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Comparative analysis for NPA of public and private sector banks

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Abstract

Liquidity and profitability cannot resist to present a danger on the overall quality of Indian banks assets and their overall endurance. The Indian financial system has been significant problems with rising Non-performing assets (NPAs). The rise in nonperforming assets (NPAs) has become one of the major concerns for India's banking industry. NPA's act as a significant element to judge the efficiency of budgetary execution of a bank. The quality and sufficiency of the financial framework essentially relies on the quality of the assets held by the banking system. A significantly high level of NPAs within the banking industry leads to a likelihood of an enormous number of credit defaults that influence the overall quality of banking assets and has an impact on the overall estimation of the value of those assets. The issue of NPAs does not influence the banks but also the whole economy. In fact, NPAs significant level in Indian banks is merely an impact of the provision of interests of the business and exchange. To enhance the productivity and profitability, the NPAs have to be managed in a planned manner so that they do not become a major issue to deal with in the long run. Different advances have to be taken by governments to lessen the NPAs. Irrespective of the stress they put on both the banking system and the overall economy it is exceptionally difficult to have zero percentage NPAs. The paper focuses on an endeavor as to how proficiently private and public area banks deal with their NPA's. Secondary data for the

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study was gathered for the chosen classifications of the banks from the RBI distributions for five years period i.e. from 2014 to 2019.

Subject Classification: *90B50.*

Keywords: *Public bank, Private bank, Non performing asset (NPA), GROSS, NET, Increasing, Decreasing.*

Introduction

The Banking gadget performs a totally essential function within side the speedy boom of the financial system of any nation. The banking sector acts as the life blood of the economy. The health of banking sector this is very significant for the growth of any economy by making the availability of funds required for the growth of the economy of a nation. To achieve this objective the banks need to manage the assets in a way that it leads to profits for the banks thus enhancing their ability to provide more credit in the economic system of the nation. Banks have different kind of assets like liquid assets, bank loans and overdrafts and fixed assets. Before liberalization i.e. in the pre 1991 era, asset quality of banks was not considered a very big issue while judging the performance of the banks. The major focus of banks was on the other performance objectives such as development in rural areas and higher employment generation. Primary function of the banks was to provide loans to agriculture sector, industry, personal loans and housing loans to retail customers. But these advances given to these sectors started becoming a headache for the system over a period of time with the quality of these assets declining over a period of time. The banks started seeing an increase in the nonperforming assets due to this. Nonperforming assets are recorded on a bank balance sheet after a prolonged period of nonpayment by the borrowers. A banks asset is classified as a NPA when a loan or advance offered by the bank to its customer has interest payment and/ or principal overdue for the period of 90 days or more. The extent of NPAs is considered as a significant parameter for banks to assessing its asset quality, credit risk and its overall effectiveness in terms of how its resources are allocated to most productive sectors in the economy. The importance of NPAs for the financial health of the banks and a continuous rise in NPAs for the banks makes the study of this phenomenon very important. The authors have made an attempt to make a comparative analysis of the NPA's of both private and public sector banks in India.

Review of Literature

Harani Subramaniyam (2013) in her study had made an attempt to identify the causes for rising NPAs and the solutions to be applied to solve this problem. The author identified the efforts made by the State Bank of Mysore branch dealing with the agricultural advancements in this area and identified that how the brokers can refrain from authorizing advance to the non-financially sound borrowers by getting certain measures. This helped the bank in lowering the nonperforming assets by relying on cautious examination of borrowers by checking the financial suitability of borrowers. Gupta (2012) in his study which was conducted to assess the NPAs of SBI with its associates and various public banks had emphasized upon the role of bank's own autonomy FICO assessment organization to assess the budgetary limits to be enhanced to the borrower on the basis of assessment conducted by the credit office. The author advised to constitute a powerful committee for the board dealing with NPAs of the bank comprising of budgetary specialists who have access to wide sources of information in the same field. Banks can select experts to distinguish between the verifiable borrowers and can investigate their profile.

Prasad and Veena (2011) stated that the NPA's are never considered good for financial health of the banks, yet the banks have to prepare arrangements for NPA's from their overall earnings estimates. The NPA's have dangerous effect on the profits and on other assets in the accompanying manners for the banks. The author found out that the premium interest of banks diminished due to the NPAs and it was accounted uniquely on receipts premise.

Bhatia (2007) Non performing resources of India's public, private, and unfamiliar area banks: An experimental evaluation, stated a precise approach to deal with the examination of Non-performing resources of foreign, private, and public sector banks in India. NPA's are regarded as a crucial criterion for assessing a bank's financial health and presentation. The study also reveals that the financial position and growth of the banks are affected by NPAs. The study suggested that banks should concentrate on reducing their NPAs to perform and have sound financial position in the market

Types of Non-performing Assets

***Term Loan:** the loans with interest that are not paid more than ninety days

*Cash Credit and overdraft**: When

Overdraft and cash credit is due above Ninety days.

***Agriculture Advance**: it amount is not paid for two short season crops or one long term seasonal crops, it is an NPA

Balasubramaniam (2001) his study entitled Profitability of Commercial Banks and non-performing assets in India: evaluation and problems stated that the degree of NPAs is above with entire banks at present and the banks would be required to cut down their NPA. It can be accomplished by acceptable credit assessment method, viable interior control frameworks alongside their endeavors to improve overall asset quality in balance sheet. Nonetheless, maintaining profit is a bug for all commercial banks, especially during a particularly difficult period, as is the general opening of banking to NBFCs and international banks.

Research Methodology

Researchers had selected some public and private sector banks while using five-year information of NPA depending on Secondary data.

Objectives

- To Evaluate the many types of NPA like public sector banks.
- To assess the comparative position of NPA in private and public sector banks.

Hypothesis:

- **H1:** There is no significant difference in Gross NPA of private sector banks.
- **H2:** There is no significant difference in Gross NPA of public sector bank.

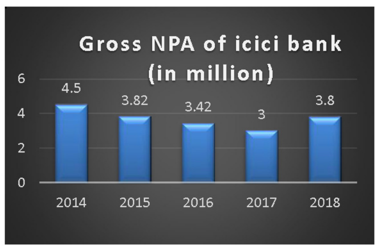
Categories of Nonperforming Asset	Provision required
***Substandard asset:** would be one, that has remain NPA for at least equal or less than 12 months.	15%
***Doubtful assets**: It would be the one that has remain in the substandard category for at least 12 months. *SUB CATEGORIES: Doubtful up to 1 Year Doubtful 1to 3 years Doubtful more than 3 years	(Secured+ Unsecured) 25%+100% 40%+100% 100%+100%
Loss assets: would be one, where loss has been evaluated by the bank. But the amount has not been written off.	100%

Private Sector Bank: ICICI Bank and HDFC Bank

Table 1

Gross NPA of ICICI Bank

Year	Gross NPA of ICICI (in millions)
2014-15	4.5
2015-16	3.82
2016-17	3.42
2017-18	3.0
2018-19	3.8
Average	3.708

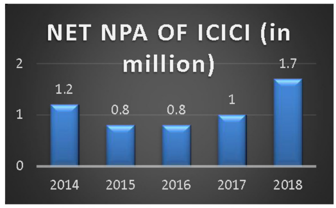


From the table 1, gross NPA of ICICI bank in 2014-15 is Rs4.5 million and it is continuously decreased till the 2017-18. In the year 2018-19 the Gross NPA of ICICI Bank has increased up to Rs3.8 million. The Average gross of NPA was Rs 3.624 million. The maximum gross of NPA was Rs 4.47 million and the minimum gross of NPA was Rs.3708 million.

Table 2

Net NPA of ICICI bank

Year	Net NPA of ICICI bank (in millions)
2014-15	1.2
2015-16	0.8
2016-17	0.8
2017-18	1
2018-19	1.7
Average	1.1

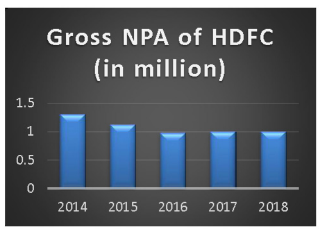


From table 2, the Net NPA of ICICI bank is 1.2 million in 2014-15. It's continuously decreasing till the 2016-17. In the year 2017-18 has been increasing. The maximum NPA is 1.7 in 2018-19 and minimum is 0.8 million and the average of net NPA is 1.1million.

Table 3

Gross NPA of HDFC Bank

Year	Gross NPA Of HDFC (Rs. In millions)
2014-15	1.3
2015-16	1.12
2016-17	0.98
2017-18	1
2018-19	1
Average	1.08

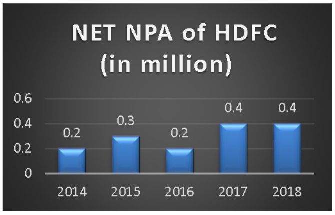


From the table 3, the gross NPA of HDFC bank in 2014-15 is 1.3 million. After that, NPA is declining till the year 2016-17 and the NPA 1 million is constant in year 2017 and 2018. The maximum Gross NPA of HDFC Bank is 1.3 million and the Minimum is 0.98 million. The average of Gross NPA is 1.08 million.

Table 4

Net NPA of HDFC Bank

Year	Net NPA of HDFC Bank (in millions)
2014-15	0.2
2015-16	0.3
2016-17	0.2
2017-18	0.4
2018-19	0.4
Average	0.3



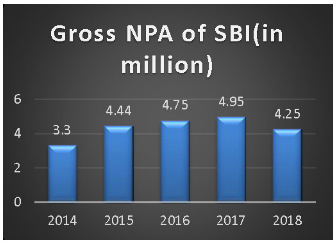
From the table 4, the Net NPA of HDFC bank in 2014-15 is 0.2 million. In the Year 2017 and 2018 net NPA of ICICI Bank is Constant 0.4 million. The maximum NPA is 0.4 million and the minimum NPA is 0.2 million in the year 2018 and 2016. The average of Net NPA is 0.3 million.

PUBLIC SECTOR BANKS: SBI & PNB

Table 5

Gross NPA of SBI Bank

Year	Gross NPA of SBI (in millions)
2014-15	3.3
2015-16	4.44
2016-17	4.75
2017-18	4.95
2018-19	4.25
Average	4.338

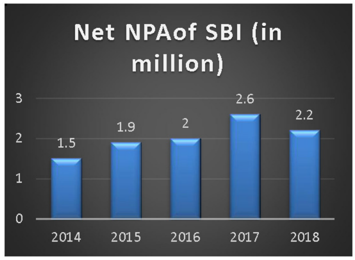


From the table no.5, the gross NPA of State Bank India in 2014-15 is 3.3 million and it is continuously increasing till the year 2017-18 NPA is 4.95 and in the next year 2018-19 NPA decreased to 4.25 million. The maximum NPA is 4.95 million. The minimum NPA is 3.3 million. The average of gross NPA of five years is 4.338 million.

Table 6

Net NPA of SBI bank

Year	Net NPA of SBI (in millions)
2014-15	1.5
2015-16	1.9
2016-17	2.0
2017-18	2.6
2018-19	2.2
Average	2.04

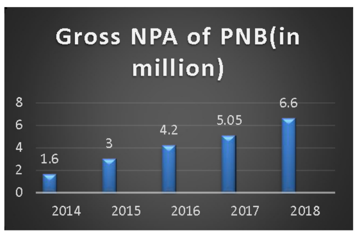


From the table 6, the Net NPA of State bank of India in 2014-15 is 1.5million, NPA is continuously increasing up to the year 2017-18 is 2.6 million and the year 2018-19 NPA decreased to 2.2.The maximum Net NPA is 2.6 million and the minimum Net NPA is 1.5 million. The average of Net NPA of 5 year is 2.04.

Table 7

Gross NPA of PNB Bank

Year	Gross NPA of PNB (in millions)
2014-15	1.6
2015-16	3
2016-17	4.2
2017-18	5.05
2018-19	6.6
Average	4.09

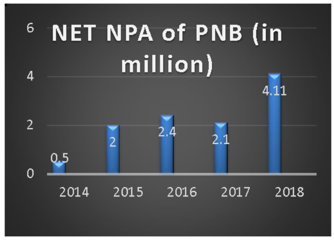


From the table 7, the Gross NPA of PNB Bank in 2014-15 is 1.6 million and NPA has continuously increased till the year 2018-19 to 6.6million. The maximum NPA is 6.6 million and the minimum NPA is 1.6 million. The average of gross NPA of five years is 4.09 million

Table 8

Net NPA of PNB Bank

Year	Net NPA of PNB (in millions)
2014-15	0.5
2015-16	2
2016-17	2.4
2017-18	2.1
2018-19	4.11
Average	2.22



From the Table 8, the Net NPA of PNB Bank in 2014-15 is 0.5 million and Net NPA is continuously increasing up to the 2016-17 which is 2.4million and then again increased to 4.11 million in the year 2018.The maximum NPA is 4.11 million and the minimum NPA is 0.5. The average net NPA of five years is 2.22.

Hypothesis Testing

H1: There is no significant difference in Gross NPA of private sector banks.

H0: There is significant difference in Gross NPA of private sector banks.

Table 9

T- Test for Private Sector Banks

Private Banks	Mean Value	t- value	P Value
ICICI	3.708	14.937	0.000
HDFC	1.08	17.901	0.000

The Table 9 reveals that the p value < 0.5, hence, there is significant difference in Gross NPA of private sector banks.

$H1_{a:}$ There is no significant difference in Gross NPA of public sector banks.

$H0_a$: There is significant difference in Gross NPA of public sector banks.

Table 10

T- Test for Public Sector Banks

Public Banks	Mean Value	t- value	P Value
SBI	4.338	15.15	0
PNB	4.09	4.783	0.009

The Table 10 reveals that the p value < 0.5, hence, there is significant difference in Gross NPA of private sector banks.

Conclusion

NPA's are considered as the barometer for the performance of banks in India. The study of NPA is necessary in these days. The researchers through this paper made an effort to make the comparison of NPA of private and public sector banks.

It is observed from the year 2014-2015 to 2018-2019, the NPAs of banks are increasing. Average Gross NPA of ICICI bank is 3.708 and average Gross NPA of HDFC is 1.08. Average Net NPA of ICICI bank is 1.1 and average Net NPA of HDFC bank is 0.3. This shows that HDFC bank is performing better as compared to ICICI bank in Gross and Net NPA.

Average Gross NPA of SBI bank is 4.338 and average Gross NPA of PNB bank is 4.09. Average Net NPA of SBI bank is 2.04 and average Net NPA of PNB bank is 2.22.

Although the NPAs are increasing in all the banks but public sector banks like SBI and PNB have more NPAs as compared to private sector banks like ICICI and HDFC. Increasing NPAs indicates that bank's assets are not contributing income to the bank, its capacity to grant further loans to business houses and ultimately affecting their profitability.

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