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EFFECT OF LENDING PATTERN ON NPA IN INDIAN BANKS

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Abstract:

Lending is one of the key functions of banks apart from accepting deposits. Banks need to maintain balance between the financing to priority and non-priority sectors. But while maintaining this balance another critical variable non-performing asset has to be taken care properly. Higher the NPA, rising the risk of banks; in present paper the relationship among the lending in priority sector and NPA as well as non-priority sector and NPA has been investigated for both public as well as private sector banks. Public sector banks (PSB) are in good position of lending & NPAs of priority sector as well as Non-priority sector comparing to private sector bank Lending & NPAs.

Lending pattern in Bank:

The bank's lending pattern is one of its most vital functions. Lending is a significant part of the banking industry, but it is also risky. One of the big threats to which banks are exposed is the risk of default, which involves not receiving repayment of principal and/or interest or not receiving repayment on time. Lending activities are intended to generate profit, and their success is primarily dependent on the bank's willingness to roll over their loan and advance directories.

The priority field is the one that has the greatest effect on the majority of people. The aim of lending to priority sectors is to encourage innovation. Agriculture, micro and small businesses, retail trade, micro finance, education loans, and housing loans are among the sectors that employ a large number of people. Kisan Credit Card, Green Credit Card, financing farm machinery, financing dairy/animal husbandry projects, minor irrigation schemes, hi-tech project financing, and finance against warehouse receipt of agriculture produce are some of the financing options available to the agriculture sector. Small manufacturing businesses, micro manufacturing businesses, and small and micro service businesses will all benefit from bank financing.

'Priority Sector Lending:

banksgrant loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector as per the following norms:
1) Manufacturing Enterprises
2) Service Enterprises
3) Khadi and Village Industries Sector (KVI)
4) Bank loans to food and agro processing units shall form part of agriculture.
5) Other Finance to MSMEs (Micro, Small and Medium Enterprises)
6) Bank overdrafts after April 8, 2015 up to 50,000 rupees / - under the accounts of Pradhan Mantri Jan DhanYojana (PMJDY)
7) Existing deposits with SIDBI and MUDRA Ltd.

Bank credit is an essential medium for the transmission of monetary policy.
Banks receive and deploy vast sums of public funds, as well as exploit them through the development of credit. The banking system's key functions are to mobilise public capital and channel them into growth-oriented activities. Financial intermediation would be easier if the banking system was more developed. The banking system, with its extensive network, is the most efficient at gathering public savings and allocating them to productive activity.

Non-Performing Asset:

A non-performing asset (NPA) is a credit facility in which the interest / installments are "overdue" for a set amount of time. When a bank or financial institution grants a loan, the borrower fails to pay the interest or principal amount due within the prescribed time frame, this is known as a nonperforming asset (NPA). Banking is essentially the method of taking money from the general public and lending it to the poor and businesses at a higher interest rate. Credit risk is inherent in lending capital. Non-performing assets are loans and advances from banks or financial institutions that have been turned into unproductive, unprofitable, or unprofitable loans (NPAs). According to SARFAESI 2002, a nonperforming asset (NPA) is a borrower's principal or account that has been listed as substandard assets, questionable assets, or losses by a bank or financial institution.

Literature surveys:

Bhawna Sethi (2013), "A comparative analysis of NPAs in Punjab national bank and State bank of India" identified and compare the factors responsible for the rise in NPA. As well as ascertained the preferred loan portfolio. The study indicates the rising trend in both banks with respect to NPA. The issue of nonperforming assets (NPAs) should be addressed in a way that does not expose the bank's financial situation or its reputation. The Reserve Bank of India (RBI) and the Indian government had taken the requisite measures to minimize nonperforming assets (NPAs). The RBI had set an objective for these banks to reduce their nonperforming assets (NPAs) rather than focusing solely on increasing earnings and overall revenue.

Ashly Lynn Joseph, Dr. M. Prakash (2014), "A Study on Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks. NPAs are depleting banks' reserves and jeopardising their financial stability. It's a political as well as a financial concern. Banks and financial institutions should be more diligent in implementing a realistic and systematic non-performing asset management strategy that prioritises the avoidance of non-performing assets. In comparison to private sector banks, public sector banks have a higher rate of nonperforming assets (NPAs). The public sector bank should be more concerned with preventing any account from being a nonperforming asset (NPA) by taking effective preventive steps.

Doriana Cucinelli (2015), "The Impact of Non-performing Loans on Bank Lending Behavior: Evidence from the Italian Banking Sector". Non-performing loans (NPLs) have exploded in recent years, posing a significant threat to banks. 'Bad' banks have been set up in some schemes to clean up bank balance sheets. As a result of the increased credit risk since the financial crisis, it seems that banks have begun to take less risk. In light of deterioration in its portfolio of past loans, a bank that takes fewer risks may do so. Banks decrease their credit lines as a result of taking less risk, resulting in a slower growth rate in gross loans.

Research Methodology:

Statement of the problem:

Lending and Non-performing assets has a major concern in banking sector. The existing study focuses on lending patterns and NPA of priority sector &Non-priority sector of public and private sector bank.

Objectives:

1. To understand the concept of NPA.
2. To study lending pattern of Indian banks both in priority sector and not priority sector.
3. To analyses the sector wise NPAs and its impact.

Hypothesis (H0):

Ho: There is no significant relation between lending in priority sector & NPA priority sector for Private Sector Bank.
Ho: There is no significant relation between lending in Non –priority sector & NPA Non- priority sector for Private Sector Bank.
Ho: There is no significant relation between lending in priority sector & NPA priority sector for Public Sector Bank.
Ho: There is no significant relation between lending in Non –priority sector & NPA Non- priority sector for Public Sector Bank.

Research design including sample design:

The sample size is consisting highest NPA of 3 banks (public and private sector) and lowest NPAs of 3 banks (public and private sector)

Sampling framework & database:

For the purpose of research, several methods and approaches are used. In this study we select the banks on the basis of gross NPAs in both public as well as private banks. In private sector and public sector we are selected banks in two categories i.e.
a) The bank which holds higher NPAs (three banks).
b) The bank which holds lower NPAs (three banks).

Public sector Bank		Private sector Bank	
Highest NPA	Lowest NPA	Highest NPA	Lowest NPA
PNB Bank	Vijaya Bank	ICICI Bank	Bandhan Bank
BOI Bank	Indian Bank	Axis Bank	Nainital Bank
IDBI Bank	United Bank of India	HDFC Bank	RBL India

Limitation of the study:

➢ The study is limited 6 banks only, hence it does not represent on over all banks in India.

> ➤ The study is fixed for five years only since 2014 to 2018.

Data analysis:

Private Sector Bank:

Table 1: Priority Sector lending in Private Sector Bank (%)

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-15	27	96	30	19	69	26	45
Mar-16	25	97	29	19	71	31	45
Mar-17	24	99	31	21	53	32	43
Mar-18	25	98	29	22	50	32	43
Mar-19	22	39	28	18	52	28	31
Mean	25	86	29	20	59	30	41
SD	1.82	26.19	0.97	1.64	10.12	2.68	5.82

Table 2: Priority Sector NPA in private sector Bank(%)

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-15	27	96	45	15	73	9	44
Mar-16	22	98	36	11	69	13	42
Mar-17	22	99	39	8	69	13	42
Mar-18	11	100	42	6	51	24	39
Mar-19	10	98	43	4	62	48	44
Mean	18	98	41	9	65	21	42
SD	7.5	1.48	3.54	4.32	8.67	15.88	2.16

Table 3: Non-Priority Sector lending in Private sector Bank(%)

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-15	73	4	70	81	31	74	56
Mar-16	75	3	71	81	29	69	55
Mar-17	76	1	69	79	47	68	57
Mar-18	75	2	71	78	50	68	57
Mar-19	78	61	72	82	48	72	69

Mean	75	14	71	80	41	70	59
SD	1.82	26.19	1.14	1.61	10.12	2.68	5.81

Table 4: Non-Priority Sector NPA in Private Sector Bank

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-15	73	4	55	85	27	91	48
Mar-16	78	2	64	89	31	87	50
Mar-17	78	1	61	92	31	87	50
Mar-18	89	0	58	94	49	76	52
Mar-19	90	2	57	96	38	52	48
Mean	82	2	59	91	35	79	50
SD	7.5	1.48	3.58	4.32	8.63	15.88	1.86

Public Sector Bank

Table 5: Priority sector Lending patterns in public Sector bank

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-15	25	21	34	33	40	30	31
Mar-16	27	24	37	36	38	35	33
Mar-17	25	30	39	38	37	42	35
Mar-18	35	34	42	31	40	38	37
Mar-19	36	33	41	35	43	37	38
Mean	30	28	39	35	40	36	35
SD	5.46	5.68	3.21	2.56	2.27	4.35	2.86

Table 6: Priority sector NPAs in public Sector bank

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-14	30	29	26	36	46	41	35
Mar-15	32	24	27	41	49	32	34
Mar-16	20	19	24	22	34	20	23
Mar-17	25	13	22	25	28	22	23
Mar-18	23	8	19	24	18	22	19
Mean	26	19	24	30	35	27	27

| SD | 4.95 | 8.38 | 3.23 | 8.43 | 12.81 | 8.9 | 7.22 |

Table 7: Non-Priority sector Lending pattern in public Sector bank

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-15	75	79	66	67	60	70	70
Mar-16	79	76	63	64	60	65	68
Mar-17	75	70	62	62	63	58	65
Mar-18	65	66	58	69	60	62	63
Mar-19	64	67	59	65	57	63	63
Mean	72	72	62	65	60	64	66
SD	6.69	5.68	3.21	2.7	2.12	4.39	2.97

Table 8 : Non-Priority sector NPAs in public Sector bank

Years	Axis Bank	Bandhan bank	HDFC Bank	ICICI Bank	Nainital Bank	RBL Bank	Average
Mar-15	70	71	74	64	54	59	65
Mar-16	76	76	73	59	51	68	67
Mar-17	80	81	76	78	66	80	77
Mar-18	75	87	78	75	72	70	76
Mar-19	77	92	81	76	82	78	81
Mean	76	81	76	70	65	71	73
SD	3.63	8.38	3.21	8.38	12.81	8.43	6.73

Private Sector Bank

Correlation between Priority Sector lending and NPA in priority sector:

Correlation	T-Test	P value	Alpha
-0.4353	-0.838	0.23177	0.05

Interpretation:

Compare with tabulated t value is 3.182, the calculated t-value is(-0.838). The calculated T-value is less than the t-table at an alpha level of 0.05. The P-value is greater than the alpha level: P > 0.05. We cannot reject the null hypothesis that there is no significance relation between lending & NPAs of priority sector for private bank

Correlation between Non-Priority Sector lending and NPA in Non-Priority Sector:

Correlation	T-Test	P value	Alpha
-0.4380	-0.843	0.2306	0.05

Interpretation:

Compare with tabulated t-table value 3.182 to calculated t-value (-0.843). The calculated t-value is less than the t-table at an alpha level of 0.05. The P-value is greater than the alpha level: P > 0.05. We cannot reject the null hypothesis that there is no significance relation between lending & NPAs of Non-priority sector for private bank

Public Sector Bank

Correlation between Priority Sector lending and NPA in priority sector:

Correlation	T-Test	P value	Alpha
-0.950	-5.2832	0.0066	0.05

Interpretation:

Compare with tabulated t-table value 3.182 to calculated t-value (-5.2832). The calculated T-value is greater than the t-table at an alpha level of 0.05. The P-value is less than the alpha level: P <0.05. We can reject the null hypothesis that there is significance relationship between lending & NPAs of priority sector for public sector bank

Correlation between Non-Priority Sector lending and NPA in Non-Priority Sector:

Correlation	T-Test	P value	Alpha
-0.4380	-6.4623	0.0038	0.05

Interpretation:

Compare with tabulated t-table value 3.182 to calculated t-value (-6.4623). The calculated T-value is greater than the t-table at an alpha level of 0.05. The P-value is less than the alpha level: P < 0.05. We can reject the null hypothesis that there is significance relationship between lending & NPAs of Non-priority sector for public sector bank

Finding and Recommendation: -

1) In Public and private sector banks NPAs increasing year on year.
2) In Bandhan Bank lending patter of priority sector from 2015 to 2018 rare changes after that in 2019 decline in the lending pattern and NPAs of priority sector was increasing.
3) In Non-priority sector the Bandhan Bank lending and NPAs from 2014 to 2018 less with compare to all other private sector bank.
4) In IDBI bank NPAs of priority sector from 2015 to 2019 was continuously decline.
5) In public sector bank lending patterns in priority sector increase but in private sector bank decrease of lending.
6) Public sector bank NPAs was decrease other than private sector increase.
7) In Non-priority sector lending of private sector increase or some are Constance but in public sector bank decrease of lending level.

8) In Non-priority sector NPAs of private sector Constance or not more than changes but in public sector bank increase of NPAs level.

Conclusion: -

The main objective of the study was to find out whether there is any significance relation between in Lending & NPAs. We find that with the use of t-test and p value the private sector bank there is no relation of lending and NPA other than in public sector bank there is significance relation to lending and NPAs. Public sector bank is in good position of lending & NPAs of priority sector and Non-priority sector comparing to private sector bank Lending & NPAs.

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