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A Study on Nonperforming Assets Management: With Special Reference to Karnataka Grameena Bank

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Abstract

In the present global banking scenario. The most significant of a financial institution's performance indicators, which measures the efficiency, particularly in the banking industry, is the level of Non-Performing Assets (NPAS). Non-performing assets are problematic for financial institutions: subsequently, they depend on interest payments for income. The challenging pressure from the economy can lead to a sharp increase in non-performing loans and often results in Substantial write-downs. The higher level of Non-Performing Assets indicates poor performance that the lower will be the profitability for banks, as there will not be any interest income, and there is a need to incur operational and recovery costs. Moreover, it affects the image of the bank. Banks are required to classify their advances into four broad categories according to performance: Standard, Substandard, Doubtful, and Loss Assets. Finally, the research paper concludes that the KGB managed the NPAs well during the study period. It was highly controlled the increase of NPAS of KGB by decreasing the share of total assets and the share of advances year by year. The banks' recovered amount is also very good, and the growth of NPAS provision is very high in the study period.

Key words : RRB's, NPA, KGB AND CREDIT RISK

1. Introduction

Regional Rural Banks were established under the provision of RRBs Act, 1976 with an objective to create an alternative channel to the cooperative credit structure so as to facilitate an expanded bandwidth of institutional credit for agriculture and rural sector. It started with 5 RRBs in the year 1975, first RRB was setup on 02nd October, 1975 under the provisions of the Ordinance promulgated on 26th September, 1975, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto. RRBs carry the basic mandate of ensuring rural development and foster financial inclusion. RRBs in the last 5 decades have transformed rural banking in providing easy access to financial services. Currently, 28 RRBs are functioning in 28 States/UTs having branch network of more than 22000 in 700 districts.

Regional Rural Banks in Karnataka

Karnataka Gramin Bank

Pragathi Krishna Gramin Bank and Kaveri Grameena Bank merged with name **Karnataka Gramin Bank** w.e.f 01.04.2019 and is sponsored by Canara Bank. The bank had 1122 branches across 22 districts of Karnataka, headquartered in Ballary. The bank was sponsored by the Canara Bank. Its turnover was ₹66,137 crore.

Pragathi Krishna Grameena Bank

On 23 August 2013, Pragathi Krishna Gramin Bank, with its Head Office in Ballari, was formed through the amalgamation of two RRBs: Canara Bank sponsored Pragathi Gramin Bank (headquartered in Ballari) and the State Bank of India sponsored Krishna Grameena Bank (headquartered in Kalaburagi).[5] The bank was formed as per gazette Notification of Government of India No. F1/5/2011- RRB (Karnataka) dated 23 August 2013.

Kaveri Grameena Bank

The Banks was Started to served Mysore, Hassan and Chamarajanagar districts. The bank was renamed as Kaveri Grameena Bank on 1 November 2012 (sponsored by State Bank of Mysore) by Amalgamation of Cauvery Kalpatharu Grameena Bank, Chikmagalur Kodagu Grameena Bank and Vishvesvaraya Grameena Bank, sponsored by State Bank of Mysore, Corporation Bank and Vijaya Bank respectively. The headquarters of Kaveri Grameena Bank was located at Vijayanagar Second Stage, Mysore, which is now converted as IT Centre of Karnataka Gramin Bank, post-merger.

Karnataka Vikas Grameena Bank

Karnataka Vikas Grameena Bank was an Indian regional rural bank headquartered in Dharwad, India. It was established in 12 September 2005, as a regional rural bank as per Regional Rural Banks Act of 1976. By amalgamation, of the following four RRBs namely Malaprabha Grameena Bank, Bijapur Grameena Bank, Varada Grameena Bank and Netravathi Grameena Banks, as per the recommendations of the Narasimham Committee, under a Government of India notification dated 12 September 2005. All four amalgamated RRBs were sponsored by Syndicate Bank (now Canara Bank) and were located in Karnataka. It is under the ownership of Ministry of Finance, Government of India. Karnataka Vikas Grameena Bank (KVGB), headquartered in Dharwad, had 629 branches across 9 districts. The bank had a business turnover of ₹38,714 crore.

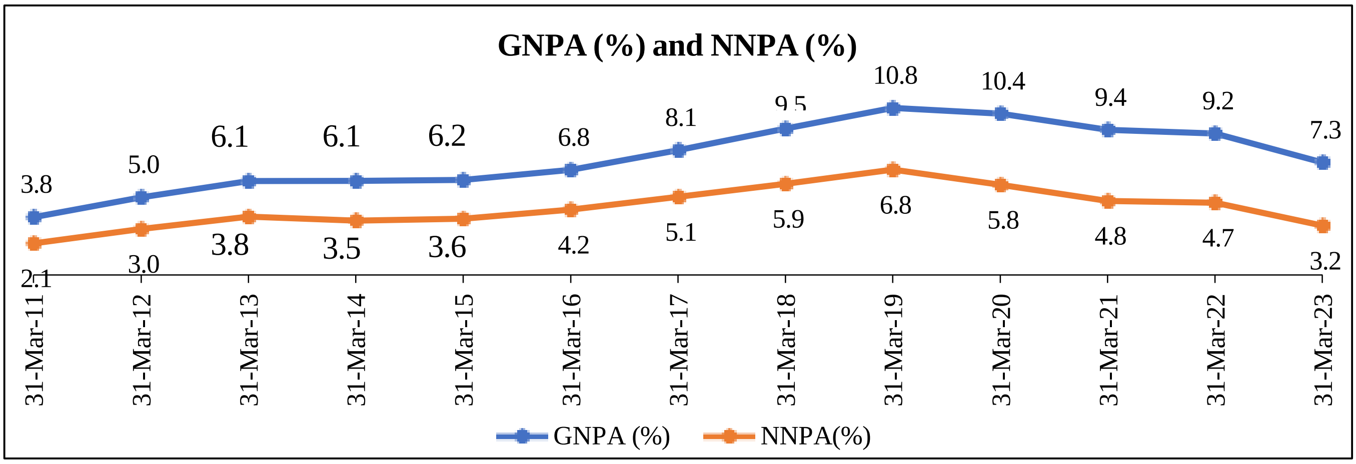
Karnataka Grameena Bank

The **Karnataka Grameena Bank** is an Indian Regional Rural Bank (RRB) in Karnataka established on 1 May 2025. The bank was formed by the amalgamation of Karnataka Gramin Bank and Karnataka Vikas Grameena Bank under the "One State, One RRB"policy of government designed to improve operational efficiency. The two banks have been amalgamated to form the unified Karnataka Grameena Bank. The newly-formed Karnataka Grameena Bank will continue to be government owned, with the central government holding a 50% stake, the state government 15% and Canara Bank (sponsor bank) 35%. The bank's services will now be extended across Karnataka, making it the second-largest regional rural rank in India with 1,750 branches and a business turnover of ₹1,04,851 crore. It functions under Regional Rural Banks' Act 1976 and is sponsored by Canara Bank.

Status of Non-Performing Assets RRB's in India

(Amount in Crore)

S. No	Parameters	31-Mar-21	31-Mar-22	31-Mar-23	(%) Change	
					2021-22	2022-23
1	Gross NPA Amount	31,381	33,190	29,894	5.76	-9.9
	Sub-Standard	9,828	11,318	6,797	15.16	-39.9
	Doubtful	20,666	20,899	22,090	1.13	5.7
	Loss	886	973	1,007	9.82	3.5
2	Loans Outstanding (Gross)	3,34,171	3,62,838	4,10,738	8.58	13.2
3	Loans Outstanding (Net)	3,15,180	3,42,479	3,86,951	8.66	13.0
4	Net NPA Amount	15,094	16,024	12,364	6.16	-22.8
5	GNPA (%)	9.4	9.2	7.3	-30 bps	-180 bps
6	Net NPA (%)	4.8	4.7	3.2	-10 bps	-150 bps
7	Provision Coverage Ratio (%)	51.1	52.0	59.2	90 bps	720 bps



Management of Non-Performing Assets in Kaveri Grameena Banks

Movement of NPA as of Mar‘25: The NPA at the beginning of the period was f4116.48 Cr. During the year, there was a reduction off1507.14 Cr(including technicalwriteoffoff494.42 Cr) and an addition off 2,233.20 Cr.

Gross NPA as of Mar‘25 : The gross NPA stood at I 4,842.54 Cr, accounting for 17.05% of Gross Advances. The net NPA stood at f3,490.50 Cr, accounting for 12.90 % of Gross Advances.

Review and special meetings: The Bank conducts reviews of the top 50 NPA accounts at the Head Office (HO) level and holds special review meetings for chronic NPA branches. Bank Adalaths (conciliation meetings) are organized, and Recovery Task Forces are deployed. Actions under SARFAESI Act (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act) are taken, including filing suits before the Court of Law/DRT (Debt Recovery Tribunal) and seizure of vehicles. SMS alerts are sent to overdue borrowers.

Monitoring SIflA accounts: The Bank closely follows up on SMA accounts through weekly alerts and special watch reports, which are reviewed on a daily basis.

KaGB MPower Application: The Bank has introduced the "KaGB f'4Power Application" to facilitate the follow-up of Special Nlention Accounts (SMA) and NPA borrowers.

SARFAESI and seizure actions: The Bank has introduced modules in the Core Banking System (CBS) for SARFAESI, seizure, Pre-sanction OTS (One-Time Settlement), and legal activities. This streamlines the process; helps monitor progress in suit filed accounts, and enhances recovery efforts.

SARFAESI implementation: Out of 629 net accounts under action, the Bank has served Demand Notices in 611 accounts amounting to f153 Cr. These accounts are at various stages of implementation under the SARFAESI Act.

Recovery actions: The Bank has empaneled 25 experienced and efficient Recovery and Seizure Agents for effective recovery actions. Progress under SARFAESI is reviewed in video conferences with Regional Offices.

Campaigns Conducted : Organized "Composite Continuous Campaign" (CCC), Agri Asset Recovery Campaign (AARC) and Special ABDE for Recovery of Special Focused Accounts (SFA) successfully and further organizing Cash Recovery Campaign (CRC) for recovery of DA and Loss Assets.

2. Review of Literature

Narasimhan Committee – Reform II (1998): Reform of the Indian banking sector is now under way following the recommendations of the Committee on Financial System (CFS), which reported in 1991. The second generation of reform could be conveniently looked at in terms of 3 broad interrelated issues and actions that need to be taken to strengthen the foundation of the banking system and structural changes in the system suggested capital adequacy, asset quality, prudential norms, systems and methods in banks.

Pannirselvam Committee on NPA (1998) Banking Division constituted a 3 Member Committee under the chairmanship of Shri A.T. Pannirselvam, Chairman, IBA and Chairman and Managing Director, Union Bank of India. The terms of reference assigned to the above Committee were Causes of NPAs, factors for slump in recovery of loans; measures to be taken for effective recovery of bank dues and reduction of NPAs and banks wise study on factors responsible for the NPAs and banks specific suggestions for recovery.

Bidani (2002) in his book titled, "Managing Non-Performing Assets in Banks," highlighted that banks are concerned with their heavy NPA portfolio which was impairing their profitability and are taking all possible steps to contain the same. Banks have achieved a reasonable degree of success to bring down their existing NPAs but due to heavy slippage of standard accounts to NPA category the overall position continued to deteriorate.

Pline. Khan and Singh (2005) in their Report on "Effectiveness of DRTs in Recovery of Bank Dues", have evaluated the performance of DRTs in recovery of bank dues during the years 1996 to 2004. They have highlighted major defects in DRT system and also gave recommendations to overcome them. They have concluded that the DRTs were effective in recovery of banks' dues to a certain extent and would become more effective, provided the given suggestions were implemented in letter and spirit.

Chaudhary, K. and Sharma, M. (2011) examined the loan portfolio of Indian PSBs and private sector banks with specific focus on the classification of advances, priority sector and nonpriority sector advances, etc. The research primarily concentrated on the structural differences between PSBs and private sector banks and recommended integration of modern statistical tools like Value-at-risk analysis and Markov Chain analysis to improve the quality of risk assessment practices. The research also recommended to incorporate information sharing among the bankers about the credit history of the borrower.

Kumar (2014) discussed in detail the need, process, summary, positive as well as negative aspects of the Act. He analysed that this Act empowered banks and financial institutions to directly enforce the security interest which was pledged to them at the time of sanctioning the loan without going through the judicial process of DRT or Civil Courts.

Research Gap

This study will fill the gap in the literature by focusing on the analysis of NPAs of the Regional Rural Banks in Karnataka. There is wide gap between previous studies done on this subjects and the research done by the researcher. It shows that existing studies in most of the cases considered and limited to particular state in India or entire country in their study but the researcher has studied RRBs to widen the scope of the study. Further, the existing literature shows that majority of the study is done in Commercial banks, but the present situation shows that there are maximum chances of NPAs in RRBs banks. This study will be guiding in that direction.

Objectives of the Study

1. To examine the problems of the Karnataka Grameena bank due to NPA
2. To study the Concept and significance of NPAs in Karnataka Grameena Bank,
3. To study the perceptions of the beneficiaries of Karnataka Grameena bank. On the various aspects of availing loans and repayment details.

Need for the Study

Nonperforming Assets (NPAs) remain a critical concern for the banking sector, particularly for Regional Rural Banks that operate in high-risk agricultural and priority sectors. Karnataka Grameena Bank has witnessed a rise in Gross NPAs from ₹4,116.48 crore to ₹4,842.54 crore by March 2025, despite various recovery initiatives. The presence of high fresh slippages alongside substantial technical write-offs raises questions about the effectiveness and sustainability of existing NPA management strategies. Further, the reliance on write-offs as a component of NPA reduction may improve reported asset quality without addressing underlying credit risk issues. This situation necessitates a focused study to examine whether NPA reduction is driven by genuine recoveries or accounting adjustments, and to assess the role of fresh slippages in influencing overall asset quality.

The study is therefore essential to evaluate the effectiveness of NPA management practices in Karnataka Grameena Bank, identify structural weaknesses in credit appraisal and monitoring, and provide insights for strengthening recovery mechanisms. The findings will contribute to academic literature on NPA management in Regional Rural Banks and offer practical implications for policymakers and bank management.

Statement of the Problem

Nonperforming Assets (NPAs) have emerged as a major concern for the banking sector in India. For regional rural banks like Karnataka Grameena Bank, rising NPAs affect profitability, operational efficiency, and the ability to extend credit to rural and agricultural sectors. Despite various recovery measures and regulatory guidelines, NPAs continue to pose challenges due to factors such as loan defaults, inadequate credit appraisal, and external economic conditions. Hence, there is a need to study the nature, causes, and management of NPAs in Karnataka Grameena Bank to understand the effectiveness of existing strategies and identify areas for improvement.

Hypothesis of the study

H_0: Reduction in NPAs of Karnataka Grameena Bank is not significantly influenced by recovery mechanisms.

H_1: Reduction in NPAs of Karnataka Grameena Bank is significantly influenced by write-offs rather than genuine recovery, while fresh slippages remain high.

Research Methodology

The methodology adopted for the study is as follows:

1. **Type of Research:**

Analytical research.

2. **Sources of Data: Secondary Data**

Annual reports of Karnataka Grameena Bank, RBI reports, journals, textbooks, and official websites.

3. **Tools of Analysis:** Percentage analysis and Trend analysis

Table Showing Movement of Gross NPA (₹ Crore)

Particulars	Amount (₹ Cr)
Opening Gross NPA	4,116.48
Additions (Fresh Slippages)	2,233.20
Reductions (Total)	1,507.14
Technical Write-offs (included)	494.42
Closing Gross NPA (Mar’25)	4,842.54

Analysis and Interpretation

Indicator	RBI / Healthy Bank Norm	KGB Bank (Mar 2025)	Status
Gross NPA Ratio	< 5%	**17.05%**	Very High
Net NPA Ratio	< 2%	**12.90%**	Very High
Provision Coverage Ratio	60–70%	**~28%**	Inadequate
Fresh Slippages vs Recoveries	Recoveries ≥ Slippages	Slippages > Recoveries	Weak
Reliance on Write-offs	Minimal	~33% of reduction	High

The Gross NPA at the beginning of the period stood at ₹4,116.48 crore. During the year, fresh additions of ₹2,233.20 crore were recorded, while reductions amounted to ₹1,507.14 crore, including technical write-offs of ₹494.42 crore. As a result, Gross NPAs increased to ₹4,842.54 crore as of March 2025. The Gross NPA ratio stood at 17.05% of Gross Advances, while Net NPAs amounted to ₹3,490.50 crore, representing 12.90% of Gross Advances. The analysis reveals that fresh slippages exceeded recoveries, leading to deterioration in asset quality. Though reductions were achieved, they were significantly supported by write-offs rather than effective recoveries. High GNPA and NNPA ratios indicate persistent stress in the loan portfolio. Hence, **the null hypothesis is rejected and the alternative hypothesis is accepted.**

Major Findings of the Study

1) The Gross NPA at the beginning of the period stood at **₹4,116.48 crore**, indicating a high level of existing asset stress.

2) During the year, **fresh NPAs amounting to ₹2,233.20 crore** were added, which exceeded the total reduction of **₹1,507.14 crore**, resulting in a net increase in Gross NPAs.

3) Out of the total reduction in NPAs, **₹494.42 crore (approximately 33%)** was due to technical write-offs, suggesting limited actual cash recoveries.

4) As of **March 2025**, Gross NPAs increased to **₹4,842.54 crore**, accounting for **17.05% of Gross Advances**, which is significantly above acceptable banking norms.

5) Net NPAs stood at **₹3,490.50 crore**, forming **12.90% of Gross Advances**, indicating inadequate provisioning and high residual credit risk.

6) The implied **Provision Coverage Ratio was approximately 28%**, which is considerably low and exposes the bank to potential capital erosion.

7) The overall NPA movement indicates that **asset quality deterioration continued during the year**, primarily due to high fresh slippages and insufficient recovery performance.

Suggestions of the Study

1) **Strengthening Credit Appraisal**

The bank should adopt stricter borrower screening mechanisms, especially in high-risk sectors, to reduce fresh slippages.

2) **Improving Recovery Mechanisms**

Greater focus should be placed on cash recoveries through legal measures, settlement schemes, and SARFAESI actions rather than relying on technical write-offs.

3) **Enhancing Provision Coverage**

The bank should gradually increase provisioning to improve the Provision Coverage Ratio to at least industry-acceptable levels, thereby safeguarding capital adequacy.

4) **Early Warning Systems (EWS)**

Implementation of robust early warning systems can help identify stress at an early stage and prevent accounts from slipping into NPAs.

5) **Focused NPA Resolution Strategy**

Separate teams may be formed for monitoring large NPAs to ensure faster resolution and recovery.

6) **Portfolio Diversification**

Reducing concentration in vulnerable borrower segments can help mitigate future credit risk.

Conclusion

Nonperforming Assets represent one of the most critical challenges faced by the banking sector, particularly by Regional Rural Banks that cater to agriculture and priority sectors. Effective management of NPAs is essential for maintaining financial stability, profitability, and sustainable credit growth. The study highlights that while various recovery and resolution mechanisms are implemented by banks, NPAs continue to persist due to factors such as inadequate credit appraisal, weak monitoring, and external economic uncertainties. The findings emphasize that NPA management should not be limited to recovery and write-offs alone but should focus more on preventive measures. Strengthening credit assessment procedures, improving post-disbursement supervision, and adopting early warning systems can significantly reduce the incidence of fresh slippages. Overall, a balanced approach combining strong risk management practices with efficient recovery mechanisms is necessary to improve asset quality and enhance the performance of banks.

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