Chapter No.3

Literature Review
Many studies have been conducted by researchers on NPAs in banking Industry. The researcher has made attempts to present a brief review of literature available, which are published in the form of research articles and technical papers published in the journals, magazines and websites in the related area. The review of the literature is used to formulated theoretical analysis of Non-performing loans undertaken in the present study. This study is designed for analyzing NPA and its impact on profitability in selected public sector and private sector banks in India.

Amandeep (1991) attempted to estimate profit and profitability of Indian Nationalized banks and to study the impact of priority sector lending, credit policies, geographical expansion, industrial sickness, competition, deposit composition, establishment expenses, ancillary income, and burden on bank profitability. For this purpose trend analysis, ratio analysis and regression analysis were used.

Swamy (2001) studied the comparative performance of different bank groups since 1995-96 to 1999-2000. An attempt was made by 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. He analysed the share of rural branches, average branch size, trend in bank’s profitability, share of public sector assets, share of wage in expenditure, provision and contingencies, net NPA in net advances, spread, has been calculated. He conducted that in many respects nationalized public sector banks much better than private banks, even they are better than foreign banks.

Rituparna Das (2002) performed a research on Managing the Risk of NPA in the Small Scale industries in India. IN this article the researcher tries to seek a solution to the problem of NPA in the small Scale industries under the present circumstances of banking and insurance working together under the same roof. What is stressed in this article is pressing need of the small scale entrepreneur for becoming aware and educated in modern business management holding a professional attitude, rational decision making and banks have to facilitate that process as a part of the credit policy sold by them.

Prashanth K. Reddy (2002) in his research paper on the topic, “A Comparative Study of NPA in India in the Global context” examined the similarities and dissimilarities, remedial measures. Financial Sector reform in India has progressed rapidly on aspects like interest rate deregulation, reduction in reserve
requirements, barriers to entry, prudential norms and risk-based supervision. The study reveals that the sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective. This paper deals with the experiences of the reforms on the level of NPA and suggests mechanisms to handle the problem by drawing on experiences from other countries.

Dr. Amitabh Joshi (2003) conducted a survey on “Analysis of NPA of IFCI Ltd.” The study found that profitability and viability of development financial institutions are directly affected by quality and performance of advances. The basic element of sound NPA management system is quick identification of Non-performing advances their containment at minimum levels and ensuring that their impingement on the financial is at low level. Excessive reliance on collaterals has led institutions to long drawn litigations and hence it should not be sole criteria for sanction. Banks should manage their exposure limit to few borrowers and linkage should be placed with net owned funds for developing control over high leverages of borrower level. Study also revealed that exchange of credit information among banks would be immense help to them to avoid possible NPAs. Management information system and market intelligence should be utilized to their full potential.

Chandrashekhar and Ray (2005) show that PSBs have increasingly opted for investment in risk-free returns of government securities, their share in total earning assets rising from 26 to 33 percent during the 21st century. But there is no doubt that enforcement of stringent prudential norms, capital adequacy simulations, setting up of the Board for financial Supervision (BFS) and pressure to reduce NPAs have made banks so risk-verse that they have reduced their exposure to private loans with even a modest risk of non-recovery.

Tamal Datta Chaudhuri (2005) examined the “resolution Strategies for maximizing value of NPAs”. The article indicates that defining capital adequacy adversely affects shareholder value and restricts the ability of the bank to access the capital market for additional equity to enhance capital adequacy. So, if a resolution strategy for recovery of dues from NPAs is not put in place quickly and efficiently, these assets would deteriorate in value over time and little value would be realized at
the end except may be its scrap value. The purpose of this paper is to indicate the various consideration that one has to bear in mind before Zeroing on a resolution strategy and provides a state-Resolution Mapping (SRM) frameworks.

Isaac k. Otchere (2005) conducted a study on the performance of privatized banks in middle and low income countries shows mixed results by “Competitive and value effects of bank privatization in Developed courtiers.” The paper observed that private banks in developed countries have experienced significant improvements in operating performance. The improvement in performance remains significant after controlling for persistence in bank performance. A comparison of the performance of privatized banks in developed and developing countries suggests that privatization has encouraged excessive risk taking among privatized banks in developing countries with the consequence that those banks carry large NPAs than their counterparts in the developed countries. They also observed that consistent with the competitive effect hypothesis, investors view privatization announcements as foreshadowing bad news for rival banks.

Sathya (2005) examined the effect of privatizing of banks on performance and efficiency. The time taken was for 5 years (1998-2002) and it was analyzed by using difference of means test. The banking sector in India includes domestic banks as well as foreign banks and objective of this study is to study the impact of privatization on the banking firms. It was concluded that partially privatized banks have performed better as compared to fully PSBs in respect of financial performance and efficiency. Partially privatized banks have continued to show improved performance and efficiency in the year after privatization.

Ved pal and Malik (2007) in their empirical paper examined the difference in financial characteristics of public, private and foreign sector banks based on factors such as profitability, liquidity, risk and efficiency. Sample of 74 Indian commercial banks consisting of 24 public sector, 24 private sector and 23 foreign banks were taken for the period of 2000-2005. Multinomial regression analysis was used and results revealed that foreign banks proved to be high performer in generating with a given level of resources and they are better equipped with managerial practices and in terms of skills and technology. Foreign banks were more consistent with market system as reflected in terms of net interest margin. The public banks emerged as the
next best performance after foreign banks. There were giving a higher return on equity in comparison to foreign and private banks. It was high performance from expense rate and efficiently ratio. The private banks emerged with a better use of resources as compared to PSBs.

Thomas p. Ferguson (2007) conducted a research on “Observations on the securitization of Non –performing loans in Russia.” Asset securitization is a burgeoning trend in Russia as companies burdened by poor credit ratings seek access to capital at lower costs than they would be allowed in traditional equity or debt markets. Study indicates that securitization of these bad loans has not occurred in Russia at the levels one might expect. This has been due to both a relatively small amount of loans that under perform as well as legal and regulatory impediments that have discouraged investors and lenders alike. This article anticipates a significant rise in the level of non-performing loans which will be logically paired with an increased interest of Russian lenders in Securitizing these assets.

Usha Arora (2009) in the research on “An Analytical Study of growth of Credit Schemes of Selected Banks” analyzed and compared the performance (in terms of loan disbursement and non-performing assets) of credit schemes of selected banks for the last five years. Bank wise as well as year wise comparisons are done with the help of compound Annual Growth Rate, mean and Standard deviation and in the second part, a positive relationship is found between total loan disbursement and total NPA of selected banks with the help of a correlation technique. The study found a positive relationship between total loan disbursement and total NPA outstand of selected banks.

Pach Malyadri (2011) in his research paper title “A comparative Study on NPAs in India banking Industry” analyze NPA in weaker sections of public Sector banks and private sector banks specifically in India. The study observed that there is increase in advances over the period of the study. However, the basis of analysis that there is significant improvement in the management of NPAs of the public sector banks in India. It is suggested that government should RBI for apliftment of public sector banks. PSBs should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.
Dr. Nammita Rajput (2010) in her research paper title “Profitability and Non-performing Assets: Indian perspective” analyze the nature extent and magnitude of NPAs of SCBs, as a group. This study also analyses the impact of NPAs on the profitability of PSBs operating in India. Further, the study could provide useful insights to assess if the changes in efficiency of banks have been in the desirable direction and also useful in regulation and formulation of policies. The analysis concluded that there is a diminishing trend in the ratios of NPAs as GNP and NNPAs. There is a high degree of negative correlation between NPA Ratios with ROA.

Kaveri (2001) studied the non-performing assets of various banks and suggested various strategies to reduce the extent of NPAs.

Dong (2002) reviews the nature of NPAs in the Indian banking system and discusses the key design features that would be important for the Assets Reconstruction Companies to play an effective role in resolving such NPAs.

Muniappan (2002) expressed that the problem of NPAs is related to several internal and external factors confronting the borrowers. The internal factors are diversion of funds for expansion, diversification and mode misaction; taking up new projects, helping promotion associate concerns time, cost overruns during the project implementation stage, business failure, inefficient management, strained labour relations, inappropriate technology problems, products obsolescence, etc. Which external factors are recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities.

Dr. Janardhan G. Naik (2006) pointed out on the problems of NPAs to face the challenges before the banking sector.

Chaitanya, V.K (2004) proposed a view that Non Performing Assets are one of the major concerns for banks in India. NPAs reflect the performance of banks. A high level of NPAs suggests high profitability of a large number of credit defaults that affect the profitability and net worth of banks and also erodes the value of the assets. The NPAs growth involves the necessity of provisions, which reduces the overall profits and shareholder value. The problem of NPAs is not only affecting the banks but also the whole economy. The researcher discusses the concept of NPAs, its magnitude and
major causes for an account becoming non performing. The projection of NPA over the next three years in public sector banks.

K. Veerakumar (2012) presented a research paper on “NPAs in priority Sector: A Threat to Indian Scheduled Commercial banks. In this paper he analysed to gain in sights into the position of NPAs in priority sector advances by scheduled commercial Banks(SCBs) i.e. public, old and new private and foreign banks have been considered. To analyze ratio analysis, Average, percentage, olynomial Trend analysis co- efficient correlation and multiple linear regression analysis and ‘t’ test have been used.

Gourav Vallabh, Anoop Bhatia and Saurabh Mishra (2004) in their article have made an attempt to analyse the movement of non-performing assets of public and private banks along with foreign banks operating in India during the year 1994-95 to 2003-04, impacted by macro- economy factors and bank specific factors, using regression techniques and Anova model. The observation was that NPA decrease with increased priority sector loans to total loans and public sector loans were affected by macroeconomic variables at large. But this research didn’t take interest rates, inflation rate in consideration.

Bercoff, Giovanniz and Grimardx (2002) in their study if Argentinean banks tried to measure NPAs by using accelerated failure model encompassing the various bank related parameters as well as macroeconomic variable. Some bank specific parameters in their study were ratio of net worth, net assets, bank’s specific parameters in their study were ratio of net worth to net assets, bank’s exposure to peso loans, and type of bank such as foreign, private or public. Macroeconomic factors in this study were credit growth, reserve adequacy (import/reserves), foreign interest rate and monetary expansion. The study established that variables such as operating cost, exposure to peso loans, credit growth and foreign interest rate, had a negative effect on NPAs. The macroeconomic variables such as money multiplier and reserve adequacy had a positive impact on NPAs.

A.S. Ramasastri and N.K. Unnikrishna (2005) said that NPAs are largely fallout of banks’ activities with regard to advances, both at the management and implementation level, the credit appraisal system, monitoring of end-usage of funds. It also depends on the over all economic environment for recovery of defaulted loans.
Since the overall environment is more or less the same for all banks, non-performing loans of individual banks are mainly a result of management controls and systems put in place by them and recovery procedures. They concluded that higher than average credit expansion can further strengthen banks if there is a good credit appraisal system, strict recovery procedures and overall checks and balances by the top management.

Renu Jatana (2009) in her research paper titled “Impact of NPAs on profitability of banks” had analysed the impact of NPAs on profitability of public sector banks and private sector banks with special reference and comparison of four banks like SBBJ, Oriental Bank of commerce, ICICI bank and Bank of Rajasthan. And at last she conclude that among the four selected banks ICICI is performing well in managing the NPA as regard their profitability in comparison to other banks.

Mahipal Singh Yadav (2011) had analyzed in his research paper titled “Impact of NPAs on profitability and productivity of public sector banks in India”. The impact of NPAs on profitability of PSBs at aggregate and sectoral level and also evaluate the impact of NPAs on profitability with other variables and examine the impact of NPAs on efficiency and productivity of the year 1994-95 to 2005-06. The simple linear regression function is used to analyse the impact of NPAs on profitability of PSBs. Statistically result revealed that the present level of NPAs in PSBs affects fifty percent profitability of the banks and its impact has gone to increase at very large extent when it works with other strategic banking variables.

“Performance of Indian Public Sector Banks with Special Reference to NPA” article is written by Sandeep Sharma & Rajesh Sharma. In this paper researchers have made an attempt to analyze how efficiently public sector banks have been managing their NPA. They have used least square method as statistical tool for projection of trend. Paper shows that PSBs have enough capital in hand to deal with future contingencies. Gross NPA and Net NPA as percentage of advances are continuously declining which shows the efficiency of PSBs.

Dr. B. Chandra Mohan, “NPA’s side effect and it’s curative Muntra” article is written. In this article, researcher study the factors responsible for growth of NPAs from lenders and borrowers perspective and also examine the impact of NPAs on profitability and other strategic banking variables. In support of the objective of the
research there is a primary research questionnaire administration method in the field through stratified random sampling method covering the four districts of Odisha through regional, geographical, economic, cultural, lingual and settlement wise. In the conclusion, he said that the banks should not be loaded with twin objectives of profitability and social welfare which are mutually incongruent. This calls for a strong political will only then can banks be able to find satisfactory solution of the problem.

Ms. Kanika Goyal (2010) has written an article on “Empirical Study of Non-Performing Assets and Management of Indian Public sector Banks”. Under this article she analysed the trend of gross NPAs, Net NPAs, Asset quality of asset, health of diverse categories of loan assets, sector wise NPA etc. The data has been analysed using percentage method and statistical tools such as descriptive statistics, correlation and regression analysis, adjusted coefficient of determination, one way ANOVA and post hoc – Iukey HSD procedure.

Kajal Chaudhary and Monika Sharma have written an article on “Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study”. Under this article researcher compare the performance of public and private banks in India, trend in NPA level and also suggest various measures for NPA management. At last researcher concluded that an efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and gkarge of securities and motivated to take measures in preventing advances turning into NPA. PSBs must pay attention on their functioning to complete private banks.

A Report on “Non-Performing Assets- Challenge to the Public Sector Banks” submitted by Sarvajeet S. Patil. The main objective of the report is to know why NPAs are the great challenge to public sector banks and also understand impact of NPAs and know what steps are taken by banks to reduce the NPAs? The data is analysed and edited them and turned them in the useful tabulation. Gross ratio analysis, Net ratio, provision ratio, problem asset ratio, capital adequacy ratio, doubtful asset ratio, loss asset ratio are used. At last report concluded that the nets have in creased very drastically after 2001, in 1997 the gross NPAs of the Indian banking sector was 47,300 crore where as in 2001 the figure was 63,883 and which
increased at faster rate in 2003 with 94,905 crore. The PSbs involve it nearly 50% of share in the NPA.

Prof.G.V.Bhavani Prasad and D.Veena in their research paper “NPA Indian Banking Sector Trend and issue” has evaluated the operational performance of SCBs in India since 2000, NPAs Trends and issues. The study is diagnostic, exploratory in nature and makes use of secondary data. The statistical tools like averages, percentages, mean and standard deviations are used to analyze the data. And concluded that new private sector banks and foreign banks started with clear state abd latest technologies, the public sector banks and old private sector banks had to overcome the old system and employee resistance and introduce the new systems and processes nad norms to catch up with the competition.

An article on “ Non performing assets in India” is writer by anupam jain, Vinita and swati jain. This paper deals with the concept of non performing asset and non performing assets in Indian commercials Banks. In this paper detail of Non performing assets of total banking sector, distribution of commercial bank credit to priority sector and small scale industries has been listed in the table format. Eight years data of total banking sector are considered. This is done foe the total advances and also for advances to the SSI Sector. In particular check for the significance of NPA as a determinant of efficiency.

An article on “ Analysis of NPA in priority sector lending : A comparative study between public sector banks and private sector banks of India” is written by Dr. Suresh Patidar. This paper examines the NPA in priority sector lending and a comparative study is done between public and private banks. The study analyzed priority sector to find out the percentage share of NPA of all banks and to find out the significant impact of priority sector lending on the total NPA of banks using tools like regression analisis and ratio analysis. The results showed the significant impact of priority sector lending on total NPA of public sector banks whereas in case of private sector Banks, there was no significant impact of priority sector lending on total NPA of Banks.
Nagananthini T (2007) attempted to “Profitability, efficiency and NPA – A critical analysis with reference to the SBI and its Association.” To study the trends in profitability, efficiency and NPA of SBI and its associate banks considering interest, working funds, interest expense, gross profits, not profits, spread, etc. That the profitability is on an increasing trend. “Per employee” and “per branch” indicators were worked out and they showed that the efficiency of the firms has increased all the banks during the study period and declined in gross and net NPA.

The Study made by Dr. Falguni C. Shastri who published a book in “Restructuring Indian Banks”. She has studied the concept of NPAs, Reasons for NPAs and Impact of NPAs. In this book, she has used 10 years data of Public sector banks in India. For the analyses of the data she used different ratios like gross NPA ratio, net NPA ratio, trend in net NPAs and sector wise NPAs etc. At last she gave suggestions to overcome this problems.

The study made by Prof. E. Gordon and Dr. K. Natarajan who published a book on “Banking Theory, Law and Practice” in Himalaya Publishing House. In this book they studied Magnitude of NPA, factors contributing to NPAs like internal factors, external factors and other factors. Early Warning Signals like financial, operational, banking, managerial and External signals were discussed. Management of NPAs by adopting some techniques are discussed in this book.

Dr. P.K. Srivastava had written a book on “Basics of Banking & Finance” which is published in Himalaya Publishing House. In this book author had discussed Norms for treating different advances as non-performing, Impact of NPAs, Assets classification, Some important aspect on provisioning of NPAs, Guidelines for classification of Assets, NPA-recovery measures, Sector-wise NPAs of public sector banks, Reasons for NPAs, RBI tightens norms for Bank’s Non-performing lease assets etc.

A project report on “Non-performing Assets-Challenge to the public sector Banks” submitted by Sachin Nandha. The objectives of this report were to understand what is NPA, what are the reasons for NPAs, why NPAs are the great challenge to the PSBs, impacts of NPAs on the operations of the PSBs, what steps are being taken by PSBs to reduce NPAs and also evaluate the comparative ratios of the PSBs with concerned to the NPAs. Ratios like gross NPA ratio, net NPA ratio,
provision ratio, problem asset ratio, capital adequacy ratio, sub-standard asset ratio, doubtful asset ratio, loss asset ratio, etc. were used for analyses of the data. After analysed the data, researcher came to know that NPAs have increased very drastically after 2001. The banks must find out the measures to reduce the evolving problem of the NPAs.

A project on “Comparative analysis on Non performing Assets of Public and Private Sector Banks” submitted by Anindya Sankar Kundu. In this project, researcher evaluated NPAs in different banks, studied past trend of NPAs, calculated the weighted of NPA in risk management in banking and analysed financial performance of banks at different level of NPA. After analysed the data by using tabulation of data, there are huge differences between private and public sector bank NPA.

A project report on “Comparative Analysis of NPA of Public Sector Banks, Private Sector Banks and Foreign Banks” submitted by Nikhil Prasad. Under this project, researcher studied concept of NPAs, NPA standard of RBI, reasons for and impact of NPAs, Evaluated the efficiency in management NPAs of different types of banks using NPA ratios and comparing NPA with profits.

A report on “Management of NPAs in Banking Industry” submitted by Saurabh Dadhichi. In this report researcher evaluated NPAs in banks, past trends of NPAs, analyzed financial performance of banks at different level of NPAs, evaluated profitability positions of banks and also evaluated NPA level in different economic situation. Gross NPAs reflect the quality of the loans made by banks, net NPA shows the actual burden of banks.

A report on “NON-PERFORMING ASSETS AND ITS IMPACT ON PROFITABILITY OF NEW PRIVATE SECTOR BANKS” submitted by Babasab Patil. In this report researcher try to study the RBI norms on NPA, the various reasons for the existence of huge level of NPAs in Indian Banking, evaluate the impact of NPA on profitability of new private banks and comparison of credit risk path of NPA with 7 selected old private banks and try to study the various steps taken by banks to bring down the NPA’s in respective bank branches and try to recommend measures for improving performance and reduction of NPA. Findings of the report are new private banks has come down less than 1 % while compare to old private
banks whose NPA is more than 5%. The quadrant analysis of credit risk clearly identifies that 7 new private banks are comparatively performing well compared to old selected PSBs. At the last researcher said that unless new private banks adopt strategy to prevent huge level of NPA’s, it go on affecting profitability of banks.