A STUDY ON NON PERFORMING ASSETS IN BANKING INDUSTRY WITH REFERENCE TO TAMIL NADU CIRCLE

Synopsis of the thesis submitted to Madurai Kamaraj University for the award of the Degree of DOCTOR OF PHILOSOPHY IN COMMERCE

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SYNOPSIS

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INTRODUCTION

After the nationalisation of banks in 1969, the performance of public sector banks (PSBs), which accounts for two thirds of the banking assets in India, has been spectacular in the areas of deposit mobilisation, branch expansion and providing credit to the neglected sectors of economy. Public Sector Banks have also played an important role in advancing the national economy by creating employment opportunities. Banks had to play a developmental role till the financial sector reforms were put in their place. Profitability performance was at the back seat.

After banking sector reforms were introduced, the profitability has gained ground. All banking operations are measured in terms of their ability to generate profit. The profitability has become the buzz word in the Indian banking industry. Profitability performance of banks in India largely depends on the performance of their branches. Under branch banking system, each branch and administrative/corporate office are inter-dependent. So the performance of the branch affects the overall performance of the bank to a great extent.

The macro environment has undergone liberalisation, privatisation and globalisation process that has gathered momentum. The policies of the government have also taken multidirectional shift with the changing scenario of a global village. The opening of the economy has led to a series of structural adjustments. The entry of Multi National Companies (MNC) and Foreign Direct Investments (FDI) in major
thrust areas has led to a new infrastructural set up. Competition and survival of the fittest have become the rule of the game. Technology introduction in the Indian context has many ramifications and dimensions. In the last one and a half decades there has been transformation in Indian economy and it has become a major market of the world. The developed nations and MNCs foresee more prospects in the subcontinent.

Advent of computerization in the Indian banking industry and removal of the entry barriers for foreign banks and new private sector banks have resulted in an increased competition. Earlier, branches were focusing mainly on two activities, namely, accepting deposits and making advances but multi-directional activities are being undertaken now at the branch level.

SCOPE OF THE STUDY

Non-Performing Assets (NPAs) hit banks in several ways. Not only banks lose income on these advances, but they have also to incur heavy recurring expenditure to maintain them in their books. Banks have to ensure adequate capital, maintain reserve requirements, pay interest on deposits, incur legal and other miscellaneous expenses, make provisions on bad loans and above all maintain an image as if nothing has gone wrong with their inherent strengths. The problem of Non-Performing Assets (NPAs) is not unique to Indian banks but exists at moderate and tolerable levels in all other banking countries as well. Non-Performing Assets (NPAs) are pronounced and more common.

The scope of the study is very wide. The present study is made to analyse the impact of Non-Performing Assets (NPAs) in Banking sector. Four commercial banks namely Tamilnadu Mercantile Bank, Canara Bank, Karur Vysya Bank and State
Bank of India have been taken; the variables are collected from the banks’ Annual Reports for the analysis of Non-Performing Assets (NPAs) and its impact on the respective banks.

**OBJECTIVES OF THE STUDY**

The present study has been undertaken with the following as the main objectives:

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).

**STATEMENT OF THE PROBLEM**

The past experience has shown that neither the conventional means of recovery nor even a well-drawn policy has yielded the desired result. This problem is not going to be solved merely by introduction of special schemes for the reduction of Non-Performing Assets (NPAs). A major drag on financial sector reforms in India is in slow progress in the management of Non-Performing Assets (NPAs). Although net Non-Performing Assets (NPAs) have undergone a steady decline since 1992-93,
they are still high by the international standard of about 2 per cent. The effectiveness of Debt Recovery Tribunals (DRTs) was enhanced through the amendment of relevant legislation in 2000.

A recent landmark development which should have a long-term favourable impact in reducing the level of Non-Performing Assets (NPAs), is the passing of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. It lays out the conditions to be satisfied for the establishment of Assets Reconstruction Companies (ARCs), the terms for acquisition of financial assets by the companies, enforcement of security interest, dispute settlements procedures, prudential norms, offences and penalties. The act empowers Banks and Financial Institutions (FIs) with appropriate legal authority to speed up the recovery of the stock of impaired assets through a one-time clearance of balance sheets. This is expected to improve their financial health and functioning considerably.

Therefore, the researcher thought it appropriate to take up a research study on Non-Performing Assets (NPAs) in banking industry especially with reference to Tamil Nadu circle.

HYPOTHESES

In the present study, an attempt has been made to test hypotheses. The formulated hypotheses are:

1. There is no significant relationship among banking variables and Gross Non-Performing Assets (NPAs);
2. There is no significant relationship between banking variables and Net Non-Performing Assets (NPAs);
3. There is no significant impact of Gross Non-Performing Assets (NPAs)/Net Non-Performing Assets (NPAs) on various banking variables,

4. There is no significant impact of banking variables on Gross/Net Non-Performing Assets (NPAs);

5. There is no significant impact of independent variables on the net profits;

6. There are no significant differences between four groups of banks regarding the various banking variables;

7. There is no significant mutual impact among Non-Performing Assets (NPAs) and spread.

8. There is no significant impact of Gross/Net Non-Performing Assets (NPAs) on business performance variables, efficiency indicators and productivity indicators and

9. There is no significant impact of Gross/Net Non-Performing Assets (NPAs) and spread on net profit of the banks.

**METHODOLOGY**

The present study is a comparative study which mainly aims at evaluating the impact of Non-Performing Assets (NPAs) on two public sector banks and two private sector banks. In research methodology, area of the study, period of study, sampling design, collection of data, framework of analysis and limitations are explained.

**Area of the Study**

The researcher has selected four banks. Among public sector banks, State Bank of India and Canara Bank are selected. From private sector banks, Tamilnad Mercantile Bank and Karur Vysya Bank are selected.
Period of Study

The present study has been restricted to a period of ten years from 1995-96 to 2004-05.

Sampling Design

The study covers four Scheduled Commercial Banks (SCBs) from Tamil Nadu circle. The scholar has selected four SCBs per district, one Tamilnad Merchantile Bank, one Canara Bank, one Karur Vysya Bank and one State Bank of India from the Tamil Nadu circle. The entire 30 districts of Tamil Nadu have been selected for the survey.

Sample Size

From each bank the researcher has selected two managers/officers using convenient sampling method. For 30 districts, the selected sample size in four banks is 240 managers / officers. In addition, discussions were held with the RBI officials in Chennai. To have more clarification regarding the selected study, the researcher has also held discussion with the respective staff training college faculty members of the banks. Apart from these, consultations were also held with the Regional Office, officials of the respective banks.

Questionnaire

The questionnaire was designed to collect information from the respondents of the Bank Managers / Officers. The questions have been framed from the point of
view of non-performing assets, various banking variables and legal aspects and tackling measures of Non-Performing Assets (NPAs).

**Data Collection**

Collection of data was an important and rich experience in the whole of this research process. Once all the respondents have been selected, the researcher fixed appointments with the respondents through letters and telephone calls. This approach was found to be very useful and practical as the respondents were well informed of the purpose of the study and well assured of its confidential nature. Even after fixing the appointments, the researcher had to wait in the bank premises so many hours, as the respondents were busy with their routine work. Despite various difficulties, including tedious time consuming travels, this experience was enriching and rewarding in terms of understanding the various aspects of the study.

**Methods of Data Collection**

Questionnaire has been used for the collection of primary data from the respondents.

Necessary secondary data - the main sources of information - have been collected from the RBI Bulletin, IBA Bulletin, Report on Trend and Progress of Banking in India, Annual Reports of the selected banks and websites. The researcher held personal discussion with managers and officers of the banks for pruning the collected information. Apart from that, data have been collected from magazines, periodicals and dailies.
Framework of Analysis

The study has been descriptive and diagnostic research. The collected data were processed with the help of appropriate statistical tools. The selection of statistical tools rests on the nature of data used and the objective of the research problem. In the present study, the applied statistical tools are:

**One-Way Analysis of Variance (ANOVA)**

Analysis of variance is used for examining the differences in the mean values of the dependent variable associated with the effect of the controlled independent variables, after taking into account the influence of the uncontrolled independent variables.

**Regression Analysis**

The regression analysis is used to measure the impact of independent variables on the dependent variable. It is applied when both the dependent and independent variables are in metric form.

In the present study the mutual relationship between various banking variables with the Gross Non-Performing Assets (NPAs) and Net Non-Performing Assets (NPAs) were examined with the help of simple regression analysis.

**Multiple Regression Analysis**

Multiple regression involves a single dependent variable and two or more independent variables.
In the present study, the multiple regression analysis was administered to find out the impact of Gross Non-Performing Assets (NPAs), Net Non-Performing Assets (NPAs) along with other independent variables on the net profit of the banks.

**Growth Rate Analysis**

For the purpose of investigating the growth performance in different banking variables, the annual and compound growth rates have been computed. The annual growth rate is computed with the help of simple linear equation.

In order to compute compound growth rate, the exponential function of the form is used.

In the present study, both the annual and compound growth rates of various banking variables have been computed from the data related to the period from 1995-96 to 2004-05.

**Suggestions**

- 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.

Other suggestions are listed in the thesis.

Chapterisation

The first chapter deals with the introduction and describes the banking industry from the beginning. This chapter consists of the objectives of the study, scope of the study, methodology, framework of analysis, hypotheses and limitations.

The second chapter entitled “Review of Literature” explains the literatures related directly / indirectly to the study. The various works done in the field under study are explained.
The third chapter is devoted to trace the history of the selected banks such as State Bank of India, Canara Bank, Karur Vysia Bank and Tamilnad Mercantile Bank under study along with their products and schemes. And the financial highlights of the banks are also described.

The fourth chapter “The Banking Scenario” describes the causes of Non-Performing Assets (NPAs) in the Banking sector. Several recovery measures like Lok Adalats, DRTs, SARFAESI Act, 2002 and ARCs performances are discussed in this chapter.

The fifth chapter, “Non-Performing Assets (NPAs) and Its Impacts” presents data analysis of the study; different statistical tools are used to analyse the collected data. This chapter evaluates the impact of Non-Performing Assets (NPAs) on banking variables with growth rate.

The sixth chapter epitomizes the significant findings of the present study with suggestions and conclusion.