



A COMPREHENSIVE ANALYSIS OF NON-PERFORMING ASSETS UNDER PRIORITY SECTOR ADVANCES IN INDIA

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ABSTRACT

The causes that affect non-performing assets (NPAs), hinder its effective observance, and recommends appropriate measures to ensure their effective monitoring and control. The banks selected for this research work are having higher NPAs and are top banks in their sector. As per the Global Financial Stability Report of International Monetary Fund, identifying and dealing with distressed assets, and recapitalizing weak but viable institutions and resolving failed institutions are stated as the two of the three important priorities which directly relate to NPAs. This research work finds the reasons for non-performing loans by considering a set of 50 variables and provides the necessary measures. Statistical tool SPSS was used to run the factor analysis test. Sectoral disparities in the NPA ratio to advances in public and private sector banks were the main source of motivation to analyze and compare factors affecting non-performing assets (NPAs) of public and private sector banks in India. Some of the reasons for NPA are lack of frequent interaction or follow-up with borrowers, manipulation of income or financial statement by borrowers, industrial problem and death of earning member of the family.

Keywords: *Non-Performing Assets, Profitability, Banks, Public Sector, Private Sector, Bank Credit*

INTRODUCTION

For any nation, banking system plays a vital role in the development of its sound economy. India is not an exception. Bankers are the custodians and distributors of the liquid capital of the country. The foremost function of the banking system is to mobilize the savings of the people by accepting deposits from the public. The banker becomes the trustee of the surplus balances of the public. Here-in-lies the onerous duty of the banker is in stimulating the mobilization of surpluses. Well - knit banking systems secure a good foundation for a Nation's Industrial and Economic Progress. The role of banking in promoting development and growth, especially in the context of planning to break the vicious cycle of poverty and to retrieve the economy from the trap of under-development is a matter of paramount importance, particularly when our country is on the way of development. Deposit mobilization promotes the economic prosperity by controlling the money circulation and canalizing for development and productive purposes. In order to mobilize deposits, the commercial banks undertake deposit mobilization through various deposit schemes suited to the different sections of the people. As the growth of the bank deposits is the key element in the progress of the banking business, bankers spend more time and man power in the mobilization of deposits. The deposits along with other sources of funds, namely, capital, reserves and borrowings, form the sources of funds for the banks. The lending and investment activities of the bank are based on the sources of funds. It has been argued by a number of economists that a well-developed financial system enables smooth flow of savings and investments and hence, supports economic growth. Banking industry is a major sector of the economy that has achieved renewed focus after financial sector reforms and the entry of

private sector banks. This sector is the foundation of modern economic development. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. In recent times the banks have become very careful in extending loans, the reason being rising non-performing assets. Non-performing assets had been the single largest cause of frustration of the banking sector of India. Amongst the various desirable characteristics of a well-functioning financial system, the maintenance of a few non-performing assets (NPA) is an important one.

LITERATURE REVIEW

Boinapalli Ravindra [2024] This in-depth research explores the ever-changing world of non-performing assets (NPAs) and how they affect the profitability of prestigious Indian public and private sector banks, particularly State Bank of India (SBI), Canara Bank, Axis Bank, and Kotak Mahindra Bank, between 2019 and 2023. Through a rigorous examination of financial data, the study seeks to clarify how non-performing assets (NPAs) and these banks' profitability measures have changed over time, taking into account the different operational frameworks and risk management strategies that are specific to the public and private sectors. This study aims to identify patterns, obstacles, and potential mitigating variables that have influenced the financial performance of SBI, Canara Bank, Axis Bank, and other banks by analysing the trajectory of nonperforming assets (NPAs) and profitability throughout the designated time frame.

Mr. Abhinav Deshmukh [2023] Public Sector banks have been lending to Priority sector, non-priority sector and public sector. The main purpose of differentiation between priority and non-priority sector was that for the economic development, loans can be given to the priority sector to enhance their growth; also the non-priority sector and public sector are important because of the scale of operations. These sectors are important for the growth of the economy. Similarly on the other hand, Public sector banks and the credit which they lend are important for the economic development of the country. The main aim of public sector banks is that the availability of credit is increased. Non-performing assets means the loan has not been repaid in the past 90 days.

Preeti Srivastava [2022] Banks are critical components of every financial system. It is the financial system's backbone in India. The rising nonperforming assets (NPAs) of Indian banks has presented a serious danger to the Indian financial system during the previous five years. The NPAs of Indian banks are anticipated to remain high at 11.5 percent, according to Standard & Poor Global Ratings. NPA is a useful tool for assessing a bank's performance. It is certain that the recent Covid Pandemic has wreaked havoc on not just India, but the whole globe. The rising NPA has had a negative impact on both public and private sector banks in India. According to the findings of this study, public sector banks are more negatively impacted than private sector banks. My research focuses on the Non-Performing Assets Trends and Differences in Selected Indian Public and Private Sector Banks.

Hashim. M [2021] Banks place excessive position on the economic development and social upliftment of the country and the development of the agricultural sector and small enterprises. The lending policy of banks is considered sector wise in two. One is Priority sector lending (PSL) and the other is Non Priority Sector Lending (NPSL). The Non-Performing Asset (NPA) is one of the most detrimental to bank lending. This research study how much NPA is incurred on loans given by public and private sector banks.

Shveta Singh [2020] RBI along with the Government of India has given an essential function to the banks operating in India for supplying a specified portion of the credit to certain sectors deemed crucial for the growth of the necessities of the country called Priority Sector Lending. In this paper, a comparative analysis is done between Priority Sector Non-Performing Assets and Non-Priority Sector NPAs of scheduled commercial banks in India. We have analysed the impact of scheduled commercial bank's lending to priority sector on their NPAs as compared to the non-priority sector. The AAGR is used to study the trend of gross NPAs, Net NPAs and NPAs in priority and non-priority sector. The findings of the investigation reveal that NPAs in government banks are highest among all scheduled commercial banks in India except in the priority sector lending class where NPAs are higher in the private sector. In both priority and non-priority sector NPAs, there is a growing trend, but the percentage share of NPAs in the non-priority sector is rising.

The Concept of NPA

The banks, in their books, have different kind of assets, such as cash in hand, balances with other banks, investment, loans and advances, fixed assets and other assets. The Non-Performing Asset (NPA) concept is restricted to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a "Non-Performing Asset". In other words, a loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission or any other dues for the bank for more than 90 days. A NPA is an advance where payment of interest or repayment of installment on principal or both remains unpaid for a period of two quarters or more and if they have become 'past due'.

Non –Performing Asset- Concept

A Non-Performing Asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained „past due“ for a specified period of time. In India, the definition of NPAs has changed over time, those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest and/or installment of principal remains due for a period of four quarters (180 days) should be considered as NPAs. With an aim of moving towards the international best practices and ensuring greater transparency, a standard criterion of "90 days" overdue norm was fixed for identification of NPA from the FY ending March, 2004 in the Indian financial system.

Priority Sector Analysis

Since Nationalization of major commercial banks in 1969, banking sector has been utilized as a powerful vehicle to carry on the Government's development programmes. The priority sector activities have been given adequate financial assistance through Banks. Among the

20 point programmes announced by the Prime Minister, Mrs. Indira Gandhi, poverty alleviation, creation of employment opportunities, promotion of self-employment, protection and promotion of village and cottage industries, encouraging entrepreneurs and similar socio economic development programmes were given top priority. Thus various employment generation activities, Agricultural development activities and activities related to small Scale industries have been classified under priority sector.

Non-Performing Assets in India

Non-performing resources of banks have turned into a noteworthy worry in India, with a relatively general periodical event of extensive esteem credit defaults/cheats adding to the already humongous levels of NPAs in banks (particularly public sector banks). They are an immediate reflection on the execution of banks. An abnormal state of NPAs influences the gainfulness, total assets, and liquidity of banks, notwithstanding posturing risk on the nature of the benefit and pushing them to the verge of indebtedness. Banks have to make mandatory reserve, which reduces the overall profits and ultimately the market value of shares. The public sector banks provide financial supports and advances to various sectors in the without considering the pros and cons and the possibility of getting back the money advanced and without taking collateral as security. Management of non-performing assets is essential for the stability and development of the banking sector in India.

RESEARCH METHODOLOGY

According to Banking Regulation Act of 1949, Banking means accepting of deposits of money from the public, for the purpose of lending or investment to the third party, repayable on demand or otherwise, and withdrawal by cheque, demand draft, order or otherwise. Banking Company means any company which transacts the business of banking in India (Banking Regulation Act, 1949 (Act No 10 of 1949)). A bank is a financial intermediary that generates credit by lending money to a borrower and thereby creating a corresponding deposit on the balance sheet of bank. Lending activities can be executed either directly or indirectly through capital markets. Due to their importance and influence on national economies, banks are highly regulated and structured in most countries. Most countries have institutionalized a system called as fractional reserve banking under which banks hold liquid assets equal to a portion of their current liabilities. In addition to other regulations intended to safeguard liquidity, banks are generally subject to minimum capital requirements based on a universal set of capital standards and norms, known as the Basel Accords. Banking in its modern sense evolved in the 14th century in the rich cities of Renaissance, Italy. But in many ways banking system was a continuation of thoughts and concepts of credit and lending that had their origins in the ancient world. In the history of banking, a number of banking dynasties — mainly, the Barenberg's, the Medicis, the Walser's, the Rothschild's, and the Fugger's, — have played a dominant role over the centuries. The oldest existing retail bank is Monte dei Paschi di Siena which is in Italy, while the oldest existing merchant bank is Bank of Barenberg, Europe.

RESULT AND DISCUSSIONS

Mounting up of Non-Performing Assets in recent years is one of the foremost and formidable issues that have shaken the entire banking sector. At the Macro level, NPAs have clogged off

the supply line of credit to the potential borrowers, thereby having a negative impact on capital formation and arresting the economic activity in the country. At the Micro level, the unjustifiable level of NPAs has wrinkled the profitability of banks by minimizing interest income and provisioning requirements, besides restricting the recycling of funds contributing to serious asset- liability mismatches.

Summary of Net Npa/Net Advances of Public Sector Banks during the Period 2005-06 to 2014-15

	Public Sector Banks				Total Public	
	SBI & its Associates		Other Nationalised		No of Banks	Percent
	No of Banks	Percent	No of Banks	Percent		
High	-	-	3	15	3	11.54
Moderate	3	50	7	35	10	38.46
Low	3	50	10	50	13	50
Total	6	100	20	100	26	100

Low 0.82-1.46: Moderate-1.47-2.1; High- 2.2-2.73 It has been observed that among the public sector banks, three banks namely United Bank of India, UCO Bank and Central Bank of India are found to be in high category net NPA/net advances with averages 2.73 %, 2.22%, and 2.17 % respectively. 10 banks are found to be in moderate category in which three banks belongs to SBI group and & seven banks are from other nationalised banks.

Net Npa/Net Advances of Sbi & Its Associates

S.No.	Name of the Bank	Avg.	CAGR	Rank
1	State Bank of Hyderabad	1.08	20.06	1
2	State Bank of Travancore	1.38	3.33	2
3	State Bank of Mysore	1.46	11.31	3
4	State Bank of Bikaner & Jaipur	1.51	7.97	4
5	State Bank of Patiala	1.53	14.64	5
6	State Bank of India	1.9	1.21	6
	Average	1.48	9.75	

The quality of credit portfolio in State Bank of India & its Associates. Higher net NPA/net advances reflect the low credit portfolio of banks and vice versa. It can be observed that State Bank of India has got higher net NPA / net advances when compared with all other banks in SBI group with average magnitude 1.9% and growth rate 1.21% over the study period 2005-06 to 2014-15.

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Summary of Net Npa/Net Advances of Sbi & Its Associates during the Period 2005-06 To 2014-15

	SBI & its Associates	
	No of Banks	Percent
High	1	16.67
Moderate	4	66.67
Low	1	16.67
Total	6	100

Low 1.08-1.35; Moderate 1.36-1.62; High 1.63-1.9

It has been observed that among the banks in SBI group, only State Bank of India is found to be in high category net NPA/net advances and 4 banks in moderate category and only 1 bank (i.e.) State Bank of Hyderabad is in low category group.

Net Npa/Net Advances of Other Nationalised Banks during the Period 2005-06 to 2014-15

S.No.	Name of the Bank	Avg.	CAGR	Group Rank
1	Bank of Baroda	0.82	8.07	1
2	Corporation Bank	1	17.01	2
3	Syndicate Bank	1.06	8.25	3
4	Andhra Bank	1.07	28.43	4
5	Indian Bank	1.07	12.21	5
6	Vijaya Bank	1.22	8.49	6
7	Union Bank of India	1.34	5.68	7
8	Punjab National Bank	1.4	30.20	8
9	Canara Bank	1.44	8.99	9
10	Bank of India	1.45	8.47	10
11	Punjab & Sind Bank	1.5	3.86	11
12	IDBI Ltd.	1.5	11.05	12
13	Oriental Bank of Commerce	1.51	21.16	13

14	Bank of Maharashtra	1.54	7.52	14
15	Allahabad Bank	1.72	16.86	15
16	Dena Bank	1.81	2.31	16
17	Indian Overseas Bank	1.96	24.21	17
18	Central Bank of India	2.17	3.38	18
19	UCO Bank	2.22	7.43	19
20	United Bank of India	2.73	12.30	20
	Average	1.53	12.29	

The above table indicates the quality of credit portfolio in Public sector banks excluding SBI & its Associates in India. Higher net NPA/net advances reflects the low credit portfolio of banks and vice versa. From the table 4.5, it can be observed that United Bank of India has got higher net NPA / net advances when compared to all other nationalised sector banks with average magnitude 2.73% and growth rate 12.30% over the study period 2005-06 to 2014-15.

Summary of Net NPA/Net Advances of Other Nationalised Banks during the Period 2005-06 to 2014-15

	Other Nationalized Banks	
	No of Banks	Percent
High	3	15
Moderate	7	35
Low	10	50
Total	20	100

Low 0.82-1.46; Moderate-1.47-2.1; High- 2.2-2.73

It has been observed that among the public sector banks, 15 percent of the bank namely United Bank of India, UCO Bank and Central Bank of India are found to be in high category net NPA/net advances with averages 2.73 %, 2.22%, and 2.17 % respectively.

CONCLUSIONS

Among the 45 Indian public and private sector banks, eight banks are found to have high level net NPA/net advances ranging from 1.83 % to 2.73%, out of which five banks are public sector banks and three are private sector banks during the study period. United Bank of India has got highest net NPA / net advances when compared to all other public sector banks with average magnitude 2.73%. Lakshmi Vilas Bank has got highest net NPA/ net advances when compared to all other private sector banks with average magnitude 2.07%. Public sector banks found with high level net NPAs/net advances include United Bank of India, UCO Bank, Central Bank of India, Indian Overseas Bank and State Bank of India. Private sector banks in high level net NPAs/ net advances include Lakshmi Vilas bank, Catholic Syrian Bank and Dhanalakshmi Bank. In moderate level net NPA/net advances, there are 26 banks ranging with magnitude 0.92% to 1.82% out of which 20 are public sector banks and six are private sector banks.

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