

ANALYSIS AMONG VARIOUS REASONS OF NPAs IN PUBLIC AND PRIVATE SECTOR (BANKS OF RAJASTHAN)

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ABSTRACT

Financial performance of banks heavily relies on the recovery of loan. It should be complete and on time. If delay occurs, the problem arises in the circulation of capital and the capital formation suffers. The flow of money in the market also disrupts so proper check need to be maintained by the banks on non performing assets so that capital formation process may not get hampered. It is considered that NPAs in bank varies from city to city. It is also considered that reasons of NPAs vary from nationalized to private & other banks. Different policy need to be developed and maintained for different cities and different banks. To investigate this phenomenon this study was conducted at four cities of Rajasthan namely Pali, Sirohi, Jodhpur and Udaipur. An effort was made to ascertain whether there is any significant difference in the reasons of NPAs in these four cities and in the categories of banks.

Key words: Non Performing Assets, Different Cities, Nationalized banks and Private Banks

1. Introduction:

Non Performing Assets (NPAs) are loans or advances for which the principal or interest payment remain unpaid/ overdue for a period of 90 days. NPAs are further classified into three categories namely substandard, doubtful and loss assets.

Assets which remain NPAs for a period of less than or equal to 12 months are categorized as substandard assets.

An asset would be is classified as doubtful assets, if it remain in the substandard category for a period of 12 months. As per Reserve Bank of India loss asset is 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.

Non-performing assets create the problems related to liquidity and reduces the profitability of banks. Banking sector in Rajasthan is also not an exception which is suffering from this problem of NPAs. NPAs reflects the status of health of trade and industry in the state. Default in payments generally occurs when there is slowdown. To assess the overall scenario of non-performing assets and their related reasons in different cities 6 banks from different sectors were chosen for this study.

2. Review of Literature :

Meenakshi and Mahesh (2010) in a study of NPAs in banking sector; stated that non-performing assets or non performing loans (NPLs) are not just the problem of India it is the global problem. In the year 2003 Japan was at the first position with NPL of 330 billion US dollar which was 25% of the global NPLs, China was at the second position with NPL of 307 billion US dollar which was 23.60% of the global NPLs and India was at 4th position with NPLs of 30 billion US dollar which was 2.30 % of the global NPLs. It shows every nation need to combat with this problem of non-performing assets and loans. It is not just the India which is having this problem world is having NPLs of 1300 billion US dollar. Collective efforts and effective extradition treaties need to be made for the big corporate defaulters.

Kaur K. and Singh B. (2011) In an analytical and comparative study of private and nationalized banks, they found NPAs are important and need to controlled to keep the banks viable. For the financial stability and growth it is essential that NPAs are checked.

Jain, Rathi and Sharma (2012) NPAs affect capital adequacy, liquidity, return on investment, cost of capital and dividend policy of banks. It has a cascading effect that ruins the whole system and leads to disaster.

H. S., S. (2013) Effective post disbursement supervision and vigilance are required to contain NPAs rising in commercial banks. Adequate preventive measures are to followed strictly and should never be overlooked in any condition.

Pallab Sikdar and Munish Makkad (2013) Systematic, diligent and scrupulous credit assessment and risk management can resolve the problem of NPAs. In a

rate of increasing lending leads to NPAs. Appropriate credit appraisal and judgment of creditworthiness can minimize this problem.

Abhay Jaiswal (2016) did a comparative study between State Bank of India and ICICI Bank. He found that the market value and the returns on SBI share are higher in the stock market whereas the NPAs management and the provisions are better in ICICI Bank. There are few other reasons not just the NPA which is contributing to the low dividend to the shareholders of ICICI Bank.

Rathore D.S. et al. (2016) Assets that produce income for the banks are known as performing assets while those do not generate income are known as non performing assets. By the year 2015 NPAs of public sector banks were Rs. 3.61 lakh.

Ankit Garg (2016) early recognition of the problem with borrower can stop turning loan into NPAs. If timely recovery or rehabilitation actions are initiated, problem will not aggravate. Non-serious and non committed borrowers need to be identified timely for timely recovery.

Ujjwal and Jayant (2017) NPAs leads to low productivity and profitability of the banks. When recovery system of the bank is weak NPAs grows and it needs to be controlled & reduced to stabilize the economy. Public sector banks in India generate more and NPAs than private sector banks so special attention is required in management of risk analysis, market analysis, industry analysis and liquidity analysis. Recovery of default loan takes lot of time because of legal procedure. It is very difficult to take the possession of property of any defaulter quickly; it takes lot of time through the lawyers.

G.Syamala Rao et al. (2018) Getting proactive in selection of viable borrowers, speedy recovery from big borrowers is very important as in most of the cases big business organizations are causing most of the NPAs.

Veena and Pathi (2018) study the pre and post merger status of NPAs in ICICI Bank. It was found that NPAs increased after the merger. Bank's pre merger and post merger performance was not significantly different but the NPAs increased considerably. ICICI Bank needs to work more vehemently on the loan recovery. Care should be taken on corporate and non corporate lending because both are causing NPAs.

3. Objectives :

- i. To find difference among cities relating to the reasons of NPAs.
- ii. To find difference in reasons of increase NPAs in public sector, private sector & other banks of Rajasthan.

4. Research Methodology :

Sample Size :

Punjab National Bank and Bank of Baroda were chosen from nationalized banking sector, ICICI bank and Axis Bank were chosen from private banking sector, Central Cooperative Bank and Rajasthan Marudhara Gramin Bank were chosen from other banking sector. To give the whole some picture of the banking sector this wide range of banks were selected purposefully. Opinion of 20 bank executives or managers was collected from each bank from each city so from six banks 120 managers' opinion was the collected at every city namely Udaipur, Pali, Sirohi and Jodhpur. Total 480 respondents opinion related to the reasons of NPAs was collected and further analyzed.

Research Tool:

A well structured questionnaire was used through which the opinion of all the banks managers and executives were collected on point Likert Scale basis i.e. 1 to 5. Their opinion was in fact taken on 12 major reasons of NPAs.

5. Hypothesis:

H_{1,0} There is no significant difference among cities relating to the reasons of NPAs.

H_{1,1} There is significant difference among cities relating to the reasons of NPAs.

H_{2,0} There is no significant difference in reasons of increase NPA in public sector, private sector & other banks of Rajasthan.

H_{2,1} There is significant difference in reasons of increase NPA in public sector, private sector & other banks of Rajasthan.

6. Research analysis:

All four city's managers were having the same opinion that marketing weakness is the biggest reason of NPAs. Poor quality management and inadequacy of capital are also the big reason of NPAs in the selected four cities. While the managers unanimously agreed that dependency on few customers is not a big reason of NPAs in these cities.

Table 1: REASONS OF NPAS OF BANKS AT DIFFERENT CITIES OF RAJASTHAN

Reason of NPAs	Udaipur	Pali	Sirohi	Jodhpur	Total Score
Over ambitious Project	308	307	295	324	1234
Dependency on few Customers	212	245	239	219	915
Inadequate Capital	513	472	475	511	1971
Poor working Capital Management	478	471	479	497	1925
Longer Gestation Period	251	243	238	238	970
Poor Quality Management	481	519	511	477	1988
Poor HR Management	467	454	451	475	1847
Unwanted Expenses	452	447	440	448	1787
Poor Credit Collection	305	284	286	310	1185
Misuse of Funds	268	270	295	271	1104
Willful Default	264	242	254	269	1029
Marketing Weakness	504	511	513	505	2033
Average	375.25	372.08	373	378.67	374.75
Percentage	62.54%	62.01%	62.17%	63.11%	62.46%

Overall these 12 reasons related to the borrowers causing NPAs contribute 62.54% at Udaipur, 62.01% at Pali, 62.17% at Sirohi and 63.11% at Jodhpur. So it seems there is no big difference in the reasons of NPAs at these cities. To ascertain whether this difference is statistically significant ANOVA test was done.

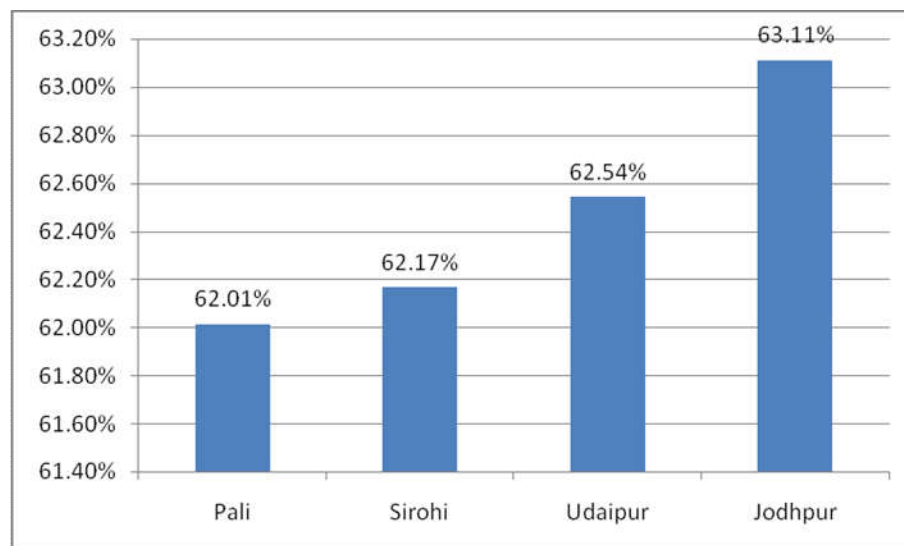
CHART 1: REASONS RELATED TO BORROWER ARE THE CAUSE OF NPAS

Table: 2 ANOVA TEST AMONG CITIES RELATING TO REASONS OF NPAS OF BANKS AT DIFFERENT CITIES OF RAJASTHAN

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	309.167	3	103.056	0.008	0.999
Within Groups	580919.833	44	13202.723		
Total	581229.000	47			

As the calculated value of F 0.008 is less than table value (2.8) at 5% level of significance. Hence it was concluded that there is no significant difference among cities relating to reasons of NPAs so the null hypothesis $H_{1,0}$ is accepted and the alternate hypothesis $H_{1,1}$ is rejected.

Similarly the information related to the reasons of NPAs was collected on five point basis from 160 managers & executives of nationalized banks, 160 managers & executives of private banks and 160 managers & executives of other banks. As per their opinion related to the 12 reasons of NFAs on 5 point scale overall score of all 160 respondents could be from 160 to 800. Out maximum score of 800 respondents given score to each reason of NPAs as ahead in table 3.

Table 3: REASONS OF NPAS IN DIFFERENT BANKS OF RAJASTHAN

Reason of NPAs	Nationalized Banks	Private banks	Other Banks
Over ambitious project	395	408	431
Dependency on few customers	295	284	336
Inadequate capital	658	659	654
Poor working Capital Management	646	641	638
Longer gestation period	313	322	335
Poor quality management	657	664	667
Poor HR management	621	619	607
Unwanted expenses	596	589	602

Poor credit collection	389	402	394
Misuse of funds	366	373	365
Willful default	339	329	361
Marketing weakness	670	684	679

Managers of all three categories of banks were having the same opinion that marketing weakness is the biggest reason of NPAs. Poor quality management and inadequacy of capital are also the big reason of NPAs in every bank. Gravity of reasons of NPAs is almost same in each bank and there is very little difference. To ascertain whether this difference is statistically significant ANOVA test was done.

Table: 4 ANOVA TEST AMONG BANKS RELATING TO REASONS OF NPAS IN RAJASTHAN

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	701.167	2	350.583	0.015	0.985
Within Groups	769178.833	33	23308.449		
Total	769880.000	35			

As the calculated value of F 0.015 is less than table value (2.8) at 5% level of significance. Hence it was concluded that there is no significant difference among increase NPA in public sector, private sector & other banks of Rajasthan so the null hypothesis $H_{2,0}$ is accepted and the alternate hypothesis $H_{2,1}$ is rejected.

7. Finding & Suggestions

The reasons of non-performing assets are not varying from city to city. The reasons of non-performing assets are same in nationalized, private and other banks. These are almost having same level of intensity and problem to different banks. These need to be tackled with due caution and provisions in every city. No policy is required to be

prepared for every other city; same policy rules and regulations can be applied to all cities especially in Rajasthan to combat the NPAs. Nationalized, private and other banks must follow the same strategy to minimize NPAs. The biggest problem is marketing weakness which can be overcome by providing a common cooperative platform to the SMEs and MSMEs so that their product can be visible and marketed comfortably. Borrowers should be made aware of digital marketing tools. Proper follow up and watch on their internal capital adequacy need to be done by the banks so that defaults may not occur and NPAs can be controlled.

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