

## **A STUDY ON PERCENTAGE OF GROSS NON-PERFORMING ASSETS OF REGIONAL RURAL BANKS (RRBS) OF INDIA**

**Dr. B, Venkata Rao**

<sup>1</sup>HOD & Associate Professor, Department of Management studies, Miracle Educational Society Group of Institutions, Bhogapuram, Vizainagaram.  
Emailid:venkatkal123@gmail.com.

### **ABSTRACT**

*This research paper worked on measuring Non-Performing Assets of Regional Rural Banks of India. Regional Rural Banks are the banking organizations being operated in different states of India. They have been created to serve the rural areas with banking and financial services. Rural banking institutions are playing a extremely imperative part for adaptable expansion of rural areas of the nation. In order to support the rural banking sector in recent years, Regional Rural Banks have been set up all over the country with the objective of meeting the credit needs of the most under privileged sections of the society. This research aim is that to analyze the Non-Performing Assets of RRBs The study is based on secondary data collected from RRBs websites, reports of the bank, magazines, journals, documents & other published information. The study covers the period of six years i.e. 2008-2013 The Statistical Tools like Mean and Standard Deviations is used to analyse the data and Minimum and Maximum have also been deployed to analyse the data.*

**Keywords:** Banking, Rural Banking, Percentage of Gross Non-Performing Assets, Net Non-Performing Assets.

### **INTRODUCTION**

Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. [HYPERLINK https://en.wikipedia.org/wiki/India](https://en.wikipedia.org/wiki/India) The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs also perform a variety of different functions. Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. As a result Five Regional Rural Banks were set up on 2 October 1975, Gandhi Jayanti. These were set up on the recommendations of the narshimham committee Working Group during the tenure of Indira.

Overview of Non-Performing Assets the Banking industry is one of the basic tools of overall development. It is one of the major and important links in different social, economic and cultural activities around the globe. An efficient banking sector is vital link in the development of the country. The disasters in the banking sector have adversative impact on other sectors in any country. Non-performing Assets (NPAs) are one of the important apprehensions for banking sector in any country and especially in India. Non-performing Assets is abbreviated as called NPAs which is used in banking and finance field. In the bank if the assets are unable to perform any function in getting profit to the organization development, such assets are called Non-Performing Assets. NPAs display

the performance and efficiency of the banks in India. Study indicated that if the NPAs are more it will result in the lower performance and efficiency of the bank. The challenges faced by the NPAs and financial system have been argued all over the world. The problem and challenges faced by the NPAs is affecting the banks performance and it's also disturbing the entire country. Compared to other countries in India the extent of the difficulties faced due to the bad debts was not noticed long which led to numerous difficulties. The situation was reduced by the implementation of the recommendations based on the study conducted by the Narasimham committee and Verma committee, from the report of these committee few steps have been taken to solve the problem of old NPAs in the balance sheets of the banks. It spread across all the countries there has hardly been any organized and efficient evaluation of the best way of handling the current situation. It appears that there is no agreement in the proper suitable policies to be followed in solving this problem faced by all the countries. It was found that there is consistency and stability in the application of NPA norms and policies, since the time it has been recognized and documented. NPA consider and concern of single banks brief as a whole and implemented in the form of mathematical average, for which the entire bank cannot express a dependable representation. The current situation is not so simple to be generalized for the banking industry as a whole to recommend a convenient and handy package of a generalized solution for entire banks industry in India.

#### **Causes of NPA There are different reasons for the account becoming NPA.**

An asset in the account leads to NPA when the mortgagor fails to repay the interest and/or principal to the bank even though the borrower on agreed on the terms and conditions. The distinct reasons for NPA are given below which are classified based on causes. Some of the major reasons for NPA, are mentioned below:

- Willful defaults, fraud, mismanagement and dishonesty of funds.
- Absence of proper pre-appraisal and follow up.
- Inadequate selection of borrowers.
- Under financing/advance financing.
- Delay in implementation of the project work.
- Non-compliance of authorization of the terms and conditions.
- Inefficient debt management by the borrower which leads to the monetary disaster.
- Business failures.

#### **Recovery Mechanism of NPA's**

The Government of India felt that the usual recovery measures like issue of notices for enforcement of securities and recovery of dues was a time consuming process. Thus, in order to

Speed up the recovery of NPAs, the government constituted committee under the chairmanship of late Shri. Tiwari in 1981. The committee examined the ways and means of recovering NPAs and recommended, inter alia, the setting up of 'Special Tribunals' to expedite the recovery process. Later the Narasimham.

## **REVIEW OF LITERATURE**

**Choksi (2006)** viewed that the prudential norms are formulated on the basis of objective criterion rather than on any subjective criterion, to provide a more transparent and vibrant banking sector in the post liberalization era. The research mainly focused on the various guidelines of RBI on asset classification, prudential norms on income recognition and provision of advances.

**Jain (2007)** investigated that in the early phases, the NPA was mostly backed by directed lending and substantial government interference. The movement of the NPA was also evaluated analytically and a trend was developed based on the data during 1997-2003. It was concluded from the study that the main contributing factor for the NPA was inadequate credit risk management system.

**Chipalkatti and Rishi (2007)** in an exploratory research on NPA examined the behavior of Indian banks in the context of tighter regulatory standards that became effective after 1999. Based on the analysis, the authors observed that —weak Indian banks - defined by low profitability and low capital ratios camouflaged the magnitude of their gross NPAs in the post 1999 period. The research revealed a disturbing fact; that the true nature of India's bad loan problem is more serious than explained the prior research studies

**Roma Mitra et.al (2008)** proposed a model and evaluated the efficiency of 50 Indian banks. The Inefficiency can be analysed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance.

**Satish Kumar (2008)**, states that private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector

banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

**Basak, A. (2009)** on performance appraisal of urban cooperative banks (UCBs) examined the devastating role of NPA on the operational efficiency of UCBs in India. The research focus was with a special reference to Contai Cooperative Bank Limited in West Bengal for the period 1995-96 to 2006-07. The research strongly recommended that the banks should take proactive measures in tackling the alarming level of NPA through an efficient system of credit appraisal and like.

**Chaudhary, K. and Sharma, M. (2011)** examined the loan portfolio of Indian PSBs and private sector banks with specific focus on the classification of advances, priority sector and nonpriority sector advances, etc. The research primarily concentrated on the structural differences between PSBs and private sector banks and recommended integration of modern statistical tools like Value-at-risk analysis and Markov Chain analysis to improve the quality of risk assessment practices. The research also recommended to incorporate information sharing among the bankers about the credit history of the borrower.

**Kumar (2014)** discussed in detail the need, process, summary, positive as well as negative aspects of the Act. He analysed that this Act empowered banks and financial institutions to directly enforce the security interest which was pledged to them at the time of sanctioning the loan without going through the judicial process of DRT or Civil Courts.

### **RESEARCH GAP**

This study will fill the gap in the literature by focusing on the analysis of NPAs of the Regional Rural Banks in national level in india. There is wide gap between previous studies done on this subjects and the research done by the researcher. It shows that existing studies in most of the cases considered limited units in their study but the researcher has studied RRBs to widen the scope of the study state wise RRBs Percentage of Gross Non-Performing Assets and Net Non-Performing Assets at National Level in india. The present situation shows that there are maximum chances of NPAs in RRBs banks. This study will be guiding in that direction.

### **OBJECTIVES OF THE STUDY**

- State- Wise RRBs Percentage of Gross Non-Performing Assets and Net Non-Performing Assets at National Level in india.

### **ANALYSIS AND INTERPRETATIONS**

**Table -3.8: State- Wise RRBs Percentage of Gross Non-Performing Assets and Net Non-Performing Assets at National Level**

Name of the RRB	2007-08		2008-09		2009-10		2010-11		2011-12	
	Gross NPAA %	Net NPAA %	Gross NPAA %	Net NPAA %	Gross NPAA %	Net NPAA %	Gross NPAA %	Net NPAA %	Gross NPAA %	Net NPAA %
Andhra Pradesh	27.4	04.5	20.9	09.7	17.1	05.6	27.0	16.2	29.9	19.2
Arunachal Pradesh	53.7	14.1	21.98	9.98	17.0	10.67	12.91	7.42	11.05	6.43
Assam	81.2	41.0	7.06	3.03	6.67	3.02	5.57	3.19	5.88	3.21
Bihar	10.92	6.88	8.94	5.06	6.05	3.31	4.56	2.61	4.05	2.40
Chhattisgarh	10.97	8.12	7.40	5.18	6.03	4.18	5.91	4.28	5.62	4.13
Gujarat	3.7	1.7	2.27	0.47	3.7	1.68	3.51	2.7	3.63	1.99

	1 7	2 9			3 7			1 7		
Har yan a	1 . 8 3	0 . 7 1	0.9 8	0.5 4	0 . 8 6	0.2 6	1.2 7	0 . 6 3	2.4 7	1.1 6
Him acha l Prad esh	5 . 4 2	3 . 1 9	3.7 8	2.3 7	3 . 4 2	1.9 2	2.9 1	1 . 6 7	2.9 0	1.4 3
Jam mu & Kas hmi r	8 . 0 7	7 . 6 5	8.2 0	3.6 0	7 . 5 7	3.1 9	7.2 2	3 . 0 7	7.8 2	4.1 5
Jhar kha nd	1 2 . 1 4	7 . 6 3	9.5 4	4.4 4	8 . 1 4	3.3 5	6.5 2	2 . 7 1	9.1 3	5.8 9
Kar nata ka	2 . 8 1	0 . 6 8	2.5 1	0.5 7	2 . 4 3	0.8 7	3.0 3	1 . 5 5	5.1 2	3.1 1
Ker ala	2 . 2 5	1 . 1 5	2.5 2	1.6 6	2 . 5 8	1.6 9	2.6 2	1 . 8 9	3.0 0	2.0 3
Mad hya Prad esh	5 . 1 6	2 . 8 1	5.2 9	2.7 0	5 . 4 5	3.4 2	7.6 6	4 . 9 1	10. 18	7.6 1
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Oris sa	8 . 1 6	5 . 2 1	7.0 6	3.7 7	6 . 1 7	3.0 3	5.8 2	2 . 8 5	6.0 3	2.8 8
Pud uch cher y	N I L	N I L	0.0 0	0.4 0	0 . 0 0	0.0 0	0.0 0	- 0 . 3 0	0.2 1	0.0 8
Punj ab	1 . 3 3	0 . 6 4	1.0 3	0.4 1	0 . 9 2	0.3 6	0.8 6	0 . 4 3	1.2 6	0.7 4
Raja stha n	4 . 0 9	2 . 2 6	2.6 8	1.0 7	2 . 6 8	1.2 7	2.2 8	1 . 1 2	2.6 4	1.4 8
Tam il Nad u	1 . 6 3	0 . 7 3	1.4 9	0.1 2	1 . 7 8	0.7 7	1.5 8	0 . 3 5	1.2 8	0.1 8
Trip	8	1	7.0	1.0	3	0.9	2.1	0	2.4	0.8

ura	. 6 2	. 2 5	5 8	8 .	. 6 0	6 0	0 .	. 9 9	2 5	5
Utta r Prad esh	6 . . 2 3	3 . . 4 7	3.7 1 8	0.8 8	3 . . 7 3	1.2 2 9	3.6 9	1 . . 7 4	8.2 3 6	4.9 6
Utta ranc hal	5 . . 6 3	3 . . 2 8	4.3 6 6	2.6 6	6 . . 6 4	4.7 0 9	5.4 9	3 . . 4 9	6.4 4 8	4.0 8
Wes t Ben gal	1 1 . . 4 5	6 . . 5 2	9.4 2 2	4.9 2	9 . . 0 1	5.0 6 0	6.5 0	3 . . 4 7	5.8 8 7	2.9 7
Tota l	5 . . 5 1	2 . . 8 7	4.1 4 1	1.8 1	3 . . 7 2	1.8 0 5	3.7 5	2 . . 0 5	5.0 3 8	2.9 8

Source: Compiled from various RRBs' Annual Reports 2007-08 to 2011 to 13.

**Non-Performing Assets (NPAs):**

A debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The nonperforming asset is therefore not yielding any income to the lender in the form of principal and interest payments. So the lower the NPA value of the RRBs the higher the performance of the RRBs.

$$\text{Gross NPAs} = \text{Sub Standard} + \text{Doubtful} + \text{Loss}$$

$$\text{Gross NPA Amount}$$

$$\text{Gross NPA\%} = \frac{\text{Gross NPA Amount}}{\text{Total Loan Outstanding}} \times 100$$

$$\text{Total Loan Outstanding}$$

$$\text{Net NPA} = \text{Gross NPA Amount} - \text{Cumulative Provision}$$

$$\text{Net Loan Outstanding} = \text{Total Loan Outstanding} - \text{Cumulative Provision}$$

$$\text{Net NPA}$$

$$\text{Amount}$$

$$\text{Net NPA \%} = \frac{\text{Net NPA Amount}}{\text{Net Loan Outstanding}} \times 100$$



### Net Loan Outstanding

A peep into the **table -3.8** reveals that an impressive top position is held by Punjab with a least per cent of 1.33 of Gross NPA and 0.64 per cent of Net NPA during the year 2007-08 and over the years it has maintained the same position with 1.26 per cent of Gross NPA and 0.74 per cent of Net NPA during the year 2011-12. The second position is held by Tamil Nadu with 1.63 per cent of Gross NPA and 0.73 per cent of Net NPA during the year 2007-08 and was able to maintain the same position even during the year 2011-12 with 1.28 per cent of Gross NPA and 0.18 per cent of Net NPA whereas the third position is occupied by Haryana with 1.83 per cent of Gross NPA and 0.71 per cent of Net NPA during the year 2007-08 and over the period of time it was able to maintain the same position with 2.47 per cent of Gross NPA and 1.16 per cent of Net NPA during the year 2011-12. During the year 2007-08 the fourth position is occupied by Kerala with 2.25 per cent of Gross NPA and 1.15 Net NPA but this position is taken by Himachal Pradesh during the year 2011-12 with 2.90 per cent of Gross NPA and 1.43 Net NPA.

#### **FINDINGS OF THE STUDY**

- The top position is held by Punjab with a least per cent of 1.33 of Gross NPA and 0.64 per cent of Net NPA during the year 2007-08 and over the years it has maintained the same position with 1.26 per cent of Gross NPA and 0.74 per cent of Net NPA during the year 2011-12.
- The third position is occupied by Haryana with 1.83 per cent of Gross NPA and 0.71 per cent of Net NPA during the year 2007-08 and over the period of time it was able to maintain the same position with 2.47 per cent of Gross NPA and 1.16 per cent of Net NPA during the year 2011-12.
- Poor recovery rate: The recovery performance of the RRBs is very low. High over dues and poor recovery of loan is affecting the functioning of RRB's.
- Inadequate finance: RRB's are facing the problem of inadequate finance and are dependent on NABARD to for their further operation. Imbalance in banking facility: The facilities of rural credit are concentrated in some specific states and districts which is creating an imbalance in banking facilities provided by RRB'. They are losing other prospective group of customers.

#### **SUGGESTIONS FOR IMPROVEMENT OF RRBs**

- The RRBs should be allowed to lend up advances to richer sections of the rural society
- The RRBs which are not performing to their potential and are not generating business.
- Should be allowed to extend the area of operation to one or more districts where RRBs are not present.



- RRBs should improve their existing appraisal system covering all the aspects that are technical, commercial, Financial, economic and management.
- The RRBs should be encouraged to take proper steps in rural development.
- The government should announce incentives for the prompt payers and penal interest rates for the willful defaulters.

## CONCLUSION

The NPA is the root cause of the global financial crisis that we observed recently. The world is still trying to recover from the after-effects of the crisis. Regional Rural Banks plays a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers. The problem of NPA has received considerable attention after the liberalization of the financial sector in India.

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