

A Study on Non-Performing Assets at Sahyog Urban Co-operative Bank Ltd.

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Abstract

Non-Performing Assets (NPAs) pose a significant challenge to the financial health and stability of cooperative banks. This study delves into the trends and management strategies of NPAs at Sahyog Urban Co-operative Bank Ltd., Udgir, for the financial years 2020-21 to 2022-23. Through an analysis of secondary data, this paper identifies key factors contributing to high NPA levels, evaluates the effectiveness of recovery mechanisms, and explores strategic solutions to mitigate these challenges. The findings aim to support cooperative banks in improving their financial performance and sustaining their operational viability.

Keywords

Non-Performing Assets, Cooperative Banks, Recovery Strategies, Financial Management, Risk Mitigation

Introduction

The banking sector acts as a cornerstone of economic development, channeling resources from savers to borrowers and supporting various sectors, including agriculture, industry, and small businesses. Cooperative banks, particularly in rural and semi-urban areas, have played a pivotal role in financial inclusion, catering to underserved communities. However, the rise in Non-Performing Assets (NPAs) has emerged as a critical issue, undermining their ability to lend effectively and maintain profitability.

This study focuses on Sahyog Urban Co-operative Bank Ltd., a prominent cooperative bank in Udgir, Maharashtra. Over recent years, the bank has faced persistent challenges related to NPAs, with ratios consistently exceeding 10%. By examining these trends, the study seeks to uncover the root causes of NPA formation, evaluate current management practices, and propose actionable strategies for improvement.

Literature Review

NPAs are widely recognized as a critical indicator of a bank's financial health. High levels of NPAs erode profitability, restrict lending capacity, and strain liquidity. Research by the Reserve Bank of India (RBI) highlights that cooperative banks, due to their community-driven approach, are more vulnerable to NPAs compared to commercial banks. Studies have also emphasized the

role of economic factors, such as crop failures and market volatility, in exacerbating defaults among rural borrowers.

Notable contributions, such as the Narasimham Committee reports, have recommended stringent norms for asset classification and provisioning. However, implementation remains a challenge for cooperative banks with limited technological and human resources. Despite various initiatives, the issue of NPAs continues to hinder the growth of the cooperative banking sector.

Research Methodology

This study adopts a descriptive research methodology, leveraging secondary data from the bank's annual reports, NPA statements, and internal records for the years 2020-21, 2021-22, and 2022-23. Quantitative analysis focuses on key indicators such as the Net NPA to Net Advances ratio and recovery rates. Additionally, qualitative insights from case studies of defaulted loans provide a nuanced understanding of the challenges faced by the bank.

The study also incorporates trend analysis to evaluate changes in NPA levels over the specified period. By combining these approaches, the research aims to provide a comprehensive assessment of NPA management practices and their effectiveness.

Findings and Analysis

The analysis reveals several critical insights into the NPA trends at Sahyog Urban Co-operative Bank Ltd.:

1. **Consistent High NPA Ratios:** The Net NPA ratio remained constant at 10% over the three-year period, indicating persistent challenges in loan recovery and risk assessment.
2. **Ineffective Recovery Mechanisms:** Despite recovering ₹305.66 lakhs in 2022-23, the overall NPA levels increased, suggesting that new NPAs are offsetting recovery efforts. Factors such as inadequate follow-up and reliance on traditional recovery methods contribute to this issue.
3. **Sectoral Vulnerabilities:** A significant portion of NPAs stemmed from agricultural loans and small businesses, reflecting the economic pressures on these sectors. Seasonal income fluctuations and market uncertainties further exacerbate default risks.

The findings highlight the need for a more proactive approach to credit appraisal, loan monitoring, and borrower engagement.

Recommendations

To address the challenges identified, the following recommendations are proposed:

1. **Enhance Credit Appraisal Systems:** Introduce advanced risk assessment tools to evaluate borrower creditworthiness more accurately.
2. **Strengthen Loan Monitoring:** Establish a dedicated team for periodic monitoring of high-risk

loans and timely identification of potential defaults.

3. Adopt Technology-Driven Solutions: Leverage digital platforms for tracking loan performance and automating recovery processes.

4. Diversify Loan Portfolio: Reduce concentration in vulnerable sectors by diversifying into less volatile industries.

5. Capacity Building: Conduct training programs for bank staff on modern risk management techniques and recovery strategies.

Conclusion

The issue of NPAs is a significant impediment to the growth and stability of cooperative banks like Sahyog Urban Co-operative Bank Ltd. Addressing this challenge requires a multi-faceted approach, combining technological advancements, strategic reforms, and robust governance. By implementing the recommended measures, the bank can enhance its financial health, improve member confidence, and contribute to the broader goal of financial inclusion.

References

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