A Comparative Analysis of Priority and Non-Priority Sector NPAs in Public Sector Banks in Gwalior

Dr. Komal Raghav
Post-Doctoral Fellow (ICSSR, New Delhi),
SOS in Economics, Jiwaji University,
Gwalior, M.P.

ABSTRACT

In economic development of any country, the major role is played by the banking system and in India; this role is played by Public sector banks due to their higher contribution in credit and finance for trade and industry at both domestic and international level. But now a day, the problem of non-performing assets is hampering them in their business growth. The level of Non-performing assets (NPAs) is rising in Indian banking industry especially in Public sector banks. This problem is not new for banks but it is rapidly affecting the financial health of banks. According to report of Reserve Bank of India (RBI), the gross Non-Performing Assets (NPAs) of Public Sector Banks (PSBs) are just under Rs. 4 lakh crore in October to December 2017. They together account for 90% of such bad apples in the country's banking portfolio. The share of net NPAs is even higher at 92% of the total bad loans reported so far in the banking system. In present study, a comparative analysis of priority and non-priority sector NPAs is done by the researcher with the help of primary. Out of total population, the sample size of 60 bank employees is taken by the researcher from various Public sector banks of Gwalior. Data analysis is done with the help of Chi-square test. The researcher found that the priority sector NPAs are higher in public sector banks of Gwalior as compared to non-priority sector NPAs.

Key Words: NPAs, Priority Sector, Non-Priority Sector, Public Sector Banks.

INTRODUCTION

Today, mounting NPAs is the major problem for Indian banking industry especially Public sector banks. They contribute about 87% in total bad loans of banks. In India, the gross Non Performing Assets of public sector and private sector banks were Rs.10.03 trillion in June 2018. The inspectors of Reserve Bank of India (RBI) checked their books and identified the bad loans. The banks were asked by RBI to clean up their balance sheets in six quarters between December 2015 and March 2017 but this process has not completed yet. Between December 2015 and June 2018, Public sector banks have recorded losses around Rs.1.7 trillion from which more than 80% of Rs.2.11 trillion was capital infusion that was announced by the government which exceeds the total capital infusion in 31 years between 1986 and 2017, 1/3rd of which Rs.50,000 crore flowed in 2016 and 2017. Since December 2015, Indian Overseas

Bank, Central Bank of India and UCO Bank have posted loss in every quarter of amount Rs.12,997 crore, Rs.10,800 crore and Rs.10,133 crore. In the same period, IDBI Bank has recorded the maximum loss of Rs.20,022 crore, Punjab National Bank with Rs.19,724 crore, SBI with Rs.15,010 crore and Bank of India with loss of Rs.13,190 crore. This net loss was reported by public sector banks because of high provisions to take care of their bad assets. The amount of provision and contingencies was Rs.42,417 crore in December 2015 which was reached to Rs.1.29 trillion in March 2018, before dropping to Rs.63,010 crore in June. Apart from high provision, the other reason for many Public sector banks making losses is stagnancy and even drop in their net interest income. These losses are due to those loans and advances which were given by public sector banks to priority sectors and non-priority sectors. Priority sector includes advances to Agriculture and Allied Activities (Direct and Indirect finance), Small Scale Industries (Direct and Indirect Finance), Small Business / Service Enterprises, micro credit, education loans, housing loans, sectors that impact large sections of the population, the weaker sections and the sectors which are employment- intensive such as agriculture, and tiny and small enterprise.

Table No. 1
Targets and Sub-Targets for Priority Sector Lending

Category	Domestic banks (both for Public and Private Sector Banks)	Foreign Banks Operating in India
Total Priority Sector Advances	40 % of Adjusted Net Bank Credit	32 % of Adjusted Net Bank Credit
Total Agricultural advances	18 % of Adjusted Net Bank Credit	No target
SSI Advances	40 % of Adjusted Net Bank Credit	10 % of Adjusted Net Bank Credit
Export Credit	Export Credit does not form part of Priority Sector	12 % of Adjusted Net Bank Credit
Advances to Weaker Section	10 % of Adjusted Net Bank Credit	No target
Differential Rate of Interest Advances	10 % of Previous year's total advances	No target

Source: www.rbi.org.in

For development of these sectors, yearly lending targets are already fixed by RBI for providing loans to these sectors on priority basis which are shown in Table no. 1. There is compulsion on banks for give loans to these sectors as per according to the targets. Even they are not in good condition for providing loans. From all these, the majority of loans are given by banks to agriculture sector in which the amount of NPAs is very high.

While Non-Priority Sector Advances those advances whose interest rates are higher than priority sector advances are known as non-priority sector advances like personal loans, credit card etc.

OBJECTIVES OF THE RESEARCH

The main objective of the researcher is to compare the NPAs of priority sector and non-priority sector in Public sector banks in Gwalior whether they are uniformly rising in both sectors or not.

HYPOTHESES

H_{01}: The loan overdues of selected Public sector banks in Gwalior are uniformly rising in both priority and non-priority sectors and types of loan.

H_{02}: Out of total NPAs of selected Public sector banks in Gwalior, the share of priority and non-priority sector is equal.

DATA COLLECTION AND RESEARCH METHODOLOGY

The Primary data is mainly used by the researcher for study purpose. For collecting primary data, questionnaire is mainly used by the researcher and secondary data is collected from various websites, government publications, journals and newspapers. For data analyses, chi-square test is used by the researcher. Due to wide area of population, various public sector banks like SBI, Central Bank of India and Punjab National Bank in Gwalior were taken by the researcher. The sample size of 60 bank employees has been selected from various banks in Gwalior.

RESULTS AND DISCUSSION

For study purpose, two hypotheses were framed by the researcher which is as follows:

H_{01}: The loan overdues of Public sector banks in Gwalior are uniformly rising in all sectors and types of loan. The employees of surveyed banks were asked to give their responses regarding rising loan overdues in their banks.

Table No.2
Chi-Square Test of Independence on Rise in Overdues of Public Sector Banks in Gwalior in All Sectors and Types of Loans

Calculated Value (X^2)	Degree of Freedom	Tabulated Value ($X^2_{.05}$)	Result
9.60	1	3.841	H_{01}- Rejected

From table no. 2, it is clear that the null hypothesis has been rejected which means that the loan overdues of Public sector banks in Gwalior are not uniformly rising in all sectors and types of loan. There are two types of advances named as priority sector advance and non-priority sector advances which were given by banks to these sectors. But in Gwalior region, the agriculture loans are more which comes under priority sector advances and it is a term loan which is higher than other type of loans like demand loan and cash credit.

H_{02}: Out of total NPAs of Public sector banks in Gwalior, the share of priority sector and non-priority sector is equal. The employees of surveyed banks were asked to give their responses regarding share of priority and non-priority sectors NPAs in their banks.

Table No.3

Chi-Square Test of Independence on Share of Priority and Non-Priority Sector NPAs in Central Bank of India

Calculated Value (X^2)	Degree of Freedom	Tabulated Value ($X^2_{.05}$)	Result
6.67	1	3.841	H_{02}- Rejected

It has been found from above table that the null hypothesis has been rejected which means that the share of priority sector and non-priority sectors is unequal for total NPAs of Public sector banks in Gwalior. According to survey of Public sector banks in Gwalior, the loan overdues are rising more in priority sector as compared to non-priority sector because majority of loan is given by bank to priority sectors like agriculture, small scale industries, education etc. which results to increase in loan overdues in bank and in public sector banks in Gwalior region, the majority of NPAs are in agriculture sector. The reason behind this is crop failure due to adverse seasonal effect which made the agriculturist not to repay loan amount on time and resulted to NPAs.

CONCLUSION AND SUGGESTIONS

In Public sector banks in Gwalior, the priority sector NPAs are rising more as compared to non priority sector NPAs. The main reason behind this is advances to agriculture sector which comes under priority sector. To solve this problem of rising NPAs in banks, there is need to effective follow up of borrower, credit appraisal etc. and also to make adequate recovery mechanism so that banks can come out from this problem of non-performing assets.

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