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Comparative Analysis of NPAs among Public and Private sector Banks in India

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Abstract

The banking sector is the most powerful and the leading industry in the Indian economy. After several reforms and advancement during the independence and post independence phase, the banking sector witnessed immense prosperity. The performance of banks can be measured with the assets performance. For banks the performing asset is loans and advances which generates income. The assets which are overdue for a period of more than 90days are called non-performing assets. The banking industry is growing at rapid way and at the same time it is in the clutches of non-performing assets (NPAs) which hampered the profitability of banks. As per RBI financial stability report of Dec 2018 at present Indian banking is burdened with gross NPAs of 10.8%. There has been steep rise in NPAs of a bank over the period. NPAs are the major problem and hindrance for the banks and also for the economy. In this direction effort is made to study steps taken by the Government to curb the NPAs by mission Indradhanush, Insolvency and bankruptcy bill code etc.

Currently, banking system of India is ruled by PSBs, private sector banks, foreign banks, co-operative banks and regional rural banks. The major percentage of market share is held by PSBs and private sector banks. In this paper effort is made to compare the NPAs of PSBs and private sector banks by taking sample of five banks selected on the basis of market capitalization rate. The comparative study is made on the basis of secondary data by calculating NNPAs ratio of selected banks for a period of eight financial years from 2012 to 2019 (2019 only three quarters are considered) and persons correlation is used to find relation between NNPAs and net profit.

Key words: NPAs, PSBs, Private sector banks and RBI.

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Introduction

Banks plays important role in the economic development of the country. A sound banking system enables the development of the country. The main function of bank is to accept deposits and lending in the form of loans and advances to individuals, corporate sector and industries in return of income in the form of interest. The banks receive regular returns from loans and advances than it is treated as performing asset and if asset ceases to generate income for bank than it is known as non-performing assets. NPAs hamper the growth of bank and affect profitability in negative way as it block the major source of income of banks.

Both PSBs and private sector banks financial statements highlight the NPAs. According to RBI main reason for accumulation of NPAs is internal factor like faulty lending process that happens when bank make hurry in lending loans without making SWOT analysis properly. Among external factors NPA accumulate due to willful defaulters, ineffective recovery tribunals, economic slowdown and natural calamities. Banks should recognize NPAs as per the guidelines of RBI.

RBI guidelines for NPAs recognition

Sl.no	**Loans and Advances**	**Guidelines**
1	Term loan interest and principal overdue for a period	More than 90 days
2	Overdraft/credit account	Remains out of order
3	Bills purchased and discounted remains overdue	More than 90 days
4	Agriculture loan interest and installment remains overdue a) Long duration crop.	One harvest season.
	b) Short duration crop.	Two harvest season but not exceeding two and half years
5	Other accounts any amount to be received remains overdue	90 days.

Source: RBI Guidelines

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As per the regulation of RBI each and every bank has to make provision for NPAs. It is the primary responsibility of management and statutory auditors to make adequate provisions for any diminution in the value of loan assets, investment or other assets. It is made on the basis of time lag between an accounts becoming doubtful of recovery. The regulatory norms for provisions represent minimum requirement. The banks may voluntarily make specific provisions for advances at rates which are higher than the rates prescribed under existing regulations.

Provisions

Sl.no	Period for which advances remained in doubtful category	Meaning of asset	Provision requirement
1.	Standard assets	Generates income	4%
2.	Substandard a)Secured b)Unsecured	Overdue more than 90days but less than 12 months	 15% 25%
3.	Doubtful assets a)Up to one year b) One to three years c)More than three years	Overdue more than 12 months	 25% 40% 100%
4.	Loss assets	Doubtful assets which are non-recoverable by banks.	100%

Source: RBI regulations

Review of Literature

1. AvaniOjha (2017), the study revealed the impact of NPA on working of the SBI together with other PSBs. It analyzed that the increase in gross NPA and net NPA reduce credit deposit ratio, net interest margins percentage and average return on assets percentage. These percentages affected negatively on net profits and study was concluded that the financial performance of the SBI considered satisfactory.

2. Jaseline Kaur Bawa (2019), the study examines panel of the data of forty six Indian banks with thirty one banks specific financial ratios over eight years from 2007 to 2014. Together these ratios reflect operating capability, liquidity, solvency, profitability and

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business development capacity aspects across Indian banks. It found that a significant intermediation cost ratio helps bank agents spend more time and effort to monitor bank asset quality and lower default.

3. Shalini H.S. (2013), in this article the author makes an attempt to study the effect of different variables on the non performing farmers and tried to find out the difficulties faced by the Indian farmers in paying back the amount. Data were collected from primary sources and tested by Chi square analysis test for 1% level of significance and concluded by giving suggestion that banker should collect formal and informal reports about the goodwill of the customer to minimize the NPAs.

Research Methodology:

The comparative analysis of five PSBs and five Private sector banks is addressed in the present study. The PSBs like State Bank of India, Punjab National Bank, Industrial Development Bank of India, Bank of Baroda and Bank of India were selected. The private sector HDFC, Kotak Mahindra, ICICI, Axis Bank and Indus Bank were selected. Five banks were selected from each sector on the top ranking list of market capitalization rates. The study was based on the secondary data collected from the financial statements of banks. For analysis eight years data were collected for the financial years 2012 to 2019 (2019 only three quarters are considered) and comparative study made by using the percentage ratios of NPA to Total advances and Karl Pearson’s Correlation is used to measure the impact of NNPAs on net profit.

Objective

To develop financial ratios of NPAs to Total advances for comparison.

Present scenario

As per CARE ratings and from the reports of the banks there is decline in NPAs in the second and third quarter of the fiscal. The ratio of NPAs could come down in the

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fourth quarter. NPAs ratio peaked in the fourth quarter of 2017-2018 at 10.6% which was the highest quantum of bad loans was recognized and now in third quarter it has moderate and was down to 9.41%. Similarly, provisions had peaked in the year 2017-2018 at Rs 1.23 lakh crore. The situations changed in the year 2018-2019 it came down to Rs50714 crore.

NPA ratio as per 2018 -2019

Sl.no	Public sector banks		Private sector banks	
	Name of banks	NPA Ratio	Name of banks	NPA ratio
1	State Bank of India	9.95%	Induslnd bank	1.09%
2	Bank of Baroda	11.78%	HDFC	1.33%
3	Bank of India	16.31%	Kotak Mahindra	2.15%
4	Punjab National bank	17.16%	Axis bank	5.96%
5	IDBI	27.95	ICICI bank	9.30%

Source: CARE ratings 2018-19

In above selected sample of banks NPA ratio is very near to 10% or more in case of PSBs and in case of private sector banks it is less than 10% as per recent CARE ratings. It shows that private sector banks recover the debts in faster way as compared to PSBs also the management of debts in very effective way.

Impact of NPAs:

NPAs not only reflect badly in a bank's account books, they adversely impact the national economy. Following are some of the repercussions of NPAs:

- Bank's profit will come down which they earn in the form of interest.
- Banks will become reluctant to lend thus affecting their borrowers.
- Affect the liquidity position of banks.
- Adversely affect the bank Balance sheet.
- Lenders suffer due to lowering of profit margins.
- Stress in banking sector causes less money available to fund other projects, therefore, negative impact on the larger national economy.

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- Depositors do not get rightful returns and many times may lose uninsured deposits. Banks may start charging higher interest rates on some products to compensate losses and to maintain profit margin.
- As investment got stuck, it may result in unemployment. In the case of PSBs, the bad health of banks means a bad return for a shareholder which means that the Government of India gets less money as a dividend. Therefore it may impact easy deployment of money for social and infrastructure development and results in social and political cost.
- NPAs related cases add more pressure to already pending cases with the judiciary.
- Bad loans imply redirecting of funds from good projects to bad ones. Hence the economy suffers due to loss of good projects and failure of bad investments.

Solution available to tackle NPAs

To tackle the problem of NPAs, Narsimham committee recommended many reforms in early 90's. Government of India implemented following reforms.

The Debt Recovery Tribunal(DRTs)-1993, Credit Information Bureau-2000, Lok Adalats-2001, Compromise Settlement-2011, SARFAESI Act-2002, Joint Lenders Forum-2014, Mission Indradhanush – 2015, Insolvency and Bankruptcy Code Act -2016, Bad Loans -2017etc. These above Acts are helpful to banks in recovery of loans based on the amount of loans. Tribunals help in recovery of amount without the involvement of the court. The banks have to first issue a notice. Then, on the borrowers failure to repay they can take ownership of security, control over the management of the borrowing concern and appoints a person to manage the concern. Among these Mission Indradhnush is special reform taken for the benefit of PSBs and improves their overall performance by ABCDEFG (Appointment, Bank Board Bureau, Capitalization, Disclosure, Employment, Framework of Accountability and Governance Reforms). The recent development is Insolvency and Bankruptcy Code (IBC). It fastened the process of collection from defaulters and made changes in earlier Acts by giving more powers to banks. Credit

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Information Bureau also helps banks by maintaining and sharing data of individual defaulters and willful defaulters.

DATA ANALYSIS

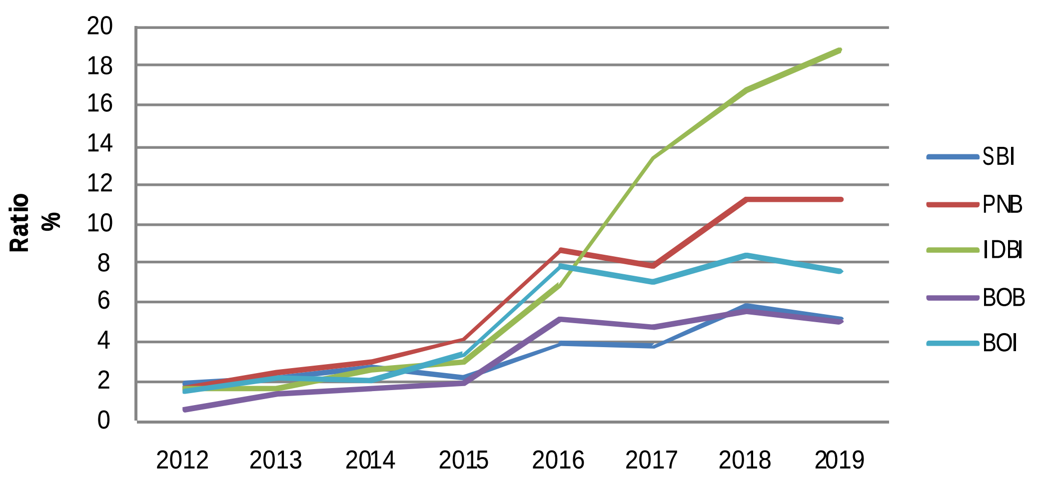
Public sector Banks

Table 1 NNPA Ratios of PSBs

YEAR	SBI	PNB	IDBI	BOB	BOI
2012	1.82	1.52	1.61	0.54	1.47
2013	2.1	2.35	1.58	1.28	2.06
2014	2.57	2.85	2.48	1.52	2
2015	2.12	4.06	2.88	1.89	3.36
2016	3.81	8.61	6.78	5.06	7.79
2017	3.71	7.81	13.21	4.72	6.9
2018	5.733	11.24	16.69	5.49	8.26
2019	5.1	11.2	18.76	5.01	7.52
Total	26.963	49.64	63.99	25.51	39.36
Mean	3.370375	6.205	7.99875	3.18875	4.92

Source: Financial statements of concerned bank.

Figure 1 %NNPAs OF PSBs



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The figure 1 indicates the net NPA ratio. It is calculated by using formula Net NPA divided by Loans (NPA Ratio = NNPA/Loans). It is used as a measure overall quality of the bank's loan book. Higher ratio reflects rising bad quality of loans.

From the above table it is cleared that NNPA of PSBs are increased after 2015, the highest ratio shown in case of IDBI and PNB. Bank of India and Bank of Baroda ratio was moderate. In financial year 2016 to 2018 there was increasing trend but in third quarter of 2018 -2019 except IDBI other PSBs are trying to manage NNPAs and ratio is decreasing, this happens mainly due to the strict regulations of RBI

Table 2: NNPA ratios of private sector banks.

YEAR	HDFC	KM	ICICI	AXIS	INDUSLND
2012	0.2	0.61	0.73	0.25	0.27
2013	0.2	0.64	0.77	0.32	0.31
2014	0.3	1.08	0.97	0.4	0.33
2015	0.2	0.92	1.67	0.44	0.31
2016	0.28	1.06	2.67	0.7	0.36
2017	0.33	1.26	4.89	2.11	0.39
2018	0.4	0.98	4.77	3.4	0.51
2019	0.9	1.21	5.12	2.52	0.43
Total	2.81	7.76	21.59	10.14	2.91
Mean	0.35125	0.97	2.69875	1.2675	0.36375

Source: Financial statement of concerned banks

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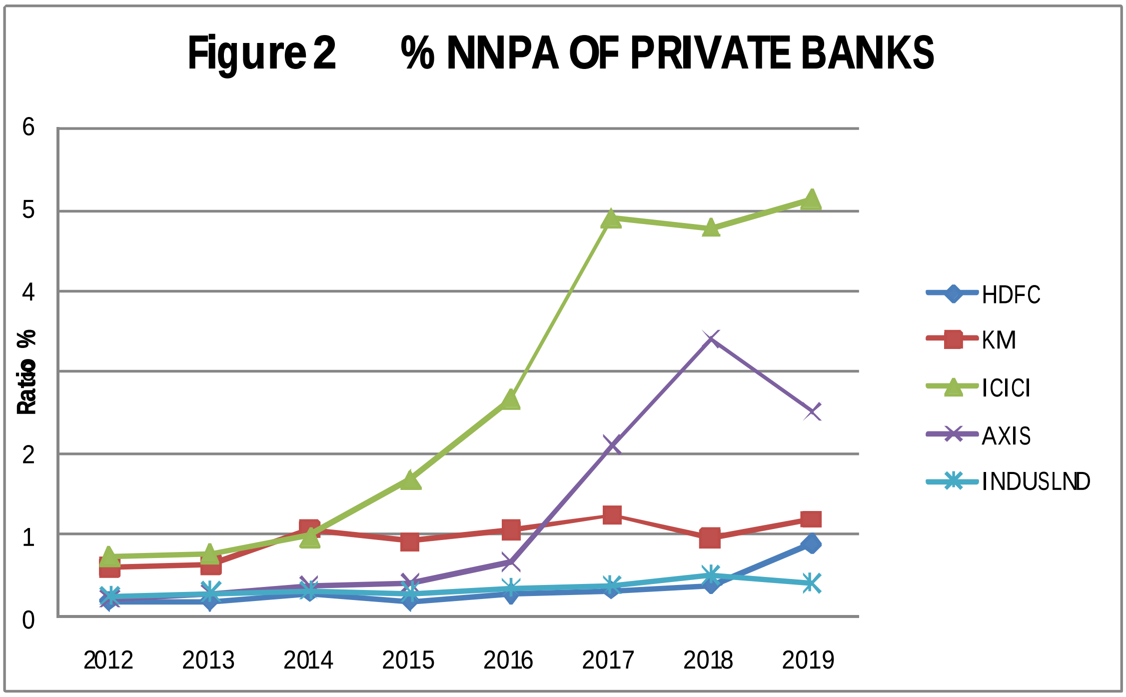

From the figure 2 it is observed that NNPAs are in increasing trend after 2016. ICICI bank indicates bad quality of loans as its ratio was increasing from year to year. Second place is taken by Axis bank, where as HDFC and Induslnd bank ratio maintained in constant level without much fluctuation. In third quarter of 2018 -2019 Axis bank improved its position where as HDFC, Kotak Mahindra ratio increased slightly but in case of ICICI its ratio was below one percent in 2014 and drastic changes shown in its ratio and at present it reached above five percent. Among private sector banks ICICI reflects very bad quality of loans.

Table Ratio 3: Average NNPAs

Bank / Ratio	SBI	PNB	IDBI	BOB	BOI	HDFC	KM	ICICI	AXIS	INDUS
NNPA	3.370375	6.205	7.99875	3.18875	4.92	0.35125	0.97	2.69875	1.2675	0.36375

Source: Calculated in above table 1and 2.

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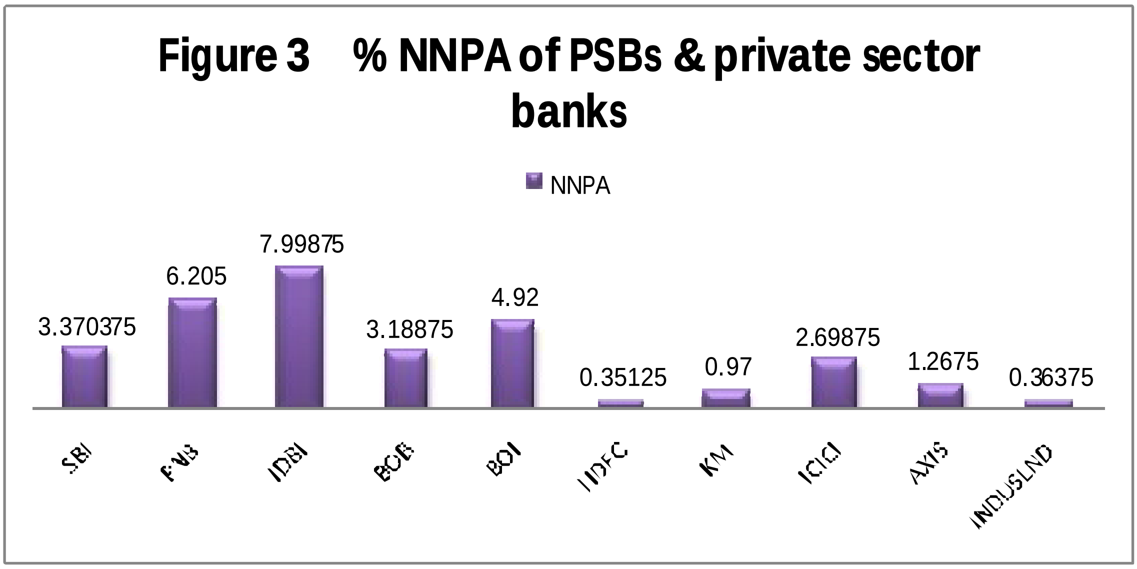

The above figure 3 shows the ratio of NNPAs of both PSBs and private sector banks. NNPAs ratio were very high in case of PSBs as compared to private sector banks. In PSBs IDBI has highest ratio and Bank of Baroda has lowest ratio. All PSBs ratio were above three percentages. In private sector banks all banks ratio is below 3 percentages. It shows Private sector banks manage their NNPAs in more efficient way.

Table 4: Performance Ranking

BANK NAME	Total Assets	Rank (Assets)	NNPA%	Rank (% NNPA)	Net Profit	Rank (N/P)
State Bank of India	3454752	Rank 1	3.370375	Rank 7	7964.518	Rank 1
Punjab National Bank	765830.1	Rank 4	6.205	Rank 9	-502.78	Rank 8
Industrial Bank of India	350313.65	Rank 8	7.99875	Rank 10	-2668.78	Rank 10
Bank of Baroda	719999.77	Rank 5	3.18875	Rank 6	925.1113	Rank 7
Bank of India	609574.82	Rank 7	4.92	Rank 8	-1537.8	Rank 9
HDFC	1063934.31	Rank 2	0.35125	Rank 1	11264.16	Rank 2
Kotak Mahindra Bank	264933.4	Rank 9	0.97	Rank 3	2356.921	Rank 5
ICICI	879189.16	Rank 3	2.69875	Rank 5	8059.824	Rank 3
Axis Bank	691329.57	Rank 6	1.2675	Rank 4	4043.413	Rank 4
Induslnd bank	221626.17	Rank 10	0.36375	Rank 2	2096.108	Rank 6

Source: Financial statements of concerned banks.

The above table 4 shows the rankings of sample banks on the basis of total assets, NNPAs ratio and Net Profit. On the basis of total assets SBI occupied first rank also in

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case of earning profit it stands first whereas the performance of assets its ranking reduced to 7th. The second ranking on the basis of asset is assigned to HDFC and also it is in second position in the case of net profit. It is more efficient in maintaining assets and it is in top position with respect to the better management of NNPAs for the past eight years. All first five ranks for NNPA ratios are grabbed by private sector banks. In case of earning profit only one PSB that is SBI is in top position other rankings are shared by the private sector banks. Where as in case of its size and asset capacity SBI, PNB, BOB are among top rankings where as their performance regarding management of loan was very poor.

Table 5: NNPAs and Net Profit (Crore)

PSBs	NNPA	Net Profit
State Bank of India	50293.07	7964.518
Punjab National Bank	23686.04	-502.78
Industrial Bank of India	13347.62	-2668.78
Bank of Baroda	12492.46	925.1113
Bank of India	16424.32	-1537.8
Private sector banks		
HDFC	1450.564	11264.16
Kotak Mahindra Bank	971.73	2356.921
ICICI	12066.42	8059.824
Axis Bank	5436.474	4043.413
Induslnd bank	383.945	2096.108

Source: Financial statements of concerned banks.

Correlation - PSB		
		PSB_PROFIT
PSB_NNPA	Pearson Correlation	0.915
	Sig. (2-tailed)	.029
	N	5

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Correlations_Private		
		PROFIT
NNPA	Pearson Correlation	0.329
	Sig. (2-tailed)	0.588
	N	5

The above Karl Pearson correlation explains the relationship between NNPAs and Net Profit of both PSBs and private sector banks. It shows that in case of PSBs net profit affected to 0.915. NNPAs had significant effect on net profit where as in case of private sector banks NNPAs affect on net profit is only 0.329. It shows that the effect is moderate.

Conclusion

The above comparison of data of eight years of ten banks made it clear that from 2016 there was increasing trend in NNNPAs. In every cases PSBs NNPA ratio is highest as compared to private sector banks and due to high NNPA ratio net profit is also affected. It clearly indicates that size of bank, asset or market ranking does not make any influence on the efficiency of maintaining loans. All PSBs are in top rankings in the market then also their efficiency level of managing debts was very poor. Exception case was found in case of only HDFC which is private sector bank having high rankings on the basis of assets, market, net profit and also efficient in managing bad loans.

From the above sample it is observed that there is high rate of NPAs in PSBs as compared to private sector banks, the main reason for increase of NPA was the pattern of lending loans and advances was entirely different, they are as follows:

- ❖ The MUDRA credit which is small ticket loans granted to micro and small enterprises. The disbursement under this scheme is Rs 6.77 lakh crore which is over 7% of the total outstanding bank credit.
- ❖ Lending to farmers through Kissan Credit Cards and contingent liabilities under the Credit Guarantee Scheme for MSMEs, run by the small industries

development bank of India. The risk is that these small ticket loans will drop under the radar and build into a large credit issue in course of time.

- ❖ The credit culture of farmer borrowers was that their loans will invariably be waived off by the state.
- ❖ The corporate frauds raised by willful defaulters and internal scam. (example Vijaya Mallya took 1600 crore from SBI, 800 crore each from PNB and IDBI, 650 crore from BOI and 550 crore from BOB. Companies owned by diamond merchants Nirav Modi and Mehul Choksi are alleged to have Rs 14356.84 crore from PNB.)
- ❖ Many assumed that lending to agriculture banks has increased the NPA in PSBs. It was proved wrong by the Standing Committee on Finance reported that NPAs in corporate sector is higher than the agriculture sector. PSBs lend to textile, aviation, mining, infrastructure, iron and steel industries. However the profits of most of these sectors dwindled due to slowdown in the global economy. The ban in mining projects and delay in environmental related permits affecting power, iron and steel sector, volatility in prices of raw materials and shortage has affected their ability to pay back loans and this is the main reason of increase of NPAs in PSBs.

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