CHAPTER 6

CONCLUSION AND SUGGESTIONS

The banking sector has emerged as one of the strongest driver for the growth of Indian economy. This has been considered as the most important segment of all the financial sector and so a healthy banking system is necessary for a healthy growth and sustainability of the economy. For the past three decades, Banking system in India has several outstanding achievements to its credit.

The most important is its extensive reach to the masses and services to all segment of the society. Today it is not confined to the metropolitans or cosmopolitans but it has spread its services to the masses in the country and integrating various segment of society for the India's growth process.

6.1 NPAs and Banks

For any financial system, NPAs are an inevitable burden and this need to monitor regularly in order to prevent any account becoming an NPA. On the basis of the review of literature and other studies, it is concluded that the success of the bank depends upon the proper management of NPAs and keeping them within the tolerance level. The reforms in Indian banking sector since 1991 have been deliberated mostly in terms of the significant measures that were implemented in order to develop a more vibrant, healthy, stable and efficient banking sector in India.

The effect of a highly regulated banking environment on asset quality, productivity and performance of banks necessitated the reform process and resulted the incorporation of prudential norms for income recognition, asset classification and provisioning and capital adequacy norms, in line with international best practices.

The RBI has issued guidelines to banks for classification of assets into four categories. (i) Standard Asset (ii) Doubtful Asset (iii) Sub-standard Asset (iv) Loss Asset. The continuous improvements in asset quality and a reduction in non-performing assets were the primary objective expressed in the reform measures. In this context, the present research critically evaluates the trend in movement of nonperforming assets of public sector banks in India during the period 2004 to 2015, thereby facilitates an evaluation of the effectiveness of NPA management in the after subprime crisis period.
Since the policies to deal with NPAs are different in nationalized and private banks, normally it has been observed that problem of NPAs is not significant in some of the private banks. However, some of the nationalized banks have huge NPAs.

After examining private sector banks & nationalized banks, better policies to deal with NPAs will be identified. Keeping in view to literature review, it can be observed that so far very less research work has been presented on NPA and its relationship with banking profitability. With this in mind, the present study has been initiated to explore the NPA and its relationship with the profitability of nationalized and private banks.

The major objectives of the present study is to identify the factors that contribute to NPA, to analyze the NPA trend of selected public and private sector bank in India and, to analyze remedial measure undertaken by government for managing non-performing assets in public sector bank as well as private sector banks.

An effort has also directed to establish relationship between NPAs and profitability of selected public as well as and private sector banks. Attempt has also made to analyze the impact of macroeconomic variable on NPAs of Public and Private sector banks and to analyze the impact of NPAs on Capital Adequacy Ratio.

The present study has been designed to be a narrative study with appropriate analytical discussions presented in tune with the above-mentioned proposed objectives. Total eight banks have been taken in this study out of these four banks are taken from public sector and four from the private sector considering the bank’s profitability based on the current performance figures of the banks. In each sector, one bank from the high performing group and the other from the low performing group has been selected.

Accordingly, SBI, UBI, PNB and IOB from the public sector, while ICICI, South Indian Bank, HDFC, and AXIS bank from the private sector has been selected and performance figures of these four banks have been used for the comparative analysis.

Present study covers the period of last 11 years i.e. 2004-2005 to 2014-2015. The motivation to take this period is that it covers the reform process, banking reforms, major components of reforms like modifying the policy framework, improving the financial soundness of banks strengthening the institutional framework, new challenges and corporate governance. Thus, the selection period provides a base for study.
To analyze the data Use of statistical techniques has become a normal phenomenon. Statistical analysis or tools which are used for financial analysis, Index Numbers, Diagrammatic and graphic presentation of data has been made wherever necessary of the present study.

The researcher picks up the techniques of Kruskal Wallis One Way Analysis of Variance Test and F-test (ANOVA) for testing hypothesis relating to various variables of productivity, profitability and financial efficiency of various banks under study. Another statistical measures utilized like Averages, Ratio, Exponential Growth Rate (EG Rate); Correlation, ANOVA, Levene’s and Welch Statistics, t-test and Z-test were used to test the hypothesis.

Based on findings drawn from the analysis through the techniques mentioned above, followings conclusions have been made:

The overall NPA trend for all scheduled commercial banks in India is showing an uptrend since 2008. For the period prior to 2008 the trend was falling both for Gross Non Performing Assets % (GNPA) and Net Non-Performing Assets % (NNPA). However, after subprime crisis in 2008 the Non-Performing Assets percentage has shown increasing trend.

The study showed the aggregate performance of all the scheduled commercial banks in India for the period of 11 years i.e. from 2005 to 2015. Return on advances ratio (ROAD) for all the banks was increasing for the period of 2005 to 2009. However, it falls for two consecutive years 2010 and 2011 respectively.

A slight improvement has seen recorded in this ratio in 2012 again followed by downfall in all consecutive years i.e. 2013, 2014 and 2015.Trend indicates that Capital to Risk weighted Assets Ratio (CRAR) of all the banks was rising since 2007 till 2010. However, after 2010, the CRAR of banks are falling.

On the basis of the Output of t-statistics this study further concludes that there is no significant difference between; UBI and ASCB, ICICI and APVTB, ICICI and ASCB, AXIS and ASCB, SIB and APVTB, and South Bank and ASCB for their Investment-Deposit Ratio. Credit Deposit Ratio, another indicator of NPA studied using t-statistics. Study concludes that there is no significant difference between; ICICI and APVTB, ICICI and ASCB, ASCB and APVTB, SIB and APVTB, and South Bank and ASCB.
In contrast to the finding of Swami (2001) this study finds and concludes, that private sector banks are managing their NPAs in better way as well as show less NPAs than public sector banks. Study supports the findings of Isaac K. Other (2005) that private banks in middle and lower income countries have experienced significant improvement in operating income.

Study also supports to the findings of Satya (2005) and concludes that privatized banks have performed better as compared to public sector banks in respect to financial performance and efficiency. It also supports the findings of the Jain and Vibha (2007) that there is an acute problem in public sector bank in respect of GNPA and NNPA.

Overall performance of the bank is measured by its profitability. Profitability here consists of ROADV, ROI, ROE, ROA and NIM. Private and public sectors bank’s profitability has been compared in connection with GNPAs and NNPA. Findings help to conclude that there is no significance difference between public sector bank and private sector bank in connection with the correlation between GNPAs and ROADV, GNPAs and ROE, and GNPAs and ROA.

Whereas, there is a significant difference in connection with the correlation between GNPAs and ROI and GNPAs and NIM. In case of NNPA, it is found that there is a significant difference between public and private sector bank for its relation with ROA. For rest of the parameter of the profitability, there is no significant difference between public and private sector banks in connection with NNPA. Based on the findings this study concludes that NPAs have less effect on the profitability of private sector banks rather than public sector banks.

Capital is seen as a cushion to protect the depositors and to promote the stability and competence of financial system around the world. Capital adequacy reflects the overall financial condition of the banks and the ability of the management to meet the need for additional capital. It also indicates whether the bank has enough capital to absorb unexpected losses.

An attempt has been made to know whether there is any significant difference between public and private banks for capital adequacy ratio. On the basis of the findings given in the last chapter this study concludes that there is no significance difference between public and private banks for their NPAs (GNPAs and NNPA) and capital adequacy ratio.
6.2 Suggestions

Based on observation and findings, this study suggests that.

i. The study indicates that NPAs are adversely affecting the capital of the banks and weakening their financial strength. It is also seen that this has become political and a financial issue. It is suggested that the banks and financial institutions should be more proactive to adopt a realistic and structured non-performing assets management policy to get non-performance assets on priority.

ii. Study indicates that as compared to private sector banks, public sector bank is more in the NPA level. Hence it is suggested that public sector bank must take more care in avoiding any account becoming NPA by taking proper preventive measures in an efficient manner.

iii. It is suggested that NPA should be handled with enforcement of prudential norms. At the same time, it is important for the bank to follow the transparency in their transactions and statements.

iv. It is suggested that banks must initiate an adequate preventive measures in fixing pre-sanctioned appraisal responsibility and effective post disbursement supervision.

6.3 Conclusions

In the present competitive global environment, the management of NPA is becoming critical and has become the need of the hour. The banking sector to become effective, NPA management must be an exercise for the entire bank from the Board down the last level. In the last three decade specially after liberalization period, the several regulatory measures have been initiated by the RBI in association with Banks that includes SARFAESI Act etc. to manage the NPA and bring it at the optimum level.

Although these measures are significant and largely 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. NPAs are draining the capital of the banks and weakening their financial strength. It is also as much a political and a financial issue. The banks and financial institutions should be more proactive to adopt a pragmatic and structured non-performing assets management policy where prevention of non-performance assets receives priority. As compared to private sector banks, public sector bank is more in the NPA level. Public
sector bank must take more care in avoiding any account becoming NPA by taking proper preventive measures in an efficient manner.

6.4 Limitations of the Study

Limitation of the study is as follows.

1. The data, used for the study is based on annual report of the bank and secondary data collected from RBI & IBA Bulletin published from time to time. Therefore, the quality of this research depends on quality and reliability of data published in the annual reports.
2. The operation at various branch levels and micro levels have not been covered in this study.
3. This study is in the nature of a positive empirical research. It’s not being proposed to enter in the normative aspect and offer suggestion for improvement in the working.
4. There are different methods to measure the profitability and productivity of the banks. In this connection, the views of expert differed from one another.
5. The present study of common size analysis has been made but common size analysis has its own limitations, which also applies to the study.
6. Accounting ratios have its own limitation, which also applied to the study.
7. This study is related to four public sector banks and four private sector banks. Any generalization for universal application cannot be applied here

6.5 Future Scope of the Study

The Present study has been undertaken to analyze the NPA trend of selected banks for limited period on the basis of secondary data. Its scope can be enhanced if it is based on the primary data to analyze the different reasons of NPA of different bank. The trend can be more reliable and viable and generalized by including more banks into study.