



Impact of Non-Performing Assets on The Performance of Bengaluru District Central Cooperative Bank Ltd

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ABSTRACT

Cooperative banks have emerged as one of the most powerful economic development tools. However, because of their operation, credit risk is high and unavoidable. As a result NPAs must always stay under the sustainable limit, and the current level of NPAs is endangering the financial system's stability that requires all round assessment of Banking environment to tackle it cautiously without impacting the core operations. In this study, the NPA status of Bengaluru District Central Cooperative Bank Ltd situated and headquartered in Bengaluru is studied for a period of 2017-2022. Alongside the present study attempts to understand the NPA status of Indian Public and Private sectors banks as a whole. Impact of Gross Net-performing Asset (GNPA) on BDCC bank's profitability is assessed alongside. Secondary data collected from different sources has been used here. The study primarily involves a descriptive and conclusive approach to investigate, understand, generate findings that are useful in arriving at a conclusion.

Keywords: Non-performing Assets (NPA), Cooperative Bank, Hypothesis, Correlation

1. INTRODUCTION

As per Reserve Bank of India an asset becomes nonperforming asset when it ceases to generate income for the bank. The value of such assets will decline as they fail the requirements. The banking system of India consists of the central bank (Reserve Bank of India - RBI), commercial banks, cooperative banks, scheduled banks, non-scheduled banks, private banks and development banks. The Indian Banking sector include 12 public sector banks, 22 private sector banks, 43 rural regional banks and over 96,000 Rural cooperative banks. Credit monitoring and NPA recovery are among the numerous problems that have recently been causing banking companies to reconsider.

Banking system plays a very vital role in the development of sound economy for any nation. In simple terms bankers play the role of mobilizing savings of public by accepting deposits into large scale investments and disbursement of credit. Unlike other organizations/companies, banks create value using their liabilities and assets for shareholder.

Cooperative Bank is a financial entity registered under States Cooperative Societies Act 1912 headed by the Reserve Bank of India(RBI) that is contributed by members who are the owners as well as the customers of the respective bank. The members enjoy various financial services provided by the bank. They offer credit to small businesses/lenders. The structure of Cooperative bank in India is multi-tiered with two main pillars: Urban and Rural Cooperative banks.

Mounting NPAs has led to provisioning of bank's assets that leads to the erosion of capital resulting in a weak bank which has to be recapitalized by the Government for its survival. They cause a mismatch between assets and liabilities, forcing the bank to raise resources at a higher rate. As a result, banks profitability declines, resulting in a negative image of banks.

2. LITERATURE REVIEW

Kawale Pushpalata G. and Sagar Pandhari N (2014) in the study titled "study of non-performing assets management of Latur District central cooperative bank, Latur". The study examines the impact of NPAs on LDCC Bank of Latur by performing analysis on norms, provisions, Gross NPA, Net NPA, Ratio of Gross NPA with Total Advances. The study concluded that LDCC Bank's gross nonperforming assets (NPA) have been steadily decreasing. During the research period, NPA provisions demonstrated a consistent upward trend showing that NPA position of LDCC Bank is satisfactory.

Pallavi Singh Yadav(2019) in the study titled " Impact of Non-performing assets on Assets! turnover ratios of Punjab National Bank Limited". This study highlights the fact that Public sector banks are dominating banking industry in terms of net worth with drastic increase in NPAs of which State Bank of India and Punjab National Bank are leading in spite of Reserve Bank of India rolling out numerous steps to tackle it in the economy. It has described the nature, categories and composition of assets related to Punjab National Bank. Analysis show that the NPAs have drastically increased during 2014-15 and 2015-16. The performance of Punjab National bank is characterized by a mixture of increase and decrease in NPAs over years that exerts pressure

on the recycling of funds restricting the lending ability indicating weak profitability indicating positive relationship between bank's assets and non-performing assets.

B. Senthil Arasu, P Sridevi & P Nageswari (2019) in the study titled "a study on analysis of non-performing assets and its impact on profitability". The study attempts to examine the NPA and profitability status of banks determining the relationship shared by NPA with Return on assets and Net profitability separately. The study concludes that GNPA shows a negative relationship on ROA whereas Net NPA has a positive influence.

Rajeshwari Parmar (2014) in the study titled "Non Performing Assets (NPAs): A Comparative Analysis of SBI and ICICI Bank". The study examines and compares Total Advances, Net Profit, Gross NPA and Net NPA of State Bank of India and ICICI bank for three financial years 2011-2013 along with trend analysis NPAs.

3. RESEARCH METHODOLOGY

Research Objective

- To identify and review the trend of GNPA in BDCC bank for five financial years.
- To assess the impact of GNPA on BDCC bank's profitability for five financial years.
- To understand the relationship between NNPA and Return on Assets (ROA) of BDCC Bank.
- To study the GNPA status, profitability of Public and Private sector banks (Pre-pandemic & Pandemic).

Significance of the study

The main motto of co-operative banks is to serve weaker section of the society with "No profit no loss" concept. Yet no repayment of borrowed loans/advances is affecting the performance of Cooperative banks. The study is confined to study and examine the status of non-performing assets in Bengaluru District Central Cooperative Bank, to understand the impact on the overall performance of Bengaluru District Central Cooperative Bank..

Methodology of the study

The study primarily involves a descriptive and conclusive approach to investigate, understand, generate findings that are useful in arriving at a conclusion.

Secondary data collected from sources like: Reserve Bank of India (RBI) publication, journals, reports, BDCC bank's official website, annual and audited bank reports, Finance team of the BDCC bank.

Limitations of the study

- Findings are not applicable to other banks.
- Reasons for Non-performing assets are not studied.
- Does not examine the recovery methods and mechanisms related to BDCC bank.

4. ANALYSIS OF DATA

4.1. Trend Analysis of BDCC bank's GNPA

Table 1- GNPA trend analysis of BDCC Bank

Year	Gross NPA (in lakhs)	% of Decrease or Increase
2017	3857.91	100
2018	4464.12	116
2019	4242.45	110
2020	4955.06	128
2021	5376.11	139

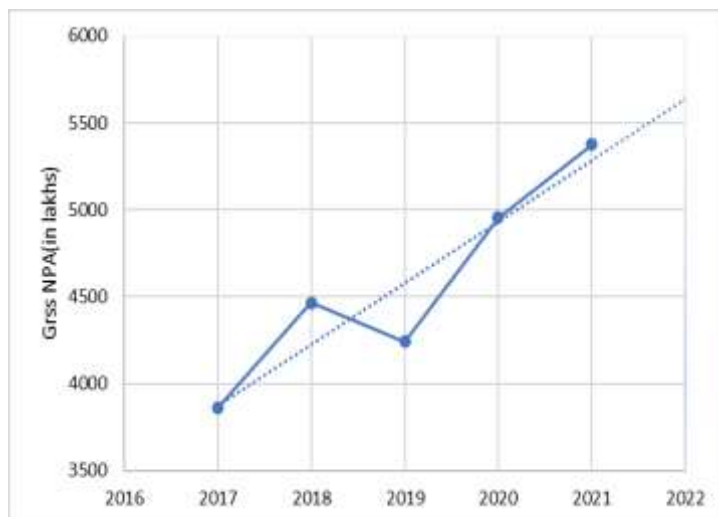


Fig.1- GNPA trend analysis

Trend analysis is performed by considering 2017 as the base year for comparison. It is clear that Gross NPA has overall followed a positive trajectory with slight drop in FY2019. Reviewing the trend it can be forecasted that there can be an increase in GNPA items in the upcoming years .

4.2. Gross NPA ratio

Table 2- GNPA Ratio of BDCC bank

Year	GROSS (in lakhs)		
	LOANS/ADVANCE	NPA	NPA TO ADVANCE %
2021	82343.04	5376.11	6.53
2020	77061.10	4955.06	6.43
2019	62879.78	4242.45	6.75
2018	58252.07	4464.12	7.66
2017	59202.53	3857.91	6.52
MEAN	67947.704	4579.13	6.778
STANDARD DEVIATION	11027.77092	596.4980084	0.506922085

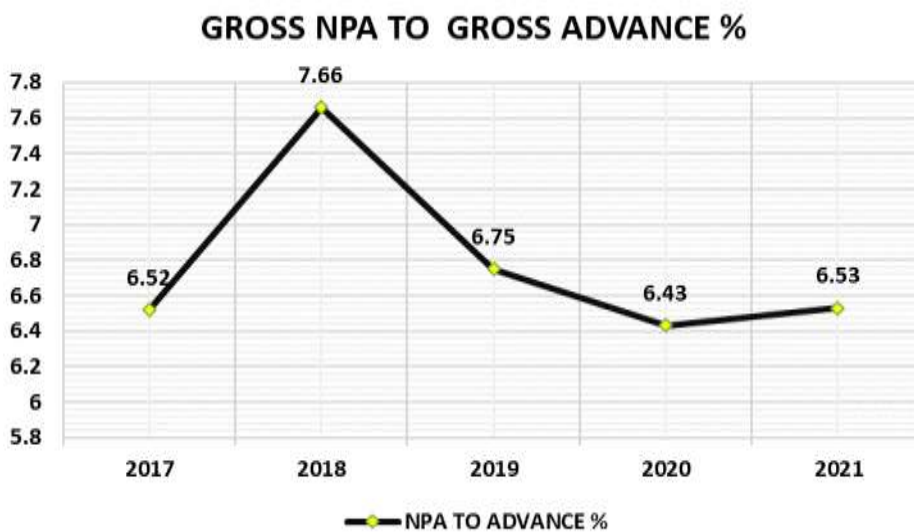


Fig.2 - GNPA ratio

From the above table, it is clear that the Gross NPA of BDCC bank has followed an incremental path from 2017 to 2021. The Gross NPA ratio touched a peak of 7.66% in 2018 and later has declined to 6.5% which is a good sign. The variation in Gross NPA ratio is very low for 5 years that indicates sound credit management mechanism. Gross Loans/advances and Gross NPA of BDCC bank shows a strong correlation of 0.91 that indicates a strong positive linear relationship and thereby as loans/advances increases Gross NPA also increases.

4.2. To assess the impact of GNPA on BDCC bank's profitability

Table 3- GNPA vs Net Profit of BDCC Bank

Year	Gross NPA (in lakhs)	Net Profit
2021	5376.11	416,37,059.90
2020	4955.06	414,22,593.21
2019	4242.45	314,63,000.00
2018	4464.12	266,73,476.12
2017	3857.91	125,63,000.00
P-value	0.03340	
Correlation	0.90588	

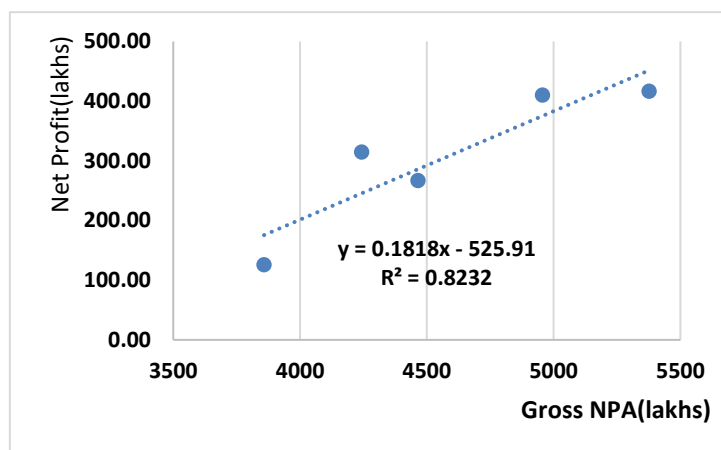


Fig. 3- Scatter Plot (GNPA ratio to Net Profit)

	Coefficients	P-value
Intercept	-525.9058177	0.100766554
Gross NPA	0.181822714	0.033401041

Regression Statistics	
Multiple R	0.905889155
R Square	0.823209085
Adjusted R Square	0.76427878
Standard Error	58.03652455
Observations	5

Fig.4 - Summary output of Regression (GNPA ratio to Net Profit)

H0: There is no significant relationship between variation in Gross NPA and Net Profit of BDCC bank.

H1: There is significant relationship between variation in Gross NPA and Net Profit of BDCC bank.

From the above Regression Table, $R^2 = 0.823209085$ which indicates that the model is good. The Adjusted $R^2 = 0.76427878$ which indicates 76% of variation in dependent variable 'Net Profit' is explained by the independent variable Gross Non-performing Assets. The Correlation between GNPA and Net Profit is 0.907308704 which shows there is a strong positive relationship.

Here Probability value (p-value) = 0.033401041 < 0.05 . Thereby the test is significant and Null Hypothesis is rejected and concluded that there is significant relationship between variation in Gross NPA and Net Profit of BDCC bank. The Correlation between GNPA and Net Profit is 0.907308704 which shows there is a strong positive relationship.

3.3. To understand the GNPA status of Public and Private sector banks

The GNPA data of Public Sector Banks and Private Sector Banks are examined and compared to understand the NPA status of Indian banking sector level as a whole . It is observed that in the Pre-pandemic period (FY2017-2019) Private sector bank witnessed steady surge in GNPA while Public Sector banks had a surge and decline respectively. During the pandemic period GNPA of Public sector banks has declined while GNPA of Private sector bank has remained over 2 Lakh Cr indicating. FY20-21 was a year that tested the resilience of economies globally yet Indian Public and Private sector banks have showed significant favourable results.

Although Public sector banks account for majority of deposits and loans/advances , it has shown healthy recovery whereas Private Sector banks has witnessed a positive trajectory with respect to GNPA that can have negative implications on its core operations.

Table 4: Consolidated GNPA data of Public and Private Sector banks

Year (March End)	GROSS NPA (in Crore)	
	Public Sector Bank	Private Sector Bank
PRE PANDEMIC DATA		
2017	684732	93209
2018	895601	129335
2019	739541	183604
MEAN	773291.3333	135382.6667
PANDEMIC DATA		
2020	678317	209568
2021	616616	200141
MEAN	647466.5	204854.5

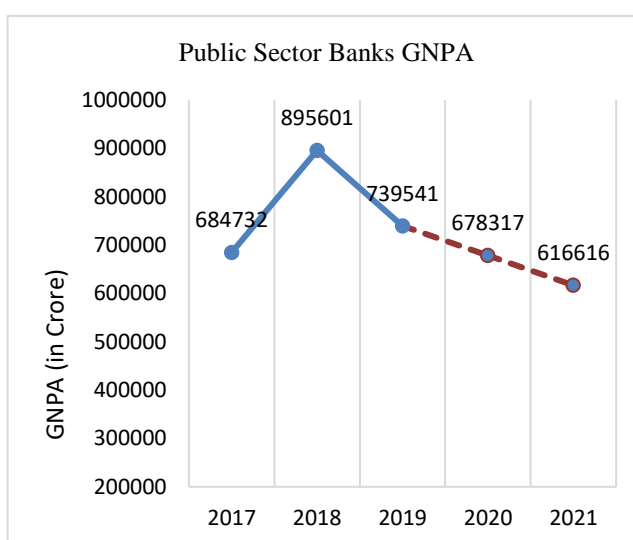
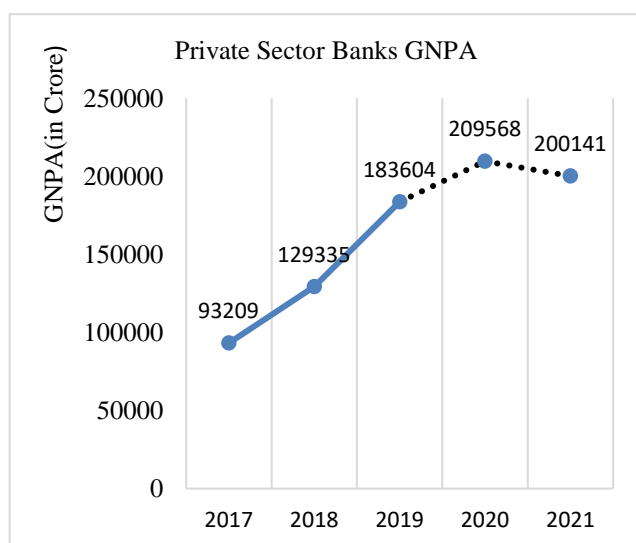


Fig.5– (1) Private Sector Banks GNPA data; (2) Public Sector Banks GNPA data

3.4. GNPA ratio of Public Sector Banks vs Private Sector Banks

Table 5- GNPA Ratio

Year (March End)	Total Advances (in Cr)		GNPA Ratio	
	Public Sector Banks	Private Sector Banks	Public Sector Banks	Private Sector Banks
2017	5866373	2266721	11.67%	4.11%
2018	6141698	2725891	14.58%	4.74%
2019	6382461	3442347	11.59%	5.33%
2020	6615111	3776231	10.25%	5.55%
2021	6770362	4097040	9.11%	4.89%

The total advance of both Public and Private sector banks has witnessed a growth path since FY2017. The NPA level of Private Sector Banks is noticeably lower than that of Public Sector Bank. The GNPA ratio of Public sector bank has shown recovery from FY2018 by touching the 9% mark in 2021 which is a favorable sign. Whereas Private sector banks has witnessed a mixture of surge and decline and has remained below 6%. While the BDCC bank is found to be in intermediate level and GNPA ratio has fluctuated between 6% to 7%. Both Public and Private sector banks have showed signs of recovery in FY2021.

3.5. Net profit/loss comparison between Indian Public and Private sector Banks

Table 6: Profit/loss figure

YEAR	Public Sector Banks (in Cr)	Private Sector Banks (in Cr)
2021	31817	69476
2020	-26015	19111
2019	-66608	27621
2018	-85370	41783
2017	-10006	42204

After recurring loss for four consecutive years Public sector banks has managed to record a net profit of 31817 Crores(FY2021), highest in 5 years which can be considered as a positive revival sign. While Private sector banks has witnessed the highest net profit of 69476 Cr in 2021 since 2017. It is noticed that Private sector banks have outperformed Public sector banks indicating better operational efficiency. Better profits provide a better edge to a bank's management in tackling bad loans with effective provisioning.

5. FINDINGS

The performance of Bengaluru District Central Cooperative Bank considering the Non-performing assets is not same/static as it shows a blend of drastic increase and decrease during the study period (2017-2021). Furthermore BDCC bank has managed to grow its Net Profit year-on-year from 2017 which is a favourable sign to deal with NPAs growing at a faster rate. GNPA has overall marked a growing trajectory and is expected to grow in upcoming years.

It is found that there is significant relationship between of Gross NPAs and Net Profit. The correlation between GNPA and Net Profit is 0.907 which implies a strong direct relation , thereby as GNPA of BDCC Bank increases , Net Profit increases and vice versa indicating influence of various other key factors. Speaking of GNPA ratio both Public and Private sector banks have showed signs of recovery in FY2021. In terms of profitability Private sector banks have outperformed Public sector banks, yet both have shown significant recovery in FY2021. Public sector banks has managed to make a net profit in FY2021 which is the highest in 5 years. GNPA of BDCC bank shares a strong positive relation with Private sector banks GNPA's while a weak positive correlation with Public sector banks indicating variations in NPAs levels.

6. CONCLUSION

The epidemic compelled banks to reconsider their technology approach, expand digital and branchless banking, redefine customer relationships, and change the definition of financial inclusion. There is no consensus on what strategies should be used to address the problem of nonperforming assets (NPAs), but requires all round assessment of Banking environment to tackle it cautiously without impacting the core operations. Managing non-performing assets can have conducive effect on uplifting the financial profile of an entity. Thereby in a nutshell prompt, sound, preventive, curative measures has to be adopted reducing bottlenecks in pre and post- loans sanctioning activities followed by effective monitoring and control.

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