

A Study of NPAs in Selected Indian Commercial Banks

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Abstract:

NPAs are considered to be important parameter to judge the performance and financial health of the banks. The level of NPAs is one of the dirves of financial strength and growth in banking sector. The presence of NPAs has an adverse impact on the productivity and efficiency of the Indian banks which have resulted in the erosion of profits. To face the global challenges and to maintain the liquidity and profitability, it is required to maintain the NPAs at low point through efficient recovery before the converted into bad debts. The issue of increasing NPs is giving fitters to the banking sector particularly in a developing economy like India. The problem of NPA is not limited to Indian banks only. In fact, this is the problem of almost all countries of the world, no matter country is developing, developed or poor. Indian government has already taken number of initiatives in this direction. Among these Securitization Act 2002 is most significant to solve the problem of NPAs. The study observes a number of factors responsible for the generation of NPAs which are important and peculiar to India. like, negligent project appraisal system, political interference and incorrect projections of further demand in the industrial sector, coupled with recession in the last few years, have resulted in the default of many bank accounts, resulting in 'non performing assets'. The empirical study employ both simple and advanced statistical tools: non- parametric statistical tests based on Chi-square test and five point Liked scale has also been used to quantify the intensity of the respondents' attitudes towards the selected attributes.

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INTRODUCTION

Investing As long as an asset generates income expected from it, it is treated as "performing asset" and when it fails to generate income, a loan asset become "NPAs". The problem of NPA is not limited to Indian banks but in fact, this is the problem of almost all countries of the world, no matter country is developing, developed or poor. India is interesting case to study as the problem of NPAs is very stark in Indian banks especially in the Indian public sector banks. In is said that in the current fiscal, gross non-performing assets (NPAs) of Indian banks are seen edging up by 20 basis points (bps) to 4.5 per cent of advances - or rise by Rs. 600 billion to four trillion.

According to Crisil, worryingly, exposure of banks to vulnerable sectors is expected to remain high, just the way it was in 2014-15," According to Crisil, bad loans are seen rising mainly because of withdrawal of regulatory forbearance on restructuring, and high slippages from restructured assets. As much as 40 per cent of assets restructured between 2011- 14 have degenerated to NPAs. It cannot be denied that mismanagement, willful default, fund diversion and siphoning off of funds, delay in project completion, changes in industrial policy, and the dropping interest rate regime have contributed tremendously to rendering several assets sick. Though the NPAs of the Indian financial system are not as alarming as

those of pre-crisis South Asia or China, but they are still quite high Countries such as Korea, China, Japan, Taiwan have a well functioning Asset Reconstruction/Recovery mechanism wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. In India, there is an absence of such mechanism and whatever exists, it is still in nascent stage. Therefore, it is high time for the Indian banking sector to solve the problem of NPA.

REVIEW OF LITERATURE

The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector (Vallabh et al, 2007). Evidence from across the world suggests that a sound and evolved banking system is required for sustained economic development. India has a better banking system in place vis-a-vis other developing countries, but there are several issues that need to be tackled out (Kaul, 2005). Among these, Non Performing Assets is biggest issue of concern (Vittal, 2002). study made by the Reserve Bank of India states that, compared to other Asian countries and the US, the gross non-performing asset figures in India seem more alarming than the net NPA figure (Narshimam, 1999). In the banking literature, the problem of NPLs has been revisited in several theoretical and empirical studies.

The gross nonperforming assets (NAPs) of public sector banks (PSBs) have declined by Rs. 89,189 crore from a peak of more than Rs. 8.95 lakh crore in March 2018 to over Rs. 8.06 lakh crore in March this year. Finance Minister Nirmala Sitharam said, "As per Reserve bank of India (RBI) data on the global operations (Provisional data for the financial year ending March 2019), gross NPAs of PSBs have declined by Rs. 89,189 crore from the peak of Rs. 8,95,601 crore in March 2018 to Rs. 8,06,412 crore in March 2019.

As per RBI inputs, the primary reasons for the spurt in stressed assets have been observed to be, inter-alia, aggressive lending practices, wilful default/loan fraud/corruption in some cases, and economic slowdown.

Government adopted a comprehensive 4R's strategy consisting of recognition of NPAs transparently, resolution and recovering value from stressed accounts, recapitalizing PSBs, and reform in PSBs and financial ecosystem to ensure a responsible and clean system. The steps are taken to expedite and enable resolution of NPAs of PSBs and to improve the condition of banks..

OBJECTIVES OF THE STUDY

- To study the causes (internal and external causes) of NPAs in the Indian public sector banks
- To Study the regulatory framework for managing the NPAs in the Indian public sector banks
- To Study the impact of SERFAESI Act in reducing the problem of NPAs
- To suggest the strategies to manage the problem of NPAs' in Indian public sector banks
- To study and analyze NPAs and their impact on the liquidity of banks.
- To make appropriate suggestion on the basis of analysis regarding reducing of NPAs.

Hypotheses of the Study

- H1 It is hypothesized that there is no relationship between internal and external factors causing NPAs in Indian public sector banks
- H2 It is hypothesized that regulatory framework plays significant role in the control of NPAs in the Indian public sector banks
- H3 It is hypothesized that SRFAESI Act has no impact on reducing the problem of NPAs

RESEARCH METHODOLOGY

Research Types: The present research is mainly of quantitative nature. The Research design is exploratory design. Further, the study formulates more precise research problem by developing hypotheses. Since the scope of the study is very vast, the present study also represents some characteristics of descriptive research design. Sampling Technique used in the study is non-probability convenient sampling. For analysis and interpretation both simple and advanced statistical tools: non-parametric statistical tests based on Chi-square test and five point Likert scale has also been used to measure the intensity of the respondents attitudes towards the selected attributes. 60 bank branches from public

sector (State Bank of Group and Nationalized Banks) located in Delhi, Haryana and Punjab were selected & one respondent (Branch Manager) was selected from each bank branch. Thus sample size is total 60.

RESULTS AND FINDINGS:

Internal Factors as Causes of Bad Loans

To study the various factors causing bad loans were developed as parameters by the researcher. Table 1 indicates that majority of the respondents showed their acceptance regarding all the parameters indicating the reasons how internal factors cause bad loans. 45 percent of the respondents were strongly agreed with parameter E1, whereas 35 percent supported them.

Table 1: Internal factors/causes of bad loans in the selected banks

Parameters (Coding)	SA	A	N	D	SD	Total
Appraisal (E1)	27 (45.00)	21 (35.00)	2 (3.33)	5 (8.33)	4 (6.67)	60 (100)
Managers have poor skills in credit scoring (E2)	24 (40.00)	25 (41.67)	1 (1.67)	4 (6.67)	6 (10.00)	60 (100)
Managers have lack of motivation (E3)	23 (38.33)	22 (36.67)	2 (3.33)	7 (11.67)	6 (10.00)	60 (100)
Managers are not fully competent in appraising the value of collateral (E4)	25 (41.67)	23 (38.33)	3 (5.00)	4 (6.67)	5 (8.33)	60 (100)
No administrative penalties (E5)	20 (33.33)	19 (31.67)	2 (3.33)	10 (16.67)	9 (15.00)	60 (100)
Target Completion (E6)	26 (43.33)	22 (36.67)	1 (1.67)	6 (10.00)	5 (8.33)	60 (100)
Monitoring and Controlling						
Efforts to reduce costs (E7)	21 (35.00)	18 (30.00)	4 (6.67)	6 (10.00)	11 (18.33)	60 (100)
Lack of efforts on part of managers (E8)	18 (30.00)	19 (31.67)	7 (11.67)	9 (15.00)	7 (11.67)	60 (100)
Lack of manpower (E9)	28 (46.67)	18 (30.00)	2 (3.33)	4 (6.67)	8 (13.33)	60 (100)
Lack of focus of the top management (E10)	30 (50.00)	10 (16.67)	5 (8.33)	8 (13.33)	7 (11.67)	60 (100)

Seizing and disposing b of collateral (E11)	22 (36.67)	21 (35.00)	3 (5.00)	5 (8.33)	10 (16.67)	60 (100)
Bad pre section scrutiny (E12)	20 (33.33)	13 (21.66)	9 (15)	10 (16.66)	8 (13.33)	60 (100)

Table 1.1 Analysis of Table 1

Variable name	Parameters	Mean score	Rank
E1	Appraisal	3.98	1.5
E2	Managers have poor skills in credit scoring	3.95	4
E3	Managers have lack of motivation	3.82	6
E4	Managers are not fully competent in appraising the value of collateral	3.98	1.5
E5	No administrative penalties	3.52	12
E6	Target Completion	3.96	3
Monitoring and Controlling			
E7	Efforts to reduce costs	3.53	10.5
E8	Lack of efforts on part of managers	3.53	10.5
E9	Lack of manpower	3.90	5
E10	Lack of focus of the top management	3.80	7
E11	Seizing and disposing of collateral	3.72	9
E12	Bad pre section scrutiny	3.78	8

From the ranking of the mean score in the table 1.1, four important internal factors can be identified which causes the bad loans in the selected public sector banks. There are: (1) Appraisal, (2) Managers are not fully competent in appraising the value of collateral. The above two factors are most and equally important factors which causes the bad loans. Next two important factors which ranked at 3 and four are: Target completion and Managers have poor skills in credit scoring. It is also found that no administrative penalty is least important internal factor causes bad loans in the selected banks. It is also found that monitoring and controlling factors are least important than the general factors causing bad loans in Indian public sector banks

External Factors/ Causes of Bad Loans

Table 2 deals with the external factors /causes bad loans in the selected banks. To study these factors various parameters were developed & the responses to these parameters were collected and shown in the table in appendix. From the ranking of the mean scores in the table 3.1, three important external factors have been identified which causes of bad loans in the selected public sector banks and ranked as (1) Economic down turn, (2) Influence from the central government and (3) Economic down turns. These three external factors are most important causes' bad loans. It is also found that the external factors i.e. Natural calamities resulting in crop failure and 90 days nonpayment time for account turning NPA too short are least important external factors causes' bad loans in selected public sector banks

Table 3. External factors /causes bad loans

Parameters (Coding)	SA	A	N	D	SD	Total
Influence from the central government (F1)	26(43.33)	18(30.00)	4(6.67)	6(10.00)	6(10.00)	60(100)
Interference from the local government (F2)	30(50.00)	12(20.00)	2(3.33)	7(11.67)	9(15.00)	60(100)
Economic down turns (F3)	23(38.33)	26(43.33)	1(1.67)	5(8.33)	5(8.33)	60(100)
Political intervention (F4)	22(36.67)	20(33.33)	6(10.00)	8(13.33)	4(6.67)	60(100)
Willful defaults by borrowers (F5)	29(48.33)	16(26.67)	3(5.00)	4(6.67)	8(13.33)	60(100)
Soft budget constraints (F6)	22(36.67)	20(33.33)	2(3.33)	8(13.33)	8(13.33)	60(100)
Intense competition (F ⁷)	25(41.67)	15(25.00)	5(8.33)	9(15.00)	6(10.00)	60(100)
Insolvency (F8)	20(33.33)	24(40.00)	2(3.33)	7(11.67)	7(11.67)	60(100)
Business failure (F9)	28(46.67)	15(25.00)	4(6.67)	6(10.00)	7(11.67)	60(100)
Government policy (F10)	27(45.00)	12(20.00)	5(8.33)	5(8.33)	11(18.33)	60(100)
Natural calamities resulting in crop failure (F11)	18(30.00)	25(41.67)	3(5.00)	4(6.67)	10(16.67)	60(100)
90 days non payment time for a/c turning NPA too short (F12)	19(31.67)	22(36.67)	1(1.67)	9(15.00)	9(15.00)	60(100)

Table 2.1: Analysis of Table 2

Variable Name	Parameters	Mean score	Rank
F1	Influence from the central government	4.06	2
F2	Interference from the local government	3.78	6
F3	Economic down turns	4.95	4
F4	Political intervention	3.80	5
F5	Willful defaults by borrowers	3.90	3
F6	Soft budget constraints	3.67	9
F7	Intense competition	3.73	7
F8	Insolvency	3.72	8
F9	Business failure	3.85	4
F10	Government policy	3.65	10
F11	Natural calamities resulting in crop failure	3.62	11
F12	90 days nonpayment time for a/c turning NPA too short	3.55	12

Table 3 Hypotheses es g

Hypothesis	Table value of Chi Square (x2)	Calculated value of Chi Square (x2)	Degree of Freedom (df):	Level of Significance
* H1	19.68	0.8563095	11	5%
**H2	16.92	3.7974	9	5%
***H3	3.84	4.04	1	5%

H1 It is hypothesized that there is no relationship between internal and external factors causing NPAs in Indian public sector banks

Since the *calculated value of Chi Square (x2) as mentioned in the above table 3 is less than the table value at 5 per cent level of significance and at 11 df, thus, the null hypothesis is accepted. Therefore, it is revealed that internal and external factors causing NPAs are not related with each others' and both factors are not equally responsible for causing NPAs in Indian public sector banks.

Difficulties usually faced in Implementing Inspection of Accounts on Regular Basis

Further study deals with the difficulties faced in inspection of accounts on regular basis in the

selected banks. To study the difficulties faced by banks in inspection of accounts, various parameters were developed. The respondents were asked to rate the parameters. The responses of respondents were collected and shown in the table 4 in the (appendix) From the ranking of the mean score in table 4.1, two main difficulties faced by banks in inspection of accounts are identified. These are: - (1) Heavy routine work and inadequate staff and (2) Non submission of stocks statements by parties. It is also found that distance borrowers units from branches are not the main difficulty faced by banks in inspection of accounts on regular basis in banks of India.

Hypothesis H2 II It is hypothesized that bank managers faced difficulties in inspection of accounts in Indian public sector banks

Table 4. Difficulties faced by banks in inspection of accounts

Parameters (Coding)	1	2	3	4	Total
Non Submission of Stock statements by parties (G1)	22(36.67)	16(26.67)	13(21.67)	9(15.00)	60(100)
Distance borrowers units from branches (G2)	20(33.33)	17(28.33)	15(25.00)	8(13.33)	60(100)
Heavy routine work and inadequate staff (G3)	24(40.00)	15(25.00)	14(23.33)	7(11.67)	60(100)
Non- availability of trained staff (G4)	25(41.67)	12(20.00)	11(18.33)	12(20.00)	60(100)

Note: Figure in parenthesis indicate percentage

Table 4.1. Analysis of Table 4

Variable Name	Parameters	Mean score	Rank
G1	Non Submission of Stock statements by parties	2.85	2
G2	Distance borrowers units from branches	2.82	4
G3	Heavy routine work and inadequate staff	2.93	1
G4	Non- availability of trained staff	2.83	3

**Since the calculated value of Chi Square(x²) as mentioned in table 3 is less than the table value at 5 per cent level of significance and at 11 df, thus, the null hypothesis is rejected. Therefore, it is revealed that bank managers have not faced difficulties in inspection of accounts in public sector banks.

Research deals with the number of factors considered early warning signals of accounts in the

selected banks. To study these factors various parameters were developed by the researchers. The responses to these parameters were collected and shown in the table 5 in the (appendix)

Factors Considered as Early Warning Signals of an Account Turning into NPAs

Table 5: Factors considered early warning signals of accounts

Parameters (Coding)	Yes	No	Total
No operation in account (H1)	39(65.00)	21(35.00)	60(100)
Irregular repayment (I-12)	42(70.00)	18(30.00)	60(100)
Not routine transactions (H3)	33(55.00)	27(45.00)	60(100)
Frequent return of cheques (H4)	29(48.33)	31(51.67)	60(100)
Frequent over drawings N(H5)	30(50.00)	30(50.00)	60(100)
Income generation from projects no as per the plan (H6)	32(53.33)	28(46.67)	60(100)
Any other (147)	18(30.00)	32(53.33)	60(100)

Note: Figure in parenthesis indicate percentage

Table 5.1. Analysis of Table 5.

Variable Name	Rank
H1	2
H2	1
H3	3
H4	6
H5	5
H6	4
H7	7

Table 5.1 depicts that 'irregular payment' is highly reported warning signals of accounts turning into NPAs in Indian public sector banks, followed by the 'No operation in Account' and 'Income generation from projects no as per the plans. But the least important warning signals are the 'frequent return of

checks' and any others. Table 6 deals with the various suggestions for improving the NPAs recoveries. To study the possible suggestions, various parameters were developed. The responses to these parameters were collected and shown in the table 7 in the (appendix)

Table 6. Suggestions for improving NPAs recoveries

Parameters (Coding)	SA	A	N	D	SD	Total
Sufficient staff to be given (J1)	24 (40.00)	20 (33.33)	3 (5.00)	8 (13.33)	5 (8.33)	60 (100)
Support from controlling office (J2)	28 (46.67)	16 (26.67)	1 (1.67)	7 (11.67)	9 (15.00)	60 (100)
Follow up of NPAs to be increased (J3)	22 (36.67)	23 (38.33)	2 (3.33)	5 (8.33)	8 (13.33)	60 (100)
Recovery machinery to be improved in PSU banks like new generation banks 04)	26 (43.33)	18 (30.00)	4 (6.67)	6 (10.00)	6 (10.00)	60 (100)
Revenue and government body involvement is necessary to recover ⁰⁵)	25 (41.67)	15 (25.00)	5 (8.33)	9 (15.00)	6 (10.00)	60 (100)
SARFAESI Act where ever applicable is to <u>invoked</u> 06)	30 (50.00)	12 (20.00)	1 (1.67)	7 (11.67)	10 (16.67)	60 (100)
Appoint recovery Officer to collection daily basis from transport operators and retailers etc. (J47)	23 (38.33)	17 (28.33)	3 (5.00)	8 (13.33)	9 (15.00)	60 (100)
Stern action to be taken after analysis in the case of willful <u>defaults</u> (J8)	21 (35.00)	16 (26.67)	6 (10.00)	10 (16.67)	7 (11.67)	60 (100)
Effective laws are required to deal with NPAs (J09)	25 (41.67)	10 (16.67)	8 (13.33)	5 (8.33)	12 (20.00)	60 (100)
Compromise is better than recovery through the <u>legal suits</u> (J10)	20 (33.33)	14 (23.33)	8 (13.33)	11 (18.33)	7 (11.67)	60 (100)
More power to the <u>branches</u> (J11)	27 (45.00)	12 (20.00)	1 (1.67)	7 (11.67)	13 (21.67)	60 (100)
Any other (J12)	19 (31.67)	20 (33.33)	2 (3.33)	8 (13.33)	11 (18.33)	60 (100)

Table 6.1. Analysis of table 6

Variable Name	Parameters	Mean score	Rank
J1	Sufficient staff to be given	3.83	2.5
J2	Support from controlling office	3.83	2.5
J3	Follow up of NPAs to be increased	3.77	4
J4	Recovery machinery to be improved in PSU banks like new generation banks	3.86	1
J5	Revenue and government body involvement is necessary to recover	3.73	6
J6	SARFAESI Act where ever applicable is to invoked	3.75	5
J7	Appoint recovery officer to collection daily basis from transport operators and retailers etc.	3.62	7
J8	Stern action to be taken after analysis in the case of willful defaults	3.47	11.5
J9	Effective laws are required to deal with NPAs	3.52	9
J10	Compromise is better than recovery through the be legal suits	3.48	10
J11	More power to the branches	3.55	8
J12	Any other	3.47	11.5

From the ranking of the mean score in table 6.1, top five parameters were identified which are the most important suggestions to improve NPA recoveries in the banks. These are: (1) Recovery machinery to be improved in PSU banks like new generation banks. (2) Sufficient staff to be given. (3) Support from controlling office. The second two factors were equally important. (4) Follow up of NPAs to be increased. (5) SARFAESI Act where ever applicable is to invoke. It is also found that suggestions to appoint recovery officer to collect daily basis from

transport operators and retailers.etc and others were not the important suggestions to improve NPAs recoveries in the selected public sector banks.

Table 8(appendix) indicates that highest 48.33 per cent respondents were strongly agreed with the parameter K1; whereas 36.67 per cent of the respondents supported them. 36.67 per cent of the respondents strongly agreed with the parameter K2 and only 5 per cent of the respondents were strongly disagreed

Table 7 Suggestions to control the problem of NPAs

Parameters (Coding)	SA	A	N	D	SD	Total
Good pre-sanction scrutiny (1(1)	29 (48.33)	22 (36.67)	1 (1.67)	5 (8.33)	4 (6.67)	60 (100)
Effective post-sanction supervision (K2)	22 (36.67)	26 (43.33)	2 (3.33)	7 (11.67)	3 (5.00)	60 (100)

Frequent interaction with borrowers (K3)	23 (38.33)	25 (41.67)	3 (5.00)	3 (5.00)	6 (10.00)	60 (100)
Adherence to KYC (know your customer) norms (K4)	26 (43.33)	20 (33.33)	3 (5.00)	4 (6.67)	7 (11.67)	60 (100)
Take adequate realizable security (K5)	20 (33.33)	27 (45.00)	4 (6.67)	2 (3.33)	8 (13.33)	60 (100)
Branches to have adequate Manpower for follow up / supervision of advances (1(6)	24 (40.00)	16 (26.67)	0 (0)	9 (15.00)	11 (18.33)	60 (100)
Need based financing (K7)	27 (45.00)	23 (38.33)	2 (3.33)	3 (5.00)	5 (8.00)	60 (100)
Obtain confidential opinion from other banks where the customer is also maintain an a/c (1(8)	28 (46.67)	15 (25.00)	4 (6.67)	6 (10.00)	7 (11.67)	60 (100)
Effective recovery steps (K9)	25 (41.67)	18 (30.00)	5 (8.33)	6 (10.00)	6 (10.00)	60 (100)
Any other (K10)	18 (30.00)	24 (40.000)	1 (1.67)	8 (13.33)	9 (15.00)	60 (100)

Table 7.1. Analysis of table -7

Variable Name	Parameters	Mean score	Rank
K1	Good pre-sanction scrutiny	4.17	1
K2	Effective post- sanction supervision	3.95	3
K3	Frequent interaction with borrowers	3.93	4
K4	Adherence to KYC (know your customer) norms	3.90	5
K5	Take adequate realizable security	3.87	6
K6	Branches to have adequate manpower for follow up/supervision of advances	3.55	10
K7	Need based financing	4.07	2
K8	Obtain confidential opinion from other banks where the customer is also maintain an a/c	3.67	8
K9	Effective recovery steps	3.83	7
K10	Any other	3.56	9

From the ranking of the mean score in table 8.1, three parameters were identified which were the most important suggestions to control the problem of NPAs in the banks. These were: (1) Good pre-sanction scrutiny. (2) Need based financing. (3) Effective post sanctions supervision. It is also found that branches to have adequate manpower for follow up/supervision of advances were not the appropriate

suggestion to control the problems of NPAs in the banks of India.

Impact of Securitization Act on NPAs

Table 9 deals with the impact of Securitization Act on Non Performing Assets. To study the impact of Securitization Act the respondents were asked to

give their opinion whether they are agreed (L1) or not (L2) and cannot say anything (L3). Responses to these opinions were gathered and shown in the table 9 (appendix).

Table 8. Impact of Securitization Act on NPAs

Opinion (Coding)	Responses (Percentage)
Yes (L1)	49 (81.67)
No (L2)	11 (18.33)
Total	60 (100)

Note: Figure in parenthesis indicate percentage

Table 8 depicts that Securitization Act has impact on reducing the level of NPAs in the selected public sector banks. Very few respondents reported that Securitization has no impact on NPAs.

Hypothesis H3 It is hypothesized that Securitization Act has no impact on reducing the problem of NPAs ,as mentioned in the table 4

Since the calculated value of Chi Square (x2) is more than the table value at 5 per cent level of significance at 1 df, thus, the alternate hypothesis is accepted. Therefore, it is revealed that Securitisation Act has positive impact on NPAs, thereby reduced the magnitude of problem

Experiences with the Public or Judicial Auction Procedures

Table 9 deals with the experience of the respondents with the public or judicial auction procedures whether these procedures were highly satisfactory (M1), Satisfactory (M2), Less Satisfactory (M3), Not satisfactory (M4). Responses to these parameters were developed and shown in the table 10 in (appendix)

Table 9. Experience with the Public or Judicial Auction Procedures

Levels of Satisfaction (Coding)	Response
Highly satisfactory (M1)	23 (38.33)

Satisfactory (M2)	14 (23.33)
Less Satisfactory (M3)	10 (16.67)
Not satisfactory (M4)	13 (21.67)
Total	60 (100)

Note: Figure in parenthesis indicate percentage

Table 9.1. Analysis of table 9

Variable name	Rank
M1	1
M2	2
M3	4
M4	3

Survey deals with the trend in recovery from NPAs through various initiatives. To study these factors various parameters (N1, N2, N3, and N4) were developed & responses to these parameters were collected and shown in the table 11(appendix) indicates that highest 43.33 per cent respondents reported that Recovery was done through SARFAESI Act (N4), followed by parameter N3, N2 and NI. SARFAESI Act has been found major instrument of NPAs recovery in the Indian public sector banks followed by DRTs and LokAdalats. Compromise scheme and one time settlement scheme has been found least effective in regards to recovery of NPAs in the Indian public sector banks.

Suggestions to Manage the Problem of NPAs

These NPA management strategies for Indian public sector are given as under:

- Special Mention Accounts: In a recent circular, RBI has suggested to the banks to
- have a new asset category - 'special mention accounts' - for early identification of baddebts. This would be strictly for internal monitoring. Loans and advances overdue for less than one quarter and two quarters

would come under this category. Data regarding such accounts will have to be submitted by banks to RBI. However, special mention assets would not require provisioning, as they are not classified as NPAs. Nor are these proposed to be brought under regulatory oversight and prudential reporting immediately. The step is mainly with a view to alerting management to the prospects of such an account turning bad, and thus taking preventive action well in time..

- Establishment of an AMC may be useful when the size of problem reaches systematic proportions so that special management skills are needed. An important purpose of have asset management companies is the managerial factor. The handling of bad loans and assets requires other skills than are normally available in a bank. Real estate specialists, liquidation experts, and people with insights into various industrial sectors may be needed. In addition, managing large amount of bad assets would interfere with the daily running of the bank. If a separate AMC is established to handle bad assets, both the good bank and the AMC could be given independent and transient profit goals. This would provide clearer incentives for managers and staff.
- The study reveals that poor pre and post sanction scrutiny is one of the reasons behind the growing non-performing assets in the Indian public sector banks. Thus, the study identifies the need of effective of pre and post sanction scrutiny. Effective and regular follow-up of the end use of the funds sanctioned is required to ascertain any embezzlement or diversion of funds. This process can be undertaken every quarter so that any account converting to NPA can be properly accounted for.
- Combining traditional wisdom with modern statistical tools like Value-at-risk analysis and Markov Chain Analysis should be employed

to assess the borrowers.

- This is to be supplemented by information sharing among the bankers about the credit history of the borrower.
- The study identifies the need of improving the relationship between the banker and borrowers. A healthy Banker-Borrower relationship should be developed. Many instances have been reported about forceful recovery by the banks, which is against corporate ethics. Debt recovery will be much easier in a congenial environment.
- The study proved that securitization is very effective tools to fight with the problem of NPAs. This has been used extensively in China, Japan and Korea and has attracted international participants due to lower liquidity risks. The Resolution Trust Corporation has helped develop the securitization market in Asia and has taken over around \$ 460 billion as bad assets from over 750 failed banks. Its highly standardized product appeals to a broad investor base. Securitization in India is still in a nascent stage but has potential in areas like mortgage backed securitization. ICRA estimates the current market size to be around Rs 3000 Crores. There is need to make the securitization system more effective in India.
- Countries such as Korea, China, Japan, Taiwan have a well functioning Asset Reconstruction/Recovery mechanism wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. In India, there is an absence of such mechanism and whatever exists, it is still in nascent stage. One problem that can be accorded is the pricing of such loans. Therefore, there is a need to develop a common prescription for pricing of distressed assets so that they can be easily and quickly disposed.
- Some tax incentives like capital gain tax exemption, carry forward the losses to set off

the same with other income of the Qualified Institutional Borrowers (QIBs) should be granted so as to ensure their active participation by way of investing sizeable amount in distressed assets of banks and financial institutions.

- The study reveals that highest lending has been made to the priority sector by the Indian public sector bank. So far the Public Sector Banks have done well as far as lending to the priority sector is concerned. However, it is not enough to make lending to this sector mandatory; it must be made profitable by sharply reducing the transaction costs. This entails faster embracing of technology and minimizing documentation. The study suggest whatever be the sector, the financing should be made on the basis of need.
- The study also identifies the need of improvement in the existing NPAs recovery machinery. An effective strategy of NPA resolution has to involve the financial and operational restructuring of unviable industrial borrowers. Because the representative NPAs of larger size are industrial loans collateralized by the fixed assets of the borrowers, they typically do not have much value if the viability of the borrower is in doubt. However, corporate restructuring has been a difficult process worldwide. Its success depends not only on an efficient and effective corporate insolvency regime, but also on labour laws, competition policies, trade policies, and other structural factors. From this perspective, the resolution of the NPAs in the banking system is only a part of the larger effort of industrial restructuring and structural reforms.
- Last but not the least, another way to manage the NPAs by the Indian public sector banks is Compromise Settlement Schemes or One Time Settlement Schemes.

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