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A Study on Comparative Analysis of Loans and Advances of Public Sector Banks in India

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Abstract: The loans and advances provided by the public sector banks (Public Sector) are of great benefit to individuals, firms, corporations, industrial enterprises, etc. The growth and diversification of business activities are largely achieved through bank financing. The earmarked loans and advances from the banks serve to cover short and long-term financial needs. The public banks have played a crucial role in the development of the business world through loans and credit. Loans and advances can be arranged with the public-law funds according to the flexibility in business operations. The amount taken out as a loan can be repaid within a short period of time at the discretion of the borrower. Loans and advances from banks are considered “economical” for merchants and businessmen because banks charge a reasonable interest rate for such loans and advances. The interest charged by banks is regulated by the Reserve Bank of India (RBI). But it generally doesn't interfere with other banking operations. Bank loans are cheap in terms of repayment. The PSBs include the Nationalized Banks (NBs) and the SBI and its Associated Banks (SBI and Its Asso. Banks).

Keywords: Loan And Advances, Public Sector Banks, CARCH Model, SEM Model, Banking In India.

I. INTRODUCTION

The banking system in India differs significantly from that of other Asian nations due to the uniqueness of the country geographically, socially and economically. India has a large population and land size, diverse culture and extreme income disparities that are pronounced between regions. There is a high level of illiteracy among the population, but at the same time the country has a large pool of managerial and technologically advanced talent. About 35 percent of the population lives in metropolitan and urban cities, with the remainder spread across several semi-urban and rural centers. The country's economic policy framework combines socialist and capitalist features with a strong bias towards public sector investment. India has followed the path of "growth-led exports" rather than the "expected growth" of other Asian economies, with an emphasis on self-sufficiency through import substitution. These characteristics are reflected in the structure, size and diversity of the country's banking and financial sector. The banking sector plays an important role in the development of the Indian economy. Before independence began, the development of the banking sector was unsatisfactory.

Originally the East India Company established the banks namely the Bank of Calcutta in 1806, the Bank of Bombay in 1840 and the Bank of Madras in 1843. Later in 1921 these banks were merged and the Imperial Bank of India was formed. Shortly after independence, the banking sector underwent a remarkable transformation. In addition, the government has been unable to control commercial banks and redirect funds in line with government expectations. Therefore, in 1969, these banks were brought under government control. As a result, 14 major commercial banks were nationalized in 1980 and another 6 banks in 1980. In 1993 New Banks of India merged with Punjab National Banks (PNB). , bringing the number of nationalized banks in India to 19. These were government-sponsored commercial banking institutions charged with the specific task of providing banking facilities to the low-income sections and expanding the branch network.It was also given responsibility for expanding branches in remote areas. Thus, in 2005-06, bankers introduced new and innovative systems, that is, they appointed the Business Correspondence / Business Facilitator (BC/BF) model to serve the poor. This paper highlights the advances offered by the PSBs in India which are composed of Total Advances, Total Bill Financing, Total Demand Loans, Total Term Loans, Total Secured Advances, Unsecured Advances, Priority Sector Advances and so on.

II. STATEMENT OF THE PROBLEM

Finance is the lifeblood of a business and also a problem for businesses. A company cannot move without sufficient financing. Every business building needs money, for which it turns to the banks for financing, and the banks provide credit to the business institutions after evaluating the repayment ability and other aspects of the business units. Lending money is one of the core tasks of banks. By using funds in the form of loans and advances, banks generate interest, which is their main source of income. Banks are cautious about lending. Scientific assessment of the project, timely disbursement and proper monitoring of the loan pave the way for better credit management in banks.

Objectives of the Study: This study is undertaken with the following objectives:

- To evaluate the loans and advances offered by the public sector banks in India.
- To analyse advances provided by PSBs through SEM.
- To assess the loans and advances lent by banks through GARCH.

III. RESEARCH METHODOLOGY

The study was based solely on the secondary data. These were collected from annual accounts of the RBI report, books, magazines, trade journals and the like. Furthermore, an unstructured interview plan was created by the researcher and the interviews were also conducted with various branch managers and the bank's special representatives in order to gather the relevant information related to effective credit management.

A. Sample Composition

The study covers the loan portfolio of all proposed commercial banks in India excluding foreign banks and regional rural banks (RRBs). The study thus includes the following groups of commercial banks:

- State Bank of India and its partner banks (SBI and its partner banks),
- Nationalized Banks (NBs),

For this purpose, the detailed information has also been gathered from the various special editions of the RBI publication from the RBI Bulletin as this study examines public banks in India.

Period of Study: This study covers a period of 5 years, starting from 2016-17 to 2020-2021.

Data Source: Data was collected from Annual Reports, Reports on Trends and Progress of Banking in India, State Level Bankers Committee Reports, RBI Bulletin, IBA Bulletin, www.iba.org, www.rbi.org.in, www.financeindia .org.in, political and economic weekly, published and unpublished M Phil dissertations, doctoral theses and business world newspaper of public banks in India.

IV. REVIEW OF LITERATURE

S. Rajamohan and D. Durairaj (2012) noted in this article that job creation is viewed as a means of alleviating poverty by increasing the level of economic activity, which translates into economic growth. The informal sector provides people with more employment opportunities, so both the government and banks should provide loans to the informal sector at liberalized interest rates under the priority sector advances.

S. Rajamohan and D. Durairaj (2012) cited in their study that the education loan is a part of the priority sector advances offered by the commercial banks and most of the education loans are taken for attending higher education courses in India and abroad . In the current scenario, higher education has gained importance worldwide. India also faced a financial crisis in the early 1990s and higher education suffered from lending to this sector. The pursuit and entry rate for higher education is enormous. In this regard, the private institutions entered the field and in the post-reform period there was a steep increase in user fees in the most demanded professional courses such as engineering and management in India. Given that scholarships for higher education have declined in real terms and are fruitful for those aspiring to higher education, especially students below the poverty line, the education loan program comes into focus in increasing the access ratio to higher education loans in the period 2002-03 to 2011- 2012 in India.

Narasaiah and Naik (2007) found that while great efforts have been made to secure financing for micro-enterprises over the past decade; A rare initiative has been taken to help SSIs. As a result, SSIs were forced to seek credit for new ventures from commercial banks.

Mohi-ud-Din Sangmi and Tabassum Nair (2010), in their research study analyzed by CAMEL approach, found that both Punjab National Bank and Jammu and Kashmir Bank have implemented prudent policies of financial management and both Banks have so far shown a remarkable performance in terms of asset quality.

V. LOANS AND ADVANCES OF PSBS – ANALYSIS

A. Details of Advances Offered By The Psbs In India

The banks offer various loans and advances to the public for the development of segments such as agricultural development, industrial development, housing construction, business development, etc. to improve their business and living standards. Table 1 explains the total advances offered by PSBs.

Table 1. Details of Advances Offered By The Psbs In India

(Rs. in crore)

	SBI & its Asso. Banks				NBs			
Year	Bill finance	Term loan	Demand loan	Total	Bill finance	Term loan	Demand loan	Total
2016-17	53465	300331	385809	739605	71605	582858	762659	1417122
2017-18	56321	332541	402154	791016	74879	620132	798752	1493763
2018-19	60231	356211	436521	852963	78954	645213	865211	1589378
2019-20	59623	396587	489562	945772	83261	685471	886984	1655716
2020-21	63598	402135	532104	997837	89654	736210	923564	1023893
Total	472040	3360619	2636650	6469309	641046	5043235	6216692	1.2E+07
Avg	42912.7	305511	239695	588119	58276.9	458476	565154	1081907
SD	16811.9	158776	121434	295715	23352	205106	300363	528289
CV	39.18	51.97	50.66	50.28	40.29	44.73	53.14	48.82
CAGR	32.71	13.75	19.62	16.32	33.39	12.88	18.58	15.45

Table1 explains the details of the loans and advances offered by the public authorities. The loans and advances offered by SBI and Asso. The banks had gradually grown over the years. Invoice funding had increased from Rs over the years. 53465 crores in 2016-17 to Rs. 63598 crores in 2020-21, except 2019-20. The term loan had increased to Rs from Rs.300331 crores in 2016-17. 402135 crore in 2020-21 during the study period and the receivable loan had also increased between Rs. 385809 crores in 2016-17 and Rs.532104 crores in 2020-21. It shows that the SBI and its asso. The advances offered by banks have steadily increased over the years. The standard deviation for bill of exchange financing was 168119, term loan was 158776.1, and receivables loan was 121433.5. The higher deviation rate reflects high performance. The CAGR of SBI and its asso. Banks for bill financing, term loans and accounts receivable loans were 32.71, 13.75 and 19.62 percent, respectively. The performance of the nationalized banks had gradually increased between 2016-17 and 2020-21. The bill funding had increased from Rs. 71605 crores in 2016-17 to Rs. 89654 crores in 2020-21. The term loan had increased between Rs. 582858 crores in 2016-17 and Rs.736210 crore in 2020-21 and the demand loan had increased from Rs. 762659 crores in 2016-17 to Rs.923564 crores in 2020-21. The credits and loans of the NBs were on an upward trend during the study period. The standard deviation for Bill Finance, Term Loan, and Demand Loan was 23352, 205106.1, and 300362.7, respectively. The CAGR showed 12.88, 18.58, and 15.45 percent for invoice financing, term loan, and loan-on-demand, respectively. From the total advances of the SBI and its asso. Banks had lent more than 50 percent as receivables loans in all years except 2016-17 and 2017-18. Similarly, the NBs had lent more than 50 percent in contingency loans for all of the years except four years, from which it is inferred that banks prefer to lend in contingent loans to other forms of lending.

B. Loans And Advances By The PSBs – SEM Comparison

Banking is a service-oriented industry that represents a hybrid type of offering consisting of both tangible and intangible products and services. It requires a high level of professionals to create innovations in this field. Customer service is the hallmark of this industry. As a service-oriented industry, the main task of banks is to please the customer by providing quality services. Therefore, the banking institution should be more responsive to the needs of the public. In the current context, customer satisfaction has become much more important. In addition, banks are in the process of improving their customer service and meeting their needs. Banks offer a variety of loans as per Schedule 9 of Bank Balance Sheets and these loans are namely Bill of Exchange, Debt Loans, Term Loans, Secured Advances, Unsecured Advances, Priority Sector Advances, Public Sector Advances, Out of India Advances, Due Advances from Banks and soon. In this study, the researcher attempted to build a structural equation model (SEM) to identify and compare the amounts of loans and advances related to invoice financing, accounts receivable loans, and term loans using SEM. It is a statistical modeling technique to establish relationships between the different groups of variables. It helps to measure the relationship between the variables as a percentage. The characteristic of SEM is that the observed variables are understood to represent a small number of latent constructs that cannot be directly measured but can only be inferred from the observed variables. But no variable manipulated this model. The factor could be classified as independent variable and dependent variable. The classification is based on a theoretical random model. The leisure model is presented in a schematic form. Through this model, the Goodness-of-Fit Index (GFI) can be understood.

The GFI measures the relative variance and covariance in the simple covariance matrix, which is collectively explained by the population covariance matrix. GFI values range from 0 to 1 percent, if the value is close to 1 percent it indicates a good fit. The goodness-of-fit index used in the analysis can be classified as incremental fit indices based on a comparison of the hypothetical model to a standard. Comparative Analysis of Fit (CFA) is useful to account for sample size. CFI values range from 0 to 1 percent, while 0.90 percent was considered well suited for GFI, a revised limit of 0.95 for CFI was recently recommended. The statistics used in the analysis focus on the root mean square of error approximation (RMSEA). This discrepancy, measured by the RMSEA, is expressed as a degree of freedom, making the index sensitive to the number of estimated parameters in the model values that are less than 0.05, indicating a good fit, and values between 0.08 and 1.00 indicate an average fit, and values greater than 1.00 indicate a poor fit. It is also possible to use confidence intervals to assess the accuracy of RMSEA estimates; AMOS (the statistics program used to run the SEMs) reports a 90 percent interval around the RMSEA value.

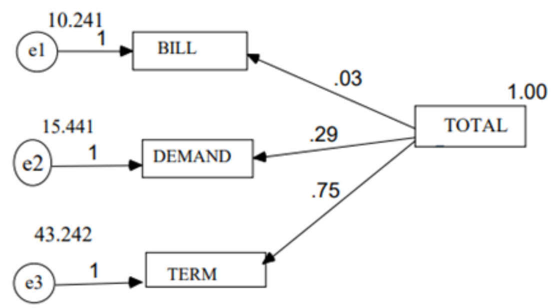

Figure1. Loans And Advances By The PSBs – SEM

Figure1 shows the result of the SEM analysis, here the researcher took the total loans and advances as the dependent variable and the independent variables are bill financing, term loan and accounts receivable loan. Among the independent variables, the term loan is a key influencing variable on PSB's total loan.

C. Outcome of the - SEM

The SEM is a model for analyzing a set of dependent and independent variables. Table 2 explains PSB's lending performance in terms of bill financing, term loans and call loans.

Table2. Bill Finance, Demand Loan and Term Loans of PSBs- SEM

Variables	*Values*	*Significance*	*Result*
Chi square	21.130		
P – Value	0.001	>0.05 is model fit	
GFI	1.000	> 90% model shows the goodness of analysis	The model highly fits the analysis for this study.
AGFI	0.967		
CFA	1.000		
RMR	0.001	Error may be <0.10 is > 10 %	
RMSEA	0.001		

Table 2 explains the outcome of the model, the loans and advances offered by the public authorities. The chi-square value is over 0.05 percent (21.130 percent) at the 5 percent level, showing that the constructed model is appropriate. If the model needs to be adjusted, the P value should be less than 5 percent. The GFI is 0.967 percent, indicating the model is good. The CFA of 1,000 indicates that the model is very fit and showing goodness. The RMR 0.001 and indicates that the error value is less than 10 percent, and the RMSEA 0.001 indicates that it is between the confidence interval of less than 0.06 to 0.08. Therefore, the analysis concludes that the PSBs have offered a term loan that is higher than the bill financing and the demand loan, the term loan is the top-level predictor in terms of the total advances made by the PSBs. So banks have to improve the lending performance of exchange financing and demand loans in the future.

Suggestions of the Study:

- The bank should seek liquidity promotion measures to improve lending performance.
- The PSBs can generously lend the billing funding for building and expanding business ventures.
- Banks can provide short-term loans to business houses to increase their working capital position.
- Concrete progress should be made available to individuals to strengthen their resources.
- Banks can also grant secured loans to non-account holders.

VI. CONCLUSION

Banks perform two main functions, namely taking deposits and providing credit and advances. It makes public deposits available in the form of loans and advances. PSBs have an additional developmental aspect to performing the normal banking functions. This service is a catalyst that strengthens the country's economic development. The PSBs provide advances through cash advances, overdrafts, discounted and term loans, thereby fulfilling their social obligation to meet the borrowing needs of various sections of society. It also generates profits from its lending. As such, this study gives a clear picture of the extent to which banks have been able to meet their social obligations, are making profits and to what extent they are making optimal use of their assets.

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