A STUDY ON NON PERFORMING ASSETS IN THE PRIORITY SECTOR REFERENCE TO PUBLIC SECTOR BANKS (PSBS)

(Non Performing Assets In The Priority Sector)

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Abstract - The present paper mainly analyses the Priority Sector Advances and of NPAs (Non Performing Assets) in Public sector Banks from 2001 to 2013. The present study analyzes NPA of the Public sector banks in the area of priority sector lending for a period of 13 years (2001 to 2013). For analyzing the performance of the banks tools like correlation, and structural equation model were used. From the analysis it has been identified that the performance of the bank in the priority sector advances are showing increasing trend. Priority sector lending includes lending to agriculture, small-scale industries, weaker sections and others. In the present paper an attempt is made to study the trends in NPAs of Public sector banks in India and also to find out the reasons responsible for the high levels of NPAs. Moreover, various measures adopted in India to attempt the problem of high NPAs also been examined.

Keywords: NPAs, Priority Sector, asset quality, Public sector banks.

I. INTRODUCTION

Banking as an institution, dealing with lending and collection of money, is as old as history. The lending was mostly security- oriented and bad loans at present called nonperforming assets or NPAs. As banking in the country was deregulated and international standards came to be accepted and applied, banks had to unlearn their traditional operating methods of directed credit and investments and fixed interest rates, all of which had led to deterioration in the quality of loan portfolios, inadequacy, capital and the erosion of profitability. Currently, NPA is defined as an advance where interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan; (ii) the account remains "out of order" for a period of more than 90 days, in respect of an overdraft/cash credit; (iii) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted; (iv) interest and/or installment of principal remain(s) overdue for two harvest seasons for short-term and one harvest season for long-term crop loans in the case of an advance granted for agricultural

purpose and (v) any amount to be received remains overdue for a period of more than 90 days in respect of other accounts. Several experiments have been tried to control NPAs (viz., BIFR/SICA, lok adalats, DRTs, OTS, and SARFAESI etc) but nothing has punch the mark in tackling NPAs. The validity of both DRT/ Securitization act was challenged and still suspend in dilemma, which has dampened the mood of bankers.

II.CAUSES OF NPAS

The various Committees have found the following causative factors for loan accounts turning NPAs.

- Diversion of funds: diversification/modernization/new projects of business or for promoting associate concerns.
- Factors internal to business like product/marketing failure, inefficient management, inappropriate technology, labour unrest, product obsolescence, etc.
- Change in the macro-environment like recession, infrastructure bottlenecks, natural calamities, etc.
- Time/cost overruns during project implementation stage.

III.REVIEW OF LITERATURE

Meenakshi Rajeev and Mahesh, H.P (2010) studied the different aspects of NPAs and observed that NPA in priority sector is still higher than that of the non priority sector. Ramesh.K.V, Sudhakar.A., (2012) found that NPAs affects the business cycles, ethical standards, legal framework, supervisory system, regulatory, credit appraisal system, credit recovery, risk management system and the motivational level of employees.

Selwyn and Thambi (2001) analyzed Public sector commercial Banks, which were higher than their capital and reserves and even in some cases percentage on NPAs to own funds of some of the top banking public sectors were quite high. Sandeep and Parul Mital (2012) compared nonperforming assets of selected public and private sector banks in India and found that private sector banks are much comfortable and efficient compared to public sector banks. Sharma (2004) highlighted the most significant factor contributing to the problem of NPA from point of view of top bankers from public sector banks (Vivek srivastava, Deepak bansal (2012). Dong He (2002) found that NPAs act as an indicator for allocation of resource and an excessive rise in interest rates led to a sharp increase in non-performing assets.

Debarsh and Sukanya Goyal (2012) emphasized on management of NPAs that the reduction of non-performing asset is necessary to improve profitability of the banks. Kaveri (2001) studied the non-performing assets of various banks and suggested various strategies to reduce the extent of NPAs. Prashanth k Reddy (2002) focused on comparative study on Non-Performing Assets in India in the Global context.

Ahmed JU (2010) found that the following factors cause the increase of NPA in commercial banks. It includes (1) Poor credit appraisal system (Int1),(2) Lack of vision/foresightedness while sanctioning/reviewing or enhancing credit limits (Int2), (3) Lack of proper monitoring(Int3), (4) Reckless advances to achieve budgetary targets (Int4), (5) Change in economic policies/environment at macro level (Int5).

The external factors indicate factors beyond the control of the borrower, created by economic, political, legal, technological and social systems existing in the country. The major external factors cited in various researches include;

1) Lethargic legal system (Ext1)

2) Scarcity of raw material, power and other resources (Ext2).

3) Industrial recession (Ext3).

4) Shortage of raw material, raw material\input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents (Ext4).

5) Failures, nonpayment over dues in other countries, recession in other countries, externalization problems and adverse exchange rates etc (Ext5).

IV.RESEARCH METHODS

The present study of Non-performing assets is confined and restricted to the boundary of public sector banks and data is analyzed since 2001 to 2013. The research study is analytical and descriptive in nature because it deals with statistical data and the major focus is to describe the factors affecting the problem of NPAs. For this study Primary and secondary data are used. Primary data were collected through a structured questionnaire. The questionnaires were mailed to the respondents. Samples of 250 public sector bank employees were considered from 27 banks. The questionnaire consists of question related to the internal and external factors which cause of NPA. 211 properly finishes responses were received and included for the study. The secondary data is collected from the annual reports of Reserve Bank of India website. The data collected from the secondary sources relating to NPAs has been analyzed and tabulated and Interpretations were made.

V.DATA ANALYSIS AND INTERPRETATION

Performance of Priority Sector Advances by Public sector Banks in India

Table 1 shows the monetary advances made by Public sector banks towards priority sector lending along with the percentage to net bank credit (NBC) and adjusted net bank credit (ANBC). It can be seen from the table that all the banks have made advances to priority sector as per the stipulated norms set by Reserve Bank of India.

	As on March 31(amount in Rs. crores)												
	Standard	undard Assets Sub-Stat Asse		ndard ets	Doubtful Assets		Loss As	sets	Gross NPAs		Total Advances		
Year	Amount	Per cent share	Amount	Per cent share	Amount	Per cent share	Amount	Per cent share	Amount	Per cent share	Amount		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		
2001	387360	87.6	14745	3.3	33485	7.6	6544	1.5	54774	12.4	442134		
2002	452862	88.9	15788	3.1	33658	6.6	7061	1.4	56507	11.1	509368		
2003	523724	90.6	14909	2.6	32340	5.6	6840	1.2	54089	9.0	577812		
2004	610435	92.2	16909	2.6	28756	4.3	5876	0.9	51541	8.0	661975		
2005	824253	94.6	10838	1.2	29988	3.4	5771	0.7	46597	5.0	870851		
2006	1092607	96.3	11453	1.0	25028	2.2	5636	0.5	42117	3.7	1134724		
2007	1335352	97.2	13945	1.0	19970	1.5	4510	0.3	38425	2.8	1373777		
2008	1656728	97.7	16870	1.0	19068	1.1	3668	0.2	39606	2.3	1696333		
2009	2055906	97.9	19521	0.9	20708	1.0	3803	0.2	44032	2.1	2099938		
2010	2455065	97.7	27685	1.1	24679	1.0	4928	0.2	57293	2.3	2512358		
2011	2988790	97.7	33612	1.1	31955	1.0	5514	0.2	71080	2.3	3059870		
2012	3437900	96.8	60376	1.7	47075	1.3	5037	0.1	112489	3.2	3550389		
2013	3899985	96.2	76589	1.9	73485	1.8	5815	0.1	155890	3.8	4055874		

 TABLE 4.1 Classification of Loan Assets -Public sector banks

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r =	= 0.7566 0.9714 0.9620 0.1565 0.76582										
$r^2 =$	0.5724	0.943	6 0.9254	0.2449	0.58648						

The calculated value of coefficient of correlation, r, of the different classifications of assets to the total amounts of advances shows a positive correlation in all the assets in public sector banks.

Analysis of Classification of NPAs

The share of standard assets in total advances of Public sector banks increased from 86 per cent in 2000 to 96.2 percent in 2013. The NPAs of 14 per cent in 2000 consist of sub-standard (4.3 per cent), doubtful (8 per cent) and loss assets (1.7 per cent) while in 2013(3.8%) the share of substandard and doubtful assets have decreased to 1.9 per cent and 1.8 per cent respectively keeping the percentage of loss assets as 0.1per cent. From the above table 4.1, the share of standard assets is increasing every year for all categories of banks, both in percentage and absolute terms. As a consequence the percentage of sub-standard, doubtful and loss assets to total advances are also reducing. The target for banks is to shift more assets to the standard category so as to make more profits and improve its financial position. There is significant decrease from 4.3 per cent in 2000 to 1.9 percent in 2013 in the sub-standard category while the share of doubtful and loss assets decreased from 8 per cent and 1.7 per cent in 2000 to 1.8 per cent and 0.1 per cent in 2013 respectively. However, though loss assets are decreasing in percentage terms, they are increasing in absolute terms.

 TABLE 4.2 compositions of NPAs in public sector banks - 2001 to 2013 (in crores)

Year	Priority Sector		Non-Prior	rity Sector	Public S	ector	Total Gross NPAs
	Amount	Percent	Amount	Percent	Amount	Percent	
2001	24156	45.4	27307	51.4	1711	3.2	53174
2002	25150	46.2	28405	52.2	903	1.7	54458
2003	24939	47.2	26781	50.7	1087	2.1	52807
2004	23841	47.5	25698	51.2	610	1.2	50149
2005	21926	48.1	23249	51.0	444	1.0	45619
2006	22374	54.1	18664	45.1	341	0.8	41378
2007	22954	59.5	15158	39.3	490	1.3	38602
2008	25287	63.6	14163	35.6	299	0.8	39749
2009	24318	55.2	19251	43.7	474	1.1	44043
2010	30846	53.9	25923	45.3	524	0.9	57293
2011	41288	58.1	29514	41.5	279	0.4	71081
2012	56201	49.9	55246	49.1	217	0.2	111664
2013	66928	42.9	88853	57.0	108	0.07	155890
r =	0.9769		0.9895		-0.4861		
$\mathbf{r}^2 =$	0.9524		0.9785		0.1782		

Table 4.2 gives the breakup of NPAs in priority and nonpriority sector lending. Though it is normally considered that advances to priority sector are more risky as compared to nonpriority advances, the data related to the public sector banks for the period of 2001-2013 indicate otherwise. For every 1.00 rupees of NPAs of PSBs as on March 2013, the distribution is: priority sector (42.9 per cent), non-priority sector (57.0 per cent) and public sector (0.07 per cent).

The share of non-priority sector advances in gross NPAs of PSBs decreased from 51.4 per cent (Rs. 27307 crore)

in end-March 2001 to 35.6 percent (Rs. 14163 crore) in 2008 but again increased to 57 per cent (Rs. 88853 crore). Though the proportion of the priority sector NPAs to gross NPAs is decreasing, it still remains significantly high to merit special attention. The banks have not been able to devote adequate attention to the priority sector portfolio due to its large volume. All these imply that the priority sector NPAs has not been a main contributor to NPA, at least in recent years. The calculated value of coefficient of correlation, r, of the different sectors to the total amounts of sector wise NPAs observed a positive correlation.

 TABLE 4.3 NPAs Statistics in Public Sector Banks - 2001 to 2013 (In Crores)

Year	Advances		Non-Performing Assets								
			Gross			Net					
	Gross	Net	Amount Gross NPA ratio		% of Total Assets	Amount	Net NPA ratio	% of total Assets			
2001	442134	415207	54672	12.4	5.3	27977	6.7	2.7			
2002	509368	480681	56473	11.1	4.9	27958	5.8	2.4			
2003	577813	549351	54090	9.4	4.2	24877	4.5	1.9			
2004	661975	631383	51537	7.8	3.5	19335	3.1	1.3			

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2005	877825	848912	48399	5.5	2.7	16904	2.1	1.0				
2006	1134724	1106288	41358	3.6	2.1	14566	1.3	0.7				
2007	1464493	1440146	38968	2.7	1.6	15145	1.1	0.6				
2008	1819074	1797401	40452	2.2	1.3	17836	1.0	0.6				
2009	2283473	2259212	44957	2.0	1.2	21155	0.9	0.6				
2010	2733458	2701300	59926	2.2	1.3	29375	1.1	0.7				
2011	3079804	3305632	74600	2.4	1.4	36000	1.2	0.7				
2012	3550389	3877307	112489	3.2	1.9	59300	1.5	1.0				
2013	4560169	4472774	164462	3.6	2.4	90000	2.0	1.3				

Source: Trend and Progress of Banking in India 2012-2013

The above table 4.3 shows the gross and net advances for the period of 2001 to 2013. The gross and net NPA as on 31.03.2013 of PSBs stood at 3.6 percent higher than the year 2009. Gross NPA ratio was continuously decreased up to 2.0 percent (2009) and later increased slowly. Similarly net NPA ratio decreased to 0.9 percent (2009) and later it increased to 2 percent.

PUBLIC SECTOR BANKS- Priority Sector Advances

Table 4.4 shows the data related to NPAs in public sector Banks with reference to Priority sector advances under the four major components, namely, Agriculture, SSI, weaker sections and other Priority sectors for a period of 2002-2013.

TABLE 4.4 PSBs -	· Priority	Sector	Advances
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Year	Agri.	NPAs in	Perce	SSI	NPAs	Perc	Weake	NPA	Perc	Other	NPAs	Percen
	Adva	Agri.	nt	Advan	in	ent	r	S	ent	Priority	in	t
	nces	Advance		ces	SSI		Sectio	in		Sector	Other	
					Adva		n	WS		Advanc	SAs	
					nces		Advan	As		es		
							ces					
2002	63083	7821	8.066	51186	10583	4.837	28974	5743	5.045	56915	6733	8.453
2003	73507	7707	9.538	52987	10161	5.215	32303	5749	5.618	76621	7069	10.84
2004	86186	7240	11.9	58310	8837	6.598	41588	6706	6.201	101174	7762	13.03
2005	112474	7254	15.51	67634	7834	8.633	63492	5752	11.03	129984	8308	15.65
2006	154900	6202	24.98	82492	6917	11.93	78373	5023	15.60	172986	9253	18.7
2007	205090	6506	31.52	10470	5843.	1.792	94284	5181	18.19	211386	10604	19.93
2008	248685	8268	30.08	14865	5804	2.561	126934	5388	23.55	211626	11213	18.87
2009	296858	5708	52.01	190968	6984	27.34	122894	5074	24.22	231671	11626	19.93
2010	370729	8330	44.51	264828	11537	22.95	212214	5053	41.99	229005	10981	20.85
2011	414990	14487	28.65	376627	14340	26.26	246316	7929	31.06	236999	12417	19.09
2012	227650	17830	12.77	396370	16745	23.67	283960	8367	33.93	251356	14390	17.47
2013	280810	19071	14.72	417648	17698	23.68	299472	478	31.59	277095	15319	18.09

Source: Trend and Progress of Banking in India 2012-2013

From the above table it is very clear that Public sector Banks has been granting advances to priority sector with an annual growth in every successive year. Thus the growth of Priority Sector advances in Public sector Bank has set a positive growth throughout the decade of study. Agriculture advances have registered a 4 fold net increase, SSI advances have net increase of 6 times, the advances to weaker sections have net increase of 6 times, the advances to weaker sections have net increase of 4.5 times, that of their respective figures in 2013. The overall Priority sector advances have registered a 3 fold increase over that of 2013 in 12 years period. The Public sector Banks have been making advances to Priority sector advances with due share to its major components viz., Agriculture, SSI, weaker sections and Other priority sector. In the case of NPAs in Priority Sector advances, Public sector Bank has been successful in controlling the NPAs.

Classification of Advances -Asset Quality

Asset quality is a main indicator of potential credit risk. Hou, 2007 and Dermirgue-Kunt, 2000 identified that asset quality is a statistically significant predictor of insolvency for bank failure. A major reason for bank failures is the wearing away in the asset quality explained by the level of NPAs. Often, the quality of advances determines the extent of nonperforming assets, provision and profitability of banks. The advances are classified into standard assets, sub-standard assets, doubtful assets and loss assets. The gross NPA is the total of sub standard assets, doubtful assets and loss assets.

TABLE 4.5 Asset Qualities of Public Sector Banks

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	Standard	Substandard	Doubtful	Loss	Gross	Total							
	Asset	Asset	Asset	Assets	NPA	Advances							
Standard Asset	0.882*				0.746*	1.000*							
Substandard Asset	0.783*	0.349			0.836*	0.924*							
Doubtful Asset	0.709*	0.154	0.606**		379	0.351							
Loss Assets	0.635*	0.541**	0.667**	0.169	140	-0.269							
#0' 'C' 1 01 0	1 1												

*Significant at the 01 % level

** Significant at the 05 % level of significance.

The correlation result shows that few significant relationships among the selected variables. The standard assets and substandard assets showed a significant positive relationship (r = 0.746, Sig=0.001). It is inferred from the analysis that both standard advances and substandard advances increase along with an increase in the total advances. The substandard asset on the other hand significantly influence gross NPA of banks, indicated in their correlation (r = 0.836, Sig=0.001).

Validity, reliability and unidimensionality

Before analyzing the SEM model, the validity and reliability of the constructs have to be assessed. The unidimensionality and reliability of the scales must also be established before their convergent and Discriminant validity is assessed (Anderson and Gerbing, 1982). A Confirmatory factor analysis (CFA) was conducted. Maximum likelihood estimation was employed to estimate the CFA model. The SEM model was developed using AMOS graphics. In order to evaluate the model, emphasis was given to Chi-square/degrees of freedom (x2/df), CFI, GFI, AGFI, TLI, IFI, RMSEA and PGFI. As per the result, Chi square statistics with p = 0.058 (P-value >0.05) show a good fit of the model.

Model Fit Diagram - Reasons for NPA



Table 4.	o-wiodei rit	Indices
Fit Indices	Results	Suggested values
Chi-square	36.993	P-value >0.05
	(0.058)	
	df: 25	
Chi-square/degree of	1.480	\leq 5.00 (Hair et
freedom ($x^2/d.f.$)		al., 1998)
Comparative Fit index	0.978	>0.90 (Hu and
(CFI)		Bentler, 1999)
Goodness of Fit Index	0.978	>0.90 (Hair et al.
(GFI)		2006)
Adjusted Goodness of	0.921	> 0.90 (Daire et
Fit Index (AGFI)		al., 2008)
Normated Fit Index	0.940	\geq 0.90 (Hu and
(NFI)		Bentler, 1999)
Incremental Fit Index	0.980	Approaches 1
(IFI)		
Tucker Lewis Index	0.971	\geq 0.90 (Hair et
(TLI)		al., 1998)
Root mean square error	0.045	< 0.08 (Hair et
of approximation		al., 2006)
(RMSEA)		
Parsimony goodness-of-	0.313	Within 0.5
fit index (PGFI)		(Mulaik et al.,
		1989)

Source: Primary Data

Table 4.6 shows the estimates of the model fit indices from AMOS structural modeling. The GFI of this study was 0.978 more than the recommended value of 0.90; the other measures fitted satisfactorily; AGFI=0.921, CFI=0.978, TLI=0.971, IFI=0.980 and NFI=0.940 with x2/DF < 5 at 1.480 and RMSEA=0.045 (Bagozzi and Yi, 1988) indicate a good absolute fit of the model. Goodness of fit indices supports the model and these emphasized indices indicate the acceptability of this structural model.

Research hypothesis:

H1: Each external factors *Ext1*(H1a), *Ext2*(H1b), *Ext3*(H1c), *Ext4*(H1d) and *Ext5* (H1e) has a significant influence on the Overall external factor.

H2: Each internal factors *Int1* (H2a), *Int2* (H2b), *Int3* (H2c), *Int4* (H2d), *Int5* (H2e) has a significant influence on the Overall Internal factor.

H3: External factor has a significant influence on internal factor.

H4: External factor has a significant influence on NPA.

H5: Internal factor has a significant influence on NPA.

H6: Some internal factors and external factors alone can influence the cause for NPA.

	Table 4.7- Wiodel in assessment -Standard Estimation of the Wiodel											
	Estimate	S.E.	C.R.	Р	Hypothesis							
EF <ex1< td=""><td>-0.089</td><td>0.038</td><td>-2.342</td><td>0.024</td><td>H1a- Accepted</td></ex1<>	-0.089	0.038	-2.342	0.024	H1a- Accepted							
EF <ex2< td=""><td>0.031</td><td>0.010</td><td>3.033</td><td>0.664</td><td>H1b- Accepted</td></ex2<>	0.031	0.010	3.033	0.664	H1b- Accepted							
EF <ex3< td=""><td>0.050</td><td>0.019</td><td>2.635</td><td>0.019</td><td>H1c- Accepted</td></ex3<>	0.050	0.019	2.635	0.019	H1c- Accepted							
EF <ex4< td=""><td>-0.060</td><td>0.017</td><td>-3.529</td><td>0.001</td><td>H1d- Accepted</td></ex4<>	-0.060	0.017	-3.529	0.001	H1d- Accepted							
EF <ex5< td=""><td>-0.124</td><td>0.039</td><td>-3.179</td><td>0.001</td><td>H1e- Accepted</td></ex5<>	-0.124	0.039	-3.179	0.001	H1e- Accepted							
IF <i1< td=""><td>-0.052</td><td>0.03</td><td>-1.733</td><td>0.462</td><td>H2a- Rejected</td></i1<>	-0.052	0.03	-1.733	0.462	H2a- Rejected							
IF <i2< td=""><td>0.053</td><td>0.021</td><td>2.523</td><td>0.020</td><td>H2b- Accepted</td></i2<>	0.053	0.021	2.523	0.020	H2b- Accepted							
IF <i3< td=""><td>0.009</td><td>0.011</td><td>0.818</td><td>0.855</td><td>H2c- Rejected</td></i3<>	0.009	0.011	0.818	0.855	H2c- Rejected							
IF <i4< td=""><td>-0.028</td><td>0.011</td><td>-2.545</td><td>0.019</td><td>H2d- Accepted</td></i4<>	-0.028	0.011	-2.545	0.019	H2d- Accepted							
IF <i5< td=""><td>0.074</td><td>0.024</td><td>3.083</td><td>0.001</td><td>H2e- Accepted</td></i5<>	0.074	0.024	3.083	0.001	H2e- Accepted							
IF <ef< td=""><td>0.021</td><td>0.018</td><td>1.166</td><td>0.788</td><td>H3- Rejected</td></ef<>	0.021	0.018	1.166	0.788	H3- Rejected							
NPA <ef< td=""><td>-0.077</td><td>0.037</td><td>-2.081</td><td>0.029</td><td>H4- Accepted</td></ef<>	-0.077	0.037	-2.081	0.029	H4- Accepted							
NPA <if< td=""><td>0.158</td><td>0.043</td><td>3.674</td><td>0.001</td><td>H5- Accepted</td></if<>	0.158	0.043	3.674	0.001	H5- Accepted							
NPA <i5< td=""><td>0.274</td><td>0.06</td><td>4.566</td><td>0.001</td><td>H6a- Accepted</td></i5<>	0.274	0.06	4.566	0.001	H6a- Accepted							
NPA <i2< td=""><td>0.156</td><td>0.023</td><td>6.782</td><td>0.001</td><td>H6b- Accepted</td></i2<>	0.156	0.023	6.782	0.001	H6b- Accepted							
EF <i5< td=""><td>-0.131</td><td>0.023</td><td>-5.695</td><td>0.001</td><td>H6c- Accepted</td></i5<>	-0.131	0.023	-5.695	0.001	H6c- Accepted							
EF <i1< td=""><td>-0.165</td><td>0.048</td><td>-3.437</td><td>0.001</td><td>H6d- Accepted</td></i1<>	-0.165	0.048	-3.437	0.001	H6d- Accepted							
EF <i2< td=""><td>0.186</td><td>0.049</td><td>3.798</td><td>0.001</td><td>H6e- Accepted</td></i2<>	0.186	0.049	3.798	0.001	H6e- Accepted							

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Source: Primary Data

VI.HYPOTHESIS TESTING

Figure 1 (Model fit Diagram) depicts the full model. Out of the 18 paths hypothesized model, three paths were not significant at p < 0.05 and fifteen paths are significant. External factors have significant influence on NPA. Therefore, H1a to H1e are not rejected at 0.5 level of significance p >0.001. H2b, H2d and H2e have a significant influence on the cause of NPA. Therefore, this hypothesis is accepted at p <0.001.

H2a and H2c have no significant influence on the causes of NPA; therefore, this hypothesis is rejected at p < 0.001. This shows that Poor credit appraisal system and Lack of proper monitoring are not the major cause of NPA. The Model reveals that overall external factors are not influencing the overall internal factors.i.e External factor has not significant influence on internal factors (H3) in causing NPA. Therefore, this hypothesis is rejected at p < 0.001.

External and internal factors are influencing separately for the causes of NPA. Therefore Hypothesis (H4) and (H5) are accepted. i.e. External and internal factors has significant influence on NPA. Therefore, this hypothesis is accepted at p < 0.001. Some internal factors have a positive and strong correlation with NPA and causes for NPA. H6a and H6b are significantly causes NPA. Some internal factors have a strong influence on external factors and H6c, H6d and H6e accepted and have a n effect on external factors.

VII.CONCLUSION

The frequency of non-performing assets (NPAs) is affecting the performance of banks both financially and psychologically. The non-performing assets have become a major cause of concern. The managers should understand the risk of NPA and try to educate the bank employees towards the recovery process. Bank employees have to get exposure in various skills like understanding the market scenario, NPA management, Negotiation, legal practices etc. Non-performing asset in India has badly affected the profitability and efficient functioning of Public sector banks. To improve the efficiency and profitability, the NPA has to be listed. Various steps have been taken by the government to reduce NPA and better banking.

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