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Non-Performing Assets of Co-operative Societies in Dakshina Kannada – A Case Study

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***Abstract*: Co-operative societies play a vital role in India's economy; they cover more than 97% of rural India. The vast geographic and demographic reach of co-operative societies in rural and urban area makes them one of the most dependable institutes to Indian population to bank on. During past years, the co-operative sector is facing some financial challenges. Events of fraud affected the asset quality and profitability of co-operative societies. During 2020-21 COVID-19, pandemic affected the operations of this sector. The purpose of the study is to find out the impact of NPA on cooperative societies. Three cooperative societies are considered for the study namely, Karavali Credit Cooperative Society Ltd. (KCCS), Shri Venkataramana Credit Cooperative Society Ltd. (SVCCS), and Shri Saraswathi Credit Souharda Sahakari Ltd. (SSCSSL) and the study considers five years financial data from 2017 to 2021. In this paper detailed analysis made to on NPA provisions, Gross NPA, Net NPA, and Gross NPA against the lendings and its impact on cooperative societies. The results show improved NPA management by the cooperative banks and Banks' NPA ratios are lower than industry ratios.**

***Keywords*: Co-operative societies, Loans, Advances, Non-performing assets, Gross NPA, Net NPA.**

1. Introduction

The co-operative societies registered under Co-operative society's act of state government or the Multi State Co-operative Society act of central Government. Societies can do business with its members only. They cannot use the word Bank in their name. A Non-Performing Asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for 90 days, RBI (2004). A high level of non-performing assets suggests diminishing asset quality and profitability of the society. The soundness of any financial institution depends on the profitability and quality of its assets, Nagraj (2019).

A. Categories of NPAs

Banks needs to classify Non-performing assets into the following 3 categories based on the time for which the asset has remained Non-performing.

1) Substandard assets

NPAs past due for more than 12 months. In this case, the current net worth of the loan borrower's security charged is not sufficient to guarantee recovery of the dues to the banks in full. This kind of asset will have credit risk that endangers the bankruptcy.

2) Doubtful assets

NPA in the doubtful debts category not been repaid for at least 18 months. In this case lenders are serious doubts that the debtor will ever repay the full loan.

3) Loss assets

NPA with an extended period of non-payment. In this case lenders are enforced to accept that the loan will never be repaid, and must record a loss on their balance sheet. The total loan must be written-off completely.

2. Objectives of the Study

1. To study the NPA level at selected Cooperative societies in Dakshina Kannada.
2. To identify the reasons behind increasing NPAs.
3. To execute a Comparative analysis of the NPA of the Selected Co-Operative societies.
4. To study the financial performance of the Societies.

3. Methodology

The study is exploratory. The study is based on the secondary data (published sources) collected from Annual reports of the co-operative societies, articles, periodicals, journals, RBI Annual Report, RBI website, internet and other websites on the topic.

Statistical tool Kruskal-Wallis Test is applied for the study to analyze the financial data.

4. Limitations of the Study

- The study is limited to only five financial years.
- Only three Co-operative societies are considered for the study.
- The research is based on only secondary data.
- The findings of the study cannot be generalized

5. Literature Review

Michael, J. N., Vasanthi, G., & Selvaraju, R. (2011) in their study found NPA in the loan portfolio influence the operational

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efficiency in turn it influences profitability and liquidity of co-operatives.

Swain, Sahu & Mishra (2017) covered the recovery strategies of the banks and their impact on bank's performance. The government's mechanisms for recoveries such as SARFAESI Act. is the most effective reform for the recovery of NPA. However, gross amounts recovered are very meager in contrast to outstanding NPAs.

Banana & Chepuri (2017) states, that the growth rate in lending is reducing against the increase in NPAs is not pleasing to the bank. More precaution and supervision will help in reducing bad loans.

Meher (2017) explored the impact of demonetization on the NPAs of Indian banks and focuses on demonetization influenced the banking segment. The study finds that in the short run, a negative effect of demonetization leads to increased NPAs.

Chaturvedi, A. (2017) evaluated the Non-Performing Assets of District Central Co-operative Banks in Rajasthan and examined role of appraisal and its absence of the right to select borrowers was the main reason leading to NPAs. At the sanction & disbursement stage bank officials are facing problems such as incomplete and defective legal credentials issues.

Suvitha & Gayathri (2018) reviewed the various papers from 2010-to 2017 and concluded that the level of NPAs is higher in public sector banks compared to private sector banks.

Dahiya & Bhatia (2021) concluded that banks should guarantee proper utilization of bank advances, and reports about borrowers' financial soundness ought to be accumulated from casual and formal sources. Any other way, NPAs will increment. Public need ought to be given to lessening NPAs while fortifying the financial framework to address the difficulties of globalization.

6. Analysis and Interpretations

A. Gross NPA %

Gross NPA % = (Gross NPAs/Gross Advances) *100

Table 1
Gross NPA Ratio (%)

GROSS NPA (%)				
YEARS	**KCCS**	**SVCCS**	**SSCSSL**	**Sector NPA**
2017	3.85	4.14	10.02	9.32
2018	3.51	3.80	5.85	11.19
2019	4.12	4.56	4.03	9.08
2020	3.93	6.84	8.85	8.21
2021	4.51	5.56	6.56	7.5

As shown in the above table and figure 1, the Gross NPA Ratio of SSCSSC is high in the last two years, that is 2019-20 and 2020-21, compared to KCCS, SVCCS, and Market NPA. This is mainly due to the Covid-19 pandemic situation in the world. Particularly agricultural sectors loan is going to NPA. Despite the government giving help hand to farmers, the farmers are in Crisis. The natural disaster also cost a lot in the agricultural sector. The KCCS have well-trained personal person else for debt collection and they have effective debt collection techniques.

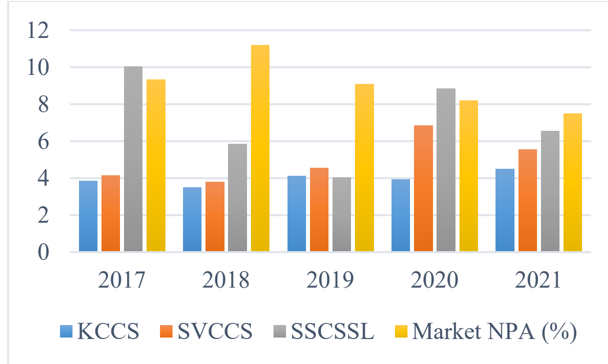

Fig. 1. Gross NPA Ratio

B. Net NPA (%)

Net NPA= (Gross NPA - Provisions) / Gross Advances * 100

Table 2
Net NPA Ratio (%)

NET NPA (%)			
YEARS	**KCCS**	**SVCCS**	**SSCSSL**
2017	1.08	3.50	9.41
2018	2.00	3.09	5.04
2019	2.16	3.68	3.42
2020	4.10	5.90	8.31
2021	2.17	4.63	6.09

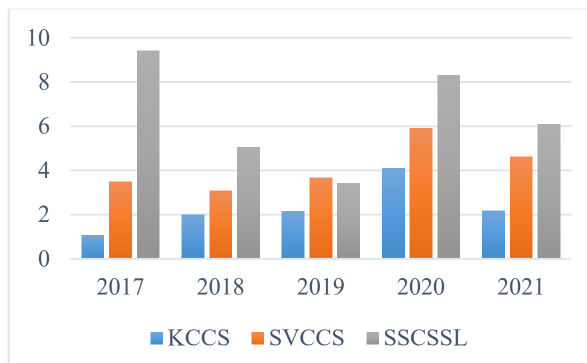

Fig. 2. Net NPA Ratio (%)

As shown in the above diagram and table the SVCCS net NPA is quite higher than KCCS and SSCSSL. Because they kept a lesser proportion amount as a provision for NPA. As for gross NPA, the KCCS is better than the net NPA. It is recorded at a lesser rate in 5 years compared to SSCSSL and SVCCS. It shows the effectiveness of the credit collection technique.

C. Current Ratio

Current Ratio= Current Asset/ Current Liability

From the table 3, it is pretty clear that KCCS has 4.02%, SVCCS has 2.23%, and SSCSSL has 4.4% of the Current Ratio. KCCS is more liquid and is better positioned to pay off its liabilities.

Table 3
Current Ratio

Current Ratio			
YEARS	**KCCS**	**SVCCS**	**SSCSSL**
2017	3.88	1.56	0.74
2018	3.55	2.13	0.64
2019	2.83	2.80	0.65
2020	3.15	2.94	0.39
2021	4.02	2.23	0.40

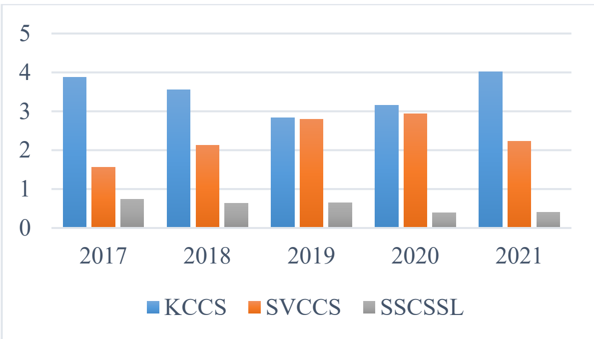

Fig. 3. Current Ratio

D. *Return on Assets*

ROA= Net Income/Total Assets

Table 4
Return on Assets

Return on Asset			
YEARS	**KCCS**	**SVCCS**	**SSCSSL**
2017	9.75	11.69	11.74
2018	8.53	11.02	10.88
2019	8.62	10.43	10.58
2020	8.53	9.58	9.78
2021	8.25	9.03	10.25

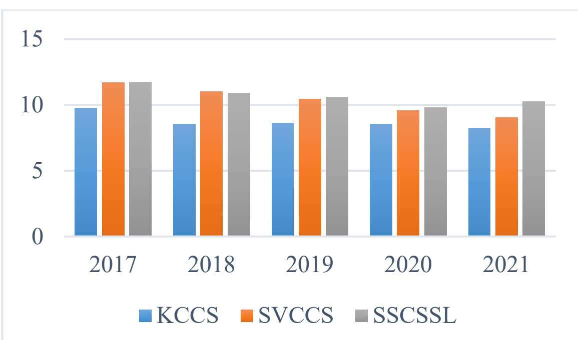

Fig. 4. Return on Assets

In general, the higher the ROA, the more efficient the company is at generating profits. As shown in the above diagram and chart, there is a good return on assets (ROA). As per my analysis, the SSCSSL has a quite better position last year compared to other cooperative societies.

7. Hypothesis

Null hypothesis (H_0): There is no significant difference between the rate of Gross NPA of the KCCS and other selected Cooperative societies.

Alternative hypothesis (H_1): There is a significant difference between the rate of Gross NPA of the KCCS and other selected Cooperative societies.

Table 5
Gross NPA Ratio (%)

YEAR	**KCCS**	**SVCCS**	**SSCSSL**
2017	3.85	4.14	10.02
2018	3.51	3.80	5.85
2019	4.12	4.56	4.03
2020	3.93	6.84	8.85
2021	4.51	5.56	6.56

The Kruskal-Wallis H test indicated that there is a significant difference in the dependent variable between the different co-operative societies, $\chi2$ (2) = 6.14, p = 0.046, with a mean rank score of 4.

H_0 Hypothesis:
The p-value < α, H_0 is rejected.
The difference between the mean ranks of some groups is big enough to be statistically significant.
P-value:
The p-value equals 0.046421, (4.64%). The smaller the p-value the more it supports H1.
Therefore, based on the results, there is a significant difference in the rates of Gross NPAs among the selected co-operative societies.

8. Findings

- The NPA is increasing due to agricultural loans.
- The KCCS has well-trained loan disbursement and recovery team, that helps in managing NPA at reasonable levels.
- Natural disasters are causing havoc in the agriculture and farming sector resulting in bad loans.
- During the financial year 2020-21, the society's NPA increased due Covid-19 Pandemic.
- The VCCS net NPA is quite higher than KCCS and SSCSSL. Because they kept a lesser proportion amount as a provision for NPA.
- The effectiveness of the credit collection technique is good in KCSS.
- The ROA of all three societies is hovering between 8.25% to 11.74% is considered good. The higher the return on asset, the more efficient the company is at generating profits.
- As per analysis, the SSCSSL is performing better in the latest year compared to other cooperative societies.
- Compared to KCCS and SVCCS, SSCSSL has a poor current ratio.
- The study reveals that the Gross NPA % of Co-operative societies is better than the sector NPA.

9. Conclusion

Every authority concerned with managing lending and recovery plays a great role to manage the credit and risk arising out of it. If managed then the organization can keep their NPA levels at low levels in return it will help them to maintain good liquidity and profits. The results depict the overall NPA levels of the selected co-operative societies increased due to the Pandemic and Natural calamities. The selected cooperative societies for the study were able to keep their NPA levels lower than the sector NPA, which is clear reflection of implementing efficient lending and recovery practices. There is no close relationship between the co-operative societies' NPA ratios. As the study is restricted limited three co-operative societies, the study results cannot be generalized and there is scope for further investigation based on the larger sample.

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