



## A Study of Causes of Banks' Non-Performing Assets (NPA) in Agriculture, Industrial and Household Sectors

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### Abstract:

This research work was carried out to study the various causes which lead the assets of banks to become non-performing assets. In India, major part of loans and advances is provided by banks to the farmers, industrialist and households. Indian agriculture sector depends on natural climates like rain, flood etc. and success of industrial sector depends mainly on business environment or on market sentiments. Therefore, many times industrialists, farmers and households are not found in capacity of repayment of their loan's installment and interest thereon and these loans and advances by banks become NPA for them. In this paper, the researcher tries to out the main causes of NPA. To get answers for the research questions, data were collected from primary sources through schedule instrument and collected data were analysed with the help of percentage analysis.

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**Keywords:** Banks, NPA, Agriculture, Industrialists, Farmers, Household, Causes.

### Introduction:

Now-a-days, Non-Performing Assets (NPA) in Indian banking sector has become a buzzing issue. Every bank whether it is a bank of public sector or a bank of private sector -working in Indian economy lends their money to the household, industrialists and government as well. Major part of money lent by them generally not repaid or returned by household and industrialists due to various reasons. Thus, the assets of banks become non-productive or in other words, generation of return is being stopped by assets. It is also seen many times that installment of principal is not returned by the barrowers and they become defaulters. Before making a broad discussion on other things, first of all we should understand that how banker's assets become non-performing assets or non-productive assets. The criteria given by Reserve Bank of India (RBI) with effect from March 31, 2014 of 90 days overdue norms has to adopt to identify the NPA, i.e,

1. In case of term-loans and advances, assets and return thereon are not recovered from borrowers after 90 days of due date.
2. In case of overdraft and cash credit the account is found out of order for more than 90 days of period.
3. In case of bills when these are found overdue exceeding 90 days.
4. In the area of agriculture, amount of loans and advances not recovered by the banks for two crops sessions and two half years.
5. Other account, which are not recovered after 90 days of due date.

According to guidelines issued by RBI, once assets are identified as NPA, banks operating in India are required to classify those assets in three categories given below:

- A. **Sub-standard assets:** Loans and advances by banks, which have classified as NPA for a period less than or equal to 18 months are termed as Sub-Standard Assets.



- B. **Doubtful Assets:** The asset which has classified as NPA for a period exceeding 18 months is called Doubtful Assets.
- C. **Loss Assets:** when loans and advances have categorized as loss assets by the internal and external auditors or through RBI's inspection but the amount has not been written off wholly.

Besides understanding the concepts relating to NPAs, there is need to gain knowledge to depth through available literature in this in this area that is given in next part of this research paper.

Review of Literature: In part, many studies have been conducted and some out of them are given below:

**Bhatia** (2007) observed that NPAs were considered as main parameter to judge the stability, performance and financial health of the banks.

**Kaur and Singh** (2001) studied the impact of NPAs on performance and financial health of banks. They also made a comparative study of public sector banks and private sector banks.

**Prasad and Veena** (2011) made an attempt to study the NPAs reduction strategies adopted by the Indian Commercial banks. The researchers also found out that NPAs have distractive effect on return of banking assets in various ways.

**Gupta** (2012) made a comparative study on performance of State Bank of India and its associate banks. The researcher suggested that each bank should have its own independent credit rating agency which should evaluate financial health of the bank's clients before providing credit to them.

**Singh** (2013) explored the performance of NPAs in Indian Commercial banks. The researcher found out that NPAs in public sector banks were increasing year-by-year and another side, non-performing assets of private sector banks were decreasing year-by-year.

**Singh** (2016) examined the trends of NPAs in banks listed in second schedule of the RBI Act, 1934. For the purpose of analysis, the collect secondary data from website of RBI. The results of this study showed that NPAs in public sector banks were comparatively high.

**Mittal and Suneja** (2017) made an attempt to understand the level of NPAs in banks working in India. For the purpose of examination and analysis, the researchers collected secondary data from the Database of Indian Economy, RBI-2005-2016. Collected data were analysed with help of percentage and depicted through graphical instruments. The results of this study revealed that NPAs were obtained high in public sector banks as compared to private sector banks. Further, they suggested that banks should adopt some stringent measure for recovery of NPAs.

### **Objectives of the Study:**

After reviewing the literature, some gaps were obtained by the researchers and these gaps were transformed in the form of objective of the study, i.e.



To study the reasons/causes of NPAs in agriculture, industrial and households sectors.  
To provide some meaningful suggestions based on the results of this study.

### **Research Methodology:**

The present research work was carried out to know the causes of NPAS in Indian banking sector and then provide some solutions. This, a descriptive-cum-analytical research design was applied.

### **Area of the study:**

This study was run by an individual researcher. It was not possible for the researcher to consider the whole banking sector of India. Therefore, this project was carried in district Bhiwani of Haryana State.

### **Sample and Technique:**

To study the problem, a sample of 300 respondents was taken. First of all one district, i.e, Bhiwani was selected from 22 districts of Haryana with the help of lottery method and then 300 respondents were selected from there categories, i.e, farmers, Industrialists and households (100 from each category by applying quota sampling).

### **Data and survey instrument:**

To attain the objectives of this study, primary data were collected from 300 respondents by using schedule instrument.

### **Analysis and Explanations of Results:**

In this part, collected primary data were analysed with the help of various tools and techniques of statistics and it given here:

**Table-1: Causes of NPA in Agriculture Sector**

SR NO.	Causes	No. of Farmers	% of Farmers
1	Natural Hazards	54	54%
2	Wrong Utilization of Loan Amount	09	09%
3	Lack of Proper analysis of needs	11	11%
4	Willful Default	00	00%
5	Price Risk	26	26%
	Total	100	100%

Source: Based on primary survey

It was observed from Table-1 that maximum 54% farmers were agreed that loans and advances by banks become NPA due to natural hazards, however, 26% respondent farmers were agreed that market price of crops plays an important role in generating income for farmers that leads their borrowings to become NPA for banks. Besides this, some farmers (9%) gave reason of wrong utilization of received loan amount and some



farmers (11%) were obtained who think that borrowings become NPA for banks due to received loan amount was in appropriate because of lack of proper analysis of needs.

**Table-2: Causes of NPA in Industrial Sector**

Sr. No.	Causes	No. of Industrialists	% of Industrialists
1	Natural Hazards	02	02%
2	Wrong Utilization of Loan Amount	05	05%
3	Lack of Proper analysis of needs	06	06%
4	Willful Default	00	00%
5	Price Risk	87	87%
	Total	100	100%

Source: Based on primary survey

Table-2 explicates the causes of NPA in industrial sector. Maximum industrialists 87% assumed that their borrowings became NPA for banks due to price risk. Many times volatility was seen in product's prices and this volatility created price rick for the industrialists. Near about 11% industrialists' borrowings became NPA due to wrong utilization of loan amount and lack of proper analysis of needs. However, no willful defaulter was obtained.

**Table-3: Causes of NPA in Household Sector**

SR NO.	Causes	No. of Households	% of Households
1	Natural Hazards	29	29%
2	Wrong Utilization of Loan Amount	37	37%
3	Lack of Proper analysis of needs	21	21%
4	Willful Default	00	00%
5	Price Risk	13	13%
	Total	100	100%

Source: Based on primary survey

The results tabulated in Table-3 indicated that wrong utilization of loan amount borrowed by them was main cause which converted banks' lending in to NPA. Another



major reason was natural hazards on which 29% Households were agreed. However, willful defaulters were not found in household sector.

### **Major findings of the study:**

- Maximum farmer's installment or interest thereon remains overdue due to loss in crops by natural hazards (given in table-1.)
- Loans and advances provided to industry sector because NPA& because profitability of industry depends mainly on price risk associate with products and services.
- Amount of loans and advances and installment on this amount remains overdue because borrowed money by maximum households (37%) is used for other purpose or in other words borrowed money in wrongly utilized by this sector.

### **Suggestion:**

- Some valuable suggestions based on the results or findings of the study are given here:
- Structure of loan amount and interest rates should be changed according to needs of farmers, industrialists and households.
- Bank should decrease the rate of interest during the period of natural hazards.
- Banks should set up an independent mechanism which will help the banks by analyzing the credit capacity of borrowers before providing credit them.
- Utilization of borrowed money by borrowers should be checked by banks time to time.

### **Conclusion:**

- This attempt was taken of know the reasons/causes of NPAS in banking sector. After analyzing the primary data the researcher reached on the conclusion that natural hazards were main reasons of NPAS in agriculture sector, however, price risk was obtained as main cause to NPAS in industrial sector. Besides this, wrong utilization of borrowed money or loan amount was found basic cause to household sector. Therefore, banks should restructure their loans and advances and should establish a mechanism which will help the banks in completion of their credit operations.

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