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Research Article

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

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Abstract:
The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institution. Today, all the banks are facing the problem of nonperforming assets whether it is public sector bank or private sector bank. The asset quality of banks is one of the most important indicators of their financial health. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The Indian banking sector has been facing serious problems of raising Non Performing Assets (NPAs). The NPA's growth has a direct impact on profitability of banks. The research paper attempts to evaluate various ratios of nonperforming assets and compare the ratios of Public and Private sector banks.
Keywords: Non Performing Assets, Gross Non Performing Assets, Net Non Performing Assets, Public Sector Bank, Private Sector Bank.

Introduction:

A non-performing asset (NPA) is a classification used by financial institutions for loans and advances on which the principal is past due and on which no interest payments have been made for a period of time. In general, loans become NPAs when they are outstanding for 90 days or more, though some lenders use a shorter window in considering a loan or advance past due.

Definition of Non Performing Assets : A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. Non Performing Asset (NPA) refers to an asset, when it ceases to generate income for any bank or finance company for more than 90 days. With effect from 31st March, 2004 a non-performing assets (NPAs) shall be 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 for a period of more than 90 days, in respect of an overdraft/ cashcredit,

iii. The bills remain overdue for a period of more than 90 days in the case of bills purchased anddiscounted,

iv. Interest and / or installment of principal remains overdue for two harvest seasons but for a period notexceeding two half years in the case of an advance granted for agricultural purposes and

v. Any amount to be received remains overdue for a period of more than 90 days in respect of otheraccounts.

(Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixedby the bank)

Classification:

Banks are required to classify NPAs further into Standard, Sub standard, Doubtful and Loss assets.

1. **Standard Assets:** Standard assets are those which do not disclose any problem and do not carry morethan normal risk attached to the business. Such assets are considered as Performing assets

2. **Sub standard assets**: Assets which has remained NPA for a period less than or equal to 12 months.

3. **Doubtful assets**: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

4. **Loss assets**: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

Literature Review:

Srivastava V, Bansal Deepak (2012) "a study of trends of non-performing assets in private banks in India" to find out whether there is positive trend and control of NPA"S by the private sector banks in India. The data were collected for a period of five years from 2007-2012 from various secondary sourcesand analysed by average and comparative percentage analysis. It was found that that the level of NPAS is alarming with public sector banks in India but there is slight improvement in the asset quality reflected by decline in the NPA percentage. The banks should take timely action against degradation of good performing assets.

K.V.Ramesh, Sudhakar.A., (2012) investigated the NPA management in public sector banks a case study of Canara bank and state bank of India to analyse the NPA of former mentioned banks. Data was collected for a period of ten years between 2000 to 2010.It is concluded that if the proper managementof the NPAs is not undertaken it would be affects the business of the banks. The NPAs would affect business cycles, legal framework, ethical standards, regulatory and supervisory system and bank specific factors like credit appraisal system; credit recovery procedures risk management system and the motivational level of employees. It is found that there is down trend in NPAS of selected banks by establishing appropriate systems internally to reduce and eliminate at the earliest.

Sulagna Das, AbhijitDutta "a study on NPA of public sector banks in India " IOSR journal of business and management (iosr- jbm) Non-Performing Assets are a burning topic of concern for the 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 analyze the 6 years, (2008-2013) net non-performing asset data of 26 public sector banks, by using ANOVAs statistics, and with the help of SPSS software. The main objective of the study is to find out if there are any significant differences in the mean variation of the concerned banks. This paper also focuses on the reason behind the NPA and its impact on banking operations.

Statement of Problem:

This study is very useful to the banks to know their non performing assets as compared to other banks. Today all the banks are facing the problem of nonperforming assets. This analysis of nonperforming assets is very useful to know their non performing assets and causes of nonperforming assets. The main source of income of bank is interest on loan. The performance of any bank is dependent on the incomeor profitability.

But today the major problem in any bank is non performing assets. So nonperforming assets is affectingto the performance of bank because profitability is dependent on the interest on loan, and if bank is not able to recover interest amount and principal amount then it creates nonperforming assets. Profitability is directly depended on non performing assets. This research study is based on analysis of nonperforming assets in public sector bank and private sector bank.

Objectives:

The following broad objectives are laid down for the purpose of the study:

1. To study NPA trend in last 5 years of selected private and public sector banks.
2. To make a comparative study of NPAs of selected public sector and private sector banks.
3. To analyze relationship between profit and non performing assets in public sector bank and privatesector bank.

Research Methodology:

Source of Data Collection:

The study is based on secondary data and data has been collected from annual reports of the respective bank’s website for the above analysis.

Statistical Analysis:

The present research work deals about comparative performance of Private sector Bank and Public sector banks with reference to Ratio analysis and Percentage analysis. Ratio analysis has been used for analyzing the trend of NPAs. Line diagram is used to show the comparative situation of the banks. Correlation coefficient is used to explore the relationship between net profit and NPAs.

Study Period:

In this study we used total 5 years financial data from 2016 to 2020 from 2 public sector banks and 2 private sector banks.

Analysis of Data :

Calculation of Gross NPA of Public Sector Bank

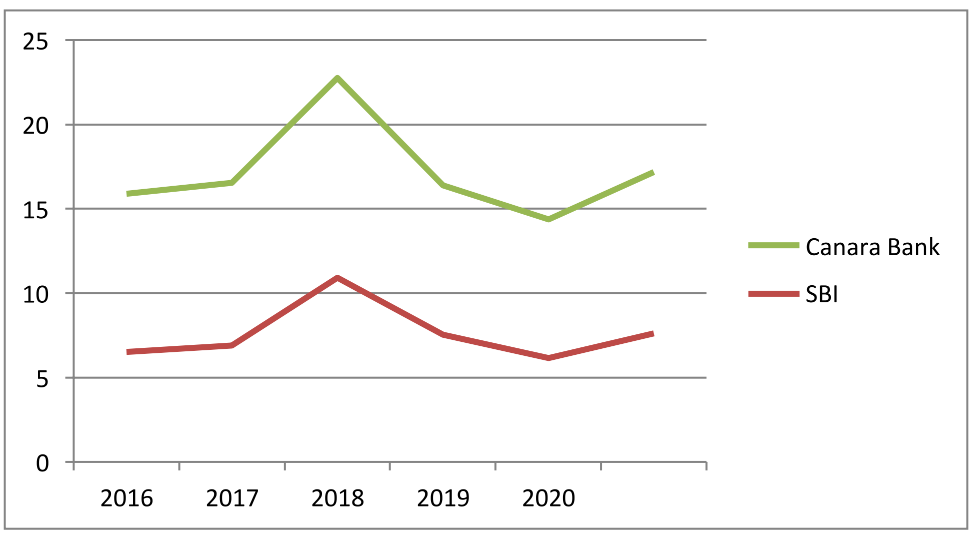
Gross NPA of SBI and Canara Bank :

Table I: Gross NPAs and ratio of Gross NPAs of Public Sector Banks (Rs. in Crores)

Year	SBI		Canara Bank	
	GNPA	GNPA %	GNPA	GNPA %
2016	98,173	6.5	31,638	9.4
2017	1,12,343	6.9	34,202	9.63
2018	2,23,427	10.91	47,468	11.84
2019	1,72,750	7.53	39,224	8.83
2020	1,49,092	6.15	37,041	8.21
Average	1,51,157	7.60	37,915	9.58

From the Table 1 it is clear that in both the banks there is a sudden increase in NPA during the year 2018. During the year 2018 Gross NPA of SBI is increased to 2,23,427 crores and Gross NPA of Canara bank is increased to 47,468 crores. However after 2018 both banks are managed to maintain their Gross NPA at the average ratio of 7.6% and 9.5% respectively but again during 2019 & 2020 NPAs are uprising in both SBI and Canara Bank.

The following Figure 1 shows vividly the ratio of Gross NPAs of SBI and Canara Bank.



The above figure clearly shows the sudden rise in Gross NPA ratios of both banks and then it reduces however it is in increasing trend during the last two years.

Calculation of Gross NPA Of Private Sector Bank

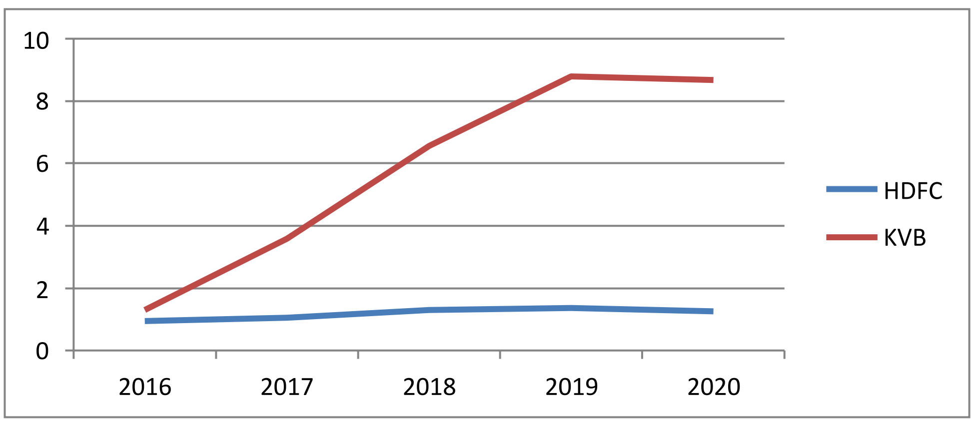
Gross NPA of HDFC and Karur Vysya Bank :

Table 2: Gross NPAs and ratio of Gross NPAs of Private Sector Banks. (Rs. in Crores)

Year	HDFC		KVB	
	GNPA	Net Profit	GNPA	Net Profit
2016	98,173	9,950.65	31,638	(2,812.82)
2017	1,12,343	10,484.10	34,202	1,121.92
2018	2,23,427	(6,547.45)	47,468	(4,222.24)
2019	1,72,750	862.23	39,224	347.02
2020	1,49,092	14,488.11	37,041	(2,235.72)
Average	1,51,157	5,847.53	37,915	(1,560.37)

From the Table 2 it is evident that the NPA problem is more acute in case of Karur vysya bank. The timeseries data shows an increase of NPAs in both the banks .In HDFC the Gross NPA is increased from 4393 crores to 12650 crores during 2016 – 2020 in KVB also it is increased from 511 crores to 2735 crores within these five years. Both the managements should note that it is increased year after year.

The following Figure shows vividly the ratio of Gross NPAs of HDFC and KVB.



The above figure clearly shows that the ratio of Gross NPAs in case of KVB incontinuously increasing as it increased from 1.3% to 8.7% within these five years.

Calculation of Net NPA Of Public Sector Bank

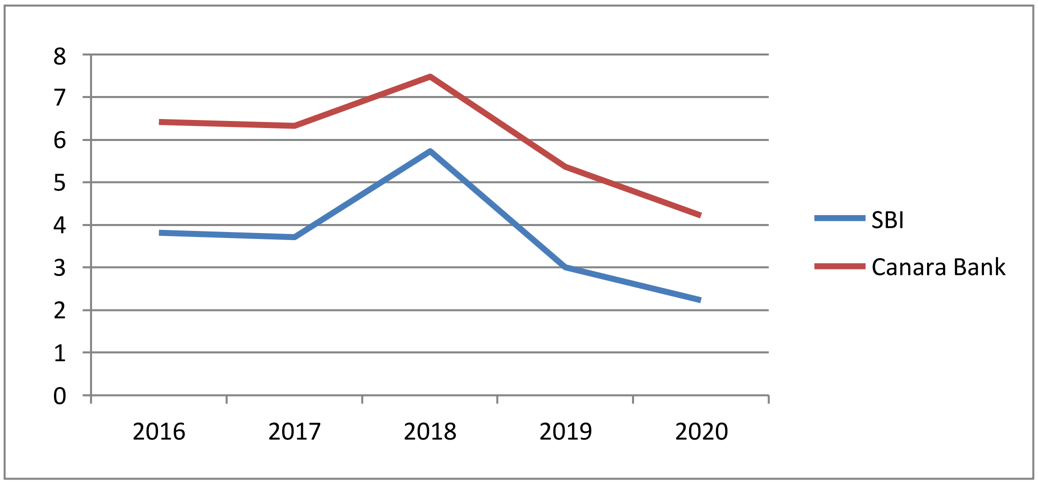
Net NPA of SBI and Canara Bank :

Table 3: Net NPAs and ratio of Net NPAs of Public Sector Banks (Rs. in Crores)

Year	SBI		Canara Bank	
	NNPA	NNPA %	NNPA	NNPA %
2016	55,807	3.81	20,833	6.42
2017	58,277	3.71	21,649	6.33
2018	1,10,855	5.73	28,542	7.48

2019	65,895	3.01	22,955	5.37
2020	51,871	2.23	18,251	4.22
Average	**68,541**	**3.70**	**22,446**	**5.96**

From the Table 3 it is clear that the Net NPAs of both SBI and Canara bank has suddenly increased to 1,10,855 and 28,542 respectively during the year 2018.The Net NPA of SBI is increased from 55,807 to 68541 during these five years. The Net NPA of Canara bank is increased from 20,833 to 22,446 during these five years.



The above figure shows that although the ratio of NPA of both banks are increasing during the years 2017 and 2018 after that the ratios are decreasing gradually. So banks have to maintain their ratios at a decreasing rates.

Calculation Of Net NPA Of Private Sector Bank

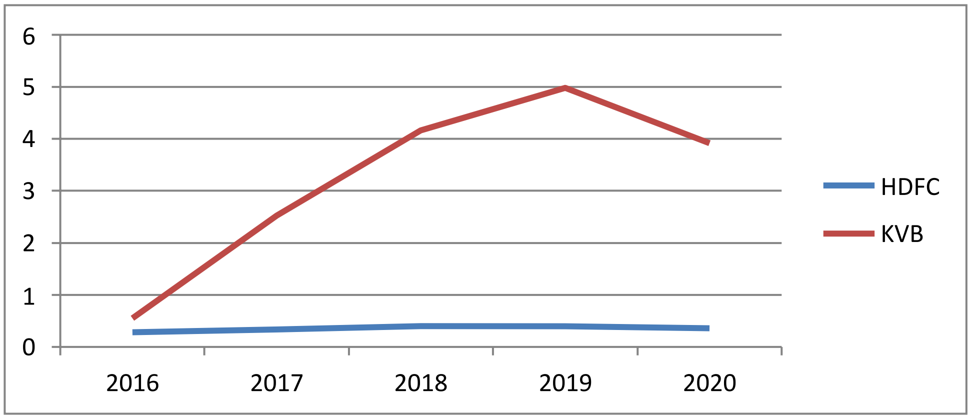
Net NPA of HDFC and KVB:

Table 4: Net NPAs and ratio of Net NPAs of Private Sector Banks. (Rs.In Crores)

Year	**HDFC**		**KVB**	
	NNPA	**NNPA %**	**NNPA**	**NNPA %**
2016	1320	0.28	216	0.55
2017	1844	0.33	1033	2.53
2018	2601	0.4	1863	4.16
2019	3215	0.39	2420	4.98
2020	3542	0.36	1809	3.92
Average	2,504	0.35	1,468	3.23

Table 4 shows that the magnitude of net NPAs of HDFC has been continuously increasing during the years 2016 -2018 after that it started to reduce gradually. On the other hand net NPAs of KVB was Rs. 216 croresin the year 2016 and rose to Rs. 2420 in 2019 and it reduced to Rs.1809 in the year 2020.

The following Figure shows vividly the ratio of Net NPAs of HDFC and KVB



Correlation between Net profit and Gross NPA :

Public Sector Banks

We now try to examine whether the NPAs have any significant impact on the net profit of the Publicsector banks.

The following Table 5 shows the Pearson's correlation coefficient between net profit and gross NPAs.

Table 5: Correlation coefficient between Gross NPA and Net Profit (Rs. in Crores)

Year	**SBI**		**Canara Bank**	
	GNPA	**Net Profit**	**GNPA**	**Net Profit**
2016	98,173	9,950.65	31,638	(2,812.82)
2017	1,12,343	10,484.10	34,202	1,121.92
2018	2,23,427	(6,547.45)	47,468	(4,222.24)
2019	1,72,750	862.23	39,224	347.02
2020	1,49,092	14,488.11	37,041	(2,235.72)
Average	1,51,157	5,847.53	37,915	(1,560.37)

SBI			**Canara Bank**		
	GNPA	**Net Profit**		**GNPA**	**Net Profit**
GNPA	1	-	**GNPA**	1	-
Net Profit	0.83063142	1	**Net Profit**	-0.45149	1

From the Table 5 it has been seen that the Pearson's Correlation Coefficients are (-)0.83063 and

(-)0.4514 in case of SBI and Canara Bank respectively. The negative correlation coefficient between net profit and gross NPAs means an increase in GNPAs will decrease net profit of the bank. It is a logical conclusion because profitability of a bank depends upon the recovery of loans and existence of bad loan.

Private Sector Banks:

We now try to examine whether the NPAs have any significant impact on the net profit of thePrivate sector banks.

The following Table 6 shows the Pearson's correlation coefficient between net profit and gross NPAs.

Table 6: Correlation coefficient between Gross NPA and Net Profit (Rs. in Crores)

Year	**HDFC**		**KVB**	
	GNPA	**Net Profit**	**GNPA**	**Net Profit**
2016	4393	12,296.23	511	567.63
2017	5886	14,549.66	1484	605.98
2018	8607	17,486.75	3016	345.67
2019	11224	21,078.14	4450	210.87
2020	12650	26,257.32	4213	235.02
Average	8,552	18,333.62	2,735	393.03

HDFC			**KVB**		
	GNPA	***Net profit***		***GNPA***	***Net profit***
GNPA	1		***GNPA***	1	
Net profit	0.97682047	1	***Net profit***	-0.9609	1

From the Table III it has been seen that the Pearson's Correlation Coefficients are 0.9768204 and (-) 09609 in cases of HDFC Bank, and Karur Vysya Bank respectively. As we know the negative correlation coefficient between net profits and gross NPAs means an increase in GNPAs will decrease net profit of the bank. But in case of HDFC Bank the correlation coefficient is positive. It doesn't indicate more NPAs lead to more profit. The magnitude of gross advance is increased year after year and so the interest income and consequently profit of the bank also. Most of the borrower pays their installment timely.

Only a small portion failed to discharge their liability. If the NPAs were big enough the profit will decrease. So it is seen that net profit as well as NPAs both are increased simultaneously and a positive correlation exist between them. But it is the fact that absence of the NPAs will boost up the profit of the banks.

Findings of the study:

After analyzing the data we found that in both of the Public sector banks there is a sudden increase in Gross and Net NPA's during the year 2018 though they tried to decrease the ratios during the year 2019 again it is increasing in the year 2020.On the other hand in case of Private sector banks though the NPAs are increasing in HDFC bank there is no such sudden increase as in case of public sector banks but in KVB both Gross and Net NPAs increasing continuously year after year so it has to take steps to reduce its NPA levels.

Conclusion:

We can conclude that it is not possible to completely eliminate NPA from the bank. But we should try to reduce the NPA from the bank. The management of NPAs is a very challenging task. It requires Preventive measures as well as Curative measures i.e. banks should not only take steps to reduce the present NPAs but also take precaution to avoid future NPAs. Thus NPAs are not just a problem for the banks but for the economy too and an all out effort to be taken to keep it at its minimum level.

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