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## *A Study on the Causes of NPA in Selected Commercial Banks in Pune*

**Chandan Tiwari<sup>1</sup>**

Assistant Professor  
Symbiosis Centre for Management Studies  
Noida – India

**Vivek Sharma<sup>2</sup>**

Assistant Professor  
Symbiosis Centre for Management Studies  
Noida – India

**Abstract:** *Banking has been vital function across the economies of the world. It helps in capital formation for an economy with the help of saving and investment function. For this it accumulates savings from individuals, corporations and governments and lends it to the entities and individuals in need. So, it becomes of paramount importance to recover the money so lent along with interest because the money lent is public money. Thus effective asset allocation is essential for a bank to grow and succeed. However, it has been observed that there has been rising non-performing asset in banks in the recent times. The paper is an attempt to study and analyse the causes of NPA in selected commercial banks in Pune.*

**Keywords:** *NPA, Commercial Banks, Appraisal, Sanction and Disbursal, Post-Disbursal.*

### I. INTRODUCTION

Non-Performing Asset (NPA) shall be a loan or an advance, where:

Interest and /or instalment of principal remain overdue for a period of more than 90 Days in respect of a Term Loan, The account remains 'out of order' for a period of more than 90 days, in respect of an overdraft/ cash credit (OD/CC), The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, Interest and/ or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose, and Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

NPA is a double edge weapon. On one hand, it does not generate income for the banks, and at the other banks are required to make provisions for such NPAs from their current profits. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA doesn't affect current profit but also future stream of profit.

### II. OBJECTIVES AND METHODOLOGY

Some of the underlying objectives of the study are as follows.

- 1) To discuss the conceptual framework of Non -Performing Asset in banking.
- 2) To understand the causes of NPA during appraisal, sanction and disbursal and post disbursal stage at the micro level.

For our study, we have considered 15 commercial banks where three branches of every bank were considered to study the causes of NPA. The banks selected for the study are namely, State Bank of India, Bank of Baroda, Union Bank of India, Bank of India, Central Bank of India, Bank of Maharashtra, Dena Bank, IDBI Bank, ICICI Bank, HDFC Bank, Axis Bank, Indus Ind Bank, ING Vysya Bank, Kotak Mahindra Bank and Federal bank.

The study is based on primary data. An exploratory study, it primary highlights the causes of NPA in banks during appraisal, sanction and disbursal and post disbursal stage. Data was collected with the help of a structured questionnaire. Branch managers, zonal heads, department heads were the major respondents.

Data collected have been analysed with the help of 'Friedman test' in order to study the most important causes of non-performing assets in banks as perceived by bankers.

### III. DISCUSSION AND FINDING

#### (A) APPRAISAL STAGE

A Friedman Chi-Square test was conducted to study if there is difference in the importance Commercial banks attach to causes of NPAs during the Appraisal Stage.

##### - Variables & Measurement

Respondents of Commercial Banks were offered 13 common causes of NPA during appraisal stage and were asked to tell the extent to which they agree or disagree over these causes being prominently responsible for NPAs using a 5-point Likert scale (5= Strongly Agree, 4= Moderately Agree, 3= Undecided, 2 = Moderately Disagree, 1= Strongly Disagree).

**H<sub>0</sub>:** There is no difference in the importance that the Commercial Banks attach to the 13 causes of NPA during Appraisal Stage.

**H<sub>1</sub>:** There is significant difference in the importance that the Commercial Banks attach to the 13 causes of NPA during Appraisal Stage.

##### - Level of Significance: $\alpha = 0.05$

#### Friedman Test

Ranks	Mean Rank
Lack of critical presentation appraisal	8.83
Deliberate attempt of loose appraisal	4.76
Submission of unrealistic project by the borrower	9.07
Incorporation of improper assessment of experience of the borrower or his capacity to pursue the business activity.	8.79
Preparation of incorrect loan repayment schedule	8.69
Non-Availability of reliable market study to the credit officer	9.12
Reliance on provisional/ unaudited data as submitted by the borrower to Bank.	5.43
Lack of network/ information system amongst branches/ banks enabling borrowers to enjoying banks funds from more than one bank.	4.93
Non-availability of skilled/ trained staff in credit department	4.78
Absence of right to select good borrowers by the credit department	3.92
Fear of staff accountability on account turning NPA in future in the mind of credit officer at the time of appraisal	8.59
Fraudulent approach of borrowers	9.97
Fraudulent and irresponsible attitude of bank officials	4.12

Test Statistics	
N	45
Chi-square	221.182
Df	12
Asymp. Sig.	.000
a. Friedman Test	

- **Observation:**  $\chi^2 (12)=221.182, P=0.000, N=45$

- **Interpretation:**

**Since the P value is less than level of significance (0.05).** The null hypothesis is rejected. And it is therefore concluded that there is significant difference in the importance commercial banks attach to the 13 causes of NPA during appraisal stage.

We refer to the table ranks to understand the most prominent causes.

- Fraudulent approach of borrowers (9.97) is the strongest cause of NPA as perceived by commercial banks followed by Non availability of reliable market study to the credit officer (9.12), Submission of unrealistic project by the borrower (9.07), Lack of critical presentation appraisal (8.83) and so on.

## (B) SANCTION & DISBURSAL STAGE

A Friedman Chi-Square test was conducted to study if there is difference in the importance Commercial banks attach to causes of NPAs during the Sanction & Disbursal Stage.

- **Variables & Measurement**

Respondents of Commercial Banks were offered 07 common causes of NPA during Sanction & Disbursal stage and were asked to tell the extent to which they agree or disagree over these causes being prominently responsible for NPAs using a 5- point Likert scale (5= Strongly Agree, 4= Moderately Agree, 3= Undecided, 2 = Moderately Disagree, 1= Strongly Disagree).

**H<sub>0</sub>:** There is no difference in the importance that the Commercial Banks attach to the 07 causes of NPA during Sanction & Disbursal Stage.

**H<sub>1</sub>:** There is significant difference in the importance that the Commercial Banks attach to the 07 causes of NPA during Sanction & Disbursal Stage.

- **Level of Significance:**  $\alpha = 0.05$

## Friedman Test

Ranks	Mean Rank
Indulgent approach to family or group connection or long standing relationship than to the project viability	3.13
Political interference i.e. pressure to sanction loan	3.14
Political favouritism to particular borrower in order to please politicians	3.32
Undue delay in decision making in sanction of loan	5.11
Undue delay in disbursements of credit facilities	4.94
Disbursement of loan before the compliance of terms and conditions of sanction	3.20
Incomplete and defective legal documentation	5.14

Test Statistics	
N	45
Chi-square	75.584
Df	6
Asymp. Sig.	.000
a. Friedman Test	

- **Observation:**  $\chi^2 (6)=75.584, P=0.000, N=45$

- **Interpretation:**

Since the P value is less than level of significance (0.05). The null hypothesis is rejected. And it is therefore concluded that there is significant difference in the importance commercial banks attach to the 07 causes of NPA during sanction and disbursal stage.

We refer to the table ranks to understand the most prominent causes.

- Incomplete and defective legal documentation (5.14) is the strongest cause of NPA as perceived by commercial banks followed by Undue delay in decision making in sanction of loan (5.11), Undue delay in disbursement of credit facilities (4.94), Political favouritism to particular borrowers in order to please politicians (3.32) and so on.

### (C) POST DISBURSAL STAGE

A Friedman Chi-Square test was conducted to study if there is difference in the importance Commercial banks attach to causes of NPAs during the Post Disbursal Stage.

- **Variables & Measurement**

Respondents of Commercial Banks were offered 07 common causes of NPA during Post Disbursal stage where the responses were measured on a 5 – point Likert scale.

**H<sub>0</sub>:** There is no difference in the importance that the Commercial Banks attach to the 07 causes of NPA during Post Disbursal Stage.

**H<sub>1</sub>:** There is significant difference in the importance that the Commercial Banks attach to the 07 causes of NPA during Post Disbursal Stage.

- **Level of Significance:**  $\alpha = 0.05$

### Friedman Test

Ranks	
	Mean Rank
Unavailability of audited financial statements in time	3.87
Non-submission of stock and other required periodical statements by the borrowers	4.22
Negligent approach by the bank officials in regards to inspection of stock	1.90
Absence of effective monitoring	4.77
Lack of close supervision of loan account	4.74
Delayed detection of warning signals	4.36
Delay in initiating remedial measures and actions	4.14

Test Statistics <sup>a</sup>	
N	45
Chi-square	87.142
Df	6
Asymp. Sig.	.000
. Friedman Test	

- **Observation:**  $\chi^2$  (6)=87.142, P=0.000, N=45

- **Interpretation:**

**Since the P value is less than level of significance (0.05).** The null hypothesis is rejected. And it is therefore concluded that there is significant difference in the importance commercial banks attach to the 07 causes of NPA during post disbursal stage.

We refer to the table ranks to understand the most prominent causes.

- Absence of effective monitoring (4.77) is the strongest cause of NPA as perceived by commercial banks followed by Lack of close supervision of loan account (4.74), Delayed detection of warning signals (4.36), Non submission of stock and other required periodical statements by the borrower (4.22) and so on.

#### IV. CONCLUSION

NPA reflect the overall performance of the banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. Understanding the causes of loans turning bad during several stages of disbursement of credit facilities are therefore highly indispensable. Sound appraisal and due diligence must be taken by the branch managers before sanctioning the loans to clients. Effective post disbursal monitoring and control will also enhance the creditability of the banks and hereby stability of an economy.

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**AUTHOR(S) PROFILE**

**Prof. Chandan Tiwari** received an MBA in International Business and Finance from University of Pune. He has over 3 years of teaching and research experience at reputed B - Schools in Pune. He has qualified UGC NET exam and submitted Ph.D. thesis in the subject of Business Management at RTM Nagpur University. An active researcher, he has presented papers in several international conferences and published papers in reputed International Journals. He is presently associated with Symbiosis Centre for Management Studies, Noida.



**Prof. Vivek Sharma** received an MBA in Finance from Devi Ahilya University, Indore, An M.SC (Physics), he has 5 years of teaching and research experience in reputed B- Schools across India. He has Qualified UGC NET twice and Submitted Ph.D. thesis in Management at the same university. He has presented papers in several conferences and published papers in national and international journals of repute. He is currently a faculty member at Symbiosis Centre for Management Studies, Noida which is a constituent of Symbiosis International University, Pune.