



Reasons for non-Performing Assets in Agriculture Finance with Reference to Public Sector Banks

Prof -T. Umamaheswararao. MBA, M.com, MA,(socio),MA (Phil),M.sc (psy) ,BL. Ph.d.
Registrar KL University

Mr. P.VenkateswaraRao, Research scholar, Acharya Nagarjuna university,& Assoc.
Professor, MBA Dept., Lords Institute of Engg & Technology, Himayathsagar, Hyderabad

Abstract: Agriculture is primary occupation in our country. Agriculture is still a main occupation in rural areas and 70% people are engaging in this sector. Agriculture is an economic activity suffers from uncertainties mainly on account of fluctuations, in rainfall, pest attacks, floods, droughts, and other natural calamities. Such uncertainties are particularly severe in rain fed areas. Inadequate rainfall for example results in restricted income flows to the farmer leading to impairment of capacity to repay. Government of India and reserve bank of India is concentrating to provide more agriculture credit. Commercial banks, Regional Rural Banks and Cooperative banks are the part of institutional financing in India. Agriculture loans support livelihood activities of the farmers. Normally they would not behave in a manner which would permanently jeopardize the credit support required to earn their livelihood. Seen from this point of view an agriculture loan, even if it is not repaid on time in the same season on account of climate related problems, could eventually, be repaid out of income in subsequent seasons, if the borrowers is able to sustain himself during the intervening period and his overall debt burden does not financially annihilate him. In this background it is considered necessary to recon the cash flows of the borrowers from farm activities and accord differential treatment for the purpose of recognition as NPA^s and the extent guide lines be revised to be on tune with the ground realities and to capture the season uncertainties. Nonperforming assets (NPA^s) is a serious concern of banks in India .NPA^s not only affect the performance of the banks but also put irreparable harm to the entire economy. The data was collected from secondary sources, retrieved from reports of Reserve Bank of India. The scope of the study is limited to analysis of NPA's of the Public sector banks. NPA's depending to only for the ten banks.

Key Words: Agro climatic, Debilitated, Jeopardize, Annihilate, NPA's.

Introduction:

India lives in villages but with two endemic problems of underdevelopment and Inequality - spatial, sectoral and sectional. The main factors retarding the economic Growth and equitable distribution are: High growth rate of population which stood at 2.0 per cent per annum; Agriculture continued to be the mainstay of the millions of people and

the stagnation of work force in the occupational distribution with 70 per cent Engaged in primary sector, 10 per cent in the secondary sector and 20 per cent in the tertiary sector throughout the planning period. Banking in India originated in the last decade of 18th century when the three Presidency Banks of colonial India, were reorganized and amalgamated to form a single banking entity. The three Presidency banks were



the Bank of Bengal, established on 2 June 1806, the Bank of Maharashtra (incorporated on 15 April 1840) and the Bank of Madras (incorporated on 1843) the government of India and reserve bank of India acknowledging the significance of the role formal credit for agricultural development and growth initiated policy to progressively institutionalize agricultural credit system and extend it beyond cooperative credit structure by Nationalizing private banks in 1966 establishing RRB^s in 1975 and subsequently, licensing private sector banks (PB^s) in January 1993 and 2001 during post reforms period. Policy makers have realized that banking system in India should grow in size and sophistication to meet the challenges of an emerging economy and extend geographical coverage of banks to improve rural households to banking services. Accordingly as of 31 March 2011 the Indian banking system purveying agriculture credit comprised 31 state cooperative banks, 370 district central cooperative banks, 94647 primary agriculture credit societies, 20 state cooperative agriculture and rural development banks, 697 primary cooperative agriculture and rural development banks, 26 public sector banks, 82 regional rural banks (RRB^s), 4 Local area banks, 13 old private sector banks. They are the oldest form of banking institution having a large volume of operation over a vast area. They are having very good net of branches even in rural and semi urban and urban areas. Now they are not only engaged on their activities traditional business of the accepting and lending money, but have diversified their activities into new fields of operations like merchant banking, leasing, housing

finance, mutual funds and venture capital. They have introduced a no of innovative schemes of mobilizing deposits. In addition to the above they are providing valuable services of their customers, issuing drafts, traveler cheques, gift cheques, accepting valuables of safe custody and modern banking facilities. Since the process of liberalization and reforms of this financial sector were set in motion in 1991. Banking has undergone significant changes. The objectives have been to make the system more competitive, efficient and profitable. A strong banking sector is an important for flourishing economy. The failure of the banking sector may have been an adverse impact on other sectors. Nonperforming assets (NPA^s) is one of the major concerns for banks in India. NPA^s reflect the performance of banks. A high level of NPA^s suggests high profitability of a large number of credit defaults that affect profitability and net worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of the provision, which reduces the profits and shareholders' value.

Advances are made to agriculturists for crops. When the produce is harvested processed and sold, the money is repaid to the bank. The basis of for the purpose "long duration" crops would be crops which crop seasons longer than one year and crops which no longer duration crops would be treated short duration crops. This depends upon the area under cultivation expected yield etc. Separate advances are made for each crop. A loan granted for short duration crops will be treated as NPA, if the installment of principle (or) interest there on remains overdue two crop seasons. A loan granted for long duration crops will be treated



NPA if the installment of principle (or) interest there as remains overdue for one crop season.

The term loans given to non agriculturist's identification of NPA^s Would are done on the same basis as non agricultural advances, which at present is the 90 days delinquency norm. Natural calamities imp ire the repaying capacity of agricultural borrowers banks may decide on their own as a relief measure conversion of the short term production loan into a term loan or re-schedulement of the repayment period and sanctioning fresh short term loan subject to guidelines contained in RBI. In such cases of conversion or re-schedule the term loans as well as fresh short term loan may be treated as current dues and need not be classified as NPA^s.

Committees on agriculture credit:

1870 - British administration began to notice the problems in Indian agriculture

1904 - Cooperative Societies Act à Cooperatives seen as premier institutions for disbursing Agri-credit.

1934 - Reserve Bank of India Act 1934 - specific provision for attention to Agri-credit

1982 - Following the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development", the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982.

1995-96 - RIDF or Rural Infrastructure Development Fund set up in 1995-96. NABARD has major catalytic role in micro-credit movement through SHGs. However on the eve of 1991 reforms,

rural credit delivery system was in a poor shape.

- "Expert Committee on Rural Credit" (V.S. Vyas, 2001) -> restoration of health of Primary Agricultural Credit Societies (PACs) by scrapping the cadre system, selective delaying of cooperatives credit structure and integration of short and long-term structures.

- "The Working Group to Suggest Amendments in the Regional Rural Banks Act, 1976" (M.V.S.Chalapathi Rao, 2002) suggesting diversification of the business of RRBs, recommended introduction of capital adequacy norms for RRBs in a phased manner, along with the RRB-specific amount of equity based on the risk-weighted assets ratio.

Objectives of the Study:

1. To identify the reasons behind the agriculture NPA^s.
2. To find out solutions to reduce agriculture NPA's

Research methodology:

The present study concentrated on agriculture NPA^s in public sector banks. For this research data have been collected by secondary resources only, from annual reports of RBI publications including trend and progress of banking in India, statistical tables relating to banks in India, articles, papers relating to NPA^s published in different journals, magazines were studied and data available on interest and other sources have also been used.

Review of Literature

The National Commission on Farmers (NCF) under the chairmanship of Prof. M.S. Swaminathan submitted its final report in October 2007. It has stated



that 'Improvement in the outreach and efficiency of the rural banking system is the need of the hour. Towards this end, the financial services would be galvanized for timely, adequate and easy reach to the farmers at reasonable interest rates. The banking system would Endeavour to meet the large credit potential needed to raise agriculture to higher thresholds and for the growth of rural and agribusiness enterprises and employment'. - Government of India (2007).

As a result of these measures, agricultural credit has doubled over last 5 years and reached a level of Rs 366919 crores in 2009-10 registering annual compounded growth rate of 18.5% over a period of 5 years (2005 to 2010) (NABARD, 2011)

Another major innovation was the introduction of the Kisan Credit Card (KCC) scheme August 1998 to provide credit to farmers in flexible manner. Now it has emerged as a major mechanism for purveying credit to agriculture. Up to September 2010 about 970.64 lakh KCCs have been issued (Government of India, 2011). Further, in the era of financial sector reforms, sustainability, viability and operational efficiency of Rural Financial Institutions (RFIs) are the major issues that need to be taken cognizance of in ensuring effective rural credit delivery system. However, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdue 5 and Non Performing Assets (NPAs) of RFIs. The overdue problem of different entities of rural credit delivery structure is reported to be an all-pervasive phenomenon that cuts across these different agencies (Puhazhendi and Jayaraman, 1999).

Paulpurnandu, Bose, Swap anandDhalla, Rizwan S.(2011): in this paper we attempt to measure the relative efficiency of Indian PSU, banks on overall financial performance since the financial industry in a developing countries like India is undergoing through a very dynamic pace of restructuring it is imperative for a bank to consciously monitor their efficiency on nonperforming assets, capital risk-weighted assets ratio, business per employee, return on assets and profit per employee. Here nonperforming assets is a negative financial indicator to prove empirically, we propose a frame work to measure efficiency to Indian public sector banks

Kavitha .N (2012): emphasized on the assessment of nonperforming assets on profitability its magnitudes and impact credit of total advances was in the form of doubtful assets in the past and has an adverse impact on profitability of all public sector banks affected at very large extent when nonperforming assets work with other banking and also affect productivity and efficiency of the banking groups. The study observed that there is inverse in advances over the period the study.

Debarsh and Sukanya Goyal(2012) : emphasized on management on NPA in the perspective of the public sector banks in India under strict asset classification norms, use of latest technologies platform based in core banking solutions, recovery procedure and other bank specific indicators in the context of stringent regulatory frame work of the RBI nonperforming assets is an important parameter in the analysis of financial performance of banks it results in decreasing margin and higher provisioning requirements for doubtful



debts. The reduction of NPA IS necessary to improve profitability of banks.

Classification:

The asset classification of these loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if the interest and or installment of principal remain overdue for two crop seasons for short duration crops and for one crop season for long duration crops. For the purpose these guide lines "long duration" crops would be crops which crop season longer than one year and crops which are not "longer duration" would be treated as "short duration "crops. The extent norms for classification of agriculture loans as NPA for the commercial banks co-operative banks are as follows.

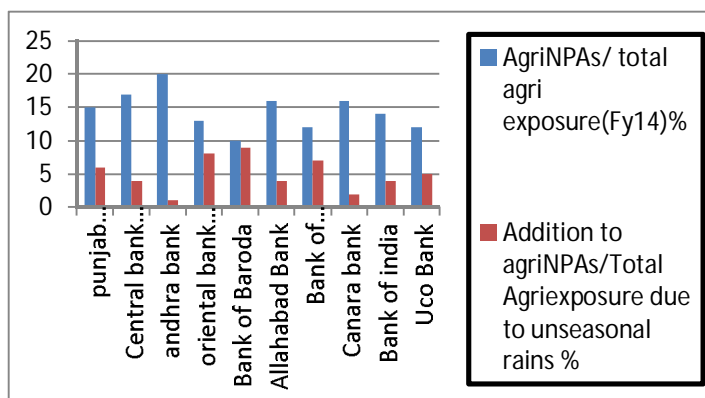
Commercial banks – in respect of advance granted for agriculture purpose where interest and or installment of principal remains unpaid after it has become overdue for two harvest seasons but for a period not exceeds two half years. Such advances should be treated as NPA. These norms applicable to direct agriculture advance only.

Cooperative Banks-in respect of agriculture advances of SCB^s and DCCB_s, where interest payment is on a half yearly basis synchronizing which harvest, the banks have been advised to the agriculture season as the basis it is stipulated that if interest is not paid during fixations of scales of finance in consultation with agricultural scientists and be ratified by DLCC/SLBC for the purpose of arriving at "two crop seasons after the due date" .only two consecutive crop seasons may be reckoned during which the farmer borrower normally under takes crop production.

NPA^s are classified into standard assets, sub-standard, doubtful, and loss assets based on criteria stipulated by RBI. The RBI guidelines regarding classification of assets and its provisioning with effect from March 31, 2005.The extending bad loan recognition to beyond 90 days past due.

Data analysis & interpretation:

Figure (1): Agriculture Nonperforming assets (NPA_s) are expected to a weak monsoon



Source: Annual reports India Rating & Research Report



Interpretation: Due to unseasonal rains Bank of Baroda have more nonperforming assets in agriculture with total exposure when compared with other banks in FY 2014.

- Andhra bank have more agriculture nonperforming assets to total agriculture exposure is when compared with other banks in FY 2014 and it reaches 20%.
- Weaker monsoon, inadequate rain fall, natural calamities, pest attacks, floods & droughts, are the main causes for upgrading agriculture loans as non performing loans.
- Government policies which one related to inadequate minimum support price for Agri-based products and interest rates are also key reasons for transforming agriculture loans as non performing loans.

Findings & suggestions:

- o reduce the NPA^s in agriculture, government will provide finance as a crop loan with liberated up to 3 lacks. And also increase ware housing/storage facilities with free of cost for tiny formers.
- ank will conduct “one time settlement schemes/strategy” continuously for tiny formers to decrease the agriculture NPA’s.

Conclusion:

NPA’s in banks by agriculture sector will decrease with improving the R&D activities for increasing the yield and reducing the cost of production, because the dependency population in India in this sector is more than 60%. By the encouragement of the government

the NPA’s will decrease with improving the export subsidy schemes/ facilities to all Agri-based products and crop insurance scheme have to expand for all crops.

References

1. Zechariah, K., “Lead Bank Scheme An Empirical Evaluation”, Rainbow Publications, Coimbatore, 1985,p.1.
2. Ruddara Dutt and Sundaram, K.P.M. “Indian Economy”, S. Chand & Company Limited, New Delhi, 1998, p.47.
3. Paroda, R.S. “Lab to Land: Research and Development”, *Yojana*, December 1997, p.4.
- 4... Sivaiah, K.V. & Das, V.B.M., *Indian Industrial Economy*, S. Chand & Company Ltd., New Delhi, 1990,p.22.
5. https://us.oppportunity.org/project/invest-in-farmers?gclid=Cj0KEQIAjMC2BRC34oGKqY27jtkBEiOAwSXzfq9jL3IHqT0Sx4GLMB-G6uyOOzaSxSH5Wj_O4c7IfPwaAkde8P8HAQ
6. <http://www.gktoday.in/non-performing-assets-npa/>
7. https://rbi.org.in/scripts/BS_ViewMasCircularDetails.aspx?id=9009
8. <http://www.livemint.com/Money/dNYY7eNaDxZZqVUVIzaeOP/Low-rainfall-may-affect-bank-nonperforming-assets.html>
9. https://en.wikipedia.org/wiki/Category:Agricultural_finance_in_India
10. https://en.wikipedia.org/wiki/Category:Regional_rural_banks_of_India
11. [https://en.wikipedia.org/wiki/Narasimham_Committee_on_Banking_Sector_Reforms_\(1998\)](https://en.wikipedia.org/wiki/Narasimham_Committee_on_Banking_Sector_Reforms_(1998))