

Analysis of Priority and Non-Priority Sector NPAs of Indian Public Sectors Banks

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Abstract: Priority sector lending is intended to provide institutional credit to those sectors and segments for which it is difficult to get credit. Non-Priority Sector lending is the sector towards which financial institutions are always ready to lend credit. This sector is still glamorous. It attracts finance every time. It covers all the remaining sectors which are other than PSL. This paper analyses the role of priority sector NPAs and Non-Priority sector NPAs in total Non-Performing Assets of Public Sector Banks (PSBs) in India. The present study examined trends in sector-wise NPAs of Public Sector Banks and also examined whether there is a significant impact of priority sector NPAs and Non-priority sector NPAs on total NPAs of PSBs and find out the effect of gross advances on total NPAs of PSBs. This study conducted on secondary data. The period of the study is 12 years i.e., from 2005 to 2016. The statistical tools such as ratios, correlation, t-test, Regression have been used for the analysis.

Key Words: Non-Performing Assets, Priority sector, Non-Priority Sector, Advances, and Public Sector Banks.

I. Introduction

Banking system plays a pivotal role in the development of a nation's economy. The performance of the economy is positively and directly related to the functioning of banks. The key players in the development of the economy are commercial banks. The prevalence of Non-Performing Assets (NPAs) has become a serious threat to the banking sector.

In general, borrowers repay the dues by their respective due dates to the bank. However, some turn tenacious. This is because of the inability and unwillingness of borrowers to pay. If such debt is presented as a common debt, and interest is accrued on such debt as a common income, then the financial statements would display an incorrect picture of the financial status of the bank. Therefore, strict requirements have been laid by RBI regarding recognition of Non-Performing Assets (NPA).

As per Reserve Bank of India (RBI) an NPA is a loan or advance where:

1. Term Loan – interest and / or instalment of principal remains overdue for more than 90 days.
2. Overdraft / Cash credit - account is out of order i.e.
 - a. Outstanding balance remains continuously in excess of the sanctioned limit / drawing power; or
 - b. Outstanding balance is within the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of balance sheet, or the credits are not enough to cover the interest debited during the same period.
3. Bills purchased and discounted – bill remains overdue for more than 90 days.
4. Short duration crops (crop season is up to a year) – instalment of principal or the interest thereon remains overdue for two crop seasons.
5. Long duration crops - instalment of principal or the interest thereon remains overdue for one crop season.

Priority Sector Lending

Priority sector lending (PSL) is intended to provide institutional credit to those sectors and segments for which it is difficult to get credit. According to priority sector standards, scheduled commercial banks have to give 40% of their loans (measured regarding Adjusted Net Bank Credit or ANBC) to the identified priority sectors by the RBI directions. The regulations are revised periodically by setting limits for subsectors and other qualifications for the beneficiary groups. If these targets are not achieved, banks have to finance the construction programs implemented by the government for the concerned sectors.

In April 2016, RBI (https://rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=985) has introduced Priority Sector Lending Certificates so that banks can trade the loan certificates given to the different sectors to meet their targets.

I. Categories under priority sector

- (i) Agriculture (ii) Micro, Small and Medium Enterprises
- (iii) Export Credit (iv) Education
- (v) Housing (vi) Social Infrastructure
- (vii) Renewable Energy (viii) Others

II. Targets /Sub-targets for Priority sector

The targets and sub-targets set under priority sector lending for all scheduled commercial banks operating in India are furnished below:

Categories	Domestic scheduled commercial banks
Total Priority Sector	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii)] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner <i>i.e.</i> , 7 percent by March 2016 and 8 percent by March 2017.
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to be achieved in a phased manner <i>i.e.</i> 7 percent by March 2016 and 7.5 percent by March 2017.
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

Source: RBI (https://rbi.org.in/Scripts/BS_ViewMasCircularDetails.aspx?id=985)

Additionally, domestic banks are directed to assure that the overall lending to non-corporate farmers does not fall under the system-wide average of the last three years performance. All efforts should be directed to reach the level of 13.5 percent direct lending to the recipients who earlier constituted the direct agriculture sector. The applicable system-wide average figure for computing performance under priority sector lending will be circulated every year. For FY 2015-16, the relevant system-wide average value is 11.57 percent. Non-Priority Sector lending is the sector towards which the financial institutions are always ready to lend the credit. This sector is still glamorous. It attracts the finances every time.

II. Review Of Literature

Kohli (1997) study reveals that in spite of the fact that directed credit program for PSL is powerful in India it is required to support to small-scale industries.

Uppal's (2009) investigation presumes that priority sector advances of all the banking groups are rising. In spite of increasing advances, Indian banks have not achieved some targets fixed by Indian banks are facing many problems like low profitability, high NPAs, transaction cost, etc. due to Lending to priority sector. It is a required to find out answers for these issues otherwise growth of the Indian banks will halt.

JaynalUd-din Ahmed's (2010) study shows that the recovery situation in agriculture and related activities in comparison to other priority sectors is discouraging in three districts under consideration. With the increase of priority sector lending, there has been a similar improvement in the volume of NPAs. However, it cannot argue that PSL is the only factor in magnifying the size of NPAs in the area under study, other factors like credit-deposit ratio, ratio of NPA to advance, capital adequacy ratio are equally responsible for increased NPAs.

Dr. G Nagarajan., N. Sathyanarayana, Ali Asif, (2013) studied the relationship between recovery and NPA. Researchers found that the main reason of the NPA is writing off defective loans and bad loans are higher in case of PSL in comparison of Non-PSL.

ShabbirNajmi, MujooRachna, (2013) studied the relationship between private and public banks NPA. They were concluded that NPA of public banks as compared to private sector banks is high because PSL of public banks is higher than private banks.

Objectives

- To study the trends in priority sector NPAs and Non-priority sector NPAs of public sector Banks during the study period.
- To find out the significant relationship between the Priority Sector NPAs and total NPAs of public sector Banks.
- To find out the significant relationship between the Non-Priority Sector NPAs and total NPAs of public sector Banks.
- To find out the gross advances impact on total NPAs of public sector Banks during the study period.

Hypothesis

- Ho1: There is no significant association between the Priority Sector NPAs and the total NPAs.
- Ho2: There is no significant relationship between the Non-Priority Sector NPAs and the total NPAs.
- Ho3: There is no significant variation in the size of the impact of Gross Advances on the total NPAs.

III. Research Methodology

The present research has been conducted on the basis of secondary data. It has been collected from the RBI website for the period of 12 years, i.e., 2005 to 2016. The statistical tools such as ratios, correlation, t-test, Regression have been used for the study with the help of the SPSS software package.

Data Analysis And Interpretation

Priority and Non-Priority Sectors NPAs in Public Sector Banks in India.

(Amount in ` Billion) As on March31

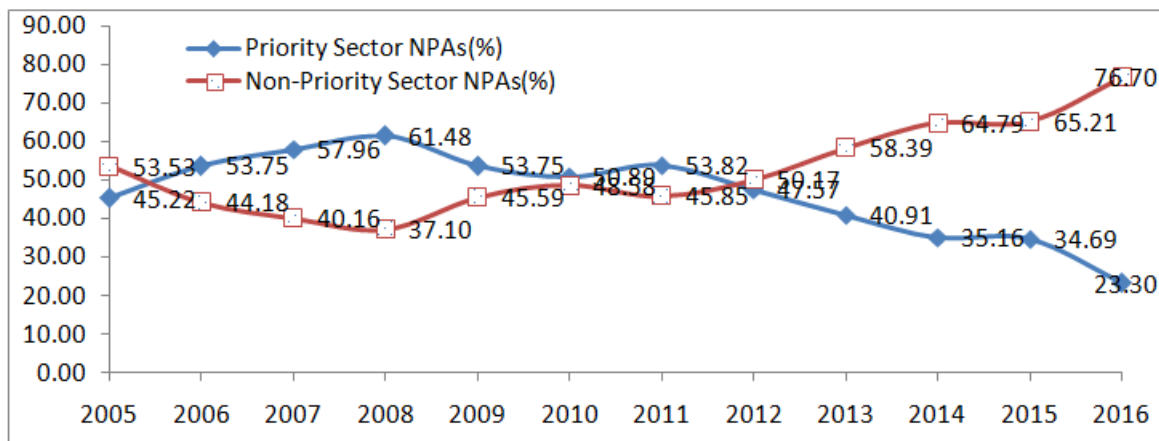
Years	Priority Sector		Non-Priority Sector		Public Sector		Total Amount
	Amount	Percentage	Amount	Percentage	Amount	Percentage	
2005	215.36	45.22	254.94	53.53	5.92	1.24	476.22
2006	222.36	53.75	182.79	44.18	8.55	2.07	413.70
2007	225.19	57.96	156.03	40.16	7.32	1.88	388.54
2008	248.74	61.48	150.07	37.10	5.74	1.42	404.56
2009	242.01	53.75	205.28	45.59	2.97	0.66	450.26
2010	304.96	50.89	291.14	48.58	3.14	0.52	599.24
2011	401.86	53.82	342.35	45.85	2.43	0.32	746.64
2012	557.80	47.57	588.26	50.17	26.56	2.27	1172.62
2013	672.76	40.91	960.31	58.39	11.55	0.70	1644.61
2014	798.99	35.16	1472.35	64.79	1.30	0.06	2272.64
2015	966.11	34.69	1815.98	65.21	2.59	0.09	2784.68
2016	1258.09	23.30	4141.48	76.70	34.82	0.64	5399.57

Source: RBI

Objective: 1

This table shows the sector-wise NPAs of public sector banks for twelve years from 2005 to 2016. It depicts that percentage of priority sector NPAs increased from FY 2005 till FY 2011, and it witnessed fall in FY 2012 and it continued to fall till FY 2016. In case of Non-priority sector NPAs, it continued to fall from FY 2005 to 2009 and it was observed to be stable form FY 2009 to FY 2011 and from FY 2011 onwards it continued to increase substantially from 45.85 in FY 2011 to 76.7 in FY 2016.

The belowgraph shows the contribution of priority sector and Non-priority sector NPAs of the total NPAs of public sector banks



Graph: percentages of priority sector NPA and Non-priority sector NPAs of total NPA

Objective: 2

- Ho1: There is no significant association between the Priority Sector NPAs and the total NPAs.
- H11: There is a significant association between the Priority Sector NPAs and the total NPAs.

The correlation between Priority Sector NPAs and total NPAs was found to be 0.963;this indicates a higher degree of positive relationship between the Priority Sector NPAs and total NPAs.

Mean differences between the two variables was 1164.834, and t-test calculated value was -2.637. The p-value was 0.023(p<0.05). Hence null hypothesis was rejected. This result proves a strong relationship between the two

variables. This result implies that with an increase of priority sector NPAs, there has been a corresponding increase in the total NPAs.

Objective: 3

• Ho2: There is no significant relationship between the Non-Priority Sector NPAs and the total NPAs. • H12: There is a significant relationship between the Non-Priority Sector NPAs and the total NPAs. From the statistical test, correlation between Non-Priority Sector NPAs and total NPAs was found to be 0.997; this indicates a higher degree of positive relationship between Non-Priority Sector and total NPAs. Mean differences between the two variables was 516.0248 and t test calculated values was -5.169, and the p-value was 0.000 (p < 0.05), hence null hypothesis rejected. There is a stable relationship between two variables. This result implies that with an increase of Non-priority sector NPAs, there has been a corresponding increase in the total NPAs.

Objective: 4

Gross advances and Gross NPAs in Public Sector Banks in India (Amount in ` Billion) As on March 31

Year	Gross Advances	Gross NPAs	Gross NPA to Gross Advances (%)
2005	8778.25	476.22	5.5
2006	11347.24	413.7	3.6
2007	14644.93	388.54	2.7
2008	18190.74	404.56	2.2
2009	22834.73	450.26	2
2010	27334.58	599.24	2.2
2011	30798.04	746.64	2.4
2012	35503.89	1172.62	3.3
2013	45601.69	1644.61	3.6
2014	52159.2	2272.64	4.4
2015	56167.18	2784.68	5.0
2016	58183.48	5399.57	9.3

Source: RBI

- Ho3: There is no significant variation in the size of the impact of Gross Advances on the total NPAs.
- H13: There is a significant variation in the size of the impact of gross advances on the total NPAs.

The statistical test results of correlation between Gross Advances and total NPAs was 0.841, which indicates a higher degree of positive relationship between Gross Advances and total NPAs. This result implies that with an increase of gross advances, there has been a corresponding increase in the total NPAs.

From the regression test adjusted R square is 0.679 which indicates that the regression model predicts that the dependent variable (total NPAs) explained by 68% of the gross advances and remaining explained by other factors. Here p < 0.05, which indicates that overall the regression model statistically significantly, predicts the total NPAs. Here we reject the null hypothesis that there is no size variation in the size of the impact of gross advances on total NPAs of PSBs.

The regression equation can be written as

$$\text{Total NPAs} = -866.637 + .071(\text{Gross Advances}).$$

IV. Findings

- The priority sector NPAs of Public sector banks have raised from Rest 215.36 billion at the end of March 2005 to Rs 1258.09 billion at the end of March 2016. From 2012 percentages of Priority sector NPAs of public sector banks have been declined.
- The Non-priority sector NPAs of Public sector banks have raised from Rs 254.94 billion at the end of March 2005 to Rs 4141.48 billion at the end of March 2016. From 2012 percentages of Priority sector NPAs of public sector banks have been increased.
- There is a definite correlation between the Priority Sector NPAs and total NPAs and a strong relationship between the Non-Priority Sector NPAs and total NPAs.
- Both Priority Sector and Non-Priority Sector NPAs are contributing total NPAs of public sector banks.
- A positive association between Gross Advances and total NPAs. Gross advances significantly impact on total NPAs of PSBs.

V. Conclusion

The non-performing asset is one of the major problems for the Indian banking system. The contribution of priority sector NPAs is more than 50% in total NPAs till 2011. After that it gradually declined. Non-priority sector NPAs hovered well above 50% after 2011. Non-priority Sector NPAs steadily increased during the period. By the insights of the study, both priority sector and non-priority sector NPAs were showing significant effects on total NPAs of public sector banks. However Non-priority sector NPAs contribution was found to be more than priority sector NPAs of total NPAs. Hence it can be concluded that gross advances also have a significant impact on total NPAs of Indian public sector banks. In a shorter period, reducing entire NPAs is difficult for banks. Therefore, banks should identify which category contributes NPAs under priority and non-priority sector more towards total NPAs. Hence, banks and government should make efforts for reducing sector-wise NPAs.

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APENDIX

Correlation and t-test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRIORITYSECTOR	509.5192	12	346.99232	100.16806
	TOTAL	1396.10672192	12	1495.356533269	431.672248509
Pair 2	NONPRIORITYSECTOR	880.08185108	12	1166.991540978	336.881440163
	TOTAL	1396.10672192	12	1495.356533269	431.672248509

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PRIORITYSECTOR & TOTAL	12	.963	.000
Pair 2	NONPRIORITYSECTOR & TOTAL	12	.997	.000

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	PRIORIT YSECTOR - TOTAL	-886.587555250	1164.834519280	336.258761634	-1626.688099557	-146.487010943	-2.637	11	.023
	NONPRI ORITYSECTOR - TOTAL	-516.024870833	345.819784136	99.829572731	-735.748278952	-296.301462714	-5.169	11	.000

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.841 ^a	.708	.679	847.72966

a. Predictors: (Constant), Advances

Anova						
Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	17410508.691	1	17410508.691	24.227	.001 ^b
	Residual	7186455.824	10	718645.582		
	Total	24596964.515	11			

a. Dependent Variable: total NPA. Predictors: (Constant), Advances

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-866.637	520.791		-1.664	.127
	Advances	.071	.014	.841	4.922	.001

a. Dependent Variable: total NPA