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CAUSES OF NON-PERFORMING ASSETS IN INDIAN PUBLIC SECTORS BANK

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Abstract: *Non-performing assets had been the single largest cause of irritation of the banking sector of India. Earlier the Narasimha committee-I had broadly concluded that the main reason for the reduced profitability of the commercial banks in India was given importance to priority sector lending. The committee had highlighted that priority sector lending was leading to the building up of non-performing assets of the banks and thus it recommended it to be phased out. Therefore while sanctioning credit the banker should appraise the project reasonably or else it leads to the non-repayment of loans and advances. Most of the banks today in India are facing the default risk wherein some part of the profit is reserved for covering the non-performing assets.*

The study focused on "Causes of Non Performing Assets in Indian Public Sectors Bank" Banks highlighted that the major problem faced by the banks to overcome the NPA such as framing good management policy in sanctioning of loans and proper credit appraisal on the borrower etc.

The causes of NPA mainly depend on internal bank management, credit policy, business management problems and other external factors. NPA has its major impacts on Profitability, liquidity and credit loss of the bank. The study on causes and remedies of Non Performing Assets also gives knowledge about the causes of NPA and various remedies to overcome the problems of NPA.

Key note: banker attributes and impact on asset quality.

INTRODUCTION

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into picture. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. In recent times the banks have become very cautious in extending loans, the reason being mounting non-performing assets.

The causes of NPA mainly depend on internal bank management, credit policy, business management problems and other external factors. NPA has its major

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impacts on Profitability, liquidity and credit loss of the bank. The study on causes and remedies of Non Performing Assets also gives knowledge about the causes of NPA and various remedies to overcome the problems of NPA.

This study deals with understanding the concept of NPAs, its magnitude and major causes for an account becoming non-performing, projection with special reference to INDIAN PUBLIC SECTORS BANK, Chennai.

The study focused on, "**A Study on causes of Non Performing Assets towards Indian Public Sectors Bank**". The causes of NPA depend mainly on both the banks and borrowers attributes. The study focused on Descriptive research. Data collection has done through Primary data. The population size is infinity from that sample size was chosen as 54 based on purposive Sampling. The analysis has done with help of various statistical tools like one sample kolmagorov smirnov test**,** and weighted average method.

OBJECTIVES

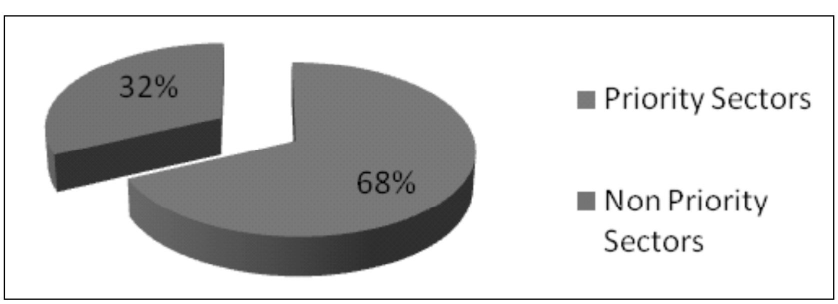
- To identify the factors influencing NPAs
- To study the impact of NPA on asset quality.
- To identify the major causes of NPAs towards borrowers attributes.

METHODOLOGY

The study deals with descriptive research and purposive sampling method. Purposive sampling starts with a purpose in mind and the 54 samples are thus selected public sectors bank internal processor interest and exclude those who do not suit the purpose.

Limitation: The present study does not ascertain the views from the borrowers who are not directly concerned with management of non-performing assets. Since non-performing assets are critical, bank officials are not willing to part with all the information with them.

DATA ANALYSIS AND INTERPRETATION SECTOR WISE NPA



INFERENCE : From the above table it is inferred that 68% of NPA arise from Priority Sectors and 32% NPA arise from Non Priority Sectors.

EXPERIENCE

S.No	*Response*	*Respondents*	*Percentage*
1	5 to 10 years	10	19%
2	11 to 15 years	22	41%
3	16 to 20 years	16	30%
4	21 years Above	6	11%
	Total	54	100%

Source: Primary data

INFERENCE: From above table it is inferred that 19% of respondents has 5 to 10 years experience, 41% of respondents has 11to15 years experience, 30% of respondents has 16 to20 years experience and 11% of respondents has 21 years & above experience.

ONE SAMPLE KOLMAGOROV SMIRNOV TEST

OBJECTIVE: To indentify significance difference within borrowers attributes.

Formulation of Hypothesis

H0: There is no significance difference within borrowers attributes.

H1: There is a significance difference within borrowers attributes.

		Failure to bring in required capital	*Too ambitious project*	*Unwanted Expenses*	*Over trading*	*Lack of proper planning*	*Lack of expertise*	*Diversion of Funds*	*Heavy borrowings*	*Poor Quality Management*
N		54	54	54	54	54	54	54	54	54
Normal Parameters	Mean	4.67	3.96	3.17	2.52	2.89	3.26	2.93	3.28	3.31
	Std. Deviation	.514	.751	1.178	1.145	1.160	1.200	1.079	1.123	1.113
Most Extreme Differences	Absolute	.427	.223	.186	.189	.183	.194	.193	.217	.175
	Positive	.258	.221	.135	.189	.149	.123	.193	.190	.167
	Negative	-.427	-.223	-.186	-.181	-.183	-.194	-.155	-.217	-.175
Kolmogorov-Smirnov Z		3.137	1.641	1.369	1.388	1.343	1.428	1.422	1.596	1.289
Asymp. Sig. (2-tailed)		.000	.009	.047	.042	.054	.034	.035	.012	.072

a) Test distribution is Normal.

b) Calculated from data.

INFERENCE: From above one sample Simonov test:

- It's inferred that failure to bring in required capital is no difference within borrowers attributes.
- It is inferred that there is no significance difference within borrowers attributes regarding too ambitious project, unwanted expenses, over trading, lack or proper planning , diversion of funds and heavy borrowing.
- It is inferred that there is a significance difference within borrowers attributes regarding poor quality management.

FACTORS HELP TO IMPROVE ASSET QUALITY

S. No.	*Particulars*	*1*	*2*	*3*	*4*	*5*
1	To have control over the fixed assets	0	2	24	44	30
2	To have control over the substandard assets	3	4	28	37	28
3	To have control over the standard assets	0	26	33	28	13
4	To have control over the borrowing funds	2	19	31	37	11
5	To have control over the lending funds	9	19	26	33	13
6	To have control over the credit cycling	20	13	24	26	17

Source: Primary data

INFERENCE: From above table it is inferred that the factors help to improve asset quality are;

- **To reduce NPA:** 5% of respondents given rank 1, 0% of respondents given rank 2 , 0% of respondents given rank 3, 41% of respondents given rank 4 and 54% of respondents given rank 5.
- **To have control over the fixed assets:** 0% of respondents given rank 1, 2% of respondents given rank 2 , 24% of respondents given rank 3, 44% of respondents given rank 4 and 30% of respondents given rank 5.
- **To reduce NP To have control over the substandard assets :** 3% of respondents given rank 1, 4% of respondents given rank 2 , 28% of respondents given rank 3, 37% of respondents given rank 4 and 28% of respondents given rank 5.
- **To have control over the standard assets:** 0% of respondents given rank 1, 26% of respondents given rank 2 , 33% of respondents given rank 3, 28% of respondents given rank 4 and 13% of respondents given rank 5.
- **To have control over the borrowing funds:** 2% of respondents given rank 1, 19% of respondents given rank 2 , 31% of respondents given rank 3, 37% of respondents given rank 4 and 11% of respondents given rank 5.

- **To have control over the lending funds:** 9% of respondents given rank 1, 19% of respondents given rank 2 , 26% of respondents given rank 3, 33% of respondents given rank 4 and 13% of respondents given rank 5.
- **To have control over the credit cycling:** 20% of respondents given rank 1, 13% of respondents given rank 2 , 24% of respondents given rank 3, 26% of respondents given rank 4 and 17% of respondents given rank 5.

SUGGESTION

- It is not only that high inflation feeds into nominal interest rates, making debt servicing more onerous, it also erodes the disposable incomes and impinges on the repaying capacity of borrowers. The evidence in the literature, as seen earlier, corroborates the fact that banks' write off ratio increases after increase in retail price inflation and nominal interest rates. The majority of respondents opinion confirms that rising prices in the recent years are contributing to the asset quality problems
- Sectoral analysis reveals that, on an average, retail loans occupy the largest share in total NPAs followed by SSIs, agriculture, personal loans, housing loans, exports, credit cards and auto loans over the last one decade. Arguably, non-priority sector has contributed significantly to acceleration in total NPAs.
- 44% of respondents have 11 to 15 years of experience in banking operations since most of failures arise in credit process. So, the bank should give proper training for other respondents for developing the competency of credit operators, information system management pertaining to credit and efficiency of the credit process towards cash flow.
- When compared to Non priority sectors, 68% of NPA arises from priority sectors. So, bank should take little more care in assessing the creditworthiness of the borrowers from priority sectors, taking measures for checking mismanagement of funds by them and also they must focus on recovery from those borrowers who have the capacity to repay but are not repaying the debt.

CONCLUSION

Growing NPAs is one of the biggest problems that the Indian banks are facing today. NPAs reflect the overall performance of the banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. If proper management of the NPAs is not undertaken it would hamper the efficiency of the banks. If the concept of NPAs is taken very lightly it would be dangerous for the banking sector. The NPAs destroy the current profit and interest income and affect the smooth functioning of the recycling of the funds. Banks also redistribute losses to other borrowers by charging higher interest rates. Lower deposit rates and higher lending rates repress savings and financial markets, which in turn hampers the economic growth of the country. Due diligence and utmost care must be taken by the branch managers before sanctioning the loans to the clients.

Careful steps like selection of right borrowers, viable economic activity, adequate finance and timely disbursement, correct end use of funds and timely recovery of loans are absolutely necessary pre conditions for preventing or reducing the incidence of new NPAs which will enhance the creditability of the banks and attain the objective of the well-established financial system. Thus, it is highly essential for the banks to focus their attention on growth of NPAs and take appropriate measures to regulate their growth.

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