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A Comparative Study of Non-Performing Assets Between Some Public and Private Sector Banks in India

Ajay[1], Pratibha Chaudhary[2]

[1,2]Assistant Professor, Dept. of Commerce, SD College, Muzaffarnagar, Uttar Pradesh

Abstract

The Indian banking sector is the backbone of the Indian Economy because it reflects the financial and economic condition of the nation. The failure of the banking sector will adversely impact on the other sectors. The earning capacity and profitability are highly affected because of the existence of NPA. There are many research conducted on the topic of non-performing assets of various banks but in this research, we tried to make a comparative study of some public and private sector banks concerned with NPA.

Keywords: NPA, GNPA, NNPA, HDFC, ICICI, SBI, PNB.

Introduction

NPA (Non-Performing Asset) means loans & advances provided by Banks to their customers which become overdue more than a specific time or we can say that in which principal or interest amount remained overdue and not received by banks. Indian Banking sectors are the backbone of the Indian economy. The primary function of the bank is to accept deposits and lend money to various sectors such as industry, housing, agriculture, education, etc. which involves too much risk because there is no certainty of repayment. When Banks or Financial Institutions lend money then it becomes an asset to the banks because it will generate revenue in the form of interest but when the borrower becomes a defaulter or due to any other reason, they do not return the principal or interest then this asset of the financial institution becomes a non-performing asset. Generally, the waiting time for installment is 90 days, after this specified period asset becomes NPA.

Literature Review

N.A Kavitha, M. Muthu Meenakshi (2016) have investigated that the extent of NPA was relatively very high in public sector banks. Although various steps have been taken by the government to reduce the NPA. In this research the problem of NPA needs serious efforts otherwise NPA will keep killing the profitability of banks which is not good for the growing Indian economy at all.

Joseph, A. L. (2014) This paper basically deals with the trends of NPA in the banking industry, the internal & external or other factors that mainly contribute to rising NPA in the banking industry, and also provides some suggestions for overcoming the burden of NPA.

Gupta, B. (2012) In this paper, the study has been made on SBI & Associates, and Public Sector Banks, an effort has been made to understand the concept of NPAs, its structure, and major causes for increasing NPA and also evaluate the operational performance in managing NPA.

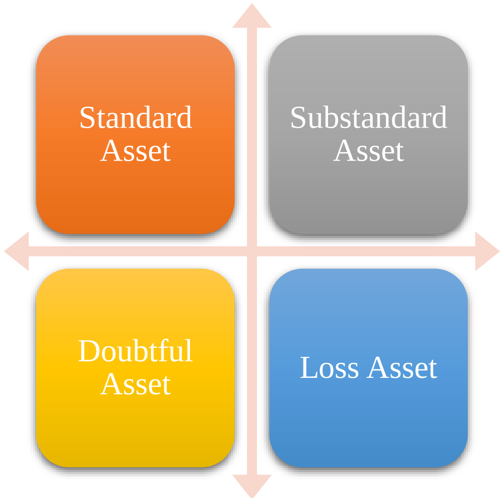
Rajput, N, Gupta, M., Chauhan, A.K. (2012) This paper provides an empirical approach to the analysis of Profitability Indicators on NPA, it also discusses the factors which contribute towards NPA and also analyses the solution for the same. All empirical findings were done by using statistical tools like correlation, regression, etc.

Rajput et al. (2012) found a negative correlation between NPAs and the return on assets of public sector banks.

Aims & Objectives of the Study

- To Overview NPA, its various Types, Causes, and Measures to Overcome.
- To Compare the GNPA of the Top Three Public Sector and Private Sector Banks.

Types of Non-Performing Assets



Standard Asset

It is a kind of performing asset. The standard asset is one which does not disclose any problem and it does not carry more than the normal risk. So it is not an NPA in a real sense. In which loans & advances became overdue less than 90 days. But in which banks are required to make provisions. The rate of provisions are varied on the basis of different sectors like in agriculture and SME (Small & Medium Enterprises) the rate of provision is 0.25% In CRE (Commercial and Real Estate) the rate of provision is 1.00% In CRE-RH (Commercial and Real Estate Residential House) the rate of provision is 0.75%. All other loan & advances which are not mentioned in the above category the rate of provisions are 0.40%

Substandard Asset

In which loans & advances became overdue more than 90 days but less than 12 months. Under this category borrower's creditworthiness is weak. As a result, advances carry more than the normal risk. In which banks are also required to make provisions but the rate of provisions are vary on the basis of secured and unsecured assets. For secured assets rate of provisions is 15% of the outstanding amount and in the case of unsecured assets rate of provisions is 25% of the outstanding amount. There is one special case where the rate of provision is 20% of the outstanding amount when there is an unsecured asset that is utilised for infrastructure purposes.

Doubtful Asset

In which banks are doubtful of the recovery of their advances. In which the collection of loans & advances are highly uncertain and there is less probability for the recovery of the amount from the party. Under this assets are considered Non-Performing Assets if the amount is overdue more than 12 months. In which banks are required to make the provisions and these provisions are similar to substandard assets like secured and unsecured assets. Under the unsecured asset, banks are required to make the provision of 100% and in the case of secured assets, the provisions are 20%, 30%, and 100% for D1, D2, and D3 categories respectively. D1 where the advances are doubtful up to 1 year. D2 where advances are doubtful for 1 to 3 years. D3 where the advances are doubtful more than 3 years.

Loss Asset

Loss assets are those where the loss has been identified by the bank itself or by internal & external auditors. In which assets are considered uncollectable and this loss is treated as bad debt because the amount has not been written off wholly or partly. Under this category, banks are also required to make the provision which is 100% of the outstanding amount.

GNPA & NNPA

GNPA: GNPA Stands for Gross Non-Performing Assets. This term is used by financial institutions which means the summation of all unpaid loans & advances which are classified as npa's. It is an absolute amount that tells the total value of gross non-performing assets for the banks in a particular quarter or in the financial year.

Formula of Gross Non Performing Asset Ratio = (A1+A2+A3…..+An) / Gross Advances × 100

A1 Stands for the loan given to person number one which is now non-performing.

NNPA: NNPA Stands for Net Non Performng Assets. This term is used by credit institutions which refer to the sum of the non-performing loan & advances less provision for bad debt. Or we can say that after subtracting the provision made by banks from the gross non-performing assets is known as NNPA. Therefore NNPA gives you the exact numerical value of non-performing assets after making the specific provision for it.

The formula of Net Non-Performing Asset Ratio = Gross NPA – Provision for Unpaid debt / Gross Advances × 100

A Comparison of GNPA between Some Public and Private Sector Banks

Line Graph-1

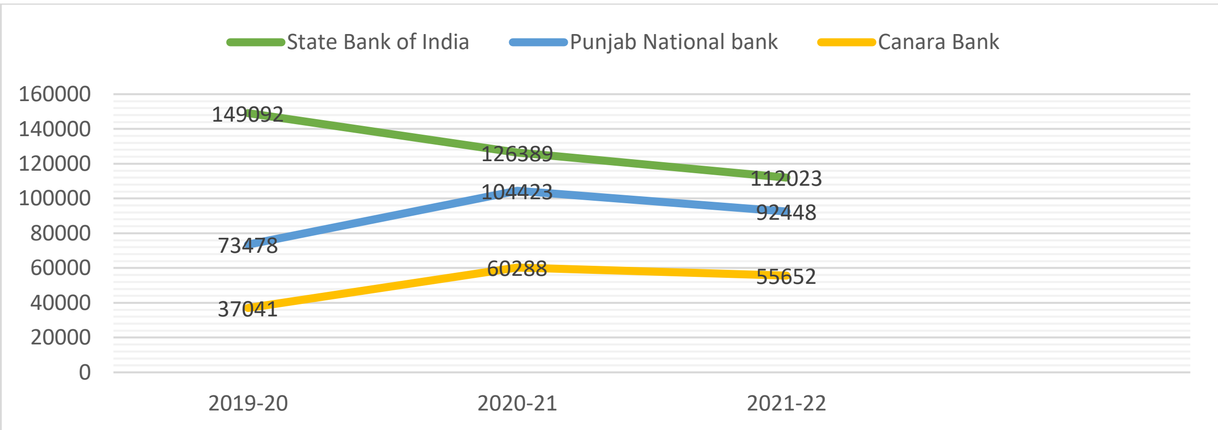


Table-1 Gross Non-Performing Assets of Public Sector Banks (In Crore) ₹

S.no	Name of Banks	FY 2019-20	FY 2020-21	FY 2021-22
1.	State Bank of India	149092	126389	112023
2.	Punjab National Bank	73478	104423	92448
3.	Canara Bank	37041	60288	55652

(Source: Annual Reports of Public Sector Banks)

Line Graph-2

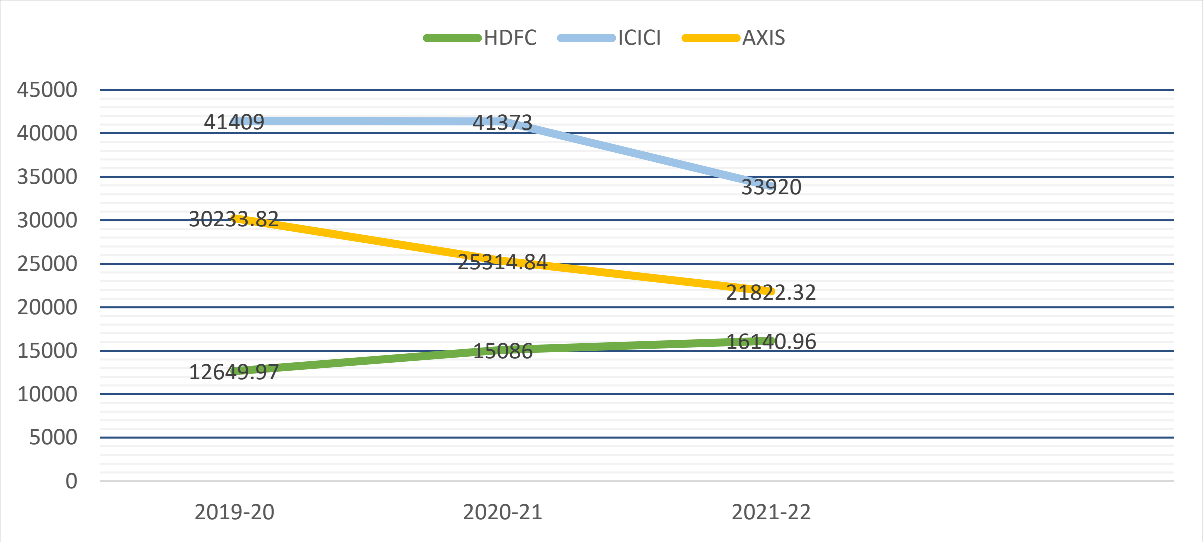


Table-2 Gross Non-Performing Assets of Private Sector Banks (In Crore) ₹

S.no	Name of Banks	FY 2019-20	FY 2020-21	FY 2021-22
1.	HDFC Bank	12649.97	15086	16140.96
2.	ICICI Bank	41409	41373	33920
3.	Axis Bank	30233.82	25314.84	21822.32

(Source: Annual Reports of Private Sector Banks)

Why Does Public Sector Banks Having Huge NPA

In India, there are public and private sector banks. Public sector banks are owned by the central / state government and private sector banks are owned and controlled by private owners either individually or by the group. Public sector banks are facing huge NPA but private sector banks are having negligible NPA as compared to public sector banks. Because in the private sector, they are having a good credit policy, great management, and the employees are more answerable as well as they are not providing loans & advances in various sectors such as agriculture, education, government sponsor schemes, rural areas, micro-small, and medium enterprises, etc. They are only interested in personal loans, home loans, and vehicle loans where there is a low risk of default. But in public sector banks more and more government involvement and corruption at the top level. Another big reason is they are providing loans & advances at a lower rate of interest as a result more borrowers are attract and public sector banks are very liberal in lending they provide loans even without securities. On the other hand in the public sector banks still have old and lazy staff who are not performing their duty very well as compared to the private banks.

Measures To Reduce NPA

Credit Risk Management

Banks should need to find the creditworthiness of their clients. This can be done by finding the credit scores or CIBIL. This is a three-digit number that represents how well you have to manage credit like home loans, personal loans, credit cards, etc. This credit score shows whether the lenders have a reliable borrower or a risky one and the likelihood of you repaying the new loan responsibly. The credit score is calculated out of 900 and usually, lenders prefer a 750 score or above. Banks should also have effective MIS (Management Information System) that provides early warning signals and information about the projects. It provides timely alerts to management so that necessary action is to be taken.

Accountability

As we know that the major credit decisions are made by senior-level executives like the credit sanction committee. But if any problem or lapse are arise then banks are accountable to junior-level officers. Hence it is important that senior-level officers should also be accountable for any fraud or default.

Lok Adalats

Lok Adalats means "People Court" Lok means People and Adalat means Court. This Lok Adalat is an alternative to resolve the dispute. They have been found very helpful for the recovery of loans & advances, especially small loans. According to rbi guidelines, banks can use lok adalat to recover loans up to 20 lakhs as well as cheque bouncing and motor insurance disputes are also resolved under lok adalat.

Credit Information Bureau

A Good credit Information system is required to prevent the loans from converting into non-performing assets. If the borrower is a defaulter to one bank, this information should be available to all banks as a result other banks avoid to lending him. Credit Information Bureau can help to maintain the data which can be assessed by all lending institutions.

OTS Scheme

One-time settlement (OTS) scheme executed by banks to recover non-performing assets. Under this scheme the borrower who is defaulted purposes to settle their dues at once. In which financial institutions or banks agree to accept a lesser amount than what was originally due. So banks need to compromise some portion of their profits. This amount can be settled through a negotiation policy.

Conclusion

The Growth of Non-Performing Assets directly affects the profitability of banks. The problem of NPA not only affects the bank's profitability but also affects the economy as a whole. NPA does not generate any income therefore banks are required to make provisions for such assets. So NPA reflects badly in bank account books. After the Comparison, we found that NPA is more in Public Sector Banks and less in Private Sector Banks because of good credit policy and lack of corruption in Private Sector Banks. At present it is very difficult to completely reduce NPA from banks but banks should try to adopt some measures suggested by RBI to overcome the problem of NPA.

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