



A comparative study on Non-performing assets in public sector banks and private sector banks in India

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Abstract

The study designed the comparative analysis of selected public and private sector banks in India. In this study comparative analysis of the Non-Performing Assets of the public and private sector banks with the help of various Non-Performing Assets Ratios like Gross NPA, Net NPA and also comparative analysis of Net Profit and Net NPA of selected public and private sector banks. Here, for the purpose of analyzing the data 3 public sector banks and 3 private sector banks selected based on market capitalization as sample. The data is collected through various annual reports of respective selected banks from 2016-17 to 2020-21. For the analyzed data researchers have used various statistical tools like Mean, Ratios and correlation. This study concluded that public sector bank has having highest NPA as compare to private sector banks. The results of the correlation between Net Profit and Net NPA, all the public sector banks shown negative correlation and private sector banks indicated that positive correlation during the study period from 2016-17 to 2020-21.

Keywords: banking industry, gross NPA, Net NPA, correlation

Introduction

A bank is a financial institution authorized to accept deposits and grant loans. The bank is defined as the commercial activity of accepting and safeguarding money owned by other people and entities, and then lending this money to carry out economic activities such as making a profit or simply to cover operating expenses. The receipt of the deposit generally does not involve any risk, as it is the banker who has the obligation to return the deposit, every time when it's requested. On the other hand, the loan fund always involves many risks because there is no certainty of repayment of the loan. In recent times, banks have been very cautious about lending for fear of increasing Non-Performing assets. If the borrowers cannot pay the principal amount and the interest amount within 90 days, the borrowers' mortgage assets become NPA. These activities do not generate income or revenue for the banks.

Types of NPAs

1. Gross Non-Performing Assets.
2. Net Non-Performing Assets.

Gross Non-Performing Assets

Gross NPA is the sum total of all credit assets classified as NPA under the RBI guidelines at the balance sheet date. It consists of all non-standard assets such as doubtful assets, sub-standard assets and loss-making assets. It can be calculated with the help of the following proportions:

$$\text{Gross NPAs Ratio} = \text{Gross NPAs} / \text{gross advances} * 100$$

Net Non-Performing Assets

Net NPAs are those types of NPAs where the bank has deducted the provision for uncertain and unpaid debts. The Net NPAs is obtained by reducing the provision of the gross

NPAs and shows the actual burden of the banks. It can be calculated as follows:

$$\text{Net NPAs} = \text{Gross NPAs} - \text{Provision on Gross Advances}$$

Categories of Non-Performing Assets

On the periods basis of there are NPAs are classified into three categories

1. Sub- Standard Assets

A Sub-Standard asset is an NPA asset for a period of less than or equal to 12 months.

2. Doubtful Assets

A Doubtful asset is asset of NPA for more than 12 months.

3. Loss Assets

A loss asset is type of asset of NPA which losses has been identified by the bank authority, auditors or the RBI but the loss amount has not been written off fully.

Review of Literature

Girnara Mona Rameshbhai (2020) has examined the comparative study of non-performing assets in public sectors banks and private sectors banks. The researcher has collected the data from 5 public sector banks and 5 private sectors banks for study of NPAs. This research paper considered data of last five years collected through various annual reports of respective banks. Here, researcher has used various NPAs ratios to compare NPAs in public sectors banks and private sectors banks. The researcher has concluded that the NPAs are high in public sector banks compare to private sectors banks. The amount of gross

NPAs and Net NPAs are high in Public sector bank as compare to Private sectors banks and also concluded that more amounts of NPAs is negatively affecting to profitability of bank.

B. Senthil Arasu, P. Sridevi, P. Nageswari, R. Ramya (2019) has analyzed the comparative study of public sectors banks and private sector banks. This study is totally based on secondary source of data collected through various annual reports of respective selected public and private sectors banks; the period of study is from 2014 to 2018. Here, researchers have used various NPAs ratio to analyze the data. This study found that the public sector banks average gross and net NPAs of SBI, PNB, and BOI is shows that overall above of the sample banks. The level of gross and net NPAs of private and public sector banks increased trend during the study from 2014 to 2018. It suggests that take necessary steps to reduce the NPAs and improve the recovery mechanism. Also found that there is positive relationship between gross NPA and Net NPA of public and private sector banks.

K. Prasanath Kiran & T. Mary Jones (2016) their study examined the NPAs of top 5 public sector banks in India from 2005 to 2014. This study is totally based on secondary source of data collected through various annual reports of respective banks. For the analysis of the data researchers have used correlation and regression models. It is found that public sector banks NPAs are going on increasing at increasing rate.

Krishna Murari (2014) has examined the comparative study of NPAs in public, old private and new private sector banks in India. The researcher has collected the data from various selected banks such as 13 public sector banks, and 13 old private sector banks, and 13 new private sector banks. This study is totally based on secondary source of data collected through various annual reports of selected banks. It used various NPAs ratio like Gross NPA and Net NPA ratio to testing of the hypothesis. It found that increase in gross and net NPAs for general public and personal sectors over the amount old study. It also found that the prudent and provisioning norms and their initiatives taken by the regulative bodies have pressurized banks to boost their performance.

Research Methodology

Research Gap

As we know that a lot of research work has been done by other researchers in this sector but the comparison of 3 public and 3 private sector banks by taking duration form 2016-2020 financial year is still not done. So I have done a comparative analysis by taking these selected banks in India. I have also analyzed their relationship between NPA on Net Profit of selected banks

Objective of the study

1. To comparative analysis of Non-Performing Assets in public and private sector bank.
2. To study the relationship between NPA on Net Profit of the selected banks in India.

Population of the study

The population of the study is all types of the banking sector in India.

Sample of the study

For the research work public and private banks were selected based on convenience sampling method. For these 3 public and 3 private sector banks in India were taken for the study on the basis of market capitalization. The present study period is from 2016-17 to 2020-21 respectively.

Source of data

The present work is totally based on secondary source of data collected through various annual reports and, press release reports of selected public and private sector banks during the study period form 2016-17 to 2020-21.

Framework of Analysis

The main objective of the study is to find out the relationship and impact of NPA on Net Profit of selected public and private sectors banks. For the analysis of data, various types of accounting tools used such as Mean, Ratio and correlation to the analysis the relationship between NPA on Net Profit of public and private sector banks.

Data Analysis and Interpretation

Table 1: % Gross NPA of selected Public and Private Sector banks in India from 2016-17 to 2020-21

Year	Public Sector Banks % Gross NPA			Private Sectors Banks % Gross NPA		
	SBI	PNB	BOB	HDFC Bank	Kotak Mahindra	ICICI Bank
2016-17	7.00	13.00	10.00	0.25	2.00	6.00
2017-18	7.00	13.00	10.00	1.04	3.00	9.00
2018-19	11.00	18.00	12.00	1.28	2.00	10.00
2019-20	8.00	16.00	10.00	1.35	2.00	7.00
2020-21	6.00	14.00	9.00	1.00	2.00	6.00
Mean	7.80	14.80	10.20	0.98	2.20	7.60

Above table no 1 shows that % Gross NPA of selected public and private sector banks in India during the study period from 2016-17 to 2020-21 respectively. In public sector bank Punjab National Bank has shows that highest average ratio of % Gross NPA it was 14.80, compare to other selected banks. And also reveals that SBI Bank lowest average ratio it was 7.80 compare to selected public sector banks. In private sector banks HDFC Bank has shows that

lowest mean ratio of 0.98. ICICI bank has 7.60 mean ratios. In public and private sector banks gross NPA ratio shows that fluctuating trend during the study period 2016-17 to 2020-21.

Relationship between Net Profit and Net NPA of public sector Banks

Table 2: Net Profit and Net NPA of Selected Public sector banks in India from 2016-17 to 2020-21

Year	SBI		PNB		BOB	
	Net Profit (in Cr.)	Net NPA (in Cr.)	Net Profit (in Cr.)	Net NPA (in Cr.)	Net Profit (in Cr.)	Net NPA (in Cr.)
2016-17	9950.65	55807.02	-3974.40	35422.57	-5395.54	19046.46
2017-18	10484.10	58277.38	1324.80	32702.10	1383.14	18080.00
2018-19	-6547.45	110854.70	-12282.82	48684.29	-2431.81	23483.00
2019-20	-698.32	65894.74	-9975.49	30037.66	433.52	15609.50
2020-21	14488.11	51871.30	336.19	27218.89	546.19	21576.59
Mean	5535.42	68541.03	-4914.34	34813.10	-1092.90	19559.11

Above table no 2 shows that Net Profit and Net NPA public sector bank and private sector bank in India from 2016-17 to 2020-21. In SBI bank shows that NPA increase 55807.02 Cr. to 65894.74 Cr. from 2016-17 to 2019-20 increasing 18.08 percentage. But as compare to 2020-21 year NPA is decreased at 7.05%. In Punjab National Bank NPA increased from the year 2016-17 to 2018-19 Rs 35422.57 Cr. to 48684.29 Cr., in last two previous years NPA shows that decreasing trend. In Bank of Baroda Net NPA shows that first 3 years increasing trend and then after it shows that decreasing trend in the year 2019-20 and 2020-21 respectively. The mean of Net Profit of SBI is more as compare to other selected public sector banks and also

shows that average NPA is also high in case of SBI Bank i.e., 68541.03 Cr. It is cleared that when Net NPA of SBI increased then Net Profit will be decreased. In the year 2018-19 there is highest Net NPA shows that i.e. 110854.7 Cr. over all of the year. In PNB according to table shows that there is an inverse relationship between Net NPA and Net Profit of the Bank it means when NPA of the bank increase, then the Net Profit will be decrease. In Bank of Baroda also the same; there is an inverse relationship between Net NPA and Net Profit.

Relationship of Net Profit and Net NPA of Privatesectors Banks

Table 3: Net Profit and Net NPA of selected Private sector banks in India from 2016-17 to 2020-21

Year	HDFC Bank		Kotak Mahindra		ICICI Bank	
	Net Profit (in Cr.)	Net NPA (in Cr.)	Net Profit (in Cr.)	Net NPA (in Cr.)	Net Profit (in Cr.)	Net NPA (in Cr.)
2016-17	12296.21	1320.37	2089.78	1261.96	9726.29	12963.08
2017-18	14549.64	1843.99	3411.50	1718.07	9801.09	25216.81
2018-19	17486.73	2601.02	4084.30	1665.10	6777.42	27823.56
2019-20	21078.17	3214.52	4865.33	1544.37	3363.30	13577.43
2020-21	26257.32	3542.36	5947.18	1557.89	7930.81	9923.24
Mean	18333.61	2504.45	4079.62	1549.48	7519.78	17900.82

The above table no 3 shows that Net Profit and Net NPA of selected Private sector banks in India during the study period from 2016-17 to 2020-21 respectively. In HDFC Banks shows that Net Profit and Net NPA are increases at increasing rate over the 5 years. In Kotak Mahindra bank Net Profit shows that increasing rate over the 5 years but in Kotak Mahindra bank Net NPA shows that fluctuating trend during the study period from 2016-17 to 2020-21. In consideration with ICICI bank both Net Profit and Net NPA shows that up-down rate over the 5 years. The mean value of net profit is highest in HDFC Bank with Rs 18333.61 Cr. and Mean value of Net NPA is highest in ICICI bank i.e., Rs 17900.82 Cr. compare to other banks. It is clearly show that

Net Profit and Net NPA increased over the 5 years at increasing rate in HDFC Bank. In the year 2020-21 HDFC has highest Net Profit and Net NPA of Rs 26257.32 Cr. And Rs 3542.36 Cr. it is cleared from above table there is direct relationship between Net NPA and Net Profit in HDFC Bank. In Kotak Mahindra bank inverse relationship indicated that between Net Profit and Net NPA it means when increase NPA of bank then decreased Net Profit of the banks. In ICICI Bank also show that the inverse relationship between Net Profit and Net NPA of the banks.

Correlation between mean Net NPA and Mean Net Profit for the 5 years of the following banks

Table 4

Bank	Mean Net Profit	Mean Net NPA	Correlation
SBI	5535.42	68541.03	-0.882702
PNB	-4914.34	34813.1	-0.645308
BOB	-1092.9	19559.11	-0.27458
HDFC Bank	18333.61	2504.45	0.965852
Kotak Mahindra	4079.52	1549.48	0.458149
ICICI Bank	7519.78	17900.82	0.15396

The table No indicated that the correlation between mean of Net Profit and Mean of Net NPA during the study period from 2016-17 to 2020-21 respectively. It is cleared shown that correlation is negative shows that in public sector banks but all selected private sector banks shown positive correlations. It means there is a direct relationship between Net Profit an NPA of the three private sector banks. As

NPA increases, Net Profit of such bank also increases.

Major Findings

- Gross NPA% it is most important financial indicators of banking sector. According to the comparative results Gross NPA% is higher in public sector bank i.e., Punjab National Bank of 14.80% and lower in private sector

bank i.e., HDFC Bank with 0.98 mean value.

- Net Profit it's indicated that profitability of the bank. The average value of net profit is highest in HDFC bank it was 18333.61 Cr. and lowest average value of net profit in PNB it was -4914.34 Cr. which shows negative results.
- Net NPA it's now a day most important financial tools to measure bank profitability. As per the comparison in public and private sector bank in SBI having highest average NPA value of Rs 68541.03 Cr. and Kotak Mahindra Bank having lowest mean NPA amount of Rs 1549.48 Cr.
- Correlation between Net Profit and Net NPA of selected public sector bank and private sector bank, the results of the correlation between Net Profit and Net NPA, all the public sector banks shown negative correlation and all the private sector banks indicated that positive correlation during the study period. Negative correlation shows that when NPA increase then Net Profit will be decreased.

Conclusion

Here researchers have concluded that the NPA is one of the most important parameter indicating the financial stress of any bank in India. NPA is one of the biggest problems in the banking sector. It is difficult to completely reduce the NPA of banks, but we should try to eliminate a significant part of the NPA of banks. After comparison, it turns out that the NPA is more in the public sector banks i.e. the SBI Bank in India and has negatively impacted the profitability of banks, because SBI Bank has a negative correlation between the net NPA and net profit. It's cleared that HDFC bank is good for NPA because it shows low Gross NPA%, low Net NPA over the last 5 years study

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