



## MANAGEMENT OF NON-PERFORMING ASSETS Ø PERCEPTION OF CHARTERED ACCOUNTANTS

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### Abstract

A stable and sound banking system is required for a healthy growth of an economy. But the sharp rise of non-performing assets (NPAs) has pushed the Indian commercial banks to the brink of a crisis. Chartered Accountants (CAs) render services both to banks and entrepreneurs, so it was felt that obtaining their opinion, pertaining to NPAs is useful and hence an attempt has been made to know their perception towards the management of NPAs. A survey was conducted with a structured questionnaire. Important causes and impacts of NPAs were studied and ranked. The CAs considered diversion of funds, poor monitoring, lack of supervision and follow up, and economic slowdown as the most important causes and erosion of profits and increasing provisions as the two most important consequences of NPAs. Kendall's coefficient of Concordance indicates that there is significant agreement among CAs in the ranking of different causes and different items of impact of NPA. Further, ANOVA analysis revealed that there is significant relationship between experience of CAs and some of the causes and items of impact of NPA. The perception of CAs towards other causes and impact of NPAs was also studied. Researchers in future may conduct such studies based on the response from Bank Officials.

**Keywords:** NPAs, CAs, ANOVA, Kendall's coefficient.

### Introduction

A stable and sound banking system is required for a healthy growth of an economy. But the sharp rise of non-performing assets (NPAs) has pushed the Indian commercial banks (CBs) to the brink of a crisis. During the last six financial years from April 2011, there was an alarming increase of distressed assets of the Indian banks. The Gross NPAs (GNPAs) stood at Rs.6.11 lakh Crore as at March 2016 as against that of Rs.1.24 lakh crore as at March 2011. Besides NPAs, the restructured standard advances (RSAs) amount to Rs.2.68 lakh crore as at March 2016. Further, the gross non-performing advances ratio of scheduled commercial banks (SCBs) rose from 7.5% in March 2016 to 9.6% in March 2017. The net non-performing advances ratio of SCBs stood at 5.5% in March 2017. Besides NPAs, the RSA accounted for 2.4% of total advances, thus overall the stressed advances rose significantly to 12.0% of total advances as at end March 2017. Among the bank-groups, Public Sector banks (PSBs) are particularly struggling with high NPAs and they continue to have distinctly higher stressed advances at 15% of total advances. NPAs in Indian banking sector are growing due to external as well as internal factors and have a negative and significant influence on the financial performance of commercial banks. Chartered Accountants (CAs) render services like statutory audit, concurrent audit, stock and receivable audit, income audit, audit of documents, credit audit etc., at branch, zonal/regional and corporate offices of banks and also assisting the entrepreneurs in preparation of projects and audit, so it was felt that obtaining their opinion, pertaining to NPAs is useful and hence an attempt has been made to know the perception of CAs towards the management of NPAs.

### A. Non-Performing Asset (NPA)

An asset becomes non-performing when it ceases to generate income for the bank. Earlier, a NPA was defined as a credit facility in respect of which the interest or instalment of principal or both have remained due for a specified period of time which was reduced from four quarters to one quarter in a phased manner. Due to the improvements in the payment and settlement system, recovery climate, upgradation of technology in the banking system, etc., it has been decided to dispense with past due concept with effect from March 31, 2001. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the 90 days overdue norms for the identification of NPAs from the year ending March 31, 2004. Banks are required to categorize NPAs further into three categories on the basis of the period for which the asset has remained non-performing and the reliability of the dues: Substandard Assets, Doubtful Assets, and Loss Assets.

#### I. Substandard Assets:

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

#### II. Doubtful Assets:

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full – on the basis of currently known facts, conditions and values – highly questionable and improbable.



### III. Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

#### A. Provisioning

In conformity with the prudential norms, provisions should be made on the NPAs on the basis of classification of assets into prescribed categories. Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the bank, the banks should make provision against substandard assets, doubtful assets and loss assets and banks were also asked to make provisions towards standard advances as prudent measures.

**1. Objective of the Study:** The objective of the study is to find out the perception of CAs regarding NPA management.

**2. Review of Literature:** There is a rich literature on the subject of NPA and this section reviews the work done on the causes of NPAs, their impact and other related aspects of NPAs.

**Batra, et al. (2003)** conducted study on “Maximizing value of Non-Performing Assets”. This study indicated that NPA has affected the profitability, liquidity and competitive functioning of PSBs and Private Sector Banks (PVSBS) and finally the psychology of the bankers in respect of their disposition towards credit delivery and credit expansion.

NPA affects the profitability, liquidity and competitive functioning of Public and Private Sector Banks and finally the psychology of the bankers in respect of their disposition towards credit delivery and credit expansion. In a study examining the impact of NPAs on profitability and other financial parameters in selected public sector banks in the state of Haryana, it was concluded that impact of NPAs on the performance of the banks is manifold. ‘Profitability’ is the worst affected by NPAs followed by ‘Credit deployment and investment policy’, ‘Achievement of capital adequacy ratio level’ and reduction in ‘Productivity’ (**Chhikara, 2007**).

**Irum Saba, et al. (2012)** attempted to ascertain the determinants of NPLs in the US banking and considered the Real GDP per Capita, Inflation, and Total Loans as independent variables, and NPL Ratio as dependent variable. All the selected independent variables have significant impact on the depended variable, however, values of coefficients are not much high. Coefficient of interest rate shows high value with expected sign of negative, which means the inverse relationship with the dependent variable.

**Mwanza Nkusu (2011)** analyzed the link between NPLs and macroeconomic performance using two complementary approaches. First, they investigated the macroeconomic determinants of NPL in panel regressions and confirmed that adverse macroeconomic developments are associated with rising NPL. Second, they investigated the feedback between NPL and its macroeconomic determinants in a panel vector autoregressive (PVAR) model. Their investigation of the linkages between NPL and macroeconomic performance from a sample of 26 advanced countries attributes to NPL a central role. A sharp increase in NPL triggers long-lived tailwinds that cripple macroeconomic performance from several fronts.

**Wondimagegnehu (2012)** conducted study to identify bank specific determinants of NPLs. The results showed that, based on the respondents’ view it was evident that most likely factors that affect occurrences of NPLs in Ethiopian banks were poor credit assessment ascribing to capacity limitation of credit operators, failure to do proper credit monitoring/follow-up, over financing due to poor credit assessment, compromised integrity of credit operators. The study also depicted that unfair competition among the banks along with the aggressive lending pursued, added to the poor customer selection made, in a motive to maximize profit by the banks and/or due to the moral hazard or compromised integrity were the other causes for the loan defaults.

**3. Methodology:** With a view to ascertaining the opinion of bankers and professionals connected with banking industry like CAs a survey was conducted by means of a questionnaire. The sampling technique used in this research is purposive and convenience sampling approach and comprised of 80 practicing CAs, to analyse causes and impact of NPAs. Cronbach’s alpha was used in assessing the reliability of tests and the overall scale were seen to have Cronbach’s alpha of 0.73, which is above the acceptable threshold of 0.6. The collected data were presented and analyzed using the SPSS software package. Chi Square ( $\chi^2$  test) as a test of independence was carried out in order to know about whether the differences observed among effect of different variables and NPAs. Kendall’s coefficient of concordance used to identify the degree of association of ordinal assessments made by



multiple appraisers, Mann-Whitney U test was computed to test the mean differences and analysis of variance (Anova) analysis and F-test were used to know significant difference between experience of CAs and their perception.

**4. Results and Discussion:**The results of the analysis are discussed in this section.

#### 5.1 Respondent's Profile:

All respondents have a good practical experience in bank audits. Majority (75%), however, had more than ten years. All respondents were involved either in concurrent, branch, and central statutory audits, and were well-versed with asset classification of banks (Table 1).

#### 5.2 Perception of CA on causes of NPAs:

The ranks and mean scores in respect of reasons identified for NPAs on the basis of importance attributed by CA are furnished in Table 2. According to the respondents, the most ranked factor that contributed to NPAs was diversion of funds. The second and third significant factors were poor monitoring and lack of supervision and follow-up and economic slowdown, respectively. Wilful default and deficiency in the credit appraisal standards were ranked moderately. It may be concluded, therefore that, factors specific to banks, borrowers and external factors were major causes of NPAs.

The Kendall's coefficient of concordance (W) was computed and the results are furnished in Table 3. The calculated W was 0.298 and thus indicating a fair degree of agreement among CAs in the ranking of different causes of NPAs. The following hypothesis was formulated and tested.

<b>H<sub>1</sub></b>	There is no significant agreement among the CAs in the ranking of different causes of NPAs.
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We found out the critical value through computation of  $\chi^2$  distribution values, with confidence of  $1 - \alpha$ , and  $df = n - 1$ . Comparing the  $p < 0, 0.00001$  with the significance level  $\alpha = 0.05$ , the hypothesis was rejected and accepted that there is significant agreement among the CAs (respondents) in the ranking of different causes of NPAs.

#### 5.3 Causes for NPAs as per length of Experience of CAs:

CAs with less than 10 years and more than 30 years experience ranked diversion of funds as a major cause of NPAs, whereas CAs with more than 10 years and up to 20 years experience found poor monitoring, and lack of supervision and follow-up as a major factor causing NPAs. Wilful default, deficiency in the credit appraisal standards and economic slowdown were rated as other main reasons. Respondents irrespective of experience found high interest rate, lending to priority sector, Government policies, and sluggish legal system as less important causes of NPAs.

The following Hypothesis was tested with one way Anova analysis.

<b>H<sub>2</sub></b>	There is no significant difference between experience of the CAs and their perception toward the causes of NPAs.
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Table 5 depicts the relationship between the experience of the CAs and causes of NPAs at 5% level of significance. In case of deficiency in the credit appraisal standards, Diversion of Funds, Wilful default and Government Policies, the p-value is less than 0.05. Hence, we reject the hypothesis, as there is significant relationship between experience of bank officials and their perception towards these causes of NPAs. The p-value is greater than 0.05, hence accepted the hypothesis that there is no significant relationship in respect of other causes of NPA.

#### 5.4 Perception of CAs towards other Causes of NPAs:

Besides the causes for NPAs, which were ranked by the CAs, an attempt has been made to know the perception of the respondents with regard to following causes. There were two possible responses namely YES (1) and NO (2) for the questions and  $\chi^2$  test was computed to test the significance and the responses are furnished in Table 6.

##### 5.4.1 Bank Ownership (PSBs/PVSBs/FBs) makes any Impact on NPAs

The results indicated that 78.75% of respondents agreed that bank ownership (PSBs/PVSBs/FBs) makes an impact on NPAs and the relationship is significant as the  $\chi^2$  value (26.45) is more than critical value; and hence it can be concluded that bank ownership has impact on NPAs (Table 6).



#### **5.4.2 Size of the Banks (in Terms of Total Assets) makes any Impact on NPA**

The results indicated that 60% of respondents agreed that size of the banks (in terms of total assets) makes any impact on NPAs but the relationship is not significant as the  $\chi^2$  value (3.20) is less than critical value; and hence, it can be concluded that bank size has no significant impact on NPAs (Table 6).

#### **5.4.3 Aggressive Lending for Improving Volume of Business**

The results indicated that 85% of respondents agreed that aggressive lending for improving volume of business is also responsible for increase in NPAs and the relationship is significant as the  $\chi^2$  value (39.20) is more than critical value; and hence, it can be concluded that aggressive lending for improving volume of business lead to increase in NPAs (Table 6).

#### **5.4.4 Unhealthy Competition among Bankers**

The results indicate that 61.25% of respondents agreed that unhealthy competition among bankers has adverse impact on NPAs, and the relationship is not significant as the  $\chi^2$  value (4.052.4) is greater than critical value; and hence, it can be concluded that unhealthy competition among bankers has significant adverse impact on NPAs (Table 6).

#### **5.4.5 Over/Under Financing Responsible for NPAs**

The results indicate that 51.25% of respondents agreed that over/under financing responsible for NPAs but the relationship is not significant as the  $\chi^2$  value (0.05) is less than critical value; and hence, it can be concluded that over/under financing is not significantly responsible for NPAs (Table 6).

#### **5.4.6 Not Having Maximum Banking Industry Exposure Limits to Corporates**

The results indicate that 60% of respondents agreed that not having maximum banking industry exposure limits to corporates leads to NPAs but the relationship is not significant as the  $\chi^2$  value (3.20) is less than critical value (Table 6).

#### **5.4.7 Availability of Staff to Manage Loan Portfolio is Generally Inadequate**

The results indicate that 53.75% of respondents agreed that availability of staff to manage loan portfolio is generally inadequate and results in NPAs, but the relationship is not significant as the  $\chi^2$  value (0.45) is less than critical value (Table 6).

#### **5.4.8 Compromised Integrity among Bankers Responsible for NPAs**

The results indicate that 68.75% of respondents disagreed that compromised integrity among bankers responsible for NPAs, and the relationship is significant as the  $\chi^2$  value (11.25) is more than critical value; and hence, it can be concluded that compromised integrity among bankers is not responsible for NPAs (Table 6).

#### **5.4.9 Failure to Bring Owned Funds as Envisaged**

The results indicate that 62.50% of respondents disagreed that failure to bring owned funds, as envisaged, makes any impact on NPAs and the relationship is significant as the  $\chi^2$  value (5.00) is more than critical value; and hence, it can be concluded that failure to bring owned funds was not an important cause of NPAs (Table 6).

#### **5.4.10 Time and/Cost Overrun in Implementation of Project**

The results indicate that 68.75.33% of respondents agreed that time and/cost overrun in implementation of project makes impact on NPAs, and the relationship is significant as the  $\chi^2$  value (11.254.27) is more than critical value; and hence, it can be concluded that time and/cost overrun in implementation of project has impact on NPAs (Table 6).

#### **5.4.11 Lack of Managerial Skills in Promoters**

The results indicate that 68.75% of respondents disagreed that lack of managerial skills in promoters make an impact on NPAs, and the relationship is significant as the  $\chi^2$  value (11.25) is more than the critical value; and hence, it can be concluded that lack of managerial skills in promoters have an influence on NPAs (Table 6).

#### **5.4.12 Waiver of Loans by Government have Contributed to NPAs**

The results indicate that 61.25% of respondents agreed waiver of loans by Government have contributed to NPAs and the relationship is not significant as the  $\chi^2$  value (4.05) is greater than critical value and it can be concluded that waiver of loans by Government is not significantly responsible for NPAs (Table 6).

#### **5.4.13 Weak Supply and Demand Scenario**

The results indicate that 73.75% of respondents agreed that weak supply demand scenario makes any impact on NPAs and the relationship is significant as the  $\chi^2$  value (18.05) is more than critical value and it can be concluded that weak supply and demand scenario has significant impact on NPAs (Table 6).



#### 5.4.14 Vagaries of Monsoon Particularly in Case of Agricultural Advances

The results indicate that 7068.33% of respondents agreed that vagaries of monsoon particularly in case of agricultural advances, makes an impact on NPAs, and the relationship is significant as the  $\chi^2$  value (8.07) is more than critical value and hence, it can be concluded that vagaries of monsoon have an adverse impact on quality of assets, particularly agricultural advances (Table 6).

#### 5.5 Perception of CAs on Impact of NPAs:

Seven items were identified where NPAs can have impact on banks' books. The impact of NPAs as revealed by the respondents is furnished in Table 7.

The mean score is very high in respect of impact of NPAs on erosion of profits and increasing provisions. The impact is fairly high in respect of adverse impact on recycling of funds, and decreasing reserves and surplus. Increase in investment ranked lowest. The Kendall's coefficient of concordance (W) was computed and the results are furnished in Table 8. The calculated W was 0.415 and thus, indicating a fair degree of agreement among bank officials in the ranking of different impacts of NPAs.

The following hypothesis was formulated and tested.

<b>H<sub>0</sub></b>	There is no significant agreement among the CAs in the ranking of different impact of NPAs.
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The critical value was calculated through computation of  $\chi^2$  distribution values, with confidence of 1 - , and  $df = n - 1$ . Comparing the  $p < 0, 000001$  with the significance level = 0.05, the hypothesis was rejected and accepted that, there is significant agreement among the CAs (respondents) in the ranking of different impact of NPAs (Table8).

#### 5.6 Perception on Impact of NPAs by CAs Experience-wise:

It was observed that the perception of the groups of varied experience is more or less similar on ranking. The highest ranking given to erosion of profit has come from the more experienced groups and junior group ranked increasing provisions as a major impact. The impact of NPAs resulting on increased investments was ranked lowest by all the groups. (Table 9).The following Hypothesis was tested with one way Anova analysis

<b>H<sub>0</sub></b>	There is no significant difference between experience of the CAs and their perception towards the impact of NPAs.
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Table 10 depicts the relationship between the experience of the CAs and items of impact of NPAs at 5% level of significance. In case of majority erosion of profits, adverse impact on recycling of funds, and decrease in reserves, the p-value is less than 0.05. and it is greater than 0.05 in respect of recycling of funds, increase in spread, intermediation cost, provisions and investments So, we accept the hypothesis in respect of increasing spread, increase in intermediation cost, provisions and investments, and so there is no significant relationship between experience of CAs and their perception towards these items of impact. We reject the hypothesis in respect of erosion of profits, adverse impact on recycling of funds, and decrease in reserves as there is significant relationship between experience and items of impact of NPAs.

#### 5.7 Perception of CAs towards other Impacts of NPAs:

Besides the impacts of NPAs, which were ranked by the CAs, an attempt was made to know the perception of the respondents with regard to following items of impact. There were two possible responses namely YES (1) and NO (2) for the questions and  $\chi^2$  test was computed to test the significance. The responses are furnished in (Table 11).

##### 5.7.1 Banks are not able to bring down the Rate of Interest to Borrowers, on Account of NPAs

The results indicate that 62.50% of respondents agreed that banks are not able to bring down the rate of interest to borrowers, on account of NPAs, but the relationship is significant as the  $\chi^2$  value (5) is greater than the critical value (Table 11).

##### 5.7.2 There is a General Aversion to Lending among Banks because of Growing NPAs

The results indicated that 68.75% of respondents agreed that there is a general aversion to lending among banks because of growing NPAs, and the relationship is significant as the  $\chi^2$  value (11.25) is more than the critical value; and hence, it can be concluded that there is no general aversion to lending among banks because of growing NPAs (Table 11).



### 5.7.3 Increased Market Borrowings

The results indicate that 62.50% of respondents disagreed that NPAs lead to increased market borrowings and the relationship is significant as the  $\chi^2$  value (5) is more than the critical value; and hence, it can be concluded that NPAs do not lead to increased market borrowings (Table 11).

### 5.7.4 Only Banks and Other Stakeholders, other than Defaulting Borrowers get affected because of NPAs

The results indicate that 56.25% of respondents agreed that only banks and other stakeholders other than defaulting borrowers get affected because of NPAs but the relationship is not significant as the  $\chi^2$  value (1.250.60) is less than the critical value (Table 11).

### 5.7.5 Adverse Impact on Liquidity

The results indicate that 75% of respondents agreed that NPAs have an adverse impact on liquidity and the relationship is significant as the  $\chi^2$  value (20) is more than critical value; and hence, it can be concluded that NPAs lead to adverse liquidity situation (Table 11).

### 5.7.6 Adversely Impact Shareholders' Value

In response of this statement, 71.25% of respondents agreed that NPAs have an adverse impact on shareholders' value and the relationship is significant as the  $\chi^2$  value (14.45) is more than critical value; and hence, it can be concluded that NPAs have significant adverse impact shareholders' value (Table 11).

### 5.7.7 Adverse Impact on Banks' Credibility

The results indicate that 63.75% of respondents agreed that NPAs adversely impact banks' credibility and the relationship is significant as the  $\chi^2$  value (6.05) is greater than the critical value; and hence, it can be concluded that banks' credibility is affected by NPAs (Table 11).

## 6.0 Conclusion

Reduction of NPAs and containing new NPAs is the major challenge Indian Commercial banks facing today. So, we attempted to ascertain the perception of CAs towards the NPAs and what the probable causes and consequences of having NPAs according to them. A survey was conducted with a structured questionnaire. About 9 important causes responsible for NPAs were studied and ranked. The CAs considered diversion of funds, poor monitoring, lack of supervision and follow-up and economic slowdown as the most important causes. It also observed that CAs perceived erosion of profits and increasing provisions as the two most important consequences of NPAs, out of seven items of impact studied. Kendall's coefficient of concordance (W), indicates that there is significant agreement among CAs in the ranking of different causes and different items of impact of NPA. Further, Anova analysis revealed that there is significant relationship between experience of CAs and some of the causes and items of impact of NPA. The perception of CAs towards other causes and impact of NPAs was also studied. . Bank ownership, Aggressive lending, Unhealthy Competition, Time /cost overrun, Waiver of loans, Weak supply and demand scenario and Vagaries of monsoon are some of the other reasons of NPA and the respondents are also of the opinion that banks fail to reduce the rate of interest and developed aversion to lending as a result of NPAs. Further, it is observed that NPAs have adverse impact on liquidity, Shareholders' value and. banks' credibility. Researchers in future may conduct such studies based on the response from Bank Officials.

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<b>Table 1: Experience-wise Distribution of Auditors/CAs</b>		
<b>Experience in years</b>	<b>Frequency</b>	<b>%</b>
Up to 10 years	20	25.00%
Above 10 years and up to 20 years	37	46.25%
Above 20 years	23	28.75%
Total	80	100.00%
<i>Source: Own Computation</i>		

<b>Table 2: Perception on Causes for NPA by CAs</b>		
<b>Causes for NPAs</b>	<b>Mean</b>	<b>Rank</b>
Diversion of Funds	6.9625	1
Poor Monitoring and Lack of Supervision and Follow-up	6.8625	2
Economic Slowdown	6.1125	3
Wilful default	5.5125	4
Deficiency in the Credit Appraisal Standards	5.4625	5
Government Policies	3.6750	6
Sluggish Legal System	3.6540	7
High Interest Rate	3.4250	8
Lending to Priority Sector	3.3125	9
<i>Source: Own Computation</i>		

<b>Table 3: Kendall's Coefficient of Concordance <math>\phi</math> Test Statistics</b>	
N	80
Kendall's W <sup>a</sup>	.298
Chi-Square	190.657
df	8
Asymp. Sig.	.000
<i>Source: Own Computation</i>	



**Table 4: Causes for NPAs as per length of Experience of CAs**

Causes for NPAs	Overall		Up to 10 Years		Above 10 & Up to 20 Yrs		Above 20 Years	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Diversion of Funds	6.9625	1	6.6500	1	6.6757	2	7.6957	1
Poor Monitoring and lack of supervision and follow-up	6.8625	2	6.1500	3	6.7838	1	7.6087	2
Economic Slowdown	6.1125	3	5.6500	4	6.2703	3	6.2609	4
Wilful Default	5.5125	4	6.6000	2	5.5405	4	4.5217	5
Deficiency in the Credit Appraisal Standards	5.4625	5	4.6000	5	5.4054	5	6.3043	3
Government Policies	3.6750	6	4.4500	6	3.7027	7	2.9565	8
Sluggish Legal System	3.6540	7	3.7500	8	4.2162	6	2.7391	9
High Interest Rate	3.4250	8	3.2500	9	3.3784	8	3.6522	6
Lending to Priority Sector	3.3125	9	3.9000	7	3.0270	9	3.2609	7

Source: Own Computation

**Table 5: Perception on Causes for NPAs by CAs (Experience) Ø ANOVA**

High Interest Rate	Between Groups	1.88	2	0.94	0.197	0.82
	Within Groups	367.67	77	4.775		
	Total	369.55	79			
Deficiency in the Credit Appraisal Standards	Between Groups	31.299	2	15.65	4.847	0.01
	Within Groups	248.588	77	3.228		
	Total	279.888	79			
Poor Monitoring	Between Groups	23.189	2	11.594	2.608	0.08
	Within Groups	342.299	77	4.445		
	Total	365.487	79			
Diversion of Funds	Between Groups	17.36	2	8.68	2.912	0.05
	Within Groups	229.528	77	2.981		
	Total	246.888	79			
Wilful Default	Between Groups	46.259	2	23.13	4.617	0.01
	Within Groups	385.728	77	5.009		
	Total	431.988	79			
Economic Slowdown	Between Groups	5.705	2	2.853	0.392	0.68
	Within Groups	560.282	77	7.276		
	Total	565.988	79			
Lending to Priority Sector	Between Groups	9.98	2	4.99	1.347	0.27
	Within Groups	285.208	77	3.704		
	Total	295.188	79			
Sluggish Legal System	Between Groups	23.914	2	11.957	2.518	0.09
	Within Groups	365.636	77	4.749		
	Total	389.55	79			
Government Policies	Between Groups	31.095	2	15.547	3.035	0.05
	Within Groups	394.455	77	5.123		
	Total	425.55	79			

Source: Own Computation





**Table 6: Perception on other Causes for NPAs by CAs**

Sl. No.	Causes	Yes	No	Total	% Yes	% No	Calculated $t^2$ value	Critical $t^2$ Value	Remarks
1	Bank ownership (PSBs/PVSBs/FBs) makes any impact on NPAs	63	17	80	78.75	21.25	26.45	3.84	Significant
2	Size of the Banks (in terms of Total Assets) makes any impact on NPA	48	32	80	60.00	40.00	3.20	3.84	Not significant
3	Aggressive lending for improving volume of business	68	12	80	85.00	15.00	39.20	3.84	Significant
4	Unhealthy competition among bankers	49	31	80	61.25	38.75	4.05	3.84	Significant
5	Over/under financing, responsible for NPAs	41	39	80	51.25	48.75	0.05	3.84	Not significant
6	Not having maximum banking industry exposure limits to Corporates	48	32	80	60	40	3.2	3.84	Not significant
7	Availability of staff to manage loan portfolio is generally inadequate	43	37	80	53.75	46.25	0.45	3.84	Not Significant
8	Compromised integrity among bankers responsible for NPAs	25	55	80	31.25	68.75	11.25	3.84	Significant
9	Failure to bring Owned funds as envisaged	30	50	80	37.50	62.50	5.00	3.84	Significant
10	Time and/Cost overrun in implementation of Project	55	25	80	68.75	31.25	11.25	3.84	Significant
11	Lack of Managerial Skills in Promoters	25	55	80	31.25	68.75	11.25	3.84	Significant
12	Waiver of loans by Government has contributed to NPAs	49	31	80	61.25	38.75	4.05	3.84	Significant
13	Weak supply demand scenario	59	21	80	73.75	26.25	18.05	3.84	Significant
14	Vagaries of monsoon particularly in case of agricultural advances	56	24	80	70.00	30.00	8.07	3.84	Significant

Source: Own Computation



**Table 7: Perception of CAs on Impact of NPAs**

Impact of NPAs	Mean	Rank
Erosion of Profits	5.9667	1
Increasing Provisions	5.0500	2
Adverse Impact on Recycling of Funds	4.9250	3
Decreasing Reserves and Surpluses	3.9000	4
Increasing Intermediation Cost	3.2000	5
Increasing Spread	2.9500	6
Increasing Investments	2.0000	7

Source: Own Computation

**Table 8: Kendall's Coefficient of Concordance  $\emptyset$  Test Statistics**

N	80
Kendall's W <sup>a</sup>	.415
Chi-Square	190.05
df	6
Asymp. Sig.	.000

Source: Own Computation

**Table 9: Experience-wise Classification of CAs Perception of Impact of NPAs**

Impact of NPAs	Overall		Up to 10 Years		Above 10 & Up to 20 Yrs		Above 20 Years	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Erosion of Profits	5.975	1	5.300	2	5.838	1	6.782	1
Increasing Provisions	5.050	2	5.600	1	4.891	3	4.826	3
Adverse Impact on Recycling of Funds	4.925	3	4.000	4	5.460	2	4.870	2
Decreasing Reserves and Surpluses	3.900	4	4.800	3	3.297	4	4.087	4
Increasing Intermediation Cost	3.200	5	3.700	5	3.108	6	2.913	5
Decreasing Spread	2.950	6	2.700	6	3.216	5	2.739	6
Increasing Investments	2.000	7	1.900	7	2.189	7	1.782	7

Source: Own Computation



**Table 10: Experience-wise Classification of CAs perception of Impact of NPAs  $\emptyset$  ANOVA**

Impact of NPA		Sum of Squares	df	Mean Square	F	Sig.
Erosion of Profit	Between Groups	24.81	2	12.405	6.405	0.003
	Within Groups	149.14	77	1.937		
	Total	173.95	79			
Recycling of Funds	Between Groups	27.752	2	13.876	5.877	0.004
	Within Groups	181.798	77	2.361		
	Total	209.55	79			
Increasing Spread	Between Groups	4.895	2	2.447	1.283	0.28
	Within Groups	146.905	77	1.908		
	Total	151.8	79			
Intermediation Cost	Between Groups	7.206	2	3.603	1.545	0.22
	Within Groups	179.594	77	2.332		
	Total	186.8	79			
Provisions	Between Groups	8.128	2	4.064	1.478	0.23
	Within Groups	211.672	77	2.749		
	Total	219.8	79			
Decreasing Reserves & Surplus	Between Groups	30.444	2	15.222	6.864	0.002
	Within Groups	170.756	77	2.218		
	Total	201.2	79			
Investment	Between Groups	2.611	2	1.306	0.608	0.55
	Within Groups	165.389	77	2.148		
	Total	168	79			

Source: Own Computation

**Table 11: Perception of CAs on other impacts of NPAs**

Sl. No	Impact	Yes	No	Total	% Yes	% No	Calculated value t2	Critical t2 value	Remarks
1	Banks are not able to bring down the rate of interest to borrowers, on account of NPAs	50	30	80	62.50	37.50	5	3.84	Significant
2	There is a general aversion to lending among banks because of growing NPAs	55	25	80	68.75	31.25	11.25	3.84	Significant
3	Increased market borrowings	30	50	80	37.50	62.50	5	3.84	Significant
4	Only banks and other stakeholders other than defaulting borrowers get affected because of NPAs	45	35	80	56.25	43.75	1.25	3.84	Not significant
5	Adversely impact liquidity	60	20	80	75.00	25.00	20	3.84	Significant
6	Adversely impact Shareholders' Value	57	23	80	71.25	28.75	14.45	3.84	Significant
7	Adversely impact on Banks' Credibility	51	29	80	63.75	36.25	6.05	3.84	Significant

Source: Own Computation