Management Of Non-Performing Assets In Regional Rural Banks- A Case Study Of Pandyan Grama Bank (PGB), Virudhunagar, Tamil Nadu

*R.Suresh

INTRODUCTION

There is a general concept commonly accepted "*A Man or Woman with no money is equal to a dead body* ". Here it is suitable to insist the importance of money; a Rumanian Proverb says that "*A Man without money is like a bird with no wings*". The basic functions of banks are accepting all kinds of deposits and supply money- "The life blood of business concerns" by lending process. Basically, India is an agriculture based country. Agriculture and its aided activities like cottage, small scale industries play a dominant role in the Indian economy. The Gross Domestic Product of India is occupied up to 60% - 70% by the agricultural income. Whatever it may be for long term and short term capital requirement, money is highly essential. The banks supply the money for all activities. To concentrate on the development of the rural economy, the Government of India extended help for the rural farmers, artesians, entrepreneurs by opening region rural banks, in addition to commercial banks and cooperative banks. In India, regional rural banks are functioning since 1975.

In the present Indian economical arena, the regional rural banks are supposed to play a vital role in achieving the objective of economic development by providing effective credit support to various regions, sectors and sections. Rural banking has been viewed as a catalytic agent that must develop and support not only a single element of the national economy, but also provide distributive and consumption side of it. This paper attempts to study the management of NPAs in Regional Rural Banks, particularly a case study by selecting Pandyan Grama Bank, Virudhunagar, Tamil Nadu as one of the samples among 86 Regional Rural Banks in India.

NON-PERFORMING ASSETS: CONCEPTS AND TYPES

Non-Performing assets are those assets of the banks that do not generate income. It has been well defined by Securitization and Reconstruction of Financial Assets are Enforcement of Security Interest (SARFAESI) Act 2002 as *"An Asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss assets in accordance with the direction issued by the Reserve Bank of India"*.

Basically, the assets of the banks are classified as performing and non-performing assets which generate income for the bank. A non-performing asset is an asset which fails to generate income for the bank. As per the regulation, an asset is considered to have gone due, the past due amount remaining uncovered where the borrower has defaulted as principal and interest repayment for more than one quarter or 90 days is called as non-performing asset. According to the guidelines of Reserve Bank of India, NPAs consist of sub-standard, doubtful and loss assets. In a nutshell, it is said that any asset of the bank generally turn into NPAs when they fail to yield income during a certain period. As a result, a doubtful asset finds its ways from sub-standard assets after 18 months in Indian context against one year under the international norms and finally, when it is found irrecoverable, then it moves to loss assets category. The table 1 will help to understand non-performing assets recognition.

PROVISIONING FOR NON- PERFORMING ASSETS (NPAs)

In the light of the Narasimhan committee recommendations, from time to time, the Reserve Bank of India has issued the guidelines in respect of recognition of NPAs, and their classification and provisioning. The following are the Reserve Bank of India guidelines for the provisions for NPAs.

☸ **Standard Assets:** The regional rural banks have been advised to make a general provision for standard assets at the following rates:

**Faculty of Commerce,* Madurai Kamaraj University (Constituent) College, Aundipatti, Theni District, Tamil Nadu.
Email : jeyasuresh_suresh@yahoo.co.in

a) Direct advances to agricultural and SME sectors at 0.25 per cent;
b) All other advances at 0.40 per cent.

Table 1 : Reserve Bank Of India's Guideline For Non-Performing Assets Recognition

Loans & advances	Guidelines applicable from 31.3.2001	Guidelines applicable from 31.3.2004
Term loan interest and / or installment remain over due for more than	180 days	90 days
Overdraft / Credit A/c.	Remains out of order	Remains out of order
Bill purchased and discounted remains over due for more than	180 days	90 days
Agricultural loan interest and or installments remain over due for	Two harvest seasons but not exceeding two and half years	Two harvest seasons but not exceeding two and half years
Other accounts-any amount to be received remains over due for more than	180 days	90 days

Source: Dr. Ch. Rajesham and Dr. K. Rajendar, " Management of NPAs in Indian Scheduled Commercial Banks", The Journal of Management Accountant, August 2008, Vol.43, No.8, p.602-608.

❁**Sub-Standard Assets:** A general provision of 10 per cent of net outstanding should be made without making any allowances for Export Credit Guarantee Corporation guarantee cover and securities available. The 'unsecured exposures' which are identified as sub-standard would attract additional provision of 10 per cent, i.e. a total of 20 per cent on the outstanding balance.
a) Doubtful Assets: Provision should be made for 100 per cent of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse and the realizable value is estimated on a realistic basis. With regard to the secured portion, the provision is to be made as specified below:

Table 2 : Non-Performing Assets Provisioning

Doubtful Status	Percentage Of Provisioning As Secured Portion
Up To One Year	20%
>1 ≤ 3 Years	30%
> 3 Years	100%

b) Loss-Making Assets: It is advised by Reserve Bank of India to the banks that in cases where loss assets are more than two years old (in the books of a bank without legal action being initiated), the banks should submit a review note to their management committee / boards of directors giving specific reasons as to why steps have not been taken for recovery. These assets should be written off. If they are permitted to remain in the books for any reason, 100 per cent should be provided for.
c) Other Purposes: Usually, banks have retirement benefits namely Provident Fund, Gratuity. Now banks have pension schemes also. Most of the banks have set up recognized Gratuity or Pension Fund to fund the relative liability. In April, 1992, Reserve Bank of India had advised that any bank, which had not set up such fund to estimate such liabilities on archival basis and make full provision for that purpose.
Technically, the standard assets are performing assets. The remaining categories of sub-standard, doubtful and less assets are NPAs. According to Reserve Bank of India direction, all the banks are required to maintain NPAs -both on gross and net basis.

CAPITAL ADEQUACY

Non-performing assets do not earn any income, they adversely affect the capital adequacy ratio that reveals the financial health condition of a bank. The capital adequacy ratio is defined as the ratio between a bank's capital and its risk- weighted assets. Capital signifies the core strength of an organization. This is truer in case of banks, because adequate capital not only infuses depositors' and regulators' confidence, but also acts as a cushion against possible losses arising out of normal risks inherent in banking. Like all other businesses, banks hold capital as a buffer against unforeseen losses. Unlike other enterprises, however, one of the main functions of banks is to perform financial intermediation between other participants in the economy. Given this key role, trust is essential. To ensure confidence and to protect the interest of depositors, banking activities are subject to licensing, to specific regulations and to supervisions. It is the supervision of the banks that has been on a rise due to regulatory capital requirement. Regulatory capital is the minimum capital that the supervisory authorities require banks to set aside in order to meet potential losses. This is meant to ensure that the banks can absorb losses arising from their activities on an ongoing basis. A minimum capital adequacy ratio (ratio of capital to risk-weighted assets-CRAR) of nine (9) per cent has been prescribed for all scheduled commercial banks and also primary (urban) cooperative banks in the country under the Basel I framework.

Commercial banks are also set to move over to the more sophisticated requirements under the new capital adequacy requirements (Basel II). However, no such norms have been specified for regional rural banks so far.

In the context of the ongoing consolidation process in the regional rural bank sector, as a result of which the regional rural banks are emerging as bigger and stronger banks, a need has arisen for having appropriate capital adequacy norms in their case also. Currently, in terms of provisions of the Regional Rural Bank Act, 1976, a regional rural bank can have issued capital not exceeding ₹ 1 crore. Apart from this, many of the regional rural banks received recapitalization support from the shareholders (Central Government, Sponsor bank and State Government) in the 1990's, which have been parked in "Share Capital Deposit Account", pending amendment to the provisions of the Act. Further, 27 regional rural banks having negative net worth as on 31st March 2007 are in the process of receiving recapitalization support. However, the capital base at present is too low and with increased diversity and sophistication in their activities, regional rural banks will certainly need a larger capital base to be able to take the risks related to banking.

In the Mid-Term Review of Annual Policy Statement of the Reserve Bank of India for the year 2007-2008, it was proposed that regional rural banks should disclose the level of Capital to Risk-weighted Assets Ratio (CRAR) as on March 31, 2008 in their Balance Sheets. Accordingly, all regional rural banks have been advised by the Reserve Bank of India to disclose their CRAR as on March 31, 2008 and thereafter every year as 'Notes on Accounts' to their Balance Sheets. Under the proposed CRAR framework, the Balance Sheet assets and non-funded / off-balance sheet items will be assigned weights and banks have to compute the ratio of their capital funds to the aggregate of risk weighted assets and other off-balance sheet exposure.

The Reserve Bank of India in its circular RBI/2007-2008/218 RPCD.CO.RRB.NO.BC.44/05.03.095/2007-08, dated December 28, 2007 sent to the Chairmen of all Regional Rural Banks about Mid-Term Review of Annual Policy Statement for the year 2007-2008 regarding application of Capital Adequacy norms to Regional Rural Banks highlighting the recommendations of the Internal Working Group Committee, that the Internal Working Group on Regional Rural Banks (Chairman: Shri A.V.Sardesai) had recommended that "*Regional Rural Banks may be advised to maintain a minimum level of capital to risk-weighted assets ratio (CRAR) which would be progressively raised to the current level of CRAR as per the Basel I norms"*. At present, capital adequacy norms are not prescribed for Regional Rural Banks. In order to further strengthen the capital structure and the soundness and stability of Regional Rural Banks in the context of financial stability of the whole system, it is proposed that:

"*Regional Rural Banks should disclose the level of CRAR as on March 31, 2008 in their balance sheets as "Notes on Accounts", Regional Rural Banks should furnish an annual return to Reserve Bank of India Regional Office / National Bank of Agriculture and Rural Development Regional Office, indicating capital funds and risk assets ratio. The return should be signed by two officials who are authorized to sign the statutory returns submitted to the Reserve Bank. A road-map may be evolved for achieving the desired level of CRAR by these banks"*.

The Committee on Financial Sector Assessment had suggested a phased introduction of Capital to Risk-weighted Assets Ratio (CRAR) in Regional Rural Banks, along with the recapitalization, after consolidation of these entities.

It was, therefore, announced in the Annual Policy Statement for 2009-10 to introduce Capital to Risk-weighted Assets Ratio (CRAR) for Regional Rural Banks in a phased manner, taking into account the status of recapitalization and amalgamation. A time-table for this purpose would be announced in consultation with NABARD.Accordingly, NABARD has been advised to constitute a Working Group to suggest bank-wise actionable measures for Regional Rural Banks which had Capital to Risk-weighted Assets Ratio (CRAR) less than one per cent as on March 31, 2008 so that they could achieve the target of seven per cent by March 2010.

Dr. D. Subbarao, Governor, Reserve Bank of India has said at the time of meeting to announce the Annual Policy 2009-

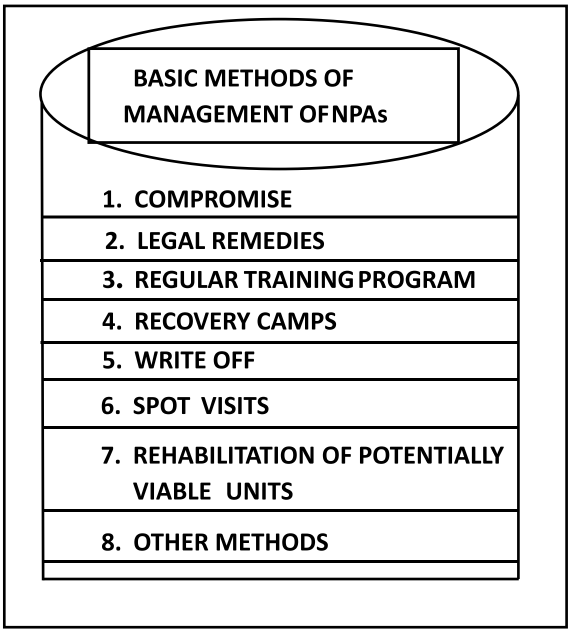
2010 that the "phased introduction of capital to risk-weighted assets ratio (CRAR) to the regional rural banks has to be done by 2012.
Honourable Union Finance Minister Shri. Pranab Mukherji, in the meeting to review the performance of regional rural banks held on 18th August, 2009 said that, "*having recapitalised the regional rural banks by over Rs.1700 crore, the Central Government is decided to setup a committee to assess the need for further capital infusion. A committee will be setup to assess the capital requirement of regional rural banks so that these entities can achieve capital adequacy ratio of seven per cent. At present, most of the regional rural banks, except five, were profitable. It has been agreed that all regional rural banks could be profitable by 2010. There had been significant improvement in their positions with the gross and net non-performing assets of the regional rural banks coming up to acceptable levels. The regional rural banks were a vital integral segment of the country's banking system. Their focus is on providing efficient financial services in the rural areas for the purpose of development of agriculture, trade, commerce and industry and other productive activities in the target areas. Nearly 70 per cent of the credit is disbursed by regional rural banks to the farm sector.*"

REASONS FOR ASSETS BECOMING NON-PERFORMING ASSETS (NPAs)

Multiple factors are responsible for the increasing size of NPAs in banks. A few prominent reasons are :
- Poor credit appraisal system.
- Lack of proper monitoring.
- Reckless advances to achieve the target.
- No or lack of corporate culture.
- Inadequate legal provisions on for closure and bankruptcy.
- Change in economic policy and poor auditing practices.
- Lack of coordination between banks
- Directed lending to certain sectors.

BASIC METHODS OF MANAGEMENT OF NON-PERFORMING ASSETS (NPAs)

Management of NPAs is a difficult task in practice. Management of NPAs means how to settle the NPAs account in the books. In simple terms, it focuses on the method of settlement of NPAs account. The methods may differ from bank to bank. The following facts are some of the basic methods of management of NPAs.



- **Compromise:** One of the basic methods of management of NPAs is compromise. The term ***compromise*** stands with the meaning of *"settlement of dispute reached by mutual concessions"*. The following are the ways for bringing about a compromise in the settlements of NPAs.

❁It is a negotiated settlement under which the bank should ensure recovery of its dues at maximum with a minimum expense.

❁Willful defaulters and borrowers should be properly distinguished on default in repayments due to circumstances beyond their control.

❁Where security is available for assuring the realizable value, proper weightage should be given to the location, condition and marketable title and possession of additional and sub securing.

❁An advantage in settlement cases is that banks can promptly recycle the funds instead of resorting to expensive recovery proceedings spread over a long period.

❁All compromise proposals approved by any functionary should be promptly reported to the next higher authority for post facto scrutiny.

❁Proposal for writing off/compromise should be first by a committee of senior executives of the bank.

❁ Special recovery cells should be setup at all regional levels.

❁**Legal Remedies:** One of the methods of management of NPAs is legal remedies. When the banks observe that the borrower is making willful default, no more time should be lost instituting appropriate recovery proceedings. The legal remedies are filing of civil suits.

❁**Regular Training Program:** It should be made mandatory that all levels of executives are required to undergo the regular training program on credit and NPA management. It is very useful and helpful to the executives for dealing with the NPAs properly.

❁**Recovery Camps:** The banks should conduct regular or periodical recovery camps in the bank premises or some other common places; such type of recovery camps reduces the level of NPAs in the banks.

❁**Write Offs:** Write offs are also one of the common management techniques of NPAs. The assets are treated as loss assets, when the bank writes off the balances. The ultimate aim of the write off is to clean the Balance sheet.

❁**Spot Visits:** The bank officials should visit the borrowers' business place or borrowers field regularly or periodically. It is also helpful for the bank to control or reduce the NPAs limit.

❁**Rehabilitation Of Potentially Viable Units:** The unit is sick due to technical obsolescence of inefficient management or financial irregularities. When the Bank settles the dues of such companies through the compromise or through the legal actions, the better is to be followed.

❁**Other Methods:** The other methods to reduce the NPAs are :

❁Continuous phone calls to defaulters and borrowers.

❁Media announcement regarding the non-payment of loans.

CAUSES AND CONSEQUENCES OF NON -PERFORMING ASSETS (NPAs)

One of the reasons for the accumulators of large portfolio of NPAs with banks is that offered lending is not linked to productive investment and recovery of credit is not linked with to product sale. The borrowers are mainly farmers and small scale industries owners whose financial conditions are generally bad. The volume of bank credit stacked in sick industries is the evidence of this problem. Sometimes, it is found that on the advice from BIFR and directions given from the courts, the banks have been providing loans to the sick industries, this type of practice has been also aggravating the NPAs situation. Besides, the faulty lending policies and the compulsion from the government to lend to the priority sector, there are many other causes which are responsible for the accumulation of NPAs. Many of these causes are related to faulty credit management like defective credit recovery mechanism, lack of efficiency in the work force, long time lag between sanctions and disbursements, unscientific repayment schedule, ones utilization of loans by the borrowers, untimely communication to the borrower regarding their due date, lack of strong legal mechanism, political intervention at all levels etc., have also been contributing for mounting NPAs. If the level of NPAs are not controlled timely, they will :

❁Reduce the earning capacity of assets and badly affects Return On Assets(ROA).

❁Higher provisioning requirement on mounting NPAs adversely affects the capital adequacy and also the

profitability.
- Cost of capital will increase due to NPAs and require economic value added.
- NPAs cause a decrease in the value of shares.
- NPAs Affect the market competitiveness.
- NPAs become a cause for the reduction in availability of funds for further credit expansion due to the unproductiveness of the existing portfolio.
- NPAs affect the risk taking ability.
- On the whole, it affects the credibility of the bank and bank will be in a difficult position in raising fresh capital.

STATEMENT OF THE PROBLEM

It was a recommendation to start the regional rural banks in the year 1975 by M. Narashimam Working Group Committee. In their recommendation, they said to "*combine the local feel and the familiarity with the rural problems, which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to control money markets and modernized outlook, which the commercial banks have*". For this purpose, to strengthen those in rural areas, the regional rural banking system was introduced.

Regional rural banks were formed to meet the excess demand for institutional credit in the rural areas, particularly among the socially and economically marginalized and deprived sections to improve the efficiency in rural credit delivery mechanism. Based on the recommendations, an act was passed in the Parliament during the year 1975 namely, "The Regional Rural Bank Act, 1976." The multi-agency approach to rural credit was also to sub-serve the needs of the input-intensive agricultural strategy, which had initially focused on "betting the strong". The Regional Rural Banks Act, 1976, succinctly sums up the overall vision to sub-serve both the developmental and redistributive objectives. These regional rural banks are functioning with the support of the commercial banks that are technically termed as 'sponsor bank'. The equity capital of the regional rural bank is to be shared among the Central Government, State Government and by its Sponsor Bank in the proportion of 50:15:35 respectively. The regional rural banks, popularly known as the small man's bank have taken deep roots and have become a sort of inseparable part of the rural economy. They play a vital and essential role in the rural institutional financing for agricultural credit in terms of geographical coverage, with friendly approach and contributes more for the development of the rural economy. During the inception, their were only six regional rural banks having 17 branches covering 12 districts. At the end of the year 1980, there was an increase to 85 regional rural banks having 3,279 branches. It was noticed in the year 1985 that there were 188 regional rural banks having 12,606 branches. As in March 2004, regional rural banks had spread their roots far and wide, having a large number of branches in rural areas forming 42 percent of the total branches of commercial banks. There were 196 regional rural banks with 14,747 branches covering 518 districts across the country. Recently, the performances of regional rural banks are not heartening all over India. The performance resulted with more losses and they have more non-performing assets. The financial viability of regional rural banks attracted the attention of the policy makers from time to time. In this regard, various committees were formed to observe the performance of them.

Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD) gave its recommendations in the year 1981 that "*loss incurred by the regional rural banks should be made good annually by the shareholders in the same proportion of their share holdings*". It was not accepted. But at the same time, under a scheme of recapitalization, financial support was provided by the share holders in their proportion of share holdings. In the year 1984, Kelkar committee gave recommendation that small and uneconomic regional rural banks should be merged in the interest of economic viability. After five years, in the year 1989, Kushro committee pointed out the same recommendation in a different way that, "*the weakness of regional rural banks is endemic to the system and non-viability is built into it, and the only opinion is to merge the regional rural banks with the sponsor banks. Then only the objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions*". In 1994, Bhandari committee recommended for comprehensive restructuring of regional rural banks and greater devolution of decision-making power to the board of regional rural banks in the matter of business development and human resource matters. In 1996, Basu committee mooted the opinion of liquidation on revamping of regional rural banks. Thingalaya committee gave another similar suggestion in the year 1997 that very weak regional rural banks should be viewed separately and possibility of their liquidation may be recognized. They might be merged with neighboring regional rural banks.

Vyas committee-I, the expert committee on rural credit gave its opinion that the sponsor bank should ensure necessary autonomy to their regional rural banks in their credit and other portfolio management system. In the year 2003, Chalapathy Rao committee recommended that the entire system of regional rural banks may be consolidated while retaining the advantages of regional characters of these institutions. The sponsoring banks may include other financial institutions for the support.

The Purwar committee laid basement for the better performance of regional rural banks in the year 2004. It recommended the amalgamation of regional rural banks by way of vertical and horizontal merges. Finally, in the year 2005, Sardesai committee gave its recommendation that, *"to improve the operational viability of regional rural banks and to take advantage of the economies of scale, the route amalgamation/mergers of regional rural banks may be considered taking onto account the views of various stakeholders"*. It is also recommended that change in sponsor banks may, in some cases, help in improving the performance- namely improve the competitiveness, work culture, management and efficiency of the concerned regional rural banks. In addition to that, in order to impart viability to the operations of regional rural banks, the Narashimam committee suggested that the regional rural banks should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the targeted groups. This recommendation became a turning point in the functioning of the regional rural banks, which uplifted their position. Simultaneously, prudential norms were introduced to maintain the standard of regional rural banks equivalent to international standards. It also supported all the regional rural banks for their excellent financial performance. Regional Rural Banks, which are the sponsor banks of various nationalized scheduled commercial banks act as financial institutions and form the major source of finance to the rural entrepreneurs and business organizations. The economic development of the country depends, to a great extent, upon the development and performance of the rural banking sector. The rural banking sector, which is made for the rural development in the country is having rich traditions by Reserve Bank of India and Government. The regional rural banks are still under strict control of the Reserve Bank of India and are at par with other commercial banks only after the banking sector reforms. Due to reforms, so many regional rural banks, which are identified as loss making were merged under the plan of merger/ amalgamation. As a result, in India, 196 regional rural banks came down to 84 including newly opened Regional Rural Bank at Puducherry after the reforms of merger and amalgamation.

Even though there is a reduction, the regional rural banks are in the blooming stage for which various positive measures were taken by both Reserve Bank of India and Central Government. These reforms brought several new changes in that for changes, in their products, regular business in their management etc. All these changes are expected to bring positive changes in the performance of the banks. The performance of the regional rural banks largely depends on deposit mobilization, lending operations, repayment performance and utilization of funds. The performance of the regional rural banks was not satisfactory up to five years back, since their inception. Due to banking sector reforms, the growth of the regional rural banks in terms of their performance is getting flourished. The selected sample "Pandyan Grama Bank, Virudhunagar" is one of the 84 regional rural banks, located in the southern Tamilnadu state, covering 15 districts and having more than 195 branches as on June 30th, 2009. The selected sample regional rural bank faced so many crises since its inception. At present, it has extended its services to the public on par with other nationalized commercial banks due to banking reforms.

OBJECTIVES OF THE STUDY

The objectives of the present study are to examine the performance of loan portfolios and procedures of decision making in the area of management of NPAs in Regional Rural Banks. For an in-depth examination of management of NPAs, Pandyan Grama Bank, Virudhunagar, Tamil Nadu is chosen as a case study. The objectives are :

1. To highlight Loans and Advances trend of Pandyan Grama Bank, Virudhunagar.

2. To point out the amount of non-performing assets of Pandyan Grama Bank, Virudhunagar.

3. To find out the problems of bank due to NPAs.

4. To offer suggestions to overcome the problems regarding NPAs.

SURVEY DESIGN

The study was undertaken to analyze the non-performing assets of the Pandyan Grama Bank, Virudhunagar. The analysis purely depends on the secondary data. It was collected from the annual reports of Pandyan Grama Bank, Virudhunagar, the facts published in the annual reports and bulletin of Reserve Bank of India, referred books, journals, newspapers and magazines.

DATA ANALYSIS

After the relevant data were collected for a period of five years from 2004-2005 to 2008-2009, the study was carried out which was preferred for assessment purposes. Hence, for all data, interpretations were made and tables have been used to support the discussion related to findings. Finally, conclusion and recommendations were made accordingly. The statistical tools used for data analysis are percentages analysis; Chi-square test, ANOVA test and coefficient of correlation are used to understand the impact of NPAs on profitability, liquidity and solvency of the selected bank.

ANALYSIS OF MANAGEMENT OF NPAs IN PANDYAN GRAMA BANK

For the banking system, the quality of loan assets is the most essential factor for the basic viability. Excess of overdue advances of rural banks in India are mounting and in consequences, the non-performing assets in their portfolio are on the rise, impinging on the bank's viability. This not only eats into the banks profitability, but also hampers their ability to recycle the funds in an effective manner. Avoidance of losses due to loan is one of the pre occupations of the management of all banks. Complete elimination of such losses in not possible. The bank's management aims to keep the losses at low level. In fact, it is the level of non-performing assets, which to a greater extent, differentiates between a good and worse bank. For clear understanding of the effective management of NPAs of Pandyan Grama Bank, data is presented in the heads of NPAs as per cent to total assets and advances, sector-wise NPAs, asset-wise NPAs, etc. as shown in the tables from Table 3 to Table 5.

Table 3 : NPAs As Percentage To Total Assets Of Pandyan Grama Bank (₹ in Lakhs)

Year	Gross NPAs to Total Assets		Net NPAs to Total Assets		Total Assets
	₹	%	₹	%	₹
2004-2005	2416.61	2.55	0.00	0.00	94858.29
2005-2006	2222.90	1.92	0.00	0.00	116042.84
2006-2007	1802.87	1.16	0.00	0.00	155002.30
2007-2008	1786.84	0.97	0.00	0.00	184373.46
2008-2009	2298.94	1.01	0.00	0.00	227563.56

Source: Compiled from the Annual Reports of Pandyan Grama Bank, Virudhunagar.

Table-3 shows the gross and net NPAs to total assets of the Pandyan Grama Bank (PGB), Virudhunagar for the period from 2004-2005 to 2008-2009. The ratio of gross NPAs to total assets of PGB in the year 2004-2005 is 2.55 percent. It gradually comes down to 0.97 percent in 2007-2008, showing a decreasing trend and having a slight increase in the year 2008-2009. On the other hand, the ratio of net NPAs to total assets is zero percent for the entire study period. On seeing this, it can be concluded that the bank is performing in a better way in NPAs recovery.

Table 4 : NPAs As Percentage To Total Advances Of Pandyan Grama Bank (₹ in Lakhs)

Year	Gross NPAs to Total Advance		Net NPAs to Total Advance		Total Advances
	₹	%	₹	%	₹
2004-2005	2416.61	3.69	0.00	0.00	65442.35
2005-2006	2222.90	2.82	0.00	0.00	78881.11
2006 2007	1802.87	1.70	0.00	0.00	105943.98
2007-2008	1786.84	1.37	0.00	0.00	130899.63
2008-2009	2298.94	1.01	0.00	0.00	164050.77

Source: Compiled from the Annual Reports of Pandyan Grama Bank, Virudhunagar.

Table-4 indicates that the gross and net NPAs to total advances of the PGB over the five years period from 2004-2005 to 2008-2009. The per cent gross NPAs to total advances has been marginally declining - a trend that is observed over the study period, i.e. from 3.69 per cent in the year 2004-2005 to 1.01 per cent in the year 2008-2009. The net NPAs to total advances per cent show zero percent constantly for the entire study period. This shows norms are followed effectively by the bank regarding recovery, the bank's net NPAs to advances ratio has been reached below the international standard level of two to three percent, which is evident for the best performance in reduction of mounting NPAs.

Table 5 : Asset Classification Of Performing And Non-Performing Assets Of Pandyan Grama Bank (₹ in Lakhs)

Year	Standard Assets		Sub-standard assets		Doubtful assets		Loss assets		Gross advances	
	₹	As a % of gross advances	₹	As a % of gross advances	₹	As a % of gross advances	₹	As a % of gross advances	₹	Total %
2004-2005	63929.82	96.36	817.37	1.23	1159.78	1.75	439.46	0.66	**66346.43**	100
2005-2006	77494.74	97.21	695.38	0.87	1284.29	1.61	243.23	0.31	**79717.64**	100
2006-2007	104934.10	98.31	273.86	0.26	1417.60	1.33	111.41	0.10	**106736.97**	100
2007-2008	130036.35	98.64	313.23	0.24	1372.07	1.04	101.54	0.08	**131823.19**	100
2008-2009	164717.37	98.62	404.34	0.24	1342.73	0.81	551.87	0.33	**167016.31**	100

Source: Compiled from the Annual Reports of Pandyan Grama Bank,

It is clear from the table-5 that there is an increasing trend in the standard assets during the entire study period loans with a 0.02 percentage decrease in the year 2008-2009. It reveals that the quantum of performing assets is occupying the advances, which reduces the losses. It shows that the bank is following effective lending system and it lends only to the loyal borrowers. The table-5 also reveals that there is decrease in quantum of doubtful assets over the periods. Even though the amount of doubtful assets shows an increasing trend from ₹1159.78 lakhs in the year 2004-2005 to ₹1372.07 lakhs in the year 2007-2008 and ₹1342.73 lakhs in the year 2008-2009, but in absolute terms, it declines from 1.75 per cent at the end of March 2005 to 0.81 per cent at the end of March 2009 as a per cent of gross advances. It shows there has been a significant reduction in doubtful assets. Data relating to sub-standard assets also advocate in favour of the bank's efficiency in managing its loan portfolio, even though there is a slight fluctuation during the entire study period from 2004-2005 to 2008-2009.In terms of percentage, it is in a declining trend from 1.23 per cent to 0.24. The table depicts that there is gradual decrease in the quantum of loss assets, which shows the efficiency of the bank in reducing the loss assets by adopting strict norms in lending year by year and also the management of the bank is effective in recovering mounting NPAs over the study period. But there is a sudden increase in the year 2008-2009 by 0.25 per cent comparing with the previous year 2007-2008.

Table 6 : Anova Table

Source of Variation	Sum of Squares	Degree of freedom	Mean Square	F- Value	Table Value
Between	2933755	2	1466878	40.54	3.88 at 5 per cent Level of Significance
Within	434167.3	12	36180.61		
Total	3367922	14			

To sum up, the null hypothesis that there is no significance difference in the asset-wise recovery of mounting NPAs of the PGB over the study period, for which ANOVA test is employed and the results are presented in the Table 6. The calculated value of F is greater than the table value, the hypothesis is rejected. Hence, there is a significance difference in the means of sub-standard assets, doubtful assets and loss assets in recovery of mounting NPAs. It is also calculated the co-efficient of correlation (r) between the performing and non-performing assets. It shows a low degree of negative correlation of -0.26.

The total NPAs of the Bank can also be classified as farm sector and non-farm sector. The position of NPAs of these sectors is shown in the below given table 7.The total NPAs of the bank can also be classified as farm sector and non-farm sector. In table 7, the sector-wise analysis of NPAs of PGB shows that the proportion of NPAs in farm sector is in fluctuating manner over the study period from 2004-2005 to 2008-2009. The proportion of NPAs in the non-farm sector is also in a fluctuating manner over the study period. To sum up, the Null hypothesis that there is a significant difference among the farm sector and non-farm sector in the recovery of NPAs. The calculated value of Chi-square test is 1.01, which is more than the table value of 16.9 at 5 % level of significance. Hence, there is a significance that is observed in sector-wise NPAs recovery for the five years period.

Table7 : Sector-Wise Over Dues Of Pandyan Grama Bank, Virudhunagar (₹ In Lakhs)

Years	Farm Sector		Non-Farm Sector		Total	
	Amount	%	Amount	%	Amount	%
2004-2005	2087.74	54.39	1750.82	45.61	3838.56	100
2005-2006	1100.15	33.55	2179.02	66.45	3279.17	100
2006-2007	1090.89	34.70	2052.80	65.30	3143.69	100
2007-2008	1133.91	25.40	3330.44	74.60	4464.35	100
2008-2009	2902.28	44.29	3650.46	55.71	6552.74	100
Total	8314.97	192.33	12963.54	307.67	21278.51	500
Average	1662.99	38.47	2592.71	61.53	4255.70	100
Chi-square	871					
Table Value	16.9 at 5% level of significance					

Source: Compiled from the Annual Reports of Pandyan Grama Bank, Virudhunagar.

SUMMARY OF FINDINGS

After viewing the analysis of management of NPAs in Pandyan Grama Bank, Virudhunagar, the following findings as well as justification of the hypothesis are presented:

1. The ratio of gross NPAs to gross advances has constantly been declining from 3.69 per cent in the year 2004-2005 to 1.01 per cent in 2008-2009, whereas, net NPAs to advances ratio stands with zero percent for the entire study period.

2. The null hypothesis was set up to know whether the significance in the means of non-performing assets, for which ANOVA test is employed, then the result is observed that there is a significant difference in the means of non-performing assets i.e. sub-standard assets, doubtful assets and loss assets over the study period in recovery of mounting NPAs.

3. It is observed that there is a low degree of negative correlation, r= -0.26, between the performing and non-performing assets.

4. The hypothesis was set up to measure the significant difference among the farm sector and non-farm sector, for which Chi-square test is employed, then the result is observed that there is a significant difference in the sector-wise reducing NPAs over the study period.

SUGGESTIONS

After going through the summary of findings and the results of hypothesis testing, the following are the suggestions offered to improve the effective management of mounting NPAs of the PGB :

1. The bank may follow different strategies of NPA management, timely construction of loan portfolio. Keeping in view the present condition of the sensitive sector, where volatility is increasing day by day, the bank may diversify its services into capital market, consultancy, lease financing, housing finance and insurance services with prior permission of the Central Government.

2. The priority sector lending target, which includes farm sector, has been revised to 60 per cent of total advances, with sub-target of 15 per cent to weaker sections. Even though the Chi-square test rejects the null hypothesis, which shows the bank's management is performing in a very well manner, additional steps may be taken to manage balanced loan portfolio.

3. The bank may take steps to improve the existing risk management systems, implementation of new accounting standards to bring them up equal to international standard, transparency and disclosures, supervision of financial conglomerates and corporate governance to face the competitive global environmental conditions.

4. The bank may take steps to constitute more legal cells and tribunals, recovery branches, NPA management departments, lok adalats etc., for speedy recovery of NPAs in addition to the existing methods.
5. The banks may be permitted to design and implement their own policies; the same comes under the RBI guidelines for recovery, especially in case of old and unresolved cases falling under the NPA category.
6. The bank may send circulation of informant and defaulters, which will serve as a caution list which considers request for new additional credit limits from defaulting borrowings units and also file criminal cases in regard to willful defaulters.
7. The bank may consider that the NPAs should be avoided in initial stages of credit consideration by putting in place appropriate credit appraisal mechanism.
8. One of the bank's prime responsibilities is that the borrowers' should also realize their roles and responsibilities. They should understand the difficulties of each other and should try to work towards contributing to a healthy mechanism.
9. The bank should adopt the technological changes by converting their banks to computerized banks, which may lead to a prompt and easy service for their customers.

CONCLUSION

In the liberalized banking scenario, PGB, Virudhunagar is one of the leading regional rural banks, which welcomes the radical changes and makes the organization fit for the changes without much difficulty. The performance highlights of the bank exposed that it has achieved the tasks and targets from time to time and has continuously retained a good position in financial strength. It is time when the bank should go for the use of information technology and other electronic methods for banking in this changing scenario of the banking sector, by fully computerizing its bank branches to provide prompt service to the customers. The bank should frame new polices and procedures, which should not go out of the regulation framed by the Reserve Bank of India for Regional Rural Banks. The management should also design a roadmap to raise the bar of the bank equal to international standard. If it is done, it is sure that "Pandyan Grama Bank, Virudhunagar" will be the number one bank among the regional rural banks in India.

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