

# IMPACT OF GROSS ADVANCES OF NON-BANKING SECTOR ON NPA LEVEL OF SELECTED SECTORS OF ECONOMY

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## Abstract

Sector wise distribution of institutional credit goes a long way in ensuring adequate proportion of formal credit to different sectors depending on their significance in the nations' economy. Recent times have shown mounting level of "NPAs" which has adversely affected the existence of these institutions and has led to vanishing their status from market. In the view to tackle these situations certain governing authorities like RBI has evolved various measures to find out the proportion of credit flow to different sectors of economy. The present paper attempts to find out the influence of distribution of Gross Advances by Non-Banking Companies towards various sectors i.e. Agriculture, Industry, Services and Retail on Gross NPA of these companies for the period from 2015-16 to 2019-20. Published data from various RBI publications and reports has been collected. And Correlation and Linear Regression Analysis has been applied to dataset. It was found that all independent variables have positive correlation with Gross NPA and Advances towards Industry, Services and Retail Sectors has significantly influenced the Gross NPA of these companies whereas Advances towards Agriculture Sector do not significantly affect the levels of NPA.

**Keywords:** Institutional Credit, Bad loans, Credit flow, Gross Advances

## INTRODUCTION

Over a period of last 10 years there has been an enormous change in Capital Structure and Balance Sheet of financial institutions including Private banks and Public Banks. Financial Institutions has witnessed growth in Borrowings and Public Deposits on Liabilities Side and similarly there as been a sharp hike in Loans and Advances on the Asset Side. The cause of increase on lending side can be traced to increase in scale of activities in economy, birth of fresh ventures, diversification within each sector and changes in lifestyle of borrowers. The spur in Advances lend by these institutions has distorted the proportion of lending to different sectors due to which adequate institutional credit could not be diverted to neglected but able sectors that do not lead to speedy recovery but causes what can be termed as "NPAs".

Owing to this RBI, in 1970s has brought forward a fresh set of rules to classify the sectors eminent for growth in economy defined as "Priority Sector" and to channelize appropriate institutional finance towards them. According to RBI, Priority Sector would comprise agriculture, MSME, export credit, education, housing, social infrastructure, renewable energy and others. In spite of redundant practices to curb down level of Non-Performing Assets or Loans especially with Banks and to encourage the weaker sectors, the problem could not be solved. Since 2012-13 the share of NPAs in this sector continued to increase with Industrial Sector on prominent position followed by Agriculture Sector. Within Retail Loans advanced by Commercial Banks, Consumer Durables had witnessed to occupy the significant portion.

With respect to Non- Banking Sector too since 2015-16, RBI has taken the initiative to classify their Gross Advances with respect to Food Credit, Agriculture, Industry, Services, Retail Loans and others. This has also concluded that the share of Industrial Sector has remained the highest since 2015-16 followed by Retail Loans with lending to Agriculture slowing down. Non- Banking Sector during the recent years has diverged its attention to Retail Sector with about 40% constituted by Vehicle and Auto Loans. With Non-Banking Finance Companies concentrating its credit towards Non-Priority Sector has further deteriorated Asset Quality with Gross NPA ratio being 6.6% in 2019-20.

## LITERATURE REVIEW

Shabbir, N., & Mujoo, R. (2014) in their study "Problem of Non-Performing Assets in Priority Sector Advances in India" investigated Priority Sector Advances to Agriculture, Industry and others and the levels of NPAs in Public, Private and Foreign Banks and has performed a comparative study in Private, Public And Foreign Banks for the period from 2001 to 2011. The study has concluded that level of Advances in Priority Sector and consequent NPA was considerably higher in Public Sector Banks whereas level of Advances in Non-Priority Sector and consequent NPA was considerably higher in Private Sector Banks. However, the level of NPA in Non-Priority Sector has also increased in Foreign Banks during the study period.

**Throve, H. A. (2015)** in the study “**Analytical Study of Priority & Non-Priority Sector Lending with Reference to Nationalized Banks in India**” has comparatively studied the Priority and Non-Priority Sector lending and the consequent level of NPA in both for Nationalised Banks for period of two years i.e. 2013 and 2014. It was brought forward by the researcher that Nationalised Banks have more proportion of NPA in Non-Priority Sector compared to Priority Sector.

**Goyal, N., Agrawal, R., & Aggarwal, R.(2016)** in their study named “**Two Way Fixed Effect of Priority Sector Lending (Sector Wise) On Non Performing Assets Of Indian Commercial Banks**” has traced the two way effect of Priority Sector lending to Agriculture, Small Scale Lending and others on Gross NPA of Public and Private Sector Banks for the period from 2000 to 2013 by using Pooled Regression, Panel Regression and Two Way Fixed Effect Model. The study has found out that Priority Sector Lending especially to Small Scale Sector and others have significant impact on NPA in Public Sector Banks whereas in Private Sector Banks Lending to Agriculture and others was found to be influencing the NPA levels the most.

**Kaur, M., & Kuman, R. (2018)** in their study entitled “**Sectoral Analysis of Non Performing Assets during Pre and Post Crisis Period in Selected Commercial Banks**” has comparatively studied NPA levels in Priority Sector and Non-Priority Sector during Pre and Post Crisis Period for two consecutive slots of periods from 2001-02 to 2007-08 and 2008-09 to 2013-14 through collecting data from published sources. By applying Growth Rate and T-Test as analytical tools it was found that both Public and Private Sector Banks have registered higher NPA levels in Priority Sector Lending during Pre- Crisis Period which however declined afterwards in Post Crisis Period. However, NPA in Non-Priority Sector ending has shown considerable rise in Private Sector Banks.

## STATEMENT OF PROBLEM

Many studies had been conducted presenting Sectoral Distribution of Bank Credit and has traced the effect of Priority and Non-Priority Lending by Commercial Banks on NPA levels of respective categories. It was brought forward that Public Banks has witnessed rise in Priority Sector whereas Private Banks have shown inclination towards Non-Priority Sector Lending. In both the cases huge rise in NPA levels has been noticed. However, the problem of Non-Performing Loans is not only evident with Commercial Banks and thus the present study has analysed a gap in the earlier studies conducted and has been undertaken to trace out the impact of Sectoral Distribution of Advances of Non-Banking Finance Companies on Gross NPA.

## OBJECTIVES

- To study the trend of Gross Advances provided by NBFCs towards different sectors which include Agriculture, Industry, Services and Retail Loans for the period from 2015-16 to 2019-20
- To study the trend of Gross NPA during the period from 2015-16 to 2019-20
- To analyse the relationship between Advances towards Agriculture, Industry, Service Sector, Retail Loans and Gross NPA level.
- To trace the impact of variations in Gross Advances towards various sectors on level of Gross NPA
- To find out the influencing sector which contributes to the level of Gross NPA

## RESEARCH METHODOLOGY

The present study is purely analytical in nature. The data has been collected from secondary sources which include various RBI Publications and Report on Trend and Progress of Banking for the period from 2015-16 to 2019-20. The impact of four independent variable namely distribution of Non-banking Gross Advances towards Agriculture, Industry, Services and Retail loans has been traced on dependent variable namely Gross NPA. Correlation and Linear Regression Analysis has been used as a statistical tool to test the hypothesis of the study.

## HYPOTHESIS

H0- Variations in Sectoral Distribution of Gross Advances towards Agriculture by NBFCs do not have significant impact on Gross NPA at 95% confidence level.

H1-Variations in Sectoral Distribution of Gross Advances towards Agriculture by NBFCs do have significant impact on Gross NPA at 95% confidence level.

H0-Variations in Sectoral Distribution of Gross Advances towards Industry by NBFCs do not have significant impact on Gross NPA at 95% confidence level.

H1-Variations in Sectoral Distribution of Gross Advances towards Industry by NBFCs do have significant impact on Gross NPA at 95% confidence level.

H0-Variations in Sectoral Distribution of Gross Advances towards Services by NBFCs do not have significant impact on Gross NPA at 95% confidence level.

H1-Variations in Sectoral Distribution of Gross Advances towards Services by NBFCs do have significant impact on Gross NPA at 95% confidence level.

H0-Variations in Sectoral Distribution of Gross Advances towards Retail Loans by NBFCs do not have significant impact on Gross NPA at 95% confidence level.

H1-Variations in Sectoral Distribution of Gross Advances towards Retail Loans by NBFCs do have significant impact on Gross NPA at 95% confidence level.

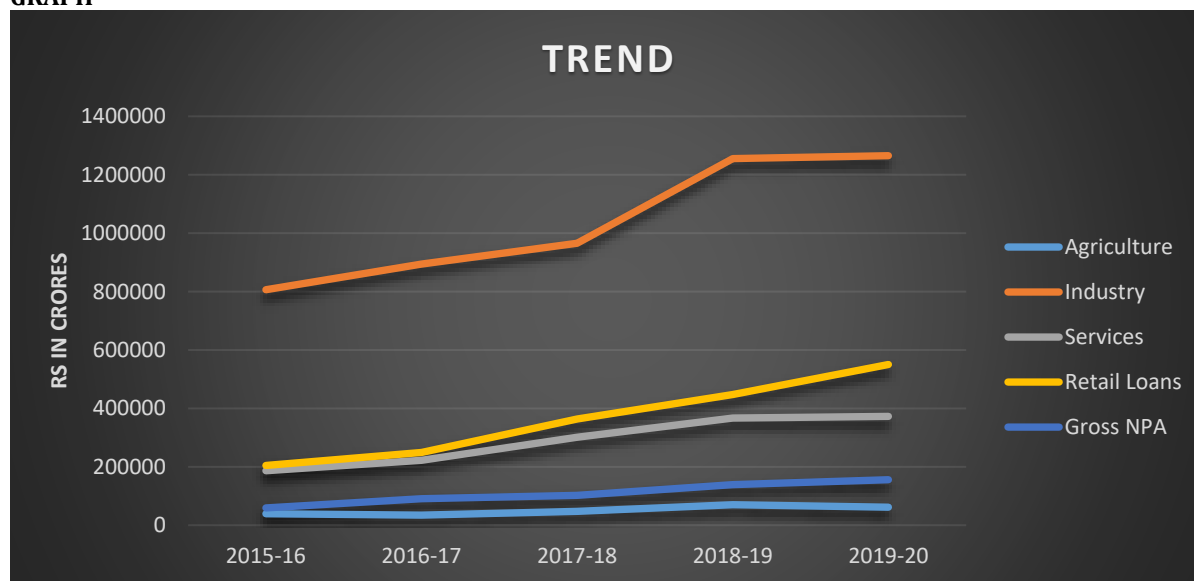
## DATA ANALYSIS AND FINDINGS

### 1. Analysis of Trend in Advances across different sectors

TABLE-1 (In Crores)

YEAR	AGRICULTURE	INDUSTRY	SERVICES	RETAIL LOANS	GROSS NPA
2015-16	39,200	8,06,300	1,86,500	2,04,700	59,261
2016-17	34,600	8,94,000	2,22,400	2,49,000	90,567
2017-18	47,600	9,65,500	3,01,300	3,63,900	1,02,328
2018-19	70,189	12,55,317	3,67,167	4,47,496	1,38,873
2019-20	61,759	12,65,248	3,72,596	5,50,302	1,55,793

### GRAPH



### Interpretation

Through the above Table and Graph it can be interpreted that there has been a vast growth in Advances lend by NBFCs to various sectors of Agriculture, Industry, Services and Retail Loans during the period from 2015-16 to 2019-20. It was noticed that there has been a gigantic growth in Advances lend towards Retail Sector with 169% during the period of 5 years followed by Advances towards Service Sector which has shown a growth of around 100% during the same period. However, growth in Agriculture and Industry Sector during the period of 5 years of 58% and 57% respectively was noticed. There found to be a sharp rise in Gross NPA also with increase in Gross Advances across the same period with a hike of about 163%.

### 2. Correlation Analysis

Table-2

	Agriculture	Industry	Services	Retail Loans	Gross NPA
Agriculture	1				
Industry	0.941512763	1			
Services	0.923764466	0.964694124	1		

<b>Retail Loans</b>	0.865669373	0.951848935	0.968951218	1	
<b>Gross NPA</b>	0.858831248	0.976188629	0.96520979	0.973503777	1

### Interpretation

With the above Correlation Analysis, it was found that all four variables i.e. Sectoral Distribution of credit towards Agriculture, Industry, Services and Retail Loans have a strong positive correlation with Gross NPA. However, highest positive correlation was noticed between Industry and Gross NPA level and Retail Sector Loans and Gross NPA level.

### 3. Impact of distribution of Gross Advances towards Agriculture Sector

**Table-3**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859 <sup>a</sup>	.738	.650	227933849388.461
a. Predictors: (Constant), Agriculture				

**Table-4**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	43810281186612080000000.000	1	43810281186612080000000.000	8.433	.062 <sup>b</sup>
	Residual	15586151909112540000000.000	3	5195383969704180000000.000		
	Total	59396433095724625000000.000	4			
a. Dependent Variable: Gross NPA						
b. Predictors: (Constant), Agriculture						

### Interpretation

With the above analysis it was found that R square is 0.73 which means that around 73% of variation in Gross NPA was caused by predictor variable i.e. Advances towards Agriculture Sector. But, P-value of 0.06 was found to be higher than alpha that is 0.05, which means that we do not have any strong evidence to reject null hypothesis and thus have to accept the null hypothesis i.e. *Variations in Sectoral Distribution of Gross Advances towards Agriculture by NBFCs do not have significant impact on Gross NPA at 95% confidence level.*

### 4. Impact of distribution of Gross Advances towards Industry Sector

**Table-5**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.976 <sup>a</sup>	.953	.937	96521920427.172
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a. Predictors: (Constant), Industry

**Table-6**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	566014887588397950000000.000	1	566014887588397950000000.000	60.754	.004 <sup>b</sup>
	Residual	27949443368848204000000.000	3	9316481122949402000000.000		
	Total	593964330957246200000000.000	4			

a. Dependent Variable: Gross NPA

b. Predictors: (Constant), Industry

**Interpretation**

With the above analysis it was found that R square is 0.95 which means that around 95% of variation in Gross NPA was caused by predictor variable i.e Advances towards Industry Sector. Also P-value of 0.004 was found to be lower than alpha that is 0.05, which means that we can reject null hypothesis and thus have accepted the alternate hypothesis i.e. *Variations in Sectoral Distribution of Gross Advances towards Industry by NBFCs have significant impact on Gross NPA at 95% confidence level.*

**5. Impact of distribution of Gross Advances towards Service Sector**

**Table-7**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.965 <sup>a</sup>	.932	.909	116346289747.509

a. Predictors: (Constant), Services

**Table-8**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	553354953543212250000000.000	1	553354953543212250000000.000	40.879	.008 <sup>b</sup>

Residual	4060937741403395000000.000	3	1353645913801131600000.000		
Total	593964330957246200000000.000	4			
a. Dependent Variable: Gross NPA					
b. Predictors: (Constant), Services					

### Interpretation

With the above analysis it was found that R square is 0.93 which means that around 93% of variation in Gross NPA was caused by predictor variable i.e. Advances towards Service Sector. Also P-value of 0.008 was found to be lower than alpha that is 0.05, which means that we can reject null hypothesis and thus have accepted the alternate hypothesis i.e. *Variations in Sectoral Distribution of Gross Advances towards Service Sector by NBFCs have significant impact on Gross NPA at 95% confidence level.*

### 6. Impact of distribution of Gross Advances towards Retail Sector

**Table-9**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.974 <sup>a</sup>	.948	.930	101749086715.916
a. Predictors: (Constant), Retail Loans				

**Table-10**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	562905701014677200000000.000	1	562905701014677200000000.000	54.372	.005 <sup>b</sup>
	Residual	310586299425690050000000.000	3	10352876647523002000000.000		
	Total	593964330957246200000000.000	4			
a. Dependent Variable: Gross NPA						
b. Predictors: (Constant), Retail Loans						

### Interpretation

With the above analysis it was found that R square is 0.94 which means that around 94% of variation in Gross NPA was caused by predictor variable i.e Advances towards Retail Sector. Also P-value of 0.005 was found to be lower than alpha that is 0.05, which means that we can reject null hypothesis and thus have accepted the alternate hypothesis i.e. *Variations in Sectoral Distribution of Gross Advances towards Retail Sector by NBFCs have significant impact on Gross NPA at 95% confidence level.*

### FINDINGS & SUGGESTIONS

Through the above analysis it can be concluded that Non-Banking Companies as a supplement of Banking Sector in recent years are found shifting its focus from Agriculture and Industry Credit towards Retail Loans and Services. The highest growth across the study period was noticed in Retail Loans and Advances towards Service Sector. Correlation Analysis reveals that all four variables namely Sectoral Distribution of Advances towards Agriculture, Industry, Service Sector and Retail Loans have positive correlation with Gross NPA of Non-Banking sector. However, by application of Linear Regression it was found that Advances towards Industry, Service Sector and Retail Sector significantly impact the rise in Gross NPA levels of Non-Banking Sector whereas Advances towards Agriculture Sector have not shown any significant impact on Gross NPA levels of Non-Banking Sector.

Over the years, Non-Banking Sector was found to have a paradigm shift towards catering to the changing lifestyle of borrowers which is evident from its acceleration in Advances towards Retail Loans. Consistent rise in Non-Performing Assets during the same period can also be traced to inefficient credit appraisal practices of companies or other general economic tendencies like inflation, monetary and fiscal policies, money supply, interest rate, etc. It can be suggested that Non-Banking Sector should devise appropriate credit analysis policy while extending funds specifically to these sectors in order to curtail the piling up of NPAs of Non-Banking Sector.

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