CHAPTER-3

REVIEW OF LITERATURE

Post liberalization period of India has been witnessing stiff competition in financial markets. The liberalization of financial sector in India is exposing Indian commercial banks in a new economic environment which is being characterized by increased competition and new regulatory requirements.

The paradigm shift of attitude of financial institutions towards the short-term financing has also changed the complexion of scheduled commercial banks. The growing competition and sluggish growth in economy coupled with poor credit deposit ratio, the large volume of non-performing assets in the balance sheet and lack of automation and professionalization in operation have been flaring up the banking situation in the economy.

The amount of non-performing loans is considered as an indicator for assessing banks credit risk, asset quality and efficiency in allocation of resources to productive sectors. The committee on financial system has expressed concern over the erosion in the quality of assets of which non-performing advances constitutes the bulk. The fund lock up in NPAs is not available for productive use.

The present thesis is an attempt to diagnose asset quality and level of nonperforming assets of commercial banks with reference to backward region. In the context of banking sector, the issue of Non-perform in gas sets has been studied and keenly observed by plenty of researchers, a synoptic review of their relevant literature on the topic of NPAs has been described as under

**Amandeep (1991)** estimated profit and Profitability of Indian Nationalized banks. The using trend analysis, ratio analysis and regression analysis. the author tried to study the impact of priority sector lending, credit policies, geographical expansion, industrial sickness, competition, deposit composition, establishment expenses, ancillary income, spread and burden on bank profitability. In line with this study,
many researchers have studied the issue of non-performing asset (NPA) in banking industry.

Narasimham Committee identified NPA as a major threat and recommended prudential measures for income recognition, asset classification and provisioning requirements. These measures embarked on transformation of the Indian banking sector into a viable, competitive and vibrant sector.

The committee recommended measures to improve “operational flexibility” and “functional autonomy” so as to enhance “efficiency, productivity and profitability” (Chaudhary & Singh, 2012).

However, the banking reforms organized by the Narasimham Committee have been proceeding in a phased manner in the country, Khan and Bishnoi (2001) in their study found that the high level of NPAs creates a serious obstacle for pushing through the reforms,

Jain and Balachandran (1997) found that “Management of non-performing assets (NPAs) by banks remains an area of concern, particularly, due to the likelihood of deterioration in the quality of restructured advances

Badhani, K.N. (1997) Effects of financial leverage on systematic risk, cost and value of equity under capital assets pricing model developed a model for calculating return on assets is measured by total operating earnings to total assets and found the positive relation between systematic risk and return on assets. The study concluded that leverage are positively related to the systematic risk, hence systematic risk is also positively related to return on assets.

Joshi (2000) pointed out the reasons behind the emergence of NPA’s and steps taken by Govt. for their recovery. He was of the view that interest earned on advances should always be more than interest paid on deposits as a matter of sound banking policy. Similar study of Baiju S. and Thattil (2000) analyzed NPA’s in commercial banks from year 1993 to 1998 and found that foreign and new private banks have lower NPA’s as compared to public sector banks and suggested way to recover NPA’s. The
level of NPAs is high with all banks currently and the banks would be expected to bring down their NPA.

Balasubramaniam, C. S. (2001) suggested that the level can be managed by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets. Highlighting the reform in banking sector, Sharma (2001) in his study stated that the problem of NPA's of Indian banks remained unsolved because of improper sequencing of reforms. She suggested the proactive approach towards the legislative, infrastructural and regulatory reforms to prevent build up of NPA's in future.

Competitive performance of different bank group was studies by Swami (2001). The researcher to identify factors which could have led to changes in the position of individual banks in terms of their share in the overall banking industry.

The research has analyzed the share of rural branches, average branch size, trends in bank’s profitability, share of public sector assets, share of wages in expenditure, provision and contingencies, net non-performance assets in net advances, spread, has been calculated. It was concluded that nationalized public sectors banks much better than private banks, even they are better than foreign banks in many respect.

Further Parekh (2002) found that the gross NPA's of public, private and foreign banks are rising at a fast rate. So, he suggested the Indian banking industry to embrace the sophisticated risk management practices.

The similarities, dissimilarities, and remedial measures was studies by Prashanth, K. Reddy. (2002) in his research paper on the topic, “A comparative study of Non-performing Assets in India in the Global context” the findings suggest that sheltering of weak institutions while liberalizing operational rules are the main reason of NPA. Author suggest that effective changes required at the different level such as judiciary, polity and the bureaucracy to tackle the NPA problem.

The researcher in this paper tries to deal with the experiences of other Asian countries in handling of NPAs. The author further goes into detail and looks the effect of the reforms on the level of NPAs. The researcher further suggests mechanisms to
handle the problem by drawing on experiences from other countries.

**Mishra, T.P. (2003)** in his research work on title “Managing Non-Performing Assets: A Professional Approach”, concluded that the profitability of the financial institutions largely depended upon the level of income generated through optimum use of the assets after paying the cost of fund for acquiring them and other administrative costs involved therein.

The author further revealed that the high-rise in gross and Net NPA of the banking sector in the recent past as the exponential rate giving an indication, that the ongoing recession was taking a heavy toll on corporate audit discipline.

This was further supported by recovery climate, legal system, approach of the lenders towards lending and many other factors. Despite myriad problems and existing set up, bans had to perform well and achieve the target for NPA reduction affixed as per international standard.

**Subbarao (2003)** in his study on the topic “Is securitization ordinance minimizing NPAs or is improving the profits of PSBs by reducing NPAs” studied about the existing NPA realization system, role of Debt Recovery Tribunal which deals exclusively with the bad loans of the banks and financial institutions. Research found that Debt Recovery Tribunal did not afford sufficient support to banks/FIs in their recovery effort.

His study came out with a conclusion that Indian banking has to achieve profitability at international level while the most critical condition to improve the profitability is reduction in the level of Non-Performing Assets (NPAs). NPAs should be handled with strict enforcement of prudential norms and requirements of transparency. The legal action and recovery process should be made effective with alternative actions alike Debt Recovery Tribunal, Lok Adalats, Securitization and Asset Reconstruction Companies.

**Subboarao, S. P. (2003)** Is securitization ordinance minimizing NPAs or is improving the profits of PSBs by reducing NPAs. The Management Act 38: 208-10.
A legal measure to recover NPA was suggested by Aggarwal (2004) while giving sectoral analysis on the priority, non-priority & agricultural sector. The study has proved that government largely had met the gap that had arisen in public sector banks in respect of Provisioning of Capital.

Chandrashekhar and Ray (2005) in his work on “Financial sector reforms and the transformation of banking.” showed that public sector banks have progressively more opted for investment in risk-free returns of government securities, their share in total earning assets rising from 26 to 33 % during the 1990s. This trend has been reversed in the 21st century.

However, there is no doubt that enforcement of stringent prudential norms, capital adequacy stipulations, setting up of the Board for Financial Supervision (BFS) and pressure to reduce NPAs have made banks so risk-averse that they have reduced their exposure to private loans with even a modest risk of non-recovery.

Chakrabarti, R. (2006) in his study on reforms and reorganization of banking in India discussed the major contemporary issues affecting the banking sector in India. In particular, the study stressed on the nature and effects of interest rate deregulation, performance of public sector bank, the nature and management of Non-Performing Assets, and the new competitive market structure of commercial banking.

The author advocated that Indian banking sector is suffering from considerable NPAs in their asset portfolio. The study recommended more transparency in Public Sector Banks decisions and subjecting these banks to competitive pressures to accomplish the improvements in their performance rather than selling them lock stock and barrel to private parties.

Hosmani and Hudagi (2011) in his study on title “Unearthing the Epidemic of Non-Performing Assets- A study with reference to Public Sector Banks in India. “Concluded that there is a marginal improvement in asset quality reflected by decline in the diverse NPA percentage”. Even then, the quantum of NPAs is alarming with public sector in India.
As NPA being as an important parameter for assessing financial performance of banks, the mounting volume of NPAs will discourage the financial health in terms of profitability, liquidity and economies of scale in operation. The bank has to take timely action against degradation of non-performing assets.


**Rajput, N., Gupta, M., & Chauhan, A. K. (2012)** assessed an empirical approach to the analysis of profitability indicators on NPA. It also discussed the factors that contribute towards NPA, and analysed the solution for the same.

**Rajput, N., Arora, A.P. & Kaur, B. (2012)** in their study focused on management of non-performing assets of the public sector banks under stringent asset classification norms. The study tried to trace the movement of the non-performing assets present in Indian public sector banks and also analysed the performance of the banks in managing the NPA.

**Srivastava, V., Bansal, D. (2012)** did “A study of trends of non-performing assets in private banks in India” to find out whether there is positive trend and control of NPA’s by the private sector banks in India. The data were collected for a period of five years from 2007-2012 from various secondary sources and analysed by average and comparative percentage analysis.

It was found that that level of NPAs is alarming with public sector banks in India but there is minor improvement in the asset quality reflected by decline in the NPA percentage. The banks should take timely action against degradation of good performing assets (Vivek Srivastava and Deepak Bansal (2012).

**Kamra, S. D. (2013)** in his research analyses the position of NPAs in the selected nationalized banks namely State Bank of India (SBI), Punjab National Bank (PNB) and Central Bank of India (CBI). It also focused on the policies pursued by the banks to manage the NPAs and suggested a strategy for the speedy recovery of NPAs.
Koti, K. (2013) considered that in the recent year’s public sector banks have been experiencing a growth in profits. But many drivers of profits of not sustainable in the long run, They should focus on key factors like diversified loan portfolio, robust Internal risk management techniques by putting in place appropriated risk measurement and mitigating framework, sophisticated credit monitoring Systems, higher share of non-fund income in total, which helps in sustainable Profits in long run.

It has been witnessed tremendous changes in the wake of the new economic reforms ushered in the year 1992. The reforms have positively affected the banking system, which has become resilient, Competitive and efficient with better productivity.

The winning strategies for them could be clear customer segmentation and product offerings focus on Cost efficiencies and entrepreneurial ability to face stiff competition. RBI is the central banking authority and aims at financial stability through structural and regulatory measures. It envisages the new economic reforms in the banking sectors as those aimed at enhancing operational efficiency thorough completion and prudential norms.

The biggest challenge for the banks in India is efficient management of non-performing assets. The study focuses to know what the non-performing Assets are, and how they can handle to reduce loss. The study reveals the reason for NPA’s, methods that are used to control NPA’s. The data for the study is collected based on informal discussions and from manuals, annual reports of the Krishna Grameena Bank (Kartikey Koti, 2013).

Kumar (2013) in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks found that Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs).

Rani, C. (2013) had a study to know the impact of securitization legislation in the management of NPAs in selected financial institutions. To attain this target
following banking institutions operating at their local, regional and zonal levels have been approached to provide the requisite data and information.


Banks operating at only one level include Andhra Bank, Bank of Maharashtra, Corporation Bank, Indian Bank, Indian Overseas Bank and United Bank of India and UCO Bank. The study reveals that the NPAs have not only affected the profitability and productivity of the banks and financial institutions, but also put a stigma on the image of Indian banking and a drain on the very value system of the society.

**Samir & Kamra, D. (2013)** in their paper analyses the position of NPAs in selected banks such as State Bank of India (SBI), Punjab National Bank (PNB) and Central Bank of India (CBI). It also analyzed the policies pursued by the banks to tackle the NPAs and suggested a multi-pronged strategy for speedy recovery of NPAs in banking sector. The study spans the period starting from 1996-1997 to 2009-2010.

The authors analyze the trends in NPAs in terms of values, gross and net NPAs as a percentage of gross advances and net advances, gross and net NPAs as a percentage of Total Assets respectively. The paper details about the sector-wise classification of NPAs, reasons for their occurrence, the effects of NPAs on banks, and frequency distribution of public sector banks by ratio of net NPAs to net advances. Selvarajan B.

**Shalini, H. S. (2013)** in her empirical research made an attempt to study the effect of different variables on the non performing farmers, as the main objective of our study is to know what are the difficulties faced by our Indian farmers in paying back the borrowed amount with regular payment of interest. Study suggested that 5 main functions of Management can minimized the NPA’s

**Selvarajan & Vadivalagan (2013)** in their Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks
PSBs found that the growth of Indian Bank’s lending to Priority sector is more than that of the Public Sector Banks as a whole. Indian Bank has slippages in controlling of NPAs in the early years of the decade.

Singh (2013) in his paper entitled ‘Recovery of NPAs in Indian commercial banks’ advocated that the origin of the problem of growing NPA’s lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing.

Vadivalagan, G. (2013) considered that the problem of NPA is not limited to only Indian public sector banks, but it prevails in the entire banking industry. Major portion of bad debts in Indian Banks arose out of lending to the priority sector at the dictates of politicians and bureaucrats. If only banks had monitored their loans effectively, the bad debt problem could have been contained if not eliminated.

The top management of the banks was forced by politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers. The authors estimated that the Agriculture advances have registered a 7 fold net increase, SSI advances have set a record net increase of 8.5 times and the advances to other priority sector have made a net increase of 4.5 times, that of their respective figures in 2001–02.

Sharma, L.S. (2013) in his research analyzed the loans and recovery of BDBL by using elasticity co-efficient. He found that investment in industry sectors covering construction sector is increasing in comparison to agriculture sector. The loan recovery of the BDBL has been satisfactory over the period of study.

The study revealed that agricultural sector had been more satisfactory in management of funds compared to industrial sector. The author suggested that management of the funds needs to re-examine in both the agriculture sector and industrial sector lending so that BDBL can gain its competitiveness and achieve its goal of growth and development of the country.
Tariq, S.M., Adeel, M. & Khalid, S.M. (2013) in their study on title “Non-Performing Assets And Its Impact On Indian Public Sector Banks” analyzed the NPAs and its impact on banking profitability and affect on economy. Study reveals that in Indian banking and financial sector, public sector banks are worst affected in managing NPAs, followed by private sector banks, and the foreign banks.

Author suggests that for better economic future of the nation, potential changes are must to tackle the NPAs problem with effective judiciary, polity and the bureaucracy. It became important to make entire banking and financial sector vibrant and competitive.

The paper provides strategic overview of the problem and deals with understanding the concept of NPAs; it also highlights its magnitude, real causes behind growing and managing NPAs in Indian PSBs. At last he also suggested some mechanisms to handle the problem based on experiences from past with concluding remarks.

Arora, N. & Ostwal, N. (2014) in their research analyses the classification and comparison of loan assets of public and private sector banks. Their study concluded that NPAs are still a threat for the banks and financial institutions and public sector banks have higher level of NPAs in comparison to Private sector banks.

Dutta, A. (2014) studied the growth of NPA in the public and private sector banks in India and analyzed sector wise NPAs of the commercial banks. Data has been collected from secondary sources such as report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance and RBI Economic Surveys of India.

Joseph, A.L. & Prakash. M. (2014) studied the trends of NPA in banking industry from 2008 to 2013, the factors that mainly contribute to NPA rising in the banking industry and provided some suggestions to overcome this burden of NPA. They found that compared to private sector banks, public sector bank is more in the NPA level.

The authors have suggested that Credit Appraisal and Monitoring, adherence to documented risk management policy, proper risk architecture, independent credit
risk evaluation, centralized database, credit management information system and credit modeling can help prevent nonperforming assets to a great extent. Credit modeling, in particular, can predict impending sickness.

Tripathi, L. K., Parashar, A. & Mishra, S. (2014) attempted to investigate the impact of priority sector advances, unsecured advances and advances made to sensitive sectors by banks on Gross NPAs of banks. Under the study, the relative influence of advances made to above mentioned sectors by SBI group & nationalised banks have been analysed separately by employing Multiple Regression model.

The results so obtained suggests that advances to these sectors are negatively correlated to Gross NPA further on the contrary to the assumption of same effect of these advances on Gross NPA it was found that all these advances significantly affects Gross NPA of nationalised banks whereas only unsecured advances significantly affects Gross NPA of SBI Group.

Sulagna Das, Abhijit, Dutta. (2014) in their study on title “A Study on NPA of Public Sector Banks in India” tried to analyze the NPA of 26 commercial bank for a period of 6 years between 2008-2016 using ANOVA statistics, and SPSS software. The main objective of the study is to find out if there are any significant differences in the mean variation of the concerned banks.

The study finds out that there is no significant deference between the means of NPA of the banks at five percent level of significance. Hence, one can safely conclude that banks irrespective of their operations have similar NPAs in the recent years.

Agarwal, N., Dimri, R. & Chaubey, D.S. (2015) in their study on “Non Performing Assets and its Composition: A Comparative study of SBI groups with other Nationalised banks of India” compared performance of the two public banks i.e. SBI and PNB in concern with NPA management. The study indicates the declining trend of NPA in Priority sector and increasing trend in the non-priority sector after 2008.

T- Test indicates that there exists no significant difference in the NPA trend of Nationalised and SBI & Its Associate Banks across the various sector. Multiple Comparisons of NPA of Different Sector Using Tukey HSD indicates that NPA
percentage is significantly different in public sector and priority sector (p=0.00 <0.05) and public sector and non-priority sector (p=0.00 <0.05).

Ayub, Ahamed. K.S. & Vishwanath, Panwar. (2016) in their study on title “A Comparative Study of NON-PERFORMING ASSETS (NPA) in Private Sector Banks and Public Sector Banks in India” has made a comparative study of NPA’s in private sector banks and public sector banks. Author tries to compare the performance on the criterion is how they manage their NPA for good performance the Non-Performing asset of bank have directly impact on the profitability, liquidity and solvency position of the bank. Higher NPA indicates inefficiency of the bank and lower NPA indicates better performance and management of funds.

To increase the performance of the bank, the NPA need to reduce and controlled by the bank. The year 2016 is the black mark for the public sector banks the percentage of the NPA is more than the double from the previous year.

For that various steps have been taken by the government to reduce NPA by amendment of the bill for the fastest recovery of loan in May 2016. Research found that problem of recovery is not with the small loan but with the large borrowers especially in the 2016. For solving that author suggest that strict policies should be followed by the government and bankers.

Mahesh. U. Daru. (2016) in his study on title “NPA in Banking Sector: As an Indicator of Financial Inefficiency” analyse the current NPA situation in NPAs in banking sector. In a study of NPA status of 10 public and private sector bank, author suggests that the NPA need to be reduced and controlled for improving the efficiency and profitability of banks. In the present socio economic situation, most of the Indian banks are struggling with challenges related with NPA’s and it has become a major concern for the Indian economy.

Author suggest various measure like Proper evaluation of credit proposals , Full information about unit, industry, its financial stake, management etc, Managing credit risk , equipping latest credit risk management techniques and exploring the possibilities
of developing credit derivatives markets to avoid these risks, proper follow up mechanism etc to effective management of NPAs.

**Nitin, Bajirao. Borse. (2016)** in his study “The Study of the Effect of Non-Performing Assets (NPA) on Return on Assets (ROA) of Major Indian Commercial banks.” Tries to study the relationship between NPA and ROA of Indian commercial Banks.

With the sample of 4 year data 2010-2011 to 2014-2015 of 11 bank of public and private it was found that, NPA increase rate is public sector bank is higher than the private sector bank. The study also indicates a moderate negative correlation of NPA and ROA of Public sector banks.

**Sengupta, R. & Vardhan, H. (2017)** in their work on “Non-performing Assets in Indian Banks” indicated that continuous growth in the non-performing assets is a recurrent problem in the Indian banking sector. Author indicated that in the last two decade, there have been two incidents when banking sector was severely affected by balance sheet problems.

A comparative analysis of two banking crisis of late 1990s, and year 2008 Global Financial Crisis were analysed. Author has tried to take note of the macroeconomic and banking environment preceding these episodes, explored the policy lessons with suggestions in the banking sector to improve the performance.

**Mohammad, Miyan. (2017)** in his study on title “A Comparative Statistical Approach towards NPA of PSU and Private Sector Banks in India” compared the NPA factor and returns on assets of the PSU and private sector bans for the period of five years i.e., from 2011-12 to 2015-16.. researcher concluded the results and trends and found that NPAs are having a downward trend over the study period, however it was found that Non Performing Assets of public sector banks are still higher than private sector banks.

The returns on the assets have also the downward trends but this is much lower in PSU banks as compared to private banks The t-tests show that the results are not statistically significant at p < 0.05. Highlighting the reason author concluded that public
sector banks are required to lend money to the poorer sections of the society, where the recovery chances are very low. As a result, the NPAs of public sector banks have sharp declining trend, and still it is much higher than private sector banks.

Shraddha, Kokane. & Shriram, Nerlekar. (2017) in his article on title “Recapitalization of Public Sector Banks - Will it reduce the Nonperforming Asset Levels” analyzed the relationship between the Non Performing Asset levels of public sector banks with Capital Adequacy Ratio of each bank over a period of time.

The finding of the research indicates negative correlation between NPA and CAR which bring conclusion that infusion of capital will help banks over their declining nonperforming assets. Author suggested that with the increased capital in the balance sheet the NPA will be equally balanced out.