



JHARKHAND STATE CO-OPERATIVE BANK

Transformational Approach to NPA Management

Abstract

The Jharkhand State Co-operative Bank (JStCB) undertook a comprehensive institutional transformation initiative to address one of the most critical threats to banking sustainability, excessive Non-Performing Assets (NPAs). Formed after the bifurcation of Bihar and the creation of Jharkhand in 2000, the Bank inherited substantial legacy issues following the merger of District Central Cooperative Banks into a single apex cooperative banking institution. By March 2020, the Bank's Gross NPA had reached an alarming 51.63 percent, while Net NPA stood at 22.02 percent, placing the institution at significant regulatory and operational risk. To restore financial stability and institutional credibility, JStCB implemented an aggressive, multidimensional recovery and quality-lending framework that combined legal action, enforcement of recovery measures, staff mobilisation, administrative coordination and strategic credit discipline. The intervention also emphasised continuous monitoring, decentralised recovery mechanisms and coordinated action with local administration and statutory authorities. As a result of these sustained efforts, the Bank successfully reduced Gross NPA to 9.53 percent and Net NPA to 3.15 percent by March 2025.

Introduction

Jharkhand State Co-operative Bank (JStCB) was established after the formation of Jharkhand and the merger of several District Central Cooperative Banks. While the merger broadened reach, it also brought significant legacy challenges, especially high Non-Performing Assets (NPA). The Bank inherited weak recovery, poor lending, inadequate legal enforcement and low accountability.

By March 2020, Gross NPA rose to 51.63 percent, threatening the Bank's regulatory compliance and sustainability. The RBI and NABARD could have taken statutory action if corrective steps were delayed.

The Bank responded with a structured NPA Management initiative. This focused on legal recovery, accountability, employee motivation and the establishment of decentralised recovery teams. Other steps

included certificate proceedings and stricter lending discipline. Recovery teams operated in regional offices. Legal notices and insolvency actions increased. Regular reviews became standard. The Bank also worked with NABARD and RBI to improve credit by consortium financing with the Food Corporation of India (FCI). This helped raise the Credit-Deposit ratio and asset quality.

The initiative produced transformative outcomes. Gross NPA declined from 51.63 percent in 2020 to 9.53 percent in 2025, while Net NPA reduced from 22.02 percent to 3.15 percent during the same period. Loans and advances increased simultaneously from ₹265.63 crore to ₹1,141.56 crore, demonstrating that the Bank achieved both recovery and growth.

The Problem Statement

The most serious problem was a high level of NPAs. On 31 March 2020, Gross NPA was 51.63 percent and Net NPA was 22.02 percent. These figures meant more than financial stress. They were an existential threat. If NPAs were not reduced below 10 percent in a timely manner, the Bank risked severe action from the RBI and NABARD.

The crisis showed deeper issues in the institution. In previous years, the recovery culture was weak. Employees were not motivated to recover loans. Legal notices were sent out inconsistently. Few recovery certificate cases were effectively followed up on.

The Bank also faced ongoing issues with loan quality. Weak appraisal, insufficient monitoring and poor loan tracking led to asset erosion. Many NPAs were unsecured or secured by overvalued collateral, limiting recovery.

Legal enforcement was slow and scattered. Coordinating with local officials for distress warrants, body warrants and certificate actions required extensive cooperation. This often created delays.

Additionally, the cooperative banking structure added operational complexity. The institution had to align employees, regional offices, administration, regulators and recovery teams to a common goal. Without governance intervention, the Bank risked financial instability and loss of depositor confidence.

Solutions Stack

The first component involved aggressive recovery mobilisation. Employees across the Bank were sensitised and motivated to prioritise recovery efforts.

A second intervention strengthened legal enforcement. Unlike before, legal notices were sent systematically to borrowers, guarantors and employers. The Bank used Section 138 of the Negotiable Instruments Act when possible. It also filed insolvency cases to speed up recovery.

The Bank intensified certificate proceedings and worked with district authorities to issue distress and body warrants. The Registrar of Cooperative Societies was asked to empower officers in Deoghar, Dumka, Simdega, East Singhbhum and Gumla, speeding up decentralised recovery.

A dedicated recovery structure was established across regional offices. Recovery teams were formed with support from home guards provided by the district administration, ensuring stronger enforcement presence and operational coordination.

Settlement mechanisms through Lok Adalats were also utilised extensively to resolve eligible cases across districts such as Bokaro and Gumla.

Strengthening quality lending was another vital step. The Bank focused on improving credit appraisal, loan monitoring and borrower assessment. Outreach programmes taught employees the value of quality lending and sustainable credit.

The Bank backed recovery with credit growth initiatives. Supported by NABARD and RBI, the Bank joined a consortium financing with the Food Corporation of India. The exposure grew from ₹300 crore in FY 2021 to ₹800 crore by FY 2023 and beyond. This improved the Credit-Deposit ratio and strengthened assets. In turn, it eased the burden of old NPAs.

Institutional Context and Strategic Imperative

The NPA crisis emerged during a pivotal period for the Bank. As Jharkhand's top cooperative bank, JStCB is crucial in rural credit and agricultural finance. Any major decline would harm financial inclusion and credit delivery across the state. Leadership recognised that recovery demanded more than compliance, it required sweeping transformation. Governance reforms, legal force, operational accountability and a fundamental cultural shift became non-negotiable imperatives.

There were two main objectives. First, the Bank needed to cut Gross and Net NPAs to stay compliant and stable. Second, the Bank had to rebuild a culture of good lending and accountability. This would help prevent future asset decline.

Senior leadership, including the Chief Executive Officer, Accounts Management and administrators, guided recovery operations and enforcement in

partnership with local administration and authorities.

The bigger strategic vision was to regain credibility and strengthen operations. Improving credit quality and building a sustainable cooperative bank would help Jharkhand's rural economy.

Implementation Journey

The NPA Management initiative formally commenced in April 2020. The first phase focused on institutional diagnosis, identification of overdue accounts and creation of recovery strategies. Leadership initiated recovery-oriented communication across all levels of the organisation and established clear accountability structures.

The second phase involved aggressive legal action. Notices were issued to borrowers and guarantors, certificate proceedings were revived and police and insolvency cases were initiated. Regional recovery teams were formed and coordinated with local administration to strengthen enforcement mechanisms.

Simultaneously, monthly review meetings were institutionalised to track recovery progress, evaluate legal actions and assess

implementation bottlenecks. These meetings ensured continuous monitoring and real-time corrective interventions.

The third phase focused on institutional stabilisation through quality lending initiatives and strategic balance sheet strengthening. Participation in consortium financing helped improve asset quality ratios while expanding productive credit deployment.

Over time, the Bank transitioned from reactive recovery management to preventive credit governance, integrating quality-lending principles with recovery-enforcement systems.

Implementation Challenges

The implementation process faced several operational and institutional challenges. One of the primary difficulties involved the absence of specialised NPA recovery expertise within the organisation. Effective recovery required legal, valuation, negotiation and enforcement capabilities that were initially limited.

Legal proceedings against willful defaulters were often prolonged by procedural complexities and delays in administrative systems. Coordination with multiple departments for notices, warrants and recovery enforcement required sustained institutional effort.

Many NPAs were either unsecured or backed by depreciated collateral, thereby reducing the potential for recovery. Weak historical monitoring of borrower businesses

and loan utilisation further complicated assessment and enforcement processes.

Another challenge involved employee alignment. Motivating staff across the organisation to work collectively toward recovery goals required sustained leadership engagement and cultural transformation. Additionally, local administrative cooperation was not always consistent, resulting in delays in the execution of enforcement actions despite the availability of legal provisions.

Highlights

- Jharkhand State Co-operative Bank (JStCB) launched a comprehensive NPA management and institutional revival initiative to address severe financial stress caused by legacy bad loans inherited after the merger of multiple cooperative banks.
- The Bank tackled critical challenges such as weak recovery systems, poor lending discipline, inadequate legal enforcement and operational inefficiencies through aggressive recovery drives, legal action, decentralised recovery teams and stricter credit governance.
- Key measures included certificate proceedings, insolvency actions, Lok Adalats, distress warrants, employee mobilisation, monthly recovery reviews and coordination with district authorities, RBI and NABARD to strengthen enforcement and accountability.
- Alongside recovery efforts, the Bank improved quality lending and balance-sheet strength through better credit appraisal, monitoring and consortium financing with the Food Corporation of India, helping expand productive lending while improving asset quality.
- Between 2020 and 2025, Gross NPA declined dramatically from 51.63 percent to 9.53 percent and Net NPA from 22.02 percent to 3.15 percent, while loans and advances grew from ₹265.63 crore to ₹1,141.56 crore, demonstrating a successful institutional turnaround.

Outcomes

The NPA Management initiative produced a remarkable institutional turnaround within a five-year period. Gross NPA declined from 51.63 percent in March 2020 to 9.53 percent in March 2025, successfully bringing the Bank below the critical regulatory threshold. Net NPA simultaneously reduced from 22.02 percent to 3.15 percent.

The year-wise trajectory demonstrates consistent improvement. Gross NPA reduced progressively from 51.63 percent in 2020 to 38.91 percent in 2021, 18.54 percent in 2022, 11.88 percent in 2023 and 9.38 percent in 2024 before stabilising at 9.53 percent in 2025.

Importantly, recovery improvements were accompanied by business expansion. Loans and advances increased significantly from ₹265.63 crore in 2020 to ₹1,141.56 crore in 2025, indicating that the Bank achieved asset quality improvement without restricting credit growth.

Recovery performance also strengthened substantially, with annual recoveries increasing from ₹11.25 crore in 2020 to ₹31.02 crore in 2025. The initiative created a strong deterrence effect among willful defaulters. According to the Bank, aggressive legal action and enforcement created sufficient pressure that many borrowers began clearing dues immediately after notices and proceedings were initiated.

Conclusion

Jharkhand State Co-operative Bank's NPA Management initiative demonstrates how determined institutional leadership, coordinated recovery mechanisms and governance reforms can successfully revive financially stressed banking institutions.

The Bank transformed a severe NPA crisis into an opportunity for institutional restructuring and operational modernisation. By combining legal enforcement, recovery mobilisation, employee accountability, quality lending reforms and strategic balance sheet expansion, the institution achieved one of the most significant asset-quality improvements in the cooperative banking sector.

The case highlights several important lessons for banking governance. First, recovery cannot succeed in isolation without simultaneous improvement in lending discipline. Second, institutional turnaround requires alignment across leadership, employees, regulators and local administration. Third, sustained monitoring and decentralised accountability are essential for effective recovery management.



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