

REASONS OF NPA OF THE PACS IN PUNE DISTRICT

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ABSTRACT:

The introduction of concept of classification of assets and provisioning norms to PACS was right decision. However, it was necessary to introduce it after adequate training to the PACS staff. Usually the quality of the PACS staff (secretary) is relatively inferior to that of the commercial bank. The secretary is the only staff who has to run the society's day to day affairs. While studying the NPAs naturally it will throw light on the causes for classifying an account under NPA and while doing this it will also throw light on the possible solutions for avoiding NPAs.

This study covers a time period of Six years ranging between 2007-08 and 2012-13, to study the trends and comparative study of 573 identified borrowers of 69 identified PACS from Pune District, according to their Audit Classification. This study has a major focus only on the causes of NPAs from the view point of borrowers and secretaries/officials of all identified 69 PACS. For this Researcher frame Questionnaires for identified borrowers and identified society secretary of the selected PACS. Researcher used Chi-squared Test, Descriptive Statistics, Karl Pearson Coefficient of Correlation, these tools for Data Analysis.

From this study researcher came to know that, although it is expected that there should be a pre-sanction visit to the prospective borrower's agricultural lands, on the pretext of the volume of work, inadequacy of the staff, these visits are not undertaken and therefore the genuineness of the prospective borrower about the cultivation of crops mentioned in the loan application cannot be ascertained. This has become a ritual and hence the borrower is aware that there will be no inspection it provides room for him for diversion of funds, which ultimately brings the account in difficulty for recovery.

On the whole it has been observed that there is no enough interaction between the borrower and society/bank official about the utilization of the loan and the repayment capacity.

Keywords: PACS, Non-Performing Assets, Causes behind NPAs, Pre-Sanction Credit Appraisal and Post Disbursement Supervision.

1. INTRODUCTION:

Primary Agricultural Credit Societies (PACS) are the grassroot level arm of the short-term co-operative credit structure. PACS deal directly with individual borrowers, grant short to medium term loans and also undertake distribution and marketing functions. There are 91,833 PACS as on March 2013 in all over India, with about 1,39,376 thousand members. A large number of PACS, however, face severe financial problems primarily due to significant erosion of own funds, deposits, and low recovery rates. Various policies such as financial support for computerization, steps towards better effective recovery performance, human resource development. Etc. have been adopted to improve the financial health of the PACS. NABARD has been extending funds to develop the infrastructure for PACS.

Some of the critical challenges facing primary level cooperative credit institutions, apart from improving resource mobilization, are the following:

1. Increasing diversification in business portfolio.
2. Improving volume of business.
3. Arresting decline in membership by the borrowers.
4. Reducing cost of management.
5. Correcting imbalance in loans outstanding.
6. Improving skills of the staff and introducing professionalism.

7. Strengthening management information system.
8. Reducing involvement in non/less profitable business.

2. SIGNIFICANCE OF THE STUDY:

- ❖ **Impact:** The impact of the NPAs on financial status of PACS is in several ways. Over a period of time if the NPAs continue to mount naturally it incapacitates the institution. Following are the few areas which are affected by rising NPAs.
- ❖ **Solvency:** The solvency of a PACS is directly dependent on its Capital Adequacy Ratio. In turn it also reflect on the quality of its loan portfolio.
- ❖ **Profitability:** When the NPAs rise naturally the bank will have to make appropriate provisions as per the RBI/NABARD's direction and therefore the profit gets adversely affected.

3. BLASTING IMPACT OF NPAS ON THE CREDIT SOCIETIES:

1. The capital adequate ratio is disturbed and cost of capital will go up.
2. The Economic Value Addition (EVA) by society gets upset.
3. The current profits of societies are eroded.
4. The interest income of societies reduced due to non-receipt basis.
5. Societies profitability is affected adversely because of the provision of doubtful debts and consequent write off as bad debts.
6. Return on Investment (ROI) is reduced.
7. The assets and liability mismatch will widen.
8. It limits recycling of the funds.

4. OBJECTIVE OF THE STUDY:

- ❖ To study the causes of Non-Performing Assets in Primary Agricultural Cooperative Societies.

5. HYPOTHESES OF THE STUDY:

- H₁ The improvement in pre-sanction credit appraisal and post disbursement supervision over credit will improve the NPA position of the societies.

6. RESEARCH METHODOLOGY:

Sources of Data:

Primary Data: Questionnaires, Interviews and observations from identified borrowers and identified societies in Pune District.

Statistical Tools used:

Chi-squared Test.

Scope of study:

This study covers a time period of Six years ranging between 2007-08 and 2012-13, to study the trends and comparative study of 573 identified borrowers of 69 identified PACS from Pune District, according to their Audit Classification.

This study has a major focus only on the causes of NPAs from the view point of borrowers and secretaries/officials of all identified 69 PACS.

7. DATA ANALYSIS:

The collected data of all 69 identified societies are analyzed with the help of selected statistical techniques as follows:

A. Analysis of Data collected from Society Secretary:

Statistical Hypothesis:

H₀ : There is no significant relationship between the various causes for turning the account as NPA.

Against,

H₁ : There is significant relationship between the various causes for turning the account as NPA.

Table No. 1: P-Value Table of Secretary's Assessment of NPA causes of selected society's

Secretary's Assessment of NPA causes.	P-Value
1. Expectation of Loan Waiver / Willful Defaulter / in Loan Waiver scheme full amount of Loan not waived so balance amount not repaid.	0.002960958
2. Diversion of loan funds.	0.000000044
3. Every year one or the other type of Natural calamity is the cause of high NPAs.	0.000000016
4. Not attending to agri. activity with due seriousness is the cause of NPA.	0.007020519
5. Lack of awareness of the NPA at secretary level.	0.000000000
6. Inadequate recovery efforts.	0.000000000
7. Deficient credit appraisal.	0.000000031
8. Inadequate post disbursement supervision and follow up.	0.000000079

In the above table of P-Values, researcher noticed that all the P-Values are less than the smallest level of significance i.e. 0.05 so that researcher may reject the null hypothesis H_0 and **accepts the alternative hypothesis H_1** .

Statistical Hypothesis:

H_0 : There is no significant relationship between repayment and turning the account as NPA with private borrowing by members of the society.

Against,

H_1 : There is significant relationship between repayment and turning the account as NPA with private borrowing by members of the society.

Table No. 2: P-Value Table of Reasons behind, being Loan holder of Society, goes towards Money Lenders

Reasons behind, being Loan holder of Society, goes towards Money Lenders	P-Value
1. Under financing by PACS	0.000000000
2. The loan disbursement schedule prescribed by PDCC Bank is unreasonable	0.0000003021
3. Inadequacy of own funds	0.0000003021

In the above table of P-Values, researcher noticed that all the P-Values are less than the smallest level of significance i.e. 0.05 so that researcher may reject the null hypothesis H_0 and **accept the alternative hypothesis H_1** .

Statistical Hypothesis:

H_0 : There is no significant relationship between society's development and issues of various internal and external factors detailed in the question.

Against,

H_1 : There is significant relationship between society's development and issues of various internal and external factors detailed in the question.

Table No. 3: P-Value Table of Elements of Hurdles in Society's Development:

Elements of Hurdles in Society's Development	P-Value
1. Government Policy	0.000005754
2. Undue involvement of Directors in Routine Work of Secretary	0.000382791
3. Undue Pressure from Members of Society	0.000646996
4. Local Politics	0.001550285
5. Increase in Overdue of Loan / Decrease in Recovery of Loan	0.000000022
6. Shortage of Manpower / Lack of Training	0.000543663
7. Insufficient Post Disbursement Supervision System	0.000000218
8. Increase in NPA beyond the member's control	0.000000036

In the above table of P-Values, researcher noticed that all the P-Values are less than the smallest level of significance i.e. 0.05 so that researcher may reject the null hypothesis H_0 and **accept the alternative hypothesis H_1** .

It means that, there is significant relationship between society's development and issues of various internal and external factors detailed in the question.

B. Analysis of Data collected from identified Borrowers:

Statistical Hypothesis:

H_0 : There is no significant relationship between performance about credit appraisal and difficulties to borrow loan from PACS.

Against

H_1 : There is significant relationship between performance about credit appraisal and difficulties to borrow loan from PACS.

Table No. 4: P-Value Table of Responses conducted of selected society's secretary

Reasons / Difficulties to borrow loan from PACS	P - Value
1. Delay in Loan Sanction/Issue	0.0000000000
2. To fulfill Documentations	0.0000000000
3. Doesn't fulfill the Financial Need	0.0000000000
4. Excess Deductions from Sanctioned Loan Amount	0.0000000000
5. Political Consideration	0.0000000000

In the above table of P-Values, researcher noticed that all the P-Values are less than the smallest level of significance i.e. 0.05 so that researcher may reject the null hypothesis H_0 and **accept the alternative hypothesis H_1** .

Statistical Hypothesis:

H_0 : There is no significant relationship between NPA and the several causes stated in the question.

Against,

H_1 : There is significant relationship between NPA and the several causes stated in the question.

Table No. 5: P-Value Table of Responses conducted of selected society's secretary:

Reasons for overdue of Society's Loan	P - Value
1. Expectation of Loan Waiver / Willful Defaulter / in Loan Waiver scheme full amount of Loan not waived so balance amt. not repaid.	0.0000000000
2. Diversion of Loan Amount towards unproductive purpose	0.0000315271
3. Prolonged Illness of Karta	0.0000000000
4. Natural Calamities / Inadequate Water Supply / Inadequate Power Supply / Low Rate for Production	0.0000001126
5. Carelessness in Agri. Business/Not utilization of Purchased Property Professionally.	0.0000032217
6. Excess outside borrowing than loan borrowed from society	0.0000000000
7. Unawareness about the impact of NPA	0.0000000000

In the above table of P-Values, researcher noticed that all the P-Values are less than the smallest level of significance i.e. 0.05 so that researcher may reject the null hypothesis H_0 and **accept the alternative hypothesis H_1** .

It means that, there is significant relationship between NPA and the several causes stated in the question.

8. CONCLUSIONS:

❖ Although it is expected that there should be a pre-sanction visit to the prospective borrower's agricultural lands, on the pretext of the volume of work, inadequacy of the staff, these visits are not undertaken and therefore the genuineness of the prospective borrower about the cultivation of crops mentioned in the loan

application cannot be ascertained. This has become a ritual and hence the borrower is aware that there will be no inspection it provides room for him for diversion of funds, which ultimately brings the account in difficulty for recovery.

- ❖ It has been observed during this research in respect of the dairy finance in number of cases in almost all the PACS under that this system is not followed. It was not confirmed whether the borrower has a viable unit and if there is a possibility of continuity of income generation even during the dry period.
- ❖ If there would have been proper post disbursement supervision over the borrowing a/cs naturally such instances could have been surfaced early and remedial action for providing additional finance for the additional activity could have been considered so as to ensure that the account remains regular. But this is not happening as there is lack of post disbursement supervision.
- ❖ In respect of few NPA accounts it was observed that while raising the loan the family was one and upon availment of the loan there was a division in the family and the bank's loan repayment becomes nobody's responsibility. Proper follow up as well as counseling could ensure that the account runs regularly. So, absence of post disbursement supervision and counseling is also a major reason for mounting NPAs.
- ❖ During the survey it has also been observed that the borrowers are reluctant to repay the loan under the hopes that the government may grant waiver as in the past. Once the available sale proceeds from the crop are not used for repayment of the loans naturally there is scope for diversion of funds and ultimately accounts turning NPA entailing penal interest charge. This is a serious issue and the government should come out and vehemently make it clear that such loan waiver will not be given in the normal course.
- ❖ In some cases it has been observed that the account is turned into NPA because there was a dispute in the family and the repayment was not forthcoming.
- ❖ Particularly in respect of the big borrows it was observed that they had a feeling that the bank cannot do anything and they can continue with their overdue account. This reflects on the part of the recovery machinery put in place by the DCC Bank. Usually it is out of political consideration a lenient view is taken and no harsh steps are initiated.
- ❖ At present there is no pre-sanction and post disbursement visits to the agricultural lands where the crop is being taken. There is no control to ensure that the borrower has planted /sown the same acreage of land under the specific crop financed by the PACS. Any deviation from the agreed area of crop may land in difficulties as the production will be lower and naturally the loan repayment will hamper.
- ❖ On the whole it was observed that the efforts put in by the directors of the PACS for recovery of the overdue in NPA accounts are not adequate. Those should be stepped up. There has to be constant follow up and being the local board members they can achieve still higher success in recovery provided vigorous efforts are put in.
- ❖ Unlike the commercial banks there are no personal guarantees taken by the PACS for crop loans. Therefore, it becomes difficult to bring pressure on the borrower for repayment.

9. SUGGESTIONS / RECOMMENDATIONS:

- ❖ The PACS/DCC bank to which the PACS is linked should have adequate staff to undertake pre-sanction as well as post disbursement follow up of the account so as to ensure end use of funds. There is need to strengthen the staff position at DCCB and PACS. While suggesting this the researcher is fully aware of the fact that additional staff will entail costs but then if one compares these costs with the provisioning for NPAs as well as write offs by the PACS/ DCC Bank the additional staff cost will be much less.
- ❖ The need of the hour is to create awareness about the NPAs at the grass root level. So also there should be training programs for the directors of the PACS.
- ❖ There should be a proper training to the Board of Directors which should include management aspect in handling the affairs of the PACS.
- ❖ Internal governing factors at PACS are, possibly responsible for current level of NPAs. The onus, therefore, rests with the PACS themselves.
- ❖ On the whole it has been observed that there is no enough interaction between the borrower and society/bank official about the utilization of the loan and the repayment capacity.

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