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A STUDY ON COMPARATIVE ANALYSIS OF RISING NON-PERFORMING ASSETS OF HDFC BANK AND PUNJAB NATIONAL BANK

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ABSTRACT: The banking organization is important to a country's economic growth. A properly operating banking area works as a promoter in accomplishing fast financial growth with the useful resource of providing a strong economic tool, organizing monetary holdings, mobilizing funds to effective sectors, promoting exchange, and helping economic coverage. But, one trouble financial institutions face is the problem of non-performing assets (NPA), which belong back to the loans that are not paid through the manner of borrowers as often because of the discussed terms. Over a long time, immoderate tiers of NPAs may also moreover need to have numerous limitations inside the banking zone and the economic device, comprehensive of dropped profits, incurable critical quantities, terrible signs, and symptoms, incompetence of operations, authorities' intervention, and limitations on investment for quality sections. Effective management of NPAs is critical for retaining a healthful banking zone and helping justifiable economic growth. Every triumphing comparable observation is the cause to understand the NPAs of HDFC Bank and Punjab National Bank (PNB) the exam completed an assessable studies technique. On this, the non-performing assets of the Government-owned and private banks in India had been in assessment over the duration of the closing 5 financing years. The accrued statistics are verified through the use of statistical analysis. This takes a look and identifies the motive of developing NPA within financial establishments and some guidelines.

Keywords: Total advances, Net income, Gross NPA, Net NPA.

INTRODUCTION

India is one of the quickest-growing economies in the global, and its banking quarter has performed an important function in this boom. The Indian banking region has passed through a substantial transformation in the latest years, with the advent of recent technologies, extended overseas investment, and regulatory reforms. The arena accommodates numerous kinds of banks, along with public zone banks, non-public area banks, cooperative banks, and foreign banks. With a sizable community of branches spread throughout the country and a growing consumer base, the Indian banking region has grown to be a vital component of the country's financial infrastructure.

The primary supply of profits to banks is through the interest earned on loans and advances and repayment of the principal. If such assets fail to generate income, then they are classified as non-performing assets (NPA). According to the Reserve Bank of India, NPA is defined as a credit facility in respect of which the interest and/or instalment of principal is "past due" for a specified period. Generally, if the loan payments have not been made for a period of 90 days, the asset is classified as a non-performing asset.

- **Total Advances:** Total Advances means, with respect to any Mortgage Loan or REO Property on any date of determination, the sum of all outstanding amounts of all outstanding Advances related to Facility Eligible Receivables funded by the Servicer out of its own funds or with respect to such Mortgage Loan or REO Property on such date.
- **Net Profit:** It is equal to a bank's total interest income minus total interest expense. Banks earn interest income primarily from issuing loans to corporations, real estate developers, and individuals.
- **Gross NPA:** Gross NPA is the total amount of outstanding NPAs in the borrower account, excluding the interest receivable. It represents the total value of loans in a bank's portfolio that have been classified as non-performing.
- **Net NPA:** The Reserve Bank of India defines Net NPA as Gross NPA minus (i) to (iv) the following- (i)Balance in Interest Suspense account + (ii) DICGC/ECGC claims received and held pending adjustment + (iii)Part payment received and kept in suspense account + (iv) Total provisions held.

The importance of this study is a comparative analysis of public banks and private sector banks in India for the duration of 2019 to 2023.

LITERATURE REVIEW

In the past bank's NPAs were analysed by many researchers in India and a good number of papers were published by them. The researcher has reviewed a sizable number of papers related to the study. The details of more relevant literature reviewed by the researcher are as under:

Srinivas & AnandPawar (2022) state that the major reason for growing NPAs is large number of creditdefaulters in corporate business which hugely affects the profitability and net-worth of banks. But this problemhas indirect impact on public and government, they carry this burden. In their study one public sector bank andone private sector bank (State Bank of India from public sector and ICICI Bank from private sector) in Indiawere analysed and compared with the help of key indicators, like, the Gross NPA, Net NPA and Net NPA toAdvances over a period of 5 years (2017 to 2021).

Saha, M., and Zaman, A. (2021) in their study titled Management of NPAs in banks with special reference to UBI found that with the decrease in NPA level, profitability of banks increased.

Hawaldar, I.T., Spulkar, C., Lokesh, A., Birau, R., Robegen, C. (2020) in their study analysing non-performing assets in agriculture loans. A case study in India concluded that there is no significant difference in pre and post-sanction of agriculture loans and management of non-performing assets by banks. The wilful default by borrowers and more NPAs in banks are due to debt waiver policies announced by political parties.

Jethwani, B., Dave, D., Ali, T., Phansalker, S., and Ahhirao, S. (2020) in their study Indian agriculture GDP and NPA: A regression model found that the repayment of farm loans adversely affects factors like rural population, the low export value of crop and low crop production for the year. It should be understood that the farm loan waivers cannot solve the problem.

Selvam, P. and Premnath S., (2020) in their study titled "Impact of Coronavirus on NPA and GDP of Indian Economy" finds that the NPAs increased during the period and suggested that government should resolve pending cases quickly and stop mandatory landings which the real problem segment.

Sharma S., Rathore D.S., and Prasad, J. (2019) found that both in public & private sector banks the major reason for the NPAs is the miss-utilization of bank loans and poor recovery management. The NPAs are increasing in agriculture and industries. They suggested improving corporate governance for better operational and credit decisions.

Mishra, A. K. (2016) found while comparing the NPAs of 10 years of priority and non-priority sectors that NPA in the priority sector is more than 50% of the total NPAs from 2006 to 2011 and thereafter non-priority NPAs increased in percentage term from 2011 to 2015 to the maximum extent 65.2% of total NPA's. However gross NPAs were also increasing every year. All though the percentage of NPA in the priority sector was decreasing in absolute terms it is increasing continuously. The priority sector contributed to the socioeconomic development of the country despite an increase in NPAs.

Dahiya, M., Bhatia, S. J. (2016) Researchers concluded in their study that banks should make sure the proper utilization of bank loans, and reports about the creditworthiness of borrowers, should be obtained from informal and formal sources. Timely corrective steps should be taken otherwise NPA will increase. The reduction in NPA should be a national priority while making the banking system more vibrant and geared up to meet the challenges of globalization.

Singh, V. R. (2016) He found that NPAs are more in public sector banks despite the Government having taken many steps to reduce NPA but much more to be done in this area. The NPA level of foreign banks is less than Indian banks. NPAs cannot be made zero. The problem of NPA is more with the large borrower than the small ones. It is desirable to decrease the priority landing by the Government. This is the main problematic area for recovery. NPAs have an adverse impact on the profitability of banks and they are also not good for the growth of the Indian economy.

Gautami, S. Tirumalaiyah, K. (Dr,) and Satish Kumar, V. (2015) In their study titled "Factors influencing NPAs in commercial banks: an empirical study." They examined the factors influencing NPAs from borrowers and bankers in the selected banksandfoundthatthere were no significant difference between bankers' and borrowers 'perceptions.

RESEARCH GAP

Thus, the proper understanding of the above literature exhibits that there are certain number of researchers who have studied, understood and gave certain feedbacks. However, there are no studies that look at the data from the year 2019 till 2023, which is important because the major changes in the banking sector were seen after the mergers in banking industry 2018 and further more changes happened after corona virus shook the economy of every country in 2021. The study made analysis at the individual level. The purpose of conducting research at individual level is to identify which bank has significantly contributed more percentage of NPAs in comparison with its peer in the same industry.

NEED FOR STUDY

From two perspectives the research is valuable, firstly, the perspective of banking sector with regard to growing NPAs, this angle has not been viewed by any previous study, further the article brings into light the condition of various categories of banks with regard to NPAs Priory, it helps to analyse the situation and performance of the various bank categories with respect to NPA's. Afterwards, it also seems to be helpful to the stakeholders by showing them about how poor credits show its effect on bank's profitability and how the issue of poor loans is related one for them and how its influence's the future.

BJECTIVES OF THE STUDY

The following are the objectives of the study:

1. The focus of the study is to explore if changes in net NPAs have an impact on net profits, and if so, to find out if the impact is positive or negative.
2. To analyse and calculate the mean growth rate of net NPAs of the selected two banks.
3. To make necessary comments relating to the growth pattern of net NPAs.

RESEARCH METHODOLOGY

Two individual private sector banks have been measured for the main purpose of the study. The data is collected for the period 2019-2023. The present study is based completely on secondary data collected from various newspapers, annual report of banks, published journals, and web source. The data so been collected is analysed using correlation analysis with the help of MS excel. The study is engaged on finding relationship between NPAs as the independent variable and net profit as the dependent variable. The study shall use the statistical tools- correlation analysis to determine the strength and direction of the relationship between net NPA and net profit. Subsequently chart and tables are used to compare the present finding.

STATISTICAL TOOL USED

Mean has been calculated to recognize the common overall performance and to realize the steadiness inside the performance of the banks to find out the connection between NPA and different key parameters of financial institutions. Correlation has also been used to check the connection between net NPA and net income and return on belongings (ROA) of the chosen public and private zone banks in India.

RESULT AND DISCUSSION

The remark makes a strong point of diverse parameters collectively with total advances, Gross NPA, Net NPA and net earnings for an evaluation of every bank during the last 5 years. Those frameworks are important signs and symptoms of the monetary performance of the banks and can provide insights into the dispositions and modifications of their operations and profitability. Net profit, asthe based variable, represents the profitability of the banks after accounting for all charges and provisions, which includes those related to NPA. Through reading the parameters over the 5 years, the study objectives are to perceive trends and patterns inside the performance of the banks and understand the connection between changes in NPA stages and their net income.

Table -1 HDFC & PNB- Total Advances, Net income, Gross NPA & Net NPA (Rs in crores)

Total Advances

FY	HDFC	PNB
2023	1600586	830834
2022	1368821	728186
2021	1132837	674230
2020	9937703	471828
2019	819401	458249

NET INCOME

FY	HDFC	PNB
2023	44109	2507
2022	36961	3457
2021	31117	2022
2020	26257	336
2019	21078	-9976

GROSS NPA

FY	HDFC	PNB
2023	18019	77328
2022	16141	92448
2021	15086	104423
2020	12650	73479
2019	11224	78473

NET NPA

FY	HDFC	PNB
2023	4368	22585
2022	4408	34909
2021	4555	38576
2020	3542	27219
2019	3215	30038

(Source: www. moneycontrol.com)

The above tables give an information related to the total advances, Net income, Gross NPA, and Net NPA for the banks of HDFC and PNB in the financial year of 2019-2023, as derived from bank annual reports and different websites. The above figures shows that HDFC's total advances were constantly increasing through the years and PNB's total advances have also been increasing from year to year. The net income earned by HDFC is increasing and PNB is fluctuating in these intervals. Though the HDFC Bank’s Gross NPA and Net NPA is in acceleration but HDFC has been capable of controlling its Non-performing assets and enhancing its performance. However, PNB has also proven a drop in theirGross NPA and Net NPA from FY2019 -FY2023 but unable to manage theirNon-performing assets like HDFC Bank. Hence, HDFC Bank NPA values is lower than PNB indicating enormously better overall performance in dealing with NPA stages.The above table shows that HDFC bank has done better than PNB in phrases of handling NPA levels, with decreased NPA stagesand higher income levels. However, similar evaluation and statistical assessmentshad usedto confirm the importance of those findings and draw conclusions approximately over the impact of NPA levels on Net income for each bank.

Table -2 Gross NPA of HDFC & PNB

FY	HDFC (Gross NPA in %)	PNB (Gross NPA in %)
2023	1.12	8.74
2022	1.17	11.78
2021	1.32	14.12
2020	1.26	14.21
2019	1.36	15.50

(Source: www.moneycontrol.com)

The above table showsthe linkage between the % of Gross NPA for banks of Punjab National Bankand HDFC Bankin the period of FY2019-FY2023, as derived from the respective bank's annual reviews. Thefiguressuggestthat PNB had more % of gross NPA than HDFC Bank in FY2019-FY2023. It is also found that from 2019 onwards, each bank showed a lower percentagein gross NPA %, indicatingadevelopment in asset maintenance. In FY2019, the % of Gross NPA of HDFC and PNB is 1.36 and 15.50 respectively.While in 2023 the % of Gross NPA is 1.12 and 8.74 respectively. Overall, theabove table states that PNB had more % of Gross NPA compared to HDFC Bank in these periods, showing a poor performance in managing non-performing assets. But gross NPA % is simply onespecificationto analysethe development of Banks, and equally evaluation is necessary torecognize thefactsoverthe tendencies and the general financialperformance of the Banks.

Table -3 Net NPA of HDFC and Punjab National Bank

FY	HDFC (Net NPA in %)	PNB (Net NPA in %)
2023	0.27	2.72
2022	0.32	4.8
2021	0.4	5.73
2020	0.36	5.78
2019	0.39	6.56

(Source: www.moneycontrol.com)

The above table shows % of Net NPA for the bank of HDFC and PNB through the years FY2019-FY2023, as derived from the respective banks' annual reports and other websites. The figures represent that PNB had more % of net NPA in comparison to HDFC bank from FY2019-FY2023, showing a poormaintenance of non-performing assets. But, it's far noteworthy that each bank has shown a downwardstage in Net NPA % from FY2019-FY2023. The connection among net income and Net NPA is a significantsign of a bank's financial stability. Basically, a better net NPA % suggests anincreasing % of non-performing assets in comparison to the bank's net income, which can affect the bank's financial growth and stability. Consequently, downward levels in net NPA %, as discovered in both HDFC Bank and PNB in the period of FY2019- FY2023, may be taken into consideration as positive and shows abetterment in asset maintenance and probably higher profitability for the banks. But, it's far crucial to point out that Net NPA % is simply one specification to evaluate a bank's performance, and a complete evaluation that includes other monetary ratios, risk management practices, and usual monetary situations is vital to completely understand the bank's financial overall growth and balance.

Table -4 Net income and Net NPA of HDFC Bank

FY	Net Income	Net NPA
2023	44109	4368
2022	36961	4408
2021	31117	4555
2020	26257	3542
2019	21078	3215
	Correlation	**0.80**

Descriptive statistics			
Specifications	Mean	Standard Deviation	N
Net Income	28853.25	6783.69	5
Net NPA	3930	653.42	5

The above table represents the correlation coefficient among theNet income and Net NPA is computed to be 0.80, pointing to a positive connection among the two variables this means that the dependentvariable(Net income) is growing at the same time as the independent variable(Net NPA) is decreasing, where the maintenance of Net NPA is related to the boom in Net income. The examination draws the inference that the correlation coefficient is statistically enormous, and there may be a sizable linear relationship between Net income and Net NPA groundedon the facts analysed.

Table -5 Net income and Net NPA of Punjab National Bank

FY	Net income	Net NPA
2023	2507	22585
2022	3457	34909
2021	2022	38576
2020	336	27219
2019	-9976	30038
	Correlation	**0.11**

Descriptive statistics			
Specfication	Mean	Standard Deviation	N
Net Income	-1040.25	6092.19	5
Net NPA	32685.5	5050.87	5

This table indicates 0.11 as the coefficient of correlation for Punjab National Bank which is computed between Net income and Net NPA. Hence, we can determine that the 2 variables are correlated by showing a positive correlation. This specifies that as Net NPA declines, net income additionally will grow for Punjab National Bank. This represents a growth inbanksthat relies upon the healing of loans. Therefore, it examines that the coefficient of correlationis statistically relevant, and there may be a largely linear relationship between net income and Net NPA relied on the data analysed.

For HDFC, the coefficient of correlationbetween net income and Net NPA can be due to different elements, involvingReturn on Investment, Return on Shareholder's Equity, Capital Efficiency Ratio, and Net ProfitMargins, which impactthe growth of the bank. It is viable that the upward thrust in Net Interest Margins is offsetting the impact of controlling NPAs, resulting in a stronger correlation between Net income and Net NPA for HDFC Bank. In addition, the analysis could apprehend the precise factors determining the financial and overall growth of HDFC and bring out correct conclusions. It is necessary to observe that correlation now does not mean effecting, and different factors beyond Net NPA will also be determining the profitability of banks.

Reasons of Increasing NPAs

It's far visible that the Indian banking zone goes through severe troubles due to rising NPAs but, the issues related to awful loans in public regional banks are a great deal greater than in non-public banks. Some critical reasons are:

1. Credit increase
2. Tightened monetary coverage
3. Stalled Judiciary & Legislative methods
4. Intentional Defaults
5. Terrible credit score Appraisal device
6. Natural Calamities

It is essential to note that NPAs can arise from an aggregate of factors, and the specific reasons may vary depending on the economic and regulatory surroundings, borrower behaviour, and financial institution practices. Right hazard management, credit score assessment, and monitoring mechanisms, along with effective NPA control techniques, are important for banks to mitigate the chance of NPAs and preserve wholesome financial overall performance.

IMPACTS OF INCREASING NPAs

The maximum fundamental impacts of NPAs at the banks of India are as follows:

1. The increase in NPAs reduces the profitability of the banks due to their loss of credibility.
2. The account holders lose their belief in the banks and want to withdraw their money.
3. The banks are pressured to lower their hobby charge on saving deposits to grow the margin as a result of high NPA.

Hence, we can conclude that the excessive NPA on banks creates a terrible effect on each the credibility and functioning of the banks.

FINDINGS OF STUDY

Findings of the study are as follows:

- Both HDFC Bank and Punjab National Bank have shown an inclining performance in overall advances in the selected period, which shows a betterment in their lending portfolios.
- For PNB it has been observed a variation over theirNet income in the selected period, even as HDFC Bank has maintained a surprisingly steady stage of around 44109 crores in FY 2023. This shows that HDFC has well maintained its Net income in comparison to PNB.
- In terms of % Gross NPA HDFC has done better than Punjab National Bank. This shows that HDFC has controlled to maintain a low stage of non-performing assets as a percent of its overall advances related to PNB.
- Here, Punjab National Bank and HDFC Bank have proven a decline in % of Net NPA during 2019-2023, showing a decrease in their non-performing assets. This means that HDFC and PNB Bank had proven in controlling and settling their NPAs.
- The correlation coefficient among Net income and Net NPA for HDFC and PNB was identified to be 0.80 and 0.11 respectively, indicating a positive correlation because of this the Net NPA trend declines, and the Net income of HDFC and PNB have a tendency to increase.

The study suggests that Punjab National Bankhas shown a positive correlation among Net income and Net NPA which means a fall in Non-performingassets is leading to a rise in theNet income of the bank whereas the findings of HDFC bank had a strong positive correlation among Net income and Net NPA indicating acontinuous fallin Net NPA leading to a higher Net income for the bank. In real, managing NPAs is a challenging part of the banks for maintaining financial growth and stability.

CONCLUSION

The study concludes that higher NPAs results in lower bank profitability as higher NPAs require increased provisioning which eats into the profits of banks. In a comparison of HDFC and Punjab National Bank, the level of gross NPA and Net NPA of Punjab National Bank is much higher than HDFC. The position of Nonperforming assets of HDFC Bank is much better than Punjab National Bank. Further, it is understood that balancing the non-performing asset will act as an indicator to a financial institution that shows its financial fitness. In addition to the study, it is alsoviewed the causesand impacts of non-performing assets in the banking sector.

- Compared to Punjab National Bank, HDFC Bank has more Net income in the selected period i.e.2019-2023.
- HDFC's total advances are gradually increasing and reaching 16, 00,586cr in 2023, while Punjab National Bank's total advances have reached 830834cr.
- Even though HDFC's total advances are more than Punjab National Bank, still HDFC's mean value for net NPA is 28853.25 whereas Punjab National Bank's Net NPA mean is -1040.25 which insinuates that HDFC is good at recovering loans.
- The coefficient of correlation for Punjab National Bankbetween Net income and Net NPA is 0.11, which indicates a positive correlation,While HDFC Bank has a fairly strong positive correlation of 0.80 which means Net income and Net NPA is highly correlated.

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