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RESEARCH ARTICLE

An Analytical study of Non Performing Assets of Devgiri Urban Co-operative Bank Aurangabad.

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Abstract

Non Performing Assets (NPA) is an indicator of the health, performance and credit risk of the bank. The cooperative sector has been facing serious problem of raising Non Performing Assets growth has a direct impact on profitability of banks. It is necessary to trim down the NPAs to improve the financial health in the banking system. The main objective of this paper was to understand the relationship between Net NPA of DUCB Ltd. in Aurangabad. In this paper, data of five financial years i.e 2009 to 2013 has been analyzed the results show that there is significant difference of DUCB Ltd. Aurangabad.

Introduction:-

The major activity of a bank is to deal with money and people. Since the money and people are highly sensitive, they are to be handled carefully with more skills and knowledge. Today, the Non Performing Assets are facing a very serious risk to the banking industry. The financial situation of the banks is greatly affected by the NPAs. A health financial system may help to complete efficient allocation of resources access time and space by reducing inefficiencies arising out of marketplace resistance and other socio-economic factors. NPA beyond a certain level causes doubts for the banks or the concerns since it affects the smooth flow of credit and credit very essential for economic development. The bank raises their funds through deposits and also through the funds received from the borrowers.

History of Urban Co-operative Banks in India:-

Initially the Urban Co-operative credit societies were organized on a community basis to meet the credit needs of their members. Salary earners' societies played a significant role in popularizing the movement, especially amongst the middle class as well as organized workers. So, from the beginning of UCBs its thrust has been to mobilize saving from the middle and low income urban groups and giving credit to their members, many of which belonged to weaker sections. The term Urban Co-operative banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks were traditionally centered around communities, localities and work place groups but today, their scope of operations has widened considerably. There was a general realization that urban banks have an important role to play in economic construction.

Meaning of Non Performing Assets:-

An asset called NPA when the borrower fails to repay the interest and/ or principal amount on agreed terms. It means stop to generate income for the bank. A NPA treated as past due to amount in respect of credit facility in terms of interest and/ or installment or principal amount for two quarters or were. The past due means the amount has not been paid within days from the due date. This concept comes with effect from 31 March, 2001.

Statement of the problem:-

The bank will always face the problem of NPA because of reduced recovery of the bank and several other reasons like adopting a reduced recovery strategies and vast problem to the banks financial status.

Review of Literature:-

Barot, G. C. (2015) studied that the Non Performing Assets is an indicator of the health, performance, and credit risk of a bank. Moreover, NPA is accounted as the inadmissible burden on the organization. NPA is the major affair for banking sector in India**. Agrawal, S. and Agrawal, K.C. (0000)** said that the NPAs are the most dangerous and barrier in the way of the progress of the economy of any country's financial banks. The NPAs nowadays becoming lesser and lesser because of the regular and quick action taken by the banks itself and by the RBI. **Lokhande, M. A. (2015)** inferred that the number of closed sugar units is increasing in Maharashtra due to mounting losses, shortage of sugarcane and blockage of working capital. Sugar industries, for their sustainability, should apply effective cost cutting mechanism, enhance efficiency and quality at every level of activity and adopt best marketing strategies. **Nivethitha, J. and Brindha, G. (2014)** concluded that the recovery of NPAs is effective provided proper care is taken by shouldering the recovery drive more enthusiastically and confidently. It also studied that comprehensive information about the financial background, NPAs and the perception of branch managers towards the NPAs in Virudhunagar district central cooperative banks. **Kale, B. S. (2016)** it is suggested that government should formulate specific policies and they should be implemented for the upliftment of urban cooperative banks in Maharashtra. DUCBs should try to upgrade technology and should formulate customer friendly policies to face competition with commercial banks. The present study has been an attempt to identify the financial performance of efficiency of DUCBs Ltd. Aurangabad. **Poongavanam, S. (2011**) it highlighted that the reasons for an assets becoming NPA and remedial measures to be taken. Due to various steps taken by the government of India NPA levels were reduced to considerable level (Nearly 2.7% of the on the balance sheet of bank from 8.8%) so it is an indication for the bankers with bad loan in their portfolio to take appropriate actions immediately. **Singh, A. (2013)** found that the NPAs have always been a big worry for the banks in India. The Indian banking sector faced a serious problem of NPAs. A high level of NPAs suggests high probability of a large number of credit defaults that affects the profitability and liquidity of banks**. Kotnal, J.R. and Naikwadi, I. A. (0000)** it examined that the NPAs is key factor in increasing/ decreasing net profit of the banks. The hypotheses prove that the NPA is having direct impact on net profit. It should take steps for early recovery failing which the profitability of the bank will be ended. **Lokhande M. A. (2006)** in his study on working capital management of spinning mills in Jalna District found that 23% of the aggregate 191 co-operative spinning mills were in operation and 35.60% were loss making spinning mills in Maharashtra. Jalna Cooperative Spinning Mill had to face incipient sickness due to shortage of working capital, lengthy gestation period, excessive cost burden, mounting losses and deteriorating net worth. **Srivastava, V. (0000)** pointed that there is a slight improvement in the assets quality reflected by decline in the diverse NPA percentage. But even then the quantum of NPAs is alarming with public banks in India assessing financial performance of banks the mounting volume of NPAs will deter the financial health in terms of profitability liquidity and economies of scale in operation. **Nagaraja, R.C. and Madegowda, J. (2015)** shown that the extent of NPA is comparatively very high in UCBs as compared to DCCBs. The bank management should speed up the recovery process. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing cooperative sector at all. **Mitra, A. (2012)** should recognize the systemic impact that inefficient functioning of the entities in the sector could have. Consequently, it would be in the interest of the sector if they support, facilitate and empower the RBI to put in place mechanism and systems that would enable these UCBs to perform their banking functions in a manner that is in the overall interest of the depositor and the public at large. **Tiwari, C. (2015)** Identified that the causes of loans turning bad during several stages of disbursement of credit facilities are therefore significant for a banker. Sound appraisal and due diligence must be taken by the branch managers before sanctioning the loans to clients. Effective post disbursal monitoring and control will also enhance the creditability and soundness of the banking sector**. Deshmukh, J. and Somalkar, P. (0000)** the UCBs should diversify its activity in non-interest income sector also to increase their profitability and expand their customer base. There is a need for exchange of information and experience between the various UCBs working in the area.

Objectives of the study:-

1. To study the situation of Non Performing Assets of DUCB Ltd. Aurangabad.
2. To examine the growth trend of DUCB Ltd. Aurangabad.

Research Methodology:-

The present study is both an Analytical and descriptive of Non Performing Assets of DUCBA. The study is primarily analytical in the sense that it analyses various tools of statistics based on secondary data.

Hypothesis tested:-

H_0: there is no impact of NPA on Net profit of DUCB Ltd. Aurangabad.
H_1: there is impact of NPA on Net profit of DUCB Ltd. Aurangabad.

Data Collection:-

The present study is analytical in nature and data are collected from the annual reports of the DUCB Ltd. Aurangabad (like 2009 to 2013). The rates about the functions of the banks and NPA and organizations structure rates for secondary data, is a data that has already been published of the DUCB Ltd. Aurangabad.

Data Analysis:-

The data collected have been classified into tables. The present study complete use of percentage analysis as the statistical tools to analyses and interpret the collected data t-test is used to test the hypothesis of the study. T –test was used to find out whether there is increasing or decreasing of Non Performing Assets.

Scope and Limitation of the study:-

The area of the study is restricted only to DUCB Ltd. Aurangabad. This study is based on annual reports of DUCB Ltd. Aurangabad. Due to time constraint, only DUCB Ltd. Aurangabad was considered for the study.

Growth trends of capital and liabilities:-

Initially, the share capital of DUCB was Rs. 11.00 lakh in the year 2008-09 which increased to Rs. 18.01 lakh in the year 2012-13, registering an increase by 116.10% over the period of 5 years. The reserves & surplus being just Rs.93.85 lakh during 2008-09, rose to Rs.126.89 lakh at the end of the year 2012-13. The increase in reserves and surplus was 107.48% (table-1).Term loan and current liabilities of DUCB increased by 122.75% and 121.72% respectively during 2008-09 to 2012-13.

Table 1 Growth Trends of Capital/Liabilities of DUCBA. (Rs. In Lakhs)

Year	Share Capital	Reserve Fund & Surplus	Long term liability	Current liability	Total
2008-09	1100.06 -	9385.78 -	35858.76 -	6490.76 -	52835.37 -
2009-10	1245.54. (13.23%)	9896.79 (05.44%)	40798.04 (13.77%)	8011.43 (23.42%)	59951.83 (13.47%)
2010-11	1438.19 (15.46%)	10728.06 (08.40%)	45898.70 (12.50%)	8924.31 (11.39%)	66989.28 (11.73%)
2011-12	1551.66 (07.89%)	11807.10 (10.05%)	52834.17 (15.11%)	12339.09 (38.26%)	78532.05 (17.23%)
2012-13	1801.53 (16.10%)	12689.74 (07.48%)	64852.57 (22.75%)	15019.76 (21.72%)	94363.61 (20.15%)

Source:- Annual Reports of 2008-09 to 2012-13 of DUCBA.

Note: - The figures in parentheses indicate percentage change over the previous year
On year basis, share capital had increased while reserves & surplus and term loan the mixed growth trend. Current liabilities of DUCB had posted declined growth in two out of five years of the study.

Growth trends of assets:-

As far as the asset position of DUCB is concerned, it had an increasing growth trend over the period of five years. Fixed assets had decreased by three times during the last three years. During 2010-11 to 2012-13, fixed assets posted a huge growth of 120.18%. Long term investments increased twice during 2011-12 to 2012-13. Current assets had a increased first three years but decreased in last year during 2011-12 to 2012-13. (table 2).

Table 2 Growth Trend of Asset/ Property of DUCBA (Rs. In Lakhs)

Year	Fixed Asset	Investment	Current Asset	Total
2008-09 Base year	23479.56 -	19224.25 -	10131.55 -	52835.37 -
2009-10	28217.52 (20.18%)	20131.36 (04.72%)	11602.94 (14.52%)	59951.83 (13.47%)
2010-11	32267.22 (14.35%)	20883.14 (03.73%)	13838.90 (19.27%)	66989.28 (11.73%)
2011-12	35867.53 (11.16%)	24120.45 (15.50%)	18544.06 (33.10%)	78532.05 (17.23%)
2012-13	40912.18 (14.07%)	31490.01 (30.55%)	21961.41 (18.43%)	94363.61 (20.15%)

Source:- Annual Reports of 2008-09 to 2012-13 of DUCBA.

Note:- The figures in parentheses indicate percentage change over the previous year.

On year basis, fixed asset had decreased while investment had increased continuously and current asset had increased first three years but declined in last year.

Table 3 Non Performing Assets of DUCB Ltd. Aurangabad:

Years	NPAs	Percentage
2008-09	325.41	1.67%
2009-10	90.10	0.37%
2010-11	57.53	0.20%
2011-12	903.13	2.91%
2012-13	1534.03	4.30%

Source: Annual Reports of 2008-09 to 2012-13 of DUCBA.

Data Analysis by T-test:

T-test was applied to ascertain of Non Performing Assets.

Compiled and computed from secondary data taking the null hypothesis that the population mean is equal to hypothesized mean of 4.30% we can write.

H0: $\mu = \mu\, H_0 = 4.30\%$

H1: $\mu = \mu\, H_0$

As the sample size is small (since n-5) and the population standard deviation is not known. We shall use t-test assuming normal population and shall work out the test statistics t as under..

$$t = \frac{\bar{X} - \mu\, H_0}{\sigma \sqrt{n}}$$

To find $\bar{X}$ and σ we make the following comparison.

Sr. No	$\bar{X}$	$X_1 - \bar{X}$	$(X_1 - \bar{X})^2$
1	1.67%	-0.22	0.0484
2.	0.37%	-1.52	2.3104
3	0.20%	-1.69	2.8561
4	2.91%	1.02	1.0404
5	4.30%	2.41	5.8081
n=5	$\sum x_1 = 9.45$		$\sum (x_1 - x) = 12.0634$

Source: compiled and computed from secondary data therefore

$$\bar{X} = \frac{\sum x_1}{n} = \frac{9.45}{5} = 1.89$$

$$\& \ \sigma \sqrt{\frac{\sum (x_1 - x)}{n - 1}} = \sqrt{3.01585} = 1.7366$$

Hence,

$$t = \frac{1.89 - 4.30}{1.7366\sqrt{5}}$$

$$t = - 2.41 = - 2.41 = - 0.62\%$$

1.7366 x 2.24 3.8899

Degree of freedom = (n-1) = (5- 1) = 4 As H_0
As H_0 is two sided we shall determine the rejections applying two tailed test at 5% level of significance and it comes to as under using table t distribution for 4 d.f.

As the observed value of (i.e. – 0.62%) in the acceptance region. We reject H_0 at 5% level and conclude that the mean NPA performance is increasing i.e. 4.30%.

Findings:-

Increasing or decreasing in the number of account of NPA year by year. Securities are very powerful of urban cooperative bank. The NPA shows the limit of sanction itself in case the credit appraisal standard is compromised.

Conclusion:-

Non Performing Assets is the playing very pivotal role of performance of bank situation of Net profit. The hypotheses shown that the direct impact of NPA on Net profit. Bank should take care of early recovery failing which the profitability of the bank will be ended. NPAs will deter the financial health in terms of profitability liquidity and economies of scale in operation. The bank has to take timely action against degradation of good performing assets.

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