

# Business Standard

## Cooperative banks hit by farm loan waivers, brace for high NPAs

As on March-end 2016, absolute NPAs of district central cooperative banks stood at Rs 22,406 cr

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*NPA. Illustration*

The cooperative banking sector, already under stress due to high non-performing assets (NPAs), is bracing for a significant addition in bad loans due to the spate of debt waiver schemes by states.

These schemes have adversely impacted the repayments on the crop loans, as farmers

anticipate more waivers in the coming days. Already the sector is reeling under stress for high NPAs and poor infrastructure.

Data from the National Federation of State Cooperative Banks (NAFSCOB) showed, absolute NPAs of district central cooperative banks (DCCBs) at the end of March 31, 2016, stood at Rs 22,406 crore, while that of state cooperative banks stood at 5,147 crore. Data for the primary agricultural credit societies (PACS) was not available. PACS are the smaller cooperative credit institutions and work at the grassroots level.

In June this year, Maharashtra government announced a debt waiver of Rs 34,000 crore for nearly 8.9 million farmers. The Uttar Pradesh government had also waived loans worth Rs 36,359 crore for about 21 million

farmers. Andhra Pradesh, Punjab, and Telangana waived loans of about Rs 20,000 crore, Rs 10,000 crore and Rs 15,000 crore, respectively, while Karnataka announced a Rs 8,000-crore waiver.

“This year we will see an increase in NPAs in the sector, and this would be mainly due to the waivers announced by the governments. Debt waivers have been destroying the repayment culture among farmers,” said B Subramaniam, managing director (MD), NAFSCOB.

A majority of crop loans in states are routed through cooperative banks. For example, in the case of West Bengal, in 2016-17, out of Rs 5,988 crore of crop loans, about Rs 3,018 crore was from the sector. The state has not announced any waiver scheme, but the impact on repayment was visible, said Chinmoy Gupta, MD, West Bengal State Cooperative Bank. The bank saw its collections drop to 78 per cent in 2016-17, from 83 per cent in 2015-16.

“This year, the repayment situation is bit grave and collections may be impacted,” said Gupta.

As of March 31, 2016, about 9,015 branches of district cooperative banks were in profit, while about 4,322 branches were loss-making. The total losses of the DCCBs were around Rs 688 crore, while the profit-making ones posted a profit of around Rs 2,126 crore, according to NAFSCOB.

Data showed as of March 31, 2016, out of nearly 93,367 PACS, about 62,050 were viable to run. About 37,112 PACS had reported a loss of Rs 7,009 crore, while 44,896 societies reported a profit of Rs 41,50 crore.

Cooperative credit institutions are divided in two categories — urban and rural. The rural category is further sub-divided in short (along with medium-term) and long-term credit categories. The short-term rural credit follows a three-tier structure — state cooperative banks, DCCBs and PACS. The long-term credit is further sub-divided in two categories — State Cooperative Agriculture and Rural Development Banks and Primary Cooperative Agriculture and Rural Development Banks.

## **BAD LOAN WOES**

- Debt waiver schemes have adversely impacted the repayments of the crop loans
- The cooperative banking sector is reeling under stress due to high NPAs and poor infrastructure
- Data shows absolute NPAs of district central cooperative banks at the end of March 31, 2016, stood at Rs 22,406 crore
- NPAs of state cooperative banks stood at Rs 5,147 crore
- Uttar Pradesh posted a loss of around Rs 159 crore
- Data shows as of March 31, 2016, out of nearly 93,367 primary agricultural credit societies, about 62,050 were viable