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**A STUDY OF NPAs IN
NATIONALISED BANKS OF
MADHYA PRADESH
[IN REFERENCE OF PRIORITY SECTOR]**



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In 1969 and 1980 India's commercial banks were taken over by the government through successive phases of nationalization. The banking sector reforms have been in progress as a part of economic reforms initiated in the year 1991.¹ Post nationalization scenario reveals that the banking facilities have reached to the middle and lower income classes. The major objective of nationalization was not only to spread a network of branches of banks but also to increase the number of deposit and loan accounts. Currently the recovery of loans and advances is the major problem in banking industry. Loans and advances have seven fundamental principles 1.Safety 2.Liquidity 3.Profitability 4.Purpose 5.Security 6.Spread of risk 7.National policies.² If the loan given by the bank to the borrower has not been recovered in particular number of days it is called Non Performing Assets. An asset is "Non-performing" if interest or installments of principal due remain unpaid for more than 180 days.⁴'Substandard' assets are those where principal and/or interest are more than 90 days past due; 'Doubtful' assets are those where principal and/or interest are at least 180 days past due; and 'Loss' assets are those where principal and/or interest are at least 1 year past due. The standard requirements of provisioning - 20 percent of in respect of 'substandard' category; 50 percent in respect of 'doubtful' category; and 100 percent in respect of 'loss' category.⁵

Priority Sector :-

The loans accepted by banks have been divided into different categories and some of them are called

Priority Sector. Priority sectors are identified by National Credit council.⁶

Agriculture Sector:

About 71% of India's population depends on agriculture. Till 1968 agriculture advances were granted by the Co-operative System in the country.⁷ Under agriculture sector, loans are divided in two. Direct Agriculture Credit includes those type of loans which are accepted by the bank directly to the farmer i.e. credit for seeds , pesticides, improving irrigation potential, purchase of machinery, special farming activities-dairy, poultry, etc.⁸ In Indirect Agriculture Credit loan facilities are provided by banks through intermediaries i.e. PACs, FSS, LAMPS, sugar factories, finance to State Electricity Board for energisation of wells etc. Position of NPAs in agriculture sector of Madhya Pradesh has been shown in table 1.

Table 1 NPAs of agriculture in nationalized banks of Madhya Pradesh

(Am. in lakhs)

Year	Substd	Doubtful	Loss	total
31.03.2005	6855	19150	4245	30250
31.03.2006	7610	23609	3732	34951
31.03.2007	10647	20754	3774	35175
31.03.2008	12681	27016	3929	43626
total	37793	90529	15680	144002

(Source: Lead bank,Regional office, Central Bank of India, p.70, 95, 53&59)

Table 1 shows that the total amount of NPAs

between 31st March 2005 and 31st March 2008 was 1440 crore.

SME Sector:- During the time of economic reforms Small Scale Industry (SSI) sector was engaged for the manufacture and preservation of goods. As a revision of SSI the Micro, Small and Medium Enterprise Development (MSMED) act 2006 was passed on June 16, 2006. This act came into force from 2nd October 2006.⁹ SME includes software, textile, plant & machinery pharmaceutical, garments, vehicle servicing etc. NPAs of SME in Madhya Pradesh has been shown in the following table :

Table 2 .NPAs of SME in nationalized banks of Madhya Pradesh

(Am. in lakhs)

Year	Sub -std	Doubtful	Loss	total
31.03.2005	2246	12678	2178	17102
31.03.2006	3134	22707	1856	27697
31.03.2007	4544	13065	1257	18866
31.03.2008	4900	12804	6220	23924
total	14824	61254	11511	87589

(Source: Lead Bank, Regional Office, Central Bank of India, p.70,95,53&59)

In SME sector the amount of Non-performing assets was 875.89 crore between the financial Year ended 2005 to 2009. In this period the highest NPAs were observed in 2006 which was 31.62% of total NPAs.

Other Priority Sector:- OPS includes all sectors apart from agriculture and SME sectors viz. retail traders, professionals, housing finance, education etc. The position of non-performing assets in OPS has been shown in table 3 :

Table 3 NPAs of OPS in nationalized banks of Madhya Pradesh

(Am. in lakhs)

Year	Sub -std	Doubtful	Loss	total
31.03.2005	10799	17550	3826	32175
31.03.2006	11640	12759	4109	28508
31.03.2007	17622	20997	4784	43403
31.03.2008	12240	19906	4445	36591
total	52301	71212	17164	140677

(Source: Lead Bank, Regional Office, Central Bank of India, p.70,95,53&59)

According to table 3 it is seen that the large amount of 171.64 crore loss assets were the highest in OPS, as compared to Agriculture and SME sectors. The total amount of NPAs between 31st March 2005 and 31st March 2008 was 1406.77 crore. In OPS Doubtful assets were 50.62 % of total NPA and the rest 50% includes Substandard and Loss assets. NPA Management policies have identified the causes for the occurrence of NPAs viz. lack of experience, disposal of recovery cases under the public Debt Recovery Act, non-settlement of claims by the corporation on flimsy grounds, unrealistically ambitious targets under priority sector landing, general slow-down in the economy, depressed capital markets, frequent adverse changes in the govt. These causes may be attributed to either the borrower itself i.e. improper borrower identification, willful defaults, financial diversion of funds, non-submission of requisite data, time/ cost overruns due to delayed project etc ¹⁰ or may be correlated to the banks i.e. non-compliance in terms of sanction, defective documentation, lack of information systems amongst branches, over-stress on long relationships/ family connections, etc.¹¹ Management of assets is a very significant aspect, not only for improvement of bank's performance but also for very survival.

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