INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,
Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],
Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.
Circulated all over the world & Google has verified that scholars of more than 2022 Cities in 153 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

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We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the area of Computer, Business, Finance, Marketing,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; Management 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 and 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 address: **infoijrcm@gmail.com**.

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION**:

DATED: _____________

THE EDITOR
IJRCM

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

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

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 elsewhere.

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

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:

a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

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

3. **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.

4. **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. Abbreviations must be mentioned in full.

5. **KEYWORDS:** Abstract must be followed by a 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.

6. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. 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 every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

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 follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES & TABLES**: These should be simple, crystal clear, centered, separately numbered & self explained, and **titles must be above the table/figure**. **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. 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 the 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, Nigeria.

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.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

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

DR. SAMBHAV GARG
FACULTY
M. M. INSTITUTE OF MANAGEMENT
MAHARISHI MARKANDESHWAR UNIVERSITY
MULLANA
Email: jaisiyaramki@gmail.com
Voice: +91-9996009890

PRIYA JINDAL
LECTURER
DEPARTMENT OF HUMANITIES & SOCIAL SCIENCES
M. M. INSTITUTE OF ENGINEERING
MAHARISHI MARKANDESHWAR UNIVERSITY
MULLANA

DR. BHAVET
FACULTY
M M INSTITUTE OF MANAGEMENT
MAHARISHI MARKANDESHWAR UNIVERSITY
MULLANA
Email: bhavetgarg@gmail.com
Voice: +91-9896989571

ABSTRACT

Today the Indian banking system has witnessed a significant change in line with financial sector reforms, adopting international best practices. Several prudential payments, integrating and provisioning norms have been setup and these are shaping up the banks to improve efficiency and trimming down NPAs to improve the financial situation in the banking system. Non- performing assets are a major issue and challenge for banking industry in India. Non –performing Assets threaten the stability and impact bank's profitability through a loss of interest income, write-off the principal loan amount. RBI had issued guidelines in 1993 based on recommendations of the Narasimham Committee that mandated the identification and reduction of NPAs to be treated as a national priority because NPA are directly linked towards the credit risk that a bank faces and it impact its efficiency in allocating resources. Apart from this, NPAs affect profitability as well. Since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provision against bad loans. Therefore, the problem of NPAs is not the concern of the lenders alone but is, indeed, a concern for policy makers as well involved in accelerating the economic growth. In recent years financial reforms led by RBI have helped to bring down the level of NPAs and have achieved little success in terms of recovery and up gradation of the existing NPAs. The present study highlights that the problems of NPAs are more serious in Public Sector Banks than Private Sector Banks. Reduction of NPAs in banking sector should be treated as a national priority to make the Indian banking system more strong and resilient.

KEYWORDS

NPA, Public Sector Banks, Private Sector Banks, Financial reforms.

INTRODUCTION

NPAs IN BANKING SECTORS

NPAs the three letters create terror in banking sector and business circle . NPA stands for "Non Performing Asset". The NPA simply indicates that: when interest or other due to a bank remains unpaid for duration of more than 90 days, the loan amount automatically turns into a non performing asset. The loan's recovery has always been giant problem for banks and financial institution. We need to find the ways to decrease NPAs and categories the factors responsible for NPA and then find way outs.

The core banking business is to mobilize the deposits and to utilize it for lending. Lending business transfers funds for the productive purposes which is must for economic growth. The debtor borrows the funds from the bank in the form of credit and pays back the principle amount with the interest (profit for lender) and again this profit is reinvested leading economic growth. However lending goes with credit risk, arising from the failure of borrower to meet 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 reflect a degree of risk that many investors could neither resist nor welcome.

The Financial companies and institutions are now a day's facing a challenge of managing the Non Performing Assets (NPA) as these assets prove to become a major setback for the growth of the economy. Undoubtedly, the world economy is undergoing recession. Globally stock markets have fluctuated and business itself is getting harder to do with the simple reason that the bank's (creditor) money gets blocked. Under such a situation, banks are bound to face the heat of a global crisis.

NARASIMHAN COMMITTEE RECOMMENDATION FOR NPAs

Narasimhan Committee found NPAs as one of the possible cause for the mal-functioning of the Public Sector Banks. It mandated for the banks to develop their branch network after nationalization to raise the savings and extend their credit facility to the agricultural, priority sectors and SSI sectors. This system has been achieved very well. While the before 1990's and focus has altered in the direction of improving quality of assets and better risk management. The focused lending approach has given way to market focused exercises. It suggested prudential norms on income recognition, asset classification and provisioning. Narasimhan Committee mandated it for the banks publish the NPAs magnitude such as advances, overdrafts and cash credit etc. every year in their Balance sheet for any amount due for 180 days.

IMPACT OF NPAs ON BANKS

PROFITABILITY

NPA means money getting blocked and turning into a bad debt, which occurred due to incorrect selection of client. The profitability of the bank is generally affected by NPAs as banks have to keep some amount to cover up for the loss caused by NPA. It is because of this provision for NPAs the bank write off the bad debts or NPAs account from the current profit earned. It has an adverse impact on returns on investments along with the opportunity cost that if the same money would be invested in other assets would give the banks attractive returns. So NPA doesn't affect only the current profit but also the profits to be earned at later stages which may lead to loss of long-term beneficial opportunities. Another impact of reduction in profitability is low ROI (return on investment), adversely affecting current earning of banks.

LIQUIDITY

Money getting blocked decreases profit leading to lack of sufficient cash at hand which lead to borrowing money for short period of time.

STATEMENT OF THE PROBLEM

Credit is like taking the paste out of a tooth paste tube, but its recovery is as difficult as putting that paste back in to the tube. That is the reason why good money lent, sometimes becomes bad and doubtful, in the banking terminology it is called as Non-Performing Asset. NPA are like burden, which causes in convenience to the Banking sector. Ever increasing NPAs have a direct impact on profitability, liquidity and solvency. Since Indian banking industry is largely dominated by Public sector banks with almost two third shares of total advances in the economy. It is facing an acute problem with regard to NPAs. There is a need to manage the ever increasing level of NPAs. Keeping this issue in view the present Study has been undertaken.

REVIEW OF LITERATURE

In the context of banking sector, Non-performing assets have been studied and keenly observed by plenty of researchers, a synoptic review of the relevant literature on the topic of NPAs has been described as under.

Basavaraj.G.Bhavi, (1990), a teacher fellow, conducted a study on Assessment of Regional rural banks credit on target groups- A case study of Krishna Grameena Bank. The essential objective of the study is to Banks credit on target groups in terms, Formation of assets, and to examine the extent of repayment of loan and overdue position and reasons for over dues. **Bhatacharya (2002),** studied NPA management of banks and stated that surest way of containing NPAs is to prevent their occurrence. He offered suggestion on proper risk management, strong and effective credit monitoring, co-operative working relationship between banks and borrower etc should be tenets of NPA management policy. **Ramkrishna and Bhargavi (2004),** study on Non- performing asset management, found that the asset quality of commercial banks has improved considerably due to bringing in the reform packages. **C.Chandrakant, (2007),** conducted a study on Non -performing assets in Karnataka State financial Corporation – A case study of Gulbarga Division. The main objective of the study was to assess the impact of NPA. And he suggested that better credit risk management will be an effective tool in resolving the issue NPAs. **Ashok Khurana and Mandeep Singh (2009)** stated that issue of mounting NPAs is a challenging to public to public sector banks. The study found that the asset wise classification of PSBs is in right direction and there is significant variation in the recovery of NPAs in the different sector. The research observed that PSBs should not be loaded with the twin object of profitability and social welfare.

OBJECTIVES OF THE STUDY

The banking sector is striving very hard to nullify NPAs; in fact it is the level of NPAs that to a great extent determines its financial health. Hence the following objectives have been set up for our study.

1. To study the trend of NPA level of Public sector banks and Private Sector banks in India.
2. To highlight the NPAs position of Public sector banks and Private Sector banks.
3. To focus on sector wise NPAs and determine depth of it.
4. To analyze the impact of non-performing assets on the profitability of banks.
5. To evaluate the impact of non-performing assets on profitability with other variables.

HYPOTHESIS OF THE STUDY

1. H0: There is no significant relation between profits & NPAs of Public Sector banks for the last 5 years.
   H1: There is significant relation between profits & NPAs of Public Sector banks for the last 5 years.
2. H0: There is no significant relation between profits & NPAs of Private Sector banks for the last 5 years.
   H1: There is significant relation between profits & NPAs of Private Sector banks for the last 5 years.

RESEARCH METHODOLOGY

PERIOD OF STUDY

The post- reform period of five years has been taken for measuring the impact of NPAs on banking sector. The years selected for analysis are 2007-2011.

SAMPLE- SIZE

The study is based on Public sector banks and Private Banks Group.

DATA COLLECTION

The study is primarily based on secondary data. A major part of the database has been drawn from the published secondary sources, primarily the reports of Indian Bankers Association (IBA) and the Reserve Bank of India (RBI). The data relating to NPAs of the public sector banks and Private sector banks has been obtained from various sources like "Financial Analysis of Banks" brought by Indian Banker's Association, "Statistical Tables Relating to Banks of India". "Reserve Bank of India Monthly Bulletin", "Report on currency and Finance" and other publications of Reserve Bank of India.

DATA ANALYSIS

The following accounting, statistical and diagrammatic techniques are used:

(A) Accounting techniques-(1) Comparative statement analysis (2) Ratio analysis

(B) Statistical techniques- (1) Mean (x), (2) Standard Deviation (3) Coefficient of Variation (C.V.) (in percentage)

(C) Diagrammatic and Graphic Presentation of Data- Diagrams and graphs are exhibiting the data in sample, comprehensible and intelligible form.

ANALYSIS AND DISCUSSION

1. GROSS NPAs AND NET NPAs

Gross NPAs are the sum total of all loans assets classified as NPAs as per RBI guidelines. Gross NPA shows the nature of the loans made by banks. It includes of all the Non- Standard assets like Sub- Standard, Doubtful and Loss assets. It can be understood with the help of the following ratio.

Gross NPAs ratio = Gross NPAs/Gross Advances.

Net NPAs is the provision which the bank has deducted regarding NPAs .Net NPAs show the actual burden on banks. In India, bank balance sheets contain a huge amount of NPAs and the process of recovery and writting off of loans is very time consuming. The provisions the banks need to set up against the NPAs according to the RBI guidelines, are quite significant. Hence, the difference between Gross and Net NPAs is alarming. It can be calculated as under.

Net NPAs =Gross NPAs- Provisions/Gross Advances- Provisions

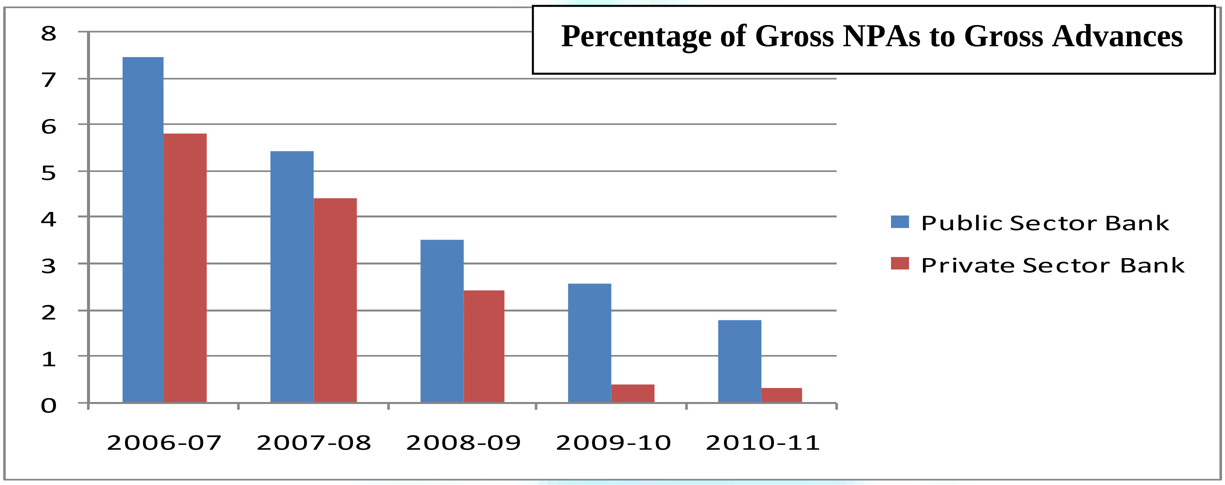
TABLE 1: GROSS AND NET NPAs OF PUBLIC AND PRIVATE SECTOR BANKS

	% of Gross NPAs to Gross Advances		% of Net NPAs to Net Advances	
Years	Public Sector Bank	Private Sector Bank	Public Sector Bank	Private Sector Bank
2006-07	7.49	5.84	2.95	2.42
2007-08	5.46	4.44	2.03	2.20
2008-09	3.53	2.45	1.27	1.01
2009-10	2.61	0.41	0.71	0.44
2010-11	1.82	0.32	0.52	0.26
Average	4.182	2.692	1.496	1.266
Standard Dev.	2.294	2.44	1.002	0.995
C.V	.55	.91	.67	.79

Source: Data calculated from Statistical Tables Relating to Banks in India, R.B.I., and Mumbai Issues of relevant years.

GRAPHICAL PRESENTATION OF ABOVE FINDINGS

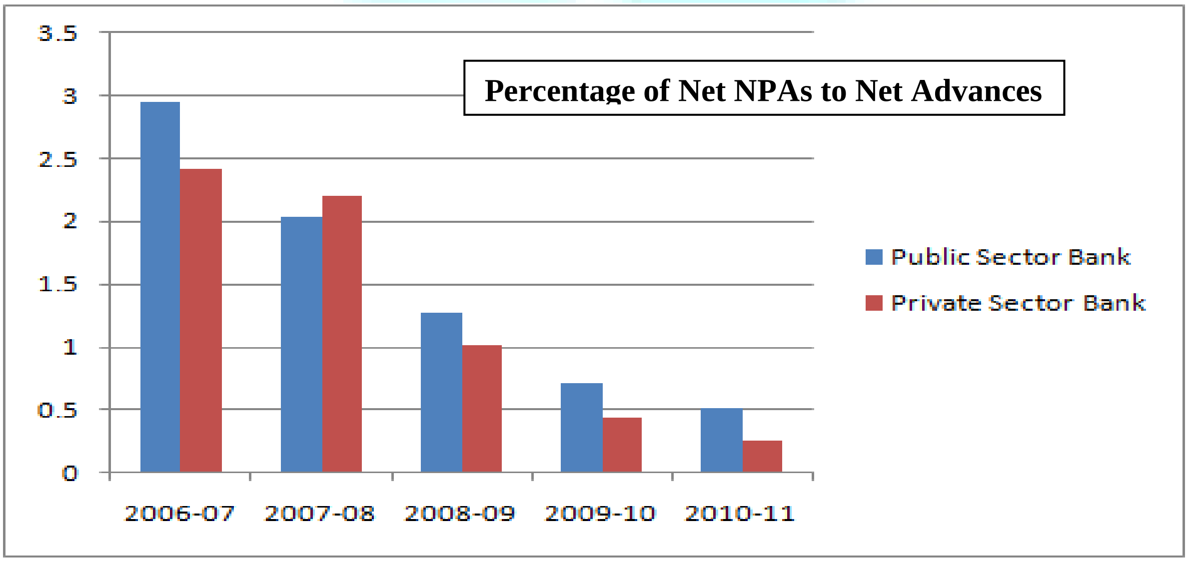
FIG. 1



PERCENTAGE OF GROSS NPAs TO GROSS ADVANCES

An analysis of this ratio reveals that the Public sector Banks group varied between 7.49 per cent in 2006-2007 and 1.82 per cent in 2010 - 2011. The average of this ratio was worked out at 4.182 per cent over the period of study. Among Private sector group, this ratio was minimum (0.32 per cent) during 2010-2011 and maximum (5.84 per cent) during 2006-2007.The private banks group witnessed an average ratio of 2.69 per cent over the study period. The least variability in the ratio in terms of dispersion was found.

FIG. 2



PERCENTAGE OF NET NPAs TO NET ADVANCES

An analysis of this ratio reveals that the Public sector bank's group varied between 2.95 per cent in 2006-2007 and 0.52 per cent in 2010 - 2011. The average of this ratio was worked out at 1.496 per cent over the period of study. Among this group, this ratio was minimum (0.52 per cent) during 2010-2011 and maximum (2.95 per cent) for during 2006-2007.

The Private Sector Banks group witnessed an average ratio of 1.266 per cent over the study period. This ratio varied between 2.42 per cent in 2006 - 2007 and 0.26 per cent in 2010-2011. The least variability in the ratio in terms of dispersion was found. Thus, it can be inferred that Public sector bank group & Private Bank group invested largely in Government securities during the period under study.

2. ASSETS CLASSIFICATION

All Advances should be classified into the following four categories.

Standard Assets: Standard Assets is one, which does not disclose any problem and which does not have more than usual risks attached to the business. Such Assets are a Performing Assets. Substandard Assets: With effect from 31st March 2005, a substandard assets is one, which has remained NPA for less than or equal to 12 months. Doubtful Assets: With effect from 31st March 2005, an asset needs to be classified as doubtful if it has remained NPA for a period more than 12 months. Loss Assets: A loss assets is the assets where banks internal or external auditors or the RBI inspection identifies the loss but the amount has not been written off wholly.

TABLE 2 (A): CLASSIFICATION OF LOAN ASSETS OF PUBLIC SECTOR BANKS

Years/Banks	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets		Total Advances	
Public Sector Banks	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2006-07	1335175	97.19	14147	1.03	19944	1.45	4510	0.33	1373777	100
2007-08	1656585	97.66	16870	0.99	19167	1.13	3712	0.22	1696333	100
2008-09	2059725	97.91	19521	0.93	20715	0.98	3803	0.18	2103763	100
2009-10	2462030	97.73	27688	1.10	24685	0.98	4928	0.20	2519331	100
2010-11	3008757	97.90	33614	1.1	31919	1.0	5514	0.20	3079804	100
Average	2104454		22368		23286		4493		2154602	
Standard Dev.	659546		8073		5273		761		672924	
C.V	0.313		0.36		0.23		0.17		0.313	

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI

TABLE 2 (B): CLASSIFICATION OF LOAN ASSETS OF PRIVATE SECTOR BANKS

Years/Banks	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets		Total Advances	
Private Sector Banks	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2006-07	382630	97.64	4368	1.11	3930	1.00	941	0.24	391869	100
2007-08	459369	97.25	7280	1.54	4452	0.94	1244	0.26	472345	100
2008-09	502768	96.75	10526	2.03	5017	0.97	1345	0.26	519655	100
2009-10	567207	97.03	8676	1.48	6542	1.12	2166	0.97	584591	100
2010-11	714338	97.50	4398	0.6	10735	1.50	2839	0.40	732310	100
Average	525263		7050		6135		1707		540154	
Standard Dev.	125201		2693		2751		779		128360	
C.V	0.24		0.38		0.49		.46		0.24	

Source: Off-site returns (domestic) of banks, Department of Banking Supervision, RBI

In **Table 2 (A) & 2 (B)** all Advances are classified into the four categories, taking into the degree of weakness and extent of dependence of security for realization of dues.

Table 2 (A) Classification of loan assets of Public Sector Banks shows that the percentage of Standard Assets is more in total Advances nearly about 97%.In Public Sector Banks the Average of Doubtful Assets is more than the Average of Sub-Standard Assets & Loss Assets. It tells that Public Sector Banks have characteristic by the weaknesses in collection or liquidation of outstanding dues in full on the basis of current facts, conditions and values which are questionable and almost impossible.

Table2 (B): Classification of loan assets of Private Sector Banks shows that Average of Sub-Standard Assets in Total Advances is more i.e.7050 crore followed by the Average of Doubtful Assets 6135.2 crore. It shows the credit weaknesses of Private Sector Banks that hinders the liquidation of the debt and are characterized by the probability that the Banks will face some losses, if deficiencies are not corrected.

3. SECTOR – WISE COMPOSITION OF NPAs OF BANKS

Distribution of Gross NPAs of Banks should be classified into different sectors i.e. Priority sector, Public sector and Non- Priority sector for the period 2007-2011.So far the focus of attention of the Indian banking industry has largely been extending finance to agriculture and manufacturing sectors covering small, medium and large industries. But now banks should capture services sector also. Through IT, banks therefore, have to sharpen their credit assessment skills and lay more emphasis in providing finance to the wide range of activities in the services sector.

TABLE 3 (A): COMPOSITION OF NPAs OF PUBLIC SECTOR BANKS

Years/Banks	Priority Sector		Non-Priority Sector		Public Sector		Total Amount	
Public Sector Banks	Amount	%	Amount	%	Amount	%	Amount	%
2006-07	22954	59.46	15158	39.27	490	1.27	38602	100
2007-08	25287	63.62	14163	35.63	299	0.75	39749	100
2008-09	24318	55.21	19251	43.71	474	1.08	44042	100
2009-10	30848	53.83	25929	45.25	524	0.91	57301	100
2010-11	41245	58.05	29524	41.56	278	0.390	71047	100
Average	28930		20850		413		50148	
Standard Dev.	7510		6721		115		13844	
C.V	0.26		0.32		0.28		0.28	

Sources: Off- Site returns (domestic)-Latest updated database, Division of banking Supervision, RBI

It is visible from the Table 3(A) that major chunk of NPAs came from priority-sector as well as Non-Priority Sector. In priority sector Gross NPAs showed a declining trend from 2007 onwards but it started increasing again 2008 &2011. This may be due to the implementation of the one-time settlement scheme for small and marginal farmers. In Non-Priority Sector Gross NPAs showed an increasing trend during study period. The share of Public sector with regard to NPAs has been negligible and declined from 1.27% in 2007 to 0.390% in 2011.

TABLE 3 (B): COMPOSITION OF NPAs OF PRIVATE SECTOR BANKS

Years/Banks	Priority Sector		Non-Priority Sector		Public Sector		Total Amount	
Private Sector Banks	Amount	%	Amount	%	Amount	%	Amount	%
2006-07	2284	29.17	5541	.71	4	.0005	7829	100
2007-08	2884	.313	6321.51	.69	2.79	.0003	9208.3	100
2008-09	3419	.26	9557	.74	.01	-----	12976.01	100
2009-10	3640	0.22	13172	.78	.75	----	16812.75	100
2010-11	4120	.21	15416	.79	.55	-----	19536.55	100
Average	3270		10002		1.62		13273	
Standard Dev.	708		4272		1.7		4950	
C.V	0.22		0.43		1.05		0.37	

Sources: Off- Site returns (domestic)-Latest updated database, Division of banking Supervision, RBI.

Table 3 (B) shows the sector wise distribution of Gross NPAs in Private sector banks. It is visible from the table that the share of non-priority sector has been much higher as compared to other two sectors i.e. priority sector and public sector. On the other hand, public sector contributed very negligible proportion ranging between 0 to 2% in total NPAs. The proportion of non-priority sector increased significantly from 70.8% in 2007 to 82% in 2011. The proportion of priority sector in gross NPAs has been declining in Private sector banks and has also been lesser as compared to Public sector banks.

4. HYPOTHESIS TESTING (t-TEST)

t- Test is used to identify the relations between two variables. The variables in our study are Net NPA and Net Profit.

HYPOTHESIS TESTING OF PUBLIC SECTOR BANKS

	NPA	Profits
Year	X	Y
2007	15145	20152
2008	17836	26592
2009	21155	34392
2010	29644	39257
2011	36071	44901
Total	119851	165294
mean	23970	33058
S.D	8689.92	9859.48
C.V	36.25	29.82

$$t = \frac{\bar{X}1 - \bar{X}2}{\sqrt{\frac{(N1-1)\sigma^2 s1 + (N2-1)\sigma^2 s2}{N1+N2-2}} * \sqrt{\frac{1}{N1} + \frac{1}{N2}}}$$

Degrees of Freedom= (n1+n2-2) =5+5-2=10

As H0 is two sided, we shall apply a two- tailed test for determining the rejection regions at 5 percent level which come to as under, using table of t-distribution for 10 degrees of freedom the value is 2.228.

The observed value of t is-2500 which falls in the rejection region and thus, we reject H0 and concluded that there is a significant relationship between Net Profits and NPAs of Public Sector Banks.

HYPOTHESIS TESTING OF PRIVATE SECTOR BANKS

	NPA	Profits
Year	X	Y
2007	4028	6468
2008	5647	9521
2009	7411	10865
2010	6505	13111
2011	4431	17712
Total	28022	57677
mean	5604.4	11535
S.D	1408.77	4207.69
C.V	25.14	36.48

$$t = \frac{\bar{X}1 - \bar{X}2}{\sqrt{\frac{(N1-1)\sigma^2 s1 + (N2-1)\sigma^2 s2}{N1+N2-2}} * \sqrt{\frac{1}{N1} + \frac{1}{N2}}}$$

Degrees of Freedom= (n1+n2-2) =5+5-2=10

As H0 is two sided, we shall apply a two- tailed test for determining the rejection regions at 5 percent level which come to as under, using table of t-distribution for 10 degrees of freedom the value is 2.228.

The observed value of t= -1690.59 is which falls in the rejection region and thus, we reject H0 and concluded that there is a significant relationship between Net Profits and NPAs of Private Sector Banks.

INTERPRETATION

- There is significant relation between Net profit and Net NPA of Public Sector banks and Private sector banks.
- Net Profit consists of income earned by the banks. Income is divided into two parts interest income & other income. Interest income includes interest/Discount on advances/bill, income on investments, interest on balances with RBI and other interbank funds. While non- interest income includes fee income components such as commission, brokerage and exchange transactions, sale of investments, corporate finance transactions and any other income other than the interest income generated by the bank. But in interest income, income from interest/Discount on advances/ bill is the major contributor towards NPA.
- Public sector banks depend excessively on their interest income as compared to their peers in the Private sector and their fee- based earnings from services remain quite low.

FACTORS FOR RISE IN NPAs

The banking sector is facing the challenge of rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks.

- **INEFFECTIVE RECOVERY TRIBUNAL**

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

- **WILLFUL DEFAULTS**

There are borrowers who are able to pay back loans but are intentionally doing not pay back it. Such borrowers should be identified and proper measures should be taken in order to get back the money lended to them as advances and loans.

- **NATURAL CALAMITIES**

This is a major factor, creating alarming rise in NPAs of the PSBs. even now and then India is hit by major natural calamities making it difficult for the borrowers to pay back their loans. Thus the banks have to make provisions in order to compensate those loans, to meet this fiscal deficit with a reduced profit. Indian agriculture depends on monsoon. Due to irregularities of rain fall the framers may or may not achieve the production level thus they may or may not be able for repayment of the loans.

- **INDUSTRIAL SICKNESS**

Improper project handling, ineffective management, lack of adequate resources, lack of advance technology, changing govt. Policies give birth to industrial sickness. Hence the banks financing those industries 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 inventory thus making it more difficult to pay back the money they borrow to operate these activities. The banks recover the amount by selling off their assets, which covers a minimum level. Thus the banks calculate the non recovered part as NPAs and have to make provision for it.

- **CHANGING GOVERNMENT POLICIES**

Every Govt. introduces new policies for the banking sector. Thus it has to cope with the changing principles and policies for the regulation of the rising of NPAs. The fall out of handloom sector is continuing as most of the weavers Co-operative societies have become defunct because of withdrawal of state patronage. The rehabilitation plans created by the Central govt. to revive and boost up the handloom sector has not yet been implemented. So the over dues due to the handloom sectors are becoming NPAs

SUGGESTIONS FOR REDUCTION OF NPAs

- It is the onus on the concerned bank which has given the loan to tackle the problem of NPA. Therefore the recommendations of Narasimham Committee which suggested that the asset management companies or asset reconstruction fund must redress the NPAs to be reviewed.
- A strong Banker-Borrower relationship should be improved. Forceful recovery by the banks, which is against corporate. Debt recovery will be much easier in a friendly atmosphere.
- Supporting the borrowers in developing his entrepreneurial skills will establish a good relation between the borrowers and the banks. But also help the bankers to maintain a track of their resources.
- Commercial Banks should be allowed to come up with their own method to address the problem of NPAs. It includes surrendering and reducing the principle and interest on such loans, extending the loans, or settling the loan accounts. They should be fully authorized to apply all the privileged policies granted to the asset management companies.
- Another way to manage the NPAs by the banks is Compromise Settlement Schemes or One Time Settlement Schemes. Under these situations, it is necessary to bring more simplicity in such deals so that any mistake could be removed.

CONCLUSION

Banking Sector is the back-bone of the Indian Economy and it is being adversely impacted by the levels of NPAs. It impacts Indian Economy as well. The reasons found in the study are industrial challenges, responsibilities of Govt. towards the priority sector being a welfare state and operational costs of the banks. Non – performance of recovery procedure has also boosted the issue. It can be concluded that a dynamic frame work is much needed to find the solution. A more vibrant approach is required while distributing loans. Public & Employee Forums can be established to find the ways for more effective recovery procedures because if Non- performing Assets go beyond control it may turn the whole bank into a Non- performing Bank. It is high time to pull up the socks to curb NPAs and see that the Non-Performing Assets do not turn the banks into Non-Performing Banks; but steps should be taken to convert Non-Performing Assets into Performing Assets.

REFERENCES

1. Dr. Ashok Khurana and Dr.Mandeep singh, NPA management: A study of new private Sector Banks in India, Indian journal of finance, September 2010
2. Dr. Jaynal Ud-din Ahmed, The Management Accountant, Management of non- performing assets of Commercial Banks in India, June 2009.
3. Dr. K.Rajender, Management of non- performing assets in public sector banks. The Indian Journal of commerce, January-March 2009.
4. Dr. Vibha Jain, “Non performing assets in Commercial banks”, Google books 2007.
5. Parameshwaran, R, and Natarajan, S, “Indian Banking” Sultan Chand and Sons, 2002.
6. R.K. Bharadwaj, Chetya Anuradha R, Majumdar kakali, “Quantitative Techniques for Business Managers” Himalaya publication 2009.
7. Report on Trends and Progress in Banking 2006-07 to 2010-11.
8. Reserve Bank of India Reports, 2006-07 to 2010-11.
9. Shalu Rani (2011), “ a study on NPAs with Special reference to SCBs of India,RMS journal ofmanagement &IT,vol. 5,june,pp. 60-68.
10. Singla, H. K. (2008): Financial Performance of Banks in India, the ICFAI Journal of Bank Management, 7 (1): 50-62.
11. Subharao, P, “principles and practice of Bank Management”, Himalaya publication 1988.
12. T.V. Gopalkrishna, Management of non -performing assets a study with reference to public sector banks in India, Indian Institute of Banking and Finance, Google books, 2004.

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, Economics 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-mail **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

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals