A Comparative Study of Impact of NPA on Growth of Public and Co-operative Sector Banks in Amravati District

Dr. Yogesh S. Ingale
Project Research Fellow, Shri Shivaji Arts & Commerce College, Amravati.
Dr. Arun G. Harne
Associate Professor, Smt Kesharbai Lahoti Mahavidyalya Amravati.

Abstract

Indian banking sector of having a serious problem due non performing. The financial reforms have helped largely to clean NPA was around Rs. 52,000 crores in the year 2004. The earning capacity and profitability of the bank are highly affected due to this NPA is defined as an advance for which interest or repayment of principal or both remain outstanding for a period of more than two quarters. The level of NPA act as an indicator showing the bankers credit risks and efficiency of allocation of resource. The rising incidence of NPAs has been generally attributed to the domestic economic slowdown. It is believed that with economic growth slowing down and rate of interest going up sharply, corporate have been finding it difficult to repay loans, and it has added up to rising NPAs.

Keywords : Credit Loss, Doubtful Assets, Gross NPA, Net NPA, Return on investment.
Classification-JEL : E59, G21, G28, G32.

1. INTRODUCTION

It is important to understand the meaning and definition of Non-Performing Asset (NPA) at theoutset of the study. The term 'non-performing asset' (NPA) used in India corresponds to theterm 'non-performing loans' (NPL) in the academic literature. So we would be using these twoterms interchangeably in our study. In India, a Health code system was introduced in 1985 for continuous evaluation of the quality of advance portfolio (loan portfolio) of banks, its effective monitoring, and adequate provisioning. It classified advances into eight codes namely (1) Satisfactory & (2) Irregular– accounts for which safety was not suspected, (3) Viable/ under nursing, (4) Non-viable/sticky, (5) Advances recalled, (6) Suit filed, and (7) Decreed debts - accounts reflecting serious irregularities, (8) Bad and doubtful debts where recoverability of banks dues become doubtful due to shortfall in the value of security or inability/unwillingness of the borrower to repay the dues. But the health code system suffered from lack of transparency, objectivity and uniformity of yardstick for measuring NPA. In order to bring in transparency as well as to move towards international best practice, prudential norms related to asset classification and RBI in India introduced provisioningin 1992-93 following Narasimham Committee-I recommendations. The norms brought inquantification and objectivity to assessment of NPAs.As per RBI Prudential Norms, an asset becomes an NPA when it stops generating income for thebank (Master-Circular: RBI 2014). The definition of NPA was tightened in phases till 2004 inthe
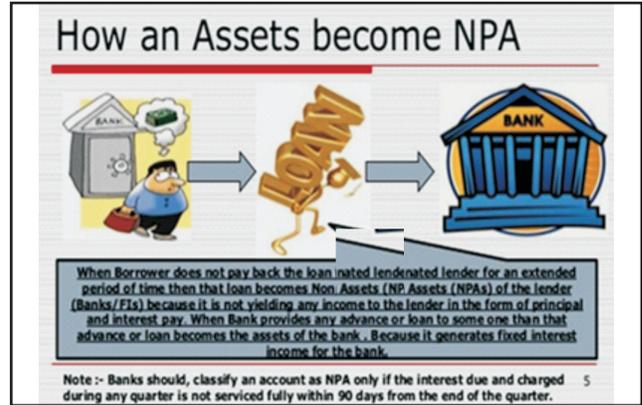
following manner:An asset was required to be classified as NPA :From the year ending 1995 If it was past due (30 days) for 2 quartersFrom 31st March 2001 If it was overdue for 180 daysFrom 31st March 2004 If it was overdue for 90 daysNPAs can be further subdivided into three categories as (1) Sub-standard assets, (2) Doubtfulassets, and (3) Loss assets. 'Substandard assets' are assets with well-defined credit weaknessresulting in distinct possibility of bank sustaining some loss in liquidation of the debt unlessdeficiencies are corrected. 'Doubtful assets' are assets with additional weakness so that fullcollection of debt is highly questionable and improbable. 'Loss assets' are assets which areconsidered uncollectible either by the bank, its internal or external auditors or by the RBIinspectors but the same is not yet written off. With effect from March 31, 2005, the objective criteria for classification of NPA into the three categories have been as follows:

Loss assets	**Loss identified**
Doubtful assets	**Sub-standard for 12 months**
Substandard assets	**NPA for ≤ 12 months**

Provisioning in India is based on NPA category, availability and realizable value of security.So from 2005 we can say, an asset becomes a non-performing asset (NPA) when interest and/orinstallment of principal remain overdue at least for a period of 90 days. Unsecured NPAs havehigher provisioning requirements than secured ones.

a) PROFITABILITY : The NPA means booking of money in terms of bad asset, which occurred due to wrong choice of the client. Because of the money getting blocked the prodigality of bank decreases not only by the amount of the NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So the NPA doesn't affect current profit but also the future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (return on

Impact of NPA on Banks Growth:

Source: http://www.npaconsultant.in/How-A-Bank-Terms-An-Account-Non-Performing-Asset-NPA-Part2.html

investment), which adversely affect current earning of bank.

b) LIQUIDITY : Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shortest period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money, Routine payments and dues.

c) INVOLVEMENT OF MANAGEMENT : Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Now day's banks have special employees to deal and handle NPAs, which is additional cost to the bank.

d) CREDIT LOSS : Bank is facing problem of NPA then it adversely affect the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

2. REVIEW OF LITERATURE:

Agrawal Sachin, Agrawal Kavita (2009): In his research paper on the topic, "NPAs, a challenge for co-operative banks-a comparative study of people co-operative banks ltd., and Nanded merchant co-operative banks ltd., Nanded" (period 2001-02 to 2005-06) examined the NPAs of the banks is a break the progress of

the bank. The NPAs can affect the profitability of the bank and hence affect future growth of the bank. The NPA is proving the barrier in the progress of the economy and financial system of the country. In his research two co-operative banks Nanded and Hingoli are highly populated cities in Maharashtra there were 10 to15 cooperative banks. Study the effect and trends of the NPAs in two cooperative banks using random sampling method. Researchers analyze trends of Net NPA in cooperative banks 2001-02 to 2005-06 percentage of NPA regular Decreasing in the value. The Gross NPA's irregular decreasing. Impact of Gross NPA causes Decreasing future Profit and Credit loss also. The NPA is the most dangerous and barrier in the way of the progress of the economy of the country's financial system.1

Chaudhary Kajal, Monika Sharma (2010): In her research paper on the topic, "Non Performing Assets and Profitability of Commercial Banks in India: assessment And the Emerging Issues." After analyzing data it is right time to take suitable and stringent measures to get rid of NPA problems. An Efficient management information system should be developed. The Bank staff involved in sanctioning the advance should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advance turning into NPA. Public Sector banks must pay attention on their functioning to compete with private Sector Banks. Both banks should be well versed in proper selection of borrower/project and in analyzing the financial status and all credit related information for granting loan.

Bhavani Prasad Prof. G.V, Veena D. (2011): In his research paper on the topic, "NPAs in Indian Banking Sector- Trends and Issues" Studied the present Indian banking sector the health of the banking industry in a country is its level of non-performing Assets. Reduce NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the year and growth in NPAs involves the

necessity of provision , which bring down the overall profitability of the banks. The magnitude of NPA is comparatively higher in the public sector banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. The Efforts has made to evaluate the operational performance of the SCBs in India Since 2000-01 to 2009-10 analyses trends and issues published RBI. Using secondary data Statistical tools like Averages, Percentage, Mean and S.D. After examined the Data the PuSBs, which main pillar Indian banking system are, are in trouble excessive manpower, excessive NPAs and excessive government equity, while on the other hand private sector banks are consolidating themselves through adoption of Latest Technology and System. PuSBs which current account more than 78% of total banking industry assets are saddles with NPA falling revenues from traditional sources, lack of modern technology and massive workforce while new private sector banks are ahead and rewriting traditional banking business model by way of their sheer innovation and services and adoption of modern technology.

Chatterjee Chandan, Mukhejee Jeet, Das Dr. Ratan (2012): In his research paper on the topic, "Management of Non Performing Assets-A Current Scenario" Researcher focuses on the Today the Indian banking system has gone through significant transformation following financial sector reforms.NPA involves the necessity of provision, any increase in which bring down the overall probability of banks is indicators of banking health of the country. In the paper mainly on the causes and consequences of NPAs, policy directives of RBI, initiatives of India government, scenario of NPAs sector wise and bank group wise andfinally the curative measures for NPA in India. Present studies analyze the NPAs of India banks. Using secondary sources publish in RBI reports and bulletins. Analysis and finding shows that 1) the share of NPA in the priority sector total NPAs of Public sector banks increases marginally to 58.1% in 2011 from 53.8%compared to that of

2010. the share of NPA in the non-priority sector total NPAs of Public sector in declined in 2011 share of 17.5% and 41.9% respectively.2)there is significant improvement in the recovery of NPA by studying all bank groups. Sharp fall in gross NPA percent to gross advances is 5.2% in 2005 and it got decreased to 2.25% in 2011 in case of SCBs. Similarly Net NPA percent to net Advances were 1.9% 2005 and reduce to 0.97%. 3) Recovery of NPA by SCBs through various channels like Lok Adalts, DRTS an SARFAESI Act. All total recovery in 2011 is 31.31% which higher than recovery rate 24.02% in 2010.

Dharwal Mridul, Agrawal Ankur, Gola K.R (2012): In his research paper on the topic, "A on Reducing of Non-performing Assets in Commercial banks" (A case study of Alwar District, Rajasthan, India) He collected data from Primary and secondary sources for finding NPA Causes in Commercial banks. Using interview method for official Members are asking the impact of NPA on working of commercial banks. He selected Farmers who had borrowed money from the selected banks, has been prepared with their cultivated area. Farmer grouped three size viz.small (0-2 hector), semi medium (2-4 hector) and large (8 hector and above) group. A simple random method 60 borrowing cultivators has been drawn from the universe of different village among probability portion. When collected data from 60 farmers diversion of funds in rajgarh block shows the 18% fund used in repaying the loan to money lenders and 17% loan utilizes in marriage turn to be NPAs. Diversion of funds in Bhiwadi block, 25% funds are misappropriated and definitely, this 25% is going to be NPAs. In addition, willful defaulter in rajgarh and Bhiwadi Block 35% and 255 willful defaulter are not small number. Willful defaulters are a major source of growing NPA.

3.   RESEARCH PROBLEM

The main aim of public and co-operative sector banks depositing money from customers and advances for needy people for their financial need, and for the growth of the economy to achieve the balanced development in the area. At present , many economist and banking expert worried about NPA growth in banking sector its adverse effect on banks net profit, liquidity, credit loss. The aim of the present paper is to analyze the trends in NPA in term of values, gross and net NPA as well as which factor causes growth NPA in banking sector in the Amravati District.

4.   RESEARCH OBJECTIVE

- To study the concept of NPAs regulation.
- To study impact of NPA in the public and co-operative sector banks.
- To study the Impact of NPA on Banks Growth.

5.   HYPOTHESIS

H0 : There is no significant Impact on Public and co-operative sector banks profit due to nonperforming asset.

H1: There is significant Impact on Public and co-operative sector banks profit due to nonperforming asset.

6.   RESEARCH METHODOLOGY

In this research paper both primary andsecondary data have used to analyze impact of NPA on the growth public and co-operatives sector bank in Amravati district. The primarydata have collected from 120 respondents from branch throughinterview method in Amravati region.

a) Sample selection method : Simple Random sampling method

b) Statistical Test : Basic statistical technique such as percentage, average, may be used and late on by analyzing the questionnaire and collected data different Statistical Test like chi-square test is applied.

7. LIMITATION OF THE STUDY

i) The study based on research purpose only selected public and co-operative sector only.

ii) The study relies heavily on primary as well as on secondary data only.

iii) The Study is Restricted to Amravati Districts of Vidarbha of Maharashtra State.

Table No. 1
Willful Defaulter Contributing NPA in Banks

Sr. No.	Opinion	Respondents	%
1	Strongly Agree	66	55%
2	Agree	30	25%
3	Neither agree or Disagree	12	10%
4	Disagree	07	6%
5	Strongly Disagree	05	4%
	Total	120	100%

Source : Primary Data

Table No. 2
NPA Impact on Interest Rate of Banks

Sr. No.	Opinion	Respondents	%
1	Strongly Agree	65	54%
2	Agree	26	22%
3	Neither agree or Disagree	12	10%
4	Disagree	06	5%
5	Strongly Disagree	11	9%
	Total	120	100%

Source : Primary Data

Table No. 3
NPA Impact on Current Earning

Sr. No.	Opinion	Respondents	%
1	Strongly Agree	67	56%
2	Agree	29	24%
3	Neither agree or Disagree	12	10%
4	Disagree	6	5%
5	Strongly Disagree	6	5%
	Total	**120**	**100%**

Source : Primary Data

Table No. 4
NPA Impact on Bank Operation

Sr. No.	Opinion	Respondents	%
1	Strongly Agree	70	58%
2	Agree	24	20%
3	Neither agree or Disagree	08	7%
4	Disagree	12	10%
5	Strongly Disagree	06	5%
		120	100%

Source : Primary Data

Iv) The result arises from research may or may not be applicable to other parts of state or countries

8. FINDINGS & DISCUSSION

It was founded that respondents from two banking sector said strongly agree 66 (55%)because borrowerswere financially sound

Table No. 5
Increase in Involvement of Management

Sr. No.	Opinion	Respondents	%
1	Strongly Agree	74	62%
2	Agree	24	20%
3	Neither agree or Disagree	06	5%
4	Disagree	11	9%
5	Strongly Disagree	05	4%
		120	100%

Source : Primary Data

Table No. 6
Statistical Analysis: chi-square test is applied for better clarification and accuracy

Sr. No.	Impact Factor	Calculated Value	Sign	T.V	Result
1	Willful Defaulter Contributing NPA	108.08	>	18.465	H_1
2	Interest Rate of Banks	96.74	>	18.465	H_1
3	Impact on Current Earning	111.08	>	18.465	H_1
4	NPA Impact on Bank Operation	118.34	>	18.465	H_1
5	Involvement of Management	139.75	>	18.465	H_1

Note: The table value of chi-square is 18.465 at D.F. for 4 the significant level (0.001%)

but repayment of the loan unwillingness main cause of non-performing assets in the banking sector in the Amravati District.

The researcher clearly observed that majority respondents said strongly agree 65(54%) and Agree 26(22%), impact non-performing assets on the interest rate because major funds provision of Bad loans for long period.

It was clearly seen that majority respondent saidstrongly agree 65 (54%), Agree 26 (22%) impact of non-performing asset on the current earning due to the blocking the principle and interest income of defaulter.

The majority respondents from two segmentstrongly agree 70 (58%), Agree 24

(20%)said impact of non-performing asset on the bank operation because of main earning sources disturbing due to NPA's accounts, asset and liability management of the banks

The majority respondent from three segments strongly agree 74 (62%), Agree 66 (24%) said impact of non-performing asset on the involvements of management because of banks rate of return on asset goes down due to net profit reduces and high provision made against old and fresh NPA's account as per RBI norms in the banks in the Amravati district.

8. SUGGESTIONS

i)   An efficient information management system should be developing to get rid of NPA problem.

ii) Indian Banking Industry should try hard to reduce NPAs and to compete with foreign banks maintain international standard norm of NPA.

iii) Banks should well verse in proper selection of borrower and also in analyzing their financial status.

iv) The bank should develop more effective credit appraisal policy and loan recovery strategy.

v)   The co-operative banks should emphasize on prudential norms and develop high degree of professionalisms in management.

9. CONCLUSION

i)   The improper processing loan proposal task of creating and poor monitoring of loan are the major causes of NPAs.

ii) Mis-management or diversion of fund is one of main cause of NPAs.

iii) Willful defaulters are major source of NPAs of NPAs changing the mind set with help of education/counseling and of big borrower and willful defaulter will reduce.

iv) The magnitude of NPAs is comparative higher in public sector banks.

v)   The percentage of NPAs is highest in co-operative sector compare to public and private sector banks.

There is significant improvement in the recovery of NPAs. The steps taken by RBI to reduce NPAs have not been proved to be very successful.

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