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NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

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COMPOSITION OF NON-PERFORMING ASSETS: A COMPARATIVE STUDY OF NATIONALISED BANKS AND SBI AND ITS ASSOCIATES

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RAJKOT

ABSTRACT

As the problem of mounting Non-Performing Assets is a burning issue for banks in India, the researcher made an attempt to study the major composition of Non-Performing Assets in India. The Non-Performing Assets is not only adversely affected to the profitability and strength of the banks but also affected to economy at large. Non-Performing Assets can be classified into three categories viz. priority sector, non-priority sector and other. The present study is focused on comparison of each element of composition in nationalized banks and SBI and its associates, using various accounting and statistical techniques.

KEYWORDS

Priority sector, Nationalized banks, Non-Performing Assets, Non-Priority sector, State Bank of India (SBI) and its associates.

INTRODUCTION

The bank plays an important role in the economy of a country by performing its most important function known as credit creation. The bank creates credit in various forms such as loans and advances, cash credit; bank over draft etc. in this manner the bank creates money supply into the market. The banks give these loans and advances, cash credit, bank over draft to the individuals, firms, companies, government, etc. in this sense the bank plays role of a lender of money and all these parties play the role of borrower. Unfortunately the credit provided by the bank doesn't come back to the bank. This creates bad debts, which is known as Non-performing Assets (referred as NPAs) in the terminology of bank.

For the last a few years the NPA of banks is increasing tremendously. Several steps have been undertaken by the RBI and the government of India to curb the increasing NPA of Indian banks, but these steps have not been proved to be successful. Majority of banks are suffering from the problem of NPA. The increasing NPA worsens the efficiency of the bank and in turn the profitability decreases. Now a day the increasing NPA has become the burning issue in banking sector. This problem is more critical in nationalized banks than in the NBFCs. Both are performing the same function of credit creation, but due to certain reasons the NPA in NBFCs is found less than that in nationalized banks. The fact of NPA is also disclosed by 'CARE' in its report, as per their survey the overall Gross NPAs of the banks as on 31st March, 2011 stood at Rs.91,410 crore, of which Rs.74,615 crore was on the books of public sector banks, which is approximately 81.63% of the total NPAs.

REVIEW OF LITERATURE

Banerjee, B. and Dan, A.K. (2006) observed that non-performing assets are one of the problem areas which require attention for improvement in the management of PSBs and their profitability. The present scenario shows that the NPAs of PSBs are increasing very speedily. These NPAs cost the economy in several ways. First, the government has to bail out banks with budgetary provisions periodically and ultimately taxpayers bear the cost. Secondly, money borrowed for investment, if not utilized properly, affects the creation of assets and the growth of economy is endangered. The author has suggested several strategic measures to control NPAs of PSBs.

Gupta, S. and Kumar, S. (2004) analyzed that redeeming features of banking sector reforms is the continuing fall in gross and net NPAs as a proportion of total assets for all bank groups except private sector banks. Huge backlog of NPAs needs resolution of the earliest as otherwise it can weaken the foundation of entire financial system.

Jatna, Renu (2009) reviewed that the root cause of increasing NPAs in public sector banks is malfunctioning of the banks. This malfunctioning led to the setting up of Narasimham Committee which, in fact, identified the NPA as one of the possible effects of the malfunctioning of PSBs. According to RBI report, 1999 it was stated that the reduction in NPA should be treated as a 'national priority'.

Krishnamurthi, C.V. (2000) states that the mounting NPAs is harmful for the public sector banks. It is seen that the gross NPAs of PSBs are rising very heavily. In banks the NPA curves vary between a gross of Rs.39,253 crores in 1992-'93 to Rs.45,653 crores in 1997-'98.

IMPORTANCE OF THE STUDY

As the NPA is burning issue for commercial banks in India, the present study will be helpful to understand the major composition of NPAs in Indian banks. Moreover, the study will also be helpful to compare the composition of nationalized banks and SBI and its associates. The study focuses on understanding of the situation of NPAs in nationalized banks of India and SBI and its associates. This is helpful to understand how much critical the problem of NPA is in Indian banking sector? The researcher gives valuable suggestions to control the problem of NPAs in Indian banking sector.

OBJECTIVES OF THE STUDY

- 1) To understand the major composition of NPAs in Indian banks.
- 2) To compare the composition of nationalized banks with SBI and its associates.
- 3) To analyze the trend on various components of NPAs in Indian banks.

RESEARCH METHODOLOGY

The nature of present study is analytical and exploratory. The researcher has used secondary data, collected from the website of RBI, for the 10 years i.e. from 2001-02 to 2010-11. The present study is based on comparison of composition of NPAs in nationalized banks (19) and SBI and its associates (6). To analyze the

data proportion (ratio of specific component to total NPAs) is used and further it is analysed with the help of F-test two samples for variances, using Microsoft Excel.

DATA COLLECTION

To conduct the present research, the researcher has collected required information from the RBI website, as it is authentic source to collect the information related to banking sector. The required data tabulated as below to facilitate the study:

TABLE – 1: A TABLE SHOWING COMPOSITION OF TOTAL NPAs

year	Nationalized Banks [Rs. in Crores]				SBI and its' Associates [Rs. in Crores]			
As on 31 st March	Priority sector	Non-priority sector	Others	Total	Priority sector	Non-priority sector	Others	Total
2002	16,173	18,742	413	35,328	8,977	9,628	490	19,095
2003	16,886	18,402	561	35,849	8,053	8,379	526	16,958
2004	16,705	17,895	390	34,990	7,136	7,803	220	15,159
2005	16,381	16,225	283	32,888	7,017	7,624	168	14,808
2006	15,124	12,845	216	28,185	7,250	5,819	125	13,193
2007	15,779	9,965	302	26,046	7,175	5,193	188	12,556
2008	16,385	7,941	202	24,528	8,902	6,222	97	15,220
2009	15,871	10,001	297	26,169	8,447	9,250	177	17,874
2010	19,908	15,283	280	35,470	10,940	10,646	244	21,831
2011	25,678	16,957	273	42,907	15,567	12,567	6	28,140

Source: RBI websites

TABLE – 2: A TABLE SHOWING PROPORTION OF EACH ELEMENT OF COMPOSITION OF NPAs TO TOTAL NPAs

year	Nationalized Banks				SBI and its' Associates			
As on 31 st March	Priority sector %	Non-priority sector %	Others %	Total %	Priority sector %	Non-priority sector %	Others %	Total %
2002	45.78	53.05	1.17	100	47.01	50.42	2.57	100
2003	47.10	51.33	1.57	100	47.49	49.41	3.10	100
2004	47.74	51.14	1.12	100	47.07	51.48	1.45	100
2005	49.81	49.33	0.86	100	47.39	51.48	1.13	100
2006	53.66	45.58	0.76	100	54.95	44.10	0.95	100
2007	60.58	38.26	1.16	100	57.14	41.36	1.50	100
2008	66.80	32.38	0.82	100	58.49	40.88	0.63	100
2009	60.65	38.22	1.13	100	47.26	51.75	0.99	100
2010	56.12	43.09	0.79	100	50.11	48.77	1.12	100
2011	59.84	39.52	0.64	100	55.32	44.66	0.02	100

Source: RBI websites and compiled from Table no. 1

ANALYSIS AND INTERPRETATION

1) COMPARISON OF PRIORITY SECTOR NPAs

Null hypothesis (H_0): There is no significant difference between proportion of priority sector NPAs to total NPAs in nationalized banks and that of SBI and its associates.

TABLE- 3: A TABLE SHOWING COMPARATIVE ANALYSIS OF PRIORITY SECTOR NPAs IN NATIONALIZED BANKS AND THAT OF SBI AND ITS' ASSOCIATES

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nationalized Banks (%)	45.78	47.1	47.74	49.81	53.66	60.58	66.8	60.65	56.12	59.84
SBI and its' Associates (%)	47.01	47.49	47.07	47.39	54.95	57.14	58.49	47.26	50.11	55.32

TABLE- 4: F-TEST TWO-SAMPLE FOR VARIANCES

	Variable 1	Variable 2
Mean	54.808	51.223
Variance	50.60755	22.11825
Observations	10	10
Df	9	9
F	2.288045	
P(F<=f) one-tail	0.116732	
F Critical one-tail	3.178893	

As the value of 'F' calculation is less than the critical value of 'F', the null hypothesis H_0 may be accepted. So, the researcher may state that there is no significant difference between proportion of priority sector NPAs to total NPAs in nationalized banks and that of SBI and its associates.

2) COMPARISON OF NON-PRIORITY SECTOR NPAs

Null hypothesis (H_0): There is no significant difference between proportion of non-priority sector NPAs to total NPAs in nationalized banks and that of SBI and its associates.

TABLE- 5: A TABLE SHOWING COMPARATIVE ANALYSIS OF NON-PRIORITY SECTOR NPAs IN NATIONALIZED BANKS AND THAT OF SBI AND ITS' ASSOCIATES

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nationalized Banks (%)	53.05	51.33	51.14	49.33	45.58	38.26	32.38	38.22	43.09	39.52
SBI and its' Associates (%)	50.42	49.41	51.48	51.48	44.10	41.36	40.88	51.75	48.77	44.66

TABLE- 6: F-TEST TWO-SAMPLE FOR VARIANCES

	Variable 1	Variable 2
Mean	44.19	47.431
Variance	48.82602	18.29252
Observations	10	10
Df	9	9
F	2.669179	
P(F<=f) one-tail	0.079879	
F Critical one-tail	3.178893	

As the value of 'F' calculation is less than the critical value of 'F', the null hypothesis H_0 may be accepted. So, the researcher may state that there is no significant difference between proportion of non-priority sector NPAs to total NPAs in nationalized banks and that of SBI and its associates.

3) COMPARISON OF OTHER NPAs

Null hypothesis (H_0): There is no significant difference between proportion of other NPAs to total NPAs in nationalized banks and that of SBI and its associates.

TABLE- 7: A TABLE SHOWING COMPARATIVE ANALYSIS OF OTHER NPAs IN NATIONALIZED BANKS AND THAT OF SBI AND ITS' ASSOCIATES

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nationalized Banks (%)	1.17	1.57	1.12	0.86	0.76	1.16	0.82	1.13	0.79	0.64
SBI and its' Associates (%)	2.57	3.10	1.45	1.13	0.95	1.50	0.63	0.99	1.12	0.02

TABLE- 8: F-TEST TWO-SAMPLE FOR VARIANCES

	Variable 1	Variable 2
Mean	1.002	1.346
Variance	0.077107	0.806827
Observations	10	10
Df	9	9
F	0.095568	
P(F<=f) one-tail	0.000875	
F Critical one-tail	0.314575	

As the value of 'F' calculation is less than the critical value of 'F', the null hypothesis H_0 may be accepted. So, the researcher may state that there is no significant difference between proportion of other sector NPAs to total NPAs in nationalized banks and that of SBI and its associates.

FINDINGS

The study showed that in Indian banking sector, the situation of NPAs shows the increasing trend. When we compared the NPAs of priority sector, non-priority sector and other sector of nationalized banks and SBI and its' associates, it was found that there is no significant difference in the NPAs of these sectors. The proportion of all components of NPAs in nationalized banks and SBI and its' associates shows similar situation.

SUGGESTIONS TO CURB NPAs

The problem of NPA is spreading like poison in Indian banking sector. It is harmful not only to the banks but also to the whole economy. It is highly required that some measures must be undertaken to curb the problem of NPAs. The researcher has given following suggestions to overcome the problem of NPAs.

- The bank should perform an in-depth investigation about the creditworthiness of the borrower .
- The bank must take regular follow up of the borrower after sanctioning the loan.
- The bank should form a special recovery cell to recover the outstanding amount of loan.
- The banks should establish an agency which is assigned the duty to investigate about the creditworthiness of the borrowers.
- The bank should start some schemes under which the defaulters are given a special interest discount if they make the prompt repayment of the outstanding amount.

CONCLUSION

From the analysis of all three composition i.e. priority sector, non-priority sector and other NPAs it is clear that the hypothesis for all 3 analytical part has been accepted. So, the researcher may state that there is no significant difference between various compositions of NPAs to total NPAs in nationalized banks and SBI and its associates. Further, the problem of mounting NPAs is severe for the economy; the regulatory agencies as well as the banks must take some remedial actions to solve the problem.

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