



IJMIRD 2015; 2(3): 912-915
www.allsubjectjournal.com
Received: 24-01-2015
Accepted: 27-02-2015
e-ISSN: 2349-4182
p-ISSN: 2349-5979
Impact Factor: 3.762

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Trends in the priority sector advances of public sector banks and SARFAESI Act 2002

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Abstract

There is large contribution made by the Public Sector Banks (PSB's) in Indian economy, such as agriculture, various industries, trade and employment and infrastructure. The ever increasing trends in deposits and credits affect the performance of Indian Banks. The loans/advances are an important source of income for the banks. The strength and soundness of the banking system primarily depend on the quality and performance of the loan portfolio, i.e. the fulfillment of obligations by borrowers promptly. The banking sector reforms in India during the post-liberalization period, mostly focused on improving the efficiency of the banking sector by incorporating prudential norms for income recognition, asset classification and provisioning and through integrating international standards. Despite the various prudential measures taken from the post-liberalization period, the non-performing assets still pose an important threat to the very existence of banking. There is increase in the priority sector advances due to increase in the NPAs in the public sector banks. In this research a modest attempt made to analysis the trends in the priority sector advances of public sector banks. The trends in the agriculture sector, small scale industries and other priority sector advances also analyzed. Statistical techniques like arithmetic mean, standard deviation and T-test have been employed for the analyses of data.

Keywords: priority sector advances, agricultural sector advances, small-scale industries, NPAs, SARFAESI Act 2002.

1. Introduction

The asset quality is a main parameter to assess the performance and overall functioning of banks. The reduction in asset quality results increased the level of standard Assets. The intermediation process is the principal function of a commercial bank. Since it involves counterparty risk; risk is inherent in banking. A banker should expect that all loan portfolios' will not fetch returns/earned in the normal course. The loans/advances are an important source of income for the banks. The alarming level of NPAs is recognized as one of the major explanations for implementing structural changes and reform measures in the banking sector during this period. So in the light of inefficiencies in the banking sector and the presence of non-performing assets, the Committee on Financial System (Narasimham Committee – I) was set up. For covering the loss of NPAs the banks required to maintain their owned funds by way of capital and the creation of reserves and provisions. Banks try to avoid these losses, but complete elimination of such losses is not possible, bank managements aim to keep the losses at a low level. On the basis of non-performing advances the difference between a good and a bad bank done. The level of NPAs is high in India with comparison to other countries. The RBI initiated many measures for the recovery of the NPAs. There are two committees which deals with the NPAs of Indian banks was a Committee on Financial System and Capital Account Convertibility Committee.

Non-Performing Assets is defined as an asset which ceased to generate the income for the banks and advance where payment of interest or repayment of installment of principal or both remains unpaid for a period of 180 days. However, with effect from March 2004, a norm of 180 days was replaced by a period of 90 days. If the any advances granted by the bank to a borrower become non-performing, then all the advances granted to that borrower treated as non-performing.

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 popularly called the Securitization Act has provided an enabling legal framework for the setting up of securitization or Reconstruction Company and

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the manner of acquisition of financial assets by such companies. The Act has been made effective from 21st June 2002, the date on which the first securitization and reconstruction of financial assets and enforcement of the security interest ordinance, 2002 was promulgated. This Act has been enacted to help Banks and FIs to tackle the NPA problem.

Review of literature

R.K. Uppal (2009) ^[1] this study was an attempt to study the priority sector advances by the public, private and foreign bank group. This study was based on the parameter like lending to priority sector by public, private and foreign bank groups, targets achieved by public, private and foreign group and NPAs while lending to priority sector. Objectives of the study were to analyze the priority sector lending by various bank groups. And to analyze targets achieved by various bank groups. The universe for the study was banking industry of India. All the parameters had been analyzed for the period 2006 and 2007. On the basis of these parameter shows that public sector banks had not achieved the target of 40 % while private sector banks have achieved the overall target. On the other hand, foreign banks had achieved the small scale industries export credit and overall target. NPAs of public sector banks had increased because of high priority sector advances. Lending to priority sector created many problems for the Indian banks like low profitability, high NPAs; transaction cost etc. It was a need of the hour to find out solutions for these problems otherwise progress of the Indian banks will cease. If the proper priority sector advances are given they will be helpful in reducing the poverty level.

Satya Dev Singh and Rajesh Kumar Singh (2009) ^[3] highlighted that advances to priority and non-priority sector of public sector bank have significant impact on NPAs while reverse was the situation in case of private sector banks. The overall objective of this study was to assess the impact of advances to priority and non-priority sector lending on gross NPAs of Indian banks. Hypothesis made that advances to priority and non-priority sector by Indian bank have no significant impact on gross NPAs. The tools used for analysis was simple regression analysis and ANOVA. In case of public sector banks advances to priority sector and non-priority by public sector bank had significant impact on gross NPAs. But in case of private sector banks advances to priority and non-priority sector by private sector banks had no significant impact on gross NPAs.

Rajni Saluja and Roshan lal (2010) ^[2] in this study an attempt had been made to compare the performance of public and private sector banks and foreign banks in India with special reference to their NPAs. A comparative analysis of all three categories was made on the basis of gross NPAs and Net NPAs. NPAs were also categorized into priority and non-priority sector for purpose of analysis. Objectives of the study was to evaluate (Gross and Net) in different banks and to study the past trend of NPAs. The study was mainly based on the secondary data. For the purpose of the study four banks from each of public sector, private sector and foreign banks was selected. Tools used for the analysis was averages and percentage method. Data for last five years 2004-05 to 2008-09 was taken for the purpose of comparison among banks and to observe past trend of NPAs. Data shows that in public banks AB and BOB and in private sector banks Axis bank, HDFC bank, Indusland bank was below the average of all banks, Average of gross NPAs of all banks in year 2004-05 was 1.76; though in year 2008-09 it had declined but had increased in comparison to the previous year. Tables show that there was

more of NPAs in non-priority sector than priority sector. The table shows that public sector banks give more advances to priority sector in comparison to private and foreign sector banks. Lastly, concluded that NPAs are not confined to PSBs alone but are present in private banks and foreign banks as well. The figures of Gross and Net NPAs of PSBs had improved over the year because of rigorous policy initiatives and enforcement of various legal and non-legal measures.

Research Methodology

Research methodology is a way to solve the research problem systematically. While designing the research work the following methodology will be adopted.

Objectives of the Study

The specific objectives of the present study are given as:

1. To analyze the trends in the priority sector advances of Indian public sector banks before and after the enactment of SARFAESI Act 2002.
2. To analyze the trends in the agricultural, small scale industries and other priority sector advances of Indian public sector banks before and after the enactment of SARFAESI Act 2002.

Hypothesis of the study

H₀:(There is no significant difference between the priority Sector NPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)

H₁:(There is a significant difference between the priority Sector NPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)

Research design

This research by and large is descriptive in nature. This research used secondary sources in order to explain the impact of the enactment of SARFAESI Act 2002 on the priority sector advances of public sector banks in India.

To achieve the stated objectives, data are collected from various sources and include;

Research reports, published articles, news reports and conference proceedings available in both national and international level related to NPA. The information obtained from these sources is used for critical evaluation of the subject and identify research gaps in the area of study. These secondary sources are part of different chapters in this report.

Sampling Unit

For Secondary data the sampling unit constitutes the public sector banks to analyze the trends in the priority sector NPAs of PSBs after the enactment of the Act.

Tools of Analysis

In order to achieve the various objectives mentioned, the data collected were entered, arranged and presented using Microsoft Excel and SPSS 13. All information collected for the purpose of the study has been arranged in cross sectional tables, depending upon the requirements of the analysis. The tabulation encompasses absolute figures supported by simple percentage and subjected to statistical analysis through the use of Average, Standard Deviation, CAGR and Independent T-test.

Analysis and interpretation

To examine the objective, the hypothesis made that there is no significant difference between the sector wise NPAs of PSBs before and after the Enactment of the Act therefore the trends in NPAs of Sector wise analyzed before the enactment of the Act (1995-96 to 2001-02) and trends in sector wise NPAs after

the enactment of the Act (2003-04 to 2013-14) is undertaken. The Trend in the agriculture sector, small scale industries and other priority sector advances are also analyzed. Inferences were drawn based on statistical analysis.

Table 1: Trends in Total Priority Sector Advances before the SARFAESI Act 2002 (From year 1995-96 to 2001-02)

Year	Total Priority Sector Advances	
	Amount in crore	Percentage (%)
1995-96	19106	48.3
1996-97	20774	47.7
1997-98	21184	46.4
1998-99	22606	43.5
1999-00	25150	44.5
2000-01	24159	45.4
2001-02	25150	46.2
Mean	22590	46
CAGR	0.0400	-.0063

Source: (RBI) Report on Trend and Progress of Banking in India, RBI.

Table 2: Trends in Total Priority Advances after the SARFAESI Act 2002 (From year 2003-04 to 2013-14)

Year	Total Priority Sector Advances	
	Amount in crore	Percentage (%)
2003-04	23840	47.5
2004-05	23397	49.1
2005-06	22374	54.1
2006-07	22954	59.5
2007-08	25287	63.6
2008-09	24318	55.2
2009-10	30848	53.8
2010-11	41287	58.09
2011-12	56201	49.96
2012-13	66928	42.93
2013-14	79200	36.5
Mean	37876	51.8
CAGR	0.1153	-.0237

Source: (RBI) Report on Trend and Progress of Banking in India, RBI.

Table 3: Analysis of total priority sector advances

	Secu_Act	N	Mean	Std. Deviation	t	df	Sig. (2-tailed)
Total Priority Sector Advances	Before	7	22590	2344.57			
	After	11	37876	20397.19	1.953	16	.069

Note: * significant at 5 percent.

The table-1.1 revealed that amount of priority sector advances was Rs.19106 crore in the year 1995-96 and increase up to Rs.22590 crore in the year 2001-02. Table 1.2 showed that amount of priority sector advances increased year on year i.e. 2003-04 to 2013-14. The result of the table highlighted that share of priority sector advances to total NPAs was 48.3% in the year 1995-96 and decreased up to 36.5% in the year 2013-14. From the above table it can be inferred that during 2005-06

to till 2010-2011 priority sector share was high in the total NPAs after year 2011 it starts declined. Table-1.3 highlighted that the difference in the mean scores (22590v/s37876, t-value1.953) is insignificant at 5 percent thereby concluding that no significant change in the level of priority sector advances after the enactment of the Act. CAGR of after Act period is greater than the before Act period.

Table 4: Classification of priority sector advances before the SARFAESI Act 2002m (As at end March) (From year 1995-96 to 2001-02)

Year	Agriculture Sector Advances		SSI Advances		Other priority sector advances	
	Amount in crore	%	Amount in crore	%	Amount in crore	%
1995-96	26335	14.3	29482	16.0	13751	7.5
1996-97	31012	16.3	31542	16.6	16548	8.7
1997-98	34305	15.7	38109	17.5	18881	8.7
1998-99	40078	16.3	42674	17.3	24448	9.9
1999-00	45296	15.8	46045	15.6	30816	11.0
2000-01	53685	15.7	48445	14.2	40395	11.8
2001-02	63083	15.8	49743	12.5	53712	13.5
Mean	41970	15.7	40862	15.7	28364	10.2
CAGR	0.1329	0.0144	0.776	-0.0347	0.2149	0.0876

Source: (RBI) Report on Trend and Progress of Banking in India, RBI.

Table 5: Classification of priority Sector Advances after the SARFAESI Act 2002 (As at end March) (From year 2003-04 to 2013-14)

Year	Agriculture Sector Advances		SSI Advances		Other priority sector advances	
	Amount in crore	%	Amount in crore	%	Amount in crore	%
2003-04	7240	15.1	8838	10.4	7762	18.1
2004-05	7254.05	15.7	7835	9.4	8308	18.1
2005-06	6202.92	15.2	6917	8.1	16375	16.2
2006-07	6506.34	15.6	5843.28	8.0	20102	15.3
2007-08	8268.03	17.5	5804.23	5.3	11215	11.1
2008-09	5708	13.0	6984	15.9	11626	26.4
2009-10	8,330	14.5	11,537	20.1	10,981	19.2
2010-11	14487	20.0	14,340	20.0	12,417	11
2011-12	22684	20.2	17780	15.5	15700	14.3
2012-13	27990	18.0	28400	18.2	10497	6.7
2013-14	12197	15.4	13622	17.2	4197	5.3
Mean	11533	16.3	11627	13.4	11743	14.7
CAGR	.0485	0.0018	.0401	0.0468	-.0544	-0.1056

Source: (RBI) Report on Trend and Progress of Banking in India, RBI.

Table 6: Analysis of classification of priority sector Advances

	Secu_Act	N	Mean	Std. Deviation	t	df	Sig. (2-tailed)
Agriculture Sector Advances	Before	7	15.7000	.67082			
	After	11	16.3818	2.27148	-.766	16	.455
Small Scale Sector	Before	7	15.6714	1.78859			
	After	11	13.4636	5.33297	1.048	16	.310
Other priority Sector advances	Before	7	10.1571	2.07995			
	After	11	14.7000	6.01698	-1.908	16	.074

Note: * significant at 5 percent.

The result of the table-1.4 highlighted that advances to agricultural sector and other priority sector by public sector banks was 14.3% and 7.5% in the year 1995-96 and increased up to 15.8% and 13.5% in the year 2001-02. The result of the table also highlighted that advances to small scale sector by public sector banks was 16% in the year 1995-96 and decreased up to 5.3% in the year 2007-08. After that it started increasing upto 17.2% in the year 2013-14. Table-1.5 showed the fluctuating trends in agricultural advances from the period 2003-04 to 2013-14 it was highest in the year 2010 to 2012 i.e. 20%. Table 1.6 revealed that the difference in the mean score of agricultural sector advances (15.7v/s16.38, t-value-.766), SSI Advances (15.6714v/s 13.4636, t-value1.048) and other priority sector Advances (10.1571v/s14.7, t-value -1.908) is insignificant at 5 percent which concluding that there is no significant change in the percentage to agricultural, SSI and other priority sector advances after the enactment of the Act.

Conclusion

This research reviewed the impact of Securitization Act 2002 on the trends of priority sector advances of public sector banks. The research utilized many statistical techniques which were not dealt in detail in previous researches in order to examine the various objectives and to test various hypothesis and theories. The level of priority and non-priority sector Advances increase year on year during the period of study. Advances to agricultural and small scale industries also increase year on year but in case of other priority sector advances was decreasing from the year 2003-04 to 2013-14. The result also concluded that there is no significant change in the level of priority sector advances after the enactment of the Act. The evaluation of the results identified a better need for information gathering, information dissemination and better client relationship management as a key for appraising the loan portfolio and evaluating the status of projects from time to time.

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