IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

CRITICAL ANALYSIS OF NON-PERFORMING ASSETS IN MSMEs PORTFOLIOS OF INDIAN BANKS

Dr. Deepak Kumar
Senior Manager (Research)
Union Learning Academy
Union Bank of India
Credit & Policy, Lucknow

Abstract:

MSMEs loan portfolio are the most important portfolio for any Indian Banks. Enactment of Fiscal Responsibility and Budget Management Act in 2003 dried up the treasury income of Indian Banks. With the development of economy, financial literacy and financial infrastructure in the country, corporate borrowers have got access to primary market for their borrowing needs. Even the remaining demand by corporate is not lucrative for the commercial banks because of hard core bargaining and concentration risk. Growth of retail portfolio have its own limitation due to stiff competition by NBFCs and maturing demographic dividend of the country in coming days. Agriculture was never a commercial and profit making activity for the big chunk of Indian farmers. Despite of relatively high NPA percentage in the portfolio, all these factors together have forced the Indian Commercial Banks to focus on lending to MSMEs. By way of selective and directional credit control, the Indian regulator has also forced the commercial banks to lend to the MSMEs by fixing target in Priority sector lending. The present paper is an attempt to critically analyze the Gross NPA percentage of selected Banks and know the efficiency.

INTRODUCTION:

The quality of the credit portfolio of a bank depends on both external and internal factors. The external factors are the state of the economy, wide swings in commodity/equity prices, foreign exchange rates and interest rates, trade restrictions, economic sanctions, Government policies, etc. The internal factors are deficiencies in loan policies/administration, absence of prudential credit concentration limits, inadequately defined lending limits for Loan Officers/Credit Committees, deficiencies in appraisal of borrowers' financial position, excessive dependence on collaterals and inadequate risk pricing, absence of loan review mechanism and post sanction surveillance, etc.

Banks extend credit facility to different sectors viz. Agriculture, Industries, Retail (Personal) & Service. These sectors are further divided into sub sectors like Housing, Education, Vehicle, Credit Card etc. This type of sectoral lending gives an opportunity to Banks to diversify their risk as the performance of these sectors differ at any given point of time in any economic cycle. At any point in an economic cycle or development stage of a nation, some sector and bank's exposure to that particular sector perform well whereas other sector and the Bank exposure to that particular sector lags behind and create a higher stress or NPA in a Bank portfolio.

MSMEs loan portfolio are the most important portfolio for any Indian Banks. Enactment of Fiscal Responsibility and Budget Management Act in 2003 dried up the treasury income of Indian Banks. With the development of economy, financial literacy and financial infrastructure in the country, corporate borrowers have got access to primary market for their borrowing needs. Even the remaining demand by corporate is not lucrative for the commercial banks because of hard core bargaining and concentration risk. Growth of retail portfolio have its own limitation due to stiff competition by NBFCs and maturing demographic dividend of the country in coming days. Agriculture was never a commercial and profit making activity for the big chunk of Indian farmers. Despite of relatively high NPA percentage in the portfolio, all these factors together have forced the Indian Commercial Banks to focus on lending to MSMEs. By way of selective and directional credit control, the Indian regulator has also forced the commercial banks to lend to the MSMEs by fixing target in Priority sector lending.

MSMEs are not only important for Banking as a source of income but also equally important for Economy of India. MSMEs contribute more than 29% to the GDP and are responsible for 50% of the country's total exports. They are also accountable for one-third of India's manufacturing output. MSMEs employ more than 11 crore people, and the aim is to grow this number to 15 crores in the coming years.

Considering the importance of MSMEs, on 9 May 2007, the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises. The Ministry designs policies, promotes/ facilitates programs/ projects/ schemes and monitors their implementation, with a view to assisting MSMEs and helping them to scale up.

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address different issues affecting MSMEs, inter alia, the coverage and investment ceiling of the sector. The MSMED Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. The MSMED Act has the following key provisions: - Establishment of a National Board for Micro, Small and Medium Enterprises headed by the Minister for MSME. The role of the Board is to examine the factors affecting the promotion and development of MSMEs, review the policies and programs of the Central Government and make recommendations about facilitating the promotion and development and enhancing their competitiveness. - It provides the legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, Micro, Small and Medium. - It empowers the Central Government to undertake programs and issue guidelines and instructions to develop and enhance the competitiveness of MSMEs.

The earlier criterion of classification of MSMEs under MSMED Act, 2006 was based on investment in plant and machinery / equipment. It was different for manufacturing and services units. It was also very low in terms of financial limits. Since then, the economy has undergone significant changes. A revision in MSME criteria of classification was announced in the Aatmnirbhar Bharat package on 13th May, 2020. This has been done in order to be realistic with time, to establish an objective system of classification, and to provide ease of doing business.

Definition of MSME (effective from 1st July 2020)

(i) A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees.

(ii) A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees.

(iii) A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

The present study has been conducted with the objectives of Critical Analysis of year wise Non-Performing Assets in MSMEs portfolio of Indian Banks. The study will measure the efficiency of Indian Banks in lending to MSMEs by comparing the year wise gross NPA percentage with selected Banks for the purpose of recommending any required change in underwriting/monitoring process. This study will also try to understand, whether the high rate of NPA is sector (MSMEs) specific problem or Bank specific.

REVIEW OF LITERATURE

Very few studies have been done on the Critical Analysis of Sector Wise Non-Performing Assets in India as well as abroad. The available literature is limited, sporadic and meager in nature.

Bala subramaniam, C. S. (2012), examine the impact of non-performing assets on the profitability of commercial bank in India. The researcher examines the effect of nonperforming assets (NPAs) on bank performance and financial soundness, as well as a pattern study of NPAs. The study examine how bank advances are restructured based on asset classification. According to the results, banks have a large degree of non-performing assets, which can be minimized using sound credit appraisal processes and efficient internal control structures.

Ganesan, D., & Santhana krishnan, R. (2013), conducted a study of the Non-Performing Assets of the State Bank of India. According to them, the magnitude of non-performing assets (NPA) is higher in public sector banks. NPAs must also be regulated and reduced, according to the study, in order for banks to increase their productivity and profitability. This paper discusses the factors that cause an asset to become a non-performing asset and the different strategies that can be used to reduce NPA levels to acceptable levels.

Kiran, K. P., & Jones, T. M. (2016), analyze the correlation between non-performing assets (NPAs) and bank profitability, as well as the relation between NPAs and bank net income. According to them, all other banks, except SBI, have a negative correlation between their Gross Non-Performing Assets and Net Profits. The study's results show that big banks are able to sustain losses, whereas small banks are unable to rebound.

According to Roy, P., & Samanta, P. K. (2017), total Non-Performing Assets (GNPA) and Net Profit were inversely correlated, and that GNPA was a significant factor in the inverse shift in Net Profit. The study found a strong negative correlation between GNPA and Net Income. In 2015-16, the majority of the bank's earnings was lost due to increase in NPAs. To retain consumer confidence, the study advises that banks should be careful when extending credit facility, loan recovery processes should be stricter, and that all banks adhere to transparency in disclosure norms.

Kumar, A., Prof., & Ghani, U. (2015), studied the viability and non-performing assets of India's Scheduled Commercial Banks. According to the findings NPA ratios as GNPAs and NNPAs was in decreasing trend. NPAs are inevitable and cannot be fully excluded. As a result, good management is needed to reduce the effects of NPAs and hold them to a bare minimum by effective corrective action taken at the appropriate time.

According to Rajput, N., Gupta, M., & Chauhan, A. K. (2012), there is a detrimental association between profitability and non-performing assets. The study conclude that the percentages of non-performing assets are declining, and that variables such as a stronger lending culture and risk control would help in reducing NPA.

Mehta, L., & Malhotra, M. (2014), studied Non-Performing Assets of private sector banks in India. The aim of the study were to examine and research the flow of non-performing assets from 2004 to 2012, as well as the impact of priority sector loans on overall NPAs at public sector banks. NPAs, according to the study, are a danger to the Indian economy and banks. Due to the high pressure of the slowdown on Indian banks, NPAs have been rising. The results indicated that priority sector lending has a major effect on private sector banks' GNPA.

Sergio (1996) in a study of non-performing loans in Italy found evidence that business cycle could be a primary reason for banks' NPAs. The study emphasised that increase in bad debts because of recession alone is not empirically demonstrated.

According to the Singh, V., R. (2016), the number of GNPAs has risen significantly over the last 14 years. During the period 2008-2014, the LokAdalat, DRTs, and SARFAESI Act assisted in the recovery of NPAs. Unsuccessful recovery, willful evasions, and a flawed advancing mechanism are the main causes of the increase in NPAs in banks. The level of non-performing assets in public sector banks is comparatively higher than private sector Banks. According to the study, bank management should expedite the process of recovery, and the government should arrange for quicker resolution of outstanding debts.

Research gap and Need for the study: Very few, meager, limited and sporadic studies have been done on Critical Analysis of Non-Performing Assets in MSMEs portfolio inIndia and even abroad. The present study overcomes these drawbacks by doing the detailed analysis.

The study has been designed keeping the following objectives in the mind of the researcher:

Objective of the study:

(1) Critical Analysis of year wise Non-Performing Assets of Indian Banks.

(2) To measure the efficiency of Indian Banks in lending to MSMEs by comparing the year wise gross NPA percentage of selected Banks for the purpose of recommending any required change in underwriting/monitoring process.

(3) To understand, whether the high rate of NPA is sector (MSMEs) specific problem or Bank specific.

Hypothesis:

For achieving, the set objective following hypothesis has been drawn:

- H01 Percentage of Non-Performing assets in MSMEs portfolio over the year is constant in all the selected Banks.
- H02 Year wise, Gross Non-Performing assets in MSMEs portfolio of all the Indian Banks are same.

Source of Data:

Keeping in view the above-mentioned objectives and hypotheses, the present study attempts to examine various aspects of Non-Performing Assets of MSMEs portfolio. For the purpose of the study both Primary & secondary data has been used. The main source of secondary data is website of RBI, RBI bulletins, data bank of CMIE, reports and websites of the selected Banks.

Right to Information has also been used to get data from Reserve Bank of India on year wise sector wise NPA of selected Bank.

Sample Selection and Sample Size:

To measures, the efficiency of Indian Banks in lending to MSMEs by comparing the year wise gross NPA percentage with following Banks:

1. State Bank of India
2. Bank of Baroda
3. Punjab National Bank
4. Canara Bank
5. HDFC Bank
6. ICICI Bank
7. Axis Bank

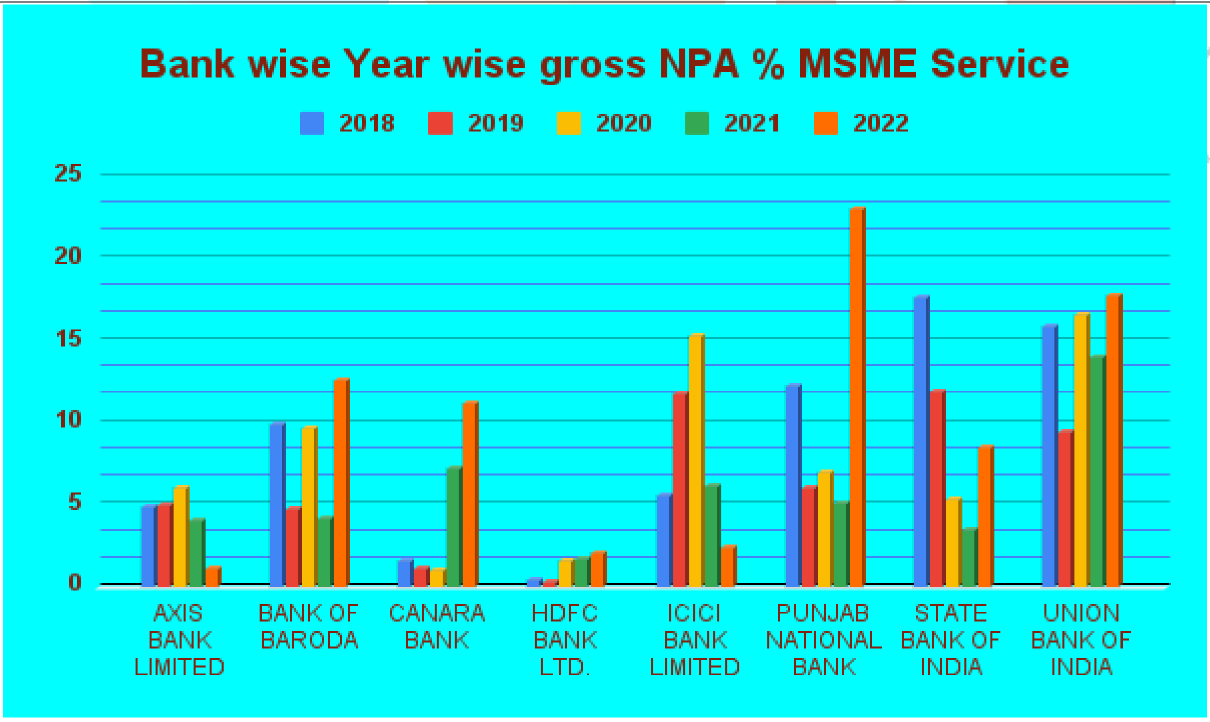
The rationale for choosing the sample Banks is the size of the banks in Public & Private Sector.

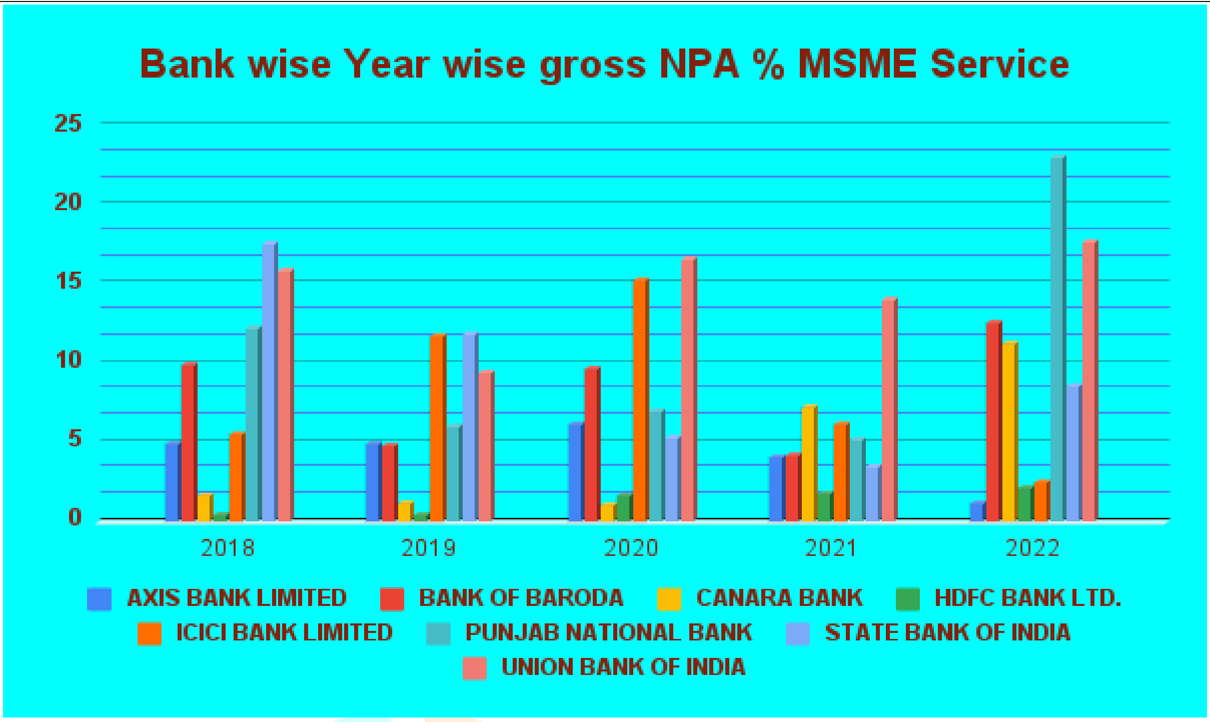
Analysis of Year wise Gross NPA Percentage of MSMEs Portfolio:

For the purpose of study, MSMEs portfolio has been divided into two sub folios:

MSMEs Service

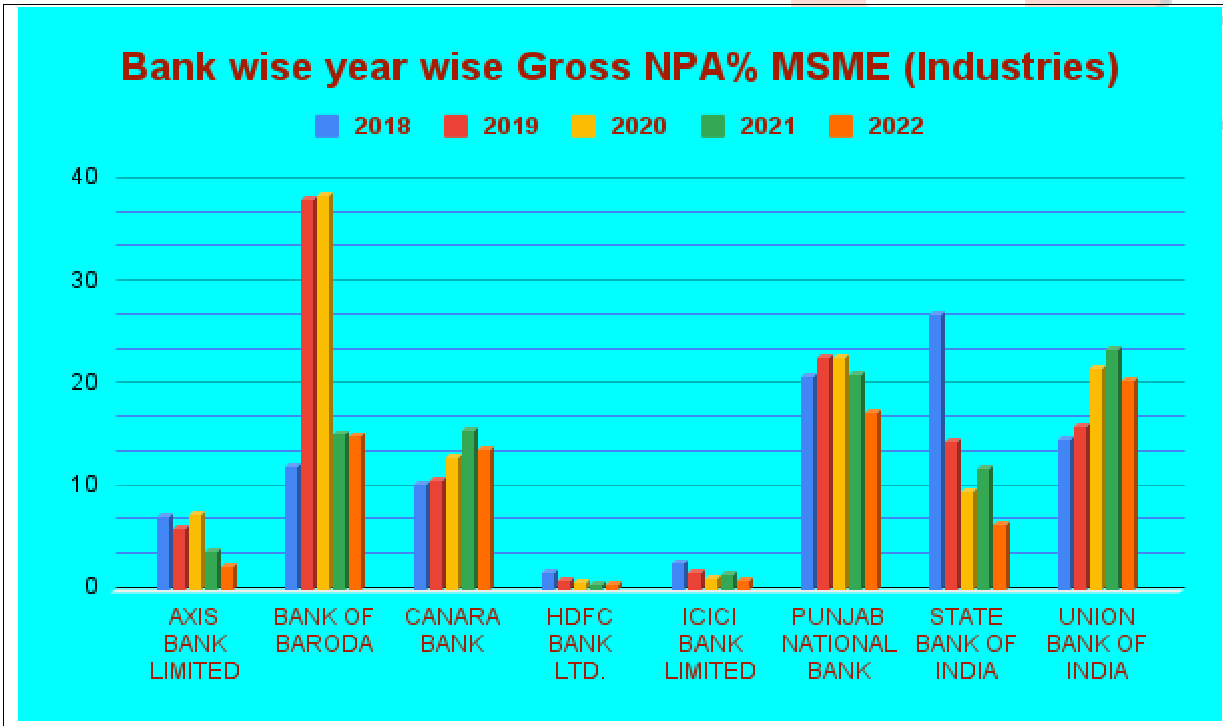
MSMEs Manufacturing

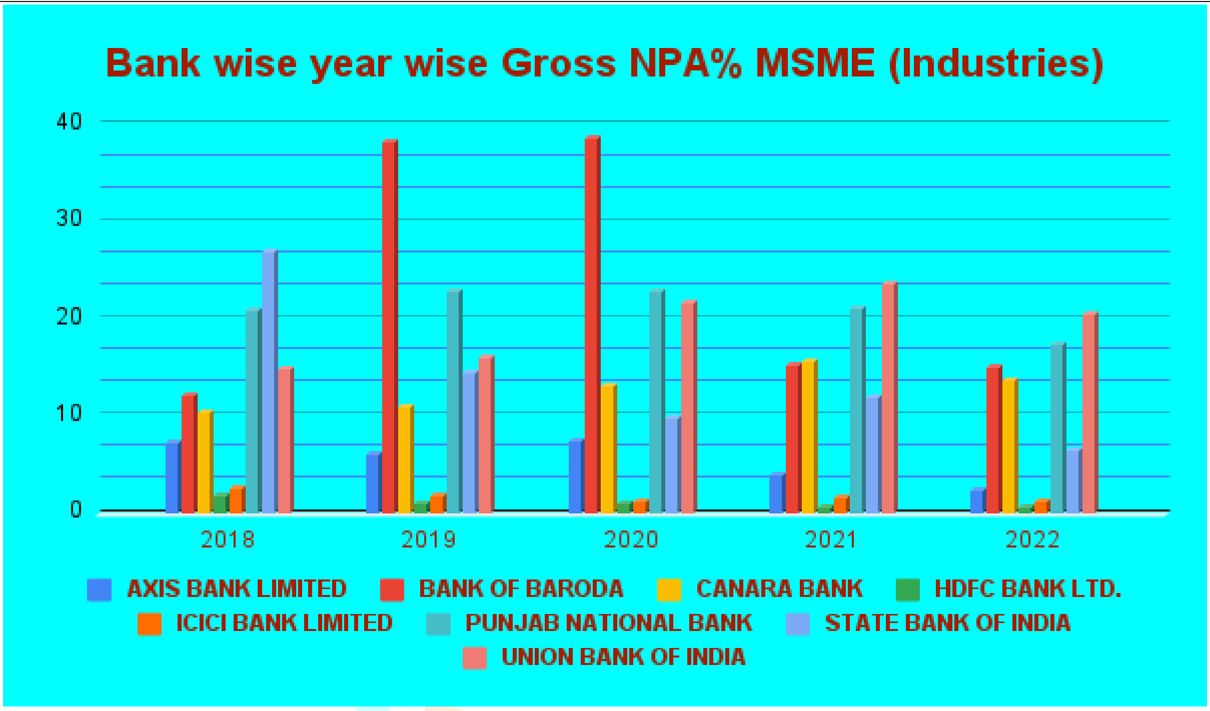




Source: RTI replied by RBI

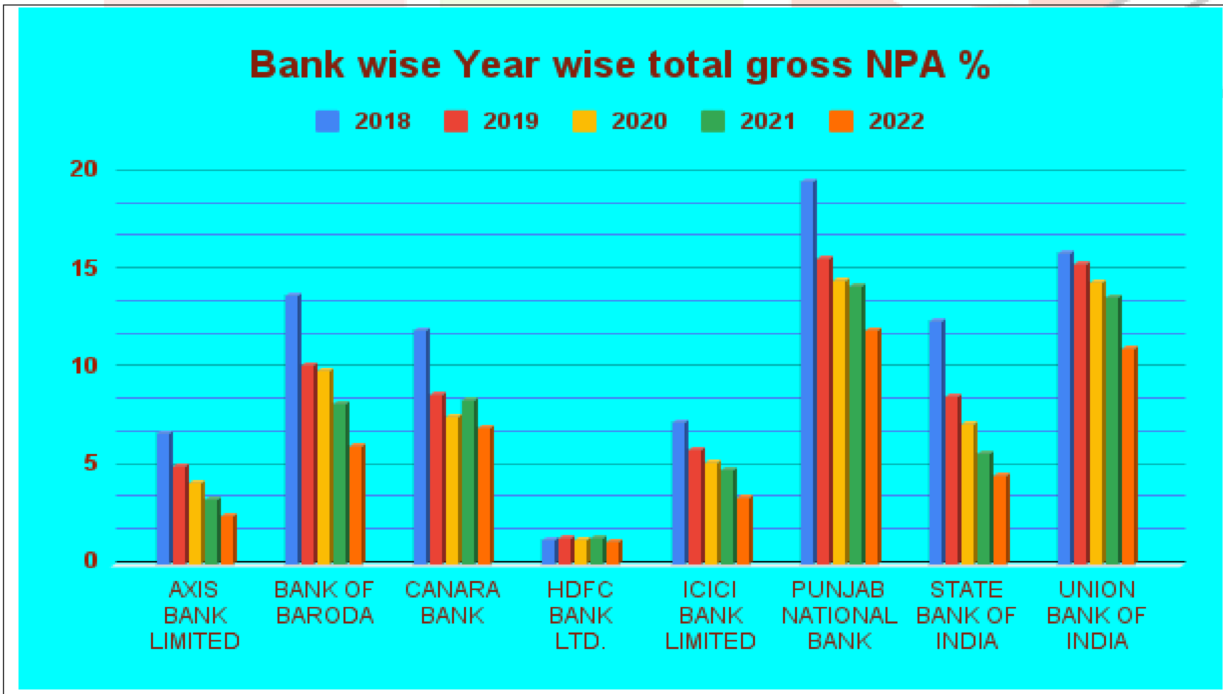
The above data shows that Private Banks like HDFC Bank and Axis Bank are having the lower NPA in MSMEs Service sector in comparison with their PSB counterpart. Even among the PSU Banks Punjab National Bank, & Union Bank of India are having higher gross NPA% than State Bank of India, Bank of Baroda and Canara Bank. This shows that Banks are not equally efficient in lending to MSMEs (Service). HDFC Bank seems to be most efficient in lending to MSMEs as the percentage gross NPA is lowest.

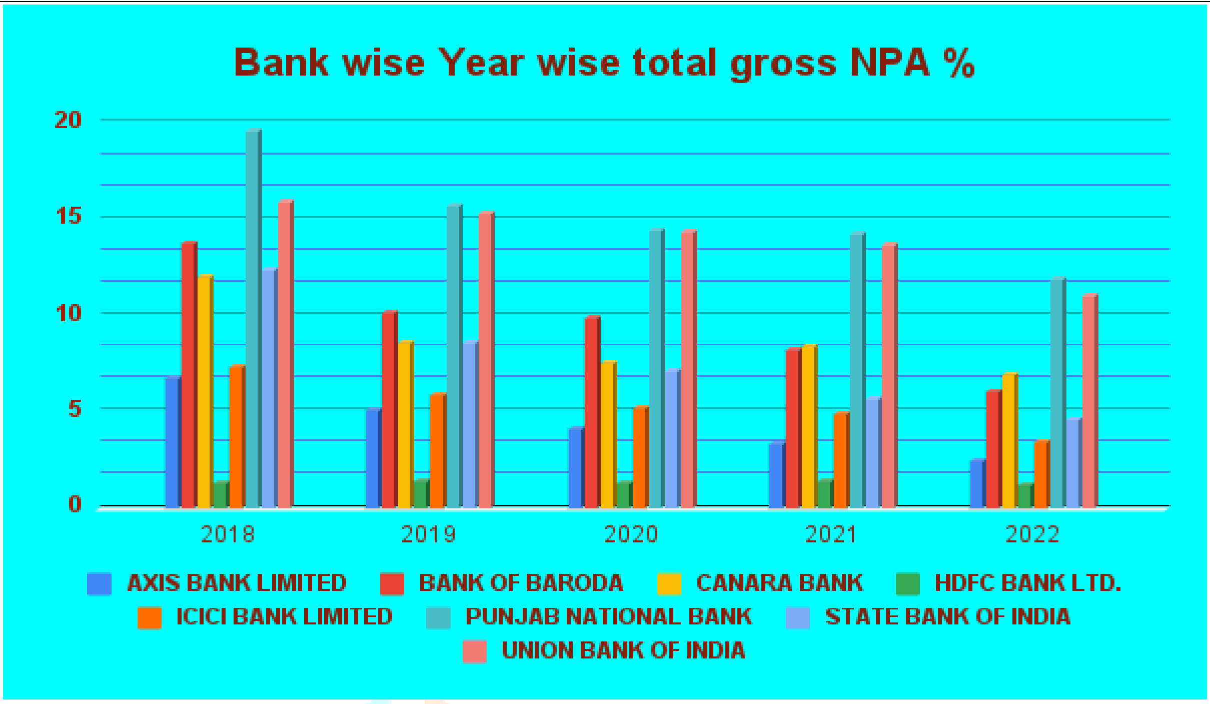




Source: RTI Replied by RBI

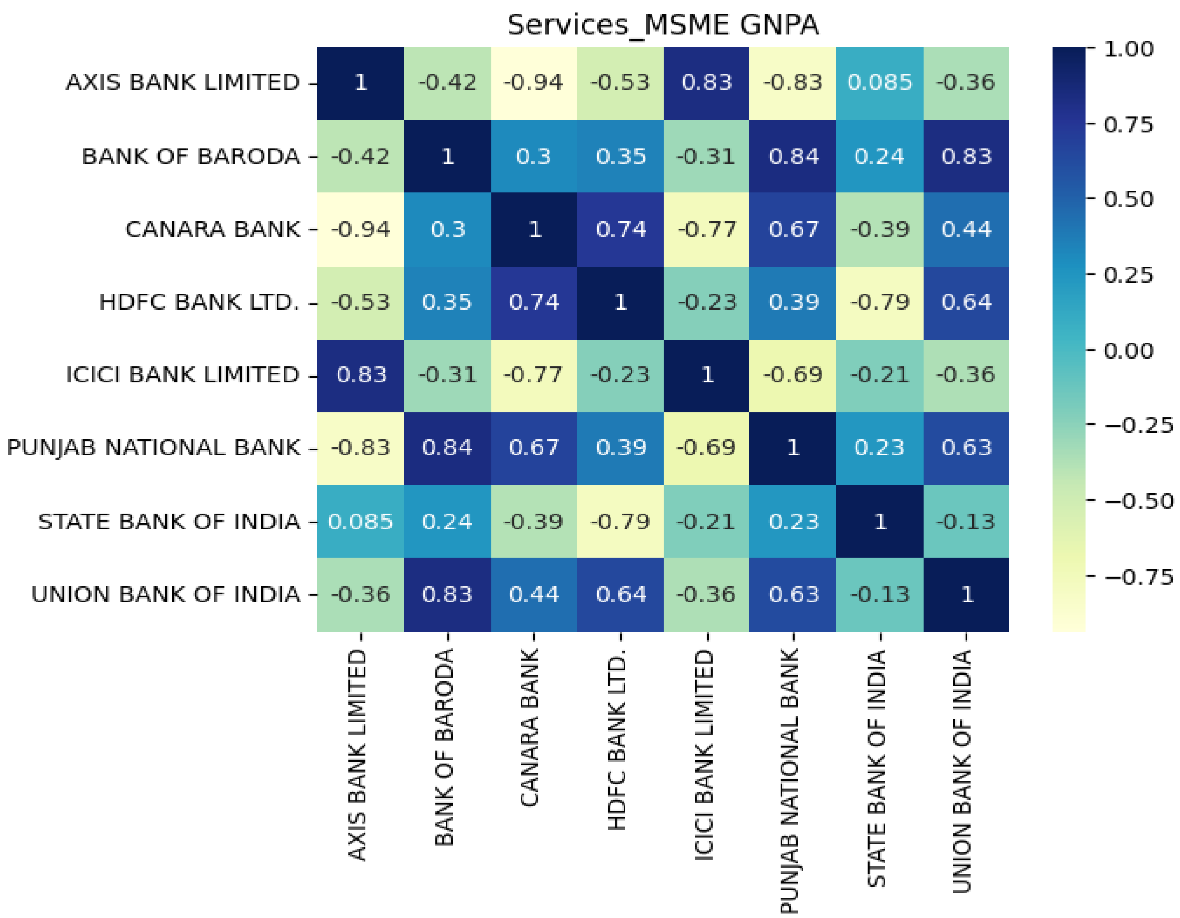
The above data shows that Private Banks like HDFC Bank, ICICI Bank and Axis Bank are having lower NPA in Industries-MSMEs sector in comparison with their government counterpart. Even the PSU Banks likes State Bank of India Punjab National Bank, Bank of Baroda and Canara Bank is having Lower NPA in FY 2022 in this segment than Union Bank of India and Punjab National Bank. This shows that Banks are not equally efficient in lending to MSMEs (Manufacturing). HDFC Bank seems to be most efficient in lending to MSMEs as the percentage gross NPA is lowest.





Source: RTI Replied by RBI

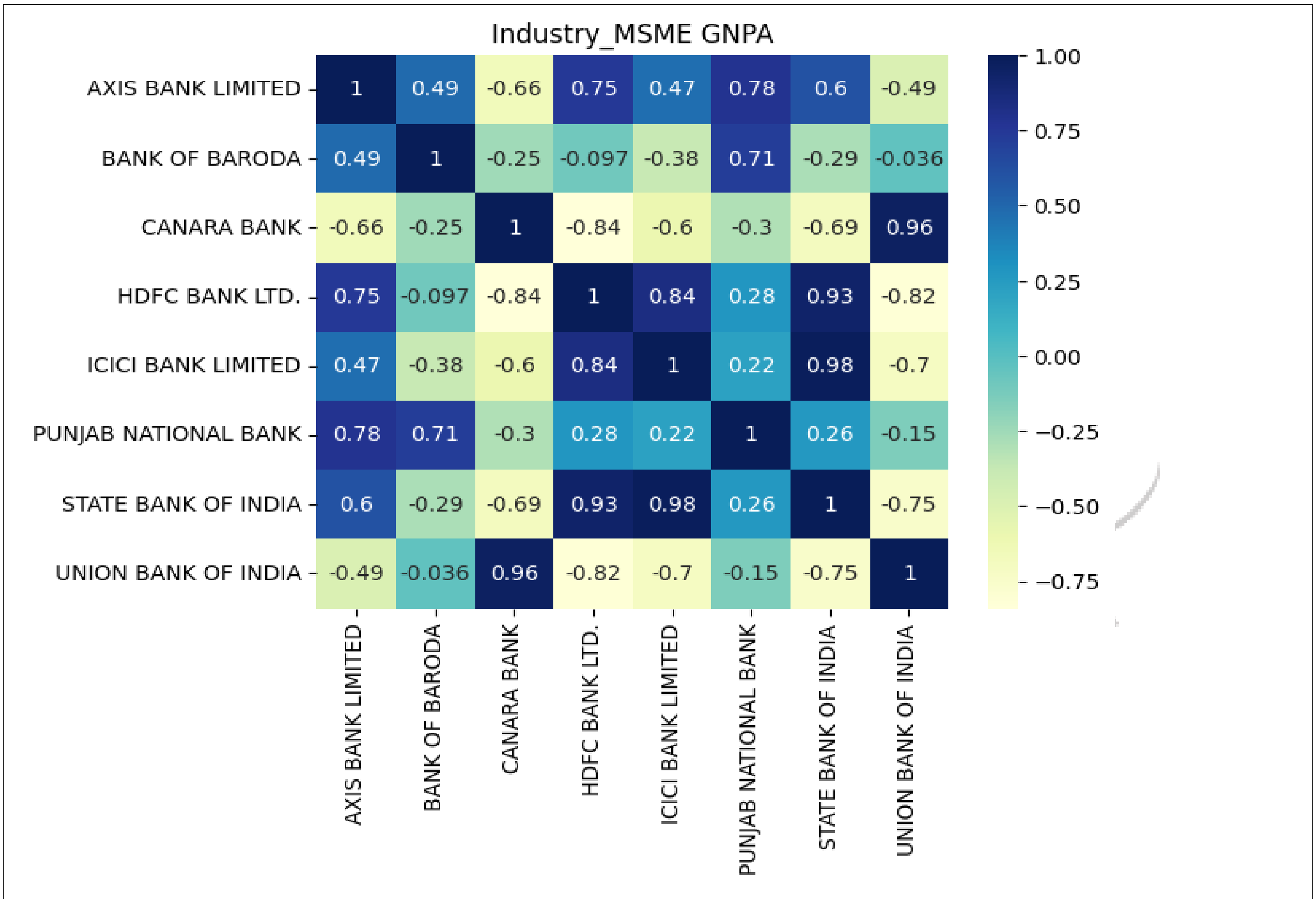
The above data shows that Private Banks like HDFC Bank, ICICI Bank and Axis Bank, those having the lower percentage of NPA in MSMEs portfolios, are also having lowest percentage in total gross NPA in comparison with their PSB counterpart. Union Bank of India is second to Punjab national Bank in total Gross NPA percentage.



Source: Self Calculation utilizing the data provided by RBI in reply to RTI

The above data shows the correlation between loan portfolios of MEME-Service sector of selected Banks. This shows that when the gross NPA percentage in MSME-Service portfolio of State Bank of India, ICICI Bank and Axis Bank was reducing, the same was increasing in the case of Union Bank of India.

This data also shows that there is no Uniform Correlation among banks. It can be interpreted that, the rate of Increase or decrease in NPA percentage in banking sector is not uniform and the same is Bank specific. It can also be construed that it is not always economy or specific sector level factors, which is commonly determining the percentage of NPA in a particular sector portfolio in any bank, but also bank specific factors are strong. This shows that PSB Banks are not efficient in lending to MSMEs-Service sector and needs to improve its underwriting and monitoring process and procedure to align with banking industries.



Source: Self Calculation utilizing the data provided by RBI in reply to RTI

The above data shows the correlation between loan portfolios of MEME-Industries sector of selected Banks. Correlation between MSME-Industries loan portfolio of Union Bank of India and that of State Bank of India, ICICI Bank Axis Bank, Punjab National Bank, HDFC Banks and Bank of Baroda is negative. This shows that when the gross NPA percentage in MSME-Industries portfolio of State Bank of India, ICICI Bank Axis Bank, Punjab National Bank, HDFC Banks and Bank of Baroda was reducing, the same was increasing in the case of Union Bank of India at a differential rate.

This data also shows that there is no Uniform Correlation among banks. It can be interpreted that, the rate of Increase or decrease in NPA percentage in banking sector is not uniform and the same is Bank specific. It can also be construed that it is not always economy or specific sector level factors, which is commonly determining the percentage of NPA in a particular sector portfolio in any bank, but also bank specific factors are strong. This shows that PSB Banks are not efficient in lending to MSMEs-Industries sector and needs to improve its underwriting and monitoring process and procedure to align with banking industries.

Summary of Findings

Private Banks like HDFC Bank, ICICI Bank and Axis Bank are having the lower NPA in Industries-MSMEs sector in comparison with their PSB counterpart. Even the PSU Banks likes State Bank of India Punjab National Bank, Bank of Baroda and Canara Bank is having Lower NPA in FY 2022 in this segment than Union Bank of India. Hence the percentage of NPA is not same across the Banks.

HDFC Bank is the most efficient Bank in lending to Industries-Total segment. The above data also shows that almost all the banks were able to reduce their NPA percentage in this segment on year on year basis. In FY 2022, Union bank of India is having the highest Percentage of NPA in this segment among the selected Banks.

Private Banks like HDFC Bank and Axis Bank are having the lower NPA in Service-MSMEs sector in comparison with their PSB counterpart. Even the PSU Banks likes State Bank of India, Bank of Baroda and Canara Bank is having Lower NPA in FY 2022 in this segment than Union Bank of India.

Private Banks like HDFC Bank, ICICI Bank and Axis Bank are having the lower total gross NPA in comparison with PSB. Even the PSU Banks likes State Bank of India, Bank of Baroda and Canara Bank is having lower total gross NPA in FY 2022. Union Bank of India is second to Punjab national Bank in total Gross NPA percentage.

The above data shows the correlation between loan portfolios of MEME-Service sector of selected Banks.

This shows that when the gross NPA percentage in MSME-Service portfolio of State Bank of India, ICICI Bank and Axis Bank was reducing, the same was increasing in the case of Union Bank of India.

This data also shows that there is no Uniform Correlation among banks. It can be interpreted that, the rate of Increase or decrease in NPA percentage in banking sector is not uniform and the same is Bank specific. It can also be construed that it is not always economy or specific sector level factors, which is commonly determining the percentage of NPA in a particular sector portfolio in any bank, but also bank specific factors are strong.

This shows that PSB Banks are not efficient in lending to MSMEs-Service sector and needs to improve its underwriting and monitoring process and procedure to align with banking industries.

The above data shows the correlation between loan portfolios of MEME-Industries sector of selected Banks.

Correlation between MSME-Industries loan portfolio of Union Bank of India and that of State Bank of India, ICICI Bank Axis Bank, Punjab National Bank, HDFC Banks and Bank of Baroda is negative. This shows that when the gross NPA percentage in MSME-Industries portfolio of State Bank of India, ICICI Bank Axis Bank, Punjab National Bank, HDFC Banks and Bank of Baroda was reducing, the same was increasing in the case of Union Bank of India at a differential rate.

This data also shows that there is no Uniform Correlation among banks. It can be interpreted that, the rate of Increase or decrease in NPA percentage in banking sector is not uniform and the same is Bank specific. It can also be construed that it is not always economy or specific sector level factors, which is commonly determining the percentage of NPA in a particular sector portfolio in any bank, but also bank specific factors are strong.

This shows that PSB Banks are not efficient in lending to MSMEs-Industries sector and needs to improve its underwriting and monitoring process and procedure to align with banking industries.

Conclusion and Policy Suggestion

The data and finding shows that MSMEs portfolios of PSB are underperforming in comparisons with their private counterpart.

Underwriting Process for MSMEs loan needs to be reviewed as poor underwriting is the cause of higher NPA in PSBs. Adequate and proper training should be given to the staff. Different training should be designed for different role. For example, Relationship officer should be given a blended training of credit and marketing. They should be taught the unique selling point (USP) of all the structured MSMEs products PSB have. They should be able to select and suggest the correct product to MSMEs as per their requirement. The Credit processing officer should be trained in a manner to enable them to process any proposal in least possible time without compromising with quality of the underwriting

Industries Segment is having higher NPA percentage in comparison with Service. Poor technical analysis may be the reason. The process of obtaining technical report needs to be reviewed.

Limitations of the study:

- Only seven Banks data has been compared to draw the conclusion.
- Only big sized Bank has been considered for the study ignoring the efficiency of the small Banks like Bank of Maharashtra in India.
- Data of only last 5 years has been analyzed. Study could not neutralized the merger and acquisition effect in Banking Sector. In past 10 years, State Banks of India Subsidiaries has been merged with State Bank of India and Several Public sector Banks have been merged by government. The present study has not measured and neutralized the merger impacts.

Scope of the Further Study:

- A study can be undertaken at industries as a whole, considering all the Public Sector and Private Sector Banks for the proposed study.
- A study can be undertaken to measure the impact of merger on Non-Performing assets of Public Sector Banks.

Reference

1. Girnara, Mona. (2020),” Comparative analysis of Non-Performing Assets in public sector bank and private sector bank.

2. Kavitha N.Aand Muthu Meenakshi.M.(2016), ‘‘A comparative study of Non-Performing Assets of Public and Private Sector Banks,IJMTST Journal, Volume No.2, Issue No.03.

3. Mr. AbidHusain G Kadiwala, Rasikbhai I Prajapati. (2020),’’Sector-wise comparative analysis of Non-performing Assets of selected private sector and public sector banks of India’’,IGCRT Journal, Volume No.08,Issue No.04

4. Ms. Asha Singh. (2013),’’Performance of Non-Performing Assets (NPAS) in Indian Commercial Banks’’. IJMFSMR Journal, Volume No.9, Issue No.2.

5.Harani.B, Subramanyam Mutyala.(2019),’’A comparative Analysis of Non- Performing Assets (NPAs) of public and private sector banks in India-An Endless Battle’’. IJSTR Journal, Volume No.08, Issue No.12.

6. Singh Vivek Rajbahadur. (2016),''A study of Non-Performing Assets of Commercial Banks and it is recovery in India. Annual Research Journal of SCMS, Volume No.4.

7. Prashannth K Reddy. (2002).'' A comparative study of Non-Performing Assets in India in the global context-similarities and dissimilarities, remedial measures''. SSRN Journal, Volume-02, Issue No-09.

8. Dave K Kapil. (2016).'' A comparative study of Non-Performing Assets in public and private sector banks in India.''IJSR Journal. Volume No.5.Issue No.8.

9. Murari Krishna. (2014).'' Comparative evaluation of Non-Performing Assets of Indian banks: A study of public and private sector banks''. AJRBF Journal. Volume No.4.Issue No.5

10. K. Prashanth Kiran and T.Marry Jones (2016).'' Effect of NPA on the profitability of banksselective study.'' IASET Journal. Volume No.5. Issue No.2

11. www.sbi.ac.in

12. https://www.researchgate.net/publication/343180583

13. Reserve Bank of India, "Report on trend and Progress of banking in India", various issues,''.

13. Reserve Bank of India, "Financial Stability Report", various issues,''.

14. Joyeeta Deb (2011)", "Post Reform Bank Efficiency in India: A Branch level analysis." Unpublished thesis. North Eastern Hill University , Shillong.

15. Bhole, L.M. (1992)", *Financial Institutions and Markets*, Tata MC Graw Hill Publishing CO. Ltd.
16. Machiraju, H.R(1998)", Indian Financial System, Vikas Publishing House Pvt. Limited, p. 7.1

17. Agarwala, V., & Agarwala, N. (2019). A critical review of non-performing assets in the Indian banking industry. Rajagiri Management Journal, 13(2), 12-23. https://doi.org/10.1108/RAMJ-08-2019-0010

18. Mukhopadhyay, A. (2018). Finding innovative solutions to India's NPA woes. Retrieved from Observer Research Foundation (ORF) website: http://www.orfonline.org/research/finding-innovative-solutions-to-indias-npa-woes.

19. Bardhan, S., & Mukherjee, V. (2016). Bank-specific determinants of non-performing assets of Indian banks. International Economics and Economic Policy, 13(3), 483-498. https://doi.org/10.1007/s10368-016-0344-4

20. Mittal, R. K., & Suneja, D. (2017). The problem of rising non-performing assets in banking sector in India: Comparative analysis of public and private sector banks. International Journal of Management, IT and Engineering, 7(7), 384-398. Retrieved from https://www.academia.edu/35917257/ The Problem of Rising Nonperforming Assets in Banking Sector in India Comparative Analysis of Public and Private Sector Banks.