



A comparative study of non-performing assets (NPAs) of selected public and private sector banks in India

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Abstract

The banking sector plays a very important role in the development of an economy. A sound and healthy banking system are very important for an economy. Non-performing assets (NPAs) are the best indicator of the health of the banking industry i.e. it reflects the performance of the banks. Banking sector NPAs have become a major concern for the Indian economy. NPA has a direct impact on the liquidity, solvency, and profitability of the banks. The present study deals with the performance of Indian public and private sector banks with special reference to their NPAs. A comparative analysis of the private and public sectors is made based on the percentage of NPAs to total gross advances and the percentage of sector-wise average NPAs. NPAs are also categorized into priority and non-priority sectors for purpose of analysis. The study concludes that NPAs in public sector banks are higher than the private sector banks or public and private sectors Bank of India has maximum average NPAs and HDFC Bank has a minimum and Bank of India has maximum NPAs in the non-priority sector while YES Bank has minimum average NPAs in priority sector.

Keywords: non-performing assets (NPAs), public sector, private sector, priority, non-priority sector

Introduction

Indian banking system emerged with the witness of the establishment of two banks viz Bank of Hindustan (1770) and general bank of India (1786). The oldest bank in India which is still in operation is the State Bank of India. The Presidency bank acted as a quasi-central bank for many years thereafter Reserve Bank of India (RBI) was established in 1935 and nationalized in 1949 (Mahendra S., 2015) ^[20]. Indian government nationalized fourteen major private banks in 1969 and another six private banks were nationalized in 1980 (Narayanasamy, 2020) ^[13]. Both private sector banks and public sector banks play an important role in various sectors of an economy such as infrastructure, industries, agricultural activities, power sector, generation of employment, service sector, etc. The banking system helps in mobilizing funds from saving to investments. The banking sector plays a vital role in the capital formation of a country although there are various impediments faced by banks such as maintaining records, efficiency & risk management, customer retention, loan portfolios, and managing data security, etc (Quartey, 2008) ^[15]. But apart from these, there is a big challenge that is faced by banks today i.e. NPAs. Bank's profitability is highly affected by its NPA on the balance sheet. When the loan amount becomes overdue and the bank is not able to recover principal as well as interest amount they become Non-Performing (Sharifi & Akhter, 2016) ^[18].

The Reserve Bank of India has issued guidelines to banks for the classification of assets into four categories i.e. Standard Asset, Doubtful Asset, Sub-standard Asset, and Loss Asset (Chander & Madaan, 2019) ^[6]. An asset, including a leased asset, becomes a non-performing asset when it ceases to generate income for the bank. An NPA was defined as a credit facility in respect of which the installment of principal and interest amount has remained overdue for a specified period. An NPAs shall be an

advance where: in case of a term loan installment of principal and/ or Interest amount remain unpaid for more than 180 days, the account remains 'out of order' in respect of a Cash Credit/ Overdraft, in the case of bills purchased and discounted the bill remains unpaid for more than 180 days, in the case of an advance granted for agricultural purposes installment of principal and/or interest remains payable for two harvest seasons but for a period not exceeding 2.5 years and in respect of other accounts any amount to be receivable for more than 180 days.

A powerful, feasible, sustainable banking system is very necessary for all sectors of the Indian economy, and the failure of the banking system may lead to adverse effects on various spheres of the economy. According to the RBI, there are mainly two sectors of lending: The priority sector and the Non-priority sector. Both sectors (priority and non-priority) have their sub-categories such as Industry, Agriculture and allied activities, Personal loan, and Service sector (Shajahan, 1998) ^[17].

The priority sector refers to that sector that faces difficulties in getting credit with changing global economy, Information, demand for efficient service delivery from customers, and integration with the international economy. In the last few decades, the Banking system has undergone various reforms. With those reforms, it has been felt that it is not only necessary to increase profits and liquidity but to also reduce the NPAs of a bank to stabilize the operation of the banking system in India. In this context, the present study has been done to analyze the non-performing assets of selected private sector banks and public sector banks in the last few years (Malyadri & Sirisha, 2011) ^[10]. The study has also undertaken the sector-wise (priority & non-priority) comparison of NPAs in both private and public sector banks.

The Problem Statement

Banks have been grappling with the NPA problem with a decade. It is now a major impediment to banks profitability. The biggest sticking point with the Indian banking systems is the dearth of incentives for large borrowers to repay their loan (Caprio & Klingebiel, 1997) ^[4]. If they default, they won't have to make a lot of adjustments. This is the main cause of non-performing assets in public sector banks specifically. In India lending is mostly centered on key sectors, with the business sector garnering the lion's share from both public and private sector banks. To counter the negative repercussions and reduce the amount of NPAs, the banking industry has witnessed radical changes. Changes in the global economy and the speculative environment have a significant impact on the financial system, particularly public sector banks (Agenor, 2003) ^[11]. This could lead to major NPAs and poor earnings. According to estimates as of March, 2018 the overall gross NPA in the nation was 10.35 lakh crore. Raghuram Rajan a former governor of Reserve Bank of India, claims in order to meet ambitious credit targets, required due diligence is often relinquish, which could lead to a future NPA scenario (Chari *et al.*, 2019) ^[7]. To govern the nation insolvency trouble and oversee the registered entities. The insolvency and bankruptcy code (IBC) was enacted in May, 2016 (Chander, 2022) ^[5], (Das, 2020) ^[8]. The study's findings will serve as a framework for financial analysts and policymakers to understand the current conditions of NPAs and avert performing assets of becoming NPAs. This will aid in appropriate bank management and the recovery in the economy.

Review of Literature

There are many studies undertaken by various researchers regarding NPA's performance in various banks. The main purpose of the literature review was to analyze previous studies to understand the performance of NPA in public and private sector banks in India. The study also undertakes the movement of NPAs in non-priority and priority sectors over years. (Mohnani & Deshmukh, 2013) ^[12] Studied the NPAs of public and private sector banks in India. The study found that the level of NPAs was higher in public sector banks than the private sector banks. (Narula & Singla, 2014) ^[14] Assessed the NPAs of PNB and its impact on profitability and find out the relationship between net profits, gross and net NPA and total advances. The study found that the net NPA and gross NPA of PNB are increasing every year. (Arora & Ostwal, 2014) ^[2] Examined the concept of NPAs and analyzed the comparison of loan assets of private sector banks and Public sector banks. The study reveals that NPAs still threat for the banks. Further the study found that the level of NPAs in public sector banks have higher as compare to private sector banks. (Syed Ibrahim & Thangavelu, 2014) ^[19] Examined the concept of NPAs, components of loan assets the commercial banks in India with especial reference to the private sector, foreign bank and the public sector banks. The study is exploratory in nature and makes use of secondary data. The study found and concludes that in the areas of NPAs the commercial banks have comparatively improved their working performance. (Roy, 2014) ^[16] Examined the trends of NPAs

in Indian banking sector and investigates its determinants. The Panel regression analysis found that the change in exchange rate, global volatility and GDP growth have major effects on the NPAs level of Indian banking sector. (Sharifi & Akhter, 2016) ^[18] Evaluate the effect NPAs on the profitability of Indian public sector banks. The study found that except for SBI all other banks exhibit a negative correlation between net profits and gross NPAs.

(Banerjee *et al.*, 2018) ^[3] Examined the status of net NPA and Gross NPA in both public sector banks and private sector banks and analyzed the NPAs impact on the assets quality of the banks. The study found that the banks performance has been affected due to NPAs and private banks are better performs than the public sector banks. (Misra & Rana, 2019) ^[11] The study focuses on the comparison of management of assets quality between private sector banks and public sector banks. The study concluded that NPAs management in private sector banks is better than public sector banks. It also reveals that there is a positive relationship between profits of private sector banks and NPAs. (Haralayya, 2021) ^[9] Investigated the Non-Performing Asset on urban co-operative bank in India. The study found that the urban bank demonstrates a huge NPA proportion contrasted with ICICI bank. (Zunić *et al.*, 2021) ^[21] Investigated the determinants of the movement of non-performing loans in the Bosnia and Herzegovina banking sector, as well as the impact of the COVID-19 pandemic on them. The study found that there is a significant positive relationship between the state of the country's economy and non-performing loans.

The above studies reveal that NPAs has always been a constraint in banking system. Accretions in NPAs have a direct impact over profitability, solvency and liquidity of the bank thus affecting the whole economy. In this context, the present study has been done to make a comparative study of selected public and selected private sector banks NPAs. The study also undertakes magnitude of NPAs in both priority and non-priority sectors.

Objective of the Study

- To compare the NPAs of the selected private sector and public sector banks.
- To analyze the sector-wise comparison (Priority and non-priority) average NPAs of selected public sector and private sector banks.

Research Methodology

The study has been used descriptive-cum-exploratory research design as per nature of data and to achieve the stated objectives, and the percentage method was used to analyze the average NPAs percentage of the selected private sector and public sector banks or analyze the sector-wise comparison (Priority and non-priority sector) average NPAs of selected public sector and private sector banks. The secondary data were collected from 8 banks through annual reports of the banks ranging from the period 2015-19 and analyzed through 'IBM SPSS 23.00'. Banks are divided into public and private sectors for comparison.

Data Analysis

Table 1: NPA (%) of Private sector banks Public sector banks for the period of 2015 to 2019.

Year	Public sector Banks				Private sector Banks			
	PNB	BOB	BOI	SBI	YES	AXIS	KOTAK	HDFC
2015	6.55	4.64	6.81	3.99	0.42	1.36	1.85	0.89
2016	12.90	11.93	12.66	6.50	0.77	1.71	2.36	1.10
2017	12.53	11.73	19.32	6.90	1.56	5.21	2.59	1.04
2018	18.38	12.26	23.46	10.91	1.33	6.79	2.22	1.28
2019	15.50	9.61	21.25	7.53	3.37	5.31	2.14	1.35
Mean	13.17	10.04	16.70	7.17	1.49	4.08	2.23	1.13
SD	4.38	3.19	6.85	2.49	1.14	2.41	0.27	0.18
Combined Mean	11.77				2.23			

Source: Annual Reports of the Bank

Notations used: PNB: Punjab National Bank; BOB: Bank of Baroda; BOI: Bank of India; SBI: State Bank of India. The table-1 shows NPAs in the percentage of total Gross Advances by banks. NPAs in public sector banks are higher than the private sector banks. Average NPAs from 2015 to 2019 of public sector banks have more than 6 percent while that of all the private sector banks have less than 7 percent. The combined average NPAs of private sector banks have 2.23 percent and the combined average NPAs of public

sector banks have 11.77 percent which shows that the assets quality of private sector banks is better than public sector banks. Among public sector banks, SBI bank has the lowest Average NPAs (7.17 percent) and BOI bank has the maximum average NPAs (16.70 percent). While, among the private sector banks HDFC bank has the lowest average NPAs (1.13 percent) and AXIS bank has the highest average NPA (4.08 percent).

Table 2: Sector-wise average NPA (%) of Public sector banks for the period of 2015 to 2019.

Items	PNB	BOB	BOI	SBI
Priority Sector				
Agriculture and allied activities	9.73	9.79	11.37	9.06
Industry	16.15	11.9	19.54	13.47
Services	7.81	10.2	12.64	7.19
Personal loans	5.61	3.80	5.01	1.71
Total average of Priority Sector	9.82	8.92	12.14	7.85
Non-Priority Sector				
Agriculture and allied activities	2.14	9.75	13.10	4.99
Industry	27.75	17.82	24.00	10.6
Services	9.27	6.26	11.17	3.19
Personal loans	3.29	3.30	7.37	0.62
Total average of Non-Priority Sector	10.61	9.28	13.91	4.85
Combined Average (Priority Sector+ Non-Priority Sector/2)	10.21	9.1	13.02	6.35

Source: Annual Reports of the Bank

The table-2 describes the average NPAs of public sector banks on the sector-wise basis (Priority and non-priority) for the period of five years ranging from 2015 to 2019. On the average majority of banks in the public sector banks have lower average NPAs in the priority sector as compared to the non-priority sector. NPAs of the personal loan category of both non-priority and priority sectors are lower in comparison to all other categories in all banks while the

Industry category of both the sectors is the lower. SBI Bank has the lowest total average NPAs in priority and non-priority sectors 7.85 percent and 4.85 percent respectively. BOI Bank has maximum total average NPAs in priority and non-priority sectors 12.14 percent and 13.91 percent respectively. Total average NPAs in both the priorities and non-priorities sectors are more than 7 percent.

Table 3: Sector-wise average NPA (Percentage) of Private sector banks for the period of 2015 to 2019

Items	YES	AXIS	KOTAK	HDFC
Priority Sector				
Agriculture and allied activities	1.69	3.48	2.50	2.50
Industry	0.68	2.69	1.68	1.84
Services	0.47	2.36	1.37	1.58
Personal loans	1.69	0.88	1.76	0.85
Total average of Priority Sector	1.13	2.35	1.83	1.69
Non-Priority Sector				
Agriculture and allied activities	1.21	0.00	1.78	1.57
Industry	2.07	8.93	3.43	1.01
Services	0.94	3.57	1.67	0.89
Personal loans	0.35	0.82	1.39	0.63
Total average of Non Priority Sector	1.14	3.33	2.06	1.02
Combined Average (Priority Sector +Non Priority Sector)	1.13	2.84	1.94	1.35

Source: Annual Reports of the Bank

The table-3 shows the average NPAs of private sector banks on the sector-wise basis (Priority and non-priority) for the period of five years ranging from 2015 to 2019. In the priority sector Agriculture and allied activities category registered higher NPAs in comparison to other categories and Personal loans registered lower NPAs in comparison to other activities while in the non-priority sector higher NPAs are spotted in the industry category and lower NPAs are spotted in Personal loans. YES bank has the lowest total average NPAs in priority and non-priority sector 1.13

percent and 1.14 percent respectively. AXIS Bank has maximum total average NPAs in priority and non-priority sectors 2.35 percent and 3.33 percent respectively. The total average NPAs in the priority sector is less than 3 percent while the total average NPAs of the non-priority sector are less than five percent, as well as the combined NPAs of priority and non-priority sectors are less than 4 percent in private sector banks.

Table 4: Sector-wise average NPA (%) of Private sector banks and Public sector banks for the period of 2015 to 2019.

	Name of Bank	Priority Sector	Non-Priority Sector
Public Sector Banks	PNB	9.82	10.61
	BOB	8.92	9.28
	BOI	12.14	13.91
	SBI	7.85	4.85
Private Sector Banks	YES	1.13	1.14
	AXIS	2.35	3.33
	KOTAK	1.83	2.06
	HDFC	1.69	1.02

Source: Annual Reports of the Bank

The table-4 describes the sector-wise (Priority and non-priority) average NPAs of the private sector and public sector banks for the period of five years ranging from 2015 to 2019. In public sector banks BOI bank has maximum average NPAs in both priority and non-priority sectors and SBI bank have the lowest average NPAs in both priority and non-priority sectors. While in the private sector AXIS Bank has maximum average NPAs in both priority and non-priority sectors or YES Bank has the lowest average NPAs in the priority sector and HDFC Bank has the lowest NPAs in non-priority sectors. In overall public and private sectors BOI Bank has maximum average NPAs and YES Bank has minimum average NPAs in the priority sector while BOI Bank has maximum and HDFC Bank has minimum NPAs in the non-priority sector.

Findings

- Average NPAs from 2015 to 2019 of public sector banks have more than 6 percent while that of all the private sector banks have less than 6 percent.
- The combined average NPAs of private sector banks have 2.23 percent and the combined average NPAs of public sector banks have 11.77 percent which shows that asset quality of private sector banks are better than public sector banks.
- It is found that the public sector banks SBI bank has the lowest Average NPAs 7.85 percent in the priority sector and 4.85 in the non-priority sector. BOI bank has a maximum average NPAs of 12.14 percent in the priority sector and 13.91 percent in the non-priority sector. While, among the private sector banks YES bank has the lowest average NPAs 1.13 percent in the priority sector and HDFC Bank has the lowest average NPAs 1.02 percent in the non-priority sector. AXIS bank has the highest average NPAs in priority and non-priority sectors 2.35 percent and 3.33 percent respectively.
- In comparison to public sector banks, private sectors banks registered lower NPAs.

- On an average majority of banks in the public sector banks have lower average NPAs in the priority sector as compared to the non-priority sector.
- In the public sector total average NPAs in both the priorities and non-priorities sectors are more than 7 percent and total average NPAs of non-priority and priority sectors are less than 4 percent in private sector banks.
- In private sector banks, NPAs of the Agriculture and allied activities category of priority sectors are higher while NPAs in the Industry category of the non-priority sector are higher than in other categories.
- The study result shows that in public sector banks category of industry both the non-priority and priority sector spotted higher NPAs.
- In overall public and private sectors BOI Bank has maximum average NPAs and YES Bank has minimum average NPAs.

Conclusions and Suggestions

Increasing the NPAs at an alarming rate has become a serious issue, especially in the case of public sector banks. Due to high NPA, the public and customers lose their confidence in the banks. There are high NPAs in the public sector banks as compared to private sector banks due to deficiencies in the credit sanctions, disbursements and liberal credit policies, etc. which shows that the asset quality of public sector banks is poor than private sector banks. By the insights of the study, NPAs of both priority and non-priority sector of public and private sector bank has major impact on total NPAs. However, in the private sector and public sector banks, NPAs of the non-priority sector has found to be higher than priority sector NPAs. On the basis of findings, the study suggests that banks should continuously examine the intent of customers to whom they are lending and monitor the end use of bank credit with proper credit appraisal techniques. By recognizing the problem at an early stage and following proper recovery methods levels of NPA may be reduced.

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