A STUDY ON NON PERFORMING ASSETS OF SELECT PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sector. Non Performing Assets (NPA) is one of the major concerns for banks in India. NPAs reflect the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. A high level of NPAs suggests that large number of credit defaults that affect the profitability and Net worth of banks. The public sector banks have shown very good performance over the private sector banks as far as the financial operations are concerned. However the position of public sector banks is not so good in the area of Non Performing Assets (NPAs) as compared to private sector banks. In this paper made an attempt to analyse how efficiently the selected public and private sector banks managed their NPAs.

Keywords: Public Sector Banks, Private Sector Banks,Gross NPAs,Net NPAs.

INTRODUCTION

Financial sector plays an indispensable role in the overall development of a country. Both Public and Private Sector Banks play an important role in economic development of the country. The primary function of banks is mobilizing deposits from surplus units to deficit units in the form of loan and advances to various sectors such as agricultural, industry, personal and governments at affordable interest rates. Lending by the banking sector is generally encouraged because it has the more effect of funds being transferred from the system to productive purposes. However process of lending also carries a risk called credit risk, which arises from the failure of borrower. Non-Performing asset refers to loans that are in risk of default. The level of Non- Performing loans is recognised as a critical indicator for assessing banks credit risk, asset quality and efficiency in allocation of resources to productive sectors. Reflecting the success of financial sector reforms and regulatory and supervisory process in particular, banks have made substantial progress in cleaning up the NPAs from their Balance sheets.

SIGNIFICANCE OF THE STUDY

The present study attempts to analyse the non performing assets of Public and Private Sector Bank in India. NPAs reflects the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders’ value. Similar to any other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it possess. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled.
REVIEW OF LITERATURE

Bhatia (2007) in his research paper entitled, Non-performing assets of Indian public, private and foreign sector banks studied that, the NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behaviour of NPAs of the three categories of banks is observed.

Karunakar (2008) in his article, “Are non-Performing Assets Gloomy or Greedy from Indian Perspective?” has discussed that the economic reforms initiated by the prime minister of India Dr. Manmohan Singh would have been remained incomplete without the overhaul of Indian banking sector. The problem of losses and lower profitability of Non-Performing Assets (NPAs) and liability mismatch in banks and financial sector depend on how various risks are managed in their business. An attempt is made in the paper that what are NPAs? The factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations. Besides capital to risk weightage assets ratio of public sector banks, management of credit risk and measures to control the menace of NPAs are also discussed. The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. It is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms.

Kaur and Singh (2011) in their study, Non-performing assets of public and private sector banks (a comparative study) studied that NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. The financial companies and institutions are nowadays facing a major problem of managing the Non-performing assets as these assets are proving to become a major setback for the growth of the economy.

Meenakshi Rajeev, H P Mahesh (2010) in her studied, banking sector reforms and NPAs in Indian commercial banks to examine the trends of NPAs in India from various dimensions and to explain how immediate recognition and self monitoring has been able to reduce it to a great extent. The study analysed the different aspects of NPAs like NPA in India comparative to other countries, NPAs of Indian banks as per the different sectors and recovery of naps through various channels. It was found that NPAs in the contributory factor for crisis in the Economy and root cause of the recent global financial crisis. It was observed that NPAs in priority sector is still higher than that of the non priority sector due to socio economic objectives of banks.

STATEMENT OF THE PROBLEM

A strong banking sector is important for flourishing economy. Credit is one of the most important assets of the banks. Availability of adequate and timely credit can go long way in improving productive capacity of the different sectors of the economy equally important is the adequate and timely recovery of loans. The process of credit cycle is affected by non-recovery of loans along with interest. Operational efficiency of the banks is affected by the quality of advances which in turn has on impact on the profitability, liquidity, and solvency position of the banks.
OBJECTIVES OF THE STUDY

The following are the objectives of the study
1. To examine the Gross NPAs and Net NPAs of select Public and Private Sector Banks.
2. To make a comparative study of NPAs in select Public and Private Sector Banks.

RESEARCH DESIGN

The study is descriptive in nature. The study has focused on the comparison of NPAs between selected Public and Private Sector Banks. The present study was mainly based on secondary data which were collected from annual reports of the respective banks. The banks for the purpose of the study are chosen as per convenience only. The sample consists of four Public Sector Banks- State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India and four Private Sector Banks- ICICI Bank, HDFC Bank, AXIS Bank, and Federal Bank. The study is done on the basis of data for the period of 5 years from 2010-11 to 2014-15.

STATISTICAL TOOLS USED FOR ANALYSIS

This study has used some of the statistical tools such as:

Mean

The mean is the average of the numbers, a calculated "central" value of a set of numbers. It has been obtained by adding the values of all observations and dividing it by the number of observations.

\[
\text{Mean} \ (\bar{X}) = \frac{\sum x}{N}
\]

Where \(\sum x\) = sum of variables and \(N\) = Number of observations.

Standard deviation

Standard deviation is the most widely used measure of dispersion of a series and is commonly denoted by the symbol \(\sigma\) (Pronounced as sigma). Standard deviation is defined as the square root of the average of squares of deviations, when such deviations for the values of individual items in a series are obtained from the arithmetic average. It is worked out as under;

\[
\text{Standard deviation} \ (\sigma) = \sqrt{\frac{\sum (x_i - \bar{x})^2}{N}}
\]

Co-efficient of variation

When we divide the standard deviation by the arithmetic averages of the series, the resulting quantity is known as co-efficient of standard deviation which happens to be a relative measure and is often used for comparing with similar measure of other series. It is used in problems which require comparing the variability of two or more than two series. Series, for which the co-efficient of variation is greater, is said to be more variable or less consistent. On the other hand, the series for which co-efficient variation is less is said to be less variable or more consistent. In the analysis of financial data, less co-efficient of variation in this ratio is taken to relatively better control of management on that ratio.

\[
\text{Co-efficient of variation} = \frac{\text{Standard deviation}}{\text{Mean}} \times 100
\]

DATA ANALYSIS AND INTERPRETATION

Types of NPA

Gross NPA

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA is advance which is considered irrecoverable, for
The bank has made provisions, and which is still held in banks' books of account, Gross NPA reflects the quality of the loans made by Banks. It consists of all the nonstandard assets like sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

### Gross NPA Ratio

\[
\text{Gross NPA ratio} = \frac{\text{Gross NPA}}{\text{Gross Advances}}
\]

### Net NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the Central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following ratio:

\[
\text{Net NPAs} = \text{Gross NPAs} - \text{Provisions} / \text{Gross Advances} - \text{Provisions}
\]

**Figure 1: Gross NPAs of Public Sector Banks**

![GROSS NPA RATIO](image)

**Table 1: Gross and Net NPAs of Public Sector Banks**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SBI</th>
<th>PNB</th>
<th>BOB</th>
<th>BOI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GNPA</td>
<td>NNPA</td>
<td>GNPA</td>
<td>NNPA</td>
</tr>
<tr>
<td>2010-11</td>
<td>3.28</td>
<td>1.63</td>
<td>1.79</td>
<td>0.85</td>
</tr>
<tr>
<td>2011-12</td>
<td>4.44</td>
<td>1.82</td>
<td>2.93</td>
<td>1.52</td>
</tr>
<tr>
<td>2012-13</td>
<td>4.75</td>
<td>2.09</td>
<td>4.27</td>
<td>2.35</td>
</tr>
<tr>
<td>2013-14</td>
<td>4.95</td>
<td>2.57</td>
<td>5.25</td>
<td>2.85</td>
</tr>
</tbody>
</table>

Source: Computed from the Annual reports of the respective Banks

From table 1, it can be seen that at the end of 2010-11, Gross NPAs to gross advances ratio of SBI bank was 3.28 percent. While at the end of 2014-15, it was 4.25 percent, with the highest being 4.95 percent at the end of the year 2013-14. In case of PNB, the Gross NPA ratio was 1.79 percent at the end of 2010-11 and it was increased to 6.55 percent at the end of 2014-15 and it being the highest. At the end of 2010-11, this ratio of BOB was 1.36 percent while at the end of 2014-15, it was 3.71 percent.
percent and it being the highest. In case of BOI, the Gross NPA ratio was 2.23 percent at the end of 2010-11 and it was increased to 5.39 percent at the end of 2014-15 and it being the highest. It is observed that the Gross NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study.

![Figure 2: Net NPAs of Public Sector Banks](image)

From the table -1, it is observed that Net NPA ratio increased from 1.63 percent to 4.25 percent in SBI Bank, in the case of PNB, this ratio increased from 0.85 percent to 4.06 percent. Whereas in the case of BOB, this ratio increased from 0.35 percent to 1.89 percent, in case of BOI, this ratio increased from 0.92 percent to 3.36 percent during 2010-2011 to 2014-2015. In figure 2, it is observed that the Net NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study.

Table 2: Gross and Net NPAs of Private Sector Banks

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ICICI</th>
<th>HDFC</th>
<th>AXIS</th>
<th>FEDERAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GNPA</td>
<td>NNPA</td>
<td>GNPA</td>
<td>NNPA</td>
</tr>
<tr>
<td>2010-11</td>
<td>4.47</td>
<td>1.11</td>
<td>1.05</td>
<td>0.19</td>
</tr>
<tr>
<td>2011-12</td>
<td>3.62</td>
<td>0.73</td>
<td>1.02</td>
<td>0.94</td>
</tr>
<tr>
<td>2012-13</td>
<td>3.22</td>
<td>0.77</td>
<td>0.97</td>
<td>1.06</td>
</tr>
<tr>
<td>2013-14</td>
<td>3.03</td>
<td>0.97</td>
<td>1.00</td>
<td>1.22</td>
</tr>
<tr>
<td>2014-15</td>
<td>3.78</td>
<td>1.61</td>
<td>0.90</td>
<td>1.34</td>
</tr>
</tbody>
</table>

Source: Computed from the Annual reports of the respective Banks

From table 2, it can be seen that at the end of 2010-11, Gross NPAs to gross advances ratio of ICICI bank was 4.47 percent while at the end of 2014-15, it was 3.78 percent. At the end of 2010-11, Gross NPA ratio of HDFC bank was 1.05 percent while at the end of 2014-15, it was 0.90 percent. In case of AXIS bank, this ratio was 1.01 percent at the end of 2010-11 and it was increased to 1.34 percent at the end of 2014-15. At the end of 2010-11, Gross NPA ratio of FEDERAL bank was 3.49 percent while at the end of 2014-15, it was 2.04 percent. It is observed that the Gross NPA ratio has shown a declining trend in ICICI, HDFC and FEDERAL Banks.
From the table 2, it is observed that Net NPA ratio of ICICI Bank increased from 1.11 percent in 2010-11 to 1.61 percent in 2014-15. In case of HDFC Bank, this ratio was increased from 0.19 percent in 2010-11 to 1.34 percent in 2014-15, whereas in the case of AXIS Bank it was increased from 0.26 percent to 0.44 percent during the same period. In case of federal Bank, this ratio was fluctuating over the period of study. It is observed that Net NPA ratio has shown an increasing trend in selected private sector banks over the period of study.

**Table 4: Public vs. Private Sector Banks**

<table>
<thead>
<tr>
<th>Banks</th>
<th>Mean</th>
<th>S.D</th>
<th>C.V</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI, PNB, BOB &amp; BOI</td>
<td>3.52</td>
<td>1.42</td>
<td>0.40</td>
</tr>
<tr>
<td>ICICI, HDFC, AXIS &amp; FEDERAL</td>
<td>2.17</td>
<td>1.24</td>
<td>0.57</td>
</tr>
</tbody>
</table>
From the above table shows that the private sector banks (Mean=2.17) have performed well in controlling the NPAs in comparison to public sector banks (Mean =3.52) and out of the four public sector banks selected for the study, the BOB (Mean = 2.38) has controlled its Gross NPA Ratio by using various policy measures in comparison to other public sector banks. Out of the four private sector banks selected for the study, the HDFC (Mean =0.99) has controlled its Gross NPA Ratio by using various policy measures in comparison to other private sector banks. So, the public sector banks should concentrate more to take an immediate action for reducing the NPAs. By considering the co-efficient of variation, it can be said that the performance of public sector banks is more stable than private sector banks. The HDFC bank is more stable as its co-efficient of variation is least of all, then after it comes the ICICI, AXIS and SBI (0.15) banks Gross NPA ratio is more stable than other banks. From this analysis, the HDFC Bank appears to be the best bank in terms of NPA management with lowest mean of 0.99 percent, standard deviation of 0.06 percent and co-efficient of variation of 0.06percent, which implies that HDFC Bank is most effective in controlling its NPAs over the years in comparison to other banks. The HDFC bank provides majority of loan to housing sector only. The housing loans have low probability of default as compared to other loans.

**FINDINGS OF THE STUDY**

- Public Sector Banks have higher NPA ratio as compared to Private Sector Banks over the period of the study.
- Gross and Net NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study.
- It is observed that the Gross NPA ratio has shown a declining trend in Private Sector Banks.
- It is observed that Net NPA ratio has shown an increasing trend in selected private sector banks over the period of study.

**SUGGESTIONS**

The following suggestions were offered through this study for the better performance of the selected Banks.

- Decline of NPA is essential to improve profitability of banks and fulfil with the capital adequacy norms as per the basel accord.
- Steps initiated by Reserve Bank of India and Government of India in strengthening and improving the functioning of Debt recovery Tribunal, Lok adalats, SERFASI Act as a comprehensive settlement policy certainly improves the recovery in NPA accounts.

**CONCLUSION**

The money locked up in NPAs is not available for productive use and adverse effect on banks. The effect of NPA is comparatively higher in public sector banks. To improve the efficiency and profitability the various steps have been taken by government to reduce the NPAs. The NPA level of our banks is still high as compared to the international standards. The banks should take care to ensure that they give loans to creditworthy customers. It is not at all to have zero NPAs. The bank management should speed up the recovery process. The government should also make more provisions for faster settlement of pending cases. So, the problem of NPA needs lot of serious efforts otherwise NPAs should affect the banks profitability, liquidity and solvency.

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