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## A STUDY ON CAUSES AND REMEDIES FOR NON PERFORMING ASSETS IN INDIAN PUBLIC SECTOR BANKS WITH SPECIAL REFERENCE HYDERBAD KARNATAKA REGION TO AGRICULTURAL DEVELOPMENT BRANCH, STATE BANK OF INDIA

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### ABSTRACT:

According to the announcement given by Mr. A. Krishna Kumar, Overseeing Chief, State Bank of India on Walk 31, 2012, SBI's slippages were at Rs 26,976 crore, up from Rs 18,145 crore in FY11. The bank's gross NPAs rose to 4.44 percent (3.28 percent in FY11), while net NPA was 1.82 percent in FY12 (1.63 percent in FY11). This proposed research paper distinguishes the impact of a lot of miniaturized scale financial factors like Age, Sex, Instruction and Conjugal status and so on of Indian ranchers on the administration of their credit. An endeavor is made to discover the reasons for non execution by considering a lot of 20 factors which majorly affect the exhibition of ranchers and furthermore the cures are intended to conquer these credit dangers. Credit the executives incorporates arranging, sorting out, controlling, coordinating and co-planning the credit endorsing approaches so as to diminish the non performing resources. We realize that NPA must be decreased yet it can't be maintained a strategic distance from. Regardless of whether the banks would prefer not to endorse the advances they are committed by the legislature as it prompts speculation of cash for improvement purposes. Particularly in agribusiness segment endorsing of credit is of most extreme significance as farming is the foundation of India and a great deal of extension has been given to horticultural segment.



This paper makes an endeavor to contemplate the impact of various factors on the non performing ranchers, as the primary target of our investigation is to comprehend what are the challenges looked by our Indian ranchers in paying back the acquired sum with ordinary installment of premium. We have utilized both the information accumulation techniques and Telephonic meeting strategy to gather adequate data. Aside from these strategies we have additionally utilized the chi square investigation test so as to know whether these factors affect the delinquency of premium. I have additionally attempted to discover, are there any critical contrasts in our examination? In the event that truly, what is their essentialness level? So as to cause my examination increasingly precise we to have thought about 1% dimension of essentialness. After the examination proposals are offered regarding how the NPA's can be limited by thinking about the 5 fundamental elements of The executives.

**KEYWORDS:** Farming Credit Examination, Money Credit (CC), Non Performing Resources (NPAs), Overdraft (OD).

### INTRODUCTION

The primary business of a

financial organization is to get stores and loan cash. Accepting

store includes no hazard, since the broker owes an obligation to

reimburse the store, at whatever point it is requested. Then again, loaning dependably includes much hazard in light of the fact that there is no sureness of reimbursement. An investor will be mindful in loaning, since he isn't loaning cash out of his own capital. A noteworthy part of the cash loaned originates from the stores got from general society. These stores are for the most part repayable on interest.

Subsequently, while loaning cash, a financier ought to pursue an exceptionally wary approach. The hazard associated with loaning business makes it significant as it includes settling on noticeable choices. Along these lines while authorizing credit the investor ought to assess the undertaking sensibly or else it prompts the non-reimbursement of advances and advances. The majority of the banks today in India are confronting the default hazard wherein some piece of the benefit is held for covering the non-performing resources.

## **II. NON-PERFORMING Resources IN STATE BANK OF MYSORE**

Non Performing Resource implies a benefit or record of borrower, which has been sorted by a bank or budgetary organization as inadequate, far fetched or misfortune resource, as per the bearings or rules identifying with resource grouping issued by The Save Bank of India.

### **2.1 Classification of Non Performing Resources in State Bank of Mysore (ADB)**

#### **a) Thirty days past due**

A sum due under any acknowledge office is treated as "past due" when it has not been paid inside 30 days from the due date. Because of the improvement in the installment and settlement frameworks, recuperation atmosphere, up degree of innovation in the financial framework, and so forth., it was chosen to abstain from 'past due' idea, with impact from Walk 31, 2001. In like manner, as from that date, a Non performing resource (NPA) will be a development where:

- Interest and/or portion of important stay late for a time of over 180 days in regard of a Term Advance,
- The record stays 'out of request' for a time of over 180 days, in regard of an overdraft/money Credit(OD/CC),
- The bill stays late for a time of over 180 days on account of bills obtained and limited,
- Interest as well as portion of essential stays late for two collect seasons yet for a period not surpassing two half years on account of a development conceded for farming reason, and
- Any sum to be gotten stays past due for a time of over 180 days in regard of different records.

The non-performing resources regularly incorporate home loan advances, vehicle advances, charge card obligation and portion advances.

#### **b) Ninety days late**

With the end goal of moving towards global accepted procedures and to guarantee more prominent straightforwardness, it has been chosen to embrace the '90 days late' standard for ID of NPAs, structure the year consummation Walk 31, 2004. In like manner, with impact from Walk 31, 2004, a non-performing resource (NPA) shell is a credit or a development where:

- Interest and/or portion of vital stay late for a time of over 90 days in regard of a Term Advance,
- The record stays 'out of request' for a time of over 90 days, in regard of an overdraft/money Credit(OD/CC),
- The bill stays past due for a time of over 90 days on account of bills bought and limited,
- Interest as well as portion of essential stays past due for two reap seasons however for a period not surpassing two half years on account of a development allowed for rural reason.

### a) Out of request

A record treated as 'out of request' if the exceptional parity remains ceaselessly in abundance of as far as possible/drawing power. In the event that where the extraordinary equalization in the vital working record is not exactly as far as possible/drawing power, yet there are no credits constantly for a half year as on the date of asset report or attributes are insufficient to cover the intrigue charged during a similar period, these record ought to be treated as 'out of request'.

### 2.1 Methodology

The exploration approach followed in this task is Information Accumulation technique which includes both checking and specialized strategy.

1. Monitoring strategy for information accumulation incorporates considers in which the specialist investigates the exercises of the subject or the idea of some material without endeavoring to evoke reactions from anybody. In our task the checking technique includes the accumulation of information about the ranchers by utilizing the application structures put together by the rancher during applying for credit. (Allude Reference section)
2. In the correspondence think about, the specialist addresses the subjects and gathers their reactions by close to home or indifferent methods. The correspondence study followed in our venture is Telephonic Meeting wherein the ranchers were met through phone. This strategy was proper the same number of the ranchers don't get English, despite the fact that they comprehend they are agreeable to talk in kannada language. Therefore the survey was set up in kannada language so as to make the meeting progressively responsive.
3. Chi Square ( $\chi^2$  test) as a trial of freedom was done so as to think about the whether the distinctions saw among impact of various factors on the non performing resources of a bank. The estimation of the test-measurement is:

$$\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

where  $O_i$  is the watched recurrence and  $E_i$  is the normal recurrence.

The degrees of opportunity are determined by utilizing the recipe  $(r-1)(c-1)$ . At that point the basic esteem is resolved from the chi square ordinary conveyance table. To cause our examination progressively exact we to have taken 1% dimension of hugeness. At that point dependent on the basic esteem we have closed whether adequate information is accessible to acknowledge the nul theory or not.

### 2.2 Results

#### 2.2.1 Survey directed dependent on the subtleties of the ranchers gathered from the application structure:

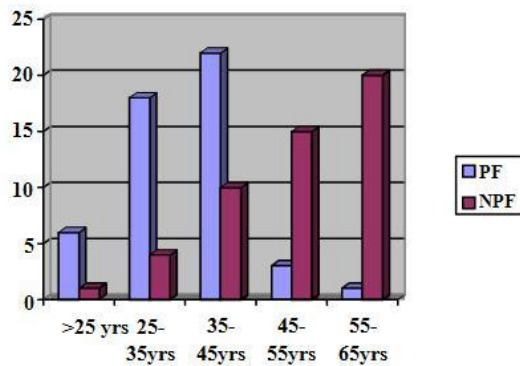
Test measure: An example size of 100 ranchers was picked arbitrarily from all more than 41 branches covering 5 areas to be specific Mysore, Mandya, Hassan, Mangalore, Chamarajanagara. Among these 100 ranchers 50 are reliable borrowers who pay their advantage appropriately and the other 50 ranchers are nonperforming ranchers who don't make any endeavor to pay their enthusiasm on credit consequently adding to age of non-performing resources which will thusly diminish the benefit of the bank.

A lot of 20 factors have been considered in our investigation adds to the non financial soundness of the ranchers. Despite the fact that there are different components which will add to the non reimbursement of intrigue and credits, the accompanying factors have a noteworthy offer. Give us a chance to see the effect of these factors on the Ordinary just as the nonperforming ranchers and what variables separates the two classes of ranchers.

**A. Effect of age**

**Table 1**

Vari able	Type of data	Descri ption	Number Of Performing Farmers	Number Of Non- Performing Farmers
Age	Interva l	>25 yrs		
		25-35yrs	6	1
		35-45yrs	18	4
		45-55yrs	22	10
		55-65yrs	3	15
		65yrs	1	20



**Figure 1**

**Results of Chi square analysis:**

**Nul Hypothesis (H0)** : Performance of the farmer is independent of age.

**Alternate hypothesis (H1)** : Performance of farmer is dependent on age.

<b>Chi square value</b>	<b>42.15</b>
<b>Critical value at 1% level of significance</b>	<b>13.277</b>

The above result clearly indicates that we have enough evidence to reject the nul hypothesis. Therefore we reject nul hypothesis and accept alternate hypothesis stating that the age has its impact on the performance of farmers.

**B. Effect of Sexual status**

**Table 2**

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Sex	Categorical	Male	46	49
		Female	4	1

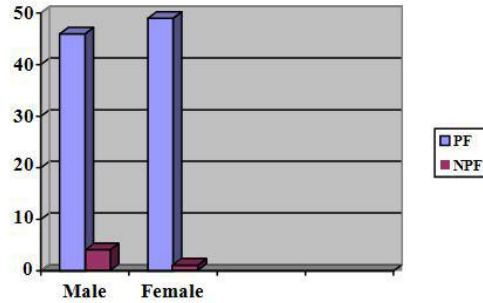


Figure 2

**Results of chi square analysis:**

**Nul Hypothesis (H0)** : Performance of the farmer is not dependent on the sexual status

**Alternate hypothesis (H1)** : Performance of farmer is dependent on sexual status.

Chi square value	1.89
Critical value at 1% level of significance	6.635

From the above result we can conclude that the nul hypothesis can be accepted as the chi square value falls within the range of critical value. Therefore we cannot conclude whether farmer performance and sexual status re dependent or independent.

**C. Effect of Educational status:**

Table 3

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Education	Categorical	Literate	48	14
		Illiterate	2	36

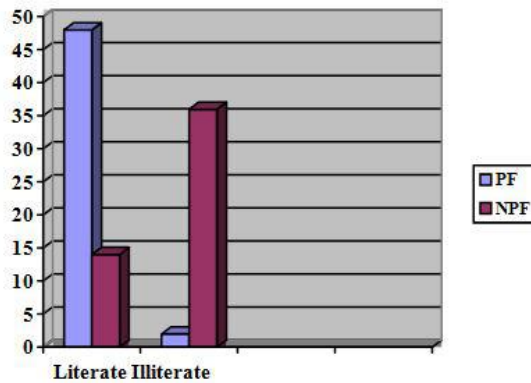


Figure 3

**Results of chi square test:**

**Nul Hypothesis (H0)** : Performance of farmer is independent on educational status.

**Alternate hypothesis (H1)** : Performance of farmer and his/her educational status are dependent.

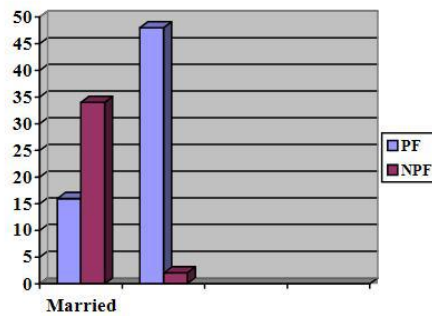
Chi square value	49.06
Critical value at 1% level of significance	6.653

As the chi square value is greater than the critical value, we conclude that we have sufficient evidence to reject nul hypothesis and to accept alternate hypothesis. Thus we conclude the educational status and the farmer performance are dependent.

**D. Effect of marital status:**

**Table 4**

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Marital Status	Categorical	Married	16	48
		Unmarried	34	2



**Figure 4:**

**Results of the chi square test:**

**Nul Hypothesis (H0)** : Performance of farmer and marital status are independent.

**Alternate hypothesis (H1)** : Performance of farmer and marital status are dependent.

<b>Chi square value</b>	<b>44.4</b>
<b>Critical value at 1% level of significance</b>	<b>6.635</b>

From the above values we conclude that we have sufficient data to reject nul hypothesis. Therefore we accept alternate hypothesis. This shows that performance of farmer and marital status is dependent.

**E. Effect of Family size:**

**Table 5**

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Family members	Interval	Above 10 members	8	35
		5-10 members	14	8
		3-5 members	28	7

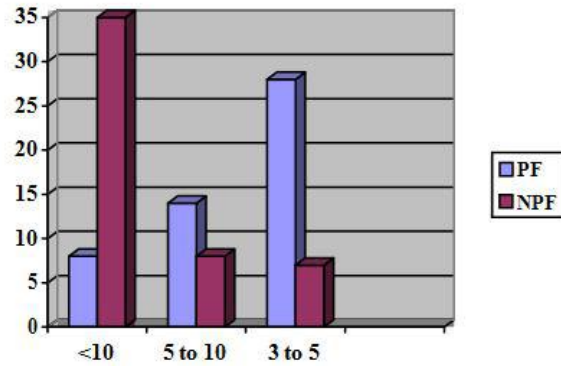


Figure 5

**Results of chi square analysis:**

**Nul Hypothesis (H0)** : Performance of farmer and family size are independent.

**Alternate hypothesis (H1)** : Performance of farmer and family size are dependent.

Chi square value	25.62
Critical value at 1% level of significance	9.210

From the above value we conclude that we have enough evidence to reject nul hypothesis. Therefore we accept alternate hypothesis. Hence farmer performance depends on family size.

**F. Effect of Wealth status:**

Table 6

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
BPL Type	Categorical	Green card	8	43
		Red card	40	4
		Yellow card	2	3

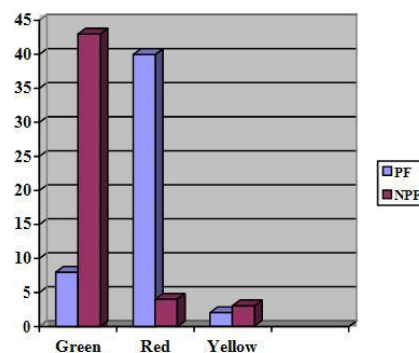


Figure 6

**Results of chi square analysis:**

**Nul Hypothesis (H0)** : Performance of farmer is independent of wealth status.

**Alternate hypothesis (H1)** : Performance of farmer is dependent on wealth status.

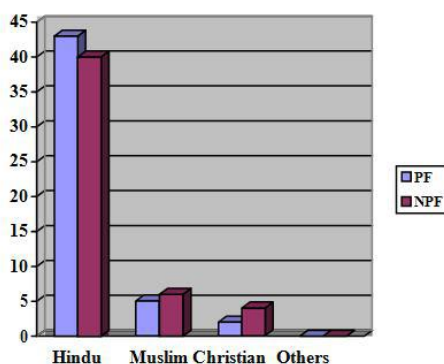
Chi square value	53.66
Critical value at 1% level of significance	9.210

We have sufficient data to reject nul hypothesis. Therefore we accept alternate hypothesis. This shows that wealth status and performance of a farmer are dependent.

**G. Effect of religion:**

**Table 7**

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Religion	Categorical	Hindu	43	40
		Muslim	5	6
		Christian	2	4
		Others	Nil	Nil



**Figure 7**

**Results of the chi square analysis:**

**Nul Hypothesis (H0)** : Performance of farmer and religion are independent.

**Alternate hypothesis (H1)** : Performance of farmer and religion are dependent.

Chi square value	0.85
Critical value at 1% level of significance	9.210

The chi square value comes within the critical value. Therefore we donot have sufficient evidence to reject nul hypothesis. Hence we accept nul hypothesis. That is we cannot conclude whether farmer performance and religion are dependent or independent.

**H. Effect of caste:**

**Table 8**

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Caste	Categorical	General	8	34
		OBC SC/ST	30	10
		Others	12	6
		Nil	Nil	Nil



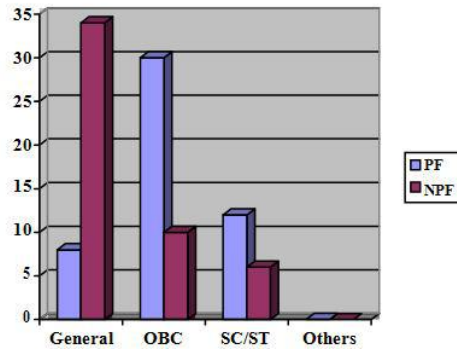


Figure 8

**Results of the chi square analysis:**

**Nul Hypothesis (H0)** : Performance of farmer and caste are independent.

**Alternate hypothesis (H1)** : Performance of farmer and caste are dependent.

Chi square value	28.1
Critical value at 1% level of significance	9.210

We have sufficient data to reject nul hypothesis and to accept alternate hypothesis which states that performance of farmer is dependent on caste.

**I. Effect of money lenders:**

Apart from the bank and other financial institutions there are private money lenders who will lend money to the farmers on the basis of mortgage provided by the farmer.

Table 9

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Money lender	Categorical	Yes No	32 18	46 4

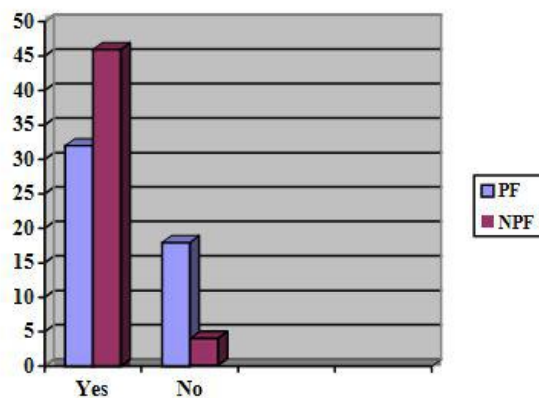


Figure 9

**Results of chi square analysis:**

**Nul Hypothesis (H0)** : Performance of farmer is independent of presence of moneylender.  
**Alternate hypothesis (H1)** : Performance of farmer and presence of money lender are dependent.

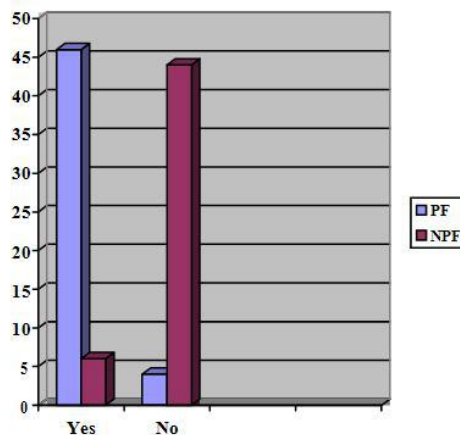
<b>Chi square value</b>	<b>11.52</b>
<b>Critical value at 1% level of significance</b>	<b>6.635</b>

We have sufficient data to reject nul hypothesis. Therefore we accept alternate hypothesis. This shows that the presence of money lender is dependent on the performance on a farmer.

**J. Effect of guarantor:**

**Table 10**

Variable	Type of data	Description	Number Of Performing Farmers	Number Of Non-performing farmers
Guarantor	Categorical	Yes	46	6
		No	4	44



**Figure 10**

**Results of chi square analysis:**

**Nul Hypothesis (H0)** : Performance of farmer is independent of guarantor.  
**Alternate hypothesis (H1)** : Performance of farmer is dependent on guarantor.

<b>Chi square value</b>	<b>64.1</b>
<b>Critical value at 1% level of significance</b>	<b>9.210</b>

We have sufficient data to reject nul hypothesis. Therefore we accept alternate hypothesis. Hence we say performance of farmer is affected by the presence of guarantor.

Likewise a set of 20 variables have been considered and a chi square test at 1% level of significance is conducted. The results of which are recorded in Table 11.

The following table gives us the overview of the type of correlation of variable with the Nul hypothesis.

**Table 11**

<b>Variables which do not influence farmers performance</b>	<b>Variables which influence farmers performance</b>
1) Sex 2) Religion 3) Security of other assets 4) The volume of land owned by the farmer	1) Age 2) Educational status 3) Marital status 4) Effect of family size 5) Effect of wealth status 6) Caste 7) Money lender 8) Guarantor 9) Security of land 10) Security of gold 11) Experience 12) Suitability of land to crop 13) Type of farming 14) Irrigation facility 15) Any other source of income 16) Subsidy

From the table we can reason that we have a positive outcome as 16 of our factors considered had their effect on the presentation of the ranchers. These noteworthy contrasts are the one which will choose the reliability of a borrower. A broker ought to consider these factors while authorizing credit to the ranchers so as to decrease NPA s.

**2. Correspondence Study:**

Meeting of 100 ranchers has been taken in phone. Out of 100, 50 are credit commendable and 50 are non credit commendable borrowers. The survey was directed in kannada language, remembering the instructive and social attitude of ranchers.

**Information Gathered from the telephonic meeting:**

Reasons Adding to financial soundness of the borrowers as indicated by the Positioning Scale:

1. The ranchers utilized the whole credit sum for the reason to which the credit has been endorsed. There is no expansion of credit sum for other individual employments.
2. Using propelled sort of cultivating in agribusiness like tractors, tillers and so forth.
3. In expansion to agribusiness the ranchers are engaged with other united exercises which will add to their altruism.
4. Bank work force will teach the ranchers about the advantages of auspicious reimbursement of advance and furthermore about the outcomes of default. This will make mindfulness in the brains of the clients.
5. The sort of harvest coordinates very well with the development land.
6. Availability of sufficient water system office.
7. Highly rich land will likewise add to the expanded yield.
8. Use of good nature of seeds and furthermore the bio-manures which are eco-accommodating.

The Accompanying table speaks to a portion of the noticeable reasons given by the financially sound ranchers to the best possible reimbursement of advances and advances alongside intrigue:

**Table 12**

Code	Reasons	Percentage of farmers
A	Utilization of credit amount for the purpose to which it was sanctioned	26
B	Using advanced type of farming	22
C	Involvement in other allied activities	12
D	Motivation by the banker	11
E	Matching of crop with the cultivation land	10
F	Adequate irrigation facility	8
G	Highly fertile land	6
H	High quality seeds	5

- Reasons adding to the opportune non-reimbursement of advances:
- Farmers face trouble in the reimbursement of advance because of yield disappointment. Indian ranchers are for the most part reliant on rainstorm. In this way the significant reason for harvest disappointment is the characteristic cataclysms.
- Majority of the ranchers still pursue the conventional technique for cultivating despite the fact that the innovation is progressed. This will likewise add to decrease in the harvest yield.
- Lack of works at the opportune time to do the required task will prompt postponement in the reaping of yields which thusly adds to the harvest annihilation.
- Lack of sources of info like the seeds quality, accessibility and bio-composts will likewise add to decrease in yield.
- To get an extremely high return it is important to sow the harvest that is appropriate to the land. Confound between the yield and the developing area will likewise prompt harvest disappointment.
- Some of the yields need a satisfactory supply of water for their development. In these cases absence of water system office will likewise prompt harvest disappointment.
- Pests and sicknesses to the harvests will prompt yield disappointment.
- One more reason adding to diminished gainfulness is the decline in the attractiveness of the item because of i) low quality item or ii) mass generation.
- Apart from inbound issues the individual commitment of the rancher and furthermore the family duties will likewise prompt the non-reimbursement/postponed installment of advance. For ex: Marriage, Burial service and so on.

**Table 14**

Code	Reason	Percentage of farmers
A	Crop failure	23
B	Traditional cultivation methods	18
C	Lack of adequate labor	14
D	Lack of adequate inputs	13
E	Mismatch between the crop and the land	10
F	Inadequacy of irrigation facility	9
G	Improper maintenance of crops	8
H	Decrease in marketability	3
I	Personal problems	2

## I. RESULTS AND DISCUSSIONS

From the table we can reason that we have a positive outcome as 16 of our factors considered had their effect on the presentation of the ranchers. These noteworthy contrasts are the one which will choose the reliability of a borrower. A broker ought to consider these factors while authorizing credit to the ranchers so as to decrease NPA s.

### 2. Correspondence Study:

Meeting of 100 ranchers has been taken in phone. Out of 100, 50 are credit commendable and 50 are non credit commendable borrowers. The survey was directed in kannada language, remembering the instructive and social attitude of ranchers.

Information Gathered from the telephonic meeting:

Reasons Adding to financial soundness of the borrowers as indicated by the Positioning Scale:

- 1.The ranchers utilized the whole credit sum for the reason to which the credit has been endorsed. There is no expansion of credit sum for other individual employments.
- 2.Using propelled sort of cultivating in agribusiness like tractors, tillers and so forth.
- 3.In expansion to agribusiness the ranchers are engaged with other united exercises which will add to their altruism.
- 4.Bank work force will teach the ranchers about the advantages of auspicious reimbursement of advance and furthermore about the outcomes of default. This will make mindfulness in the brains of the clients.
- 5.The sort of harvest coordinates very well with the development land.
- 6.Availability of sufficient water system office.
- 7.Highly rich land will likewise add to the expanded yield.
- 8.Use of good nature of seeds and furthermore the bio-manures which are eco-accommodating.

The Accompanying table speaks to a portion of the noticeable reasons given by the financially sound ranchers to the best possible reimbursement of advances and advances alongside intrigue:

## IV LIMITATIONS

The primary impediment of our example size is this example is taken from the State Bank Of Mysore Region office which has just 5 areas, to be specific Hassan, Mandya, Mysore, Chamarajanagara and Mangalore. This example is exceptionally little contrasted with the whole farming area of Karnataka. Be that as it may, there is no uncertainty that the outcomes got from these example studies speak to the whole populace of the ranchers in Hassan SBM branch. Further a rancher who is financially sound may not fulfill every one of the conditions given in the table. For ex: A financially sound borrower might be educated, he gave guarantee security and he has other wellspring of pay however in the event that he is hitched the broker can't abstain from giving him the advance as per our investigation. This winds up obscure. Thusly our investigation holds great just with blend of these factors, which are both agreeable and sometimes unsuitable as for a solitary rancher.

The other restriction is a rancher may not be happy to uncover the right data to a broker. He may have adequate measure of cash to pay the premium yet he isn't eager to pay it since he put stock in putting a similar sum in some other formative venture. In this manner these outcomes must be confirmed under observational examinations so as to check whether the data given by the ranchers is valid or not.

## V. CONCLUSION

At last we can infer that the financiers can abstain from endorsing advances to the non financially sound borrowers by receiving certain measures. They are cautious evaluation of the venture which includes checking the monetary feasibility of the undertaking. An investor must think about the arrival on speculation on a proposed undertaking. In the event that the determined return is adequately higher than the credit sum he can endorse the advance. Also, he can continually screen the borrower so

as to guarantee that the sum authorized is used appropriately for the reason to which it has been endorsed. This includes the post authorize examination by the financier. Thirdly, the investor ought to get both the formal and casual reports about the generosity of the client. On the off chance that he had effectively demonstrated as a defaulter, at that point there is no doubt of endorsing advance to him. Fourthly, the broker ought to propel the rancher to pay the intrigue appropriately and in an auspicious way. Fifthly, the financier likewise needs to instruct the rancher with respect with the impacts and results of defaulting. By considering all the above elements the financier can decrease the nonperforming resources in a bank.

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