IMPACT of NPA on FINANCIAL POSITION of THE PACS

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Abstract: The prudential norms introduced at the request of acceptance of the Basel Committee Recommendations have brought about a full transparency in the banking sector. The concept of Non-Performing Assets (NPA) and the provisioning norms is not new to the commercial banking and cooperative banking sector. However, it is a new concept for the Primary Agricultural Cooperative Credit Societies (PACS). In order to maintain sound financial health of the PACS it is very much essential that the NPAs are practically minimum.

This study covers a time period of Six years ranging between 2007-08 and 2012-13, to study the trends and comparative study of 69 PACS from Pune District, according to their Audit Class with the help of various financial parameters which affected due to change in NPA of the society. Researcher used Descriptive Statistics, Karl Pearson Coefficient of Correlation for Data Analysis. The Researcher comes to the conclusion, Percentage of recovery through legal course varies. In the case of societies having A class the percentage is more as they have to resort to legal course to ensure their audit classification into A category and they are otherwise also prompt in recovery. In case of B and C category these societies are relatively lax and in case of D class societies for their very existence they have to concentrate on the recovery through legal means.

Therefore, the PACS/DCCB should ensure that the proper systems are placed in operation and the NPAs are brought to minimum. It is not a difficult task but there should be honest and sincere efforts to contain the NPAs.

Keywords**: PACS, Audit Class, Non-Performing Assets, Agriculture, Basel Committee**

I. INTRODUCTION:

- Agricultural Sector plays a vital role in the economic development of the country.
- India is having a historical presence of the banking industry over ages.

Landmarks in banking sector:

- Social Control Over Banks
- Nationalization of 14 Indian Commercial Banks
- Nationalization of further 5 Indian Commercial Banks
- Banking Sector Reforms 1991
- Introduction of Prudential Norms to Banking Sector

II. PRIMARY AGRICULTURAL CREDIT SOCIETIES (PACS):

PACS are the grass root 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 95238 PACS as on March 2019.

Primary agricultural credit societies (PACS) are the foundation of the co-operative credit system on which the superstructure of the short-term and medium term cooperative credit system rests.

The main objective of PACS:

- ❖ To raise capital for the purpose of giving loans and supporting the essential activities of the members.
- ❖ To collect deposits from members with the objective of improving their savings habit.
- ❖ To supply agricultural inputs and services to members at remunerative prices.
- ❖ To arrange for supply and development of improved breeds of livestock for the members.
- ❖ To make all necessary arrangements for improving irrigation on land owned by members.
- ❖ To encourage various income-augmenting activities such as horticulture, animal husbandry, poultry, bee- keeping, pisciculture and cottage industries among the members through supply of necessary inputs and services.

TABLE No.: 1 ALL INDIA PERFORMANCE OF PACS OVER A DECADE

Years	Number of Societies	Total Members ('000)	Total borrowers ('000)	Total Loan Issued	Loan Outstanding	Loan Overdue	% Overdue
2004-05	1,08,779	1,27,406	45070	3921172	4878546	1605223	33.59
2005-06	1,06,384	1,25,197	46076	4291959	5177866	1547623	30.36
2006-07	97,224	1,25,792	47910	4961275	5862015	1575150	29.11
2007-08	94,950	1,31,530	51074	5764248	6566638	2400348	35.67
2008-09	95,633	1,32,350	46219	5878674	6404424	3793635	44.82
2009-10	94,647	1,26,419	59800	7493754	7647983	3952400	41.39
2010-11	93413	1,21,225	52388	9130382	8776794	2269713	25.15
2011-12	92,432	1,13,596	44886	10730023	9124321	2430359	26.78
2012-13	91,833	1,39,376	43083	12606050	10793866	1989372	17.24
2013-14	93,042	1,30,119	48081	17141956	13005386	2963194	19.01

III. NON-PERFORMING ASSETS:

A loan account which is not meeting agreed repayment of Principal and Interest. Banks usually classify a loan account wherein the interest and the loan installment has not been received within 90 days when the demand is due. If the operative account is not satisfactorily operated and even the interest is also not being served timely it is classified as NPA.

Types of NPA: classified into following four types:-

- **Standard Assets**: A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.
- **Sub-Standard Assets**: All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets.
- **Doubtful Assets**: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets.
- **Loss Assets**: All those assets which cannot be recovered are called as Loss Assets.

For all advances accounts including NPA accounts the bank is required to make prescribed provision from out of its own profits which affects PACS's Financial Position

IV. 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.
- Since 2007 the concept of non-performing assets has been applied to Primary Agricultural Cooperative Societies. The study aims at finding out how far the concept of non- performing assets has been understood and is being implemented in PACS. What are the problems these PACS are facing in its implementation? What could the possible solutions to bring down the incidence of NPA and ultimately its impact on profitability and strengthening the cooperative movement.

V. 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.

VI. OBJECTIVES OF THE STUDY:

- To study the impact of NPAs on the financial performance of the PACS.

VII. HYPOTHESES OF THE STUDY:

H_1 Due to rise in the Non-Performing Assets of the PACS the societies are incurring losses which in turn adversely affects the overall financial status of the PACS

VIII. RESEARCH METHODOLOGY:

Sources of Data:

Secondary Data: Annual Reports of 69 identified societies from Pune District for 6 years from 2007-08 to 2012-13.

Statistical Tools used:

Descriptive Statistics, Karl Pearson Coefficient of Correlation.

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 69 PACS from Pune District, according to their Audit Class with the help of various financial parameters which affected due to change in NPA of the society.

This study has a major focus only on the financial performance of all identified 69 PACS with reference to Non Performance Assets (NPA). Other functional and operational transactions like deposit mobilization and credit expansion were not considered for analysis purpose.

IX. DATA ANALYSIS:

The collected data of all 69 identified societies are analyzed according to their Audit Class achieved, with the help of selected statistical techniques as follows:

a. Societies under audit class 'A':

Table No. 2: Pearson Correlations of the data relating to A class Societies

	% of NPA to Total O/s advances		
	P.C.*	Sig. (2-tailed)	N
% of NPA to Total O/S @	1		57
Profit or Loss in the Year	0.11	0.415	57
CRAR	0.001	0.995	57
Loan Capacity	0.182	0.176	57
Anisht Tafavat#	-0.098	0.466	57
% of Profit or Loss with Working funds	-0.01	0.940	57
Working funds	0.065	0.633	57
* P.C. stands for Pearson Correlation.			
# This margin refers to the society's payments due to DCC Bank and the society's receivable from the members. If the margin is + it is a good sign and the			
@ O.S. = Outstanding			

The analysis (Table No.2) reveals that the correlation of NPAs to Outstanding shows 0.110 which is low degree positive. Similarly CRAR has also almost low degree positive impact. Loan capacity is also impacted with low degree positive correlation i.e. 0.182. Anisht Tafavat (difference between Society's payments due to DCC bank and amounts receivable from the members) is having negative low degree correlation at – 0.098. Percentage of profit/loss with working funds is also showing negative low degree correlation at –0.010. NPA's impact on the quantum of working funds also shows low degree positive correlation at 0.065.

b. Societies under audit class 'B':

Table No. 3: Pearson Correlations of the data relating to B class Societies

	% of NPA to Total O/s advances		
	P.C.*	Sig. (2-tailed)	N
% of NPA to Total O/S @	1		238
Profit or Loss in the Year	-.130*	0.045	238
CRAR	-.315**	0.000	238
Loan Capacity	-0.097	0.135	238
Anisht Tafavat#	0.013	0.847	238
% of Profit or Loss with Working funds	* [illegible]	0.045	238
Working funds	0.015	0.820	238

The above analysis reveals that the correlation of NPAs to Outstanding shows -0.130 which is low degree negative. Similarly CRAR has also almost low degree negative impact. Loan capacity is also impacted with low degree negative correlation i.e. - 0.097. Anisht Tafavat is having positive low degree correlation at – 0.013. Percentage of profit/loss with working funds is also showing negative low degree correlation at – 0.130. NPA's impact on the quantum of working funds also shows low degree positive correlation at 0.015.

c. Societies under audit class 'C':

Table No. 4: Pearson Correlations of the data relating to C class Societies

	% of NPA to Total O/s advances		
	P.C.*	Sig. (2-tailed)	N
% of NPA to Total O/S @	1		114
Profit or Loss in the Year	-0.065	0.494	114
CRAR	0.089	0.345	114
Loan Capacity	-.257**	0.006	114
Anisht Tafavat#	0.17	0.071	114
% of Profit or Loss with Working funds	* [illegible]	0.049	114
Working funds	*	0.026	114

The above analysis reveals that the correlation of NPAs to Outstanding shows -0.065 which is low degree negative. Similarly CRAR has also almost low degree positive impact. Loan capacity is also impacted with low degree negative correlation i.e. - 0.257. Anisht Tafavat is having negative low degree correlation at + 0.170. Percentage of profit/loss with working funds is also showing negative low degree correlation at – 0.185. NPA's impact on the quantum of working funds also shows low degree positive correlation at - 0.209.

d. Societies under audit class 'D':

Table No. 5: Pearson Correlations of the data relating to D class Societies

	% of NPA to Total O/s advances		
	P.C.*	Sig. (2-tailed)	N
% of NPA to Total O/S @	1		5
Profit or Loss in the Year	0.483	0.409	5
CRAR	-0.502	0.389	5
Loan Capacity	-0.648	0.237	5
Anisht Tafavat#	0.66	0.226	5
% of Profit or Loss with Working funds	-0.29	0.636	5
Working funds	-0.645	0.24	5

The above analysis reveals that the correlation of NPAs to Outstanding shows +0.483 which is low degree positive. Similarly CRAR has also almost moderate negative impact at –0.502. Loan capacity is also impacted with moderate negative correlation i.e. -0.648. Anisht Tafavat is having negative moderate degree correlation at +0.660. Percentage of profit/loss with working funds is also showing negative low degree correlation at –0.290. NPA's impact on the quantum of working funds also shows moderate negative correlation at - 0.645.

e. Consolidated Position of All Audit Class of the identified Societies:

Table No. 6: Consolidate position of impact of NPAs on the financial status of the identified PACS:

		Audit Class in the Year			
		A	B	C	D
Percentage of NPA to Total Outstanding	Mean	13.61	27.39	48.49	52.69
	Coefficient Variance (C.V.)	86.83	66.40	35.16	1.25
Percentage of NPA Accounts with Total Loan A/cs	Mean	14.55	27.08	46.10	63.86
	Coefficient Variance (C.V.)	78.85	67.11	47.47	10.48
Percentage of Defaulters with Total Members	Mean	25.94	53.66	61.17	88.68
	Coefficient Variance (C.V.)	59.75	134.03	42.50	4.75
Percentage of Overdue to Total Outstanding	Mean	25.13	47.42	66.57	85.60
	Coefficient Variance (C.V.)	50.51	63.04	26.69	6.21
Recovery Percentages out of Legal Actions	Mean	66.87	57.92	49.01	62.49
	Coefficient Variance (C.V.)	41.01	63.51	63.98	11.79
Bank Level Recovery Percentage	Mean	98.31	82.00	68.01	52.00
	Coefficient Variance (C.V.)	5.31	23.41	15.59	5.27
Percentage of Profit or Loss with Working funds	Mean	4.57	3.10	-2.22	-3.29
	Coefficient Variance (C.V.)	62.64	171.89	88.07	23.24
Percentage of Investment with Working funds	Mean	16.68	10.92	4.74	2.25
	Coefficient Variance (C.V.)	47.51	56.00	83.73	37.29

X. CONCLUSIONS:

- It can be seen that the percentage of NPA to total outstanding goes on increasing as per the class of the society decreases.
- Percentage of NPA accounts to the total loan accounts also shows increasing trend as per the class of society decreases
- Percentage of defaulters to total members also shows the same trend.
- Percentage of overdue to total outstanding shows increasing trend.
- Percentage of recovery through legal course varies. In the case of societies having A class the percentage is more as they have to resort to legal course to ensure their audit classification into A category and they are otherwise also prompt in recovery. In case of B and C category these societies are relatively lax and in case of D class societies for their very existence they have to concentrate on the recovery through legal means.
- Bank level recovery performance also commensurate with the audit class i.e. decreasing as the audit class is reduced.
- Same is the observation as per 6 relating to percentage of profit to working funds.
- Percentage of investment with DCC Bank commensurate with the class of the society i.e. descending

order from A to D.

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