



A Critical Evaluation of Internal Factors Responsible for Real Estate Construction Companies to Become Non Performing Assets to Banks: With Special Reference to Selected Public and Private Banks of New Delhi and Chandigarh.

Sukhbir Singh^{1*}, Dr Rashmi Nair², Dr Sapna Suri³

Abstract:

A robust banking industry supports the development of a nation's economy. A decline in the banking industry would have an effect on other industries that contribute to the nation's economy. Unfortunately, it has been seen in India that NPAs provide a significant problem to banks and are used as a measure of their success. A high NPA demonstrates numerous loan defaulters, which has an impact on the profitability and assets of banks. Banks' primary responsibility is to provide credit for a range of economic activities that contribute to economic growth. NPAs are assets that no longer generate income for the bank or themselves. This results in a decrease in benefits and the ability of the bank to allow any additional recognition. Recovery and management of all those stressed assets, posing a threat to the economy, is a difficulty for banks. To address this issue, the Insolvency and Bankruptcy Code was created in 2016 to deal with NPAs for banks. According to the IBC, the creditors of these insolvent accounts determine whether to restructure the loan or sell the defaulter's assets to the Bank in order to recover the unpaid balance, under the supervision of an insolvency professional. The majority of people in cities dream of owning a home, therefore real estate companies borrow large sums of money to build projects. However, occasionally these projects are not financially feasible, and the corporations fail to make loan repayments. In this study, the researcher examined internal factors that led these businesses to default in the chosen northern areas.

4040

Keywords: NPA, Real Estate, IPC, Bankruptcy code, internal factors.

DOI Number: 10.48047/nq.2022.20.22.NQ10403

NeuroQuantology 2022;20(22):4040-4047

Introduction:

The guidelines of RBI declare that any loan repayment which gets delayed beyond 180 days can be identified as NPAs. This is further categorized based on timelines for the delay in payment for up to 2 years, beyond two years, and ones that are identified with losses. They according to banking terminologies are called out as substandard assets, doubtful assets, and loss assets.

According to the Reserve Bank of India, A 'non-

performing asset' (NPA) is defined as a credit facility in respect of which the interest and/ or installment of principal has remained 'past due' or a specified period of time. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) is a loan or advance where;

- i) Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- ii) The account remains 'out of order, for a period of more than 90 days in respect of an

***Corresponding Author:** Sukhbir Singh

Address:^{1*}Research Scholar D.Y. Patil University, School of Management

²Associate Professor D.Y. Patil University, School of Management

³Associate Professor D.Y. Patil University, School of Management

Relevant Conflicts of Interest/Financial Disclosures: The Authors Declare That the Research Was Conducted In The Absence Of Any Commercial Or Financial Relationships That Could Be Construed As A Potential Conflict Of Interest.



- Overdraft/Cash Credit (OD/CC),
- iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
 - iv) Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
 - v) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts (Source: RBI/2012-13/64 UBD.BPD. (PCB) MC No.3 /09.14.000/2012-13. Roland (2006) mentioned in his research that the regulatory measures prior to 1990 lacked transparency and accountability and became a rising burden of the NPA. There are some internal and external factors that make the account NPA some of them are reviewed in the literature.

2016 the IBC -The Insolvency and Bankruptcy Code, was created as a unified framework for resolving insolvency and bankruptcy matters. 2016 (IBC) has been enacted to create a unified framework for resolving insolvency and bankruptcy matters. Under this, the 1949 Banking resolution act was amended by authorizing RBI to issue directions to the bank to start the insolvency process. Earlier to the creation of IBC multiple real estate companies were granted loans for projects based on their growth and performance. The loans being available easily real estate companies grew highly implying that most financing was through external borrowings rather than internal promoter equity.

The literature review was done to explore the reasons for NPA:

Deviation of capital for expansion, modernization, and promoting new projects was listed as some of the major concerns for NPA in the real estate sector Jain, V (2007). The Orissa Industries Federation (2002) has criticized deviation of capital as the major factor creating, business slowdown thereby leading to NPA. Even though various estimates were initiated to assure the usage of capital for the purpose it is granted, the problem continues and gives to the generation of NPA in the Indian banking sector. The other major offender for

higher levels of NPA is persistence, Negligence, failure, and accidental.

Pandey and Kaur(2012) in their research have placed their observation of NPA in the real estate sector because of will full default, despite having sufficient cash flow and net worth.

Pathak, B.V (2009) also indicated the significance of deliberate non-payment towards the occurrence of NPA.

Pandey and Kaur (2012) also mention about siphoning of funds, false record creation, and disposal of bank securities without banks' permission.

Rehman (2000) pointed out that bank managers tend to be more affected by the community-based arrangement of debtors on the assumption that rich taxpayers are likely to be more trustworthy and hence can be dependent upon to pay back their credits.

The objective of the paper was to study only the internal reasons for default by the Real estate companies and becoming reasons for NPAs for banks. To cross-check if the reasons of the literature are actual reasons for the NPAs for the bank.

Research Methodology:

To do a systematic research study, a sufficient literature review was conducted to understand the internal variable factors as reasons for NPA with banks, especially with reference to the real estate industry. The secondary data also had an expert opinion on the same. The primary data was collected with the help of a questionnaire as a research tool. The sampling region was Delhi and Chandigarh. Around 20 Private and public bank employees and 20 real estate company employees were purposefully chosen. Around 20 factors were identified via literature review by the researcher, of which the top five are interpreted and presented graphically, and the remaining reasons are summarized in a tabular representation.

Data analysis and interpretations for some of the major reasons are as follows.



1. Type of bank

Type of bank				
	Frequency	Percent	Valid Percent	Cumulative Percent
Private Bank	175	58.3	58.3	58.3
Public Bank	125	41.7	41.7	100.0
Total	300	100.0	100.0	

Around 175 employees participated as private banks as respondents and 125 employees responded from public banks. All the respondents were aware of the term NPA and the processes associated with it.

2. City

City				
	Frequency	Percent	Valid Percent	Cumulative Percent
Chandigarh	184	61.3	61.3	61.3
New Delhi	116	38.7	38.7	100.0
Total	300	100.0	100.0	

184 responses were attained from the city of Chandigarh and 116 from the city of Delhi.

3. Experience of respondents in Banks

Experience				
	Frequency	Percent	Valid Percent	Cumulative Percent
Up to 5 Years	123	41.0	41.0	41.0
6-10 years	81	27.0	27.0	68.0
10-20 years	75	31.7	31.7	99.7
More than 20 Years	21	.3	.3	100.0
Total	300	100.0	100.0	

The above table indicates that there are 300 respondents from which 123 respondents have up to 5 years of experience while 81 have experience 6-10 years, 75 respondents have

experience from 10-20 years and 21 respondents have experience of more than 20 years

4042

: Qualification

Qualification				
	Frequency	Percent	Valid Percent	Cumulative Percent
Graduate	133	44.3	44.3	44.3
Postgraduate	167	55.7	55.7	100.0
Total	300	100.0	100.0	

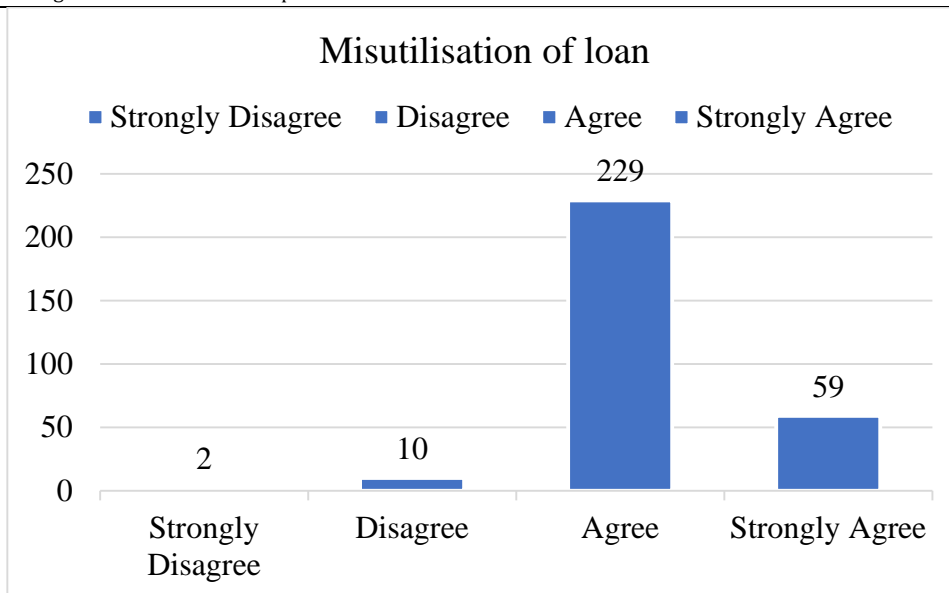
Internal Reasons for NPA Mutualisation of loan

Misutilisation of loan				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	.7	.7	.7
Disagree	10	3.3	3.3	4.0
Agree	229	76.3	76.3	80.3
Strongly Agree	59	19.7	19.7	100.0
Total	300	100.0	100.0	

Above table indicates that there are 300 respondents from which for internal reason of NPA of Misutilisation of loan, 229 respondents

responded agree, 10 respondent disagree while 2 respondents responded strongly disagree and remaining 59 strongly agree.



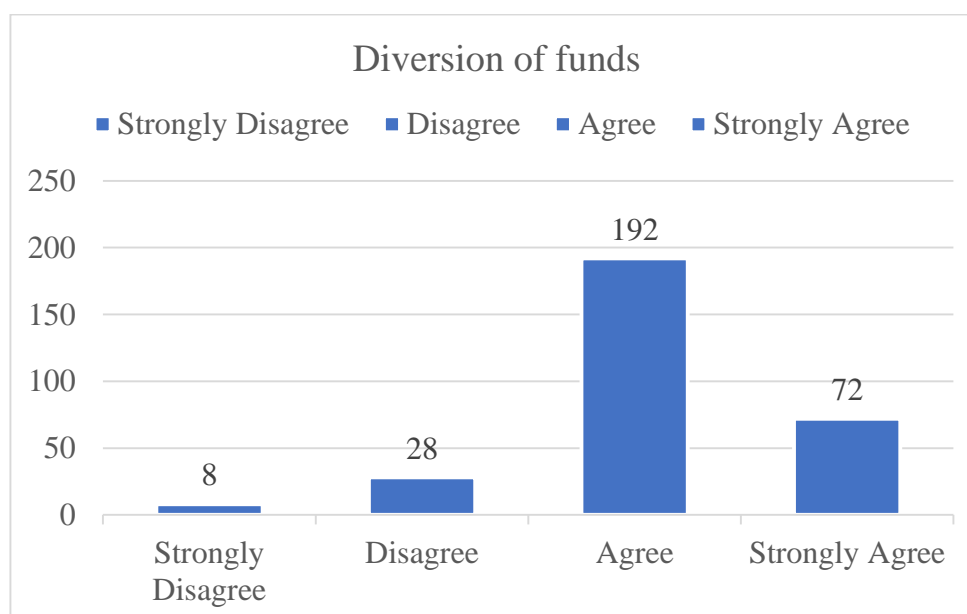


Diversion of funds

Diversion of funds				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	8	2.7	2.7	2.7
Disagree	28	9.3	9.3	12.0
Agree	192	64.0	64.0	76.0
Strongly Agree	72	24.0	24.0	100.0
Total	300	100.0	100.0	

Above table indicates that there are 300 respondents from whom for the internal reason of NPA of Diversion of funds, 192 respondents agreed with the statement while 28 disagree

and 8 respondents strongly disagree and the remaining 72 strongly agree. This information is displayed below in the form of a bar diagram.

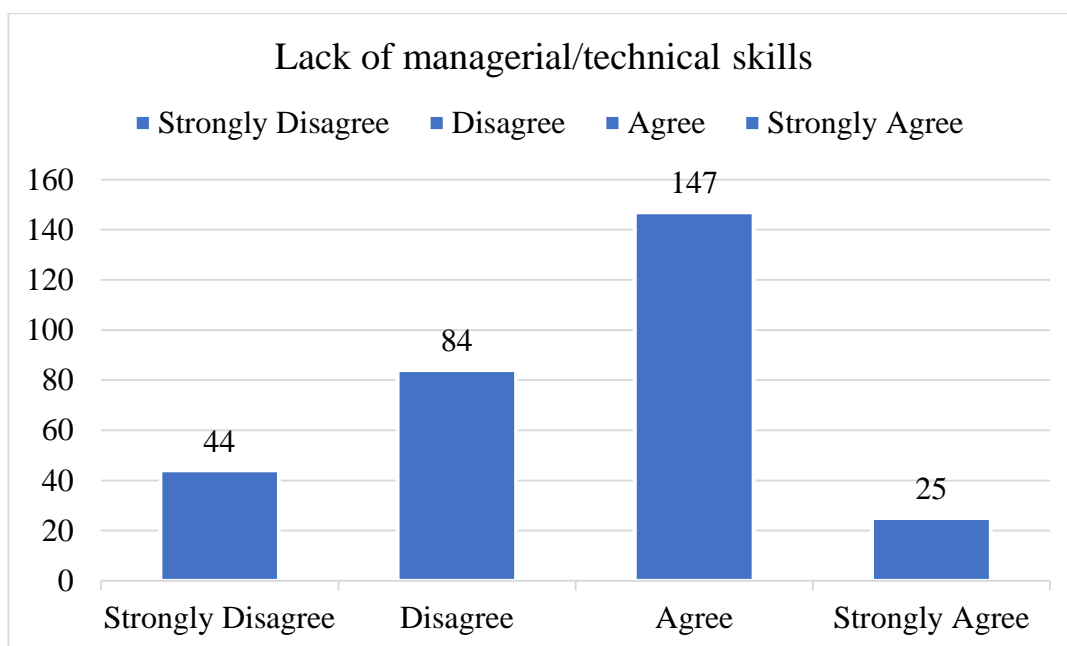


Lack of managerial/technical skills

Que-14: Lack of managerial/technical skills				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	44	14.7	14.7	14.7
Disagree	84	28.0	28.0	42.7
Agree	147	49.0	49.0	91.7
Strongly Agree	25	8.3	8.3	100.0
Total	300	100.0	100.0	

Above table indicates that there are 300 respondents from which for internal reason of NPA of Lack of managerial/technical skills, 147 respondents responded agree while 25 respondents responded strongly agree, 44 of

them responded strongly disagree and remaining 84 responded disagree. This information is displayed below in the form of bar diagram.



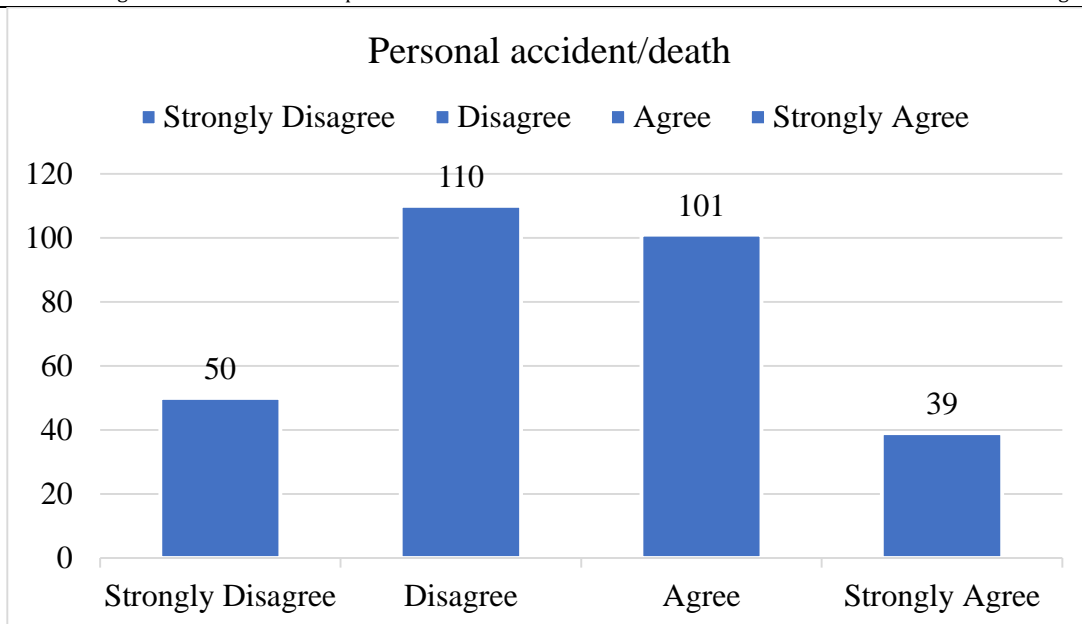
Personal accident/death

Que-16: Personal accident/death				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	50	16.7	16.7	16.7
Disagree	110	36.7	36.7	53.3
Agree	101	33.7	33.7	87.0
Strongly Agree	39	13.0	13.0	100.0
Total	300	100.0	100.0	

Above table indicates that there are 300 respondents from which for internal reason of NPA of Personal accident/death, 110 respondents responded disagree while 39

respondents responded strongly agree, 101 agreed with the statement and 50 responded strongly disagree. This information is displayed below in the form of bar diagram.





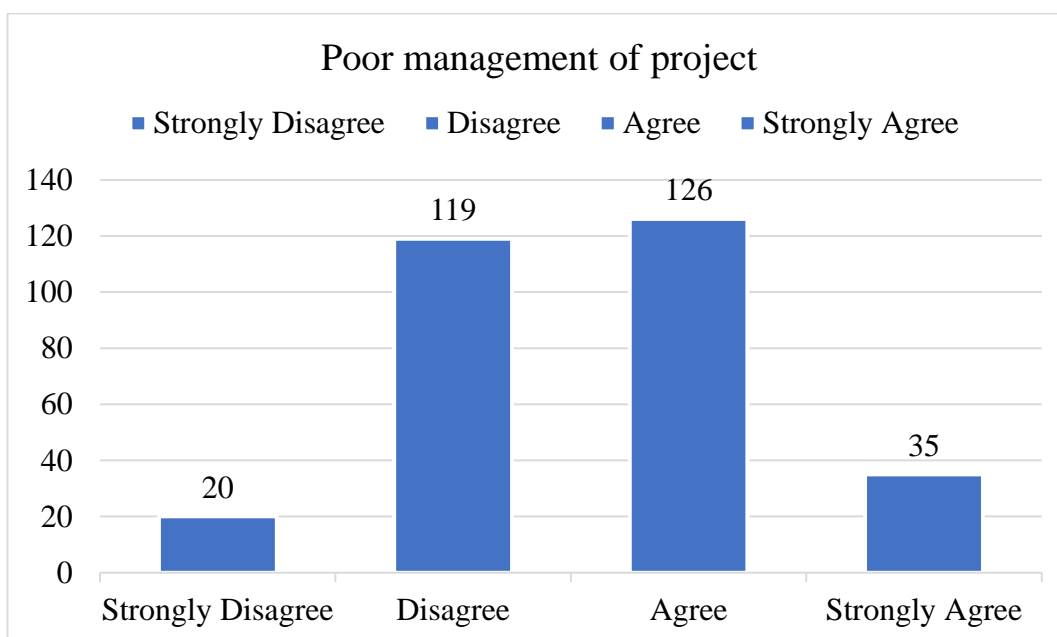
Poor management of project

Poor management of project				
	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	20	6.7	6.7	6.7
Disagree	119	39.7	39.7	46.3
Agree	126	42.0	42.0	88.3
Strongly Agree	35	11.7	11.7	100.0
Total	300	100.0	100.0	

Above table indicates that there are 300 respondents from which for internal reason of NPA of Poor management of project, most 126 respondents agree while 20 of them strongly

disagree, 119 respondents responded disagree and remaining 35 has respond strongly agree. This information is displayed below in the form of bar diagram.

4045



Summary table of responses of Internal Reasons of Cause of NPA:

Q. No.	Reasons	Strongly Disagree	Disagree	Agree	Strongly Agree
12	Misutilisation of loan	2	10	229	59
13	Diversions of funds	8	28	192	72
14	Lack of managerial/technical skills	44	84	147	25
15	Poor management of project	20	119	126	35
16	Personal accident/death	50	110	101	39
17	Shifting of unit	100	131	50	19
18	Labour problem	90	135	45	30
19	Marketing problem	27	124	119	30
20	Willful default	128	91	53	28

Key findings for the data on internal reasons of NPA in banks with respect to the Real estate industry:

When the questionnaire was circulated to the bank employees of private and public sector banks to understand the internal reasons that cause NPA of the real estate construction companies it was found that

1. When the question related to **misutilization of the loan** was asked to the employees of public and private sector banks it was found that out of 300 employees of public and private sector banks 2 of the employees strongly disagreed that misutilization of the loan was one of the internal reason for real estate companies to become NPA. 10 out of 300 employees disagree that misutilization of loans was one of the internal reason for the real estate companies to become NPA. 229 employees out of 300 agree that the misutilization of loans could be one of the reasons for real estate companies to become NPA. 59 out of 300 strongly agree that misutilization of loans could be one of the reasons for real estate to the employees of public and private sector banks
2. When the question related to the **diversion of funds** was asked to the employees of public and private sector banks it was found that 8 out of 300 of the employees strongly disagreed that the diversion of funds was one of the internal reasons for real estate companies to become NPA. 28 out of 300 employees disagree that diversion of funds was one of the internal reason for the real estate companies to become NPA. 192 employees out of 300 agree that the diversion of funds could be one of the reasons for real estate companies to become NPA. 72 out of 300 strongly agree that the diversion of funds could be one of the reasons for real estate to the employees of public and private sector banks

3. When the question related to **Lack of managerial/technical skills** was asked to the employees of public and private sector banks it was found that 44 out of 300 employees strongly disagreed that Lack of managerial/technical skills was one of the internal reasons for real estate companies to become NPA. 84 out of 300 employees disagree that Lack of managerial/technical skills was one of the internal reasons for the real estate companies to become NPA. 147 of employees out of 300 agree that Lack of managerial/technical skills could be one of the reasons for real estate companies to become NPA. 25 out of 300 strongly agree that Lack of managerial/technical skills could be one of the reasons for real estate to the employees of public and private sector banks.
4. When the question related to **Poor management of the project** was asked to the employees of public and private sector banks it was found that 20 out of 300 employees strongly disagreed that Poor management of the project was one of the internal reasons for real estate companies to become NPA. 119 out of 300 employees disagree that Poor management of projects was one of the internal reasons for the real estate companies to become NPA. 126 employees out of 300 agree that Poor management of projects could be one of the reasons for real estate companies to become NPA. 35 out of 300 strongly agree that Poor management of projects could be one of the reasons for real estate to the employees of public and private sector banks.
5. When the question related to **Personal accident/death** was asked to the employees of public and private sector banks it was found that 50 out of 300 employees strongly disagreed that Personal accident/death was one of the internal reasons for real estate companies to become NPA. 110 out of 300



- employees disagree that Personal accident/death was one of the internal reasons for the real estate companies to become NPA. 101 employees out of 300 agree that Personal accident/death could be one of the reasons for real estate companies to become NPA. 39 out of 300 strongly agree that Personal accident/death could be one of the reasons for real estate to the employees of public and private sector banks.
6. When the question related to **the Shifting of units** was asked to the employees of public and private sector banks it was found that 100 out of 300 employees strongly disagreed that Shifting of units was one of the internal reasons for real estate companies to become NPA. 131 out of 300 employees disagree that the Shifting of units was one of the internal reasons for the real estate companies to become NPA. 50 employees out of 300 agree that the Shifting of units could be one of the reasons for real estate companies to become NPA. 19 out of 300 strongly agree that Shifting of units could be one of the reasons for real estate to the employees of public and private sector banks.
 7. When the question related to **the Labour problem** was asked to the employees of public and private sector banks it was found that 90 out of 300 employees strongly disagreed that the Labour problem was one of the internal reasons for real estate companies to become NPA. 135 out of 300 employees disagree that the Labour problem was one of the internal reasons for the real estate companies to become NPA. 45 employees out of 300 agree that the Labour problem could be one of the reasons for real estate companies to become NPA. 30 out of 300 strongly agree that the Labour problem could be one of the reasons for real estate to the employees of public and private sector banks.
 8. When the question related to **the Marketing problem** was asked to the employees of public and private sector banks it was found that 27 out of 300 employees strongly disagreed that the marketing problem was one of the internal reasons for real estate companies to become NPA. 124 out of 300 employees disagree that the Marketing problem was one of the internal reasons for the real estate companies to become NPA.

119 employees out of 300 agree that the Marketing problem could be one of the reasons for real estate companies to become NPA. 30 out of 300 strongly agree that marketing problems could be one of the reasons for real estate to the employees of public and private sector banks.

9. When the question related to **Wilful default** was asked to the employees of public and private sector banks it was found that 128 out of 300 employees strongly disagreed that Wilful default was one of the internal reasons for real estate companies to become NPA. 91 out of 300 employees disagree that Wilful default was one of the internal reasons for the real estate companies to become NPA. 53 of the employees out of 300 agree that Wilful default could be one of the reasons for real estate companies to become NPA. 28 out of 300 strongly agree that Marketing problems could be one of the reasons for real estate to the employees of public and private sector banks.

Conclusions:

From the key findings of the research, it was found that there are 9 major internal factors such as **Mutualisation of loans, diversion of funds, Lack of managerial/technical skills, Poor management of the project, Personal accident/death, Shifting of the unit, Labour problem, Marketing problem, Wilful default** that lead the real estate companies to become NPA. Banks should take measures to prevent such real estate companies to become NPA.

Bibliography:

- Bhardwaj, P. and Chawdhary, I. (2018), "A study of non-performing assets of commercial banks and its recovery in India", *International Journal of Research and Analytical Reviews*, Vol. 5, No. 2, pp. 176-189.
- Vikram, S.K. and Gayathari, G. (2018), "A study on non-performing assets in Indian banking sector", *International Journal of Pure and Applied Mathematics*, Vol. 118, pp. 4537-4541.
- AL-Homaidi EA, Tabash MI, Farhan NHS, Almaqtari FA (2018) Bank-specific and macro-economic determinants of profitability of Indian commercial banks: a panel data approach. *Cogent Econ Finance* 6(1):1-26
- AL-Jafari MK, Alchami M (2014) Determinants of bank profitability: evidence from Syria. *J Appl Finance Bank* 4(1):17-45
- Bace E (2016) Bank profitability: liquidity, capital and asset quality. *J Risk Manag Financ Inst* 9(4):327-331

