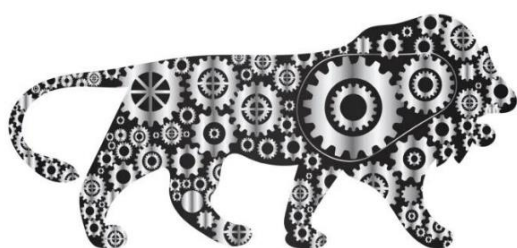ISSN : 3048-5320 (Online)

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A STUDY ON NON-PERFORMING ASSETS AND PIGMY AS A SOLUTION TO MINIMIZE THE NPA

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Abstract:

Non-performing assets are those assets which cease to generate income for the bank. When loans and advances remain overdue for more than 90 days that asset is classified as non-performing assets. In recent times non-performing assets are the major concern for the cooperative banks. This has an impact on the bank's financial health. The objective of this paper is the study the classification of NPA in the Kolhapur Mahila Sahakari Bank and to create awareness amongst customers regarding the use of pigmy amounts for repayment of their loan instalments. Pigmy is a deposit scheme where customers can save a small amount of money daily. It is a doorstep scheme where the bank agent collects the money from the doorsteps of the customer. The data for the study is collected from the bank and the questionnaire-based survey of the customers. This research paper is the result of data analyses through a questionnaire as well as secondary data collected by the bank.

Keywords: Non-performing assets, Pigmy deposit

Introduction:

Cooperative banks play a vital role in the Indian banking system. The bank's primary functions are to loan money to its clients and accept a variety of deposits. The bank's biggest challenge is dealing with the non-performing asset issue. Non-Performing Assets are those assets that no longer bring in income for the banks, they are known as Non-Performing Assets (NPAs). When a borrower is unable to repay interest and/or installment payments on a loan, which remain overdue for 90 days that account is considered a non-performing asset by the bank. The committee headed by M. Narasimham introduced the concept of non-performing assets. Narasimham's Committee recommended that classifying assets as performing or non-performing is essential for improving a bank's financial stability. Since non-performing assets (NPAs) negatively impact a bank's financial stability, the management of NPAs has become essential for the bank.

This study is related to the NPA analysis of Kolhapur Maila Sahakari Bank. This paper gives a brief idea about the concept of NPA and attempts to make the customers aware as to how they can use their pigmy amount for repayment of loan instalments which helps to minimize the NPA accounts of the bank. In 1928, the Syndicate Bank of India launched the Pigmy Deposit Scheme, which is a financial deposit scheme. A bank representative can initially deposit money into an account daily, even in a small amount of ten rupees, by the bank's agent collecting it up from the account holder's doorstep.

Review of literature:

(Sarkar & Karak, 2018) studied that Non-Performing Assets (NPAs) have been a problem in India's banking sector, particularly among District Central Cooperative Banks (DCCBs). To solve the issue of existing NPAs, the quality of appraisal, supervision, and follow-up must be improved. This study analyses the trend, causes, and impact of nonperforming assets (NPAs) in rural lending structures in general, and the BDCCBL specifically. The overall image of NPA management is not satisfactory for the bank under review.

(Kiran & Jones, 2016) study that Every country's economic progress is dependent on how well its financial system functions. The banking sector provides for a significant portion of the financial system. As a result, the banking sector should now focus primarily on effective NPA management to boost profitability and hence provide as much funding to the business as possible. Banks should establish new loan recovery techniques.

(Tiwari & Sontakke, 2013) study that NPA growth requires the utilization of provisions, reducing overall profitability and shareholder value. Before authorizing loans to clients, branch managers must conduct due diligence and exercise considerable caution. Careful steps such as selecting the right borrowers, possible revenue generation, adequate finance and timely disbursement, correct end use of funds, and timely loan recovery are required preconditions for preventing or reducing the number of new NPAs, which will improve bank creditability and achieve the goal of a well-established financial system.

(Dhawale & Dhore, 2023) found that because of political interference, banks' non-performing assets have increased significantly. Also, government policies such as inflation and GST caused a temporary slowdown in the industries. In addition, the Corona lockdown damaged the industry, increasing bank loan defaults. Because the

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growth of the Indian economy is dependent on the development of Indian banks. If the Indian Bank continues to function correctly, the Indian economy will be stabilized.

(Matharu, 2021) studied the Trends in NPAs at Himachal Pradesh State Cooperative Bank Ltd. The number of nonperforming assets (NPAs) is improving year after year. However, the bank's NPA level is still high. NPAs are restricting banks' earning capability and lowering earnings. Non-performing assets (NPAs) have been for years a major issue for banks and the economy.

Objectives:
1.   To study the classification of NPA in a bank.
2.   To study and create awareness in customers regarding the use of pigmy amount for repayment of their loan instalments.

Research Methodology:
1.   Primary data:
         The primary data is the data which is used for the first time in the study. However, the data is collected through the questionnaire and discussion with bank managers, employees and customers of Kolhapur Mahila Sahakari Bank Ltd.
2.   Secondary data:
         The secondary data is the data which is already available in books, journals, reports, magazines etc. However, the secondary data was used for the company profile and theoretical background. Which is collected from bank websites, banking books, banks annual reports etc.
3.   Sample size:
         The sample size of customers related to the pigmy awareness form is 150 customers of the bank. The method used is the Questionnaire survey method.

Data Analysis and Interpretation:

Table No. 4 Classification of NPA in percentage

NPA data of 5years in Percentage					
	2019	**2020**	**2021**	**2022**	**2023**
Standard assets	95.30%	86.49%	90.02%	79.63%	89.26%
Sub-standard assets	2.81%	8.60%	1.70%	9.34%	1.67%
Doubtful-1 assets	0.52%	2.09%	4.75%	5.07%	3.78%
Doubtful-2assets	0.95%	1.58%	1.73%	4.61%	0.93%
Doubtful-3 assets	0.40%	1.21%	1.78%	1.34%	4.34%
Loss assets	0.02%	0.02%	0.02%	0.00%	0.02%
Total loans	**100%**	**100%**	**100%**	**100%**	**100%**

(Source- Annual Reports of Mahila Sahakari Bank)

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1. Standard assets

Table No. 4.1 Standard asset data

	2019	2020	2021	2022	2023
Standard assets	95.30%	86.49%	90.02%	79.63%	89.26%
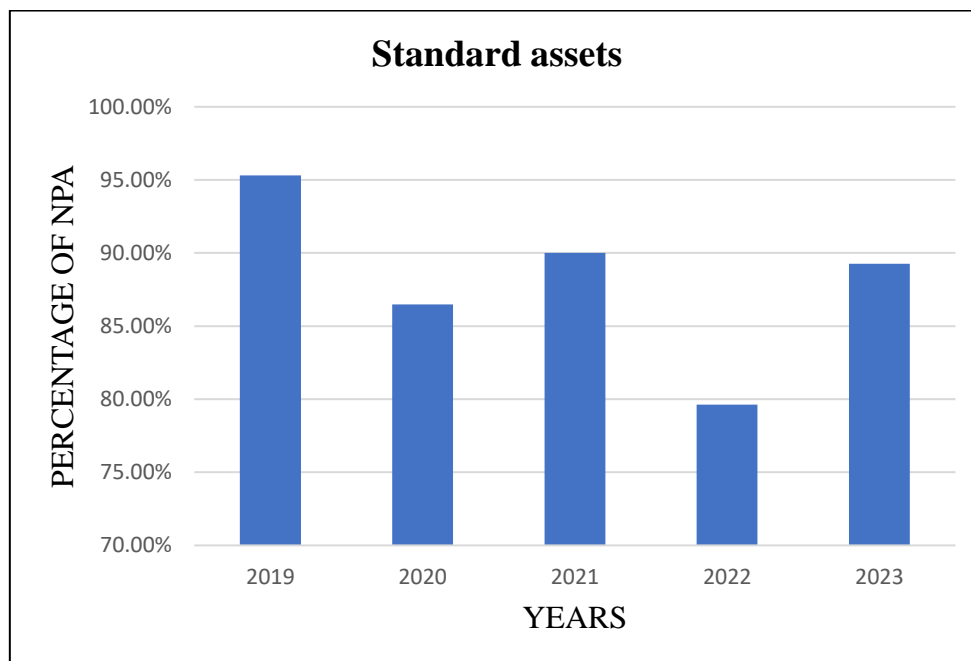
Graph No. 4.1 Standard asset data

Interpretation:

According to the graph, the bank has maintained a standard asset ratio of over 75% every year. In 2019, the bank had 95.30% standard assets, which decreased by 8.81% in 2020. However, there was an increase of 3.53% in 2021, followed by a significant decrease of 79.63% in 2022. The bank then saw an increase of 9.63% in 2023.

2. Sub-standard assets

Table No. 4.2 Sub-standard asset data

	2019	2020	2021	2022	2023
Sub-standard assets	2.81%	8.60%	1.70%	9.34%	1.67%

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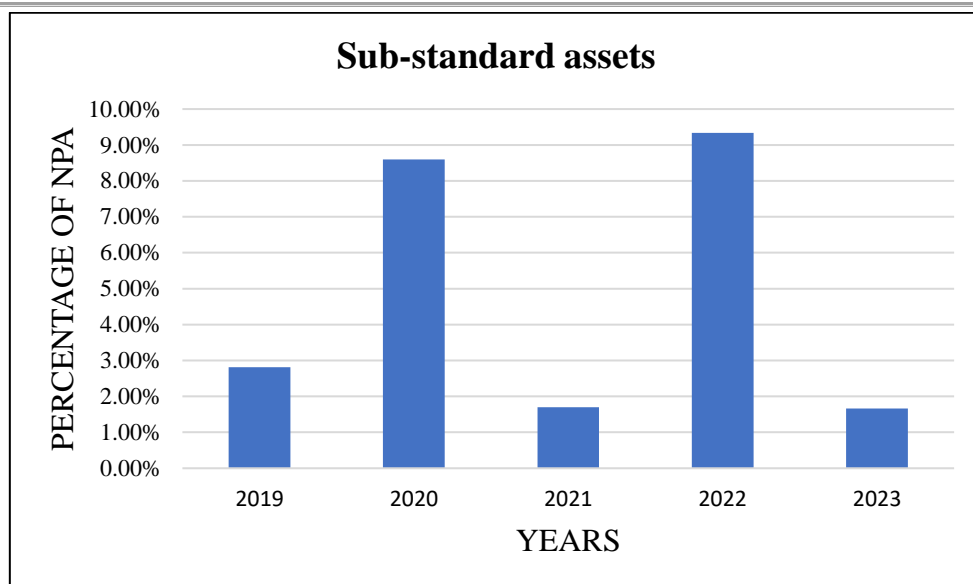
Graph No. 4.2 Sub-standard asset data

Interpretation:

According to the asset graph, in 2019, sub-standard assets were at 2.81%. This percentage increased by 5.79% in 2020 but then decreased by 6.9% the next year. However, in 2022, the percentage of sub-standard assets went up to 9.34% but then decreased by 7.67% in 2023. This indicates that around 8.60% and 9.34% of assets were considered non-performing for less than or equal to 12 months in 2020 and 2022.

3. Doubtful-1 assets

Table No. 4.3 Doubtful asset data

	2019	2020	2021	2022	2023
Doubtful-1 assets	0.52%	2.09%	4.75%	5.07%	3.78%

Graph No. 4.3 Doubtful asset data

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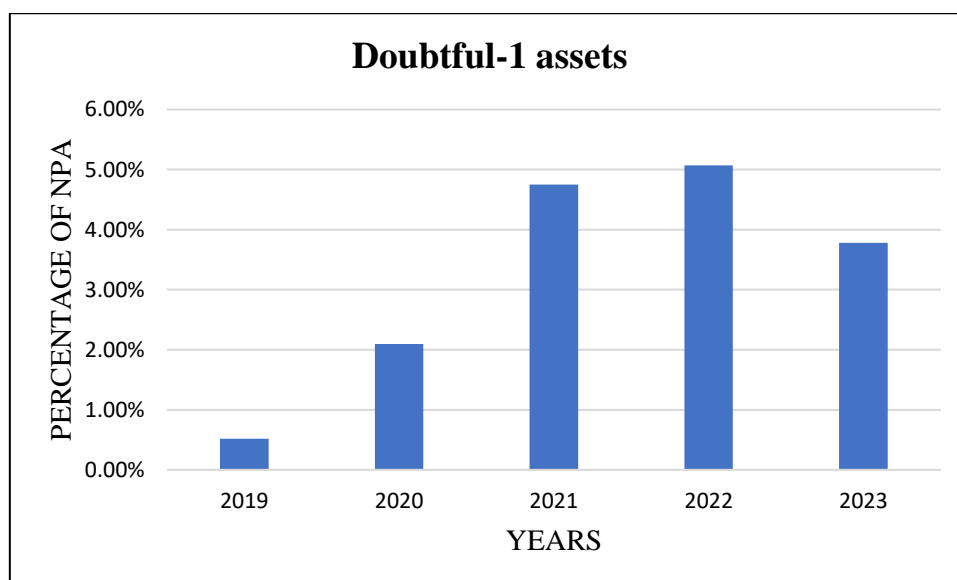
Interpretation:

According to the graph, there was a significant increase in the percentage of non-performing assets NPAs in 2022, followed by a slight decrease in 2023. Based on the doubtful-1 asset graph, the percentage of NPAs was only 0.52% in 2019, which increased to 1.52% in 2020 and 2.66% in 2021. In 2022, the percentage of NPAs reached its highest point at 5.07% but then decreased to 3.78% in 2023. This means that after 2020, 5.07% of assets remained as NPAs for more than 12 months but less than 24 months.

4. Doubtful-2 assets:

Table No. 4.4 Doubtful-2 asset data

	2019	2020	2021	2022	2023
Doubtful-2assets	0.95%	1.58%	1.73%	4.61%	0.93%
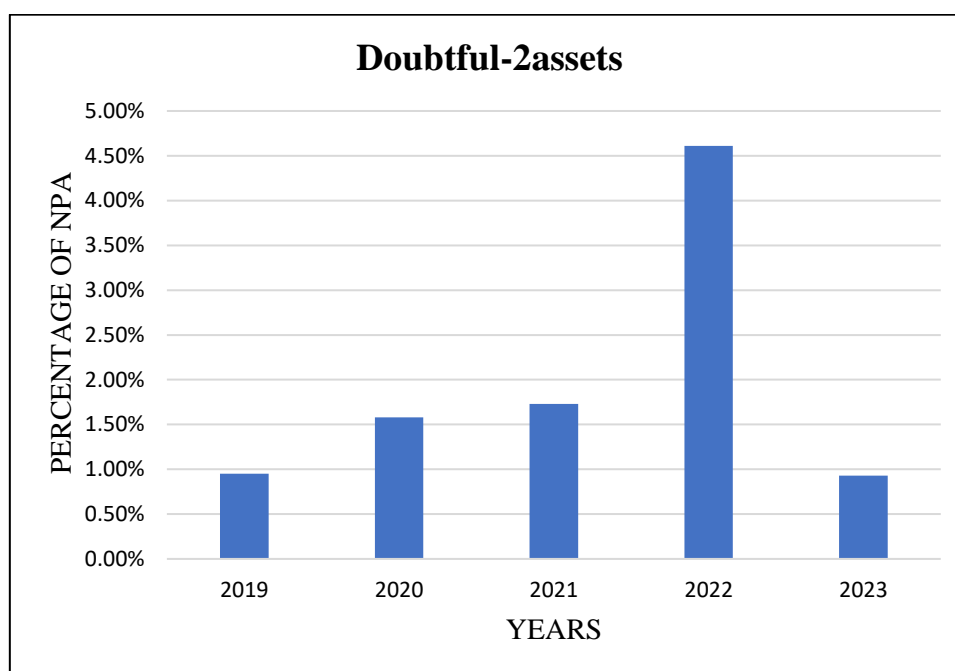
Graph No. 4.4 Doubtful-2 asset data

Interpretation:
The graph shows that, from 2019 to 2022, Doubtful-2 assets show an increasing trend, with a major increase in 2022. In 2023, there is a major decrease again near the year 2019.
According to the above doubtful-2 asset graph, there is no major increase in doubtful-2 assets in 2019, 2020, or 2021. But, in 2022, it increases by 2.88% which is 4.61%, and in 2023, it decreases by 0.93%. It indicates that around 4.61% of assets in 2022 are between 24 and 48 months.

5. Doubtful-3 assets:

Table No. 4.5 Doubtful-3 asset data

	2019	2020	2021	2022	2023
Doubtful-3 assets	0.40%	1.21%	1.78%	1.34%	4.34%

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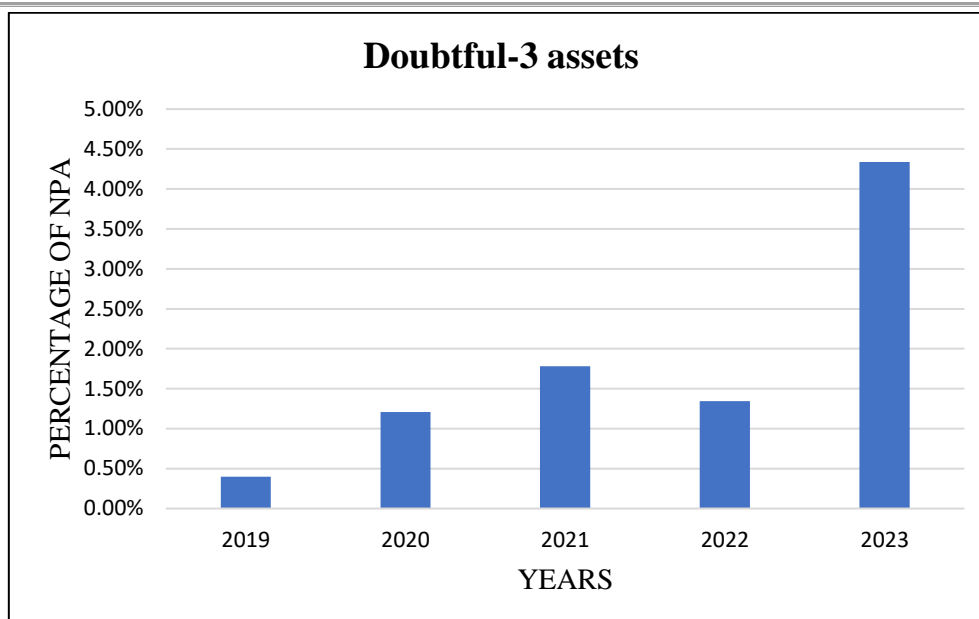
Doubtful-3 assets

Graph No. 4.5 Doubtful -3 asset data

Interpretation:

The graph indicates that between 2019 and 2023, the percentage of doubtful-3 assets increased slowly. From the above graph of doubtful-3 assets, we can observe that in 2019 doubtful-3 assets were 0.40%, and that they increased by 0.81% in 2020 and 0.57% in 2021. But, in 2022, it drops by 0.44%. After 2022, doubtful-3 assets had a significant increase of 3%, and it went up to 4.34%. That means in recent years, around 4.34% of the assets have remained NPA for more than 48 months.

6. Loss asset:

Table No. 4.6 Loss asset data

	2019	2020	2021	2022	2023
Loss assets	0.02%	0.02%	0.02%	0.00%	0.02%
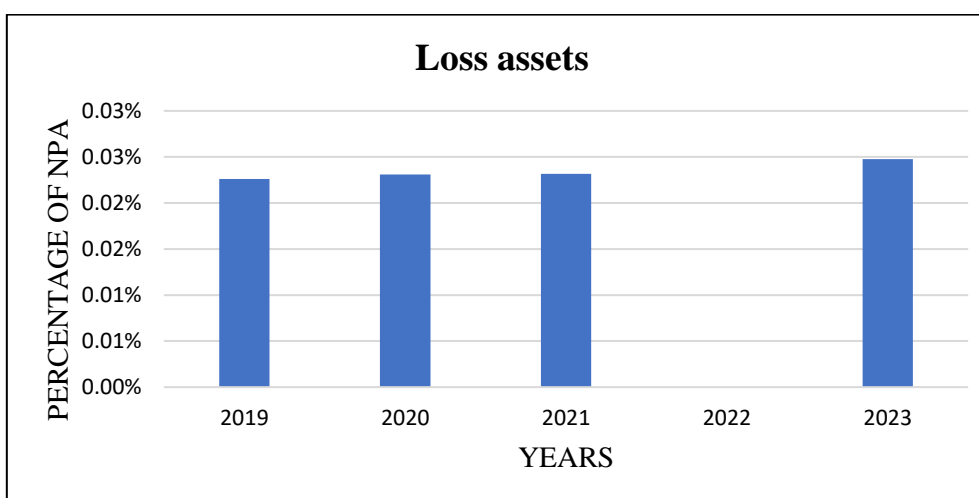
Loss assets

Graph No. 4.6 Loss asset data

Interpretation:

According to the graph, we can see that there is a consistent 0.02% loss asset balance from 2019 to 2023 suggesting a generally stable situation in terms of NPA over these years. A consistent percentage may indicate that the bank has managed to maintain a low percentage of loss assets during this period in 2022 loss assets are zero, and there is no loss asset in the bank.

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7. Gross NPA:

Table No 4.7 Gross NPA data

	2019	2020	2021	2022	2023
Gross Loans	5350.32	5239.5	5439.66	5127.61	5897.11
Gross NPA	251.33	578.18	543.1	643.61	633.34
% of gross NPA	4.70%	11.04%	9.98%	12.55%	10.74%
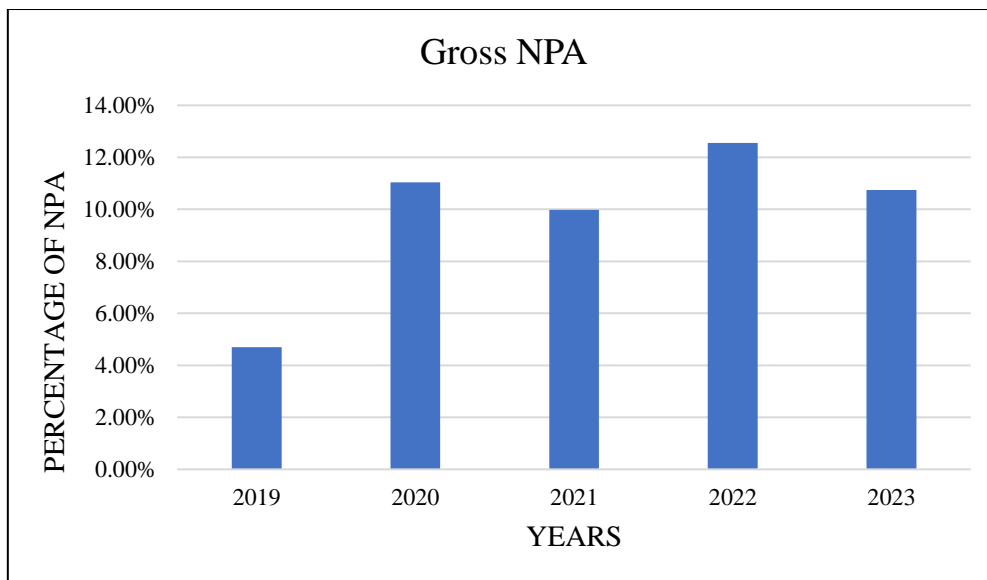
Graph No. 4.7 Gross NPA data

Interpretation:
Based on the graph, we can observe that the percentage of gross NPA increased significantly by 6.34% after 2019. In 2021, there was a slight decrease of 9.98% in gross NPA percentage. However, in 2022, the gross NPA percentage increased to 12.55%, which is a significant increase and the highest in the past five years. Even though there is a small decrease of 1.81% in 2023, the gross NPA percentage remains very high.

Data analysis of the questionnaire on pigmy data:

1. Knowing about the Shubhalaxmi deposits scheme (Pigmy deposit)

Table No. 4.8 Awareness of Deposit

| Responses of customers		Percentage
Yes	128	85.33%
No	22	14.67%
Total	150	100.00%

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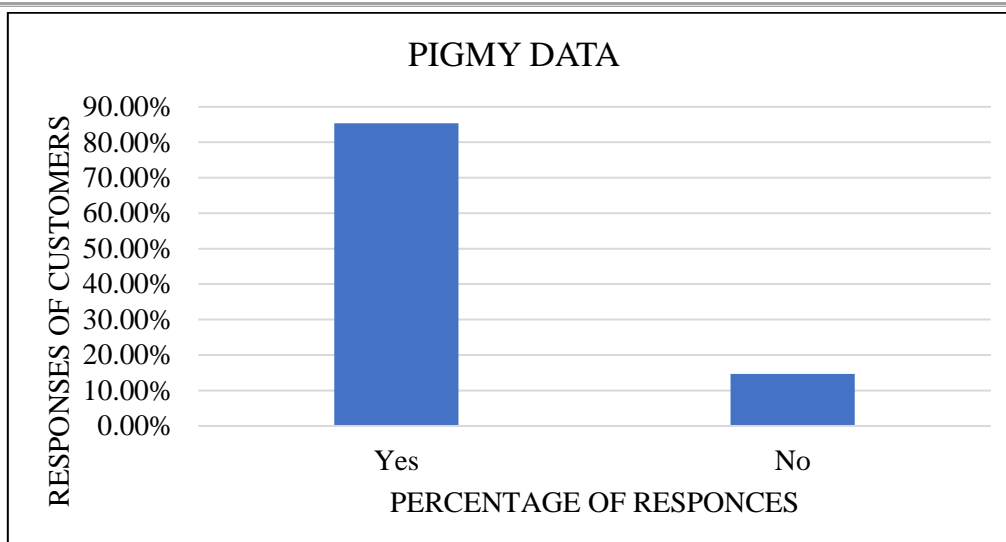
Graph No. 4.8

Interpretation:

According to the graph above, 128 respondents out of 150 consumers replied that they were aware of the Shubhalaxmi deposit scheme, whereas 22 respondents replied that they were unaware of this scheme.

2. Awareness about the Benefits of the Shubhalaxmi deposit scheme (Pigmy deposits)

Table No. 4.9 Benefits of Deposit

Responses Of Customers		Percentage
Yes	65	43%
No	85	57%
Total	150	100%
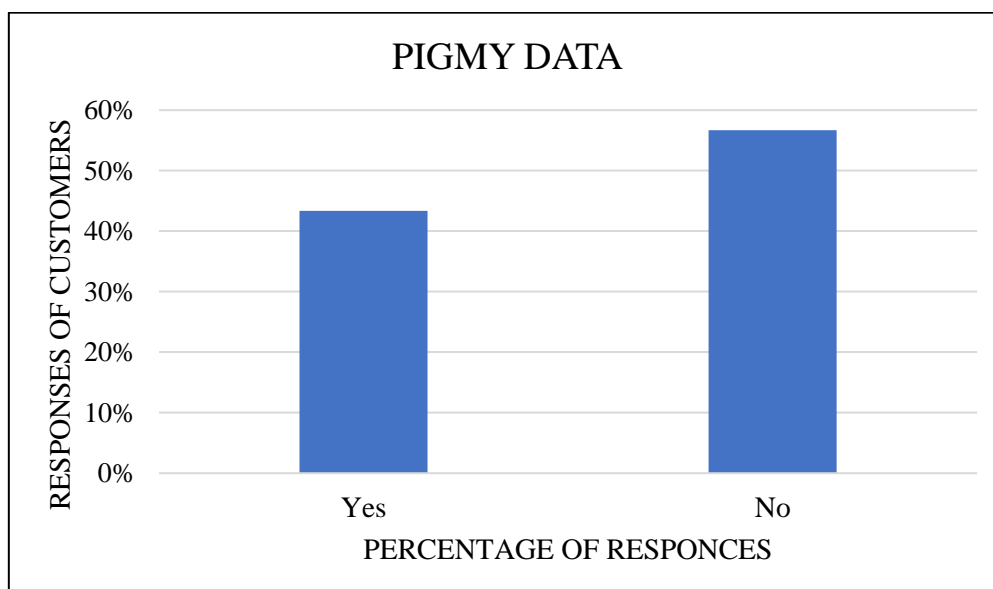
Graph No. 4.9 Benefits of Deposit

Interpretation:

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According to the above graph, we can see that out of 150 customers, 65 customers said that, yes they knew about the benefits of the Shubhalaxmi deposit scheme and 85 customers said that, no they didn't know of the benefits of the Shubhalaxmi deposit scheme.

3. Customers open their Shubhalaxmi deposits (pigmy deposits) in the the bank

Table No. 4.10 Number of Deposits

Responses of Customers		Percentage
Yes	45	30%
No	105	70%
Total	150	100%

Graph No 4.10 Number of Deposits

Interpretation:

According to the graph, we can see that out of 150 customers, only 45 customers have their Pigmy Deposit Scheme account and 105 customers do not have their pigmy deposit scheme account.

4. Awareness about the use of Shubhalaxmi deposits (pigmy deposits) to repay the loan instalment
5.

Table No. 4.11 Awareness of Deposit

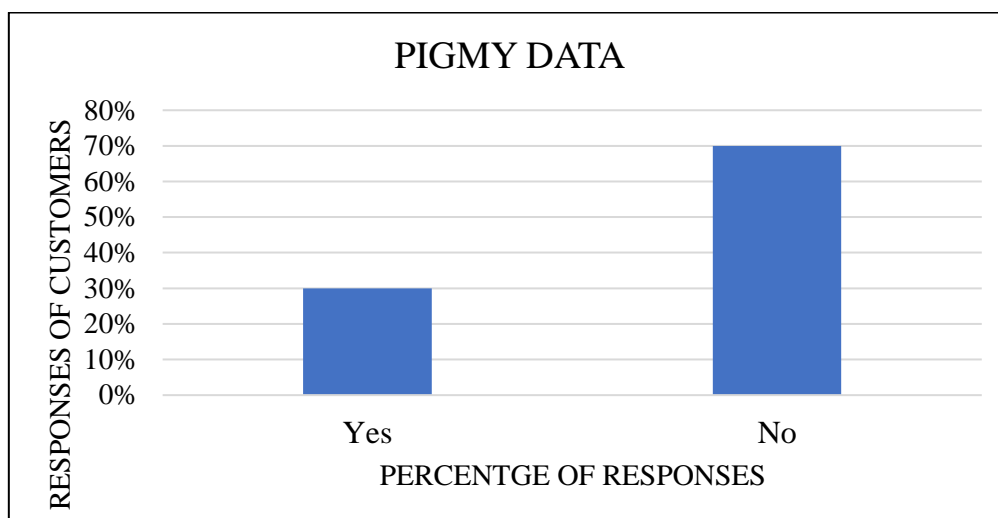| Responses of Customers		Percentage
Yes	28	19%
No	122	81%
Total	150	100%

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Graph No 4.11 Awareness of Deposit

Interpretation:
According to the graph, we can see that out of 150 customers, 28 customers are aware that they can repay instalments regularly with the help of the Shubhalaxmi deposit scheme and 122 customers are not aware of the benefits of the Shubhalaxmi deposit scheme.

6.   Loan accounts in the bank

Table No. 4.12 Number of Loan Accounts

Responses of Customers		Percentage
Yes	94	63%
No	56	37%
Total	150	100%

Graph No. 4.12 Number of Loan Accounts

Interpretation:
According to the graph, we can see that out of 150 customers, 94 customers have a loan account in the bank and the rest of the 56 customers don't have loan accounts in the bank they enjoy other services provided by the bank.

7.   Use of Shubhalaxmi deposit account (pigmy account) to repay your loan instalment.

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Table No. 4.13

Responses of Customers		Percentage
Yes	9	6%
No	141	94%
Total	150	100%
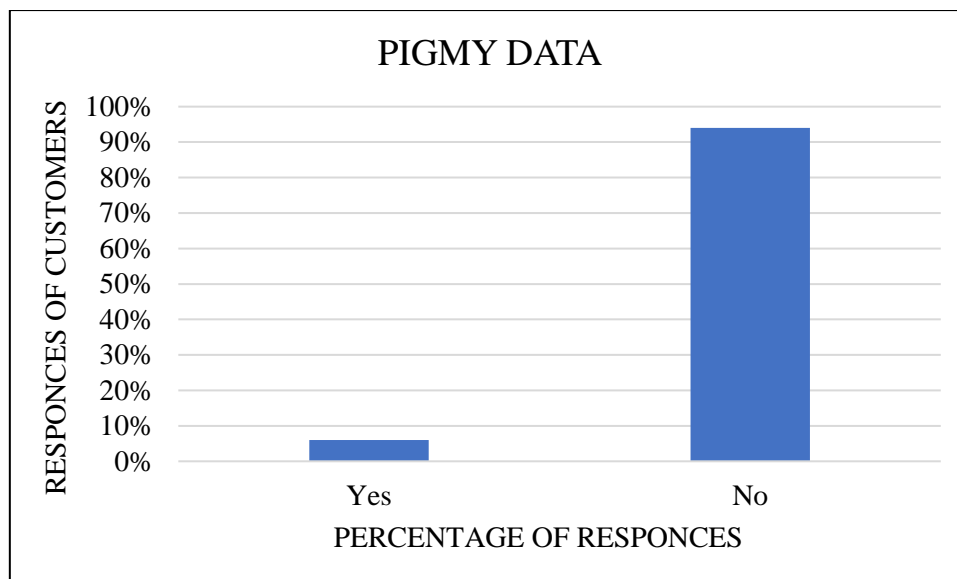
Graph No. 4.13
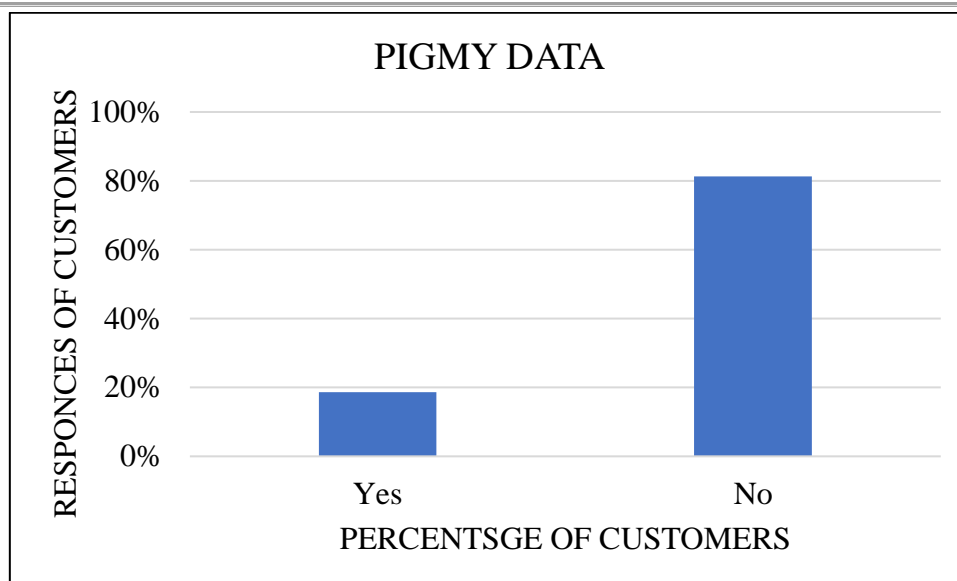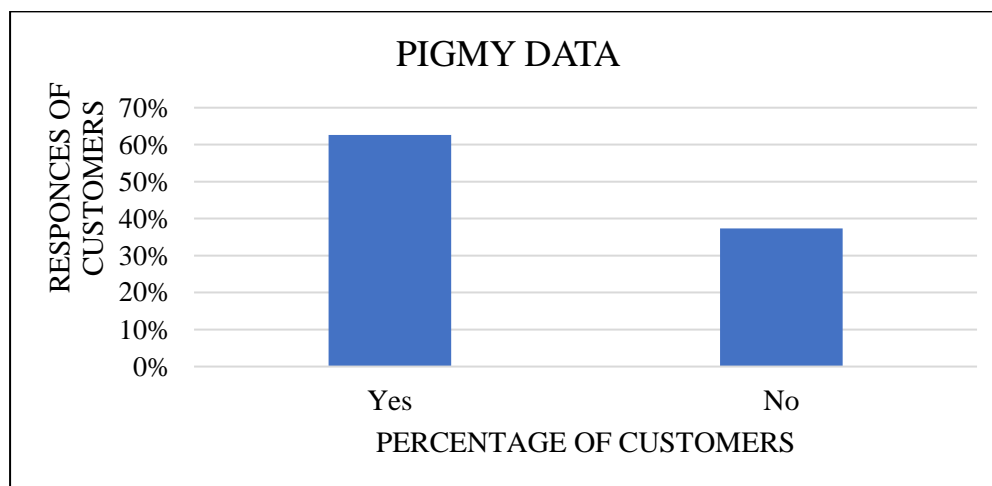
Interpretation:

According to the graph, we can see that out of 150 customers, only 9 customers use their Shubhalaxmi deposit account to repay their loan instalment, and 141 customers respond to no as they don't use their Shubhalaxmi deposit account to repay the loan.

Findings and suggestions:

1. In the case of substandard assets, the percentage of sub-standard assets shown in the graph fluctuates between 2019 and 2023, which majorly increases in 2020 and 2022 and decreases in 2021 and 2023; which is a result of the 2019 flood and pandemic that spread in 2021. (Table No. 4.2)

2. In the case of doubtful-2 assets, there is an average rise from 2019 to 2021, but a significant increase in assets in 2022 indicates an increased risk to the bank's financial stability. It is because of the pandemic period. However, assets again decreased significantly in 2023, which is a positive sign for the bank. (Table No. 4.4)

3. When it comes to the doubtful-3 assets, we can observe that their percentage increased significantly in 2023 compared past five years, it is because of the high number of doubtful-2 assets in 2022. It indicates a greater chance of default than in previous years. which indicates increasing the possibility of a bank loss as well as affecting the bank's overall performance. (Table No. 4.5)

4. In the case of loss assets, the bank has maintained these assets efficiently, in 2022 it was zero, which indicates the sufficient control of the loss assets. (Table No. 4.6)

5. When it comes to gross NPA, the trend indicates an upward trend that indicates fluctuating amounts of NPA over time. But this percentage generally remains at a troubling level. (Table No. 4.7)

6. Considering the benefits of the Shubhalaxmi deposit scheme, we observe that almost half of the customers are not aware of these benefits. (Table No. 4.9)

7. In the Shubhalaxmi Deposit Scheme, we observe that just a few per cent of customers are opening accounts in the bank under the Pigmy Deposit Scheme. (Table No. 4.10)

8. In the case of the Shubhalaxmi deposit scheme, we can see that 80% of people are not aware that they can use their pigmy account to repay their loan instalments. (Table No.11)

9. Regarding the Shubhalaxmi Deposit Scheme, it is clear that just nine customers use their pigmy amount for loan repayment, which keeps their loan account running smoothly. (Table No. 13)

Suggestions:

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1. The bank should focus on the reduction of the previous due of the bank.
2. The bank should explain to customers the benefits of opening a Shubhalaxmi deposit account and encourage them to open the account.
3. The bank should inform borrowers that they can repay loan instalments using their Shubhalaxmi deposit account. It can reduce the NPA and help ensure that the payment is received on time.
4. Automated systems for loan monitoring should be implemented by the bank.

Conclusion:

The study concludes that the bank is making every attempt to keep non-performing assets at the lowest level that it has reached in the past few years. They have been almost successful in achieving so, but they still need to hold it tighter to decrease it even further. The bank needs to focus especially on managing non-performing assets and take necessary action to prevent the development of new NPAs. The reduction of previous dues should be another priority for the bank. Additionally, by increasing awareness about the Shubhalaxmi deposit and its benefits among the majority of consumers, the bank can increase deposits and encourage customers to use that Shubhalaxmi deposit account for repayment loan instalments, which is useful for the borrower and the bank and helps in automatically reducing the bank's NPAs.

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