

“PERFORMANCE OF NON-PERFORMING ASSETS IN PACS – A COMPARATIVE STUDY OF SELECTED PACS”

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ABSTRACTS:

The cooperative societies in India are facing the problem of Non-Performing Assets (NPAs). The earning capacity and profitability of the society are highly affected because of the existence of NPAs. Moreover the non-performance or non-receipt of interest and principal blocked societies money in the form of funds and is not available for further use of business and thus the profit margin of the societies goes down. In this connection societies must aware of the problems and recovery legislations of NPAs.

This paper attempts to analyze the performance of different PACS. Researcher selects 2 PACS from Baramati Taluka, Pune District (Maharashtra) for study. To compare the performance of PACS selective indicators were taken into considerations. These Indicators were Gross NPA Ratio and Net NPA ratio, Problem Assets ratio, Provisions ratio, Sub-Standard Assets ratio, Doubtful Assets ratio and Loss Assets ratio. The present study is based on secondary data collected for the period from 2007-08 to 2012-13.

An attempt has also been made to judge the position of NPAs of the selected PACS & comparative study through ratio analysis using important ratios as (*SD=Standard Deviation, CV=Co-efficient of Variation*).

The study in relation to maintaining the quality of assets, DRVKSS showed better performance over SSVKSS.

Key Words: Standard Assets, Sub-Standard Assets, Doubtful Assets, Loss Assets, NPA, PACS

INTRODUCTION:

The quality of assets is an important parameter to judge the strength of bank/financial institution or society. The prime motto behind measuring the assets quality is to ascertain the component of non-performing assets as a percentage of the total assets. This indicates that types of advances the bank/financial institution or society has made to generate interest income.

In this paper the two Primary Agricultural Credit Cooperative Societies' assets quality assessed with some of the important NPA related ratios.

The crucial factor that decides the performance of society and any financial institution now a day is the spotting of Non-Performing Assets. PACS are now required to recognize such loans periodically and then classify the assets.

Impact of NPAs on a society:

1. They decrease profitability.
2. They reduce capital assets and lending limits.
3. They increase loan loss reserves.

4. They bring unwanted attention from government regulators.

OBJECTIVES OF THE STUDY:

1. To analyze the classification of loan assets in PACS.
2. To comparative analyze the various ratio with respect to NPA of selected PACS.

METHODOLOGY:

This is an attempt to revise the past performance of two agricultural credit societies in Baramati Taluka, Pune District, Maharashtra. The present study is based on secondary data collected for the period from 2007-08 to 2012-13. This data is collected through annual reports of the societies and the data from the society's books of accounts.

SCOPE OF THE 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 two PACS, from Pune District, the study Societies.

The selected PACS are:

1. Shree Shivaji-Supe Vivid Karyakari Seva Sahakar Sanstha Maryadit, Supe, Tal–Baramati, Dist–Pune. (SSVKSS)
2. Deulgaon Rasal Vivid Karyakari Seva Sahakar Sanstha Maryadit, Deulgaon, Tal–Baramati, Dist–Pune. (DRVKSS)

This study has a major focus only on the financial performance of both 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.

RATIO ANALYSIS OF THE SELECTED PACS:

An attempt has also been made to judge the position of NPAs of the selected PACS & comparative study through ratio analysis using important ratios as follows:

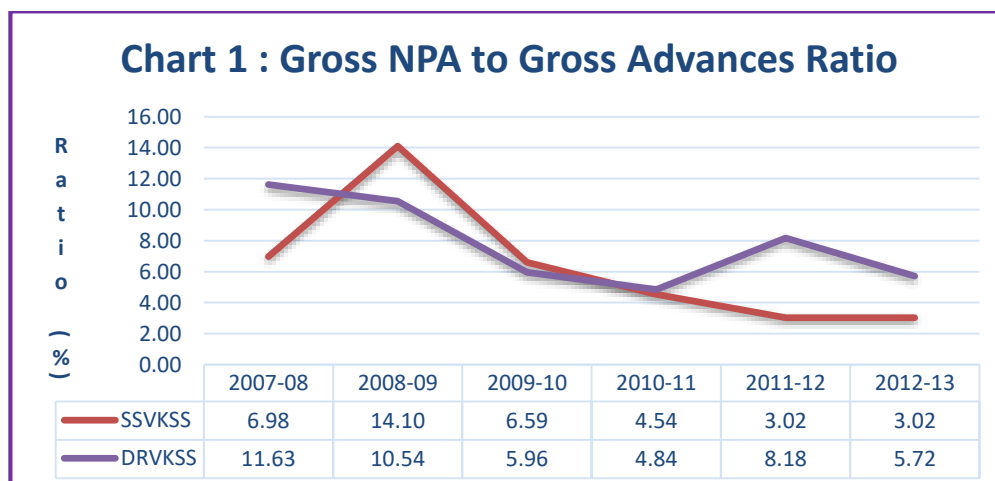
(SD=Standard Deviation, CV=Co-efficient of Variation)

1. Gross NPA ratio:

Table 2: Average Level and Stability of Gross NPA Ratio

Particulars	Average Ratio	SD	CV %
SSVKSS	6.37	3.79	59.39
DRVKSS	7.81	2.54	32.55

Source: Computed on the basis of Record of SSVKSS & DRVKSS during period 2007-08 to 2012-13



It is indicate from Table 2 that Gross NPA ratio of SSVKSS's, on an average, over the period of study was found to lower than DRVKSS's ratio. The average ratio over the period from 2007-08 to 2012-13 was

6.37 % for SSVKSS and 7.81 % for DRVKSS. It concludes that SSVKSS’s recovery is satisfactory which leads to lower gross NPA over DRVKSS.

But figures of Co-efficient of Variation (CV) show that the ratio of gross NPA of DRVKSS is relatively stable over the period of study compared to SSVKSS.

2. Net NPA ratio.

Table 3: Average Level and Stability of Net NPA Ratio

Particulars	Average Ratio	SD	CV %
SSVKSS	3.98	3.79	95.16
DRVKSS	2.87	2.08	72.48

Source: Computed on the basis of Record of SSVKSS & DRVKSS during period 2007-08 to 2012-13

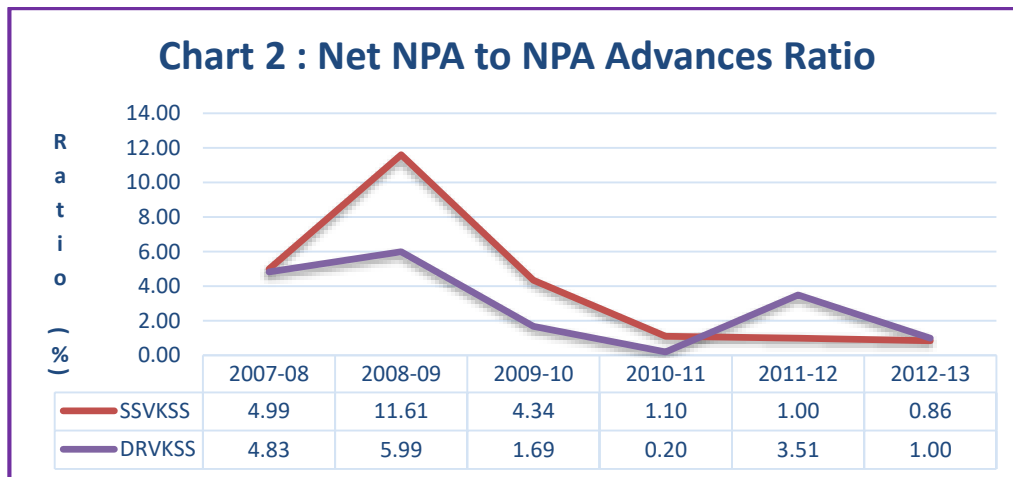


Table 3 explains whether the PACS has made sufficient provisions or not against NPA during the study period of six year. This ratio indicates the degree of risk prevailing in the credit portfolio of the PACS. High Net NPA ratio indicates the high quantity of risky assets in the PACS for which no provisions had been made. This table shows that DRVKSS has lower average ratio of net NPA as compare to SSVKSS. That means DRVKSS made much sufficient provisions for NPA accounts than SSVKSS.

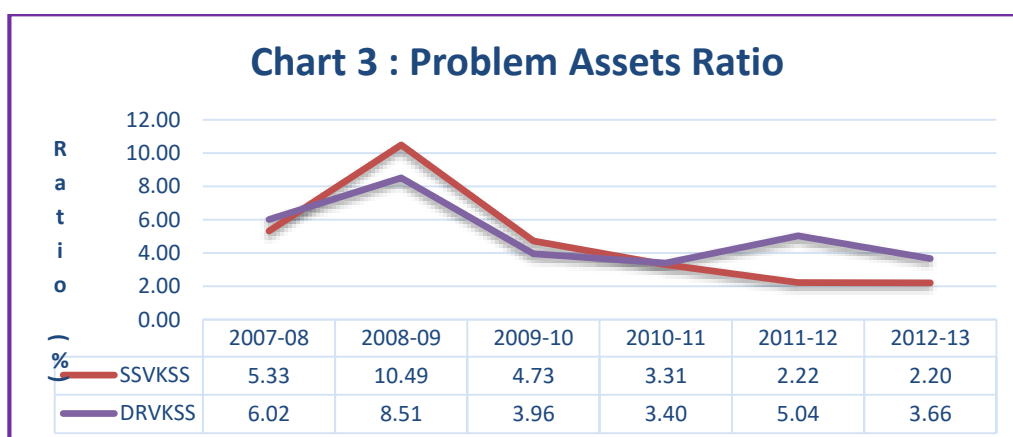
Table 3 also shows that CV of DRVKSS’s net NPA ratio is quite stable than SSVKSS’s net NPA ratio.

3. Problem Assets ratio

Table 4: Average Level and Stability of Problem Assets Ratio

Particulars	Average Ratio	SD	CV %
SSVKSS	4.71	2.83	60.14
DRVKSS	5.10	1.77	34.68

Source: Computed on the basis of Record of SSVKSS & DRVKSS during period 2007-08 to 2012-13



From above table 4 Problem Ratio of SSVKSS shows a consistently decreasing trend during the study period except in 2008-09. As DRVKSS's ratio has an fluctuation tendency. Over a period of study an average problem ratio of SSVKSS is lower than DRVKSS's ratio. Table 4 shows that SSVKSS has control over problem assets than DRVKSS.

As consideration of CV of problem ratio of both societies, SSVKSS's problem assets are relatively stable as compare to DRVKSS.

High problem ratio indicates low liquidity and low problem ratio indicates high liquidity of assets. The problem ratio must be brought down to a minimal level to avoid further financial problems.

4. Provisions ratio:

Table 5: Average Level and Stability of Provision Ratio

Particulars	Average Ratio	SD	CV %
SSVKSS	110.85	57.90	52.23
DRVKSS	85.68	16.82	19.63

Source: Computed on the basis of Record of SSVKSS & DRVKSS during period 2007-08 to 2012-13

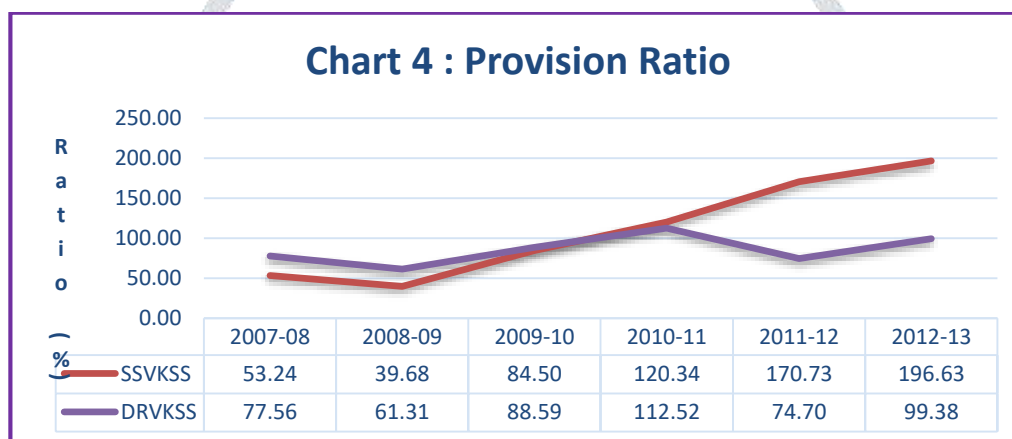


Table 5 explains the provision ratio of both societies. As SSVKSS has an average provision ratio is 110.85 and DRVKSS has an average 85.68. It means SSVKSS makes an adequate provision for NPA than DRVKSS. Provision ratio indicates the degree of safety measured adopted by the society. If the provision ratio is less, it indicates that society have made under provision. Lesser provisioning is possible only by identifying lesser NPA. Lesser NPA must be due to more recovery. Here SSVKSS made adequate provision from 2010-11, but DRVKSS always made under provision except 2010-11.

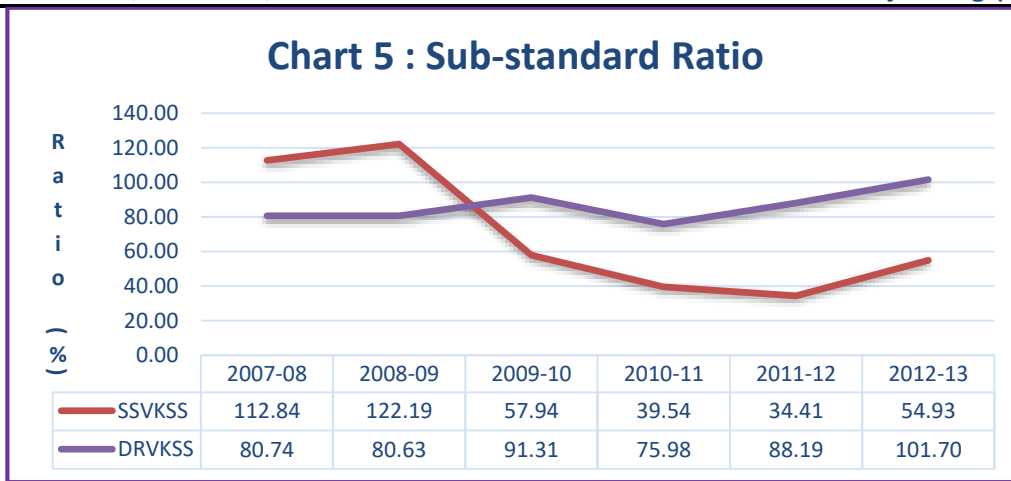
The value of CV indicates that the ratio of provision of DRVKSS's relatively stable over the period of study compared to SSVKSS

5. Sub-Standard Assets ratio:

Table 6: Average Level and Stability of Sub-Standard Assets Ratio

Particulars	Average Ratio	SD	CV %
SSVKSS	70.31	34.46	49.01
DRVKSS	86.42	8.52	9.85

Source: Computed on the basis of Record of SSVKSS & DRVKSS during period 2007-08 to 2012-13



The Sub-standard Ratio indicates the scope for improvement in NPA. If sub-standard assets attended immediately, they will shift to doubtful or loss assets. By tracing on recovery of sub-standard assets, society can upgrade the substandard assets to standard assets and it avoid higher percentage of provisioning. And it results in decrease in NPA level.

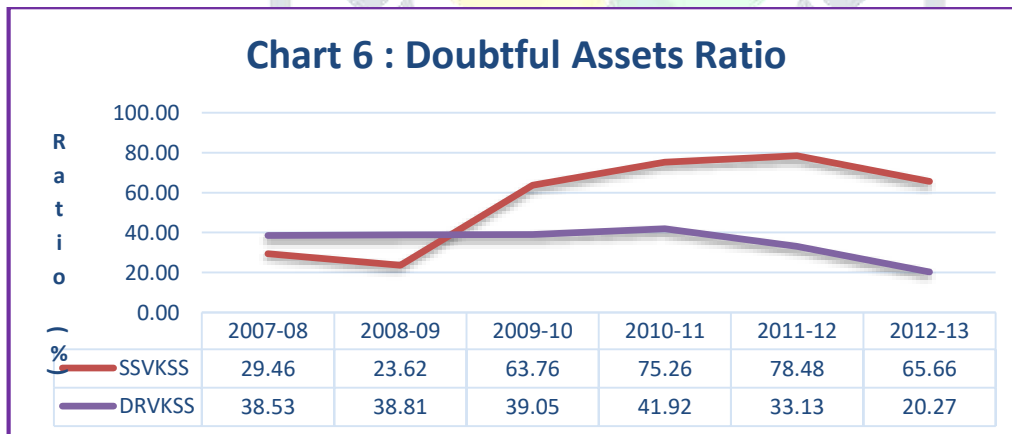
From the data available substandard asset ratio of SSVKSS's, on an average, over the period of study was found lower than DRVKSS's ratio. The average substandard ratio of both societies showed lot of scope for improvement of the NPA

6. Doubtful Assets ratio:

Table 7: Average Level and Stability of Doubtful Assets Ratio

Particulars	Average Ratio	SD	CV %
SSVKSS	56.04	21.54	38.43
DRVKSS	35.28	7.20	20.41

Source: Computed on the basis of Record of SSVKSS & DRVKSS during period 2007-08 to 2012-13



Lack in follow-up in upgrading the substandard assets, it shift down to doubtful assets. In case of doubtful assets, immediate action has to be taken by societies. Societies should try to recover more of advances through compromise by which society can reduce NPA. SSVKSS's doubtful debt ratio found increasing trend during initial four years of the study.

It is concluded from the data doubtful asset ratio of DRVKSS's as on average, over the period of study was found lower than SSVKSS's ratio. The value of CV indicates that the ratio of substandard asset of DRVKSS's relatively stable over the period of study as compare to SSVKSS.

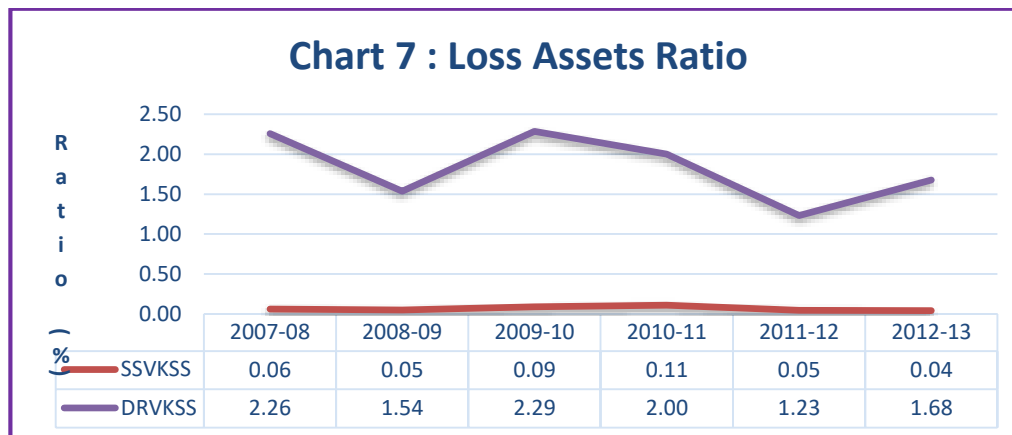
The average ratio of SSVKSS's showed more than 50% of gross NPA is in doubtful asset category which required immediate actions to overcome it. The management must try to recover as much doubtful asset as possible so that the gross NPA are reduced.

7. Loss Assets ratio:

Table 8: Average Level and Stability of Loss Assets Ratio

Particulars	Average Ratio	SD	CV %
SSVKSS	0.07	0.03	38.49
DRVKSS	1.83	0.38	21.01

Source: Computed on the basis of Record of SSVKSS & DRVKSS during period 2007-08 to 2012-13



Loss asset ratio shows the proportion of loss that the society is likely to suffer as compared to Gross NPA. The ratio must be minimum, as it means that the assets to be lost would be lower as compared to Gross NPA. The loss assets are not likely to be recovered at all.

The data indicates that SSVKSS and DRVKSS lost asset found very negligible compared to Gross NPA during the study period. In that SSVKSS's ratio is much lower than DRVKSS's ratio over the period of study.

SUGGESTIONS:

- In the light of the findings a few suggestions are offered to improve the functioning of SSVKSS and DRVKSS.
- Overdue can be minimized, if the loan is provided to those farmers who satisfy the test of technical feasibility and financial viability.
- Generally, PACS must have higher level of standard assets to provide a safety of the fund positioned in the credit portfolio. PACS must have to a loan-follow up program throughout the year in order to keep the level of standard assets always at the greatest.
- The Gross NPA ratio should be calculated for different categories of loans to know the contributing factor for high NPA in the society. It will help to take remedial course as well as to review the disbursement of loans category wise.
- It is advised to the societies to follow the policy guidelines of RBI and NABARD in respect of agricultural advances to small farmers, SC and ST.
- It is suggested that at the post-disbursement stage, societies should ensure that advances does not become NPA through proper follow up and supervision.

- It is advised to provide loans and advances to those farmers who satisfy the test of technical feasibility and financial viability so that overdue can be minimized.

CONCLUSION:

It is observed from the study, considered component's average amount of financial statements of SSVKSS is more than DRVKSS, but AVG rate and Ratio analysis proved better performance in loan management and recovery of loans by former compare to latter. The study in relation to maintaining the quality of assets, DRVKSS showed better performance over SSVKSS.

SCOPE OF FURTHER STUDY:

This research work carried out at present limited to Non-Performing Assets of both PACS. The present study has led to the conclusion that further a detailed study is required in area mentioned below:

1. Lending Operations
2. Revenue – Expenditure Performance
3. Deposit Mobilization
4. Assets Liability Management
5. HRM practices followed by PACS
6. Effective Customer Relationship Management in PACS

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