
**A STUDY OF NON-PERFORMING ASSETS OF
CO-OPERATIVE BANKS IN INDIA
WITH SPECIAL REFERENCE TO THE FINANCIAL YEAR 2022–23**

Author

NIJRUP S. VISANI

Research Scholar

Department of Commerce

Subject: Accounts

Co Author

DR. PRITESH PANCHAL

Research Guide

Department of Commerce

Subject: Accounts

ABSTRACT

Co-operative banks occupy a distinctive place in India's financial architecture because they combine the institutional form of banking with a community-oriented and member-based philosophy. Their financial sustainability, however, depends substantially on the quality of loans and advances. Non-Performing Assets (NPAs) weaken interest income, require provisioning, constrain fresh lending and may erode depositor confidence. This research paper examines the NPA position of co-operative banks in India with special reference to FY 2022–23, concentrating on Urban Co-operative Banks (UCBs), for which the Reserve Bank of India provides comparable end-March 2022 and end-March 2023 data. The study adopts a descriptive and analytical secondary-data methodology. It finds that Gross NPAs of all UCBs declined from ₹32,307 crore in March 2022 to ₹29,210 crore in March 2023. The Gross NPA ratio declined from 10.3 per cent to 8.8 per cent and the Net NPA ratio from 2.9 per cent to 2.1 per cent, while the Provision Coverage Ratio increased from 71.3 per cent to 75.7 per cent. The improvement was visible in both scheduled and non-scheduled UCBs, although non-scheduled UCBs continued to carry a higher GNPA ratio. RBI associated the improvement partly with lower slippages and stronger loan recovery. The paper concludes that FY 2022–23 reflects meaningful strengthening in UCB asset quality, but continued attention to governance, credit appraisal, early-warning systems, recovery, internal audit, risk management and technology remains essential.

Keywords: Non-Performing Assets, Co-operative Banks, Urban Co-operative Banks, Asset Quality, RBI, GNPA, NNPA, Provision Coverage Ratio, Credit Risk.

EXECUTIVE HIGHLIGHTS

- Gross NPAs of all UCBs fell by ₹3,097 crore, from ₹32,307 crore to ₹29,210 crore.
- The all-UCB GNPA ratio improved by 1.5 percentage points, from 10.3% to 8.8%.
- The all-UCB NNPA ratio improved by 0.8 percentage points, from 2.9% to 2.1%.
- Provision Coverage Ratio strengthened from 71.3% to 75.7%.
- At end-March 2023, RBI reported 1,502 UCBs; the overwhelming majority were in Tier 1 and Tier 2.

- RBI noted that UCB asset quality improved partly because of lower slippages and stronger loan recovery.

1. INTRODUCTION

1.1 Background of the Study

The co-operative banking system has long been an important channel of institutional credit in India. Co-operative banks were developed to extend formal financial services to local communities, small towns and rural areas, and to serve borrowers whose financial needs are often closely connected with local economic activity. Urban Co-operative Banks operate mainly in urban and semi-urban areas, while rural co-operative credit institutions form a separate network. Their local character is a strength, but it can also create concentration, governance and credit-monitoring challenges.

1.2 Why NPAs Matter

A loan is an earning asset only while the borrower services the debt in accordance with agreed terms and applicable prudential norms. Once an advance becomes non-performing, interest recognition is affected and the bank must make appropriate provisions. High NPAs therefore influence profitability, capital, liquidity, management attention and the capacity to recycle deposits into productive credit. For a co-operative bank, which often works with comparatively localised portfolios, persistent asset-quality stress can have an especially visible effect on institutional stability.

1.3 Context of FY 2022–23

FY 2022–23 is analytically important because RBI reported simultaneous improvement in the asset quality, profitability and capital buffers of UCBs. The consolidated balance sheet of all UCBs expanded by 2.3 per cent during 2022–23, with loans and advances contributing to asset-side expansion. At the same time, the GNPA stock and ratios declined. This combination makes the year useful for examining whether credit growth and improved asset quality could coexist.

1.4 Scope of the Paper

The title refers broadly to co-operative banks in India, but the quantitative comparison in this paper focuses primarily on Urban Co-operative Banks because RBI's 2022–23 publication provides directly comparable data for scheduled UCBs, non-scheduled UCBs and all UCBs at end-March 2022 and end-March 2023. Rural co-operative institutions are discussed for structural context but are not merged into the UCB NPA dataset.

2. CONCEPTUAL FRAMEWORK OF NON-PERFORMING ASSETS

2.1 Meaning of NPA

In banking analysis, an NPA is a loan or advance that satisfies the regulatory criteria for non-performing classification. The classification signals that the asset is no longer generating income in the ordinary manner. NPA measurement is therefore both an accounting issue and a risk-management indicator.

2.2 Gross NPA and Gross NPA Ratio

Gross NPAs represent the total stock of advances classified as non-performing before relevant provisioning adjustments. The Gross NPA Ratio is generally expressed as Gross NPAs divided by Gross Advances multiplied by 100. It indicates the proportion of the gross loan portfolio that is impaired.

2.3 Net NPA and Net NPA Ratio

Net NPAs reflect the residual NPA burden after prescribed adjustments for provisions and related items. The Net NPA Ratio therefore provides an additional view of the stressed asset burden remaining after provisioning. A declining NNPA ratio, when supported by adequate provisioning, generally indicates strengthening loss-absorption capacity.

2.4 Provision Coverage Ratio

Provision Coverage Ratio measures the extent to which provisions cover gross NPAs. A rising

PCR can provide a stronger buffer against potential losses. It should, however, be interpreted with other indicators because a high PCR does not by itself establish that underlying credit risk has disappeared.

2.5 Causes of NPAs

NPAs may arise from borrower-specific, bank-specific and macroeconomic factors. Borrower-specific factors include business failure, weak cash flow, diversion of funds or unexpected shocks. Bank-specific factors include weak appraisal, inadequate monitoring, concentration risk and delayed recognition of stress. Macroeconomic factors may include sectoral downturns, commodity shocks, interest-rate changes and disruptions in demand.

2.6 Consequences of NPAs

High NPAs can reduce interest income, increase provisioning, depress return on assets, absorb management resources and limit fresh credit. They may also require stronger capital support. For a community-oriented bank, weak asset quality can additionally affect confidence among members and depositors.

3. CO-OPERATIVE BANKING STRUCTURE AND REGULATORY CONTEXT

3.1 Structure

RBI describes credit co-operatives as comprising UCBs and rural co-operative credit institutions. UCBs are classified as scheduled or non-scheduled. Rural credit co-operatives include short-term and long-term institutions. As per the data reported in RBI's 2022–23 chapter, there were 1,502 UCBs and 1,05,268 rural co-operative credit institutions, with primary agricultural credit societies accounting for the overwhelming majority of rural institutions.

3.2 Four-Tier Framework

During 2022–23, RBI adopted a four-tier regulatory framework for UCBs. Tier 1 covered UCBs with deposits up to ₹100 crore; Tier 2, deposits above ₹100 crore and up to ₹1,000

crore; Tier 3, above ₹1,000 crore and up to ₹10,000 crore; and Tier 4, above ₹10,000 crore. At end-March 2023, RBI reported 898 Tier 1 UCBs, 520 Tier 2, 78 Tier 3 and 6 Tier 4 institutions.

3.3 Consolidation and Gujarat Connection

RBI reported that the UCB sector had undergone 150 mergers cumulatively since 2004–05, including three in 2022–23. Maharashtra and Gujarat together accounted for 80 per cent of total mergers. This is especially relevant to researchers studying the co-operative banking environment of Gujarat, as it shows that consolidation has been a significant feature of the regional UCB landscape.

3.4 Capital and Soundness

At end-March 2023, the consolidated CRAR of all UCBs was 16.6 per cent compared with 15.5 per cent at end-March 2022. RBI attributed improvement in consolidated CRAR to higher profit accretion, capital raised through long-term subordinated bonds and regulatory treatment of revaluation reserves subject to conditions.

4. REVIEW OF LITERATURE AND OFFICIAL EVIDENCE

4.1 RBI Trend and Progress Reports

RBI's annual Report on Trend and Progress of Banking in India provides a comprehensive official assessment of the structure, balance sheet, profitability, soundness and asset quality of co-operative banks. The 2022–23 report is the principal authority for this study because it contains the comparative UCB NPA table used in the empirical analysis.

4.2 Primary UCB Outlook

RBI's Primary (Urban) Co-operative Banks' Outlook 2022–23, released in April 2024, covers financial accounts of scheduled and non-scheduled primary UCBs for FY 2022–23. It provides aggregate information on balance sheets, profit and loss accounts, NPAs, financial ratios, offices and priority-sector advances, and

bank-wise information for scheduled primary UCBs.

4.3 Credit Growth and Asset Quality

RBI's analytical discussion on scheduled UCB credit growth notes that deterioration in asset quality, as indicated by GNPA ratios, can adversely affect credit growth. This reinforces the broader proposition that NPA management is not merely a recovery issue; it is linked with the future lending capacity of banks.

4.4 Research Gap

Many discussions of NPAs focus on commercial banks or use long multi-year datasets. The present paper offers a focused examination of FY 2022–23 using official co-operative banking data, distinguishing scheduled and non-scheduled UCBs and integrating absolute NPAs, NPA ratios and provision coverage.

5. RESEARCH DESIGN

5.1 Research Problem

The central research problem is whether the asset quality of UCBs improved during FY 2022–23 and whether improvement was visible across both scheduled and non-scheduled UCBs. The study also examines whether the reduction in the absolute stock of NPAs was accompanied by better ratios and stronger provisioning.

5.2 Objectives

The study seeks to explain the concept of NPAs; examine UCB asset quality in 2022–23; compare March 2022 and March 2023; compare scheduled and non-scheduled UCBs; analyse GNPA, NNPA and PCR; identify factors associated by RBI with improvement; and suggest measures for sustainable NPA management.

5.3 Hypotheses

H1: Gross NPAs of UCBs declined during FY 2022–23. H2: The GNPA ratio declined during FY 2022–23. H3: The NNPA ratio declined during FY 2022–23. H4: Provision coverage improved during FY 2022–23. H5: Both

scheduled and non-scheduled UCBs recorded improvement in major asset-quality indicators.

5.4 Methodology

The study is descriptive and analytical and relies on secondary data. The principal data source is RBI's Report on Trend and Progress of Banking in India 2022–23, especially Chapter V and Table V.10. Simple comparative tools, percentage change and percentage-point change are used. The 2023 figures in the RBI table are provisional.

5.5 Limitations

The quantitative results should not be generalized to every rural co-operative institution because the primary NPA dataset concerns UCBs. The paper does not claim causal identification: where RBI states that improvement partly reflected lower slippages and stronger recovery, that official assessment is reported, but the descriptive data alone cannot isolate the effect of individual reforms.

6. EMPIRICAL DATA ANALYSIS: FY 2022–23

6.1 NPA Position of Urban Co-operative Banks

Table 1 presents RBI's comparative asset-quality data at end-March 2022 and end-March 2023. The pattern is unambiguous: all-UCB gross NPAs and net NPAs declined, the GNPA and NNPA ratios improved, and the provision coverage ratio strengthened.

Indicator	Scheduled 2022	Scheduled 2023	Non-Scheduled 2022	Non-Scheduled 2023	All Urban Co-ops 2022	All Urban Co-ops 2023
Gross NPAs (₹)	10,686	10,014	21,621	19,196	32,307	29,210

crore)						
Gross NPA Ratio (%)	7.5	6.6	12.6	10.7	10.3	8.8
Net NPAs (₹ crore)	3,542	2,197	5,719	4,891	9,261	7,088
Net NPA Ratio (%)	2.5	1.4	3.3	2.7	2.9	2.1
Provisioning (₹ crore)	7,144	7,817	15,902	14,305	23,046	22,122
Provision Coverage Ratio (%)	66.9	78.1	73.5	74.5	71.3	75.7

Source: Reserve Bank of India, Report on Trend and Progress of Banking in India 2022–23, Chapter V, Table V.10. Data for 2023 are provisional.

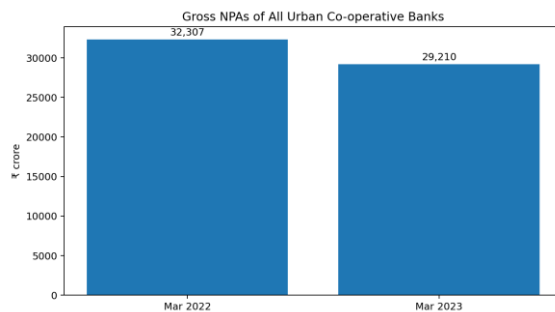


Figure 1: Gross NPAs of all UCBs, March 2022 and March 2023. Source: RBI Table V.10.

6.2 Change in Gross NPAs

Gross NPAs of all UCBs fell from ₹32,307 crore to ₹29,210 crore, a decline of ₹3,097 crore or approximately 9.6 per cent. Scheduled UCB gross NPAs declined by ₹672 crore, while non-scheduled UCB gross NPAs declined by ₹2,425 crore. The larger absolute reduction occurred in the non-scheduled segment.

6.3 Gross NPA Ratio

The all-UCB GNPA ratio fell from 10.3 per cent to 8.8 per cent, an improvement of 1.5 percentage points. Scheduled UCBs improved from 7.5 per cent to 6.6 per cent. Non-scheduled UCBs improved more sharply, from 12.6 per cent to 10.7 per cent, but their ratio remained materially above the scheduled-UCB ratio.

6.4 Net NPAs and NNPA Ratio

Net NPAs of all UCBs declined from ₹9,261 crore to ₹7,088 crore. The NNPA ratio fell from 2.9 per cent to 2.1 per cent. Scheduled UCBs recorded a particularly strong decline in the NNPA ratio from 2.5 per cent to 1.4 per cent; non-scheduled UCBs improved from 3.3 per cent to 2.7 per cent.

6.5 Provision Coverage

The all-UCB PCR increased from 71.3 per cent to 75.7 per cent. Scheduled UCB PCR increased from 66.9 per cent to 78.1 per cent, while non-scheduled UCB PCR rose from 73.5 per cent to 74.5 per cent. This indicates that the decline in NPA stock was accompanied by stronger aggregate coverage.

6.6 Interpretation

RBI stated that UCB asset quality improved further in 2022–23, partly reflecting lower slippages and stronger loan recovery. It also noted that although the GNPA ratio had declined from its earlier peak, it remained elevated. Therefore, the 2022–23 improvement should be viewed as significant progress rather than completion of the asset-quality agenda.

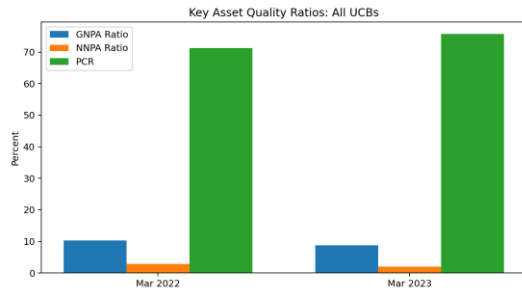


Figure 2: Key asset-quality ratios of all UCBs.

Source: RBI Table V.10.

7. HYPOTHESIS TESTING AND RESULTS

Hypothesis	Result	Interpretation
H1: Gross NPAs declined	Supported	Supported by descriptive data. All-UCB GNPA declined by ₹3,097 crore, approximately 9.6%.
H2: GNPA ratio declined	Supported	Supported. The ratio declined from 10.3% to 8.8%, a 1.5 percentage-point improvement.
H3: NNPA ratio declined	Supported	Supported. The ratio declined from 2.9% to 2.1%, a 0.8 percentage-point improvement.
H4: Provision coverage improved	Supported	Supported. PCR increased from 71.3% to 75.7%, an improvement of 4.4 percentage points.

H5: Both scheduled and non-scheduled UCBs improved

Supported

Supported for the major asset-quality measures examined: both groups recorded lower gross NPAs and lower GNPA/NNPA ratios, while PCR increased.

8. MAJOR FINDINGS

1. The absolute stock of gross NPAs declined materially during FY 2022–23.
2. Improvement was broad-based: GNPA ratio, NNPA ratio and PCR all moved in a favourable direction.
3. Non-scheduled UCBs continued to exhibit a higher GNPA ratio than scheduled UCBs, despite sharp improvement.
4. Scheduled UCBs showed a strong increase in provision coverage, from 66.9% to 78.1%.
5. RBI associated the asset-quality improvement partly with lower slippages and stronger loan recovery.
6. Large borrowing accounts with exposure of ₹5 crore and above constituted 25% of UCB lending and 31% of total GNPA at end-March 2023, indicating the relevance of concentration and large-account monitoring.
7. RBI's overall assessment was that UCB health improved in 2022–23, but the GNPA ratio remained elevated.
8. The co-operative banking reform environment during the year included a four-tier UCB framework and stronger emphasis on capital, governance, compliance, risk management and internal audit.

9. SUGGESTIONS AND POLICY IMPLICATIONS

Strengthen pre-sanction appraisal

Co-operative banks should place greater emphasis on verified cash flows, repayment capacity, leverage, business viability, promoter conduct and sectoral risk rather than relying disproportionately on collateral.

Develop early-warning systems

Automated overdue alerts, SMA monitoring, transaction-pattern analysis and borrower-level dashboards can help identify stress before accounts migrate into NPA status.

Improve post-disbursement monitoring

Credit discipline requires periodic review of stock statements, financial performance, end-use of funds, insurance, security perfection and covenant compliance.

Focus on recovery without delaying recognition

Recovery action should be timely and legally compliant. Delayed recognition of stress can distort the true financial position and make eventual recovery more difficult.

Manage concentration risk

Boards should monitor large borrowers, connected exposures, sectors and geographic concentrations. The RBI data on large borrowal accounts underline the importance of this issue.

Professionalise governance

RBI's emphasis on compliance, risk management and internal audit should be translated into board-level accountability, independent control functions, staff training and documented risk appetite.

Technology and data quality

Core banking data should support accurate NPA identification, provisioning, regulatory reporting and portfolio analytics. Technology investment is therefore a prudential requirement, not merely an operational convenience.

Member and borrower financial literacy

Co-operative institutions can use their community reach to improve borrower understanding of repayment schedules, restructuring options, credit discipline and consequences of persistent default.

Build recovery capability

Dedicated recovery teams, legal tracking systems, negotiated settlements where permissible, and regular account-wise recovery reviews can improve outcomes.

Continuous research

Future studies should use bank-wise and state-wise datasets, especially for Gujarat, to examine whether aggregate UCB trends are replicated across individual co-operative banks.

10. CONCLUSION

The study demonstrates that FY 2022–23 was a year of measurable improvement in the asset quality of Urban Co-operative Banks in India. Gross NPAs declined from ₹32,307 crore to ₹29,210 crore; the GNPA ratio declined from 10.3 per cent to 8.8 per cent; net NPAs declined from ₹9,261 crore to ₹7,088 crore; the NNPA ratio declined from 2.9 per cent to 2.1 per cent; and PCR increased from 71.3 per cent to 75.7 per cent. The improvement extended across scheduled and non-scheduled UCBs, although the latter continued to report a higher GNPA ratio. RBI's assessment that lower slippages and stronger recovery partly supported the improvement provides an important operational lesson: sustainable NPA reduction requires both prevention of fresh stress and effective resolution of existing stress.

The findings should nevertheless be interpreted with caution. Aggregate improvement does not imply that every co-operative bank was equally strong, nor does it remove governance and concentration risks. RBI itself observed that the UCB GNPA ratio remained elevated. The long-term policy objective must therefore be to transform one year's improvement into a durable

institutional trend through sound appraisal, disciplined monitoring, adequate provisioning, robust governance, independent internal controls, technology-led supervision and fair but effective recovery. In this sense, NPA management is not merely a balance-sheet exercise; it is central to protecting depositors, preserving lending capacity and sustaining the social and economic role of co-operative banking.

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APPENDIX A: QUICK DATA SHEET

- Number of UCBs at end-March 2023: 1,502

- Total assets of all UCBs at end-March 2023: ₹6,80,301 crore
- All-UCB Gross NPAs: ₹29,210 crore
- All-UCB GNPA Ratio: 8.8%
- All-UCB Net NPAs: ₹7,088 crore
- All-UCB NNPA Ratio: 2.1%
- All-UCB Provisioning: ₹22,122 crore
- All-UCB Provision Coverage Ratio: 75.7%
- All-UCB CRAR: 16.6%

APPENDIX B: FORMULAE USED

Gross NPA Ratio = $\text{Gross NPAs} \div \text{Gross Advances} \times 100$

Percentage Change = $(\text{Current Year Value} - \text{Previous Year Value}) \div \text{Previous Year Value} \times 100$

Percentage-point Change = $\text{Current Ratio} - \text{Previous Ratio}$

Approximate decline in all-UCB Gross NPAs = $(29,210 - 32,307) \div 32,307 \times 100 \approx -9.6\%$