

Disturbing Non-Performing Asset (NPA) in Priority Sector and Non-Priority Sector Lending (NPSL) Between Public Sector and Private Sector Bank

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Abstract

The Indian banking industry faces an enormous issue in the form of Non-Performing Assets (NPA). Though NPAs are rampant in the Indian banking industry, particularly in Indian public sector banks, it is also the main reason for their obligatory lending to the priority sector. Banks have huge scope to extend credit to both the priority and non-priority sectors as the NPAs have not yet reached such magnitude that can seriously harm the efficiency of a bank. The problem of the NPAs is of great interest to academics and policymakers. The purpose of this paper is to check whether NPAs in Indian commercial banking has reached a critical stage.

Key words: Priority Sector Lending (PSL), Non Priority Sector Lending (NPSL), Non-Performing Asset (NPA)

Introduction

Priority Sector Lending is a target based loan scheme for the upliftment and improvement of the living standards of the backward class of the country. (Goyal et al., 2016). Reserve Bank of India introduced a new lending scheme for focusing special priority to weaker sections, agriculture, small scale industries, and others are called Priority Sector lending. The loan scheme is mainly focused on Agriculture, Micro and Small Enterprises, Export credit, social infrastructure, Renewable Energy, Education Loans, Housing Loans, and Others, PSL (Priority Sector Lending) target is 40% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher (Master Directions – Priority Sector Lending (PSL) – Targets

and Classification, 2021). Sector-wise lending is mainly divided into two, one is Priority sector lending and the other is Non-Priority Sector lending. (Desai, 2019). Non-Priority Sector lending refers to loans that do not fall within the scope of the Priority Sector. The RBI does not specify a specific loan target for non-priority sector lending (Ranjan Mohapatra & Gaur, 2019). NPA refers to loan arrears due to non-repayment of loans made by banks and delays in payment after a certain period. (Boyd and De Nicolo, 2005). The NPA is the biggest problem facing banks. It has adversely affected both the Priority Sector and the Non-priority Sector. (Rinaldi and Sanchis-Arellano, 2006). This study moreover examines the extent to which NPAs are concerned in priority sector lending and non-priority sector lending.

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Review of Literature

Ahmed (2010) in an article on "Priority Sector Lending By Commercial Banks in India: A Case of Barak Valley" revealed that that significant aim of need area progresses was to have a legitimate and satisfactory help to denied area of the economy which was disregarded and didn't get legitimate help. This was further additionally benefited for the accomplishment of financial urgencies of government like the development of minuscule and limited scope enterprises, horticulture, and progress of in the reverse region and so forth Little and Micro venture was in every case shy of credit and request and further banks couldn't accomplish the given objective of PSL. Creators have considered auxiliary information from the Central Bank and Lead bank office of the review region. Creators have tried the degree of acknowledging channelization for connection grid investigation while straight development rate and build development rate examination have been utilized to survey the development of bank credit nearby under study. The study reasoned that negligence of horticulture, contracting portion of genuine need area, falling number of records across the various classifications of need area, advance recuperation component and so on are a portion of the significant issues which need quick consideration of the arrangement producers.

Arabi.U(2007) Keeping in view the alternative sources of finance and its role in economic development in India, the study aims at evaluating bank credit role and how it is channelled to the different sectors in India. The author has made an attempt to understand the effective performance of credit delivered to different development sectors. The paper also deliberated the analysis on the bank credit to the various sectors like agriculture, SSI, micro finance, housing finance, infrastructure lending,

Government. Finally the author concludes in their findings the need to further liberalise the interest rate structures to ensure efficiency in financing the credit to core sectors

Arora and Kanwar (2018) have analysed how the performance of commercial banks is getting impacted by NPAs, taking overall technical efficiency as the indicator of performance. The study concludes that bad loans of commercial banks have not reached a panic level where they can negatively affect the technical efficiency of banks. Thus, public sector banks, in particular, can continue lending to the priority sector, even though their NPAs in this sector are rising

Kesavan (2016) in their review named "A Study on the Non-Performing Assets of Banks in India" expressed that among all capacities, one of the significant obligations of the banks is progressing to different significant areas like lodging, agribusiness, and industry, yet lately banks are hesitant in loaning. Scientists revealed that preceding 31st March 2004 NPA for example Non-Performing Asset was named as in which interest or chief have stayed exceptional for explicit period, which was four quarters. Exploration concentrate on abs endeavor to cover NPAs of banks in India with the most noteworthy NPA and furthermore featuring the causes, factors influencing NPA depends on the applied foundation. Study inferred that a significant degree of NPA is a helpless pointer of bank execution and development in NPA hauls the benefit as arrangements must be done which impacts the benefit and over all investors esteem. Cautious strides by brokers like the choice of right borrowers, suitable financial action and checking precise end utilization of reserves, and ideal recuperation of credits are exceptionally fundamental and pre conditions for forestalling or dropping the event of new

NPAs which will additionally help in upgrading the dependability of the banks and accomplish the reason for the sound monetary construction for its reality

Naastepad (2001) in his study, has tried to analyse the impact of selective lending in India at the macroeconomic level. The study shows that a decrease in priority sector lending has spill over impact for non-priority sectors and government, and causes stagflation to rise in the economy. Thus, there will be a significant negative effect of reduction in directed credit over GDP growth. Emphasizing the significance of rural credit for magnifying the productivity of rural India

Rana (2016) in study on "Analysis of Non-Performing Assets of Public Sector Banks in India" emphasized that Non-performing Asset has become an important parameter in the analysis of financial performance of a bank and the problem of raising NPAs is mounting day by day affecting the profitability. According to author it is necessary to prevent NPAs so that financial health in the banking system can be improved. Paper is an attempt to understand the meaning, status and its trends of NPA in Indian public banks. For the purpose of analysis NPA's are further categorized and studied with respect to loan advances to priority and non-priority sectors. Analyzing the data for the period 2004-2014, study concludes that NPA's are continuously raising in the public sector banks in India and the amount and share of NPA of both banks in priority as well as non-priority sector are continuously increasing.

Ranjan and Dhal (2003) state that there isn't a significant difference in the proportion of total NPAs coming from Priority Sector and that of non-priority sector. Thus, banks should consider the financial and economic performance of the prospective borrowers before disbursal of loans. Also, exposure of banks' lending to

the priority sector is only as significant as terms of lending variables and credit culture, if not less.

Seema and Jyoti (2015) contributed an article on "A study on priority sector lending and its targets in India" with a goal to comprehend the method engaged with need area propels for borrowers for chose banks and to gain proficiency with the patterns of need area progresses by business banks for different classes and subclasses of recipients. Exploration work features different sorts of loaning under need area loaning and guidelines for the equivalent alongside sum dispensed for the area for the period 2007-2014. The investigation of the auxiliary information gathered from different sources recommends that there is a steady expansion in the credit hole and sort of appropriation, however, the development has been seen in this area. Creators prescribed that the loaning of PSL be created in such a way that the credit compasses to the end clients and the ideal segment of society and further the quantum of credit ought to likewise be satisfactory. To accomplish this, it is significant (a) to have a component to boost banks to meet these objectives (b) to have a periodical audit and up a degree of PSL targets and its casing work.

Sukhdev Singh (2006): The author had suggested the alternative measures for improvement in the banking industry. The study evaluated the performance of banks against benchmark and ratio analysis was employed as the tools. The analysis of the NPA observed the decline in post liberalisation period. The study insisted that the ideal level benchmark is less than 1 percent, the segments curtail the growth rate of NPAs and followed certain policy like counterparts who had not only arrested the NPA but reduced them

Uday S Bose (2005). The growing NPA and its implications on the banking system need no emphasis. While there have been

several schemes in the past to facilitate the recovery from NPAs, the success of such efforts in terms of NPA reduction has been far from satisfactory. SARFAESI Act greatly helps bank in their effort to reduce recovers money from NPAs. Attempts to provide a glimpse of the Act against this backdrop.

Research Gap

A review of the previous study report has revealed that studies have shown that banks have been able to achieve the annual PSL target and sub-target. There are very few studies that analyze between NPA and PSL. NPAs based on PSL and NPSL could not be found .Therefore, this study is conducted on the basis of this area.

Statement of the Problem

The NPA is the biggest problem facing Indian banks (Ranjan and Dhal 2003). For the economic growth of India, the NPA of banks is changing adversely (Sukhdev Singh 2006). It can be seen that the level

of NPA in sectoral lending is increasing every year(Goyal et al., 2016). The extent to which NPAs lend to banks and the fact that NPAs are a major problem in lending by private sector banks and public sector banks(Boyd and De Nicolo,2005)..

Objectives

1. Analyze how much NPA is alarming on loans by private sector banks and public sector banks.
2. Examine the NPA in the ground of Priority sector and Public sector lending

Scope of the Study

The main focus of the study is on how much NPA is generated in sector wise lending. Through this study we will be able to understand the NPA of the lenders as well as whether the public sector bank or the private sector bank has the highest NPA, by analyzing the banks and exploring solutions.

Table 1
Percentage of NPA in Priority Sector Lending

SECTOR WISE	BANK	2016-17 PSL-NPA	2017-18 PSL-NPA	2018-19 PSL-NPA	2019-2020 PSL-NPA	2020-2021 PSL-NPA
PUBLIC SECTOR	SBI	6.32	10.21	8.72	10.74	9.37
	CANARA BANK	5.53	6.79	5.97	8.67	8.96
	BANK OF BARODA	11.89	9.98	8.44	9.27	8.6
	CENTRAL BANK OF INDIA	10.09	9.45	11.64	7.34	7.04
	PNB	9.88	12.71	13.96	16.96	18.76
PUBLIC SECTOR	HDFC	1.5	2.28	2.13	2.22	2.1
	ICICI	2.16	2.21	1.94	2.28	3.42
	AXIS BANK	2.26	3.07	2.92	2.89	2.98
	FEDERAL BANK	4.47	5.06	5.74	6.4	4.13
	DHANALEKSHMI BANK	3.41	6.82	7.02	7.45	10.33

Source: Annual Report of Bank from 2016 to 2021

Table 1 indicates Percentage of Non-Performing Asset in Priority sector Lending of financial from year 2016-2017 to 2020-2021, from the five banks in each Public sector and Private Sector Bank.

Methodology

This study is based on second data. Data is collected on the basis of Banks Annual Report. Total ten banks have

been selected. Five banks are from the public sector and five banks are from the private sector. SBI, Canara Bank, Bank of Baroda, Central Bank of India and Punjab National Bank from Public Sector Bank .But HDFC, ICICI AXIS Bank, Federal Bank and Dhanalekshmi Bank are selected from private sector banks .Data collected from Annual Report from 2016 to 2021.

Table 2
Percentage of NPA in Non- Priority Sector Lending

SECTOR WISE	BANK	2016-17	2017-18	2018-19	2019-2020	2020-2021
		NPSL-NPA	NPSL-NPA	NPSL-NPA	NPSL-NPA	NPSL-NPA
PUBLIC SECTOR	SBI	7.06	11.11	7.15	4.79	3.62
	CANARA BANK	12.99	16.2	11.88	8.21	8.9
	BANK OF BARODA	11.64	15.64	9.61	7.03	12.96
	CENTRAL BANK OF INDIA	32.24	32.02	26.82	22.69	19.02
	PNB	13.74	21.44	16.32	14.21	14.12
PRIVATE SECTOR	HDFC	0.85	0.92	1.06	0.92	1.08
	ICICI	10.64	11.53	9.46	7.54	6.05
	AXIS BANK	6.18	7.84	6.05	5.05	3.54
	FEDERAL BANK	1.51	2.18	1.84	1.66	3.14
	DHANALEKSHMI BANK	5.77	7.78	7.79	4.85	8.49

Source: Annual Report of Bank from 2016 to 2021

Table 2 indicates Percentage of Non-Performing Asset in Non -Priority sector lending of financial from year 2016-2017 to 2020-2021, from the five banks in each Public sector and Private Sector Bank.

Table 3
NPA In Priority Sector Lending –CGRA (From 2016-2021)

PUBLIC SECTOR BANK	CGRA	PRIVATE SECTOR BANK	CGRA
SBI	10.35%	HDFC	8.78%
CANARA BANK	12.82%	ICICI	12.17%
BANK OF BARODA	-7.78%	AXIS BANK	7.16%
CENTRAL BANK OF INDIA	-8.61%	FEDERAL BANK	-1.96%
PNB	17.39%	DHANALEKSHMI BANK	31.93%
	TCGRA		TCGRA
	24.17%		58.08%
	WCGRA		WCGRA
	4.83%		11.62%

Source: Author’s calculation

Figure 1 : NPA in Priority Sector Lending –CGRA (from 2016-2021)

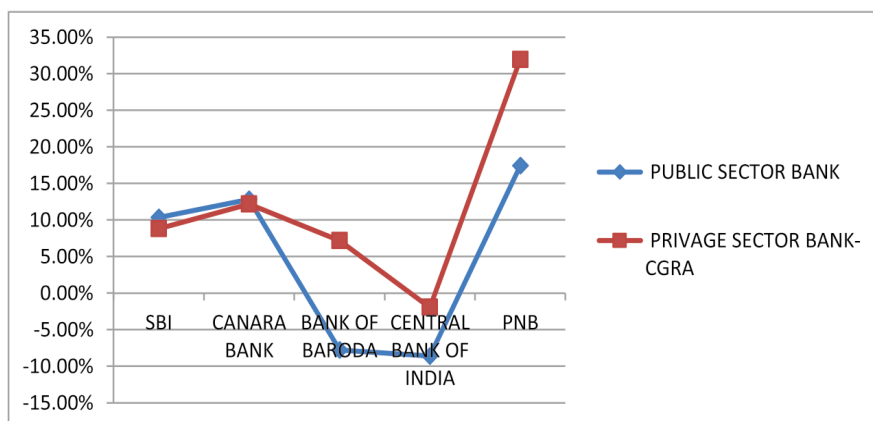


Table: 3 and Figure: 1 represent Compound Growth Rate Average (CGPA) of Non-Performing Asset in Priority Sector Lending from the financial year 2016-17 to 2020-21. Punjab National Bank Percentage of CGRA -NPA is higher than all other public sector Bank. Central Bank of India CGPRA-NPA is lower than all

other Public sector Bank. Dhanalakshmi Bank Percentage of CGRA -NPA is higher than all other private sector Bank. Federal Bank CGPRA-NPA is lower than all other Private sector Bank. On the basis of Sector-wise Bank, Private sector Bank NPA of Priority sector lending is higher than public sector bank.

Table 4

NPA In Non- Priority Sector Lending - CGRA (From 2016-2021)

PUBLIC SECTOR BANK	CGRA	PRIVATE SECTOR BANK	CGRA
SBI	-15.38%	HDFC	6.17%
CANARA BANK	-9.02%	ICICI	-13.16%
BANK OF BARODA	2.72%	AXIS BANK	-13.00%
CENTRAL BANK OF INDIA	-12.36%	FEDERAL BANK	20.08%
PNB	0.68%	DHANALEKSHMI BANK	10.14%
	TCGRA		TCGRA
	-33.35%		10.23%
	WCGRA		WCGRA
	-6.67%		2.05%

Source: Author’s calculation

Figure 2 : NPA in Non- Priority Sector Lending-CGRA (From 2016-2021)

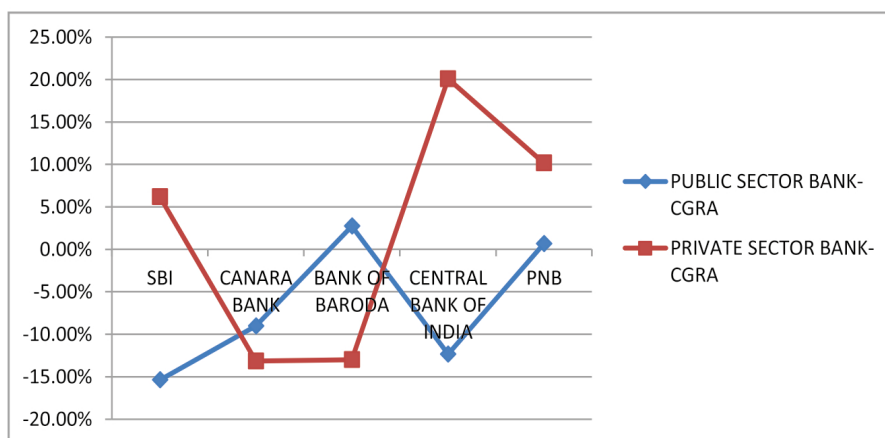


Table 4 and Figure 2 represent Compound Growth Rate Average (CGRA) of Non-Performing Asset in Non-Priority Sector Lending from the financial year 2016-17 to 2020-21. Bank of Baroda Percentage of CGRA -NPA is higher than all other public sector Bank. State Bank of India CGPRA-NPA is lower than all

other Public sector Bank. Federal Bank Percentage of CGRA -NPA is higher than all other private sector Bank. ICICI Bank CGPRA-NPA is lower than all other Private sector Bank. On the basis of Sector-wise Bank, Private sector Bank NPA of Non-Priority sector lending is higher than public sector bank.

Table 5

NPA in Priority and Non- Priority Sector Lending-CGRA (From 2016-2021)

SECTOR WISE	BANK	PSL	NPSL
PUBLIC SECTOR	SBI	10.35%	-15.38%
	CANARA BANK	12.82%	-9.02%
	BANK OF BARODA	-7.78%	2.72%
	CENTRAL BANK OF INDIA	-8.61%	-12.36%
	PNB	17.39%	0.68%
PRIVATE SECTOR	HDFC	8.78%	6.17%
	ICICI	12.17%	-13.16%
	AXIS BANK	7.16%	-13.00%
	FEDERAL BANK	-1.96%	20.08%
	DHANALEKSHMI BANK	31.93%	10.14%
	TCGRA	82.25%	-23.13%
	WCGRA	8.23%	-2.31%

Source: Author's calculation

Figure 3 : NPA in Priority and Non- Priority Sector Lending- CGRA (From 2016-2021)

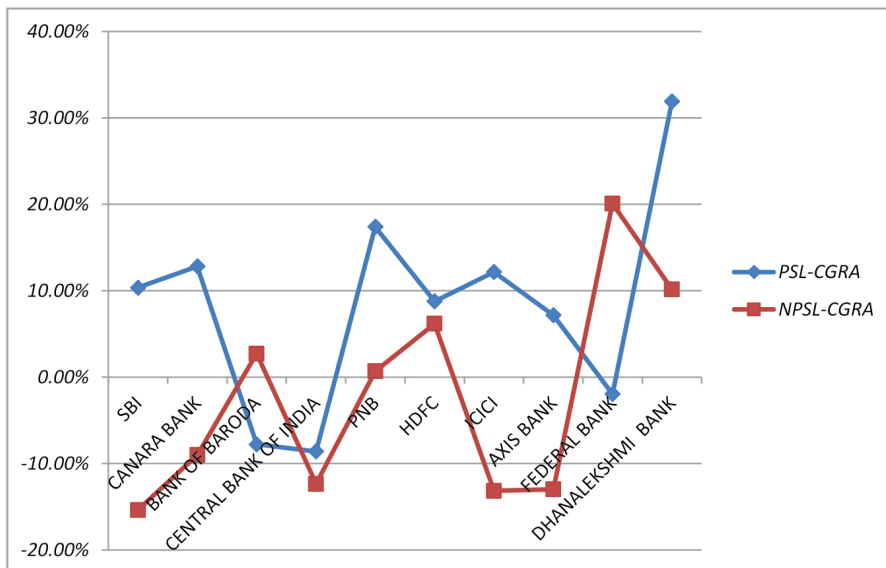


Table 5 and Figure 3 represent Compound Growth Rare Average (CGPA) of Non-Performing Asset in Priority and Non-Priority Sector Lending from the financial year 2016-17 to 2020-21. On the basis of Priority sector lending, Dhanalakshmi Bank Percentage of CGRA -NPA is higher than all other public and Private sector Bank. Central Bank of India CGPRA-NPA is lower than all other Public and Private sector Bank. On the basis of Non Priority sector lending Federal Bank Percentage of CGRA -NPA is higher than all other private and Public sector Bank. State Bank of India CGPRA-NPA is lower than all other Private and public sector Bank. On the basis of Sector wise lending, Priority sector lending, growth rate of NPA is higher than Non Priority Sector Lending.

Major Findings

1. NPA Growth rate of Priority Sector Lending, Private Sector bank is higher than Public sector banks.
2. NPA Growth rate of Non Priority Sector Lending, Private Sector bank is

- higher than Public sector banks.
3. Growth rate of Priority Sector Lending, Punjab National Bank (PNB) is higher than that of other Public Sector Banks
4. Growth rate of NPA in Priority Sector Lending, Central Bank of India is lower than that of other Public Sector Banks
5. Growth rate of Priority Sector Lending, Federal Bank is higher than that of other Private Sector Banks
6. Growth rate of NPA in Priority Sector Lending, ICICI Bank is lower than that of other Private Sector Banks
7. Growth rate of Non Priority Sector Lending, Bank of Baroda is higher than that of other Public Sector Banks
8. Growth rate of NPA in Non-Priority Sector Lending, State Bank of India is lower than that of other Public Sector Banks
9. Growth rate of Non-Priority Sector Lending, Federal Bank is higher than that of other Private Sector Banks

10. Growth rate of NPA in Priority Sector Lending, ICICI Bank is lower than that of other Private Sector Banks

Recommendations

1. RBI should setup special monitoring cell for watching priority sector lending.
2. Constitute Bank-wise service cell for evaluating sector lending.
3. RBI, should start a special initiative to implement District wise Lead bank in Priority sector lending.
4. Setup bank-wise advisory body including local self-government.
5. Bank-wise effectively monitor after service related with Priority sector lending.

Conclusion

Banks provide loans to meet the target set by the RBI, but the NPA is a major problem. From this study it can be seen that even though banks provide loans to a certain extent, the rate of NPA is increasing uncontrollably. If this situation continues, the banking sector will have very bad consequences in the days to come. If the RBI sets up a special cell to monitor the implementation of the schemes required for its regulation and its proper implementation in the banks and the committees required to regulate it are set up at the bank level to control this, the consequences of the NPA can be controlled to a degree. RBI will set up a special cell to monitor this properly.

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