

Chapter 3rd

Research Methodology

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3.1: Statement of the Problem:

In view of the current situation of the Indian economy, “Increasing proportion of NPA’s” of Indian Banking industry is a major issue in Indian economy. With reference to this, there is a need to focus on such area Therefore; researcher has selected this topic for the study.

It is necessary for all nationalized banks to focus on increasing NPA level and poor recovery of the advances. According to the Annual Report of March 2015, the NPA level rose from 1.08% (2010) to 4.16% on 2015, collectively of 20 nationalized banks. It does not include share of SBI and its associate’s banks. Recently ⁵on 14th September, 2015 RBI decided to control on the limit of individual’s share of each bank for providing high loan value such are jointly provides by more than one nationalized bank. The main object behind this is to minimize the NPAs proportion.

The RBI obtains reports from all banks at regular intervals. In this reports banks are providing necessary information with NPA record details. In these cases, many banks are not showing their actual results. Due to this, NPA figures might be raising day by day. RBI also encourages the banks to initiate necessary steps for the recovery NPAs or techniques of written off it, to reduce the NPAs level, positively. But unfortunately these practices are not worth fully conducted. So it results in to poor recovery positions.

In exceptional circumstances, punitive measures like appointment of administrator for recovery of loans or suspension of business of the bank are also taken by the RBI.

It has been observed and noted that reason behind of increasing N.P.A is not only the inability of the borrowers to repay the amount of loans and advances but it is a multidimensional issue. In many cases it has been observed that directors and other office bearers are involved in process of increasing NPA by adopting leniency while sanctioning the loans as well as recommendation of low potential proposals.⁶ Because of the growing NPA following problems encounter by banks.

- 1) Decreasing the profit margin.
- 2) Reduction in the earned profit due to diversion of it for NPA provisions.

⁵ Economic Times, RBI Focus on High Value Loan, dt.22/9/2015, Editorial, page 13

⁶ ‘Chalak se Malak’ (Driver to owner), fraud of 1380 crores during 2014 , in Pune, BOM

- 3) Show inferior performance of branches in spite of increased level of advances.
- 4) Decreasing EPS and fewer dividends to equity share holders.
- 5) Qualifications in the Auditor Reports.
- 6) Pressure on the officers for recovery of the NPAs
- 7) Demoralization of the honest borrowers.
- 8) Demoralization of the staff members and depositors.
- 9) Decreasing goodwill / creditworthiness in market
- 10) Decreasing share/stock prices.
- 11) Shortfall of internal sources of the funds which cannot enter in the recycle of banking business because of written off NPAs.

3.2: Relevance of the study:

The topic selected for the Research work, is an area of the concern for all types of banks. It includes nationalized, private (Indian and Foreign) and co-operative bank too. It is assumed that all banks are trying their best to keep the NPAs at minimum possible level. Observations and outcome of this research work will help to all bankers as well as stakeholders and beneficiaries. To protect the interest of all these individuals, it is necessary to take help of RBI's guidelines and to check whether all banks are practicing the same or not. This helps to understand these guidelines are really helpful or not.

3.3: Objectives of the study:

- ❖ To understand proper concept of NPA
- ❖ To understand the Policies framed by the RBI regarding NPA
- ❖ To study of specific measures initiated by the RBI to exercise control on bank in respect of NPA & to minimize NPA level and effectiveness of such measures.
- ❖ To find out the effect of NPA on bank performance & progress of selected bank.
- ❖ To study the effect of RBI policies related to NPA on recovery management of selected bank.(BOM)
- ❖ To suggest maximum and possible measures to keep the NPA at minimum possible level.

3.4: Justification of the Objectives:

The objectives of the research work has framed in such a way that the --

- Entire research work is bringing out the impact of the NPA on the performance of the bank,
- Measures taken by the RBI and role of RBI in the entire scenario.
- The result of the research is clarified the impact on recovery management of the bank.
- The observations, conclusions and the suggestions are helpful for entire stakeholder.

3.5: Statement of Hypothesis:

H1: “The Non Performing Assets adversely affect on the performance level and progress of bank”.

H2: “The Policies of the RBI have resulted into improvement in the performance of recovery management of the bank.

3.6: Research Methodology:

This Research entirely based on a case study method.

Out of 20 nationalized banks, Bank of Maharashtra selected as a case for research work.

Head office of the bank situated within the geographical jurisdiction of Savitribai Phule Pune University. It was hassle free access for researcher to visit at Head Office for collecting of data.

Limitations of the study:

3.6.1) Researcher has focused on-

- ✓ Study of RBI’s guidelines related to N.P.As. issued in favors of nationalized banks.

- ✓ Impact of RBI's guideline related to NPAs, on positions of NPAs of the banks with the help of a case study of Bank of Maharashtra, one of the nationalized banks.
- ✓ Whether the guidelines of RBI regarding NPA adversely affecting on performance and progress of the banks or not?
- ✓ To what extent RBI guidelines are helping to banks for maintaining minimum level of NPA?
- ✓ Whether these guidelines are really affects on recovery management of banks?
- ✓ Up to what extent these guidelines have positive impact on the performance and progress of bank during the research period.

3.6.2) Period selected for the Research study: Financial year 2010-11 to 2014-15

3.6.3) Data collection:

The research work entirely based on secondary data. However, to understand some complexities of the topic, the researcher has interviewed Branch managers and various officers in the 'Recovery Department' of the Bank of Maharashtra.

Primary Data: Researcher conducted pilot study. Based on the collected information the researcher studied further. The researcher also visited to following officer.

- 1) Branch office, Bank of Maharashtra, Budhwar Peth, Pune
- 2) Branch office, The Saraswat coop. Bank Ltd, Budhwar Peth, Pune
- 3) Regional Office, State Bank Of India, East Street & Shankar sheth Road, Pune

3.6.4) Sample Size and Scale of Sample selection:

Any specific geographical area or branch has not been taken into account as a sample(s) for study purpose. **The entire bank is considered as a case study.**

Officers, who are head of the recovery department has been interviewed.

3.6.5) Sources of Secondary Data:

- Policy documents Issued by RBI, related to N.P.A especially addressing to nationalized banks. It's includes –

- Notifications issued by RBI time to time in relation to N.P.A;
 - Master Circulars issued by RBI to nationalized banks in relation to matter of N.P.A.
 - Press Releases, declaration if any in connection to NPA policy
- Financial Annual reports and notes published on it by Bank of Maharashtra during the period of financial year 2010-11 to 2014-15.
 - Quarterly unaudited financial reports / highlights published by the bank for respective quarter end periods during financial year 2010-11 to 2014-15
 - History manual of Bank of Maharashtra.
 - News papers containing the specific news belongs to NPA of nationalized banks
 - Specific Reference books or special paper(s) published which are related to N.P.A. and Recovery Management of the banks.
 - Report of the Narsimhan Committee
 - 'Paper releases' by Bank of Maharashtra.

3.6.6) Data collected through personal visit at -

- ❖ Library – 1) Research Center – BMCC, Pune
- ❖ 2) DCRC, Savitribai Phule Pune University, Pune
- ❖ 3) NIBM, Pune
- ❖ 4) Haribhai V Desai College, Pune

3.6.7) The statistical data collected through main web sites are -

- www.rbi.org.in/report/publications/pressrelease
- www.bankofindia.org.in
- www.saraswatbank.org.in
- www.bankombatsman.in