

Impact of Increasing NPA in PSBs: A Case Study of Selected Banks in Bihar

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Abstract: A globally competitive economy requires a robust and competitive banking system. The key objective of banking development is to aid economic growth and development with stability and equity across all sections of society. Presently, the Indian banking system is facing threat of increasing NPA (non-performing asset). Current study attempts to analyse the impact of NPA in PSBs. Few public sector banks from Bihar have been selected for primary data collection. The hypotheses drawn are tested using both primary and secondary data with the help of SPSS and Ms-excel. Accordingly analysis has been done and it has been found that increasing NPA has affected the profitability and productivity (credit growth) of Banks and accordingly suggestions have been given.

Key Word: NPA, PSB, profitability, Credit Growth.

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I. Introduction

Banks are the financial institutions which provide monetary help to economic activities in an economy. In an economy like India, banks act as a backbone, without whose support the economy cannot stand on its own. They accept deposits from the public who have surplus and channelize these surpluses into productive activities by lending them to those who need it. Banks are indeed one of the building blocks of an economy because without money one cannot think of carrying on a business activity. Modern economy is regarded as a credit economy in the sense that credit forms the basis of most of the economic activities in such an economy. But during recent years the Indian banking system has been going through a stiff situation due to drastic increase in the level of Non-performing Assets, especially of public sector banks. At the end of fiscal year 2016-17 the Gross NPA of public sector banks was around 6.84lakh crore and is still increasing. After RBI's asset quality review most of banks' balance sheets are showing losses due to provisioning etc. But provisioning is not the solution; a clear-cut solution must be there to tackle this NPA. A research on this topic has been conducted. Many works have already been done and recommendations were also made. All previous researches were either specific or comparative or limited to different areas. This research is for NPA of PSBs in India in general and in special reference to Bihar is particular. Few banks from Bihar have been chosen for primary data and information and accordingly analysis have been done and suggestions made.

STATEMENT OF PROBLEM

A globally competitive economy requires a robust and competitive banking system. One of the most dangerous threats to banking sector is increasing NPA. The NPAs of banks directly or indirectly affect the profitability and functioning of banks. This study is concerned with Non-performing Assets of Public Sector Banks in India. The growing NPA has shattered Indian banking sector especially public banking sector, very badly. The Central Bank i.e. RBI and policy-makers of our country are rigorously trying to curb the mounting NPA. But the problem is so vast that it is still unsolved. At the end of fiscal year 2016-17 the Gross NPA has touched a margin of around 6.84lakh crores & is still increasing and that's a huge amount. This research is an attempt towards throwing some light on the impacts of increasing NPA. This increasing NPA must be controlled and brought down in order to put the economy back on track.

II. Review Of Literature

Sonia Narula & Monika Singla (2014). They studied deeply the causes of alarming NPA and emphasized on the negligence on the part of management. They tried to establish a positive relation between total advances, net profit and NPA of banks they selected and the reason they found was mis-management. Hence suggested that good management is needed on the part of bank to decrease the level of NPA.

Harpreet Kaur & Neeraj Kumar Saddy (2011). They emphasized on impacts of NPA on performance of banks and tried to find out its causes. They concluded that the extent of NPA is comparatively

higher in public sector banks. Various steps have been taken by GoI but still a lot more needs to be done. The NPA level in our country is still high as compared to international standard.

Balaji, S., N., & R Surya (2014). They conducted a descriptive research, collected primary data directly from office, loan section of Indian Bank, Tamil Nadu. After rigorous analysis they suggested that the installment amount to be paid by customer should be reduced, instead number of installment should be increased, Lok Adalat should be used, logistic support should be given to collection staff for the branch office.

Neha Rani (2014). She concluded in her study that there is a need to concentrate on non-priority sector for reducing NPA because NPA is increasing in this sector. She further emphasized on the need of a good appraisal system and performance evaluation method and loan should be given to different sector according to their credit worthiness.

Srinivas K T (2013). He conducted his study using data of the time period 1996-97 to 2011-12. This paper was undertaken to study reasons of advances becoming non-performing assets in Indian commercial banks and to give suitable suggestion to the same.

OBJECTIVES OF THE STUDY

1. To study the effect of NPA on profitability of Banks.
2. To study the effect of NPA on the performance (productivity) of Banks.

HYPOTHESES OF THE STUDY

1. H0: The increasing NPA has not affected the profitability and functioning of public sector banks.
H1: The increasing NPA has affected the profitability and functioning of public sector banks.

2. H0: The increasing NPA has not affected the productivity of banks i.e. credit growth has not been affected.
H1: The increasing NPA has affected the productivity of banks i.e. credit growth has been affected.

III. Research Methodology

Current study is empirical research where analysis is done using data and information. As the study is concerned with public sector banks, so few major public sector banks from Patna and nearby regions of Bihar were chosen for primary data collection. Banks like SBI, PNB, Canara bank were selected. Structured questionnaire were used for seeking required information from banks and interviews were taken. Officials contacted for the same are managers, assistant manager, officers, clerks. In total 50 respondents were approached for getting the relevant information. For secondary data, RBI publications, newspapers, journals, different websites etc were referred. Data from fiscal year 2011-12 to 2016-17 has been used for analysis.

IV. Data Interpretation And Analysis

Testing of hypothesis 1.

H0: The increasing non-performing assets has not affected the profitability and functioning of public sector banks.

H1: The increasing non-performing assets has affected the profitability and functioning of public sector banks. For verifying this hypothesis direct questions were asked having four options. 1st option relates to reduction in profitability due to NPA. 2nd, 3rd and 4th option relate to affects on functioning of banks. And respondents were allowed to choose more than one option.

The following Frequency table shows the different percentage of responses given by respondents.

\$NPAeffect Frequencies

	Responses		Percent of Cases
	N	Percent	
impact of increasing NPA on reduced net profit	48	55.2%	96.0%
profitability and functioning expenses cut down, facilities withdrawn	16	18.4%	32.0%
salary structure affected	10	11.5%	20.0%

	high rate of interest charged on other loan a/cs or offer a low interest rate	13	14.9%	26.0%
Total		87	100.0%	174.0%

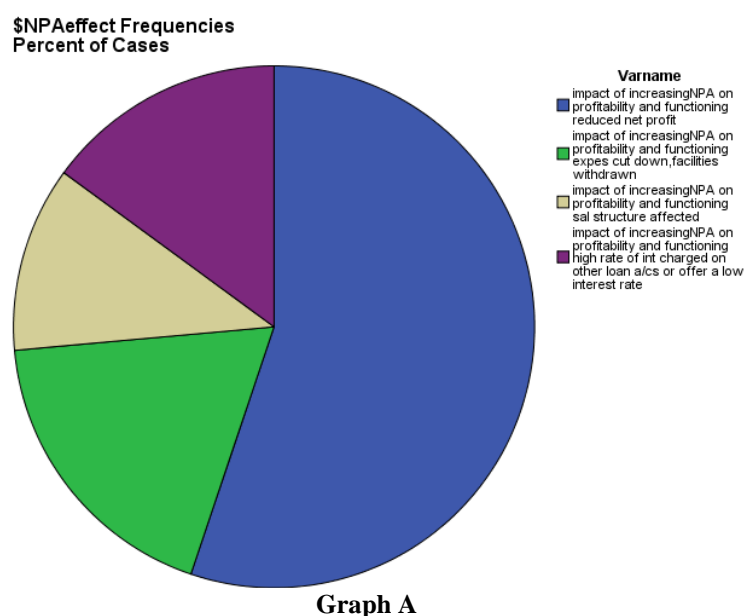
a. Dichotomy group tabulated at value 1.

Table 01

On the basis of above table it can be said that 1st option has the highest percentage(96%), which means almost everyone agreed that NPA effects profitability inversely ,i.e., it decreases profit. Other options got lower number of support, which means to some extent other variables (expenses cut down, facilities withdrawn, salary structure affected, interest on other loan accounts and deposits affected) are also effects of increasing NPA.

Hence, null hypothesis is rejected and alternate is accepted. It means increasing NPA does affect the profitability and functioning of banks.

Following is the graphical representation of the above frequency table.



From the above pie-chart it is clear that increasing NPA has largely affected profits of the banks and some effects are also on other variables like expenses of the banks are cut down, facilities are withdrawn, salary structure affected, other loan accounts are affected etc.

Testing of hypothesis 2

H0: The increasing NPA has not affected the productivity of banks i.e. credit growth has not been affected.

H1: The increasing NPA has affected the productivity of banks i.e. credit growth has been affected.

Productivity of banks has many aspects. Loans and Advances are one of the aspects. This hypothesis deals with effect of increasing NPA on Loans and Advances, i.e., credit growth.

To test this hypothesis secondary data has been used.

Following table shows credit growth of Public Sector banks and Private Sector banks:

(Amount in billions)

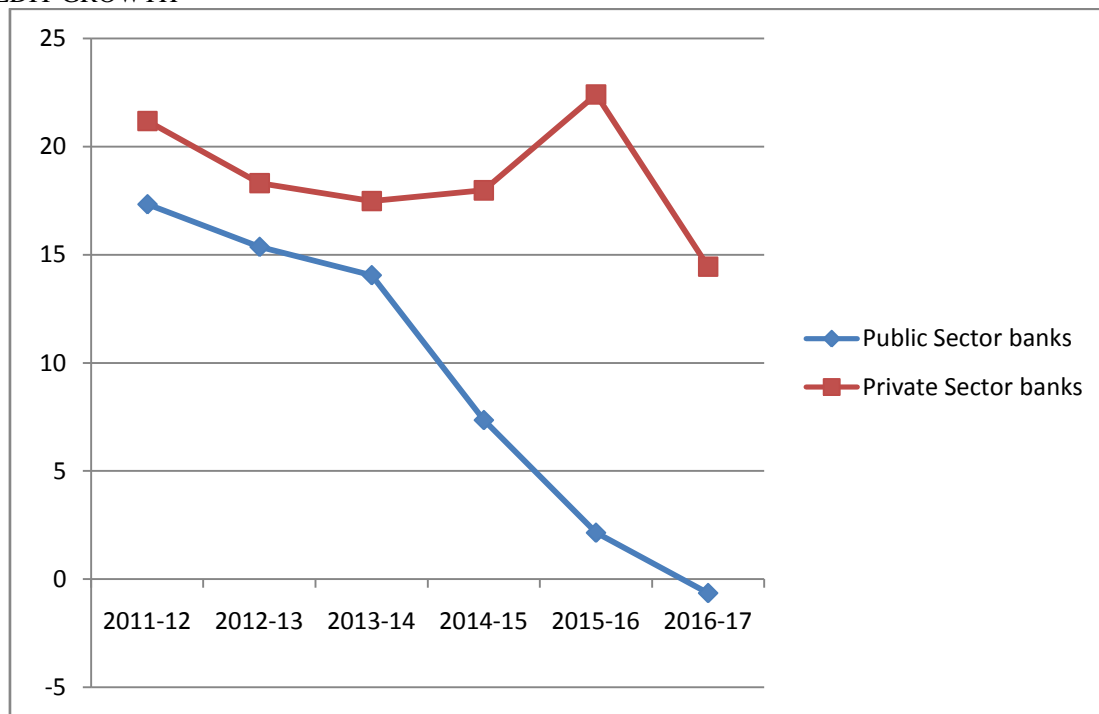
YEAR	Public Sector Banks		Private Sector Banks	
	Loans & Advances	Credit growth (%)	Loans & Advances	Credit growth (%)
2011-12	38773	17.33	9664	21.17
2012-13	44728	15.36	11432	18.30
2013-14	51011	14.05	13429	17.47

2014-15	54762	7.35	15843	17.97
2015-16	55936	2.14	19393	22.40
2016-17	55572	-0.65	22196	14.44

Source: dbie.rbi.org.in

Table 02

CREDIT GROWTH



Graph B

The above graph shows the credit growth trend in Public Sector and Private Sector banks.

From the above Table and Graph it is clear that credit growth in Private Sector banks is much better than Public Sector banks. Credit growth of PSBs is continuously decreasing since 2012 and in the fiscal year 2016-17 it has touched a margin of -0.65%. Although credit growth of Private Sector banks has also declined when compared with previous years but still is much better and above that of Public Sector banks.

Now question arises what led to such difference in credit growth of both the sectors. Reasons can be several. It can either be slow economic activities in the country or higher rate of interest or risk aversion tendency of banks due to increasing NPA. First reason does not hold true because in the same country Private Sector banks are able to increase their quantum of loans and advances. Second reason also does not seem to be valid because interest rate is almost same or little higher in Private Sector banks and still Private banks are able to increase their loans and advances. Now the third reason, i.e., increasing NPA. Due to increasing NPA banks have to face many punitive actions by Central Bank like higher provisioning, Prompt Corrective Actions etc. Also their reputation downgrades in the market. Therefore banks feel risky while granting loans and advances. Hence, risk aversion due to increasing NPA is one of causes of declining credit growth in PSBs.

Hence null hypothesis is rejected and alternate is accepted, i.e., the increasing NPA has affected the productivity of banks i.e. credit growth has been affected.

V. Findings Of The Study

Following are findings of the study:

1. Increasing NPA has led to a drastic decrease in net profit of PSBs. When interest on loan or instalment amount is unpaid then banks have to suffer losses. Apart from this banks have to go for provisioning on bad loans which further decreases profit.
2. Increasing NPA has also affected other aspects of banking like expenses of the banks are cut down, many facilities are withdrawn etc. This is because of decreasing profit which is outcome of increasing NPA.
3. Another effect is on salary structure. Bonus, commission, hikes etc may be detained or decreased.
4. Due to non-payment of interest another loan accounts may get affected. Banks may try to charge higher rate of interest on other loan accounts or may offer a lower interest rate on deposits.

5. Increasing NPA has affected credit growth of PSBs. Loans and Advances granted by PSBs is continuously decreasing since 2011-12. And this is mainly due to risk-aversion tendency of banks towards grant of loans.

VI. Suggestions

The foremost suggestion which comes into mind while the study is autonomy of banks for the recovery of dues from borrowers. If comparison of PSBs is made with their private peers, the Private Sector banks are much ahead of PSBs as far as NPA recovery is concerned. This is mainly because of their good asset management tactics and autonomy. Also credit growth of Private Sector banks is much better than Public Sector banks; this is because of risk aversion due to continuous increase in bad loans in PSBs. Hence Public Sector banks must be assured that their funds are going into loyal hands and are duly paid. They should be given autonomy to choose borrowers and to recover their funds in their own way. If they are lending to vulnerable section of society then the government must assure them of reimbursement when needed.

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