SUMMARY

The banking sector in the India plays an important role in the growth of an economy. Through its intermediary activities, the banking sector fosters the production, distribution, exchange and consumption processes in the economic system. It stimulates the flow of funds in the economy and fuels economic growth. The efficiency of the banking system, thus determines the pace of development of the economy. Similar to any other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it possesses. But unlike other commercial ventures, Indian banking has social commitments integrated into its operations.

The health of an economy largely depends upon a healthy Banking system, which in turn depends upon a sound asset structure. The Bank has created Non-Performing Assets (NPA's), when the amount of bad and doubtful Assets increased in the banks. When the amount of the loan is due, they neither recover the capital nor earn income in real terms. Such NPA’s affects the performance and profitability of the bank. This leads to drain on the social resources.

Despite the various prudential measures taken from the post – liberalization period, the non-performing assets still pose an important threat to the very existence of banking. From `636.09 billion in 2000-01, the total gross NPA (GNPA) has increased to `979.25 billion in 2010-11 and `1,423.26 billion in 2011-12. In percentage terms, Gross NPA increased to 45.3% in 2011-12, compared to 15.7% increase during the previous year. Similarly, from 314.63 billion in 2000-01, the total net NPA (NNPA) has increased to 418.15 billion in 2010-11 and 649.75 billion in 2011-12. In percentage terms, the net NPA increased to 55.6% in 2011-12, compared to 7.7% in the previous year. On the other hand, from 5,407 billion in 2000-01, the total loans and advances increased to 42,975 billion in 2010-11 and 50,746 billion in 2011-12. In percentage terms, the total loans and advances increased to 18.1% during 2011-12.

The issues of 1 lakhs crore NPA's in Indian Banking system and need for augmenting necessary capital as per prescribed Basel norms, were strongly deliberated between Banking department of (GOI) Government of India, RBI and (G o M) Group of Ministers in the central cabinet. After seriously pondering over the said issue, the Government of India emerges with the consensus to present a bill in the parliament giving substantial autonomy to the management of PSB's in releasing the blocked funds in the NPA's account by lawful recovery means as formulated in the forms of Securitization Act of 2002. For the first time Banks management were equipped with sharp result orienting tools of the Securitization Act to realize long term

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NPA's. Under the Act Banks were authorized to attach immovable properties of the defaulting borrowers and sale through auction of such property, the proceeds of which were directly receivable by the Bank for appropriation in borrowers NPA's account. The enactment of the securitization Act 2002 is very helpful in the recovery of the NPAs and credit management. The Main feature of the Act is that no need to go court. Keeping in mind the above views & importance of the Act, a modest attempt made to carry out study in respect of impact of SARFAESI Act 2002 in NPAs of Indian public sector banks. This study intends to examine the impact of SARFAESI Act 2002 on the financial & operating performance of Indian public sector banks.

**Review of Literature**

_Shakuntalamani (2001) _highlighted the magnitude of NPAs in banks, reasons for mounting NPAs, the impact and the measures adopted for reducing NPAs in the banking system so far. The study was based on the secondary data. The information had been retrieved from Report on the trend and progress of banking in India, various books and journals. The study found that the percentage of NPAs to gross advances had a downward trend over the year of study (1993 to 1999) which indicated better management techniques in banks. Further, legal framework, political interference, competition and liberalization were identified as reasons for mounting of NPAs. The study concluded that recovery efforts had been redoubled upon within the framework of the guidelines.

_Rajaraman Indira and Vasishtha (2002)_ this paper was an attempt to study the relationship between non-performing Assets and inefficiency of the borrowers. This study makes more sense for India as India suffers from inefficiency problems. The study was based on the secondary data. In their empirical study proved that significant bivariate relationship exists between non performing loans of public sector banks and the inefficiency on the side of the borrowers. Being a closed economy for so long, India still lacks the operating efficiency to push its manufacturing sector like China has done so successfully. High inflation is also affects to the Indian economy and banks overall performance, especially NPAs. This is because when RBI takes some actions related to interest rates to control inflation, the defaulters list also grows longer for banks with rising interest rates.

_Sanjai Singh Rathore and Alka Singh (2004)_ in their study found the relationship between NPAs and capital adequacy. Relationship was analyzed by considering the case study of Avadh
Gramin Bank, Lucknow. The study was based on the secondary data. The NPAs was Rs.3200.29lacs in year 1996-97 which increased to Rs. 3623.11 in the year 2000-01. The problem of NPAs remained the same during the period of the study. The main reason was that bank had very poor receiving ratio. It had a higher percentage of NPAs in its total advances. The capital adequacy ratio was 14.11% in the year 1998-99 which increase to 18.25% in the year 2000-01. It means the bank making efforts to improve the capital adequacy ratio. At last they concluded that Avadh Gramin Bank, Lucknow had to make efforts to minimize its Nonperforming Assets. For this purpose, the bank regularly analyses, case by case, its sticky advances and makes efforts to recover loans. The bank had power to issues recovery certificates also and to realize its debts from farmers as arrears of land revenue.

Divyesh Chaithalia, Rishab Bengani and Onkar Redkar (2006) this paper studied the need for asset reconstruction companies and analysis of the regulatory framework and various issues plaguing the system. The paper gives the way forward with respect to ARC and the factors which need immediate attention to be successful in the near future. A generic business model of a typical ARC is to buy distressed assets from a bank/financial institutions; and then choose between directly securitizing them or first reconstructing the assets and then securitizing it before sale to investors. The need for Asset reconstruction arises from the need to resolve the bad loans emanating out of a systemic crises. The regulatory framework related to this RDDBFI Act, 1993, SARFAESI Act 2002 and RBI guidelines 2006. The major hindrance towards the development of securitization in the country has been the high incidence of stamp duty. The duty is payable on ‘any instrument which seeks to transfer any rights or receivables’ whether by way of assignment or by any other mode. The instrument of transfer attracts stamp duty at an ad volorem rate, ranging from 0.1% to 8%. The existence of this range arises from the viability in the stamp duty across states. Hence, the process of transfer of the receivables from an originator to the SPV involves an outlay on account of stamp duty, which can make securitization commercially unviable in several states. Lastly, concluded that though the attempt to fine tune issues regarding ARCs was being undertaken consistently, the speed of reform was in a pathetic state. The changes in the regulatory framework over time have taken place but the pace of them drags down the system as a whole. With the financial system developing at a break check speed in India and across the world, it had become all the more important that speed with which problems are sorted
out increases exponentially. Only then will we see a proper market emerging which can take the problem of NPAs head on.

Seema Mahlawat and Sumanjeet (2010) in their study outlined that the enactment securitization Act 2002, Indian banks and financial institutions had been scrutinizing some of their distressed assets. The mechanism thus far had been selling banks to trade in their assets for Security Receipts (SRs) issued by SPV set up for holding these assets. The recovery and workout process was managed by Assets Reconstruction Company (ARC) set up under the SARFAESI Act 2002. The Act had paved the way of several out-of-court settlements. The act confers power on secured creditors to take possession and sell assets kept as security if a default is committed by the borrower in repaying secured debt. The 2002 Act aims to regulate securitization, reconstruct financial assets and enforce security interests. Prior to 2002 there was no provision for facilitating securitization of financial assets and the power to take possession of securitized assets and selling them off. The study was based on secondary data. Data collected from Global Financial Stability Report 2006, Revealed that public sector banks have settled about 30% of their NPAs cases for which they issued notices under the securitization Act 2002. Data also shows that after the introduction of Securitization Act 2002, Indian public sector banks are able to manage the problem of NPA. Study shows that 1, 18980 notices to recover amounts outstanding to the tune of rs35, 650 crore are estimated to have been issued till March 31, 2006 under the SARFAESI Act. Lastly, concluded that SARFAESI Act 2002 has been positive and has helped the Indian banking sector reduce, to an extent, the problem of NPA assets.

Kajal Chaudhary and Monika Sharma (2011) in their study found that major changes took place in the functioning of banks in India due to introduction of economic reforms. So it has compulsory to make a comparative analysis of services of public sector banks and private sector banks. To analysis the financial performance of the banks NPAs were main parameter. This paper an attempt to analyzed how efficiently public and private banks had been managing NPAs. Objectives of the study were to compare the performance of public and private banks of India and to find out trends in NPA level. Tool used for analysis was projection of trends. Data shown that in public sector banks SBI and in private sector banks ICICI had more NPAs in comparison to the other banks. Data also shown that percentage of doubtful assets increased in both sectors with comparison to the previous year 2009. Some recommendations for reducing NPAs was
effective and regular follow-up of the end use of the funds sanctioned is required to ascertain any embezzlement or diversion of funds. A healthy banker-borrowers relationship should be developed. Commercial bank should be allowed to come up with their own measures to address the problem of NPAs. And another way to manage the NPAs by the banks is compromise settlement schemes or one time settlement schemes. Lastly, concluded that public banks must pay attention on their functioning to compete private sector banks. Banks should be well versed in proper selection of borrower and in analyzing the financial statement.

J. Rama Devi and Dr. B. Ramachandra Reddy (2014) found that N.PAs is a major problem for banking sector in indianite does not generate income for the banks. Today public sector banks give loans to different sectors, So that the most critical area in the improvement of the profitability of banks continues to be the reduction of non-performance assets (NPAs). The specific objectives of the study were to analyze the classification of loan assets in Public Sector Banks and to examine the causes and remedial measures to arrest. The study concentrated on PSBs only and study based on the secondary data. The data are collected from annual report of RBI publications including Trend and Progress of Banking in India, Statistical Tables relating to Banks in India, Articles and Papers relating to NPAs published in different journal and magazines were studied. The amount of standard assets showed an increasing trend during the stated period. In the initial year 2004 the ratio of standard assets to total advances stood at 92.2 percent. It increased to 96.4 percent in 2013. Total advances of Public Sector Banks is increased from Rs.6, 61,976 crore in 2004 to Rs.39,428 crore in 2012. The Net NPAs to per cent of Net Asset ratios it was 1.3 per cent in 2004 and increased to 2.0 per cent in 2013. At last concluded that a large number of compromise proposals are being approved by banks with a view to reducing the NPAs and recycling the funds instead of resorting to expensive recovery proceedings spread over a long period.

**Objectives of the Study**

The specific objectives of the present study are given as:

1. To study the trends in the level of NPAs before and after the enactment of SARFAESI Act 2002 in Indian public sector banks.

2. To analyze the performance of the Indian public sector Banks before and after the enactment of SARFAESI Act 2002.
3. To analyze the trends in the sector wise NPAs of Indian public sector banks before and after the enactment of SARFAESI Act 2002.

4. To know the Banker’s perception regarding effectiveness and the role played by the enactment of SARFAESI Act 2002 in recovering of dues from the borrowers.

**Hypothesis of the study**

1. \( H_0: \) (There is no significant difference between the level of NPAs in public sector banks before and after the enactment of SARFAESI Act 2002.)
   \( H_1: \) (There is a significant difference between the level of NPAs in public sector banks before and after the enactment of SARFAESI Act 2002.)

2. \( H_0: \) (There is no significant difference between the performance of public sector banks before and after the enactment of SARFAESI Act 2002.)
   \( H_1: \) (There is a significant difference between the performance of public sector banks before and after the enactment of SARFAESI Act 2002.)

3. \( H_0: \) (There is no significant difference between the Sector wise NPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)
   \( H_1: \) (There is a significant difference between the Sector wise NPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)

4. \( H_0: \) (There is no significant difference between the mean values of Banks and regions wise regarding effectiveness and the role played by the SARFAESI Act 2002 in recovering dues from borrowers.)
   \( H_1: \) (There is a significant difference between the mean values of Banks and regions wise regarding effectiveness and the role played by the SARFAESI Act 2002 in recovering dues from borrowers.)

**Scope of the study**

1. The study is to evaluate the trends in the level and sector wise NPAs of public sector banks before and after the enactment of SARFAESI Act 2002. Phase wise study is carried out i.e., the study is divided into two phases.

1. Phase – I covered the period (1995-96 to 2001-02) of 7 years before the enactment of the Act because after the introduction of economic reforms, many changes come in the banking industry like low interest rate, increase credit in the market so that NPAs start increasing since the year 1995-96.
3. The study also evaluates the performance of all the public sector banks before and after the enactment of SARFAESI Act 2002. Phase wise study is carried out i.e., the study is divided into two phases.
5. Phase: 2 (2003-04 to 2009-10)
6. The study focuses on public sector banks (PSBs) even though for comparative purpose, all public sector banks are considered. The variables selected for the research include NPA indicators (net NPAs to total Assets ratio, Gross NPAs to total Assets ratio, Net NPAs to total Advances ratio and Gross NPAs to total Advances ratio) and bank performance indicators (capital adequacy ratio and net profit to total asset ratio) which are based on previous studies on NPA conducted in India and international context.
7. In order to substantiate secondary data analysis and to analyze the Impact of Securitization Act 2002 on non-performing assets, primary data were collected from officers working with public sector Banks in Haryana to provide The Requisite data and information.

Research design

This research by and large is descriptive in nature. A descriptive study used to “make descriptions of the phenomena or the characteristics associated with a subject population: who, what, when, where and how of a topic. The methods typically used in a descriptive study could be surveys, panels, observations or secondary data analyzed in a quantitative manner. This research used both primary and secondary sources in order to explain the impact of the enactment of SARFAESI Act 2002 on non-performing assets of public sector banks in India. Statistics on NPA and various NPA indicators during period (from 1995-96 to 20009-10) along with selected bank performance indicators were utilized in order to study the trends in movement of NPA, its relationship with selected variables, and efficiency of management of NPA during post Act period. A preliminary study focused on two groups - (a) academicians and researchers in banking, (b) experts working in banks’ loan/advances section – provided input, which is used to refine the research problem and develop the questionnaire.

The present project is also exploratory in nature. The main objective of the exploratory research design is to define the problem into researchable one and transformation of discovered problem into defined one. So the data is being adjusted according to the need.
In the present study exploratory and descriptive research design is used.

Data Analysis

The analytical part of this research employed facts or information already available, and analyzed them to make a critical evaluation of the subject. Basically, the analytical part utilized the statistical inputs and verified the research hypotheses put forward in the study. In addition to this, the results of secondary data analysis are verified to provide an insight into ‘why’ such trends are observed. In order to achieve the stated objectives; this research utilized both primary data and secondary data.

1. Secondary Data

The primary emphasis of this research is focused on analyzing Impact of Act on the trends of the level of NPAs and sector wise nonperforming assets of public sector banks in India during the study period. In specific terms, it includes (a) to analyzing the variance between the trends in NPAs before and after the enactment of Act (b) to analyzing the variance between the trends of sector wise NPAs before and after the enactment of Act (c) analyzing the impact of NPAs on Capital Adequacy and net profit ratio.

To achieve the stated objectives, data are collected from various sources and include;

1. Research reports, published articles, news reports and conference proceedings available in both national and international level related to NPA. The information obtained from these sources is used for critical evaluation of the subject and identify research gaps in the area of study. These secondary sources are part of different chapters in this report.

2. Statistical Data on NPA, bank-specific and economic indicators during 1995-96 to 2013-2014, collected mainly from RBI website, Indian Banks Association, India Stat and Ministry of National Economy. In addition to the above, information is obtained from individual bank web sites.


Sampling Unit

For Secondary data the sampling unit constitutes all the public sector banks to analyze the trends in NPAs, performance and sector wise NPAs of banks.

Sampling Methods

For the secondary data judgment sampling used for selection of public sector banks on the basis that high ratio of NPAs in public sector banks with compared to other Banks.
Tools of Analysis

In order to achieve the various objectives mentioned, the data collected were entered, arranged and presented using Microsoft Excel and SPSS 13. All information collected for the purpose of the study has been arranged in cross sectional tables, depending upon the requirements of the analysis. The tabulation encompasses absolute figures supported by simple percentage and subjected to statistical analysis through the use of Average, Standard Deviation, CAGR and Independent T-test.

To achieve the first, second and third objective of the study, i.e., to study the pre and post impact enactment of SARFAESI Act 2002 on the level of NPAs, performance and sector wise NPAs, independent T-test are used for comparing mean of pre and post Act period.

2. Primary Data

To carry out the present study about the “An impact of Enactment of Securitization Act 2002 on the NPAs and Performance of Public Sector Banks” The relevant information has been collected with the help of the Structured Questionnaire (Appendix-I) from Assistant managers and loan managers working with public sector banks in Haryana. The Questions cover the various aspects of Securitization Act and Management of NPAs, such as the problem of NPAs, Factor responsible for NPAs, Role and importance of Securitization Act 2002 in the recovery of NPAs. The same Questionnaire is meant for the bank respondents of Public Sector Banks.

Research Instrument

A pre-tested questionnaire is used to collect primary data. The questionnaire was divided into four sections. The first section includes questions on demographic characteristics of the sample taken for the study. The second part includes questions relating to various causes of the NPA, the third part includes questions related to the impact of the Securitization Act in the recovery of NPAs and the fourth part includes questions related to the role played by this Act in the banking industry.

The drafted questionnaire based on literature review and after consultation with experts was refined based on a pilot study. A sample of 10 managers was approached and their feedback was obtained. Based on the feedback, some questions were removed and measurement scale was revised for some questions. Also, the pattern of questions and its grouping is revised based on the feedback obtained. The reliability of the questionnaire is assessed using Cronbach alpha. To
measure the reliability, the data collected were entered and analyzed in SPSS 13, and its reliability is measured.

**Sampling unit**

For primary data the sampling unit constitutes all the Assistant managers, NPA department manager and credit officers of public sector banks in Haryana State.

**Sample size**

The total Sample size is 200 respondents for the questionnaire. The target respondents will be the officers working in the various capacities (like Assistant manager, NPA department manager, credit officers) in public sector banks. The study is conducted Bank wise and Region wise. According to administrative purpose Haryana divided into four regions i.e. Ambala, Rohtak, Hisar and Gurgaon. 40 respondents of each selected bank will be taken from Haryana State (10 from each 4 region).

**Sampling Methods**

In proposed study Judgment sampling, multistage sampling and convenience sampling method used.

**Judgment Sampling** (Selection of 5 public sector banks on the basis that according to the data 75% of the total NPAs covered by these banks.)

**Multistage Sampling:** (Selection of divisions, selection of districts, Selection of Banks and Selection of Managers.)

**Convenience Sampling** used for selection of bank branches from the districts.

**Profile of selected Public sector banks for primary data**

The banks selected on the basis that according to the data 75% of the total NPAs covered by following 5 banks.

- Punjab National Bank
- State Bank of India
- State Bank of Patiala
- Oriental Bank of Commerce
- Central Bank of India

**Tools of Analysis**

In order to achieve the various objectives mentioned, the data collected were entered, arranged and presented using Microsoft Excel and SPSS 13. All information collected for the purpose of the study has been arranged in cross sectional tables, depending upon the requirements of the analysis. The analysis part, responses of the total respondents has been
tabulated. The tabulation encompasses absolute figures supported by simple percentage and subjected to statistical analysis through the use of Average, Standard Deviation, ANOVA and Chi-Square test.

The questionnaire included three types of questions, (1) questions with five point scale (2) multiple choice questions (other than five point scale), and (3) open ended questions. The some questions were analyzed using percentage; Mean Percentage ANOVA, etc. Hypothesis testing is also used in the study. In order to test the association among the selected banks and regions Chi-Square test is applied. ANOVA used for analysis of variance of mean in different banks.

**Major Findings of the study:**

Chapter 4 analyzed the secondary data of the study in which highlighted the three major aspects (1) trends in the movement of NPAs and assets classification, (2) the moderating role of bank performance indicators Capital Adequacy ratio on the relationship between NPA and (3) trends in the movement of sector wise NPAs by Indian public sector banks. The analysis indicates that ratio of gross and net NPAs to total assets and advances decreasing during the study period. The regulatory authorities have introduced significant measures in the post-millennium period that includes SARFAESI Act etc. Even though these measures are significant and to a greater extent helped the banks to reduce their level of NPA, the generation of fresh NPA particularly its increased trend during financial crisis highlights the need for effective credit risk management mechanism. Amount of NPAs recovered through SARFAESI Act 2002 also increased YOY. In terms of assets quality and performance the result found that null hypothesis is rejected in all the case in Andhara Bank, Canara Bank, Indian Bank, Indian Overseas Bank, UCO Bank, United Bank of India and Punjab national Bank which concluded that there is significant decrease in the level of Gross and Net NPAs and improvement in the performance of the Banks after the enactment of Act. There is no significant decrease in the Gross NPAs and improvement in the performance of the Oriental Bank of Commerce after the enactment of the Bank. According to trends in sector wise NPAs the analysis found that level of priority and non-priority sector Advances increase year on year during the period of study. Advances to agricultural and small scale industries also increase year on year but in case of other priority sector advances was decreasing from the year 2003-04 to 2013-14. The result also concluded that
there is no significant change in the level of priority and non-priority sector but significant decrease in the level of public sectors advances after the enactment of the Act.

Chapter 5 analyzed the bankers perception regarding reasons, factors, RBI guidelines and type of loan contribute to NPAs and role played by the Securitization Act 2002 in recovery of the NPAs in public sector Banks (Haryana state). The result of the primary analysis found that now a day’s every banks face the problem of the NPAs due to increase the contribution of NPAs in the business and agricultural loan. Willful default is the main reason for increasing the NPAs in all the selected banks and region. After the enactment of the Act the position of the NPAs in the banks and regions significantly improved and with the help of enforcement of security interest aspect of the Act Delays in recovery of loans are removed. It creates understanding between lenders and borrowers to find effective solutions for debt servicing and minimize the cost of the funding for borrowers. Majority of the respondents in all the Banks are Agree with the statement that Asset securitization likely to play a major role within the Indian banking industry. Securitization Act is important in Reducing Regulatory Capital Requirement for banks. It also increases the return on asset ratios of the banks. The result of the study found that court route is not better than the direct under Securitization Act 2002.

Conclusion

This research primarily focused on public sector banks (PSBs) even though for comparative purpose all the public sector banks are considered. There exists a significant difference in NPA trends after the enactment of Securitization Act 2002 among PSBs. Studies on NPA based on bank groups hence may be further explored by the new researchers. Banks in India are saddled with alarming levels of NPA which eroded the profitability and productivity of banks. Since the post – liberalization period, RBI has initiated several measures to restrict NPA and improve profitability and productivity of the banking sector. Even though the Indian banking sector remained competitive and productive and to a greater extent resilient to the recessionary pressures in comparison to many Asian markets, the current NPA trends is not satisfactory for the well being of Indian SCBs. This study has provided the dimensions of credit risk and its effect on asset quality that banks and regulatory authorities might utilize in their decision making. NPA is closely related to the level of advances and this relationship is mediated and moderated by many bank specific and economy specific indicators. NPA can be reduced to a great extent if banks plan and implement strategies looking into the mediating and moderating
nature of bank performance variables. The research has identified the variables, both micro and macro, that impact NPA of banks. Banks may benefit from the results of this study to revisit their approach to managing NPA of banks.

The result of the analysis found that now a day’s every banks face the problem of the NPAs due to increase the contribution of NPAs in the business and agricultural loan. Willful default is the main reason for increasing the NPAs in all the selected banks and region. Securitization Act has significant impact on level of gross NPAs and Net NPAs of Indian public sector Banks. The study also suffers from some limitations like the results of the study cannot be generalized to other bank groups except public sector banks as the data are obtained with special focus on public sector banks. The study is conducted for the period 1995-96 to 2009-10 for knowing the impact of the Act on the performance of the all the public sector banks. Influence of regulatory measures taken after the study period might influence the findings of the study. Based on the analysis of the primary study, it is found that NPA result mainly because of a willful default of the borrower and diversification of funds. This is happen due to the lack of follow up and supervision by the bankers. This problem can be solved by employing more staff in the loan department and providing more training and development program to them. This will helpful in the follow up and ensure that project is implemented according to the plan or not. Securitization Act 2002 also helpful in increasing the non-interest income for the bank so, it is necessary for the Banks to diversify its activities and takes measures to improve its non-interest income (fee income, commission income etc). Out of the total income of the bank around 90% of total income is generated from interest income. This poses a challenge for banks. When asset quality decrease or NPA increases than the interest income generated also affected considerably, hence pose a major threat to the liquidity of banks. The effect can be reduced by the banks to diversify their activities and generate more non-interest based income. So, at lastly concluded that enactment of SARFAESI Act 2002 help in increasing the recovery rate of NPAs in public sector banks.