



Non-Performing Assets in Maharashtra's Cooperative Banking Sector - A Case Study of Satara and Sangli DCCBs

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Abstract:

Non-performing assets (NPAs) are a significant challenge in the banking sector, particularly for District Central Cooperative Banks (DCCBs) in Maharashtra, which play a crucial role in rural credit and agricultural financing. This study aims to conduct a comparative analysis of NPA management in Satara DCCB and Sangli DCCB, two prominent cooperative banks in the state. The research examines the trends, causes, and impact of NPAs in these banks over the past decade. It also evaluates the effectiveness of recovery mechanisms, including legal actions, restructuring, and government policies. Data for the study is collected from annual reports, RBI and NABARD publications, and interviews with bank officials and borrowers. The findings indicate that both banks face high NPAs due to inadequate credit appraisal, loan waivers, political interference, and weak recovery mechanisms.

Keywords: *Non-Performing Assets (NPAs), District Central Cooperative Banks (DCCBs), NPA Management, Satara DCCB, Sangli DCCB, Maharashtra, Rural Banking, Financial Sustainability*

Introduction:

Non-performing assets (NPAs) are a significant challenge in the banking sector, particularly for District Central Cooperative Banks (DCCBs) in Maharashtra, which play a crucial role in rural credit and agricultural financing. This study aims to conduct a comparative analysis of NPA management in Satara DCCB and Sangli DCCB, two prominent cooperative banks in the state. The research examines the trends, causes, and impact of NPAs in these banks over the past decade. It also evaluates the effectiveness of recovery mechanisms, including legal actions, restructuring, and government policies. Data for the study is collected from annual reports, RBI and NABARD publications, and interviews with bank officials and borrowers. The findings indicate that both banks face high NPAs due to inadequate credit appraisal, loan waivers,

political interference, and weak recovery mechanisms.

Objectives of the Study:

1. To analyse the trends and causes of NPAs in Satara and Sangli DCCBs.
2. To compare the financial performance and NPA levels of both banks.
3. To evaluate the NPA recovery mechanisms employed by the two banks.

Hypotheses of the Study:

Null Hypotheses (H_0) and Alternative Hypotheses (H_1):

H_0 There is no significant difference in the NPA levels of Satara DCCB and Sangli DCCB. H_1 : There is a significant difference in the NPA levels of Satara DCCB and Sangli DCCB.

H₀: There is no significant difference in the NPA recovery performance of Satara DCCB and Sangli DCCB.

H₁: The NPA recovery performance of Satara DCCB and Sangli DCCB differs significantly due to variations in recovery mechanisms and management strategies.

Limitation of the Study:

The study covers the NPA management practices of Satara DCCB and Sangli DCCB over the past 10 years. It involves an analysis of financial reports, RBI and NABARD guidelines, and interviews with bank officials, and case studies of loan recovery processes.

NPA Analysis Of Satara DCC Bank And Sangli DCC Bank:

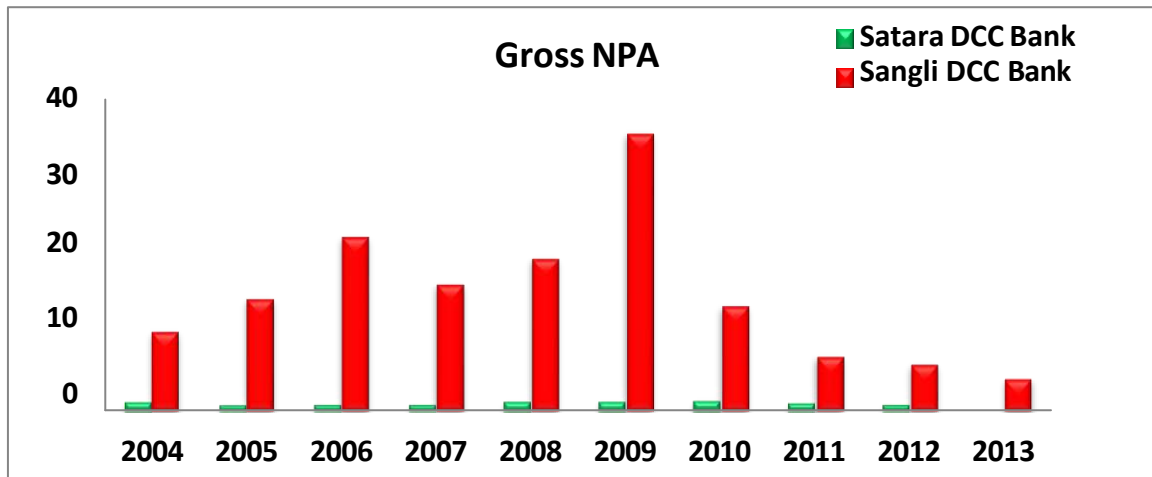
Introduction:

The success of banking business depends upon the financial soundness of its banking system. One of the parameters that is used to judge the Banking sector. Financial health is the level of Non

Performing loans or assets. Non Performing loans is an important criterion, because it reflects the asset quality, credit risk and efficiency in allocation of resources to production sector. The high level of NPAs in Banks and financial institution has been a matter of grave concern in financial management to the public as bank credit. These banks are commercial organization and the main business of banking is to collect the deposits from the public and lend it to the individuals, business concerns, institution etc. Sub-standard assets: a sub standard asset is one which has been classified as NPA for a period not exceeding 12 months. Doubtful Assets: a doubtful asset is one which has remained NPA for a period exceeding 12 months. Loss assets: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets. All those assets which cannot be recovered are called as Loss Assets. The following analyses have been made for NPA of both banks.

Table 1.1: Comparative Analysis of Gross NPA of Satara DCC bank and Sangli DCC bank

| Years | Satara DCC bank | | | Sangli DCC bank | | |
|---------|------------------|----------------|-------------|------------------|----------------|-------------|
| | Gross NPA amount | Gross Advances | Gross NPA % | Gross NPA amount | Gross Advances | Gross NPA % |
| 2004 | 698.88 | 64391.85 | 1.09 | 10963.88 | 1,07,817.17 | 10.17 |
| 2005 | 415.03 | 55769.38 | 0.74 | 13718.8 | 95,409.27 | 14.38 |
| 2006 | 800.08 | 107324.54 | 0.75 | 23345.33 | 1,04,423.51 | 22.36 |
| 2007 | 769.07 | 97819.54 | 0.79 | 18197.65 | 1,11,996.42 | 16.25 |
| 2008 | 1132.05 | 97819.54 | 1.16 | 21032.85 | 1,07,798.26 | 19.51 |
| 2009 | 1130.89 | 97658.93 | 1.16 | 33487.11 | 94,142.72 | 35.57 |
| 2010 | 1344.35 | 109333.32 | 1.23 | 14254.25 | 1,05,852.88 | 13.47 |
| 2011 | 1536.67 | 157231.86 | 0.98 | 11178.16 | 1,60,596.78 | 6.96 |
| 2012 | 1535.12 | 193530.22 | 0.79 | 10637.09 | 1,77,981.79 | 5.98 |
| 2013 | 1490.78 | 264909.65 | 0.56 | 8650.26 | 2,10,123.59 | 4.12 |
| Average | 0.92 | | | 14.88 | | |
| S. D. | 0.23 | | | 9.37 | | |
| C. V. % | 24.53 | | | 62.97 | | |



Source: Data Compiled from the annual reports of both banks from 2003-04 to 2012-13

It is clear from the above table 1.1 that the Gross NPA of Satara DCC bank is less than the Sangli DCC bank. The gross NPA ratio of Satara DCC bank shows the fluctuating trend from 2004 to 2013. The Sangli DCC bank also shows the fluctuating trend in the study period. The gross NPA ratios of Sangli DCC bank reached to 4.12% up to 2014. The average of gross NPA of

Satara DCC bank and Sangli DCC bank is 0.92 and 14.88 respectively. The standard deviation of gross NPA of Satara DCC bank and Sangli DCC bank is 0.23 and 9.37 respectively and the coefficient of variation is 24.53 % and 62.97% respectively. The Sangli DCC bank shows the high Gross NPA ratio which shows the low quality of credit portfolio.

Figure 1.2

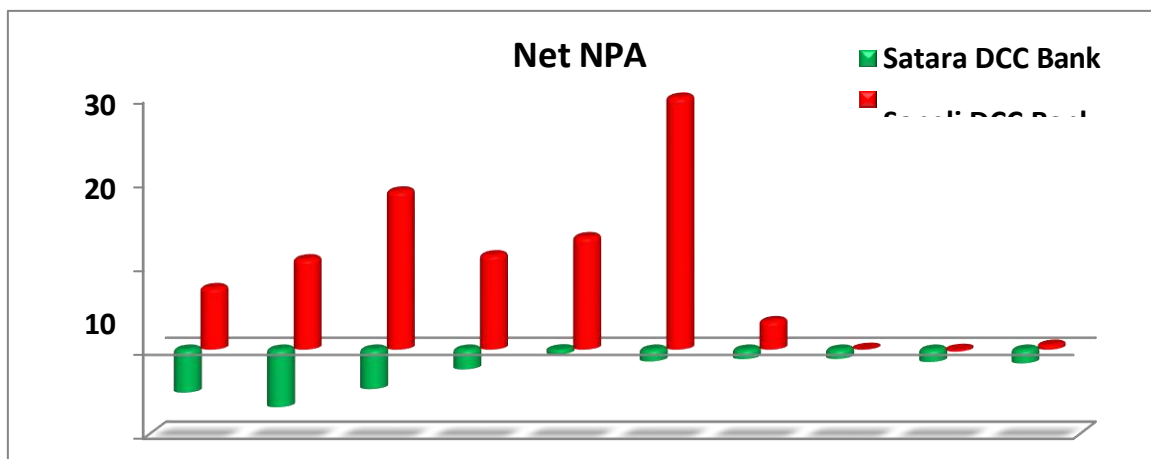


Table 1.2: Comparative Analysis of Net NPA of Satara DCC bank and Sangli DCC bank

| Years | Satara DCC bank | | | | Sangli DCC bank | | |
|---------|-----------------|--------------|-----------|-----------|-----------------|--------------|-----------|
| | Net NPA amount | Net Advances | Net NPA % | Net NPA % | Net NPA Amount | Net Advances | Net NPA % |
| 2004 | -3105.64 | 60587.33 | -5.13 | 0.00 | 6968.89 | 94912.65 | 7.34 |
| 2005 | -3556.96 | 51797.39 | -6.87 | 0.00 | 8694.53 | 80749.02 | 10.77 |
| 2006 | -3572.38 | 75897.33 | -4.71 | 0.00 | 16647.59 | 88388.43 | 18.83 |
| 2007 | -2452.18 | 104103.29 | -2.36 | 0.00 | 10826.77 | 96265.51 | 11.25 |
| 2008 | -541.78 | 96145.71 | -0.56 | 0.00 | 12216.62 | 91139.79 | 13.40 |
| 2009 | -1340.13 | 95187.91 | -1.41 | 0.00 | 22621.33 | 75456.69 | 29.98 |
| 2010 | -1202.18 | 106783.8 | -1.13 | 0.00 | 3001.26 | 88381.13 | 3.40 |
| 2011 | -1709.46 | 153985.73 | -1.11 | 0.00 | 108.13 | 143397.85 | 0.08 |
| 2012 | -2805.65 | 189189.45 | -1.48 | 0.00 | -377.61 | 161697.63 | -0.23 |
| 2013 | -4260.76 | 259158.11 | -1.64 | 0.00 | 1091.91 | 198572.28 | 0.55 |
| Average | -2.64 | | | | 9.54 | | |
| S. D. | 2.14 | | | | 9.61 | | |
| C. V. % | -81.07 | | | | 100.82 | | |

(Source: Data Compiled from the annual reports of both banks from 2003-04 to 2012-13)

The above table reveals that the Net NPA ratio of Satara DCC bank and Sangli DCC bank. The Net NPA ratio of Satara DCC bank has minus hence it clears from the minus ratio, the Net NPA of the bank is zero. It is good sign for the bank because the bank has fulfilled the degree of the riskiness in the credit portfolio during the study period. But in respect of the Sangli DCC bank it is clear from the above ratio is high (29.98 %) in the year 2009. But the Net

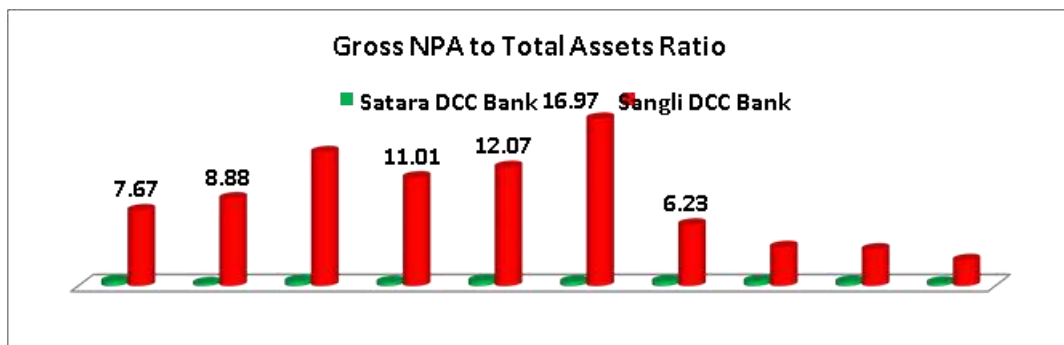
NPA ratio from 2010 it is decreased 3.40 % to -0.23%. The average of Net NPA ratio of Satara DCC bank has shown the negative i. e. -2.64%, but the average of Sangli DCC bank has shows 9.54%. The standard deviation of both the banks shows the 2.14 and 9.61 respectively. The coefficient of variation of the Satara DCC bank and Sangli DCC bank is -81.07% and 100.82% respectively.

Table 1.3: Gross NPA to Total Assets of Satara DCC bank and Sangli DCC bank

| Years | Satara DCC bank | | | Sangli DCC bank | | |
|---------|------------------|--------------|---------|------------------|--------------|---------|
| | Gross NPA amount | Total Assets | Ratio % | Gross NPA amount | Total Assets | Ratio % |
| 2004 | 698.88 | 144110.67 | 0.48 | 10963.88 | 1,43,020.91 | 7.67 |
| 2005 | 415.03 | 148032.11 | 0.28 | 13718.8 | 1,54,539.02 | 8.88 |
| 2006 | 800.08 | 162587.93 | 0.49 | 23345.33 | 1,72,040.22 | 13.57 |
| 2007 | 769.07 | 193109.84 | 0.40 | 18197.65 | 1,65,300.35 | 11.01 |
| 2008 | 1132.05 | 215619.63 | 0.53 | 21032.85 | 1,74,257.96 | 12.07 |
| 2009 | 1130.89 | 254690.1 | 0.44 | 33487.11 | 1,97,351.02 | 16.97 |
| 2010 | 1344.35 | 282463.33 | 0.48 | 14254.25 | 2,28,669.90 | 6.23 |
| 2011 | 1536.67 | 316437.28 | 0.49 | 11178.16 | 2,82,780.42 | 3.95 |
| 2012 | 1535.12 | 360934.43 | 0.43 | 10637.09 | 2,86,810.85 | 3.71 |
| 2013 | 1490.78 | 432575.33 | 0.34 | 8650.26 | 3,29,588.97 | 2.62 |
| Average | 0.44 | | | 8.67 | | |
| S. D. | 0.08 | | | 4.72 | | |
| C. V. % | 17.40 | | | 54.43 | | |

(Source: Data Compiled from the annual reports of both banks from 2003-04 to 2012-13)

Figure 1.3



The above table 1.3 shows that the gross NPA to Total assets of Satara DCC bank, the ratio has the fluctuating trends during the study period. The maximum ratio was 0.53% in the year 2008 and the at least ratio was 0.28% in the year 2005, during all the study period ratio is less than one percent. The Sangli DCC bank shows the ratio has very fluctuating trends during the study period. In the year 2009 it is found that highest ratio 16.97% as compared to nearest study year, and minimum ratio was 2.62% in the year

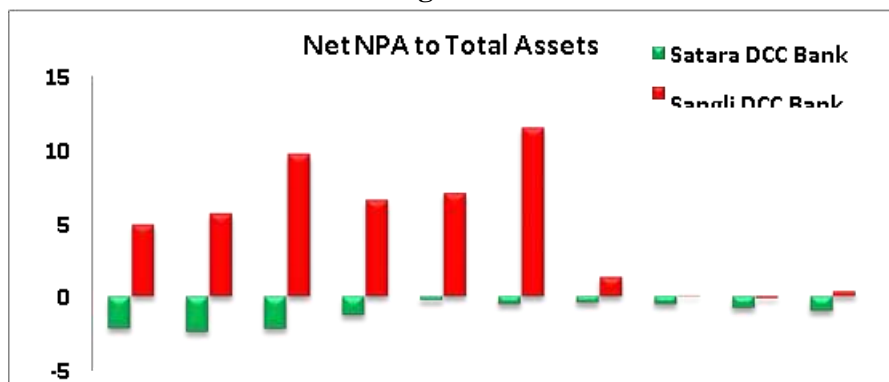
2013. In the year 2006 to 2009 the increasing trend and after the year decreasing trends. It is clear that Satara DCC bank maintained minimum ratio of gross NPA to total assets as compared to Sangli DCC bank. It is concluded that the Satara DCC bank has very low ratio, they indicates very sound liquidity position of the NPA as compared to Sangli DCC bank, the Sangli DCC bank paid adequate attention to reduction of NPA and control the ratio.

Table 1.4 : Net NPA to Total Assets of Satara DCC bank and Sangli DCC bank

| Years | Satara DCC bank | | | Sangli DCC bank | | |
|---------|-----------------|--------------|---------|-----------------|--------------|---------|
| | Net NPA amount | Total Assets | Ratio % | Net NPA amount | Total Assets | Ratio % |
| 2004 | -3105.64 | 144110.67 | -2.16 | 6968.89 | 1,43,020.91 | 4.87 |
| 2005 | -3556.96 | 148032.11 | -2.40 | 8694.53 | 1,54,539.02 | 5.63 |
| 2006 | -3572.38 | 162587.93 | -2.20 | 16647.59 | 1,72,040.22 | 9.68 |
| 2007 | -2452.18 | 193109.84 | -1.27 | 10826.77 | 1,65,300.35 | 6.55 |
| 2008 | -541.78 | 215619.63 | -0.25 | 12216.62 | 1,74,257.96 | 7.01 |
| 2009 | -1340.13 | 254690.1 | -0.53 | 22621.33 | 1,97,351.02 | 11.46 |
| 2010 | -1202.18 | 282463.33 | -0.43 | 3001.26 | 2,28,669.90 | 1.31 |
| 2011 | -1709.46 | 316437.28 | -0.54 | 108.13 | 2,82,780.42 | 0.04 |
| 2012 | -2805.65 | 360934.43 | -0.78 | -377.61 | 2,86,810.85 | -0.13 |
| 2013 | -4260.76 | 432575.33 | -0.98 | 1091.91 | 3,29,588.97 | 0.33 |
| Average | -1.15 | | | 4.67 | | |
| S. D. | 0.81 | | | 4.16 | | |
| C. V. % | -70.52 | | | 88.99 | | |

(Source: Data Compiled from the annual reports of both banks from 2003-04 to 2012-13).

Figure 1.4



The above table 1.4 shows the Net NPA to total assets ratio of both the DCCB's. The Satara DCC bank has increasing trends during the study period. The ratio in the initial year after 2005 was found -2.40% higher and -0.25% has lower in the year 2008. After the next study period the ratio has increased in the last year 2013 the ratio was -0.98%. It is good sign than fulfil the riskiness assets and all provisions of satisfactory made. The Sangli DCC bank's ratio has fluctuating trends in the

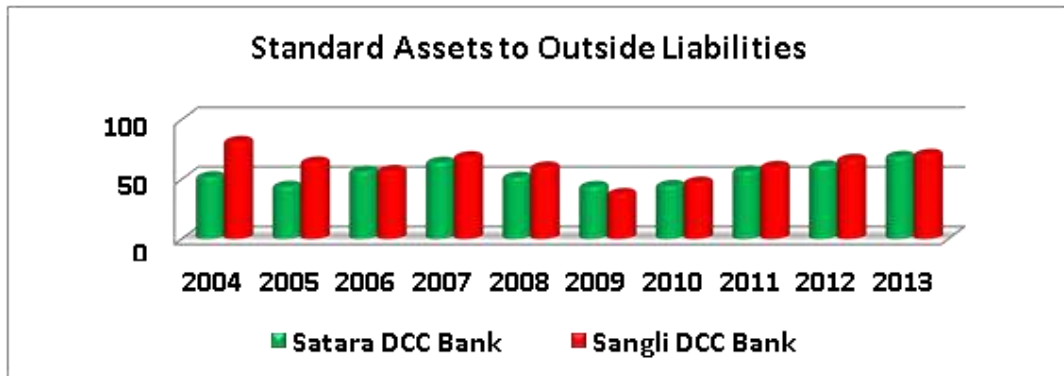
year 2009, it is found 11.46% higher the ratio and -0.13 has the lower ratio in the year 2012 in the last year 2013 the ratio was 0.33% , which was decreased. It clear that the Sangli DCC bank did not fulfil the riskiness assets, not provision made satisfactory during the study period. It is expressed that average ratio of Satara DCC bank (-1.15%) is lower than the Sangli DCC bank (4.67%), the Satara DCCB's standard deviation 0.81 and C.V. -70.52 has less than the Sangli DCCB (4.16) and (88.99) respectively.

Table 1.5: Standard Assets to Outside Liabilities of Satara DCC bank and Sangli DCC bank

| Years | Satara DCC bank | | | Sangli DCC bank | | |
|---------|-----------------------|---------------------------|-------|-----------------------|---------------------------|-------|
| | Total Standard Assets | Total Outside Liabilities | Ratio | Total Standard Assets | Total Outside Liabilities | Ratio |
| 2004 | 63693 | 1,22,210.48 | 52.12 | 96853.3 | 1,18,393.32 | 81.81 |
| 2005 | 55354.4 | 1,25,440.74 | 44.13 | 81690.5 | 1,26,658.09 | 64.50 |
| 2006 | 77869.6 | 1,37,081.69 | 56.81 | 81078.2 | 1,41,142.10 | 57.44 |
| 2007 | 106555 | 1,65,797.75 | 64.27 | 93798.9 | 1,36,051.45 | 68.94 |
| 2008 | 96687.5 | 1,86,478.93 | 51.85 | 86765.4 | 1,43,601.49 | 60.42 |
| 2009 | 96528 | 2,19,499.95 | 43.98 | 60655.6 | 1,59,234.35 | 38.09 |
| 2010 | 107989 | 2,40,959.09 | 44.82 | 91598.6 | 1,92,127.11 | 47.68 |
| 2011 | 155695 | 2,73,274.68 | 56.97 | 149419 | 2,45,790.92 | 60.79 |
| 2012 | 191995 | 3,13,524.31 | 61.24 | 163885 | 2,45,655.98 | 66.71 |
| 2013 | 263419 | 3,80,388.11 | 69.25 | 201473 | 2,84,173.90 | 70.90 |
| Average | 54.54 | | | 61.73 | | |
| S. D. | 8.79 | | | 12.24 | | |
| C. V. % | 16.11 | | | 19.83 | | |

(Source: Data Compiled from the annual reports of both banks from 2003-04 to 2012-13)

Figure 1.5



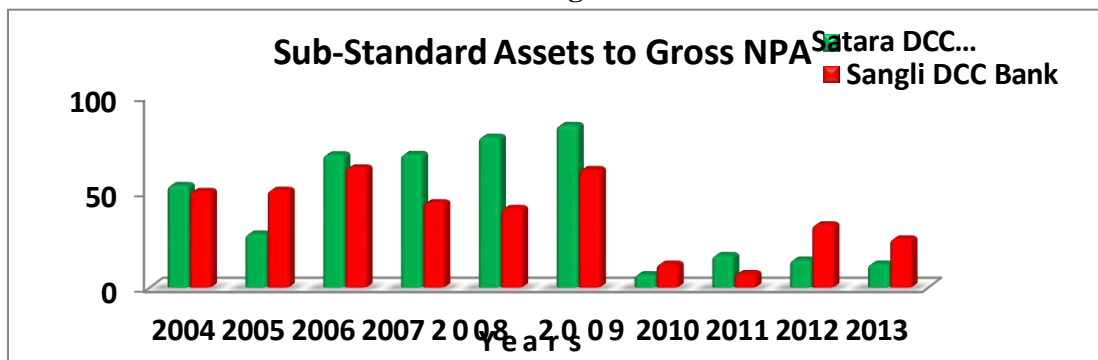
The above table 1.5 shows the ratio of standard asset to outstanding liabilities of Satara DCC bank, this ratio shows fluctuating trends. It should highest in the year 2013 the ratio has 69.25% and lowest ratio 44.13 % in the year 2005. the average ratio of 54.54% during the study period because the ratio in the initial year 2004 to 2011, the ratio was 52.12% to 56.97% having fluctuating trends, during this period.

The standard deviation was 8.79 and coefficient variance 16.11 during the study period. This ratio indicates the deposits safety but above picture of Satara DCC bank does not constant safety satisfied the depositors. The Sangli DCC bank shows the very fluctuating trend of the ratio of standard asset to outstanding liabilities. Sangli DCCB's was 12.24 percent and 19.63 percent. The above observation shows that Satara DCCB has not safety depositor as compared to Sangli DCCB and Sangli DCCB has greater safety Deposits.

| Years | Satara DCC bank | | | Sangli DCC bank | | |
|---------|---------------------------|------------------|-------|---------------------------|------------------|-------|
| | Total Sub-Standard Assets | Gross NPA amount | Ratio | Total Sub-Standard Assets | Gross NPA amount | Ratio |
| 2004 | 374.61 | 698.88 | 53.60 | 5536.85 | 10963.88 | 50.50 |
| 2005 | 116.93 | 415.03 | 28.17 | 7008.86 | 13718.8 | 51.09 |
| 2006 | 557.01 | 800.08 | 69.62 | 14649.6 | 23345.33 | 62.75 |
| 2007 | 537.18 | 769.07 | 69.85 | 8114.2 | 18197.65 | 44.59 |
| 2008 | 891.89 | 1132.05 | 78.79 | 8748.22 | 21032.85 | 41.59 |
| 2009 | 960.12 | 1130.89 | 84.90 | 20733.9 | 33487.11 | 61.92 |
| 2010 | 91.83 | 1344.35 | 6.83 | 1763.43 | 14254.25 | 12.37 |
| 2011 | 259.81 | 1536.67 | 16.91 | 829.17 | 11178.16 | 7.42 |
| 2012 | 222.91 | 1535.12 | 14.52 | 3506.94 | 10637.09 | 32.97 |
| 2013 | 184.92 | 1490.78 | 12.40 | 2215.92 | 8650.26 | 25.62 |
| Average | 43.56 | | | 39.08 | | |
| S. D. | 30.79 | | | 19.23 | | |
| C. V. % | 70.68 | | | 49.20 | | |

(Source: Data Compiled from the annual reports of both banks from 2003-04 to 2013)

Figure 1.5



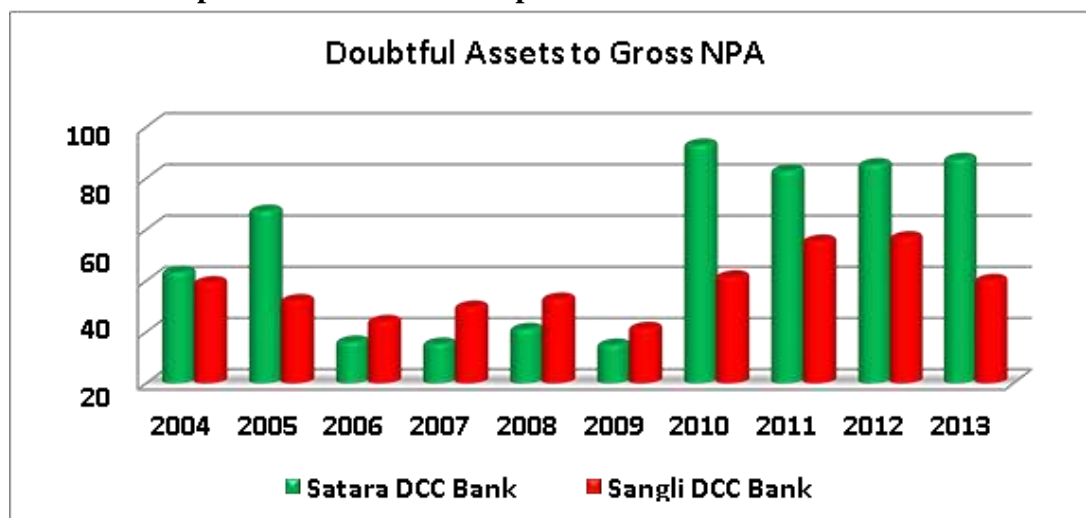
The above table 1.5 reveals the Ratio of Sub- Standard Asset to Total Gross NPA. The Satara DCC bank's the amount of Sub – standard asset and Total gross NPA amount has fluctuating trends during the study period. It was the maximum ratio of 84.90% in 2008 and minimum ratio of 6.83% in year

2010. The Substandard asset to total gross NPA ratio of the Sangli DCCB found fluctuating during the study period because of the variation in the substandard asset caused by the higher percentage of the Doubtful Asset over substandard assets.

Table 1.6: Doubtful Assets to Gross Assets of Satara DCC bank and Sangli DCC bank

| Years | Satara DCC bank | | | Sangli DCC bank | | |
|-------|-----------------------|------------------|-------|-----------------------|------------------|-------|
| | Total Doubtful Assets | Gross NPA amount | Ratio | Total Doubtful Assets | Gross NPA amount | Ratio |
| 2004 | 303.99 | 698.88 | 43.50 | 4326.81 | 10963.88 | 39.46 |
| 2005 | 279.68 | 415.03 | 67.39 | 4454.72 | 13718.8 | 32.47 |
| 2006 | 130.45 | 800.08 | 16.30 | 5675.76 | 23345.33 | 24.31 |
| 2007 | 119.32 | 769.07 | 15.51 | 5442.34 | 18197.65 | 29.91 |
| 2008 | 240.16 | 1132.05 | 21.21 | 6951.76 | 21032.85 | 33.05 |
| 2009 | 170.77 | 1130.89 | 15.10 | 7240.2 | 33487.11 | 21.62 |
| 2010 | 1252.52 | 1344.35 | 93.17 | 5953.73 | 14254.25 | 41.77 |
| 2011 | 1276.86 | 1536.67 | 83.09 | 6227.83 | 11178.16 | 55.71 |
| 2012 | 1312.21 | 1535.12 | 85.48 | 6063.5 | 10637.09 | 57.00 |
| 2013 | 1305.86 | 1490.78 | 87.60 | 3490.08 | 8650.26 | 40.35 |

Source: Data Compiled from the annual reports of both banks from 2003-04 to 2012-13)



The table 1.6 explains that Doubtful Asset Ratio to Gross Asset. The Satara DCCB has fluctuating trends during the study period. The ratio which was lower in the year 2009 15.10% and 93.17% in the year 2010. It is found higher after 2006 however the Bank showed very control over doubtful asset in 2007 as its ratio found decreased by 0.79% compared to the ratio of 16.30% in year 2006. Sangli DCCB Doubtful Ratio found slight fluctuating trend during the initial year ratio 39.40% in 2004 after two years decreasing trend 2006. The ratio was 24.31 % and later the year fluctuating ratio of the year 2010. The maximum ratio was 57.00 % in year 2012 and minimum ratio 21.62 % in year 2009.

Table 1.7: Loss Assets to Gross Assets of Satara DCC bank and Sangli DCC bank

| Years | Satara DCC bank | | | Sangli DCC bank | | | |
|---------|-------------------|------------------|-------|-------------------|------------------|-------|-------|
| | Total Loss Assets | Gross NPA amount | Ratio | Total Loss Assets | Gross NPA amount | Ratio | Ratio |
| 2004 | 0 | 698.88 | 0.00 | 6.34 | 10963.88 | 0.06 | |
| 2005 | 0 | 415.03 | 0.00 | 11 | 13718.8 | 0.08 | |
| 2006 | 0 | 800.08 | 0.00 | 10.18 | 23345.33 | 0.04 | |
| 2007 | 0 | 769.07 | 0.00 | 16.26 | 18197.65 | 0.09 | |
| 2008 | 0 | 1132.05 | 0.00 | 16.26 | 21032.85 | 0.08 | |
| 2009 | 0 | 1130.89 | 0.00 | 16.26 | 33487.11 | 0.05 | |
| 2010 | 0 | 1344.35 | 0.00 | 11.13 | 14254.25 | 0.08 | |
| 2011 | 0 | 1536.67 | 0.00 | 1638.5 | 11178.16 | 14.66 | |
| 2012 | 0 | 1535.12 | 0.00 | 1584.75 | 10637.09 | 14.90 | |
| 2013 | 0 | 1490.78 | 0.00 | 1545.17 | 8650.26 | 17.86 | |
| Average | 0 | | | 4.79 | | | |
| S. D. | 0 | | | 7.65 | | | |
| C. V. % | 0 | | | 159.70 | | | |

(Source: Data Figure 1.7 Compiled from the annual reports of both banks from 2003-04 to 2012-13)

It is clear that the average ratio of the loss asset of Satara DCCB was zero percent compared to the S. D. and C.V., which was zero percent compared to Sangli DCCB. They efficiently decreased the Loss Asset and Sangli DCCB average ratio 4.79 percent during the study period. S.D. 7.65 and C.V. 159.70 indicate increasing the loss asset and increasing the percentage of NPA. They control as compared to Satara DCC bank.

Findings Regarding to the NPA Management of Sangli DCC bank:

1. The Sangli DCC bank has its own Bank Recovery Management. It consists of Bank Manager, Deputy Manager (Agree & Non-Agree), Senior Officers etc.

2. The special Bank Recovery Management is in working at the all tehsil of the Sangli District. They draw a report about the recovery. Bank provides a four wheeler vehicle to Bank Recovery Management.
3. Sangli DCC bank prepares a list of the debtors who are unable to pay the debts in time. If they are not ready to pay the loan then the bank should take the legal action under the section 101 of Maharashtra Cooperative Act 1960.