

Factors Affecting Non Performing Loan In India

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Abstract : This study investigates the factors affecting Non-Performing Assets of Commercial Bank of India during the period from 2015 to 2019. The variables were preferred based on conclusion from the previous literatures. Secondary time series statistics were collected from audited yearly reports and performance reports of the bank and for data purposes I have taken details of two banks (Indian Bank and SBI) ; and the required ratios were calculated. Multiple linear regression equation was used to determined the model using SPSS version 20 software. The result realise from regression output determined that between the calculated variables, loan to deposit ratio; financial performance measured in return on equity; and capital adequacy remain establish to be statistically significant determinant of NPLs. diversely, loan growth, cost effectiveness and bank size were analytical insignificant in affecting NPL. The findings reveals that, variables for example poor credit risk evaluation, concentrate on collateral based lending, poor loan monitoring and follow-up, poor banker's ability in commencing with lending matters, undiversified loan products, short loan life and lack of credit advisory practices were also the bank specific factors that affect NPLs. The study prefers that concentrating on these NPL could further diminish the probability of default while extending credit in the future. Further studies were suggested by counting macroeconomic and other bank specific variables; and by rising the sampled periods.

Key Words: Commercial Bank of India, Non-Performing Loans (NPLs), Loan Growth Rate (LGR), Loan to Deposit Ratio (LDR), Cost Efficiency Ratio (CER), Capital Adequacy Ratio (CAR), Return on Equity (ROE) and Bank Size (SIZE).

1. INTRODUCTION

Non-performing Assets of banks in India have started rising from the fiscal year 2014, but particularly 2019 have brought a lot of chances and merger for the Indian banking sector. Almost all of the attempts have unsuccessful, instead, the state of the stressed assets has provoke despite these attempts. Also, to feature to the woes, investments are falling along with the credit. Bad loans are breaking all records, reaching levels where the provisioning has become very difficult. Gross NPAs of SCBs, as per RBI statistics on global operations, rise from Rs. 3,23,464 crore as on 31.3.2015, to Rs. 10,36,187 crore as on 31.3.2018, and as a end result of Government's 4R's strategy of identifying, resolution, recapitalization and reforms, have reduced by Rs. 1,02,562 crore to Rs. 9,33,625 crore dated 31.3.2019 (experimental data reported by RBI on 2.7.2019) Since 2011-12, scheduled business banks, SCBs have witnessed a holdup in their growth. this era is coincident with the increase of NPAs too. company sector started turning to different sources of funding company bonds and business papers (Economic Survey 2015-16, Government of India). one among the key reasons behind India's loan disadvantage is that the concentration of loans among the enormous companies. the company sector tributary to a large chunk of total non-performing assets square measure stressed themselves to pay the loans back. throughout 2013, one third of the company debt was returning from the businesses with but 1 percent of interest coverage quantitative relation. Interest coverage quantitative relation is employed to work out however simply an organization pays back interest on its outstanding debt. The share of the businesses with interest coverage quantitative relation of but 1 percent, "IC1 companies" inflated with time. These IC1 companies were in the main among the sectors of infrastructure and metals. within the second section of 2016, regarding four-fifth of the rise in NPAs were owed to the MSMEs loans. Thus, India's NPA drawback became a "twin record problem", since it's evident that each the sides of the balance sheet are festered.

The high level of Nonperforming Assets affects the earning ability and profit of these banks. Performance and profit of banking sector may well be a substance of nice concern to the economy. Non-performing loan not only scare the employment of credit but put together credit creation. Higher npa demand higher provisions for dangerous debts and therefore affects the gain of banks that could be a matter of nice concern. Higher NPAs put together place the banks at the possibility of bankruptcy. Therefore, it's important to review the factors that have caused mounting NPAs within the banking sector of the country. Baslas and Bansal (2001) within their study on banking sector reforms found that the quantity of FTO may well be a contentious issue and a big parameter within the analysis of the monetary health of industry. Gonzalez-Hermosillo et al., (1997), just in case of Mexican banking sector, found a positive relationship between the quantitative relation of nonperforming loans to total loans and also the likelihood of failure. A high share of npa not solely reduces bank's financial gain, it additionally will increase observance payment of the bank. However, recent studies by researchers emphasize on the blow of non-performing assets on the profit of the banks. Not only performance factors (ROE, ROA, NIM, etc.) but put together efficiency factors like FTO, contribute to the profit of the banks. Mohapatra and Mohanty (2012) in their study on impact of npa on gain of Indian banks have found that there's high degree of indirect correlation between gain of banks and their share of npa. Compared to the private banks in india, the story of the general PSB is far worse. PSBs contribute to a far larger chunk of NPAs than their non-public peers. Over many of the NPAs were returning from PSBs. For a minimum of thirteen of the popular public sector banks, over two hundredth of their outstanding loans are classified NPAs or restructured. Share costs have taken an enormous hit, inflicting investors to show to non-public sector banks. ROA has been severely low for last 2 years, abundant below the international standard of twenty-two. Even though demonetization, PSBs noticed a slow moving growth in half-moon. once banks had to clearout their balance sheets throughout the standard Review, profits for the Dec quarter. a number of the overall public sector banks exaggerated their interest margin, that is the distinction between the common term deposit rate and conjointly the average rate

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of interest, thus on extend their earnings, but had to cut their lending rates eventually. This paper is supposed to assess the factors poignant NPLs among the Indian banks, price whether or not or not bank possession possesses any impact on NPAs and thus advocate policy recommendations. The Definitive of NPAs are usually categorised in 3 section by researchers viz., macroeconomic factors, bank specific factors, and borrowers" definite factors. a number of factors are governable whereas some are uncontrollable factors. Bank specific factors and client specific factors are governable by banks to some extent whereas macroeconomic factors are uncontrollable.

2. REVIEW OF LITERATURE

Macroeconomic Factors

- In the literature determinants of NPAs are classified into economic science part and bank specific part. economic science factors embrace GDP, per capita, value will increase, interest rates, business cycles etc .
- Ghorbel (2014) have studied the relation between economics variables like GDP and inflation and Nonperforming Assets .
- Metaxas (2012).It has been acknowledged that at the development stage of the economy, NPAs are relatively low as a results of every shoppers and firms' revenues are increasing which they therefore pay off their amount outstanding. but throughout the recessive quantity banks tend to apportion credit even to poor quality borrowers and consequently unhealthy debts multiply.
- Lis, et.al.,(2000) have establish that GDP growth had negative impact on NPAs, as a results of increasing gain levels businesses repay their debts and NPAs will decline. inflationary pressures in desert African countries have semiconductor diode to increasing unhealthy loans.
- Fofack (2005)Rate of state is in addition another economics variable impacting NPAs
- Rinaldi and Sanchis-Arellano (2006) analysis has established that there is relationship between rate and default rate likewise.
- Louzis et al (2012) and many of various researchers in conjunction with economics factors as determinants of NPLs in addition thought of bank particular variables. actually, they thought of sizable quantity of bank specific variables as a outcome of the determinants of NPLs.
- Sergio (1996), an increase inside the danger of loan assets is stock-still during a) very bank's disposition policy, like relatively unselective and inadequate assessment of prospects of the companies and sectors.
- Deyoung (1997) and Louzis et al's (2012) unhealthy management, skimping and loss in addition cause high NPAs. unhealthy management policies embrace inefficient credit marking, unhealthy management and follow from borrowers, and lack of collaterals or unhealthy collaterals. Skimping implies less effort banks devote to verify higher loan quality,

the refined deal of cost-efficient they're going to be and thus the a great transaction of the number of NPLs area unit progressing to be inside the long run. moral hazard' hypothesis look into the number of capital out there with the banks. It assumes that banks' low-capitalization causes a great agreement of NPLs. totally different bank specific factors have an impression on NPLs square measure banks' diversification likelihood and bank size. The link between bank exact factors and NPLs is uncertain in its direction.

- according to Hu et al (2004), massive banks permit managers to appraise loan and devote a lot of resources to check that loan doesn't become unhealthy. Bank size is disapprovingly connected with NPLs. this suggests that larger banks have lesser NPAs since they need bigger capability to regulate NPLs and additionally they need smart management i.e. their credit marking and different standards followed for loan disbursements are going to be a lot of rigorous
- Salas and Saurina (2002) Alhassan, Coleman and Andoh, (2014). Bank possession is additionally one in all the variable determinative NPAs of the banking sector. it's typically believed that personal sector is a set of economical that the general public sector. In Asian country we've banks of public sector banks, private sector banks and overseas banks. In Asian country once 1992, all the 3 classes of banks area unit subjected to same prudent and restrictive norms and so level enjoying field was created.
- Dimova (2003), observe that public sector banks achievement is in no approach inferior to the personal sector banks. Sarkar et al. (1998) found some weak proof to place forward that possession was a major determinant of performance. However, they used knowledge of nineties

Bank Specific Factors

- Saurina, (2000), Kalani (2009) Insider afford, political connection of bank owners and officers, lack of suitable skills amongst loan official Inadequate management of credit risk. It was establish that still conservative managers discover market demands for higher profits very difficult to prevail over. Weak credit analysis is also caused by unfaithful staff of banks.
- Brownbridge, (1998) In Africa, Studied that numerous of bad debts in banks were attributable to moral hazards; the adverse incentives on bank owners to adopt irresponsible lending scheme, particularly insider lending and approval of loans at higher interest rates to hazardous borrowers.
- Olomi (2003) found that banks have capacity constraints in credit and risk management. These result suggest that the training were not satisfactory or probably the number of staff is not sufficient to the number of borrower to monitor and supervise. They also observed certain component uncontrollable by CBs were court injunction instituted when bank intends to dispose properties, low prices fetched when disposing pledge assets and change in policies. Rate of interest, loan

- repayment periods, type of loans also contributed to loan defaults.
- Andoh (2014) Bank size, actual exchange rate and GrossDomesticProduct growth

- Olomi (2003) Death of key person as well as lack of reliable borrowers information. Character of loanee was most thought-about when critical loan applications being one amongst the characteristics enclosed within the credit scoring card.

Customer Specific Factors

- Alhassan, Coleman and Andoh (2014) Customer letdown to disclose very important document in the course of the loan application process.
- Gorter and Bloem (2002) NPA loans are largely originated by an inevitable number of wrong economic selections by people and plain bad luck (inclement weather, unexpected price changes for certain products, etc.).
- Brownbridge, (1998) Borrowers" also be apt to divert the funds to risky investments once they are granted the loans.

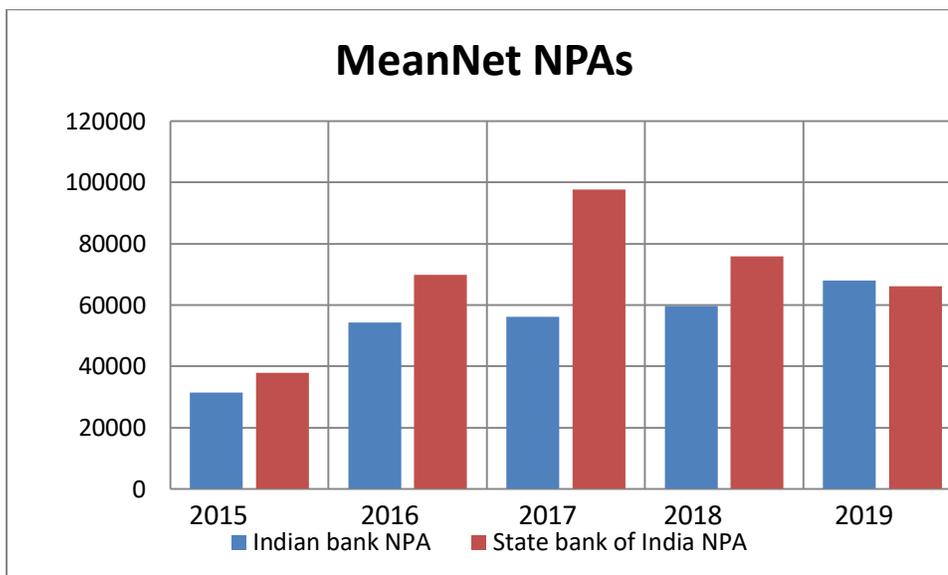
4. Discussion and Findings

The descriptive statistics of Indian Bank and State Bank of India is given in table 1. The amount is in INR billions. We find that mean NPAs of both the categories of banks are increasing but for State bank of India it is very high. The NPAs of State bank of India are many times more than that of Indian Bank. The commonality between both is that the NPAs of both the categories of banks is continuously increasing.

Table 1: Descriptive Statistics of Net NPAs in Indian Bank and in State Bank Of India

	N	Minimum	Maximum	Mean	Std. Deviation
Indian bank NPA	5	31469.50	67931.14	53851.2040	13575.76906
State bank of India NPA	5	37813.96	97656.82	69423.9460	21496.85675

Diagram 1: Mean Net NPAs of Indian Bank and in State Bank Of India



In order to study the relationship between the NPAs and select macroeconomic variables and bank specific variables Hausman Taylor model was used.

Table 2: Hausman Taylor Results

	beta	p-value		beta	p-value
PCY	0.005	0.04	TA	-0.00020	0.577
INFN	-0.00057	0.001	Ownership	0.003670	0.003
REER	-0.00686	0.330	Constant	0.000826	0.979
CABGDP	0.00105	0.001	N	450	

NIITI	-0.00215	0.250	Wald stat	130.33	0.000

The outcome disclose that raise in PCY can cause increase in NPAs. The t-statistic and p-value show that the results are extremely significant. the explanation is also with increase in PCY the credit goodness of borrowers improves and banks can simply grant loans while not wanting into different aspects like future financial gain growth or character of loanee. The constant of INFN is negative and additionally vital. It implies after we are on a rising part of variation, companies profit can increase as a result of economic process. companies are optimistic and that they repay their loans promptly. The constant of REER isn't vital. CABGDP is additionally vital and positive. NIITI and metallic element aren't vital, which suggests that in Indian context bank specific variables aren't necessary. possession dummy is critical implying the poor performance of PSBs. Wald take a look at and its p-value shows the importance of the equation.

CONCLUSIONS

The increasing NPAs of PSBs have created government and rbi understand its seriousness and that they have taken variety of measures to manage it. The new Bankruptcy bill is to make sure that the speedy method of recovery or the liquidation. a replacement regulator financial condition and Bankruptcy Board of india is to manage the full mechanism. it'll initiate insolvency resolution process (IRP), once this method is on, creditors can't claim for a hundred and eighty days and provides likelihood for a revival plan. It will be seen as rather a cure not a hindrance of npa, which might increase fast deciding. rbi additionally conducts timely asset Quality Review of ARQs, that pushes banks to appear into their balance sheets. Joint Lenders Forums are created for banks to debate and are available along to resolve issues. Also, Economic Survey has talked regarding the institution of a selected agency known as the „Public Sector asset Rehabilitation Agency“ (PARA). it'd take the task of bank of loan resolution method for giant fixed loans like infrastructure or steel comes. The empirical analysis clearly shows the importance of economics factors and possession structure in NPAs management. Government has to lookout of economics fundamentals within the economy and again} cut back its intervention within the PSBs which might result in reduction in corruption and have more skilled management of its banks since PBS have performed far better even supposing they too operate within the same economics atmosphere. Government may also infuse a lot of personal equity in its banks and cut back its managementAfter Merger of banking concern of india the are showing smart performance in maintaining npa ratio. Presently Allahabad bank is probably going to be unified with Indian bank. Reason poor performance in a academic. likewise oriented bank of commerce and united bank of india with punjab national bank ,Syndicate Bank with canara Bank,Andra bank and Corporation bank with Union bank of india.The main reason for merger of of these banks is due to low performance and higher price of npa.

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