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

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The banking industry plays a vital role in the economy of India. Measurement of loans from time to time and recovery mechanism of NPA is one of the burning topics in the banking industry, now a day. The asset quality in terms of NPA is constantly deteriorating in banks, especially the Public Sector Banks (PSUs) in our country and thus causing intolerable stress to the banking sector, regulators, and the Indian economy. In present paper the researchers have tried to analyse the problem of NPAs by doing the comparative analysis of public sector banks and private sectors banks in India. So, in present study two public sector banks i.e., State Bank of India and Bank of Baroda and two private sector banks i.e., AXIS Bank and HDFC Bank have been taken for the study purpose. The present study has been

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conducted to find the relationship between NPA and their impact of NPA on Net profit and Return on Assets (ROA) with the key parameters of the banks selected under present study. The present study clearly states that the financial position of HDFC bank is good as it shows low Gross NPA%, low Net NPA% and higher Net Profits over the last 5 years taken for present study. Thus, it is one of the major issues of public sector banks as well as government as NPA problem in India is more due to lending to non-priority sector and sensitive sectors such as personal loan and real estate loans. There is need to focus on recovery and minimizing of NPAs of every public sector bank in India. A proper and effective Management Information System (MIS) needs to be implemented for monitoring of credit warning signals. The credit appraisal and monitoring accountability should be conducted by banks as well as focusing on the default risk minimization mechanism.

[**Keywords :** Non-Performing Assets, Public sector banks, Private sector banks]

1. Introduction

The banking industry plays a vital role in the economy of India. Measurement of Loans from time to time and recovery mechanism of NPA is one of the burning topics in the banking industry, now a day. The asset quality in terms of NPA is constantly deteriorating in banks, especially the Public Sector Banks (PSUs) in our country and thus causing intolerable stress to the banking sector, regulators, and the Indian economy. It is the requirement of the day to study the prospective impact and the remedies of the growing problem of Non Performing Assets on the banking sector. A number of studies have been done on NPAs in Indian banking sector by academicians and researchers. In the process of strengthening the recovery of loans and dues by the banks and the other financial institutions the Government of India started the financial reforms in Indian economy. These reforms were undertaken on the basis of reports laid down by report I and II of Narasimham Committee. The Government of India promulgated the "recovery of debts due to banks and other financial institutions act" and the "securitisation and reconstruction of financial assets and enforcement of security interest act" in the year 1993 and 2002 respectively. But in reality the acts introduced by the Government of India are not serving the purpose mainly due to the bank's approach and attitude towards financing and recovery of loans especially from the small and medium enterprises.

As per RBI, NPA is (a) an asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank and (b) A non-performing asset (NPA) is a loan or an 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", in respect of an 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) The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops, the installment of principal or interest thereon remains overdue for one crop season for long duration crops, (v) The installment of principal or interest thereon remains overdue for one crop season for long duration crops, (vi) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006. (vii) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment. c) Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2. Review of Literature

NPA is one of the burning topics for the banking sector now a day which has forced many researchers to study the reasons and the problems created by NPA. Moreover it is the requirement of the day to study the prospective impact and the remedies of the growing problem of Non Performing Assets on the banking sector. A number of studies have been done on NPAs in Indian banking sector by academicians and researchers. The literature reviewed in this part is obtained from the research studies and articles of researchers published in various journals.

Das (2010) analyzed the parameters which are actually the reasons of NPAs, and those are, market failure, willful defaults, poor follow-up and supervision, non-cooperation from banks, poor Legal framework, lack of entrepreneurial skills, and diversion of funds.

Gupta (2012) argued that despite the efforts of banks in containing the NPAs, the amount of slippage is still high and public sector banks are more at threat while private sector banks are able to consolidate with technology and improved methods.

Shiralashetti and Poojari (2016) analyzed the causes of NPA and impact of NPA on the profitability of the bank. The study found that there was a moderate relationship exist with Gross NPA and Net profit of the syndicate bank and also found that there was no significant difference between sector wise NPA. The study provided some suggestions to the regulators.

Dudhe (2017) analyzed the impact of NPAs on the profitability of banks. The study finds that public sector banks are more prone to NPA problems which will adversely affect their profitability. The suggestions to control the NPAs are to have a proper credit management which includes activities such as preparation of credit planning, proper credit appraisal, post sanction follow up and need based credit.

Sengupta and Bhardhan (2017) argued that regulatory forbearance does not facilitate resolution and can actually worsen the banking crisis by providing incentives to the banks to defer NPA recognition and delay action. Restructuring of a loan should be the commercial decision of a bank and should not automatically qualify for regulatory concessions in terms of deferment of recognition of NPAs.

Vikram and, Gayathri (2018) their study focused the sector, which has higher NPAs (Public/Private sector banks), causes and control measures for rising NPAs. It found out that the level of NPAs is higher in Public Sector Banks compared with Private Sector Banks. Also, focused causes, level of NPA and controlling measures were analyzed. It suggested that the root of the issue of rising NPAs lies in the nature of overseeing credit chance by the banks and willful defaulters.

Singh and Aggarwal, (2019) observed that there is a direct impact on the bank's performance due to the risk of NPAs and NPA have a negative effect and influence on the performance of both public and private banks. They concluded that during 2018-19 there has been a major improvement in the asset quality of scheduled commercial banks as gross NPA ratio has declined from 11.5% to 9.3% as on March 2019. They found that the biggest reason behind the increasing NPAs of the public sector banks is the political interference in the functioning of public sector banks.

Mittal (2019) identified the effect of increasing NPA in India and stated that the NPA has increased in the last decade. It means that a large proportion of bank assets has been ceased to generate income for the bank, which in turn, lowers the profitability and ability of bank to generate further credits. The decline in banks profitability is causing adverse economic shock as well as putting consumer's deposits at risk.

Girnara (2020) this study was conducted of public sector banks and private sector banks of last 5years. Various ratios related to NPAs were calculated and also a comparison of NPAs in public sector banks and private sector banks has been made. After that, it is found that Gross NPA and Net NPA are high in public sector banks as compare to private sector banks and also negatively affecting to profitability of banks.

3. Objectives of the Study

Objectives of this study are two-fold :

- To study the relationship between NPA with the key parameters of the banks selected under present study.
- To find out the impact of NPA on Net profit and Return on Assets (ROA) of the banks selected under present study.

4. Research Methodology

As we all are aware that the definition of Non Performing Assets is also changing in the changing era. And NPAs are increasing gradually at increasing rate in banking institutions in our country. So, the study of dynamic changes of NPA in banking sector in India is very important. In present paper the researchers have tried to analyse the problem of NPAs by doing the comparative analysis of public sector banks and private sectors banks in India. So, in present study two public sector banks i.e., State Bank of India and Bank of Baroda and two private sector banks i.e., AXIS Bank and HDFC Bank have been taken for the study purpose, as these banks are most prominent in their specified area and best in their category. Present study has focused on different components like gross NPA %, Net NPA %, Net NPA, Net Profit, etc. for the study of both public and private sector banks.

4·1 Scope of the Study

The scope of the study is comparative analysis of NPAs of two public sector banks namely Bank of India and Bank of Baroda and two private sector banks namely AXIS Bank and HDFC Bank in India for the duration of 2018 to 2022.

4·2 Sources of Data

The present study based on secondary data. These data have been collected from different sources such as : Annual reports of SBI, BOB, RBI, ICICI and HDFC Bank; Press Release Report of SBI, BOB, RBI, ICICI and HDFC Bank and related subject matter and related website of public and private sector banks in India.

4·3 Sample Design

The public and private sector bank for the study have been selected on the basis on convenience sampling method. Two public sectors banks namely State Bank of India (SBI), Bank of Baroda (BOB) and two private sector banks namely ICICI Bank, HDFC Bank in India have been selected for the present study on the basis of market capitalization. The study period is from 2018 to 2022.

4·4 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.

5. Data Analysis and Interpretation

Table-1 : %Gross NPA of selected Public and Private Sector Banks in India from 2018 to 2022

Year	Public Sector Banks % Gross NPA		Private Sector Banks % Gross NPA	
	SBI	**BOB**	**HDFC**	**ICICI**
2018	10.91	12.26	1.30	9.90
2019	7.53	9.61	1.36	7.38
2020	6.15	9.40	1.26	6.04
2021	4.98	8.87	1.32	5.33
2022	3.97	6.61	1.17	3.76
Mean	6.708	9.35	1.282	6.482

The above table reveals the % of Gross NPA of selected public sector and private sector banks in India. BOB has highest Mean ratio of 9.35%, followed by SBI with 6.708%. HDFC has lowest Mean ratio of 1.282%, whereas, ICICI Bank have 4.786% Mean ratio. This shows that there is a consistency in Gross NPA to gross advances ratio or % of Gross NPA ratio.

Table-2 : Relationship between Net Profit and Net NPA of Selected Public Sector Banks

Year	Public Sector Bank			
	SBI		BOB	
	Net Profit (In cr.)	Net NPA (In cr.)	Net Profit (In cr.)	Net NPA (In cr.)
2018	-4556.3	110854.70	-1887.1	23,483
2019	2299.6	65894.74	1100.1	15609
2020	19767.8	51871.31	927.8	21577
2021	22405.5	36809.72	1547.7	21799.88
2022	35373.9	27965.71	7849.7	13364.64
Mean	15058.1	58679.236	1907.64	19166.704

The above table shows that NPA has a mixed trend. NPAs of SBI have decreasing trend from 2018 to 2021, as it decreased to ₹ 27965.71 cr. in 2022 from ₹110854.70 cr. in 2018. Net profits of SBI have shown increasing trend throughout the period. It is cleared from the above table that the Net Profit of SBI is ₹ 35373 Cr from ₹ 4556.3 cr. Net loss from 2022 to 2018. In BOB NPA decreased from the year 2018 to 2019 from ₹ 23483cr. to ₹ 15609 Cr. In the year 2020 NPA is increased to ₹ 21577 Cr and again decreased to ₹ 13364 cr. in 2022. Net profits of BOB are showing an increasing trend overall .The mean of Net profit of SBI is more as compare to BOB and Average NPA is also high in case of SBI i.e. ₹ 58679 Cr.

Table-3, on next page, shows that the Net Profit (in cr.) and Net NPA (in cr.) of 2 private sector banks, such as ICICI BANK and HDFC BANK. The data of ICICI Bank indicates that the net profit and Net NPA are fluctuating over the 5years. But in HDFC bank the Net Profit and Net NPA are increases at increasing rate over the 5 years. The Mean value of Net profit is highest in HDFC Bank with ₹ 26589.82cr. and Mean value of NPA is highest in ICICI bank i.e., ₹ 13539. 6cr.

Table-3 : Relationship between Net profit and Net NPA of selected Private Sector Banks

Year	Private Sector Bank			
	HDFC		ICICI	
	Net Profit (In cr.)	Net NPA (In cr.)	Net Profit (In cr.)	Net NPA (In cr.)
2018	-4556.3	110854.70	-1887.1	23,483
2019	2299.6	65894.74	1100.1	15609
2020	19767.8	51871.31	927.8	21577
2021	22405.5	36809.72	1547.7	21799.88
2022	35373.9	27965.71	7849.7	13364.64
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Steps to tackle the problem of NPAs : The following ways may be used to control the increasing problem of NPAs in our country and effectively monitor and control the problem of increasing NPAs in banks in India and enabling the banks to achieve a clean balance sheet :

- **Insolvency and Bankruptcy Code (IBC) :** To exercise control over the quality of the assets, the RBI's has pushed for the IBC. the resolution process is expected to quicken with use of IBC.
- **Tightening Credit Monitoring :** A proper and effective Management Information System (MIS) needs to be implemented for monitoring of credit warning signals. The effective MIS system will help the banks to detect issues and set off timely alerts to management.
- **Credit Risk Management :** Credit Risk Management may be one of the effective toolsin controlling increasing NPAs in banks in India. The credit appraisal and monitoring accountability should be conducted by banks. Moreover to build safeguards against external factors banks should also conduct a sensitivity analysis.
- **Amendments to Banking Law to give RBI more power :** The present scenario allow the RBI just to conduct an inspection of a lender but doesn't give them the power to set up

an oversight committee. The prevailing laws in this regard may be amended to empower the RBI to monitor large accounts and create oversight committees. Now a day it is seen that the PSU lenders put aside a large portion of their profits for provisions and losses because of NPA, the RBI may ask them to create a bigger reserve and thus, report lower profits.

- **Stricter NPA recovery :** It is suggested that the prevailing laws in this regard should be amended to empower the banks to give more power to recover NPA rather than to play the game of "wait-and-watch."
- **Corporate Governance Issues :** Banks, especially the public sector ones, need to come up with proper guidance and framework for appointments to senior-level positions.
- **Accountability :** Lower-level executives are often made accountable today; however, major decisions are made by senior-level executives. Hence, it becomes very important to make senior executives accountable if Indian banks are to tackle the problem of NPAs.

6. Findings of the Study

The following findings may be placed on the basis of present study :

Gross NPA% : It is one of the key indicators of banking sector. According to the Comparative analysis Gross NPA% is higher in public sector bank i.e. BOB of 9.35 % and lower in private sector bank i.e., HDFC Bank with 1.282% mean value.

Net Profit (in crores) : It shows the profitability of the bank. The mean value of Net profit is highest in HDFC bank i.e., ₹ 26589.82 cr. and lowest in BOB which is ₹ 1907.64 cr.

Net NPA Amount (in crores) : It is another key parameter of financial position of bank. As per the comparison Public sector bank i.e., SBI having higher Mean NPA value of ₹ 58679.236 cr. and HDFC the private sector bank having lower Mean NPA amount of ₹ 3664.08 cr.

Net NPA% : As per the comparison between public sector banks and private sector banks Net NPA % is more in Public Sector bank i.e., PNB which has mean value of NPA % is 8.068 and less in Private sector bank i.e., HDFC Bank with 0.682% of mean Net NPA%.

7. Conclusion

It may be concluded that the problem of increasing NPA is one of the burning topics in the banking industry, now a day which indicates the financial stress of banks in India. It is difficult to completely reduce the NPA from banks but these may be minimized to lowest level possible. The present study indicates that the problem of NPAs is more severe in public sector banks than in private sector banks. The present study clearly states that the financial position of HDFC bank is good as it shows low Gross NPA%, low Net NPA% and higher Net Profits over the last 5 years taken for present study. Thus, it is one of the major issues of public sector banks as well as government as NPA problem in India is more due to lending to non-priority sector and sensitive sectors such as personal loan and real estate loans. There is need to focus on recovery and minimizing of NPAs of every public sector bank in India. A proper and effective Management Information System (MIS) needs to be implemented for monitoring of credit warning signals. The credit appraisal and monitoring accountability should be conducted by banks as well as focusing on the default risk minimization mechanism. Bank should follow the credit policy of the government and take strict and timely action against NPA. The prevailing laws in this regard of recovery of NPAs may be amended to empower the RBI to monitor large accounts and create oversight committees.

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