



Comparative Study of Non -Performing Assets (NPAs) in Selected Public Sector and Private Sector Banks in India

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ABSTRACT

The key changes took place in the operation of banks in India after liberalization, privatization and globalization. Economic reform in India started in early 90s, but their results are visible now. Non-performing assets mirror of the performance of banks.

A high level of Non-performing assets suggests high chance of a large number of credit defaults that affect the profitability and net-worth of banks and reduce the value of the assets. NPAs affect the liquidity and profitability, in addition to create threat on value of assets and survival of banks. To boost the efficiency and profitability, the NPAs have to be organized. Various steps have been taken by authority to reduce the Non-performing assets.

An attempt is made in this paper that what is Non-performing assets? In this analysis an effort has been made to evaluate the functioning performance of the selected public sector bank & Private bank in India and also study how efficiently Public and Private sector banks can manage NPA

INTRODUCTION

The banking industry plays a dominant role in the Indian economy. The overall development of the any country turns on by the commercial sector of that country. There are various commercial sector in India, mainly are Automobiles sector, Fertilizer sector, Indian Banking sector, Pharmaceutical sector, manufacturing sector etc.

The main function of the bank is to issue Loans and Advances to various sectors such as Agricultural, Corporate sector, Personal and Housing etc... As Term loans, Overdraft and Cash credits.

These Loans and Advances are the assets of the Bank, because lending loans and advances is the main direct material activity of the Banks. If the borrower fails/defaults to repay the principal amount as well as interest amount within 90 days, from the date of maturity then the mortgage assets of borrowers become NPAs.

Explanation of Non-performing Assets.

- When an asset does not create any income for the bank the asset becomes NPA.
- A Loan and advance become Non-performing asset(NPA) where:-
 - If Principal (Instalments) and interest of any term loan are due for more than 90 days.
 - In case of overdraft (OD)/Cash credit (CC) the account remains 'out of order'.

Banks are scared to issue Loans and advances, because when borrowers unable to repay the lending fund, it's not good for the bank financial position and economic health of the country.

2. Types of NPAs:-

I. Gross Non-Performing Assets.

II. Net Non-Performing Assets.

I. Gross Non-Performing Assets.

Gross NPA is some of loan Assets that are classified as NPA as per RBI guidelines.

$$\text{Gross NPA} = \text{Total of Loan Assets} - \text{Amount Paid by borrower}$$

Example:- Total Loan Assets = 100 cr.

Payment made by borrower = (40cr.)

Gross NPA = 60cr

$$\text{Gross NPA Ratio} = \frac{\text{Gross NPAs} * 100}{\text{Total Loan Assets} / \text{Total Loan and Advances}}$$

II. Net Non-Performing Assets

In Net NPAs bank has deducted the provisions of uncertain and unpaid debts

$$\text{Net NPA} = \text{Gross NPA} - \text{Provisions of total loan and advances}$$

Example

Gross NPAs = 100 cr.

Provisions of total loan and advances = (40cr.)

Net NPA = 60cr

CATEGORY OF NPAS

- I. Standard Assets
- II. Sub standard Assets
- III. Doubt full Assets
- IV. Loss Assets

REVIEW OF LITERATURE

Baskshi(1998) in his articles,"NPAs management in banks "discussed that there was a health code system which classify the assets in 1998 but the norm was not so effective.RBI introduced prudential norms to regulate NPAs which involves asset classification, recognition of income and provisioning norm. After introduction of the norm NPAs are in decreasing mood both net NPAs and gross NPAs.

Kaur and Singh (2011) in their study on Non-performing assets of public and private sector banks (a comparative study) studied that NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. The Financial companies and institutions are nowadays facing a major problem of managing the Non-performing assets as these assets are proving to become a major setback for the growth of the economy.

Kumar.P.T (2013) has published a research journal on "A Comparative investigation of NPA of Old Private Sector Banks and Foreign Banks" has mentioned that the NPAs has become a very serious threat for the banking most importantly in the last few years. During the 1990s the operations of the banks were ineffective but at present a lot of changes have been undergone for increasing the efficiency.

Satpal(2014) in his study "A Comparative study of Non Performing Assets in Public and Private Sector Banks in the New Age of Technology" attempted to find out answers to what is NPA?, The factors contributing to NPAs, reasons for high NPAs and their impact on Indian banking operations, the trend and magnitude of NPAs in selected Indian banks. An analytical study was done on three public and three private banks based on their 5 years data. The results suggested that extent of NPA is comparatively very high in public sectors banks as compared to private banks.

Sudarsan & Santosh (2018) in their study have tested for correlation between advances and non-performing assets of Indian banks and found that there is a positive correlation between gross advances and gross NPA in term of value in all the banks. But in terms of % of total assets there is negative correlation in all banks between gross NPA and gross advances except foreign banks. According to them, which showed foreign banks are able to control their NPAs.

J K Das and Surojit Dey(2018) in their paper "Non-Performing Assets of Public and Private Sector Banks in India: An Empirical Study" tried to analyse the growth of priority sector non-performing assets, non-priority sector non-performing assets and its contribution towards building up total non-performing assets and to investigate the relationship of non-performing assets with some economic parameters. It also analyses the association of corporate debt restructuring with non-performing assets and tries to find out relationship of the above two. In the results a strong correlation is found between corporate debt restructuring and NPAs. A negative association is found between NPAs and GDP growth.

Sushendra kumar mishra and mohit rana(2019) conducted the study "Non-Performing Asset of Public and Private Sector Banks in India: A Descriptive Study" to understand the present condition of non-performing asset of public and private sector banks in India. The study was descriptive in nature and used ratio analysis and correlation toanalyse the trend of NPA and to test the hypothesis, respectively. The results showed that the asset quality management of public sector bank is insignificant as compared to other banks and also reveals that the financial burden on public sector banks is more as compared to private sector banks.

Sagarika Mohanty(2021) in her research titled " Comparative Study of Non -Performing Assets (NPAs) in selected Public Sector Banks and Private Sector Banks in India" tried to study the relationship between NPA with the key parameters of selected banks and impact of NPA on Net profit and Return on Assets (ROA) of the selected Banks. The study was based on secondary data from various sources. The findings suggested that NPA is the one of the key parameters which indicates the financial stress of any banks and that NPA is more in public sector banks in India and it has negatively affected the profitability of the banks.

Arora poonam(2021) in his articles "A Comparative Analysis of Public Sector Banks, Private Sector Banks and Foreign Banks"

RESEARCH GAP

As we know that a lot of research has already been done by many researchers in this area but the comparison of 4 public sector bank (SBI, PNB, BOI,CBI) and 4 private sector banks (AXIS Bank, HDFC Banks, ICICI Bank, Indusind Bank) by taking duration from 2012-2021 financial year is still not done. Here I have done a comparative analysis by tanking these selected banks. And also analyses their relationship between key parameters of banks with NPAs.

RESEARCH QUESTIONS:

- What are the main areas of banking Industry for measures the NPAs?
- Is any relationship between Net NPAs and Net Profit of the bank?
- Which bank is better for NPAs?
- Which bank is worsening for NPAs?

METHODOLOGY OF THE STUDY:

1. SOURCES OF DATA:

The present study based on secondary data. These data have been collected from different sources such as:

- Annual reports of bank, SBI, BOI,CBI, ICICI Bank,Indusind Bank ,AXIS Bank, RBI, PNB, HDFC Bank
- Press Release Report of SBI, AXIS Bank ,PNB , CBI , Banks,ICICI Bank,Indusind Bank ,HDFC Bank
- And related subject matter and related website of public and private sector banks in India.

2. SAMPLE DESIGN: The public and private sector bank for the study were selected based on convenience sampling method. For these 4 public sectors and 4 private sector banks in India were taken for the study on the basis of market capitalization. The study period is from 2012 to 2021

The following are the selected sample banks:

A. Public sector bank: State Bank of India (SBI) ,Punjab National Bank (PNB) ,Bank of India (BOI), Central Bank Of India (CBI)

B. Private sector bank: AXIS Bank, HDFC Bank, ICICI Bank, Indusind Bank

3. STATISTICAL TOOLS USED:

- Mean has been calculated to know the average performance and to know the stability in the performance of the banks to find out the relationship between NPA and other key parameters of bank.
- Correlation has also used to check the relationship between Net NPA and Net Profit and Return on Assets (ROA) of the selected public and private sector banks in India.

DATA ANALYSIS AND INTERPRETATION:

1. Table-1 Net NPA (in %) of selected public and private sector bank

Table-1								
Gross NPA (in %) of selected public and private sector bank (2012 to 2021) in India								
YEAR	PRIVATE SECTOR BANK Net NPA (in %)				PUBLIC SECTOR BANK Net NPA (in %)			
	HDFC	AXIS	ICICI	INDUSIND	SBI	PNB	CBI	BOI
2011-2012	0.18	0.25	0.62	0.27	1.82	1.52	3.09	1.47
2012-2013	0.20	0.32	0.64	0.31	2.10	2.35	2.90	2.06
2013-2014	0.27	0.40	0.82	0.33	2.57	2.85	3.75	2.00
2014-2015	0.25	0.44	1.40	0.31	2.12	4.06	3.61	3.36
2015-2016	0.28	0.70	2.67	0.36	3.81	8.61	7.36	7.79
2016-2017	0.33	2.11	4.89	0.39	3.71	7.81	10.20	6.90
2017-2018	0.40	3.40	4.77	0.51	5.73	11.24	11.10	8.26
2018-2019	0.39	2.06	2.29	1.21	3.01	6.56	7.73	5.61
2019-2020	0.36	1.56	1.54	0.91	2.23	5.78	7.63	3.88
2020-2021	4.40	1.05	1.24	0.69	1.50	5.73	5.77	3.35
MEAN	0.706	1.2288	2.08529	0.8529	5.6516	6.554	6.3468	4.468

Chart No:1 Net NPAs (in %) of selected public and private sector bank

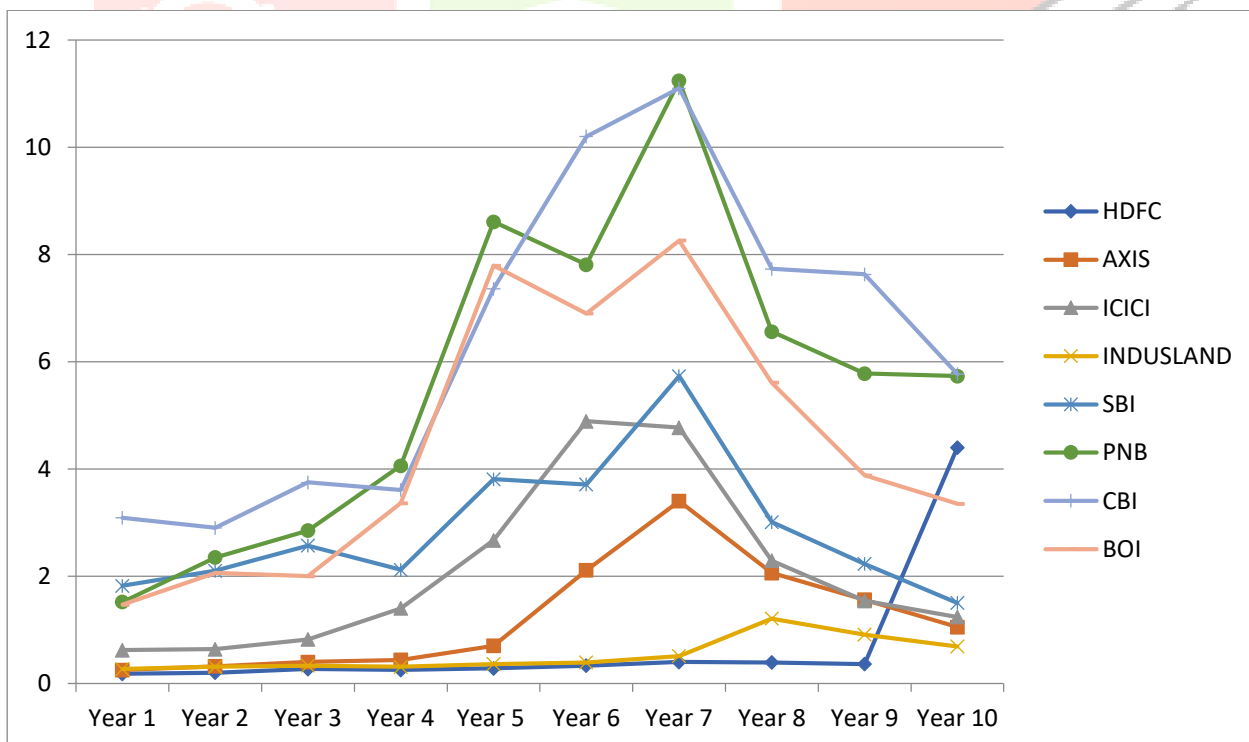
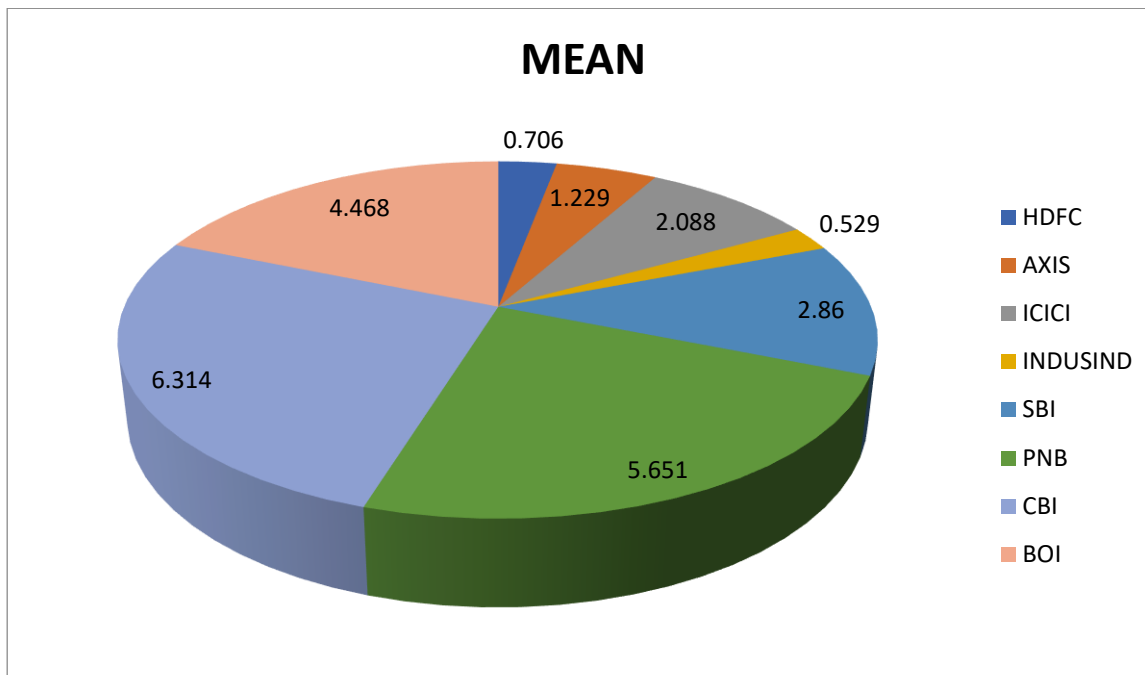


Chart No: 2 Mean of Net NPAs (in %) of selected public and private sector bank**CONCLUSION**

The NPAs have always created a bigger problem for the entire banking industry in India like an earthquake. It is just not a problem for the banking industry but for the economy too. If the useful treatment of the NPAs is not undertaken it would hamper the business of the banks.

The NPAs would destroy the net profit, interest income due to large provisions amount of the Non-performing Assets. At macro level, NPAs have blocked the supply line of credit to the important borrowers, thereby having a negative effect on capital formation of bank and arresting the economic function in the country. At the micro level, the improper level of NPAs has destroyed the profitability of banking industry through reduced interest income and provisioning requirements, besides restricting the recycling of funds leading to serious asset liability mismatches. Government has taken many measures to minimize the level of NPAs like Corporate Debt Restructuring, Red flagged accounts etc.

This analysis shows that the extent of NPA is comparatively very low in private banks as compared to public sector banks. Although various actions have been taken by government and authority to minimize the NPAs but still a lot needs to be done to stop this problem.

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