

A Comparative Study on Non-Performing Assets of Selected Public and Private Sector Banks

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Abstract: Banks are the essential part of the society and play a significant role in the development of the society and overall economy as it is correct to say bank is the backbone of the economy. Today, all kind of banks whether it is a public bank, private bank and foreign bank facing the problem of rising NPA (Non-Performing Assets) which affect adversely on the health of the banking system. The growth of NPA's affects not only banking practices and their profitability but the economy as a whole. The research paper is the comparative study of the Non-performing assets of selected public sector banks and private sector banks for the period of ten years i.e. from 2013-2014 to 2022-2023 and Government actions taken for reducing NPA's. The study has considered various parameters for measuring the performance like Gross NPA %, Net NPA %, and Trend %. The data of State Bank of India, Central Bank of India are used for Public sector banks and HDFC Bank, DCB Bank are used for private banks.

Keywords: Banks, Non-Performing Assets, NPA, Public sector banks, Private sector banks

1. Introduction

Indian banking sector plays crucial role in the economy. Indian banking started in the pre-independence era and booming from the start till date becomes an inseparable part of the society. Banks performance well in the development of the different sectors whether it is infrastructure, education, providing financial assistance and meeting day to day requirements. Banking gaining its importance and becomes a part of our life during demonization and covid 19.

NPA is an acronym of Non-Performing Assets which refers to the non-payment of principal and interest of loans and advances for more than 90 days. RBI defines NPA in a circular form 2007 as "An asset become non-performing when it ceases to generate income for the bank"

NPAs are classified under different criteria –

- 1) Substandard assets: Assets which has remained NPA for ≤ 12 months.
- 2) Doubtful assets: Assets which has remained NPA for 12 month.
- 3) Loss assets: Assets which are uncollectible and remain bankable asset.

As banks are improving their infrastructure and technology but quality of asset is deteriorating day by day because of misutilization of funds, improper follow ups. Quality of asset refers to credit risk associated with the loans and advances and it ultimately leads to increase of NPA so the study of NPA is very significant.

The RBI's Financial Stability report of December 29, 2022 predict that the gross NPA ratios of public sector banks may increase up to 9.4%, gross NPA of private sector banks may go up to 5.8% and foreign banks may go up to 4.1% in September 2023.

4R comprehensive strategy used by the Government:

- Recognition
- Resolution

- Recapitalisation
- Reforms

Government steps to reduce NPA:

- SARFAESI ACT, 2002 (Securitization and Reconstruction of financial assets and enforcement of securities interest act 2002)
- ARCs (asset reconstruction companies)
- Bad banks
- Mission Indradhanush, 2015

- 1) SARFAESI ACT: An asset is said to NPA when the principle and interest of loan and advances is not paid for 90 days. On 91st day bank issue SARFAESI notice of 60 days period to adjust overdue or reconstruction the loan or demand an adequate reason for non-payment of loan. On 61st day symbolic possession taken by the bank over the assets and auction the assets. But SARFAESI Act is not applicable on agricultural land, where borrower has paid 80% or more loan amount and if the balance outstanding in the loans is up to 1 lakh Rupees.
- 2) ARCs (Assets Reconstruction Companies): An Asset Reconstruction Company is a specialized financial institution that purchases unsecured loans and NPAs of the banks on sharing basis than starts the recovery process. ARCs allow 100% foreign direct investment. But agricultural loan and loan of Rs 10 lakh and above cannot be transferred to ARCs.
- 3) Bad Banks: Bad Banks is a financial entity set up to purchase the bad loans and NPAs from the bank to overcome the burden on banks of non-performing assets.
- 4) Mission Indradhanush, 2015: It is a 7 pronged plan launched by the government to improve the health, condition and resolving the issues faced by public sector banks by using ABCDEF formula. ABCDEF formula stands for (Appointments, Bank Board Bureau, Capitalization, De-Stressing, Empowerment, Framework of Accountability)

2. Review of Literature

- 1) **Murugan, et al. (2018)** in their research paper titled “A Comparative Study on Non-Performing Assets of Selected Public and Private Sector Banks” highlighted that NPA also been the major concern for the banking system in India and the growth of NPA adversely affect the health of the banking system. It was observed that NPA of public sector is higher as compare to private sector. The main reason for contributing in the growth of NPA and government efforts to overcome the growth of NPA but still a lot of changes and provisions required to curb it.
- 2) **Sharma(2015)** in his research paper titled “A Comparative Study on Non-Performing Assets of Selected Public and Private Sector Banks” stated that NPA is been a massive problem which hamper the bank’s profitability. Public sector banks position on handling NPAs as compare to private sector bank is not so encouraging and to find out this study use mean, standard error, covariance and different other tests.
- 3) **Chaitra and Vasu (2018)** in their research paper titled “comparative study on non-performing assets of selected private and public sector banks” stated that banks plays an important role in the development of society and economy but NPA still be a huge threat for the banking system and economy which need to be controlled with immediate effect. The deteriorating health of public sector banks makes difficult to support growth of the economy so it is necessary to check the level of NPAs at regular intervals and RBI also need to formulate plans and action to overcome the level of NPA.
- 4) **Infanta, et al. (2021)** in their research paper titled “a comparative study on non-performing assets of selected public and private sector banks” highlighted the ratios of comparing the performance of public sector banks and private sector banks in terms of NPA. NPA affect the asset quality of the banks as well as the profitability and liquidity. It is ultimately a threat to the survival of a bank.
- 5) **javheri and gawali (2022)** “a study on npas of selected private& public sector banks in India” highlighted the differences and trends of NPA in public and private sector. NPA works as a parameter to check the

performance of the bank. Banks should focus more on quality loans to curtail the rising NPAs.

Objectives of the Study

- 1) To analyze the trend of NPA of selected Public sector banks.
- 2) To analyze the trend of NPA of selected private sector banks.
- 3) To study few measures taken by the government to improve the level of NPAs of banks.

3. Research Methodology

Research Design:

Research design for this study is descriptive in nature because it describes and making the comparisons of NPAs of public and private sector banks and their performance in last 10 years.

Sources of data collection:

This study use secondary data collection technique. The data is collected from various sources such as annual reports of the company website, bank journals and government articles.

Sample Design:

The banks selected for the study are:

- State bank of India and Central bank of India from public sector bank
- HDFC bank and DCB bank from private sector bank

(SBI is the oldest bank of India and Central Bank of India can be converted in private bank in near future. HDFC bank outperform in terms of handling NPA and DCB bank is seen in very few studies)

Statistical Tools:

This study presents the comparative study of NPA of public and private sector banks. Gross NPA%, Net NPS % and Trend % are used to analysis and shown in a tabular form.

Study Period:

In this study, we used 10yearsGross NPAs and Net NPA data from the period 2013-2014 to 2022-2023.

4. Data Analysis

SBI Bank

YEAR	GROSSNPA			NET NPA		
	GROSS NPA (Rs in crore)	GROSS NPA% of Advances	TREND%	NET NPA (Rs in crore)	NET NPA% of Advances	TREND%
2013-2014	61605.35	4.95	100	31096.07	2.57	100
2014-2015	56725.34	4.25	85.86	27590.58	2.12	82.49
2015-2016	98172.80	6.50	131.31	55807.02	3.81	148.25
2016-2017	112342.99	6.90	139.39	58277.38	3.71	144.36
2017-2018	223427.46	10.91	220.40	110854.70	5.73	222.96
2018-2019	172750.36	7.53	152.12	65894.74	3.01	117.12
2019-2020	149091.85	6.15	124.24	51871.30	2.23	86.77
2020-2021	126389.02	4.98	100.61	36809.72	1.50	58.37
2021-2022	112023.37	3.97	80.20	27965.71	1.02	39.69
2022-2023	90927.78	2.78	56.16	21466.64	0.67	26.07
AVERAGE	120345.6	5.8	119.03	48763.4	2.63	102.61

Table 1 shows the trend of SBI regarding Gross NPA and Net NPA. It shows that in the year 2017-2018 marked highest Gross NPA 10.91% due to some economic changes than the NPA starts gradually decrease to 7.53% in the year

2018-2019 and reach to 2.78% in the year 2022-2023. Accordingly, the Net NPA of SBI bank reach its highest limit 5.73% in the year 2017-2018 than starts declining to 0.67% in the year 2022-2023

CBI Bank

YEAR	GROSSNPA			NET NPA		
	GROSS NPA (Rs in crore)	GROSS NPA% of Advances	TREND%	NET NPA (Rs in crore)	NET NPA% of Advances	TREND%
2013-2014	11500.01	6.27	100.00	6648.56	3.75	100.00
2014-2015	11873.06	6.09	97.13	6807.45	3.61	96.27
2015-2016	22720.88	11.95	190.59	13241.80	7.36	196.27
2016-2017	27251.33	17.81	284.05	14217.83	10.20	272.00
2017-2018	38130.70	21.48	342.58	17377.87	11.10	296.00
2018-2019	32356.04	19.29	307.66	11333.24	7.73	206.13
2019-2020	32589.08	18.92	301.75	11534.46	7.63	203.47
2020-2021	29276.96	16.55	263.96	9036.46	5.77	153.87
2021-2022	28156.22	14.84	236.68	6675.17	3.97	105.87
2022-2023	18386.12	8.44	134.61	3591.72	1.77	47.20
Average	25224.04	14.16	225.9	10046.46	6.29	167.71

Table 2 shows that the trend of CBI bank regarding Gross NPA and Net NPA. This table shows that the gross NPA of central bank of India keeps on rising to 21.48% in the year 2017-2018. To improve the condition by decreasing the NPAs, a technical write-off is done by central bank of India of Rs 9514 crore (according to the report published in

economic times) and it will be achieved by combination of strategies which leads to decrease the gross NPA up to 8.44% in the year 2022-2023. Similar impact is seen on Net NPA from 11.10% in the year 2017-2018 to 1.77% in the year 2022-2023.

HDFC Bank

YEAR	GROSSNPA			NET NPA		
	GROSS NPA (Rs in crore)	GROSS NPA% of Advances	TREND%	NET NPA (Rs in crore)	NET NPA% of Advances	TREND%
2013-2014	2989.28	1.00	100	820.03	0.30	100
2014-2015	3438.38	0.90	90	896.28	0.20	66.67
2015-2016	4392.83	0.94	94	1320.37	0.28	93.33
2016-2017	5885.66	1.05	105	2601.02	0.33	110.00
2017-2018	8606.97	1.30	130	2601.02	0.40	133.33
2018-2019	11224.16	1.36	136	3214.52	0.39	130.00
2019-2020	12649.97	1.26	126	3542.36	0.36	120.00
2020-2021	15086.00	1.32	132	4554.82	0.40	133.33
2021-2022	16140.96	1.17	117	4407.68	0.32	106.67
2022-2023	18019.03	1.12	112	4368.43	0.27	90.00
Average	9843.32	1.14	114.2	2832.65	0.33	108%

Table 3 shows that the trend of HDFC Bank regarding gross NPA and Net NPA. This table shows that the gross NPA and Net NPA of HDFC bank remains lower position as compare

to public sector banks. HDFC Bank maintains fair position in dealing with NPA throughout this 10 years tenure.

DCB Bank

YEAR	GROSSNPA			NET NPA		
	GROSS NPA (Rs in crore)	GROSS NPA% of Advances	TREND%	NET NPA (Rs in crore)	NET NPA% of Advances	TREND%
2013-2014	138.45	1.69	100.00	74.02	0.91	100
2014-2015	186.07	1.76	104.14	105.70	1.01	110.99
2015-2016	197.38	1.51	89.35	97.46	0.75	82.42
2016-2017	254.20	1.59	94.08	124.41	0.79	86.81
2017-2018	369.03	1.79	105.92	146.72	0.72	79.12
2018-2019	439.48	1.84	108.88	153.77	0.65	71.43
2019-2020	631.51	2.46	145.56	293.51	1.16	127.47
2020-2021	1083.44	4.09	242.01	594.15	2.29	251.65
2021-2022	1289.93	4.32	255.62	573.23	1.97	216.48
2022-2023	1122.84	3.19	188.76	356.92	1.04	114.29
Average	571.23	2.42	143.43	251.99	1.13	124.07

Table 4 shows that the trend of DCB Bank regarding Gross NPA and Net NPA. This table shows that the gross NPA is highest to 4.09% in the year 2021-2022 and net NPA also reach its highest limit to 2.29% in the year 2020-2021.

5. Findings

- The gross NPA and net NPA of State Bank of India is highest among 10 year to 10.91% and 5.73% in the year 2017-2018 due to some economic changes.
- The average gross NPA and net NPA of Central Bank of India is greater i.e. 14.16% and 6.29% and to rectify this Central banks of India did a technical write-off.
- In this study, it is observed that HDFC bank perform well in managing NPAs as average gross NPA and net NPA are 1.14% and 0.33%.
- DCB bank performs fairly well but we can see a hike of gross NPA and net NPA in the year 2021-2022.
- The gross NPA% of Central Bank of India is higher as compare to other selected banks.

6. Suggestions

- Banks should enhance credit appraisal process to analysis borrower's creditworthiness before lending the funds.
- Banks should identify early sign of potential defaulters and monitor at regular intervals.
- Government should bring some provisions and plan to overcome NPA.
- RBI should regularly monitor the bank's liquidity and asset quality.
- Bank should work on proactive basis to recover the debt and adopt efficient debt recovery mechanism.
- Legal system should be simplified for a quick action on NPAs.

7. Conclusion

Banks are the inevitable part of the society. Banks plays crucial role to cater the demands of the society but rising NPA reduce the loan giving capability of the bank. NPA affects the banking system to a great extent. NPA not only harm the banks financial position but also hamper the development of the society and the growth of NPA deteriorates the image of the country on a world level. To restore the efficiency and profitability of the bank, government have taken various steps to overcome this hurdle by create numerous acts and plans like SARFEASI Act, 2002, ARCs and Bad Banks facilities etc. It is observed in this study that NPA of public banks are greater than private bank due to their liberal banking policies and lack of proper scrutiny of the borrower. We conclude that public banks should more focus on their credit appraisal process and RBI provides assistance to all the commercial and non-commercial banks regarding debt recovery procedure.

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