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A COMPARITIVE STUDY OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN INDIA: A SPECIAL REFERENCE TO NON PERFORMING ASSESTS

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ABSTRACT

The comparative study focuses on the performance analysis of Public Sector Banks (PSBs) and Private Sector Banks (PSBs) with special emphasis on non-performing assets (NPAs) The major factors analyzed are Gross NPAs, Net NPAs, Net Profit and Return on Assets (ROA). The survey aims to provide insights into the financial health, risk management and overall efficiency of both public and private banks, in order to reveal their strengths and weaknesses. Understanding these factors is important for stakeholders and policy makers to make informed decisions about the banking industry. This study concludes that a positive financial evolution in both Public and Private Sector Banks, marked by a decline in Gross NPA, enhanced Net Profit and notable Return on Assets.

KEYWORDS

Public Sector Bank, Private Sector Bank NPA, Net Profit, Return on Assets

INTRODUCTION

Banks are financial institutions that play an important role in the economy. They accept customer deposits and offer a range of financial services, including loans, mortgages and investments. Banks facilitate the movement of money in the economy and provide a safe place for individuals and businesses to store their money. They support economic development by providing loans and financial assistance to individuals and businesses. Banks can be classified into commercial banks, savings banks and investment banks, each of which serves different purposes in the context of the economy.

Public Sector Banks: Public sector banks in India have a rich history dating back to the pre-independence era. The State Bank of India, established in 1806 as the Bank of Calcutta, laid the foundation for the banking system. Post-independence, the Government Nationalized major banks in two phases, in 1969 and 1980, to ensure financial inclusion and control over the economy. Public sector banks played a pivotal role in fostering economic development by channeling funds to priority sectors. Over the years, these banks have evolved to adapt to changing financial landscapes, incorporating technology and expanding their reach to cater to diverse banking needs across the country.

Private Sector Banks: Private sector banks in India have a rich history rooted in economic reforms. The liberalization of the Indian economy in the early 1990s marked a pivotal moment, allowing private players to enter the banking sector. The first private bank, Housing Development Finance Corporation (HDFC) Bank, commenced operations in 1995. Subsequently, others like ICICI Bank and Axis Bank followed suit. This move aimed to enhance competition, efficiency, and innovation in the banking industry, fostering a more dynamic financial landscape. Over the years, private sector banks have played a crucial role in modernizing the banking sector, introducing advanced technologies, and providing diverse financial services to cater to the evolving needs of India's growing economy.

Following are the selected Public Sector and Private Sector Banks in India

Public Sector Banks

State Bank of India

Punjab National Bank

Canara Bank

Private Sector Banks

HDFC Bank

ICICI Bank

Axis Bank

NON PERFROMING ASSETS

Non-Performing Assets (NPAs) refer to loans or advances that have ceased to generate income for a financial institution, typically due to the borrower's inability to meet repayment obligations. These assets become non-performing when the borrower fails to make interest or principal payments for a specified period. NPAs pose significant challenges to the financial stability of banks and other lending institution, as they can lead to a decline in profitability and capital erosion. Managing and reducing NPAs is crucial for maintaining a healthy banking sector, often requiring proactive measures such as effective risk management, stringent loan appraisal processes, and timely resolution mechanisms to address defaults and distressed assets. Regulatory bodies play a pivotal role in overseeing and implementing policies to mitigate the impact of NPAs on the overall financial system. The classification of NPAs is based on affixed period and generally follows four categories

ASSET CLASSIFICATION OF NPA

- STANDARDASSETS
- SUBSTANDARD ASSETS
- DOUBTFULASSETS
- LOSS OFASSETS

STANDARD ASSETS

"Standard Assets" refers a loan or advance that is functioning as per its terms and conditions, where there are no defaults and no signs of potential credit risk

SUBSTANDARD ASSETS

Substandard Asset is asset's for which the borrower has not borrowed for less than 12 months. The loan is considered "non qualified" because the borrower's ability to repay is uncertain, and there is significant risk to pay the price.

DOUBTFUL ASSETS

An asset is classified as "doubtful" when the free payment period exceeds 12 months. The prospect of full recovery is even more doubtful, and the bank may be required to restructure for it the potential losses.

LOSS OF ASSETS

Assets identified as uncollectible are classified as "Loss of Assets". These are loans for which the loss has been identified by the bank, internal and external audit, or the regulator. The bank records the unpaid bills and issues a loss policy.

SCOPE AND SIGNIFICANCE

A comparative study of Public Sector Banks (PSBs) and Private Sector Banks (PVBs) in India, with special focus on Non-Performing Assets (NPAs), holds scope and importance in financial analysis and policy making in. The measures will include an assessment of operational efficiency, risk management and the overall financial health of Public Sector Banks and Private Sector Banks. NPA, being an important indicator of a bank's asset quality, deserves special attention due to its potential impact on the position of the banking sector.

STATEMENT OFTHE PROBLEM

A comparative study of (PSBs) and (PVBs) in India, with special focus on non-performing assets (NPAs), addresses a major concern in the country's banking sector. The problem statement revolves around understanding the key factor s contributing to NPAs in each sector, assessing the effectiveness of their respective risk management practices and identifying possible ways to mitigate NPAs.

Thereafter, if anything irregularities in NPA management in public and private sector banks may provide valuable insights into the overall health of the banking sector and it may guide policy makers in targeted policy interventions for banks sustainable and resilient practices.

OBJECTIVES

- To study the influence of NPAs in Net Profit of selected Public Sector Banks and Private Sector Banks in India.
- To analyses the impact of Non Performing Assets on Return on Assets of selected Public Sector Banks and Private Sector Banks in India.

RESEARCHMETHODLOGY

A sample of three Public Sector Banks [SBI,PNB,CANARABANK] and three Private Sector Banks [HDFC, AXIS, ICICI] has been selected on the basis of market capitalization on of banks duringtheperiodof5yearsfrom2018–2019to2022–2023.Descriptive research design is used in this study. The study is completely based on secondary data has been collected from annual reports of respective banks RBI, Bulletin, magazines, Journals etc. Mean and T-test are the statistical tools used in this study

REVIEW OF LITERATURE

Poonam Sharma, Dr. Neha Muthur [August 2020] conducted “A comparative study of public sector bank and private sector banks - A special reference to financial performance & NPAs”. In this study Private Sector Banks earn more profit assets as compared to Public Sector Banks. Financial performance has not improved after the merges of Private Sector Bank in Public Sector Banks. But the capital adequacy ratio has improved after the merges of Private Sector Bank in Public Sector Banks. The NPA of Private Sector Bank is lower as compared to Public Sector Banks, due to the reason of strong credit rating of Private Sector Banks.

Preeti Srivastava Mansi Joshi, Do. Purvi Dipen Devashri [2022] – conducted A comparative study of NPA in selected Private Sector Banks and Public Sector Banks. The study had concluded that due to the elimination of NPA the bank should improve their credit and repayment structure. So the bank should follow all the credit policy issued by the government and take proper action against NPA.

Sagarika Mohanty [2021] conducted comparative study of NPA in selected Public Sector Banks and Private Sector Banks in India. The main finding of this study is that there is negative correlation between all the banks except some private sector banks in the case of correlation between Net NPA and Net Profit. This study concluded that NPA is one of the biggest issues in banking sector. It is difficult to completely eliminate NPA from banks. RBI has to take measures and actions against NPA.

Table 1

Net NPA of Public Sector Banks and Private Sector Bank (amount in crore)

PARTICULARS	2018 – 19	2019 – 20	2020 -21	2021 – 22	2022 – 23
SBI	65895	51871	36810	27966	21465
PNB	30038	27219	38576	34909	22585
CANARA	22955	18251	24442	18668	14349
PUBLIC SECTOR BANKS	**118888**	**97341**	**99828**	**81543**	**58399**
HDFC	3215	3542	4555	4408	4368
AXIS	11276	9360	6994	5512	3589
ICICI	13577	10114	9180	6961	5155
PRIVATE SECTOR BANKS	**28068**	**23016**	**20729**	**16881**	**13112**

Table 2

Net Profit of Public Sector Banks and Private Sector Bank (amount in crore)

PARTICULARS	2018 – 19	2019 – 20	2020 -21	2021 – 22	2022 – 23
SBI	862	14488	20410	31676	50232
PNB	-9975	336	2021	3457	2507
CANARA	347	-2236	2558	5678	10604
PUBLIC SECTOR BANKS	**-8766**	**12588**	**24990**	**40811**	**63343**
HDFC	21078	26257	31117	36961	44109
AXIS	4677	1627	6589	13025	9580
ICICI	3363	7931	16193	23339	31897
PRIVATE SECTOR BANKS	**29118**	**35815**	**53898**	**73326**	**85585**

(Secondary source)

INTREPRETATION

The above table shows that a positive shift in the financial performance of both the Public Sector and Private Sector Banks as evidenced by the reduction in Net NPA and the increase in Net Profit over the years.

Table 3

NPA with Net Profit of Public Sector Banks and Private Sector Bank

In order to compare this, the Independent Sample t-test for NPA and net profit had taken into account.

Null Hypothesis (H0): There is no significant difference in the Non-Performing Assets (NPAs) and net profit of selected public sector and private sector banks in India.

		t-test for Equality of Means						
		Sig.	t	df	Sig. (2-tailed)	Mean Difference	95%Confidence Interval of the Difference	
							Lower	Upper
NETNPA	Equal variances assumed	.809	2.43	8	.041	35178.60	1786.81	68570.39
	Equal variances not assumed		2.43	8	.041	35178.60	1783.65	68573.55

In this table the p-value for Net NPA 0.041 is less than 0.05. So the Null Hypothesis is rejected, i.e. there is a significant difference in the Non-Performing Assets (NPAs) between selected public sector banks and private sector banks in India.

Table 4

Percentage of Return on Assets of selected Public Sector Banks and Private Sector Banks

PARTICULARS	2018 – 19	2019 – 20	2020 -21	2021 – 22	2022 – 23
SBI	0.02	0.38	0.48	0.74	0.96
PNB	-1.25	0.04	0.15	0.26	0.18
CANARA	0.04	-0.30	0.22	0.46	0.78
PUBLIC SECTOR BANKS	**-1.19**	**0.12**	**0.85**	**1.46**	**1.92**
HDFC	1.90	2.01	1.97	2.03	2.07
ICICI	0.39	0.81	1.42	1.84	2.16
AXIS	0.63	0.20	1.11	1.21	0.80
PRIVATE SECTOR BANKS	**2.92**	**3.02**	**4.50**	**5.08**	**5.03**

(Secondary source)

INTREPRETATION

The above table reveals, Private Sector Banks, on average, have a higher Return on Asset compared to Public Sector Banks. Public Sector Banks show a positive trend in Return on Asset, indicating improvements in asset efficiency over the years.

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	**Sig.** (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
NET PROFIT	Equal variances assumed	.051	.828	-1.73	8	.121	-25449	14691.33	-59327.27	8429.27
	Equal variances not assumed			-1.73	7.96	**.122**	-25449	14691.33	-59355.99	8457.99

This table provides the actual results from the independent t-test. The p-values (which is indicated as *Sig.(2-tailed)*) of Net Profit is greater than 0.05. Hence the reject the Null Hypothesis, ie, there is significant difference in the net profit and return on investment of selected public sector and private sector banks in India.

DISCUSSION

To further enhance the positive trends observed in both public and private sector banks, it is crucial to implement targeted strategies. Public sector banks should focus on adopting some of the efficient risk management practices demonstrated by private sector counterparts. Strengthening asset quality through continuous vigilance on lending practices and proactive measures to minimize NPA. Private sector banks, while celebrating their increasing net profits, must maintain a balanced growth strategy and avoid overly aggressive lending. Both sectors could benefit from fostering collaboration to share successful risk management practices, contributing to the overall stability and profitability of the banking sector.

CONCLUSION

The decline in total NPAs in both public and private banks indicates an improvement in asset quality. Private equity markets, exhibiting high returns, reflect strong financial health. Public sector banks can draw pressure from their private counterparts to further strengthen their financial positions as they grow. Overall, the positive trajectory of the banking sector indicates a resilient, improving financial environment, provided both sectors remain vigilant, adopt best practices and cooperate for mutual benefit that improve financial quality of banks.

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