



ORIGINAL RESEARCH PAPER

Commerce

A CASE STUDY OF THE CAUSES OF 'NON-PERFORMING ASSETS' IN THE SELECTED COMMERCIAL BANKS IN LATUR CITY

KEY WORDS: NPA, Commercial Banking, Assets, Liabilities, Credit.

Dr. V. D. Dhumal

Assistant Professor, Department of Commerce, Rajarshi Shahu Mahavidyalaya (Autonomous), Latur.

ABSTRACT

In India, financial institutions are the principal intermediaries for the commercial sector credit. It is predicted that, in the next three decades this sector become third largest domestic banking market in the world. But the problem of Non-Performing Assets of commercial banks is one of the major hurdles in socio-economic growth and development of India. This is not only the problem of Indian banks but also all most countries of the world are facing this problem, irrespective whether that country is developed country, developing country or underdeveloped country. To overcome from this problem Indian Government has taken various initiatives in this direction. SARFAESI Act, 2002 is one of the most significant initiative for solving the NPA problem. The present study observe various factors are responsible for generation of NPAs, which are political interference, incorrect projection of demand in industrial sector, negligence in project appraisal system, change in climate which leads NPAs in agriculture sector, impact of Covid-19 virus, etc. The present study employs simple as well as advanced statistical tools i.e. non-parametric statistical tests on Chi-square test and five-point Likert scale has used to quantify the intensity of the respondent's attitudes towards the attributes.

INTRODUCTION :

An asset which, ceases to generate income for the bank is called a Non-Performing Asset (NPA). The problem of NPA is faced by almost all the countries in the world. All developing countries, developed countries, underdeveloped countries are facing the problem of NPA. The study of NPA in Indian commercial banks is interesting. As per Financial Stability Report, published by the RBI in the month of July 2020, showed that gross NPA ratio of all commercial banks may increase from 8.5% to 12.5% by March, 2021. Further it had added that, if the macroeconomic environment degenerates the ratio may further heighten to 14.7%.

According to CRISIL, bad loans are rising mainly because of withdrawal of regulatory forbearance on restructuring and high slippages from restructured assets. Due to mismanagement, wilful default, fund diversion and siphoning off of funds, delay in project completion, changes in industrial policy and dropping interest rate regime have becoming the asset sick. As per CARE rating report, India has the highest level of non-performing assets (NPA) among BRICS countries and is ranked fifth on a list of countries with the highest levels of NPAs. The countries ranked higher than India on the list are Greece, Italy, Portugal and Ireland.

Asset Reconstruction Company (ARC) was established for restructuring the assets of the financial institutions. The bad assets of the banks are sold to these ARCs. But this is still in emerging stage. Therefore, it is the high time for the Indian banking sector to solve the problem of NPA.

Review Of Literature:

A comparative study on NPA of Old Private Sector Banks and Foreign Banks stated that, NPAs have become a nuisance and headache for the Indian banking sector for the past several years (Kumar, 2013). NPAs are an important parameter to judge the performance and financial health of commercial banks. It is one of the drivers of financial stability and growth of the banking sector (Vallabh et.al. 2007). For sustainable developing of any country sound and evolved banking system is required. But there are several issues that need to enhanced (Vittal 2002). RBI in their study noted that, as compared to US and other Asian countries, the gross NPA figures of in India seems more alarming than the net NPA figures (Narshimam, 1999). Various theoretical and empirical studies on the problem of NPA has been made.

Objectives Of The Study:

1. To study the internal causes of NPAs in the Commercial banks.
2. To study the external causes of NPAs in the Commercial

banks.

3. To study the impact of SERFAESI Act, 2002 in reducing the NPAs.
4. To give some suggestion to manage the problem of NPAs.

Hypothesis Of The Study :

H1: There is no relationship between internal and external factors causing NPAs in Commercial Banks.

H2: It is hypothesized that SRFAESI Act, 2002 has no impact on reducing the problem of NPAs.

Research Methodology:

The study is based on primary and secondary data. For collection of primary data non probability convenient sampling method is used. The structured questioner is prepared for the collection of data and with the help of google form, the primary data is collected. For analysis of data non parametric test Chi-square and five-point Likert scale is used to measure the intensity of the respondents. For ranking the causes of bad loans Garret ranking system is used. 32 bank branches from commercial banks (Public sector banks and Private sector banks) located in Latur city were selected for the present study. One respondent (Branch manager) was selected from each bank branch. The total sample size is 32.

RESULT AND FINDINGS:

a) Internal Factors :

Various factors causing bad loans were developed by the researcher as parameters. Table 1 shows the acceptance regarding the parameters by the respondents. This table shows how internal factors cause for bad loans. 56% of the respondents were strongly agreed with parameter P11 and 28% respondents were supported to them.

Table 1 : Internal Causes Of Bad Loans

No.	Parameters (Coding)	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1	Defective lending process (P1)	8 (25.00)	6 (18.75)	4 (12.50)	11 (34.38)	3 (9.38)	32 (100)
2	Improper SWOT analysis (P2)	16 (50.00)	7 (21.88)	2 (6.25)	4 (12.50)	3 (9.38)	32 (100)
3	Lack of Motivation to staff (P3)	14 (43.75)	12 (37.50)	1 (3.13)	3 (9.38)	2 (6.25)	32 (100)
4	Inappropriate technology for analysis of proposal (P4)	6 (18.75)	5 (15.63)	2 (6.25)	10 (31.25)	9 (28.13)	32 (100)

5	Poor credit appraisal system (P5)	12 (37.50)	11 (34.38)	2 (6.25)	4 (12.50)	3 (9.38)	32 (100)
6	No administrative penalties (P6)	10 (31.25)	12 (37.50)	1 (3.13)	5 (15.63)	4 (12.50)	32 (100)
7	Target completion (P7)	13 (40.63)	12 (37.50)	2 (6.25)	3 (9.38)	2 (6.25)	32 (100)
8	Less Manpower (P8)	12 (37.50)	11 (34.38)	1 (3.13)	3 (9.38)	5 (15.63)	32 (100)
9	Absence of regular industrial visit (P9)	16 (50.00)	12 (37.50)	1 (3.13)	2 (6.25)	1 (3.13)	32 (100)
10	Improper relouning process (P10)	14 (43.75)	11 (34.38)	1 (3.13)	4 (12.50)	2 (6.25)	32 (100)
11	Disposing of collateral (P11)	18 (56.25)	9 (28.13)	0 (0.00)	4 (12.50)	1 (3.13)	32 (100)
12	Delay in sanctioning (P12)	16 (50.00)	10 (31.25)	1 (3.13)	5 (15.63)	0 (0.00)	32 (100)
13	Insufficient credit for the project (P13)	15 (46.88)	9 (28.13)	2 (6.25)	4 (12.50)	2 (6.25)	32 (100)

Source : Compiled by the researcher.

Note : Figure in parenthesis indicate percentage.

Ranking is calculated by using the Garret ranking method. Table 2 shows that, four important factors can be identified which causes the bad loans in the selected commercial banks. They are (1) Inappropriate technology, (2) Defective lending process, (3) No administrative penalties and (4) Less manpower are the major factors which affects on bad loans. Least important factors for the bad loans are absence of regular visit and disposal of collateral followed by delay in sanctioning and lack of motivation.

Table 2 : Analysis Of Table 1

Variable Name	Parameters (Coding)	Mean	Mean	Rank
P1	Defective lending process	3.16	47.66	2
P2	Improper SWOT analysis	3.91	38.91	6
P3	Lack of Motivation	4.03	37.81	10
P4	Inappropriate technology	2.66	53.91	1
P5	Poor credit appraisal system	3.78	40.78	5
P6	No administrative penalties	3.59	43.13	3
P7	Target completion	3.97	38.59	7
P8	Less Manpower	3.69	42.03	4
P9	Absence of regular industrial visit	4.25	35.16	12.5
P10	Improper relouning process	3.97	38.44	8
P11	Disposing of collateral	4.22	35.16	12.5
P12	Delay in sanctioning	4.16	35.94	11
P13	Insufficient credit for the project	3.97	38.28	9

Source : Compiled By The Researcher.

Note : For ranking Garret ranking method is used.

b) External Factors :

Table 3 shows the external factors affecting on band loans in commercial banks. To study these factors various parameters were developed and the responses to these parameters were collected. From the ranking of Garret's ranking method, three

important external factors have been identified which causes of bad loans in the selected commercial banks and ranked as (1) Political intervention, (2) Economic downturn and (3) 90 days' time of NPA is too short. These three external factors are most important causes of bad loans. It is also found that Lack of demand, Change in Govt. policies and ineffective statutory recovery procedures are least important external factors for causing bad loans in the selected commercial banks.

Table 3 : External Factors For Bad Loans

No.	Parameters (Coding)	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1	Influence of Central Govt.	13 (40.63)	11 (34.38)	2 (6.25)	5 (15.63)	1 (3.13)	32 (100)
2	Influence of Stat Govt.	14 (43.75)	11 (34.38)	1 (3.13)	2 (6.25)	4 (12.50)	32 (100)
3	Wilful defaulters	15 (46.88)	8 (25.00)	2 (6.25)	3 (9.38)	4 (12.50)	32 (100)
4	Political intervention	8 (25.00)	7 (21.88)	2 (6.25)	9 (28.13)	6 (18.75)	32 (100)
5	Economic downturns	9 (28.13)	6 (18.75)	2 (6.25)	8 (25.00)	7 (21.88)	32 (100)
6	Insolvency	13 (40.63)	10 (31.25)	1 (3.13)	5 (15.63)	3 (9.38)	32 (100)
7	Business Failure	13 (40.63)	12 (37.50)	1 (3.13)	3 (9.38)	3 (9.38)	32 (100)
8	Intense competition	13 (40.63)	9 (28.13)	3 (9.38)	4 (12.50)	3 (9.38)	32 (100)
9	Change in Govt. policies	14 (43.75)	12 (37.50)	1 (3.13)	2 (6.25)	3 (9.38)	32 (100)
10	90 days' time of NPA is too short	7 (21.88)	9 (28.13)	3 (9.38)	6 (18.75)	7 (21.88)	32 (100)
11	Natural calamities	12 (37.50)	9 (28.13)	2 (6.25)	4 (12.50)	5 (15.63)	32 (100)
12	Ineffective statutory recovery procedures	15 (46.88)	10 (31.25)	1 (3.13)	3 (9.38)	3 (9.38)	32 (100)
13	Lack of demand	14 (43.75)	12 (37.50)	1 (3.13)	3 (9.38)	2 (6.25)	32 (100)

Source : Compiled by the researcher.

Note : Figure in parenthesis indicate percentage.

Table 4 : Analysis Of Table 3

Variable Name	Parameters	Mean	Average	Rank
E1	Influence of Central Govt.	3.94	38.75	10
E2	Influence of Stat Govt.	3.91	39.38	8.5
E3	Wilful defaulters	3.84	39.84	7
E4	Political intervention	3.06	49.06	2
E5	Economic downturns	3.06	49.06	2
E6	Insolvency	3.78	40.63	5.5
E7	Business Failure	3.91	39.38	8.9
E8	Intense competition	3.78	40.63	5.5
E9	Change in Govt. policies	4.00	38.28	12
E10	90 days' time of NPA is too short	3.09	49.06	2

E11	Natural calamities	3.59	42.97	4
E12	Ineffective statutory recovery procedures	3.97	38.44	11
E13	Lack of demand	4.03	37.81	13

Source : Compiled by the researcher.

Note : For ranking Garret ranking method is used.

c) Impact Of SERFAESI Act, 2002 On NPAs :

Table 5 deals with the impact of SRFAESI Act, 2002 on Non-Performing Assets. To study the impact of SERFAESI Act, 2002 the respondents were asked to give their opinion whether they are agreed (A2) or not (A2) and cannot say anything (A3). The responses are shown in Table 5.

Table 5 : Impact Of SERFAESI Act, 2002 On NPAs

No.	Opinion (Coding)	Responses (Percentage)
1.	Yes (A1)	26 (81.25)
2.	No (A2)	06 ((18.75)
	Total	32 (100.00)

Source : Compiled by the researcher.

Note : Figure in parenthesis indicate percentage.

Table 5 implies that SERFAESI Act, 2002 has impact on reducing the level of NPAs in the selected commercial banks. Only 18.75% respondents reported that this act has no impact on NPAs.

Hypothesis Testing :

Table 6 : Hypothesis Testing

No.	Hypothesis	Table value of Chi-square	Calculated Value of Chi-square	Degree of Freedom (df)	Level of Significance
1.	H1	21.026	0.36	12	5%
2.	H2	3.84	12.50	1	5%

Source : Compiled by the researcher.

Hypothesis 1 :

There is no relationship between internal and external factors causing NPAs in Commercial Banks.

At 5 percent level of significance and 11 degree of freedom the calculated value of Chi-square (X^2) is less than the table value as shown in table 6. Therefore, it is revealed that internal and external factors causing on NPAs are not related to each other and both factors are not equally responsible for causing NPAs in commercial banks.

Hypothesis 2 :

It is hypothesized that SRFAESI Act, 2002 has no impact on reducing the problem of NPAs.

Since the calculated value of Chi-square (X^2) is more than the table value at 5% level of significance and at 1 degree of freedom. Thus, the alternative hypothesis is accepted. It is revealed that SRFAESI Act, 2002 has positive impact on NPAs, which reduced the problem of NPAs.

CONCLUSIONS :

1. Effective Implementation Of Serfaesi Act, 2002 :

The study proved that SERFAESI Act, 2002 is effectively working to fight with the problem of NPAs. Securitization in India is still in early stage but it has a potential in the areas like mortgage backed credit. So, there is a need to make the securitisation system more effective in India.

2. Special Mention Accounts (SMA) :

As per RBIs recent circular, Performing assets are categorized as SMAs. There are three categories under SMA i.e. SMA-0, SMA-1 and SMA2. This is made for early identification of bad debts. Loans and advances overdue for less than one quarter

and two quarters would come under this category. The information regarding SMAs should be submitted to the RBI regularly. This step is taken mainly for alerting management to the prospects of such account turning bad. Management can take preventive action against these types of accounts.

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