Journal of Advances and Scholarly Researches in Allied Education
Vol. 12, Issue No. 2, January-2017, ISSN 2230-7540

Analysis of Sector Wise NPAs of Public Sector Banks and Securitization Act 2002

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Abstract – The financial system in India comprises of Commercial Banks including Public Sector, Private Sector and Foreign Banks, Co-operative Banks, Development Finance Institutions (DFIs) and various other institutions in the areas of Insurance, Mutual Funds and Government Securities. Commercial Banks are playing a very important role in the financial system and payment systems. Banks are 'special' as financial intermediaries critical for mobilizing public saving and for deploying them to provide safety and return to savers. The deployment of funds mobilized through deposits involves Banks in financing economic activity and providing a lifeline for the payment system. The health of an economy largely depends upon a healthy Banking system, which in turn depends upon a sound asset structure. The banking sector reforms in India during the post-liberalization period, mostly focused on improving the efficiency of the banking sector by incorporating prudential norms for income recognition, asset classification and provisioning and through integrating international standards. In this research paper an attempt is made to examine the sector wise non-performing assets of public sector banks (PSBs) in India and to evaluate the impact of Securitization Act 2002 on sector wise NPAs of PSBs.To examine the objective, the trends in NPAs of Sector wise analyzed before the enactment of the Act (1995-96 to 2001-02) and trends in sector wise NPAs after the enactment of the Act(2003-04 to 2013-14) with the help of mean, standard deviation and T-test.

Key Words: NPAs, priority sector advances, Non – priority sector advances, public sector advances, SARFAESI ACT 2002.

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With comparison to the other countries the problem of NPAs is more in India. In many countries, large numbers of banks provisions are general provisions and identified losses are written –off at an early stage. Banks in these countries carry very little NPAs in their balance sheets. The recovery measures are also very expeditious in view of stringent bankruptcy and foreclosure laws. The concept of gross NPA and Net NPA is not in vogue in these countries. In Indian banking, due to time lag involved in the recovery process and the detailed safeguards/procedures involved before write-offs could be affected, banks even after making provisions for the advances considered irrecoverable continue to hold such advances in their books which are termed as Gross NPA together with the provisions. The high level of the NPAs adversely affects the profitability of the banks and also old as well as new generation private sector banks and foreign banks. The names of the industries which covers the NPAs are iron and steel and related units like Ferro Alloys; man-made textiles; Real estate / Civil and Project related construction; Pharmaceutical; Leather / goods export; Garment export; Fertilizers and Chemicals; Cement and Cotton (fibers / textiles); Tea / Coffee; Jute; Sugar; and Jewellery / Diamonds.

All the Public Sector Banks had no option but also require implementing in later in strict norms of income recognition but also requiring identifying NPA's and making adequate provisioning in a phased manner. The Government of India emerges with the consensus to present a bill in the parliament giving substantial autonomy to the management of PSB's in releasing the blocked funds in the NPA's account by lawful recovery means as formulated in the forms of Securitization Act of 2002. For the first time Banks management were equipped with sharp result orienting tools of the Securitization Act to realise long term NPA's. Under the Act Banks were authorized to attach immovable properties of the defaulting borrowers and sale through auction of such property, the proceeds of which were directly receivable by the Bank for appropriation in borrowers NPA's account.

General causes for Non-Performing Assets in priority sector advances-

_Directed and pre-approved natures of loans sanctioned under sponsored programmers.

_ Mis-utilisation of loans and subsidies.

_ Diversion of funds.

_ Absence of security.

_ Lack of effective follow-up (post-sanction supervision& control).

_ Absence of bankruptcy and foreclosure laws.

_ Decrepit legal system.

_ Cost in-effective legal recovery measures.

In Non Priority Sector Advances:

_ Improper and inadequate credit appraisal.

_ Demand recession.

_ Frequent changes in Government's policies.

_ Industrial sickness and labour problems.

_ Antiquated legal & judicial system.

_ Lack of legal reforms (Bankruptcy Foreclosure laws).

_ Diversion of funds.

_ Willful default.

_ Technology obsolescence.

_ Incompetence-Management failures.

_ Fear psychosis among Banks & lack of effective follow-up

(policing of assets by Banks)y

_ Political compulsion and corruption.

REVIEW OF LITERATURE

Prashanth K. Reddy (2002) inhis research paper highlighted that due to deregulation in interest rate, reduction in reserve requirements and removal of the entry barriers make progress in the financial sector. An attempt made in this paper was to examine the similarities, dissimilarities and remedial measures related to NPAs. The study reveals that due to the introduction of liberalization, privatization and globalization many changes came into the banking industry. The study revealed that most important changes were related to tackle the problem of NPAs. This paper also deals with the experiences of other Asian countries with respect to handling the problem of NPAs. This paper also examined the effect of reforms on the level of NPAs. By the experience of the other countries many suggested mechanism were also provide to handling the problem of NPAs.

Alex Cowley and J. David Cummins (2005) in their study found that the Securitization is one of the most important innovations of modern finance. The securitization is a process which converts the illiquid assets into liquid assets by way of issuing securities in the capital market. It gives opportunity related to diversifying the risk by to invest in new classes of risk that enhance market efficiency. The credit is also managed with the help of the securitization process in which cash flow streams to be traded often involve contingent payments as well as more predictable components .Securitization provides a recovery mechanism without the intervention of the court. In addition to facilitating risk management, securitization process also reduces the liquidity risk in the financial markets by replacing untraded off balance-sheet assets with liabilities of tradable financial instruments. The reason to use the asset securitization process is market failures.

Vadivalagan G, Selvarajan B (2011) highlighted that the health of an economy depends upon a healthy banking system. The health of the banking depends upon the effective credit management. Major part of the income of the bank contributed by the Loans or credit portfolio. These loans contribute towards economic development of the country in the area of Priority Sector. This paper focused on NPAs of priority sector in Indian banks. The Agricultural sector is the largest sector in the total priority sector. According to the RBI guidelines, the target for the agricultural sector is 18 percent of net bank credit. Thus out of 40 percent credit target to total priority sector bank the credit for agriculture takes a sub-limit of 18 percent there had no fixed target for the banks to grant advances for SSI units. For the upliftment of the weaker section the Indian Bank had disbursed more advances under other priority sector. The NPAs had more in the other priority sector advances. The reduction in the level of NPAs in agriculture and SSI sector was better as compared to the NPA reduction in other priority sector advances. While the total priority sector advances had increased by 129% in five years. It was a major task for the bank to manage the level of the NPAs. Indian Bank disbursed more loans under SSI without reducing the share of advances to agriculture sector. So, Indian Bank give more focus on the NPAs OF both in agriculture and SSI sector.

RESEARCH METHODOLOGY

Research methodology is a way to solve the research problem systematically. While designing the research work the following methodology will be adopted.

OBJECTIVES OF THE STUDY

The specific objective of the present study is given as:

To analyze the trends in the sector wise advances of Indian public sector banks before and after the enactment of SARFAESI Act 2002.

HYPOTHESIS OF THE STUDY

H_0:(There is no significant difference between the Sector wiseNPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)

H_1: (There is a significant difference between theSector NPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)

Research design This research by and large is descriptive in nature. This research used secondary sources in order to explain the impact of the enactment of SARFAESI Act 2002 on the sector wise advances of public sector banks in India. To achieve the stated objectives, data are collected from various sources and include;

Research reports, published articles, news reports and conference proceedings available in both national and international level related to NPA. The information obtained from these sources is used for critical evaluation of the subject and identify research gaps in the area of study.

Sampling Unit: For Secondary data the sampling unit constitutes the public sector banks to analyze the trends in thesector wiseNPAs of PSBs after the enactment of the Act.

Tools of Analysis: In order to achieve the various objectives mentioned, the data collected were entered, arranged and presented using Microsoft Excel and SPSS 13.All information collected for the purpose of the study has been arranged in cross sectional tables, depending upon the requirements of the analysis. The tabulation encompasses absolute figures supported by simple percentage and subjected to statistical analysis through the use of Average, Standard Deviation, CAGR and Independent T-test.

Analysis and interpretation:TO examine the objective, the hypothesis made that there is no significant difference between the sector wise NPAs of PSBs before and after the Enactment of the Act therefore the trends in NPAs of Sector wise analyzed before the enactment of the Act (1995-96 to 2001-02) and trends in sector wise NPAs after the enactment of the Act (2003-04 to 2013-14) is undertaken. The Trend in the priority sector, non- priority sector advances and public sector advances are also analyzed. Inferences were drawn based on statistical analysis.

Table-1.1

Trends in Sector wise Advances before the SARFAESI Act 2002

(From year 1995-96 to 2001-02)

Sector wise NPAs	Priority Sector Advances		Non – priority sector Advances		Public sector Advances	
Year	Amount in crore	%	Amount in crore	%	Amount in crore	%
1995-96	19106	48.3	19067	48.2	1411	3.6
1996-97	20774	47.7	21341	49.0	1461	3.4
1997-98	21184	46.4	23105	50.6	1462	3
1998-99	22606	43.5	27608	53.4	1496	2.9
1999-00	25150	44.5	28524	53.5	1055	2
2000-01	24159	45.4	27307	51.4	1711	3.2
2001-02	25150	46.2	28405	52.2	1116	2
Mean	22590	46	25051	51.2	1387	2.8
CAGR	0.0400	-.0063	0.0586	0.0115	-.0330	-.0805

Source: *(RBI) Report on Trend and Progress of Banking in India, RBI.*

Table1.2

Total Priority Advances (As at end March)

(From year 2003-04 to2013-14)

Sector Wise NPAs	Priority Sector Advances		Non – priority sector Advances		Public sector Advances	
Year	Amount in crore	%	Amount in crore	%	Amount in crore	%
2003-04	23840	47.5	25698	51.2	610	1.21
2004-05	23397	49.1	23849	50.0	450	0.94
2005-06	22374	54.1	18664	45.1	340	0.82
2006-07	22954	59.5	15158	39.3	490	1.26
2007-08	25287	63.6	14163	35.6	299	0.75
2008-09	24318	55.2	19251	43.7	474	1.08
2009-10	30848	53.8	25929	45.3	524	0.9
2010-11	41287	58.09	29515	41.5	278	0.39
2011-12	56201	49.96	56071	49.8	217	0.19
2012-13	66928	42.93	88853	57.0	108	0.07
2013-14	79200	36.5	133000	63.5	253	1.21
Mean	37876	51.8	40922	47.4	2.87	0.80
CAGR	0.1153	-.0237	-0.3803	.0198	-.0769	0000

Source: *(RBI) Report on Trend and Progress of Banking in India, RBI.*

Table-1.3

Analysis of Sector wiseAdvances of PSBs

	Secu_Act	N	Mean	Std. Deviation	t	df	Sig. (2-tailed)
Priority Sector Advances	Before	7	22590	2344.57			
	After	11	37876	20397.19	1.953	16	.069
Non-priority Sector Advances	Before	7	51.1857	2.05623			
	After	11	47.4545	8.00842	1.195	16	.249
Public Sector advances	Before	7	2.8714	0.63957			
	After	11	0.8018	0.41614	8.369*	16	.000

*Note: * significant at 5 percent*

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INTERPRETATION

The table **1.1** revealed that amount of priority sector advances was Rs.19106 crore in the year 1995-96 and increase up to Rs.22590 crore in the year 2001-02. Table **1.2** showed that amount of priority sector advances increased year on year i.e. 2003-04 to 2013-14. The result of the table highlighted that share of priority sector advances to total NPAs was 48.3% in the year 1995-96 and decreased up to 36.5% in the year 2013-14. From the above table it can be inferred that during 2005-06 to till 2010-2011 priority sector share was high in the total NPAs after year 2011 it starts declined. The table-**1.1 also** revealed that amount of non-priority sector advances was Rs.19067 crore in the year 1995-96 and increase up to Rs.28405 crore in the year 2001-02. Table-**1.2 also** showed fluctuating trend in the amount of non- priority sector advances i.e. 2003-04 to 2013-14. The result of the table highlighted that share of priority sector advances to total NPAs was 48.2% in the year 1995-96 and increased up to 63.5% in the year 2013-14. From the above table it can be inferred that in the year 2003-05 and 2012-14 non-priority sector share was high in the total advances Table 1.3 highlighted that the difference in the mean scores (22590v/s37876, t-value1.953) is insignificant at 5 percent thereby concluding that no significant change in the level of priority sector advances after the enactment of the Act. CAGR of after Act period is greater than the before Act period. Table 1.3 also highlighted that the difference in the mean scores (51.187v/s47.4545, t-value1.195) is insignificant at 5 percent thereby concluding that no significant change in the level of non-priority sector advances after the enactment of the Act. CAGR of after Act period is less than the before Act period.The table-**1.1** revealed that amount of public sector advances was Rs.1411 crore in the year 1995-96 and decreased up to Rs.1116 crore in the year 2001-02. Table-**1.2** showed fluctuating trend in the amount of public sector advances i.e. 2003-04 to 2013-14. The result of the table highlighted that share of public sector advances to total advances was 3.6% in the year 1995-96 and decreased up to 1.21% in the year 2013-14. Table-1.3 highlighted that the difference in the mean scores (2.8714v/s0.8018, t-value8.369) is significant at 5 percent thereby concluding that decrease in the level of public sector advances after the enactment of the Act.

CONCLUSION

This research reviewed the impact of Securitization Act 2002 on the trends in the sector wise NPAs of public sector banks and developed an alternative method to evaluate the credit risk and asset quality of banks. The review of literate and feedback from experts enabled this research to develop the various dimensions of the NPA in Indian banking sector. This background provides a strong foundation for future research in this subject. The regulatory authorities have introduced significant measures in the post-millennium period that includes SARFAESI Act etc. Even though these measures are significant and to a greater extent 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. Amount of NPAs recovered through SARFAESI Act 2002 also increased YOY. According to trends in sector wise NPAs the analysis found that level of priority and non-priority sector Advances increase year on year during the period of study **.**The result also concluded that there is no significant change in the level of priority and non-priority sector but significant decrease in the level of public sectors advances after the enactment of the Act.

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