Management of Non-Performing Assets in Thoothukudi Pandyan Grama Bank in Thoothukudi District

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Abstract- Banks are financial entities hose prime concern in the well functioning of the economy represented by price stability and effective transmission of monetary policies through the financial markets. Regional Rural Banks are the youngest members in the family of rural banking in India. RRBs are mandated to purvey credit in rural areas, especially to the weaker sections of society. This innovation in rural credit institutions has a unique role in the enormous rural development. Thus, the RRBs in India normally depend on the internal guidance and functioning support in devising an effective policy and strategies for NPAs management. The present study is confined from 2006 – 2007 to 2010 – 2011 further the study depends mainly on secondary date obtained from the bank both published and unpublished. The NPA details of the Pandyan Grama bank were collected from the higher officials of the bank. This study is mainly analyses the three categories (D_1, D_2 & D_3) of Doubtful Assets. The simple statistical tools like percentage and trend line techniques have been adopted for the study. It may be concluded from the analysis that the recovery performance better in Education Loans, Small Scale loans to the industries, Crop loan and Kisan Credit. But the recovery performance is very poor in Loans given to the Self Help Groups.

Index Terms- Banking, NPA, Types, Loans, Trend value.

I. INTRODUCTION

A bank is an institution, which deals with money and credit for a common man, a bank means a storehouse of money for a business man it is an institution of finance and for a day to day customer it is a depository for his savings. Actually, banks are business organizations selling bank services. They play a vital role in the economy of any country banks hold the savings of the public; provide a means of payment for goods and services and finance development of business and trade. Thus banks act as an intermediary in the flow of funds from savers to users.

They serve as intermediaries between borrowers and lenders and assist in the smooth flow of the monetary funds. The soundness of the bank system is of great importance for the economic development of a nation. Having no wealth on their own banks are responsible for the right utilization of the national resources. Money is one of the important resources for living and survival. There is a general concept commonly accepted "A Man or Woman with no money is equal to dead body". The basic functions of banks are accepting all kinds of deposits and supply money"- The life blood of business concerns by lending process. In general there are several challenges to the banks, particularly to the regional rural banks. The main challenge confronting the regional rural banks is the disbursement of funds in quality assets like advances which may lead to non-performing assets to the banks. This paper attempts to study the management of NPAs in a Regional Rural Bank located in Thoothukudi district, Thoothukudi.

The main objectives of the present study may be summarized as follows the performance of loan portfolios and procedures of decision making in the area of management of NPAs in Pandyan Grama Bank, Bazaar Branch, Thoothukudi. This study is mainly analyses the three categories (D_1, D_2 & D_3) of Doubtful Assets.

II. PERFORMANCE OF REGIONAL RURAL BANKS IN INDIA

The first Regional Rural Bank was set up in October 1975. Subsequently, the Regional Rural Banks Act 1976 was passed in February 1976. There are 196 Regional Rural Banks in India covering 370 districts in 2008. Agriculture and agro based activities in rural areas play straight role in promoting balanced, equitable and self sustained pattern of development.

Table – 1
Performance Indicators of Regional Rural Banks in India (As on 31st March 2010)
(Rupees in Crores)

Particulars	2009	2010	Growth (%)
No of RRB	86	82	-9.89
Branch network(No.)	15181	15444	4.63
Share capital	197.00	197.000	-
Share capital Deposit	3959.30	3959.77	39.80

Reserves	6753.99	7912.39	38.74
Deposits	120189.90	142980.48	44.29
Borrowings	12734.65	18555.84	61.44
Investment	65909.92	76167.29	56.85
Loans & Advances(outstanding)	67802.10	82221.59	39.40
Loans issued	43367.13	55727.75	44.44
RRB incurring loans(No.)	80	70	-4.88
Amount of losses (B)	35.91	8.44	-84.33
Net profit (A-B)	1787.64	2541.07	91.41
Accumulated losses	2299.98	1813.03	-30.91
RRB with accumulated losses(No.)	31	30	16.67
Recovery (%)	77.85	79.12	-2.13
NPAs to loans outstanding (%)	4.14	3.66	-39.50
Net worth	8610.31	10256.13	67.93

Source: Compile from Annual report of NABARD.

III. NON-PERFORMING ASSETS: CONCEPTS AND TYPES

Basically the assets of the banks are classified as performing and non-performing assets which generate income to the bank. A non- performing asset is an asset which fails to generate income of the bank. As per the regulation, an asset is considered to have gone due, the past due amount remaining uncovered where the borrower has defaulted as principal and interest repayment for more than 90 days is called as non-performing assets. According to the guidelines of Reserve Bank of India NPAs consists of sub-standard, doubtful and loss assets.

Standard Assets: The Regional Rural Banks have been advised to make a general provision for standard assets at the following rates (a) Direct advances to agricultural and small and marginal entrepreneurial sectors at 0.25%; (b) All other advances at 0.40%.

Sub- Standard Assets: A general provision of 10% of net outstanding should be made without making any allowances for Export Credit Guarantee Corporation cover and securities available. The unsecured exposures which are identified as sub-standard would attract additional provision of 10% , i.e. a total of 20% on the outstanding balance.

Doubtful Assets: The portion of 'gross loans' which has remained NPA for a period exceeding two years from the date of becoming NPA.

Doubtful assets again are classified in three sub categories:
a. D1 i.e. up to 1 year: 20% provision is made by the banks.
b. D2 i.e. up to 2 year: 30% provision is made by the bank.
c. D3 i.e. up to 3 year: 100% provision is made by the bank.

Loss Assets: It is advised by Reserve Bank of India to the banks that in cases where loss assets are more than two years old in the books of a bank without legal action being initiated, the banks should submit a review note to their management committee/ boards of directors giving specific reasons as to why steps have not been taken for recovery. These assets should be written off. If they are permitted to remain in the books for any reason 100% should be provided.

IV. METHODOLOGY

The study was under taken to analyse the non-performing assets of the Pandyan Grama Bank, Thoothukudi. The analysis purely depends on both primary and secondary data. It was collected from the annual reports of Pandyan Grama Bank, Thoothukudi, the facts published in the annual reports and bulletin of Reserve Bank of India, Referred Books, Journals, Newspaper and Magazines. Information was collected partly through personal investigations and questionnaire schedule techniques have been followed in support of it. This collected data were classified and analysed, the simple statistical tools like percentage and trend line are used in this study.

V. ORIGIN OF THE BANK

Pandyan Grama Bank is one of the popular rural banks in Tamilnadu. The Pandyan Grama Bank was established on 9th March 1977 and it is a listed public sector bank in India. The

bank works under the Regional Rural Banks Act 1976. The Pandyan Grama bank is functioning in seven districts in south Tamil Nadu. The bank has its Administrative Office (Head Quarters) at Sattur and now the bank has shifted to Virudhunagar in Tamilnadu on 16th July 1993. The Administrative Office has started functioning in its own building from 31st October 2000 onwards. The Thoothukudi Pandyan Grama Bank (Bazaar Branch) was established in 1999.

VI. LOANS PROVIDING IN THE BANK

The bank was started in the country to remove rural poverty. It was adopted as the most powerful weapon for ending stagnation of the poor masses. Banking operations are becoming complex and difficult for supervisors to monitor and control. The timely recovery of loans is a prerequisite for any credit institution, particularly for Pandyan Grama Bank with their limited funds for sustained growth and existence. The banks grants loans to its members for the following purposes, on surety basis, loans to Small Scale Industries, Cash Credit, Staff Loan, Purchase of Vehicles, Crop loan and Kisan credit, Education loan

for self – Help Groups, and like in accordance with the instructions given by Regional Rural Bank. At present, the Pandyan Grama Bank provides short term, medium and long term loans to the rural people.

VII. ANALYSIS AND RESULTS

The Banking Commission (1972) recommended establish an alternative institution for rural credit in the rural areas, particularly among the economically and socially marginalized sections. The RRBs have more reached to the rural area of India, through their huge network. The success of rural credit in India is largely depends on their financial strength. Avoidance of losses due to loan is one of the preoccupations of the management of all banks. Complete elimination of such losses is not possible. The bank's management aims to keep the losses at low level.

The Pandyan Grama Bank is doing tired less works in the management of Doubtful Assets. However, the present study will try to reduce the NPAs.
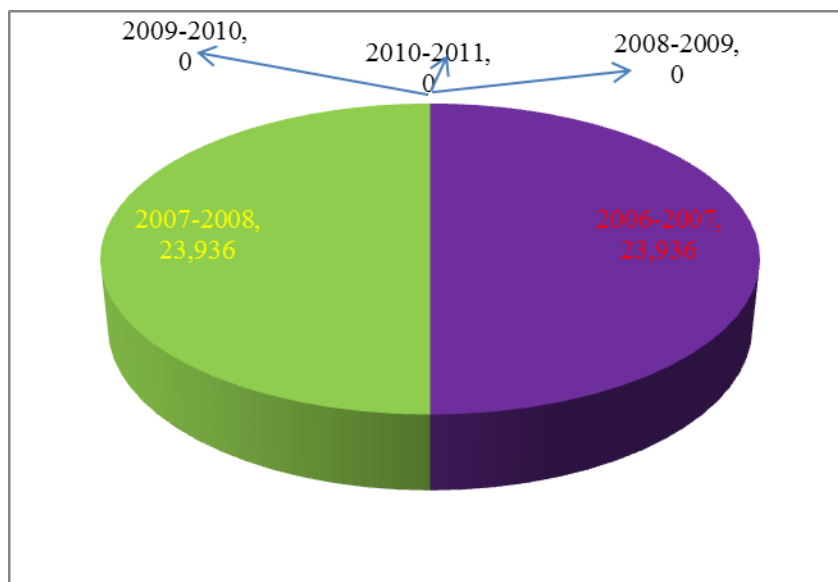
Table: 2. Crop loan and Kisan Credit of the Bank (Rs. In Lakhs)

| Year | Doubtful Assets | | | | | | Total NPA | |
| | D1 | | D2 | | D3 | | No. of a/c | Amount |
	No. of a/c	Amount	No. of a/c	Amount	No. of a/c	Amount		
2006-2007	-	-	-	-	2	23,936	2	23,936
2007-2008	-	-	-	-	2	23,936	2	23,936
2008-2009	0	0	0	0	0	0	0	0
2009-2010	0	0	0	0	0	0	0	0
2010-2011	0	0	0	0	0	0	0	0

Source: Annual Reports and Balance sheet of the Bank from 2006-2007 to 2010-2011.

It is observed from Table 2, during the year 2006-2007, the total doubtful asset is in the category of D3. That is the stage of sleep age. The NPA of crop loan and kisan credit is Rs.23, 936

lakhs in both 2006-2007 and 2007-2008 years. During the study period, the crop loan and kisan loan credit NPA is zero.
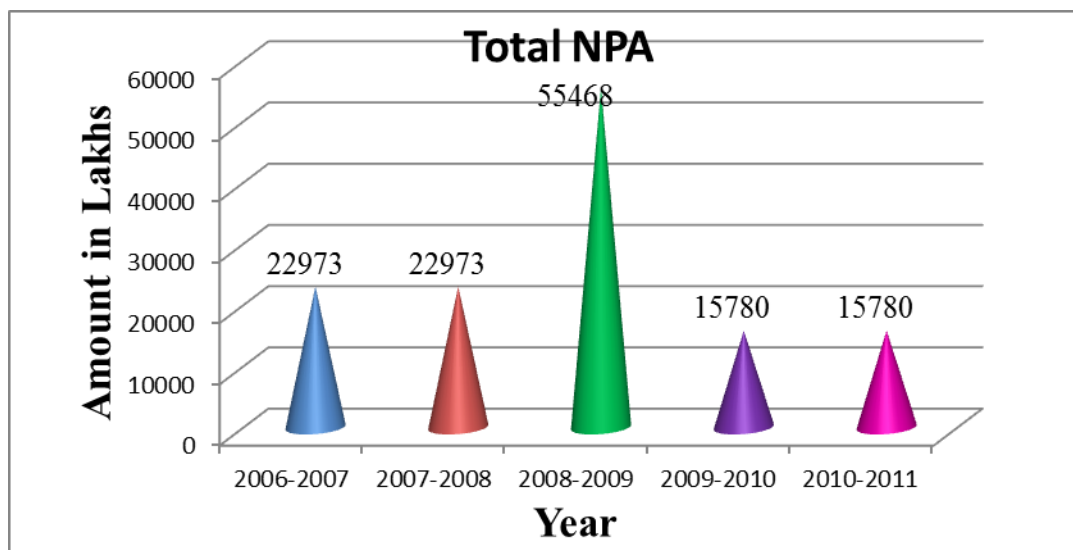
Small loans to Small Scale Industries: A small scale industries loan is one which is engaged in the manufacture processing of goods or is a servicing and repair workshop undertaking repairs of machinery used for production.

Table: 3 Small Loans to Small Scale Industries (Rs. In Lakhs)

Year	Doubtful Assets								
	D1		D2		D3		Total NPA		Total NPA
	No. of a/c	Amount	No. of a/c s	Amount	No. of a/c s	Amount	No. of a/c s	Amount	Increase (or) Decrease
2006-2007	1	4380	4	12400	1	6193	3	22973	-
2007-2008	-	-	-1	16780	1	6193	3	22973	0
2008-2009	-	-	0	43068	1	12400	2	55468	32495
2009-2010	-	-	1	-	2	15780	2	15780	-39688
2010-2011	-	-	4	-	2	15780	2	15780	0

Source: Annual Reports and Balance sheet of the Bank from 2006-2007 to 2010-2011.

The table 3 indicated that the small loans to small scale industries. In the year 2006-2007 the amount to NPA is in the categories of D1, D2 and D3 is Rs.22.973 lakhs. In the year 2007-2008 the NPA is in 2009-2010 the small loans to small scale industries NPA is Rs. 15, 780 lakhs.

Loans to Self Help Groups: Bank has found in SHGs a reliable credit delivery mechanism which is cost-effective. Today the concept of self help groups in catching as the most viable means to empower of grass root level.

Table: 4 Loans to Self Help Groups (Rs. In Lakhs)

Year	Doubtful Assets							
	D1		D2		D3		Total NPA	
	No. of a/c	Amount	No. of a/c s	Amount	No. of a/c s	Amount	No. of a/c s	Amount
2006-2007	0	0	0	0	0	0	0	0
2007-2008	0	0	10	274356	2	14521	12	228877
2008-2009	18	500015	4	93665	8	198113	30	791793
2009-2010	4	206151	14	338692	11	263606	29	808449
2010-2011	3	156326	12	474181	11	243371	29	873878

Source: Annual Reports and Balance sheet of the Bank from 2006-2007 to 2010-2011.

From the table 4, it is observed that during the year 2006-2007, the total doubtful asset is in the categories of D1, D2 and D3. The NPA of doubtful assets is Rs. 808449 in the year 2009-2010. The amount of NPA is Rs. 873878 in 2010-2011.

With the help of linear trend equation, the trend values for Loan to Self Help Groups are computed. The trend analysis reveals that the NPA of Self- Help Groups for the future year 2020 will be Rs.3046660 lakhs.

Table: 5 Term loan to Education (Rs. In Lakhs)

Year	Doubtful Assets								Total NPA
	D1		D2		D3		Total NPA		
	No. of a/c	Amount	No. of a/c s	Amount	No. of a/c s	Amount	No. of a/c s	Amount	Increase (or) Decrease
2006-2007	0	0	2	31735	0	0	2	31735	-
2007-2008	0	0	1	14000	0	0	1	14000	17735
2008-2009	0	0	0	0	1	3000	1	3000	11000
2009-2010	0	0	0	0	0	0	0	0	0
2010-2011	0	0	0	0	0	0	0	0	0

Source: Annual Reports and Balance sheet of the Bank from 2006-2007 to 2010-2011.

The above table 5 indicate that the year wise NPA of the education loan. In the year 2006-2007 the bank NPA of education loan amount is Rs.31, 735 lakhs. In the year 2007-2008 it reduced to Rs.14, 000 lakhs. The year 2008-2009 the banks education loan NPA stood zero.

Findings: The key to any bank's success is the collection of its Non Performing Assets and use of funds. Crop higher yield could reduce the NPA level in the bank. The lower percentage of agriculture NPA is alarming given the fact that yield has been laying favourable environment to register respectable growth. NPA movement of SHGs has been found to be weak. Lack of basic
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knowledge about banking and overall financial illiteracy is the two striking features of the defaulted of SHGs. In the same way, post- lending supervision and approaching the borrower at the right time for repayment may prove effective in the recovery of overdues early.

Conclusion: Thus it may be concluded from the analysis overdues have been identified as a major hurdle in the creation of an efficient and viable credit system at Pandyan Grama Bank. Poor recovery implies distorted recycling of funds. From this analysis the recovery performance better in Education Loans, Small Scale loans to the industries, Crop loan and Kisan Credit. But the recovery performance is very poor in Loans given to the Self Help Groups. To overcome these problems, the credit

management of bank is required to develop mechanisms for the proper selection of appropriate borrowers, constant monitoring for proper utilization of the loans, time- bound repayment, cost effectiveness, reduction of overdues and non-performing assets and motivational improvement.

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