Chapter-7

Management of Non -Performing Assets of Scheduled Commercial Banks: The Analysis of Data

Chapter-7
Management of Non -Performing Assets of Scheduled Commercial Banks:
The Analysis of Data

The Reserve Bank of India proposed prompt corrective action (PCA) mechanism for arresting the menace of NPAs and has introduced various measures from time to time to seize unbridled virus of NPAs of commercial banks and the performance of recovery channels, presented in the chapter preceding to this. The present chapter is an experimental study on the management of NPAs of SCBs in order to have an in-depth analysis of the problem on the basis of established parameters. The chapter, however, proceeded with the analysis of background of commercial banks in the study area in the context of their national level scenario. The asset classifications, priority sector NPAs, impact of NPAs on profitability, identification of factors and reasons for NPAs etc of banks are covered in this episode. The financial and statistical methods have been used for the purpose of analysis of data.

1. Introduction:

The NPAs have always been a big worry for the banks in India. It is just not a problem for the banks but bad for the economy too. The money locked up in NPA is not available for productive use and adverse effect on banks' profitability. The NPAs are threatening the stability and demolishing bank's profitability through a loss of interest income, write-off of the principal loan amount itself. RBI issued guidelines in 1993 based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs be treated as a 'national priority' because the level of NPA act as an indicator showing the bankers credit risks and efficiency of allocation of resource (Prasad and Veena, 2011)[1]. The profile of assets portfolio and the level of NPAs of banks in India have improved during the period under consideration. The supervisory strategy of the banks has undergone a change during this period, moving from opacity towards transparency. The banks are continuously improving their operation as there are no public sector banks with net NPAs above 5 per cent of their advances during March 2011. Thus by introducing 'net concept', RBI succeeded notably i.e., the number of banks, showed low level of NPAs; however this may not be considered a genuine progress in the financial strength of banks (Ahmed, 2008)[2]. In percentage term, the gross and net NPA is gradually declining while the same has been surging in terms of its quantum. During March 2000, the gross and net NPA of PSBs was Rs.53,295 crores and Rs 26,188 crores respectively, swelled to Rs. 74,614 crores and Rs.36,071 crores respectively

---

[1] Prasad, B.V.G and Veena, D. (2011) "NPAs in Indian Banking Sector-Trends and Issues", *'Journal of Banking Financial Service & Insurance Research'* , The Journal of Sri Krishna Research & Educational Consortium, 1 (9) (December) Retrieved from http://www.skirec.com.(visited on 10-01-2012).

[2] Ahmed, J. U. (2008) "A Synoptic Study on Non-Performing Assets of Commercial Banks in India" *Business Vision,* MD Publication Pvt. Ltd, New Delhi

in March 2011. This indicates that with more banks' exposure in respect of volume of business, the magnitude of NPA is increasing that has warranted an efficient management of bank's NPAs. The increased presence of sub-standard, doubtful and loss assets at the national level leads to accumulation of large NPAs. This clearly signifies the financial crisis adversely affects the banking sector. The financial crisis exaggerated the performance of banks which resulted an increased NPA level of the banking sector.

The higher NPAs in priority sector advances have pushed up the overall proportion of NPAs by many folds. As per RBI report, the priority sector contributed 58.1 per cent and non-priority sector contributed 41.9 per cent to total NPAs of commercial banks in March 2011(RBI, 2011)[3]. The high volume of advances led to increasing in the volume of NPAs. With the expansion of bank branches, the banks have acquired high volume of deposits, and at the same time the volume of NPAs grew considerably over the years. As a result, NPAs are serious strain on the profitability of banks because the banks cannot book income on such accounts. Further they are required to charge the funding cost and provision requirement to their profits. The level of NPAs adversely affects the financial strength of banks and enforces the government to recapitalize the weak banks from time to time.

It has been observed from the foregoing discussion that there may be a number of factors causing NPAs which became great concern of the planners in the context of the country as a whole. However, there has been a declining proportion of NPAs in the asset portfolio of SCBs in India. Now the reasons for NPAs may be studied in the backward area particularly to find out the growth trend of NPAs and to identify whether similar factors are amounting to bank's

---

[3] RBI (2011-12) Report on Trend and Progress of Banking in India

NPAs. In this respect, we have conducted an empirical study over the bank branches in Barak Valley of Assam.

2. Objectives of the Chapter:

The major objective of this chapter is to examine the management of NPAs of banks. The chapter has met the following objectives –

- ➢ To assess the background of commercial banks of the study area in the context of national scenario.
- ➢ To study the recovery performance of SCBs in the study area.
- ➢ To study the nature and growth of NPAs of SCBs in the study areas over the years.
- ➢ To examine the impact of NPAs on profitability of commercial banks.
- ➢ To identify factors affecting the growth of NPAs in the area under study.
- ➢ To study the reasons for assets becoming NPAs of banks in the area under consideration.

For the purpose of the study, finally 12 (twelve) commercial banks out of 15 operating in the study area have been considered. Due to non-availability of data / comparable data, rests 3 (three) banks viz, Assam Gramin Vikas Bank, Co-operative banks and federal bank, have remained the purview of the study. An attempt has also been made to cross-section analysis of NPAs of SCBs branches pertaining to 12 years i.e., 2000 to 2011. In some cases, data prior to this period is considered particularly for better comparison of variables. The relevant data have been collected from both primary and secondary sources. The sources of secondary data are financial statements compiled by the regional offices of the banks operating in the study area, lead bank statements, potential linked credit

plan of NABARD, Directorate of economic and statistics, various reports, surveys. The survey cum interview method has been used for assessing the work system, recovery system, processing loan applications and other impeding factors associated with the loan portfolio. The statistical methods viz, correlation matrix (r), regression analysis, compound annual growth rate analysis (CAGR) , coefficient of variation (cv), parametric test etc have been used to examine the asset quality and NPAs of banks.

3. The Background of Commercial Banks in the Study area:

The various operational activities of commercial banks in the country as a whole indicated that the performance of the commercial banks has been significantly increased during the post reform period. The lower rate of deposit growth indicated lack of professionalism in management and stringency imposed on them by the RBI from time to time. The position of banks in respect of performance of advances channeled was much lower in contrast to private and foreign banks during the post reform era (Bhaumik and Piesse, 2008)[4]. The comparative growth performance of banks in the area under study as well as all India average has been summarized on the basis of parameters as presented in table-7.0 during 1999-2011.

It has been observed that during 1999 population served per branch at all India average was 15,000, raised to 18,478 in March 2011. The same has increased to 54,265 in December 2011 from 37,800 in 1999 in the study area. The deposits per branch are far behind the national level. The figures were Rs. 8.95 crores in 1999 and Rs.39.4 crores in 2011. The same was increased from Rs.14.50 crores to Rs.44.65 crores at the national level. During the period 1999-2011 deposit per

---

[4] Bhaumik S. K. and Piesse, J. (2008) "Does Lending Behaviour of Banks in Emerging Economies Vary by Ownership? Evidence from the Indian Banking Sector", *Economic Systems*, 32 (2)

office in the districts increased by 4.4 times in contrast to 3.07 times increase in the country as a whole. On the other hand the advances per branch in the districts remain lower than that of the national level. The net result of discrepancies reflected in the credit deposit (C/D) ratio. It slipped to 17.0 per cent in 2011, from 20.8 per cent in 1999 in the context of the national average which increased from 55.8 per cent in 1999 to 69.4 per cent in 2008 and further a noteworthy increase to 72.7 per cent in 2011.

Table-7.0
Performance of Commercial Banks in Barak Valley Vis-A-Vis India

Sl. No	Performance Indicators	Barak Valley						All India Average					
		1999	2007	2008	2009	2010	2011	1999	2007	2008	2009	2010	2011
1	Number of Commercial Banks	15	15	15	15	15	15	298	183	179	171	165	159
2	Branch Expansion of Banks (number)	140	149	149	149	149	149	67,868	73,836	74,121	76,891	80,369	87,541
3	Population served per office ('000)	37,800	40,000	42,563	46,587	50,214	54,265	15,000	16,000	16,563	17,654	17,987	18,478
4	Total Deposits (Rs. in crores)	457.72	1391.91	1745.56	2156.45	2635.21	2936.54	607268	2608309	3320061	4063203	4752456	5616432
5	Deposit per Branch (Rs. in crores)	8.95	15.3	18.5	25.3	32.5	39.4	14.50	36.75	39.84	40.15	42.57	44.65
6	Total Advances (Rs. in crores)	125.12	313.72	542.36	758.21	965.56	1289.25	261279	1928913	2254698	2793572	3271896	4012079
7	Advances per Branch(Rs in crores)	1.69	2.8	3.1	3.8	4.6	5.2	6.53	27.57	35.4	46.9	56.8	65.1
8	Credit-Deposit Ratio	20.8	19.3	18.4	18.1	17.5	17.0	55.8	66.5	69.4	74.4	72.6	72.7

Source: Figures for March compiled and computed from:
(i) Basic statistical Returns, Reserve Bank of India, Mumbai
(ii) Lead Bank offices of the region, United Bank of India
(iii) Population Census Reports, , 1991, 2001, 2011

The above comparison indicates that the existing bank branches are inadequate to serve the population in the districts under study. Therefore, major areas are still remaining not served by the banks and the rural masses are yet to access the

banking services. It is further confirmed by the analysis relating to the population per branch. Hypothetically, the low credit deposit ratio is detrimental since it will adversely affect the profitability of the banks. Thus, it is high time to revamp the working and performance of banks in the districts. In order to reduce the transaction cost and increase the bank's productivity, the process of computerization and IT methods in the branches are to be accelerated.

The commercial bank in the study area is attributed to poor credit absorption capacity. In this connection, Bhagawati (1991)[5] articulated that banks in north eastern region have not been able to increase their credit portfolio. As a result, bank's sensitiveness and effectiveness in planning of bank advances is required for bringing a paradigm change in the competitive environment. Since nationalization, C/D ratio remained at low ebb in the state of Assam, and for NER as a whole. In March 2001, the C/D ratio of state Assam was 38.0 per cent, and NER achieved 41.2 per cent which was far behind the national average of 59.2 per cent (GOI, 2002)[6]. The credit deposit ratio of each bank groups can be had the following table-7.1. The table manifests that C/D ratio of each bank groups have declined over the years. The declining rate is more significant in PSBs than that of their private banks. In 1997, the ratio for PSBs was 36.9 per cent against 25.1 per cent for private banks which slipped to 19.6 per cent and 18.3 per cent for PSBs and private banks respectively in March 2011. The SBI however, witnessed a continuous declining trend since 1997 and touched the bottom level 16.3 per cent as on March 2011.

---

[5] Bhagawati, S.K. (1999) "Credit Deposit Ratio of Commercial Banks; A Case Study of North Eastern Region" *Journal of North Eastern Council*, [April, June] 19 (2) : 14 – 19

[6] Govt of India (2002) "*Basic Statistics of North Eastern Region*", NEC Publications, (Ministry of Home affairs), Shillong, Meghalaya

Table-7.1
Credit-Deposit Ratios of Banks in Barak Valley

(Ratios in percentage)

Year (As on March)	State Bank Groups	Nationalized Banks	Public Sector Banks	Private Sector Banks
1997	37.8	32.3	36.9	25.1
1998	33.1	31.3	32.5	21.7
1999	30.4	28.1	32.3	35.0
2000	22.4	27.0	26.0	33.6
2001	19.5	32.9	22.3	27.1
2002	18.2	30.4	22.6	31.1
2003	17.0	22.4	20.8	25.0
2004	15.2	32.5	23.1	26.3
2005	16.7	33.0	25.8	29.0
2006	18.0	31.6	24.3	25.6
2007	18.6	29.0	21.7	20.0
2008	19.4	30.4	22.4	21.4
2009	19.8	26.7	22.1	23.1
2010	17.5	28.2	20.4	20.4
2011	16.3	27.1	19.6	18.3

Source: *lead Bank office, Cachar, Karimganj & Hailakandi district.* File Records

Table-7.2 depicts the district wise C/D ratio of the banks operating in the area under study. It is evident from the table that the districts under study have failed to achieve national average of C/D ratio over the years and rate of decline is more prominent during the period under consideration. The reason of significant declining of the C/D ratio in the area under study may be attributed to non recovery of loans, willful defaulters, lack of supervision of end use of bank credit, lack of implementation of bankable schemes, definitional changes in NPAs and so on. This exhibited poor credit absorption capacity of the entire area along with lack of entrepreneurial zeal to undertake viable projects.

Table-7.2
District Wise Classification of Credit-Deposit Ratio (End March)

(Ratios in percentage)

District	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Karimganj	35.8	34.5	21.3	22.0	19.8	20.0	18.7	19.0	18.3	18.0	17.8	16.5
Cachar	31.5	30.2	22.9	22.6	20.0	19.8	22.3	20.1	19.2	18.6	16.9	17.7
Hailakandi	36.8	32.7	21.8	20.5	23.1	21.9	20.1	18.9	19.2	18.3	17.2	15.6
Barak valley	34.7	32.4	22.0	21.7	20.9	20.5	20.3	19.3	18.9	18.3	17.3	16.6
All India	53.3	55.8	53.8	56.9	55.9	62.6	64.1	66.5	69.4	74.4	72.6	72.7

Source: *(i) Lead Bank office, UBI, Cachar, Karimganj & Hailakandi district*
(iii) Report on the Trend and Progress of Banking in India, various issues

4. The Analysis of Data:

4.1. Deployment of Bank Credit under Annual Credit Plan:

The socialization of bank credit has been the subject matter of priority sector lending by the banks. The attainment of the socio economic priorities of the government like growth of agriculture, promotion of small entrepreneurs and development of backward area etc is the major responsibility of the banks (Kumar and Sooden, 2007)[7]. The banks operating in the area, keeping in view of their aim and objectives for the economic development under the lead bank schemes, have made an effort in providing financial support to agriculture and SSIs. The sector wise credit deployments in the districts under study are shown in table-7.3. The tables reveal that agriculture is one of the single dominant sectors that absorbed major portion of the credit outstanding. In March 1998, credit outstanding for agriculture was Rs 219.2 lakhs, Rs 198.8 lakhs and Rs. 209.7 lakhs for Karimganj, Cachar and Hailakandi district respectively. The same has declined to Rs 138.5 lakhs in March 2011 for Karimganj district and increased to

---

[7] Sooden, M. and Kumar, S. (2007) "Priority Sector Lending in Post Reform Period", *Finance India*, (December), XXI(4): 1389-1404.

Rs. 401.4 lakhs for Cachar district and to Rs. 121.4 lakhs for Hailakandi district in March 2011.

Table - 7.3
Bank Credit Deployment under Annual Credit Plan

(Account in Nos. and Amounts Rs. in thousands)

End March	Agriculture and Allied Activities		SSI and Rural Artisans		Trade and Services		Total	
	(Account)	(Amount)	(Account)	(Amount)	(Account)	(Amount)	(Account)	(Amount)
Karimganj District								
1998	3884	21918	922	12778	1468	17005	6274	51001
1999	3797	18668	787	12374	1407	16736	5891	48378
2000	4132	21132	784	21285	1290	24832	6206	67249
2001	2496	24349	817	23541	1393	20800	4706	68690
2002	2560	26965	743	15833	1638	27754	4941	70602
2003	2189	26565	773	16954	1624	34393	4586	77912
2004	1444	15419	484	8771	1448	30339	3376	54529
2005	1238	15977	565	10571	1836	45026	3639	71574
2006	1453	16530	462	10923	1983	46312	3780	73765
2007	1524	17584	545	11458	1854	47854	3654	70147
2008	1624	15246	521	12547	1989	49857	3457	74578
2009	1325	14578	457	14527	2014	50245	3854	76841
2010	1254	14987	488	11458	2145	52478	3621	75484
2011	1188	13857	398	9652	2198	55247	3541	78254
Cachar District								
1998	3218	19878	916	9636	1495	16439	5629	45953
1999	2808	22530	816	6258	1490	21467	5099	54255
2000	2369	14673	624	14019	1635	31118	4628	59810
2001	2159	19609	952	20090	2022	40784	5133	80433
2002	2255	29517	648	19839	2869	65709	5772	115065
2003	2136	34412	796	24190	2965	79623	5890	135323
2004	2350	32378	1265	37584	3126	94407	6741	164369
2005	2450	33478	1528	39281	3028	83408	7006	156167
2006	2590	32598	1674	40965	3210	97502	7623	171065
2007	2654	33544	1874	45714	3475	99658	7985	180547
2008	2415	35247	2014	47574	3654	105472	8547	198754
2009	2354	37457	2147	50214	3745	110245	9125	214011
2010	2478	38547	2354	55474	3857	130254	9547	218411
2011	2241	40147	2457	59547	4014	150457	10147	225410
Hailakandi District								
1998	2836	20968	823	12003	1407	11589	4319	44569
1999	3121	16312	729	10928	1218	24892	5068	52132
2000	2639	21862	613	24139	1123	23689	4106	69690
2001	2416	18674	580	21017	1359	12536	4355	52227
2002	1938	26312	728	12829	1439	18390	4105	57913
2003	1539	22392	791	15312	1408	17890	3738	55594
2004	2560	21831	865	18316	1506	27831	4931	67978
2005	1961	14326	871	15109	1458	26091	3490	55526
2006	2147	16542	748	14521	1489	25478	3587	45221
2007	2478	14574	798	15587	1365	26547	4157	49581
2008	2214	17542	625	16325	1245	28451	4587	53654
2009	2014	15247	685	16857	1025	29654	5124	59652
2010	1954	13254	587	17457	1214	31457	4571	68457
2011	1832	12145	542	18547	1398	36414	3654	62548

Source: *Lead Bank Office, United Bank of India, Karimganj, Cachar and Hailakandi*

The bank credit deployed to small sector and service sector in absolute term has been increased throughout the period in the districts. The trade and service sector holds a large share of total bank credit throughout the period in all the three districts of the region. This may be due to lack of industrial climate in the area under study.

The growth of bank credit in different sectors may be assessed by compound annual growth rate (CAGR) of bank credit sanctioned during the period. The results obtained are summarized as under-

CAGR of Bank Credit Deployed

District	Agriculture & Allied	SSI & Rural Artisans	Trade and Service	Total Credit
Karimganj	- 3.22	-1.98	8.78	3.11
Cachar	5.15	13.89	17.13	12.03
Hailakandi	-3.83	3.16	8.52	2.45

The inter-sectoral growth rate analysis reveals that there is a significant decrease in respect of credit sanctioned in agriculture and allied activities (CAGR = -3.22) and small scale sector (CAGR = -1.98) while trade and service (CAGR = 8.78) achieved an increasing trend in Karimganj district. On the other hand, district Cachar experienced a positive growth rate of credit sanctioned in small sector (CGAR = 13.89), agriculture and allied activities (CAGR = 5.15) and trade and service (CAGR = 17.13).The Hailakandi district experienced a positive growth rate of credit sanctioned in small sector (CAGR = 3.16), trade and service (CAGR = 8.52) and a negative growth in agriculture and allied activities (CAGR= -3.83). It is therefore evident from the growth rate analysis that impact of reform on the sectoral credit deployment is not to that echelon what is required for various sectors.

The inter district growth rate analysis shows that the SSI and agriculture sector received comparatively less attention than that of trade and services during the period. This may be due to the negative attitude of banks towards the proposals submitted by small entrepreneurs and the farmers. As they had bitter experience of sanctioning more loan to these sectors since the volume of overdues have mounted over the years. The leads to a further enquiry on recovery position of SCBs operating in the area under study.

4.2. *Recovery Performance of Commercial Banks:*

The recovery performance of banks is the *sin qua non* for their liquidity of funds. The lower recovery indicates erosion of bank's profitability and blocking up bank credit meant for developmental project of the area. It consequently restricts the bank's lending capacity and stands in the way of dilution of funds to developmental activities and hence the socio economic development of the area. The recovery position of banks in the area under study is quite unsatisfactory, presented in table-7.4:A, 7.4:B and 7.4:C. It has been observed that the recovery position was very much poor in almost all the sector in the area under study. In 1995, it was 25.6 per cent in agriculture and allied activities followed by 29.6 per cent in small sector and 19.3 per cent in trade and service sector for Karimganj district while 18.6 per cent, 16.9 per cent and 50.1 per cent in the respective sectors for Cachar district and in case of Hailakandi district it was 15.2 per cent, 46.3 per cent, 39.3 per cent respectively. The recovery position in agriculture and allied activities is relatively discouraging to other sectors in the three districts under consideration.

Table-7.4-A
Recovery Position of Banks in Karimganj District

(Amount Rs.in lakhs)

Year	Agriculture & Allied			Small Sector & Rural Artisans			Trade & Service		
	Demand	Recovery	Overdue	Demand	Recovery	Overdue	Demand	Recovery	Overdue
30-3-1995	359.6 (100)	95.6 (25.6)	264.0 (74.4)	139.6 (100)	41.2 (29.6)	98.4 (70.4)	1452.3 (100)	339.2 (19.3)	1113.1 (80.7)
31-12-2000	465.3 (100)	120.3 (27.3)	345.0 (17.3)	215.3 (100)	97.2 (46.3)	118.1 (53.7)	2012.3 (100)	610.3 (31.2)	1402.0 (68.8)
31-03-2005	543.2 (100)	231.1 (27.9)	320.9 (72.1)	245.7 (100)	110.8 (43.6)	134.2 (56.4)	2134.0 (100)	602.8 (27.6)	1432.0 (72.4)
30-09-2007	764.2 (100)	312.1 (39.4)	4521.1 (60.5)	398.4 (100)	197.1 (49.2)	201.3 (50.8)	3214.3 (100)	1213.0 (31.2)	2001.3 (68.8)
31-12-2009	785.3 (100)	215.6 (41.3)	569.7 (58.7)	405.3 (100)	205.3 (51.5)	200.0 (48.5)	3362.5 (100)	1221.6 (35.3)	2140.9 (64.7)
31-03-2010	821.3 (100)	225.3 (45.3)	596.0 (54.7)	423.3 (100)	215.3 (53.2)	208.0 (46.8)	3452.3 (100)	1254.3 (38.2)	2198.0 (61.8)
31-03-2011	850.3 (100)	231.3 (47.3)	619.0 (52.7)	439.3 (100)	221.3 (55.2)	218.0 (44.8)	3563.2 (100)	1301.2 (41.3)	2262.0 (58.7)

Figure in the parenthesis indicates percentage to total.
Source: *Lead Bank Statements (LBS), Lead Bank Office, Karimganj district*

Table-7.4-B
Recovery Position of Banks in Cachar District

(Amount Rs.in lakhs)

Year	Agriculture & Allied			Small Sector & Rural Artisans			Trade & Service		
	Demand	Recovery	Overdue	Demand	Recovery	Overdue	Demand	Recovery	Overdue
30-3-1995	639.4 (100)	115.1 (18.6)	524.3 (81.4)	301.1 (100)	47.6 (16.9)	255.5 (83.1)	857.1 (100)	427.2 (50.1)	429.9 (49.9)
31-12-2000	761.6 (100)	221.3 (30.1)	540.3 (69.9)	350.6 (100)	98.5 (29.0)	252.1 (71.0)	1156.9 (100)	540.3 (50.6)	616.6 (49.4)
31-03-2005	875.9 (100)	298.7 (27.9)	576.5 (72.1)	398.5 (100)	100.5 (32.1)	298.0 (67.9)	2563.9 (100)	1263.8 (48.1)	1300.1 (51.9)
31-12-2007	1225.2 (100)	395.5 (26.4)	829.7 73.6)	529.6 (100	185.6 (28.3)	344.0 (71.7)	1850.3 (100)	998.6 (49.5)	851.7 (50.5)
31-12-2009	1250.6 (100)	415.2 (31.5)	835.4 (68.5)	550.3 (100)	198.3 (35.2)	352.0 (64.8)	1915.6 (100)	1100.5 (58.3)	815.1 (41.7)
31-03-2010	1265.3 (100)	420.3 (33.2)	845.0 (66.8)	561.2 (100)	201.3 (37.1)	359.9 (62.9)	1945.6 (100)	1109.9 (59.6)	835.7 (40.4)
31-03-2011	1305.9 (100)	426.3 (35.1)	879.6 (64.9)	570.5 (100)	210.5 (38.5)	360.0 (61.5)	2010.6 (100)	1120.5 (61.2)	890.1 (38.8)

Figure in the parenthesis indicates percentage to total.
Source : *Lead Bank statements (LBS), Lead Bank Office, Cachar district*

Table-7.4-C
Recovery Position of Banks in Hailakandi District

(Amount Rs.in lakhs)

Year	Agriculture & Allied			Small Sector & Rural Artisans			Trade & Service		
	Demand	Recovery	Overdue	Demand	Recovery	Overdue	Demand	Recovery	Overdue
30-3-1995	245.6 (100)	42.3 (15.2)	203.3 (84.8)	82.3 (100)	39.3 (46.3)	43.0 (53.7)	501.3 (100)	205.3 (39.3)	296.0 (60.7)
31-12-2000	495.3 (100)	119.3 (23.3)	376.0 (76.7)	95.3 (100)	51.3 (51.3)	44.0 (48.7)	421.3 (100)	223.3 (53.2)	198.0 (46.8)
31-03-2005	879.6 (100)	278.6 (25.3)	601.0 (74.7)	201.6 (100)	95.3 (47.4)	106.3 (52.3)	657.2 (100)	321.1 (49.1)	336.1 (50.9)
31-12-2007	1097.4 (100)	312.9 (30.6)	784.5 (69.4)	423.5 (100)	202.4 (48.1)	221.1 (51.9)	874.0 (100)	451.2 (51.3)	423.0 (48.7)
31-12-2009	1150.3 (100)	250.3 (35.2)	900.0 (64.8)	459.6 (100)	210.3 (51.2)	249.3 (48.8)	896.3 (100)	465.3 (52.3)	431.0 (47.7)
31-03-2010	1210.3 (100)	256.5 (38.2)	953.8 (61.8)	479.3 (100)	223.3 (53.3)	256.0 (46.7)	910.3 (100)	470.3 (53.9)	440.0 (46.1)
31-03-2011	1230.3 (100)	270.3 (40.6)	960.0 (59.4)	609.3 (100)	260.3 (54.9)	349.0 (45.1)	1120.6 (100)	490.3 (54.9)	630.3 (45.1)

Figure in the parenthesis indicates percentage to total.
Source: *Lead Bank statements (LBS), Lead Bank Office, Hailakandi district*

The lower recovery indicates erosion of banks profitability and blocking up bank credit from developmental project of the area. The gravity of the situation will be cleared when we found Rs. 231.3 lakhs (47.3 per cent) was realized against the total outstanding dues of Rs. 850.3 lakhs under agriculture sector in Karimganj district as on 31-03-11. While in Cachar district Rs. 426.3 lakhs (35.1 per cent) was realized against the total dues of Rs. 1305.9 lakhs in 31-03-11 and in Hailakandi district Rs. 270.3 lakhs (40.6 per cent) was realized against total dues of Rs. 1230.3 lakhs in 31.03.11. Similar trend was noticed in small sector and service sector in the districts.

However, the recovery position of banks has improved steadily in almost all the sectors in 31-3-2011. The recovery in agricultural sector improved to 35.1 per cent

and small sector to 38.5 per cent and 61.2 per cent in trade and service sector respectively in Cachar district. Likewise, the same has enhanced in other districts of the study area during the same period.

The significant feature of banks lending is that, despite mounting over dues in each year, the agriculture and allied sectors enjoyed relatively major portion of bank credit. The agriculturists and poor people of the area could not repay the loans because they spend their loan on consumption purposes rather than productive purposes without bothering the liability of making repayment because of illiteracy. Further, in the perspective of economic development, there have been many disparities in the area in respect of the distribution of resources. The flow of institutional loans has particularly benefited the richer section. In that content, the priority sector lending provides privileges to the poor people in order to lift their economic structure and condition. They are provided loans for buying buffaloes, cows, pigs, to buy auto-rickshaw, to rear hen, and different machines for small scale industries. Indeed, they get subsidy by government on this loan. But they do not use the loan in the proper way for productive use. So, the loanee cannot return loan. Constant failure of monsoon, natural calamities as famine flood etc, willful default, deficiencies in lending policies are the chief reasons for non-recovery of loans. The reasons for poor recovery may also be attributed to various other factors such as lack of supervision of end use of fund owing to lack of vehicle and paucity of staffs, defective processing of loan applications, political interference's, communication gap between banker and customer etc.

The loans sanctioning authority begins to take undue advantage from such people. No effort is made for recovery of such loan. The local leaders do not encourage them to pay it back. They assure them that govt. will exempt it.

Consequently the loan is never recovered in future; it becomes difficult to pay it back due to heavy amount. As a result the mounting over-dues restricted the bank's lending capacity. Therefore, an immediate action from appropriate authority to accelerate the recovery position in all sectors is necessary.

4.3 Asset Classification of Banks in the Study Area:

As per present asset classification norms, assets of commercial banks are classified in to four categories viz., standard assets, substandard assets, doubtful assets and loss assets. The following table-7.5 presents the nature of assets available with the banks in the study area. The total NPAs of banks, in absolute term, increased to Rs. 7493.0 Lakhs in March 2011 from Rs. 1997.5 lakhs in March 2004 recording a 3.75 times increase, while the percentage of NPAs to total advance was on the edge of around of 5.7 per cent. It was 6.6 per cent in March 2004, decreased to 6.0 per cent in March 2005 and reduced to 4.1 per cent in March 2011. The same have been much lower than the national level in March 2004, but afterwards it appeared higher than the national level. The all India average percentage of the same was 7.8 per cent in March 2004 decreased to 2.2 per cent in March 2011 (RBI, 2010-11)[8]. The proportion of doubtful assets and sub-standard assets has been around 2 per cent throughout the period. While the loss assets constituted declining from 0.8 per cent to 0.3 per cent during the study period. Further, the table demonstrated that NPAs in absolute figure recorded at 3.75 times increase while 1.45 time increase at the national level during the same time span. The study area does not maintain the tempo of national level NPA reduction. However, the significant reduction of NPAs as per cent of advances

---

[8] Reserve Bank of India, Trend and Progress of Banking in India, (2010-2011)

may be due to the definitional change introduced by the RBI in 1995-96 and shyness on the part of the banker while granting fresh loan.

Table- 7.5
Classification of NPA of Banks in Barak Valley as on March 2004-2011

(Amount Rs. in lacks)

Assets Classification	2004	2005	2006	2007	2008	2009	2010	2011
1.Total Advances	20967 (100)	23687 (100)	26786 (100)	34210 (100)	37542 (100)	42365 (100)	49652 (100)	52145 (100)
A. Standard Assets	18970.0 (93.4)	20087.1 (94.0)	23809.8 (93.9)	29067.0 (95.8)	32541.0 (95.3)	36245.0 (94.2)	42256.0 (95.1)	44652.0 (95.9)
B. NPAs	1997.5 (6.6)	3686.9 (6.0)	2976.2 (6.1)	5143.0 (4.2)	5001.0 (4.7)	6120.0 (5.8)	7396.0 (4.9)	7493.0 (4.1)
i)Sub-Standard Assets	832.5 (2.6)	1786.4 (2.9)	1523.7 (3.0)	3051.5 (2.6)	3125.3 (2.7)	3654.6 (2.8)	4445.5 (2.1)	4545.1 (2.0)
ii)Doubtful Assets	613.1 (2.1)	1209.2 (2.4)	945.0 (1.5)	1394.5 (1.1)	1456.2 (1.2)	1542.6 (2.1)	2090.5 (2.2)	2410.4 (1.8)
iii)Loss Assets	346.0 (0.8)	691.3 (0.7)	345.5 (0.7)	697.0 (0.5)	419.5 (0.8)	922.8 (0.9)	860.0 (0.6)	537.5 (0.3)

Figure in the parenthesis indicates percentage to total.
Source : *Compiled from the data collected from Zonal Office of the Study area.*

The profile of assets portfolio and the extent of NPAs of banks have improved during 2004-2011. The supervisory strategy of the banks has undergone a change during this period, moving from opacity towards transparency. A positive externality of the present tighter assets classification has been building up the institutional design in terms of market, and creation of enabling environment through technological and legal infrastructure and improving managerial competence etc.

To assess the interrelationship between the advances and NPAs we have employed co-relation analysis. The following table-7.6 exhibits the matrix of co-relation co-efficient among the components of NPAs and advances. The analysis discerns that with the increase in the advances, the total NPA has increased at

the same proportion. The positive correlation between advances and NPAs (0.98) is statistically significant at 5 per cent and 1 per cent level of significance. The 'r' value of advances with doubtful assets (0.95) and substandard assets (0.98) is also significant while loss assets are not statistically significant. This indicates that with the increase in advances, doubtful assets and sub standard assets increased but the increasing rate for loss assets is not followed by the rate of increase of advances. The correlation coefficient between NPA components and their respective 't' values reveal that high positive correlation exists between NPA components that are statically significant except loss assets.

Table-7.6
Matrix of Correlation Co-Efficient

Variables	Advances	NPAs	Sub-standard Assets	Doubtful Assets	Loss Assets
Advances	1.00				
Non-Performing Assets	0.98 (12.00)*	1.00			
Sub-Standard Assets	0.98 (12.00)*	0.99 (17.32)*	1.00		
Doubtful Assets	0.95 (7.27)*	0.97 (9.90)*	0.96 (8.40)*	1.00	
Loss Assets	0.50 (1.41)	0.63 (2.00)	0.60 (1.84)	0.49 (1.38)	1.00

* Significant at 5 per cent and 1 per cent level. $t_{0.05}$ (6d.f) = 2.447

$t_{0.01}$ (6df) = 3.707

Figures in the parentheses indicate respective 't' values.

4.4. NPAs: Bank wise Analysis.

The individual bank-wise NPA shows that the area under study is not in a position of managing the level of assets in an efficient manner. It is found that in absolute term NPAs of all commercial banks have been increased in the area under study. It is also clear that throughout the period State Bank of India (SBI) and United Bank of India (UBI) holds maximum share of NPAs to total advances followed by Union Bank (UB) Punjab National Bank (PNB) Bank of Boroda (BB) Punjab and Sind Bank (P & S) Vijaya Bank (VB) Central Bank (CB) Allahabad

Bank (AB) Central Bank of India (CBI) Indian Banks (IB) respectively where as the United Commercial Bank (UCo.) hold a very small percentage of NPA of total advances. The fact has been summarized in the following table-7.7.

Table-7.7
Bank-Wise NPA of Banks as on March

(Amount Rs. in lakhs)

Sl. No	Name of banks	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	cv
1	State Bank of India	318 (12.2)	211.2 (9.8)	498.3 (10.6)	426.7 (9.1)	510.9 (9.8)	967.5 (9.7)	907.7 (8.7)	912.3 (8.9)	925.6 (9.0)	980.4 (9.5)	1005.6 (8.6)	1098.4 (9.9)	42.64
2	United Bank of India	286.0 (10.6)	431.0 (9.5)	439.1 (9.6)	379.0 (8.2)	410.6 (8.9)	839.7 (9.0)	967.6 (9.7)	998.6 (9.4)	1003.5 (8.9)	1016.9 (9.1)	1102.6 (9.5)	1125.8 (9.9)	43.76
3.	Allahabad Bank (AB)	24.8 (7.1)	21.2 (5.8)	19.6 (3.8)	24.6 (4.3)	27.5 (4.4)	75.0 (4.7)	110.6 (4.5)	150.2 (4.6)	163.4 (4.8)	179.1 (5.1)	201.9 (6.1)	225.4 (6.5)	77.62
4.	Panjab National Bank	15.6 (7.1)	12.3 (7.2)	27.2 (4.9)	28.6 (5.6)	31.1 (5.1)	35.6 (5.2)	76.4 (5.0)	89.1 (5.6)	95.4 (5.9)	101.5 (6.1)	125.6 (6.9)	156.1 (7.6)	71.87
5.	Central Bank of India	22.3 (3.6)	28.6 (3.5)	35.2 (2.0)	26.9 (2.1)	27.6 (2.2)	76.4 (2.9)	101.6 (3.7)	119.3 (3.9)	135.4 (3.9)	168.4 (4.2)	198.2 (4.8)	223.1 (5.1)	74.58
6.	Indian Bank (IB)	7.0 (4.8)	9.6 (4.2)	7.8 (2.8)	8.9 (3.8)	9.7 (3.2)	23.5 (3.4)	54.2 (2.9)	59.2 (3.1)	68.1 (3.9)	75.5 (4.1)	101.5 (4.9)	125.6 (5.1)	89.43
7.	Union Banks (UB)	24.1 (5.2)	27.9 (6.8)	33.2 (7.7)	30.8 (6.8)	28.6 (6.6)	56.7 (6.3)	97.5 (7.0)	109.1 (6.8)	125.1 (7.2)	165.3 (7.6)	178.3 (7.4)	203.4 (7.9)	73.24
8.	Panjab & Sind Bank	7.6 (7.2)	12.8 (7.1)	10.6 (6.2)	11.3 (5.2)	9.6 (5.7)	17.8 (5.9)	42.6 (6.0)	49.2 (6.5)	65.8 (6.8)	78.9 (6.9)	96.1 (7.2)	102.5 (7.0)	85.31
9.	Bank of Boroda (BB)	19.0 (7.1)	25.6 (6.3)	30.0 (5.2)	31.6 (6.1)	37.4 (6.5)	56.7 (6.0)	98.7 (6.0)	112.5 (6.3)	134.1 (6.9)	156.9 (7.0)	175.6 (7.2)	198.5 (7.4)	72.22
10	Uco Bank (Uco)	8.1 (4.1)	7.2 (0.7)	7.6 (0.4)	5.6 (0.7)	7.9 (0.8)	23.9 (0.9)	75.9 (1.9)	81.6 (2.0)	94.1 (3.1)	119.3 (3.6)	135.4 (3.9)	195.1 (4.1)	100.1
11	Canara Bank (CB)	7.8 (3.6)	12.6 (5.1)	11.2 (6.7)	9.0 (4.9)	15.6 (5.4)	40.9 (5.7)	103.7 (4.9)	132.5 (5.1)	145.6 (5.6)	168.9 (5.9)	189.1 (6.2)	201.6 (6.8)	90.12
12	Vijaya Bank (VB)	20.9 (5.7)	29.9 (6.7)	35.1 (6.8)	33.2 (5.6)	38.7 (5.7)	97.2 (5.9)	167.3 (5.5)	186.9 (5.7)	198.5 (5.9)	209.4 (6.0)	226.8 (6.4)	264.8 (6.9)	73.00
	All Banks	761.2 (5.9)	829.9 (5.5)	1154.9 (7.3)	1016.2 (5.6)	1155.2 (6.6)	2310.9 (6.0)	2803.8 (6.1)	3000.5 (6.9)	3154.6 (7.2)	3420.5 (7.3)	3736.7 (7.5)	4120.3 (7.7)	54.2

Figures in the parentheses indicate percentage to total advances.

Source: 1. *Statement of Recovery of NPA Accounts of the respective banks*
　　　　　 2. *Zonal office, file registers of banks.*

The position as well as extent of growth revealed by cv of NPAs of individual bank. In regard to the variation in the volume of NPAs, State Bank of India (SBI) (cv = 42.64) and United Bank of India (UBI) (cv = 43.76) are well placed than that of other banks. The other banks in the study area have attained higher volume of

NPAs as fresh accretion over the years. This can further be analyzed with the help of frequency distribution of NPAs.

4.5. *Frequency Distribution of NPAs of Banks:*

The position of banks in respect of reduction of NPAs may be made with the frequency distribution table. A chart of frequency distribution of NPAs of banks operating in the districts is presented in table-7.8. It is revealed that in March 2000, 4 out of 12 banks had NPA between 2-5 per cent of their advances and 8 had NPA above 5 per cent.

Table-7.8
Frequency Distribution of NPA as Percent to Advances

Year	Up to 2 per cent	2 per cent to 5 per cent	5 per cent and above	Total
2000	Nil	4	8	12
2001	1	2	9	12
2002	2	3	7	12
2003	1	4	7	12
2004	1	3	8	12
2005	1	3	8	12
2006	1	5	6	12
2007	1	3	8	12
2008	Nil	4	8	12
2009	Nil	3	9	12
2010	Nil	3	9	12
2011	Nil	1	11	12

Source: *Lead Bank offices, UBI and Zonal office of the respective banks*.

The position during March 2000 to March 2011 was not impressive as most of the banks were placed in the group of NPAs with 5 per cent and above. The position is not satisfactory while compared to all India level. In March 2005, 7 out of 27 PSBs in respect of NPAs were placed within 2-5 per cent and 18 PSBs attained NPAs below 2 per cent level in the country. At the national level, 26 PSBs attained NPA below 2 per cent only in 2010-11. This indicates that the area under study is not performing better in management of their NPAs. It is clear from the

chart that SCBs operating in the area did not manage their NPAs within the level of 5 per cent. Hence, this situation is not appreciable for the progress in the financial potency of commercial banks. This leads us a further enquiry on growth of advances per office and growth of NPAs per office.

4.6. Growth of Advances and NPAs:

A comparison of growth of standard assets, non performing assets and advances per branch is presented in the following table-7.9. For the purpose of comparison, the total advances, NPAs and standard assets per office and their growth rate has been calculated with compound annual growth rate (CAGR). The analysis discerns that volume of NPA per branch registered a higher growth (CAGR = 20.97) in comparison with the growth of advances per branch (CAGR = 7.98) and standard assets per branch (CAGR = 6.41) during 1998 - 2011. Further, volume of NPAs recorded a higher growth rate (CAGR = 20.70) than that of advances (CAGR = 10.82) and standard assets (CAGR = 9.94).

Table- 7.9
Position of Advances, Standard Assets, NPAs of Banks

(Amount Rs in lakhs)

Year	Advances (Rs)	Standard Assets (Rs)	Non Performing Assets(Rs.)	Advances per branch (Rs.)	Standard Asset per branch (Rs.)	NPA per branch (Rs.)
1998	12380	11841.8	538.2	136.0	130.1	5.9
1999	12943	12243.2	699.8	139.2	131.6	7.5
2000	12918	12156.2	761.8	138.9	130.7	5.8
2001	15132	14302.1	829.9	156.3	150.5	5.5
2002	15779	14624.1	1154.9	166.0	153.9	12.1
2003	18213	17196.8	1016.2	191.8	181.0	10.6
2004	20967	18970.0	1997.5	201.8	177.8	22.0
2005	23687	20087.1	3686.9	229.0	198.6	30.6
2006	26786	23809.8	2976.2	242.9	213.7	28.5
2007	34210	29067.0	5143.0	298.6	227.0	48.4
2008	37542	32541.0	5001.0	321.2	254.3	54.2
2009	42365	36245.0	6120.0	365.1	275.4	69.1
2010	49652	42256.0	7396.0	385.6	298.3	75.2
2011	52145	44652.0	7493.0	398.6	310.5	84.8
CAGR	**10.82**	**9.94**	**20.70**	**7.98**	**6.41**	**20.97**

Source: *Self calculated and self compiled from the data collected from lead bank offices and zonal offices of the banks*

The growth scenario of NPAs indicated that the study area is not performing better in terms of CAGR than that of the country as a whole. The CAGR for NPAs of SCBs at the national level during 2000-2011 was 4.51. Thus the higher growth of NPAs over the years revealed the inefficient profile of the asset portfolio of the bank. This may be due to the failure on the part of the banker for building up market based institutional devise and inappropriate managerial strategy. An appropriate strategy for the purpose of containing the microbes of NPAs of banks is warranted basing on the need and requirement of an exacting situation.

An attempt has been made to determine whether growth of advances per branch is associated with growth of NPAs per branch. In this connection, we have used co-efficient of correlation (r) between advances per branch and NPAs per branch. The 'r' value is found as under –

Correlations	'r' values	't' value (cal.)	t' value (tab.) at 12 d.f.	
			1 per cent	5 per cent
r value	0.991	24.50	3.055	2.179

The analysis manifests that the high positive correlation is significant at 5 per cent and 1 per cent level at their 12 d.f. This implies that there exists a positive relationship between advances per branch and NPAs per branch. In other word, it can be argued that high volume of advances led to increasing in the volume of NPAs. Thus it can be said that with the expansion of bank branches, the banks have acquired high volume of deposits, and at the same time the volume of NPAs grew considerably over the years.

4.7. Interrelationship between NPAs and Priority Sector Advances:

In the study area, data relating to NPA in priority sector and non priority sector is not available. Due to non-availability of information relating to priority sector NPAs in the area under study, an attempt has been made hereunder to study the relationship between NPA and priority sector advances to identify with contribution of the same to total NPA. The following table-7.10 presents the position of the variables relating to non-performing assets and priority, non-priority sector advances per bank branch.

Table-7.10
Position of Priority and Non-Priority Sector NPA of SCBs

(Amount Rs in Lakhs)

Year	Non Performing Assets (Rs.)	Priority Sector advances (Rs.)	Non-priority Sector advance(Rs.)	NPA per branch (Rs.)	Priority Sector advances per branch (Rs.)	Non-priority Sector advances per branch (Rs.)
1998	538.2	7245	5135	5.9	79.6	56.4
1999	699.8	8185	4758	7.5	88.0	51.1
2000	761.8	8310	4608	5.8	89.3	49.5
2001	829.9	8720	6412	5.5	91.7	67.5
2002	1154.9	9135	6644	12.1	96.2	69.9
2003	1016.2	9753	8466	10.6	102.7	89.1
2004	1997.5	9980	9754	22.0	120.7	87.9
2005	3686.9	12780	9831	30.6	132.9	121.0
2006	2976.2	14328	10895	28.5	186.0	113.9
2007	5143.0	16453	11342	48.4	231.0	128.6
2008	5001.0	17895	11987	54.2	286.2	185.6
2009	6120.0	19125	12563	69.1	302.4	212.4
2010	7396.0	20563	13523	75.2	345.2	298.6
2011	7493.0	22541	15012	84.8	412.8	345.5

Source: *Self calculated and self compiled from the data collected from lead bank offices and zonal offices of the banks*

For this purpose, we have calculated 'r' between NPAs per branch (a) and priority sector advances per branch (b) and non-priority sector advances per branch (c) during the period 1998-2011. The results are summarized here under –

Correlations	'r' values	't' value (cal.)	t' value (tab.) at 12 d.f.	
			1 per cent	5 per cent
r_{ab}	0.985	24.50	3.055	2.179
r_{ac}	0.959	12.12	3.055	2.179

The analysis reveals that the positive correlations 0.985 and 0.959 are statistically significant at 1 per cent and 5 per cent level of significance at their respective degree of freedom for NPAs with priority sector advances and for NPAs with non-priority sector advances. This implies that with the increase of priority sector lending, there has been corresponding increase in the volume of NPAs. However, it cannot be argued that priority sector lending is the sole factor in enhancing the volume of NPAs in the area under study. The non-priority sector advances have also contributed to the large quantum of NPAs.

4.8. *Growth of Profitability and NPAs:*

The income of banks composed of interest income and non-interest income. The interest paid manpower and establishment expenses are the major components of expenditure of commercial banks. The component wise growth of income, expenditure and profits of commercial banks are presented in table-7.11. It is revealed that interest earned accounted more than 2/3 rd of the total income while the share of interest paid decreased from 82.2 per cent in March 2000 to 69.4 per cent in March 2010. It is also clear that interest earned recorded 2.6 times increase while interest paid recorded 2.4 times increase during the period under consideration. The shares of interest paid have been decreased meagerly and the shares of establishment expenses and operating expenses have been increased during the same span under consideration.

Table – 7.11
Profitability of Commercial Banks in Barak Valley (2000-2010)

(Amount Rs. in Lakhs)

Year	Income			Expenditure				Profit/ Loss	Profit per branch (Rs.)
	Interest income	Other income	Total	Interest expenses	Estab. and staff exp.	Operating expenses	Total		
31.3.00	6197.1 (69.8)	2677.6 (30.2)	8874.7 (100)	6021.6 (82.2)	1120.9 (15.3)	186.6 (2.5)	7329.1 (100)	1445.6	9.7
31.3.01	6324.0 (70.4)	2852.8 (29.6)	9176.8(100)	6123.0 (77.8)	1098.9(14.3)	800.2 (7.9)	8022.1(100)	2567.4	17.1
31.3.02	7653.6 (68.4)	3741.0 (27.6)	11394.6(100)	7569.0(76.9)	1247.6(17.8)	1290.6 (5.4)	9791.1(100)	2629.1	18.7
31.3.03	9867.0 (69.7)	3371.0 (29.3)	13238.0(100)	9867.5 (77.6)	1390.9(16.9)	1123.0 (5.6)	11050.3(100)	2187.7	14.4
31.3.04	10784.0(70.6)	3369.2 (29.4)	14153.2(100)	9641.8 (74.9)	1564.5 (15.4)	1045.1 (8.9)	12293.6(100)	1859.6	12.2
31.3.05	9870.9(80.3)	4694.6 (19.7)	14565.5(100)	10984.3(83.1)	1436.7 (14.5)	1118.1 (2.4)	13539.1(100)	1026.4	6.7
31.3.06	11891.0(81.0)	3853.7 (19.0)	15743.7(100)	10902.1(74.9)	1576.4(17.7)	2420.7 (7.4)	14899.2(100)	844.5	5.5
31.3.07	12811.0(80.9)	4156.6 (19.1)	16967.6(100)	10998.2 (74.8)	1657.1(18.4)	2812.4 (6.8)	15467.7 (100)	1499.9	9.7
31.3.08	13457.8 (81.0)	4752.8 (19.0)	18210.6 (100)	11458.3(75.3)	1560.5 (15.3)	4389.9 (9.4)	17408.7 (100)	802.2	5.2
31.3.09	15679.0 (82.1)	4363.7 (17.9)	20042.7 (100)	12389.0(64.5)	1754.4 (9.1)	5052.2 (27.0)	19195.6 (100)	847.2	5.5
31.3.10	15908.6(81.2)	5176.3 (18.8)	21084.9 (100)	14390.8 (69.4)	1894.7 (9.2)	4456.2 (21.4)	20741.7 (100)	343.2	2.2

Figure in the parentheses indicate percentage to total
Source: *Zonal offices of the respective bank, Barak Valley, Assam*

The commercial banks in the districts mainly rely on loans and advances as source of income. As a result, the profitability of commercial banks increased from Rs. 1445.6 lakhs in March 2000 to Rs. 2629.1 lakhs in March 2002, there after started to decline and reached to a minimum level of Rs. 343.2 lakhs in March 2010. The lower growth of profits of banks is due to the increase in establishment and operating expenses in the area under study. Hence, the improvements of content and nature of regulation, corporate governance systems in banks, risk management, transparency in operation are needed for further strengthening the banking operation.

The aforesaid analysis directed us a further enquiry on impact of NPAs on profitability of banks particularly to check whether NPAs of commercial banks influence for reducing the quantum of bank's profits. In order to examine the impact of NPAs on total earnings of commercial banks, the growth of profit per branch and NPAs per branch has been calculated for the period (2000-2010). In this context our hypothesis is *"There exists a significant relationship between growth*

of NPAs and growth of earnings of commercial banks over the years" This hypothesis is tested with the help of correlation coefficient (r) between NPA per branch and profits per branch for 11 years ie, from 2000 to 2010. The result of 'r ' value obtained as under -

$$r = - 0.789$$
't' value (cal) = 3.82
't' (tab) at 9 df.
5 pc = 2.262, 1 pc = 3.250

The correlation coefficient found to be – 0.789 is highly negative and statistically significant at both 5 per cent and 1 per cent level of significance. Hence, the hypothesis is found to be invalid in the area under study. It indicates that NPA has some negative impact on bank's profits. In fact, the level of NPA adversely affects the profitability of commercial banks. In other words, with per branch increase in NPAs resulted a decline in per branch profits. Hence, it may be inferred that the earnings and profitability of banks has been affected by the high level of NPAs.

4.9. Identification of Determinants of NPAs of Commercial Banks:

In order to assess the factors affecting the NPAs of commercial banks in the districts under study, regression analyses have been employed. For this purpose various bank specific factors like priority sector lending, credit deposit ratio, NPA to advances, capital adequacy ratio are considered as independent variables and NPAs as dependent variable in the regression model. The rationale to choose bank specific parameters was that they might have a significant impact of NPAs. The priority sector advances is generally considered as a major cause of NPAs which was included in the model to understand the actual impact of priority sector on NPAs. The C/D ratio reflects the credit culture of banks which has been considered in this model to observe how the credit culture can impact NPAs. The

capital adequacy ratio is the parameter to reflect the financial soundness of banks which might cause higher NPAs. The NPA to total advances indicates the extent of growth of NPAs. Therefore, this has also been included in the regression model.

The regression equation has been fitted over the data pertaining to the period of 12 years, 2000-2011, exhibited in table-7.12. To assess the interdependency among the factors, we have used following multi regression model.

$$NPA = b_o + b_1 PSL_t + b_2(C/D)_t + b_3 (CAR)_t + b_4(N/A)_t + U_t$$

where,

NPA	=	Non Performing Assets
PSL	=	Priority Sector Loan
C/D	=	Credit-Deposit ratio
CAR	=	Capital Adequacy Ratio
N/A	=	NPA to Advances
b_o	=	Intercept and,
b_1	=	(i = 1,2, …….4) = Co-efficient of regression parameters.

Table – 7.12
Variables Considered for Identification of Determinants of NPA of SCBs

Year	NPAs (Lakhs)	Priority Sector Advances (Lakhs) (PS)	C/D ratio (percent) (C/D)	Capital Adequacy ratio (CAR)	NPAs to Advance (N/A)
2000	761.8	8310	34.7	11.1	5.9
2001	829.9	8720	32.4	11.4	5.5
2002	1154.9	9135	22.0	12.0	7.3
2003	1016.2	9753	21.7	12.7	5.6
2004	1997.5	9980	20.9	12.9	6.6
2005	3686.9	12780	20.5	12.8	6.0
2006	2976.2	14328	20.3	12.3	6.1
2007	5143.0	16453	19.3	12.3	4.2
2008	5001.0	17895	18.9	13.0	4.7
2009	6120.0	19125	18.3	13.2	5.8
2010	7396.0	20563	17.3	13.6	4.9
2011	7493.0	22541	16.6	13.0	4.1

The ANOVA of dependent variable shows that F ratio (60.99) is found to be statistically significant at 5 per cent level indicating that the independent

variables considered may be the magnificent determinants for the high level of NPAs of banks.

ANOVA of Dependent Variables

Model	SS	df	MS	F	Sig.
Regression	69598361	4	17399590	60.99	1.5957
Residual	1997002	7	285286		
Total	71595363	11			

The regression coefficients found are as under-

Regression Co-efficients

Variables	β	't' value	Sig.	R^2	Adjusted R^2	SE.
β_0(Constant)	-	-- 1. 324	0.227			
Priority Sector lending (PS)	0.477	6.530	0.000			
Credit deposit ratio (C/D)	37.666	0.559	0.593	0.972	0.956	534.121
Capital Adequacy Ratio (CAR)	40077.82	0.956	0.370			
NPA to advances (N/A)	10.097	0.037	0.971			

Dilating upon the table, it is revealed that variation in the dependent variable viz. non-performing assets of banks in the districts is explained about 97 per cent by independent variables (R^2=0.972). This implies that independent variables viz. priority sector lending, credit deposit ratio, capital adequacy ratio and NPA to advances are to be considered as perfect determinants of dependent variable ie, NPA of the study area. In order to assess the influence of individual factors on NPAs, we have calculated 't ' value on individual regression coefficients. The priority sector lending and capital adequacy ratio have turned to be statistically

significant which indicates that non-performing assets of commercial banks in the study area have been mounted due to bank exposure to priority sector lending and capital adequacy ratio. This has bestowed with the message of inability or incapacity of banks to take risks and to absorb losses. The 't ' value and their respective significance level indicates that the credit deposit ratio and ratio of NPA to advances may not affect much in increasing the quantum of NPAs. Thus an urgent step is warranted to arrest the unbridled virus of NPAs made by the banks in the study area over the period under consideration.

4.10. Reasons for NPAs of Banks:

In order to examine the reasons of NPAs of banks, six parameters each influencing the large quantum of NPAs are identified viz, market failure; willful defaulters; poor follow-up and supervision; poor legal framework; lack of entrepreneurial skills; and diversion of funds based on observation of the researcher and in consultation with bank officials. The opinion of the respondents ie, branch managers have been taken based on the rank of the reasons of assets becoming NPAs from 1st to 6th with regard to the intensity of the parameters. A score of 5, 4,3,2,1 and 0 have been given to ranks 1st, 2nd, 3rd, 4th, 5th and 6th respectively. The frequencies of respondents ranking against each reason in each rank was calculated (by multiplying the corresponding score value) to obtain the total score values. The reason with highest score value is considered as more severe followed by reasons with decreasing order of score values. In this respect, we have considered a sample size of 60 (ie, 40 per cent of the population). It means sixty number of branch managers from 149 branches were selected on proportional basis keeping in view the geographical coverage of the districts under study. The sample distribution are shown in figure 7.0

Figure-7.0
Sample Distribution

Sl. No	Districts	Population (Branch Manager)	Branch Covered (Branch Manager)
1	Karimganj	52	21
2	Cachar	73	29
3	Hailakandi	24	10
	Barak Valley	149	60

The number of branch managers considered from Karimganj district was 21 out of 52, from Cachar district 29 out of 73 and from Hailakandi district 10 out of 24 for the purpose of collecting the response on the aforesaid parameters.

The results on the basis of the respondent's opinion are presented in table-7.13

Table-7.13
Reasons for Non Performing Assets of Banks

SL No.	Reasons	Ranks	1st	2nd	3rd	4th	5th	6th	Total
		Score	5	4	3	2	1	0	Score
1.	Market failure.		30	15	5	6	4	0	241
2.	Willful defaulters.		29	16	7	4	4	0	242
3.	Poor Follow-up and supervision.		20	10	9	11	9	1	198
4.	Poor legal framework.		15	15	10	5	13	2	188
5.	Lack of entrepreneurial skill.		19	11	9	6	14	1	192
6.	Diversion of fund.		10	20	9	11	10	0	189

(Frequencies of reasons and ranks are shown in columns and rows respectively)
Source: *Field investigated and self calculated by the researcher*

It appeared from the above table that the major reason for large quantum of NPAs of banks is the willful defaulters. Usually they do not want to repay the loan amount received from the banks. They generally consumed the amount for domestic purposes instead of productive purposes. The market failure of the loanee is appeared in the second rank followed by poor follow-up and supervision of banker's side, lack of entrepreneurial skill, diversion of fund and legal framework. The borrowers do not efficiently use the money in their

respective business because of lack entrepreneurial knowledge. Due to poor legal framework, it is difficult on the part of the banker's to take the legal action against a defaulter for immediate recovery.

Having analyzed various lacunas of accumulation of NPAs in the loan portfolio of banks, it may be observed that SCBs have not been zealous towards the reduction and management of NPAs. The quality of asset portfolio has slightly improved over the period under consideration due to reform measures. However a number of factors have been responsible for increasing volume of NPAs of banks in the districts. These are poor credit appraisal system, lack of foresightedness while sanctioning credit limits, lack of proper monitoring, reckless advances to achieve the budgetary targets, lack of sincere corporate culture, inadequate legal provisions on foreclosure and bankruptcy, change in economic policies/environment at the macro level, non transparent accounting policy and poor auditing practices, lack of coordination between banks and their customers.

*****