



## Non-performing assets in scheduled commercial banks and the causative factors - a perception analysis

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**Abstract:** The menace of NPA in banks is a cause of worry to all concerned, may it be the management of banks, Government, industry federations and the public at large. The cause of worry for this is obvious. High level of NPAs reflects adversely on the financial strength of banks which are required to meet the standards. Over a decade of implementation of financial sector reforms and prudential norms, there is a need for a systematic analysis of NPAs. In this context, this study is an investigation of the causes of NPAs through the borrowers' and bankers perception. Non-performing Assets are the result of many factors which are bank related, borrower related, situation related, environment related and policy related. Therefore, this study is designed to provide a focus on the perceptions of the borrowers and bankers on the issues and aspects involved in NPAs with a focus on the SBI in Krishna District in the state of Andhra Pradesh.

**Key Words:** NPAs, Gross NPA, Net NPA, Borrowers

**Introduction:** Banks have become an indispensable part of our economic system. The banking institution today forms the heart of the financial structure of the country. Indian banking has made a significant progress after nationalisation especially in three aspects viz., branch expansion, deposit mobilisation and loan maximisation. Among these, monitoring of loans took a back seat in an era of mass banking and social banking. In the changing scenario of the banking, Non-Performing Assets (NPAs/NPA) have been the most vexing problem faced by the banks. The Reserve Bank of India (RBI) and Government of India (GoI) have initiated various measures to curb NPA in the post-financial sector reforms. But PSBs are still unable to solve the problem. In the liberalised scenario, the continuation of the NPAs is a menace for the survival of the banks. Over a decade of

implementation of financial sector reforms and prudential norms, there is a need for a systematic analysis of NPAs. In this context, this study is an investigation of the causes of NPAs from the borrowers' and bankers perception.

The management of banks is seriously concerned about the growing NPA menace, which is taking its toll on efficiency and profitability NPAs are a serious strain on the profitability, bank cannot book income on such accounts and, on the other hand, they are required to charge the funding cost and provision requirements to their profits. The Government is concerned about the rising NPAs in banks because the strength of banking sector is a reflection of a strong financial system capable to achieve the objective of strengthening the real economy. High level of NPAs reflects adversely on the financial strength of banks who, in the present era



of globalisation, are required to conform to stringent international standards and in order to enable public sector banks to meet the prescribed standards the government is forced to recapitalize weak banks from time to time.

**Objectives of the study:** The specific objectives of this study is to identify the factors responsible for NPAs with a focus on SBI in Krishna district of Andhra Pradesh by analyzing the perceptions of the defaulting borrowers and bankers; to offer suggestions for policy issues in dealing with the problem of NPAs.

**Sample size:** The study of the factors responsible for NPAs is made with reference to the SBI in Krishna District of Andhra Pradesh. A sample of 223 defaulters of Small Business Borrowing units has been taken for the study. A simple random sampling technique has been employed in selecting branches based on the strength of the units and even in selecting the units for the study. The sample size of 223 default borrowers is a convenient sample and the size of the sample is absolutely representative of the total number of reported default borrowers (338) among the chosen nine branches of the SBI for the study. The sample of 223 default borrower respondents constitutes a sizeable 65.97 per cent of the total default borrowers of 338. A structured questionnaire is also canvassed among the key banking personnel concerned with the sanctioning and recovery of the loans. For this purpose, a representative sample of 42 out of the 87 (48.27%) bank officials concerned have been randomly chosen with due representation of different categories of branches-urban, semi-urban and rural.

By 2012, the SBI has grown with ramifications heavy a network of 87

branches with a total business of Rs.3,10,769 lakhs and human response strength of 1,146. Moreover, by the end of March 2012, the SBI in the district stood with a total business per employee of Rs.271.18 lakhs as against the deposits per employee of 122.28 lakhs and loans and advances per employee of 148.90 lakhs<sup>1</sup>.

#### 1.1.1 Gross and Net NPAs of Scheduled Commercial Banks:

Tables 1 & 2 present a bank group-wise analysis of NPAs as a percentage of advances of all the scheduled commercial banks during 2003-04 to 2012-13. This analysis helps to reveal the intensity of the problem of NPAs in different banking groups, including the State Bank group, over the years under reference.

**Gross NPAs to Gross Advances:** Table 1 presents the scenario bank group-wise proportion of the gross NPAs to gross advances. It is clearly evident from the table that, the gross NPAs as a percentage of gross advances of the total Scheduled Commercial Banks which was 7.18 percent during 2003-04 gradually came down to 2.25 percent during 2008-09 but marginally looked up to stand at 3.6 percent by 2012-13. In the case of Public Sector Banks also the same tendency could be observed, where the gross NPAs as a proportion of gross advances, which is 7.79 percent during 2003-04 stooped down to 1.97 percent during 2008-09, but stood at 4.1 percent by 2012-13. A similar trend could be observed with respect to both the private sector and also the foreign banks in India. The State Bank group is not an exception to this phenomenon.



Table-1: bank group-wise analysis of gross npas as percentage of total advances of all scheduled commercial banks

(Percentages)

Name of the Bank Group	Gross NPAs / Gross Advances									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Nationalized Banks	8.21	5.84	3.94	2.7	2.1	1.73	1.95	1.89	2.8	3.6
State Bank Group	6.98	5.32	3.51	2.6	2.6	2.46	2.70	3.00	4.6	5.0
Public Sector Banks	7.79	5.53	3.70	2.7	2.2	1.97	2.19	2.23	3.3	4.1
Private Sector Banks (Old)	7.59	5.97	4.30	3.1	2.3	2.36	2.32	1.97	1.8	1.9
Private Sector Banks (New)	4.99	3.59	1.70	1.9	2.5	3.05	2.87	2.33	2.2	2.0
Foreign Banks in India	4.62	2.85	1.90	1.8	1.9	3.80	4.29	2.54	2.6	2.9
Total SCBs	7.18	5.25	3.29	2.51	2.3	2.25	2.39	2.25	3.1	3.6

Source: Report on Trend and Progress of Banking in India, RBI various issues from 2005-06 to 2012-13.

Table-2: Ratio of net NPAs to net advances all scheduled commercial banks

(Percentages)

Name of the Bank Group	Net NPAs / Net Advances									
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Nationalized Banks	3.14	1.85	1.16	0.9	0.8	0.68	0.91	0.92	1.4	2.0
State Bank Group	2.70	2.23	1.63	1.3	1.4	1.47	1.50	1.49	1.8	2.0
Public Sector Banks	2.99	2.06	1.30	1.1	1.0	0.94	1.10	1.09	1.5	2.0
Private Sector Banks (Old)	3.85	2.74	1.60	1.0	0.7	0.90	0.83	0.53	0.6	0.8
Private Sector Banks (New)	2.36	1.85	0.80	1.0	1.2	1.40	1.09	0.56	0.4	0.4
Foreign Banks in India	1.48	0.86	0.80	0.7	0.8	1.81	1.82	0.67	0.6	1.0
Total SCBs	2.85	2.00	1.22	1.01	1.0	1.05	1.12	0.97	1.3	1.7

Source: Report on Trend and Progress of Banking in India, RBI various issues from 2005-06 to 2012-13.



It is evident from the fact that the ratio of gross NPAs to gross advances of the State Bank group, which was 6.98 percent during 2003-04, dived down to 2.46 percent during 2008-09 but raised its ugly head to stand at 5 percent during 2012-13. This shows that the problem of NPAs, though remained silent between 2003-04 to 2008-09, the intensity of the problem flared up between 2008-09 to 2012-13. It is more apparent in the case of State Bank group.

#### **Net NPAs to Net Advances**

The bank group-wise ratio of net NPAs to net advances of Scheduled Commercial Banks during 2003-04 to 2012-13 is presented in table 2. It is evident from the table that in the case of the total Scheduled Commercial Banks the ratio of net NPAs to net advances dwindled down to 1.05 percent during 2008-09 from a hike of 2.85 percent during 2003-04, but looked up to stand at 1.7 percent by 2012-13. In the case of Public Sector Banks the ratio which was 2.99 percent (2003-04) came down to 0.94 percent (2008-09) but registered at 2 percent by 2012-13. The trend analysis of the ratio of net NPAs to net advances has been observed on the similar lines in the case of Private Sector banks as well as the foreign banks in India. State Bank group is again not an exception in this regard. It is evident from the fact that the ratio of net NPAs to net advances of State Bank Group was 2.70 percent during 2003-04 and sloped down to 1.3 percent during 2006-07, but gradually went up to stand at 2 percent by the year 2012-13<sup>2</sup>.

The analysis clearly shows that in the recent years ending with the year 2012-

13, the problem of NPAs has been on the rise. The known reasons for the intensification of the NPA problem at the macro level are the spree of inflation, restructuring and waiver of the loan by the government, the global economic crisis in 2008-09 triggered by the financial crisis in the banking sector and also the rolling down in the value of the rupee.

#### **Other sources of loan**

Table 3 presents the other sources of loan resorted to by the respondent borrowers. As evident from the table, out of 94 respondents, who availed themselves of the loans from multiple sources, a majority of 47 i.e., 50 per cent had taken loan from the moneylenders followed by 28.7 per cent of the respondents from the micro finance institutions. Further, 9.9 per cent of the respondents availed loans from cooperative banks followed by 4.3 per cent from DWACRA and other commercial banks and 3.3 per cent from NBFCs such as LIC. In the course of personal interaction with the respondents

#### **Funds Sufficiency**

Sufficiency of funds helps build good infrastructure, marketing facilities and meet the business needs in time. On the other hand, lack of sufficient funds cripples business functioning and forces the borrower to resort to private money lending agencies which in turn cripples their ability to repay and consequently turns them as NPA. The heavy interest rates and unauthorised harassments in recovery of loan by the private agencies force the borrower to financial embarrassment. So the borrower gives



first priority for repayment of loan to such agencies. Inadequate income and high pressure from the private institutions may be a cause to turn the borrower into an NPA with the nationalised banks

Table-3: Other sources of loan availed by the respondents

S.No.	Source of Loan	Number	Per cent
1.	Other Commercial Banks	4	4.3
2.	Co-operative Bank	9	9.6
3.	NBFCs (LIC, GIC, etc.)	3	3.2
4.	Money Lenders	47	50
5.	Micro finance	27	28.7
6.	DWACRA	4	4.3
	<b>Total</b>	<b>94</b>	<b>100.0</b>

Source: Survey.

It is generally complained that the amount of loan from the bank is insufficient for the respondent in establishing unit or for the need of the unit. As presented in table 4, out of 223 respondents, a majority of 175 (78.5%) reported that the amount borrowed from the bank is not sufficient for the needs of the unit while the rest of the 48 (21.5%) answered positively.

Table-4: Opinion of the borrower on amount sufficiency

S.No.	Borrower Opinion	Number	Per cent
1.	Sufficient	48	21.5
2.	Not sufficient	175	78.5
	<b>1.1.1.1 Total</b>	<b>223</b>	<b>100</b>

Source: Survey.

#### Adequacy of the loan amount

No doubt the total amount of finance required for a project cannot be provided by banks. But the banker perceptions on the aspect of adequacy of finance to the borrowers are elicited and presented in table 5. As evident from the table about 42.86 per cent of the bankers (18) stated that the question of adequacy doesn't arise in the sense that the amount of loans to be sanctioned is decided by the Government under different sponsored schemes. A little over 35.71 per cent of the bankers stated that the quantum of finance sanctioned to the borrowers is adequate and only 21.43 per cent of them stated as



inadequate. Though the bankers' case of the general loans, the margin discrimination and free hand exist in the requirements come in the way.

Table-5: Response of the bankers regarding adequacy of finance to the borrowers

S. No.	Quantum of Finance	Response Number	Per cent
1	Adequate	15	35.71
2	Inadequate	9	21.43
3	Decided by Government, based on schemes	18	42.86
	Total	42	100.00

Source: Survey

An attempt is also made to know whether the unit established by the respondent for small business is still existing (at the time of survey). As evident from Table-6, out of 223 respondents, a majority of 121 (54.3%) stated that their units were sick and non-existing whereas 102 units i.e., 45.7 per cent revealed that the units established by them have been working.

Table-6: Response of the borrowers on unit existence condition

S.No	Response	Number	Per cent	Valid per cent	Cumulative Per cent
1.	Existence	102	45.7	45.7	45.7
2.	Non-existence	121	54.3	54.3	100.0
	Total	223	100.0	100.0	

Source: Survey

Table-7: Reasons for Failure In Repaying The Loan

S.No.	Borrower's Opinion	Banker's Opinion
1	Asset sold early	Wilful defaulters
2	Business Failure	Business failure
3	Diversification of funds	Diversions of funds to other activities
4	Gap between income and expenditure	Lack of Managerial skills among the borrowers
5	Insufficient Funds	Lack of effective bank follow-up
6	Less or no returns on assets	Natural Calamities
7	Misutilisation of funds	Government policy on Loan Waiver
8	Personnel and health problems	

Source: Survey



Table-8: Suggestions of the borrowers and bankers to minimise THE NPAs

S.No.	Borrower's Suggestions	Banker's Suggestions
1	Coordination between banks and borrowers	Continuous Monitoring
2	Develop infrastructure facilities	Stringent Revenue Recovery Powers
3	Provide incentives on regular re-pay	Punishment Mechanism
4	Provide raw materials on subsidies	Liberalising the lengthy legal system
5	Provide sufficient funds	Need for revision of policy on loan waiver by the Government
6	Reduce Interest Rates	
7	Regular follow-up needed by bank authorities	
8	Restore the non-functioning units	

Source: Survey

#### Findings and conclusions:

- It can be observed from the analysis that among the various parameters and reflections from bankers and borrowers there are quite contradictory views among all the respondents. This is not unusual because the bankers and borrowers cannot have the same opinion about the reasons. What is true for the bankers may not hold true with the borrower.
- It is observed that in respect of the repayment of the loan paid to the bank, the annual expenditure of the borrowers, number of earners and dependants in the family and debt condition have been observed to have a influence when compare to the annual income and saving levels.
- The borrowers of the bank loan are observed to have resorted to multiple borrowing from different sources like many lenders, NBFCs and private banks. Therefore, they are under pressure to meet the payment obligations from other sources which stand a potential reason

for turning the bank loan as NPA due to the non-payment or inability in debt service. On the whole, the irregularity in repayment of loan to the bank is largely due to the multiple borrowing, inadequate income and high pressure from private institutions etc.

- Multiple loan repayment obligations, inadequate income generation, insufficiency of funds etc., of the borrowers enhance the menace of NPAs with the bank.
- The weak fundamentals of knowledge of the borrowers with respect to the technical, marketing, production and marginal issues of the unit concerned, besides the absence of adequate experience and level of knowledge in running the unit also found to contribute for driving the borrower to non-payment and consequently turning the accounts of the bank as NPAs and the unit as sick.
- It is to the observation and assessment that absence of motivation in bank staff, lacuna of effective monitoring, inadequate manpower are the frontline



internal issues reported to contribute for the improper and inadequate assessment of the loan applications.

- About 85.71 per cent of the bankers vehemently stated that the intensity of the defaulters is more in the case of Government sponsored schemes.

### Suggestions

1. The populist policies of the Government and the politically motivated schemes of loan waivers are observed to encourage an attitude of indifference among the borrowers especially with respect to the agriculture and priority sector loans. The borrower willfully abstains from repaying the loan with an anticipation of the waivers. The Government should consider this observation and take necessary precautions in this regard to resolve the plight of the public sector banks with respect to mounting NPAs.

2. Through a continuous review of NPAs in the bank, the borrowers are to be categorized to identify the regular payers who should be duly rewarded with incentives and concessions in interest and number of installments. Moreover, as a measure of encouraging and creating awareness among the borrowers in general, for regular payment, the identified borrowers who are regular in paying installments should be felicitated at the periodical customer meets organized by the bank.

3. The bank has to organize the customer meets in the rural areas. No doubt inadequacy of staff may be a serious bottleneck in this regard, therefore the banks have to plan the rural customer meets in collaboration with the NGOs and with the assistance of local Governments like village panchayatis. Moreover, in considering

the eligibility of a candidate to contest the elections, the indebtedness to bank should also be taken into account.

4. The necessary changes in the Banking Regulation Act and other Bank related Acts may be expedited, providing therein, repossession of the collateral, foreclosure and bankruptcy procedures for defaulting borrowers.

5. Priority sector lending involves more risk and less return. Hence, the priority sector lending benchmark of 40 per cent of net bank credit should be redefined as suggested by Narasimham Committee on Banking sector reforms.

### Conclusion

The transformation of the bank assets (loans and advances) into the NPAs is the result of a variety of factors related to the banks, borrowers, situation, environment and policy guidelines. After making an enquiry into the multi-dimensional causative factors for NPAs in SBI, it is found that the unfavourable economics of the borrowing units, the paucity of funds available to run the units, multi-agency borrowing and resultant pressures from the private money lenders, banks and Non-Banking Financial Institutions (NBFIs), the diversion of funds for the unspecified activities etc., are observed to be the chief factors throwing the borrowers into the debt trap that disables them to repay the loans.

The reasons that cause NPAs, which are perceived by the borrowers on one hand and the bankers on the other hand, bear some commonalties and more divergences. The factors like business failure or sickness, diversion of funds to unspecify activities, wilful default etc., are commonly cited both by the defaulting borrowers and the lending





bankers. In addition, the defaulting borrowers viewed that the gap between income and expenditure, the inadequacy of funds to run the units, low returns on assets are the other prominent reasons for their default in repayment. On the other hand, the bankers view that lack of managerial skills among the borrowers, absence of effective bank follow-up, natural calamities, the Government policy on loan waiver etc., are also the reasons for loan default.

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