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NON-PERFORMING ASSETS IN PUBLICS SECTORS BANKS – A PERCEPTION ANALYSIS OF BORROWERS

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Abstract

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 importance of the study lies in its futuristic approach to tackle the problem of NPAs focusing mainly on a viable solution. The solution should strengthen the credit portfolio of banks over a period by removing the present deficiencies observed in the standard of credit appraisal, monitoring and follow-up and improving the overall lending policies of banks..

Keywords: Non-Performing Assets, Public sector Banks, Credit Risk

ISSN PRINT 2319 1775 Online 2320 7876
Research paper Volume 10, Iss 2, 2021

INTRODUCTION:

The economic crises of 1990s gave birth to the new economic macro level thinking to improve the economic health of the Indian economy. Under the regime of liberalization, privatization and globalization (LPG), new competitive strategies emerged and proved to be beneficial for overall economic development of the country. Financial sector reform is one of India's success stories. A major element of the financial sector comprises reform s in the banking sector. Liberalization and globalization policies have posed many challenges for these banks in the new millennium. Some public sector banks are facing very serious problems as their survival has become very difficult in the competitive world.

The problem of Non-Performing Assets (NPAs) is alarming in public sector banks (PSBs) as compared to private sector banks and foreign banks. NPAs of Indian PSBs are considered relatively high by international standards. The bigger ever challenge that the banking industry ever faces is management of NPAs. The Indian banking sector is facing a serious situation, in view of the managing NPAs, in 2019–20, Gross NPAs were 5.8 per cent, which translated to a total NPA of Rs 7.44 lakh crore. The earning capacity of the profitability of manly banks and financial institutions has been adversely affected by the high level of NPAs. Thus, reduction of NPAs is posing the biggest challenge to banks in the Indian economy. NPAs in banks affect their liquidity, profitability and equity

The NPAs in PSBs are growing not only due to external factors like ineffective recovery tribunals, willful defaulters, lack of demand, labor problems, changes in government policies etc. but also internal factors like managerial deficiencies, in appropriate technologies, poor credit appraisal systems improper SWOT analysis, absence of regular industry visits etc. Due to ineffective measures, NPAs will become more and more complex and will affect the banks liquidity and profitability adversely. The public sector banks must minimize the increasing trend of non-performing assets against the recovery position. Against this a backdrop, study of "Management of NPAs" by banks and comparing it with their counterparts in order to find out the grey area of their operation and to suggest the direction in which changes are necessary is of immense importance.

Intricacies of Non-performing Assets

Indian banking, whose environment, till early 90's was insulated from the global contest and dominated by state controls of directed credit delivery, regulated interest rates, and investment structure did not

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Research paper Volume 10, Iss 2, 2021

participate in the vibrant global banking revolution. Continued political interference and the absence of competition led to consequences they were opposite to what was happening in the west. Imperfect accounting standards and opaque balance sheets served as tools for hiding the shortcomings and failed to reveal the gradual deterioration and structural weakness of the country's financial institutions to the public. This enabled the financial institutions to continue to flourish in a deceptive manifestation and false glitter, though stray symptoms of the brewing ailments were discernible.

The turning point came when the country was confronted with unpreadented economic crises, including Balance of Payment crises, in 1990, with India's sovereign rating downgraded. A whole package of reforms was announced to put the economy back on rails, and Indian banking, too, suddenly woke up to the realities of the situation and geared up to face the problems. The government hastily introduced the first phase of reforms in the financial and banking sectors in 1991.This was an effort to quickly restructure the health of the banking system and bridge the gap between Indian and global banking developments. During this decade, the reforms have covered almost every segments of the financial sector with banking, in particular, receiving major attention. Increase in the number of banks due to the entry of new private and foreign banks, increase in the transparency of balance sheets of the banks through the introduction of prudential norms and norms of disclosure, increase in the role of the market forces due to the deregulated interest rates, together with the rapid computerization and application of the benefits of information technology to banking operations, have all significantly influenced the operational environment of the Indian banking sector.

NEED FOR THE STUDY

This study is expected to bring a level playing field for banks and borrowers and all stake holders of banks, particularly the government. Various studies which were conducted on NPA's and some suggestive Micro measures at an individual bank and branch level.

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 Volume 10, Iss 2, 2021

Therefore there is a need to conduct a study on management of NPAs of Schedule Commercial Banks in India including Public Sector Banks, Private Sector and Foreign Banks.

OBJECTIVES OF THE STUDY

The main objective of the study is to evaluate the management of NPAs of Public sector banks in India with special reference to SBI

The other objectives are:

a) to analyze the incidence and trends of Non- performing assets in Indian banking sector in general and the public sector banks in particular.

b) to assess the magnitude and trends of Non-performing assets in State Bank of India

c) to explore the causes cures for Non-performing assets in State Bank of India through the perceptional analysis of the borrowers.

d) to suggest the measures and policy prescriptions for effectively managing Non-performing assets.

HYPOTHESIS OF THE STUDY

The study aimed at testing the following hypothesis on the basis of the data collected for various sources to this research work:

1. Factors influencing the poor performance and financial status of borrowers are correlated.
2. Financial issues cause much for the failure of repaying the loan from the borrowers.
3. Documentary delays are the prime case for the delay in sanctioning the loans.

SCOPE OF THE STUDY

The scope of the study are cover background development of public sector banks in India, banking sector reforms along with focus on the recent development in financial sector. Though the study in general encompasses the evaluation of the schedule commercial banks by groups, the main focus is on public sector banks. The focal emphasize of the study is on the analysis of the trends in the incidence and magnitude of the NPAs in public sector banks, with the special focus on State Bank of India group of banks. No doubt peripherally the overall assessment of non-performing assets in schedule commercial banks in India and the public sector banks is made as the core of the study to explore different dimensions and

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Research paper Volume 10, Iss 2, 2021

causes for the incidence of NPAs in public sector banks with special reference to State Bank of India.

METHODOLOGY

The methodology adopted for the study includes a detailed analysis of secondary data related to NPAs of Scheduled Commercial Banks and a study of primary data on the views and opinions of a sample group of mangers and borrowers. Banks group wise and Bank – wise comparison has been made to examine the difference existing between them through using CAGR and Ratio analysis. The growth rate of the relevant variables has also been found out by using the time series analysis. The survey of primary data is made taking a sample of managers and officials and also the borrowers on random cum convenience sample basis selected from the zone of Visakhapatnam covering four districts of Srikakulam, Vizianagaram, Visakhapatnam and East Godavari Districts in Andhra Pradesh.

SAMPLE SELECTION

The present study has adopted multi-stage sampling technique for selecting the sample of respondents. Initially, for the purpose of sample survey, in the state of Andhra Pradesh consists of East Godavari, Visakhapatnam, Vizianagaram and Srikakulam Districts. Now, each district is assumed as a cluster district and thereby, based on the geographical and demographical diversity of the respondents.

TOOL AND TECHNIQUSE FOR ANALYSIS

For the purpose of analysis and to facilitate interpretation simple statistical tools like percentages, averages, simple growth rate, compound annual growth rates, Garrett ranking method and Pearson Coefficient of Correlation are used.

Statistical tools such as Chi Square test, Reliability test, Kolmogorov- Smirnov test, Friedman's test, and Exploratory factor analysis are used for testing the hypothesis on SPSS for Windows Version 20.0 are used for the purpose of extensive analysis.

Data Analysis of Borrower's Perception:

The present study provides an analysis of the perception of the borrowers of the State Bank of India on various aspects of NPA management and dealing with the problem by the Bank. It starts with throwing light on the socio – economic profile of the select sample of

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Research paper **Volume 10, Iss 2, 2021**

borrowers and goes through various dimensions of the problem of management as perceived by the borrowers.

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Research paper Volume 10, Iss 2, 2021

SUGGESTIONS TO MINIMIZE THE NPAs – Borrowers view
Suggestions Vs Level of Requirement Cross tabulation

S. No	Suggestions	Level of Requirement					Total	Friedman's Mean Ranks	Ranking
		Not at all	To some extent	Moderate	High	Very High			
	Operational Gearing Up Statements								
1	Build and maintain of cordial relations through recovery officers.	38(4.1%) (5.2%)	54 (5.8%) (3.6%)	127 13.7%) (3.6%)	360(38.9%) (5.2%)	346(37.4%) (7.1%)	925 (100.0%) (5.3%)	**11.173**	**IV**
2	Increase working hours of banks, especially for the payment of loan installments.	37(4.0%) (5.1%)	54(5.8%) (3.6%)	129(13.9%) (3.6%)	372(40.2%) (5.3%)	333(36.0%) (6.9%)	925(100.0%) (5.3%)	**11.059**	**VI**
3	Offer loan waivers to small business units on par with farmers and subsidized loan holders.	38(4.1%) (5.2%)	49(5.3%) (3.3%)	116(12.5%) (3.3%)	366(39.6%) (5.3%)	356(38.5%) (7.3%)	925(100.0%) (5.3%)	**11.382**	**I**
4	Loans linked with the SHG schemes with modified interest rates.	42(4.5%) (5.8%	48(5.2%) (3.2%)	142(15.4%) (4.0%)	348(37.6%) (5.0%)	345(37.3%) (7.1%)	925(100.0%) (5.3%)	**11.030**	**VII**
5	Extend Credit Guarantee and Insurance services from a separate agency. Ex: ECGC	38(4.1%) (5.2%)	47(5.1%) (3.2%)	137(14.8%) (3.9%)	381(41.2%) (5.5%)	322(34.8%) (6.6%)	925(100.0%) (5.3%)	**11.008**	**VIII**
6	Government monitoring is required to minimize the harassment of bankers on borrowers.	43(4.6%) (5.9%)	56(6.1%) (3.8%)	133(14.4%) (3.8%)	330(35.7%) (4.7%)	363(39.2%) (7.5%)	925(100.0%) (5.3%)	**11.171**	**V**

ISSN PRINT 2319 1775 Online 2320 7876

 Volume 10, Iss 2, 2021

7	Remove imbalances and priorities during sanctioning and disbursing the loans.	49(5.3%) (6.7%)	47(5.1%) (3.2%)	130(14.1 %) (3.7%)	348(37.6 %) (5.0%)	351(37.9%) (7.2%)	925(100.0%) (5.3%)	**11.174**	**III**
8	Loans must be sanctioned only after due physical inspection of the mortgaged assets.	56(6.1%) (7.7%)	40(4.3%) (2.7%)	147(15.9 %) (4.2%)	388(41.9 %) (5.6%)	294(31.8%) (6.1%)	925(100.0%) (5.3%)	**10.559**	**IX**
9	Use Business Correspondence model for assisting the loan repayment.	40(4.3%) (5.5%)	56(6.1%) (3.8%)	114(12.3 %) (3.2%)	348(37.6 %) (5.0%)	367(39.7%) (7.6%)	925(100.0%) (5.3%)	**11.304**	**II**
	Follow Up and Services Statements								
10	Regular follow-up needed by bank authority	50(5.4%) (6.9%)	121(13.1 %) (8.1%)	254(27.5 %) (7.2%)	356(38.5 %) (5.1%)	144(15.6%) (3.0%)	925(100.0%) (5.3%)	**8.310**	**XIX**
11	Restore the nonfunctioning units.	24(2.6%) (3.3%)	122(13.2 %) (8.2%)	245(26.5 %) (6.9%)	359(38.8 %) (5.2%)	175(18.9%) (3.6%)	925(100.0%) (5.3%)	**9.006**	**XIII**
12	Use of technology to render service such as payment of loan installments and renewal of services.	54(5.8%) (7.4%)	73(7.9%) (4.9%)	241(26.1 %) (6.8%)	398(43.0 %) (5.7%)	159(17.2%) (3.3%)	925(100.0%) (5.3%)	**8.858**	**XVIII**
13	Conduct of loans service camps	26(2.8%) (3.6%)	89 (9.6%) (6.0%)	272(29.4 %) (7.7%)	335(36.2 %) (4.8%)	203 (21.9%) (4.2%)	925(100.0%) (5.3%)	**9.196**	**XII**
	Incentives, Concessions and Considerations Statements								
14	Provide incentives on regular pay and	19(2.1%)	70(7.6%)	225(24.3	466(50.4	145(15.7%	925(100.0%	**9.457**	**XI**

ISSN PRINT 2319 1775 Online 2320 7876

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	removal of processing charges on prepayment of loans	(2.6%)	(4.7%)	%) (6.4%)	%) (6.7%)	) (3.0%)	) (5.3%)		
15	Enhance the loan amount thereby enhancing the availability of finance to the needy	16(1.7%) (2.2%)	140(15.1 %) (9.4%)	218(23.6 %) (6.2%)	371(40.1 %) (5.3%)	180(19.5%) (3.7%)	925(100.0%) (5.3%)	**8.965**	**XIV**
16	Reduce Interest and penal rates and deregulate and should be determined by the lenders based on competitive market forces.	32(3.5%) (4.4%)	141(15.2 %) (9.5%)	256(27.7 %) (7.2%)	269(29.1 %) (3.9%)	227(24.5%) (4.7%)	925(100.0%) (5.3%)	**8.962**	**XV**
17	Reduce complexities in documentation process.	43(4.6%) (5.9%)	107(11.6 %) (7.2%)	234(25.3 %) (6.6%)	371(40.1 %) (5.3%)	170(18.4%) (3.5%)	925(100.0%) (5.3%)	**8.904**	**XVII**
18	Sympathetic consideration of genuine problems of borrowers.	25(2.7%) (3.4%)	91(9.8%) (6.1%)	267(28.9 %) (7.5%)	374(40.4 %) (5.4%)	168(18.2%) (3.5%)	925(100.0%) (5.3%)	**8.932**	**XVI**
19	Accept interchangeability of margin and collateral so as to provide additional liquidity to borrowers.	58(6.3%) (8.0%)	87(9.4%) (5.8%)	154(16.6 %) (4.3%)	420(45.4 %) (6.0%)	206(22.3%) (4.2%)	925(100.0%) (5.3%)	**9.548**	**X**
	Total	728(4.1 %) (100.0%)	1492(8.5 %) (100.0%)	3541(20. 1%) (100.0%)	6960(39. 6%) 1(00.0%)	4854(27.6 %) (100.0%)	17575(100. 0%) (100.0%)		

Note: 1. Figures in side brackets indicate percentage to Row Total

2. Figures in lower brackets indicate percentage to Column Total

Source: Compiled and Computed from Primary Data

ISSN PRINT 2319 1775 Online 2320 7876
Research paper **Volume 10, Iss 2, 2021**

The above table presents the borrowers suggestions to curb the menace of Non – performing Assets of the banks. As can be seen from the table, and form the statements pertaining to operational gearing up an approximately equal number of respondents ie 39.7 percent of respondents suggested to apply the business correspondence model as prescribed by RBI for assisting the loan repayment and vigilance from Government is highly required to minimize the harassment of bankers an borrowers. Offering loan waivers to small business units on par with the farmers & subsidized loan holders is highly demanded by 38.5 percent of respondent while approximately 37.percent of respondents suggested to initiate the steps to remove imbalances and priorities during sanctioning and disbursing loans, build maintain cordial relations through recovery officers and loans to be linked with self-help groups schemes with modified interest ratios.

It is also evident from the table, and from the statements pertaining to follow up and services, conduct of service camps is highly demanded by 21.9 percent of respondents. Form the statements conceding to incentives, concessions & considerations statements, 24.5 percent of respondents suggested to reduce the interest & penal interest and to be determined based on competitive market forces followed by accepting the inter changeability of margin & collateral so as to provide the additional liquidity to the needs (22.3 percent) and to pays of the loan facility to meet the financial needs of the needs (19.5 percent). An equal number of respondents ie 18 percent of respondents suggested considering the genuine problems of borrowers & reducing the complexities in the documentation process.

An observation into the Table presents that most of the statements which are highly ranked under Friderman's mean ranks are under the operation gearing up statement which range between 11.382 and 10.559Friedman's mean rank also highlights the need for offering the loan waivers to small business units on par with the farmers and subsidized loan holders (11.382) which was ranked first followed by use of business correspondence model for assisting the loan repayment (11.304), and removing the in balances & priorities during sanctioning & disbursing loans (11.174).

The suggestions concerning to build and maintain cordial relations with the recovery officers (11.173), the surveillance government to minimize the harassment

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of bankers (11.171) and increasing the working hours banks, especially for the payment of loan installments' (11.059) are placed in fourth , fifth and sixth positions respectively.

Thus from the above analysis it is clearly suggested by the borrowers to enhance the operational competence of the bankers to minimize the means of NPAs following pro-active and customer – centered practices.

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