



Impact Analysis of Non-Performing Assets on Selected Commercial and Co-Operative Banks in Pune

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ABSTRACT

Accumulation of saving and lending of money is prime function of any bank. Lending money involves risk because the bank has to seek returns from lending and repay back money when demanded by the depositor. So effective asset allocation is essential for a bank to grow and succeed. There is no doubt that increasing Non - Performing Asset has become a crucial concern for any bank be it commercial or co-operative banks. The present paper is an attempt to study and analyse the impact of NPA on selected commercial and co-operative banks in Pune.

KEYWORDS : Banking, NPA, Impact, Commercial Banks, Co-operative Banks

I. Introduction

Non-Performing Assets are also called as Non-Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing. A high level of non-performing assets is a sign of problems for banking.

II. Objectives and Methodology

Some of the underlying objectives of the study are as follows.

- 1) To study the concept of Non- Performing Asset in banking.
- 2) To analyse the impact of NPA on the commercial and co-operative banks in Pune.

Under this study, the researcher has considered 15 commercial banks and 15 co-operative banks where three branches of every bank were covered to analyse the impact of NPA. The commercial banks selected for the study were namely, State Bank of India, Bank of Baroda, Union Bank of India, Bank of India, Central Bank of India, Bank of Maharashtra, Dena Bank, IDBI Bank, ICICI Bank, HDFC Bank, Axis Bank, Indus Ind Bank, ING Vysya Bank, Kotak Mahindra Bank and Federal bank.

Moreover Co-operative banks selected were Saraswat Cooperative Bank, Cosmos Bank, Mahesh Sahkari Bank, JantaSahkari Bank, Thane Janata SahkariBank ,PavanaSahkari Bank, Indrayani Cooperative Bank, The Muslim Cooperative Bank, Pune Peoples Cooperative Bank, ShamraoViththal Cooperative Bank, The SevaVikas Cooperative Bank, Pune Central Cooperative Bank, Karad Urban Cooperative Bank, Abhyudaya Cooperative Bank and Jijo Mata MahilaSahakari Bank Ltd.

The study is based on primary data. A survey based research; it primarily studies the impact of bad loans on the banks. Data were collected with the help of a structured questionnaire. Branch managers, zonal heads, department heads were the major respondents.

III. Discussion and Findings

• A Friedman Chi-Square test was conducted to study if there is difference in the importance Commercial banks attach to Impact of NPAs.

- **Statistical Test: Friedman Test**
- **Variables & Measurement**

Respondents of Commercial Banks were offered 07 common impacts of NPA and were asked to tell the extent to which they agree or disagree over these impacts being prominently affecting the banks using

a 5- point Likert scale (5= Strongly Agree, 4= Moderately Agree, 3= Undecided, 2 = Moderately Disagree, 1= Strongly Disagree).

H₀: There is no difference in the importance that the Commercial Banks attach to the impacts of NPA.

H₁: There is significant difference in the importance that the Commercial Banks attach to the impacts of NPA.

- **Level of Significance:** $\alpha = 0.05$

Friedman Test

| Ranks | Mean Rank |
|--|-----------|
| Increase in the level of NPA would lead to making adequate provision leading to scarcity of funds in your bank | 3.29 |
| Reduction of NPA will help in decrease in the cost of funds for your bank | 2.84 |
| Reduction in the level of NPA is an indicator of good performance of bank | 4.90 |
| Reduction of NPA would help your bank to boost its profit | 4.90 |
| Huge amount of NPA will tarnish the image of the bank in the minds of stakeholders | 4.14 |
| The control on NPA will help your bank in smooth recycling of funds for further use | 3.37 |
| Zero or Low percentage of NPA will strengthen the entire banking system | 4.56 |

Test Statistics^a

| | |
|-------------|--------|
| N | 45 |
| Chi-square | 69.055 |
| Df | 6 |
| Asymp. Sig. | .000 |

a. Friedman Test

- **Observation:** $\chi^2 (6)=69.055, P=0.000, N=45$

- **Conclusion:**

Since the P value is less than level of significance (0.05). The null hypothesis is rejected. And it is therefore concluded that there is significant difference in the importance commercial banks attach to the impacts of NPA.

We refer to the table ranks to understand the most prominent impact.

- Reduction in the level of NPA is an indicator of good performance of bank (4.90) and Reduction of NPA would help your bank to boost its profit (4.90) have the strongest impact on the banks followed by Zero or low percentage of NPA will strengthen the entire banking system

tem (4.56), Huge amount of NPA will tarnish the image of the bank in the minds of stakeholders (4.14) and so on.

• A Friedman Chi-Square test was conducted to study if there is difference in the importance Cooperative banks attach to Impact of NPAs.

**- Statistical Test: Friedman Test
- Variables & Measurement**

Respondents of Cooperative Banks were offered 07 common impacts of NPA and were asked to tell the extent to which they agree or disagree over these impacts being prominently affecting the banks using a 5- point Likert scale (5= Strongly Agree, 4= Moderately Agree, 3= Undecided, 2 = Moderately Disagree, 1= Strongly Disagree).

H₀: There is no difference in the importance that the Cooperative Banks attach to the impacts of NPA.

H₁: There is significant difference in the importance that the Cooperative Banks attach to the impacts of NPA.

- **Level of Significance:** $\alpha = 0.05$

- Friedman Test

Ranks

| | Mean Rank |
|--|-----------|
| Increase in the level of NPA would lead to making adequate provision leading to scarcity of funds in your bank | 3.62 |
| Reduction of NPA will help in decrease in the cost of funds for your bank | 3.23 |
| Reduction in the level of NPA is an indicator of good performance of bank | 4.74 |
| Reduction of NPA would help your bank to boost its profit | 4.74 |
| Huge amount of NPA will tarnish the image of the bank in the minds of stakeholders | 3.86 |
| The control on NPA will help your bank in smooth recycling of funds for further use | 3.70 |
| Zero or Low percentage of NPA will strengthen the entire banking system | 4.10 |

Test Statistics^a

| | |
|-------------|--------|
| N | 45 |
| Chi-square | 41.231 |
| Df | 6 |
| Asymp. Sig. | .000 |

a. Friedman Test

- **Observation:** $\chi^2 (6)=41.231, P=0.000, N=45$

- Conclusion:

Since the P value is less than level of significance (0.05). The null hypothesis is rejected. And it is therefore concluded that there is significant difference in the importance cooperative banks attach to the impacts of NPA.

We refer to the table ranks to understand the most prominent impact.

- Reduction in the level of NPA is an indicator of good performance of bank (4.74) and Reduction of NPA would help your bank to boost its profit (4.74) have the strongest impact on the banks followed by Zero or low percentage of NPA will strengthen the entire banking system (4.10), Huge amount of NPA will tarnish the image of the bank in the minds of stakeholders (3.86) and so on.

Group Statistics

| | Type Of Bank | N | Mean | Std. Deviation | Std. Error Mean |
|--|-------------------|----|------|----------------|-----------------|
| Increase in the level of NPA would lead to making adequate provision leading to scarcity of funds in your bank | commercial banks | 45 | 4.49 | .661 | .099 |
| | cooperative banks | 45 | 4.11 | .885 | .132 |
| Reduction of NPA will help in decrease in the cost of funds for your bank | commercial banks | 45 | 4.38 | .614 | .092 |
| | cooperative banks | 45 | 4.02 | .657 | .098 |
| Reduction in the level of NPA is an indicator of good performance of bank | commercial banks | 45 | 4.87 | .344 | .051 |
| | cooperative banks | 45 | 4.71 | .458 | .068 |
| Reduction of NPA would help your bank to boost its profit | commercial banks | 45 | 4.87 | .344 | .051 |
| | cooperative banks | 45 | 4.71 | .458 | .068 |
| Huge amount of NPA will tarnish the image of the bank in the minds of stakeholders | commercial banks | 45 | 4.58 | .583 | .087 |
| | cooperative banks | 45 | 4.47 | .548 | .082 |
| The control on NPA will help your bank in smooth recycling of funds for further use | commercial banks | 45 | 4.53 | .548 | .082 |
| | cooperative banks | 45 | 4.22 | .560 | .083 |
| Zero or Low percentage of NPA will strengthen the entire banking system | commercial banks | 45 | 4.64 | .529 | .079 |
| | cooperative banks | 45 | 4.58 | .543 | .081 |

From the mean shown in the group statistics above, the following conclusion about the impact of NPA on commercial and co-operative banks can be drawn.

- Commercial banks and the co-operative banks agree moderately to increase in the level of NPA would lead to making adequate provision leading to scarcity of funds in their banks.
- The banks also agree moderately to reduction of NPA help banks in decreasing their cost of funds.
- The banks agree strongly to the statement of 'reduction in level of NPA is an indicator of good performance of bank'.
- These banks also agree strongly on increase in the profit of banks due to reduction in NPA.
- Commercial as well co-operative banks agree strongly to huge amount of NPA tarnishing the image of the bank in the minds of stakeholders.
- The commercial banks agree strongly to control on NPA will help their banks in smooth recycling of funds for further use. The co-operative banks agree moderately to the statement.
- Both these banks agree strongly on zero and low percentage of NPA strengthens the entire banking system.

IV. Conclusion

NPA is considered to be an important parameter to judge the soundness of banking industry. The NPA growth involves the necessity of provisions, which poorly affects the banks and its stakeholders. The banks favour the impacts of NPA as covered under the study. Under-standing macro environment of banking business along with micro environment shall certainly reduce the bad loans in the banking system.

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