



A study of non-performing assets of H. P. state co-operative bank Ltd

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Abstract

The banking industry is a crucial provider of financial services that supports development plans by directing money toward useful projects, mediating the flow of money from surplus to deficit units, and assisting with the fiscal and monetary policies of the government. However, Non-Performing Assets had previously been the main source of concern for the banking sector. The lowering of NPAs is currently a crucial concern for banks. A thriving country's economy depends on a robust cooperative banking sector. In this research paper, an effort has been made to examine how NPAs are managed in the H.P. State Co-operative Bank and the factors that influence them. Through this, it has been discovered that the absence of the right to choose the borrower was the primary factor at the appraisal stage, and that bank officials are dealing with issues like incomplete and problematic legal documentation, political pressure, etc. at the sanctioning and disbursement stage. And in the post-disbursement stage, the main causes of NPAs are the borrowers' failure to provide stock and other mandatory monthly statements and their money-diversion. It is not being monitored properly.

Keywords: non-performing assets, h. p. state co-operative bank, priority sector, non-priority sector

Introduction

- 1. Non-Performing Assets:** NPAs (Non-Performing Assets) are described as advances when either or both of the principal and interest payments are past due by more than 90 days. An asset will be classified as performing as long as it continues to produce the projected revenue, but as soon as it stops, it falls under the category of Non-Performing Assets. It starts to cause problems for the banking industry at this point. The Indian financial sector has long been suffering from NPAs. NPAs are excellent signs of credit risk. The Narasimham Committee was established by the RBI to investigate the issues which Indian banking industry was experiencing and to recommend solutions. This committee raised the issue of NPAs in the banking industry, which has been reducing banks' profitability, but appropriate action has not been made in this regard. As time went on, banks implemented numerous provisions and helpful measures to eliminate NPAs, which helped them to resolve a few NPAs related issues. However, they soon realised that NPAs cannot be completely eliminated; they can only be reduced through proper implementation and financial management.
- 2. Co-operative Banks:** In India, Co-operative Banks are crucial in supplying credit to both urban and rural areas. Although these organisations only make up a small portion of total credit in the bank-dominated financial system, they play a key role in credit delivery because they serve a variety of geographical regions and demographic groups. According to demographics, the Co-operatives Banks gave low- and middle-income groups in both urban and rural areas access to financial services. Co-operative Banks have played a praiseworthy role in improving the financial system's accessibility. However, due in part to operational and governance-related concerns, some institutions, notably Rural Co-operatives, have not performed as well financially. Numerous committees have looked at the causes of their subpar financial performance and occasionally offered solutions. Co-operative has been the target of continuing revitalization efforts.
- 3. Profile of The H.P State Co-Operative Bank Ltd.:** The Registration of Himachal Pradesh State Co-operative Bank was done in August, 1953, under the Co-operative Society Act, 1912 the bank started functioning on 15th March 1954. At that time, the State of Himachal Pradesh used to be the Union Territory and there were only 6 districts in the State. The bank started functioning as an Apex bank as well as Central financing agency under 2-tier system in 6 districts of the State. In the year 1955 one Joint Stock Bank i.e., Bank of Sirmour was also merged in it. At present the H.P.S.C.B. is performing dual function *viz.* that of Apex Co-operative Bank in Himachal Pradesh to play lead role in development in Co-operative in the State and that of a Co-operative Bank in 6 districts *viz.* BILASPUR, CHAMBA, KINNAUR, MANDI, SHIMLA and SIRMOUR. The Bank is extending banking facilities in 5 districts *viz.* KANGRA, KULLU, HAMIRPUR, LAHAUL & SPITI and UNA through affiliated District Central Co-operative Banks, i.e. The Kangra Central Co-operative Bank and in district SOLAN through another affiliated District Central Co-operative Bank, The Jogindra Central Co-operative Bank as a District Central Co-operative Bank.

The Himachal Pradesh Co-operative Bank is serving the people of the State through a network of 241 branches and Extension Counter of which about 94% is in the rural areas of the State and one branch at New Subzi Mandi, Azadpur, New Delhi for the benefit horticulturists of the State.

The performance of the Bank over these 50 years could be summarized as under

1. H.P. State Cooperative Bank has prepared and implemented number of loan schemes targeted towards all sections of the society at most attractive terms.
2. The H.P. State Cooperative Bank Ltd. actively associating in the implementation of poverty eradication programs launched by the Govt. of India, Govt. of H.P. and various other agencies. The main Schemes being implemented by the Bank are as under:-
 - Swarn Jayanti Gram Swarajgar Yojna.
 - Swarn Jayanti Sehri Swarajgar Yojna.
 - Self Help Groups.
 - Kisan Credit Card Schemes.
 - Under Tie-Up with H.P. Khadi & Village Industries Board.
 - Him Swarajgar Credit Card Scheme.
 - SAMFEX
 - Him Small Entrepreneur Credit Card Scheme.
 - Under Tie-Up with SC/ST Development corporation.
 - Under Tie-Up with Women Development Corporation.
3. The H.P. State Co-operative Bank Ltd. is the National Award Winner, which has been conferred for achieving overall excellence in banking operations.
4. The H.P. State Co-operative Bank Ltd. is the first Co-operative Bank of India to implement Total Branch Automation software in all its branches.
5. The H.P. State Co-operative Bank Ltd. is a profit earning and continuously dividend paying organization.
6. The bank's objective is to offer financial products and services suiting the requirements of people of all the classes of the society at most attractive forms with personalized services and a sense of accountability in association with use of latest technology facilitating anywhere and anytime banking.

In the wake of their entry in the new millennium, the Co-operative Banks in Himachal Pradesh will have to introspect about their achievement made in the past and work out the new dimensions of new areas where they can compete successfully with other competing organisations. They will have to understand the problems and constraints which are being faced by them. The Cooperative banks in Himachal Pradesh are required to adhere to international standards in respect of capital adequacy, income recognition, asset classification. Here we have conducted a survey to know the current position of NPAs.

Review of Literature

- **Poornima (2013)** ^[7] used various methods to interpret data, including the percentage change in sub-standard assets to gross NPAs at KSCAB Ltd., the percentage change in doubtful assets to gross NPAs, the percentage change in loss assets to gross NPAs, and the ratio of gross NPAs to total advances, as well as NPAs in the agriculture, sugar, and other sectors. When examining the statistics, the researcher discovered that total improvements granted to the sugar sector are far lower than those given to agriculture. However, as compared to the agriculture industry, the overall NPAs in the sugar sector is quite high.
- **Gandhi R, (2014)** ^[5] the high level committee was established by the RBI in December 2014 to review the UCBs sector and make recommendations for more effective working practises, according to R. Gandhi, the deputy governor of the RBI. A roadmap outlining how the UCBs can transform into universal banks was included in the board's submission of suggestions. How effectively the NPAs of Urban Cooperative Banks (UCBs) managed?
- **Nivethitha J. and Brindha G. (2014)** ^[6] in their research paper titled "Management of Non-Performing Assets in Virudhunagar District Central Co-Operative Bank-An Overview," came to the conclusion that a high level of NPAs indicates a high likelihood of numerous credit defaults, which have an impact on the profitability and net worth of cooperative banks as well as depreciate the value of the asset. Therefore, a decrease in NPAs is required to hasten bank growth and profitability. Monitoring over dues owing to different circumstances, such as lax monitoring, a subpar credit appraisal system, a loan waiver programme, improper loan usage, etc., is what leads to the NPAs problem.
- **Tiwari C. (2015)** ^[8] It has been determined that a banker should pay close attention to the reasons why loans fail at different phases of credit facility disbursement. The branch managers must conduct thorough analysis and due diligence before authorising loans to customers. Effective post-disbursal monitoring and control will help increase the banking industry's credibility and soundness.

Objectives of the Study

- To determine and examine the trend of NPAs in H.P. State Co-operative Bank.
- To identify the reasons of NPAs in H.P.State Co-Operative Bank.

- To make recommendations for better monitoring and reduction in NPAs.

Research Methodology

In order to find out the reasons of NPAs a survey was conducted in Shimla district through a structured Questionnaire. Responses from the Loan Supervisors, AEO and Managers were received. To find out the trends of NPAs data has been collected from annual reports of H.P.State Co-Operative Bank.

Advances and NPAs of Himachal Pradesh State Co-Operative Bank (HPSCB)

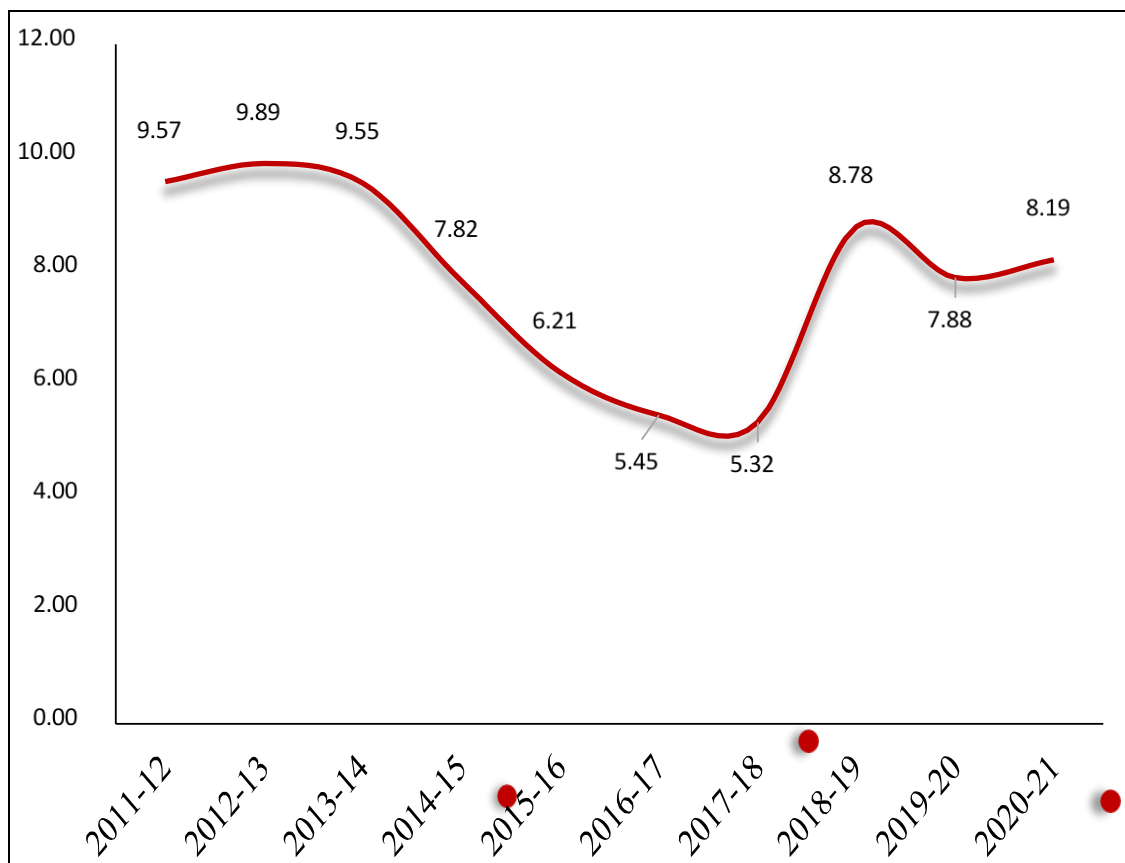
The detail of total advances and NPAs of HPSCB sector banks has been analyzed in Table 4.1.

Table 1: NPAs of HPSCB Banks in Himachal Pradesh (₹ in Crores)

Year	Total Advances	Total NPAs	AGR	SMSE	OPS	NPS
2012	2361.66	226.08	31.46	3.53	96.15	94.94
2013	2645.60	261.71	51.38	3.41	100.48	106.44
2014	3018.37	288.19	69.42	3.28	98.27	117.22
2015	3583.30	280.24	66.64	2.31	99.83	111.46
2016	4355.52	270.35	2.98	1.80	16.36	249.21
2017	4759.59	259.49	54.79	25.19	6.65	172.85
2018	5186.85	276.12	66.14	25.01	4.80	180.17
2019	5622.86	493.61	83.94	269.43	52.62	87.62
2020	6758.65	532.43	55.53	46.13	30.7	400.07
2021	7080.88	580.25	99.87	340.92	34.12	105.34
CAGR (%)	12.98	11.04	13.70	66.17	-10.87	1.16
\bar{X}	4537.33	346.85	58.22	72.10	54.00	162.53
σ	1653.82	132.77	26.85	124.84	40.85	97.53
CV (%)	36.45	38.28	46.12	173.15	75.65	60.01

Note: AGRI denotes Agriculture; SMSE denotes Small and Medium Scale Enterprises; OPS denotes other Priority Sector; NPS denotes Non-priority sector; CAGR denotes Compound Annual Growth Rate; \bar{X} Arithmetic mean; σ Standard Deviation; CV denotes Coefficient of Variation

Source: i) State Level Banker's Committee Himachal Pradesh, SLBC Agenda slbchp.com/Slbcmeetingspage/agenda-minutes.aspx
ii) HPSCB Shimla.



Graph 1: Percentage of NPA to Total Advances of HPSCB

Figures in Table 4.1 reveals that the Advances of HPSCB in Himachal Pradesh has increased to ₹7080.88 crores in the year 2020-21 from ₹2361.66 crores in the year 2011-12. The Advances grew at a rate of 12.98 per cent during the period of ten years, that is, from 2011-12 to 2020-21. On the other hand, the NPAs of HPSCB also shows an increasing trend. The NPAs has increased to ₹580.25 crores in 2020-21 from ₹226.08 crores in the year 2011-12. The NPAs grew at a rate of 11.04 per cent during the period under study. The Coefficient of Variation indicates that NPAs of HPSCB is more consistent than the Advances.

The SMSE registered a high growth rate among various sectors. The NPAs in SMSE grew at a rate of 66.17 per cent, in Agriculture at a rate of 13.70 per cent, and in Non-Priority Sectors at a rate of 1.16 per cent. While, Other Priority Sectors registered a negative growth rate (-10.87 per cent) during the period under study.

Out of Total Advances the percentage of NPAs was highest (9.89 per cent) during the year 2012-13 followed by the year 2011-12 (9.57 per cent) and the year 2013-14 (9.55 per cent). After 2012-13 the percentage decreased to 5.32 per cent in the year 2017-18. Then it shows an increasing trend and with some fluctuation it increased to 8.19 per cent.

The coefficient of variation of NPAs in Agriculture, SMSE, Other Priority Sectors and Non-Priority Sectors is recorded as 46.12 per cent, 173.15 per cent, 75.65 per cent and 60.01 per cent respectively. It depicts high inconsistency and variation of NPAs in all the sectors. But the Coefficient of Variation concerning MSME shows high inconsistency and variation as compare to Others.

Table 2: Demographic components of Respondents

General Information of Respondents		Total Number
Age	18-27	1
	28-37	4
	38-47	21
	47 & Above	51
Gender	Male	74
	Female	3
Marital Status	Married	76
	Unmarried	1
Experience	0-5 Years	51
	6-10 Years	19
	11-15 Years	5
	Above 15 Years	2
Years of association with the Bank	Below 4 Years	18
	5-10 Years	20
	11-15 Years	19
	16 and Above	20
Designation	Chief Manager	5
	Manager	25
	Banking Assistant	2
	Loan Supervisor	39
	AEO	6

77 questionnaires were delivered and collected for the Loan supervisors, AEO, and Managers. There are three sections to the questionnaire, each of which outlines the causes of NPAs at each level of loan approval. We have determined the primary causes of an asset becoming a Non-Performing Asset through ranking.

Table 3: Appraisal Stage

Sr. No.	Questions	Weight	Rank
1	Absence of a critical presentation evaluation	16.07	6
2	Improper verification of true purposes of loans and advances	14.87	8
3	Reliance on provisional/unaudited data as provided by the borrower to Bank	14.33	9
4	Lack of a network or information system among banks/branches which allows borrowers to use funds from many banks	17.6	2
5	Lack of right to choose good borrowers by the credit department	18.07	1
6	Unrealistic projects of borrower	16.27	5
7	Deliberately default by Borrowers'	16.8	3
8	Fraudulent approach of borrowers	15.87	7
9	Lack of qualified or trained personnel in the credit department	16.53	4

Table 4: Sanctioning & Disbursement Stage

Sr. No.	Questions	Weight	Rank
1	Political meddling, such as pressure to approve a loan	15.4	2
2	Favoritism on the part of officials in favour of a specific borrower to please politicians	15.07	4
3	Delay in the loan's approval process	12.87	6
4	Untimely or delayed credit facility	13.13	5
5	Loan disbursement prior to the fulfillment of the terms and conditions of the sanction	15.2	3
6	Faulty and Incomplete legal documentation	15.8	1

Table 5: Post Disbursement Stage

Sr. No.	Questions	Weight	Rank
1	Absence of availability of audited financial statements timely	16.73	6
2	Lack of filing the required periodic stock and other statements by the borrowers	18.53	1
3	Careless approach of bank employees to check stock and other tasks	17.4	3
4	Absence of efficient supervision	17.2	4
5	Absence of thorough oversight of the loan account	17.13	5
6	Delayed warning signal detection	15	7
7	Delay in starting corrective actions and measures	13.67	8
8	Lack of timely actions	13.6	9
9	Lack of expertise in the handling area	13.27	10
10	Diversion of funds	18.47	2

Results and Analysis

The questionnaire makes use of the 5-Likert-scale method. The means of the various questions were computed. Understanding the most prominent causes of NPAs has been done by ranking. According to the HPSCB the lack of the right to choose the borrower at the assessment stage was the primary cause of NPAs, followed by a lack of network, borrowers' willful defaults, a lack of skilled employees, and the submission of unrealistic projects. It has been already mentioned that the credit department is not permitted to choose a reliable borrower. Bank officials are also troubled by a lack of network.

The strongest cause of NPAs during the sanction and disbursement stage, according to banks, is inadequate and flawed legal documents, which is followed by political pressure etc. Most loan approvals have been influenced by political pressure.

The primary cause of NPAs at the post-disbursement stage is the failure of the borrowers to provide stock and other needed periodic statements, which is followed by money-diversion, a careless attitude on the part of bank staff when it comes to loan inspection, and other factors. It has also been observed that it is not being monitored properly.

These cooperative banks confront a number of challenges, some of which are as follows:

- These banks are very small to operate, considering the financial backing, required talent, and expertise component. While these depend more on the government than the shareholders, the workers also make a very small contribution.
- Their poor loan recovery contributes to a higher NPAs ratio.
- Excessive political and official participation in their work. They are unable to become independent due to governmental constraints.
- Politicians have a significant amount of authority over the banks.
- The existence of numerous regulatory bodies for monitoring and control.
- The operational areas are constrained. Cooperative banks now play a significant part in rural communities. In addition, they encounter a variety of difficulties at work. The Khusroo Committee (1989) made a valid suggestion that Co-operative Banks function as an integrated system that promotes independence.

Suggestions

- In order to reduce NPAs, pre-sanctioning review and post-disbursement supervision must be performed on bank advances.
- To lower the level of NPAs, banks must exercise sound management.
- To ensure prompt payment, careful borrower selection and follow-ups are necessary.
- Both the government and the authorities should support the Co-operatives. They should offer capable leadership, suitable direction, and strict supervision and control.
- Technology and modern methods should be applied. However, there are performance gaps as a result of inadequate computerization and poor leadership. Applying the cooperative principles can make all of this better.

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