

Non-Performing Assets: A Comparative Study of Public & Private Sector Banks

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ABSTRACT

Non-Performing Assets are a burning topic of concern for the private as well as public-sector banks, as managing and controlling NPA is very important. The current paper with the help of secondary data, from RBI website, tried to analyse the 5 years, (2017-2022) net non-performing asset data of 2 private and 2 public sector banks. KEY WORDS: Non performing assets, public sector banks, private sector banks.

How to cite this paper: K C Manohar Yadav | D. Jakir Hussain "Non-Performing Assets: A Comparative Study of Public & Private Sector Banks" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-6 | Issue-6, October 2022, pp.1282-1291, URL: www.ijtsrd.com/papers/ijtsrd52050.pdf



IJTSRD52050

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INTRODUCTION:

The banking sector is a backbone of a nation's financial system as it performs multitudinous functions in terms of maturity, liquidity and risk management. The financial health of the economy could be clearly reflected on the kind of banking system that exists in one nation. Therefore the banking system in a country plays a pivotal role in the development of a country. It has immense significance in the development of all the sectors of our economy. As India is the world's largest independent democracy and also an emerging enormous economic giant its needs huge support and successful banking system which brings magnificent affluence in all the aspects of the country. From the past three decades banking system has witnessed an exceptional transformation which contributed to the series of achievement to its credit. It is no longer limited its operations to the urban areas or metropolitans but also reached to the highly remote and distant areas of our country which is one of the reasons for the India's growth. But it is important to

note that after the implementation of LPG in India even though the government has liberalized its policies in order to support the banking sector, the post economic reforms revealed a terrifying hindrance to its development which is a Non-Performing Asset. Therefore the concept of NPA as evolved as a contemporary issue as a contemporary issue in the banking scenario when the Reserve Bank of India implemented the prudential norms as per the recommendation laid down by the Narasimham committee in the financial year 1992-93.

NON-PERFORMING ASSETS (NPA)

As per the prudential norms stated by RBI An asset is considered as non-performing when its interest or instalment of Principal is due for more than 90 days. In simple words as long as the expected income is realized from the assets, it is treated as performing asset but when it fails to generate income or deliver value on due date, it is treated as non-performing asset. With a view to moving towards International best practices and to ensure greater transparency, the

—90 Days overdue norm for identification NPAs had been adopted from the year ending 31 March, 2004. The Non-performing assets are considered to be an important parameter which can be used to analyse and judge the financial performance as well as a financial health of Banks. The increasing trend in NPA is considered to be the cause of concern to the entire banking industry. The banks are experiencing staggered development due to unprecedented growth in the rate of NPA, this is due to inappropriate credit appraisal and inefficient recovery mechanism which was there would be a mismatch in the assets and liability increase and higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability. The three letters that creates huge panic and apprehension in the banking and business sector today i.e., nothing but a Non-Performing Assets.

A Non-performing Asset is nothing but assets which would not generate any income to the bank. In other words Non-Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by Reserve Bank of India.

CLASSIFICATION OF NON-PERFORMING ASSET

Assets are classified into four classes - Standard, Sub-standard, Doubtful, and Loss assets. NPA consist of assets under three categories: sub-standard, doubtful and loss. RBI for these classes of assets should evolve clear, uniform, and consistent definitions. The banks should classify their assets based on weaknesses and dependency on collateral securities into four categories:

1. Standard Assets:

It carries not more than the normal risk attached to the business and is not an NPA. Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year. If asset fails to be in category of standard asset that is amount due more than 90days then it is NPA and NPAs are further need to classify in sub categories.

2. Sub-standard Asset:

A sub-standard asset is one which has remained NPA for a period less than or equal to 12months from 31.3.2005. In such case the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of

the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

3. Doubtful Assets:

With effect from 31.3.2005, an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristics that the weaknesses make collection or liquidation in full, - on the basis of currently known facts, conditions and values- highly questionable and improbable. Under this category there are three stages: D-I Doubtful up to one year D-II Doubtful for further two years D-III Doubtful beyond three years.

4. Loss Assets:

An asset identified by the bank or internal/ external auditors or RBI inspection as loss asset, but the amount has not yet been written off wholly or partly. The banking industry has significant market inefficiencies caused by the large amounts of Non-Performing Assets (NPA) in bank portfolios, accumulated over several years. Discussions on non-performing assets have been going on for several years now. One of the earliest writings on NPA defined them as "assets which cannot be recycled or disposed off immediately, and which do not yield returns to the bank, examples of which are: Overdue and stagnant accounts, suit filed accounts, suspense accounts and miscellaneous assets, cash and bank balances with other banks, and amounts locked up in frauds".

- Public Sector Banks: (PSBs) are a major type of government owned banks in India, where a majority stake (i.e. more than 50%) is held by the Ministry of Finance of the Government of India or State Ministry of Finance of various State Governments of India. . The shares of these banks are listed on stock exchanges. Their main objective is social welfare.
- Private Sector banks are banks owned by either the individual or a general partner(s) with limited partner(s).

BANKS SELECTED:

PUBLIC BANKS:

1. State bank of India
2. Punjab National Bank

PRIVATE BANKS:

1. HDFC
2. AXIS

Interpretation

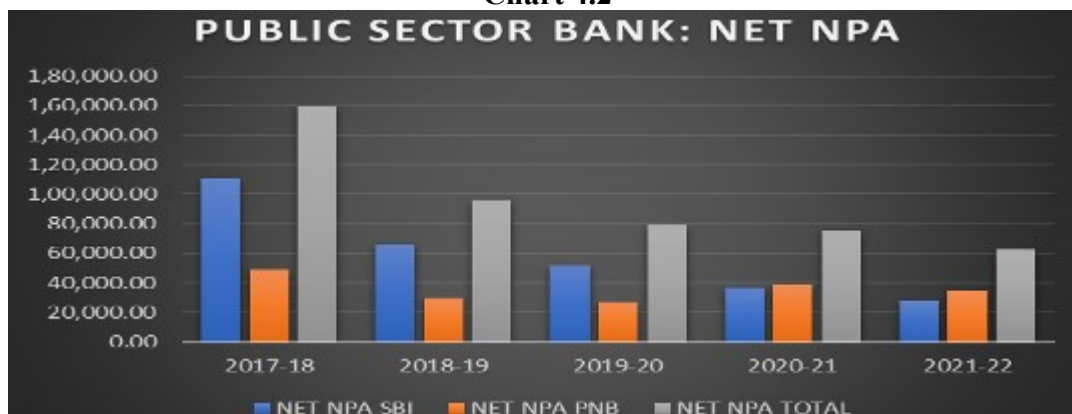
The above table shows the Gross NPA of selected public banks i.e., SBI and Punjab National bank. The gross NPA of SBI was highest (2,23,427.46) in the year 2017-18 and lowest (1,12,023.37) in the year 2021-22. The gross NPA of SBI is declining from past five years. The gross NPA of PNB was highest (1,04,423.42) in the year 2020-21 and lowest (73,478.76) in the year 2019-20.

PUBLIC SECTOR BANK: NET NPA

Table No. 4.2Rs. in Cr

NET NPA			
YEAR	SBI	PNB	TOTAL
2017-18	1,10,854.70	48,684.29	1,59,538.99
2018-19	65,894.74	30,037.66	95,932.40
2019-20	51,871.30	27,218.89	79,090.19
2020-21	36,809.72	38,575.70	75,385.42
2021-22	27,965.71	34,908.73	62,874.44

Chart 4.2



Interpretation

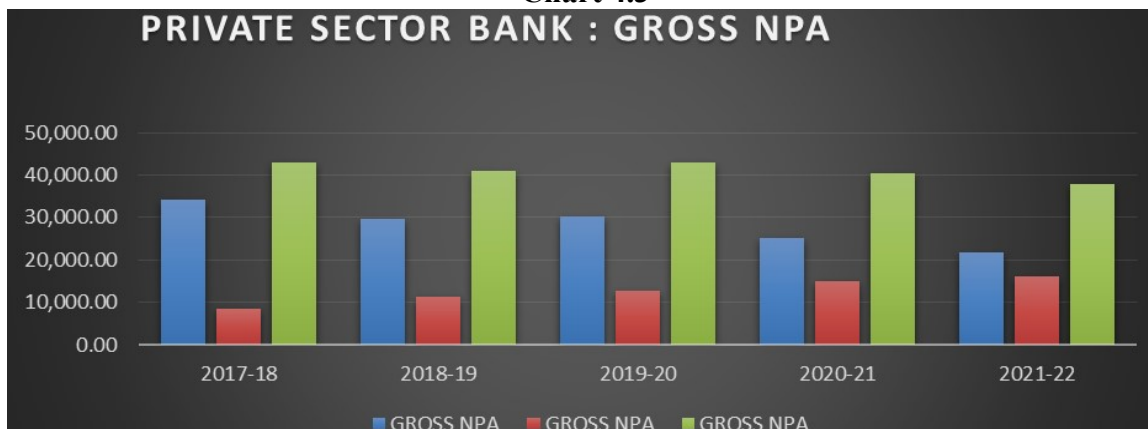
The above table shows the Net NPA of selected public banks i.e., SBI and Punjab National bank. The Net NPA of SBI was highest (1,10,854.70) in the year 2017-18 and lowest (27,965.71) in the year 2021-22. The Net NPA of SBI is declining from past five years. The Net NPA of PNB was highest (48,684.29) in the year 2017-18 and lowest (27,218.89) in the year 2019-20.

PRIVATE SECTOR BANK: GROSS NPA

Table No. 4.3 Rs. in Cr

GROSS NPA			
YEAR	AXIS	HDFC	TOTAL
2017-18	34,248.64	8,606.97	42,855.61
2018-19	29,789.44	11,224.16	41,013.60
2019-20	30,233.82	12,649.97	42,883.79
2020-21	25,314.84	15,086.00	40,400.84
2021-22	21,822	16,140.96	37,962.96

Chart 4.3



Interpretation

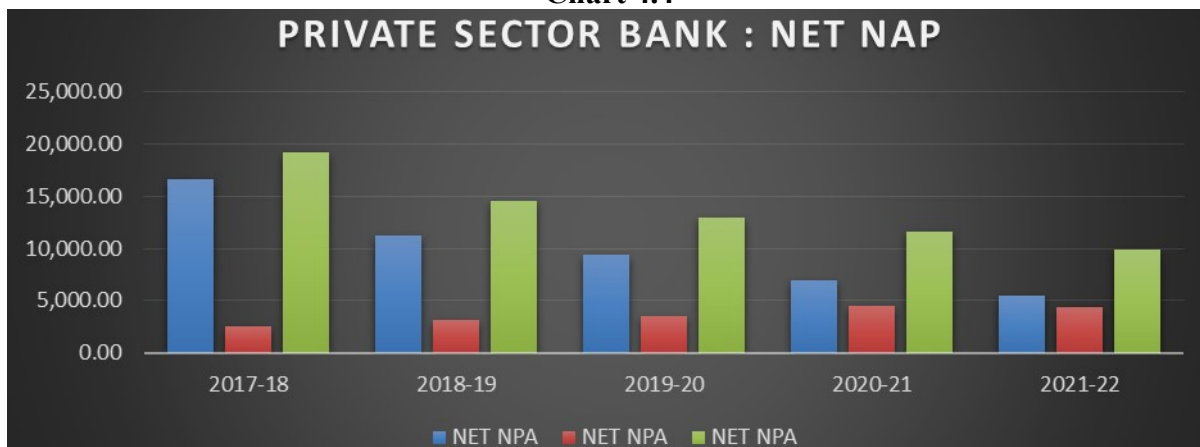
The above table shows the Gross NPA of selected Private banks i.e, AXIS and HDFC bank. The gross NPA of AXIS Bank was highest (34,248.64) in the year 2017-18 and lowest (21,822) in the year 2021-22. The gross NPA of HDFC Bank was highest (16,140.96) in the year 2020-21 and lowest (8,606.97) in the year 2017-18.

PRIVATE SECTOR BANK: NET NPA

Table No. 4.4 Rs. in Cr

NET NPA			
YEAR	AXIS	HDFC	TOTAL
2017-18	16,591.71	2,601.02	19,192.73
2018-19	11,275.60	3,214.52	14,490.12
2019-20	9,360.41	3,542.36	12,902.77
2020-21	6,993.52	4,554.82	11,548.34
2021-22	5,512	4,407.68	9,919.68

Chart 4.4



➤ **INTERPRETATION:**

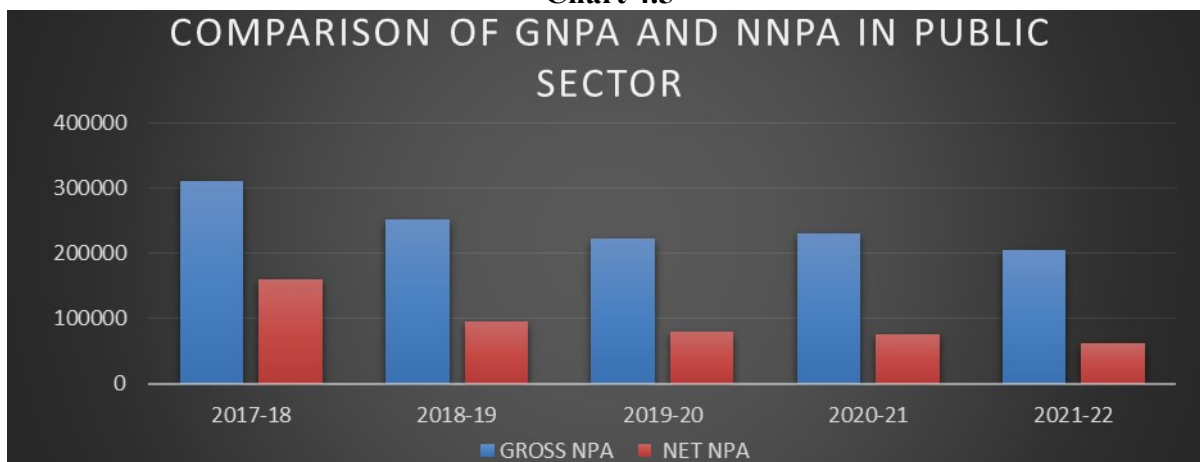
The above table shows the Net NPA of selected Private banks i.e., AXIS and HDFC bank. The Net NPA of AXIS Bank was highest (16,591.71) in the year 2017-18 and lowest (5,512) in 2021-22. The Net NPA of AXIS Bank was decreasing year by year from 2017-18 to 2021-22. The Net NPA of HDFC Bank was highest (4,554.82) in the year 2021-22 and lowest (2,601.02) in the year 2017-18.

COMPARISON OF GNPA AND NNPA IN PUBLIC SECTOR

Table No. 4.5 Rs. in Cr

YEAR	GROSS NPA	NET NPA
2017-18	310047.51	159538.99
2018-19	251223.06	95932.4
2019-20	222570.61	79090.19
2020-21	230812.44	75385.42
2021-22	204471.41	62874.44

Chart 4.5



INTERPRETAION:

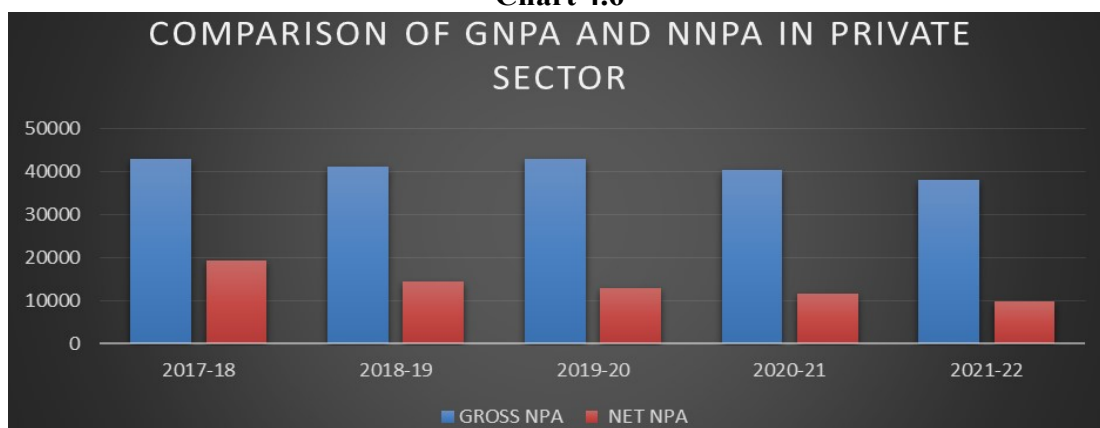
The above table shows the comparison of Gross NPA and Net NPA in public sector banks i.e., SBI & PNB The Gross NPA of Public sector banks was highest in the year 2017-18 and gradually decreasing year by year and was lowest in the year 2021-22. The Net NPA of Public sector banks was highest in the year 2017-18 and was lowest in the year 2021-22. Both Gross and Net NPA of public sector banks are decreasing year by year for the past 5 years i.e., from 2017-18 to 2021-22.

COMPARISON OF GNPA AND NNPA IN PRIVATE SECTOR

Table No. 4.6 Rs. in Cr

YEAR	GROSS NPA	NET NPA
2017-18	42855.61	19192.73
2018-19	41013.6	14490.12
2019-20	42883.79	12902.77
2020-21	40400.84	11548.34
2021-22	37962.96	9919.68

Chart 4.6



INTERPRETAION:

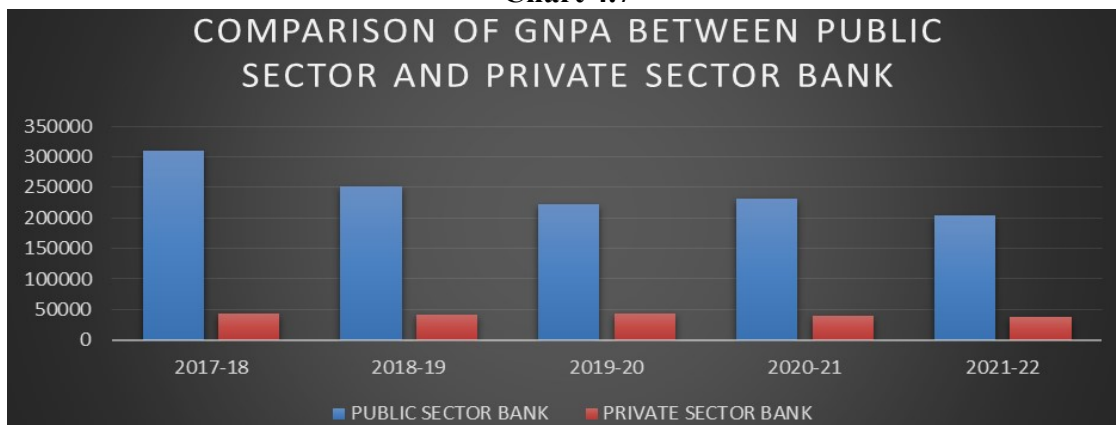
The above table shows the comparison of Gross NPA and Net NPA in private sector banks i.e., AXIS & HDFC banks. The Gross NPA of private banks are fluctuating but gradually decreasing year by year and was highest in the year 2017-18 and lowest in the year 2021-22. The Net NPA of private banks are decreasing year by year and was highest in the year 2017-18 and lowest in the year 2021-22.

COMPARISON OF GNPA BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR BANK

Table No. 4.7 Rs. in Cr

YEAR	PUBLIC SECTOR BANK	PRIVATE SECTOR BANK
2017-18	310047.51	42855.61
2018-19	251223.06	41013.6
2019-20	222570.61	42883.79
2020-21	230812.44	40400.84
2021-22	204471.41	37962.96

Chart 4.7



➤ **INTERPRETAION:**

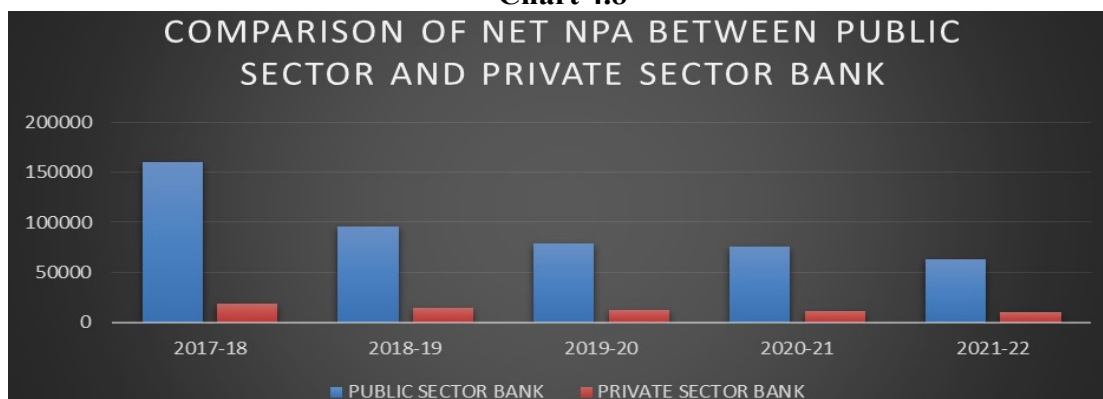
The above table shows the comparison of Gross NPA between Public and private sector banks. The Gross NPA of public sector banks are more than the private sector banks and highest in the year 2017-18 and lowest in the year 2021-22. The Gross NPA of private sector bank are less compared with the public sector banks and highest in the year 2017-18 and lowest in the year 2021-22.

COMPARISON OF NET NPA BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR BANK

Table No. 4.8 Rs. in Cr

COMPARISON OF NET NPA BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR BANK		
YEAR	PUBLIC SECTOR BANK	PRIVATE SECTOR BANK
2017-18	159538.99	19192.73
2018-19	95932.4	14490.12
2019-20	79090.19	12902.77
2020-21	75385.42	11548.34
2021-22	62874.44	9919.68

Chart 4.8



INTRPRETATION:

The above table shows the comparison of Net NPA between Public and private sector banks. The Net NPA of public sector banks are more than the private sector banks and highest in the year 2017-18 and lowest in the year 2021-22. The Net NPA of private sector bank are less compared with the public sector banks and highest in the year 2017-18 and lowest in the year 2021-22.

PROVISION COVERAGE RATIO:

➤ A PCR of 70% or more tells us that the bank is not at risk and the asset quality is taken care of. Also, the bank will be strong enough to withstand NPAs.

Provisions

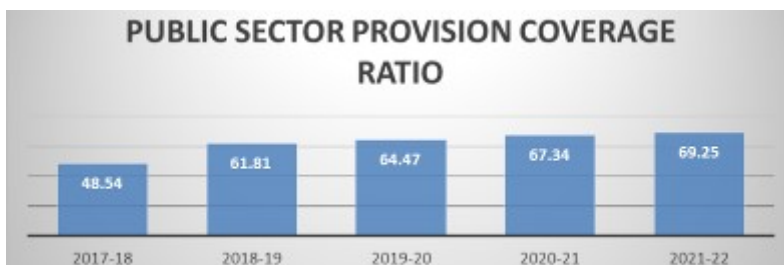
$$\text{Provisions Coverage Ratio} = \frac{\text{Provisions}}{\text{Gross NPA's}} \times 100$$

PROVISION COVERAGE RATIO

Table No. 4.9

YEAR	PUBLIC SECTOR		
	GROSS NPA	NET NPA	PROVISIONS
2017-18	310047.51	159538.99	150508.52
2018-19	251223.06	95932.4	155290.66
2019-20	222570.61	79090.19	143480.42
2020-21	230812.44	75385.42	155427.02
2021-22	204471.41	62874.44	141596.97

YEAR	Provision coverage ratio
2017-18	48.54
2018-19	61.81
2019-20	64.47
2020-21	67.34
2021-22	69.25



➤ Provision coverage ratio of public sector banks is increasing year by year from 2017-18 to 2021-22. The provision coverage ratio is very low i.e, 48.54% in the year 2017-18 and very high i.e., 69.25% in the year 2021-22.

PROVISION COVERAGE RATIO

Table No. 4.10 Rs. in Cr

YEAR	PRIVATE SECTOR		PROVISIONS
	GROSS NPA	NET NPA	
2017-18	42855.61	19192.73	23662.88
2018-19	41013.6	14490.12	26523.48
2019-20	42883.79	12902.77	29981.02
2020-21	40400.84	11548.34	28852.5
2021-22	37962.96	9919.68	28043.28

YEAR	Provision coverage ratio
2017-18	55.22
2018-19	64.67
2019-20	69.91
2020-21	71.42
2021-22	73.87

CHART 4.10



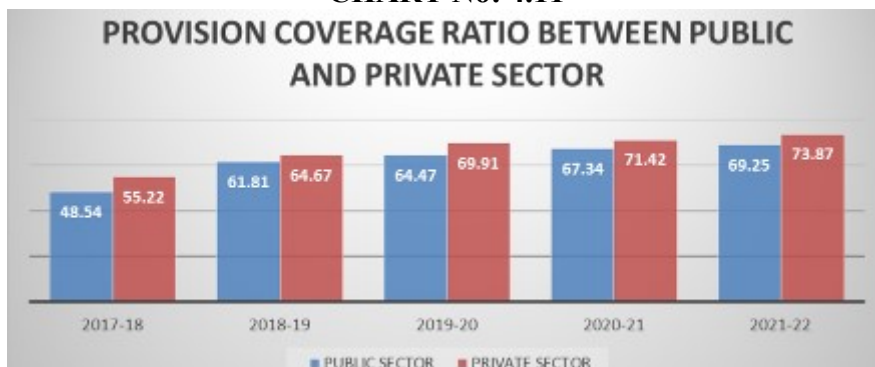
➤ Provision coverage ratio of Private sector banks is increasing year by year from 2017-18 to 2021-22. The provision coverage ratio is very low i.e., 55.22% in the year 2017-18 and very high i.e., 73.87% in the year 2021-22.

COMPARISON OF PROVISIONS COVERAGE RATIO

Table No. 4.11

YEAR	PUBLIC SECTOR	PRIVATE SECTOR
2017-18	48.54	55.22
2018-19	61.81	64.67
2019-20	64.47	69.91
2020-21	67.34	71.42
2021-22	69.25	73.87

CHART No: 4.11



The provision coverage ratio of public sector banks are lower than the private sector banks for the last five years i.e., form 2017-18 to 2021-22. The provision coverage ratio is increasing gradually every year.

RELATION OF NPAs ON PROFITABILITY

Table No. 4.12 Rs in Cr

PRIVATE SECTOR BANK	
NET NPA	NET PROFITS
19192.73	49986.84
14490.12	37705.03
12902.77	27884.54
11548.34	25754.78
9919.68	17762.41

Correlations			
		NETNPA	NETPROFIT
NETNPA	Pearson Correlation	1	.988**
	Sig. (2-tailed)		.002
	N	5	5
NETPROFIT	Pearson Correlation	.988**	1
	Sig. (2-tailed)	.002	
	N	5	5
**. Correlation is significant at the 0.01 level (2-tailed).			

The above table show the relation between the net profit and Net NPA of private sector banks. The Pearson correlation shows the value .988. It means there is a positive relation between the net npa and net profits of the private sector banks.

The significance value is .002. Then we reject th null hypothesis. The significance of correlation is low.

FINDINGS:

- The gross NPA and Net NPA of SBI and PNB are declining from past five years.
- The gross NPA of SBI was highest (2,23,427.46) in the year 2017-18 and lowest (1,12,023.37) in the year 2021-22. and the gross NPA of PNB was highest (1,04,423.42) in the year 2020-21 and lowest (73,478.76) in the year 2019-20.
- The Gross NPA of Public sector banks was highest in the year 2017-18 and gradually decreasing year by year and was lowest in the year 2021-22.
- The Net NPA of Public sector banks was highest in the year 2017-18 and was lowest in the year 2021-22.
- Both Gross and Net NPA of public sector banks are decreasing year by year for the past 5 years i.e., from 2017-18 to 2021-22.
- The Gross NPA of private banks are fluctuating but gradually decreasing year by year and was highest in the year 2017-18 and lowest in the year 2021-22.
- The Net NPA of private banks are decreasing year by year and was highest in the year 2017-18 and lowest in the year 2021-22.
- The Gross NPA of public sector banks are more than the private sector banks and highest in the year 2017-18 and lowest in the year 2021-22
- The Gross NPA of private sector bank are less compared with the public sector banks and

highest in the year 2017-18 and lowest in the year 2021-22.

- The Net NPA of public sector banks are more than the private sector banks and highest in the year 2017-18 and lowest in the year 2021-22
- The Net NPA of private sector bank are less compared with the public sector banks and highest in the year 2017-18 and lowest in the year 2021-22.
- Provision coverage ratio of public sector banks is increasing year by year from 2017-18 to 2021-22.
- The provision coverage ratio is very low i.e., 48.54% in the year 2017-18 and very high i.e., 69.25% in the year 2021-22.
- The Pearson correlation shows the value 0.836. It means there is a positive relation between the net NPA and net profits of the public sector banks.

The Pearson correlation shows the value .988. It means there is a positive relation between the Net NPA and net profits of the private sector banks.

SUGGESTIONS:

- Advances provided by banks need to be done pre-sanctioning evaluation and post-disbursement control so that NPA can decrease.
- Good management needed on the side of banks to decrease the level of NPA. Proper selection of borrowers & follow ups is required to get timely repayment.
- The banks should ensure that loans are diversified across several customer segment.

- The banks have to monitor early warnings signals and taking immediate appropriate remedial action.
- Knowing a client's profile thoroughly and preparing a credit report by paying frequent visits to the client and his business unit.
- Reducing the impact of operational risks by measuring them and mitigating or insuring them.

CONCLUSION:

The study observed that there is increase in advances over the period of the study. However, the decline in ratio of NPAs indicates improvement in the asset quality of Indian public sector banks and private sector banks. It is found on the basis of analysis that there is significant improvement in the management of nonperforming assets of the public sector banks in India. The study finally observes that the prudential and provisioning norms and other initiatives taken by the regulatory bodies has pressurized banks to improve their performance, and consequently resulted into trim down of NPA as well as improvement in the financial health of the Indian banking system.

But at the same time reforms failed to bring banking system at a par with international level and still the Indian banking section is mainly controlled by government as PSB's being leaders in this sphere. It is suggested that government should formulate bank specific policies and should implement these policies through Reserve Bank of India for up liftment of Public Sector Banks. Public sector banks should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.