

DIMENSIONS OF NON-PERFORMING ASSETS IN  
URBAN CO-OPERATIVE BANKS (UCBS) - AN  
ANALYTICAL STUDY WITH REFERENCE TO UCBS IN  
CHITTOOR DISTRICT OF ANDHRA PRADESH

K. Manohar\*

Dr. Himachalam Dasaraju\*\*

Dr Kota Srinivasa Murthy\*\*\*

**Abstract**

*Co-operative credit societies were set up in India towards the close of 19<sup>th</sup> century. Since their inception, the UCBS have been playing an important role in the socio-economic development of the country by making available institutional credit at affordable cost, particularly in the urban and semi-urban areas. Urban Co-operative Banks functioning with the twin objectives of co-operation and banking. The globalization era has opened the gates for many banking units both in public and private sectors, which in turn pose a great threat to the very spirit and performance of the UCBS. As the UCBS are bogged down by the burden of the NPAs. The NPAs badly affect the financial discipline of the UCBS. The present study intends to focus on the overall scenario of the NPAs in UCBS at the national and state levels in general and the Chittoor district level in particular. The percentage of NPAs to total advances of UCBS in India was reduced from 16.1 per cent to 10.1 per cent, whereas NPAs percentage of UCBS in Andhra*

\* Lecturer in Commerce, Govt. Degree College, Puttur - 517 583, Chittoor District, Andhra Pradesh, India.

\*\* Professor & Chairman (PG) in Commerce, Sri Venkateswara University, Tirupati – 517502.

\*\*\* Principal, Seshachala Institute of Management Studies, Puttur – 517 583, Chittoor District, Andhra Pradesh, India.

Pradesh rose from 1.3 per cent to 9.1 per cent for the study period. The average NPAs percentage of six UCBs in Chittoor district also increased from 14.21 per cent to 21.77 per cent in the study period. The study is carried out for the period of 10 years i.e. 2000-01 to 2009-10, based on information provided by the banks in their published annual reports. Based on the study the feasible measures are suggested to overcome the menace of the NPAs.

### Key words

Chief Executive Officer (C.E.O), New Economic Policy (N.E.P), New Industrial Policy (N.I.P), Non-Performing Assets (N.P.As) – Reserve Bank of India (R.B.I).

### Introduction

Urban Co-operative banks have to lock horns in a stiff competition with public sector banks as well as and private sector banks, in the wake of globalization particularly after 1991. At the same time Urban Co-operative Banks are plagued with a series of crises in view of the mounting Non-Performing Assets from within the organization. Risk management and income recognition form the basis to restore and enhance the financial performance of the banking industry, as accentuated by the Basel Committee, 1974 at international level. The Committee enumerated stringent strategies specified the assets classification and recognition norms to bail out from the impending crises and strengthen the supervisory standards and risk management<sup>1</sup>.

Reforms in the financial sector went through two distinct phases. The first phase of reforms, introduced after the release of the Report of the committee on financial system, 1991, chaired by Mr. Narasimham, focused mainly on enabling and strengthening measures. The second phase that followed the recommendations of the committee on Banking sector reforms, 1998 also chaired by Mr. Narasimham, placed greater emphasis on structural measures and improvement in standards of disclosure and levels of transparency in order to align Indian standards with international best practices.

Therefore a significant step towards introduction of transparency in the banking practices was initiated through the implementation of Prudential Norms in the Indian banking system on the basis of the recommendations of the Narasimham Committee. The remedial measures include Prudential Norms for income generation, asset classification and provisioning for bad debts. Further the Reserve Bank of India has redefined the NPAs in the light of Narasimham committee recommendation. The R.B.I has advised the banks to classify their advances into four categories viz., standard, sub-standard, doubtful and loss assets<sup>2</sup>. Standard assets are treated as performing assets and the remaining three categories are considered as non-performing assets (NPAs). The prudential norms have been also extended since 1997 to UCBs based on the recommendations of High Power Committee headed by Mr. K.Madhava Rao, ex-chief secretary of Andhra Pradesh<sup>3</sup>.

### **Urban Co-operative Banks (UCBs)**

Urban Co-operative banks are small-sized Co-operatively organized banking units which operate in metropolitan, urban and semi urban centers to cater mainly to the needs of small borrowers, owners of small scale industrial Units, retail traders, artisans, professionals and salaried classes.

### **Urban Co-operative Banks in India**

The New Economic Policy (N.E.P) and the New Industrial Policy(N.I.P) have opened the doors for many industries and consequently that spiralled into a whirlpool with the escalating, need for financial assistance on large scale. In this connection contribution by UCBs would be a unique thing. UCBs became effective since 1<sup>st</sup> March 1966 on words as UCBs were brought under the control and guidance of Banking Regulation Act 1949<sup>4</sup>. In 1968 UCBs were also extended the benefits of Deposit insurance. The Urban banks encourage thrift and attract deposit and lend to the customer members. These banks take care of the banking and credit needs of the lower and middle classes of people comprising small entrepreneurs, artisans and small traders etc., At the end of March 2011, there are 53 scheduled, 1592 non-scheduled Urban Co-operative Banks in India, having deposits worth of 2.12 lakh crores, with 8157 branch outlets spread across the country<sup>5</sup>.

**UCBs in Andhra Pradesh**

After the formation of the state of Andhra Pradesh, the Co-operative societies Act of 1964 was enacted, and it replaced all the earlier legislations relating to Co-operative institutions. At the time of the formation of A.P there were 46 UCBs, with 35 branches. As on March 2011, the number of UCBs stood at 103, where as branch outlets were 260 spread all over A.P., with total membership of 10.65 lakhs, share capital of Rs.286.24 crores, deposits of Rs.3633.17 crores and loans and Advances of Rs.2023.41 crores, Non-performings assets of Rs.184.75 crores and number of employees 1980.

**UCBs in Chittoor District**

Andhra Pradesh comprises of three Regions - Telengana, Andhra and Rayalaseema regions. Rayalaseema consists of four Districts namely Kurnool, Kadapa, Anantapur and Chittoor. Sixteen UCBs are functioning in Rayalaseema region, six in Chittoor, Kurnool and Anantapur have five UCBs each.

The year 1907 was an epochmaking one as an Urban Co-operative bank was established in Chittoor town. The Tirupati UCB was established in 1918, Srikalahasti UCB in 1920, Madanapalli UCB in 1923, Kuppam UCB in 1932 and Balaji UCB, Tirupati in 1999. As on March 2011, six UCBs with nine branches are functioning efficiently.

**Table-1 Profile of UCBs in Chittoor District as on 31-3-2010**

<b>Name of the Bank</b>	<b>Place</b>	<b>No. of Branches</b>	<b>No. of employees</b>	<b>Audit Classification</b>	<b>Premises</b>	<b>Area of operation</b>

<i>Tirupati</i>	<i>Tirupati</i>	5	137	A	Owned	Municipality
<i>Madanapalli</i>	<i>Madanapalli</i>	2	24	A	Owned	Municipality
<i>Kuppam</i>	<i>Kuppam</i>	Nil	11	A	Owned	Grampanchayati
<i>Chittoor</i>	<i>Chittoor</i>	2	52	B	Owned	Municipality
<i>Srikalahasti</i>	<i>Srikalahasti</i>	Nil	10	B	Owned	Municipality
<i>Balaji</i>	<i>Tirupati</i>	Nil	5	B	Rented	Municipality

Source : Compiled from field study.

### **Concept of NPA**

*NPA is the name given to old disease called Bad & Doubtful Assets. A loan is declared a non performing asset when it ceases its yield income for a bank whether in the form of interest or principal repayment.*

### **Impact of NPAs on UCB Banks profits and lending Powers**

*A bank's efficiency is reflected mainly by the level of returns on its assets. NPAs do not generate income for the banks. But banks are required to make provisions for such NPAs from their current profits. An account becomes NPA as per the RBI's directions issued from time to time. NPA means an advance where payment of interest or repayment of installments of principal or both remains unpaid for a period of more than 90 days.*

*The following deleterious effects occur due to NPAs*

- (1) NPAs erode current profits through provisioning requirements.*
- (2) NPSs result in reduced interest income.*
- (3) NPAs require higher provisioning requirements affecting profit and accretion to capital funds and capacity to increase good quality risk assets in future and*
- (4) NPAs limit recycling of funds, set in asset liability mismatches etc.*

**Objectives of the study**

The writer of the present paper intended to highlight the incidence of NPAs in UCBs. For this purpose paper writer has compiled the data from annual reports published by the RBI, the Registrar of Co-operatives and UCBs in Chittoor District over a period of time i.e. from 2000-01 to 2009-10. The focus of the study is:

- (1) To analyse the efficiency in loan operations in UCBs in Chittoor District
- (2) To examine the management of Non-Performing Assets in the UCBs in Chittoor District.
- (3) To make suitable suggestions based on findings of the study.

**Methodology and Data Base**

The paper is mainly based on secondary data, collected from Annual reports of UCBs. Besides, interviews and interacts were conducted with the Managers, and chief executive officers (C.E.Os) to elicit the data required.

The study is carried out for a period of 10 years from 2000-01 to 2009-10.

**Non performing Assets of Urban Co-operative Banks in India**

The following table depicts the Gross NPA as a percentage to total advances for the period of ten years of Urban Co-Operative Banks in India.

**Table: 1**  
**Non-performing Assets in UCBs in India**

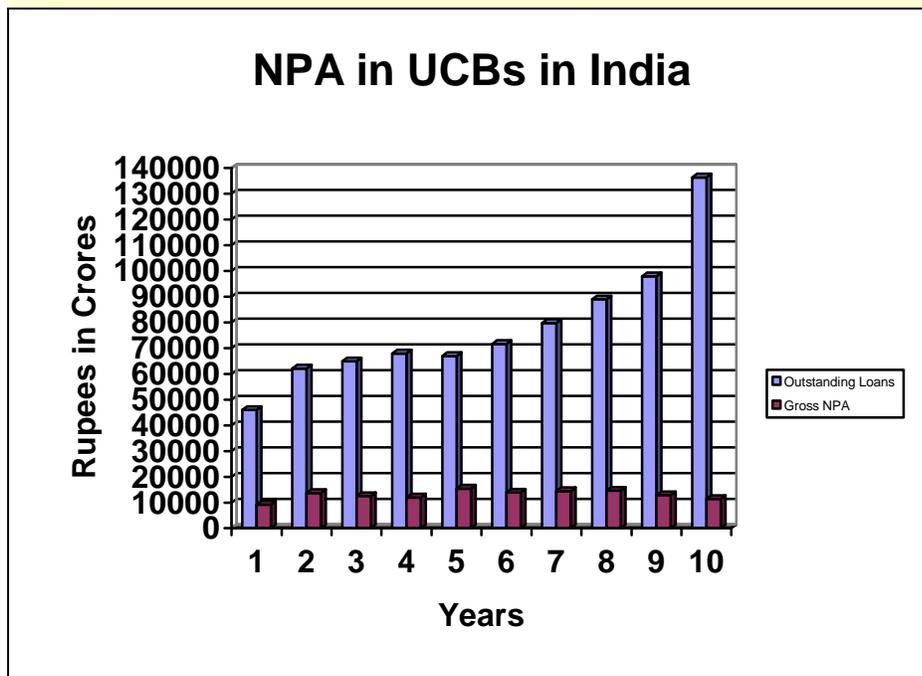
(Rs. in crores)

<b>Year</b>	<b>No. of Reporting Banks</b>	<b>Loans &amp; Advances Outstanding</b>	<b>Gross NPA</b>	<b>Gross NPA as percentage to total Advances</b>
2000-01	1748	45995	9245	16.1
2001-02	1937	62060	13706	21.9
2002-03	1941	64880	12509	19.0
2003-04	1926	67930	11922	17.6
2004-05	1872	66874	15409	23.0
2005-06	1853	71641	13871	19.7
2006-07	1813	79733	14451	18.7
2007-08	1770	88981	14583	16.4
2008-09	1721	97918	12862	13.0

2009-10	1674	136341	11399	10.1
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Source: Report on Trend & Progress Banking in India various issues of R.B.I.

Figure -1



Source: Table-1

Table No: 1 furnishes Gross NPA position and Gross NPA as a percentage to total Advances. Gross NPA percentage to total Advances increased from 16.1 in 2000-2001 to 21.9 in 2001-2002 and immediately decreased to 17.6 percent by 2003-04 and again rose in 2004-05 by 23.0 percent. However Gross NPA percentage stood at 10.1 in 2009-10, which indicated improvement in the financial soundness of the sector. But number of Urban Co-operative Banks functioning in India have recorded negative growth rates.

**Table - 2**  
**Percentage of NPAs to Loans and Advances in Co-operative Banks in India.**

(In Percentages)

S.No.	Banks	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	State Co-operative Banks	13.0	13.4	18.2	18.7	16.3	16.8	14.2	12.8	12.0	9
2	District Central Co-operative Banks	17.9	19.9	21.2	24.0	19.9	19.7	18.5	20.5	18.0	14.9
3	State Co-operative Agri-Rural Development Banks	20.5	18.5	20.9	26.7	31.3	32.7	30.3	34.5	30.1	33.2
4	Primary – Co-operative Agri-Rural Development Banks.	24.3	30.2	33.8	35.8	31.9	35.6	35.4	53.7	39.2	42.2

**Source:** Trend and Progress of RBI.

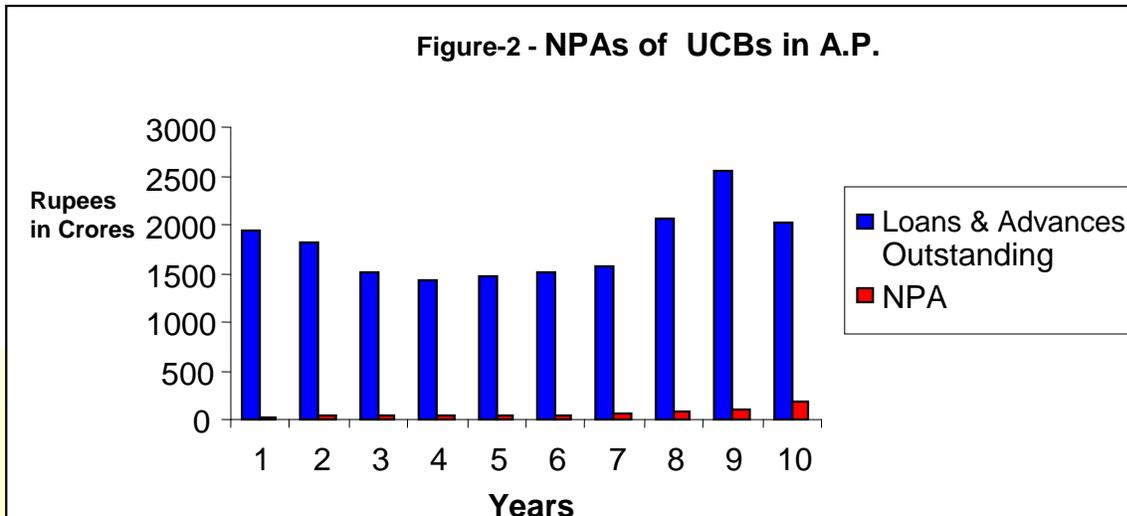
Table:2 shows the NPAs as percentage of loans outstanding of Co-operative Banks in India. State Co-operative Banks NPAs increased from 13.0 percent in 2000-2001 to 18.7 percent in 2003-04 and slowly decreased to 9 percent by 2009-2010, which was on par with the index level of international standards. District central Co-operative Banks NPAs increased from 17.9

per cent in 2000-2001 to 24 percent in 2003-04 and immediately decreased to 14.9 in 2009-10. State Co-operative Agri-Rural Development Banks NPAs rose from 20.5 percent in 2000-2001 to 33.2 percent of loans outstanding in 2009 with slight fluctuations. The increase in NPAs is more pronounced in the case of Primary Agricultural-Rural Development Banks. The NPAs rose from 24.3 percent in 2000-2001 to 42.2 percent in 2009-2010 and also NPAs were higher at 53.7 in 2007-2008 in Primary Co-operative Agri-Rural Development Banks. Hence the ten years study period indicates a steady hike in the rate of NPAs in state Co-operative Agri-Rural Development Banks and Primary Co-operative Agri-Rural Development Banks, on the contrary the percentage of NPAs recorded a downward trend in the case of State Co-operative Banks and District Control Co-operative Banks.

**Table - 3**  
**Non-Performing Assets of the Urban Co-operative Banks in Andhra Pradesh**  
(Rs. in crores)

Year	Loans and advances outstanding	Gross NPA	Gross NPA as percentage to Total Advances
2000-2001	1935	27.00	1.3
2001-2002	1816.00	39.00	2.1
2002-2003	1518.00	37.00	2.4
2003-2004	1425.00	36.00	2.5
2004-2005	1475.00	34.00	2.3
2005-2006	1512.00	36.00	2.3
2006-2007	1576.00	54.60	3.4
2007-2008	2067.00	82.00	3.9
2008-2009	2541.00	112.21	4.4
2009-2010	2023.41	184.79	9.1

Source: Reports from Registrar of Co-Operatives, Hyderabad, A.P.



Source: Table-3

The above table indicates the percentage of non-performance in the area of loans and advances steadily increased from 1.3 percent in 2000-01 to 9.1 percent in 2009-10 and it is a bad sign for the UCBs, further this had an adverse impact on the profitability of the banks both in short and long run.

#### **Percentage of Non-Performing Assets to Loans and Advances in UCBs in Chittoor District**

This is a credit efficiency parameter. It indicates how good are a bank's provisioning practices and gets recovery from advances. If the ratio is lower it is a sign of credit efficiency, ultimately the profit of banks increases. The higher ratio leads to weak performance of a bank. The percentage of non performing assets to total advances in respect of UCBs in Chittoor district is tabulated and presented in tables-4 (a) to 4 (f) which clearly illustrate the percentage of NPA to total advances registered yearly fluctuations that are noticeable.

**Table-4 (a) Composition of Performing Loans and N.P.A. of Srikalahasti UCB during 2000-2010.**

(Rs. in Lakhs)

Year	Performing Loans	NPA	Total Loans & Advances	Percentage of NPA to Outstanding Loans & Advances
2000-2001	1134.94	183.32	1318.26	13.91
2001-2002	1049.57	440.31	1489.88	29.55
2002-2003	814.67	536.76	1351.43	39.72
2003-2004	543.77	520.24	1064.01	48.89
2004-2005	133.99	743.34	877.33	84.73
2005-2006	51.54	557.21	608.75	91.53
2006-2007	71.80	378.00	449.80	84.04
2007-2008	138.29	323.99	462.28	70.09
2008-2009	152.69	247.31	400.00	61.83
2009-2010	262.18	210.36	472.54	44.52
L.G.R	-26.469	-4.075	-15.552	8.157
t-value	4.206**	0.843 <sup>ns</sup>	7.578**	1.830 <sup>ns</sup>
C.G.R	-22.744	3.904	-14.966	13.010
t-value	2.736*	0.763 <sup>ns</sup>	8.141**	2.330*

Source : Compiled from the records of Srikalahasti UCB.

Note : \* = significant at 0.05 level

\*\* = significant at 0.01 level

ns = not significant

The total loans and advances of the Srikalahasti UCB declined from Rs. 1318.26 lakhs in 2000-01 to Rs. 472.54 lakhs after fluctuations. They fluctuated between Rs. 400.00 lakhs and Rs. 1489.88 lakhs. The linear and compound growth rates are -15.552 and -14.966 respectively which are significant at 1% level. The performing loans declined from Rs. 1134.94 lakhs to Rs. 262.18 lakhs between 2000-01 and 2009-10 with high negative l.g.r and c.g.r of -26.469 and -22.744 which are significant at 1% level. The performing loans showed violent fluctuations between Rs.51.54 lakhs and the initial level of Rs. 1134.94 lakhs. The NPA also showed declining trend though they increased between 2000-01 and 2009-10 from Rs. 183.32 lakhs to Rs. 210.36 lakhs with wide fluctuations. The l.g.r and c.g.r are negative at -4.075 and -3.904 which, however, are not significant. The percentage of NPAs to total loans and advances increased from

13.91% in 2000-01 to 44.52% between 2000-01 and 2009-10. It also increased to the highest level of 91.53% in 2005-06. The c.g.r and c.g.r are positive at 8.157 and 13.010, though not significant.

Thus, it can be concluded from the analysis of the table that the non-performing assets increased phenomenally as percentage of total loans and advances. The total loans and advances declined, as also the performing loans and NPAs. But as the decline in performing assets is far greater than the total loans and advances in relation to NPAs, the percentage of NPAs in total loans and advances declined very sharply during the study period.

**Table- 4 (b) Composition of Performing Loans and N.P.A. of Kuppam UCB during 2000-2010.**  
(Rs. in Lakhs)

Year	Performing Loans	NPA	Total Loans & Advances	Percentage of NPA to Outstanding Loans & Advances
2000-2001	192.82	30.20	223.02	13.54
2001-2002	181.58	44.72	226.30	19.76
2002-2003	212.69	34.41	247.10	13.93
2003-2004	216.27	46.48	262.75	17.69
2004-2005	323.52	48.18	371.70	12.96
2005-2006	394.48	20.25	414.73	4.88
2006-2007	385.97	99.80	485.77	20.54
2007-2008	502.30	91.43	593.73	15.40
2008-2009	610.35	63.75	674.10	9.46
2009-2010	735.24	86.87	822.11	10.57
L.G.R	15.996	11.352	15.388	-3.976
t-value	9.065**	2.805*	10.242**	1.047 <sup>ns</sup>
C.G.R	17.611	11.731	16.867	-4.393
t-value	13.374**	2.391*	17.076**	0.958 <sup>ns</sup>

Source : Compiled from the records of Kuppam UCB.

Note : \* = significant at 0.05 level

\*\* = significant at 0.01 level

ns = not significant

The total loans and advances of the Kuppam UCB increased gradually from Rs. 223.02 lakhs in 2000-01 to Rs. 822.11 lakhs in 2009-10 with significant (at 1% level) growth rates of 15.388 (l.g.r) and 16.867 (c.g.r). The performing assets increased from Rs. 192.82 lakhs to Rs.

735.24 lakhs with fluctuations between 2000-01 and 2009-10 recording l.g.r of 15.996 and c.g.r of 17.611 which are significant at 1% level. The NPAs also increased with fluctuations from Rs. 30.20 lakhs in 2000-01 to Rs. 86.87 lakhs in 2009-10 with the l.g.r and c.g.r as 11.352 and 11.731 respectively and are significant at 5% level. The percentage of NPAs to the total loans and advances declined from Rs. 13.54 lakhs to Rs. 10.57 lakhs with wide fluctuations registering growth rates of -3.976 (l.g.r) and -4.393 (c.g.r) which are not significant.

Thus, it can be seen from the analysis of the table that the total loans and advances including performing and non-performing assets of Kuppam UCB showed increasing trend, with fluctuations greater in NPAs than in others. As the growth of NPAs is less than that of total loans and advances and performing loans, the percentage of NPAs to total loans and advances declined during the study period.

**Table-4 (c) Composition of Loans and Advances of Madanapalli UCB during 2000-10**

(Amount in Lakhs)

Years	Performing Loans	NPA	Total Loans & Advances	Percentage of NPA to Outstanding Loans & Advances
2000-2001	829.18	133.82	963.00	13.90
2001-2002	1,030.96	264.78	1,295.74	20.43
2002-2003	1,031.39	264.75	1,296.14	20.43
2003-2004	907.77	163.23	1,071.00	15.24
2004-2005	658.75	110.05	768.80	14.31
2005-2006	734.54	101.51	836.05	12.14
2006-2007	796.31	109.61	905.92	12.10
2007-2008	1,027.98	77.16	1,105.14	6.98
2008-2009	1,374.75	59.28	1,434.03	4.13
2009-2010	1,848.44	64.56	1,913.00	3.37
L.G.R	6.690	-14.241	4.254	-14.173
t-value	2.051*	3.449**	1.373 <sup>ns</sup>	5.299**
C.G.R	5.560	-13.786	3.497	-16.711

t-value	1.793 <sup>ns</sup>	4.682 <sup>**</sup>	1.150 <sup>ns</sup>	5.219 <sup>**</sup>
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Source : Compiled from the records of Madanapalli UCB.

Note : \* = significant at 0.05 level

\*\* = significant at 0.01 level

ns = not significant

The total loans and advances increased from Rs. 963.00 lakhs in 2000-01 to Rs. 1913.00 lakhs in 2009-10 with fluctuations in the middle years of the study period. The growth rates are 4.254 (l.g.r) and 3.497 (c.g.r) which are not significant. The performing assets increased from Rs. 829.18 lakhs to Rs. 1848.44 lakhs during the period with l.g.r and c.g.r of 6.690 and 5.560 respectively, the former significant at 5% and the latter being not significant. The NPAs however declined, after initial increase for two years from Rs. 133.82 lakhs to Rs. 64.56 lakhs with negative l.g.r and c.g.r of -14.241 and -13.786 which are significant at 1% level. The percentage of NPAs to total loans and advances increased in the beginning from 13.90% in 2000-01 to 20.43% in the next two years and then declined with fluctuations to 3.37% with negative l.g.r and c.g.r of -14.173 and -16.711 which are significant at 1% level.

Thus it can be concluded that the total loans and advances and the performing assets showed increasing trend. The NPAs, however, showed declining trend and, as a result, the percentage of NPAs to the total loans and advances showed declining trend during the study period.

**Table-4 (d) Composition of Performing Loans and N.P.A. of Tirupati UCB in Chittoor District during the period 2000-2010.** (Rs. in Lakhs)

Years	Performing Loans	NPA	Total Loans & Advances	Percentage of NPA to Outstanding Loans & Advances
2000-2001	5,848.92	798.08	6,647.00	12.01
2001-2002	6,487.18	983.47	7,470.65	13.16
2002-2003	6,644.59	1,309.74	7,954.33	16.47
2003-2004	6,446.09	775.91	7,222.00	10.74
2004-2005	5,250.88	1,571.12	6,822.00	23.03
2005-2006	4,685.71	1,530.29	6,216.00	24.62
2006-2007	4,578.13	1,502.87	6,081.00	24.71

2007-2008	6,120.81	1,654.19	7,775.00	21.28
2008-2009	6,863.81	2,223.19	9,087.00	24.47
2009-2010	7,867.55	2,259.45	10,127.00	22.31
L.G.R	1.198	10.659	3.031	7.526
t-value	0.626 <sup>ns</sup>	6.073 <sup>**</sup>	1.829 <sup>ns</sup>	3.560 <sup>**</sup>
C.G.R	0.921	11.661	2.726	8.699
t-value	0.462 <sup>ns</sup>	5.326 <sup>**</sup>	1.647 <sup>ns</sup>	3.458 <sup>**</sup>

Source : Compiled from the records of Tirupati UCB.

Note : \*\* = significant at 0.01 level

ns = not significant

The total loans and advances of the Tirupati UCB increased from Rs. 6,647.00 lakhs in 2000-01 to Rs. 10,127.00 lakhs with low level fluctuations recording l.g.r and c.g.r of 3.031 and 2.726 respectively which are not significant. The performing assets increased from Rs. 5848.92 lakhs to Rs. 7867.55 lakhs between 2000-01 and 2009-10 with low l.g.r and c.g.r of 1.198 and 0.921 which are not significant. The NPAs also increased significantly from Rs. 798.08 lakhs to Rs. 2,259.45 lakhs with high l.g.r and c.g.r of 10.659 and 11.661 respectively which are significant at 1% level. The percentage of NPAs to outstanding loans increased from 12.01% in 2000-01 to 22.31% in 2009-10, it showed fluctuations between 10.74% and 24.62% in the intervening years. The l.g.r and c.g.r are moderately high at 7.526 and 8.699 which are significant at 1% level.

Thus, it can be concluded from the analysis of the table that all the aspects related to loans and advances of Tirupati UCB showed increasing trend. The total loans and advances, including the performing and non-performing assets showed increasing trend. The NPAs recorded greater growth rate than the performing assets and also compared to total loans and advances. As a result, the percentage of NPAs to total outstanding loans increased during the study period.

**Table-4 (e) Composition of Performing Loans and NPA of Chittoor UCB during 2000-2010.**

(Rs. in Lakhs)

Years	Performing	NPA	Total Loans & Advances	Percentage of NPA to Outstanding Loans & Advances
2000-2001	3500.00 (94.49)	204.00 (5.51)	3704.00 (100)	5.51
2001-2002	4342.75 (93.49)	302.25 (6.51)	4645.00 (100)	6.51
2002-2003	4458.42 (90.51)	467.58 (9.49)	4926.00 (100)	9.49
2003-2004	3351.37 (75.68)	1076.87 (24.32)	4428.24 (100)	24.32
2004-2005	1724.49 (63.65)	984.83 (36.35)	2709.32 (100)	36.35
2005-2006	769.16 (45.92)	905.98 (54.08)	1675.14 (100)	54.08
2006-2007	720.29 (48.73)	757.96 (51.27)	1478.25 (100)	51.27
2007-2008	970.37 (67.72)	462.63 (32.28)	1433.00 (100)	32.28
2008-2009	1291.46 (79.56)	331.84 (20.44)	1623.30 (100)	20.44
2009-2010	1482.57 (86.50)	231.43 (13.50)	1714.00 (100)	13.50
L.G.R	-17.638	-0.642	-14.204	9.123
t-value	3.911**	0.096 <sup>ns</sup>	4.421**	1.217 <sup>ns</sup>
C.G.R	-16.252	-0.364	-13.663	16.240
t-value	3.285**	0.051 <sup>ns</sup>	4.771**	1.874 <sup>ns</sup>

Source : Compiled from the records of Chittoor UCB.

Note : \*\* = significant at 0.01 level

ns = not significant

The performing accounts declined from Rs. 3500.00 lakhs in 2000-01 to Rs. 1482.57 lakhs in 2009-10 with high and negative growth rates of -17.638 (l.g.r) and -16.252 (c.g.r) significant at 1% level. In fact, the performing accounts increased in the first two year period and then declined with wide fluctuations. The NPAs increased from Rs. 204.00 lakhs in 2000-01 to Rs. 1076.87 lakhs in 2003-04 and then declined gradually to Rs. 231.43 lakhs in 2009-10. As a result the growth rates are negative, but very low at -0.642 (l.g.r) and -0.364 (c.g.r) which are not significant. The total loans and advances also increased in the beginning from Rs. 3704.00 lakhs in 2000-01 to Rs. 4926.00 lakhs in 2002-03 and then

started to decline to reach Rs. 1714.00 lakhs with fluctuations, recording negative l.g.r and c.g.r of -14.204 and -13.663 which are significant at 1% level. The NPAs as percentage to total loans and advances was 5.51 only in 2000-01 and increased to a high of 54.08 in 2005-06 and then declined to 13.50 in 2009-10. However, the l.g.r and c.g.r are positive at 9.123 and 16.240 respectively, but not significant. The performing accounts formed 94.49% of total loans, but declined to 86.50% while the NPAs as proportion of total loans increased from 5.51% to 13.50% during 2001-10.

It can be concluded from the table that the performing accounts showed declining trend though there was increase in the beginning period. The NPAs also showed the same trend but at a very low rate. The total loans and advances showed greater declining trend. That is why, the percentage of NPAs to total outstanding advances increased during the period. The percentage of performing accounts in total loans declined while that of NPAs increased during the period.

**Table-4 (f) Composition of Performing Loans and N.P.A. of Balaji UCB during the period 2000-2010.**

Years	(Rs. in Lakhs)			
	Performing Loans	NPA	Total Loans & Advances	Percentage of NPA to Outstanding Loans & Advances
2000-2001	162.00	58.16	220.16	26.42
2001-2002	157.12	71.75	228.87	31.35
2002-2003	169.41	36.20	205.61	17.61
2003-2004	222.33	18.32	240.65	7.61
2004-2005	314.81	22.10	336.91	6.56
2005-2006	250.92	11.93	262.85	4.54
2006-2007	93.25	31.61	124.86	25.32
2007-2008	68.25	11.36	79.61	14.27
2008-2009	26.39	11.07	37.46	29.55
2009-2010	19.07	10.89	29.96	36.35
L.G.R	-12.903	-20.203	-14.074	3.376
t-value	2.093 <sup>ns</sup>	3.874 <sup>**</sup>	3.024 <sup>**</sup>	0.515 <sup>ns</sup>
C.G.R	-21.109	-18.095	-20.369	2.855

t-value	3.270**	4.600**	3.927**	0.328 <sup>ns</sup>
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Source : Compiled from the records of Balaji UCB.

Note : \*\* = significant at 0.01 level

ns = not significant

The total loans and advances were Rs. 220.16 lakhs in 2000-01 and increased to Rs. 336.91 lakhs in 2004-05 with fluctuations and then declined gradually to Rs. 29.96 lakhs in 2009-10 recording a negative growth rates of -14.074 (l.g.r) and -20.369 (c.g.r) which are significant at 1% level. The performing assets increased from Rs. 162.00 lakhs in 2000-01 to Rs. 314.81 lakhs in 2004-05 with fluctuations and then declined gradually to Rs. 19.07 lakhs in 2009-10. The l.g.r and c.g.r are negative at -12.903 and -21.109, the former is not significant and the latter significant at 1% level. The NPAs after an initial increase from Rs. 58.16 lakhs in 2000-01 to Rs. 71.75 lakhs next year, declined with fluctuations to Rs. 10.89 lakhs recording high and negative l.g.r and c.g.r at -20.203 and -18.095 both of which are significant at 1% level. The percentage of NPAs to outstanding advances declined from 26.42% in 2000-01 to a low of 4.54% in 2005-06 and then increased to 36.35% in 2009-10. The growth rates are positive at 3.376 (l.g.r) and 2.855 (c.g.r) both of which are not significant.

Thus it can be concluded from the analysis of the table that the total loans and advances including performing and non performing assets showed declining trend with fluctuations. But, the percentage of NPAs to total outstanding advances showed increasing trend though with fluctuations during the study period.

Table-7 shows the trends on percentage of NPAs to loans and advances in UCBs in Chittoor district during 2000-01 – 2009-10.

**Table-7**  
**Percentage of NPA to Loans & Advances in UCBs of Chittoor Dist during 2000-2001 to 2009-2010**

(Rs. in Lakhs)

Year	Sri Kalahasti UCB	Kuppam UCB	Madanapalli UCB	Tirupati UCB	Chittoor UCB	Balaji UCB
2000-2001	13.91	13.54	13.90	12.01	5.51	26.42
2001-2002	29.55	19.76	20.43	13.16	6.51	31.35
2002-2003	39.72	13.93	20.43	16.47	9.49	17.61
2003-2004	48.89	17.69	15.24	10.74	24.32	7.61
2004-2005	84.73	12.96	14.31	23.03	36.35	6.56
2005-2006	91.53	4.88	12.14	24.62	54.08	4.54
2006-2007	84.04	20.54	12.10	24.71	51.27	25.32
2007-2008	70.09	15.40	6.98	21.28	32.28	14.27
2008-2009	61.82	9.46	4.13	24.47	2.44	29.55
2009-2010	44.52	10.57	3.37	22.31	13.50	36.35
L.G.R	8.156	-3.976	-14.173	7.526	9.123	3.376
t-value	1.830 <sup>ns</sup>	1.047 <sup>ns</sup>	5.299 <sup>**</sup>	3.560 <sup>**</sup>	1.217 <sup>ns</sup>	0.515 <sup>ns</sup>
C.G.R	13.010	-4.393	-16.711	8.699	16.240	2.855
t-value	2.330 <sup>*</sup>	0.958 <sup>ns</sup>	5.219 <sup>**</sup>	3.458 <sup>**</sup>	1.874 <sup>ns</sup>	0.328 <sup>ns</sup>

Source : Compiled from the Records of UCBs in Chittoor district.

Note : \* = significant at 0.05 level

\*\* = significant at 0.01 level

ns = not significant

*Anova for NPA to Loans and Advances*

<i>Source of Variation</i>	<i>Sum of Squares</i>	<i>Degree of Freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Significance</i>
<i>Between Banks</i>	13616.525	5	2723.305	14.578	0.000**
<i>With in Banks</i>	10087.902	54	186.813	---	---
<i>Total</i>	23704.427	59	---	---	---

Source : Compiled from Secondary data.

\*\* = significant at 0.01 level.

F - calculated value from the data.

In Srikalahasti UCB, the percentage of NPAs to loans and advances increased from Rs. 13.91 lakhs in 2000-01 to a high level of Rs. 91.53 lakhs in 2005-06 and declined later to Rs. 44.52 lakhs in 2009-10 with l.g.r and c.g.r of 8.156 and 13.010 the former being not significant and the latter significant at 5% level. In Kuppam UCB, however, the percentage, after initial increase, declined with fluctuations to 10.57 in 2009-10 with negative growth rates of -3.976 (l.g.r) and -4.393 (c.g.r) which are not significant. In Madanapalli UCB, after initial increase there is steep decline in the percentage of NPAs to loans and advances from 13.90 to 3.37 with high l.g.r and c.g.r of -14.173 and -16.711 which are significant at 1% level. In Tirupati UCB the percentage increased from Rs. 12.01 lakhs to Rs. 22.31 lakhs, after fluctuations between 2000-01 and 2009-10 with l.g.r and c.g.r of 7.526 and 8.699, significant at 1% level. In Chittoor UCB and Balaji UCB also, the percentage increased from 5.51 to 13.50 in the former and from 26.42 to 36.35 in the latter; there are wide fluctuations in both the UCBs. The l.g.rs in two UCBs are 9.123 and 3.376 and c.g.rs are 16.240 and 2.855 respectively, all the rates however, are not significant. The Anova results show that the difference between banks with regard to growth in the percentage of NPAs to loans and advances is significant at 1% level with F-value as 14.578.

It can be concluded that the percentage of NPAs to loans and advances is highest in Balaji UCB and Tirupati UCB in the beginning year and in Madanapalli UCB in the end year. The percentage declined in Kuppam and Madanapalli UCBs and increased in other four UCBs. The highest negative growth is found in Madanapalli UCB and highest positive growth is found in Chittoor UCB followed by Srikalahasti UCB and lowest positive growth in Balaji UCB. Further,

the difference between the banks in the growth of percentage of NPAs to loans and advances is significant.

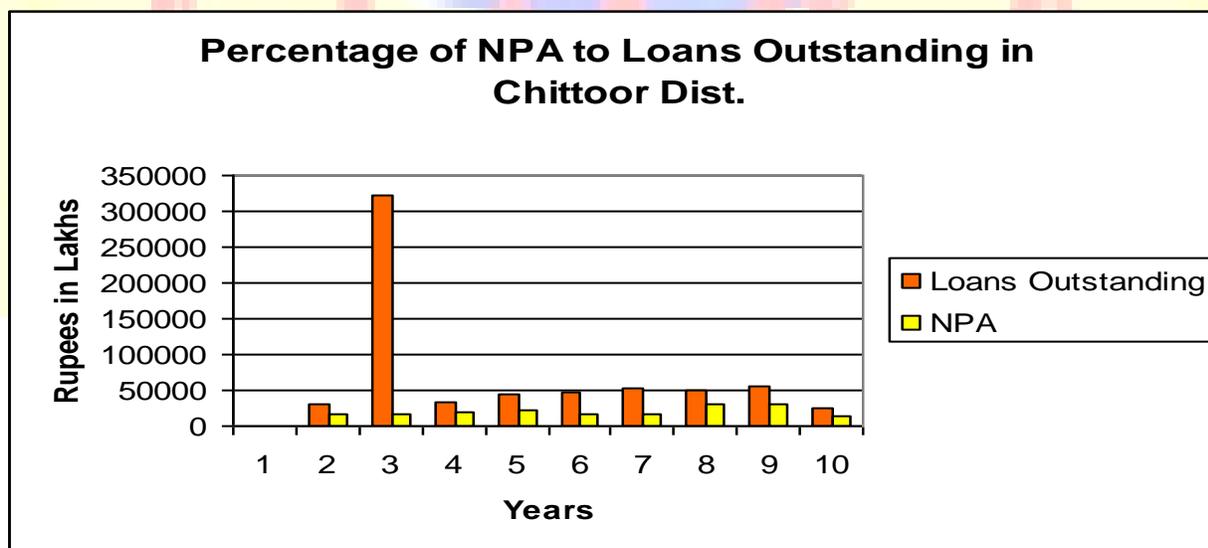
Table - 5

**Percentage of NPA to Loans & Advances in District Central Co-operative Banks, Chittoor.**  
(Rs. in Lakhs)

Years	Loans & Advances outstanding	Gross NPA	Percentage of NPA to loans & Advances
2000-01	NA	NA	-
2001-02	29644.41	16941.4	57.14
2002-03	323448.84	17861.93	55.21
2003-04	34587.59	18509.27	53.51
2004-05	44709.46	22251.64	49.76
2005-06	47014.9	16244.64	34.55
2006-07	51396.13	16853.21	32.79
2007-08	48805.07	29492.64	60.42
2008-09	56019.56	31608.19	56.42
2009-10	25089.9	12906.33	51.44

Source: Annual Reports of Chittoor Co-operative Bank, Chittoor .

Figure - 3



Source: Table-5

The percentage of NPAs to Loans Outstanding in District Co-operative Banks of Chittoor decreased from 57.14 percent in 2001-02 to 32.79 per cent in 2006-07 and immediately increased in 2007-08 by 60.42 per cent and reached to 51.44 percent in 2009.10. It can be concluded that the percentage of NPA to Loans and Advances showed double digit during all the years.

Table - 6

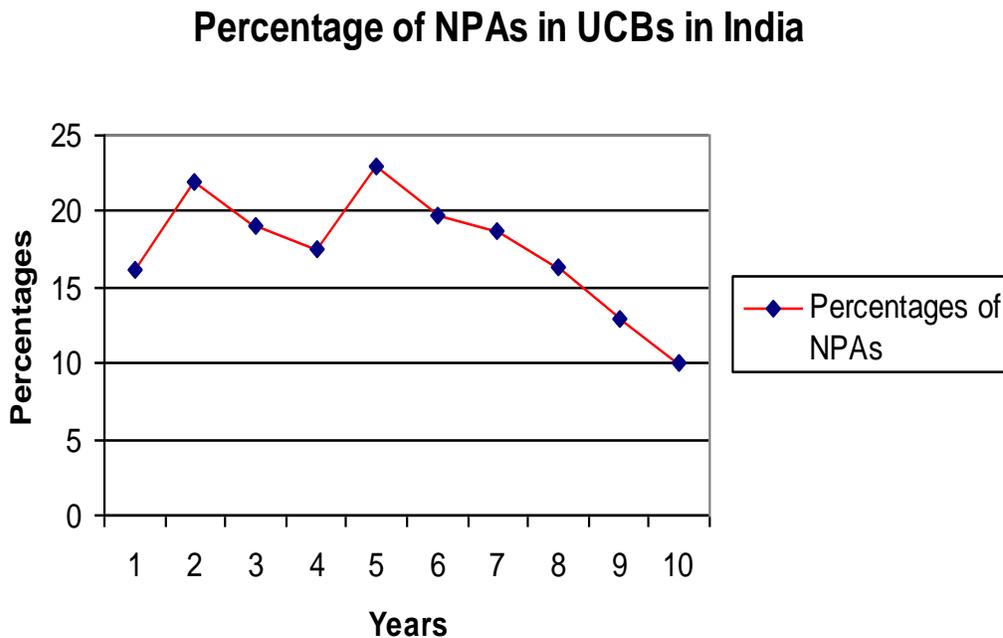
Comparative Statement of NPA as Percentage of Total Advances in UCBS

(In percentages)

Particulars	2000-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
India	16.1	21.9	19.0	17.6	23.0	19.7	18.7	16.4	13.0	10.1
A.P	1.3	2.1	2.4	2.5	2.3	2.3	3.4	3.9	4.4	9.1
In Chittoor (Average)	14.21	20.12	19.60	20.74	29.65	31.96	36.33	26.71	21.97	21.77

Sources : Report on Trend and Progress of Banking in India of various years, RBI Publication, Reports from Registrar of Co-operatives, A.P., Annual Report of Chittoor UCBS.

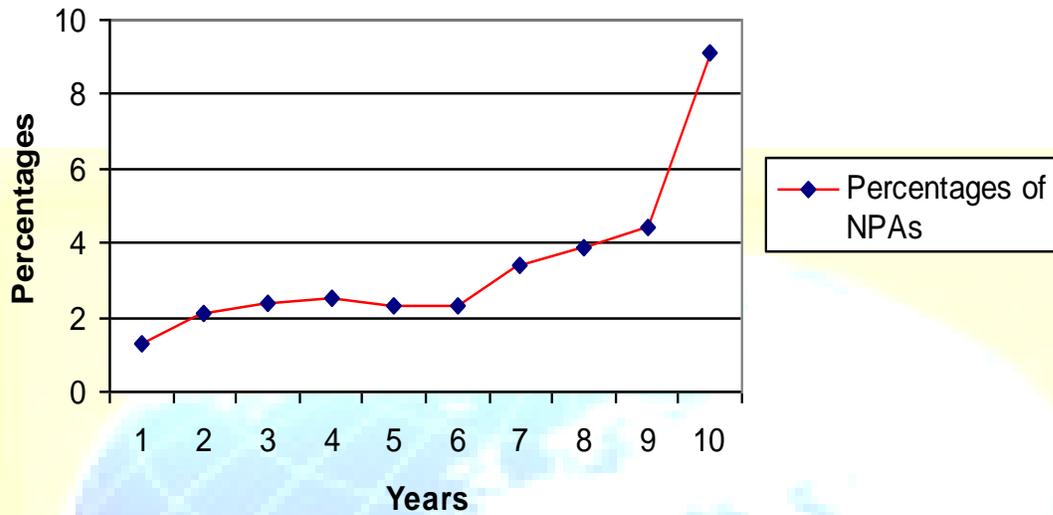
Figure - 4



Source : Table-6

Figure - 5

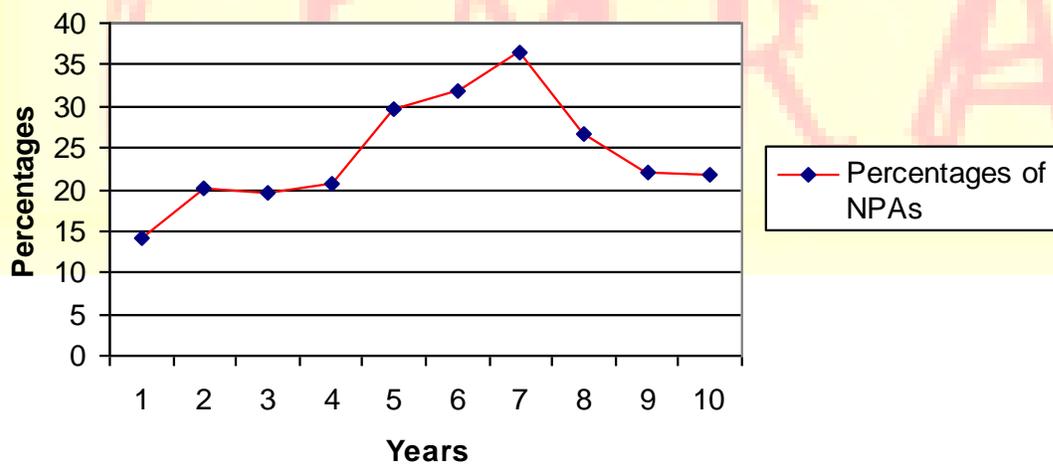
Percentage of NPAs in UCBs in A.P.



Source : Table-6

Figure - 6

Percentage of NPAs in UCBs in Chittoor District



Source : Table-6

*This comparative study shows that percentage of NPAs to total advances of UCBs in India reduced from 16.1 to 10.1 per cent in the period from 2000-01 to 2009-10. The percentage of NPAs to total advances of UCBs in A.P rose from 1.3 percent to 9.1 during the period from 2000-01 to 2009-10 . The average percentage of NPAs of Six UCBS in Chittoor District were also increased from 14.21 percent in 2000-01 to 21.77 percent in 2009-10 with higher fluctuations.*

*The percentage of NPAs in the Andhra Pradesh UCBs have not been reduced even after introduction of “Securitization Reconstruction of Finance Assets and Enforcement of Security Interest Act, 2002 (SARFAESI). Therefore the menace of NPAs is eroding the Urban Co-operative sector.*

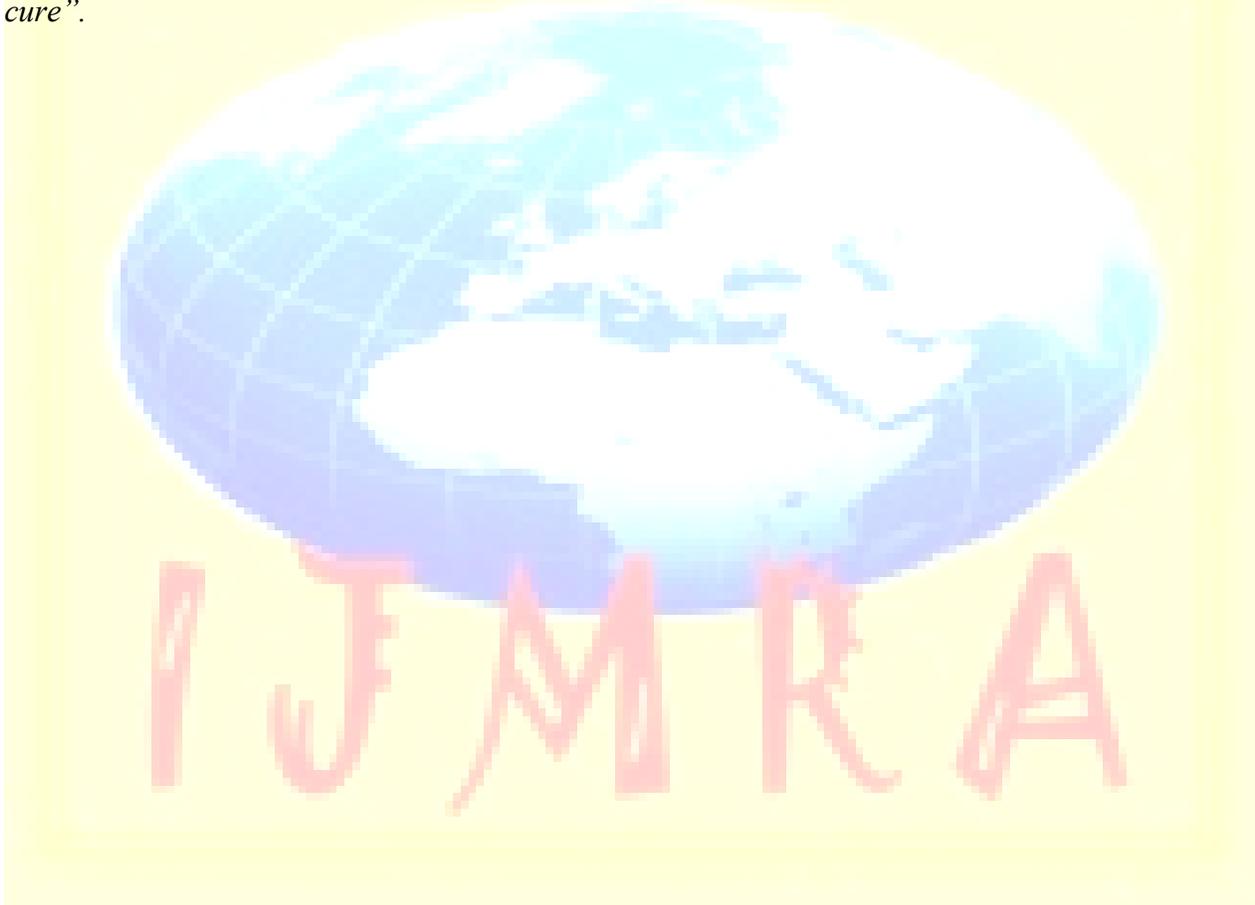
### **Suggestions :**

*The following measures to curtail the menace of NPAs should be adopted.*

- 1) *The banker should at the pre-sanction stage not only appraise the project but also the promoter his character and his capacity.*
- 2) *Regular and effective follow up with borrowers and timely action on sensing the likely default.*
- 3) *The title value etc., and additional security are to be investigated before the disbursement of loan.*
- 4) *More detailed information about the borrowers family background should be collected*
- 5) *Reviewing the advances in time and taking appropriate immediate action.*
- 6) *Sending demand notices in time.*
- 7) *Proper supervision of the borrower account through personal visits and calling for periodical returns to get signals of default.*
- 8) *Holding recovery camps and motivating the staff by releasing staff benefits like conveyance allowance, some have effected promotions.*
- 9) *List of willful defaulters is displayed in the notice board of the bank or branch. Hence the survival, continuity and growth of UCBs to a very large extent depends upon the effective management of NPAs. NPAs are inevitable in the banking sector but proper NPA management would lead to curbing them and in turn will lead to healthy growth of the Urban banking sector.*

### Conclusion

*In view of the mounting overdues in the UCBs, it is essential to take up recovery job on “a war footing”. Each bank has to consider every year as the ‘recovery year’ and targets should be fixed for each branch or unit bank accordingly. Similarly a small reminder to the defaulter would provide a good reward. Further, what ever may be the size of NPA portfolio, every urban bank will have to strive not only to contain the same but bring about substantial reduction which is essential for profitable operations. To conclude UCBs should take care to ensure that they give loans to credit worthy customers as the common adage goes “ Prevention is always better than cure”.*



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**PROFILE OF AUTHORS**

Born in 1966 at Koppedu Village, Chittoor District of Andhra Pradesh, India Mr **K. Manohar** did his B.Com., in 1983, M.Com., in 1986. He has been working as a Lecturer in Commerce, Govt. Degree College, Chittoor district, Andhra Pradesh (INDIA). He is having 15 years of teaching experience. He is pursuing Ph.D in Commerce under the guidance of Prof D. Himachalam, Department of Commerce in Sri Venkateswara University, Tirupati. He has participated in various national seminars, workshops, etc. and also published 5 articles in reputed National and International journals.



Prof. Himachalam Dasaraju, born in 1953 at Repallawada (Chittoor District) in Andhra Pradesh, did his M.Com in 1978, M.Phil in 1982 and Ph.D in 1989. As an active researcher, he is particularly interested in such areas as Accounting & Finance, Entrepreneurship, Corporate Governance and consumer affairs.

To date Prof. Himachalam Dasaraju has completed 10 Major Research Projects, 2 of which were consultation projects, funded by the UGC, ICSSR and the Ministries of Govt. of India. He has published 5 books and 75 articles. He was declared “Man of the year 2002” by the American Biographical institute, U.S.A. He is now collaborating with Prof. Serge Evraert, University of Montesque, Bordeaux, France, in studies of Corporate Financial Reporting System and Corporate Governance Practices in France and India. He has been a subject expert and panel member for several Indian universities. He worked in Essex Business School, University of Essex, Colchester, UK as Commonwealth visiting Fellow for 6 months in 2008-2009. The University of Essex, UK, has nominated him as Visiting Professor for 3 years up to 2012. He is visiting UK, France and Italy during May – July 2011 for various academic purposes.



Born in 1971 at Nellore in Andhra Pradesh, India **Dr. Kota Sreenivasa Murthy** did his B.Com., in 1992, M.Com., in 1994 and M.Phil., in 2007. He has been working as a Principal in Seshachala Institute of Management Studies, Puttur, Chittoor district, Andhra Pradesh (INDIA). He was awarded Ph.D Degree in Commerce in 2011 by Sri Venkateswara University, Tirupati. He has participated in various national seminars, workshops, etc. He got short term doctoral fellowship from ICSSR, New Delhi and also published 15 articles in reputed National and International journals.