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Aims and Scope

The Journal of Accounting (JAC) is a peer reviewed academic journal. The main focus of our journal is to encourage research from areas of social and environmental critique, exploration and innovation as well as from more traditional areas of accounting, finance, financial planning and banking research. The Journal of Accounting covers a wide variety of topics including:

- Auditing
- Accounting Information Systems
- Accounting Education
- Accounting for Non-profit Organizations
- Cost Accounting
- Investments
- Management Accounting
- Public Sector Accounting
- Social Accounting
- Tax

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Impact of Recession on India

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INTRODUCTION:

Recession is the significant decline in economic activity lasting more than a few months, which is normally visible in real GDP, real Income, employment, industrial production and retail business. A recession normally takes place when consumer loose confidence in the growth in economy and spend less. The sudden drying-up of capital inflows from the FDI which were invested in Indian stock markets for greater returns visualizing the Potential Higher Returns flying back is continuing to challenge liquidity management. At the heart of the current liquidity tightening is the balance of payments deficit, and this NRI deposit move should help in some small way. India is no different. New measures do not change our view on the growth outlook. Indeed, we remain concerned about the banking sector and financial sector. The BOP- Balance of Payment deficit – at a time when domestic credit demand is very high – is resulting in a vicious loop of reduced access to liquidity, slowing growth, and increased risk-aversion in the financial system. In total the recession have turned down the growth process and have set the minds of economists and others for finding out the real solution to sustain the economic growth and stability of the market which is desired for the smooth running of the economy. Complete business world is in doldrums situation and if this situation persists for a longer duration this may force small business enterprises to vanish as they have lower stability. To run smoothly they require continuous flow of liquidity which is dried out from the market. In present situation down fall in one sector one day leads to a negative impact on the other sector thus altogether everyone feel the impact of the Financial crises with the result of the current recession which started in US and slowly and gradually due to linked global world have impacted everyone.

GDP GROWTH (ANNUAL %) IN INDIA

The GDP growth (annual %) in India was last reported at 8.81 in 2010, according to a World Bank report released in 2011. The GDP growth (annual %) in India was 9.10 in 2009, according to a World Bank report, published in 2010. The GDP growth (annual %) in India was reported at 4.93 in 2008, according to the World Bank. Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2000 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. This page includes a historical data chart, news and forecats for GDP growth (annual %) in India. India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Services are the major source of economic growth, accounting for more than half of India's output with less than one third of its labor force. The economy has posted an average growth rate of more than 7% in the decade since 1997, reducing poverty by about 10 percentage points.

Impact on GDP Growth

Initial guidance provided by Ministry of Finance indicated a growth of 9 percent in 2011-12. However, recent developments, particularly the loss of momentum in industrial growth, show that this could be a difficult target to achieve. Continued tightening of monetary policy and further escalation in global oil prices are the key downside risks to growth in 2011-12. According to the advance estimates provided by the Central Statistics Office (CSO), GDP at factor cost at constant prices is expected to register a growth of 8.6 percent in the year 2012- 2013. In the year 2012-13, GDP at factor cost at constant prices grew by 8.0 percent. Looking at numbers at the disaggregated level, we see that while agriculture and allied sector is projected to grow by 5.4 percent in 2012-2013, industry and services sector are projected to grow by 8.1 percent and 9.6 percent respectively.

Although the expected performance of the industry and services sector in 2012-2013 is not very different from what was seen in 2012-13 when industry grew by 8.0 percent and services grew by 10.1 percent, it is the much improved performance of the agriculture sector in 2012-2013 that is going to provide an uptick to overall GDP growth. It may be noted that growth in agriculture and allied sector in 2012-13 was muted at just about 0.4 percent. Another notable trend in growth rates at the sectoral level is the sharp decline seen in the case of community, social and personal services in 2012-2013.

While in 2011-12, this segment posted a growth of 12.7 percent, in 2012-13 growth, though lower, was still a robust 11.8 percent. In 2012-2013, growth in this segment is expected to sharply go down to 5.7 percent. This trend is a reflection of modulation of additional expenditure that was undertaken by the government during the period of the global crisis. As private sector demand and expenditure is gaining strength, government has entered the fiscal consolidation mode and this has slowed the pace of expansion of community, social and personal services.

Table 1 – Growth in GDP at factor cost by economic activity (2004-05 prices)

		2011-12	2012-13	2012-13
			(QE)	(AE)
1	Agriculture, forestry and fishing	-0.1	0.4	5.4
2	Industry	4.4	8	8.1
A	Mining and quarrying	1.3	6.9	6.2
B	Manufacturing	4.2	8.8	8.8
C	Electricity, gas and water supply	4.9	6.4	5.1
D	Construction	5.4	7	8
3	Services	10.1	10.1	9.6

A	Trade, hotels, transport and communication	7.6	9.7	11
B	Financing, insurance, real estate and business services	12.5	9.2	10.6
C	Community, social and personal services	12.7	11.8	5.7
4	GDP at factor cost	6.8	8	8.6
	QE: Quick Estimates *AE: AdvanceEstimates*	*Source – Ministry of Finance, Government of India*		

Table-2 GDP Real Growth Rate (% Change Year to Year)

Year	GDP-Real Growth Rate	Percent Change
2003	4.30%	---
2004	8.30%	93.02%
2005	6.20%	-25.30%
2006	8.40%	35.48%
2007	9.20%	9.52%
2008	9.00%	-2.17%
2009	7.40%	-17.78%
2010	7.40%	0.00%

Source – Ministry of Finance, Government of India, 2012, 2013

INDUSTRIAL PRODUCTION

Weakness in industrial production trend continues with IIP registering a growth of 7.8 percent during April-February 2012-2013 as against a growth of 10.0 percent seen during April-February 2012-13. Performance of the mining and manufacturing sectors has been particularly weak. Our forecasts show that growth in IIP is likely to weaken further from 3.6 percent in February 2011 to 1.4 percent in March 2011. Amongst use based industrial groups, capital goods sector again showed negative growth of 18.4 percent in February 2011. This comes on the back of similar performance in December 2010 (-9.3 percent) and January 2011 (-18.8 percent). If the present trend continues, then in March 2011 capital goods sector would see another dip in growth to the extent of 15 percent. Consumer goods segment however has seen improvement in growth, which is being driven by consumer durables segment. Improving consumer sentiment, strengthening employment scenario and increasing disposable incomes have contributed towards growth of consumption.

Further, amongst the three broad sectors we see that growth in both the mining and manufacturing sectors has been particularly weak in the month of February 2011. While the mining sector grew by 0.6 percent year on year in February 2011, the manufacturing sector turned in a performance of 3.5 percent in the same month. The corresponding figures for February 2010 stand at 11.0 percent and 16.1 percent respectively. The only silver lining in this otherwise discouraging performance in February 2011 is growth in the electricity sector which saw production go up by 6.7 percent. In February 2010, growth in the electricity sector was about 7.3 percent.

Table 3 – Growth in Industrial Production

	2011-12 (Apr-Feb)	2012-13 (Apr-Feb)	Feb-12	Feb-13
General Index	10	7.8	15.1	3.6
Mining	9.6	6.5	11	0.6
Manufacturing	10.4	8.1	16.1	3.5
Electricity	5.8	5.4	7.3	6.7
Basic goods	6.8	6.5	8.5	5.9
Capital goods	19	8.7	46.7	-18.4
Intermediate goods	13.7	9.1	15.9	8.4
Consumer goods	5.9	7.5	6.3	11.1
Durables	23.8	21.8	29.1	23.4
Non-durables	0.3	1.9	-0.8	6.1
Source – CSO, MOSPI, Government of India				

EXPORTS-IMPORTS

Cumulative value of imports for the period April- December 2009 was US$ 193.8 billion (Rs. 927969 crore) as against US$ 253.8 billion (Rs. 1126199 crore), registering a negative growth of 23.6% in US$ terms and 17.6% in Rupee terms over the same period last year.

Table 4- Position of Exports-Imports

	DECEMBER	APRIL-DECEMBER
EXPORTS (including re-exports)		
2011-2012	13368	147569
2012-2013	14606	117587
%Growth 2012-2013/ 2011-2012	9.3	-20.3
IMPORTS		
2011-2012	19456	253809
2012-2013	24753	193829
%Growth 2012-2013/ 2008- 2009	27.2	-23.6
TRADE BALANCE		
2011-2012	-6088	-106240
2012-2013	-10147	-76242

(Source: Reserve Bank of India)

FOREIGN DIRECT INVESTMENT

FDI inflow experienced a declining trend in the first three quarters of 2011-12, but has shown improvement in the fourth quarter. The sectors which received major part of this FDI flow are the manufacturing sector (21.1%) followed by financial services (19.4%) and the construction sector (9.9%). The revival in capital flows witnessed during the first quarter of 2012-13 gathered momentum during the second quarter of 2012-13.

FOREIGN PORTFOLIO INVESTMENT

In US$ terms, during2011-12, FIIs recorded a net outflow of US$ 15.0 billion as against net inflows of US$20.3 billion a year ago. However, this trend reversed in the first quarter of 2012- 13 with a net inflow of US$ 8.2 billion and US$ 7.0 billion during the second quarter of 2012- 13.During 2012-13, the sharp increase in FII inflows is attributable to the recovery in domestic stock markets following international trends and the comparatively better growth prospects in India.

IMPACTS OF RECESSION IN INDIA

- In September 2008, U.S. was officially announced to be in recession
- Indian exports were lower by 12% in October 2008.
- India's growth rate showed a decline from September 2008 onwards.
- Growth of capital goods production slowed during April-Oct. 2008.
- Production of consumer durables declined by 3% in October 2008.

US CRISIS HITS INDIA

US faced major crisis because of:

1. Subprime mortgage crisis (Home loans defaults)
2. Rising Oil prices
3. Global Inflation
4. High employment rates
5. A declining dollar value

OPPORTUNITIES IN INDIA DUE TO RECESSION IN US

- US recession may be a boon for Indian offshore software companies.
- The impact of recession is higher to small and medium sized enterprises whose bottom lines get squeezed due to lack of spending by consumers.
- India is going to be a great beneficiary of this trend which will minimize the impact of US recession in Indian Industry.

CONCLUSION

Indian economy has been hurt by the global financial recession, but India may be in better position with quick recovery and for future growth than many of the other economics as Indian banks did not have significant exposure to Sub-prime loans in the U.S. RBI's decisions to appropriate use of a range of instruments such as CRR, Repo/Reverse Repo rate, SLR MSS and LAF are in the right direction and taken in time. Though the global recession is still lingering on, India's agri-export turnover is expected to double in the next 5 years, according to APEDA. Agri-export turnover is set to rise from US$ 9 billion to nearly US$ 18 billion by 2014. The recession in the US market and the global meltdown termed as Global recession have engulfed complete world economy with a varying degree of recessional impact. World over the impact has diversified and its impact can be observed from the very fact of falling Stock market, recession in jobs availability and companies following downsizing in the existing available staff and cutting down of the perks and salary corrections. Globally the financial sector sacking the existing base of employees in high numbers in US the major example being CITI Group same still followed by others in hospitality industry Jet and Kingfisher Airlines too. The cut in salary for the pilots being 90 % can anyone imagine such a huge cut in salary. Various steps taken by RBI to curb the present recession in the economy and counter act the prevailing situation.

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A Study of Effects of Liberalization on Balance of Payment in India

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ABSTRACT

Balance of payment includes the current account, capital account and foreign reserve. Current account includes Export-Import, while capital account include the capital flow and foreign reserve includes SDRs, Gold and foreign currency reserve. Country's economic wealth major by many factors but among them one of the most important factors is BOP. Generally if the BOP is surplus it shows the positive side while BOP deficits show negative side but it doesn't true for all time. Because surplus means country's current account is higher than its capital account that means we are exporting more than investment while if the BOP is deficits means country's current account is less than capital account, means we are relay on the investment if it happen we are on safer position but one of the main reason for healthy investment is BOP surplus. We know that after 90s government opened the Indian economy and attract the foreign investors. This paper shows that what happen to BOP before and after liberalization. Which condition is better than other or we can say that how we performed after 90s. And what was the cure we have to take for betterment of BOP future.

INTRODUCTION:

Balance of payment is the systematic summary of the economic transactions of the residents of a country with the rest of the world during a specified time period, normally a year. The following features of the balance of payments are implicit in the above definition: (C.Jeevanandam)

- Economic Transactions
- Residents with Non-residents
- A flow Statement
- Periodicity

COMPONENTS OF BOP

1. Current Account
2. Capital Account
3. Official Reserve

The current account comprises the transactions of the goods and services, income and transfers. Capital account comprises the transfer of money and other capital items. Official reserve comprises the reserve that India had. Balance of payment is the addition of the three components in the simple word. Here current account comprises export and import, when the Export is higher than the import means we are exporting more than what we are importing. When we are exporting, our goods are cross the international boarder and we get the money means cash inflow but if we are importing from other country than we have to pay them for imported goods, means cash outflow. In calculation of current account transaction we have to add both the export and Import amount both. Suppose India is exporting more than Importing means India gets more money in comparison to India buy from other country so when we add both these transaction we get the amount to be held with India. Simply say you are earning 100$ and your expense would be 80$ than it's obviously you are having 20$ with you same as here if we export more than import than current account is in positive side means its surplus but if the Import are better than export than we have pay extra money from our pocket. In short we have to use our reserve to meet those expenses. So most of the country focuses on more export rather than Import but the real practical scenario shows us different picture.

COMPARISON OF BOP

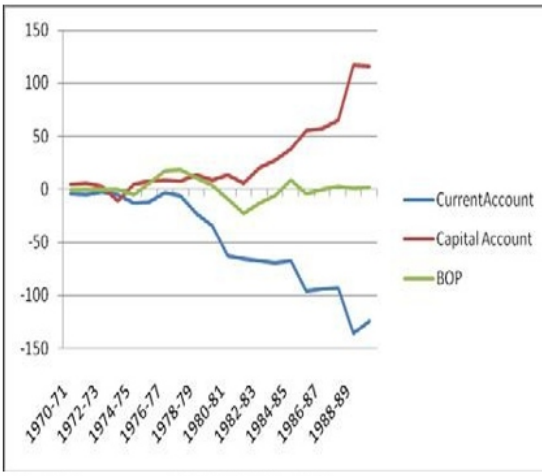

Fig 1 Source : RBI(1970-90)

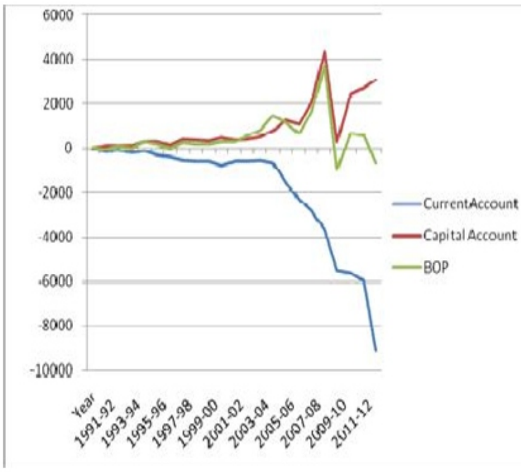

Fig 2 Source : RBI (1990-12)

From above figure we can easily conclude that before liberalization India's BOP is not on the positive side for continuous interval or not even going positive for some of the year, we can see that BOP is almost to the Zero level means no much more money for the reserve side. While after liberalization we can see that the BOP is almost positive for the interval between 97-08 after that there is certain downfall. The reason is obvious of meltdown effect to the Indian BOP. Also we can conclude that before liberalization the quantity of export and investment is very limited but after liberalization we can see that the export and investment has been in very large quantity. Obvious reason is that the country has its economy and also this is the reason for liberalization. But note one thing that the current account is always in negative side in both the figure means our export is less than our import. From this we can conclude that the consumption ratio of India is more than its productions and that the reason still India doesn't have much more impact of Global Recession.

CURRENT ACCOUNT HISTORY

The reason behind great negative side of current account is high price of crude oil in the international market. The consumption of the oil and non-oil is also play major role in the current account. We can easily understand it by figure no 3 and 4.

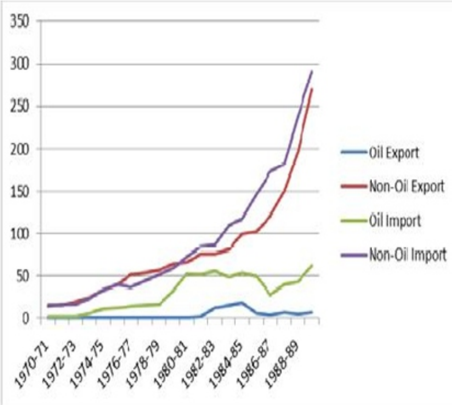

Fig 3 Source RBI (OIL, NON-OIL)

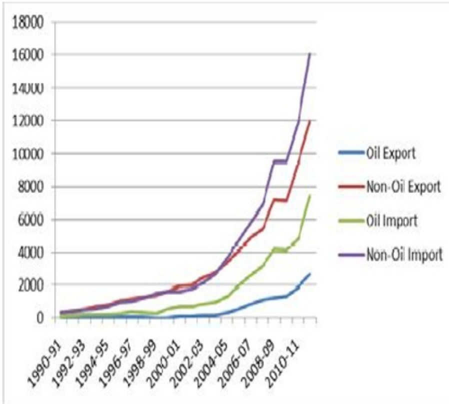

Fig 4 Source: RBI (OIL, NON-OIL)

We can see that before liberalization the ratio of the oil import is higher than the oil export and accordingly our current account deficits but the ratio of the non-oil import and export having little variation compare to the oil. So when there is a high price of the oil in the international market affects the India's current account although we export more in non-oil products. But after the liberalization as we have discussed that the consumption ratio is increased day by day so the consumption of the oil is also increase so after the liberalization the scenario doesn't change after the liberalization. So we can conclude only that we have to put restriction on import of the oil but this is not possible for India.

REASONS FOR DEFICITS IN THE CURRENT ACCOUNT

HIGH PRICE OF THE OIL IN THE INTERNATIONAL MARKET:

Today even government is worried about the high price of the oil in the international market. The consumption of oil in India is more than its production of the oil. Today thanks to automobile industry development we have more option for law consumption of oil but it's too difficult for us to minimize the consumption.

CONSUMPTION:

Consumption of the India is very high compared to the production. We are the country 80-90% production is consummated by the own. And that's one of the reasons that most of the MNCs find India as a great market for the business. But we do not worry for that because this will be our monopoly for being noticed by the world that India is not dependent for its consumption because we can produce most of our necessities by own.

LACK OF PRODUCTION:

As we have discussed that we are producing enough for our own consumption but to fight with high price of crude and technology we have to produce more than consumption and the rest we have to export so by that we can sum up the current account deficits.

CURRENCY FLUCTUATION

Recently we have seen that the Indian Rupee is depreciated in comparison to the major traded currency. We are not discussed why Indian rupee is depreciated but we can understand it by simple example. Suppose today the 1$=50 Rs. Now today if we export product of Rs 200, we get the amount just 4$ but if we Import at this rate we have to pay 4$ for the same. Now if the Exchange rate is changed and it would be of 1$=45 then we get 4.44$ but if we import than we have to pay 4.44$. Means for importer it would be worst but for exporter it will good. Same as we can understand it if the rate is 1$=55. The relation between export and import is like Zero Sum game but sometime it's motivated the export or import.

SUGGESTIONS FOR IMPROVEMENT:

- Motivate the SMEs for export.
- Liberalized the export policy.
- Government support.
- Adopt new technology for the better production.
- Create the image of Good quality manufacturer.
- Stabilized currency fluctuations.
- Aware the consumers to consume the local product rather than imported products.
- Try to provide the local goods at lower rate with high quality.

CAPITAL ACCOUNT HISTORY

We can easily see from the fig 1 and 2 that the ratio of the capital account is much higher than current account. The main difference between them is the amount that covered after and before liberalization. After 90s capital account sum is huge because we have opened our economy for the investors and we got success in attracting the investors. After 90s we have opened our economy and welcome the foreign investment so before liberalization the investment in India is not that much too count so here we have data after liberalization from that we conclude the things.

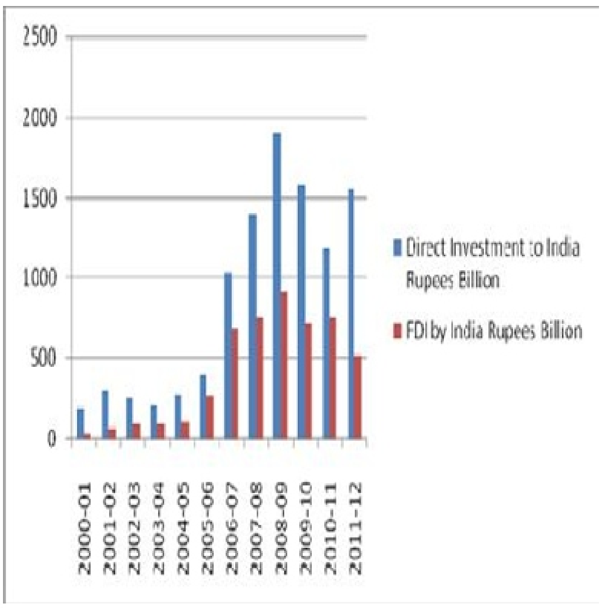

Fig 5 Source: RBI (Capital Flow)

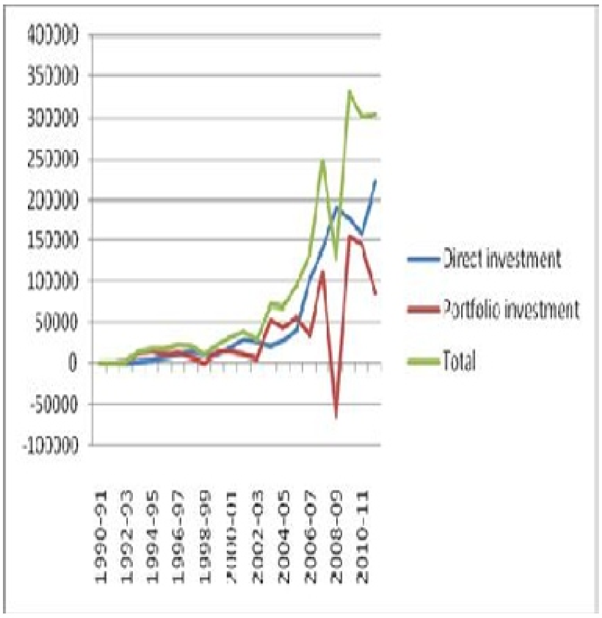

Fig 6 Source: RBI (FDI & FPI)

From the fig 5 we can conclude that the ratio of the investment by India is lower than Investment to India. Means in the BOP transaction the sum of capital inflow is much higher than the capital outflow from the India. High inflow of investment form abroad helps India to sum up the current account deficits.

REASONS FOR THE HIGH INVESTMENT IN INDIA

HIGH RATE OF INTEREST

Let us assume that the spot rate is Rs.50 and the forward rate is 50.50. Suppose the interest rate in US is 2% P.A. while the interest rate in India is 6% P.A. Now the Investors Borrow the US dollar from the US at 2% and invest that US dollar in the India at 6% For 6 Months. Here we can understand it by following results:

Borrowing from US Investment in India
Principal Amount USD 1, 00,000 Principal Amount Rs. 50, 00,000
Interest rate at 2% USD 1,000 Interest rate at 6% Rs.1, 50,000
Total Due USD 1, 01,000 Total Realisation Rs 51, 50,000
Rupee required for USD 1, 01.000 at Rs 50.50 per Dollar Rs 51, 00,500
Profit Rs. 49,000

From the above example we can just understand the possibilities of the Arbitrage and also we can understand that as the interest rate is increased the investment also increased. India is the country whose interest rate is higher than other country.

HIGH CONSUMPTION RATE

We know that the consumption of the India is much higher. Government also invites the Investment. Even the rate of interest is also high. So investor finds huge market. Interest rate also attracts the high investment.

GOVERNMENT SUPPORT

Indian government supports the investment from abroad as well as from NRIs. Also one of the main sources of investment is NRIs.

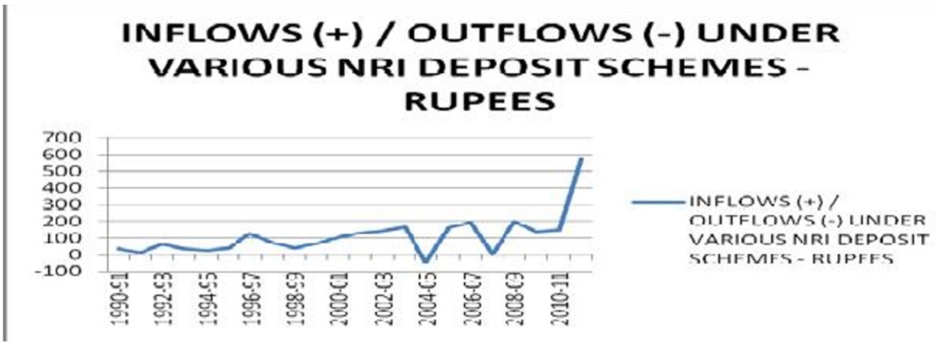

Fig 7 Source RBI (NRI DEPOSITS)

We can easily conclude that the NRI deposits mostly increase every year. In 2005 and 2008 we are having decline in the deposits. We know the reason of global crisis during that time is the key reason.

EMPLOYEMENT/ PURCHASING POWER

We can relate it with economic development of India. That's true but we also have to understand that if India having enough investment opportunities than and than its development is possible. And today we have vast numbers of vacancies in private as well as public sectors. That's possible just because of liberalization. As people gets the employment, their purchasing power increase. Means the consumption or the expectation is increased and that creates the hunger of the India. To satisfy that hunger we have to produce more and more and that attracts more investment.

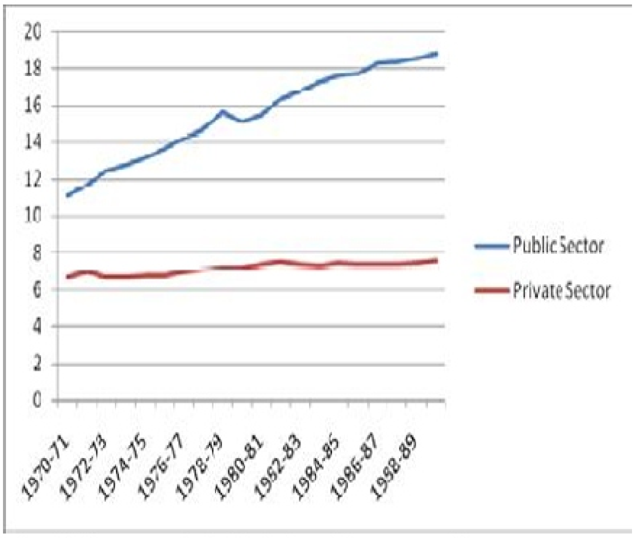

Fig 8 Source RBI (Employment)

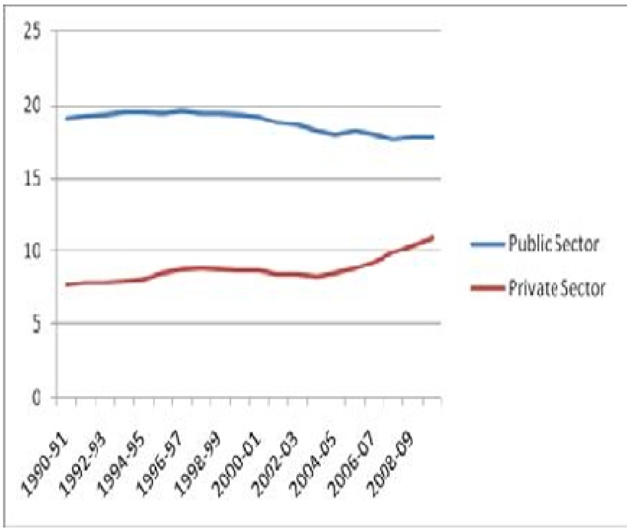

Fig 9 Source RBI (Employment)

We can see that from the figure that the employment in both the public as well as private sectors having not that much changed up to 2000-03. We can say the steady employment rate. But after 2003 the private sector has employed higher employee but in public sector the employment is declining but not up to that much extend. And another reason for the batter purchasing power is due to SMEs. Today government gives subsidies for the small scale enterprise as well as agriculture has shown positive in the production.

IMAGE OF EMERGING ECONOMY

India is now considered as the most emerging economy of the world. Most of the economist believes that India is the right choice or we can say that India is the secure place where we have to invest. Most of the investor feels that India is booming so we have to invest here more and India also gives the high interest so it's natural for high investment in India.

RESERVE AMMOUNT:

As we know that BOP includes Current, Capital and reserve for the balancing the deficits if it is there. If deficits do not occur the surplus amount goes in the reserve account of the India. Its not the issue here nut the main issues is that how much reserve India has. Before going to discuss that, let assumes that one person earning Rs 1000, his expenses would be say 800rs; now the rest of 200rs would be his reserve and that 200rs he uses in his betterment. If his expense is 1200rs, he has shortage of 200rs. If he has enough reserve in his account, he can use that reserve amount to meet his deficits. Same as India has surplus in BOP than no need to use reserve but it BOP is in negative than we have to use our reserve to maintain BOP. So we can conclude that if country has enough reserve, country can survive even in high consumption or we can say that in even recession also.

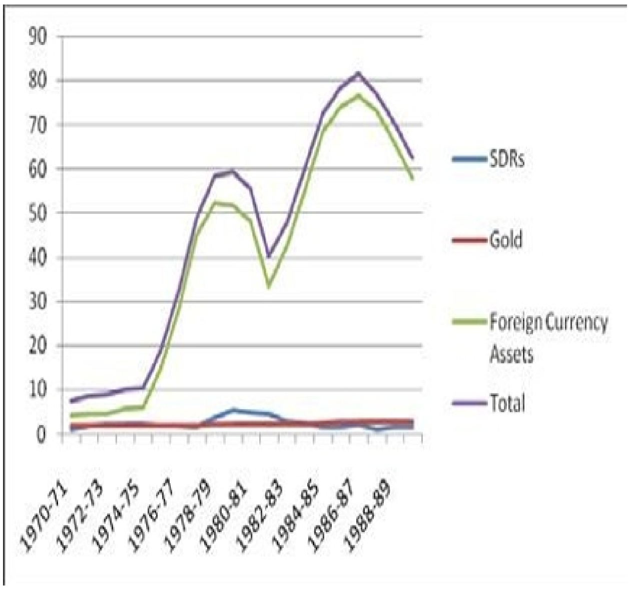

Fig 10 Source RBI (RESERVE)

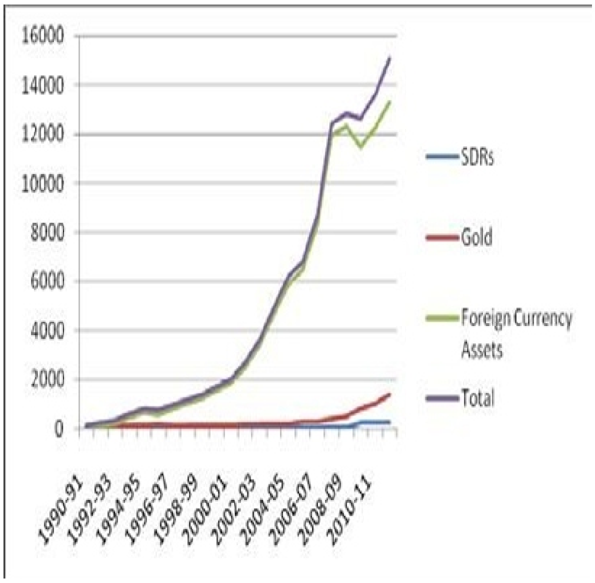

Fig 11 Source RBI (RESERVE)

From the above graphs we can easily say that our reserve is more concentrated on foreign currency rather than gold and SDRs. But apart from that just compare the amount covered in both the graphs. Before liberalization the amount of reserve did not that much high but after the liberalization the amount increase like anything. We know that the consumption is also increased after the liberalization but we can say that after liberalization although our consumption increased but we are having enough recourse for consumption satisfaction.

From above, we can say that the country' wealth is decided on the basis of its reserve that central bank of the country having. We can understand it by simple example that if you are having 2000rs as reserve. You can use your 1000rs for fulfillment of your needs means your betterment. And still you had 1000Rs as reserve for bad situation say job loosing. Same as if India has good amount of reserve in his account than India can use some of that amount for the betterment of the country. This leads country towards better productions, higher income of the people, attract better and better investment. Means we can say that if the country having good amount of reserve in its hand than it can use for his betterment.

OTHER SILENT FEATURE THAT AFFECT THE BALANCE OF PAYMENT

- GDP of the country
- Per capita Income of the nation
- Employment
- Awareness of consumer
- Currency fluctuation
- Foreign reserve
- Development of the Indian industry
- SMEs contribution
- Government role
- Quotas and Tariff

SUGETIONS FOR THE BETTER BOP

- Promote export
- Revised Export – Import procedure
- Appreciate the Indian currency
- Give tax benefits to Exporter
- Improve Quota and Tariff procedure
- Safeguards from Dumping
- Aware the consumer to buy local products
- Attract more investment
- Develop the production facilities
- Develop Infrastructure
- Increase the employment

CONCLUSION

Boosting export and looking for more stable longer foreign inflows have been suggested to ease to concerns on current account deficits. The exports have been raised but so have prices of Crude oil leading to further widening of current account deficits. Efforts have been made to invite the FDI but much more needs to be done especially after the holdback of retail FDI and recent criticism of policy paralysis.

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Event Study of Tata's Global Growth Through Acquisition: Tata's Takeover of Corus

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ABSTRACT

The event study methodology has been used to estimate cumulative average abnormal returns (CAR) in an 80 day window period (CAR) in a 1-day, 2-day, 5-day, 10-day, 15-day, 20-day, and 80-day window period of Declaration of Tata takeover of Corus. The study aims at exploring the implications of the acquisition for the shareholders. The event study methodology has been used to estimate Cumulative Abnormal Returns (CAR) for a 80 day window period. Market Model Method (single- factor model) has been used. This procedure has been applied on the Tata & Corus acquisition event so as to study the impact of this event on the stock prices. The study endeavors to find the Cumulative Abnormal Return (CAR) of Tata steel & Corus.

Key words: CAR, acquisition, Market model method

INTRODUCION OF TATA STEEL

TATA GROUP OF COMPANIES-A BRIEF HISTORY

Tata Steel is part of one of India's largest business conglomerates, the Tata Group established by Jamsetji Tata and his extended family. The Tata's were descendants of Persian Zoroastrians who immigrated to India sometime in between the 8th and 10th centuries to escape religious persecution. Although Jamsetji's father opened an export business when Jamsetji was only a teenager, that business faced a financial crisis following the end of the U.S. Civil War and the return of U.S. producers to world markets. With Jamsetji's expert guidance, the company was reborn as Tata and Co., later to be renamed Tata and Sons in 1868. Tata Steel was founded in 1907, and the plant started production in 1912 (information about Tata group profile obtained from www.tatasteel.com). Currently, Tata Steel is now India's largest private steelmaker, the world's 6th largest steelmaker, and due to its ownership of raw materials (coal and iron), can produce steel at lower costs than nearly any other steelmaker in the world (www.tatasteel.com, 2007, July 23).

In 2005-2006, the Tata Group had revenues of $21.9 billion (all $ amounts are referenced with respect to US $) which was approximately 2.8 percent of India's gross domestic product.

With a market capitalization of $63.0 billion in 2007, the Tata Group employs around 2,460,000 people and comprises 96 operating companies in seven business sectors: information systems and communications (Tata Consultancy Services), engineering, materials, services, energy, consumer products and chemicals. The group has 28 publicly listed firms with approximately 2 million shareholders. Operations span 85 countries on six continents and there has been an overall rapid growth through acquisition and merger activity (www.tatasteel.com, 2007, July 23).

The company has been run by family members for five generations. The current chairman of Tata Group is Ratan Tata who succeeded J.R.D. Tata in 1991. At his time of succession, the Tata Group was a sprawling network of 250 companies, many doing poorly. He has since downsized the group to 96 firms. Not content to operate only in India, he has increasingly challenged his managers to expand overseas (Bary, Santoli, Laing & Racanelli, 3/26/07). The Tata Group has made a number of recent acquisitions (Leahy, 2007, May 18). Tata Tea bought out U.S.-based Eight O'Clock Coffee for $220 million; a 30 percent share of Energy Drinks, another U.S. firm, for $677 million; and acquired a 33 percent share of South Aftrica's Joekels Tea Packers. Tata's Indian Hotels bought the Ritz Carlton Boston for $170 million. Tata Motors acquired the truck operations of South Korea's Daewoo. Tata Steel had also purchased Singapore's Natsteel in 2004 for $485 million and Thailand's Millennium Steel for $404 million in 2005.

On February 2, 2007, Tata Steel won its bid to acquire Corus, the Anglo-Dutch steel company. The Corus acquisition by Tata Steel made it a “giant among giants in India Inc.” The steel conglomerate is now the largest private company by sales in India, a distinction earlier held by Reliance Industries which is now second (Knight Ridder 2/2/07). The acquisition of Corus is anticipated to make Tata Steel the world's second largest steelmaker within five years.

ACQUISITION OF TATA STEEL

Tata acquired Corus on the 2nd of April 2007 for a price of $12 billion making the Indian company the world's fifth largest steel producer. This acquisition process has started long back in the year 2005. However, Corus was involved in a considerable number of Acquisition & Acquisition (M&A) deals and joint ventures (JVs) before Tata. This process started in the year 2000 and with Tata it came to an end. In a period of seven years Corus was involved in 14 deals apart from Tata. (Refer Exhibit – 1 for the details about M&A deals by Corus). In 2005, when the deal was started the price per share was 455 pence. But during the time of acquisition held in 2007, the price per share was 608 pence, which is 33.6% higher than the first offer. For this deal Tata has financed only $4 billion, although the total price of this deal was $12billion. Here the important point is how Tata could manage to get such a huge amount for this deal?

Did Tata Steel overheat in its zeal to win Corus? However as stated by Muthuraman (the Managing Director of Tata Steel), the bid made to Corus was unanimously supported by the management ofthe company and recommended to its shareholders. In an interview to CNBC India, B Muthuraman also said that they are acquiring Corus for synergy and not for tonnage. "There are synergies in operations, manufacturing, marketing etc."

POST ACQUISITION TATA

Tata Steel has formed a seven-member integration committee to spearhead its union with Corus group. While Ratan Tata, chairman of the Tata group, heads the committee, three of the members are from Tata Steel and the other three are from Corus group. Members of the integration committee from Tata Steel include managing director B Muthuraman, deputy managing director (steel) T Mukherjee, and chief financial officer Kaushik Chatterjee. The Corus group is represented in the committee by CEO Phillipe Varin, executive director (finance) David Lloyd, and division director (strip products) Rauke Henstra.

The acquisition by Tata amounted to a total of 608 pence per ordinary share or £6.2 billion (US $12 billion) which was paid in cash. First of all, the general assumption is that the acquisition was not cheap for Tata. The price that they paid represents a very high 49% premium over the closing mid market share price of Corus on 4 October, 2006 and a premium of over 68% over the average closing market share price over the twelve month period. Moreover, since the deal was paid for in cash automatically makes it more expensive, implying a cash outflow from Tata Steel in the amount of £1.84 billion. Tata has reportedly financed only $4 billion of the Corus purchase from internal company resources, meaning that more than two-thirds of the deal has had to be financed through loans from major banks. The day after the acquisition was officially announced, Tata Steel's share fell by 10.7 percent on the Bombay stock market. Despite its four times smaller size and smaller capacity, Tata Steel's operating profit for 2006, earning $840 million on sales of 5.3 million tones, were very close in amount to those generated by Corus ($860 million in profits on sales of 18.6 million tons).

Tata's new debt amounting to $8 billion due to the acquisition, financed with Corus' cash flows, is expected to generate up to $640 million in annual interest charges (8% annual interest cost). This amount combined with Corus' existing interest debt charges of $400 million on an annual basis implies that the combined entity's interest obligation will amount to approximately $725 million after the acquisition.

The debate whether Tata Steel has overpaid for acquiring Corus is most likely to be certain, since just based on the numbers alone it turns out that at the end of the bidding conflict with CSN Tata ended up paying approximately 68% above the average price of Corus'shares. Another pressing issue resulting for this deal that has created a dilemma between experts and analysts opinions is whether this acquisition for the right move for Tata Steel in the first place. The fact that Tata has managed to acquire a British steel maker that has been a symbol of Britain's industrial power and at the same time its dominion over India has been perceived as quite ironic. Only time will show whether Tata will be able to truly benefit from the many expected synergies for the deal and not make the typical mistakes made in many large M&A deal during this beginning period.

OBJECTIVE OF THE STUDY:

- To make an event study of declaration of Acquisition of Corus by Tata steel. The study aims at exploring the implications of the acquisition for the shareholders. The event study methodology has been used to estimate Cumulative Abnormal Returns (CAR) for a 80 day window period.

Market Model Method (single- factor model) has been used. The study endeavours to find the Cumulative Abnormal Return (CAR) of Tata & Corus steel. Market model assumes that all inter-relationships among the returns on individual assets arise from a common market factor that affects the return on all assets i.e. the expected return on individual assets (Fama and Miller, 1969). The event study methodology has been extensively used to assess the impact of an announcement of a particular strategy of the firms' stock prices. This analytical approach is well accepted and has been widely used in various disciplines such as finance, accounting, marketing, strategy, e-commerce and law. The methodology has also been applied to assess the impact of some marketing and advertising related events such as brand extension announcements (Laneand Jacobson, 1995). The event study analysis assumes that all public information is incorporated in the stock prices immediately on announcement (Brown and Warner, 1980 and 1985; Pruitt and Peterson, 1986; Etebari, Horrigan and Landwehr, 1987; MacKinsley, 1997; and McWilliams and Siegel, 1997).

LITERATURE REVIEW:

Market model assumes that all interrelationships among returns on individual assets arise from a common market factor that affects the return on all assets (Fama et al., 1969). The event study methodology has been used to estimate cumulative average abnormal returns (CAR) in a 80 day window period (CAR) in a 1-day, 2- day, 5-day, 10-day, 15-day, 20-day, and 80-day window period. For event study analysis in semi strong version of the efficient market hypothesis, it assumes that all publically information is incorporated in the stock prices immediately on announcement Cornell and

Tehranian (1992); Switzer (1996); Ghosh (2001) found merger and acquisition firms shows significantly increase in operating performance.

Pawaskar (2001) found that the share holders of the acquirers companies increased their liquidity performance after the mergers and acquisitions. A mergers and acquisitions occur when two or more companies connect together, often to share and reduce cost, increase the efficiency or market share. Merger and acquisition frequently assigned to as a tool for exploring and expanding one's business or get around different legal framework such as tax or monopoly regulations.

Ross and Westerfield(2002).id debatable issue for all state holders, academicians and for researchers. The purpose of this research paper is to find the rational for merger and acquisition in terms of management incentives, post merger and acquisition value creation and steel industry position of the entity merger and acquisition between Tata steel and European steel giant Corus. Many studies have been done made on the effects of corporate integration on their share prices, share holders wealth. There is no conclusive evidence of life after acquisition. So the study helps to understand and evaluate the performance by analyzing the value creation through pre and post merger and acquisition study. A deal that dies at the due diligence stage almost always dies for the right reason. In most of the merger and acquisition, the target has a choice, and negotiations may even be taking place in the context of structured action. Before deciding on tactics, therefore, acquires should assess their advantages and disadvantages relative to their potential bidder HBR (2001).

Rao and Sankar (1997)examine that a positive effect on the liquidity, leverage, and profitability of the bidder firms. Other studies have also showed a positive impact on financial performance.

Hitt, Harrison and Best (1998) In accordance with empire building theory (The Hubris Theory), managers may derive both financial and non financial benefits in proportion to the size of the business units they manage; this provides a strong intensive to increase firm size by merger and acquisition and places managers in conflicts with shareholders interest.

Rau and Vermalen (1997) has investigated that the determinants of poor performance of the bidding firm after acquisition and concluding that firms having low boo to market ratio in general make poor decisions regarding merger and acquisition. However, higher profitability of the firm being acquired is found to be existing pre and post merger and acquisition Acharys (2000) Clear and factual communication among the employees of the acquiring and acquired firms is very crucial to increase their productivity which will resultantly have positive. The subsequent studies are the few existing work reviewed which were conducted by researchers in the sight of analyzing the financial performance during and post merger activity across different time periods.

Effect of mergers on corporate performance in India, writer Mrs. Vardhana Pawaskar (2001), considered the impact of mergers on corporate performance. A case study, assessed the financial performance of a cloth unit by using ratio analysis. It compared the before and after merger performance of the corporations between 1992 and 2000 to identify their financial character. Mergers & acquisitions in the banking sector presents the Indian scenario, author Mr. Selvam (2007) has analyzed the impacts of stock price changes to mergers and acquisitions behavior taken place in banking industry with particular reference to private and public sector banks. Found that share prices are market sensitive. From the financial analysis it was noted that greater part of the banks went for branch extension and this has affected profitability to some extent and it resulted in harmful competition among the players. To add up the review of literature, many offerings have offered diverse perspectives of merger in different industries globally and explained the valuation techniques followed by merging companies, and shareholders possessions effect due to merger. From the review of several papers evaluating the pre and post merger performance of merged companies, it is incidental that majority of the studies powerfully support the concept of improved post merger performance due to merger and it is valuable to the acquirer companies.

ANALYSIS OF STUDY

Event study methodology is designed to investigate the effect of an event on a specific dependent variable. A commonly used dependent variable in event studies is the stock price of the company. The definition of such an event study will be a study of the changes in stock price beyond expectation (Abnormal returns) over a period of time (event window). We attribute the abnormal returns to the effects of the event. The event study methodology seeks to determine whether there is an abnormal stock price effect associated with an event. From this, we can infer the significance of the event. The event study methodology has been extensively used to assess the impact of an announcement of a particular strategy on the firms' stock prices. This analytical approach is well accepted and has been used widely in various disciplines such as finance, accounting, marketing, strategy, e-commerce and law. The methodology has also been applied to assess the impact of some marketing and advertising relating events such as brand extension announcements (Lane and Jacobson, 1995). An event study is concerned with the impact of a particular firm-specific corporate event on company security prices. For example, an event study might be conducted to determine the impact of acquisition on stock prices. If event studies suggest that security prices rise when acquisitions are announced, then this might suggest that acquisitions benefit stock investors. Furthermore, if stock prices rise on acquisition announcement news, we might conclude that the stock market, based on opinions of huge number of investors, believes that acquisitions make companies more valuable. Event studies measure stock performance that reflects investor opinions concerning the importance and benefit level of the event. Event studies have been performed on announcements of many types of corporate events such as dividends, earnings, takeovers, insider transactions, managerial changes, and so on. Stock market has been found to react to various corporate announcements of acquisition is one such significant announcement, which has been bearing on the stock price movement of the firm surrounding the announcement. The magnitude of abnormal returns provides a direct measure of unexpected change in security holders' wealth associated with the event (Kothari and Warner, 2004). The key assumption of the event study methodology is that the market must be efficient. Given an efficient market, the effects of the event will be reflected immediately in the stock prices of the company. This will allow us to observe the economic effect of the event over a relatively short period.

The procedure of an event study comprises of:

1. Identify the event in question.
2. Identify estimation, event and post-event windows.
3. Estimate parameters using data in estimation window
   - Ri and oe from the constant mean model.
   - ai, þi and oe from the market model.
4. Measure abnomal returns in the event window:
   - From the constant mean model: ARit= Rit-Ri
   - The market model: ARit= Rit- aˆi- þˆIRmt
5. Agrregate abnormal returns:CARi(T1, T2)=ΣT2 = ARit
   t=T1

This procedure has been applied on the Hero & Honda Separation event so as to study the impact of this event on the stock prices. The event study methodology has been used to estimate cumulative average abnormal returns (CAR) in a 80 day window period. The basis for event study analysis assumes that all publically available information is incorporated in the stock prices immediately on announcement (Brown and Warner, 1980 and 1985; Pruitt and Peterson, 1986; Etebari, Horrigan and Landwehr, 1987; MacKinsley, 1997; and McWilliams and Siegel, 1997).

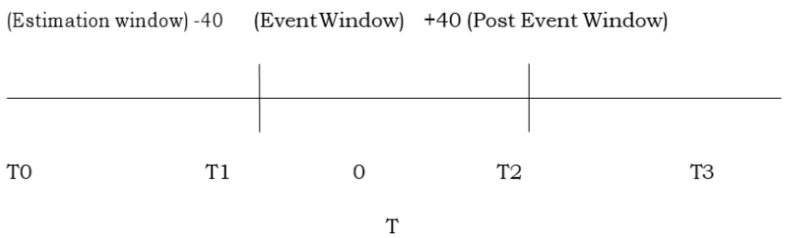
The stepwise detail is presented below:

Step – 1:

We have to first decide the event that we wish to investigate, and then collect data of company that had went through such an event. Event in question is theTata & Corus acquisition. For this study, the data thatwe used includes the announcement date (e.g. first announcement date of acquisition) and the stock prices of the Tata steels before and after the event (i.e. -240 to +400 days) i.e. from 05/07/2006 to 07/05/2007.

Step - 2

The next step in the procedure is to identify the window periods, i.e. an estimation window, event window and post event window. We need to decide on a period over which the security prices of the firm involved in this event will be examined. This is our event window i.e. t (-40) to t (40).



Window period and clean data period

The event window has been taken from -40 days to the date of announcement to 40 days. The estimation window has been taken as 240 days before the 40 days window period. The share price data and market index data, namely Tata steel and Metal Index have been taken from the official website of the National Stock Exchange Limited (http://www.nse.com). Corporate Announcements during t (-40) to t (40) have been presented in Table-4.1(1). The dates mentioned below have been excluded while conducting the event study to know the impact of acquisition on stock prices of Tata steel & Corus, because these data on these dates was influenced by announcement other than the event of acquisition.

Step - 3

Next we have to make estimations of the important parameters that will give us the expected returns during the event period. We have used the market model to find the expected returns. For this purpose; we need the alpha (y-intercept) and beta (slope) of the prices over a reasonably long estimation window (i.e. - 240 to -40 days). Using the simple regression model in SPSS, the values of alpha and beta have been calculated. The estimated Beta value is 0.308 and alpha value is 0.159

Step - 4

Using these estimates, the expected returns (Rjt) for the Tata steel have been calculated w.r.t Metal Index. The market model has been used for this purpose i.e.

$R_j = a_j + þ_j R_{mt} + s_{jt}$

Where R_{mt} is the return on the market index (Auto index) for day t, þ measures the sensitivity of firm j to the market, this is a measures of risk, aj measures the mean return over the period not explained by the market, and s_{jt} is a statistical error term with $E(e_{jt})$=0. The regression produces estimates of aj and þ; call these aˆj, þˆj. The predicted return for a firm for a day in the event period is the return given by the market model on that day using these estimate that is:

$R\hat{}_{jt} = a\hat{}_j + þ\hat{}_j R_{mt}$

While using market model for Tata steel & Corus

Alpha $(a\hat{}_j) = 0.159$

Beta $(þ\hat{}_j) = 0.308$

$R\hat{}_{jt} = 0.159 + 0.308$(Return on market Metal Index) + 0

Where s_{jt} is a statistical error term with $E(e_{jt}) = 0$

After that, we deducted the expected return from the actual return (R_j- $R\hat{}_{jt}$) to get the abnormal return on each day in the event window.

As explained above, to estimate the abnormal returns, (or prediction error or PE),

$PE_{jt} = R_j - (a\hat{} + þ\hat{}_j R_{mt})$

Step - 5

After calculating abnormal return we have to calculate standard deviation of abnormal return

Standard deviation= $\sqrt{Var(PE_{jt})}$

Value calculated for standard deviation of abnormal returns for Tata steel & corus= 62.28207

While PE_{jt} is the prediction error from the estimates market models and VAR (PE_{jt}) is the variance of the prediction error. Next step is to calculate the T statistic.

The T statistic is calculated as:

T= Pe_{jt}

$\sqrt{Var(PE_{jt})}$

The cumulative abnormal return for the event windows is calculated as shown below:

$$\text{CAR}(-T \text{ to } +T) = \underset{-T}{\overset{+T}{Z}} \text{ARt}$$

We then added up the abnormal return over the entire period of time to get the Cumulative Abnormal Return (CAR). Cumulative Abnormal Return for Tata Steel is -25.87647628 i.e. stockholders have lose about 26% abnormal returns because of the acquisition event, as shown in Table-4.1(4). The event study methodology is widely used in corporate finance because we are interested to know how corporate policies can impact the value of firm e.g. effect of acquisition on share prices of company. On the surface, this might be a daunting task. However, using the event study methodology, we are able to find the economic effect as long as we make sure that we can remove any confounding effects on return due to other events. To get a representative event study, we have to choose a reasonably large sample and choose an appropriate event period. The usefulness of such a study in corporate finance comes from the fact that, given rationality in the marketplace, the effects of an event will be reflected immediately in security prices. Thus, a measure of the event's economic impact can be constructed using security prices observed over a relatively short time period. In contrast, direct productivity related measures may require many months or even years of observation. The event findings are very clear and easy to interpret and share. We need not look at any factors such as investor's sentiment, management considerations etc. We assume that all these are reflected in the stock price and return immediately due to the efficient market hypothesis. Therefore, we only have to look at the effect on one single item, the returns. This is the case in corporate finance research, whereby the research might be done to investigate a very sophisticated effect of an event, but their data have to be easy enough so that even the common investor on the street will be able to understand their publication. Due to the entire reasons quoted above, researchers often choose to use the event study methodology to examine the direction, magnitude and speed of price reactions to the various phenomenon's in corporate finance.

Using the single-factor model, this study finds that the average Cumulative Abnormal Return (CAR) of Tata steel is negative. These results are also statistically. Thus, the shareholders of Tata steels got significant negative abnormal returns. Results reveal that the acquisition announcement in Tata Steels generated a negative abnormal Return i.e. CAR of -25.87 per cent.

Table- 4.1(1) Corporate Announcement for Event Window

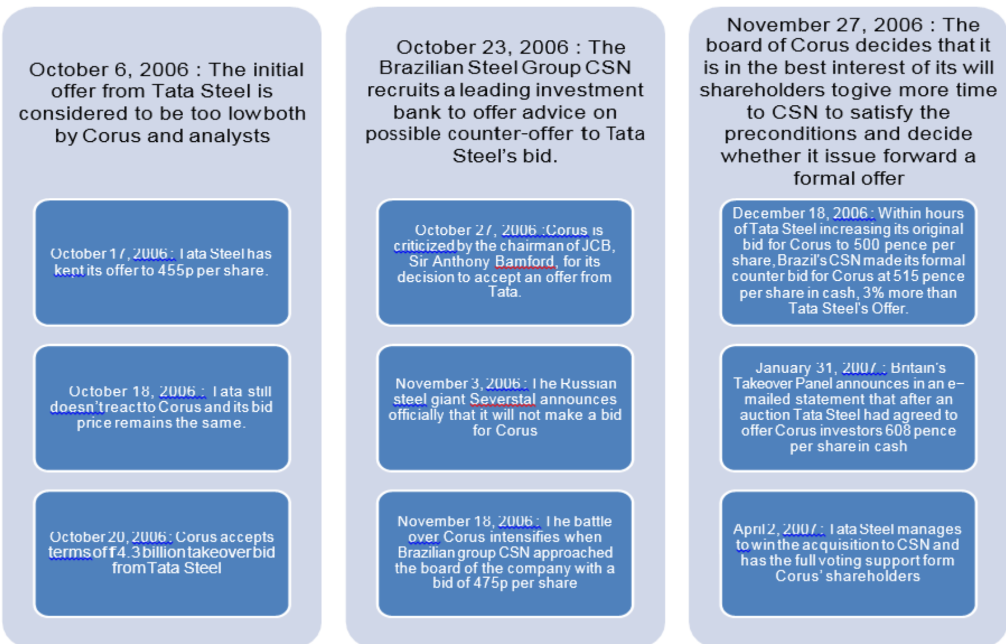


Table – 4.1 (2) Alpha ($a^{\wedge}_{j}$) and Beta ($þ^{\wedge}_{j}$) Estimates for Tata steel in Relation to Metal index

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	0.159	0.297		0.534	0.594
Metal index	0.313	0.067	0.308	4.67	0

a. Dependent Variable: Tata steel

Table – 4.1 (3) Standard Deviation of Abnormal Returns (PE_{jt})

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
VAR00002	54	-80.87	135.08	7.5255	62.28207
Valid N (listwise)	54				

Table – 4.1 (4) Event Study- Cumulative Abnormal Returns for TATA ACQUIRING CORUS

Date	Close	Close Price	X	y	predictive return	PEJT	STD. DEVIATION	T-STATISTICS
5-Jul-06	2609.24	563.65						
6-Jul-06	2614.35	547.35	2613.4	546.4	805.4458	-259.0958	62.28207	-0.240382399
7-Jul-06	2578.89	522.9	2577.9	521.9	794.52412	-272.62412	62.28207	-0.228453997
10-Jul-06	2580.46	527.55	2579.5	526.6	795.00768	-268.45768	62.28207	-0.231999584
11-Jul-06	2581.33	514.5	2580.3	513.5	795.27564	-281.77564	62.28207	-0.22103426
12-Jul-06	2585.6	519.95	2584.6	519	796.5908	-277.6408	62.28207	-0.224326072
13-Jul-06	2596.34	519.3	2595.3	518.3	799.89872	-281.59872	62.28207	-0.221173129
14-Jul-06	2514.87	511.35	2513.9	510.4	774.80596	-264.45596	62.28207	-0.235510177
17-Jul-06	2487.7	494.45	2486.7	493.5	766.4376	-272.9876	62.28207	-0.228149813
18-Jul-06	2544.21	477.75	2543.2	476.8	783.84268	-307.09268	62.28207	-0.202811965
19-Jul-06	2547.33	460.2	2546.3	459.2	784.80364	-325.60364	62.28207	-0.19128186
20-Jul-06	2564.64	487.05	2563.6	486.1	790.13512	-304.08512	62.28207	-0.204817881
21-Jul-06	2539.64	483.05	2538.6	482.1	782.43512	-300.38512	62.28207	-0.20734073
24-Jul-06	2507.61	479	2506.6	478	772.56988	-294.56988	62.28207	-0.211433939
25-Jul-06	2420.51	495.6	2419.5	494.6	745.74308	-251.14308	62.28207	-0.24799437
26-Jul-06	2437.74	496.45	2436.7	495.5	751.04992	-255.59992	62.28207	-0.243670147
27-Jul-06	2411.25	497.75	2410.3	496.8	742.891	-246.141	62.28207	-0.253034115
28-Jul-06	2468.86	497.7	2467.9	496.7	760.63488	-263.93488	62.28207	-0.235975139
31-Jul-06	2420.81	496.2	2419.8	495.2	745.83548	-250.63548	62.28207	-0.248496621
1-Aug-06	2374.65	496.4	2373.7	495.4	731.6182	-236.2182	62.28207	-0.263663299
2-Aug-06	2425.72	511.05	2424.7	510.1	747.34776	-237.29776	62.28207	-0.262463792
3-Aug-06	2328.23	509.7	2327.2	508.7	717.32084	-208.62084	62.28207	-0.298541939
4-Aug-06	2308.94	510.5	2307.9	509.5	711.37952	-201.87952	62.28207	-0.308511086
7-Aug-06	2247.58	503.85	2246.6	502.9	692.48064	-189.63064	62.28207	-0.328438854
8-Aug-06	2189.29	511.15	2188.3	510.2	674.52732	-164.37732	62.28207	-0.378896979
9-Aug-06	2129.07	516.9	2128.1	515.9	655.97956	-140.07956	62.28207	-0.444619258
10-Aug-06	2102.85	516.15	2101.9	515.2	647.9038	-132.7538	62.28207	-0.469154706
11-Aug-06	2190.23	525.35	2189.2	524.4	674.81684	-150.46684	62.28207	-0.413925553
14-Aug-06	2142.25	531.7	2141.3	530.7	660.039	-129.339	62.28207	-0.481541298
16-Aug-06	2144.83	532.45	2143.8	531.5	660.83364	-129.38364	62.28207	-0.481375157
17-Aug-06	2164.81	518.65	2163.8	517.7	666.98748	-149.33748	62.28207	-0.417055852
18-Aug-06	2173.28	513	2172.3	512	669.59624	-157.59624	62.28207	-0.395200228
21-Aug-06	2156.51	508.05	2155.5	507.1	664.43108	-157.38108	62.28207	-0.395740517
22-Aug-06	2117.89	515.45	2116.9	514.5	652.53612	-138.08612	62.28207	-0.451037874
23-Aug-06	2089.12	505.5	2088.1	504.5	643.67496	-139.17496	62.28207	-0.447509164
24-Aug-06	2076.3	517.45	2075.3	516.5	639.7264	-123.2764	62.28207	-0.505222979
25-Aug-06	2067.8	525.75	2066.8	524.8	637.1084	-112.3584	62.28207	-0.554316099
28-Aug-06	2089.93	527.55	2088.9	526.6	643.92444	-117.37444	62.28207	-0.530627196

29-Aug-06	2058.53	517.25	2057.5	516.3	634.25324	-118.00324	62.28207	-0.52779966
30-Aug-06	2124.09	506.85	2123.1	505.9	654.44572	-148.59572	62.28207	-0.419137711
31-Aug-06	2101.73	496.25	2100.7	495.3	647.55884	-152.30884	62.28207	-0.4089196
1-Sep-06	2101.04	501.85	2100	500.9	647.34632	-146.49632	62.28207	-0.425144263
4-Sep-06	2113.01	506.1	2112	505.1	651.03308	-145.93308	62.28207	-0.42678514
5-Sep-06	1984.79	513.9	1983.8	512.9	611.54132	-98.64132	62.28207	-0.631399397
6-Sep-06	2043.09	521.6	2042.1	520.6	629.49772	-108.89772	62.28207	-0.571931809
7-Sep-06	2046.48	522.2	2045.5	521.2	630.54184	-109.34184	62.28207	-0.569608761
8-Sep-06	2154.99	525.45	2154	524.5	663.96292	-139.51292	62.28207	-0.446425105
11-Sep-06	2183.61	496.7	2182.6	495.7	672.77788	-177.07788	62.28207	-0.351721344
12-Sep-06	2176.86	501	2175.9	500	670.69888	-170.69888	62.28207	-0.364865136
13-Sep-06	2282.08	501.95	2281.1	501	703.10664	-202.15664	62.28207	-0.308088174
14-Sep-06	2300.44	508.05	2299.4	507.1	708.76152	-201.71152	62.28207	-0.308768037
15-Sep-06	2239.53	504.3	2238.5	503.3	690.00124	-186.70124	62.28207	-0.33359216
18-Sep-06	2256.61	498.35	2255.6	497.4	695.26188	-197.91188	62.28207	-0.314695965
19-Sep-06	2283.51	488.3	2282.5	487.3	703.54708	-216.24708	62.28207	-0.288013461
20-Sep-06	2288.96	496.15	2288	495.2	705.22568	-210.07568	62.28207	-0.296474442
21-Sep-06	2318.52	502.95	2317.5	502	714.33016	-212.38016	62.28207	-0.293257478
22-Sep-06	2287.01	496.8	2286	495.8	704.62508	-208.82508	62.28207	-0.298249952
25-Sep-06	2191.01	507.7	2190	506.7	675.05708	-168.35708	62.28207	-0.369940308
26-Sep-06	2161.06	513.05	2160.1	512.1	665.83248	-153.78248	62.28207	-0.405001077
27-Sep-06	2172.81	516.35	2171.8	515.4	669.45148	-154.10148	62.28207	-0.404162699
28-Sep-06	2292	519.05	2291	518.1	706.162	-188.112	62.28207	-0.331090361
29-Sep-06	2337.01	535.65	2336	534.7	720.02508	-185.37508	62.28207	-0.335978655
3-Oct-06	2365.62	534.95	2364.6	534	728.83696	-194.88696	62.28207	-0.319580489
4-Oct-06	2318.88	523.75	2317.9	522.8	714.44104	-191.69104	62.28207	-0.324908613
5-Oct-06	2329.66	537.4	2328.7	536.4	717.76128	-181.36128	62.28207	-0.343414372
6-Oct-06	2386.73	536.6	2385.7	535.6	735.33884	-199.73884	62.28207	-0.311817521
9-Oct-06	2397.55	526.3	2396.6	525.3	738.6714	-213.3714	62.28207	-0.291895118
10-Oct-06	2339.84	517.9	2338.8	516.9	720.89672	-203.99672	62.28207	-0.305309174
11-Oct-06	2447.87	507.1	2446.9	506.1	754.16996	-248.06996	62.28207	-0.251066554
12-Oct-06	2434.1	516.25	2433.1	515.3	749.9288	-234.6788	62.28207	-0.265392826
13-Oct-06	2346.6	511.7	2345.6	510.7	722.9788	-212.2788	62.28207	-0.293397504
16-Oct-06	2273.66	511.75	2272.7	510.8	700.51328	-189.76328	62.28207	-0.328209283
17-Oct-06	2296.37	515.65	2295.4	514.7	707.50796	-192.85796	62.28207	-0.322942698
18-Oct-06	2287.13	509	2286.1	508	704.66204	-196.66204	62.28207	-0.316695942
19-Oct-06	2310.61	502.15	2309.6	501.2	711.89388	-210.74388	62.28207	-0.295534418
20-Oct-06	2310.91	508.4	2309.9	507.4	711.98628	-204.58628	62.28207	-0.304429359
21-Oct-06	2320.39	516	2319.4	515	714.90612	-199.90612	62.28207	-0.311556595
23-Oct-06	2353.7	508.8	2352.7	507.8	725.1656	-217.3656	62.28207	-0.286531401
26-Oct-06	2276.99	500.55	2276	499.6	701.53892	-201.98892	62.28207	-0.308343992
27-Oct-06	2224.21	500.55	2223.2	499.6	685.28268	-185.73268	62.28207	-0.335331779
30-Oct-06	2172.02	498.15	2171	497.2	669.20816	-172.05816	62.28207	-0.361982657
31-Oct-06	2206.52	490.45	2205.5	489.5	679.83416	-190.38416	62.28207	-0.327138928
1-Nov-06	2211.52	489.9	2210.5	488.9	681.37416	-192.47416	62.28207	-0.323586657
2-Nov-06	2245.95	486.8	2245	485.8	691.9786	-206.1786	62.28207	-0.302078247
3-Nov-06	2255.37	492.65	2254.4	491.7	694.87996	-203.22996	62.28207	-0.306461065
6-Nov-06	2298.68	506.4	2297.7	505.4	708.21944	-202.81944	62.28207	-0.307081363
7-Nov-06	2309.34	497.2	2308.3	496.2	711.50272	-215.30272	62.28207	-0.289276745

8-Nov-06	2280.21	494.15	2279.2	493.2	702.53068	−209.38068	62.28207	−0.297458533
9-Nov-06	2254.94	502.1	2253.9	501.1	694.74752	−193.64752	62.28207	−0.321625962
10-Nov-06	2255.77	502.3	2254.8	501.3	695.00316	−193.70316	62.28207	−0.321533577
13-Nov-06	2252.73	497.1	2251.7	496.1	694.06684	−197.96684	62.28207	−0.314608598
14-Nov-06	2214.08	491.65	2213.1	490.7	682.16264	−191.51264	62.28207	−0.325211276
15-Nov-06	2200.21	486.2	2199.2	485.2	677.89068	−192.69068	62.28207	−0.323223054
16-Nov-06	2191.8	482.3	2190.8	481.3	675.3004	−194.0004	62.28207	−0.321040936
17-Nov-06	2194.24	476.35	2193.2	475.4	676.05192	−200.70192	62.28207	−0.310321247
20-Nov-06	2241.3	462.3	2240.3	461.3	690.5464	−229.2464	62.28207	−0.27168178
21-Nov-06	2249.61	475.7	2248.6	474.7	693.10588	−218.40588	62.28207	−0.285166636
22-Nov-06	2172.98	473.05	2172	472.1	669.50384	−197.45384	62.28207	−0.315425975
23-Nov-06	2153.61	471.05	2152.6	470.1	663.53788	−193.48788	62.28207	−0.321891325
24-Nov-06	2130.43	483.1	2129.4	482.1	656.39844	−174.29844	62.28207	−0.357330048
27-Nov-06	2229.88	482.35	2228.9	481.4	687.02904	−205.67904	62.28207	−0.302811944
28-Nov-06	2312.42	476	2311.4	475	712.45136	−237.45136	62.28207	−0.262294013
29-Nov-06	2341.21	477.4	2340.2	476.4	721.31868	−244.91868	62.28207	−0.254296936
30-Nov-06	2342.29	467.9	2341.3	466.9	721.65132	−254.75132	62.28207	−0.244481834
1-Dec-06	2352.65	468.15	2351.7	467.2	724.8422	−257.6922	62.28207	−0.241691716
4-Dec-06	2334.64	468.55	2333.6	467.6	719.29512	−251.74512	62.28207	−0.2474013
5-Dec-06	2314.71	493.05	2313.7	492.1	713.15668	−221.10668	62.28207	−0.281683349
6-Dec-06	2294.42	491.05	2293.4	490.1	706.90736	−216.85736	62.28207	−0.287202934
7-Dec-06	2308.74	492.05	2307.7	491.1	711.31792	−220.26792	62.28207	−0.282755973
8-Dec-06	2282.11	484.7	2281.1	483.7	703.11588	−219.41588	62.28207	−0.283853976
11-Dec-06	2336.63	453.85	2335.6	452.9	719.90804	−267.05804	62.28207	−0.233215484
12-Dec-06	2310.16	441.4	2309.2	440.4	711.75528	−271.35528	62.28207	−0.229522234
13-Dec-06	2280.9	436.55	2279.9	435.6	702.7432	−267.1932	62.28207	−0.233097511
14-Dec-06	2262.51	435.8	2261.5	434.8	697.07908	−262.27908	62.28207	−0.237464879
15-Dec-06	2222.61	459.15	2221.6	458.2	684.78988	−226.63988	62.28207	−0.274806314
18-Dec-06	1688.92	468.15	1687.9	467.2	520.41336	−53.26336	62.28207	−1.169322964
19-Dec-06	1721.02	455.05	1720	454.1	530.30016	−76.25016	62.28207	−0.816812319
20-Dec-06	1751.64	465.1	1750.6	464.1	539.73112	−75.63112	62.28207	−0.82349792
21-Dec-06	1746.96	468.4	1746	467.4	538.28968	−70.88968	62.28207	−0.87857739
22-Dec-06	1746.3	478.6	1745.3	477.6	538.0864	−60.4864	62.28207	−1.029687169
26-Dec-06	1760.35	477.75	1759.4	476.8	542.4138	−65.6638	62.28207	−0.948499325
27-Dec-06	1786.74	481.1	1785.7	480.1	550.54192	−70.44192	62.28207	−0.884162016
28-Dec-06	1761.39	476.45	1760.4	475.5	542.73412	−67.28412	62.28207	−0.925657793
29-Dec-06	1765.79	482.25	1764.8	481.3	544.08932	−62.83932	62.28207	−0.991132145
2-Jan-07	1785.25	478.7	1784.3	477.7	550.083	−72.383	62.28207	−0.860451625
3-Jan-07	1781.94	471.45	1780.9	470.5	549.06352	−78.61352	62.28207	−0.792256472
4-Jan-07	1744.17	465.8	1743.2	464.8	537.43036	−72.63036	62.28207	−0.857521152
5-Jan-07	1736.76	468.65	1735.8	467.7	535.14808	−67.49808	62.28207	−0.92272358
8-Jan-07	1748.67	463.95	1747.7	463	538.81636	−75.86636	62.28207	−0.820944487
9-Jan-07	1745.5	454.95	1744.5	454	537.84	−83.89	62.28207	−0.742425438
10-Jan-07	1764.14	452.05	1763.1	451.1	543.58112	−92.53112	62.28207	−0.673093225
11-Jan-07	1774.88	462.1	1773.9	461.1	546.88904	−85.78904	62.28207	−0.725990989
12-Jan-07	1765.71	468.15	1764.7	467.2	544.06468	−76.91468	62.28207	−0.809755303
15-Jan-07	1731.41	486	1730.4	485	533.50028	−48.50028	62.28207	−1.284158978
16-Jan-07	1750.93	482.45	1749.9	481.5	539.51244	−58.06244	62.28207	−1.072674004
17-Jan-07	1744.28	484.1	1743.3	483.1	537.46424	−54.36424	62.28207	−1.145644085
18-Jan-07	1736.78	475.75	1735.8	474.8	535.15424	−60.40424	62.28207	−1.031087718
19-Jan-07	1740.33	467.8	1739.3	466.8	536.24764	−69.44764	62.28207	−0.89682054

22-Jan-07	1707.81	471.35	1706.8	470.4	526.23148	-55.88148	62.28207	-1.114538663
23-Jan-07	1681.61	464.6	1680.6	463.6	518.16188	-54.56188	62.28207	-1.141494208
24-Jan-07	1687.44	480.8	1686.4	479.8	519.95752	-40.15752	62.28207	-1.550944132
25-Jan-07	1685.27	510.1	1684.3	509.1	519.28916	-10.18916	62.28207	-6.11258141
29-Jan-07	1630.34	519.25	1629.3	518.3	502.37072	15.87928	62.28207	3.922222544
31-Jan-07	1669.02	464.9	1668	463.9	514.28416	-50.38416	62.28207	-1.236143859
1-Feb-07	1666.48	457.4	1665.5	456.4	513.50184	-57.10184	62.28207	-1.090719143
2-Feb-07	1665.81	462.65	1664.8	461.7	513.29548	-51.64548	62.28207	-1.205953938
5-Feb-07	1653.38	470	1652.4	469	509.46704	-40.46704	62.28207	-1.539081435
6-Feb-07	1610.66	464.9	1609.7	463.9	496.30928	-32.40928	62.28207	-1.921735688
7-Feb-07	1640.85	464.55	1639.9	463.6	505.6078	-42.0578	62.28207	-1.480868471
8-Feb-07	1627.37	462.65	1626.4	461.7	501.45596	-39.80596	62.28207	-1.564641828
9-Feb-07	1597.19	453.3	1596.2	452.3	492.16052	-39.86052	62.28207	-1.562500188
12-Feb-07	1587.08	443.8	1586.1	442.8	489.04664	-46.24664	62.28207	-1.34673719
13-Feb-07	1577.32	432.35	1576.3	431.4	486.04056	-54.69056	62.28207	-1.138808416
14-Feb-07	1570.89	438.55	1569.9	437.6	484.06012	-46.51012	62.28207	-1.339107919
15-Feb-07	1569.28	442.25	1568.3	441.3	483.56424	-42.31424	62.28207	-1.471893859
19-Feb-07	1570.7	443.6	1569.7	442.6	484.0016	-41.4016	62.28207	-1.504339687
20-Feb-07	1549.07	444.35	1548.1	443.4	477.33956	-33.98956	62.28207	-1.832388239
21-Feb-07	1532.04	455	1531	454	472.09432	-18.09432	62.28207	-3.442078509
22-Feb-07	1554.83	454.7	1553.8	453.7	479.11364	-25.41364	62.28207	-2.450733937
23-Feb-07	1570.47	460.25	1569.5	459.3	483.93076	-24.68076	62.28207	-2.523506975
26-Feb-07	1592.1	470	1591.1	469	490.5928	-21.5928	62.28207	-2.88439063
27-Feb-07	1568.31	469	1567.3	468	483.26548	-15.26548	62.28207	-4.079928702
28-Feb-07	1560.49	442.5	1559.5	441.5	480.85692	-39.35692	62.28207	-1.582493498
1-Mar-07	1542.85	451.1	1541.9	450.1	475.4238	-25.3238	62.28207	-2.459428285
2-Mar-07	1618.3	443.45	1617.3	442.5	498.6624	-56.2124	62.28207	-1.107977421
5-Mar-07	1624.65	420.75	1623.7	419.8	500.6182	-80.8682	62.28207	-0.770167631
6-Mar-07	1609.39	419.25	1608.4	418.3	495.91812	-77.66812	62.28207	-0.801900059
7-Mar-07	1577.62	413.25	1576.6	412.3	486.13296	-73.88296	62.28207	-0.842982875
8-Mar-07	1554.38	427.75	1553.4	426.8	478.97504	-52.22504	62.28207	-1.192571035
9-Mar-07	1541.51	433.8	1540.5	432.8	475.01108	-42.21108	62.28207	-1.475491032
12-Mar-07	1521.87	435.5	1520.9	434.5	468.96196	-34.46196	62.28207	-1.807270103
13-Mar-07	1553.16	444.75	1552.2	443.8	478.59928	-34.84928	62.28207	-1.787183839
14-Mar-07	1596.41	429.95	1595.4	429	491.92028	-62.97028	62.28207	-0.989070876
15-Mar-07	1605.27	433.25	1604.3	432.3	494.64916	-62.39916	62.28207	-0.998123532
16-Mar-07	1589.43	430.55	1588.4	429.6	489.77044	-60.22044	62.28207	-1.034234722
19-Mar-07	1567.68	429.9	1566.7	428.9	483.07144	-54.17144	62.28207	-1.149721514
20-Mar-07	1547.87	423.45	1546.9	422.5	476.96996	-54.51996	62.28207	-1.142371895
21-Mar-07	1575.2	430.15	1574.2	429.2	485.3876	-56.2376	62.28207	-1.107480938
22-Mar-07	1542.21	442.05	1541.2	441.1	475.22668	-34.17668	62.28207	-1.82235577
23-Mar-07	1545.33	438.3	1544.3	437.3	476.18764	-38.88764	62.28207	-1.601590377
26-Mar-07	1557.37	441.8	1556.4	440.8	479.89596	-39.09596	62.28207	-1.593056418
28-Mar-07	1584.78	441.35	1583.8	440.4	488.33824	-47.98824	62.28207	-1.297861101
29-Mar-07	1562.52	439.95	1561.5	439	481.48216	-42.53216	62.28207	-1.464352387
30-Mar-07	1547.27	449.65	1546.3	448.7	476.78516	-28.13516	62.28207	-2.213673923
2-Apr-07	1535.88	423.9	1534.9	422.9	473.27704	-50.37704	62.28207	-1.236318569
3-Apr-07	1527.81	431.15	1526.8	430.2	470.79148	-40.64148	62.28207	-1.532475441
4-Apr-07	1492.5	438	1491.5	437	459.916	-22.916	62.28207	-2.717842119
5-Apr-07	1455.83	465.5	1454.8	464.5	448.62164	15.87836	62.28207	3.9224498

9-Apr-07	1470.54	493.45	1469.5	492.5	453.15232	39.29768	62.28207	1.584879056
10-Apr-07	1471.33	495.6	1470.3	494.6	453.39564	41.20436	62.28207	1.511540769
11-Apr-07	1468.88	511.5	1467.9	510.5	452.64104	57.85896	62.28207	1.076446414
12-Apr-07	1439.3	496.05	1438.3	495.1	443.5304	51.5196	62.28207	1.208900496
13-Apr-07	1465.4	511.2	1464.4	510.2	451.5692	58.6308	62.28207	1.06227563
16-Apr-07	1467.26	534.5	1466.3	533.5	452.14208	81.35792	62.28207	0.765531739
17-Apr-07	1459.35	527.95	1458.4	527	449.7058	77.2442	62.28207	6300926
18-Apr-07	1460.79	511.5	1459.8	510.5	450.14932	60.35068	62.28207	1.032002788
19-Apr-07	1446.6	505.8	1445.6	504.8	445.7788	59.0212	62.28207	1.055249131
20-Apr-07	1411.88	533.35	1410.9	532.4	435.08504	97.26496	62.28207	0.640334094
23-Apr-07	1425.11	557.1	1424.1	556.1	439.15988	116.94012	62.28207	0.532597966
24-Apr-07	1467.32	579.75	1466.3	578.8	452.16056	126.58944	62.28207	0.492000518
25-Apr-07	1411.84	571.15	1410.8	570.2	435.07272	135.07728	62.28207	0.461084721
26-Apr-07	1463.35	560.5	1462.4	559.5	450.9378	108.5622	62.28207	0.573699409
27-Apr-07	1511.48	537.25	1510.5	536.3	465.76184	70.48816	62.28207	0.883582009
30-Apr-07	1568.23	549.45	1567.2	548.5	483.24084	65.20916	62.28207	0.955112288
3-May-07	1592.15	556.9	1591.2	555.9	490.6082	65.2918	62.28207	0.9539034
4-May-07	1594.43	553.4	1593.4	552.4	491.31044	61.08956	62.28207	1.019520684
7-May-07	1565.62	552.45	1564.6	551.5	482.43696	69.01304	62.28207	0.902468142
8-May-07	1594.72	553.35	1593.7	552.4	491.39976	60.95024	62.28207	1.021851103
9-May-07	1577.7	562.35	1576.7	561.4	486.1576	75.1924	62.28207	0.828302727
10-May-07	1634.62	576.4	1633.6	575.4	503.68896	71.71104	62.28207	0.868514388
11-May-07	1657.02	569.6	1656	568.6	510.58816	58.01184	62.28207	1.073609629

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Service on Loans and Advances – Factor Analysis

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ABSTRACT

The customer choice and awareness have been increasing tremendously during this decade due to more open economy, the advent of information technology and media revolution, besides hectic competition for resources by banks. As markets have become increasingly competitive, customers can now immediately go elsewhere if they do not get what they want. Continuous improvement, gaining the competitive edge, increased market share, higher profits-none of these things is possible unless businesses can find new ways of maintaining the loyalty of existing customers.

It takes only a few incidents and direct experiences for the knowledgeable customers to form an opinion about the quality of the services and the quality of the product offered. Hence, "customer service is not being viewed as just a business strategy but should become a corporate mission."

INTRODUCTION:

"By entering into your premises, the customer is giving you opportunity to serve him, but you are not doing a favour by serving him"

- Mahatma Gandhi.

The liberalisation and globalisation of Indian economy took place almost a decade ago. Ever since, the focus point in any service organisation has been "customer service", more so in the banking industry. The phrases such as "customer is the king in our business", "service to customer is service to God" are no more a myth but have turned out to be a reality. Customer service is the base for business expansion because of the stiff competition prevalent in the banking industry. With the advent of new private banks, the concept of "customer service" has become an important and pivotal issue in banks, whether it is in the public sector, private sector, co-operative sector and so on. The survival of banking business is dependent on customer services.

CUSTOMER SERVICE-SIGNIFICANCE

"The Banking sector industry is considered a service oriented industry. It has to render manifold services to the people who visit the banks. Customer service refers essentially to counter level inter face or through other modes with the customers." [1]

The issue of proper customer service is central to all business operations. That is why management experts have for long, considered customer service as an integral part of the growth strategy of their businesses.

'The leader of an organisation should live and breathe customers' needs and should communicate this across the organisation.”[2]

Hence, the major component of customer service is related to the involvement and commitment of the staff rendering such service. Since the marketing of financial service offered by bank very much depends on the quality of customer service and the satisfaction that customers derive from the services they receive the important criterion to judge the benchmark of a bank is customer satisfaction in terms of good service.

BANKER AND CUSTOMER RELATIONSHIP

Today the relationship between the banker and customer has come under sharp focus both at the banker's as well as at the customer's ends. Many customers are expecting better service. The dominant questions which are bothering the minds of bank management today are how to improve customer service and competitive advantage. The products are almost the same; however, the battleground is service.

Paradigm Shift – Scenario in India

Before 1991	After1991
Seller's market	Buyer's market
Protected market	Open market
Not many global brands	Increase in number of global brands
Friendly competition	Cut-throat competition
Patient customers	Demanding customers
Limited choice for customers	Increasing choice for customers
Limited role of service	Increased role of service
Speed @ will	Turbo speed
Fundamental standalone system	Enterprise system
IT-competitive advantage	IT-Enabler
Gaining new customers	Retaining existing customers
Monologue	Dialogue
Transaction	Relationship

Source: IBA Bulletin, August 2004, p-6.

STATEMENT OF PROBLEM

Customers' preferences keep on changing at a rapid speed and their demands are turned insatiable. In order to cater to the changing preferences, bankers are bound to provide the services suitable to their needs to survive in the competition. Hence an attempt is made to analyse the opinion about factors affecting satisfaction of customers on Loans and Advances were subjected to factor analysis

REVIEW OF LITERATURE

Kamath[3] in his thesis entitled "Marketing of Bank Service with Special Reference to the Branches in Bombay City of Syndicate Bank" has concluded that quick and better services mattered in attracting and retaining a bank customer.

R.P Goyal[4] in his article "Customer Service in Banks" has underlined the importance of improving customer service in banks and suggested that it could be achieved by motivating and orienting the staff, simple systems and procedures and specific schemes to suit customer needs.

H.K. Bedbak[5] in his study entitled "Institutional Financing for Priority Sectors – An Analysis of Delay and Attitude," has analysed the delays in sanctioning of loans and attitude of institutional agencies towards the customers as borrowers.

Manjit Singh[6] in his project "A Study of the Impact of Bank Lendings on Weaker Sections – A Case Study of Agricultural Development Branch of State Bank of India, Moga" has reviewed the standard of living of beneficiaries and non beneficiaries in Moga of Madhya Pradesh.

R. Neelamegam[7] in his research study "Institutional Financing to Small Scale Industries" has reviewed the various types of institutional financing facilities available to small scale industrial units in Tamil Nadu.

Ranade[8] in his study entitled "Marketing of Deposit and Allied Service to Non-resident" customers concluded that guide service is the major factor influencing an NRI in the selection of a bank.

Eugene W. Anderson, Daes and Furness and Donald R. Lehmann[9] discussed the links between quality, expectations, customer satisfaction and profitability. The findings state that when quality and expectations increase, there is a positive impact on customer satisfaction and in turn, profitability.

OBJECTIVES OF THE STUDY

1 to analyse the opinion of customers on Loans and Advances service and influencing factors

2 to offer suggestions for the improvement of customer services in State Bank of India

SCOPE OF THE STUDY

This study covers the customer services rendered by State Bank of India in Madurai city. As the study is an empirical study to identify the attitude of the customers towards the services rendered by the banker, the study has been focused towards customers who are the recipient of services and bank employees who are the agencies of delivery of services. As such, it has been projected from the point of view of bank employees and from the point of view of bank customers. It is analysed with reference to customers and employees attitude. The State Bank of India in Madurai city consists of 13 branches. The study was undertaken on the customers and Bank employees of 13 branches only.

METHODOLOGY

The present study is an empirical one based on survey method. Data were collected from both primary and secondary sources. The primary data were collected from banks' customers and bank employees by means of interview schedule and questionnaire.

SAMPLING DESIGN

The study aims at analysing the attitude of customers of State Bank of India in Madurai city branches with regard its services.

242 bank employees were supplied with the questionnaire in 13 branches of State Bank of India in Madurai city. But only 240 respondents filled in the questionnaire. Out of these 240 respondents, 60 respondents were bank officials (Bank Managers and Officers). All of them have responded. The remaining was clerical which amounting to 60 per cent of the clerical staff selected on proportionate random sampling method. Indeed, the questionnaires were given through branch managers of the said 13 branches to the clerical staff and they got back researcher the questionnaire filled in by the clerical staff of the respective branches.

GEOGRAPHICAL AREA OF THE STUDY

The study covers the whole area of Madurai city only where the branches of the State Bank of India are situated. They are Amman Sannadhi Branch, Arasaradi Branch, Commercial Tax Complex, Madurai Agricultural Development Bank Branch, Madurai city Branch, Pasumalai Branch, Personal Banking Branch, Tallakulam Branch, Vinayaganagar Branch, West Tower Branch, Railway Station Branch and Madurai Main Branch.

ANALYSIS OF THE STUDY

FACTOR ANALYSIS

Factor Analysis is called the queen of analytical methods. Factor analysis is based on the fundamental assumption that some underlying or latent factors which are smaller in number than the number of observed variables, are responsible for the co-variation among the observed variables. Thus a certain correspondence exists between the underlying factors and observed variables. The mathematical properties of the correspondence are such that one causal system of factors leads to a unique correlation system of observed variables, but not vice verse. The correlation co-efficient is used as a measure of interrelationship (association) among the variables and those between the subsets. A factor analytical approach is used to address whether these observed correlations could be explained to the existence of a small number of hypothetical variables. Simply, it is a method for extracting common factor variances from sets of measures.

Principal component analysis method with varimax rotation had been selected since it is an approach to factor analysis that considers the total variance in the date and also enhances interpretability. Principal component analysis is recommended when the primary concern is to determine the minimum number of factors that will account for maximum variance in the data for using subsequent multivariate analysis.[3] Varimax procedure is an orthogonal method of factor rotation that minimizes the number of variables with high loadings on a factor thereby enhancing the interpretability of the factors.[4]

In the research, factor analysis has been used to identify the structures and to minimize the items within each dimension. For each dimension, factor analysis was done separately with the items of that particular dimension. The items, with high factor loadings in the first factor the first factor is the one with high eigen value and explains maximum proportion of the total variance have been selected as they are supposed to represent one common construct of that particular group.

LOANS AND ADVANCES

The estimated results for loans and advances are given in Table 1

TABLE 1 Rotated Factor Loading-Loans and Advances

Sl. No.	Variables	F1	F2	F3	H2
1	Provision of Car Loan.	0.89569	0.09954	0.15154	0.83513
2	Provision of Educational Loan	0.84452	0.22251	0.12767	0.77903
3	Provision of Jewel Loan	0.82165	0.091	0.18047	0.71595
4	Provision of Personal Loan	0.80373	0.20656	0.28441	0.76954
5	Provision of Property Loan	0.7231	0.26557	0.34364	0.71149
6	Bank provides need based Loan	0.68272	0.21343	0.3362	0.62469
7	Provision of housing Loan	0.64141	0.21147	0.47166	0.67859
8	Provision of Loan of Pensioners	0.12339	0.85471	0.13674	0.76445
9	Provision of Project Finance	0.41737	0.79232	0.02401	0.80254
10	Provision of Festival Loan	-0.01644	0.76839	0.38903	0.74203
11	Processing Fee is Nominal	0.27395	0.61782	0.22461	0.5072
12	Easy Repayment Instalments	0.2411	0.13601	0.85816	0.81306
13	The Loans are Adequate	0.27965	0.33034	0.76076	0.76639
14	Refinance Provided	0.42647	0.22711	0.63352	0.63481
	Percentage variance explained cumulative	52.2	64.8	72.5	

Source: Primary Data

Table 1 represents the matrix of common factor co-efficient or factor loading. The number of factors extracted was seven. The ratios which have the highest loading (70.50) in each factor are grouped, that is the ratio's which are more closely related to a particular factor are boxed. The last column in table is communality (h2), that is the variance explained by the factor. In the following section, these results can be interpreted by carefully examining the significant loading for ratios clustering on each factor.

Factor I (F1)

In this factor, 'Provision of car loan (0.89569)', 'Provision of Educational loan (0.84452)', 'Provision of Jewel loan (0.82165)', 'Provision of Personal loan (0.80373)', 'Provision of Property loan (0.72310)', 'Bank provides need based loans (0.68272)', 'Provision of housing loan (0.64141) have the highest significant positive loadings. As the above related to bank's provision of different types of loan to suit to customers, Factor I is characterised as "Varied need based Loans".

In State Bank of India, customers are availing of different types of loans suitable for their best needs.

Factor II (F2)

In the second factor, 'Provision of loan to pensioners (0.85471)', 'Provision of project finance (0.79232)', 'Provision of festival loan (0.76839)', 'Processing fee is nominal (0.61782)', are all the variables that have the highest significant positive loadings on Factor II.All these variables represent loan to special group and processing fee. Factor II can be named as "Loan to special group and processing fee".

Factor III (F3)

Third factor consists of variables namely, 'Easy repayment instalments (0.85816)', 'Loans are adequate (0.76096)', 'Refinance provided (0.63352)' with highest significant positive loadings. Since these represent the payment terms of loan, Factor III is called as "Terms of Loan."

State Bank of India customers are enjoying easy payment terms, loan adequacy, and refinance for further activities.

SUGGESTIONS

Recognition of service quality as a competitive weapon is relatively a recent phenomenon in the Indian Banking sector. Prior to the liberalisation era the banking sector in India was operating in a protected environment and was dominated by nationalised Banks. Banks at that time did not feel the need to pay attention to service quality issues and they assigned very low priority to identification and satisfaction of customer needs.

CONCLUSION

Customers vary in their expectations and attitudes and belong to wide socio-economic and cultural backgrounds. The gap between the expectations of customers and theirfulfillment is the root cause of grievances which affects the image of the bank. To overcome this situation, there should be an effective monitoring mechanism and constant vigil over the services provided to customers. Since they have a wide choice of services and multiplicity of products they are more conscious of convenience and cost, safety and speed, respect and quality, courtesy and elegance. State Bank of India has to be very careful in responding to the needs of their customers in an intensely competitive and rapidly changing environment.

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An Evaluation of Npa of Selected Private Sector Banks in India for The Period of 2000-2010

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INTRODUCTION:

Banks are basically service-rendering institutions. The existence and success of banks depend on their ability to meet the various needs and wants of the customers. Private sector banks play an important role in development of Indian economy. After liberalization the banking industry under went major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed, new generation banks with used of technology and professional management has gained a reasonable position in the banking industry. The main focus of this research is to analyse the effect of NPA on Indian Private Sector banks.

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the banks have become very cautious in extending loans. An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. As per the prudential norms suggested by the Reserve Bank of India (RBI), a bank cannot book interest on an NPA on accrual basis. In other words, such interests can be booked only when it has been actually received. Therefore, this has become what is called as a 'critical performance area' of the banking sector as the level of NPAs affects the profitability of a bank

A major drag on the banking system in India is the slow progress in the management of non- performing assets (NPAs). In 2001, the ratio of NPAs to net advances stood at about 10-15 per cent. A few banks have much higher levels of NPAs than average and low capital. To support the weak public sector banks, the government injected a substantial amount of capital before the banks were allowed to tap the capital market. Detailed recommendations for restructuring of weak public sector banks (Indian Bank, UCO bank, and United Bank) were given by the RBI appointed Verma Committee (RBI, 1999). In the early 1990s, the Government of India amended the relevant legislation to provide for a reduction of its stake in the public sector banks to 51 per cent.

The problems which have assumed enormous proportion today as far as Private Sector banks concerned are ballooning NPA levels, declining margins, poor credit off-take, high overheads, and lack of good quality assets. Net NPA as a percentage of Net advances will be used to study the quality of the assets of the bank.

As at end-March 2014, SCBs comprised 27 public sector banks (State Bank of India and its six associates, 19 nationalized banks and the IDBI Bank Ltd.), 7 new private sector banks, 13 old private sector banks and 31 foreign banks. The following table shows the number of banks and branches operating in India.

The Scheduled Banks in India (Private Sector)	
1. Catholic Syrian Bank	11. Ratnakar Bank
2. City Union Bank	12. South Indian Bank
3. Dhanlaxmi Bank	13. Tamilnadu Mercantile Bank
4. Federal Bank	14. Axis Bank
5. ING Vysya Bank	15. Development Credit Bank
6. Jammu & Kashmir Bank	16. HDFC Bank
7. Karnataka Bank	17. ICICI Bank
8. Karur Vysya Bank	18. IndusInd Bank
9. Laxmi Vilas Bank	19. Kotak Mahindra Bank
10. Nainital Bank	20. Yes Bank

STATEMENT OF THE PROBLEM

In a fast changing banking environment of today the very survival of a banking organization depends on level of the income generated through optimum use of assets after paying the cost of funds for acquiring them and other administrative costs involved therein. Once the assets cease to contribute the income, they are termed as Non Performing Assets, which not only affects the profitability of banks but also affects on the performance of private sector banks.

One of the important functions of banks is to maintain the quality of assets, which requires proper selection of borrower, appraisal of his/ her project, adequate credit, close monitoring, supervision and follow up. In spite of this there is always risk of accounts becoming non- performing. There is therefore, need to devise suitable strategy for accounts, which have gone bad and / or classified as non-performing assets.

One of the major problems being faced by banks and financial institutions in India is that of bad debts termed as “Non Performing Assets” (NPA). There are many reasons for the sorry state of affairs and major among them are

1) Political interference,
2) Poor low enforcement,
3) Archaic laws and procedures,
4) Corruptions at various levels and competition in various banking institution,
5) Flow of Funds.

As after considering the importance of strategic research in Indian banking industry, it is felt necessary to carry out a study entitled "An evaluation of NPA of selected Private sector banks in India for the period of 2000-2010."

OBJECTIVE OF STUDY

1. To analyse the performance of PVSB in India during the period Aril 2000 to 2013.
2. To examine the growth and Impact of GNPAs in private sector banks in India during the period Aril 2000 to 2013.
3. To forecast NPA figures for banks with special reference to PVSBs for the years 2015, 2016, 2017 and 2018.
4. To offer policy suggestions to better manage NPAs.

HYPOTHESES

1. Performance of PVSBs is better than PSBs during the study period.
2. NPA levels have been historically low in the case of PVSBs as compared with PSB.
3. NPAs in PVSBs are likely to be at elevated levels post 2015.
4. High levels of NPA will significantly impact the profitability.

DATA COLLECTION

The research is mainly based on the secondary database but it is supported by the primary data. Secondary data have been collected through structured questionnaire, annual reports, authentic records and publications of RBI and website of individual banks and RBI website.

Primary data are collected through structured questionnaire from the officers, Managers of credit department of selected private sector banks head offices in Maharashtra. The questionnaires were undertaken from selected banks operating and having head offices in Maharashtra only. The data is collected though from officers of below mentioned banks.

1.	ICICI bank	10.	Dhanlaxmi bank ltd.
2.	Ratnakar bank ltd.	11.	The catholic Syrian bank limited
3.	Ing Vysya bank	12.	The Karur Vysya bank
4.	Karnataka bank ltd	13.	Yes bank
5.	The federal bank ltd	14.	The Lakshmi Vilas bank ltd.
6.	Jammu and Kashmir bank ltd	15.	Development credit bank ltd.
7.	Indusind bank ltd	16.	Kotak Mahindra bank
8.	City union bank ltd.	17.	HDFC bank
9.	Axis bank		

The secondary data has been obtained for a period of fourteen years starting from 2001-02 to 2013-14. Secondary data were also collected from different journals on banking, Economics and Finance; Database of Indian Economy Financial Express, Publications and Websites of Industry Associations (IBA, CII and ASSOCHAM); Publications of Bank Management Institutes (NIBM, IIBF) Annual Reports of Ministry of Finance (Government of India), Publications of World Bank (IBRD); Asian Development Bank (ADB) and Board for International Settlement (BIS).

The private sector banks selected are:

1. HDFC Bank
2. ING Vysya Bank
3. Karnataka Bank
4. Developmental Credit Bank

STATISTICAL TOOLS UTILIZED:

The research is based on the secondary data and for the analysis of the entire data related to NPA is financial in nature which required careful scrutiny for which relevant statistical tools have been utilized as per the need of the study-

1) Percentages
2) Comparative statements and
3) Regression analysis

PERIOD FOR STUDY:

The period of the study is thirteen years on the basis of NPA management i.e. from 2000-13. The analysis is made for the study because the complete data for the entire period is available.

SCOPE AND LIMITATIONS OF THE STUDY

For the purpose of study, Head offices of a Private Sector banks have been selected form Maharashtra. The banks have very well spread out net work with 20 head offices in Mumbai.

These offices are taking up all type of banking business irrespective of their corporate offices locations in India, Which enables researcher to improve knowledge about the banking sector, specifically on account of NPAs. This study also enables Private sector banks to know its actual position on NPA management in last 14 years.

The scope of the study is restricted to the selected banks and the area specified in methodology. The geographical limit of the study confined to two districts of Western Maharashtra i.e. Pune, Mumbai (Head Offices of Selected Banks). Unfortunately some banks were merged into some other banks which have caused a major hurdle in data collection which has hampered the research work.

- The limitations of tools and techniques applied for the analysis are inherent in the present study.
- Deeper study could not be possible due to the RBI restrictions on disclosure of data on part of higher officials.
- Since the primary data & secondary data used in this work are collected from the officers of PVSBs and published annual reports of respective PVSBs respectively, they have inherited limitations.
- The present study is based on the selected four PVSBs. As the size of the sample selected is very small, the limitations of a small sample are applicable and statistical information of which are available for the entire period of study.

In spite of all these limitations this study throws light on the important challenging problems of the PVSBs.

CHAPTER SCHEME

CHAPTER 1. RESEARCH METHODOLOGY

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OBSERVATIONS

Based on the analysis of the primary and secondary data and interpretations, the findings of the study related to the set objectives have been presented in the following paragraphs:

1. Performance in terms of Operating Expenses to Total Assets, Operating Expenses to Total Business & Cost Income Ratio it is seen that all three ratios have seen a significant improvement during this period, indicating improved efficiency of the banking system except HDFC Bank as its Operating Expenses to Total Assets, Operating Expenses to Total Business is increasing in 2012 & 2013.

2. Banking productivity in terms of staff costs has seen a considerable improvement during 2000-2013. While the ratios have increased over this period in case of DCB bank, the ratios have seen a considerable decline in case of HDFC and Karnataka Bank. Within operating expenses, it is observed that staff expenses have improved faster than other operating expenses.

3. Average staff expenses to total assets, Average staff expenses to total business and Average staff expenses per employee of public sector banks are significantly greater than private sector banks. Wherein other operating expenses to total assets and Average other operating expenses to total business of private sector banks are significantly greater than public sector banks.

4. Average Net income margin, Gross incomes to total assets of public sector banks are significantly greater than private sector banks. Wherein the average operating profits to total assets of private sector banks are significantly greater than public sector banks.

5. The average net income margin of HDFC Bank, ING Vysya Bank, DCB bank and Karnataka Bank is showing raising trend from 200 to 2013. HDFC Bank, ING Vysya Bank has more NIM as compare to DCB bank and Karnataka Bank during the reference period and this holds good for all the private sector banks.

6. Performance in terms of Gross Returns on Total Assets appears good in the case of the two private sector banks compared to the two public sector banks during the reference period and this holds good for all the private sector banks for the reference period (2000-2013).

7.There is definite evidence of productivity and efficiency gains in Indian banking. This productivity gain has led to strengthening of balance sheets of banks.

8. It is found that the operation profit and net profit of HDFC Bank, ING Vysya Bank is greater than to DCB bank and Karnataka Bank during the reference period and of private sector banks are significantly greater than public sector banks this holds good for all the private sector banks.

9. During the study period the GNPA of all the bank groups show increasing trend in absolute terms whereas in terms of percentage to gross advances, it shows declining trend. It shows very significant improvement in the GNPA ratio.

10. The analysis of data shows that Gross NPA & Net NPA of all the sectors has increased in absolute terms where as it has reduced in terms of percentage to advance. The analysis of NPAs of three bank sectors indicates that, public sector banks hold higher share of NPAs.

11. Standard advance, Sub standard Advances, Doubtful Advances and Loss Advances of all private sector banks are lower than public sector banks during the reference period. Sub standard Advances, Doubtful Advances and Loss Advances of all private sector banks declined from 2000 to 2008 but start rising from 2009 to 2013.

12. It is seen there is a positive relation between Net Profits and NPA of all commercial banks, Public sector banks and private sector banks. Coefficient of correlation of all commercial Banks is 0.8008, All Public Sector Bank is 0.894 and of all Private sector Banks is 0.3958. It simply means that as profits increase NPA also increases. In selected Private sector Banks HDFC bank, Karnataka bank and DCB bank shows a positive relation between Net Profits and NPA whereas ING Vysya bank shows a negative relation between Net Profits and NPA which means that as profits increase NPA also decreases.

13. The macro stress tests on credit risk among the bank-groups suggest that under baseline scenario, GNPA ratio of selected PVSBs is expected to rise to around average 4.34% for HDFC Bank, 1.37% for DCB bank, 17.84 for Ing Vysya Bank and expected to fall to around average -11.49 for Karnataka Bank. GNPA ratio of all PVSBs is expected to rise. If the macroeconomic conditions improve GNPA is

expected to fall to around average of -3.4004% as compare to all commercial banks which is all expected to fall at an average of -2.44% but if it deteriorates further, the GNPA of PVSBs may rise. GNPA of HDFC bank and ING Vysya bank is expected to rise and GNPA of DCB bank and Karnataka bank will fall from year 2015 to 2018.

14. Macro stress test of sector level credit risk revealed that among the selected eleven sectors, Finance, Insurance Real Estate & Business Services and Services sectors is expected to have highest NPA ratio. However, the adverse macroeconomic shocks seem to have maximum impact on Services sectors, Electrical Water & Gas Supply and Community Social & Personal Services sectors respectively.

15. All 17 banks credit managers said that borrowable accounts can be saved from NPA by Regular Industrial Visit, Restructuring in Early Stages & Reduce Exposure When the first Signs of Stress are Visible. The reason behind account becoming Non-Performing is Natural Calamities, Change on Govt Policies, Industrial Sickness, Managerial Deficiencies, and Absence of Regular Industrial Visit & Defaults on Servicing of Principal Interest. 88.2% of respondents are saying that for conducting the account they are facing difficulty because of Natural Calamities, Change on Govt Policies, Industrial Sickness and Inability to Generate Sufficient Liquidity to Service Debts. The strategies for recovery of dues as per private sector bank officials is Restructuring of debts and one time settlement. Only by using these strategy banks can reduce their NPAs.

16. NPA account can be prevented by Proper training, regular industrial visit, Re loaning process, Lending process, Proper SWOT analysis and restructuring in early stages. Only 37.3% of respondents are saying that NPA account can be prevented by Proper training, regular industrial visit and restructuring in early stages on the other hand 62.7% respondents are saying that by Proper training, regular industrial visit, Re loaning process, Lending process, Proper SWOT analysis and restructuring in early stages NPA account can be prevented.

17. Based on the observations made from the survey and information obtained during the course of non-formal interviews or discussions and questionnaire filled, it can be concluded that NPAs were caused because of willful default, diversion of funds, deficiency in the credit appraisal standards and lack of supervision and follow-up. Opinions indicate that banks were becoming averse to lending and prefer to have safe investment in Government securities. Lack of market intelligence system, need of adequate trained staff to supervise the credit portfolio, absence of exchange of credit information among banks was the major obstacles in containing NPAs.

18. The study observed that banking system has recorded improvement in the asset quality of banks till 2010-2011, there after the asset quality has deteriorated in the year 2012 & 2013 after a period of sustained improvement. The data shows decreasing trend in NPA till 2011 then the trend starts increasing in 2012& 2013 in both the Gross NPAs and Net NPAs.

19. The analysis of data shows that Gross NPA & Net NPA of all the sectors has increased in absolute terms where as it has reduced in terms of percentage to advance. The analysis of NPAs of Public and private sector bank indicates that, public sector banks hold higher share of NPAs as compare to Private sector bank.

RECOMMENDATIONS

New patterns must inevitably be adopted, but they must be integrated with the old. For the sake of convenience the recommendations are grouped as recommendations to Head Offices of the Selected Banks and Recommendations to Branch Offices of the Selected Banks. The researcher has also made an attempt to give a suitable model for recognizing GNPAs of the banks.

1. The loan application form is the basic document from which creditability and credit worth of the borrower could be judged, this document be developed with due care, get filled in properly; communicating all the rules and regulations, penalties in case of non payments to the borrowers.

2. An account does not become an NPA overnight. The account sends out enough number of signals of the impending problems and banker should be alert to catch these signals for quick analysis, react on the same promptly and take corrective actions.

3.While making distinction between “Standard” and “Sub-Standard” categories of assets potential NPAs should be assessed and recovery attempts should be made carefully.

4.The Bank management (Not Branch Level) should consider the following special and specific strategies to curtail NPAs.

- Credit Audit to Pre-empt NPAs
- Identification of potential NPAs.
- Problem Loan review and Reporting.
- Monitoring of exposures during holding on operation.
- Risk management system.
- Strong and effective credit monitoring.
- Open and co-operative working relationship with borrowers.

- Effective legal framework to bring recovery suits to their logical conclusion.
- Effective recovery system with reasonable time frame.
- Compromise settlement should be explored as an effective non-legal option for recovery.
- Explaining the policies and procedures adopted in making provisions towards NPAs.
- Write-off of bad loans by Banks should be decided by the Board of Directors, depending among others on the repayment cultures and legal system.
- Reporting the balance of uncollected interest on NPAs as a memorandum item, this would be useful if addition and deletion during the preceding specified period for reflection.
- General provisions may be required to be reported as a separated item" Capital and Reserves". The 'Specific provisions' may be required to be reported so as to facilitate arriving at "Provision –Adjusted NPAs i.e. Net NPAs".
- It should be a requirement that the system followed in the matter of classification of Assets, should be explained fully in the form of Foot- Notes to the accounts in the ease of NPAs.
- Direct constant with the borrowers.
- Involvement of staff at the branch level in recovery programmes at the rural and semi- urban branches. (Recovery is not one-man Job at rural areas).
- Monitoring of standard Assets on a quarterly basis.
- Branches with sizable NPAs should be identified, and skilled, Trained and motivated staff should be posted.
- Periodical Meetings with the NPA borrowers should be convinced in order to ascertain the reasons for defaults and true financial position of the borrowers units.
- In case of doubtful and Loss Assets, periodical review to explore the possibilities for quick write –offs in cases where these are fully provided for.
- At branch level, the branch manager in particular should accept the responsibility for both bending and recovery of huge amounts.

5. To achieve better recovery in both the sectors separate legal departments should be developed and constant follow-up of cases be made by filling suits, appointing of good advocates and time to time reporting to management.

6. It is recommended for both the sector the rescheduling of NPA accounts should be arranged through installments of principal along with interest. This will result in increase in standard accounts and decrease in NPA accounts.

7. The bank should develop continuous relationship with the borrowers and prefer to give silent listening to the problems and guide them in their hard time to get proper cooperation in recovery. In case

of fresh NPA attempt should be made to convert the account in standard account by extending additional credit facility, and rescheduling. This will prevent the account to become NPA.

8. It is high time to introduce methods of evaluation of risks involved in lending and to determine category or degree of risk so as to decrease nonperforming assets. And there should be quarterly / monthly review of NPA account prior to balance sheet date to know the actual position of accounts to get an early signal of potential NPA accounts.

9. There must be emphasis on reduction of Net NPAs as Zero Net NPA indicates good NPA management.

10. To conduct monthly or quarterly meeting for meaningful dialogue with the borrower (NPA) consulting with the management to arrive at a possible solution.

11. When chances of recovery are negligible bank should write-off an advance to reduce its income and save tax. In other words up to certain extent doubtful and loss assets should be written off.

12. In order to decrease NPA, personnel of the banks must be motivated by motivational scheme and while judging the performance of staff; sufficient emphasis should be laid to the recovery of loans.

13. One Time Settlement, compromise and write–off powers should be assigned to the branch manager up to a minimum limit of amount this will help to take immediate actions and resultantly NPA level will be minimum.

14. Enactment / amendment of Revenue Recovery Act, comprehensive amendment in the DRT Act. Opening more DRT's and DRATs, strengthening DRT set up modifications, comprehensive amendment in sick industrial companies Act (SICA) and strengthening BIFR branches (sick unit under SICA "Erosion of Net Work" should be substituted by "debt default"), opening of special Rehabilitation and Recovery Branches (RARBs), compromise settlements, credit Risk assessment system, exploring mergers and acquisitions etc. steps should be taken to recovery of NPAs.

15. Circulation of information among defaulters by banks or bank groups, strengthening Settlement Advisory Committees (SACs), proper utilization of power vested on the banks under the SRFAESI Act are empower the banks in their war against NPAs.

16. The following are preventive and corrective measure for reducing the NPAs in Indian Banking system.

- Banks should examine the viability of the project before providing financial assistance. It is required to ensure that the project will generate sufficient returns on the recourses invested in it.
- Sanction of financial assistance after proper appraisal alone is not sufficient for recovery of advances. Disbursement of funds according to the requirements of the project, effective supervision and timely follow up, involvement of all the staff members for better recovery and update knowledge of NPA accounts are also equally essential. If proper care is taken for appraisal, supervision and follow-up of the advances, future NPAs can be avoided.
- The service of professional should be used in credit appraisal. Towards implementing such professionalism, professionals such as Charted Accountants, Engineers, Lawyers etc. should be required and associated at all levels of credit appraisal (and of course at other stages too).
- However, good the credit dispensation process may be, total elimination of NPAs is not possible in banking business owing to the externalities, but their incidence can be minimized by taking necessary precautions special care should be taken for those advances which are showing irregularities and likely to become NPAs.
- There should be operational restricting covering aspects like revamping management, staff and branch rationalization. Simultaneous steps should be taken to prevent reemergence of NPAs by stricter application of prudential norms. By the use 'Critical Amount Concept' and other strategies like Lok Adalat, CDR scheme and ARCs etc., NPAs in future can be reduced to a great extent.

17. In order to improve productivity and efficiency, banks need to be given more flexibility in operational matters, particularly in manpower practices. In fact, HR practices at banks need to undergo significant change in areas such as manpower planning, job description, performance appraisal, promotion and placement policies, performance based compensation practices, etc. Attaining greater productivity and efficiency requires not just the right technology, systems and processes, but also the manpower with the right skills and attitude, demonstrating the necessary flexibility and adaptability to be able to keep pace with the changing times. Greater emphasis has also to be laid on productivity in terms of per branch and per employee performance.

18. Banks should strive to improve their pricing ability, both for liability and asset products, with the objective of ensuring that the pricing framework is transparent, nondiscriminatory and non-exploitative. The basic principle of pricing should be that the poor and the vulnerable should not be subsidizing the provision of banking services to the rich. Besides, an effective pricing framework can assist in building up balance sheet strength by encouraging good business and shedding bad business. However, for all this, banks need to develop the ability to identify risks and to build them into their pricing frameworks.

19.Banks are require increase the asset quality and sustain the improvement and have to take effective steps to reduce NPAs to achieve international level. As the advances of banks are increasing and simultaneously the NPAs are also increasing. Banks are suggested to manage their accounts properly so as to reduce the slippage of good assets into NPAs. Banks have to reduce the growth rate of new NPAs by taking some measures such as-

- Induce extensive efforts to nullify existing NPAs.
- Effective asset management
- Banks have to strengthen their credit appraisals and post sanction loan monitoring system to minimise the problem of increasing NPAs
- Banks have to place a mechanism for early detection in loans reimbursement which eventually becomes NPA.

20. In order to take care of the internal deficiencies especially relating to risk assessment and pricing, banks must embark upon a dynamic method in tune with the changing economy. Most of the restructured assets are large accounts and risk assessment and pricing assume greater significance. Banks should consider the rigor and robustness of project appraisal, credit monitoring and continuous assessment of the health of the large accounts in terms of early warning signals.

21. The Gross NPA line would have remained where it is, for it doesn't depend on provisioning. However, if the banks were provisioning adequately, the Net NPA line should have been hovering around zero, going both positive and negative, but mean-reverting to zero! This is because banks would periodically over and under-forecast their bad assets and provision accordingly, and then dynamically change the model.

22. Lastly, the linkage between asset quality and health of the economy is well known and also discussed briefly in the earlier part of this paper. While it is neither possible nor desirable to discuss the factors responsible for economic slow-down, one must mention that the Government as policy maker (and perhaps RBI as well) must also take credit/discredit for deterioration in the asset quality. Having said, Government and RBI also can influence macro-economic environment positively and therefore, one must wait for at least months to come and remain optimistic in the near-term.

CONCLUSION

The Indian banking system has seen important productivity improvements over the last two decades with the Private sector banks and Public sector banks. However, the pace of progress has declined, largely due to lack of desired impetus. We continue to lag behind on various productivity parameters i.e. macroeconomic parameters.

The study found that Private sector banks overall NPA has consistently & successfully been reduced from year 2000 till 2013. The success attributes to the policies and efforts put in by Government and Banks in total. Banks should ensure that they attain greater allocation efficiency by extending access to financial services to the unbanked masses and providing the excluded poor the opportunity to leverage the financial system to improve their economic condition.

Growth of banking is dependent on professionalisation of its management, technology absorption and scrupulous adherence to regulatory framework. It is predicted that the sector will learn from its past experience and adjust to new realities since the business of banking involves a great deal of risks.

As the sanctity of ethics and values is getting eroded and challenges and risks faced by banks and borrowers are increasing because of fast changes taking place in business environment and the economy in the context of economic liberalization and globalization, the possibility of some investment failures cannot be rules out both from banks' and borrowers' angle. In such a scenario, the presence of NPAs is unavoidable and the only way to come out of this is to have the suggested Fund built up over a period of time. This will certainly prove to be a win-win situation for all stake holders of banking including the major stake holders the Government.

As NPA's are a direct reflection of asset quality, estimating them can prove useful in overall credit management. We attempt to model the non performing assets at one of India's midsized banks as a function of the loans advanced by the bank. We obtained statistically significant linear and non linear models to accomplish the above. A cubic model provided the best fit for net NPA percentage and an S Curve model provided the best fit for the Gross NPA percentages as a function of advances, thereby helping us arrive at NPA estimates. Given large time lags involved in establishing problem loans as NPAs, this can help managers at banks arrive at an estimate of NPA as soon as advances are made, as opposed to relying solely on the RBI for published NPA figures. Thus bank managers can monitor and improve their asset quality continuously over time by monitoring amounts advanced and corresponding NPAs over a periodic basis.

Finally, it is very important in the present situation that the RBI should act as a “watch dog” in order to see that banks perform in time with the rules of inspection monitoring etc.

FURTHER PROSPECTIVE FOR RESEARCH

This research is based on Primary and secondary data .We just made the conclusion on the bases of analyzing the data collected through Annual reports of private sector banks of past 14 years. We suggestthe research scholars that they can further do the research on the topic related to comparison of NPA of various banks and predict factors which will affect rise in NPA so that banks could make necessary provision for the same.

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