CHAPTER III

RESEARCH DESIGN OF THE STUDY

3.1 Introduction

The main business of banking is to collect the deposits from the public and lend it to the individuals, business concerns, institution etc. The lending business is associated with risk. One of the important risks in lending is the possibility of account becoming non-performing assets. Non-performing assets do not earn interest income and repayment of loan to bank does not take place according to repayment schedule affecting income of the bank and their by profitability. Non-performing assets do not generate interest. This will results the banks to make provision for such non-performing assets out of their current profit. The efficiency of a bank is not always reflected only by the size of its balance sheet but by the level of return on its assets. NPAs do not generate interest income for the banks, but at the same time banks are required to make provision for such NPAs from their current output.

3.2 Statement of the Problem

The basic function of banks provided loan to customers on the basis of soundness of investment and quality of loan assets. This function is depending on the capability of credit risk of the banks. Credit risk is associated with lending highly and whenever a party enters into an obligation to make payment or deliver value to the bank. Credibility correlated with the factors of profitability and the long run sustenance of the bank and these factors depend
on the income, expenditure, net interest income, NPAs and capital adequacy. When the money (Assets) is blocked, inadequate cash at hand this leads to borrowing of money for short period of time. This money is called Non-Performing Assets. Time and efforts of management cause indirect cost which bank has to bear due to Non-Performing Assets. Different banks have different ways to deal with and handle Non Performing Assets, which is also an additional cost to the bank. Bank is facing fatal problem of Non Performing Assets as it adversely affects the value of credit risk of bank. It will lose its goodwill, brand image and credit which have negative impact on the people who are investing their money in the banks. Issue and Challenges for Indian Banking Industry. The NPAs of the Indian banking system have assumed large proportions and are a continuing deterrent to the smooth flow of credit to the productive sectors of industry and agriculture. The high level committee on financial system constituted by RBI in 1991 to made recommendations on financial sector reforms also observed that serious problems are plaguing the financial sectors which is reflected in decline in productivity and efficiency and erosion of profitability due to deterioration in the quality of loan portfolio restricting income generation and enhancement of capital funds, accompanied by inadequate loan loss provisions. Concept of NPAs in its present forms came into 1996.

SBI, a leading public sector bank which has contributed substantially to the economic development of the country, is one of the victims of trouble assets. The size of Gross NPAs in the SBI stood at Rs.
39676.46 crores on a total advance of Rs. 867578.89 during 2011-12. What factors contribute to the huge size of the NPAs and what urgent steps to be initiated to stem the root and what permanent mechanism should be put in place make non-performing assets performing warrant a deep understanding of the problem. Hence, the present study is undertaken.

### 3.3 OBJECTIVES OF THE STUDY

The present study has the following objectives:

1. To review of related literature of the non-performing assets, advances and recovery performance of the Banks.

2. To examine the performance of the state bank of india in respect of i.e gross NPAs and net NPAs.

3. To analysis the impact of NPAs on profitability of the State Bank of India.

4. To analysis the officials’ perception on the management of NPAs in the State Bank of India.

5. To offer suitable suggestions, conclusions to reduce the NPAs in SBI effectively.

### 3.4 HYPOTHESIS

The following null hypotheses have been formulated:
Ho1: the level of NPAs is same among the various categories of non-performing assets.

Ho2: There is no significant difference in the recovery performance of NPAs among the different sectors of NPAs.

Ho3: NPAs has a major impact on profit performance of the bank

Ho4: NPAs significantly influence banker spread.

Ho5: There is no significant difference between NPAs on the basis of demographic profile of the respondents.

3.5 SCOPE OF THE STUDY

The present study intends to cover non-performing assets of SBI. It covers the details of good and troubled assets of the SBI from 2002-2003 to 2011-12. This will help to specifically trace out the exact position of the SBI with respect to non-performing assets management. The perception of the officials of SBI on the non-performing quality management is measured by Likert’s five point scale. This study would certainly be a basis for understanding of management of Non Performing Assets of the SBI.

3.6 METHODOLOGY

The research methodology enlightens the method to be followed in research activity starting from investigation to presentation. It includes research design, sampling framework, methods of data collection, framework of analysis and limitations.
3.7 SAMPLING DESIGN

The present study is of descriptive nature, focusing on NPAs in SBI from 2002-2003 to 2011-12. The mutual relationships between NPAs and micro level variables in the banking sector and the officials’ perceptions on the causes, consequences and remedies for NPAs have been discussed.

The present study includes officers and clerks are working in the state bank of India. This is further classified into Assistant General Managers, Senior Managers, Managers, and Assistant Managers and Probationary Officers. The total employees consisting of 215481\(^1\) are working in State bank of India. The total employees are grouped into three categories of officers, Clerk and sub-staff as per the RBI report. The officers’ category consists of 80404, clerks’ category of 95715 and the sub-staff category of 39362. Among the three categories two category were selected for the study. This is because they are mainly concerned with management of non-performing assets. Out of total employee of officers and clerks, two percent were selected for study. Among these 197 officers and clerks were responded for the study. In other words census survey method has been adopted for the present study. The questionnaire was mailed to 360 employees working in the state bank of India. However, only 197 filled up questionnaire were received from them. The response rate constitutes 55.70 per cent.

\(^1\)RBI Reportsof EmployeeCategoryof StateBank of India
3.8 COLLECTION OF DATA

Both primary and secondary data are used in the present study. The secondary data to non performing assets and the micro variable from 2002-03 to 2011-12 were collected from various issues of SBI Annual Reports and RBI Bulletins. The primary data in the form of the perception of officials on management of non-performing asset is measured with the help of pre structured questionnaire.

3.9 FRAMEWORK OF ANALYSIS

The data collected were analysed using tools like growth rate, mean, standard deviation, co-efficient variation, percentage analysis, correlation, t-test, factor analysis, and multivariate test.

3.10 PERIOD OF THE STUDY

The present study covers both primary and secondary date. The secondary date cover the period from 2002-2003 to 2011-12. The primary date covers the period from January 2013 to June 2013.

3.11 LIMITATIONS OF THE STUDY

1. A deep analysis is made non-performing assets only. The performing assets do not pose any problems to credit management.

2. This study is only restricted to State Bank of India only.
3. The data collected for examining the management of non-performing assets are based on primary data collected from the perception of bank officers and clerks.

4. The result of the study may not be applicable to any other banks.

5. Since the part of the study is based on their perceptions, the findings may change over the years in keeping with changes in environmental factor.

6. The variables relating to causes, predictors, consequences and measures to manage the troubled assets were selected from the literature survey.

7. The present study does not ascertain the views from the borrowers who are not directly concerned with management of non-performing assets.

3.12 OPERATIONAL DEFINITIONS

3.12.1 Loan Assets

Both performing assets and non performing assets constitute loan assets.

3.12.2 Performing Assets

This is an asset which is performing and does not disclose any weakness and does not carry more than normal business risk.

3.12.3 Non Performing Assets

It points to the interest and installment of the principal remaining unpaid for a period of exceeding 90 days.
3.12.4 Spread

The term refers to the difference between interest received by the bank and that charged by the bank.

3.12.5 Gross NPAs

This term connotes refinance covered loans and advances exclusive of rediscounted bills and officially written off accounts.

3.12.6 The following are deducted from gross NPAs to arrive at the Net NPA

1. Balance in interest suspense account, if applicable.

2. DICGC or ECGC received and held pending adjustment.

3. Part payment received and kept in suspense account.

4. Total provisions made excluding technical write off made at head office.

3.13 CHAPTER SCHEME

The present study has been organized into six chapters.

The first chapter deals with brief “Introduction” about concept of non-performing assets, classifications, factor for NPAs, problems, causes of NPA, impact of NPAs, concepts and need for the study.

In the second chapter, a brief “Review of Literature” and research work done on various aspects of the subject is taken based on published
material in the form of research papers, papers submitted in different seminars, various articles on the topics, and other literature available.

In the third chapter deals with “Research Design of the Study” which consists of statement of problem, objectives and limitation of the study, sampling procedure, data collection and framework of analysis.

The fourth chapter covers the sources and deployment of funds, advances and recovery performance of loans, “Non Performing Assets” classification and examines the non performing assets in the State Bank of India, segment wise and sector wise. Effects of gross NPAs and net NPAs on micro level variables and effects of NPAs on profitability and spread are also dealt with in this chapter.

The fifth chapter explains the “Perceptions of the Officials – An Analysis” on the management of NPAs on the management of NPA on causes, consequences, predictors and management of NPAs in the State Bank of India.

In the last chapter contains a “Summary of Findings, Suggestions and Conclusion”. The scope of the future research is also dealt with.