CHAPTER VI

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

INTRODUCTION

The literature of NPAs reveals that NPAs to a great extent emerge due to the very nature of banking business involving people, money and environment. The banking business is dependent on political, economic, social and technological developments. The changes in above these factors will affect the banking business. The magnitude of the problem of NPAs affects depositors, borrowers, economy and tax payers.

Several recovery measures like Lok Adalats, Debt Recovery Tribunal (DRTs) and strengthening of credit monitoring system have been initiated to tackle the problem. The Government of India has enacted the SARFAESI Act, 2002 to solve the problem of NPAs. The RBI has issued guidelines for Asset Reconstruction Companies (ARCs) and also for banks and financial institutions to transfer the bad loans (financial assets) to these companies.
OBJECTIVES OF THE STUDY

1. To study and trace the causes of Non-Performing Assets (NPAs) in Banking industry.
2. To study and analyse the increasing trend of the Non-Performing Assets (NPAs) in Banking industry.
3. To analyse and evaluate the impact of Non-Performing Assets (NPAs) on Banking variables.
4. To find out the significant differences among the four groups of banks.
5. To investigate the annual and compound growth rate performance in different Banking variables.
6. To suggest suitable measures for the reduction of Non-Performing Assets (NPAs).

Based on the above objectives, the following findings are presented.

FINDINGS

The survey results reveal that the major causes of NPAs are the diversion of funds is the major cause for NPAs having 21.25 per cent, which is identified by the RBI and private sector bank groups. In public sector banks, 17.08 per cent of wilful default has been identified as the major factor for NPAs. In fact, wilful default and diversion of funds can be viewed together, as they are mutually exclusive for the
cause and effect of growing NPAs. Lack of supervision and follow-up to 13.75 per cent and poor credit appraisal standards to 13.33 per cent are the causes for mounting of NPAs.

Lack of legal support to 12.50 per cent is a major stumbling block in the recovery of loans and advances. Political interference to 11.67 per cent and higher rate of interest to 10.42 per cent have been noticed as low reasons of NPAs contrary to the general belief. In Public sector banks, NPAs are more compared with private sector banks as the advances and loans are more in public sector banks. High NPAs of the banks will not exactly affect the net profit of the banks, but the other income of banks, may compensate the net profit.

The Gross NPAs and Net NPAs are identified as higher in State Bank of India with the mean amount of Rs.13,074 crore and Rs.5,60,544 crore and followed by Canara Bank with the mean amount of Rs.2,874 crore and Rs.1,297.44 crore because of their disbursement of higher advances. Regarding the investments and deposits, State Bank of India and Canara Bank are placed in the first two places. Regarding the amount of Gross NPAs, Net NPAs, advances, investments and deposits, there is a significant difference among the four groups of banks.

In net profit, operating expenses, provision and spread, State Bank of India and Canara Bank dominate over the other two banks because of their number of
branches and amount of transactions in them. The higher contingent liability is identified in Karur Vysya Bank and Canara Bank. Regarding the net profit, operating expenses, provision, spread and contingent liabilities, there is a significant difference among the four groups of banks.

Regarding the total assets, State Bank of India occupies the first place with the mean value of Rs.80,268.22 crore. The higher credit deposit-ratio is identified in Tamilnad Mercantile Bank with the mean value of Rs.0.02 crore and in Karur Vysya Bank with the mean value of Rs.0.02 crore. The higher mean return on assets and return on equity are noticed in the case of Tamilnad Mercantile Bank followed by Karur Vysya Bank. The equity multiplier is identified as higher in State Bank of India. Regarding the total assets, return on assets and equity multiplier, there is a significant difference among the four groups of banks.

Regarding the asset utilisation, the higher utilisation ratio is identified in Tamilnad Mercantile Bank with the mean value of Rs.0.21 crore and in Karur Vysya Bank with the mean value of Rs.0.25 crore. The higher interest income to total assets is noticed in Tamilnad Mercantile Bank. The higher interest expenses to total income is noticed in Tamilnad Mercantile Bank and State Bank of India whereas the operating expenses to total income is noticed in State Bank of India. Regarding the asset utilisation and interest income to total assets, the significant difference among the four groups of banks has been identified.
The higher contingent liabilities to total assets is seen in Canara Bank as 0.38 followed by State Bank of India as 0.28. Regarding the business per employee, the Tamilnad Mercantile Bank is placed first at Rs.1.98 crore followed by Karur Vysya Bank at Rs.1.90 crore whereas regarding business per branch, State Bank of India is placed first at Rs.35.79 crore followed by Canara Bank at Rs.33.76 crore. The higher profit per employee is noticed in Karur Vysya Bank at Rs.0.03 crore followed by Tamilnad Mercantile Bank at Rs.0.02 crore. The same case is existing in the case of profit per branch. Regarding the contingent liabilities to total assets, business per employee, business per branch, profit per employee and profit per branch, the significant difference among the four groups of banks has been identified.

The significant difference among the four groups of banks is identified in the case of expenses per employee, expenses per branch and CAR. The higher expenses per employee is seen in Tamilnad Mercantile Bank whereas higher expenses per branch is identified in State Bank of India. Regarding the CAR, the higher ratio is identified in Tamilnad Mercantile Bank.

Regarding the Gross NPAs, the higher annual growth rate is identified in State Bank of India as 342.82, whereas higher compound growth rate is noticed in the case of Karur Vysya Bank as 37.40 per cent. It is followed by Tamilnad Mercantile Bank in the case of gross non-performing assets. The higher annual growth rate of Net
NPAs is identified in State Bank of India as 277.36 followed by Canara Bank as 32.35. The higher compound growth rate is seen in Karur Vysya Bank followed by Tamilnad Mercantile Bank. The significant annual growth rates are identified in all the four groups of banks regarding the Gross and Net NPAs.

The significant annual growth rate of advances is identified in all the four groups of banks. The higher annual growth rate is seen in State Bank of India as 12157.50 and Canara Bank as 3796.16 whereas the higher compound growth rates are identified in Karur Vysya Bank and Tamilnad Mercantile Bank. The significant annual growth rate of net profit is noticed in the case of net profit. The higher annual growth rate of net profit is noticed in the case of State Bank of India as 302.37 and Canara Bank as 134.87. The higher compound growth rate of net profit is shown in Canara Bank 29.04 per cent and Karur Vysya Bank, 26.34 per cent.

Regarding the provision in banks, the higher annual growth rates are identified in State Bank of India as 428.00 and in Canara Bank 80.46. The significant growth of provision is identified in all the banks during the study period. The higher compound growth rates of provision noticed in the case of Karur Vysya Bank and Tamilnad Mercantile Bank are 26.34 and 24.69 per cent respectively.

The significant correlation between the Gross NPAs and bank variables are identified in the case of advances, investments, net profits, operating expenses,
provision, spread, contingent liabilities and total assets in Tamilnad Mercantile Bank and Karur Vysya Bank. In all cases, there is a positive relationship between the Gross NPAs and banking variables. In the case of State Bank of India, the significant relationship is identified between Gross NPAs and contingent liabilities. The analysis of pooled data reveals that there is a significant and positive relationship between the Gross NPAs and banking variables.

In the case of Tamilnad Mercantile Bank and Karur Vysya Bank, there is a significant relationship between Net NPAs and all banking variables namely advances, investments, net profits, operating expenses, provision, spread, contingent liabilities and total assets. In State Bank of India, there is a significant relationship between Net NPAs and contingent liabilities. In the case of Canara Bank, there is no significant relationship between Net NPAs and banking variables. Regarding the analysis of pooled data, there is a significant and positive relationship between the Net NPAs and banking variables.

The significant impact of advances on the Gross NPAs is identified in the case of Tamilnad Mercantile Bank and Karur Vysya Bank. The analysis of pooled data reveals that a unit increase in advances results in an increase in Gross NPAs by 0.1194 units. The changes in Gross NPAs are explained by the changes in advances to the extent of 88.14 per cent. The significant ‘F’ statistics justify the liability of the fitted regression models.
In Tamilnad Mercantile Bank and Karur Vysya Bank, the significant impact of advances on the Net NPAs is identified. In the above said cases, the increase in advances results in an increase in Net NPAs. The analysis of pooled data reveals that a unit increase in advances results in an increase in Net NPAs by 0.0503 units. The changes in Net NPAs are explained by the changes in advances to the extent of 90.76 per cent. The significant ‘F’ statistics are identified in the regression equations fitted for Tamilnad Mercantile Bank and Karur Vysya Bank only.

The significant impact of Gross NPAs on investment is noticed in the case of Tamilnad Mercantile Bank and Karur Vysya Bank whereas in the two said banks, there is a positive impact of Gross NPAs on investment. The analysis of pooled data also confirms the same result. The changes in investment are explained by the changes in Gross NPAs to the extent of 82.64 per cent. The viability of fitted regression models is identified in Tamilnad Mercantile Bank and Karur Vysya Bank.

Regarding the impact of Net NPAs on investment, the significant impact is observed in Tamilnad Mercantile Bank and Karur Vysya Bank. In the above two banks, a unit increase in Net NPAs results in an increase in investment by 11.8301 and 5.4313 units respectively. The analysis of pooled data reveals that a unit increase in Net NPAs results in an increase in investment by 19.9053 units. The changes in
investment are explained by the changes in Net NPAs to the extent of 85.04 per cent.

The significant influence of Gross NPAs on the operating expenses is identified only in Tamilnad Mercantile Bank. A unit increase in Gross NPAs results in an increase in operating expenses. The analysis of pooled data reveals the same trend. The changes in operating expenses are explained by changes in Gross NPAs to the extent of 89.01 per cent. The significant influence of Net NPAs on the operating expenses is identified in the case of Tamilnad Mercantile Bank and Karur Vysya Bank. In the above said two banks, the increase in Net NPAs results in an increase in operating expenses. The same trend is seen in the case of pooled data.

In Tamilnad Mercantile Bank and Karur Vysya Bank, the significant impact of Gross NPAs is identified on spread. The increase in Gross NPAs results in an increase in spread. The analysis of pooled data reveals the same trend. The changes in spread are explained by the changes in Gross NPAs to the extent of 92.87 per cent. Regarding the impact of Net NPAs on spread, the significant impact is seen in Tamilnad Mercantile Bank. The increase in Net NPAs results in an increase in spread. The changes in spread are explained by the changes in Net NPAs to the extent of 93.33 per cent.
The significant impact of spread on Gross NPAs is identified in Tamilnad Mercantile Bank and Karur Vysya Bank. The increase in spread results in an increase in Gross NPAs. The analysis of pooled data reveals that the increase in spread on Gross NPAs is by 1.5804 unit. The changes in spread is explained by the changes in Gross NPAs to the extent of 92.87 per cent. But the significant impact of spread on Net NPAs is identified in Tamilnad Mercantile Bank only. The pooled data reveals that increase in spread results in an increase in NPAs.

Regarding the impact of net profit on spread, it is identified in all the four groups of banks. The increase in net profit results in an increase in spread in all the four groups of banks. The analysis of pooled data reveals that an increase in net profit results in an increase in spread. Regarding the impact of spread on net profit, the significant impact is noticed in all the four groups of banks. The increase in spread results in an increase in net profit. The changes in spread explain the changes in net profit to the extent of 90.65 per cent.

The Gross NPAs have a significant positive impact on net profit in Tamilnad Mercantile Bank and Karur Vysya Bank. The pooled data also reveal the same relationship. The changes in net profit are explained by the changes in Gross NPAs to the extent of 74.28 per cent. The Net NPAs have a significant and positive impact on net profit in Tamilnad Mercantile Bank and Karur Vysya Bank. The analysis of pooled data reveals that the increase in Net NPAs results in an increase in net profit.
The changes in net profit are explained by the changes in Net NPAs to the extent of 76.26 per cent.

Regarding the impact of net profit on Gross NPAs, the significant impact is noticed in the case of Tamilnad Mercantile Bank and Karur Vysya Bank. The increase in net profit results in an increase in Gross NPAs. The changes in net profit explain the changes in Gross NPAs to the extent of 74.28 per cent. The significant impact of net profit on Net NPAs is noticed in the case of Tamilnad Mercantile Bank and Karur Vysya Bank. In the above said two banks, these impacts are positive. The changes in Net NPAs are explained by the changes in net profit to the extent of 76.26 per cent.

In Tamilnad Mercantile Bank, the Gross NPAs have a significant impact on business performance variables namely deposits, investments, advances, contingent liabilities and credit-deposit ratios whereas in Canara Bank, they have no impact on any business performance variables. The significant positive impact of Gross NPAs is noticed in the case of all business performance variables in Karur Vysya Bank whereas in State Bank of India, it is identified only in contingent liabilities. The analysis of pooled data reveals that the increase in Gross NPAs results in an increase in deposits, investments, advances and contingent liabilities whereas the negative impact is identified on credit-deposit ratio.
The Net NPAs have a significant positive impact on business performance variables namely deposits, investments, advances and contingent liabilities in Tamilnad Mercantile Bank and Karur Vysya Bank. In State Bank of India, the significant and positive impact of Net NPAs is identified on contingent liability. The analysis of pooled data reveals that the increase in Net NPAs results in an increase in deposits, investments, advances and contingent liability whereas it results in a negative impact on credit-deposit ratio.

In the case of Tamilnad Mercantile Bank, the significant negative impact of Gross NPAs is noticed on equity multiplier and interest expenses to total income. In the case of Karur Vysya Bank, the significant positive impact of Gross NPAs is identified on equity multiplier, interest income to total assets and interest expenses to total income whereas the significant positive impact of Gross NPAs is noticed on non-interest income to total assets only. In the case of State Bank of India, the Gross NPAs have a positive impact on equity multiplier only. The analysis of pooled data reveals that the significant and positive impact of Gross NPAs is seen on equity multiplier and operational expenses to total income whereas the significant and negative impact of Gross NPAs is noticed on return on assets, return on equity assets, utilisation ratio and interest income to total assets.

The significant impact of Gross NPAs is noticed on productivity indicators namely business per employee, business per branch, profit per employee, profit per
branch, expenses per employee and expenses per branch in Tamilnad Mercantile Bank and Karur Vysya Bank. In State Bank of India, the significant impact of Gross NPAs is identified on business per employee. The analysis of pooled data reveals that the significant positive impact of Gross NPAs is identified on business per branch and expenses per branch whereas the significant negative impact is identified on business per employee and profit per employee.

In Tamilnad Mercantile Bank and Karur Vysya Bank, the significant positive impact of Net NPAs is identified on business per employee, business per branch, profit per employee, profit per branch, expenses per employee and expenses per branch. In the case of State Bank of India, the significant positive impact is noticed on business per employee, expenses per employee and expenses per branch. The analysis of pooled data reveals that the significant positive impact of Net NPAs is identified on business per branch and expenses per branch whereas the significant negative impact is identified on business per employee.

The multiple regression analysis reveals the impact of spread and Gross NPAs on net profit. The significant positive impact of spread on net profit is identified in Tamilnad Mercantile Bank, Canara Bank and State Bank of India whereas in Karur Vysya Bank, both spread and Gross NPAs have a significant positive impact on net profit. The analysis of pooled data reveals the significant positive impact of spread and negative impact of Gross NPAs on net profit. The change in net profit is
explained by the change in spread and Gross NPAs to the extent of 95.01 per cent. The same trend is also identified in the case of impact of both spread and Net NPAs on net profit.

The impact of Gross NPAs and provisions on net profit reveals that there is a significant positive impact of provision on the net profit. The pooled data also reveals the same trend. The changes in net profit are explained by the changes in Gross NPAs and provisions to the extent of 93.72 per cent. In the case of impact of both net NPAs and provisions on the net profit, the significant positive impact is identified in the provision alone. The changes in net profit are explained by the changes in Net NPAs and provisions to the extent of 93.81 per cent.

The multiple regression analysis on the impact of Net NPAs, investments, advances, provisions, operating expenses and spread on net profit reveals that the significant impact is identified in advances, provision and spread in Tamilnad Mercantile Bank whereas in Canara Bank, it is identified in advances and operating expenses. In the case of Karur Vysya Bank, the significantly influencing variables on net profit are investments and spread. The analysis of pooled data reveals that there is a significant positive impact of advances on net profit whereas there is a significant negative impact of Net NPAs and operating expenses on net profit. The change in net profit is explained by the change in independent variables to the extent of 97.14 per cent.
SUGGESTIONS

- Know your customer (KYC) principles should be followed before sanctioning the loan.
- Banks should follow the RBI’s guidance note on credit risk management.
- Improvement must be given to management information system to facilitate detection of early warning signals of NPAs.
- Special investigative audit should be conducted in case of mismanagement of funds and diversion of funds.
- The one-time settlement scheme (OTS) for recovery of NPAs below Rs.10 crore should be followed.
- In case of accounts of above Rs.10 crore that are chronic NPAs, the CMD of the banks has to personally supervise that account.
- Special mention account must be created; the suspected account should be transferred to the account before becoming an NPA, and if it is watched carefully the slippage can be avoided.
- Bank-wise Lok Adalats should be conducted in all the districts of Tamil Nadu to recover the NPAs.
- There are a number of cases pending before DRTs; they should be finalized at the earlist.
- Legal action must be initiated once, the bank has reached the conclusion that any other restructuring alternative is not possible.
• Banks should consider entering into negotiated settlements in the case of NPAs to avoid lengthy legal procedures.
• Banks should use SARFAESI Act, 2002 for speedy recovery of NPAs.
• NPAs can be sold to ARCs at a negotiated price after the proper valuation of the disputed assets.
• Effective credit monitoring/appraisal, supervision and follow up of loan accounts should be done.
• Separate target for recovery has to be given to module to ensure achievement in recovery.
• Integrated approach will be adopted to review stressed assets to have focus on prevention of slippage of NPAs.
• Rehabilitation of sick units are to be carried out, based on the viability of industrial units.
• Training programmes have to be organised regarding the Credit Management, Risk Management, Customer Service and NPA Management.
• Industrial relations in the banks have to be maintained healthy, harmonious and cordial.
• The banks should have a loan review mechanism, which undertakes to review the pre and post sanction process of all borrower accounts.
• The banks have to constantly strive to maintain and improve the quality of its loan assets.
Preventive vigilance committees have to be constituted to discuss the fraud related matters and educate the staff to ensure against occurrences of frauds.

The banks should adopt the fair practice code for lenders on a voluntary basis to achieve the highest standards in credit delivery.

Effective publicity of bank’s schemes and services should be carried out through advertisements.

Political interference and Government intervention in the normal functioning of commercial banks should be stopped for all.

CONCLUSION

NPAs are an inevitable burden on the banking industry. The success of the bank depends upon the methods of managing NPAs. Several Asset Reconstruction Companies (ARCs) have been dealing with the problem of NPAs through the tight legal provisions. It is more important that effective management of NPAs require an efficient internal check and credit monitoring system. The SARFAESI Act, 2002 and increased provisioning on doubtful debts have contributed the most in reducing the level of NPAs. NPAs are expected to fall further over the next few years as banks continue to adopt the best global practices in credit risk management. There is a lot of scope to make in-depth research in this field.