



## A STUDY ON NPA'S IN SCHEDULED COMMERCIAL BANKS AND THEIR IMPACT ON AGRICULTURE LENDING

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### ABSTRACT

Banking system plays a very significant role in the financial existence of the nation; hence the strength of the economy is closely related to the reliability of its banking system. For any business enterprise, especially banking industry, the financial performance in terms of profitability and in a prudent manner is a benchmark. A Non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. However, increasing NPAs have a direct impact on the profitability of banks as legally banks are not allowed to book income on such accounts and at the same time, banks are required to make provision on such assets as per RBI guidelines. Agriculture is very important sector in India but despite of having so much importance it is increasingly facing many problems. Government and banks are continually working for the development of this sector, but the banks are facing major problem of NPA which decreases its profitability and leads to the less disbursement of credit among the farmers. The paper examines the trends of NPAs in scheduled commercial banks and their impact of NPA in agriculture sector. The use of secondary sources of data from authentic websites of RBI the data has been collected and tools which is used for the analysis such as growth rate and correlation. The findings of the study shows that there is positive correlation between the gross NPA of SCBs and NPA of Agriculture lending.

**KEYWORDS :** : NPA, Loan, Agriculture lending, Problems, Interest rates.

### 1.1 INTRODUCTION:

Non-performing assets (NPA) are assets that cease to generate income through interest earned on the principal loan amount and the repayment of the principal loan amount. Non-Performing assets are an outcome when the borrower intentionally defaults on the loan payment or is unable to repay the loan due to poor economic conditions affecting his business. In either case, for a bank it means that the loan asset may not be fully recovered or may be only partly recovered. Non-performing assets are a reflection of the bank's overall efficiency while performing its business of converting deposits into loans and recovering these loans. Non-recovery or partial recovery of loans has an impact on the bank's balance sheet and income statement items in the form of reduction in interest earned on loan assets, increase in provision on NPAs, increase in capital requirement and lower profits. Hence, rising NPAs are a concern for a bank and determinants of NPAs should be identified prior to loans turning into NPAs. Banks lending different types of loan such as Educational loan, Housing loan, Agriculture sector loan etc.

Agriculture is a very important sector in India. In fact it is the life blood of our economy. Agriculture still dominates the Indian Economy. About 60% population of India is engaged in India agriculture and contributes 15% to the GDP. Despite having so much importance it is increasingly facing various problems, which arise from inadequate technologies, indifferent attitude of the government, and socio economic condition of the farmers and the credit system prevalent in India. Government and banks are continually working for the development sector. In 2019, significance dependence on monsoon and inadequacy of irrigation facilities farming in India is still dependent on monsoons and traditional methods of agriculture. This leads to high risks and low productivity and turn in high NPAs.

As on March 2018, NPAs increased to Rs. 302 billion, which can largely attributed to existing policy prescriptions substantially increasing agriculture credit, such as mandatory agricultural credit target of 18% of adjusted net bank credit, fulfilling credit targets announced in the annual budget, targeting to disburse 20% to 25% more than the previous year through formulating a special agricultural credit plan, and aggressively marketing

KCC. Besides, farmers were too incentivized through interest subvention for obtaining crop loans. This has led to inadequate inspection of documents and higher credit distribution and in turn higher volume of NPAs.

### 1.2 CLASSIFICATION OF NPA:

Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

1. Substandard assets: Assets which has remained NPA for a period less than or equal to 12 months.
2. Doubtful assets: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
3. Loss assets: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

### 1.3 REVIEW OF LITERATURE:

Sunil B. Kapadia et.al (2019)1, in their study examined "NPA's in Indian scheduled commercial Banks and Impact on Economy." The main objective of the study is to analyze the trends of NPA in scheduled commercial banks. During the last ten years, the rise in NPAs of banks had sent the alarming bell both to the Reserve Bank of India and the Government. Per a few studies, one of the root cause for the huge and gigantic rise in NPAs is the 2008 global financial crisis besides lending to Priority sector. The necessity of provisions and high funding costs had also caused an increase in NPAs while bringing down the profitability of banks. Hence, the consequent impact of NPA includes poor recycling of funds due to the weak deployment of credit which potentially could thwart the financial soundness of the credit system. Higher NPAs not only shakes the confidence of investors, depositors, lenders, etc., but also imperil liquidity, solvency position, profitability, capital adequacy ratio, and so on. A few measures that are required for management of NPAs like the establishment of monitoring department, reformulation of banks' credit appraisal techniques, among others.

Meenu Bhandari (2019)<sup>2</sup>, in her study conducted "A Study of Non-Performing Assets (NPAs) of Public and Private Sector Banks- Comparative Analysis." The main objective of the study is to analyze the NPA Position of public and private sector Banks. In Indian Banking System, Non-Performing Assets (NPAs) play a significant role in judging the strength and soundness of the Commercial Banks. NPAs have become a serious problem not only for the banks but it is also hampering the economic development of the country. How well the banks are performing in the economy, it is reflected by the NPAs. The researcher concluded that Gross NPAs of the Commercial Banks has been increasing over the years. Net NPAs of Commercial Banks has also increased in the recent trend over the years.

M Syed Ibrahim (2019)<sup>3</sup>, the article said that, "Trend of Non-performing Assets (NPAs) of Indian Commercial Banks-An Analysis". The Main objective of the study is to analyze the trend of Net NPAs of three sectors of banks namely, Public Sector, New Private Sector and Foreign Banks. The sound financial position of a bank is the guarantee not only to its depositors but equally important for the whole economy of any country. Stability of banking sector is considered to be an essential aspect of any country in the world. The banks are lending funds as loans and advances to various sectors such as agriculture, industry, personal and housing and other to meet the productive use of these funds. It further discusses and analyses the trend of NPAs in the three sectors of banks namely public sector banks, new private sectors banks and foreign banks for the preceding period of ten years (2007-08 to 2016-17). The researcher suggested that steps need to be taken to recover the loan in time by adopting well-equipped recovery mechanism.

#### 1.4 STATEMENT OF THE PROBLEM:

Non-Performing Asset (NPA) is defined as an advance, where payment of interest or repayment of installment of principal (in case of term loans disbursed by the commercial banks) or both remains unpaid for a certain period. Scheduled commercial banks were providing different types of lending such as Housing loan, Educational Loan, Agriculture loan etc. Due to certain reasons the customers were not able to repay the loan properly there arises NPA. Agriculture credit plays an important role in our country. Farmers are getting agriculture credit from the banks but certain reasons they are not able to repay the loan such as crop failure, climatic conditions etc. Therefore this paper attempt to study the trends in NPA of scheduled commercial banks and their Impact on Agriculture lending.

#### 1.5 OBJECTIVES OF THE STUDY:

- To know the conceptual framework of Non Performing Assets in Banks
- To analyze the trends of NPA in scheduled commercial Banks
- To identify the trends of NPA and their Impact on Agriculture lending
- To offer suggestion to reduce the NPA in Banking sector

#### 1.6 RESEARCH METHODOLOGY:

The study is based on secondary data and highlights the trend of NPA in scheduled commercial banks. The data collected from the period 2013- 2014 to 2017-2018. The data had taken from websites such as the Reserve Bank of India (RBI) publications like, "Report on Trend and Progress of Banking in India", "Annual Reports of RBI", are the major sources for this study.

#### 1.7 ANALYSIS & DATA INTERPRETATION:

NPA is defined as a credit facility in respect of which the

interest and/or installment of principal has remained 'past due' for a specific period. Gross NPAs are the sum total of all loan assets that are classified as per the guidelines of Reserve Bank of India (RBI) as on balance sheet. Gross NPA reflects the quality of the loans made by the banks and it consists of all the non-standard assets like sub-standard, doubtful and loss assets.

It is calculated with the help of the following formula: Gross NPA Ratio= Gross NPAs/Gross Advances\*100. The year-wise amount of Gross Advances, Gross NPAs and the percentage of Gross NPAs of Scheduled Commercial Banks are given in Table 1.

**Table 1.1 GROSS & NET NPAs OF SCHEDULED COMMERCIAL BANKS**

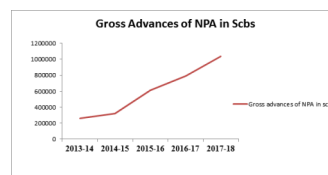
(Amount Rs in crore)

YEAR (As on Marc end)	Advances		Non- performing Assets					
			Gross			Net		
	Gross	Net	Amo unt	% of Gross Advan ces	% of Total Assets	Amo unt	% of Gross Advan ces	% of Total Assets
2013-14	6875748	6735213	263015	3.8	2.4	142656	2.1	1.3
2014-15	7560666	7388160	322916	4.3	2.7	175841	2.4	1.5
2015-16	8171114	7896467	611607	7.5	4.7	349814	4.4	2.7
2016-17	8476705	8116109	791791	9.3	5.6	433121	5.3	3.1
2017-18	9266210	8745978	1039679	11.2	6.8	520679	6.0	3.4

Source: RBI website – Report on trend and progress in India

**Table 1.1** exhibit the amount of Gross Advances, Gross NPAs and the percentage of Gross NPA during the period of 2013-14 to 2017-18. The amount of Gross advances has increased from Rs. 263015 crores in 2013-14 to Rs.1039679 crores in 2017-18. Further, the amount of Gross NPA has increased from Rs. 142656 crores in 2013-14 to Rs.520676 crores in 2017-18. Similarly, the percentage of NPA of scheduled commercial banks are also showing the rising trend from 2.1 in 2013-14 to 6.0 in 2017-18.

**Figure 1**



**Table 1.2 GROSS NPA OF SCHEDULED COMMERCIAL BANKS IN AGRICULTURE LENDING**

(Amount Rs in crore)

Year	Amount	%
2013-14	30200	4.8
2014-15	36200	5.1
2015-16	48800	6.2
2016-17	60200	8.3
2017-18	8,3141	8.6

**Table. 1.2** exhibit the amount of Gross NPAs and the percentage of Gross NPA of agriculture lending during the period of 2013-14 to 2017-18. The amount of Gross NPA has increased from Rs. 30200 crores in 2013-14 to Rs.83141 crores

in 2017-18. Similarly, the percentage of NPA of scheduled commercial banks are also showing the rising trend from 4.8 in 2013-14 to 8.6 in 2017-18.

**Table 1.3 RELATIONSHIP BETWEEN GROSS NPA OF SCHEDULED COMMERCIAL BANKS AND NPA OF AGRICULTURE LENDING**

Ho: There is significant relationship between Gross NPA & Gross NPA of Agriculture lending

Correlations			
	Gross NPA of scheduled commercial banks	Gross NPA of Agriculture Lending	
Gross NPA of scheduled commercial banks	Pearson Correlation	1	.988**
	Sig. (2-tailed)		.002
	N	5	5
Gross NPA of Agriculture Lending	Pearson Correlation	.988**	1
	Sig. (2-tailed)	.002	
	N	5	5

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 1.3 exhibit that the significant value is less than 0.05 there is significant relationship between Gross NPA of scheduled commercial bank and Gross NPA of Agriculture lending. The Agriculture NPA increases the overall NPA increased. Among all the priority sector lending agriculture lending provides more NPA. Therefore is positive correlation between Gross NPA and Agriculture lending of NPA.

### 1.8 FINDINGS OF THE STUDY:

- The amount of Gross Advances, Gross NPAs and the percentage of Gross NPA during the period of 2013-14 to 2017-18. The amount of Gross advances has increased from Rs. 263015 crores in 2013-14 to Rs.1039679 crores in 2017-18. Further, the amount of Gross NPA has increased from Rs. 142656 crores in 2013-14 to Rs.520676 crores in 2017-18. Similarly, the percentage of NPA of scheduled commercial banks are also showing the rising trend from 2.1 in 2013-14 to 6.0 in 2017-18.
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- The significant value is less than 0.05 there is significant relationship between Gross NPA of scheduled commercial bank and Gross NPA of Agriculture lending. The Agriculture NPA increases the overall NPA increased. Among all the priority sector lending agriculture lending provides more NPA. Therefore is positive correlation between Gross NPA and Agriculture lending of NPA.

### 1.9 SUGGESTIONS:

- There is a wrong opinion in the minds of the farmers that agricultural credit may be waived one day or other. Hence, the agriculturalist who can repay the agricultural credit may not come forward to repay the loans in time. Therefore, the farmers in our country requires a lot of counseling and the bank officers engaged in this activity should provide necessary advice and counseling.
- Banks need to have an effective and proper Management

Information System (MIS) so that timely detection of defaults can be reported to management and suitable necessary timely action can be taken.

- Commercial banks should fasten their NPAs recovery with RBI concerned approval, instead of their Wait-n-Watch policy. Banks should sell Non-performing assets for an immediate solution.

### 1.10 CONCLUSION:

The problem of NPAs in Indian Banking Sector affects the market conditions of the economy also. Sometimes, banks feel unwilling to lend, which may be a totally adverse condition for the growth and development of the economy. Slowdown in the domestic market as well as drop in the prices in the global markets may worsen the conditions of NPAs. Gross NPAs of the Commercial Banks has been increasing over the years. Net NPAs of Commercial Banks has also increased in the recent trend over the years. The issue of increasing NPAs can be tackled only when both RBI as well as Banks works together in this way. Management of NPAs by the Commercial Banks is the major concern for the entire banking industry. RBI has introduced some robust measures by following which banks can tackle their NPAs efficiently. But still a huge concern because NPAs are growing due to current economic situation.

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