INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

CONTENTS

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the area of Computer, Business, Finance, Marketing, Human Resource Management, General Management, Banking, Insurance, Corporate Governance and emerging paradigms in allied subjects like Accounting Education; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Monetary Policy; Portfolio & Security Analysis; Public Policy Economics; Real Estate; Regional Economics; Tax Accounting; Advertising & Promotion Management; Business Education; Business Information Systems (MIS); Business Law, Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labor Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; Public Administration; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism, Hospitality & Leisure; Transportation/Physical Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Digital Logic; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Multimedia; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design. The above mentioned tracks are only indicative, and not exhaustive.

Anybody can submit the soft copy of his/her manuscript **anytime** in M.S. Word format after preparing the same as per our submission guidelines duly available on our website under the heading guidelines for submission, at the email addresses, infoijrcm@gmail.com or info@ijrcm.org.in.

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: ____________

THE EDITOR

IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF ____.**

(e.g. Computer/IT/Finance/Marketing/HRM/General Management/other, please specify).

DEAR SIR/MADAM

Please find my submission of manuscript titled '____' for possible publication in your journal.

I hereby affirm that the contents of this manuscript are original. Furthermore it has neither been published elsewhere in any language fully or partly, nor is it under review for publication anywhere.

I affirm that all author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if our/my manuscript is accepted, I/We agree to comply with the formalities as given on the website of journal & you are free to publish our contribution to any of your journals.

NAME OF CORRESPONDING AUTHOR:

Designation:

Affiliation with full address & Pin Code:

Residential address with Pin Code:

Mobile Number (s):

Landline Number (s):

E-mail Address:

Alternate E-mail Address:

2. **INTRODUCTION**: Manuscript must be in British English prepared on a standard A4 size paper setting. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of the every page.

3. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

4. **AUTHOR NAME(S) & AFFILIATIONS**: The author (s) full name, designation, affiliation (s), address, mobile/landline numbers, and email/alternate email address should be in italic & 11-point Calibri Font. It must be centered underneath the title.

5. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para.

6. **KEYWORDS**: Abstract must be followed by list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

7. **HEADINGS**: All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS**: All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT**: The main text should be in a 8 point Calibri Font, single spaced and justified.

10. **FIGURES &TABLES**: These should be simple, centered, separately numbered & self explained, and titles must be above the tables/figures. Sources of data should be mentioned below the table/figure. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS**: These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES**: The list of all references should be alphabetically arranged. It must be single spaced, and at the end of the manuscript. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio," Ohio State University.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITE

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Economic and Political Weekly, Viewed on July 05, 2011 http://epw.in/user/viewabstract.jsp

A COMPARATIVE STUDY OF NON-PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANKS

DR. HARPREET KAUR
ASST. PROFESSOR
DEPARTMENT OF DISTANCE EDUCATION
PUNJABI UNIVERSITY
PATIALA

NEERAJ KUMAR SADDY
ASST. PROFESSOR
S.N. COLLEGE
BANGA

ABSTRACT
Non-performing assets are one of the major concerns for banks in India. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPAs growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. The issue of Non Performing Assets has been discussed at length for financial system all over the India. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. The Indian banking sector is facing a serious problem of NPAs. The extent of NPAs is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard. The problem of losses and lower profitability of Non-Performing Assets (NPAs) and liability mismatch in banks and financial sector depend on how various risks are managed in their business. An attempt is made in the paper that what is NPAs? The factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations. Besides capital to risk weight age assets ratio of Public and Private sector banks, management of credit risk and measures to control the menace of NPAs are also discussed.

KEYWORDS
NPA, Bank, Financial Sector.

INTRODUCTION
The Indian banking sector has played a commendable role in fuelling and sustaining growth in the economy. The banking system in India comprises commercial and cooperative banks, of which the former accounts for more than 90 per cent of banking system's assets. Besides a few foreign and Indian private banks, the commercial banks comprise nationalized banks (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority holding being with State Bank of India). These banks, along with regional rural banks, constitute the public sector (state owned) banking system in India

The public sector banks have emerged strong across all key indicators as the global financial turmoil and slowing domestic economy put the banking sector on a test. The public banks have not only reduced the lending rates but have also managed to record higher average net profit and lower NPAs level than their private sector banks, (an Assocham Financial Pulse (AFP) study).

The Public Sector Banks have shown very good performance over the private sector banks as far as the financial operations are concerned. The Public Sector Banks have also shown comparatively good result. However, the only problem of the Public Sector Banks these days are the increasing level of the non performing assets. The non performing assets of the Public Sector Banks have been increasing regularly year by year. If we glance on the numbers of non performing assets we may come to know that in the year 1995 the NPAs were Rs. 38385 crore and reached to Rs. 44042crore in 2009in Public sector banks and comparatively in the year 2001 the NPAs were Rs. 6410 crore and reached to Rs. 16887crore in 2009 in Private sector banks. The only problem that hampers the possible financial performance of the Public and private Sector Banks are the increasing results of the non performing assets. The non performing assets impact drastically to the working of the banks. The efficiency of a bank is not always reflected only by the size of its balance sheet but by the level of return on its assets. NPAs do not generate interest income for the banks, but at the same time banks are required to make provisions for such NPAs from their current profits.

NPAs have a deleterious effect on the return on assets in several ways –

- They erode current profits through provisioning requirements
- They result in reduced interest income
- They require higher provisioning requirements affecting profits and accretion to capital funds and capacity to increase good quality risk assets in future, and
- They limit recycling of funds, set in asset-liability mismatches, etc.

The RBI has also tried to develop many schemes and tools to reduce the non performing assets by introducing internal checks and control scheme, relationship managers as stated by RBI who have complete knowledge of the borrowers, credit rating system, and early warning system and so on. The RBI has also tried to improve the securitization Act and SRFAESI Act and other acts related to the pattern of the borrowings. Though RBI has taken number of measures to reduce the level of the non performing assets the results is not up to the expectations. To improve NPAs each bank should be motivated to introduce their own precautionary steps. Before lending the banks must evaluate the feasible financial and operational prospective results of the borrowing companies. They must evaluate the business of borrowing companies by keeping in considerations the overall impacts of all the factors that influence the business.

While gross NPAs reflects the quality of the loans made by banks, net NPA shows the actual burden of banks. Now it is increasingly evident that the major defaulters are the big borrowers coming from the non-priority sector. The banks and financial institutions have to take the initiative to reduce NPAs in a time bound strategic approach. Public sector banks figure prominently in the debate not only because they dominate the banking industries, but also since they have much larger NPAs compared with the private sector banks. This raises a concern in the industry and academia because it is generally felt that NPAs reduce the profitability of banks, weaken its financial health and erode its solvency. For the recovery of NPAs a broad framework has evolved for the management of NPAs under which several options are provided for debt recovery and restructuring. Banks and FIs have the freedom to design and implement their own policies for recovery and write-off incorporating compromise and negotiated settlements.

NON-PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANKS
The quality of Indian banks' assets is likely to deteriorate over the next two years. This will be driven by the slowdown in the economy, and by the aging of loans made in recent years. The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of

the drivers of financial stability and growth of the banking sector. The Financial companies and institutions are nowadays facing a major problem of managing the Non Performing Assets (NPAs) as these assets are proving to become a major setback for the growth of the economy. NPAs in simple words may be defined as the borrower does not pay principal and interest for a period of 180 days. However, it is taken into consideration now that default status would be given to a borrower if dues are not paid for 90 days. If any advance or credit facility granted by the bank to a borrower becomes non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exists certain advances / credit facilities having performing status.

ASSET CLASSIFICATION

CATEGORIES OF NPAS

STANDARD ASSETS:

Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year. If asset fails to be in category of standard asset that is amount due more than 90 days then it is NPA and NPAs are further need to classify in sub categories. Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

(1) SUB-STANDARD ASSETS

With effect from 31 March 2005, a sub standard asset would be one, which has remained NPA for a period less than or equal to 12 month. The following features are exhibited by sub standard assets: the current net worth of the borrowers / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full; and the asset has well-defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

(2) DOUBTFUL ASSETS

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

With effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

(3) LOSS ASSETS

A loss asset is one which 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. Also, these assets would have been identified as 'loss assets' by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

FACTORS FOR RISE IN NPAS

The banking sector has been facing the serious problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks. The NPAs in PSB are growing due to external as well as internal factors.

EXTERNAL FACTORS

- Ineffective Recovery

The Govt. has set of numbers of recovery tribunals, which works for recovery of loans and advances. Due to their negligence and ineffectiveness in their work the bank suffers the consequence of non-recover, their by reducing their profitability and liquidity.

- Willful Defaults

There are borrowers who are able to pay back loans but are intentionally withdrawing it. These groups of people should be identified and proper measures should be taken in order to get back the money extended to them as advances and loans.

-Natural Calamities

This is the measure factor, which is creating alarming rise in NPAs of the PSBs. every now and then India is hit by major natural calamities thus making the borrowers unable to pay back there loans. Thus the bank has to make large amount of provisions in order to compensate those loans, hence end up the fiscal with a reduced profit.

- Industrial Sickness

Improper project handling , ineffective management , lack of adequate resources , lack of advance technology , day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.

- Lack of Demand

Entrepreneurs in India could not foresee their product demand and starts production which ultimately piles up their product thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers a minimum label. Thus the banks record the non recovered part as NPAs and has to make provision for it.

-Change on Govt. Policies

With every new govt. banking sector gets new policies for its operation. Thus it has to cope with the changing principles and policies for the regulation of the rising of NPAs.

INTERNAL FACTORS

- Defective Lending Process

There are three cardinal principles of bank lending that have been followed by the commercial banks since long.

i. Principle of safety
ii. Principle of liquidity
iii. Principle of profitability

- Inappropriate Technology

Due to inappropriate technology and management information system, market driven decisions on real time basis cannot be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, thus NPAs. All the branches of the bank should be computerized.

- Improper SWOT Analysis

The improper strength, weakness, opportunity and threat analysis is another reason for rise in NPAs. While providing unsecured advances the banks depend more on the honesty, integrity, and financial soundness and credit worthiness of the borrower.

- Poor Credit Appraisal System

Poor credit appraisal is another factor for the rise in NPAs. Due to poor credit appraisal the bank gives advances to those who are not able to repay it back. They should use good credit appraisal to decrease the NPAs.

-Managerial Deficiencies

The banker should always select the borrower very carefully and should take tangible assets as security to safe guard its interests. When accepting securities banks should consider the:

1. Marketability
2. Acceptability
3. Safety
4. Transferability.

The banker should follow the principle of diversification of risk based on the famous maxim "*do not keep all the eggs in one basket",* it means that the banker should not grant advances to a few big farms only or to concentrate them in few industries or in a few cities. If a new big customer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected.

- Absence of Regular Industrial Visit

The irregularities in spot visit also increases the NPAs. Absence of regularly visit of bank officials to the customer point decreases the collection of interest and principals on the loan. The NPAs due to willful defaulters can be collected by regular visits.

- Re Loaning Process

Non remittance of recoveries to higher financing agencies and re-loaning of the same have already affected the smooth operation of the credit cycle. The developing economy has been much affected due to high fiscal deficit, poor infrastructure facilities, sticky legal system, cutting of exposures to emerging Markets by Financial Institutions, etc. Under such a situation, it goes without saying that banks are no exception and are bound to face the heat of a global downturn. Bankers have realized that unless the level of NPAs is reduced drastically, they will find it difficult to survive. The core banking business is of mobilizing the deposits and utilizing it for lending to industry. Lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes which results into economic growth. The debtor take the funds from the bank in the form of credit and he have to pay back the principle amount with the interest to the creditor as a result the creditor (Bank)gets the profit in the form of interest and again this profit is reinvested leading to the growth of the economy. However lending also carries credit risk, which arises from the failure of borrower to fulfill its contractual obligations either during the course of a transaction or on a future obligation. Due to non performance of the fund the financial institutions become bankrupt and failed to provide investors with clearer and more complete information thereby introducing a degree of risk that many investors could neither anticipate nor welcome. The history of financial institutions also reveals the fact that the biggest banking failures were due to credit risk.

As a result, banks nowadays are restricting their lending operations to secured avenues only with adequate collateral security over which the company can overtake its right of authority. What is needed is having adequate preventive measures in place namely, fixing pre-sanctioning appraisal responsibility and having an effective post-disbursement supervision. Banks concerned should continuously monitor loans to identify accounts that have potential to become non-performing. However, increasing NPAs have a direct impact on banks profitability, as legally banks are not allowed to book income on such accounts and at the same time banks are forced to make provision on such assets as per the Reserve Bank of India (RBI) guidelines. Also, with increasing deposits made by the public in the banking system, the banking industry cannot afford defaults by borrower s since NPAs affects the repayment capacity of banks.

REVIEW OF LITERATURE

Goven (1993) in his article, "NPAs on account of priority sector lending", it was pointed out that there may be only a marginal difference in the NPAs of banks' lending to priority sector and the bank's lending to private corporate sector. Against this background, the study suggests that given the deficiencies in these areas, it is imperative that banks need to be guided by fairness based on economic and financial decisions rather than system of conventions, if reform has to serve the meaningful purpose. Experience shows that policies of liberalization, deregulation and enabling environment of comfortable liquidity at a reasonable price do not automatically translate themselves into enhanced credit flow. Although public sector banks have recorded improvements in profitability, efficiency (in terms of intermediation costs) and asset quality in the 1990s, they continue to have higher interest rate spreads but at the same time earn lower rates of return, reflecting higher operating costs.

Bakshi (1998) in his article, "NPAs Management in Banks" discussed that there was a health code system which classify the assets in 1998 but the norm was not so effective. RBI introduced prudential norms to regulate NPAs which involves asset classification, recognition of income and provisioning norm. After introduction of the norm NPAs are in decreasing mood both net NPAs and gross NPAs.

Prashanth K Reddy (2002) in his thesis titled, "A comparative study of Non Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures" highlighted that financial sector reform in India has progressed rapidly on aspects like interest rate deregulation, reduction in reserve requirements, barriers to entry, prudential norms and risk-based supervision. But progress on the structural-institutional aspects has been much slower and is a cause for concern. The sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective. Changes required to tackle the NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective. The study deals with the experiences of other Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries.

JAIN (2002) in his thesis titled, " Non-performing Assets in Commercial and Development Banks in India" highlighted that the future profitability of banks would depend on their alertness, operational efficiency, customer orientation, creation of large volume of performing assets, attainment of optimum levels of productivity. Since retail customers are fast becoming more demanding in the current competitive environment, banks have to offer value-added services. Harnessing technology to improve productivity, to ensure required standard of customer service and internal efficiency, continual product innovation and strengthening of competitive edge on an ongoing basis to mass business will be the key factors that will impact banking sector in the days to come. Ensuring optimum performance by each manager and staff will also be vital. Another critical factor upon which would hinge the future of banking system would be the ability and competence of banks to build up large volumes of quality assets in a constantly increasing competitive environment, while adhering to prudential norms and maintaining prescribed levels of capital adequacy on risk assets simultaneously. Productivity and efficiency will be the watchwords in the banking industry in the years ahead. Continuous quest for skill up gradation at all levels, development of vision, mission and commitment are some of the aspects, which require urgent attention by the banking industry in future. Darwin's principle of survival of the fittest may, in all likelihood, operate in the case of banks too. Banks, which are pro-active, respond quickly to the changing needs of the customer, and give adequate attention to the changing scenario, alone can survive successfully, perform well and prosper.

Bidani (2002) in his book titled, "Managing Non-Performing Assets in Banks," highlighted that banks are concerned with their heavy NPA portfolio which was impairing their profitability and are taking all possible steps to contain the same. Banks have achieved a reasonable degree of success to bring down their existing NPAs but due to heavy slippage of standard accounts to NPA category the overall position continued to deteriorate. The main reasons responsible for such a situation include - slow economic and industrial growth, slump in capital market, financial indiscipline, Willful defaults by the borrowers, overburdened and slow judiciary, competition faced by local industries from the multi-nationals, lack of support to the borrowers from the banks at the time of the need, etc. In this book, the author has made an effort to deal with the practical aspects of the problem of management of NPAs right from identification stage till recovery of the dues including other aspects connected with the subject like asset classification, assessment of provision, pre-sanction appraisal and post-sanction appraisal and post sanction supervision, monitoring system for existing and likely NPAs, capital adequacy, reduction of NPAs, rehabilitation of sick non-performing units etc.

Rajput (2003) in his thesis titled, "Banking Sector Reforms in India - A study of Post-Liberalization Period", highlighted that decade of nineties in last century brought revolution in Indian banking sector. Banks were made free from the clutches of hefty regulations and allowed to decide their own fate. Author suggested that Indian banks especially public sector banks will have to learn to live up with competitive environment. They must make persistent efforts to improve their profitability. On the revenue side, they should increase non-interest income by diversifying their operation into Para banking activities on the lines of new private banks. On the expenditure side, they must bring efficiency in their operations to minimize cost and strive hard to control the booming NPAs.

Kumar (2003) in his paper titled, "The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act,2002", discussed in detail the need, process, summary, positive as well as negative aspects of the Act. He analyzed that this Act empowered banks and financial institutions to directly enforce the security interest which was pledged to them at the time of sanctioning the loan without going through the judicial process of DRT or Civil Courts.

Misra (2003) in his article, "Managing Non-Performing Assets: A Professional Approach", highlighted that the profitability of the financial institutions largely depended upon the level of income generated through optimum use of the assets after paying the cost of fund for acquiring them and other administrative costs involved therein. Redefined objective of managing NPAs through profit maximization approach and risk management approach were suggested. The author further concluded that the high rise in gross and net NPAs of the banking sector in the recent past was at an exponential rate giving an indication that present ongoing recession was taking a heavy toll on corporate credit discipline.

Reddy (2003) in their research paper, "NPAs: Threat to Financial Stability", confirmed that financial stability is an essential prerequisite for sustainable long-term economic growth of any country. Banking system being the largest component of financial system should take care to immunize itself from the macro economic shocks through maintaining optimal and quality asset portfolios to achieve the objective of smooth flow of funds into the most economic channels. The non-performing assets were posing a serious threat to this objective of the banking system. The authors concluded that macro and micro level reforms and adherence to cleaner practices on the part of banks, regulator, borrowers and government will enable the system to get rid of the NPAs overhang and let financial system be an essential adjunct for economic growth.

Khan and Singh (2005) in their Report on "Effectiveness of DRTs in Recovery of Bank Dues", have evaluated the performance of DRTs in recovery of bank dues during the years 1996 to 2004. They have highlighted major defects in DRT system and also gave recommendations to overcome them. They have concluded that the DRTs were effective in recovery of banks' dues to a certain extent and would become more effective, provided the given suggestions were implemented in letter and spirit.

Saggar (2005) in her research book titled, " commercial Banks in India", stated that it has been found over the years that the performance of banking sector has been a mixed one i.e. strong in widening the business coverage but weak in terms of sustainability and viability. Overtime, the viability particularly of a number of public sector banks has become a matter of great concern. According to author, profitability of banks is influenced by a combination of factors such as quality of asset-liability management, productivity levels, operating costs, organisational culture and most critical issue in present context, i.e., the non-performing assets (NPAs). She concluded that the public sector banks should move from deposit orientation to profit orientation. Profit plans should be developed to help them in recasting their cost estimates for their activities.

Khasnobis (2005) in his article, "NPAs Emerging Challenges in India" studied that the Indian banking sector has played a commendable role in fuelling and sustaining growth in the economy. In the recent past a large part of the banking sector's growth has been on the back of financing consumption, as reflected in the growth of retail banking. While the progress on this front is likely to continue, sustaining this growth in the coming years may require focus on the supply side – capacity building. A growth driver in this phase would involve financing the emerging Small & Medium Enterprises (SMEs) sector of the economy. As such, banks would have to gear up for the challenges of managing growth and consequent risks in the SME sector financing. Addressing this issue and putting in place a suitable risk mitigation mechanism is going to be a fairly daunting challenge. One way of ensuring focus would be to free up capital – both financial and human – and make them available for sustaining the growth in assets and profitability. Farming out the banks' Non- Performing Assets (NPAs) portfolio to asset-recovery companies, which specialize in this segment of the financial sector, could be an option worth evaluating.

Kumar (2005) in his article, "Non-Performing Assets in Indian Banks" studied that the Indian banking sector faced a serious problem of NPAs. The extent of NPAs has comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard.

Bose (2005) in his research paper, " SERFAESI Act: An Effective Recovery Tool", elaborated while there have been several schemes in the past to facilitate the recovery from NPAs, the success of such efforts in terms of NPAs reduction has been far from satisfactory. SERFAESI Act, it was hoped, would greatly help banks in their efforts to reduce and recover money from NPAs. Nonetheless, the recent developments have also brought out the limitations of the Act, thereby creating apprehensions amongst banks and financial institutions. Notwithstanding this, to take full advantage of the Act, the cool causes of NPAs, which were evident in the system, may have to be addressed first. The author has made an attempt to provide a glimpse of the SERFAESI Act against this backdrop.

Chugh (2005),in his research book titled, " Indian baking today-Impact of Reforms", has attempted to investigate whether new private sector banks were serving properly to different segments of the economic sectors of India specially to economically weaker sector of the society or not and were the employees of these banks satisfied. Some other important parameters such as assets size, level of NPAs, interest and other incomes etc. were selected to make comparison between new private sector banks and public sector banks. Impact of economic reforms on banking sector has also been examined in the study. He concluded that public sector banks were coming up fastly to meet the challenges of open competition in financial markets in India. They were adopting latest banking technologies day by day and providing quality services to their respective customers at lower cost.

Harpreet (2006) in her thesis titled "Credit management and problem of NPAs in Public Sector Banks" highlighted the problem of non-performing assets in public sector banks. Various developments in the banking sector in India have been analyzed by studying the growth of banking sector in Pre-and Post - Independence era. The study has covered the prudential norms given by RBI and also analyzed the NPA management policies of public sector banks. Viewpoints of the managers regarding problem of NPAs have also been studied by selecting 120 managers from various branches of public sector banks in Punjab. Perceptions of borrowers contributing to NPAs have also been studied by selecting 100 defaulters from public sector banks in Punjab. Author suggested that for effective handling of NPAs, there is an urgent need for creating proper awareness about the adverse impact of NPAs on profitability amongst bank staff, particularly the field functionaries. Bankers should have frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

Kumar (2006) in his research book titled, "Banking Sector Efficiency in Globalize Economy," highlighted that the performance of the banks both in the public and private sectors has become more market driven with growing emphasis on better performance. Author has explored the broad structure of banking system in India, analyzed the overall efficiency of the system in terms of financial parameters into two components: technical efficiency and allocation efficiency. He concluded that the much-publicized fact that public sector banks are inefficient is based on a piecemeal analysis in the form of simple, static, partial and isolated ratios having some hidden and often misconceived assumptions about the structure. The study concluded that there was an urgent need of the time to go in for this kind of system wide analysis to explore the intricacies of the complex system.

Murali and Krishna (2006) in their paper, "Ensuring Qualitative Credit Growth through Effective Monitoring of Advances", observed that there has been a spirit in the lending activity of banks, in the recent past. This is due to two factors, viz. availability of huge surplus funds with the banks and the losses suffered by the banks in investment and treasury activities. While credit growth is needed for survival, it is imperative to ensure that the credit growth does not result in non-performing advances later. For this banks have to resort to effective pre-disbursement as well as post-disbursement monitoring. The authors concluded that negligence in monitoring a loan was less excusable than an error at the appraisal stage.

Bhatia (2007) in his research paper entitled, "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment", explores an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private, and foreign sector banks in India. The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This paper aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behavior of NPAs of the three categories of banks is observed.

Karunakar (2008) in his article, "Are non - Performing Assets Gloomy or Greedy from Indian Perspective?" has discussed that the economic reforms initiated by the then finance minister and present prime minister of India Dr. Manmohan Singh would have been remained incomplete without the overhaul of Indian banking sector. The problem of losses and lower profitability of Non-Performing Assets (NPAs) and liability mismatch in banks and financial sector depend on how various risks are managed in their business. An attempt is made in the paper that what are NPAs? The factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations. Besides capital to risk weightage assets ratio of public sector banks, management of credit risk and measures to control the menace of NPAs are also discussed. The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. It is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms.

Sharma (2009) in his research paper entitled, "Performance Analysis of the Indian Banking Sector", stated that the public sector banks have emerged strong across all key indicators as the global financial turmoil and slowing domestic economy put the banking sector on a test. The public banks have not only reduced the lending rates but have also managed to record higher average net profit and lower NPAs level than their private sector counterparts. According to the study the public sector banks (PSBs) have shown impressive performance across all the significant banking parameters. While they have reduced their prime lending rates, by private banks, their credit growth has far surpassed the latter registered by private banks. Despite lower lending rates, the net interest income growth of the PSBs was much higher than the private banks which fuelled the bottom line growth of public banks. Progressing upon bringing a significant shift in their conventional image, the public sector banks have considerably improved their quality of assets. The rise in Net NPAs of the private banks was far higher than the public sector banks.

ANALYSIS

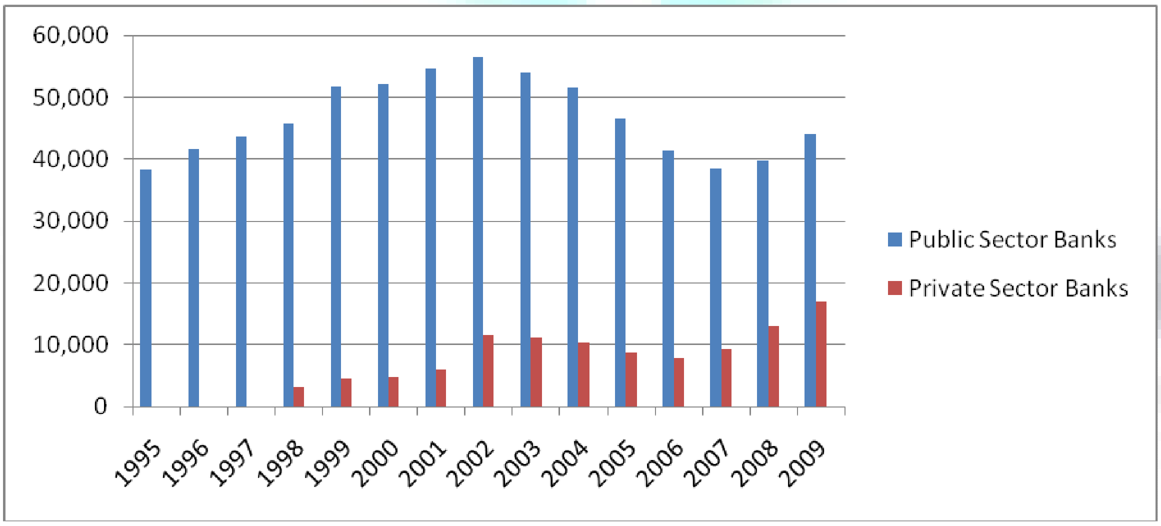
Table 1.1 both types of banks showed a declining trend in gross and net NPAs over the period of the study but public sector banks higher ratio as compare to private sector banks reason behind this is that private sector banks have a secured loan policy as compares to public sector banks. Gross and net NPAs have increased in absolute terms till 2002 and started declining after that, yet they have declined significantly in relative terms in the given period. It is observed that gross NPAs as absolute and in percentage terms with gross advances of PSBs have declined from Rs. 38,384 crore (19.5%) to Rs. **44039 crore (**2.1 %) in the period of 1994-95 to 2008-09, whereas gross NPAs as percentage with gross advances of Private sector banks have declined from Rs. 3186 crore (8.7%) to Rs.**16983crore (3.2** %) during the period, of 1997-98 to 2008-09. On the other hand net NPAsof Public sector banks in absolute and in percentage terms have also come down from Rs.17,567 crore (10.70 %) in 1994-95 to Rs. 21,033 crore (0.70 %) in 2008-09 but comparatively in private sector banks net NPAs as absolute and in percentage terms to net advances have also come down from Rs. 1863 crore (8.20 %) in 1997-98 to Rs. 7418 crore (1.50%) in 2008-09 So, even after implementation of prudential norms in early nineties and serious concern raised by govt. about growing size of NPAs, Public Sector Banks paid least attention to all these warnings, which subsequently led to turning fresh loans of banks into non-performing category. So, falling ratio of NPAs in terms of advances is not a true indicator of performance of PSBs in the field of NPAs. In fact, growing size of gross NPAs in absolute form has been real cause of worry However; there is a silver lining, on account of the steps taken by the banks under the Securitization Act. The gross as well as net NPAs of Public and Private sector banks have started declining after 2002 this showed the reverse trend in contrast to the earlier years.

TABLE 1.1 GROSS AND NET NPAS OF PUBLIC AND PRIVATE SECTOR BANKS

	Public Sector Banks		**Private Sector Banks**		**Public Sector Banks**		**Private Sector Banks**	
Years	**Gross NPAs (Rs. in crore)**	**% of Gross NPAs to Gross Advances**	**Gross NPAs (Rs. in crore)**	**% of Gross NPAs to Gross Advances**	**Net NPAs (Rs. in crore)**	**% of Net NPAs to Net Advances**	**Net NPAs (Rs. in crore)**	**% of Net NPAs to Net Advances**
1995	38,384	19.50	NA	NA	17,567	10.70	NA	NA
1996	41,661	18.00	NA	NA	18,298	08.90	NA	NA
1997	43,577	17.84	NA	NA	20,285	9.18	NA	NA
1998	45,653	16.02	3186	8.7	21,232	8.15	1863	8.20
1999	51,710	15.90	4655	10.40	24,211	8.13	2943	8.10
2000	52,241	14.0	4761	8.17	26,107	7.42	3031	5.41
2001	54,672	12.4	5933	8.32	27,977	6.70	3700	2.27
2002	56,473	11.1	11662	9.64	27,958	5.80	6676	2.49
2003	54,089	9.4	11082	8.07	24,868	4.50	3913	2.32
2004	51,541	7.8	**10381**	5.8	18,860	3.00	4128	1.32
2005	46,596	5.4	**8782**	3.9	16,983	2.06	4212	1.85
2006	41,379	3.9	**7811**	2.6	14,560	1.70	3171	1.09
2007	**38602**	2.8	**9256**	2.4	15,145	1.10	4028	0.97
2008	**39749**	2.3	**12997**	2.7	17,836	0.80	5647	1.20
2009	**44039**	2.1	**16983**	3.2	21,033	0.70	7418	1.50

SOURCE: (RBI) REPORT ON TREND AND PROGRESS OF BANKING IN INDIA, VARIOUS ISSUES.

GROSS NPAS OF PUBLIC AND PRIVATE SECTOR BANKS



NET NPAS OF PUBLIC AND PRIVATE SECTOR BANKS

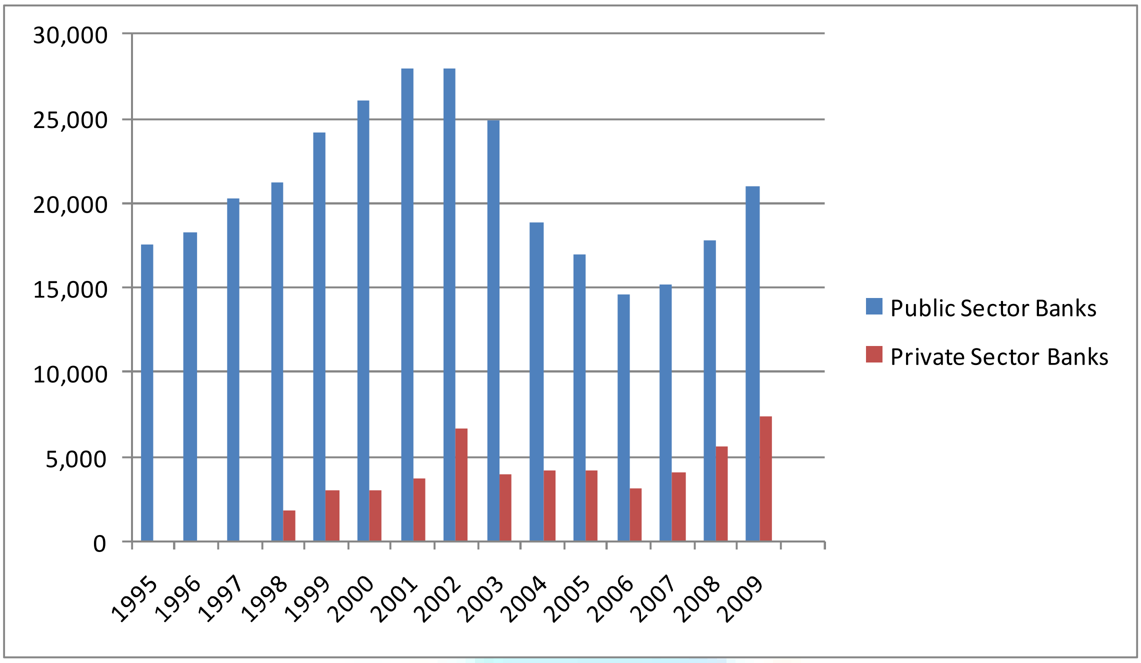


TABLE 1.2 and 1.3 shows the distribution of NPAs among the Public and Private sector banks in different sectors for the period of 1994-95 to 2008-09. As far as the public sector banks are concerned, about 60% of non-performing assets belong to the priority sector lending. Non-priority sector accounts for 39.27% of the total NPAs in public sector banks. In case of private sector banks, non priority sector constitutes 68.75%. It is observed that NPAs of priority sector in public sector banks are Rs. 24318 crore as compared to Rs. 3640 crore in private sector banks. The proportion of Non Priority Sector NPAs is high as compare to Private sector banks in public sector banks in the initial years. But In 2009 total NPAs of Private sector banks are increased all the sectors in private sector banks are Rs.9239.48 crore as compare to Public sector banks NPAs of Rs. 44042 crore. But comparatively the proportion of Non Priority Sector NPAs of Private sector banks is very low as compare to public sector banks. NPAs of Private sector banks are Rs. 13172 crore (78%) as compare to public sector banks NPAs of Rs. 19251 crore (43.7%). The reason behind this is that private sector banks use a secured loan policy than public sector banks. Public sector and nationalized banks are subjected to provide more loans to priority sector, which results in higher nonperforming assets. These banks are more exposed to political interference; they are not allowed to act in a professional manner, which results in high level of non- performing assets.

For all categories of banks except the foreign banks, agriculture is an important source of non- performing assets. Agriculture sector is still an important component of Indian economy and banks cannot ignore the need requirements of the agriculture sector. However, politics rather than pure business considerations influence the sanctioning of agricultural loans in comparison to other categories of loans.

TABLE 1.2: SECTOR-WISE NPAS OF PUBLIC SECTOR BANKS (Amount in Rs. Crore)

	Priority Sector		Public Sector		Non-Priority Sector		Total	
Year	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1995	19209	*50.0*	1316	*3.4*	17861	*46.5*	38385	*100*
1996	19106	*48.3*	1411	*3.6*	19067	*48.2*	39584	*100*
1997	20774	*47.7*	1461	*3.4*	21341	*49.0*	43576	*100*
1998	21184	*46.4*	1362	*3.0*	23107	*50.6*	45653	*100*
1999	22606	*43.7*	1496	*2.9*	27608	*53.4*	51710	*100*
2000	23715	*44.5*	1055	*2.0*	28524	*53.5*	53294	*100*
2001	24156	*45.4*	1711	*3.2*	27307	*51.4*	53174	*100*
2002	25139	*44.5*	1116	*2.0*	30251	*53.5*	56506	*100*
2003	24938	*47.2*	1087	*2.1*	26781	*50.7*	52807	*100*
2004	23840	*47.5*	610	*1.2*	25698	*51.2*	50148	*100*
2005	23397	*49.1*	450	*0.9*	23849	*50.0*	47696	*100*
2006	22374	*54.1*	341	*0.8*	18664	*45.1*	41378	*100*
2007	22954	*59.5*	490	*1.3*	15158	*39.3*	38602	*100*
2008	25287	*63.6*	299	*0.7*	14163	*35.6*	39749	*100*
2009	24318	*55.2*	474	*1.1*	19251	*43.7*	44042	*100*

Source: (RBI) Report on Trend and Progress of Banking in India, various issues.

SECTOR-WISE NPAS OF PUBLIC SECTOR BANKS

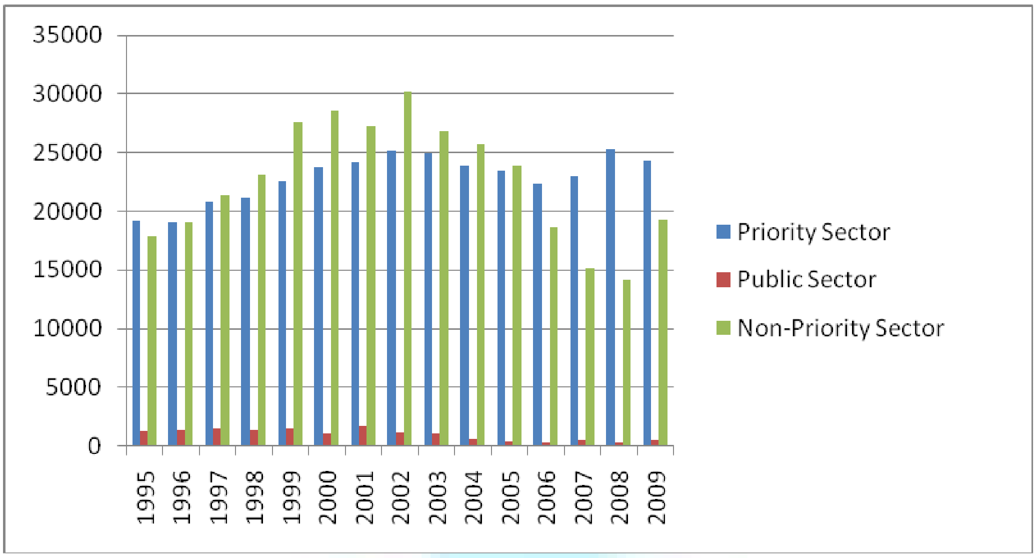
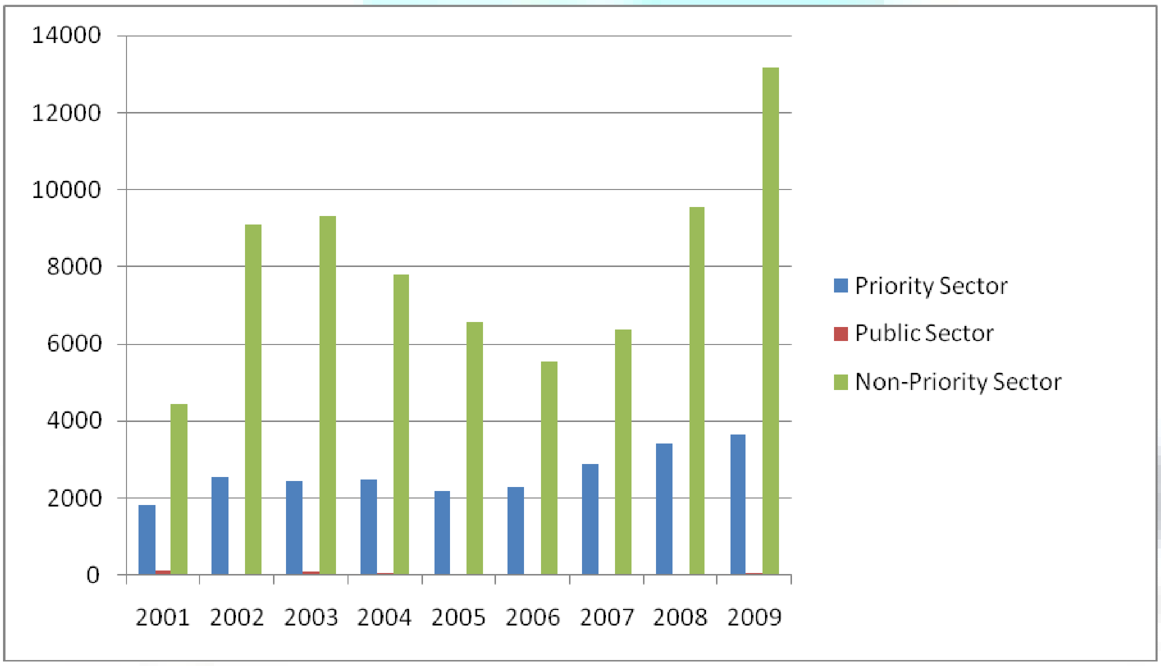


TABLE 1.3: SECTOR-WISE NPAS OF PRIVATE SECTOR BANKS (Amount in Rs. Crore)

	Priority Sector		Public Sector		Non-Priority Sector		Total	
Year	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
2001	1835	28.6	123	1.9	4452	69.5	6410	100
2002	2546	21.8	31	0.3	9090	77.9	11667	100
2003	2445	20.6	95	0.8	9327	78.6	11866	100
2004	2482	24.0	75	0.7	7796	75.3	10352	100
2005	2188	24.9	42	0.5	6569	74.7	8799	100
2006	2284	29.2	4	0.1	5541	70.8	7829	100
2007	2884	31.2	2.79	0.03	6352.51	68.75	9239.48	100
2008	3419	26.3	.01	-	9557	73.6	12976	100
2009	3640	21.6	75	.4	13172	78.0	16887	100

Source: (RBI) Report on Trend and Progress of Banking in India, various issues.

SECTOR-WISE NPAS OF PRIVATE SECTOR BANKS



RECOVERY OF NPAS IN PUBLIC AND PRIVATE SECTOR BANKS

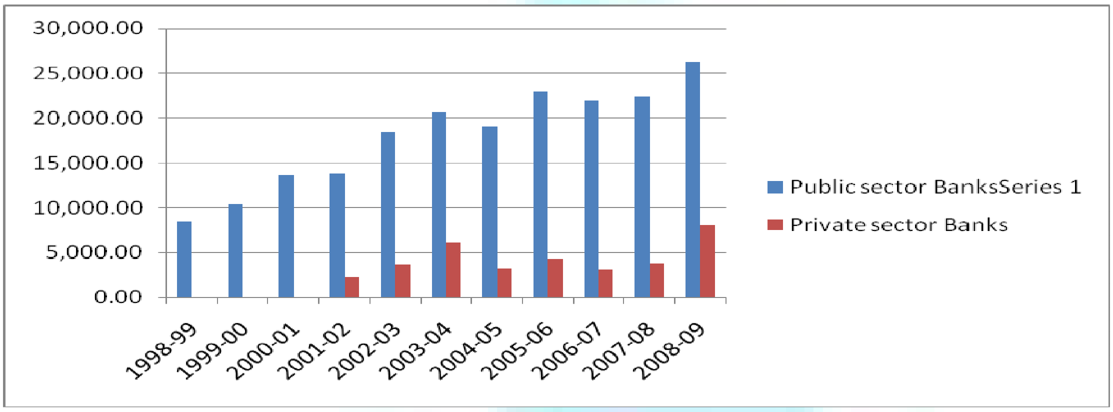
In view of several options available to banks for dealing with NPAs, banks have been able to recover a significant amount of NPAs (Table 1.4). An improved industrial climate contributed to a better recovery position. The recourse to aggressive restructuring by banks in 2004-05 also helped in reducing the level of NPAs. Both public and private sector banks recovered a higher amount of NPAs during 2008-09 than that during the previous year. Though the total amount recovered Rs.26271 crore in Public sector banks and Rs. 8089 crore in private sector banks in 2008-09 was higher than Rs.22466 crore in Public sector banks and Rs. 3773 crore in private sector banks in 2007-08. Banks have been able to recover NPAs through the use of legal measures which are a good sign for Banks. Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the Debt Recovery Tribunals (DRTs) have been the most effective in terms of amount recovered.

TABLE 1.4 RECOVERY OF NPAS IN PUBLIC AND PRIVATE SECTOR BANKS **(Amount in Rs. Crore)**

Year	Public sector Banks	% increase	Private sector Banks	% increase
1998-99	8,438.00	-	NA	--
1999-00	10,367.00	22.9	NA	--
2000-01	13,628.00	31.5	NA	--
2001-02	13,833.24	1.5	2238.90	--
2002-03	18,452.00	33.38	3686.00	64.63
2003-04	20,685.00	12.1	6156.00	67.01
2004-05	19,080.00	(0.07)	3274.00	(46.82)
2005-06	23040.00	20.75	4320.00	31.95
2006-07	22004.00	(4.5)	3157.00	(26.93)
2007-08	22466.00	2.1	3773.00	19.51
2008-09	26,271.00	16.94	8089.00	114.39

Source: (RBI) Report on Trend and Progress of Banking in India, various issues.

RECOVERY OF NPAS IN PUBLIC AND PRIVATE SECTOR BANKS



CONCLUSION

The NPAs have always been a big worry for the banks in India. It is just not a problem for the banks; they are bad for the economy too. The money locked up in NPAs is not available for productive use and adverse effect on banks' profitability is there. The extent of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. This has led to decline in the level of NPAs of the Indian banking sector. But a lot more needs to be done. The NPAs level of our banks is still high as compared to the international standards. It is highly impossible to have zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard. One cannot ignore the fact that a part of the reduction in NPAs is due to the writing off bad loans by the banks. The Indian banks should take care to ensure that they give loans to creditworthy customers as prevention is always better than cure.

REFERENCES

Banmali O.P.,(2001) "Life Line of Banking New RBI Formula for NPA Recovery" IBA Bulletin
Bhalla V. K. (2001), Financial Management & Policy IInd Edition, Anmol Publications, New Delhi
Bhatia(2007), "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment ",*Icfai Journal of Bank Management, Vol. 6, No. 3, pp. 7-28.*
Bhattacharya, H (2001), '*Banking Strategy, Credit Appraisal & Lending Decisions*', Oxford University Press, New Delhi.
Bloem, A.M., & Goerter, C.N (2001), 'The Macroeconomic Statistical Treatment of Non-Performing loans', Discussion Paper, Statistics Department of the IMF, Decembere1, 2001.
Das, S & Bose, S.K (2005): 'Risk Modelling – A Markovian Approach', The Alternative, Vol.IV, No.1, March 2005, pp 22-27.
Das, A., & Ghosh, S (2003), 'Determinants of Credit Risk', Paper presented at the Conference on Money, Risk and Investment held at Nottingham Trent University, November 2003.
Chakrabarti Anjan ," Dynamics of emerging India's banking sector assets: A simple model", The Journal of Asset Management (2010)
Joshi Hemlata, (2005), "Net NPAs of Public Sector Banks", Journal of Banking and Finance, September.
Kaur Harpreet and Pasricha J. S., (2004) "Management of NPAs in Public Sector Banks" Indian Journal of Commerce, Vol.57, No2.
Krishna A.R.(2008) "An Analysis of NPA in Indian Commercial Banks", Journal of Commerce and Trade Vol. 3. No. 2. October 2008
Prasanna Chandra (1999), Financial Management, Tata McGraw Hill, New Delhi.
Pandey I. M. (2003), Financial Management, Vikas Publication House, New Delhi.
Pate, A P (1999),"Non-Performing Assets – Causes, Consequences and Cures", Management Accountant, November. Reserve Bank of India Bulletin, July, 2006
Rastogi R. P. (2002), Financial Management, Galgotia Publication, New Delhi.
RBI, "Report on Trend and Progress of Banking in India, various issues."
Sharma & Gupta (2001), Financial Management, Kalyani Publication, New Delhi.
Sundharam, K.D.S. and Varshney, P.N. (2000) - Banking, and financial System, Sultan Chand & Sons, Delhi

WEBSITES

http://www. eurojournals.com/MEFE.htm
http://www.rbi.org.in
http://www.scholarsden.org/full-text-papers-upload.html
http://ideas.repec.org/a/icf/icfjbm/v02y2004i2p7-24.html
http://www.oecd.org/dataoecd/41/52/33962292.pdf
http://www.indianjournals.com/ijor.aspx?target=ijor:jmr&volume=7&issue=1&article=004
http://www.palgrave-journals.com/jam/journal/v11/n1/abs/jam20101a.html
http://www.iupindia.in/1005/AN_Trends_and_Challenges_30.html
http://jctindia.org/oct_2008.pdf

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you to supply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mails i.e. **infoijrcm@gmail.com** or **info@ijrcm.org.in** for further improvements in the interest of research.

If you have any queries please feel free to contact us on our E-mail **infoijrcm@gmail.com**.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator