospect of NPA management. Primary data through survey and pilot study along with secondary data from many reports are collected and to analyse some sophisticated statistical tools like Arithmetic Mean (A.M), Moving Average, Correlation Coefficient(r), and Regression Analysis are used to understand the impact of NPA on the UCBs.

- **Singh, A. (2013)** in her report "Performance of non-performing assets (NPAs) in Indian Commercial Banks" has made an attempt to compare the magnitude of NPA in the public and private sector banks in India from the time period 2001-02 to 2011-12. It is seen that the NPA in the public sector is very high in the public sector banks than in private sector banks and it is also impacting the profitability and liquidity and is caused by the low management quality in the public sector banks. It is concluded that Provision of credit should be at least based on the creditworthiness of the customer.

- **Ramu, N. (2011)** in his report "Financial Performance of Urban Cooperative Banks: A Study with Reference to Tamil Nadu" has selected a few UCBs in particular and to measures the overall profitability through Return on Equity (ROE) Decomposition Analysis. The study covers a period of 6 years from 1998-99 to 2003-04. It is observed from the status in order to increase ROA or ROE the sample banks concentrate on increasing net income. Denial of income from other sources by the UCBs is also one of the reasons for low-income base of the bank.

- **Singh, V. R. (2016)** in his study "A Study of Non-Performing Assets of Commercial Banks and its recovery in India" has analysed the status of NPA in Indian banks, the impact of NPA on the banks and various channels to recover the NPA along with the measure to reduce NPA. He has concluded that the NPA in commercial banks are reducing the efficiency of the banks along with profitability and liquidity. Therefore, there is an urgent need to improve the NPA recovery methods and also credit rationing, that is, provision of credit to the credit-worthy customers.

1.2.Research gap:

The previous studies and review of literature are related to particular banks and to a particular region or a particular state. But these studies have failed to throw light on the Indian urban cooperative banks as a whole. These studies did not cover the trend and pattern of the NPA present in the Indian urban co-operative banks and the performance of these banks.

1.3.Objectives:

- To study the trends and pattern of NPA in Urban cooperative banks in India.
- To study the performance of the urban cooperative banks in India

1.4.Research Methodology

The study has made use of secondary data compiled from the sources published on the Reserve Bank of India website. The study has considered the years 1994-95 to 2016-17 for understanding the trends and patterns of the NPA in the UCBs in India; and the years 2012-13 to 2017-18 for analysing the performance of the UCBs in India.

The study has made use of the exponential growth model to analyse the growth of NPA in the urban co-operative banks in India.

To estimate the growth of the NPA in the urban cooperative banks, the following model is considered.

Exponential Model: $\ln Y_t = \beta_0 + \beta_1 X_t + u_t$

Where ln is natural logarithm and Y_t is the measure of the growth rate or trend and X_t is time period selected for the analysis.

1.5.Conceptual framework

1.5.1. **Banking Regulation Act defines Urban Co-operative Banks as**:

Primary co-operative bank" means a co-operative society, other than a primary agricultural credit society, -- 1 Inserted by Act 24 of 2004, w.r.e.f. 1-3-1966. 2 Inserted by Act 24 of 2004, w.r.e.f. 1-3-1966. 128

(i) The primary object or principal business of which is the transaction of banking business;

(ii) The paid-up share capital and reserves of which are not less than one lakh of rupees; and

(iii) The bye-laws of which do not permit the admission of any other co-operative society as a member:

PROVIDED that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds PROVIDED by the State Government for the purpose; (ccvi) "primary credit society" means a co-operative society, other than a primary agricultural credit society,--

(i) The primary object or principal business of which is the transaction of banking business;

(ii) The paid-up share capital and reserves of which are less than one lakh of rupees; and

(iii) The bye-laws of which do not permit admission of any other co-operative society as a member:

PROVIDED that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose.

Explanation.--If any dispute arises as to the primary object or principal business of any co-operative society referred to in clauses (cciv), (ccv) and (ccvi), a determination thereof by the Reserve Bank shall be final;

1.5.2. The RBI's master circular published in the year 2013-14 defines Non-Performing assets, asset classification, income recognition, income reversal and provisioning norms for Urban Co-operative banks as:

- **<u>Non-Performing assets:</u>**

An asset becomes non-performing when it ceases to generate income for the bank.

With the following of international best practices and to ensure greater transparency, '90 days' **overdue** norms for identification of NPAs have been made applicable from the year ended March 31, 2004. As such, with effect from March 31, 2004, a non-performing asset shall be a loan or an advance where:

- Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.

- The account remains '**Out of order**' for a period of more than 90 days, in respect of an Overdraft / Cash Credit (OD/CC).
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- In respect of agricultural loans, NPAs would be done on the same basis as non-agricultural advances.
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

- **<u>Asset classification:</u>**

Banks should classify their assets into the following broad groups

- Standard Assets
- Sub-standard Assets
- Doubtful Assets
- Loss Assets

Standard Assets

Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

Sub-standard Assets

With effect from March 31, 2005 an asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well-defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss if deficiencies are not corrected.

An asset where the terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled after the commencement of production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance under the re-negotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of this condition.

Doubtful Assets

With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. For Tier I banks, the 12-month period of classification of a substandard asset in the doubtful category is effective from April 1, 2009. As in the case of sub-standard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there maybe some salvage or recovery value.

- **<u>Income recognition</u>**

The policy of income recognition has to be objective and based on the record of recovery. Income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, banks should not take to income account interest on non-performing assets on accrual basis.

However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit.

If Government-guaranteed advances become 'overdue' and thereby NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

- **Reversal of Income on Accounts Becoming NPAs**

If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also.

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

Banks undertaking equipment leasing should follow prudential accounting standards. Lease rentals comprise of two elements -- a finance charge (i.e. interest charge) and a charge towards the recovery of the cost of the asset. The interest component alone should be taken to income account. Such income taken to income account, before the asset became NPA, and remained unrealised should be reversed or provided for in the current accounting period.

- **Provisioning norms:**

In conformity with the prudential norms, provisions should be made on the non-performing assets on the basis of classification of assets into prescribed categories as detailed in paragraph 3 above.

Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the bank, the banks should make provision against loss assets, doubtful assets and sub-standard assets as below:

- ***Loss Assets***

(a) The entire assets should be written off after obtaining necessary approval from the competent authority and as per the provisions of the Co-operative Societies Act / Rules. If the assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

(b) In respect of an asset identified as a loss asset, full provision at 100 percent should be made if the expected salvage value of the security is negligible.

- ***Doubtful Assets***

(a) Provision should be for 100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse should be made and the realisable value is estimated on a realistic basis.

(b) In regard to the **secured portion**, provision may be made on the following basis, at the rates ranging from 20 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Table 1.1: Provisioning Requirement for Urban Co-Operative Banks

Tier I and Tier II Banks Period for which the advance has remained in 'doubtful' category	**Provision Requirement**
Up to one year	20 per cent
One to three years	30 per cent
Advances classified as 'doubtful for more than three years' on or after April 1, 2010	100 percent

- ***Sub-standard Assets***

A general provision of 10 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

- ***Standard Assets***

(a) From the year ended March 31, 2000, the banks should make a general provision of a minimum of 0.25 percent on standard assets.

(b) However, Tier II banks (as defined in Circular dated May 6, 2009) will be subjected to higher provisioning norms on standard assets as under:

The general provisioning requirement for all types of 'standard advances' shall be 0.40 percent. However, direct advances to agricultural and SME sectors which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto.

Further, with effect from Dec 8, 2009, all UCBs (Both Tier I & Tier II) are required to make a provision of 1.00 percent in respect of advances to Commercial Real Estate Sector classified as 'standard assets'.

The standard asset provisioning requirements for all UCBs are summarised as under:

Table 1.2: Provisioning for Standard Assets

Category of Standard Asset	Rate of Provisioning	
	Tier II	Tier I
Direct advances to Agriculture and SME sectors	0.25 %	0.25%
Commercial Real Estate (CRE) sector	1.00 %	1.00 %
All other loans and advances not included in (a) and (b) above	0.40%	0.25%

1.5.3. Concepts Related to NPA:

Gross NPA:

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non-standard assets like sub-standard, doubtful, and loss assets.

It can be calculated with the help of following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

Net NPA:

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by the following:

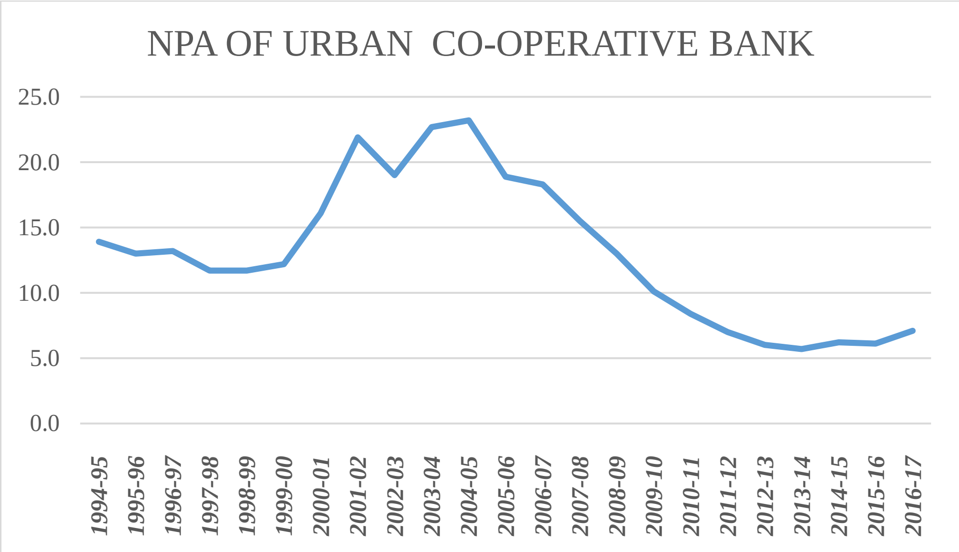
Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

2. A STUDY ON TRENDS AND PATTERNS OF NON-PERFORMING ASSETS IN URBAN CO-OPERATIVE BANKS IN INDIA

This part of the study focuses on the magnitude of non-performing assets in urban cooperative sector in which we can observe the changes in the quantity of non-performing assets year-wise. Data was collected from the Handbook of Statistics on Indian Economy published by RBI annually.

The data is represented in a graph to depict the trend in the GNPA percentage.

Chart 2.1: Trend of NPA in Urban Co-Operative Banks.



The above graph represents the trend in the Gross Non-Preforming Assets of Urban co-operative banks. The graph shows the trend of GNPA ratio from 1994-95 to 2016-17 years where the highest NPA recorded is 23.2 and in the year 2004-05. It is also observed that there is a fall in the GNPA ratio from the year 2006-07 and a small increase after 2014-15.

2.1. GROWTH OF NPA IN URBAN CO-OPERATIVE BANKS.

The exponential growth model is used to understand the growth level of the GNPA of UCBs in India where the years 1994-95 to 2016-17 are taken into consideration to analyse.
The table below represents the results of exponential growth model for the chosen year.

Table 2.1: Parameter Estimates of Gross Non-Performing Assets to Gross Advances**.**

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Exponential	.412	14.713	1	21	.001	20.033	-.043

The result of the exponential growth model for the percentage of gross non-performance assets to the gross advances of the urban cooperative banks is given in Table 3.1, the results indicate that the annual growth rate of it is -0.43, that is, there is a reduction in the percentage of GNPA to Gross advances up to 4.3% annually with statistical significance at 0.001.in simpler terms, there is a decrease in GNPA every year.

Table 2.2: Descriptive Statistics

Mean	Standard Error	Standard Deviation	Sample Variance
13.08261	1.170565	5.613835	31.51514

The descriptive statistics of GNPA to gross advances of urban cooperative banks is shown in Table 3.2. The results reveal that the average percentage of GNPA to gross advances of UCBs is 13.082 and the standard deviation being at 5.613.

2.2. COMPARATIVE ANALYSIS OF NON-PERFORMING ASSETS OF URBAN AND RURAL CO-OPERATIVE BANKS.

A comparative analysis is made between Rural and Urban co-operative banks to understand the status of GNPA of UCBs

To analyse this, data is taken from Handbook of Statistics on Indian Economy which is published by RBI annually. The study has made use of 20 years of data that is 1997-98 to 2016-17 years. This part of the report compares the magnitude of NPA in UCBs to other sectors of co-operative banks under rural co-operatives. The data shows the Gross NPA percentage for State Co-operative Banks, District Central Co-operative Banks, Primary Agricultural Credit Societies under the short-term structure and State Co-operative Agriculture and Rural Development Banks and Primary Co-operative Agriculture and Rural Development Banks under the long-term structure along with Urban Co-operative Banks (Appendix 2).

- The average GNPA percentage in years 1997-98 to 2001-20 indicate that the UCBs had 14.72% of GNPA whereas under short-term Rural Co-operative Banks, STCBs had 12.44%, DCCBs had 18.12% and PACs had 34.6% of GNPAs. And under the long-term Rural Co-operative Banks, SCARDBs had 19.1% and PCARDBs observed 21.42% of GNPAs. By this, it is observed that the UCBs maintained comparatively lesser NPA among all the cooperative credit societies except for STCBs, which also indicates better functioning and performance in these years.

- When the years 2002-03 to 2006-07 are observed, there is a huge increase of GNPA percentage in these UCBs. The average GNPA during these years was 20.42% whereas STCBs saw 16.84%, DCCBs had 20.66% and PACs observed 33.62% of GNPA under short-term structure. SCARDBs and PCARDBs had 28.38% and 34.5% respectively. There had been a drastic increase in the NPA ratio in these years and comparatively higher than the STCBs indicating a decline in the performance and functioning of the UCBs.

- In the years 2007-08 to 2011-12, there is a major fall in the GNPA of UCBs and its average GPA of this time period is 10.8%. And at the end of this time period, that is 2011-12, it had fallen to 7%. There is also a fall in the GNPA for STCBs up to 9.82%. DCCBs saw 14.58% and PACs had 34.78% which is quite higher than the last time period and among the short-term structure of RCBs. The SCARDBs and PCARDBs observed 35.02% and 44.38% respectively and both these banks observed the highest NPA in this time period amounting to 45% and 53.7% of GNPA respectively. But UCBs saw an improvement in the NPA record which fell up to 7% in this time period.

Years 2010-11 to 2013-14 in UCBs saw the lowest records of GNPA amounting to 8.4%, 7%, 6%, and 5.7% in these four years.

- Considering the time period 2012-13 to 2016-17 the average GNPA of UCBs in this time period was 6.22% and the lowest compared amongst other previous time periods. In 2013-14 we see that the UCBs observed 5.7% GNPA which is lowest among all the years from 1997-98 till 2016-17.The STCBs observed 5.02% on an average in this time period, DCCBs and PACs have observed 9.88% and22.06% respectively under short term structure. SCARDBs and PCARDBs have seen 28.7% and 36.3% respectively. From the above results we can observe that the UCBs are comparatively working better on maintaining lesser NPA compared to other co-operative banks. The performance and liquidity are also contributed well by these levels of NPA among UCBs.

The UCBs are performing better than other co-operative societies which are indicated by low NPA present in their banks. The NPA levels are very high in the rural co-operative banks compared to UCBs, except in the STCBs.

3. THE URBAN CO-OPERATIVE BANKS' PERFORMANCE INDICATORS AND NON-PERFORMING ASSETS.

This section studies about the asset quality of the assets through NPA and other financial indicators in UCBs from the years 2008-09 to 2017-18.

- In the year 2008-09 the UCBs, notwithstanding the slowdown in economic activity and expectation about high loan defaults after the global economic crisis, there was a decline in the NPA ratio from 15.5% to 13.0% and there was also a decline in GNPA from ₹14,037 crores to ₹12,862 crores. This also indicated improvement in financial soundness.

  This year, there was an improvement in capital adequacy of UCBs indicated by increasing proportion of UCBs having CRAR of 9% and above which fulfilled the regulatory minimum benchmark. The performance indicators' ratios of UCBs like Return on Assets recorded 0.8%, Return on Equity showed 6.8% and Net Interest Margin at 3.1% percentages.

- The year 2009-10 saw an improvement in the assets quality. But there was a decline in the number of UCBs. The assets quality was indicated by a decline in the GNPA ratio and also the absolute numbers of GNPA. The GNPA ratio fell to 10.1% from 13.0% from the previous year. The GNPA declined from ₹12,862 crores to ₹11,399 crores. There was also an increase in the provisioning coverage ratio indicating an improvement in the financial soundness of the sector.

  In this year, a major portion of UCBs were complying with the CRAR norm of minimum 9%. But 13.7% of total UCBs could not meet the requirement. This was more seen in scheduled banks compared to non-scheduled UCBs. Nearly 41 scheduled UCBs and 1,403 non-scheduled UCBs maintained more than 9% of CRAR. There was a decline in the Return on Assets to 0.7%, Return on Equity to 5.2% and Net Interest Margin at 2.8%.

- The year 2010-11 saw growth in GNPA though there was a fall in the GNPA and NNPA ratio from 10.1% to 8.5% and 3.9% and 2.5% respectively. GNPA rose from ₹11,399 crores to ₹11,500 crores. This implied an improvement in asset quality. Almost 90% of the UCBs maintained CRAR more than 9% but only 20% of the scheduled UCBs failed to maintain prescribed minimum CRAR.

  There was a drastic increase in performance indicators. ROA increased to 0.9%, ROE increased to 7.10% and NIM rose to 3.10% which indicated improvement in the performance of the banks of this sector.

- In the year 2011-12 there was an introduction of a system to grade UCBs on their financial health for regulatory and supervisory purposes. It was called CAMELS (capital adequacy, assets quality, management, earnings, liquidity, system and control) rating model. In this year, about 61% of UCBs had composite grade of A and B accounting to 78% of banking business by the UCB sector, the other 32% of UCBs that accounted for 18% of the banking business was graded C and 7% of remaining banks was graded D representing weak financial health. There was growth in assets which is supported by the rising trends in the performance indicators. There has been an improvement in asset quality. Decline in NPA, both in ratio and also in absolute terms. GNPA had fallen from ₹11,500 crores to ₹11,000 crores and the ratio from 8.4 to 7.0. UCBs had also reported negative growth in GNPA. CRAR was fulfilled by most of the banks but the previous year's UCBs, which came below 9%, kept deteriorating and few banks observed negative CRAR. In this year also there was a steep increase in the performance indicators where return on assets increased to 1.13%, return on equity increased to 9.73% and net interest margin rose to 23.31%.

- 2012-13 year had reported a slight fall in the GNPA from 11,000 to 10,900 and GNPA ratio from 7.0 to 6.0. The CAMELS grading model had rated 67% of total UCBs under A and B which accounted to 85% of the banking business. 27% of UCBs were rated C and accounted to 13% of the banking business. The remaining 6% were graded D implying weak performance of the banks. There was an increase in the assets concentration in this year from 37% to 50%. NPAs declined in ratio as well as absolute terms. GNPA ratio had fallen from 7 to 6 and GNPA declined from ₹11,000 crores to ₹10,900 crores. About 1,190 UCBs maintained CRAR above 12% implying better performance. Provisioning coverage ratio had increased up to 80%. It is observed that in this year there is a decrease in all the performance indicators along with the NNPA ratio where the return on assets have decreased to 0.75%, return on equity at 7.19% and net interest margin at 3.17%.

- In the year 2013-14, the CRAR of scheduled banks improved from 12.4 to 12.7. As many as 1,259 banks out of 1,538 Non-scheduled UCBs maintained CRAR above 12%. The assets quality declined as their provisioning coverage ratio too declined.

  Based on CAMELS rating model, 87% of the total deposits were mobilised by 75% of UCBs which were graded A and B. Nineteen per cent of the total UCBs graded C had mobilised 10.7% of total deposits at UCBs. Only 5% percent of the remaining UCBs were graded D. GNPA ratio declined during this time-period from 6.0% to 5.7% implying improvement in the assets quality. But there was an increase in the GNPA in absolute numbers. It had increased from ₹10,900 crores to ₹11,500 crores. In this year, except for the net interest margin, the other two performance indicators, that is, return on assets and return on equity has seen a growth where return on assets is at 0.87% and return on equity at 9.03%, whereas the interest margin decreased to 3.02%.

- The GNPA and NNPA ratios increased in the year 2014-15. The NNPA ratio increased from 2.2% to 2.7% and the GNPA ratio from 5.7% to 6.2%. And the GNPA had declined to ₹13,501 crores from ₹ 11,400 crores. About 82% of the UCBs maintained more than 12% of CRAR. Provisioning coverage ratio grew at a very lower rate which is an indication of the fall in the quality of assets. Under the CAMELS grading system, 79% of UCBs which were graded A mobilised 85% of the deposits and 16% of UCBs graded B mobilised 10% of the deposits. At the same time, 5% of the UCBs were ranked D, meaning the weak position of those banks. There is a decrease in return on assets and net interest margin whereas a slight increase in return on equity where the return on assets stands at 0.80%, return on equity stands at 9.09% and net interest margin at 3.0%.

- In the year 2015-16, there is an increase in the GNPA from ₹13,802 crores to ₹16,056 crores and GNPA ratio has increased from 6.15% to 6.55%. The provisioning coverage ratio had seen a decline from 55.77% to 55.5%2 which means there is a decline in the quality of assets. The CRAR ratio of UCBs had seen an improvement where 1,312 banks maintain more than 12% of CRAR. The CAMELS grading model had ranked 25.8% of the UCBs as A grade which was 28.4% the previous year. In this year, return on assets stands constant at 0.80% whereas the return on equity and net interest margin has increased to 9.42% and 2.97% respectively.

- In the year 2016-17, 1,276 out of 1,562 UCBs had maintained more than 12% CRAR. The CAMELS grading model had ranked 78% of the UCBs under A and B which managed to mobilise 86% of the total deposits. Eighteen per cent of the banks were graded C which only pooled 12% of the deposits. The number of banks under grade D had declined. There was an increase in the GNPA from ₹16,056 crores to ₹18,713 crores and GNPA ratio increased from 6.55 to 7.16. The provisioning coverage ratio had increased from 55.52%

to 63.70%, which implied improvement in the assets quality and management of NPAs. Return on assets has decreased to 0.77 %, return on equity declined to 9.11% and there was a decline in net interest margin up to 2.79%.

- During the year 2017-18, the GNPA and provisioning coverage ratio had increased. The GNPA increased from ₹18,713 crores to ₹19,903 crores and the GNPA ratio had declined from 7.16% to 7.10%. The PCR had seen a slight increase from 63.70% to 63.75% which indicates an improvement in the assets quality and also the management of NPA. The CAMELS model ranked 78% of the UCBs A and B grades which managed to mobilise 86% of the total deposits. Eighteen percent of the UCBs were graded B and the remaining 4 percent of the banks were graded D. The CRAR ratio saw an improvement during this year. About 1,348 out of 1,551 UCBs maintained more than 12% of CRAR. There is a drastic decrease in return on equity from 9.11% to 8.65% whereas there is a slight decline in return on assets from 0.77% to 0.74% and also in net interest margin from 2.79% to 2.97%.

From the above analysis it is understood that the CRAR ratio is been improving and also in the CAMELS model, there was an increase in the number of banks coming under A and B grades and also decline in the number of UCBs graded under D.

There is also an improvement in the overall position of the NPA in UCBs and also increase in the provisioning coverage ratio which indicated improvement in the banking management and asset quality.

Findings and suggestions

The findings from the study are that the trend of GNPA ratio from 1994-95 to 2016-17 years where the highest NPA recorded is 23.2 and in the year 2004-05 and later there is a fall in the GNPA ratio from the year 2006-07 and a small increase after 2014-15. The annual growth rate of GNPA to Gross advances is up to 4.3% annually. The UCBs are performing better than other co-operative societies and that is indicated by low NPA present in their banks. The NPA levels are very high in rural co-operative banks compared to UCBs except for the STCBs. CRAR ratio has been improving, and also in the CAMELS model, there was an increase in the number of banks coming under the A and B grades and also decline in the number of UCBs graded under D.

There is also an improvement in the overall position of the NPA in UCBs and increase in the provisioning coverage ratio which indicated improvement in the banking management and assets quality.

There are some suggestions regarding the study:

- The cause of increasing NPA is because of poor evaluation of assets and the creditworthiness of the borrower.

- Proper credit rationing and valuation of assets during lending of loans is much needed.
- The banks have to check the borrower's creditworthiness and also the capacity to repay the loan before lending.
- The insolvency and bankruptcy code should be strengthened so that banks can take quick decisions regarding bad debts. There is an urgent need to strengthen the NPA recovery tribunals.
- The management-level efficiency to handle political pressures and red-tape should be important so that the managers can take quick decisions regarding the provisions of loans and advances.

Conclusion

The report has made an attempt to analyse the growth of NPA in urban co-operative banks through growth model and also through a comparative analysis between urban and rural co-operative banks where it is found that NPA in UCBs is decreasing every year which is a sign of improvement in assets quality and management. The study also found that the status of UCBs is better than the level of NPA in rural co-operative banks.

The regulating authorities have to make sure that the improvement in the status of NPA is maintained. The performance ratios, indicating the health of the UCBs, also reveal the improvement in the efficiency of banks which is also a necessity to maintain for the future.

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Appendix

Gross Non-Performing Assets of Co-Operative Banks

Year (end-March)	Gross Non-Performing Assets
1994-95	13.9
1995-96	13.0
1996-97	13.2
1997-98	11.7
1998-99	11.7
1999-00	12.2
2000-01	16.1
2001-02	21.9
2002-03	19.0
2003-04	22.7
2004-05	23.2
2005-06	18.9
2006-07	18.3
2007-08	15.5
2008-09	13.0
2009-10	10.1
2010-11	8.4
2011-12	7.0
2012-13	6.0
2013-14	5.7
2014-15	6.2
2015-16	6.1
2016-17	7.1

Source: Handbook of Statistics on Indian Economy

GNPA of Urban and Rural Co-operative Banks

		Rural Co-operative Banks				
		Short-Term Structure			Long-Term Structure	
Years	UCBs	StCBs	DCCBs	PACS	SCARDBs	PCARDBs
1997-98	11.7	12.5	17.8	35.3	18.6	16.5
1998-99	11.7	12.6	17.8	35	19.2	16.1
1999-00	12.2	10.7	17.2	35.4	18.7	20
2000-01	16.1	13	17.9	34.9	20.5	24.3
2001-02	21.9	13.4	19.9	32.4	18.5	30.2
2002-03	19	18.2	21.2	38.2	20.9	33.8
2003-04	22.7	18.7	24	36.8	26.7	35.8
2004-05	23.2	16.3	19.9	33.6	31.3	31.9
2005-06	18.9	16.8	19.7	30.4	32.7	35.6
2006-07	18.3	14.2	18.5	29.1	30.3	35.4
2007-08	15.5	12.8	20.5	35.7	34.5	53.7
2008-09	13	12	18	44.8	30.1	39
2009-10	10.1	8.8	13	41.4	45.1	51.9
2010-11	8.4	8.5	11.2	25.2	32.3	40.6
2011-12	7	7	10.2	26.8	33.1	36.7
2012-13	6	6.1	9.7	24.7	36	37.7
2013-14	5.7	5.5	10.3	19	31.6	38
2014-15	6.2	4.9	9.5	22.4	30.3	36.2
2015-16	6.1	4.5	9.4	17.6	22	36.6
2016-17	7.1	4.1	10.5	26.6	23.6	33
Average GNPA	13.04	11.03	15.81	31.265	27.8	34.15

- Source: Handbook Of Statistics On Indian Economy

Performance ratios of UCBs

Years	NNPA as % of Net Advances	Return on Assets	Return on Equity	Net Interest Margin
2008-09	5.9	0.8	6.8	3.1
2009-10	3.9	0.7	5.2	2.8
2010-11	2.5	0.90	7.10	3.10
2011-12	1.9	1.13	9.73	3.31
2012-13	1.4	0.75	7.19	3.17
2013-14	1.7	0.87	9.03	3.02
2014-15	2.7	0.80	9.90	3.00
2015-16	2.2	0.80	9.42	2.97
2016-17	2.7	0.77	9.11	2.79
2017-18	2.7	0.74	8.65	2.92

Source: Primary (Urban) Co-operative Banks' Outlook